

PART 4

Special Topics

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10 Labor Relations in the Public Sector

THE IMPORTANCE OF THE PUBLIC SECTOR IN EMERGING COUNTRIES

The public sector in many emerging countries typically represents a significant share of the formal economy in those countries, and public employees often are represented by unions. Public employers also generally follow the bureaucratic employment pattern (described in chapter 6), which includes formal rules, structured pay and complaint procedures, and a relatively high degree of employment security.

At the same time, as we discuss more fully later in this chapter, since 2000 there has been a significant amount of privatization or denationalization in many emerging countries that has shifted formerly public (i.e., state) enterprises into the private sector or at least made those organizations quasi-private in nature. This has led to significant changes in employment practices, including sizeable downsizing and the introduction of more market- and individual-oriented practices, such as pay for performance. In the process, previous public sector (civil service) jobs have acquired the insecurities that are more typical of the private sector. And since 2008 as part of “structural adjustment” policies adopted in the midst of economic crises, public employees have faced or been threatened with even more drastic erosions of their wages, pensions, and other benefits and a further lessening of job security.

To analyze these developments, this chapter applies the general framework developed in the previous chapters to examine labor relations in the public sector. It is important to recognize at the outset, however, that the public sector is in some ways fundamentally different from the private sector.

Government is not just an employer and a provider of services; it is a provider of public services, and the public sector is affected more significantly than the private sector by political pressures and the demands of the public.

There has been much debate about how appropriate the legal regulation of public sector labor relations is. Some analysts have argued that the unique nature of government as an employer makes collective representation as it is traditionally practiced in the private sector inappropriate for the public sector. Other observers feel that collective representation and collective negotiations are appropriate but in a shape and form adapted to meet the special circumstances of the public sector.

The first section of this chapter examines the extent and scope of public employment in emerging countries and the trend since 2000 toward greater privatization. The following sections review the sources of bargaining power in the public sector and how labor relations in the public sector compares with labor relations in the private sector. The text then considers whether the norms of legal regulation of public sector unions should be different from those for private sector unions. In the final section of this chapter we assess the very recent changes that have occurred in public sector employment systems as a result of the 2008 financial crisis and its aftermath with particular reference to events in Greece.

THE EXTENT AND SCOPE OF PUBLIC EMPLOYMENT

The share of employment and economic activity in state-owned enterprises or other parts of the public sector has been declining significantly in recent years in emerging economies. These declines constitute a key element of the spread of more market-oriented private sector employment in these countries. For example, figures in table 2.1 show that in China the share of employment in state-owned enterprises has dropped from 60.4 percent of total formal employment in 1978 to 14.5 percent in 2010, whereas employment in the private sector has rapidly increased.

Privatization in India

India offers another illustration of the recent trend toward increased privatization that is common in most emerging countries. Below we provide a quick summary of the origins of the heavy influence of the government in the Indian economy and then look at recent developments. India provides a good illustration of the privatization developments and controversies that have occurred in a number of emerging economies.

In recent years India has shifted from an economy dominated by state (i.e., public) enterprises and government regulations to a more market-oriented economy. In the process, the privatization of formerly state enterprises has been extensive. After India achieved independence in 1947 and Jawaharlal Nehru was elected as prime minister, the Indian government took a socialist and governmentally activist economic route that led to the rise of the public sector in the nation's developing economy.¹ Under the Industrial Policy Resolution of 1956, the Indian Parliament passed legislation enabling funding for public sector undertakings as mechanisms by which the national government, in conjunction with state governments, would develop infrastructure, redistribute income, create jobs, and decrease the trend toward income inequality. As a result, by the 1970s, the public sector constituted almost one-fifth of India's total GDP.

However, by the late 1980s, a global trend toward economic liberalization was emerging, particularly in socialist countries such as the Soviet Union, where policies such as perestroika and glasnost had opened up private sector markets and deregulated industries that had once been under absolute government control. As this trend of economic liberalization spread throughout other socialist countries, particular in Eastern Europe, India initiated its own economic liberalization reforms in response to its exploding debt crisis and the reforms recommended by the International Monetary Fund. The Indian National Congress established several economic reforms such as relaxing restrictions on entry into the marketplace and on equity funding so that competition among certain domestic industries would increase and channels for foreign investment would open up.

Examples of Privatization in India Since 1991, a number of industries and firms have undergone privatization or partial privatization in the Indian economy. One such example is the Lagan Jute Machinery Company Limited (LJMC), a company that manufactured equipment for spinning jute. The company employed almost 400 people before privatization in 1998.² Starting in 1996, LJMC started accumulating substantial losses. The main problem with LJMC was that national, state, and regional government regulations were inhibiting the speed and efficiency with which products were made, causing the company to reduce orders and lose profits. After 1997, when LJMC went private with the help of the Department of Divestment, it began showing a significant profit.

Another example of how privatization has led to profits is Modern Food Industries Limited (MFIL). MFIL, which was founded in 1965, was a state-owned enterprise that was a national leader in running local and regional

farming markets and in producing food and dairy products. By 1997, MFIL was showing significant losses. Through the process established by the Department of Divestment, MFIL underwent privatization and since then has earned substantial profits.

Mixed Success of Privatization in India There have been many impediments to privatization in India. For example, according to the World Bank, there have been thirteen failed privatization efforts in companies such as Air India, Indian Airlines, Scooters of India, and the National Industrial Development Corporation, a construction firm that the government recommended for privatization in 1997.³ There are many reasons why these privatization projects have not been completed. Several are political and are due to the fact that Indian politics is still influenced by the socialist roots of the Nehru-Gandhian ideology of the early post-independence years. One reason for opposition to privatization is that workers in India have traditionally been promised deep financial support from the national and regional governments, and pension programs and other social welfare provisions are diminished if privatization takes place. Thus, many politicians, particularly those in difficult reelection campaigns, are reluctant to support privatization.

At the same time, in many ways it is remarkable that the process of privatization has progressed in India as far as it has since the mid-1990s. There is some evidence that privatization in India has led to increased profits, greater employment, and improved services for the general public, although critics point to growing income inequality in India as a harmful consequence of privatization. It remains to be seen whether privatization will continue in India and what the effects of these measures will ultimately be on the Indian people.

Debates about the Effectiveness and Social Impacts of Privatization

The increase in privatization has been driven by belief that the private sector is more efficient, innovative, and responsive to consumers and less frequently prone to corruption than the public sector. However, there has been much controversy and political activity surrounding government efforts in recent years to increase privatization.⁴ Critics of privatization allege that it is not necessarily more efficient in part because public services can best be provided in large scale and this scale would not be possible if there was a shift to private sector provision. Also, there is concern that that the lower cost of private sector provision comes “off the backs of workers” because private sector firms pay less. Private sector employees also often speed up the pace of work and do

not maintain the same levels of safety and health found in public enterprises. Related to these concerns is the fact that the public sector tends to be much more heavily unionized than the private sector in emerging economies, so privatization brings a decrease in the influence of unions and collective representation.

The unions that represent public employees are among a number of advocates who have argued that privatization does not lead to more efficient public services and leads to harmful costs to workers in privatized companies and bad outcomes for the public itself. Box 10.1, which describes how petroleum workers in Mexico are opposing government plans to privatize oil refineries, illustrates how unions can get involved in debates surrounding privatization. Box 10.2 reports on a strike in Korea in response to government plans to privatize parts of the railroad industry.

BOX 10.1

Unions Protest Privatization of the Petroleum Industry in Mexico

In October 2013, Mexican president Enrique Peña Nieto unveiled an ambitious and highly controversial package of economic reforms that would significantly alter Mexico's state-run petroleum industry. In his reforms, President Nieto proposed that Petroleos Mexicanos, the current state-run oil agency, be allowed to engage in mergers with foreign firms and share revenues and profits with those firms. Currently, the Mexican constitution explicitly bans foreign enterprises from partnering with and sharing profits with the state-controlled petroleum entity. In addition, President Nieto proposes that the Mexican government provide more incentives through tax credits and subsidies for foreign firms to enter the domestic electricity market in order to bring down electricity prices, which are almost 25 percent higher than in the United States.

While the president and his party argue that the petroleum and electricity sectors will remain under national government control and foreign enterprises can enter the market and share profits only if they partner with Petroleos Mexicanos, many opponents of these proposals, including unions and nationalist parties, argue that they amount to large-scale and harmful privatization of these sectors and would result in job losses for domestic Mexican workers and the loss of a national treasure (the petroleum industry) to foreign companies.

In 1938, the Mexican legislative branch nationalized the petroleum industry and amended the nation's constitution to ban foreign firms from entering the Mexican domestic petroleum industry. For the last decade, Petroleos Mexicanos has provided over one-seventh of total government tax revenues. Tax revenue is essential to the domestic economy in Mexico, where tax evasion is widespread. In addition, domestic oil output in Mexico has greatly decreased over the last decade. For example, in 2004, Petroleos Mexicanos produced 3.4 million barrels of oil a day, compared to 2013, when output fell to only 2.5 million barrels a day. Mexico now imports approximately half of its gasoline from firms in Texas and in other Latin American countries. As a result of these developments and the underutilization of Mexico's domestic oil production abilities, President Nieto proposed these initiatives to spur innovation in Mexico's domestic oil industry and to promote lower oil prices.

Several political parties and a number of unions are adamantly opposed to these reforms. Ederico Estévez, a political science professor at the Autonomous Technological Institute of Mexico, notes, "Privatization here gathered itself a bad name because of cronyism." Essentially, the majority of the Mexican population is opposed to more privatization because the last time the national government allowed an important industry to privatize, there was a great deal of cronyism, corruption, and government scandals. The 1990 privatization of the main Mexican telephone company, Telemex, helped make Carlos Slim a billionaire and resulted in job losses for many telephone workers.

As a result, unions have conducted many protests and marches throughout Mexico City to persuade members of the Mexican Congress to vote against the proposed constitutional amendment that would bring the privatization President Nieto favors. Richard Galindo, a petroleum industry worker and protester claimed, "The reform means more jobs for the big oil companies in the United States and Europe but not for Mexicans."

The government has tried to counter the claims of protesters and unions by pointing to the statistics of the Mexican Institute for Competitiveness, which projects that these energy sector reforms could improve GDP output by 1.7 percent and create almost 300,000 jobs.

It remains to be seen whether President Nieto will be able to muster the political power needed to overcome the opposition to his reforms and persuade the legislative branch to adopt the reforms.

Sources: Ioan Grillo, "Mexico's Looming Oil Battle: Bid to Bring in Foreign Investment Sparks protests," *Time*, August 21, 2013, <http://world.time.com/2013/08/21/mexicos-looming-oil-battle-bid-to-bring-in-foreign-investment-sparks-protests/>; David Agren, "Mexico Proposes to Open Up Oil to Foreigners," *USA Today*, August 12, 2013, <http://www.usatoday.com/story/news/world/2013/08/12/mexico-oil/2642629/>; William Diebold Jr., "Review of *Petroleum and Mexico's Future*, edited by Pamela S. Falk," *Foreign Affairs* (Fall 1987), <http://www.foreignaffairs.com/articles/42372/william-diebold-jr/petroleum-and-mexicos-future>.

BOX 10.2

Korea Railroad Workers Face Government Assault after Protesting Privatization

On December 22, 2013, a force of 5,000 South Korean police, allegedly without a warrant, attacked the headquarters of the Korean Confederation of Trade Unions (KCTU), the larger and more progressive of Korea's two union federations, and arrested 135 persons who attempted to block their entry. The background is that the government of President Park Gyeun-He recently announced a unilateral decision to privatize part of KORAIL, the Korean railway system. Despite widespread opposition, KORAIL allegedly refused to engage in social dialogue about the decision. In response, the Korean Railway Workers' Union (KRWU) struck on December 9. KORAIL immediately announced that it would fire 8,565 workers. It also filed a damages lawsuit against 194 KRWU leaders. The government believed that KRWU leaders were hiding in KCTU headquarters, and despite the fact that a judge had refused to issue it a warrant to enter the building, it sent police to enter by force. (No KRWU leaders were found in the KCTU building.)

The strike ended after twenty-two days. Union leaders agreed to end the strike after two major political parties agreed to form an ad hoc committee in the National Assembly to study the feasibility of privatization, even though the management of KORAIL was not party to the study agreement and remained noncommittal about whether it would carry out the mass firings it had earlier announced. Heated disagreement over privatization of the railroad system has surfaced periodically since 2000 in Korea.

Sources: PSPD People's Solidarity for Participatory Democracy, "Urgent Appeal ROK KCTU Crackdown," December 22, 2013, <https://www.dropbox.com/sh/lcj7dg37r5kb5av/rWggJOukIV>, accessed January 8, 2014; and Yi San, "South Korea Rail Workers Strike against Privatization," *Labor Notes*, January 8, 2014, <http://labornotes.org/2014/01/south-korea-rail-workers-strike-against-privatization>.

THE SOURCES OF BARGAINING POWER IN THE PUBLIC SECTOR

Total power in the public sector is determined by the revenue (i.e., tax revenues, revenue sharing, and fees for services) available to the parties to be distributed between labor and management in a manner analogous to the role profits play in a private sector negotiation. Also, as in the private sector, both strike leverage and the elasticity of demand for labor are critical determinants of relative bargaining power in the public sector, even though the strength of their influence is altered by the particular circumstances that are common to public sector labor relations. For one thing, the fact that public sector employees do not commonly have the legal right to strike reduces (but does not eliminate) the leverage public employees gain from a strike action or strike threat. Some public employees do have the legal right to strike. Even more important is the fact that the absence of the legal right to strike does not prevent strikes from occurring or strike threats from being meaningful.

Where binding compulsory arbitration (referred to in some countries as interest arbitration) is the impasse resolution procedure, the expected outcome from compulsory arbitration serves as the threat point in negotiations and thereby influences negotiated outcomes whether or not compulsory arbitration is actually called into play to settle a given negotiation.⁵

The elasticity of demand for labor is also a key determinant of relative bargaining power in the public sector. Public sector workers and unions, just like their private sector counterparts, are likely to consider the trade-off between improvements in contract terms and employment as they assess whether or not to use their ability to press for improvements in compensation. Here again the particulars of the labor relations situation and environment matter. Given the service nature of the public sector, alternative sources of production are typically much more limited than they are in the private sector and the demand for labor tends to be more inelastic in the public sector than in the private sector. In particular, international sources of supply are more limited for public services, although the availability of private domestic sources

via privatization can make the elasticity of demand significantly more elastic and to some extent counterbalance the decreased role of international sourcing.

How Marshall's Conditions Operate in the Public Sector

Alfred Marshall's first condition states that employees have more bargaining power and face a smaller reduction in employment from an increase in wages when it is difficult for management to substitute other factors of production for employees. Given this condition, public employees, on average, should have more bargaining power than private employees do. It is difficult, for example, to substitute machines for public employees that provide many public services. It would be almost impossible to substitute machines for public schoolteachers or police and fire fighters.

Some substitution of capital for labor is feasible for some public services, however: computers can at least partially substitute for teachers, police can acquire more cars and other equipment, and fire fighters can use more and better equipment. Nevertheless, public employees probably have some degree of advantage because of the relative difficulty of substituting other factors for employees.

Marshall's second condition concerns the price elasticity of demand for the final good. Here again public employees, on average, should have an advantage over most private employees. Government is typically the sole provider of a public good or service. A public employer cannot typically go out of business or move to some other area to escape higher labor costs. As a result, the demand for many public goods is relatively price inelastic.⁶ This makes public employment relatively insensitive to increases in wages.

Marshall's third condition concerns what happens to the price of substitute factors of production if the demand for them increases. Here there is no clear difference between the public and private sectors.

With regard to the fourth Marshall condition, the importance of being unimportant, public employees are likely to be at a disadvantage. In most cases, labor costs make up a substantial share of total production costs. The ratio of labor to total costs varies in the public sector from a high of around 90 percent in police and fire departments to a low of between 60 and 70 percent in education and other public services. This means that wage increases have a significant effect on total increases in government budgets. Labor costs are a prime target for cost-cutting efforts when the public demands lower taxes and expenditure levels. In the long run, then, the high percentage of labor costs to total costs may act as a major impediment to the power of public employee unions. On balance, Marshall's conditions predict that the demand for public

services is relatively price inelastic and that increases in labor costs should lead to relatively small declines in employment.

Where the public sector differs most from the private sector in regard to the determinants of bargaining power is in the fact that politics brings *direct* influences to bear on the determination of employment conditions in the public sector. This occurs because expenditure or employment levels or compensation and other contract terms are often decided by elected officials or by voters. Labor relations is said to be multilateral in the public sector because of the diffusion of managerial authority, a factor that increases the variety of political factors and political channels that influence public sector labor relations.⁷

The Role of Multilateral Bargaining in the Public Sector

Multilateral bargaining is a negotiations process that includes more than two distinct parties. In multilateral bargaining no clear dichotomy exists between the union and the management organization. As a result, in the public sector both labor and management have a strong incentive to spend significant time and resources trying to influence public opinion or public officials through lobbying or through electoral politics. Consequently, for example, public employee unions in certain situations can use end runs around recalcitrant elected officials in an attempt to influence public decisions.

Another form of multilateral negotiations occurs when a decision-making group rejects a negotiated agreement and refuses to implement it. Civil service commissions, public boards, or legislatures, for example, often must ratify the final agreement. At the ratification stage, constituents may pressure officials to change the terms and conditions of the bargain. Thus, another example of multilateralism arises when community interest groups become involved in the negotiations process.

NORMATIVE DEBATES ABOUT THE LEGAL REGULATION OF PUBLIC SECTOR LABOR RELATIONS

The importance of politics in public sector labor relations comes to the fore in the debates about whether public employees should have the right to form unions and whether those unions should be restricted.⁸ Some argue for strict limits on collective negotiations rights and union rights on the grounds that public employees and their unions have undue political influence because they have complex interests given their dual roles as citizens and employees

when they live in the jurisdiction where they work. These public employee/citizens could influence decisions about public expenditures and about employment terms as citizen voters and not just as employees or union members/activists.

At the same time, recognition of the important role politics play in public sector decision making does not necessarily lead to the conclusion that collective negotiations or union rights should be significantly limited in the public sector. Analysts point out that the bargaining power that labor or management actually has in a given public sector setting varies depending on conditions specific to the particular jurisdiction and the time period that are involved and is an empirical question. In particular, management may find ways to exert significant political power, potentially by aligning with community or business groups or other political actors in order to limit the power or gains of public employees or unions.

AUSTERITY CRISES AND THEIR IMPACTS ON LABOR RIGHTS AND CONDITIONS: THE EXAMPLE OF GREECE

A number of emerging countries have at one time or another faced an economic crisis. In some instances these crisis have occurred at the time of a more widespread financial crisis. These crises typically are precipitated when the country in question is unable to meet bond or other financial obligations and country bankruptcy is threatened as a result. International agencies then become involved in the ensuing crisis by providing loans that are often tied to austerity measures that typically include large cutbacks on government spending and increases in taxes and often at least partial default on some of the loan obligations. These crises are important because they critically affect economic conditions in the particular country; have severe effects for the citizens of the country, especially public employees; and have broader economic and social consequences. Needless to say, deep debates are associated with these austerity crises, including (1) debates about what caused the particular economic and financial crisis in the first place; (2) debates about whether the austerity measures are effective or self-defeating; and (3) debates about whether it is fair or appropriate that public employees bear a heavy burden as part of the austerity plan.

When Greece recently experienced an extreme financial crisis, it adopted a series of austerity measures that provide a concrete testing ground for these various debates. The Greece crisis started in April 2010 with the downgrading of the Greek government's debt to junk bond status. This was followed by

successive crisis negotiations and threats of formal country bankruptcy. Several rounds of austerity actions ensued, many of which were approved by the Greek Parliament. A so-called troika of international agencies (the IMF, the European Union, and the European Central Bank) provided loans that helped Greece avoid complete bankruptcy under the condition that it adhere to a variety of austerity measures.

Before we discuss the economic and social consequences of Greece's crisis, it should be noted that there was extensive debate about the causes of Greece's financial crisis. Some argued that Greece had been brought to financial ruin through excessive government spending accompanied by high public employee wages, especially favorable public employee pensions. Many pointed to the fact that by 2009, the Greek federal deficit was 15.6 percent of GDP. Others argued that too much inexpensive credit in the several years before the crisis had fueled a speculative boom, which was particularly damaging because it artificially stimulated excessive growth in components of the Greek economy that did not compete in international markets. Others claimed that it was the lack of an effective and broad tax system that contributed to Greece's problems along with cronyism and corruption in the government that included overspending and hiding previous debt levels.

The Impact of Austerity on Public Employment and Public Sector Union Rights

The Greek government adopted successive emergency measures to bring the national deficit under control and to comply with terms demanded by the "troika." These included large cuts in the wages and pensions of public employees (and cuts in other benefits) and dramatic cuts in government employment. The first wave of cuts (of five) in 2010 reduced the pay of public employees by 7 percent. This was followed by a further 8 percent cut in the second wave and another 10 percent in a third wave. The fourth and fifth waves involved the introduction of new pay systems for public employees. Over the 2010–2011 period, wages in the public sector were cut by a total of 30–35 percent.

From December 2009 to November 2011, the total number of jobs in the Greek public sector was reduced by 7.2 percent. Although this was large reduction, it was still smaller than the 12.5 percent decrease in total Greek employment that occurred during this period.

The right of public employees and their union representatives to be involved in decisions about employee pay were sharply limited as part of the austerity process. Although public employees in Greece had never had a formal right to engage in collective negotiations about their pay, they and their

union representatives historically had influenced pay determination through various political and informal consultative channels.⁹ Effectively, in the past employees had indirectly influenced decisions about government pay and expenditures through political lobbying. This and other forms of social dialogue involving public employees were ended when the austerity plans were put into place.

The Impact of Austerity on Private Sector Labor Relations

The austerity plans also led to changes in the prevailing labor relations system for private sector employees in Greece. Prior to the 2010 austerity package, which included reforms of private sector collective negotiations rights, collective negotiations in Greece were very centralized. Unions and a government agency, the Organization for Mediation and Arbitration, would work together to produce a National Collective Agreement (NCA), which established a new minimum wage and settled other issues in rounds of collective negotiations.¹⁰ During a bargain round, company executives could engage in collective negotiations with an individual union, but they could only improve (for the workers' benefit) upon what had already been established in the NCA. However, after 2010, the austerity legislation overturned this procedure. Now employers are allowed to settle on terms that differ from the NCA and as a result they are no longer restricted to only improving upon what the NCA established for workers in firm-level bargaining. The new legislation and negotiating process increased the bargaining power of employers.

Protests and Strikes over Austerity

Unions and citizens engaged in a number of protests and strikes (including a general strike) against the austerity plans, to no avail. Their protests were strengthened by accusations that bond holders and other creditors did not in fact absorb much of a real penalty as a result of the austerity plans because Greek citizens and public employees bore most of the costs the austerity plans imposed.

The Effects of Austerity on the Economy and Society

The consequences of the austerity plans on the Greek economy and society were extreme. For example, Greek GDP declined by 6.9 percent in 2011.¹¹ The unemployment rate rose from 7.5 percent in 2008 to a record high of 23.1 percent in May 2012. The youth unemployment rate rose over the same period from 22.0 percent to 54.9 percent. There were also widespread reports of increases in the number of health emergencies, in the homeless population, and in the number of suicides.

Those who argued that the austerity measures were not only too extreme but were actually self-defeating pointed to the severity of the economic decline that followed the austerity plans that were imposed in Greece. Instead of austerity, these critics advocated a renegotiation of bond holdings (essentially a managed default) that put more of the cost of the adjustment process on the banks that had fueled the speculative boom that preceded (and possibly caused) Greece's financial crisis.

Summary

This chapter has examined the sources of bargaining power in the public sector and compared those sources to power sources in the private sector. The chapter also has analyzed how collective negotiations have affected the political access and influence of public sector employees. In addition, the chapter discussed the role the strike has played as a source of power in the public sector.

Early statements that public sector collective negotiations would tip the balance of power in favor of unions have proved to be overly simplistic. There has been a diverse range of experience in public sector bargaining and major changes over time in the public's reaction to public employee demands and unionism. Wide differences also have appeared in the economic power of public employees in various countries and at various times. Therefore, it is inappropriate to generalize about collective negotiations experiences for public sector employees.

At the same time, in a number of emerging countries, as in many advanced industrialized countries, public sector labor relations has come under severe stress in the face of governmental financial/budget crises and accusations that public employees are overpaid, especially in terms of pensions. Recent developments in Greece provide an extreme example of pay cuts for public employees and new limitations on union and bargaining rights for public employees that were imposed as a key part of a structural adjustment plan.

This chapter also describes the longer-term privatization measures that have reduced public sector employment in a number of emerging countries and the conflicts that have ensued over this retrenchment.

At the same time, a long-term perspective reveals that unionism in the public sector does not appear to warp the democratic process. The evidence also suggests that a strike does not necessarily advantage the public employees involved in that strike. On the contrary, public employees often lose strikes.

The high levels of union representation that still exist in the public sector even in the context of recent government retrenchments and financial crises

contrast with developments in the private sector in many countries, where the level of union representation has become very low. Whether labor-management relations will diverge in this way between the public and private sectors in the future is an issue worthy of careful attention.

Discussion Questions

1. There is debate over whether public sector unions have more power than those in the private sector. Evaluate the power of public employee unions in terms of Marshall's conditions.
2. Discuss the pros and cons of giving public sector employees the right to strike.
3. Some argue that privatization of public services is essential for bringing efficiency and service improvement to the public sector, while others have argued that privatization will not produce favorable outcomes. Explain where you stand in this debate and why.

Related Web Sites

Collective bargaining in Greece: <http://www.worker-participation.eu/National-Industrial-Relations/Countries/Greece/Collective-Bargaining>
 Korean Confederation of Trade Unions: <http://www.kctu.org>
 Successful Privatization in India—Lagan Jute Machinery Company Limited: <http://www.divest.nic.in/chap10-old.asp>

Suggested Supplemental Readings

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Notes

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2. Department of Disinvestment, Government of India, "Successful Privatisations in India," April 2001, <http://www.divest.nic.in/chap10-old.asp>.

3. Makhija, "Privatization in India."
4. See, for example, Elliot Sclar, *You Don't Always Get What You Pay For: The Economics of Privatization* (Ithaca, N.Y.: Cornell University Press, 2000).
5. Henry S. Farber and Harry C. Katz, "Interest Arbitration, Outcomes and the Incentive to Bargain," *Industrial and Labor Relations Review* 55 (1979): 55–63.
6. One early study (and many later studies) in the United States concluded that on average, the demand for labor in the public sector was more inelastic than the demand for labor in the private sector. See Orley Ashenfelter and Ronald G. Ehrenberg, "The Demand for Labor in the Public Sector," in *Labor in the Public and Non-Profit Sectors*, ed. Daniel S. Hamermesh (Princeton, N.J.: Princeton University Press, 1975), 55–78.
7. Kenneth McClennan and Michael H. Moskow, "Multilateral Bargaining in the Public Sector," in *Proceedings of the 21st Annual Meeting, Industrial Relations Research Association* (Madison, Wisc.: Industrial Relations Research Association, 1968), 34–41.
8. Harry H. Wellington and Ralph K. Winter Jr., "The Limits of Collective Bargaining in Public Employment," *Yale Law Journal* 78, no. 7 (1969): 1107–1127.
9. This observation and others in this section drawn from Christos A. Ioannou, "Greek Public Service Employment Relations: A Gordian Knot in the Era of Sovereign Default," *European Journal of Industrial Relations* 19, no. 4 (2013): 295–308.
10. "Collective Bargaining [in Greece]," <http://www.worker-participation.eu/National-Industrial-Relations/Countries/Greece/Collective-Bargaining>.
11. "Timeline: Greece's Debt Crisis," <http://www.reuters.com/article/2012/02/13/us-greece-economy-events-idUSTRE81C0M220120213>.

11 Global Pressures: Multinational Corporations, International Unionism, and NGOs

THE GLOBALIZATION CHALLENGE

The globalization of product, financial, and labor markets has made it easier for companies to produce many of the goods and services they sell wherever in the world the right skills can be found at the lowest cost. The desire to sell products worldwide has also created incentives for firms to have a presence in multiple countries. Together these facts have made labor relations in many industries global in scope. Globalization is of particular importance to emerging countries. Nearly 50 percent of the world's manufacturing employment is now located in emerging countries.¹

Globalization poses significant challenges to labor relations practices. Historically the laws, markets, institutions, norms, and practices of labor relations have developed on a national basis. Globalization has weakened, though not eliminated, the role of national systems of labor relations and given rise to a number of new institutions, structures, and processes for dealing with all of the labor relations functions discussed in previous chapters.

In this chapter we will discuss these new arrangements and the challenges globalization poses to labor relations. To do so we will use the framework laid out in chapter 1 for analyzing labor relations.

THE EFFECTS OF EXPANDING MARKETS

A key argument put forward by John R. Commons, one of the early theorists in industrial relations, was that as products and labor markets expanded in

scope, unions and other institutions also needed to expand if they were to “take wages out of competition” by standardizing wages in labor markets in which they worked.² As markets expanded from local to national levels, so did unions, labor laws, and management policies and practices. Commons argued that failing to expand union coverage to the larger market would reduce workers’ bargaining power and put downward pressures on wages, what some now call a “race to the bottom.” Firms would move work to lower-wage regions or workers who were willing to work for wages below accepted rates in a community (or nation) would migrate to take jobs at lower rates.

Another environmental change—advances in communications technologies—also promoted globalization of employment, especially in services. Call centers, editing, accounting services, tax preparation, radiology (X-ray reading), legal research, and document management are among the many services that are now available on a global basis “24–7.”

Demographic trends also support the globalization of work. Emerging countries have added a significant number of workers to the global labor force in recent years, increasing competition in the labor market for work (see the discussion in chapter 4). As education and skill levels increase in emerging countries and/or immigration rules are eased, competition for work at all occupational levels will continue to increase.

The Globalization of Business Strategies

This competitive process is now playing out on a global basis among multinational firms. Over the last fifty years the number of multinational corporations (MNCs) has increased greatly, to the point that they now have a major impact on world commerce and the conduct of labor relations in nearly every country.

Every MNC must make strategic choices about where to locate different parts of their business and supply chain. This brings into play the role of business strategies as a key factor shaping labor relations in developing countries. One key variable that influences the business strategy of an MNC are the wage levels at various potential production sites and countries. Although access to resources and markets also influence business strategies, the expansion of trade and the increase in the number of MNCs has led to a steady movement of manufacturing and service work from higher-wage countries to lower-wage countries and regions, and this movement is of special interest and importance to emerging countries. Box 11.1 illustrates the evolving business strategy of Nike, one of the early firms to globalize its production of apparel and athletic equipment.³

BOX 11.1**Nike's Global Business Model**

Nike started operating as a company in 1964. Early on, its business model called for its products to be designed and marketed in the United States and manufactured abroad. First, it located manufacturing facilities in Japan. As Japan's labor costs rose and Nike's business expanded, the company moved production to Korea and later to lower-cost countries such as Indonesia, Vietnam, China, and parts of Latin America.

Nike did not own or manage the factories that produced its products. Instead, it contracted with supplier companies located in these various countries. In doing so, Nike and other firms that followed a similar strategy developed **global supply chains**. Today 600 contractors in forty-six different countries around the world supply Nike with products (<http://nikeinc.com/pages/frequently-asked-questions>).

The Nike story told in box 11.1 is similar to that of many other MNCs that have become household names, such as Siemens, Apple, General Electric, Zaras, and Hewlett Packard. Essentially all large firms that sell products that can be easily transported globally and/or that sell to global markets have global supply chains. The development of global supply chains offers strategic economic development and business opportunities to emerging countries and to companies that specialize in contract manufacturing. Countries across the globe (and individual firms) compete for contracts from MNCs and the jobs that go with them by offering the lowest cost that is consistent with a company's quality and delivery requirements. The effect of this is that competition in labor relations has become globalized.

The Pressure of Diversity on MNCs

Managing an MNC involves issues of cultural, legal, and institutional diversity. Workers from various cultures often view work differently, attach different meanings to work, and place different demands on their unions.⁴

Of course, management in any firm faces some diversity among workers in terms of their culture and attitudes toward work. Some workers are most concerned about their pensions, whereas others may be most concerned about their current income and pay little attention to deferred compensation. Some workers have strong work ethics and would like to work on their own, whereas others may need constant supervision. The extent of this cultural

diversity widens, however, as the firm crosses national boundaries. As a result, for example, compensation policies that work in one country may be inappropriate in another. Or communication and motivation techniques that succeed in one culture will fail in another.

There is also wide diversity in the legal regulation of labor relations and employment conditions and the institutions that shape labor relations across countries (see chapter 3). In some countries, for example, national laws recognize workers' rights to form unions and strike, but in other countries unions are outlawed or are dominated by the government. In some countries, the national government extensively regulates the substance of employment conditions. The ideologies and forms of the labor movement also differ markedly across countries (see chapter 2). The structure of unions also differs markedly across countries (see examples in chapter 6).

The Degree of Labor Relations Centralization in Multinational Corporations

The multinational corporation faces control and coordination problems as a result of the wide diversity that exists across countries in culture, law, and institutions. The key decision for management that emerges from the diverse political and social institutions it faces in different countries is how much to centralize the direction of labor relations. At one extreme, labor relations management can be centralized in the corporate offices of the MNC. Alternatively, local management in each country in which the MNC operates can be allowed to independently direct labor relations. Management's problem is how to pursue companywide objectives through labor relations policies in the face of all the diversity that arises in the MNC.

Traditionally, MNCs have responded to this problem by maintaining a high degree of local control (decentralization) of labor relations. Analysts, in fact, generally conclude that the administration of labor relations of MNCs is more decentralized than other management functions, such as finance or marketing.⁵

MNCs found that there were substantial benefits to be gained from the decentralization of labor relations, including the ability to respond flexibly to the diversity discussed above. When local managers in each country where an MNC operates are allowed to shape labor relations policies, they can create policies and procedures that fit with local conditions and events.

In recent years, however, MNCs have begun to centralize their control and administration of labor relations. Centralization of a corporate function has always had the advantage of providing consistency and economies of scale. However, in the past, the great diversity of many local environments has made it difficult to implement consistent policies.

Why, then, the switch to more centralized control? The explanation appears to lie in the fact that MNCs are becoming more global in their strategies and organizational form. The emergence of global firms has led management to strive to integrate their internal operations and policies. When production is integrated, for example across national boundaries, it makes less sense for the MNC to maintain wide variations in its labor relations policies. The opening of trade through mechanisms such as the European Union and the North American Free Trade Agreement and the formation of other regional trading blocs has contributed to globalization and provides further impetus to MNC's to coordinate labor practices across their global supply chains.

This trend provides another illustration of one of the central themes of this book—namely, that managements are increasingly striving to link labor relations more closely to business strategies. Increased globalization further encourages MNCs to develop particular business strategies and then align their production and labor relations systems with those business strategies. This is not very different from the factors encouraging greater centralization in domestic firms. The special dilemma for labor relations managers in MNCs, however, is that culture, law, and institutions in many countries around the world shape labor relations at the same time that globalization has increased the premium on coordination and centralization.

The literature on human resources at MNCs also provides evidence of how national institutions (i.e., laws and public policies) constrain the influence and spread of MNC practices; corporations find that they must conform to national and in some cases local institutional constraints and/or pressures. Some of the literature suggests that instead of MNCs bringing standardization in workplace practices across countries, it is MNCs that have to bend and modify their practices to fit institutional constraints and pressures. There is evidence that the intersection of MNC and country-specific institutions leads to "hybridization"—practices and forms of organization that are a blend of the practices of the home country of the MNC and the practices common in the country where the MNC operates. At the same time, studies of the labor relations practices of MNCs consistently reveal a strong effect from the MNC's country of origin.⁶

The Globalization of Labor Relations and Human Resource Management: The Case of Colgate-Palmolive Corporation

Colgate-Palmolive (C-P) is an American-based multinational consumer products firm that has over 100 manufacturing facilities in thirty different countries. It offers a good case study of how a large MNC has restructured its global labor relations activities in recent years.⁷

The sales and financial performance of C-P has been quite strong over the last ten years, and a key to their success is that the company, which historically had been more global in orientation than its competitors, has become even more globally focused. International sales now account for most of the company's profits. In addition, the company has promoted a greater regional focus in its manufacturing and marketing operations, in part due to the regional trade pacts that have been reached in recent years and other pacts that are expected in the near future in regions including Latin America and Asia.

Regional trade pacts have helped spur a movement toward regional "centers of excellence" through manufacturing consolidation, and the company has moved away from its practice of having more than one plant within a region (and, in some cases, within a country) produce the same product. Manufacturing consolidation was also facilitated by technological improvements that made it possible to produce greater volumes in a single plant and organizational (and labor relations) changes that allowed for three-shift-a-day, seven-day-a-week production.

There was also a move toward a more simplified global supply chain (i.e., more global sourcing and fewer preferred suppliers) and less product variety across countries (less "tinkering" with the product). C-P has moved toward more globally similar products to take advantage of economies of scale in production and standardization of marketing. In addition, the ease with which consumer information now moves across countries is leading C-P to seek greater central control of marketing and products. These trends are all leading to greater regional and global coordination in the MNC's internal staff operations.

An increasingly global focus and structure first appeared in the internal functioning of C-P's human resource management and labor relations. In C-P's plants outside the United States, there is no clear separation between "labor relations" and "human resource management." (This is also true for other MNCs.)

C-P's human relations and labor relations decision making traditionally has been decentralized; most decisions were made by facility managers or factory managers in facilities. Inside the company, there were country-level presidents and directors of manufacturing who became involved in facility issues only when there was a crisis in the corporation's traditional way of operating. In addition, there was a small corporate staff (a vice-president of human relations and a vice-president of labor relations) in the United States at the company's corporate headquarters in New York City that provided strategic guidance to country- and facility-level managers on labor relations and human resource matters. But often these corporate managers did

not become involved in plant-level labor relations matters until a new labor agreement was being negotiated (and even then their input was only advisory) or when a strike or some other emergency was occurring. On an everyday basis, local managers controlled the labor relations function.

C-P's corporate managers decided that there was a need to move away from this extreme form of decentralization of labor relations because of the corporation's increased need for coordination in the context of the increasing role of the company's global supply chain. In addition, the integration of trade and the creation of several new "centers of excellence" in the late 1990s led to a consolidation of the company's production system that was accomplished by closing a number of facilities and increasing output flows through increased mechanization and full-day and full-week operations in the plants that remained. One consequence of production consolidation and increased trade flows was that a labor disruption at a center of excellence would produce greater harm for the company's sales and profits than had been the case in the past. Corporate managers wanted to have more control of these disruptive events and engage regional human resource and labor relations managers in efforts to minimize their occurrence altogether and minimize the effects of the disruptions that did occur.

A mix of union and nonunion plants had evolved at C-P, and much of the corporation's growth occurred in nonunion plants. Consolidation has been occurring disproportionately in unionized facilities in recent years, in part because unionized plants also tend to be older plants.

In an effort to achieve more coordination and consistency across the corporation and greater interaction between human resources and labor relations managers and those involved in operations, C-P created (or expanded) regional human resource offices and gave them more direct involvement in plant-level labor relations activities. To improve the quality of human resource and labor relations inside C-P, a series of regional workshops were launched that involved the company's top manufacturing and human resource and labor relations staff. The goals of these workshops were to (1) increase the regional focus across the company's operations; (2) increase coordination between the manufacturing and human resource (and labor relations) staff inside the company (these groups had rarely met together in focused meetings in the past); and (3) teach a standard and strategic approach to setting key work rule and operations objectives in all (unionized and nonunion) facilities. Subsequently, related training programs were launched to help C-P managers acquire a more global perspective.

Middle and shop-floor managers at C-P are now expected to convey the company's labor relations goals and the methods that can be used to

implement its global human resource and labor relations objectives. This is accompanied by workforce training programs that focus on instilling an appreciation for the increased need to make adaptive changes in the workplace.

The various business units in C-P are now required to use a standardized "strategic labor relations process" to guide the preparation for, process of, and evaluation of collective negotiations (in unionized settings) and employee relations objectives (in facilities where employees are not represented by unions). The process includes a country-level planning meeting to set labor relations objectives; submission of those objectives for division approval; a strategically oriented negotiations process accompanied by an appropriate communications strategy; and subsequent evaluation of the overall process. Both bargaining objectives (which typically involve work rules and work processes) and compensation objectives are identified and then the parties are expected to consider how those objectives support one another. This process takes place with the guidance of a corporate global labor relations strategy developed by top manufacturing and human resource managers. A key outcome of this process is that various human resource performance metrics are now collected and compared across plants. The hope is that this data and the ensuing comparisons of plant performance will influence the objectives that are set in the strategic labor relations process that guides labor negotiations or the formation of employee relations objectives.

Additional steps have been taken in other parts of C-P's human resource and labor relations internal function to stimulate more regionally and globally coordinated operations. For example, the company introduced software to handle employee personnel records that enables employees to easily access their records so they can monitor and make changes in their personnel profile (e.g., when their family status changes because of events such as marriage or the birth of a child). The corporation also introduced shared information services that included centralized call centers to handle employee requests. This move was facilitated by the fact that there was increasing similarity in the nature of the business and technologies in the company's various business units, spurred in large part by the increased role of the company's global supply chain.

At C-P's central corporate, country, and plant levels, increased attention is now paid to working conditions throughout the company's global supply chain. The company conducts a regular audit of labor practices at all of its supplier plants and the plants it directly operates that includes the monitoring of pay levels and work time and efforts to eliminate any child labor. In this respect, C-P is addressing issues that have received considerable attention in

relation to other MNCs. We will take these issues up in a later section of this chapter.

Impacts on the Middle Tier of Labor Relations Processes

The processes taking place at Colgate-Palmolive illustrate how one large organization is adjusting to globalization. For all organizations, globalization is raising questions and issues related to the functional level of labor relations as it is managed across global suppliers and contractors of multinational firms. These questions include:

- Which employer is responsible for labor practices in global supply operations? Is it the MNC or the local supplier? More generally, should an MNC have an explicit global labor strategy and set of principles, and if so what should these be and how should they be monitored and enforced?
- What standards should govern practices given that there is great variation in content; the level at which standards are set for issues such as minimum wages, overtime, child labor regulations; and the quality of enforcement of labor and employment laws in emerging countries?
- Who, if anyone, represents workers in global supply chains? Unions are largely organized at the country level and have not expanded to serve workers across national boundaries. In addition, the level of unionization, as noted in chapter 6, is very low in many emerging countries.
- What are the consequences of globalization on labor relations outcomes? Is it inevitable that globalization results in, as Commons predicted, a “race to the bottom” that lowers the standards of living in higher-wage countries and holds down wages and working conditions in low-wage countries or does globalization support economic development and improved employment outcomes in emerging nations?

MANAGING A GLOBAL SUPPLY CHAIN AND LABOR PRACTICE POLICIES

Consider Nike’s history in dealing with these key questions. Initially, Nike, like many other MNCs, argued that the labor practices of its global suppliers were not its responsibility. As worker activists brought media attention to abuses of child labor and unsafe working conditions, pressures mounted on Nike to question and ultimately to revise its view. In the mid-1990s, Nike company leaders noted that there was a direct correlation between the

growing number of media accounts of poor labor practices and conditions in its supply chain and the company's falling stock price. In 1998, Nike's CEO Phil Knight famously said he was tired of the fact that "Nike's products have become synonymous with slave wages, forced overtime, and arbitrary abuse."⁸

Nike changed its policies and practices and became an early leader in establishing corporate standards for its supply chain. It established an internal Corporate Social Responsibility Unit and charged it with creating a code of conduct that would be used to monitor and evaluate the extent to which its suppliers are meeting the standards in its code of conduct. Eventually the company made public the locations where its products are made. Box 11.2 reproduces Nike's Code of Conduct. Other large MNCs have followed a similar path. Unfortunately, too often it has taken a tragic accident to motivate companies to do so. Apple's largest manufacturer in China, Foxconn, experienced suicides and considerable unrest in its factories before Apple began to actively monitor and seek to improve operations in its supply chain. The most visible and largest tragedy to date occurred in the collapse of an apparel factory in Bangladesh in 2013 (discussed in box 9.3).

BOX 11.2

Nike's Code of Conduct

Employment is voluntary

- The contractor does not use forced labor, including prison labor, indentured labor, bonded labor or other forms of forced labor. The contractor is responsible for employment eligibility fees of foreign workers, including recruitment fees.

Employees are age 16 or older

- Contractor's employees are at least age 16 or over the age for completion of compulsory education or country legal working age, whichever is higher. Employees under 18 are not employed in hazardous conditions.

Contractor does not discriminate

- Contractor's employees are not subject to discrimination in employment, including hiring, compensation, promotion or discipline, on the basis of gender, race, religion, age, disability,

sexual orientation, pregnancy, marital status, nationality, political opinion, trade union affiliation, social or ethnic origin or any other status protected by country law.

Freedom of association and collective bargaining are respected

- To the extent permitted by the laws of the manufacturing country, the contractor respects the right of its employees to freedom of association and collective bargaining. This includes the right to form and join trade unions and other worker organizations of their own choosing without harassment, interference or retaliation.

Compensation is timely paid

- Contractor's employees are timely paid at least the minimum wage required by country law and provided legally mandated benefits, including holidays and leaves, and statutory severance when employment ends. There are no disciplinary deductions from pay.

Harassment and abuse are not tolerated

- Contractor's employees are treated with respect and dignity. Employees are not subject to physical, sexual, psychological or verbal harassment or abuse.

Working hours are not excessive

- Contractor's employees do not work in excess of 60 hours per week, or the regular and overtime hours allowed by the laws of the manufacturing country, whichever is less. Any overtime hours are consensual and compensated at a premium rate. Employees are allowed at least 24 consecutive hours rest in every seven-day period.

Regular employment is provided

- Work is performed on the basis of a recognized employment relationship established through country law and practice. The contractor does not use any form of home-working arrangement for the production of Nike-branded or affiliate product.

The workplace is healthy and safe

- The contractor provides a safe, hygienic and healthy workplace setting and takes necessary steps to prevent accidents and injury arising out of, linked with or occurring in the course of work or as a result of the operation of contractor's facilities. The contractor has systems to detect, avoid and respond to potential risks to the safety and health of all employees.

Environmental impact is minimized

- The contractor protects human health and the environment by meeting applicable regulatory requirements including air emissions, solid/hazardous waste and water discharge. The contractor adopts reasonable measures to mitigate negative operational impacts on the environment and strives to continuously improve environmental performance.

The code is fully implemented

- As a condition of doing business with Nike, the contractor shall implement and integrate this Code and accompanying Code Leadership Standards and applicable laws into its business and submit to verification and monitoring. The contractor shall post this Code, in the language(s) of its employees, in all major workspaces, train employees on their rights and obligations as defined by this Code and applicable country law; and ensure the compliance of any sub-contractors producing Nike branded or affiliate products.

Sources: http://www.nikeinc.com/system/assets/2806/Nike_Code_of_Conduct_original.pdf. See also Nike's Corporate Responsibility Report at <http://www.nikebiz.com/crreport/>.

Monitoring Compliance with Codes of Conduct

Once a company creates a code of conduct, it must decide how to monitor and enforce it. Should the company do this itself, using audit teams staffed by members of the company's social responsibility units? Should it hire and pay consultants to audit its labor practices? Should it work with and allow NGOs to do the auditing? Should it audit operations on an unannounced basis or tell

suppliers in advance when audits will be done? Should it coordinate its own audits with the audits of other MNCs that purchase goods from a given supplier to avoid having multiple firms using different standards and engaging in auditing operations at different times? And finally, what standards should apply—ones that are consistent with the host country's laws, norms, and competitive wage rates or companywide standards?

Some MNCs, such as Walmart, have sought to avoid working with NGOs and instead have hired consultants and professional engineering firms to monitor suppliers. Others use a combination of internal auditors, consultants, and NGOs. Still others work together and with global labor organizations to perform auditing and training functions. We will discuss the roles NGOs play in these processes in more detail later in this chapter.

The effectiveness of corporate audits is one of the most hotly debated issues in the field of labor relations today. The results of the best research on this topic indicate that when rates are arrayed on a scale of 0 to 100 percent compliance with the standards in corporate codes of conduct, the average rate tends to peak slightly above 50 percent. Moreover, few plants appear to be on a path of continuous improvement toward 100 percent compliance. Instead, over time some plants experience declines in compliance scores and improvements.

Some plants do better than others on a consistent basis. Plants located in countries with strong laws governing labor and other business practices tend to have higher compliance scores. So do plants that have longer-term contracts with MNCs and plants where there is more management interaction and sharing of expertise on best practices in lean manufacturing and advanced HRM systems.⁹ However, the fact that periodic inspections of building safety do not ensure that workplaces are truly safe is well illustrated by the examples provided in a *New York Times* account of the steps managers at numerous garment factories took to avoid and manipulate the inspection/audit process (see box 11.3).

BOX 11.3

Fast and Flawed Inspections of Factories Abroad

Inspectors came and went from a Walmart-certified factory in Guangdong Province in China, approving its production of more than \$2 million in specialty items that would land on Walmart's shelves in time for Christmas.

But unknown to the inspectors, none of the playful items, including reindeer suits and Mrs. Claus dresses for dogs, that were supplied to Walmart had been manufactured at the factory. Instead, Chinese workers sewed the goods—which had been ordered by the Quaker Pet Group, a company based in New Jersey—at a rogue factory that had not gone through the certification process set by Walmart for labor, worker safety or quality, according to documents and interviews with officials involved.

To receive approval for shipment to Walmart, a Quaker subcontractor just moved the items over to the approved factory, where they were presented to inspectors as though they had been stitched together there and never left the premises.

Soon after the merchandise reached Walmart stores, it began falling apart.

Fifteen hundred miles to the west, the Rosita Knitwear factory in northwestern Bangladesh—which made sweaters for companies across Europe—passed an inspection audit with high grades. A team of four monitors gave the factory hundreds of approving check marks. In all 12 major categories, including working hours, compensation, management practices and health and safety, the factory received the top grade of “good.” “Working Conditions—No complaints from the workers,” the auditors wrote.

In February 2012, 10 months after that inspection, Rosita’s workers rampaged through the factory, vandalizing its machinery and accusing management of renegeing on promised raises, bonuses and overtime pay. Some claimed that they had been sexually harassed or beaten by guards. Not a hint of those grievances was reported in the audit. . . .

An extensive examination by The New York Times reveals how the inspection system intended to protect workers and ensure manufacturing quality is riddled with flaws. The inspections are often so superficial that they omit the most fundamental workplace safeguards like fire escapes. And even when inspectors are tough, factory managers find ways to trick them and hide serious violations, like child labor or locked exit doors. Dangerous conditions cited in the audits frequently take months to correct, often with little enforcement or follow-through to guarantee compliance.

Supply chain experts and monitors say that far too often, factory managers play cat-and-mouse games with inspectors because they are desperate to avoid a failing grade and the loss of a lucrative stream of orders.

The experts provided real-life examples. To avoid appearing illegally overcrowded, one factory moved many machines into trucks parked outside during an inspection, a monitor said. Whenever inspectors showed up at certain plants in China, the loudspeakers began playing a certain song to signal that underage workers should run out the back door, according to several monitors. During inspections in India, some factories displayed elaborate charts detailing health and safety procedures that, like stage props, were transferred from one factory to another, another monitor said. . . .

Mr. [Auret] van Heerden [president of the Fair Labor Association] said, "You can never visit facilities often enough to make sure they stay compliant—you'll never have enough inspectors to do that. What really keeps factories compliant is when workers have a voice and they can speak out when something isn't right."

Source: Reprinted from Stephanie Clifford and Steven Greenhouse, "Fast and Flawed Inspections of Factories Abroad," *New York Times*, September 3, 2013.

The evidence on the positive but limited effects of corporate codes of conduct has led to active debates about what else needs to be done to improve labor conditions in global supply chains.¹⁰ Meetings of the multiple stakeholders involved—MNCs, NGOs, unions, government officials, ILO representatives, and academics—have been held at various universities to seek consensus on how to improve monitoring and compliance with codes of conduct, but to date no clear consensus has emerged. One big problem that remains is that a root cause of the pressure to violate labor standards comes from the purchasing and sourcing staff of MNCs. Pressure to deliver products that have short life cycles (e.g., a particularly popular style of shirts or shoes or the newest iPad or similar electronic device) quickly reverberates down through the supply chain to contractors, who conclude that they have no choice but to pressure their work force to meet the schedule. Not surprisingly, violations of hours rules—forced overtime, long hours, shorter meal and rest breaks, and fewer days off—are among the most frequent violations of codes of conduct.

INTERNATIONAL (FREE) TRADE AGREEMENTS

Increased international trade also has been spurred in recent years through various regional and international trade agreements. Our review of several of

those agreements in this section focuses on the concerns about labor rights and labor conditions that surfaced during debates about these agreements and the provisions that were included in them to address those concerns. We focus on the three trade agreements the United States made with Canada and Mexico, Jordan, and Colombia.

NAFTA

The **North American Free Trade Agreement (NAFTA)** linking Canada, the United States, and Mexico, which took effect in January 1994, removed tariffs and other trade barriers among the three countries over a fifteen-year period. Both the passage and the continuing effects of NAFTA have been extremely controversial. NAFTA has been widely criticized by labor unions, who claim that Mexico's low wages have enticed many U.S. firms to relocate south of the border. Meanwhile, environmentalists worry that companies flee south in order to take advantage of weak pollution controls and lax enforcement of environmental regulations. Presidents Clinton, Bush, and Obama; the U.S. business community; and many economists, on the other side of this debate, support NAFTA on grounds that it provides gains to all three countries through trade. NAFTA supporters also claim that it will help integrate Mexico more fully into the world economy and thereby address Mexico's social problems and their spillover effects in the United States (such as high immigration and the drug trade). To address its critics, side agreements were added to NAFTA concerning the environment and labor rights. The side agreements related to labor created national administrative offices that are authorized to investigate public charges that one of the NAFTA countries is not enforcing its own labor laws.

The U.S.-Jordan Free Trade Agreement

In the U.S.-Jordan Free Trade Agreement of 2001, both countries made pledges related to "reducing barriers for services, providing cutting-edge protection for intellectual property, ensuring regulatory transparency, and requiring effective labor and environmental enforcement."¹¹ The effects of this treaty in Jordan were significant. American companies such as Walmart and Target quickly established stores in Jordan, and in the first year after the trade agreement was agreed, Jordan increased its exports by 213 percent.

The U.S.-Jordan agreement was the first free trade agreement between the United States and a foreign country that directly included labor provisions in the text of the agreement itself. In the agreement, both countries agreed to

comply with the statutes embodied in the ILO's Declaration on Fundamental Principles and Rights at Work and to enforce their own domestic labor laws.¹² Moreover, the free trade agreement established dispute resolution procedures and trade sanctions to be used if either country was seen as violating its domestic labor laws.

However, although these provisions were hailed by the labor and environmentalist communities, the U.S. government's policy with regard to enforcing the labor provisions of the agreement became much more pro-business when George W. Bush became president. In 2001, newly installed U.S. trade representative Robert Zoellick and the Jordanian ambassador to the United States announced that both the United States and Jordan had agreed not to resort to trade sanctions and that neither country would use the dispute resolution enforcement procedures outlined in the free trade agreement if they would block trade. Consequently, the labor provisions that had been hailed as revolutionary in this agreement were not implemented.¹³ In addition, after the implementation of the free trade agreement in 2001, Jordan passed a Public Assembly Law and other legislation that limited freedom of association and collective negotiations.

In 2006, the National Labor Committee (an NGO) testified to the U.S. Congress that labor laws were not being enforced in Jordan and provided evidence that the Jordanian garment industry had sweatshops where workers worked 20-hour days, were not paid consistently, and suffered emotional and physical abuse. These companies employed migrant workers from China, Sri Lanka, and Bangladesh who were being forced to work as de facto involuntary servants.

The U.S.-Colombia Trade Agreement

The U.S.-Colombia Trade Promotion Agreement came into force in May 2012.¹⁴ The agreement states that both the United States and Colombia will continue to maintain in domestic law the right to freedom of association (the right to form and join a union) and the right to engage in collective negotiations and will fulfill promises that all forms of forced and child labor will be eliminated.

Observers claim that, as in Jordan and Mexico, the labor rights provisions in the Colombia trade pact have proven to be ineffective. Allegations surfaced that since 2010, 104 labor and human rights activists have been murdered in Colombia. Furthermore, the Congressional Monitoring Group on Labor Rights provided extensive documentation showing that the right to organize and engage in collective negotiations was being curtailed and undermined in Colombia.¹⁵

The Controversy Surrounding Trade Agreements

These three trade agreements make clear that a great deal of controversy exists about the real impacts of trade agreements on worker rights and work conditions. Defenders of these agreements argue that higher levels of trade ultimately lead to higher rates of economic growth in emerging countries and improvements, even if they are gradual, in wages and work conditions. Critics, on the other hand, claim that trade pacts encourage MNCs to leave countries where wages and work conditions are better. And these critics allege that even in the emerging countries, any growth in employment largely occurs in low-wage sectors, often at the expense of already existing indigenous (and frequently more craft-oriented) production.

LABOR RESPONSES TO THE POWER ADVANTAGE OF MULTINATIONAL CORPORATIONS

The expansion of economic activity across national boundaries creates a disadvantage in bargaining power for workers and unions. Multinational operation allows management to move production and capital across national borders and increases the competition for jobs among workers. Imagine, for example, the pressures highly paid Western European (or North American) workers experience when MNCs operating in their countries can shift production to countries where workers receive hourly wages that are a fraction of those received in Western countries and where environmental and other social regulations are weaker. This is what unionists refer to as “social dumping.” When management faces a strike in its operations in one country, it can gain leverage during the bargaining process if it can turn to alternative production facilities in other countries or substitute workers in other countries for those who are out on strike.

In theory, one way a union could counter the advantages management gains from the expansion of markets is to expand the union’s jurisdiction so that it is coextensive with the boundaries of the multinational. This is how unions in the United States and a number of other advanced industrialized countries expanded their jurisdiction. They shifted from local or regional unions to become national unions as the product markets the companies they worked for grew national in scope. If this were accomplished, the resulting **multinational unions** would be better able to remove competition across workers in the different locations where the MNC operates. How successful have unions been at following a similar strategy and becoming multinational? This section examines that issue.

Even though there are some examples of multinational unions or at least policies to coordinate national unions, these examples are few. Let us consider why this has been so and then look at some counterexamples.

Union Difficulties with Operating at the Multinational Level

Unions have found it difficult to become multinational because of the wide diversity that exists across countries in culture, law, and institutions. It is difficult enough for a union operating in one country to maintain cohesion and solidarity among its members. When the economic and cultural differences, communication difficulties, and fears that exist among workers in different countries are added to the normal problems of unions, maintaining solidarity becomes a nearly insurmountable problem.

Consider the problems that multinational operation creates for union solidarity in both emerging and highly industrialized countries. Workers in an emerging country, who earn low wages and face few employment alternatives, are generally very reluctant to support the bargaining demands of their high-wage counterparts in an advanced industrialized nation. There are strong short-run incentives for the workers in these two countries to view each other as competitors.

Imagine how difficult it is for a union to communicate with its members if those members speak a variety of languages. In addition, the managers in an MNC typically have a lot of information about company objectives and worldwide activities, whereas workers and unions are often hard pressed to gain information about such activities.

Mergers of independent unions across national borders has not been a solution to multinational pressures. Merging independent unions is difficult enough even in a single country where there are strong bargaining power advantages to be gained. Even greater impediments exist for such a merger if it were to involve two unions based in different countries that represent workers at the same MNC.

It is quite likely that the structure of two unions that might consider merging would not be similar even if the workers were employed by the same firm. Similar problems would exist even if these unions were to merely work to coordinate their bargaining demands.

Yet even given these difficulties, examples of cross-national union solidarity and support can occur short of mergers or coordinated bargaining. We examine efforts to build cross-national union solidarity below.

Cross-border union strategies have taken many different forms. The strategies are different for a Thai garment worker or a German metalworker or a

U.S. retail worker. Industry, company, union structure, political traditions, ideology, levels of bargaining power, and differing sets of goals all affect how cross-border union activities are structured.

The Role of International Trade Secretariats

A number of **international trade secretariats** exist that provide information to member unions and coordinate activities across national borders. These are autonomous agencies that cover particular industries or groups of industries. The International Metalworkers Federation, one of the most active of these secretariats, includes members from many emerging countries and highly industrialized nations. Among its many activities, it issues research reports to its members.

Many of the secretariats have a close working relationship with the International Confederation of Free Trade Unions (ICFTU), which includes affiliated unions that represent 48 million workers around the world. The ICFTU includes only non-communist unions. The World Federation of Trade Unions (WFTU) at one time represented 134 million workers in the Communist unions that were affiliated with it. While the expansion of global trade is leading unions around the world to communicate more extensively with unions in other countries, the political differences that have traditionally separated these federations and many of their member unions have impeded coordination among these and other union federations.

Cross-Border Union Alliances

A number of unions have attempted to overcome these communications and political differences and have extended their reach around the world, either on their own or by forming alliances across national unions. Airline pilots have the most fully established international body. It is composed of 100 national-level pilots' unions/associations and has a combined membership of approximately 100,000 pilots (see box 11.4).

BOX 11.4

The International Federation of Airline Pilots Associations (IFALPA)

The mission of IFALPA is to be the global voice of professional pilots by providing representation, services and support in order to promote the highest level of aviation safety worldwide.

This goal is realized through our core function which is to represent our members by:

- Interacting with international organizations to achieve the highest level of aviation safety.
- Developing common policies and positions and promoting the adoption of such policies by ICAO, regulatory authorities and the State of each Member Association.
- Promoting and enhancing the role and status of professional pilots in ensuring the safety of the aircraft and well being of passengers and goods entrusted to their care.
- Promoting a viable and expanding air transport industry.
- Providing training and education for the benefit of professional pilots.
- Providing Member Associations with services as needed.
- Assisting in the organisational development of Member Associations.
- Supporting Member Associations by providing expertise in the areas of Technical, Safety, Regulation and Industrial issues.
- Facilitating the exchange of information and the co-ordination of activities amongst Member Associations and Pilot Alliances through various forums such as Conferences, Regional Meetings and Standing Committees.

Source: International Federation of Airline Pilots' Association, <http://www.ifalpa.org/>, accessed Nov. 15, 2013.

Cross-National Union Strategies and Pressure Campaigns

Similar cross-border networks or formal agreements to coordinate when needed in order to offset the power of MNCs have occurred in other industries as well. One prominent example was formed in 2008 that involved the United Steelworkers (based in North America) and UNITE (based in the United Kingdom). Box 11.5 summarizes the goals of their joint effort, called Workers Uniting. To date, these unions have supported each other in strikes involving companies that have operations in Britain and North America.

BOX 11.5**Workers Uniting—the Global Union**

Workers Uniting brings together Unite, the biggest union in the UK and Ireland, with the United Steelworkers, the largest industrial union in North America. Here are four reasons why this partnership is critical.

1. The economy is globalizing. From Brussels to Beijing, decisions about our economy are increasingly made far from home. A global union can provide us a voice in those decisions.
2. Politics is globalizing. Right wing politicians are using the same vicious tactics to undermine our livelihoods in the UK as they are in the U.S. and Canada. A global union can help us support progressive politics on both sides of the Atlantic.
3. Our employers are globalizing. A couple decades ago, only a few of our employers operated in more than one country. Now, nearly all of them do. A global union can help us stand up to our employers wherever they operate.
4. The movement is globalizing. Whether it's standing up for fair trade or fighting back against bank bailouts, progressive groups are mobilizing and uniting everywhere. A global union can help us join them in the fight for a better world.

Source: <http://www.workersuniting.org/>, accessed Nov. 15, 2013.

Comprehensive Union Pressure Campaigns

Unions have developed comprehensive or strategic campaigns in recent years that use a combination of research, rank-and-file activism, boycotts, and political leverage to bring pressure to bear on a company globally. These campaigns often target a single employer where workers have gone on strike, have been locked out, or are engaged in an organizing drive. They use in-depth research to identify vulnerabilities in a company's global operations. Comprehensive union campaigns build coalitions with communities, NGOs, and other unions around the world to target the company's image, its suppliers, or its customers globally and to pressure the company to improve labor conditions.

The 1986 Shell Oil boycott was one of the earliest truly global comprehensive campaigns. Using the consumer boycott as its central tactic, the campaign

against Shell linked anti-apartheid activists, trade unionists, civil rights activists, politicians, church activists, and consumers in a global divestment campaign. The United Steelworkers in North America have used these types of campaigns extensively to pressure global multinational companies such as BASF, Ravenswood, Bridgestone/Firestone, and Goodyear to end strikes and lockouts and to support collective negotiations campaigns. This approach is not limited to North American unions. Central American banana workers, European dockworkers, and Taiwanese telecommunications workers have all used cross-border campaigns in recent years.

However, while many campaigns have been successful, this type of global coordination and comprehensive campaigning requires large amounts of resources, funding, and long-term trust between unions. Companies have threatened unions with lawsuits for engaging in these types of campaigns, and weak transnational labor standards have made it difficult for unions to enforce gains that have been made.

Cross-Border Union Networks

Union networks are groups of unions at a shared multinational employer that come together to create a transnational structure for the purpose of sharing information, coordinating activity, and bargaining with an employer on a transnational level. Networks first appeared in the 1970s and have been promoted by global union federations (GUFs) as a way for unions to overcome the imbalance in bargaining power that unions of workers for multinational employers experience. Networks create long-term relationships between unions that have enabled unions to share information about a common employer, to act as infrastructure during cross-border campaigns, and to act as decision-making bodies that can bargain with employers on a transnational level.

Dozens of networks have been established in the auto, chemicals, food, and service industries. Networks of unions of employees at companies such as Carrefour and Arcelor have been able to sign agreements with employers on a transnational level such as international framework agreements (IFAs) that establish basic health and safety conditions and independent monitoring. Companies such as Volkswagen and Mercedes have created European-style works councils that meet annually with company management to discuss working conditions and compliance with basic ILO conventions. Finally, unions of employees at companies such as Gerdau and Sodexo have used networks as infrastructure during global campaigns. Unions in Brazil in particular have used networking as a strategy to coordinate bargaining nationally and establish transnational links with unions in the company's home country.

However, challenges remain. National differences with regard to labor laws, language and communication issues, and weak transnational legal regulations have hampered attempts to build long-term union network structures.

Sweatshop/Garment/Apparel Campaigns

In the 1970s, sweatshops to produce garments reappeared in Latin America, the Caribbean Basin, Southeast Asia, and southern California. At that time, nations reeling from debt crises and structural adjustment programs turned to export processing zones for growth strategies. These zones are tax-free havens where MNCs can assemble low-value products such as garments, textiles, electronics, and toys with a low-wage-earning, mainly female workforce. Aided by free trade agreements and a system of subcontracting and global production, sweatshops became a prevalent source of supply for many high fashion apparel lines in the developed world and the embodiment of a race to the bottom for emerging countries.

Workers, mainly young women, organizing in countries such as Guatemala, Sri Lanka, Thailand, and Haiti have used global solidarity campaigns as a means of winning improvements in individual garment factories and increasing pressure for industry-wide and retailer-wide codes of conduct. These campaigns bring together a broad group of actors, including garment workers and unions, transnational NGOs, labor union allies, consumer activists, and North American university students.

Two factors are unique to organizing in the apparel industry. First, many of the products produced in the apparel factories of Latin American and South Asia are sold to consumers in North America and Western Europe. These consumers created an opportunity for garment workers to make alliances with unions and consumer groups in advanced industrial countries and create publicity about their working conditions. Second, as with the example of Nike discussed earlier in this chapter, many factories in emerging countries are actually subcontractors for large companies that produce well-known brand names and are headquartered in advanced industrial countries, such as Benetton, Disney, and Reebok. Because of the disparity between the high cost of luxury apparel in advanced industrial countries and the poor conditions of workers in emerging countries, garment worker campaigns have often relied on publicity that links well-known retailers such as the Gap and Walmart to poor working conditions in emerging countries in order to create enough consumer pressure to convince the retailers to assist in efforts to improve working conditions in garment factories.

In addition, because many universities have large contracts with athletic companies such as Adidas and Nike, U.S. college students have become key supporters of these campaigns through groups such as United Students Against Sweatshops (USAS).

Some unions have promoted international framework agreements as effective structures. IFAs are multilateral agreements that are signed between a corporation and a union, usually one of the global union federations, in order to ensure equal standards across a multinational corporation. IFAs establish core labor standards such as the abolition of child labor, nondiscrimination, and freedom of association. They attempt to cover all employees, including workers who are subcontracted or are employed by subsidiaries and suppliers of the firm, and are designed to establish an institutionalized relationship with the firm at the headquarters level to ensure some form of monitoring and a process for improving working conditions. Even though some unions have had some success in getting companies to sign IFAs, these agreements are voluntary and are difficult to enforce due to a weak transnational regulatory environment.

THE ROLE OF NGOS

NGOs are now playing active roles in identifying abuses, lobbying for improved standards and enforcement practices, and in some cases actively representing workers and/or auditing labor conditions in supplier operations. Some NGOs are funded by employers. Some are funded independently by private foundations, individual donations, or labor unions. Some choose to work at arm's length with MNCs, some choose to work in collaboration with MNCs, and many implement both of these tactics. Various meetings have been held to bring together representatives of NGOs, unions, MNCs, and international organizations such as the ILO and the World Bank to try to learn from their experiences and about the research being done on global labor standards. But diversity of practices remains the norm. (See table 11.1 for examples of different NGO activities.)

The Worker Rights Consortium

One of the most active of these NGOs is the Worker Rights Consortium (WRC). The WRC has been involved in efforts to improve labor conditions at Foxconn, at apparel factories in Bangladesh, and at Nike. The history and role of the WRC is described in detail in box 11.6.

Table 11.1. Examples of labor NGOs and their activities

<i>Name</i>	<i>Activities</i>
Fair Labor Association (www.fairlabor.org)	Monitors factories independently and reviews company audits Certifies compliance with codes of conduct Reports on results of audits in participating companies Governed by board of industry, NGO, and university representatives
Social Accountability International (www .sa8000.org)	Certifies that manufacturers are in compliance with SA8000 labor standards Trains auditors Provides self-assessment software for supply chains with recommendations for how to improve performance Lists factories that have achieved SA8000 certification Governed by mix of industry, NGO, and legal specialists
Worker Rights Consortium (www .workersrights.org)	Investigates conditions in factories that sell licensed apparel to universities Publishes periodic reports on factory conditions in different countries Maintains public database of factories supplying to universities Governed by board of worker rights advocates consisting of university faculty and staff, students, and independent labor rights experts
United Students Against Sweatshops (www.usas .org)	Campaigns against abuses of workers' rights in factories that supply apparel licensed by universities Advocates for fair working conditions for university employees Led by student representatives from participating universities
China Labor Bulletin (www.clb.org.hk/en/)	Provides legal assistance to workers and labor organizations in China Conducts research on labor conditions in China Maintains a Web site that provides information on strikes and collective bargaining in China Led by professional staff

BOX 11.6**Policing Workers' Rights in the Global Economy:
The Worker Rights Consortium**

The Worker Rights Consortium (WRC), a nonprofit organization started by the United Students Against Sweatshops in consultation with workers and labor rights experts, has become a watchdog for international sweatshop labor. The WRC was begun to help enforce the manufacturing codes of conduct adopted by colleges and universities; these codes ensure that factories that produce clothing and other goods bearing college and university names respect workers' rights.

The WRC has pressured universities to end their contracts with companies that do not comply with labor standards. For example, in

March 2000, Brown University terminated its contract with Nike Inc., because of Brown's requirement that Nike comply with the university's licensing requirements and a monitoring system that is part of the WRC process. In its defense, Nike said that it had "serious concerns about the code and monitoring system included under the WRC" and that "the only effective way to make progress in improving factory conditions around the world is to have all stakeholders at the table." Nike claimed that the WRC was excluding industries and that it should be working with them instead.

The WRC at times has clashed with the Fair Labor Association (FLA), an independent group formed by the Clinton administration in 1999 to monitor the labor standards of overseas apparel manufacturers that sell their products to the United States. The FLA grew out of the Apparel Industry Partnership, a group of apparel manufacturers, consumer groups, and labor and human rights organizations brought to the White House in 1996. By 2000, over 100 colleges and universities had associated with the FLA so that they could be assured that clothing with their logos was not made in sweatshops. However, the WRC has criticized the FLA for being an industry-controlled monitoring system that only covers up sweatshop abuses and claims that only it, the WRC, can provide monitoring that is not swayed by corporate pressure.

Recently, however, the WRC and FLA have begun to forge a working relationship that includes working together on various monitoring projects. The WRC's membership now includes more than 100 colleges and universities.

Sources: "Nike Terminates Contract with Brown after University Seeks Compliance with Code," *Daily Labor Report*, April 4, 2000, A-2; and "Temple University Reviews Membership in 'Fair Labor' Apparel Monitoring Group," *Daily Labor Report* February 22, 2000, A-5.

NEGOTIATING GLOBAL STANDARDS

The challenge of creating negotiations structures and ongoing relationships in global operations has generated a number of different approaches. The most basic approach is to promote union representation on the shop floors of supplier operations by providing technical assistance to unions in emerging countries. The ILO is active in providing this type of technical assistance. In Cambodia, the ILO has developed a particularly extensive Better Factories

Cambodia program that provides training, outreach, dispute resolution, and monitoring and disseminates information about best practices related to unions, collective negotiations, and labor standards. Reports on the program are quite positive. Rates of union representation in apparel plants range up to 50 percent and compliance with the labor standards in the ILO's code of conduct range between 70 and 95 percent. There continue to be reports of collusion and corruption among some employers and union leaders, however. This program has been sustained for over a decade in large part because of the continued support of the ILO and the Cambodian government. An independent evaluation of the ILO program has shown that the garment industry has continued to grow in Cambodia since the program was put in place and the firms that have complied with the employment standards the program monitors were more likely to survive over time than those that did not.¹⁶

While the Cambodian example is encouraging, it has yet to be replicated in other emerging countries, where unionization rates remain quite low and maintaining stable unions in industries and companies has proven to be difficult.

In some ways NGOs are a substitute for traditional unions. They have led efforts to publicize abuses of labor standards. They have negotiated with companies to improve working conditions in specific countries. Some have created sophisticated software programs that enable firms to evaluate the state of labor practices in their supply chains and receive advice about how to improve them. Others, such as United Students Against Sweatshops, have used consumer boycotts and lawsuits against highly visible brand-name companies such as Adidas and Nike to press them to end labor abuses among their contractors.

BOX 11.7

NGOs That Conduct Union-Like Activities

To improve working conditions in a number of countries, NGOs have emerged that include the direct negotiation of wages and other improvements in working conditions in their activities. Two prominent examples are found in India. We present them below as examples of the expanding role of NGOs in directly representing and bargaining on behalf of low-wage workers around the world.

In India, as in most emerging countries, the activities of a number of NGOs include some of the roles unions play in advanced industrial countries. One such organization is the internationally acclaimed Self-Employed Women's Association (SEWA). Founded in 1972 by Nobel

Peace Prize nominee Ela Bhatt, SEWA represents poor self-employed women in the rural and unorganized economic sectors of India. These women do not earn wages; they earn money through their own labor and small businesses. Dr. Bhatt's main goal for SEWA, which has over 960,000 members, includes trying to move them out of the informal sector, helping them gain full-time work, and improving the compensation and benefits women receive for their work, whether or not that work is in the informal sector. Essential facets of SEWA's activities are lobbying state and national governments to increase funding for social protection services, including health insurance and child care coverage; identifying microlenders; pressuring banks and other financial institutions to lower interest rates for first-time borrowers; and convincing financial institutions to provide more credit for women in business.

Another highly significant NGO/union in India is the Kagad Kach Patra Kashtakari Panchayat (KKPKP), also known as the Trade Union of Waste Pickers. The KKPKP represents waste pickers, waste collectors, and informal recyclers, all of which are part of the unorganized rural sector of the Indian economy. A key aspect of the KKPKP's role, like that of SEWA, is politically lobbying. KKPKP lobbies local municipalities and state governments to increase grants to the KKPKP's credit cooperative, which offers loans to members and provides a social security fund, so waste collectors have retirement funds. The KKPKP also helps members negotiate and bargain with local municipalities and private firms that hire waste collector workers. In April 2013, the KKPKP engaged in a sit-in strike in the city of Pune to protest the low wages waste collectors received.

In sum, India has numerous and multifaceted nongovernmental organizations, some of which perform critical union-like roles. Almost 60 percent of the Indian labor market consists of rural and informal sector workers, and these organizations represent workers in negotiations with government agencies and private sector employers. These NGOs help promote the emergence of an Indian middle class through advocacy, negotiations, protests, and political lobbying.

Sources: "About Us: History," Self-Employed Women's Association, http://www.sewa.org/About_Us_History.asp; "Initiatives," Kagad Kach Patra Kashtakari Panchayat, <http://wastepickerscollective.org/index.php?mod=page&id=3>; Leslie Vryenhoek, "KKPKP's Six-Day Protest Wins a Promise from Municipality," *Inclusive Cities*, April 11, 2013, <http://www.inclusivecities.org/blog/kkpkps-six-day-protest-wins-a-promise-from-municipality/>.

Summary

This chapter began with Common's hypothesis that it would be difficult for unions to raise and standardize wages unless unions had a scope and jurisdiction that matched the expanding scope of product markets. MNCs have benefited from globalization because they take advantage of the efficiencies gained in global supply chains. The internationalization of production also shifts bargaining power in favor of MNCs in a number of ways. To date, no single institutional response or alternative source of power has been successful in counterbalancing this shift in power. Media exposure has been the most effective way to pressure MNCs to upgrade standards in their supply chains. However, this strategy has proven to be episodic. While media reports of tragedies or abusive work conditions do create a flurry of corrective activity, they tend to lose momentum fairly quickly after media coverage fades.

In general, consumers have not responded in consistent ways or demanded data on labor standards or avoided products of companies with reported labor standards problems. However, led by students organizing on college campuses into branches of USAS, successful consumer campaigns have been mounted that require MNCs that sell licensed athletic and sportswear bearing university logos to comply with NGO-specified labor standards.

Although codes of conduct have helped improve standards, they cannot, on their own, serve as a comprehensive strategy for achieving compliance or sustained improvements in labor standards in emerging countries. There is evidence that countries with stronger labor laws and enforcement practices have, on average, better wages and working conditions. The ILO's Better Factories Cambodia experiment suggests that a heavy infusion of incentives (lower tariffs or other trade restrictions), government and international pressures, and support for workplace-based unions can also have positive effects.

In addition, a number of cross-national union efforts have emerged, some of which involve international networks of unions and workers. Other union campaigns to pressure MNCs have linked with NGOs to make use of consumer and political pressure. Overall, it appears that achieving and sustaining acceptable work conditions in supply chains of MNCs will require a combination of the efforts of management, labor, NGOs, and governments, perhaps eventually reinforced by consumer purchasing behavior.

Discussion Questions

1. Why do international production opportunities and international trade generally advantage multinational corporations and disadvantage unions in terms of bargaining power?

2. What factors led multinational corporations historically to typically prefer to decentralize their internal labor relations function, leaving most control of labor relations issues to local plant managers?
3. What recent factors/trends are leading many multinational firms to move toward more central coordination of their internal labor relations function?
4. Why is it so difficult for unions to forge cross-national alliances and launch successful cross-national pressure or bargaining campaigns?
5. Describe some of the basic steps you would take as the head of labor relations in a large multinational firm to make sure that work conditions are fair and defensible in your firm's global supply chain.

Related Web Sites

- Colgate-Palmolive: <http://www.colgate.com/app/Colgate/US/Corp/LivingOurValues/Sustainability/HomePage.cvsp>
- Cornell International Labor Relations School International Labor Standards: <https://www.ilr.cornell.edu/globalPortal/laborStandards/>
- Global Unions: Standing Together for the Rights of Unions: <http://www.global-unions.org/?lang=en>
- Hewlett Packard Supply Chain Management: <http://www.hp.com/hpinfo/globalcitizenship/09gcreport/society/supplychain/strategy.html>
- Sustainable Business at Nike: <http://nikeinc.com/pages/responsibility>

Suggested Supplemental Readings

- Bronfenbrenner, Kate, ed. *Global Unions: Challenging Transnational Capital through Cross-Border Campaigns*. Ithaca, N.Y.: Cornell University Press, 2007.
- "Cross-National Perspectives on Multinational Companies and Employment Relations." Special issue of *ILR Review* 66, no. 3 (2013).
- Locke, Richard M. *The Promise and Limits of Private Power*. Cambridge: Cambridge University Press, 2013.
- Posthuma, Anne, and Dev Nathan, eds. *Labour in Global Production Networks in India*. New Delhi: Oxford University Press, 2010.

Notes

1. International Labour Organization and Better Factories Cambodia, "Thirtieth Synthesis Report on Working Conditions in Cambodia's Garment Sector and Statement of the Project Advisory Committee," July 18, 2013, <http://betterfactories.org/?p=6706>.
2. John R. Commons, "American Shoemakers 1648–1895: A Sketch of Industrial Relations," *Quarterly Journal of Economics* 24, no. 1 (1909): 39–98. See also Lloyd Ulman, *The Rise of the National Trade Union: The Development and Significance of Its Structure, Governing Institutions, and Economic Policies* (Cambridge, Mass.: Harvard University Press, 1958).

3. For more on the history of Nike and evidence about labor conditions in global supply chains, see Richard M. Locke, *The Promise and Limits of Private Power: Promoting Labor Standards in a Global Economy* (Cambridge: Cambridge University Press, 2013). The material in this chapter draws heavily on this book and on the larger MIT-Stanford University Just Supply Chain research project.

4. See Jan H. Katz, "Cultural Issues in International Business," in *The Handbook of International Business*, ed. Ingo Walter and Tracy Murray (New York: Wiley, 1988), 11-1-11-17.

5. For recent research on how MNCs internally structure and operate their labor relations function, see "Cross-National Perspectives on Multinational Companies and Employment Relations," special issue of *ILR Review* 66, no. 3 (2013): 547-587.

6. Ibid.

7. Information in this section was obtained through interviews with managers conducted over several years by Harry Katz.

8. Quoted in Locke, *The Promise and Limits of Private Power*, 49.

9. Ibid., 47-77.

10. See, for example, the forum on this topic in *The Boston Review* 38, no. 3 (May-June 2013): 12-29.

11. Pablo L. Gradi, *Trade Agreements and Their Relation to Labour Standards: The Current Situation*, International Centre for Trade and Sustainable Development Issue Paper no. 3 (Geneva: International Centre for Trade and Sustainable Development, 2009), <http://ictsd.org/downloads/2011/12/trade-agreements-and-their-relation-to-labour-standards.pdf>.

12. Eli J. Kirschner, "Fast Track Authority and Its Implications for Labor Protection in Free Trade Agreements," *Cornell International Law Journal* 44 (2011): 386-415.

13. Solidarity Center. "Justice for All: The Struggle for Worker Rights in Jordan," Solidarity Center, Washington, D.C., 2005, <http://www.solidaritycenter.org/files/JordanFinal.pdf>, accessed January 8, 2014.

14. Office of the United States Trade Representative, "U.S.-Colombia Trade Agreement," <http://www.ustr.gov/uscolombiatpa>.

15. "The U.S.-Colombia Labor Action Plan: Failing on the Ground," a staff report on behalf of U.S. Representatives George Miller and Jim McGovern to the Congressional Monitoring Group on Labor Rights in Colombia, October 2013, <http://democrats.edworkforce.house.gov/sites/democrats.edworkforce.house.gov/files/documents/Colombia%20trip%20report%20-%2010.29.13%20-%20formatted%20-%20FINAL.pdf>.

16. Drusilla Brown, Rajeev Dehejia, and Raymond Robertson, "Is There an Efficiency Case for International Labor Standards?" Tufts University working paper, July 2013, <http://www.freit.org/WorkingPapers/Papers/TradePolicyMultilateral/FREIT574.pdf>. See also International Labour Organization and Better Factories Cambodia, "Thirtieth Synthesis Report on Working Conditions in Cambodia's Garment Sector and Statement of the Project Advisory Committee."

12 Economic Development Strategies and Policies

THE CHALLENGE FACING GOVERNMENT POLICY MAKERS IN EMERGING COUNTRIES

This book has examined the changing nature of labor-management relations with a focus on developments in emerging countries. While traditional unions and collective negotiations have declined in the United States and most other highly industrialized nations, new forms of labor-management relations and other new institutions are struggling to take hold in a number of rapidly growing emerging nations. We now have a basis for extensive cross-country learning about best practices in labor relations.

Government policy makers need to be especially attuned to learning from both historical and current variations in policies and practice. In this chapter we describe the special roles governments play in influencing the future direction of labor relations in emerging countries. We give special attention to the relationship between economic development policies and labor relations practices, processes, and outcomes.

But first a threshold issue must be addressed: Is there still room for national policies in a global marketplace?

THE END OF NATIONAL LABOR RELATIONS SYSTEMS?

Some might think that globalization makes it impossible for individual national governments to regulate labor relations in their respective countries. Clearly, as noted throughout this book, globalization puts many jobs in

competition across borders. Although international quasi-government agencies can and do force countries to modify labor market policies as conditions for getting loans or complying with trade regulations, variations in policies are still apparent across countries and there is substantial evidence that these policy differences do matter. They have a significant impact on working conditions and economic activity.

China, for example, has retained its unique mix of state-owned and private enterprises but has gradually begun to introduce labor market and labor relations policies that embody principles that are accepted in many democratic societies. Other countries also vary in the extent to which they have centralized planned economies that rely heavily on state-owned enterprises, as opposed to free market systems. Meanwhile, the privatization of telecommunications, energy, and other key sectors in Brazil and other emerging countries indicates that countries do face real choices, just as they can choose where they want to be in the spectrum that runs from a planned economy to a free market economy.

For the past four decades, the so-called Asian tigers (Hong Kong, Korea, Singapore, and Taiwan) have followed a path of state-led development. In each of these cases, government policy has favored the development of particular industries and companies and governments have invested heavily in public education and skills development. These countries provide another clear example of government choices that have shaped labor relations systems and workplace outcomes.

At the same time, labor relations and market policies in advanced industrialized countries can be grouped in distinct clusters. One well-known distinction that has been noted is between liberal market economies and coordinated market economies.¹ Liberal market economies such as the United States, Great Britain, Canada, and Australia have fewer labor market regulations, stress competition across firms, and favor decentralized collective bargaining structures; coordinated market economies such as Germany and Scandinavian countries have more labor market policies protecting workers, emphasize coordination of training and other practices among companies, and favor industry or regional bargaining structures. Other research reveals common trends in advanced industrialized economies yet also shows a continuing role for national institutions.² Variations are also apparent within countries in the relationships that exist between employers and unions. Some firms have adopted sophisticated human resource management and collaborative labor relations systems while other firms continue to use low-end bureaucratic strategies. Thus, room still appears to exist for a country to shape a distinctive national system of labor relations that fit its values, form of government, political

environment, and economic policy goals. The difference today is that public policies are visible on a global stage—to potential investors, to NGOs and advocates for human rights, and, with the help of social media, to a growing number of citizens and consumers within and across national borders.

Countries thus have the discretion to shape their labor relations policies and institutions within the constraints of a global economy and global expectations about basic human rights in the workplace. This perspective will guide our discussion of government policy.

DEMOCRATIC VALUES AND LABOR RELATIONS

We begin our analysis of government policies by recalling the International Labour Organization's list of fundamental workplace rights, introduced in chapter 3. They call for bans on forced labor, child labor, and discrimination and for support of freedom of association. These are bedrock, universal principles that all countries, regardless of their level of economic development, are expected to meet, in terms of both the content and the enforcement of their labor relations policies. They apply to all types of workers, including migrants, those in the informal sector, contractors, and those in standard employment relationships. These principles serve as a moral foundation for labor relations policies.

The first three of these fundamental rights focus on substantive terms and conditions of employment. The fourth, protecting freedom of association, requires attention to labor-management interactions. The fourth right reflects a normative premise, introduced in chapter 1, that conflicts of interest are an inevitable and enduring feature of all employment relationships. Care must therefore be taken to ensure that workers have the freedom to act in their interest so they can gain a voice in determining their wages, hours, and working conditions.

Protecting freedom of association requires acceptance of some degree of workplace conflict. This is a critical defining feature of a democratic society, one that is often the first to be suppressed by totalitarian regimes. Yet no economy or society can tolerate violent or unlimited levels of workplace conflict. Thus, with freedom of association comes a need to build policies, institutions, practices, and social norms for negotiating and resolving conflicts and for protecting the interests of the third parties (e.g., customers, students, citizens) that may bear some of the costs of excessive conflict in labor relations.

Achieving the right balance between the expression of and the resolution of conflicting interests is a critical function of a nation's labor relations policies. There is no objective or single criterion for determining what the right

balance should be. This is often a contested issue among policy makers, labor movements, employer interest groups, and citizens at large. Thus, we do not propose a single best solution to this policy issue; instead, we outline the range of choices different countries draw upon to find the balance most appropriate to their economic and political systems and circumstances. Understanding the range of choices allows policy makers in a given country to experiment with different approaches and to modify them as their economy changes and develops.

ECONOMIC DEVELOPMENT POLICIES

As noted in chapter 1, the economic environment has a significant effect on work practices. In turn, the labor relations policies of a country have an important bearing on its economic development. John Dunlop's industrial relations systems framework views labor relations policies as a subset of the broader economic policies of a nation. According to Dunlop, this is true at all stages of economic development. Indeed, there is significant evidence to suggest that labor relations policies influence the ability of a national economy to move up from one stage of development to another. We will focus here on the particular problem all emerging economies face (some more successfully than others), namely the challenge of moving from competing in global markets by having the lowest labor costs to competing on the basis of innovation, advanced technologies, and a highly skilled work force.

From Low-Cost to Middle-Income Stages

Ever since Adam Smith's classic text *An Inquiry into the Nature and Causes of the Wealth of Nations* was first published in 1776, the starting point for analyzing the relationship between economic development and labor relations policy has been the theory of comparative advantage. A country needs to identify what products and services it can provide more efficiently than competing countries and then structure policies to promote and support those types of work. While too often this simple proposition has led emerging countries to focus on the advantage of maintaining lower wages than in other countries, modern theories of comparative advantage no longer view this as a sufficient strategy for supporting sustainable economic growth and development.

Low labor costs can attract initial interest and consideration from foreign investors, but as the sole focus of a national policy, it will not promote sustained foreign investment or growth of the domestic economy over time. A focus on low labor costs leads to a lack of innovation, flexibility, and skill generation. Focusing solely on keeping labor costs low often results in

severely limiting workers' rights and tolerating labor practices that do not meet basic ILO standards or the expectations of global citizens. Fostering steady economic development and implementing acceptable labor standards require policies that support broad-based education, the development of work force skills, and the implementation of labor relations policies that support productive and collaborative labor-management relations.

Many countries that started their development with a low-labor-cost strategy have had a difficult time making the transition to a more comprehensive economic development approach. This becomes particularly troubling at the point when labor costs begin to rise relative to those in economies that are less developed. This is sometimes referred to as the "middle income" trap.³ Yet some countries, such as the four Asian tigers mentioned earlier, have successfully transitioned to a comprehensive economic growth strategy. There are undoubtedly many reasons for this, but one important reason is the priority these countries have placed on education and work force development.

Singapore is often used as the showcase example (see table 12.1). It has invested heavily in universal public education and in vocational training. The

Table 12.1. History of productivity-related organizations in Singapore

<i>Period</i>	<i>Organizations</i>	<i>Description</i>
1964	Productivity Unit, Economic Development Board	Created Charter for Industrial Progress and productivity "Code of Conduct"
1967–1972	National Productivity Center (autonomous division within the Economic Development Board)	Created Tripartite Interim Management Committee to prepare plan for a National Productivity Board
1972–1995	National Productivity Board (statutory body initially affiliated with the Ministry of Labor and later with Ministry of Trade and Industry)	Worked in tandem with Singapore Productivity Association
1996–2001	Productivity Standard Board (government body affiliated with Ministry of Trade and Industry)	Built awareness, promoted compliance with international standards for quality and productivity in industry
2002–present	Standards, Productivity, and Innovation Board (SPRING)	Successor agency to all of above that disseminates information, provides advice on best practices, and encourages use of internationally accepted quality, safety, and other standards throughout industry

Source: For current activities of SPRING, see <http://www.spring.gov.sg/RESOURCES/Pages/e-Newsletters.aspx#.U1gqhfdWSo>.

government has created a number of centers within its Manpower Ministry that disseminate information about state-of-the-art productivity, quality, leadership, and other practices that are essential to building what we referred to in chapter 5 as human resource management systems. Most of these have been tripartite, including representatives of employers, unions, and academic experts who work to advise government policy makers on the actions that are needed to help the economy develop and utilize its human resources. Yet even in Singapore, as discussed in box 4.2, migrants appear to be poorly treated and protests have surfaced. This shows that the policies of a country may be innovative on certain economic and social issues but be deficient in other policy areas.

Promoting a High-Value Economy: The Role of Labor Relations Policies

Labor relations policies are central to supporting or hindering the transition from a low-wage to a higher-value-added economy. Suppression of workers' rights, suppression of collective negotiations, or highly adversarial collective negotiations tend to lead to periodic violent workplace protests. This labor relations dynamic makes it difficult for skill-generating strategies to emerge. They also make the environment less attractive to international investors. That is why countries such as Singapore and, more recently, Korea have encouraged tripartite consultations and partnership among representatives of what they and many countries in Europe refer to as the "social partners"—labor, management, and government.

Japan and many European countries relied heavily on social partnerships as they rebuilt their economies and societies in the aftermath of World War II. The national-level dialogue that took place among these social actors in the crisis period helped promote negotiated consensus and compromises on wage policies, which in turn kept wages from fueling inflation or falling too far behind rising costs of living (and thereby avoided a growth in income inequality). This social partnership approach also helped build support for the expansion of "safety net" policies such as unemployment insurance, pension plans, and health insurance.

China is perhaps the most visible country that is currently facing the challenge of the middle-income transitional. After experiencing double-digit growth rates for over a decade by attracting foreign investors to take advantage of an abundant supply of low-wage workers, it now finds its labor costs rising faster than in neighboring countries such as Bangladesh, Vietnam, and Cambodia. At the same time, China's one-child family policy, which has carried over from an earlier era, is now contributing to the tightening of labor

markets. Recognition of this problem led the Chinese government to relax its one-child policy in 2013. Tighter labor markets will increase the significance of workers' demands for voice at the workplace, improved wages and working conditions, better representation, and bargaining structures. China's great challenge lies in finding how to channel what are very likely to be continuing labor protests into a stable labor relations system in order to bring about productive and fair workplace outcomes.

South Africa faces a related but somewhat different economic and political environment. It has a long history of collective negotiations in a number of industries. At first, the agreements that resulted applied only to white workers, but they rapidly spread to black workers as apartheid ended. The close links between the black trade union federation (COSATU) and the post-apartheid government gave great hope that South Africa's labor relations policies and practices would be well aligned with its national economic policies. A National Economic and Development Council, which includes representatives from government, business, and labor, was created to help achieve this vision. Nearly two decades after the end of apartheid, however, South Africa is experiencing declining levels of unionization and growing conflicts and divisions within its labor movement that have fueled several violent workplace conflicts, as noted in chapters 2, 6, and 8. There is also a growing gap in South Africa between the centralized industry-level structures that were set up to support collective negotiations and the harsh reality on the ground in specific workplaces.

Addressing these issues will be critical to South Africa's economic future. That is why some experts in South Africa are calling for greater flexibility in centralized negotiations. Others are working hard with union leaders to resolve internal union conflicts. They are also advising companies and unions about how to build labor-management partnerships. Failure to reform labor relations practices will deter foreign investment and increase export costs in South Africa. The latter is an especially acute problem for that country's resource-intensive industries. The success of these efforts will have a significant effect on South Africa's future economic development and quality of life.

Brazil is further along in this transitional process and yet is also experiencing increased work force protests over high prices and low wages and the high level of income inequality that has characterized its economy for years. As noted in chapter 6, it has a highly developed labor relations system with wage-setting structures that spread wage patterns across firms within industries and regions. Like China and India, Brazil has benefited from strong economic growth over the past decade. The key challenge facing Brazil's labor relations system is whether it can use its regional and industry-wide collective

negotiations processes to help middle-class workers cope with rising living costs. More broadly, Brazil will need to maintain the support of labor and business as it seeks to control price increases, return to a solid pace of economic growth, and maintain social stability.

India's decade and a half of strong economic growth (which averaged about 8 percent per year from the mid-1990s through 2010) has recently slowed somewhat, but it remains a significant competitor for jobs in the service, information technology, and related sectors that have been outsourced from more advanced economies. The large numbers of literate English-speaking citizens in India gives it a significant advantage in attracting work that involves direct communication with global business partners and customers. As a result, jobs in India's information technology and service industries that require college degrees and English-language fluency have contributed to the country's path of strong economic growth.

Yet these advantages have not reduced the high level of income inequality and poverty in this vast country. Nor have they reduced the share of the population working in the informal sector. Labor relations in the formal sector also are increasingly dominated by management actions, most of which are hostile to unions and collective negotiations, even among MNCs in traditionally highly unionized industries such as the auto industry. A relatively new group, the Confederation of Free Trade Unions, is organizing workers in India's informal sector and is estimated to have about 600,000 members out of the over 370 million informal workers in the country.

Thus, India's labor relations system has yet to find its role in helping move the country forward on its economic development path. Increasing union or NGO representation in the informal sector could contribute to reducing inequality and poverty and reinvigorating unions and collective negotiations. This approach also might overcome employer hostility toward unions and shift collective negotiations to a more cooperative direction in the formal sector.

From a Middle-Income to a Knowledge-Based Economy: The Example of Singapore

The economies that have successfully transitioned through and beyond the middle-income stage often they have set their sights on becoming world-leading knowledge-based economies. As noted in box 12.1, Singapore aspires to become the talent capital of Asia, if not the world. Being competitive in today's knowledge-based economy requires policies and workplace practices that go well beyond protecting and enforcing minimum employment standards. We have covered many of the individual elements of a policy agenda

that promotes productivity growth, innovation, effective use of advanced technologies, and collaborative labor relations. With the example of Singapore, we emphasize the linkages among these elements to suggest how they might fit together to form a proactive strategy for promoting and supporting a knowledge-based economy.

BOX 12.1

Singapore as a Home for Talent

For a small country like Singapore, acquiring and nurturing human talent is a matter of survival. Without much of anything else, we rely on human ingenuity and effort to build our economy and society. We have therefore made major investments in education, lifelong learning and talent development. . . .

Singapore does not exist in isolation. We live in a globalised world. People move from one country to another, and talent is especially mobile. Talented individuals see Asia as one playing field. They often work in multiple places, gaining experience and raising their own value, but also spreading ideas and expertise across the region, and creating valuable inter-linkages between our various economies. No country can monopolise or lock in their human capital. What Singapore can do, and tries to do, is to make ourselves stand out as an exciting and inviting corner of the world. In other words, we want to be a Home for Talent.

Source: Excerpt from speech by Prime Minister Lee Hien Long to the Singapore Human Capital Summit, September 29, 2009, http://www.pmo.gov.sg/content/pmosite/mediacentre/speechesinterviews/primeminister/2009/September/speech_by_mr_leehsienloongprimeministeratthesingaporehumancapita.html.

High-Quality Basic Education

As noted earlier, Singapore's strategy began with high-quality basic education for all children and access to lifelong education and work force development for adults. A knowledge economy requires a work force that is literate and able to use mathematics and statistics, adapt information and other technologies, use basic scientific methods to solve problems, and work together in teams. In turn, this requires that teaching and learning go beyond rote memorization of facts and mathematical and scientific rules. A knowledge-based

economy needs an education system that instills the ability to learn through experimentation with peers and from expert teachers and the ability to communicate and apply fundamental principles to new problems. Adapting to this twenty-first-century style of teaching and learning is a challenge for countries with cultures that have historically valued respect for elders (i.e., teachers). Box 12.2 illustrates how one school in Singapore is using these new principles to support its nation's economic development objectives.

BOX 12.2

Teaching Creativity in Singapore

The Haig Girls' School in Singapore is a prime example of a school that has a clear mission of fostering creativity and innovation in their students. At this elementary school, teachers have developed common criteria to monitor their students' progress in critical thinking and in creative thinking.

The Haig Girls' School often asks students to engage in innovative activities to promote inventive thinking. For example, when teachers asked students to participate in a collective brainstorming activity, a small group of pupils developed an inventive way to close an umbrella. The students wondered, why use two hands to fold your umbrella and risk one of them getting wet when you could do it with just the one hand holding the handle? The girls decided that to speed up the closing process and keep both hands dry, the snap fastener on the small band that is generally rolled around the fabric to fasten the umbrella tight should be replaced with a magnet. This activity allowed the students to engage in creative thought and come up with a solution to a problem.

More broadly, Singaporean schools have changed their national exams to incentivize teachers and students to focus more attention on creative skills. Altering the way students are assessed has led teachers to be more precise and confident in developing their pupils' creative skills and learners to be better able to understand what creativity entails and to record evidence of their progress. Such tools are an important step in raising daily awareness of thinking skills and creative skills and seeing them materialize in school learning.

Source: Stéphan Vincent-Lancrin, "Creativity in Schools: What Countries Do (Or Could Do)," *Education Week*, April 23, 2014, http://blogs.edweek.org/edweek/global_learning/2013/04/creativity_in_schools_what_countries_do_or_could_do.html.

Lifelong Learning

Education should not stop when a young adult graduates from whatever level of formal schooling he or she completes; rather, education must be lifelong. Lifelong learning is often viewed as an aspiration for knowledge-based economies, but this goal is difficult to achieve in practice. One of the reasons is that no single employer has an incentive to invest in the education and training of its work force if other employers are not making similar investments. A single employer that does so risks paying the costs of work force development, only to see others to reap the benefits by hiring away the newly skilled workers.

Knowledge-based economies can solve this problem by getting employers in a region and/or industry labor market to collectively invest and share the costs of training and work together with educational institutions (colleges and universities, vocational and technical schools, unions that provide occupational and professional training programs, etc.). Governments can do their part by funneling whatever public funds are available for adult education and training into these types of joint programs. Germany has often been held up as a best-case example of this type of vocational and technical education. In this system, unions, employers, and vocational schools work together to establish the curriculum and certification requirements for approximately 400 occupations. Germany's apprenticeship training system is described in box 12.3.

BOX 12.3**The German Vocational Education and Apprenticeship System**

In Germany, training for many vocations is provided by means of a dual program of training and education. Apprentices spend three to four days a week at a company that provides vocational training in the practical skills required for their field of work. The remaining one or two days are spent at a vocational school, where apprentices receive a theoretical grounding in their future job.

Depending on the vocation and the level of basic knowledge, an apprenticeship lasts between two and three-and-a-half years. During this period, apprentices receive a training allowance from their company. On average, this is around €650 a month, depending on the field of work. Those who successfully complete their training are often taken on permanently as skilled workers by the company that trained them.

In addition, if they perform well in the workplace, they have the opportunity to train further to become a master craftsman or a state-certified engineer and then to rise to a managerial position in the company or set up in business and become self-employed. Many prominent people, including former German chancellor Gerhard Schröder, began their career with a course of vocational training.

Source: "Vocational Training in Germany," Make It in Germany, <http://www.make-it-in-germany.com/en/working/prospects-in-germany/vocational-training-in-germany/>.

While other countries need not copy the German system exactly, some functional equivalent tailored to a nation's particular institutional arrangements is needed to support a knowledge-based economy. In the United States, for example a significant number of unions and employers in industries such as construction, health care, manufacturing, and hotels negotiate and sometimes jointly manage apprenticeship and other training programs that provide access to jobs and career development. Other countries, such as France and Korea, have at various times required employers to pay a training tax that is waived if the employer invests an equivalent amount in training its workers.

These training and lifelong learning systems are part of a collaborative and modern labor relations system. The more unions and professional associations can play a role in the lifelong training, development, and supply of skilled workers, the more sustainable they will be and the more they will be able to use the knowledge of their members as a source of power for advancing their interests.

WORK-FAMILY POLICIES

Investments in education and training will realize their maximum return only if all members of work force—men and women, the young, the middle-aged, and seniors—are given the opportunities to integrate their work and personal or family lives over the course of their careers. Thus, work and family policies are central to a successful knowledge-based economy. Korea, for example, is a clear illustration of a society that has a number of male-dominated traditions that need to change for social and economic reasons. Private sector and government leaders recognize this challenge and are working to address it. The Korean government is now fostering a national dialogue over how to better accommodate the needs of working parents in order to more fully utilize the

heretofore underutilized knowledge and skills of its female work force.⁴ Private groups are also promoting this objective. A network of over 200 businesses organized as the New Paradigm Institute actively promotes the expanded use of both flexible work-family practices and lifelong learning in order to promote further economic development through better human resource management of both men and women.⁵

Most advanced industrialized countries (the United States excepted) have some form of paid family leave that supports parents who take time out of the paid labor force to care for their children or aging parents. This is a necessary element of a comprehensive set of work-family policies and practices. Changing workplace cultures to support flexibility in careers and working hours is an equally big challenge. Here again, we see the value to be gained from linking work-family *policies* to labor and management *practices*. A research center at the University of California, Berkeley, the Labor Project for Working Families, is a strong advocate for bringing work and family issues directly into collective bargaining. Box 12.4 describes some of their work.

BOX 12.4

The Labor Project for Working Families

The Labor Project for Working Families at Berkeley promotes progressive work-family initiatives through collective bargaining and other provisions. The project encourages employers to adopt services that provide employees with more work-family benefits. These services include adoption assistance programs, legal services, tuition assistance, and professional development programs. Work-family provisions cover a range of benefits that include expanded coverage, benefits that promote physical well-being (gym memberships and smoking cessation programs), retiree benefits (pensions, 401Ks), and adoption benefits (a cash benefit or reimbursement to offset the costs of adoption).

The Labor Project for Working Families also promotes a progressive childcare program. Provisions regarding childcare cover a wide variety of programs that include subsidies and stipends for care that is provided in licensed childcare centers, by a family childcare provider, or by an informal caregiver. Parents with school-age children who work regular overtime or weekend shifts can also receive extended house care, before/after school care, holiday and summer care, emergency care, and so forth.

Through the Labor Project unions can bargain to form a wide range of committees that provide advice and oversee the development of a work-family program for employees. The project also assists unions by providing model contract language on a variety of issues such as defining the term "family" to help determine who employees can use their leave for or which family members are eligible for benefits and provisions for elder care, flexible work schedules, and language permitting workers to take time off to care for their families, deal with emergencies, or recuperate from a serious illness.

Source: LEARN, "Understanding Work Family Benefits," http://www.working-families.org/network/pdf/understanding_12.pdf.

LABOR RELATIONS STRATEGIES THAT PROMOTE A KNOWLEDGE-BASED ECONOMY

A nation that aspires to have a knowledge-based economy also needs to deploy a conscious labor-relations strategy. In some ways this represents the frontier of labor-relations policy and requires greater experimentation. Ways that governments can support knowledge-based labor relations practices and relationships include encouraging unions and professional associations to (1) view knowledge as a key source of power by sponsoring occupational training and lifelong learning and continuous updating of skills; and (2) providing information on job vacancies, serving as a supplier of skilled labor to employers (as many craft unions do), and negotiating for joint training funds and programs for their members. Government policy makers can also facilitate regional and/or industry-level labor-management efforts to provide education and training programs. They can also disseminate research and other information on state-of-the-art workplace practices—the human resource management systems described in chapter 5. As noted in chapter 7, mediation agencies can work directly with unions and employers in using interest-based negotiations and problem-solving processes, as they are now doing in Britain and the United States. All of these are ways governments can foster modern labor relations systems that support and advance a knowledge-based economy. Undoubtedly we will see further experimentation with ways to do this in the years ahead.

Employment Standards

All countries face the task of setting minimum standards for the terms and conditions of employment, beyond those included in the ILO core principles.

These include standards related to safety and health; minimum wages; limits on working hours or compensation for longer daily or weekly hours; safety net features such as health insurance, unemployment insurance, and workers' compensation for people injured on the job; and retirement pensions. The ILO provides technical assistance to countries seeking to assess and/or upgrade each of these employment standards. Its annual *World of Work Report* provides benchmark data for countries in different regions and at different levels of economic development.⁶

Some countries, such as the United States, establish relatively low minimum conditions for employment standards and leave it to collective bargaining and the human resource practices of employers to go beyond these minimums. Others, such as many countries in the European Union, require higher standards. France, Germany, and all of the Scandinavian countries, for example, have minimum wages that are closer to the country's median wage than is the case in the United States. Still others, again most notably countries such as Germany, Sweden, France, and Denmark, require that the wages and some other benefits negotiated by leading unions and employers be extended to other companies and employees within that union's industry. These are often referred to as extension agreements. South Africa has adopted this practice, but now it is under pressure from some employer groups to weaken or abandon it.

As in South Africa, the coverage and the levels of workplace standards that employers are required to meet are often highly contested areas of public policy. Going too far (e.g., China's "iron rice bowl" of an earlier era) requires significant government subsidies, perpetuates labor market rigidities and inefficiencies, and limits investment and economic growth. Doing too little means that employment conditions may fall below accepted social and ethical norms, possibly leading to tragedies of the sort that occurred in Bangladesh when a building collapsed, as discussed in chapter 9, and/or work force protests.

Some Scandinavian countries have tried to overcome this trade-off with what has been called "flexicurity" (i.e., flexibility and security) strategies.⁷ These involve relatively high levels of benefits and standards but few limits on the laying off workers. In these countries, extensive labor market policies help unemployed workers get training and find new jobs.

The coverage and levels of workplace standards and benefits have, as noted earlier, been scrutinized and often curtailed by international agencies as a condition of loans or other assistance. Such structural adjustment policies aim at increasing labor market flexibility, but these policies have come under increasing criticism for failing to provide anything more than short-term reductions in government spending (see the discussion about recent events in Greece in chapter 10). This suggests that if national policy makers become

involved in negotiations with international agencies, they need access to good data and accurate analysis of the costs and benefits of their employment policies and how their policies fit into the nation's growth strategy and its overall social system.

Enforcement of Employment Laws

Many emerging countries have been criticized for having relatively strong but poorly enforced labor laws.⁸ Box 12.5 describes a tragic example of this in Guatemala, where the failure to enforce basic labor rights that were embodied in a regional trade agreement resulted in the death of several union activists.

BOX 12.5

Labor Unions Call for Arbitration Panel to Protect Workers' Rights under CAFTA-DR

On October 22, 2013, the AFL-CIO and Guatemalan trade unions called for an arbitration panel to be instituted in Guatemala to enforce labor laws under the Dominican Republic–Central America–United States Free Trade Agreement (CAFTA-DR). In a letter to the U.S. Department of Labor, U.S. trade representative Michael Froman, and the Guatemalan ministers of labor and economy, U.S. and Guatemalan labor unions said that the CAFTA-DR labor rights enforcement plan that was signed in April 2013 has been a failure and does not protect Guatemalan workers adequately. The enforcement plan, signed by both the U.S. and Guatemala governments, was made to resolve a labor case brought under CAFTA-DR in 2008.

The AFL-CIO and Guatemala labor unions are concerned that even if the enforcement plan were to be implemented perfectly, it would remain inadequate to create the rule of law and a culture of compliance with international standards and to protect fundamental workers' rights.

The letter described six killings of trade unionists in Guatemala in 2013, one of them after the plan went into effect, and numerous incidents of judicial and administrative noncompliance with the enforcement plan. The letter also cited fifty other killings of Guatemalan trade unionists and described the harassment, abuse, and denial of basic workplace protections thousands of Guatemalan workers have endured during the five years since the first labor complaint was filed in 2008 under CAFTA-DR.

The eighteen-point labor rights enforcement plan includes requirements that Guatemala strengthen labor inspections, provide a comprehensive consultative process to give workers a voice in the implementation of the plan, publish information about labor law enforcement, improve the monitoring and enforcement of labor court orders, create a verification unit to confirm whether employers are complying with court orders, transfer prolonged cases of employer noncompliance to the criminal justice system, and train judicial officials about the details of the enforcement plan.

Source: Susan R. Hobbs, "Labor Unions Call for Arbitration for Worker Rights Protection under CAFTA," *Daily Labor Report*, October 25, 2013, A-11. For the text of the letter, see AFL-CIO Guatemala to U.S. Trade Representative Michael Froman, U.S. Secretary of Labor Thomas E. Perez, Carlos Contreras Solorzano, Ministro de Trabajo y Previsión Social, Ciudad de Guatemala, and Sergio de la Torre, Ministro de Economía, Ciudad de Guatemala, <http://op.bna.com/dlrcases.nsf/r?Open=shos-9ctn4r>, accessed May 6, 2014.

Alternative Ways to Enforce Labor Standards

Traditional enforcement of labor standards related to issues such as safety and health or wages and hours has relied on what some call a command-and-control model. In this model, the law defines the required minimum standards and employers are expected to meet them. Labor inspectors periodically check up on employers or follow up on workers' complaints to assess compliance. If violations are found, a monetary penalty/fine is assessed and employers are ordered to bring their practices into compliance. Appeals of these assessments can usually be challenged in court. Some countries establish specialized labor courts to handle cases related to employment; others allow appeals to be heard in the country's regular court system that handles other civil or criminal cases.

The limitations of this command-and-control model have been the source of much recent attention. The criticism includes the fact that no country will have sufficient budget resources to hire enough inspectors to serve as a strong deterrent to noncompliance. Furthermore, inspections are rare events and when they do occur, whether they are announced to the employer in advance or are unannounced, they often do not cover the entire workplace or all the workplace standards involved. This is even more difficult in settings where inspectors are charged with enforcing *all* employment laws rather than just one particular law (e.g., a law about safety and health or one about wages

and hours). Others feel that the fines imposed when infractions are uncovered are too small to deter violations or to incentivize better compliance.

These and other problems have led to a host of proposals for alternative approaches to enforcing employment standards. One approach stresses the value of combining training for employers to show them how to improve their business operations and employment standards with monitoring of compliance—a carrot-and-stick strategy. This has proven to be quite effective in a number of Latin American countries, including Brazil and the Dominican Republic.⁹ Other analysts have shown the value of engaging with civil society organizations and/or unions to help enforce government regulations.¹⁰ The advantage of engaging these groups is that it creates an ongoing presence at the workplace. The U.S. Occupational Safety and Health Administration provides incentives for employers to follow best industry practices in return for freedom from random inspections. Companies must achieve and sustain performance outcomes that put them well above minimum legal compliance in order to retain this special status.

The advantage of these approaches is that they build and sustain capacity and commitment to enforcement on the part of employer and labor representatives and therefore offer the promise of more sustainable enforcement and continuous improvement in practices. An enforcement menu approach has the special virtue of allowing employers and workers to choose the most efficient way to achieve good results.

It is also important that approaches to enforcing employment standards provide effective, fair, and trusted dispute resolution procedures for individuals who experience violations of their individual or collective workplace rights. The principles for effective internal dispute resolution systems, mediation, and arbitration processes discussed in chapter 7 should be built into these enforcement strategies.

Informal Work

One enormous challenge most emerging countries face is the high proportion of workers in the informal sector. While it is hard to estimate the size of the informal sector, as discussed in chapter 4, the informal sector in emerging countries is clearly very large. One study even provides evidence that the informal sector has been growing in recent years in many emerging countries and attributes this increase to pressures emanating from structural adjustment policies (i.e., privatization and labor market deregulation) imposed by the international agencies as conditions for loans.¹¹

There is no single strategy for improving working conditions in the informal sector. The most common is to try to bring standard employer-employee

relationships to informal economy jobs and thereby cover these workers under existing employment laws. Another strategy is to encourage unions to represent informal workers or to form coalitions with NGOs that do so. A third strategy is to encourage or require certification and/or licensing of, for example, construction workers and contractors, street vendors, or professional service providers in the health, information technology, legal, and real estate sectors.

Migrant Labor

Another challenge relates to the migration of workers from rural to urban areas and/or the flow of migrant workers into or out of a country (see the discussion of migration in China in chapter 4). Much of the cross-border flow of migrants is the result of political and/or religious conflicts that force families to flee war-torn regions and nations. Other cross-border and internal migration is attributable to the movement from agricultural to industrial work during the process of industrialization. Still other incentives for migration come from highly industrialized countries that lack enough workers who are willing to do low-wage work (in agriculture, construction, or domestic service, for example). At the other end of the skill distribution, some countries seek to attract migrants with specialized skills that are in short supply (i.e., nurses, information technology specialists, and software engineers).

Migrants face a host of social and economic difficulties and exploitative work experiences that are extremely hard to monitor and remedy. This is especially so for migrant workers who cross borders illegally. They live in fear of being deported if they complain of poor treatment or illegal employment practices.

Often labor brokers, individuals or organizations that offer to supply migrants with jobs for a fee or offer to supply employers with the number of migrant workers needed to complete specific tasks (such as a construction project or the harvest of a crop), are important actors in these migratory flows. Some labor brokers exploited and abused workers. Efforts to regulate brokers through licensing requirements are difficult because many operate in highly clandestine ways. Thus, as is the case with workers operating in the informal sector, no single enforcement strategy will work to address the numerous risks associated with migrant work. China, for example, passed a Contract Labor Act in 2008 to protect migrant workers from the worst abuses. In 2013, China took another step toward integrating migrant workers into its biggest cities by eliminating rules that excluded migrant workers and their families from the social welfare policies and benefits covering permanent residents in these cities. Research shows that in order to address these problems, governments

need to integrate the enforcement of employment policies with the enforcement of immigration laws.

ACCOUNTABILITY IN GLOBAL SUPPLY CHAINS

Throughout this book we have emphasized the growing importance of global supply chains that involve multiple buyers and sellers (suppliers, contractors, MNCs) and, increasingly, international agencies such as the ILO, NGOs, and global and local unions. This is a rapidly evolving arena for global labor policies. What is needed are improvements in labor standards both for those who work directly in these supply chains and those who work in other domestic firms that compete for the same workers.

Let's briefly review the evolution of practice (and debates) related to how to monitor and improve working conditions in global supply chains. The pressure for improvement in these supply chains has come from NGOs that expose violations of core labor standards. Often it has taken tragic examples of the consequences of violations to draw attention to an issue and spark action. At first, MNCs that purchase goods through supply chains argued that it was not their responsibility to enforce basic standards since they did not directly employ the affected workers (see chapter 11). Instead, these MNCs initially argued that this was an issue for local suppliers and governments in the emerging countries. Few companies still hold this view. Over time, companies developed global labor policies as they came under intense pressure to accept responsibility for the work conditions in their suppliers, and they also came to recognize the strategic importance of their sourcing and marketing strategies. A third phase came as leading companies developed codes of conduct and began experimenting with various ways of monitoring: some companies do their own monitoring, others use outside professional consultants, other monitor in collaboration with independent NGOs, and others combine the latter two methods.

A fourth phase is now in play that is being led by companies, unions, the ILO, and the governments of Cambodia and Bangladesh. This newest approach involves a multiparty and multifaceted strategy that combines two elements:

1. Reforms of national labor laws and enforcement regimes to bring the country into compliance with the ILO's core labor standards, including freedom of association and collective negotiations
2. Multi-stakeholder negotiations and agreements involving MNCs, international labor organizations and NGOs, and the ILO on

substantive standards, education and technical assistance for local suppliers, monitoring and enforcement mechanisms, provisions for joint consultation, and arbitration of disputes related to enforcement and compliance

The Accord on Fire and Building Safety governing the apparel industry in Bangladesh that was discussed in chapter 11 is an example of this type of multi-stakeholder approach.¹² This accord is notable for its comprehensiveness: it covers all levels of apparel suppliers (called tier one, tier two, and tier three suppliers); it provides a joint governance structure that includes NGO and union representatives, representatives of the MNC, and representatives of local suppliers; it combines inspection with technical assistance, training, and education; and it provides for arbitration of disputes that arise over its implementation. It is funded by MNCs based on the size of their supplier base in Bangladesh.

Not all MNCs are willing to join this type of multi-stakeholder accord. Walmart, Gap, and some other U.S.-based MNCs have resisted doing so because of their opposition to engaging directly with unions and their fear of excess litigation. Instead these firms have created their own enforcement improvement programs and have promised to provide substantial funds to support them.

At the same time, there are many impediments to effective and widespread enforcement of building codes and safety measures in Bangladesh, as is the case in many other emerging countries. Time and follow-up research will tell which, if any, of the various approaches is successful in improving and monitoring labor conditions in global supply chains. What is clear, however, is that it is now an accepted principle that all stakeholders share responsibility for meeting basic standards and for contributing human, financial, and organizational resources to improving them. This provides an opportunity for government policy makers in emerging countries to use the influence and resources of the various stakeholders to help shape and enforce employment policies and standards.

BEYOND GOVERNMENT POLICY: BUILDING CAPACITY FOR EFFECTIVE LABOR RELATIONS

In many countries the role of government policy is not limited to enacting and administering sound legislation and workplace regulations. A growing number of government officials recognize the need to promote effective, state-of-the-art labor relations practices and be actively engaged in efforts to

foster innovation and improvement. We review a number of examples that illustrate how government can serve as a catalyst for innovation in labor relations.

As noted earlier, many countries have created national tripartite forums that involve representatives of government, management, and labor to promote dialogue, consultation, and, in some cases, joint actions to address key economic and labor relations issues. These forums were widely used in European countries in the decades following World War II. They dealt with broad topics such as wage levels and labor market and social welfare policies. Some of these tripartite efforts atrophied and were abandoned in the 1990s, but a number have since begun to reappear to take on specific challenges such as those associated with pension and retirement reforms.¹³

In countries that have decentralized labor relations systems, such as the United States, the use of formal national tripartite structures is more limited. In those countries, tripartite forums have been mostly used in time of war or during other crises as a means of minimizing strikes and controlling inflation.

In the aftermath of the 1997 Asian financial crisis, Korea established a tripartite national structure to seek consensus on wages, employment adjustments, employment security, and related issues. This represented a major departure from past practice in Korea and produced mixed results. Divisions within both business and labor made it difficult to get all the factions represented and participating in the national structure, and this made it hard to implement and enforce the agreements that were reached in the national deliberations.

Yet the need for a national dialogue has persisted in Korea. In 2013, the newly elected government announced a national-level Tripartite Jobs Pact that was signed by business, government, and union leaders. The objective of the agreement is to reach a 70 percent employment-to-population ratio. Its provisions focus on the needs of small- and medium-size enterprises, young workers, and part-time workers. Government leaders see the Jobs Pact as the first of a series of national tripartite discussions aimed at addressing key contemporary labor issues, including building a positive culture for labor relations, fostering lifelong learning, shortening work hours, lowering the retirement age, improving productivity, and fostering a better trade-off between wages and employment security.¹⁴

While dialogue in national-level forums such as these can be useful in establishing or reinforcing a norm of cooperation among business, union, and government leaders, efforts are also needed to build labor relations capacity at the industry, regional, and enterprise levels. Informal and formal structures and processes have been used in different countries to build such capacity. In

the United States, for example, the growth of unions and increased strike activity after World War II led to the creation of labor relations education and research programs in major universities. These growth of unions and increased strike activity also motivated academics and practitioners to form new professional associations such as the Industrial Relations Research Association (later renamed the Labor and Employment Relations Association) and the National Academy of Arbitrators. These university and professional programs helped build a generation of well-educated, well-trained, and (eventually) experienced professionals who shaped the development of human resource and labor relations policies and practices and a broad range of government labor and employment agencies. These individuals went on to serve as third-party neutral mediators, arbitrators, and facilitators. Building a stock of business, union, government, education, and research experts who interact and discuss issues of common interest is an important task for any labor relations system.

Summary

This chapter stresses the importance of adapting employment and labor relations policies as a nation's economy develops. While there is no one best way or universal solution to these challenges, several generic principles apply. The first relates to the critical role of the ILO's Declaration on Fundamental Principles and Rights at Work. These principles and rights need to be honored at all stages of economic development. They become even more important as an economy develops and domestic citizens and global observers demand better enforcement of fundamental rights and fair working conditions. Second, attention to education and human capital development is absolutely essential for a higher-value-added, knowledge-based economy. Third, development of labor relations institutions is essential. Policies need to be put in place to generate high-quality worker representation processes, state-of-the-art collective negotiations mechanisms, problem solving and dispute resolution systems, collaboration between labor and management, and industry- and national-level consultation or tripartite institutions.

These institutions cannot be molded in cookie-cutter fashion. They have to be adapted to fit the national culture and political history and context of a country. In South Africa, for example, the history of racial divisions and tensions cannot be ignored as that country shapes its next generation of labor relations policies. In China, the legacies of a state-run economy and unions controlled by the Communist Party must be addressed. In Brazil, controlling the rate of price increases and reducing the gaps between the urban rich and the rural and urban poor are essential to that country's future economic

growth and social stability. In India, the enormous number of people and families still living in abject poverty and surviving in the informal economy are particular challenges.

Other countries face their own challenges and legacies. The universal challenge for policy makers is to shape the institutions discussed in this book in ways that take into account but are not trapped by their national customs, cultures, and political traditions.

Discussion Questions

1. What aspects of national labor and employment policies remain in the control of an individual country? What features are largely dictated by global competitive pressures and/or by internationally accepted labor standards?
2. Why is it difficult for an emerging country to make the transition from emphasizing its advantages as a low-wage country to a strategy that emphasizes higher value added?
3. What are some of the common problems migrant workers experience? What are the best ways to address these problems?
4. What are the most important issues business, labor, and government (tripartite) groups should be addressing in emerging market economies today?

Related Web Sites

EU, "Flexicurity": <http://ec.europa.eu/social/main.jsp?catId=102>

ILO, Improvement of Working Conditions and Environment in the Informal Sector through Safety and Health Measures: http://www.ilo.org/safework/info/publications/WCMS_110306/lang--en/index.htm

ILO, Fundamental Rights at Work and International Labour Standards: http://www.ilo.org/wcmsp5/groups/public/---ed_norm/---normes/documents/publication/wcms_087424.pdf

Suggested Supplemental Readings

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ILO. *World of Work Report: Repairing the Economic and Social Fabric*. Geneva: ILO, 2013.

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Spence, Michael. *The Next Convergence: The Future of Economic Growth in a Multispeed World*. New York: Farrar, Straus and Giroux, 2011.

Notes

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2. Harry C. Katz and Owen Darbishire, *Converging Divergences: Worldwide Changes in Employment Systems* (Ithaca, N.Y.: Cornell University Press, 2000).
3. Michael Spence, *The Next Convergence: The Future of Economic Growth in a Multispeed World* (New York: Farrar, Straus and Giroux, 2011).
4. Chang-won Lee, "The Model of Future-Oriented Labor-Management Cooperation of the Park Administration," *Korea Labor Review* 10 (Summer 2013): 4–9.
5. K. H. Moon, "New Paradigm: Responsible Corporation," presentation to the Canadian Industrial Relations Association, Toronto, May 31, 2013.
6. These annual *World of Work* reports are available at www.ilo.org/world-of-work/lang-en/index.htm.
7. Peter Auer and Kazutashi Chantani, "Flexicurity: Still Growing or in a State of Crisis?," in *Research Handbook on Work and Employment*, ed. K. Townsend and A. Wilkinson (Chattanooga: Edward Elgar, 2010).
8. Roberto Pires, "Promoting Sustainable Compliance: Styles of Labour Inspection and Compliance Outcomes in Brazil," *International Labour Review* 147, no. 1 (2008): 199–229.
9. Michael Piore and Andrew Schrank, "Toward Managed Flexibility: The Revival of Labor Inspection in the Latin World," *International Labour Review* 147, no. 1 (2008): 1–23.
10. Matthew Amengual, "Pathways to Enforcement: Labor Inspectors Leveraging Linkages with Society in Argentina," *ILR Review* 67, no. 1 (2014).
11. Susan Schurman and Adrienne Eaton, "Trade Unions Organizing Workers 'Informalized from Above': Case Studies from Cambodia, Colombia, South Africa, and Tunisia," Report to the Solidarity Center, January 2013, <http://smlr.rutgers.edu/research-centers/research-partnership-with-solidarity-center>.
12. Accord on Fire and Building Safety in Bangladesh, May 13, 2013, <http://www.laborrights.org/creating-a-sweatfree-world/resources/bangladesh-fire-and-building-safety-agreement>.
13. Lucio Baccaro, "What Is Alive and Dead in the Theory of Corporatism," *British Journal of Industrial Relations*, 41, no. 4 (2003): 683–706.
14. Lee, "The Model of Future-Oriented Labor-Management Cooperation of the Park Administration."