A race to the top

Can Labor Standards Improve Under Globalization? By Kimberly Ann Elliott and Richard B. Freeman. Washington, DC, Institute for International Economics, 2003, 179 pp., $25/paperback.

For decades, activists, governments, labor unions, and corporations have been at odds over exactly how to improve developing-world labor conditions. On one extreme, free marketeers have argued that natural forces, perhaps with the help of trade agreements, are the best way to ameliorate labor standards; while on the other extreme, anti-globalists have seen a corporation-free, proactive, multinational effort as the only way to achieve the goal. Tension and violence between the two camps have been enough to cancel entire global trade summits. Yet just when the rift between the "chanting protesters" and the "dark-suited ministers of trade" seemed insurmountable, Kimberly Ann Elliott and Richard B. Freeman of the Institute for International Economics step in to settle the score. Their detailed approach to the question *Can Labor Standards Improve Under Globalization?* provides the comprehensive, impartial, and realistic analysis that trade theory buffs everywhere have been craving. Their answer is a resounding "Yes."

Elliott and Freeman begin their book by outlining the four "core labor standards" that have been agreed upon by all 170 member nations of the International Labor Organization (ILO): Freedom from Forced Labor; Nondiscrimination in the Workplace; The Effective Abolition of Child Labor; and Freedom of Association and Collective Bargaining. All countries and corporations are expected to follow these core standards without exception. Any additional standards can be thought of as simply "cash standards," because, theoretically, they can only be implemented as countries' incomes rise.

The ILO unfortunately has few legal tools to impose these core or cash standards on any nation or corporation. (Use of the organization's enforcement mechanism was never even *attempted* until 2000.) Instead, as the authors lament, the ILO—in concert with other activist organizations—must pursue its goals by either (1) publicizing egregious standards violations; (2) assisting in the formation of labor unions; or (3) working with developing countries' labor ministries. These efforts have succeeded to varying degrees.

With respect to their efforts to expose blatant standards violations, activist organizations have, in fact, pressured several companies to improve upon unfavorable conditions. Nike and FIFA [Fédération Internationale de Football Association] are cited as typical examples. Yet companies will rarely improve upon standards that the public already deems adequate, because such preemptive improvements tend to increase stock prices only minimally. Pressure on companies can therefore only accomplish so much.

Even less success has been achieved by activists' attempts to organize labor unions in less-developed countries (LDCs). Leaders of many developing countries simply do not allow unions, fearing that they will undermine government leverage and foster democratic sentiment among the working population. Overcoming LDCs' aversion to organized labor remains one of activists' biggest challenges with the largest rewards.

As for activists' pressure on LDC governments, the determination of success depends on the pressure's goals. For example, when Ronald Reagan used the ILO in the 1980s to criticize Poland's treatment of its Solidarity labor union and to condemn South Africa's apartheid regime, the ILO proved a great tool to promote democracy. The use of activist pressure as a labor-improving tool, on the other hand, has not proven quite as effective.

This leads the authors to conclude that governments themselves are the institutions best poised to put "teeth" into the enforcement of labor standards. In fact, studies spanning several decades show that government pressure (that is, the threat of sanctions) on LDCs has succeeded in achieving policy goals as often as *50 percent* of the time. The authors cite such evident effectiveness of sanctions to support their most ambitious proposal—that the World Trade Organization (WTO) amend its rules and "allow members to ban imports of goods whose production is directly linked to violations of any of the core labor standards," because "violations of core labor standards . . . are a trade distortion as much as subsidies or other forms of aid to traded sectors." It is the WTO's failure to allow retaliatory sanctions, the authors write, that earns it the image of a corporate-friendly institution that tramples the rights of the poor.

Whatever the history of the WTO's reputation, the authors suffer one significant weakness with their argument: They fail to compare "success rates" of LDC policy goals achieved through sanctions with a control group of policy goals that were *not* pursued through sanctions. There is nothing to prevent the reader from assuming that labor standards would have improved *anyway* if left to the free market.

Despite this minor flaw, the authors have added much color to a debate that has for too long seemed a simple matter of black and white, and they have done so in a way that anyone with a basic comprehension of economics can understand. Elliott and Freeman's meticulous analysis of developing-world labor conditions makes a strong case that—with a bit more transparency, pressure, and cooperation—globalization and high labor standards can be compatible after all.

—Andrew Cohen

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What causes growth?

The Mystery of Economic Growth. By Elhanan Helpman. Cambridge, MA, Belknap Press of Harvard University Press, 2004, 240 pp. $25.95/hardcover.

Encouraging economic growth is an article of faith for economists worldwide, but understanding the underpinnings of growth—why it occurs and how to foster it—is more than a subject for academics. Answers to these questions drive public policy in such diverse areas as education, health, trade, law, and politics and affect the well-being of billions of citizens across the globe. Yet, despite the importance of the topic and decades of academic interest, there is still no blueprint that a nation can follow to assure lasting economic improvement. Throughout the last century, the per-capita income gap between rich and poor nations continued to widen, and grappling with this reality is the primary intent of Dr. Helpman's new book.

In many ways, this is a very personal book, almost a dialogue between the author and his reader. Dr. Helpman is widely recognized for his work in the field of growth economics, having previously produced pioneering books on the role of interest groups in trade policies and the impact of general purpose technologies (GPTs) on economies. He takes the opportunity in this book to review and critique the work that has been done in growth economics by many of his contemporaries. The tone of the short book (the actual text is only 142 pages) captures the honesty of scholarship in a difficult subject area, recognizing the ambiguity of many of the answers and the possibility that future research may not support present theory. It is very much a validation of the scientific approach to this field of social science. Research stands or falls based on its ability to answer real questions, not influenced by the reputation of the author or political opinion. Where the results appear inconclusive, he suggests future approaches always with the goal of searching for more elegant solutions to the problems of economic growth.

The result is a series of chapters ranging from how capital accumulation seems to defy conventional economic theory to how economic growth is affected by the four "I's"—innovation, interdependence, inequality, and institutions. Underlining much of the work are the relative contributions that human capital and technological innovation and diffusion play in contributing to accelerating productivity rates. Dr. Helpman does not offer an ultimate answer to the problems of economic growth nor does he advocate a particular set of policies. Only in the final chapter does he suggest that the most productive area of new research may lie in a greater understanding of the role of institutions and their impact on a society's economic development.

In the preface, the author states explicitly that this book is meant to be a nontechnical discussion of research findings to make them available to a broad audience. To that end, he even includes a glossary of economic terms. Nonetheless, while he has eliminated many of the calculations that would normally accompany a scholarly work in this field, the book will be most accessible to readers with grounding in the principles of micro- and macro-economics and a working knowledge of current public policy research. A 13-page list of references is included in the volume listing sources for much of the major work done in the field in the past 50 years. Those interested in the topic of growth economics will find this discussion both fascinating and provocative.

—Michael Wald

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