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World Development Vol. 36, No. 1, pp. 17–38, 2008

0305-750X/$ - see front matter

doi:10.1016/j.worlddev.2007.02.010

Core Labor Standards and Development: Impact on Long-Term Income

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Summary. — The paper focuses on the impact of international core labor standards on long-term *per capita* income. In order to do that, it is necessary to build a new synthetic indicator of labor standards using multiple correspondence analysis, measuring the four core labor standards recognized by ILO. We propose an estimation of the steady-state *per capita* income for a large panel of countries (104) and then that of developing countries. The two-stage least square method is used to correct potential problems of endogeneity. The findings show that, by and large, countries with higher labor standards have a higher steady-state level.

Key words — growth, labor standards, data analysis

1. INTRODUCTION

Labor Standards are by no means a new issue. We have seen demand for labor standards rise with the globalization process. Many developed countries and workers unions are demanding a social clause in international trade; the idea behind this proposition being that international trade exerts a downward pressure on labor standards in developed countries and constitutes an "unfair" competitive advantage for developing countries. From this perspective, international coordination should be more efficient in order to achieve trade liberalization and strengthening of labor standards (Beaulieu & Gaisford, 2002). Bagwell and Staiger (2000) argue that international negotiations on tariffs alone would lead to a globally inefficient outcome characterized by partial liberalization and a lowering of labor standards. They suggest that different approaches of multilateral negotiations could allow governments to reach a globally efficient outcome in terms of trade liberalization and strengthening of labor standards.

Until now, the debate has focused largely on the link between labor standards and international trade. However, this approach has its limitations. In the first instance, many developing countries are completely against any kind of links between international trade and labor standards, for fear of a "hidden protectionism." Furthermore, trade sanctions can be counter-productive because they harm the people they are designed to help (Brown, 2000; Brown, Deardorff, & Stern, 1996; Maskus, 1997; Srinivasan, 2004). Many authors (Committee for Economic Development, 2001; Griswold, 2001) argue that the best way to improve labor standards is to achieve trade liberalization (arguments for the endogeneity of labor standards). Yet we might suggest that it is insufficient to study the whole phenomena exclusively from the point of view of the link with international trade, as it is often the case that countries with very weak labor standards are not integrated into international trading. Moreover, the export sectors have very often better standards than the others (Brown, Deardorff, & Stern, 2003).

The focus of this paper is on the link between labor standards and long-term *per capita*

* I am very grateful to Jean-Louis Arcand (CERDI-CNRS) for the very helpful comments he made on a previous version of this paper. I also want to thank Paul Gyselinck (CERDI), Ariane Tichit (ENS-LHS), and Jean-Claude Berthelemy (CES-CNRS) for their advice, and Nicolas Sirven (Capability and Sustainability Centre, University of Cambridge) for his help. Final revision accepted: February 26, 2007.

income. The raising of labor standards may have important consequences on determinants of long-term income. Opponents of a social clause into the WTO argue that weak labor standards are a condition for the development of the poorest countries (thanks to their comparative advantage in nonskilled labor force). It is therefore doubly interesting to study the impact of core labor standards on long-term *per capita* income.

The first goal of this paper is to build an index to measure the enforcement of the core labor standards recognized in the ILO declaration on Fundamental Principles and Rights at Work (1998). For that purpose, we build several indexes to measure child labor, freedom of association, discrimination, and forced labor. We also take into consideration the number of ILO conventions ratified by each country.

The lack of data is a serious problem. It is necessary to aggregate different sources of information to minimize this problem. Ghai (2003), Granger (2005), Kucera (2001), and more generally ILO "Decent Work" Research Program are also working on this issue.

We want to measure the enforcement of all core labor standards and not the enforcement of each kind of these standards. For that, we aggregate our different indexes using multiple correspondence analysis (MCA) in order to determine endogenously the weight of each variable in the aggregated index.

The second goal of this paper is to determine the impact of these core labor standards on long-term *per capita* income. We use a Mankiw, Romer, and Weil (1992) model augmented by labor standards. Our goal is to evaluate the long-term effects of a better enforcement of these standards; this in turn brings us to an estimation of the long-term steady states of different countries. [1]

2. LABOR STANDARDS: PRESENTATION AND CONSTRUCTION OF INDEXES

Labor Standards can be defined by the global principles and rules governing work and professional conditions (OECD, 1996). They are multifaceted and may vary from one country to another depending on the stage of development, political, social, and cultural conditions or institutions. Labor standards will then largely depend on given national circumstances (Stern, 1999). However, OECD and ILO distinguish four *core* labor standards: (1) prohibition of forced labor, (2) freedom of association and the right to organize and bargain collectively, (3) elimination of child labor exploitation, and (4) nondiscrimination in employment. OECD justifies these choices with the reasoning that they are fundamental part of the Human Rights and their respect carries more efficiency. ILO argues that these core labor standards represent the fundamental rights of workers, which can be applied all over the world irrespective of the stage of development. There is an international consensus [2] to consider that these core labor standards should be globally recognized and protected, which correspond in turn to eight ILO conventions. [3]

(a) *Labor standards and indexes*

We build five indexes [4]: ratifications of ILO's conventions, Child labor, freedom of association, discrimination, and forced labor. Each of these indexes aggregates different sources of information in order to minimize the problems of data [5]; these we then classify into five groups in order to have more comparable data. Finally we obtain a set of ordinal indexes.

For each *number of conventions ratified* (*NR*), we build a formula [6] to measure both the number of conventions and the number of *core* conventions ratified. This formula gives a higher weight to ratifications of *core* conventions.

For *child labor* (*CL*), we build a raw and an adjusted index. The raw index is defined by the percentage of working children between 10 and 14 years old. We consider this data as a good proxy of the level of exploitation of children, and it is the one generally used in the literature to measure child labor (Bescond, Chataignier, & Mehran, 2003; Granger, 2005). However, this raw index is unsatisfactory for many developing countries because of problems of data. We might suppose that a country in which half of the children do not go to primary school would have a significant problem with child labor, even if it is possible that a significant number of children neither work nor go to school. We observe that countries which have an official child labor rate equal to zero also have a low level of primary school enrollment. Political consideration or lack of data can explain this paradox. Our adjusted index is an attempt to correct this bias. It is defined by the raw indicator, adjusted by the percentage of children who do not attend primary school. [7] This method is also suggested by Bes-

cond *et al.* (2003) and used by Kucera and Sarna (2004). Bescond *et al.* (2003) argue that, taken as a worldwide average, the number of children combining work with school is nearly the same (9.9% in 2000) as the number of children neither at work nor school (10.1%). [8] We use the gross rather than the net enrollment rate as it is available for a larger number of countries.

For *Freedom of Association and Collective Bargaining* (*FA*), we build a composite index. The goal is to obtain an index available for a large number of countries, both from a quantitative and a qualitative point of view. The unionization rate, [9] the number of ILO conventions on freedom of associations ratified by the country, and the civil rights Freedom House index are the criteria taken into account.

Gender discrimination in employment (*DISCRI*) [10] is a multidimensional phenomenon. Our hypothesis is discrimination in education is an essential and complementary component of discrimination in employment. Discrimination can be seen indeed as pre-*labor market discrimination* (Altonji & Blank, 1999). Recent work by Benabou (1996), Durlauf (1999), and Lundberg and Startz (1998) builds upon earlier work by Loury (1977) emphasizing that pre-labor market discrimination against a group has an unfavorable effect on the human capital of future generations and may lead to persistent group differences. Current labor market discrimination may also influence pre-labor market discrimination (Altonji & Blank, 1999). If women believe they will have difficulties being accepted in a particular profession, they are less likely to invest in the skills necessary for this profession (Coate & Loury, 1993). Because of the correlation between pre-labor market discrimination and labor market discrimination, several authors (Chamberlain & Van Der Berg, 2002; Jolliffe & Campos, 2005) have observed a strong correlation between the unexplained component of Oaxaca (1973) decomposition (which is seen as the component measuring discrimination in employment), and discrimination in education.

Our index takes into account the differences of several components: differences in alphabetization rate, differences in schooling rates, differences of income, gender empowerment measure (GEM) of UNDP, and female activity rate. Hence, we focus on gender discrimination and not all discriminations mentioned in ILO conventions, because of a lack of reliable and comparable data in racial discrimination at the international level. The focus on gender discrimination is generally accepted in the literature on labor standards (Busse & Spielmann, 2006; Ghai, 2003). Moreover, the fundamental convention 102 on equal remuneration only deals with equal remuneration between men and women.

For *Forced Labor (FL)* index, we used the following definition: *Forced or compulsory labor is defined as work or service exacted under the menace of penalty and for which a person has not volunteered* (*Source*: ILO). We used several sources: Anti-Slavery International and ICFTU (2001), Busse and Braun (2003), ILO (2001), and US Department of State (2003). Busse and Braun (2003) built two indexes: one of the core forms of forced labor (scale from 0 to 5) and another one of all forms of forced labor (scale from 0 to 9). Considering that it is more crucial to focus here on the core forms of forced labor, we propose the following formula:

$$FL_{\text{Raw}} = FORCED1^2 + FORCED2$$

with *FORCED1*, the index of core forms of forced labor and *FORCED2*, the index of all forms of forced labor. We then obtain values between 0 and 7.5 and we propose the following classification: $FL = 1$ for countries with $FL_{\text{Raw}} = 0$; $FL = 2$ for countries with FL_{Raw} between 0.5 and 1; $FL = 3$ for countries with FL_{Raw} between 1 and 2; $FL = 4$ for countries with FL_{Raw} between 2.5 and 3.5, and $FL = 5$ for countries with $FL_{\text{Raw}} > 3.5$.

For the missing values in the index of Busse and Braun (2003), we rebuilt a similar index thanks to other sources of information mentioned above, operating a distinction between core forms and all forms in order to obtain a comparable value.

(b) *The aggregated index of core labor standards*

We assume to study the common impact of *all* four core labor standards and not simply the impact of each standard separately. [11] This choice can be justified by several reasons:

- An aggregated index measures the general index of labor standards, which can also be seen as an evaluation of the *social consciousness* of the country.
- Each standard may have complementary effects. For example, the main effect of freedom of association would be to ensure the effective enforcement of other standards.

Trade unions, asking for the respect of the rights of workers, will have a positive influence on the respect of other core labor standards. This effect can be measured with the global index of labor standards.

- This approach is justified by the activity of international organizations such as ILO which promote the four core labor standards and not only one among the four. It is more interesting to study the *general* effect of the four core labor standards to see if this strategy is justified economically.

The first way to obtain a correct measure of the enforcement of all core labor standards would be to sum the different values of each individual index. However, this choice is not completely satisfactory because it will introduce a bias in the measure for two main reasons:

- Totaling each index of every standard to obtain a scalar index would mean that each norm has the same explicative power to explain the general level of workers rights. This is not our hypothesis. We consider that the discriminating power of each standard could differ.
- We have to take into consideration the difficulty to obtain good data, without statistical bias for each standard. We are confronted with a serious problem of imperfect information. If we suppose the existence of a "common tendency," here the general enforcement of core labor standards, we have to isolate the effects for each standard coming from this common tendency and delete all other effects (statistical bias or measure of different information). Data analysis is a good tool to fulfill this kind of goal by isolating the common factors between different variables.

We have different indexes measuring different aspects of labor standards. It is necessary to find a general index of workers rights' enforcement, which is unobserved. MCA can provide this measure.

(i) *MCA*

MCA is a mathematical technique allowing an analysis of different discrete variables by projecting on different axis the common information contained into these different variables. The goal is to reduce the number of dimensions minimizing the loss of information (Benzecri, 1992; Greenacre, 1984).

The attentive reader may rightfully ask why we decide to use *MCA* and not principal component analysis (PCA), generally used for this kind of studies. [12] To this attentive reader, we would like to answer that PCA is a method adapted for quantitative and continuous variables while correspondence analysis is used to analyze qualitative, discrete, or ordinal values. Strength of this method is that it allows us to explore nonlinear relations between variables which is not possible with PCA. PCA can be seen as an analysis of correlation between variables. However, a null correlation between two variables does not mean that there is no relation between the variables but that the relation of first degree is null. MCA allows exploring the relation of degree higher than one, mainly because it is an analysis of the relations between different modalities and not variables.

(ii) *MCA and aggregated index of core labor standards*

Thanks to MCA, we have different axes explaining different aspects in respect of core labor standards. The question is then how many axes (or factor) to retain in order to have a good description of the whole phenomena. Results of the MCA are summarized in Appendix 2. Three main comments can be done in light of these figures. Firstly, it is very interesting to see that the first factor (F1) explains by itself about 72.5% of the total inertia. Put differently, F1 synthesizes much more information on the five variables of core labor standards than the accumulation of all other factors. According to the scree test (Cattell, 1966), this "gap" between F1 and the other factors allows us to think that countries' coordinates on the first axis are a good proxy for the global application of core labor standards. Secondly, all low items have negative values and their sign changes when they indicate a higher degree of core labor standards. In other words, there is no nonlinear effect among the five variables used; they all evolve in the same direction along the first factor. This confirms the homogeneity of the data and the choice of F1 as the aggregate index of core labor standards. Items coordinates on the first axis are then re-defined using linear extrapolation in the [0, 1] interval for homogeneity of the index. Thirdly, it appears that the choice of the number of ILO ratifications is consistent with the four other labor standards because its weight (18.9%) is very close to 1/5. Note that the weight of a variable is the sum of the absolute contributions (to the inertia of F1) of each item. Forced labor (17.6%) is thus close to average weight, while Freedom of association (26.6%) and Child labor (24.3%) are the

most discriminating variables. The fact that NonDiscrimination (12.7%) seems to play less important role may be due to the fact that discrimination depends on factors (culture, religion, etc.) much less related to labor standards than any other variables.

This index has three main advantages:

- Contrary to other empirical works on labor standards, it is based on a clear definition of these standards, supported by a real international consensus of worldwide organizations, governments, and scientists.
- Data analysis means all the statistical biases or imperfections of data are not taken into consideration, therefore measurement errors are more likely to be reduced.
- We have shown, with thanks to MCA, that shared characteristics can be found. If disparities exist, different labor standards evolve in the same way.

3. IMPACT OF CORE LABOR STANDARDS ON LONG-TERM PER CAPITA INCOME

(a) *Expected impact of labor standards*

Labor standards are supposed to have common effects on income *per capita*. There are three main determinants of income: productivity, [13] investment in human capital, and investment in physical capital.

Concerning productivity, freedom of association, abolition of forced labor, discrimination, and child labor are supposed to have a positive impact. Unions give workers a direct voice to management making it more likely that conflicts will be resolved through discussion rather through conflict. What is more, unionization reduces turnover, making it more likely that employees will develop valuable job-specific skills and that employers will invest in long-term training, which will contribute to productivity growth. Aidt and Tzannatos (2002), arguing that collective bargaining facilitates coordination, showed that most studies on the issue find that coordinated collective bargaining was associated with improved macroeconomic performance. [14] Martin and Maskus (2001) show that if product markets are competitive, it is likely that association rights would increase output and competitiveness, by raising productivity. Labor Market discriminations impede effective matching in the labor market between employers and workers. Economies are much more productive when jobs are allocated on the basis of skills and ability instead of ethnicity and genders (Brown *et al.*, 1996; Maskus, 1997; OECD, 1996). Child labor and forced labor increase the supply of cheap or free labor within a country, driving down wages for everybody and easy access to cheap labor removes incentives for firms to lower their costs by developing or adopting new technologies. Productivity growth could be slowed. Globally, we expect that core labor standards will have a positive impact on productivity.

Concerning human capital, child labor, discrimination, forced labor, and freedom of association are expected to have an effect. The fact that children are working in low-wage jobs instead of attending school will impede the growth of a human capital country stock (Maskus, 1997). Concerning discrimination, we assume that discrimination in employment is linked with discrimination in education. The eradication of discrimination in employment can be seen as an incentive for the education of women or other minorities. Forced labor abolition can induce an improvement of human capital efficiency as it is highly probable that forced workers are overeducated for their job. Lastly, unionization makes more likely that employees will develop valuable job-specific skills and employers will invest in long-term training, which will also be positive for human capital accumulation.

Concerning investment in physical capital, only indirect effects can be expected.

(b) *The Mankiw, Romer, and Weil (MRW) model augmented by labor standards*

We use the Solow (1956) Growth Model, augmented by human capital (Mankiw *et al.*, 1992). [15] Several authors measure the influence of other factors on long-term *per capita* income using this model, see for example: Murdoch and Sandler (2002). This empirical study will measure the impact of core labor standards on growth by means of spillover effects on different production factors.

Let the production function be

$$Y_t = K_t^{\alpha} H_t^{\beta} (L_t A_t)^{1-\alpha-\beta}, \tag{1}$$

where K is the stock of physical capital, H the stock of human capital, A the level of labor productivity, and L the level of labor. Let s_k be the fraction of income invested in physical capital, s_h the fraction of income invested in human capital. The evolution of the economy is determined by

$$\dot{k}_t = s_k y_t - (n + g + \delta)K_t, \quad (2)$$

$$\dot{h}_t = s_h y_t - (n + g + \delta)h_t, \quad (3)$$

where $y = Y/AL$, $k = K/AL$, $h = H/AL$, and $ls = LS/AL$ are quantities per effective unit of labor, δ is the rate of depreciation. Following MRW (1992), we assume that the same production function applies to human capital, labor standards, physical capital, and consumption. One unit of consumption can be transformed without cost into either one unit of physical capital or one unit of human capital. In addition, we assume that human capital depreciates at the same rate as physical capital.

We suppose that $\alpha + \beta < 1$, which implies that there are decreasing returns to all capital. Eqns. (2) and (3) imply that the economy converges toward a steady state defined by

$$k^* = \left(\frac{s_k^{1-\beta} s_h^{\beta}}{n + g + \delta}\right)^{1/(1-\alpha-\beta)}, \quad (4)$$

$$h^* = \left(\frac{s_k^{1-\alpha} s_h^{1-\alpha}}{n + g + \delta}\right)^{1/(1-\alpha-\beta)}. \quad (5)$$

Substituting (5) and (6) into the production function (1) and taking logs gives an equation for income *per capita*,

$$\ln\frac{Y_t}{L_t} = \ln A(0) + gt + \frac{\alpha}{1-\alpha-\beta}\ln(s_k) - \frac{\alpha+\beta}{1-\alpha-\beta}\ln(n + g + \delta) + \frac{\beta}{1-\alpha-\beta}\ln(s_h). \quad (6)$$

There is an alternative way to express the role of human capital in determining income in this model. Combining (6) with the equations of the steady-state level of human capital given in (5) yields an equation for income as a function of the rate of investment in physical capital, the rate of population growth, and the *level* of human capital,

$$\ln\frac{Y_t}{L_t} = \ln A(0) + gt + \frac{\alpha}{1-\alpha}\ln(s_k) - \frac{\alpha}{1-\alpha}\ln(n + g + \delta) + \frac{\beta}{1-\alpha}\ln(s_h). \quad (7)$$

(c) *Empirical specification and data*

From Eqn. (7), and following the methodology used by Murdoch and Sandler, we propose the following estimating equation in order to estimate the effect of labor standards (*ls*) on long-term *per capita* income,

$$\ln(y_{96}) = \gamma_0 + \gamma_1 \ln(s_K) + \gamma_2 \ln(n_i + g + \delta) + \gamma_3 \ln(h^*) + \gamma_4 \ln(ls^*) + \epsilon, \quad (8)$$

theoretically with $\gamma_1 = -\gamma_2 = \frac{\alpha}{1-\alpha}, \gamma_3 = \frac{\beta}{1-\alpha}$, where *ls* is the value of our aggregated index of labor standards. Following MRW, we assume that $g + \delta = 0.05$. The model is estimated for the year 1996 and for two samples: a large sample of 104 countries including developing and developed countries, and the other one including only developing countries.

Data used to estimate the different equations come from different sources: (i) The Penn World Tables Mark 6.1 (Heston, Summers, & Atten, 2002), (ii) Barro and Lee (1996) and Barro and Lee (2000), and (iii) our index of labor standards. We use the GDP per capita, measured in constant dollar (RGDPL) in Heston *et al.* (2002) to measure the income. The investment variable is the average of the investment ratio during 1960–96. Data on population are the annual average of the population growth rate (variable POP in PWT). For the variable of Human Capital, we take here the *steady-state level* measured by the percentage of the population older than 25 that has attained secondary school in 1996 (Barro & Lee, 1996, 2000).

(d) *Instruments*

As labor standards may have a significant impact on long-term *per capita* income, income may also have an impact on the level of labor standards. It is, moreover, one of the main arguments of the opponents to a social clause in the WTO. Casella (1996) considers that differences in labor standards are in part driven by differences in income. Convergence in income levels will so cause an endogenous convergence in the levels of labor standards. [16] The problem of endogeneity can create a bias in the estimation and has to be taken into consideration in the econometric methodology. This problem can be solved if we have an instrument for labor standards to correct the bias of endogeneity and measure the real impact of labor standards on growth thanks to the two-stage least square (TSLS) method. Such an instrument must be an important factor in accounting for the variation of labor

standards that we observe, but have no direct effect on performance.

We propose to test the validity of the following instruments: (1) a combined polity score (Polity IV) proposed by Gleditsch (2003), [17] (2) the competitiveness of participation (the extent to which nonelites are able to access institutional structures for political expression, [18]) (3) the executive constraints (operational independence of chief executive), [19] (4) the openness of executive recruitment (opportunity for nonelites to attain executive office), [20], and (5) the competitiveness of executive recruitment (the extent to which executives are chosen through competitive elections). [21] All data have been obtained from Gleditsch (2003). We take the average of each variable for the period 1990–2000. [22]

The level of democracy (instrument 1) can be seen as a determinant of labor standards without direct link to economic growth. The global consensus in political sciences considers that there is a relation of causality between democracy and Human Rights. Carothers (1994) considers that democracy and Human Rights are the "two sides of the same coin." The former United Nations Secretary General Boutros-Boutros Ghali argued that *Human Rights, Equal rights, and government under law are important attributes of democracy* (Fox & Nolte, 1995). Davenport and Armstrong (2004) notice that political democracy is seen as "a" and even "the" solution to the problem of state repression (Dahl, 1966; De Gre, 1964; De Jouvenal, 1945; Goldstein, 1978; Rummel, 1997; Russel, 1993). [23] They argue that above a certain level of democracy, democracy influences repression in a negative and roughly linear manner. Some psychologists tried to study the link between the *perception* of Human Rights and Democracy. Staerkle, Clemence, and Doise (1999) argue that the members of nondemocratic countries are viewed as accepting more human rights violations than members of democratic countries because of the pervasive impact of information on political judgments on the population. Last, ILO (1998) observes that "the expansion of the democracy and of the free market economy has generally improved the context in which freedom of association principles are applied."

On the other hand, there is no consensus concerning the link between democracy and economic growth, as showed by OECD (2004). Bardham (1993) states the basic dilemma: *democracies might actually be more susceptible to pressure for immediate consumption and other particularistic demands that may hamper long-run investment. On the other hand, authoritarian rulers who have capacities to resist such pressures may instead be self-aggrandizing, plundering the surplus of the economy*. The empirical research failed to find a clear relation between democracy and economic growth (Barro, 1996, 1997; Durham, 1999).

To justify our choice of the instruments related to nonelites participation (instruments 2 and 4), we invoke the relations between rights and norms and the way to construct norms. Honfeld distinguished between "the claim-rights" and the "liberty-rights." When an actor's right to act is transferred by that actor (or by others) to others actors, the first actor loses his liberty-right and the others come to have a claim-right toward him. Coleman (1990) claims that a norm concerning a specific action exists when the socially defined right to control the action is held by others. A norm needs a social consensus that placed the right in the hand of a group of people (the corporate actor in the wording of Coleman). As Coleman said: *the genesis of a norm is based on the externalities of action which cannot be overcome by simple transactions that would put control of the action in hands of those experiencing the externalities*. Thus, the principal question is "how do societies define this social consensus needed to build these norms." Labor standards have the objective criteria to give them the statute of "norms." But to be implemented, the government needs to recognize these rights to individuals. This is why the democratic regime is an important factor to put in place labor standards, as previously demonstrated.

Yet the democratic criteria may not be sufficient. A lot of sociologists and political scientists have studied the relations of power inside the societies. Mosca (1896) observed the organized structures of the elites in all societies. The characteristic of these elites is to be a minority group who holds the power with a relation of solidarity between them amidst common values or interests. Mills (1956) made a distinction between social classes and elite, with three components to his elite: a political elite, an economic elite, and a military elite, all linked by common interests. Last, Bourdieu and Passeron (1977) argue on the power of the "dominant class" and the "symbolic violence" used by this "dominant class" in order to transmit to all the societies their own values and beliefs.

The need to improve labor standards in order to keep the comparative advantage of

the country as it is, or the economic interest of some strategic firms, may not be in the interests of the elite. If we assume that the individuals who will benefit from an improvement in labor standards are not part of this elite, it is crucial that the "nonelites" can participate in the democratic process, being able to access institutional structures for political expression, or having the opportunity to attain executive office. This is what Pareto (1916) called the rotating of the elite.

If we consider that the democratic system is efficient, that is, the goal of the government is to take into account the collective interests of the peoples or the interests of the poorest (Rawls, 1971), the crucial point is to give to the nonelites the capacity to have a real opportunity for expression and not systematically to change the elite.

So, if we assume that the interest of the nonelites is to improve the labor standards and the working conditions, the political participation of the nonelites may be a determinant of the level of labor standards. Conversely, this is not a determinant of economic performance. Thus, we assume these variables can be used as an instrument.

The two other instruments proposed (competitiveness of executive recruitment and operational independence of chief executive) complete the explanation of the level of labor standards based on the level of democracy and the capacity of nonelites to participate in the political process.

In our attempt to correct for potential endogeneity of labor standards, we implement the TSLS method with the instruments proposed above. As a preliminary step, we carried out three sets of tests concerning the validity and the relevance of our instruments (see Appendix 4 for details of the various tests performed to gauge the validity and relevancy of the subsets of instruments). The competitiveness of participation (instrument 2) is a relevant and valid instrument. All the others, excepting executive constraints (instrument 3), can be used as an instrument when they are associated with instrument 2. We then propose IV estimations with different subsets of instruments.

(e) *IV estimates*

(i) *The effects of core labor standards at the global level*

We first estimate Eqn. (8) using IV estimators in order to obtain consistent estimates of the impact of core labor standards on long-term *per capita* income. [24] According to the results of validity and relevance tests, we use alternatively, the competitiveness of participation (2), and combinations of this instrument with level of democracy (1), openness of executive recruitment (4), and the competitiveness of executive recruitment (5). The results of the estimations are given in Table 1. We then restrict the equation according to the theoretical model and find the results given in Table 2.

The coefficient of labor standards is always strongly positive and significant whatever the subsets of instruments chosen. All things being equal, labor standards have a positive impact on long-term per capita income which means that countries could have different growth paths according to their levels of labor standards. The coefficient takes a high value with a mean of 0.50, which is higher to the estimated coefficient of education or investment. To give a quantitative assessment of this result, a one standard deviation change in the log variable of labor standards (0.88) will increase the GDP *per capita* by 44% (0.88 * 0.50). If we take 0.42 as a mean of the estimated coefficient for the variable of investment, a one standard deviation change in the log variable of investment will increase the GDP *per capita* by 25%. And if we take 0.46 as a mean of the estimated coefficient for the variable of education, a one standard deviation change in the log variable of education will increase the GDP *per capita* by 42%. The standardized beta coefficient [25] is also more important for labor standards than for other variables (0.39 for labor standards against 0.36 for education and 0.22 for investment).

The importance of these quantitative assessments should not be underestimated. However, a one standard deviation of labor standards is a very significant change for a country, and cannot occur in a short-term period. For example, if we take the average value of the log-variable of labor standards (3.51), with a one standard deviation change, the new value of the log-variable of labor standards will be 4.39. A country like Burundi has a level of labor standards close to 3.51. Bulgaria has a level of labor standards close to 4.39. A one standard deviation change can be seen as a long-term process that will probably change the structure of the economy, especially for labor market. In a long-term perspective, the country will adapt the way of organizing production with these new standards. A new international specialization can

Table 1. *Results of the estimation steady-states per capita income (1996)—TSLS method (world sample)*

Dependant variable: y_{96}	(1)	(2)	(3)	(4)	(5)	(6)
Instrument set	IV_2	$IV_{1,2}$	$IV_{2,4}$	$IV_{2,5}$	$IV_{2,4,5}$	$IV_{2,3,5}$
Constant	2.88	1.99	2.57	2.21	2.19	2.01
	(1.46)	(1.18)	(1.37)	(1.24)	(1.24)	(1.20)
Investment	0.40	0.43	0.41	0.42	0.43	0.43
	(2.75)[b]	(3.16)[b]	(2.89)[b]	(3.05)[b]	(3.06)[b]	(3.15)[b]
$(n + g + \delta)$	−1.43	−1.67	−1.51	−1.62	−1.62	−1.67
	(−2.08)[a]	(−2.75)[b]	(−2.29)[a]	(−2.55)[a]	(−2.56)[b]	(−2.75)[b]
Education	0.45	0.46	0.45	0.46	0.46	0.46
	(4.61)[b]	(4.97)[b]	(4.73)[b]	(4.88)[b]	(4.89)[b]	(4.97)[b]
Labor standards	0.58	0.47	0.54	0.50	0.50	0.48
	(3.42)[b]	(3.69)[b]	(3.44)[b]	(3.48)[b]	(3.49)[b]	(3.75)[b]
Statistical tests						
R^2	0.70	0.73	0.71	0.73	0.73	0.73
Hansen test	na	1.12	0.45	1.01	1.032	1.17
		(0.50)	(0.31)	(0.68)	(0.60)	(0.76)
Partial R^2 (excluded instruments)	0.24	0.38	0.27	0.31	0.31	0.39
F-test	31.47	29.84	18.01	22.17	14.76	15.30
Number of observations	104	104	104	104	104	104

[a] 5%.
[b] 1% level of significance.

Table 2. *Restricted equation (world sample)*

Dependant variable: y_{96}	(1)	(2)	(3)	(4)	(5)	(6)
Instrument set	IV_2	$IV_{1,2}$	$IV_{2,4}$	$IV_{2,5}$	$IV_{2,4,5}$	$IV_{2,3,5}$
Constant	5.44 (6.40)[a]	4.95 (6.74)[a]	5.34 (6.53)[a]	5.12 (6.61)[a]	5.11 (6.60)[a]	4.96 (6.80)[a]
Investment—$(n + g + \delta)$	0.45 (2.89)[a]	0.50 (3.57)[a]	0.46 (3.03)[a]	0.48 (3.32)[a]	0.48 (3.33)[a]	0.50 (3.56)[a]
Education	0.47 (4.48)[a]	0.49 (5.00)[a]	0.47 (4.59)[a]	0.48 (4.82)[a]	0.48 (4.83)[a]	0.49 (4.99)[a]
Labor standards	0.68 (4.40)[a]	0.56 (4.56)[a]	0.66 (4.50)[a]	0.60 (4.48)[a]	0.60 (4.47)[a]	0.57 (4.65)[a]
R^2	0.67	0.70	0.68	0.69	0.69	0.70
Number of observations	104	104	104	104	104	104

According to the theoretical model, the restriction imposed is: $\gamma_1 = \gamma_2 = \frac{\alpha}{1-\alpha}$.
[a] 1% level of significance.

be expected. In addition, as we have seen before, the labor standards are expected to have a strong impact on the main determinants of economic growth. Investment, education, or productivity may change positively with an improvement of labor standards. Some cumulative effects may occur that will induce a stronger impact on long-term *per capita* income.

We cannot rule out the possibility that other economic mechanisms are also taking place. More precisely, we cannot control, because of data limitations, for unobserved country-specific effects. In order to minimize this problem, we chose here a traditional growth model in order to control our results with the commonly accepted determinants of long-term *per capita* income.

One other limitation is the possible ambiguity between the human capital and labor standard variables. In terms of gender discrimination and child labor, the labor standard indicators are defined, in part, in terms of human capital outcomes. We justified this choice by the need to measure the effective enforcement of labor standards. On this matter, the inclusion of a variable on education is necessary to measure the real level of child labor (Bescond *et al.*, 2003). The discrimination in education is also

an essential and complementary component of discrimination in employment. We do not consider that these two measures of education included in the labor standard index could influence the results for two reasons: first, the index of education included in the Child Labor index (*CL*) is only used to correct for potential statistical bias in the use of the variable "percentage of working children between 10 and 14 years old," which is the main variable explaining the value of the *CL* index. Concerning the index of discrimination, we use only the differences between the alphabetization rate and school enrollment of men and women. More generally, human capital and labor standards can be seen in a lot of cases as interlinked.

(ii) *The effect in developing countries*

We showed in the previous section that core labor standards could have a strong impact on the long-term *per capita* income. It is therefore necessary to study if the relationship is still valid for the developing countries. The results (see Tables 3 and 4) are consistent with the previous ones. Labor Standards also

Table 3. *Results of the estimation—TSLS method (developing countries)*

Dependant variable: y_{96}	(1)	(2)	(3)	(4)	(5)	(6)
Instrument set	IV_2	$IV_{1,2}$	$IV_{2,4}$	$IV_{2,5}$	$IV_{2,4,5}$	$IV_{2,3,5}$
Constant	3.34	2.88	3.11	2.89	2.89	2.93
	(2.31)[a]	(1.35)	(1.40)	(1.33)	(1.33)	(1.37)
Investment	0.38	0.40	0.39	0.40	0.40	0.39
	(2.63)[b]	(2.47)[a]	(2.25)[a]	(2.87)[b]	(2.87)[b]	(2.87)[b]
$(n + g + \delta)$	−1.14	−1.25	−1.20	−1.25	−1.25	−1.24
	(−1.36)	(−1.56)	(−1.45)	(−1.55)	(−1.55)	(−1.54)
Education	0.47	0.48	0.47	0.48	0.48	0.48
	(4.85)[b]	(5.12)[b]	(4.98)[b]	(5.10)[b]	(5.11)[b]	(5.10)[b]
Labor standards	0.40	0.32	0.37	0.33	0.32	0.33
	(2.31)[a]	(2.47)[a]	(2.25)[a]	(2.22)[a]	(2.23)[a]	(2.56)[a]
Statistical tests						
R^2	0.56	0.58	0.57	0.58	0.58	0.58
Hansen test	na	0.549	0.457	.847	0.848	0.855
		(0.46)	(0.50)	(0.36)	(0.65)	(0.83)
Partial R^2 (excluded instruments)	0.22	0.37	0.30	0.28	0.30	0.38
F-test	21.33	21.77	12.30	15.56	10.35	11.08
Number of observations	80	80	80	80	80	80

[a] 5%.
[b] 1% level of significance.

Table 4. *Restricted equation—developing countries*

Dependant variable: y_{96}	(1)	(2)	(3)	(4)	(5)	(6)
Instrument set	IV_2	$IV_{1,2}$	$IV_{2,4}$	$IV_{2,5}$	$IV_{2,4,5}$	$IV_{2,3,5}$
Constant	5.27 (6.67)[b]	4.97 (7.13)[b]	5.16 (6.80)[b]	5.01 (6.92)[b]	5.00 (6.92)[b]	5.00 (7.19)[b]
Investment—$(n + g + \delta)$	0.39 (2.69)[b]	0.42 (3.04)[b]	0.40 (2.81)[b]	0.42 (2.98)[b]	0.42 (2.99)[b]	0.42 (3.01)[b]
Education	0.48 (4.91)[b]	0.49 (5.28)[b]	0.49 (5.04)[b]	0.49 (5.22)[b]	0.49 (5.23)[b]	0.49 (5.25)[b]
Labor standards	0.43 (2.49)[a]	0.33 (2.50)[a]	0.40 (2.46)[a]	0.34 (2.35)[a]	0.34 (2.34)[a]	0.34 (2.61)[b]
R^2	0.54	0.57	0.55	0.57	0.57	0.57
Number of observations	80	80	80	80	80	80

[a] 5%.
[b] 1% level of significance.

have a positive effect on long-term *per capita* income in developing countries. The coefficient is now included between 0.32 and 0.43. If we take 0.34 as the average value of the estimated coefficient for labor standards, a one standard deviation change will increase the GDP by around 30%. [26] It is less than 44% observed in the previous section. This can be explained by two elements: (1) the lower value of the standard deviation and (2) the lower value of the estimated coefficient. Nevertheless, the effects are still strong and highly significant.

(iii) *Tests of robustness*

In order to make certain that the results presented in the previous sections are not driven by only one component of our aggregated index of core labor standards, we first estimate an equation in OLS (because of the difficulty to find as much instruments as endogeneous variables). Results are given in Table 5. It seems that only child labor has a significant impact on long-term *per capita* income. [27]

Table 5. *OLS estimation with different labor standards*

Dependant variable: y_{96}	Coef.	*t*-Stat
Constant	4.68[a]	2.88
Investment	0.36[b]	3.20
$(n + g + \delta)$	−1.49[b]	−2.78
Education	0.09	1.05
Number of ratifications	−0.02	0.50
Child labor	0.47[b]	7.45
Freedom of association	0.008	0.15
Discrimination	0.06	1.34
Forced labor	0.007	0.16

[a] 5%.
[b] 1% level of significance.

However, and it is a strong justification for the use of an aggregated index, we consider that labor standards may have complementary effects. We calculate a new aggregated index of all labor standards except child labor thanks to MCA. We then estimate a new equation including both the index of child labor and the newly aggregated index of all other labor standards. We use here IV estimations. [28] Both estimated coefficients are significant (see Table 6) justifying our choice of measuring the effects of all core labor standards jointly. Both prohibition of child labor and the enforcement of all other standards have a positive impact on *per capita* income.

4. CONCLUSION AND IMPLICATION

There is at present an international consensus to recognize four core labor standards as fundamental rights of workers. These standards are prohibition of forced labor, prohibition of child labor, freedom of association and collective bargaining, and prohibition of discrimination.

The first contribution of this paper is to build an aggregated index of the effective enforcement of these core labor standards. In order to do this, we identify reliable data and build several indexes of respect of each of these standards. Using MCA, we endogenously attribute a weight for each standard according to their discriminating power.

The second contribution of this paper is the result, that, overall, a good enforcement of core labor standards has a positive and significant impact on long-term *per capita* income. Countries with same characteristics of investment, human capital, and labor force could have different growth path depending on their level of labor

Table 6. *OLS estimation with different labor standards*

Dependant variable: y_{96}	Coef.	*t*-Stat	*With restriction*	Coef.	*t*-Stat
Constant	9.15[c]	3.16		8.45[c]	9.81
Investment	0.23[a]	1.75	Investment—$(n + g + \delta)$	0.23[a]	1.67
$(n + g + \delta)$	0.03	0.03			
Education	0.24[b]	2.21		0.23[b]	2.29
Child labor	0.35[c]	4.51		0.35[c]	4.50
Labor standards without child labor	1.07[b]	2.12		1.01[c]	2.93

[a] 10%.
[b] 5%.
[c] 1% level of significance.

standards. This result is obtained by correcting the problem of endogeneity using the instrumental variables and TSLS method. Following a strict methodology, we show that the instruments proposed are valid and pertinent. This result is valid both for a World sample and for developing countries.

These results are suggestive and call for future research on this field. We acknowledge the following limitations of this empirical work. First, the labor standards indicators, considering gender discrimination and child labor, are defined in terms of human capital outcomes. This is necessary to have a good estimation of the effective level of labor standards. Second, it is not possible to have a temporal analysis and to control for country-specific effects, due to the lack of reliable data on labor standards.

We identify in this paper some empirical findings of the impact on labor standards on long-term *per capita* income. We suggest two directions for future researches. First, a theoretical approach seems necessary to motivate these empirical evidences. This was, however, out of the scope of this paper. Yet, the explanation of theoretical linkages between labor standards, labor productivity, and human capital can provide a useful explanation to the empirical evidences observed here. Second, we think it is necessary to build a temporal index of core labor standards in order to give a dynamical dimension to our results. It will also be useful to take into account the country specific effects which we have been unable to account for since this study has a cross-country dimension.

NOTES

1. We first estimate the model for the year 1996 for a large panel of countries (104) and then only for developing countries. Because of a lack of temporal data concerning labor standards, it is not possible to make a temporal analysis.

2. See the conclusions of the Social Summit of Copenhagen (1995), the WTO declaration of Singapore (1996) or the ILO declaration on fundamental Rights of Workers (1998).

3. See Appendix 1: ''Core Labor Standards and ILO conventions.''

4. The methodology used is quite closed to the one of Granger (2005). We build a set of indexes measuring different core labor standards. However, our index is available for a larger number of countries while the one of Granger is more precise for a more limited number of countries.

5. Further explanations concerning the methodology used to build each index are available upon request.

6. $NR_{\text{Raw}} = \frac{N_1 \times (N_2)^2}{11776}$ with ce:italic>$_{1_1}$ the number of conventions ratified and ce:italic>$_{1_2}$ the number of *core* conventions
ratified.

7. $$CL_{\text{Adjusted}} = \text{MAX}\left(CL_{\text{Raw}}; \frac{CL_{\text{Raw}} + \textit{Percentage of children who does not go to primary school}}{2}\right).$$

8. Estimation of ILO (2002).

9. Ghai (2003) considers that this category of indicator is based on the outcome of freedom of association in terms of number or proportion of workers belonging to organizations concerned with work-related matters. *In general, the higher the union density is, the stronger the defence of workers interests in negotiations with employers and the government, and the greater the participation by workers in matters affecting their work.* However, there are different problems. Unionization rate is also based on historical traditions or political systems (Jose, 2002). Ghai (2003) also argues that it is a problem for developing countries because of the small size of the labor force in the formal economy. Nevertheless, it is the only index available based on the outcome of freedom of association and therefore is useful for our study.

10. More precisely, we should speak about gender inequality rather than gender discrimination especially concerning employment rate. As noticed by Busse and Spielmann (2006) concerning employment rate, *as we cannot determine whether differences in labor market participation rates are voluntary or not, we prefer to use the term gender inequality rather than discrimination.*

11. However, we will compare these results with the ones obtained using individual sub-component of this index. See the part ''Robustness.''

12. Correspondence analysis has been relatively seldom used in social science research in the united Kingdom or in the United States. However, the French scientists, for example, use much more this technique, following the work of Benzecri (1992).

13. In the MRW model, total factor productivity is assumed to be equal for all countries. This hypothesis was broadly criticized (see Cohen & Soto (2002) & Hall & Jones (1999)). But we consider that it has no impact on what we try to measure. Indeed, the goal is to test the general impact of labor standards and not the impact of each determinant.

14. For OECD countries, they find that countries with coordinated bargaining system performed better than countries with less coordinated system in the 1970s and the 1980s. Results in the 1990s are more ambiguous suggesting that dynamics benefits are more important than static effects.

15. Islam (1995) provides an excellent summary of the MRW model.

16. However, this is not triggered by a drive for competitiveness but rather by the underlying demand for standards.

17. See Gleditsch and Ward (1997) for a detailed presentation of the index. Basically, this is a combined index of several sub-dimension measuring different aspects of 'authority' (competitiveness of political participation, regulation of political participation, competitiveness of executive recruitment, openness of executive recruitment, constraints on chief executive).

18. The index takes values included between 0 and 5. coding: Not Applicable (0), suppressed (1), restricted, (2), fractional (3), transitional (4), and competitive (5).

19. Coding from 1 to 7. unlimited power (1), intermediate 3 (2) slight to moderate limitations (3), intermediate 2 (4), substantial limitations (5), intermediate 1 (6), parity or subordination (7).

20. Coding from 1 to 7. Closed (1) Dual: hereditary and designation (3) dual: hereditary and elections (5) election (7).

21. Coding from 1 to 4. Selection (1), Transitional (2), elections (3).

22. As noticed by Gleditsch and Ward (1997), there is very little change in the degree of democracy for individual component over relatively short periods of time. On average, it takes between two and three decades before one observes a propensity for the authority characteristics to change.

23. See Davenport and Armstrong (2004) for a review of the literature on this issue.

24. All variables are in log.

25. The standardized beta coefficient is the coefficient obtained by first standardizing all variables to have a mean of 0 and a standard deviation of 1.

26. A one standard deviation change in education will increase the GDP *per capita* by around 50%.

27. Each individual index of labor standard takes a value included between 1 and 5 with 1 for a good enforcement of labor standards and 5 a weak enforcement of such a standard. The standardization of this variable is different from the one of the aggregated index of core labor standards.

28. We use here PARCOMP as instrument. However, results are equivalent with the use of other subsets of instruments (results not reproduced here).

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APPENDIX 1. CORE LABOR STANDARDS AND ILO CONVENTIONS

Adopted in 1998, the ILO Declaration on Fundamental Principles and Rights at Work is an expression of commitment by governments, employers' and workers' organizations to uphold basic human values—values that are vital to our social and economic lives.

- *Freedom of association and the right to collective bargaining:*
  - The Freedom of Association and Protection of the Right to Organize Convention (No. 87), 1948, 142 ratifications.
  - The Right to Organize and Collective Bargaining Convention (No. 98), 1949, 154 ratifications.
- *The elimination of forced and compulsory labor:*
  - The Forced labor Convention (No. 29), 1930, 163 ratifications.
  - The abolition of Forced labor Convention (No. 105), 1957, 161 ratifications.
- *The abolition of child labor:*
  - Minimum Age Convention (No. 138), 1973, 131 ratifications.
  - The Abolition of the Worst Forms of Child labor Convention (No. 182), 1998, 147 ratifications.
- *The elimination of discrimination in the workplace:*
  - The Equal Remuneration Convention (No. 100), 1951, 159 ratifications.
  - The Discrimination (Employment and Occupation) Convention (No. 111), 1958, 161 ratifications.

The ILO's standards take the form of international labor Conventions and Recommendations. The ILO's Conventions are international treaties, subject to ratification by ILO member States. Its Recommendations are nonbinding instruments—typically dealing with the same subjects as Conventions—which set out guidelines which can orient national policy and action. Both forms are

intended to have a concrete impact on working conditions and practices in every country of the world. However, countries can decide to not ratify conventions. When ratified, these promotional standards oblige a country to use means appropriate to national circumstance to promote these goals—and to be able to demonstrate progress over time in achieving the goals. ILO cannot apply sanctions.

Moreover, United Nations have adopted several measures concerning Human Rights and more precisely Rights of Workers. Following the Universal Declaration of Human Rights, the UN has adopted two covenants: the International Covenant on Economic, Social and Cultural Rights (1966) and the International Covenant on Civil and Political Rights (1966) (prohibition of forced labor). These covenants are ratified by more countries than the ILO core conventions. The UN has also adopted a convention on the Rights of the Child (1989).

APPENDIX 2. THE SCALAR INDEX OF CORE LABOR STANDARDS

Descriptive statistics of variables included in the scalar index of core labor standards

$N = 155$ countries	Ratifications ILO	Child labor	Freedom of association	Nondiscrimination	Forced labor
Frequencies of modalities					
Highest	21.94	28.39	20.00	20.00	46.45
High	21.29	18.71	20.65	16.13	28.39
Medium	20.65	21.94	19.35	16.77	07.10
Low	17.42	15.48	21.29	19.35	10.96
Lowest	18.70	15.48	18.71	27.75	07.10
Total	100	100	100	100	100
Correlation matrix					
ILO ratifications	1				
Child labor	0.364**	1			
Freedom of Association	0.461**	0.474**	1		
Nondiscrimination	0.073	0.355**	0.282**	1	
Forced Labor	0.293**	0.286**	0.399**	0.282**	1
Weight used in the scalar index					
Arithmetic mean	0.200	0.200	0.200	0.200	0.200
MCA	0.189	0.243	0.266	0.127	0.176

NB **5% significant.

MCA summary

$N = 155$ Countries	Principals	$F1$	$F2$	$F3$	$F4$
	Eigen value	0.512	0.320	0.294	0.276
	% Total inertia	0.725	0.108	0.066	0.043
	% Cum. total inertia	0.725	0.833	0.942	0.967
Variables	Items	Coord. (F1)	QLT	Test value	*CTR* (%)
ILO's ratifications (*NR*)	Highest	1.236	0.429	8.129**	13.094
	High	−0.061	0.001	−0.395	0.031
	Medium	−0.316	0.026	−1.997**	0.803
	Low	−0.267	0.015	−1.523	0.486
	Lowest	−0.782	0.141	−4.656**	4.474
Total					18.888

MCA summary—*continued*

$N = 155$ Countries	Principals	$F1$	$F2$	$F3$	$F4$
Child labor (*CL*)	Highest	1.087	0.468	8.490**	13.102
	High	0.330	0.025	1.962**	0.794
	Medium	−0.580	0.094	−3.812**	2.880
	Low	−0.731	0.098	−3.884**	3.237
	Lowest	−0.838	0.129	−4.451**	4.250
Total					24.263
Freedom of association (*FA*)	Highest	1.388	0.482	8.613**	15.066
	High	0.492	0.063	3.115**	1.954
	Medium	−0.543	0.071	−3.304**	2.235
	Low	−0.698	0.132	−4.506**	4.057
	Lowest	−0.670	0.103	−3.990**	3.285
Total					26.597
Nondiscrimination (*Discri*)	Highest	0.909	0.207	5.641**	6.461
	High	0.159	0.005	0.865	0.159
	Medium	0.292	0.017	1.627	0.560
	Low	−0.500	0.060	−3.040**	1.892
	Lowest	−0.576	0.127	−4.425**	3.592
Total					12.664
Forced labor (*FL*)	Highest	0.678	0.399	7.836**	8.347
	High	−0.327	0.042	−2.557**	1.188
	Medium	−0.809	0.050	−2.775**	1.816
	Low	−0.727	0.065	−3.166**	2.265
	Lowest	−1.197	0.109	−4.104**	3.972
Total					17.588

NB (**) 5% significant.

APPENDIX 3. DESCRIPTIVE STATISTICS OF THE VARIABLES

See Tables 1–3.

Table 1. *Descriptive statistics of the variables—world sample*

	Mean	Std. dev.	Min	Max
ln *GDP*	8.32	1.19	5.73	10.47
ln *LS*	3.51	0.88	−2.30	4.6
ln *Invest*	2.58	0.61	0.64	3.72
$\ln(n + g + \delta)$	−2.66	0.14	−2.94	−2.33
ln *edu*	2.82	0.91	0.53	4.20

Table 2. *Descriptive statistics of the variables—developing countries*

	Mean	Std. dev.	Min	Max
ln *GDP*	7.88	0.95	5.74	10.12
ln *LS*	3.22	0.86	−2.30	4.43
ln *Invest*	2.42	0.59	0.64	3.72
$\ln(n + g + \delta)$	−2.60	0.09	−2.92	−2.34
ln *edu*	2.57	0.88	0.53	3.96

Table 3. *Correlation matrix*

	ln *GDP*	ln *LS*	ln *Invest*	ln($n + g + \delta$)	ln *edu*
ln *GDP*	1				
ln *LS*	0.59	1			
ln *Invest*	0.72	0.44	1		
ln($n + g + \delta$)	−0.69	−0.53	−0.47	1	
ln *edu*	0.75	0.43	0.64	−0.54	1

APPENDIX 4. RELEVANCE AND VALIDITY OF INSTRUMENTS

See Tables 1 and 2.

Table 1. *Instruments relevance*

Excluded instrument	Partial R^2	*F*-stat
(1) Combined polity score	0.0141	1.04 (0.31)
(2) Competitiveness of participation	0.2412	31.47 (0.000)
(3) Executive constraints	0.0024	0.24 (0.62)
(4) Openness of executive recruitment	0.00	0.00 (0.96)
(5) Competitiveness of executive recruitment	0.004	0.42 (0.52)

P-values in parentheses.

Table 2. *Instruments validity and relevance*

Excluded instrument	Hansen-test	Diff-Hansen	Subset of instruments tested	Partial R^2	*F*-stat
(1) and (2)	1.121			0.3785	29.84
	(0.29)				(0.000)
(2) and (3)	3.041			0.35	26.38
	(0.08)				(0.00)
(2) and (4)	0.454			0.2687	18.01
	(0.50)				(0.00)
(2) and (5)	1.013			0.3115	22.17
	(0.31)				(0.00)
(1), (2) and (4)	1.158	0.676	(1)	0.3788	19.71
	(0.56)	(0.41)			(0.000)
(1), (2) and (4)	1.158	0.64	(2)	0.3788	19.71
	(0.56)	(0.42)			(0.000)
(1), (2) and (4)	1.158	0.036	(4)	0.3788	19.71
	(0.56)	(0.85)			(0.000)
(1), (2) and (5)	1.168	0.048	(5)	0.3815	19.95
	(0.56)	(0.83)			(0.000)
(2), (4), (5)	1.032			0.3134	14.76
	(0.60)				(0.000)
(1), (2), (4) and (5)	1.170			0.3893	15.30
	(0.76)				(0.000)

P-values in parentheses.

APPENDIX 5. DETAILS OF THE INDEX OF CORE LABOR STANDARDS

Country code	Country name	*NR*	*CL*	*FA*	*DISCRI*	*FL*	*LS*1.2
AGO	Angola	3	4	5	2	2	3.47
ALB	Albania	3	1	3	3	2	2.34
ARE	United Arab Emirates	5	3	4	4	4	3.95
ARG	Argentina	1	2	2	4	1	1.89
ARM	Armenia	5	3	3	2	2	3.07
AUS	Australia	3	1	1	1	1	1.37
AUT	Austria	2	1	1	3	1	1.44
AZE	Azerbaijan	2	1	4	1	1	1.99
BDI	Burundi	3	5	5	2	1	3.54
BEL	Belgium	1	1	1	2	1	1.13
BEN	Benin	3	4	1	5	5	3.32
BFA	Burkina Faso	2	5	3	4	2	3.25
BGD	Bangladesh	2	4	4	5	5	3.93
BGR	Bulgaria	1	1	2	1	2	1.44
BHR	Bahrain	5	1	5	5	5	4.03
BHS	Bahamas, The	3	2	2	1	1	1.89
BLR	Belarus	2	1	5	1	2	2.43
BLZ	Belize	2	2	1	5	1	1.94
BOL	Bolivia	2	3	3	5	3	3.06
BRA	Brazil	1	3	2	3	4	2.53
BRB	Barbados	2	2	1	1	1	1.43
BWA	Botswana	4	3	2	1	1	2.32
CAF	Central African Republic	2	5	4	4	2	3.51
CAN	Canada	4	1	2	1	1	1.83
CHE	Switzerland	2	2	1	3	1	1.68
CHL	Chile	1	1	1	5	1	1.51
CHN	China	5	3	5	2	4	3.96
CIV	Cote d'Ivoire	3	4	3	5	5	3.85
CMR	Cameroon	2	4	5	5	2	3.66
COG	Congo, Rep.	3	4	3	4	1	3.02
COL	Colombia	2	3	3	3	1	2.46
COM	Comoros	4	5	3	4	2	3.62
CPV	Cape Verde	5	3	2	4	1	2.89
CRI	Costa Rica	2	2	2	4	2	2.25
CUB	Cuba	1	1	5	1	4	2.59
CYP	Cyprus	2	3	1	4	1	2.05
CZE	Czech Republic	2	1	1	2	1	1.32
DEU	Germany	1	1	1	2	1	1.13
DNK	Denmark	1	1	1	1	1	1
DOM	Dominican Republic	3	3	2	4	4	3.04
DZA	Algeria	2	1	4	5	1	2.49
ECU	Ecuador	1	2	3	5	1	2.28
EGY	Egypt, Arab Rep.	1	3	5	5	1	3.06
ERI	Eritrea	5	5	5	4	2	4.35
ESP	Spain	1	1	2	3	1	1.52
EST	Estonia	4	2	1	1	2	1.99
ETH	Ethiopia	4	5	4	5	2	4.02
FIN	Finland	1	1	1	1	1	1
FJI	Fiji	4	1	2	5	1	2.34
FRA	France	1	1	2	1	1	1.27

(*continued on next page*)

Appendix 5—*continued*

Country code	Country name	*NR*	*CL*	*FA*	*DISCRI*	*FL*	*LS*1.2
GAB	Gabon	3	4	3	1	2	2.81
GBR	United Kingdom	1	1	1	1	1	1
GEO	Georgia	4	3	3	1	3	2.94
GHA	Ghana	3	4	2	2	1	2.50
GIN	Guinea	1	5	4	4	2	3.32
GMB	Gambia, The	5	5	4	5	1	4.03
NB	Guinea-Bissau	4	5	4	5	2	4.02
GNQ	Equatorial Guinea	4	5	5	5	2	4.28
GRC	Greece	1	2	2	4	2	2.06
GTM	Guatemala	1	3	3	5	4	3.05
GUY	Guyana	2	2	1	4	1	1.81
HND	Honduras	4	3	3	5	2	3.27
HRV	Croatia	2	3	1	2	1	1.80
HTI	Haiti	4	4	5	2	4	4.01
HUN	Hungary	1	1	1	2	2	1.30
IDN	Indonesia	4	3	4	4	5	3.93
IND	India	5	3	3	5	5	3.98
IRL	Ireland	1	1	1	3	1	1.25
IRN	Iran, Islamic Rep.	5	2	5	5	2	3.74
ISL	Iceland	4	2	2	1	1	2.07
ISR	Israel	3	1	2	3	2	2.07
ITA	Italy	1	1	1	3	1	1.25
JAM	Jamaica	4	1	2	1	1	1.83
JOR	Jordan	4	3	4	5	1	3.35
JPN	Japan	3	1	2	4	2	2.20
KAZ	Kazakhstan	4	2	4	1	2	2.78
KEN	Kenya	2	5	4	3	2	3.39
KGZ	Kyrgyz Republic	3	1	4	1	2	2.35
KHM	Cambodia	5	4	4	2	3	3.76
KOR	Korea, Rep.	5	2	2	5	1	2.77
KWT	Kuwait	5	3	4	4	5	4.12
LAO	Lao PDR	5	4	5	3	1	3.80
LBY	Libya	3	1	5	5	3	3.30
LKA	Sri Lanka	2	2	3	4	5	3.05
LSO	Lesotho	4	4	3	3	1	3.08
LTU	Lithuania	3	2	1	2	1	1.75
LUX	Luxembourg	1	1	1	3	1	1.25
MAR	Morocco	2	3	4	5	2	3.15
MDA	Moldova	3	2	3	2	2	2.45
MDG	Madagascar	3	5	3	3	3	3.49
MEX	Mexico	2	2	2	5	4	2.73
MKD	Macedonia, FYR	2	1	3	1	1	1.72
MLI	Mali	3	5	2	4	2	3.17
MLT	Malta	1	1	1	5	1	1.51
MMR	Myanmar	5	4	5	2	5	4.38
MNG	Mongolia	5	3	2	1	1	2.51
MOZ	Mozambique	5	5	3	3	1	3.51
MRT	Mauritania	2	4	4	4	3	3.45
MUS	Mauritius	3	2	2	5	1	2.39
MWI	Malawi	3	5	2	3	1	2.87
MYS	Malaysia	5	2	4	4	2	3.35

Appendix 5—*continued*

Country code	Country name	*NR*	*CL*	*FA*	*DISCRI*	*FL*	*LS*1.2
NAM	Namibia	5	4	3	3	4	3.80
NER	Niger	3	5	3	5	1	3.39
NGA	Nigeria	3	4	4	5	2	3.59
NIC	Nicaragua	1	3	2	3	1	2.00
NLD	Netherlands	1	1	1	2	1	1.13
NOR	Norway	1	1	1	1	1	1
NPL	Nepal	5	5	4	5	5	4.73
NZL	New Zealand	4	1	2	1	1	1.83
OMN	Oman	5	3	5	5	3	4.16
PAK	Pakistan	3	4	4	5	5	4.11
PAN	Panama	1	2	2	4	1	1.89
PER	Peru	1	2	3	5	3	2.63
PHL	Philippines	4	3	2	3	4	3.10
PNG	Papua New Guinea	3	4	2	4	1	2.75
POL	Poland	1	1	1	1	1	1
PRT	Portugal	1	2	1	2	1	1.37
PRY	Paraguay	3	3	3	5	3	3.25
QAT	Qatar	5	3	5	4	4	4.21
ROM	Romania	2	1	1	3	2	1.62
RUS	Russian Federation	1	1	4	2	2	2.10
RWA	Rwanda	3	5	5	2	4	4.07
SAU	Saudi Arabia	5	3	5	5	4	4.34
SDN	Sudan	4	5	5	5	4	4.64
SEN	Senegal	2	4	3	3	2	2.88
SGP	Singapore	5	2	4	4	2	3.35
SLB	Solomon Islands	5	4	4	1	1	3.28
SLE	Sierra Leone	4	5	4	5	4	4.37
SLV	El Salvador	4	3	3	4	2	3.14
SVK	Slovak Republic	1	1	1	2	1	1.13
SVN	Slovenia	1	2	1	1	2	1.42
SWE	Sweden	1	1	1	1	1	1
SWZ	Swaziland	3	3	4	4	1	3.04
SYR	Syrian Arab Republic	2	2	5	5	1	3.00
TCD	Chad	4	5	5	5	1	4.11
TGO	Togo	4	4	4	5	4	4.13
THA	Thailand	5	3	3	2	2	3.07
TJK	Tajikistan	3	2	5	2	4	3.34
TKM	Turkmenistan	5	1	5	1	3	3.17
TTO	Trinidad and Tobago	4	1	2	2	1	1.96
TUN	Tunisia	2	1	4	5	1	2.49
TUR	Turkey	2	3	4	5	2	3.15
TZA	Tanzania	3	5	3	2	2	3.18
UGA	Uganda	4	5	4	3	2	3.76
UKR	Ukraine	2	3	4	3	2	2.90
URY	Uruguay	1	2	2	3	1	1.76
USA	United States	5	1	3	1	1	2.29
UZB	Uzbekistan	5	3	5	1	1	3.30
VEN	Venezuela, RB	2	2	4	4	1	2.61
VNM	Vietnam	5	3	5	2	2	3.61
YEM	Yemen, Rep.	3	4	5	5	1	3.68
ZAF	South Africa	4	1	2	3	2	2.26

(*continued on next page*)

Appendix 5—*continued*

Country code	Country name	*NR*	*CL*	*FA*	*DISCRI*	*FL*	*LS*1.2
ZAR	Congo, Dem. Rep.	2	5	5	4	3	3.95
ZMB	Zambia	2	4	3	4	1	2.83
ZWE	Zimbabwe	3	4	5	3	1	3.42