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Labor Standards, Economic Development, and International Trade

Gary S. Fields
Cornell University, gsf2@cornell.edu

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Abstract

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Keywords

labor standards, poverty, development, working conditions, Department of Labor

Comments

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Higher real earnings at the fullest possible level of employment are the goals of those of us who work in the labor field. This paper addresses the role of labor standards in helping to achieve those goals.[1]

The United States government has two sets of interests in labor standards. The Department of Labor is supposed to "foster, promote, and develop the welfare of the wage earners of the United States, to improve their working conditions, and to advance their opportunities for profitable employment." The Agency for International Development seeks to "help the poor toward a better life" in a variety of ways, among which are increasing employment and earnings and achieving a more equitable distribution of income.[2] Although this conference is sponsored by the Department of Labor, the interests assigned to AID should not be forgotten.

Conceptualizing Labor Standards and Government's Role in Promoting Them

Labor Standards: Labor Relations Process or Labor Market Outcome?

What do we mean by labor standards? The conference convener has proposed the following working definition: "appropriate country-specific implementation of a) the right of association, b) the right to organize and bargain collectively, c) a prohibition on forced and compulsory labor, d) a minimum age for workers, and e) acceptable working conditions (possibly including maximum hours of work per week, a weekly rest period, limits to work by young persons, a minimum wage, minimum workplace safety and health standards, and elimination of employment discrimination)."[3]

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[1]I am grateful to Henry Wan and John Windmuller for helpful discussions and comments during the preparation of this paper.

[2]The quote is from the 1975 amendments to the Foreign Assistance Act of 1961.

[3]For other views, see Edgren 1979; Addison and Demery 1985; AFL-CIO 1988; International Metalworkers Federation 1988; and Marshall 1988.

The vast majority of the workers of the world are unable to enjoy labor standards like those listed in the preceding paragraph, especially those under item e). The reason is simple: the economies in which they live are too poor. For example, if the choice is between subsistence needs and "decent" work hours, the work days will be very long. Or if the choice is between child labor on the family farm or a smaller harvest, children will work long and hard in the fields. Thus, in talking about labor standards in the context of workers in poor countries, a workable and pertinent definition must be offered.

Here is my suggestion. Certain actions are abusive anywhere, among them: slavery, prohibitions on freedom of association or on collective bargaining, exposure of workers to unsafe or unhealthy working conditions without their having the fullest possible information about these conditions, and the employment of children for long work hours simply because they are cheaper to hire than adults. These are outrages against the human condition. No person should have to endure such conditions, and no country should knowingly permit such abuses.

What I have presented is a minimalist list of violations of standards in the **labor relations process**. Once these conditions have been satisfied, labor standards might best be gauged in terms of **labor market outcomes**. I would say, very simply, that if more workers are employed in better jobs, labor standards improve. The outcome-oriented approach which I favor thus gauges labor standards in terms of fullness of employment and real wage (or earnings) levels.

Some analysts have put forth conceptualizations of labor standards which confound labor relations process and labor market outcome. For instance, Marshall (1988, p. 2) has argued that "labor standards, especially the right of workers to organize and bargain collectively, make it possible for third world incomes to be higher and more equitably distributed." He is assuming that workers' incomes will be improved if and only if free association and collective bargaining are guaranteed. This equation of labor relations process and labor market outcome denies two logically possible alternatives: that incomes might rise and be distributed more equally even in the absence of collective organization and bargaining, or that the exercise of collective bargaining might result unwittingly in lower employment in covered sectors, higher unemployment in the economy, or lower wages for workers crowded into uncovered sectors. Hence, not only are labor relations process and labor market outcome logically distinct: they may even conflict.

To illustrate how the process-oriented and outcome-oriented approaches might differ, take the case of a poor underdeveloped economy in which unemployment and underemployment are widespread and wages and selfemployment earnings are very low. The workers in such countries are forced by economic necessity to take whatever employment they can find. In a very fundamental sense, the entire situation is abusive–the best choice from among a set of bad alternatives is very bad indeed. For the workers of that country, the situation is rendered less abusive if better jobs are offered to more of them. In the opinions of the very considerable majority of workers with whom I have discussed this issue, I have found that whether or not they have a union is **not**, for them, a burning issue, nor is coverage under a fair labor standards act. For them, the goal is better jobs.

Let me here record my preference for an approach to labor standards based principally on labor market outcomes. The all-important objective of U.S. policy toward developing countries is (or should be) the alleviation of extreme poverty. If pushed too far, too fast, the active promotion of labor standards may hamper employment, reduce competitiveness, and impede growth. The poor workers of the world cannot afford this.

Direct versus Indirect Promotion of Labor Standards

In some countries, it has been government policy to promote labor standards directly. From the point of view of process, direct interventions include the passage of laws governing such workplace issues as freedom of association, the right to collective bargaining, freedom from indentured servitude, maximum hours, minimum age, and so on. Another type of direct government intervention involves actions aimed at improving employment and earning opportunities. Direct employment creation has been the aim of many developing country governments, the government itself often serving as an employer of last resort. In some cases, governments have called upon the private sector to increase its employment as well, as in Kenya's famed (and flawed) Tripartite Agreements (Harbison 1967; Stewart 1979). As for attempts by governments to increase earnings, a commonly-used mechanism is minimum wage legislation (Starr 1981). Other common mechanisms include the active encouragement of trade unions and workers' federations, the encouragement of multinational firms to pay "decent" wages to local residents, and government's own pay policy with respect to public sector employees.[4]

A small number of developing country governments have even undertaken ambitious programs aimed at fully regulating workplace

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[4]These policies are described at greater length in many sources; *e.g.*, Squire 1981, Fields 1984 and the references cited therein.

conditions, thereby trying to increase both employment and labor earnings. One such attempt is the enactment by the government of Panama of a labor code controlling hiring, layoffs, earnings, and fringe benefits. Evaluations of this program have generally concluded that labor costs were very substantially increased and employment very substantially decreased (Spinanger 1985 and Butelmann and Videla 1985; for a contrary view, see PREALC 1980). In response to continuing economic difficulties, the government of Panama has recently relaxed many of the previous provisions of the labor code.

In contrast to the direct measures described thus far in this section, some governments, especially in the Far East, have adopted more indirect measures to improve labor standards. The experience of the Far East is often misunderstood. Some observers are well-aware of the fact that those economies achieved their economic growth by exporting to world markets, and therefore assume that free market policies were responsible. Others have the opposite view: that the Far East is dominated by mercantilist governments, as exemplified by Japan's famous MITI. Both views are mistaken. In fact, there is considerable diversity within the Far East. We find much more government involvement in the economies of Korea and Singapore than in those of Taiwan and Hong Kong (Krause 1985; Scitovsky 1986).

Notwithstanding the different approaches to government involvement in the Far East, the general philosophy in that part of the world is that workers are best helped by rapid economic growth of a labor-intensive character. Indeed, the evidence presented below shows that they have been--which is why indirect promotion of labor standards may be a preferred alternative to direct labor standards legislation.

Wage Policy

A third issue in conceptualizing labor standards concerns wage policy. In previous work (*e.g.*, Fields 1984, 1985), I characterized wage policies dichotomously: (1) Lenient, meaning that the government actively encourages or at least tolerates minimum wages, unions, and other institutions which push wages up above market levels; or (2) Strict, meaning that the government discourages or actively opposes such institutions. This dichotomy was intended to highlight a key distinction: whether wage-setting is by market or non-market forces.

I would now suggest a somewhat expanded taxonomy: (1) High wage policy, meaning that the government encourages or creates institutions pushing wages up above market levels; (2) Market wage policy, in which the government allows wages to be determined by supply and demand; and (3) Repressive wage policy, where the government deliberately attempts to hold wages down **below** market levels. Wage repression was discussed but not emphasized in Fields 1985 and Fields and Wan 1989. It has occurred in Singapore (by government influence on the National Wages Council) and in Korea (by government pressure on management and through the banks).[5] From time to time, both countries' governments sought to hold wages down in order to sustain export expansion.

As with the question of direct versus indirect promotion of labor standards, well-meaning governments may pursue different wage policies in their attempts to improve workers' standards of living. As long as labor demand curves are downward-sloping, though, pushing wages up above market levels will result in reduced employment, and probably reduced national output too. Equally important, as long as labor supply curves are upward-sloping, wage repression will cause labor shortages and will thus also have these same adverse effects on employment and national output. Market wage determination may result in the best labor market outcomes of all. Good intentions do not necessarily make good laws.

Labor Standards and Economic Growth

Which policies have had favorable consequences? Do the workers of developing countries themselves benefit from higher standards of living when economic growth is rapid? For this, the evidence from the newly-industrializing economies (NIEs) of Asia is particularly instructive.

It is well known that the NIEs of East Asia (Hong Kong, Singapore, Korea, and Taiwan) have done extremely well in macroeconomic terms. Their GNP growth rates have exceeded eight percent for a quarter-century. Growth rates of this magnitude are unsurpassed in the developing world. What have been the effects of this rapid growth on labor markets? The data needed to answer this question appear in table 1-1. We see:

- These economies attained essentially full employment in the 1960s.

- Thereafter, the mix of jobs improved.

[5]On Singapore, see Lim and Pang 1982 and Lee 1986. On Korea, see Nam 1984, Bai 1985 and Scitovsky 1986.

Table 1-1. The Labor Market in Four Asian Newly-Industrializing Economies

	Hong Kong	Korea	Singapore	Taiwan
I. Unemployment rate	1961:1.7% 1980:3.7%	1963:8.2% 1981:4.1%	1957:5.2% 1980:3.5%	1955:6.3% 1981:1.3%
II. Employment composition A. Agriculture as a % of total employment	1961:7.4% 1980:1.4%	1963:63.2% 1980:34.0%	1957:6.9% 1979:1.5%	1965:50.0% 1979:21.5%
B. Employees as % of economically active population (EAP)	1961:83.8% 1980:89.4%	1963:31.5% 1980:47.3%	1957:73.7% 1979:83.5%	1956:36.8% 1979:63.7%
C. Professional & tech., admin. & managerial, clerical, & sales occupations as % of EAP	1961:27.5% 1980:32.5%	1963:16.9% 1980:29.5%	1957:36.8% 1979:42.5%	1964:22.4% 1979:30.0%
D. % of employed workers with no schooling [% illiterate]	1961:20.2% 1980:10.4%	1960:44.7% 1960:16.0%	1966:54.1% 1980:22.5%	1965:[26.0%] 1980:[9.0%]
III. Real wages or earnings	Index of avg. real manuf. wage, 1948 = 100: 1960:105 1980:253	Index of real earnings, 1975 = 100 1966:52 1980:159	Index of real wkly. earnings, all industries: 1975:100 1980:120	Index of real manuf. earnings 1954 = 100 1960:102 1979:400
IV. Poverty: % of households with income below	HK$3000 annually in constant 1966 HK$ 1966:18% 1976:7%	A constant real poverty line 1965:41% 1976:15%	S$200 per mo. in 1975 Prices 1966:37% 1980:18%	NT$20,000 in specified year 1964:35% 1972:10%
V. Inequality, as measured by Gini coefficient among households [or individuals]	1966:0.487 1981:0.447	1964:0.34 1976:0.38	1966:[0.499] 1980:[0.455]	Early 1950's:0.5 1976-78:0.27

Source : Fields (1984)

- Real wages rose by as much as a factor of four.

- Absolute poverty fell.

- Income inequality remained at low to moderate levels.

This evidence admits of only one interpretation: the workers in these economies benefitted from aggregate economic growth **in proportion to their original incomes**. They were **not** impoverished by growth. Had they been, it would have been an abusive outcome. In fact, however, rapid economic growth generated an equally rapid increase in the demand for labor. In the initial stages of these economies' growth, rapid increases in employment were generated with only modest increases in wages. Once essentially-full employment was attained, and the so-called Fei-Ranis turning point was reached, the increased demand for labor had a different outcome: the bidding-up of wages as firms competed for a scarce labor supply.

From the point of view of organized labor and formal processes, these economies have exhibited much less progress.[6] Labor institutions in Singapore have been limited by the de-registration of a communist labor union, large-scale arrests of union leaders followed by long jail terms, the restriction of fringe benefits through collective bargaining, the outlawing of strikes, the channeling of labor-management relations through the government-backed National Trade Union Congress, and the suppression of wage increases through government influence on the National Wages Council. In Taiwan, the Union Act requires that factories be unionized so that workers' organizations can be controlled by government, strikes are outlawed, and the labor movement is underfinanced. In Korea, labor unions have little power: workers may form unions but firms are not obligated to bargain with them, national unions or the nationwide Federation of Korean Trade Unions may not intervene in collective bargaining on behalf of a local union, a cooling-off period is required in the event of a labor dispute, arbitration is compulsory, and the government may intervene in any strike that threatens to develop into a major job action. By contrast, the industrial relations situation in Hong Kong is one of laissez faire. The trade union movement is neither favored nor discouraged by existing legislation (though to some observers, the lack of encouragement may itself be seen as a violation of labor standards).

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[6]See Fields and Wan 1989 and the references cited therein for more details.

In sum, the experiences of Hong Kong, Korea, Singapore, and Taiwan exhibit a common feature: although the institutional structure of industrial relations continues to restrict labor organizations and collective bargaining, labor market opportunities have been getting very much better. To those who judge labor standards by process, the lack of collective bargaining and protective labor legislation would appear as an abuse of labor standards which is getting no better in the course of economic growth. But to others who are more outcome oriented, the attainment of full employment and the creation of new jobs at substantially higher rates of pay than those workers had been able to earn before is a sign that labor standards are improving. Abuse of labor standards is in the eye of the beholder.

Successful Trade Policies

The successes of the newly-industrializing economies are based on a whole host of favorable policies. Harberger (1985) has done an excellent job of summarizing the policy packages which have led to successes or failures in various countries of the developing world.

At the risk of oversimplifying, I would say that the successes had one feature in common: the unremitting drive to seek to produce and sell profitably the products that those who had the purchasing power were able and willing to buy. The successful countries believed that world markets would be substantially open to the great majority of the goods they could produce, provided that those goods were at least as good in terms of quality and price as the goods made elsewhere. This belief was correct for most products. It was not correct for a few, such as textiles and sugar.

In essence, those countries produced according to comparative advantage. They had abundant labor which was well-educated. Japan, Korea, and Taiwan had enough land to make agricultural production viable, at least for a while. Hong Kong and Singapore did not even have that. None of those economies had significant minerals. Some, such as Ranis (1974), would go so far as to say that it was actually to their advantage **not** to have had significant non-labor resources: the absence of these resources, in his view, forced those countries to seek products and methods of production which used what they had, rather than considering the potentially dangerous and less beneficial course of exporting minerals or mineral products, which makes very little use of labor and hence has very little effect on workers' standards of living.

Another point about comparative advantage bears mention. Comparative advantage shifts. One reason is that labor market conditions change endogenously. The Asian economies' very successes in achieving labor-intensive growth led to increased labor scarcity and rising real wages. These in turn led to a change in comparative advantage. Another reason is learning-by-doing. If a country could immediately develop its electronics industry, it might never develop its textiles industry. The textiles industry is developed, however, because learning-by-doing in textiles may facilitate the subsequent development of the electronics industry. Changing comparative advantage implies the need for countries to change their trade and development strategies. The Far Eastern economies recognized this and avoided clinging to industries beyond the point of economic viability.

Restructuring took different forms in different industries. Some industries in Asia found it profitable to pay the higher wages rather than do without labor; examples are electronics and heavy manufacturing. Other industries found that they could automate, and so accommodated to the new situation in that way. Yet other industries found that it did not pay either to pay higher wages or to automate; those industries closed down and moved offshore. Textiles is a prime example of an industry which has moved quite rapidly; such aspiring newly-industrializing economies as Malaysia, the Philippines, Indonesia, and Sri Lanka are taking over.

The economies of Hong Kong, Korea, Singapore, and Taiwan embarked on programs in the late 1970s and early 1980s aimed at capital-deepening in order to economize on very scarce labor. Economic planners and entrepreneurs in the Far East fully believe that they will have to continue restructuring in the future as much as they have in the past. They seek to anticipate shifting comparative advantage and to allocate resources to take advantage of new opportunities. The drive for export expansion goes on unabated.

Interactions Among Trade Policies and Labor Market Policies

Above, I have expressed the view that world markets are generally open to good products from wherever they are made. From this, there follows a corollary: a country that cannot produce goods of higher quality and/or lower cost compared with existing suppliers will not be able to export successfully. One important determinant of the ability to compete is the country's labor market policies.

I have suggested that wage policies be classified into three categories–high wage policy, market wage policy, or repressive wage policy. Suppose that a country's lenient labor market policy causes its wages to be above market level. Some part of this wage increase may be offset by improved efficiency, shock effects, higher morale, or other corresponding improvements. Suppose, however, that when wages rise by x percent, efficiency rises but by less than x percent. Simple neoclassical analysis predicts that because firms' marginal cost curves are higher than they would otherwise be, they will produce less than they would have had wages been lower. Decreased production results in less employment. Thus, higher wages for some come at the expense of lower employment for others.

A lenient labor market policy might even render exporting socially unprofitable. When a country exports, it must incur costs, some of which would not be incurred otherwise. Examples are harbors, airports, industrial parks in free trade zones, and overseas export promotion offices. Developing countries often promote exports by subsidizing such "quasi-fixed costs" in an environment of high labor costs. If they do, but high labor costs lead to low exports, the earnings from exporting might not be sufficient to justify the quasi-fixed cost. In other words, even though goods are in fact exported and the export firm earns a profit, once due account is taken of the costs of export promotion, the country as a whole might lose from exporting.

The literature suggests that something like this may be responsible for some countries' lack of successes with export-led growth. In Jamaica, strong trade unions have caused wages in the manufacturing sector to be at least twice the going wage elsewhere in the economy (Harrod 1972). Jamaica's lack of success with manufactured exports has been attributed in part to high labor costs (Tidrick 1975; Chernick 1978). In Colombia, high wage costs are among the reasons why the emperor's new clothes are not made there.[7] In those cases, as in many others, wage increases may be said to have been premature, in the sense that higher wages were offered to some before such wage levels were warranted by those workers' productivity and by conditions in those countries labor markets.

When the goods produced by high wage labor are for domestic consumption, and when lower-cost foreign goods are kept out by tariffs, quotas, or other import barriers, the goods can be sold, albeit at higher prices and lower quantity than would have been the case had the industry not been protected. Protection thus compels domestic consumers to buy from domestic producers or do without the good. However, when those goods are offered for foreign consumption, no policy instrument is available to compel foreign consumers to buy those goods rather than seeking suppliers elsewhere. Losses from exports become a distinct possibility.

[7]See Morawetz 1982, who also deserves credit for this ingenious way of putting it.

In this way, a country's trade strategy interacts with its choice of wage policy: to decide to seek export-led growth may preclude premature wage increases, whereas to decide to push wages up above market-clearing levels may imply that export-led growth must be eschewed in favor of an inward-looking strategy, with all the possible losses attendant to such a strategy (higher prices to consumers, lower availability of goods, economic inefficiencies).

Implications for the United States and Other Advanced Economies

As shown above, in the Far East, rapid economic growth resulted in the attainment of full employment and the subsequent increase in real wages for the entire labor force. However, tight labor markets in turn necessitated restructuring.

A very important lesson from the Far East is that those economies recognized the shift in comparative advantage and sought to adjust to it. The advanced countries of the world need to understand that their comparative advantages are no more fixed than are those in the newly-industrializing economies and that economic growth necessarily entails a response, the forces of resistance notwithstanding (*e.g.*, Windmuller 1978; Aho and Aronson 1985). One response that has been suggested is protection.

The call has gone out for the U.S. to react to international competition by protecting U.S. industries and U.S. workers against goods produced by low-wage labor in other countries. I am wary of such calls, not on any ideological grounds (I am hardly a free marketeer) but because I think it would do the U.S. more harm than good.

Protection is problematical. U.S. workers are also consumers, and they will pay higher prices if U.S. markets are protected. Because of protection, Japanese consumers pay five times the world price for the rice they eat. This is not in their interest. Similar protection against imports would not be in the interest of U.S. workers as consumers. Furthermore, increased protection by the United States might stimulate those countries with the power to retaliate to in fact do so. This invites inefficiencies and uncertainties at best and a trade war at worst.

If protection arises, it will probably not be because of any compelling economic case but rather because of political pressure. Most of us would not even think of trying to influence Congress to allow in as many cars as we wish to import so that we can all pay lower prices in the showroom, and so we collectively exert little pressure in favor of unrestricted imports. The constituency favoring lower prices is very diffuse and hence weak, because the gains from lower prices are small for nearly everyone. On the other hand, a young auto worker with little seniority gains a great deal if the auto industry is protected and his job is preserved. He has a strong union to speak for his interests. The protectionist forces, though smaller in numbers, may well carry the day politically in certain sectors.

There is, however, a circumstance in which protection merits serious consideration: the protection of infant industries. An infant industry is one which, although not economically viable in the short run, is expected to become economically viable in the not-too-distant future, especially when learning-by-doing is involved. Protection may be warranted to keep foreign firms from engaging in predatory pricing or in other ways preventing the infant from growing to maturity. A very common problem, though, is that the infants never grow up, but instead continue to demand protection forever and ever. Our national trade policy must distinguish between protection of infant industries (which may be warranted in certain cases) and protection of sunset industries (for which the pro-protection argument is considerably more dubious).

In those instances (the majority, I think) where protection is not appropriate, a better type of intervention is economic restructuring. There is a role for the Department of Labor in facilitating this restructuring by fostering an active labor market policy. Some possible policy interventions include trade adjustment assistance to certain displaced workers, mobility assistance to those who possess the qualifications to take up highly-productive jobs elsewhere in the economy, and training and retraining programs for those who lack the necessary qualifications. All such programs should, of course, be scrutinized using the best possible social cost-benefit analysis.

Finally, there is at least one way in which we must protect ourselves against ourselves. This is by protecting against the tendency in some industries to seek short-run profits by selling out long-term interests. U.S. corporations and investors are being criticized for being excessively preoccupied with current-quarter profits. For an American firm to sell VCR technology for $25,000 to an overseas competitor (as is reputed to have occurred), and thereby lose the **entire** VCR market (as did occur), can hardly be in the long-run interest of the firm, let alone in the interest of American workers. Whether it is in the social interest to intervene to protect against this seeming market failure will have to be debated.

Conclusion

In this paper, I have argued that market forces can have powerful, positive effects on workers' standards of living. This, I contend, is more apt to come about when priority is given to improving labor market outcomes rather than facilitating certain labor relations processes; when labor standards are promoted directly rather than indirectly; and when a market wage policy is adopted in preference either to a high wage policy or to wage repression.

There can be little dispute that rapid economic growth is critical to the welfare of workers in the Third World. But prematurely high labor standards, including certain procedural labor rights, may conflict with job and income creation goals, which I regard as most important. This contrasts with the view of others who contend that without at least appropriate labor standards, firms may become locked into "sweating strategies" that produce poor economic outcomes as well as depriving workers of basic protections (Piore, this volume). To those who argue thus, I would submit that in many countries the alternative to using cheap labor in production is not to produce at all. Can this really be better for the workers involved?

My concern that direct raising of labor standards may conflict with economic objectives arises from a fairly orthodox view of labor markets in the economy, one in which downward-sloping labor demand curves are taken as axiomatic, and empirically-warranted at that. On this view, labor standards raised directly by the government or indirectly through protection of associational and collective bargaining rights are likely to protect one segment of the work force at the expense of the remainder. Thus, I have argued that collective bargaining or minimum wages may lead to labor market segmentation, lower formal sector employment, and lower wages in uncovered sectors; ambitious labor codes have caused such adverse outcomes in some countries; and economic growth under market wage determination has brought about full employment, rapidly rising real wages, and consequent higher standards of living in a number of countries in the Far East that have tried it.

With respect to trade-linked international labor standards, implementation would also be difficult. In the words of Windmuller (1978):

> There are at least three problems with the idea of international labor standards which seem to me to defy solution under conditions of multinational negotiations. What are the criteria to determine fair standards? Who is entitled to participate in defining them? And by what means are they to be enforced?

Although these problems are not necessarily insurmountable, they must be faced head-on.

Concern with the adverse labor market effects of premature protective labor legislation is not, however, a call for *laissez-faire*. Governments may play an active role in encouraging economic expansion of a type that will benefit workers, and indeed should be actively engaged in doing so.

The organizers of this symposium set forth three fundamental questions for discussion. Here are my thoughts on each. The first is the question of how to provide countries at all stages of development with opportunities for growth that do not depend on abuses of labor standards. I have argued that labor standards are abused when the best job available to a worker is one paying a pittance and the worst is no job at all. Only by striving to innovate and produce more with existing resources is growth possible for all. Otherwise, we are caught in a zero-sum game. The goal of United States policy must be to increase efficiency at home, not to reduce efficiency abroad. Related to this is the choice of policy instrument. From the point of view of American labor, would it be better to promote labor standards abroad or to demand reciprocity in trade by tying foreigners' access to U.S. markets with the opening of overseas markets to U.S. goods?

The second question is how to prevent labor conditions in advanced countries from being undermined by those in less developed trading partners. I have suggested that we in the advanced countries need to ask ourselves the same question the most successful newly-industrializing countries have been asking themselves over and over: what is it that we can produce efficiently that others who have the purchasing power would want to buy? Probably, the United States can continue to export farm products, computer software, educational services, and jet aircraft. It is equally probable that we will not be able to continue to export labor-intensive industrial products. The best way to prevent labor conditions in advanced countries from being undermined by competition from developing countries is to anticipate where developing countries will be making their next breakthroughs and moving out of those industries and into others where comparative advantage remains. However, the frictions entailed by such restructuring are considerable. An active labor market policy can help relax some of the more severe rigidities.

Finally is the question of how to promote innovative, efficient firms and countries that properly observe labor standards. The single most important thing to do is to assure that product markets are kept open in the U.S. and around the world, so that those who can produce efficiently while observing labor standards can sell efficiently. The threat of protectionist actions by the U.S. and of retaliation abroad are both very real and very worrisome.

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