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A Race to the Bottom, a Race to the Top or the March to a Minimum Floor? Economic Integration and Labor Standards in Comparative Perspective

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Abstract

The regulation of labor markets has been traditionally a sovereign national matter, determined by voters, domestic groups, and governments, without regard for its effect on standards in other nations. Now, an emerging "race to the bottom" (RTP) logic predicts that if a nation's labor market protections are high or social protections generous, it will experience an outflow of capital to nations with lower labor costs, depressing compensation and placing downward pressure on domestic standards. The essay explains how different groups of nations respond to the real and perceived distributional implications of deeper integration and examines the impact of one mechanisms of globalization−regional agreements and institutional pressures−on labor standards. This essay concludes that globalization has not been driving regulatory standards in a race to the bottom or a race to the top: rather, national heterogeneity prevails, with some incremental movement toward minimum norms and principles.

KEYWORDS:

Introduction

Economies around the world are becoming increasingly integrated as globalization promotes trade and mobility of capital and labor. An expanding network of trade and investment is bringing nations and societies with different rules and norms that govern working conditions and industrial relations into closer and more frequent contact with one another. The regulation of labor markets has been traditionally a sovereign national matter, determined by voters, domestic groups, and governments, without regard for its effect on standards in other nations. Now, an emerging "race to the bottom" (RTP) logic predicts that if a nation's labor market protections are high or social protections generous, it will experience an outflow of capital to nations with lower labor costs, depressing compensation and placing downward pressure on domestic standards. With the free movement of factor inputs, goods, and services, analysts predict, noncompetitive cost differentials will be competed away. Much less scholarly attention has been given to the impact of economic openness on labor standards. This essay highlights the political response to race to the bottom claims and examines the impact of one mechanisms of globalization—agreements and institutional pressures—on labor standards.

What is all too often missing from the literature is an explanation that highlights political and institutional factors, and whether international and regional labor agreements have any impact on domestic standards. I conclude that globalization has not been driving regulatory standards in a race to the bottom or a race to the top: rather, national heterogeneity prevails, with some movement toward minimum norms and principles. The essay explains how different groups of nations respond to the real and perceived distributional implications of deeper integration and the impact that these labor agreements have on domestic standards within and across the following cases: European Union (EU), North America (NAFTA), the Common Market of the Southern Cone (MERCOSUR), the Association of Southeast Asian Nations (ASEAN), the World Trade Organization (WTO), and International Labor Organization (ILO).

Labor markets involve much more than the exchange of a worker's labor for payment in the form of a wage. National governments, through either collective bargaining or legislation, establish domestic labor standards (regulations or protections) to assure freedom of association and minimal conditions of employment for workers. For example, in some EU member states, labor market protections are restrictions on the ability of economic agents to enter and exit formal, contractual employment relationships. "Core" standards, within the ILO, are typically rules on freedom of association, collective bargaining, prohibition of forced labor, elimination of child labor, and nondiscrimination. For comparison across these cases and various labor market areas, this paper broadly defines labor standards as the "rules and norms that govern working conditions and industrial relations" (OECD 1996).

The conventional wisdom in the literature suggests that labor agreements are "weak" and have little impact on domestic labor standards. While it is difficult to prove that standards would be lower in the absence of such agreements or that governments and firms would behave dramatically differently, their impact is not neglible. These agreements account for increasing flows of information and sharing of best labor market practices, create a minimum floor of rules and norms (with difference enforcement mechanisms) for competition while allowing nations to adopt higher standards, and encourage nations to improve oversight and enforcement of their domestic standards. While increased trade, capital, and labor flows require new trade-offs, nations maintain their own regulations to govern working conditions and industrial relations. There is limited evidence of convergence: despite integration, governments maintain distinct labor standards if they (and their voting citizens) are willing to bear the costs. Rather than a race to the bottom or the top, the outcome is an incremental march toward minimum regional and international norms and principles.

The first three sections of this essay review existing explanations that account for "race to the bottom," "no race at all," and "race to the top" outcomes, and explain why nations have an incentive to retain their comparative advantage and respond to the real and perceived

distributional implications of greater economic openness. The next section highlights variations in institutional mechanisms and the impact of these five labor agreements on domestic standards. The final section concludes that globalization has not produced convergence at the bottom or at the top: national differences remain substantial. While nations have a strong incentive to retain their comparative advantage, this essay explains why there are increasing efforts to develop labor agreements in conjunction with new forms of regional and international economic openness. Rather than a race to the bottom or the top, integration appears to result in an incremental march toward common regional and international minimum rules and norms.

Market Pressure and the "Race to the Bottom": A Review of the Evidence

Globalization, according to some, is forcing nations into a race to the bottom (RTB), as it increases the costs of domestic labor market institutions and of maintaining higher labor standards in advanced economies. According to the RTB argument, integration fosters dysfunctional competition among national rules and firms, leading to regime shopping, competitive deregulation, and social dumping. Social dumping are outcomes disadvantageous to existing social and labor market protection that could result from the operation of a single market or free trade zone encompassing wide variations in social and labor costs (Erickson and Kuruvilla 1994).[1] Governments will be required to either offer market-pleasing, business-friendly policies or sacrifice growth and employment to nations more responsive to the needs of capital. As competition occurs as goods, services, or factors move easily, if not totally freely, within different geographical areas, the prediction is that standards will be selected according to their relative attractiveness for investors and firms (Gatsios and Holmes 1999).

The race to the bottom prediction is that without harmonized labor standards, "low" labor standards in exporting developing countries will artificially depress labor costs, lead to unfair competitive advantage, and place downward pressure on "high" labor standards in advanced industrialized countries. For example, assume one nation does not regulate a minimum wage but all others do. Firms in the countries with a minimum wage would be at a competitive

disadvantage compared with those in the country without a minimum wage. Just as Northern firms feared capital flight to the South in the early twentieth century United States. Governments will be pressured by capital to lower or repeal its existing minimum wage. Alber and Standing (2000) refer to this as “labor cost” dumping, in which legislation that cuts employer obligations or makes it easier to bypass such obligations enables firms to reduce their wage and nonwage labor costs. Thus, standards in any one country end up lower than they would have been in the absence of an external economic pressure (Alber and Standing 2000). Thus, worldwide, workers in the “North” (i.e., United States, Germany) will have to accept standards that are low enough to prevent footloose capital from deserting them for the “South” (i.e., Mexico, Portugal).

A review of empirical evidence suggests that integration has not led to a race to the bottom in standards simply because the "cheapest" labor market regimes appear to offer cost savings. A principal finding of a major 1996 OECD study reports no evidence that countries with low labor standards enjoy better global export performance than high-standard countries (OECD 1996; 2000). On the basis of observed patterns of foreign direct investment, Rodrik (1996) reports that multinational firms invest principally in the largest, richest, and most dynamic labor markets; countries without “core” labor standards receive a very small part of global flows. In sum, there is no robust evidence that low-standard countries provide a haven for foreign firms (OECD 2000). Krueger (2000) concludes that imperfect mobility of capital, labor, goods, and services will further limit the pressure of globalization on labor standards.

Much of the empirical evidence focuses on the EU. Evidence on the labor cost incentive for capital movement in manufacturing within the EU shows that capital flows to the lower labor cost countries are actually not much larger than capital flows to the higher labor cost countries, despite differences in unit labor costs (Erickson and Kuruvilla 1994). Adnett (1995) reports that although there is potential for social dumping in the EU, they are unlikely to be significant in the long run. Overall, there has been little evidence of North-South social dumping, and few signs that Southern member states are eager to exploit their lower standards as a competitive tool (Ross

1995). Southern European producers with low productivity tend to specialize in different products from those in Northern Europe and thus, do not place downward pressure on existing standards (Adnett 1994). In addition, in the low-wage sectors in the EU, it is really only in textiles and clothing that there is much international competition. Even then, the most intense competition comes from developing nations outside the EU, where wage costs are exceptionally low (Bazen and Benhayoun 1995).

A review of the evidence also suggests that compensation costs alone do not determine competitiveness. The competitiveness of similar products made in different nations often varies greatly, because firms establish different mixes among infrastructure, skills, training, and technology (Mosley 1990). As Mosley (1990) has noted, high-wage countries (in the EU) are likely to have compensating advantages over low-wage countries, such as a more skilled workforce, better infrastructure, and perhaps productivity that is high enough to offset the disadvantage of higher labor costs. In several sectors, cross-national differences in labor costs are apparently compensated for by differences in the systems by which these costs are paid and by the productivity arising from different skill levels and the quality of technology; thus, per-unit cost of production does not reflect differences in labor costs (Lange 1992; Adnett 1995). Many EU member states have come to see labor relations as a strategic factor in strengthening national competitiveness and product innovation (Kluth 1998).

In summary, existing evidence suggests that integration will lead to neither a race to the bottom nor a race to the top in labor standards (Adnett 1995; Andersen, Haldrup, and Sorensen 2000; Krueger 2000). A number of recent studies, as reviewed by the OECD, also suggest there are major constraints on a race the bottom outcome (OECD 2000). In fact, Freeman (1994)argues that any nation that prefer higher labor standards can purchase them for itself, regardless of other countries, by either currency devaluation (more difficult in a monetary union), a direct downward adjustment in wages, or an increase in taxes to pay for the cost of higher standards. In addition, redistributive or technical assistance mechanisms from advanced economies can help developing

countries increase compliance, as they may not have the resources to meet higher standards. Thus, the race to the bottom need not occur.

Comparative Advantage, Heterogeniety and No Race at All

Much of the literature on the impact of globalization on labor markets (i.e., of trade on wages) focuses on the employment and wages of less-skilled workers in advanced economies (Freeman 1995; Wood 1995)—whether they have been (or will be) determined by the global supply of less-skilled labor rather than by domestic labor markets (Freeman 1995). As labor costs are one factor in competitiveness, one view among economists is that globalization does indeed put pressure on wages and employment in labor-intensive industries in advanced economies. Another view rejects the notion that trade in one sector can determine labor outcomes in an entire economy and others suggest the deleterious effects of trade on demand for less-skilled workers are modest enough to be offset through redistribution funded by the gains from trade (Freeman 1995).

Less attention focuses on the institution side: does integration mean that all countries must adopt the same institutional structure and labor standards? Rodrik (1996) argues that much of the economics literature has focused on identifying the magnitude of the downward shift of the demand curve for low-skilled labor rather than on the consequences of that demand's greater elasticity. Deeper integration of nations with high and low labor costs can be thought of as an enlargement of the effective labor supply. In an economy that is more open to trade and investment, the demand for labor will be generally more elastic: employers (and consumers) can substitute for foreign workers either by investing abroad or by importing products made abroad (Rodrik 1996). Thus, the greater substitutability of labor can alter the nature of bargaining between workers and their employers. Most importantly, Rodrik suggests that increased trade and foreign investment makes it more difficult for workers to force other groups in society, employers in particular, to share in the costs.

With greater integration, labor markets have a wide variety of characteristics that influence trade flows, and both capital and labor mobility. While there are significant differences in real wages and labor costs between developed and developing countries, it is not conceptually or empirically clear that higher labor standards means higher labor costs (Freeman 1994). In addition, some differences in labor practices have no effect on labor costs. Other costly differences are shifted back to workers. Other costly differences are shifted to entire population through currency devaluation (Freeman 1994). Rodrik (1999), however, suggests that low-standard countries tend to have low labor costs, controlling for labor productivity, and a strong revealed comparative advantage in labor-intensive manufactures. According to economic theory, the mobility of capital is assumed to allow capital-labor ratios to equalize across nations, and thus to equalize marginal productivities of capital and labor (Ehrenberg 1994).

An analytical focus on the impact of globalization on labor standards is critical because labor costs are a big part of trade and comparative advantage. Economists predict that nations at different levels of income will choose different standards. Standards should thus naturally vary across countries, depending on such factors as endowments, income growth, and culture or values. For example, this logic assumes that trade is driven by differences in factors' endowments, with one country (i.e., Mexico or Portugal) relatively abundant in low-skill labor, and the other country (i.e., U.S. or Germany), in high-skill labor. The more different nations are, the more they stand to gain from trading with one another: thus, they have an incentive to retain their comparative advantage and protect the heterogeneity in their labor standards and costs.

The simple Heckser-Ohlin model predicts that expansion of trade will reflect specialization based on factor endowments.[2] The theory of comparative advantage claims that nations can profit from differences in endowments of technology, capital, skilled labor, unskilled labor, and other inputs. As barriers to trade are removed and competition intensifies, they will seek to improve their competitiveness, which depends upon relative unit labor costs of producing a unit of output compared to those borne by competitors.[3] In terms of efficiency and mutual gain,

there is limited incentive for either advanced or developing economies to harmonize standards: this artificially raises labor costs and reduces the comparative advantage of nations with relatively large supplies of unskilled labor, thus reducing the benefits of trade for all (Ehrenberg 1994).

Thus, if we assume that governments respond, at least in part, to efficiency concerns and the aggregate gains, we should observe them protecting their comparative advantage and reacting individually to changes in their respective environments. Globalization should produce neither a race to the bottom nor a race to the top, but strong market pressures for nations to preserve their comparative advantage and labor market diversity. Each country therefore will have a strong incentive to choose the "right" level of labor standards, given its preferences and level of economic development. With greater economic growth and development, labor standards in developing countries will eventually rise in due time.

For the most part, harmonization of labor standards has not been viewed as a necessary condition for integration across these cases, but groups of nations have sought ways to respond to the real and perceived distributional implications of economic openness. Policies and events originating in one nation are increasingly viewed to have distributional effects on the welfare of citizens and level of regulation in other nations; and thus, in response, there are increasing political demands on governments to confront the real or perceived "efficiency" and "equity" trade-off. One mechanism of globalization, regional and international rules or institutions, attempts to foster and recognize norms or principles as a floor under competition within the context of continued national regulatory diversity.

Market or Institutional Pressure and a Race to the Top

A recent and growing literature on the impact of globalization on national regulatory standards specifies market and institutional conditions in which integration results in convergence toward more stringent standards, or a race to the top, often focusing on the case of environmental regulation. In Vogel's (1995) trading-up analysis, the key market, institutional, and political variables predicting a race to the top are: internationally oriented producers for whom stricter

regulations are a source of competitive advantage; international agreements and institutions; and Baptist-bootlegger coalitions of domestic producers and public interest groups. In challenging the claim that liberalization leads to a lowering of standards, Vogel (1995) argues that integration can actually lead to strengthening of consumer and environmental standards, as greener states export their higher standards or harmonize their standards through international or regional agreement. The result is thus more akin to a race to the top than a race to the bottom.

As Vogel and Kagan acknowledge (this volume), the impact of globalization is likely to vary across policy areas. Existing political economy arguments contend that harmonization or convergence of labor standards can be explained, not by the presence of Vogel's internationally oriented producers or Baptist-bootlegger coalitions as is true in environmental standards, but by protectionist demands of labor groups (and import-competing firms) in advanced economies to prevent competition from developing countries based on comparative advantage (Hansson 1983; Bhagwati 1994; Srinivasan 1994).[4] While much of the benefit from integration accrues to society as a whole in the form of lower prices for consumers, the losses fall heavily on particular groups and industries from certain geographic areas. By requiring competitors to improve or harmonize their standards, these pressures groups, according to rent-seeking theories, strategically increase prices of goods produced by labor-intensive technologies by increasing the cost of labor.[5]

This paper argues that domestic group demands do affect the behavior of nations, and such political variables clearly must be central to any analysis of the effects of globalization on standards. Globalization, no matter how much in the national interest, inevitably has different effects on various domestic groups. As Frieden and Rogowski (1996) have noted, aggregate benefits will be distributed across groups within countries in predictable ways, creating relatively clear lines of cleavage.[6] The winners prefer to maintain or accelerate change; the losers aim to impede or reverse change.[7] However, unlike political economy of rent-seeking arguments, not all outcomes can be explained by the wasteful influence or pervasive success of pressure groups or particular coalitions. Governments must be willing to accommodate demands and supply

particular outcomes. Rather than regulatory capture of outcomes or cleavages determining outcomes, demand-side influences are filtered through domestic politics and institutions: national preferences are then aggregated within the decision rules of existing agreements.

Simmons (this volume) posits the impossibility of a race to the bottom, as a dominant power or powers has the ability to impose their preferences on other nations if necessary to maintain the "effectiveness" of their own standards. The heterogeneity of regulations generates strong negative externalities for the dominant country, since it is adversely affected if other countries do not adopt equally stringent standards.[8] Simmons suggests this insight can be useful in accounting for other areas in which there is a great imbalance of standards or of economic or political power among countries. Powerful polities that might experience adverse effects from other nations' laxity are likely to pressure those countries to adopt similarly "high" standards.

However, in contrast to Simmon's power asymmetry explanation, nations that seek to harmonize standards must do so within existing decision rules, which often require unanimity or a majority (or qualified majority) voting or allow only for voluntary nonbinding decisions. Thus, this prevents even the most powerful nations from unilaterally imposing their preferences and standards on other nations. Within interstate bargaining, strategic and collective choices about preference aggregation and decision rules, and formal governance and enforcement mechanisms within agreements, are primary factors in explaining why high-standard nations are not able to secure harmonization or upward convergence of standards. Thus, we see no race to the top in standards.

I argue that national governments are faced with conflicting economic and political incentives. While globalization offers obvious opportunities for aggregate and mutual economic gains, it also fosters distributional consequences. This creates electoral and political risks for governments, as domestic groups and the public often fear a race to the bottom outcome. Governments pursue different strategies for coping with risk. The first is protectionism. Assuming the choice is to pursue economic openness, the second strategy is linking deeper

integration with provision of domestic compensation or social insurance. Developing countries, however, may remain protectionist because they lack the resources for internal transfer programs to cope with risks. Reliable mechanisms of compensation are strategically important for domestic stability as exposure to international trade expands (Rogowski 1989).

A third strategy, highlighted and explained here, is to respond with formal rules or informal mechanisms to set *minimum* standards or norms that govern working conditions and industrial relations. As Spar and Yoffie (2000) emphasize, races, even after they are launched, can be curtailed by the establishment of common standards. As these cases show, globalization has led to neither a race to the bottom (due to social dumping claiming) nor by any means a race to the top (due to market or institutional pressures)). Instead, globalization has produced political demands and institutional responses aimed at establishing norms or principles as a floor under competition while perpetuating national diversity and protecting comparative advantage.

The nature of the institutional response to distributional concerns and impact of labor agreement on standards varies across the cases, depending on the national *preferences* of the member states or trading partners (and political parties with control); the formal institutional and *decision rules* for aggregating policy preferences; and the *collective action* problem of joint decision making among many governments. National preferences—a balance of electoral self-interest and loyalty to core domestic groups—vary according to the governments (and political parties) that exist at critical points in time. It is important to note that these responses emerge within agreements that vary significantly in terms of level of integration that have (or aim to reach), and in terms of the disparities in real wages and labor costs between them.

The European Union

The EU is an important case because its process of integration has proceeded over several decades and has recently been reinforced by the creation of the Single European Market and the European Monetary Union (Andersen, Haldrup, and Sorensen 2001). Labor, capital, goods, and

services can now flow freely across borders, and most countries share a common currency. The EU is far more than a free trade zone: it possesses characteristics of a supranational entity, including extensive bureaucratic competence, overriding judicial control, and significant capacity to develop or modify member state rules.[9] If a member state fails to incorporate a EU directive into domestic law, individuals can seek enforcement against the member through the ECJ. The Commission monitors the performance of members and may initiate enforcement proceedings.

Over time, negative integration—policies eliminating restraints on trade and distortions of competition—has not been challenged, as all EU member states signed the treaties, all national parliaments ratified them, and all agreed to create a common market. Positive integration—policies that shape the conditions under which markets operate—has been more difficult, as it depends on member agreement in the Council of Ministers and thus is subject to all the collective action problems of intergovernmental decision making (Scharpf 1997). My focus here is solely on the adoption of legislation aimed at improving labor standards and workers' rights in the European Union and its impact on domestic standards.

Within the EU, even the most powerful regulatory "leaders" cannot just impose their standards on the "laggards": any harmonization or transfer of regulatory authority is the result of a dynamic interaction among domestic groups, EU-wide associations, member states, and Community institutions *within the* parameters of existing decision rules. The preferences of member states in the Council of Ministers and the European Council are influenced by the demands of domestic interests as well as EU associations, the European Trade Union Confederation (ETUC), and the Union of Industrial and Employers' Confederations of Europe (UNICE). Governments have had to balance which groups to accommodate and which to resist over time. Currently, fourteen of the fifteen EU countries have center-left governments.

In the years prior to the treaty, there was concern about the distributive implications of a newly integrated economic area. The six original members (Belgium, France, Germany, Italy, Luxembourg, Netherlands) had achieved similar levels of economic development, and the

consensus view among them was that only minimal harmonization was required for a customs union (Teague and Grahl 1990). Under the 1957 Treaty of Rome, members committed themselves to economic and social cohesion: the goals were to raise living standards and improve employment conditions in member states.[10] As part of the Treaty, decision rules required the Council of Ministers to act unanimously before any social or labor protection proposal could be approved.

The EU has promoted free mobility of labor ever since its inception. In the early period, members acted to promote labor mobility by removing non-tariff barriers to the free movement of labor rooted in national labor market regimes, and harmonizing education and training of workers. Over time, members have unanimously agreed to harmonize through a series of EU "market-making" directives and resolutions that allow citizens to move between nations, to maintain residency in other nations after employment, to be eligible for all social insurance programs in other nations on the same terms as citizens of those nations, and to receive recognition of professional qualifications across member states (Ehrenberg 1994).[11] Since July 1986, citizens have been entitled to employment in any other nation on equal terms and conditions with residents.

With Denmark, Ireland, and the UK joining the EC in 1973, and Greece in 1981, and Spain and Portugal in 1986, there was intensified political concern (and demands) within the EU as members with higher labor standards confronted greater heterogeneity in standards and costs between more- and less- advanced economies. Deeper integration thus generated new pressures for the creation of a "social" dimension and the greater harmonization of "market-breaking" policies within the Community. First, at the 1972 Paris Summit, members committed to a social agreement, and the EC launched the 1974 Social Action Program with three *goals*: full and better employment, improved working and living conditions, and greater participation of workers in EC decisions (Teague and Grahl 1989). During the 1970s and early 1980's, members agreed to approximate standards only for equal pay and specific worker protections.[12] In the 1980s, a

number of directives proposed by the Commission were not approved by the Council as pro-regulatory members were constrained by the preferences of the least ambitious member in a minimum winning coalition (i.e., Britain), reflecting a lowest-common-denominator outcome.

By the early 1990s, the dominant view of member governments was that the extension of European integration—the goal of economic convergence—required harmonization of labor market and goods market regulation (Adnett 1995). Nations with "higher" standards—Belgium, Denmark, France, and Germany—pushed for harmonization, as the incongruity of rules and the increased wage and non-wage costs of heterogeneity would expose their systems as a competitive cost liability, leading to a "race to the bottom."[13] Nations with "lower" standards—Portugal, Greece, Ireland, and Spain—would be losers, as harmonization would raise their existing labor standards but would not reflect national production cost structures (Lange 1993). Spain's socialist government supported harmonization, though the country was similar to the other "lower" standard nations in socioeconomic terms.

UK and Portugal, supported by UNICE and domestic employer groups, opposed harmonization, as it would prevent or delay the adjustment process necessary for improving national economic performance (Rhodes 1991). The harmonization of labor market protections, and changes in the direct and indirect labor costs to firms and the rules governing relations with workers, would have a direct and negative impact on national competitiveness. The British government, with period support from some of the less economically developed members, pushed for greater labor market flexibility. Britain attributed its success in creating jobs to flexible labor markets (Rhodes 1991). Since its admission, the UK has had an uneasy relationship with other members due to its preferences for deregulation and labor market flexibility (Hargreaves 1997). To preempt action, in conjunction with Italy and Ireland, it launched the Action Program for Employment Growth, proposing a redirection of policy toward greater labor market flexibility.

Historically, EC decisions have been made on the basis of unanimity voting. Britain strategically manipulated these decision rules, particularly the unanimity rule, to impose its

preferences on others and block any efforts toward common regulatory standards. Britain opposed any change in the decision rules, particularly any that might require it to accept a decision from a qualified majority, within the EU. Unanimous decision rules were modified slightly by Article 118A of the 1986 Single European Act (SEA), which allowed for qualified majority voting (QMV) for directives relating to "the working environment as regards the health and safety of workers."[14] In negotiations leading up the SEA, members agreed in Article 100a to extend QMV for measures that have "as their object the establishment and functioning of the internal market." However, this was conditional on Article 100A(2), where the members states required that the rights and interests of employed people still a matter for *unanimous* voting only (Bercusson and Van Dijk 1995).

The regulation of worker health and safety has been the area in which the EU has had the greatest authority to act, and there has been significant agreement among all the member states to harmonize regulatory standards (Ross 1995). Health and safety rules are concerned with "goods" rather than "people": they are product rather than labor market regulations. The UK and employer groups viewed harmonization of health and safety rules as important for securing the single market, and regarded comparable regulatory costs as essential to level the playing field for competition among EU firms. The British originally agreed to QMV, believing their "existing system of worker health and safety standards to be higher than those of other members" (Friedholm 1999). On the other issues, the UK, domestic employers, and EU-level employer groups opposed encroachment on national autonomy and demanded a strict interpretation of treaty law; the Commission, backed by a majority of the member s, and domestic and EU-level labor groups, sought ways to gain a more expansive interpretation of treaty law (Rhodes 1995).[15]

To address the political demands of members with more significant labor market protections, Jacques Delors, originating with the 1987 Belgian presidency, pushed for members to adopt *minimum* norms or conventions. The Community would influence national collective bargaining and labor market protections without Europe-wide harmonization (Teague and Grahl

1989). For high standard nations, the original proposal did not impose new labor market protections but rather established their existing rules at the EU level (Teague 1999). This represented convergence in goals rather than harmonization of rules and norms that govern worker conditions and industrial relations (Teague and Grahl 1989). With the 1989 EC Charter on Fundamental Social Rights (Social Charter),[16] the subsequent Action Program, and their consolidation in the 1991 Social Protocol of the Maastricht Treaty, members agreed to *minimum regulatory standards only in specific labor market areas* (Baldry 1994). While the it guaranteed "rights" to freedom of expression and collective bargaining, the Action Program ruled out any harmonization in this area, as member states believed the responsibility for implementing these provisions rested with the members in accordance with their "national traditions and policies."

Prior to the Protocol, a majority of member states pressed to adopt directives from the Action Program, on labor market issues such as part-time work, organization of working time, contents of employment contracts and proof of their existence, information and consultation with workers with EC-scale companies, and protections for pregnant women and new mothers. Britain refused to relinquish control and opposed any changes in decision rules that would subject such directives to adoption by QMV (Lange 1994). Due to opposition from Ireland and Portugal, the Action Program also failed to establish a minimum pay directive, proposing only an opinion instead. Minimum pay was not mentioned directly, but members were asked to take appropriate measures, through either legislation or collective bargaining, to ensure that the right to an "equitable" wage was respected (Bazen and Benhayoun 1992).

In the end, eleven members signed the Declaration of Principles, which guaranteed twelve fundamental social rights (Britain opted out).[17] They agreed, in accordance with national rules and practices, to guarantee the rights in the Charter and implement the necessary measures to accomplish this (Teague and Grahl 1992). The 1991 Protocol specified issues on which the eleven could avoid British vetoes by allowing QMV in several labor market areas (Van Wenzel Stone 1995). Since Maastricht retained the provisions of the Treaty of Rome and the SEA, all

members could still make policy together, but with majority voting limited to only the harmonization of health and safety. Most important, members retained direct control over industrial relations and collective employee rights—the right to pay, the right to association, and the right to strike or impose lockouts.[18]

By joining the Protocol, Portugal, Greece, Ireland, and Spain made themselves potentially vulnerable to standards that could be adverse to their national competitiveness (Lange 1993). Thus, the EU provided compensation to them in the form of structural funds to offset costly new steps toward deeper integration. In other words, side payments were offered to lessen political opposition in "lower" standard nations and allow these members to adjust to the short-term costs of new EU standards. The transfers provided short-term cover to governments who saw integration as important to their long-term economic growth and preferable to EU exclusion (Lange 1993). Delors won over these nations with promises of more structural funding, and in the case of Spain, with direct solidarity appeals to the socialist government (Moravcsik 1998).

After eighteen years of British veto threats, the new Labor Party signaled a preference to join the 1991 Protocol. Before assuming control in 1997, the Blair government led the way in negotiating the 1997 Amsterdam Treaty, but warned that Britain would oppose any harmonization measures that would place excessive burdens on British firms (Rice-Oxley 1997). The Amsterdam Treaty, which was signed in 1997 and entered into force in 1999, was a significant agreement among *all* members states to accept majority voting on issues beyond worker health and safety standards (McGlynn 1998). Following the example of the 1961 European Social Charter and the 1989 Community Charter of the Fundamental Social Rights, the treaty refers to fundamental social rights: promotion of employment, improved living and working conditions, proper social protection, dialogue between management and labor, the development of human resources with a view to lasting high employment and combating exclusion.[19] However, a unanimous vote was still required for many issues, and the rights to association, strike, and lockouts were specifically excluded (EU 1999).[20]

A central feature of the 1991 Social Protocol, which became applicable to all EU countries as a result of the UK signing the Amsterdam Treaty, is that EU trade unions and employer associations can propose directives. Thus, the EU's reforms empowered these social partners, shifting authority and decision rules at the very moment the Council of Ministers was adopting QMV. Bercusson (1994) suggests that the "principle of subsidiarity will be interpreted to imply a greater role for the process of social dialogue and collective bargaining at national and transnational levels, supplementing the Commission's role in the lawmaking process." With the social partners playing a greater role in EU decisions, the new approach involves the introduction of a framework agreement that is intended to advance minimum standards but requires parallel implementation in each of the member states.[21]

With the Treaty of Amsterdam, which consolidated the mechanisms set in place by the Maastricht Treaty, members also agreed to promote a new series of priorities at Community level, especially in the area of employment. These are only guidelines for both the Community and the member states intended to promote employment and improved living and working conditions (EU 1999).[22] Members agreed at the Luxembourg Jobs summit in November 1997 that the objective is to reach a "high level of employment" without undermining competitiveness in the EU. In order to attain it, the Community was charged with developing a "coordinated strategy" for employment. Benchmarking plays a key role, as members highlight best labor market performances and aim to identify, evaluate, and disseminate good practices in the field of employment and labor market policy (Commission of the European Communities 2001).

As the Treaty qualifies fundamental social rights as only "guidelines" for activities, there was increasing pressure for member states to agree to a European Union Charter of Fundamental Rights, which they did at the 2000 Nice European Council meeting.[23] While France pushed for fundamental social and economic rights, Britain viewed the Charter as a "statement of policy," and opposed incorporating the Charter within the Treaty, which would make it binding with stronger legal status. While preferring to endorse rather than veto, Britain successfully negotiated

amendments to prevent any new economic or social rights that would undermine British labor laws, impose new costs on firms, or undermine their competitive advantages (Herald Tribune 2000; Financial Times 2000). Britain specifically opposed language on a workers' right to strike and a requirement that employers consult with employees at all levels about matters that concern them. In its final form, the right to strike remains in national law and practices, which was of particular concern to the Confederation of British Industry (Financial Times 2000). Currently, these are principles rather than binding rights, and it will have to be decided whether and how the Charter should be integrated into the Treaties (Commission of the European Communities 2000).

In summary, the EU member states do not harmonize worker protection and industrial relations, but agreed to minimum harmonization of rules and norms only in specific areas. The EU sets minimum standards and norms from which national departures are acceptable, thereby preserving policy autonomy and diversity. Members retain control over the form and method of implementation, and implement directives through collective bargaining agreements as well as through statutory or administrative regulation, to allow flexibility. Many members have used their control over the legal mechanisms through which directives are incorporated into national law to limit the overall impact on domestic standards. Thus, a significant gap exists between directives and their implementation in national law. In other areas, regulatory diversity prevails.

NAFTA

Unlike the EU, whose member states commit to minimum and enforceable standards under a Treaty, sovereign trading partners in North America agreed only to improve oversight and enforcement of existing labor and employment standards, and to participate in a dispute process as a supplemental part of the agreement. NAFTA, ratified in 1993, implements free trade between two highly developed economies and one developing economy within fifteen years, with no provision for labor mobility.[24] The agreement contains only one formal clause on standards, discouraging trading partners from reducing environmental or health and safety standards to attract investment; however, the North American Agreement on Labor Cooperation (NAALC),

ratified in 1993 as part of NAFTA, represents the first labor side-agreement directly linked to a trade treaty. In a final framework, the partners created a Commission for Labor Cooperation (CLC) to promote enforcement of each nation's labor and employment laws (Garvey 1997).

The U.S. preference for a side- agreement arose out of the need to respond to domestic political demands. The centrist Clinton administration, supported free trade and had incentives to capture the aggregate gains, but also had a political incentive to respond to the demands and fears of organized labor (as well as environmental and consumer groups) to harmonize regional standards. Thus, the United States pushed for three supplemental accords to NAFTA on labor, the environment, and import surges. Labor (AFL-CIO, UAW) preferred regional labor rights—collective bargaining (i.e., free association) and health and safety, child labor, and minimum wage standards—enforceable through domestic courts and if needed, through Commission authority. Business (Business Roundtable, Chamber of Commerce, National Association of Manufacturers, and U.S. Council on International Business) supported the formation of a "consultative" commission, but opposed any delegation of investigative and enforcement authority, particularly the power to issue trade sanctions, to it. The U.S. negotiating position balanced labor and business demands: labor did not capture the outcome, as the rent-seeking theories would predict, and win an agreement that imposes U.S. standards on Mexico.

Mexico refused to renegotiate NAFTA, but fearing NAFTA's defeat in the Congress, did agree to negotiate a labor side-agreement. Mexico's preference was for each nation to maintain control over standards, and for a regional commission to have no authority to issue trade sanctions (Mayer 1998). Mexico had incentives to maintain the corporatist system of labor relations, and labor groups there resisted any change that threatened their monopoly of labor movement representation (Cameron and Tomlin 2000). Mexico pushed for a compensation mechanism to aid with adjustments (a North American Development Fund), but the U.S. refused to support any structural or regional fund (Cameron and Tomlin 2000). Mexico opposed

harmonization, particularly any mechanism that would erode the benefits of free trade and undermine their comparative advantage.

During the bargaining, the trading partners diverged: the United States favored a commission with authority to issue sanctions; Mexico preferred no transfer of authority or weak enforcement; and Canada supported a commission for oversight but insisted that it remain firmly under national control. Both Canada and Mexico rejected trade sanctions and supported monetary sanctions only as a final punitive measure. The United States proposed that complaints go to national administrative offices (NAOs) within each nation rather than to a regional commission. Each partner would retain full control over whether complaints had sufficient merit to require trilateral consultation or dispute resolution.

In balancing economic and political demands, the United States proposed that each partner commit only to enforcing its existing labor and employment standards. Mexico held firm on consultation only on health and safety standards, while the United States and Canada preferred consultation on labor relations, a minimum wage, and child labor. In a final negotiation, Mexico accepted the U.S. proposal that fines of up to $20 million could be imposed for failure to enforce domestic labor and employment rules, and trade sanctions could be issued *only* if a trading partner failed to pay the monetary fine. Thus, Mexico could claim that trade sanctions would never be imposed for an enforcement violation while the United States could signal to labor groups that the agreement included trade sanctions for non-enforcement of domestic labor standards. Mexico agreed to fine and sanction authority only for enforcement of health and safety standards; disputes over minimum wage and child labor standards would be referred to an Evaluation Committee of Experts (ECE) for recommendations. Cooperation on labor relations would be limited only to consultation and information sharing. The U.S. preference was that minimum wage, child labor, and labor relations standards be subject to the same enforcement mechanisms as health and safety standards. In a final bargain, Mexico agreed to subject child labor and minimum wage enforcement to the same dispute resolution process as health and

safety, and to link its minimum wage to national productivity increases. The United States acceded to Mexico's wish that labor relations be exempt from any dispute resolution process. In the final agreement, each partner retained full regulatory control to establish or modify its labor and employment standards. Through the NAALC, the partners cooperate on seven objectives, including improving working conditions and living standards and promoting eleven labor principles to protect, enhance, and enforce workers' basic rights. The partners agreed to six obligations that define effective enforcement and hold one another accountable through the mechanisms of consultation, evaluation, and dispute resolution. The obligations are non-voluntary (i.e., the governments cannot choose the areas of law to which they will apply) and enforceable by sanctions in only those three specific labor market areas (child labor, health and safety, and minimum wage).[25] The NAALC contains substantial references to improving the availability of information: "transparency" and "sunshine" are considered important features of the agreement and one's the trading partners claim will lead to real improvements.[26]

In summary, within the NAALC, trading partners are able to lower their standards by statutory change and did not agree to harmonization of their standards even at a minimum level. The process reflects the trading partners' ability to agree to solve labor disputes only through informal coordination and to confront conflicts through dialogue and consultation, initially at the NAO and later at the ministerial level. Due to divergent preferences, the labor market issues that may be raised at subsequent levels of review is limited and was designed to exclude the first three labor principles (freedom of association and protection of the right to organize, the right to bargain collectively, and the right to strike) so as not to interfere with national autonomy and comparative advantage, and more important, to prevent coalitions of free trade opponents from using the process for protectionist purposes.[27]

MERCOSUR and ASEAN

Similar to NAFTA, MERCOSUR (the Common Market of the Southern Cone) and ASEAN (Association of Southeast Asian Nations) represent new and evolving regional

arrangements. The 1991 Treaty of Asuncion launched the process for MERCOSUR, with Brazil, Argentina, Uruguay, and Paraguay as its members, nations (and regions within) at different levels of economic development. MERCOSUR envisioned that a free trade area for labor, services, goods, and capital would be established by 1994, but as of 1995, the region had organized itself as an imperfect customs union in which members have a common external tariff covering imports from third countries, with largely tariff-free trading among themselves. Members agreed to a five-year program to perfect the customs union, standardizing trade-related rules and procedures and moving toward harmonization of economic policies.[28]

Brazil, the most advanced economy, and Uruguay advocated for a Social Charter of Fundamental Rights, and trade unions from the four countries, organized as the Southern Cone Central Labor Coordination, fought to have negotiations opened to worker organizations. Employer groups remained resistant to harmonization of labor standards. In response to political demands from labor groups, members created a tripartite 1992 MERCOSUR Working Group on Labor Relations, Employment and Security. While the 1994 Protocol of Ouro Preto established a permanent institutional structure for MERCOSUR, the governments at first rejected demands for a social charter with enforceable labor rights. Instead, members created an Economic and Social Consultative Forum in which business, labor, and other sectors can make only non-binding recommendations to governments on labor rights and standards.

In December 1998, members adopted a Social and Labor Declaration, responding to pressures that integration could not be restricted to economic and commercial areas. While the declaration does not provide for uniform regional standards, members commit to promoting *principles* through national legislation and practice as well as through collective ag reement and conventions. The declaration's twenty-five articles are grouped into three broad categories dealing with individual rights, collective rights of employers and workers (i.e., freedom of association, collective bargaining, strikes), and procedures addressing implementation and follow-up. A tripartite Social and Labor Commission promotes implementation but has no sanction authority

(OECD 2000).[29] In summary, the member agreed to respect a minimum level of worker rights, mainly those that emerged from the 1998 ILO Declaration of Fundamental Rights.

Similarly, ASEAN joined the regionalism tends when in 1992 these nations agreed to implement a free trade area (AFTA) by 2007 (Lawrence 1996). The members have been unwilling to transfer any authority to regional institutions: there are no central monitoring or third party enforcement mechanisms (Mattli 1999). East Asian nations originally formed ASEAN as a political association, with relatively few programs designed to promote intra-ASEAN trade. With the exception of Singapore, the economies of the nations are very similar: there is no regional "leader," little scope for mutually beneficial exchange, and only weak demand for deeper integration. By 1999, ASEAN encompassed all ten countries of Southeast Asia by admitting Cambodia (Brunei Darussalam in 1984, Vietnam in 1995, and Laos and Myanmar in 1997). Although all are export oriented, the nations have small shares of their trade with one another.

Despite limited intra-ASEAN trade, members agreed to coordinate on labor affairs with the 1976 Declaration of the ASEAN Concord. [30] The First Meeting of the ASEAN Labor Ministers introduced an Ad-Hoc Committee to examine areas of informal cooperation in labor and manpower policy. The declaration noted that coordination be undertaken "with emphasis on the well being of the low-income group and of the rural population, through the expansion of opportunities for productive employment with fair remuneration." At the sixth summit in December 1998, members responded to domestic pressures and formally recognized that the financial crisis had a social dimension, and at the 1999 Meeting of ASEAN Labor Ministers, they agreed "to share and exchange best practices" in developing social protection and social security systems; promote tripartite cooperation through increased consultation between social partners and strengthen tripartite institutions and mediation/consultation mechanisms; and enhance the capacity to design *active* labor market policies and retraining.[31]

At the ASEAN+3 Summit (Brunei Darussalam, Cambodia, China, Indonesia, Japan, Korea, the Lao People's Democratic Republic, Malaysia, Myanmar, Philippines, Singapore,

Thailand, and Vietnam), members acknowledged, with the 1999 Joint Statement on East Asia Cooperation, the importance of "social and human resources development for the sustained growth of East Asia by alleviating economic and social disparities within and between nations."[32] At the May 2001 ASEAN Labor Meetings, the members, fearful that the low labor cost comparative advantage they enjoyed was being eroded by new economies, stressed the need for coordination on human capital issues. For the most part, ASEAN cooperation on labor markets is limited only to sharing information and coordinating “active” labor market policy, such as human capital investment. With the rapid integration of ASEAN in the Free Trade Area (AFTA), the Investment Area (AIA) and the Framework Agreement on Services (AFA), members agreed to develop a technical assistance program for Cambodia, Laos, Myanmar, and Vietnam (CLMV) to help these countries to integrate into ASEAN. Similar to structural funds in the EU, technical assistance could be interpreted as an effort to deal with regional disparities and encourage economic growth as well as social progress without resorting to any form of harmonization.

The WTO/ILO

From 1947 to 1994, GATT (General Agreement on Trade and Tariffs) was the forum for negotiating lower customs duty rates and other trade barriers; since 1995, the updated GATT has become the WTO’s umbrella agreement for trade in goods. Members are required to negotiate the reduction of tariffs, eliminate nontariff barriers, and refrain from discriminatory treatment. The WTO is the primary arena for negotiating and settling disputes. The GATT/WTO system has remained largely free of labor standards; the sole provision is one on prison labor in GATT Article XX(e). The original International Trade Organization (ITO) Charter has an Article (VII) on labor standards, which states, “all countries have a common interest in the achievement and maintenance of fair labor standards related to productivity.” That is, rather than through harmonization, national efforts to raise domestic standards will be linked to productivity increases.

In the 1990s, the issue of trade and labor linkage led to intense political conflict among the WTO's 130 member nations. Since the 1994 Uruguay Round, there have been pressures from advanced economies such as the United States, Canada, and the EU member states (and demand from labor groups within them) for "social clauses" in trade agreements. At the signing of the treaty that formed the WTO, the Ministerial Conference of the 1994 Marrakesh GATT, the Conference Chairman reported no unanimity among member nations. The collective action problems of so many member nations with different preferences prevented the WTO from coming to any agreement on a trade and labor linkage.

The EU and U.S. preference was for the WTO to address core labor standards. At the WTO's General Council session, which preceded the Seattle Ministerial Conference, the United States proposed a WTO Working Group on Trade and Labor, and the EU pushed for a joint WTO/ILO Standing Working Forum on trade, globalization, and labor issues. Canada proposed a WTO working group to report on the relationships among appropriate trade, developmental, social, and environmental choices members faced in adjusting to globalization (ILO 2000). Members were able to agree in the 1996 Singapore Declaration only to a set of principles, including: respect core labor standards; support the ILO; affirm that trade helps promote higher standards; oppose the use of standards for protectionist purposes; and acknowledge that the comparative advantage of countries—particularly low-wage developing countries—must in no way be put into question.

The official 1999 WTO Ministerial Conference agenda did not include labor standards, but this became again the main conflict between developed and developing nations, dominating the WTO's agenda. The United States warned "that trade liberalization can occur only with domestic political support; that support will surely erode if we cannot address the concerns of working people and demonstrate that trade is a path to tangible prosperity."[33] In contrast, developing nations, such as Singapore, Pakistan, and Mexico, saw a strategic trade and labor linkage as a disguised instrument of protectionism among advanced nations. Countries such as

Hong Kong (China), Morocco, Malaysia, Nigeria, Botswana, Panama, Nicaragua, and Zimbabwe argued that bringing labor standards into the WTO would undermine the comparative advantage of low-wage countries. The WTO members could only agree to issue a joint statement: "We renew our commitment to the observance of internationally recognized core labor standards. We believe that economic growth and development fostered by increased trade and further trade liberalization contribute to the promotion of these standards." Thus, the official WTO position was "that the WTO and ILO will continue their existing collaboration."

Most of the 135 WTO nations are also ILO members. Within the ILO, international labor standards are subject to direct approval by 174 member nations.[34] The ILO can only encourages voluntary adherence in three ways: 1) defining rights through national adoption of ILO conventions and recommendations; 2) enforcing rights by means of international monitoring and supervision (rather than by trade sanctions); and 3) assisting in implementing measures through technical cooperation and advisory services. The ILO adopts standards with a two-thirds vote, and delegates are obligated to bring an adopted convention recommendation before their domestic legislatures within a year. By ratifying, members agree to modify their standards to comply with the provisions and are required to report annually on compliance.

In the 1950s and 1960s, the majority of UN and ILO members shifted from Europe to developing nations, mainly from Africa and Asia. Many were confronting major socioeconomic problems in dismantling colonialism, and the ILO shifted away from harmonizing standards and toward technical assistance (Rubio 1998). In the 1970s, both more- and less- developed nations struggled with domestic problems of inflation, unemployment, and slow economic growth. Political conflict emerged within the national tripartite delegations as well as among the member nations themselves. Labor delegates have had political and economic incentives to propose labor standards. Over time, this led to an oversupply of conventions, representing the demands of labor groups rather than the preferences of nations themselves, and many other nations refused to ratify them. They viewed regulatory harmonization as unresponsive to changing global and economic

conditions. The proliferation of labor standards, despite the increasing heterogeneity of economic development among members, rendered their adoption impractical for many nations, and members began actually to denounce existing mechanisms (Johnson 1998).

By the 1990s, ILO and its members began to confront the overproduction of inflexible and uniform standards. In 1994, the ILO set up a Working Party on the Social Dimension of Globalization, and in a 1997 Declaration, the ILO announced that it would promote only fundamental labor rights. The 1998 ILO Declaration on Fundamental Principles and Rights at Work formally encourages members to adhere to four fundamental principles on—freedom of association and recognition of the right of collective bargaining; the elimination of forced or compulsory labor; the abolition of child labor; and the elimination of employment and occupational discrimination (Coxson 1999). In 1999, ILO also adopted a new fundamental convention to ban the worst forms of child labor. The declaration requires all 174 ILO members, even if they have not ratified the particular conventions, to respect and to promote the core principles. The vote for adoption of the declaration was 85%, with no negative votes, but it was not unanimously supported at the time. Of the nineteen governments that abstained in the voting, two have now ratified conventions that make up fundamental principles and rights (Egypt and Indonesia) and fourteen others supplied follow-up reports under the declaration (ILO 2000).

Many members viewed this as an important agreement on common principles and as a way to reduce political pressure on the WTO to link workers' rights with trade sanctions. Although its impact is hard to assess, the 1998 declaration is only a mechanism to obligate nations to report on "where they are" in relation to these core principles and rights, to set their own baselines against which to measure progress, and to describe efforts within their national labor market regimes to promote and ensure respect for these principles. The 174 ILO members, even if they have not formally ratified the conventions, only have an affirmative obligation to respect and promote the fundamental rights and principles.[35] In terms of follow-up, the overall report rate was 55.7 % (ILO 2000). In fact, only six governments reported on progress before the

November 1999 deadline. This suggests the difficulties in achieving full respect for the principles and rights (the United States and India with freedom of association; China, Nepal, Sri Lanka, and Vietnam with compulsory labor; Guinea-Bissau and Mexico with abolition of child labor; and Kenya with gender discrimination in employment (ILO 2000). Similar to EU structural funds, technical assistance to developing countries has been characterized as a mechanism to facilitate adoption of higher standards without sacrificing the growth and efficiency gains from trade.

Conclusion: No Race, but a "Floor" Under Competition

This essay concludes that nation's are not in a race to the bottom or top in labor standards: nation's seek to protect their comparative advantage and mutual gain from trade, but are also responding to the real and perceived distributional concerns with minimum agreements on rules and norms. This essay highlights the varying political responses and impact of one mechanism of globalization—labor agreements—on domestic standards. With to divergent preferences (and underlying heterogeneities in labor market regimes and costs), and decision rules that prevent powerful nations from unilaterally imposing their standards on other countries, and, some form of minimum standards, norms or principles or better enforcement of existing domestic standards has become the consensus outcome across the cases. Thus, the result of globalization is neither a race to the bottom nor a race to the top, but a minimum "floor" of rules under new forms of regional and international competition.

In summary, the EU, the most integrated regional area, harmonizes minimum standards on *specific* labor market issues while allowing collective bargaining and pay determination to remain nationally specific. In another regional areas, NAFTA does not harmonize standards among countries but provides for oversight and enforcement of existing domestic standards. MERCOSUR promotes "core" labor principles according to national legislation and practice as well as collective agreements and conventions while the ASEAN nations agree only to share information and exchange best practices. The WTO does not include a social clause, failure to

comply with which would subject members to trade sanctions, but deem ILO voluntary core principles and conventions appropriate.

Standard neoclassical economic conceptions of trade and competition predict that over time the costs of production will equalize across nations. Thus, there is a theoretical expectation for convergence (Berger and Dore 1992). However, actual events have called this conventional economic view into question. Different national labor market regimes appear to be experiencing similar external economic influences but are not necessarily converging. Different political systems are responding in different ways, perhaps resulting in greater, or at least continued, regulatory diversity. The result has been some minimum uniformity on rules and principles in the context of institutional diversity: national political systems continue to determine the nature and character of labor standards. Despite increased integration, nations indeed appear to maintain distinct labor standards if they are willing to bear the costs.

Coordination of minimum rules and norms is attractive as a model for regulatory cooperation because it allows governments to deal with domestic political opposition without suppressing regional and international initiatives toward greater economic openness. These labor agreements serve a purpose for governments, enabling them to maximize the benefits of economic openness, and minimize the political costs (and economic risks) of deeper integration. Minimum standards and principles, and information exchanges and sharing of best practices, have become important means of coordinating and channeling the interactions among diverse labor market regimes (Adnett 1993). This represents a move toward convergence of minimum standards and goals rather than an upward or downward harmonization of standards.

Because of increased competition from low-wage regions, the governments of advanced-economies face adjustments (Agell 2000). As a consequence, many fear, that sooner or later, their governments will have to move toward greater labor market flexibility, relax strict job security laws, abolish the minimum wage, and implement measures that restrict the influence of unions. However, because of greater uncertainty due to globalization, there is increasing evidence that

voters might be perfectly willing to pay a higher price for a given labor market or social protection. Economists and political scientists have long suggested that the vulnerability of an open economy provides governments with strong incentives to mitigate economic (and political) risks. Societies seem to demand (and receive) an expanded government role as the price for accepting larger doses of external economic risk (Rodrik 1998). [36] Increased openness may lead to increased institutional involvement in the labor market, thus increasing the demand for labor market and social protection at the very time that it increases the costs of providing them.

This essay concludes that differences in standard of living and real wages between developed and developing nations, which provide much of the aggregate gain from integration, has generated political demands and popular backlash against a race to the bottom outcome. Large discrepancies in labor standards can undermine the legitimacy of free trade and make it harder to maintain domestic consensus on trade policy in advanced economies. Thus, domestic politics might allow the benefits from trade and factor mobility to be fully achieved only if nations at different stages of economic development confront the distributional implications. As the real or perceived level of economic risk that workers face rises, political demands will likely increase, and economic openness could actually lead governments to seek new forms of cooperation on rules and norms that govern working conditions and industrial relations. Rather than a race to the bottom or the top, integration appears to result in an incremental march toward common regional and international minimum rules and norms.

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[1] The process of social dumping can occur by the displacement of high-cost producers by low-cost ones from nations in which compensation costs required by regulation are lower; increasing pressure on firms in high cost nations to relocate, to strengthen their bargaining power, and to exert downward pressure on wages and working conditions; and to pursue low-wage and anti-union strategies (Mosley 1990).

[2] Economists investigate market relationships among goods and factors of production within a region, and assume perfect mobility of factor inputs and goods and services. These explanations are positive theories of welfare gains and losses..

[3] Import competing and exporting-firms in the high-standard nation may respond by undertaking capital-labor substitution or depending on their market power, by depressing wages. Exporting firms may relocate some of their production to foreign locations with lower standards (Brown, Deardorff, and Stern 1996).

[4] Brown, Deardoff, Stern (1996) suggest that a nation's position in international trade, as either a net exporter or net importer of those goods most affected by labor standards, will determine whether they have preferences for high or low standards.

[5] Because developed countries tend to specialize in capital-intensive goods, the welfare of workers in labor-intensive industries may increase—even though the welfare of consumers in developed countries will decline if standards are enforced (Krueger 1996; Brown, Deardorff and Stern 1993).

[6]As Midford (1993) warns, although the standard three-factor model has explanatory power for less-developed economies, it is often confounded by the complex division of labor found in more developed countries. When an economy becomes more complex, the division of labor becomes finer and large aggregate groups such as labor, land, and capital lose their meaning. Thus, labor cannot be conceived of as homogenous, and changing exposure to trade will affect the position of some labor differently than others.

[7] The complexity of domestic interests and political demands within nations depend on the direct and indirect costs that firms incur in order to employ workers as well as from national regulations that constrain employers' prerogatives in making decisions about compensation and working conditions (Lange 1992).

[8] Negative externalities occur when activities in one nation produce consequences that spill over across borders and affect other nations.

[9] EU decision-making is as follows: the Commission proposes legislation and the Council of Ministers disposes it. The Parliament has a consultative role. With measures that require unanimity, the Commission formulates legislation and submits to the Council and the European Parliament. The Parliament debates the proposal and will propose amendments via an opinion transmitted to the Commission. The Commission may accept the recommendation before passing it on to the Council. The Council, free to adopt or further amend, must pass it by unanimous vote—giving a single member veto authority.

[10] The labor market provisions focused on mobility (articles 48, 52, and 59), training (article 128), and equal opportunity for men and women (article 119). The Treaty also created a European Social Fund (articles 123–128) to make the employment of workers easier, increasing their geographical and occupational mobility within the EC (Teague and Grahl 1989). Article 118 promoted "close cooperation " in matters relating to employment, labor law, and working conditions, vocational training, social security, occupational health and safety, and the right of association and collective bargaining (Lodge 1990).

[11] The citizens of Spain and Portugal, admitted to the EC in 1986, fully received these rights in 1993.

[12] A 1975 Equal Pay Directive required equal pay for work of equal value and abolished discriminatory clauses in collective agreements; a 1976 Equal Treatment Directive forbade gender discrimination in hiring, vocational training, promotion, and working conditions; a 1978 Social Security Directive required no discrimination against women in terms of contributing to or receiving benefits; a 1978 Collective Redundancies Directive required firms to provide advance notification of mass layoffs; a 1979 Transfers of

Undertaking Directive safeguarded employee rights in such layoffs, established an information and consultation procedure, and ensured that workers who, as a result of a closure or merger, would carry the rights and obligations contained in previous contract; and a 1980 Insolvency Directive guaranteed payment of wages and other employee claims in the event of firm insolvency.

[13] Employers in the Northern group—Germany, the Netherlands, Belgium, and Denmark—are constrained by rules governing external flexibility, such as their freedom to hire and fire and to employ a wide variety of labor contracts. Employers in the Anglo-Saxon group—the UK and Ireland—have a high degree of external flexibility, with very few constraints on their power to hire and fire and to employ workers on fixed-term or temporary contracts. Employers in the Mediterranean group—France, Italy, Greece, Portugal, and Spain—have neither a high level of external flexibility nor high internal flexibility (Rhodes 1994).

[14] QMV requires a minimum of 54 of the 76 weighted votes cast by representatives in the Council.

[15] The EU crafted hybrid directives, combining labor market directives with what were strictly health and safety protections, in order to exert authority under Article 118(A).

[16] The Charter set out 47 proposals in 13 chapters, including 17 directives—10 related to worker health and safety (Teague and Grahl 1991).

[17] These included: freedom of movement; employment and renumeration; improvement of working and living conditions; social protection; freedom of association and collective bargaining; vocational training; equal treatment for men and women; information, consultation, and participation for workers; health and safety at the workplace; protection of children and adolescents; and the elderly and disabled.

[18] The members excluded social security and social protection for workers along with protection of redundant workers, representation and collective defense of workers, and conditions of employment for third-country nationals from QWV.

[19] These rights included promotion of employment, improved living and working conditions, proper social protection, dialogue between management and labor, the development of human resources with a view to lasting employment and the combating of exclusion, The Amsterdam Treaty added equality between men and women to the list of Community objectives (Article 2 of the EC Treaty), and a new Article 141 of the Treaty lends greater support to equal treatment of men and women and to equal opportunities, whereas the former Article 119, was confined to issues of equal pay for the two sexes for the same work.

[20] The following were excluded: social security and social protection of workers; protection of workers whose employment contract is terminated; representation and collective defense of the interests of workers and employers, including codetermination; conditions of employment for non-EC country nationals legally residing in Community territory; and financial contributions for promotion of employment and job creation.

[21] For example, in 1991 the Council adopted a directive on an employer's obligation to inform workers on the conditions applicable to the employment contract or relationship, and directives on fixed-duration or temporary employment relationships. Subsequently, the Council adopted directives on the protection of pregnant women, young people at work, the posting of workers, and the implementation of the framework agreement between the social partners on part-time work. In 1996, the Council adopted a directive on parental leave, which was the first to implement a European-level framework agreement among the Social Partners. In 1997, the Council adopted a directive (97/81/EC) implementing an agreement on part-time work. In 1999, the social partners concluded an agreement on fixed-term contracts (99/70/EC), later amended to cover sectors and activities originally excluded. In 2000, the Council adopted an anti-discrimination directive and a general framework for equal treatment in employment, also aimed at combating discrimination based on religion or belief, disability, age or sexual orientation (2000/78/EC).

[22] Guidelines would be translated in National Action Plans for Employment (NAPs) by members, then analyzed the by the Commission and the Council, and whose results would help reshape the guidelines and prove country-specific recommendations on employment policies.

[23] Its provisions are based on the rights and freedoms recognized by the European Convention on Human Rights, the constitutional traditions of the EU Member States, the Council of Europe's Social Charter, the Community Charter of Fundamental Social Rights, and other international conventions to which the EU or its members are parties. See, http://europa.eu.int/comm/justice_home/unit/charte/en/charter02.html.

[24] NAFTA was negotiated in two installments: the commercial negotiations (June 1991 to August 1992) and then the supplemental negotiations (February to August 1993).

[25] Each partner commits to promote compliance and enforce its labor and employment law by appointing and training inspectors, monitoring compliance and investigating suspected violations, seeking assurance of voluntary compliance, requiring record keeping and reporting, encouraging the establishment of worker-management committees to, providing or encouraging mediation, conciliation, and arbitration services, and initiating proceedings to seek appropriate sanctions or violations (http://www.naalc.org/index.htm).

[26] Since January 1994, twenty-four submissions have been filed under NAALC. Sixteen were filed with the U.S. NAO, of which fourteen involved allegations against Mexico, and two against Canada. Five were filed with the Mexican NAO and involved the U.S. Three submissions have been filed in Canada, one against Mexico and two against the U.S. Thirteen of the sixteen submissions filed with the U.S. NAO involved issues of freedom of association; others focus on the illegal use of child labor; on pregnancy-based gender discrimination; on minimum employment standards, on issues of safety and health, on compensation in cases of occupational illnesses and injuries. There have been six Ministerial Implementation Agreements where the trading partners have agreed to consult further on a range of labor and employment issues. For more, see http://www.dol.gov/dol/ilab/public/programs/nao/minagreemt.htm.

[27] In a final agreement, the trading partners created domestic entities, the NAOs and National and Governmental Advisory Committees. The NAOs consult and exchange information on labor matters, and each partner has autonomy to determine the functions and powers of its NAO The dispute resolution process is hierarchical, insofar as the lower-level units must respond to those above, and the Ministerial Council possesses ultimate authority. The CLC, the regional entity, divides responsibility between Ministerial Council and the Secretariat. An NAO or a government can trigger ministerial consultation.

[28]A Common Market Group (CMG), composed of four permanent members and the ministries of foreign affairs, the economy, and national central bankers, enacts resolutions, intended for incorporation into national law as well. MERCOSUR resembles the EU in its reliance on foundational treaties and protocols for its design and objectives, and institutions and laws to attain those objectives. Decision authority resides with the individual governments rather than a EU like Commission.

[29] See, http://www.mercosur.org.uy/espanol/sinf/varios/sociolaboral.htm.

[30] See, www.asesansec.org for full document under “Basic Documents.”

[31] See, http://www.aseansec.org/print.asp?file=/function/soc_reco/sreco00.htm).

[32] See, Joint Communique, the Fifteenth ASEAN Labor Ministers Meeting, May 2001, Malaysia (www.asesansec.org).

[33] Statement by Charlene Barshefsky, Acting U.S. Trade Representative, Ministerial Conference, Singapore, December 9-13, 1996, World Trade WT/MIN (96)/ST/5, December 9, 1996 (96-5176).

[34] Membership in the ILO is closely associated with that of the UN. Under the ILO Constitution, the U.S. is one of ten nations of "chief industrial importance" with permanent representation on the Governing Board. The U.S. withdrew its membership in 1978, and rejoined the ILO in 1980 (ILO 1997).

[35]The follow-up mechanism is in addition to the supervisory mechanisms established by the ILO constitution for the application of ratified conventions as well as the special Freedom of Association procedure, which already applied to non-ratifying states (ILO 2000; European Commission 2001).

[36] For example, Garrett (1998) suggests that a more generous social safety may actually strengthen the ability of governments to adjust to rapidly changing market conditions. Bates, Brock, and Tiefenthaler (1991) report that the greater the social insurance program mounted by a nation, the less likely the government is to block free trade.