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Core Labor Standards and Development: Impact on Long-Term Income

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Summary. — The paper focuses on the impact of international core labor standards on long-term *per capita* income. In order to do that, it is necessary to build a new synthetic indicator of labor standards using multiple correspondence analysis, measuring the four core labor standards recognized by ILO. We propose an estimation of the steady-state *per capita* income for a large panel of countries (104) and then that of developing countries. The two-stage least square method is used to correct potential problems of endogeneity. The findings show that, by and large, countries with higher labor standards have a higher steady-state level.

Key words — growth, labor standards, data analysis

1. INTRODUCTION

Labor Standards are by no means a new issue. We have seen demand for labor standards rise with the globalization process. Many developed countries and workers unions are demanding a social clause in international trade; the idea behind this proposition being that international trade exerts a downward pressure on labor standards in developed countries and constitutes an "unfair" competitive advantage for developing countries. From this perspective, international coordination should be more efficient in order to achieve trade liberalization and strengthening of labor standards (Beaulieu & Gaisford, 2002). Bagwell and Staiger (2000) argue that international negotiations on tariffs alone would lead to a globally inefficient outcome characterized by partial liberalization and a lowering of labor standards. They suggest that different approaches of multilateral negotiations could allow governments to reach a globally efficient outcome in terms of trade liberalization and strengthening of labor standards.

Until now, the debate has focused largely on the link between labor standards and international trade. However, this approach has its limitations. In the first instance, many developing countries are completely against any kind of links between international trade and labor standards, for fear of a "hidden protectionism." Furthermore, trade sanctions can be counter-productive because they harm the people they are designed to help (Brown, 2000; Brown, Deardorff, & Stern, 1996; Maskus, 1997; Srinivasan, 2004). Many authors (Committee for Economic Development, 2001; Griswold, 2001) argue that the best way to improve labor standards is to achieve trade liberalization (arguments for the endogeneity of labor standards). Yet we might suggest that it is insufficient to study the whole phenomena exclusively from the point of view of the link with international trade, as it is often the case that countries with very weak labor standards are not integrated into international trading. Moreover, the export sectors have very often better standards than the others (Brown, Deardorff, & Stern, 2003).

The focus of this paper is on the link between labor standards and long-term *per capita*

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income. The raising of labor standards may have important consequences on determinants of long-term income. Opponents of a social clause into the WTO argue that weak labor standards are a condition for the development of the poorest countries (thanks to their comparative advantage in nonskilled labor force). It is therefore doubly interesting to study the impact of core labor standards on long-term *per capita* income.

The first goal of this paper is to build an index to measure the enforcement of the core labor standards recognized in the ILO declaration on Fundamental Principles and Rights at Work (1998). For that purpose, we build several indexes to measure child labor, freedom of association, discrimination, and forced labor. We also take into consideration the number of ILO conventions ratified by each country.

The lack of data is a serious problem. It is necessary to aggregate different sources of information to minimize this problem. Ghai (2003), Granger (2005), Kucera (2001), and more generally ILO "Decent Work" Research Program are also working on this issue.

We want to measure the enforcement of all core labor standards and not the enforcement of each kind of these standards. For that, we aggregate our different indexes using multiple correspondence analysis (MCA) in order to determine endogenously the weight of each variable in the aggregated index.

The second goal of this paper is to determine the impact of these core labor standards on long-term *per capita* income. We use a Mankiw, Romer, and Weil (1992) model augmented by labor standards. Our goal is to evaluate the long-term effects of a better enforcement of these standards; this in turn brings us to an estimation of the long-term steady states of different countries. [1]

2. LABOR STANDARDS: PRESENTATION AND CONSTRUCTION OF INDEXES

Labor Standards can be defined by the global principles and rules governing work and professional conditions (OECD, 1996). They are multifaceted and may vary from one country to another depending on the stage of development, political, social, and cultural conditions or institutions. Labor standards will then largely depend on given national circumstances (Stern, 1999). However, OECD and ILO distinguish four *core* labor standards: (1) prohibition of forced labor, (2) freedom of association and the right to organize and bargain collectively, (3) elimination of child labor exploitation, and (4) nondiscrimination in employment. OECD justifies these choices with the reasoning that they are fundamental part of the Human Rights and their respect carries more efficiency. ILO argues that these core labor standards represent the fundamental rights of workers, which can be applied all over the world irrespective of the stage of development. There is an international consensus [2] to consider that these core labor standards should be globally recognized and protected, which correspond in turn to eight ILO conventions. [3]

(a) *Labor standards and indexes*

We build five indexes [4]: ratifications of ILO's conventions, Child labor, freedom of association, discrimination, and forced labor. Each of these indexes aggregates different sources of information in order to minimize the problems of data [5]; these we then classify into five groups in order to have more comparable data. Finally we obtain a set of ordinal indexes.

For each *number of conventions ratified* (*NR*), we build a formula [6] to measure both the number of conventions and the number of *core* conventions ratified. This formula gives a higher weight to ratifications of *core* conventions.

For *child labor* (*CL*), we build a raw and an adjusted index. The raw index is defined by the percentage of working children between 10 and 14 years old. We consider this data as a good proxy of the level of exploitation of children, and it is the one generally used in the literature to measure child labor (Bescond, Chataignier, & Mehran, 2003; Granger, 2005). However, this raw index is unsatisfactory for many developing countries because of problems of data. We might suppose that a country in which half of the children do not go to primary school would have a significant problem with child labor, even if it is possible that a significant number of children neither work nor go to school. We observe that countries which have an official child labor rate equal to zero also have a low level of primary school enrollment. Political consideration or lack of data can explain this paradox. Our adjusted index is an attempt to correct this bias. It is defined by the raw indicator, adjusted by the percentage of children who do not attend primary school. [7] This method is also suggested by Bes-