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Global Labour Standards and Local Freedoms

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Introduction

For some time I have been working on the problem of international labour standards, labour rights and child labour, and in particular the tensions between global intentions and local aspirations and freedoms. This gives rise to a host of practical problems concerning what the ILO should do, what the WTO could potentially do and what the global policy options are for the US government or the Finnish government. But I plan to dwell relatively little on these practical matters and spend more time on the abstruse theoretical questions that underlie this practical debate. I believe the theoretical debate is important to ensure that our interventions do not go wrong, do not hurt the very constituencies they are meant to help. The impatience that international bureaucrats and policy makers show with abstract debates in their muscular desire to get on with the business of legislating and crafting policy can do much harm. And UNU-WIDER, perched uncomfortably between academe and the world of policy, is a good place to debate some of the abstract principles of economics that underlie global and national-level interventions to uphold minimal labour standards and worker rights.

In the city of Calcutta, a large area called Salt Lake, which was originally a salt marsh, was developed by the local government, with the idea of enabling relatively worse off people to own land and houses. So plots were sold off at a subsidized rate. But it then struck the government that these people to whom the plots were sold could, in the future, lose their land to rich buyers offering to pay a lot more. So a law was enacted to disallow the sale of these Salt Lake plots to private buyers. The law was meant to help the disadvantaged people to whom the land was first sold. When I tell economists about this policy, they laugh. Surely, a person who wishes to sell their land will be better off by being able to sell it. So stopping a person from doing so can hardly be justified on the grounds of *helping* them.[1]

This is part of a larger principle in economics that virtually all economists are brought up on. A contract between two consenting adults, that has no

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negative fallout on an uninvolved third person, is their business. Government has no reason to intervene and stop such a contract – if anything, government should provide the machinery needed for enforcing such contracts. This 'principle of free contract' is, in turn, derived from a more fundamental axiom of normative economics, the Pareto principle, which asserts that any change which leaves one or more persons better off and no one worse off is a desirable change and ought not to be thwarted.

While most economists subscribe to the principle of free contract many, often unwittingly, support legislative interventions which seem to violate this principle. The same people who laugh at the folly of the government that enacted the Salt Lake legislation frequently support global conventions that disallow workers in poor countries from working at jobs that expose them to significant health hazards or from getting into bonded labour contracts with employers. A 'bonded labour' contract is one in which a worker receives an upfront payment (usually from a big landlord) and promises to pay it back by working for as long as necessary, often lasting several years and maybe even a lifetime, during which time he receives negligible wages (Genicot, 2002).

Banning these contracts is often justified by hand-waving references to the ubiquitous 'externality' that economists so often use as an alibi for intervention. I want to argue in this chapter that we need to be more circumspect in justifying bans on such market activity than we have been thus far. The world has gone through a phase of overvigilant government and over-regulated markets *within nations*. This has given rise to the chorus of demand for economic reform and liberalization. What we are risking now is the same mistake at a *global level*.

Thanks to globalization, it is now easier to intervene in one another's nations and there is a genuine risk of overdoing this. I am not arguing against intervention *per se*. Governments and international organizations have important roles to play in controlling the market. But interventions have to be evaluated against some well-defined normative principles before they are put into effect.[2] This is necessary to ensure that the agenda of global intervention is not hijacked by lobbies of northern protectionism, or elite interest groups in the south, and we do not end up with wanton interventionism.

The difficulty of the problem is best illustrated by John Stuart Mill's attempt to grapple with the issue of voluntary slavery. In his *Principles of Political Economy* (1848), after making a spirited case for the principle of free contract, Mill realized that it could take him into troubled waters. In particular, he was uneasy about the fact that some people, driven by their immediate poverty, might be willing to become slaves for life. This dilemma subsequently came to be known as the problem of 'voluntary slavery' or 'waranteeism' (Engerman, 1973). While slavery is usually rooted in an initial act of coercion (such as taking people prisoners by force), this is not necessary. There have been times when people, driven by poverty, would opt to