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**Harmonization of Labour Policies Under Trade Liberalization**  
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**Armonización de las practicas laborales bajo la liberación del comercio**

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# *Harmonization of Labour Policies Under Trade Liberalization*

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*The pressures for the harmonization of labour laws and policies under trade liberalization are outlined, with particular attention to inter-jurisdictional competition for investment and jobs. This is followed by an analysis of the linkages that are necessary for there to be downward harmonization, with some discussion of the empirical evidence (and lack of evidence) on those linkages. Opposing pressures towards divergence and away from convergence and harmonization are also discussed. The paper concludes with some observations on the advantages and disadvantages of harmonization and the appropriate policy responses.*

Does the trend toward trade liberalization and global economic integration lead to pressure to harmonize labour laws and policies,<sup>1</sup> and if so, is that pressure for harmonization downwards to the lowest common denominator? If such pressure exists, is it always undesirable (as generally perceived in the industrial relations arena) or is there a positive side? If there are both negative and positive elements, what policies could be followed to maximize the positive elements and minimize the negative ones? Do global economic imperatives prevent countries from continuing to operate the social programs that they deem desirable? What are the pressures for harmonization and under what conditions is such harmonization downwards to the lowest common denominator? To what

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— Financial support from the SSHRC is gratefully acknowledged.

1. Ehrenberg (1994) provides a comprehensive litany of such laws and policies in the context of international economic integration.

extent do different political jurisdictions compete for business investment (and the associated jobs) on the basis of reducing costly labour laws and policies?

These are not novel questions, although they have taken on heightened policy importance in the industrial relations arena with the advent of the Canada-U.S. Free Trade Agreement (CAFTA) in 1989, and its extension to include Mexico as part of the North American Free Trade Agreement (NAFTA) signed in 1992 and ratified by Canada in 1993. The concern amongst many was that labour law and policy would gravitate towards the labour law (or lack thereof) in the U.S. South under CAFTA, and in the Mexican *maquilladoras* under NAFTA.

This concern has given rise to policy responses such as the North American Agreement on Labour Cooperation, designed to forestall the deterioration of labour standards by obliging the parties to enforce their own standards. It has also given rise to calls to set priorities to our costly workplace and social objectives (Chaykowski 1996: 283) as well as renewed calls to make labour standards an integral part of free trade agreements. The issue of the harmonization of labour laws, standards and policies lies behind the Social Charter of the European Union (which mandates a set of mutually recognized labour standards) and their Social Fund (designed to provide support for the poorer countries to engage in “upward harmonization” of their labour laws and social policies to the higher levels of the wealthier countries). The current political pressure to boycott goods that are produced in countries with minimal labour standards (especially pertaining to child labour) also reflects, in part, a desire to inhibit competition that might force downward harmonization.<sup>2</sup>

The issue also has numerous parallels in other areas. In the area of welfare policy, for example, there is concern that generous jurisdictions will act as “welfare magnets” attracting welfare recipients and repelling taxpayers, and thereby leading to harmonization of welfare benefits down to the level in the least-generous jurisdiction. In the area of tax policies and fiscal federalism, similar concerns prevail. Jurisdictions that impose high taxes to pay for social programs will attract the potential recipients of those programs and repel taxpayers, again leading to pressures to reduce taxes and the social programs they support. In the area of corporate governance, jurisdictions that impose the fewest regulations will attract head offices (as is the case with Delaware in the United States), giving rise to the social concerns associated with that reduced regulation. In the area

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2. An example is the protest against Wal-Mart's Kathie Lee Gifford line of clothing assembled by women under sweatshop conditions in Honduras. Such boycotts are highlighted in [www.corpwatch.org](http://www.corpwatch.org).

of international shipping, the same dynamic applies to the “flag of convenience” under which the ship operates. The common element of these examples is that countries (or jurisdictions within countries) may compete for business or taxpayers on the basis of reducing costly regulations or social programs, and that such inter-jurisdictional competition will be to the lowest common denominator.

As well, the classical dictum of the labour movement to “take wages out of competition” essentially seeks to inhibit firms from competing on the basis of lower wages and labour standards. The classical statement of John R. Commons — that labour must organize up to the level of the product market in which it operates — is essentially a recognition that non-union competition will force wages to the lower common denominator of the non-union sector.

Clearly then, the issue of harmonization of labour laws and policies has parallels in other areas and in other industrial relations issues. Not surprisingly, it is also an emotive issue. The dictionary concepts related to harmonization have positive connotations — bringing into harmony; agreeable in artistic effect; concordant; free from dissent; sweet sounding. These are a far cry from the phrases used to describe the negative aspects — “race to the bottom”; “social dumping”; “ruinous competition”; “regulatory meltdown”; and “harmonization to the lowest common denominator.”<sup>3</sup> In contrast, others have argued that such concerns over downward harmonization “undermine insidiously the legitimacy and feasibility of Free Trade” and represent the “new challenge to the theory and policy of free trade” (Bhagwati 1994: 548, 1).

The issue is further complicated by the fact that it is intricately tied up with other agendas. One of the main rationales for NAFTA, for example, was not so much to get the benefits of free trade, but rather to “lock in” the market-oriented reforms that were occurring in Mexico and to stabilize political relations with the United States (Prestowitz et al. 1991: ii and references cited therein). Similarly, much of the Canadian business support for CAFTA was not so much motivated by the benefits of free trade (tariffs were already low in most cases) but to put pressure on Canadian politicians to move more towards the less regulated, less unionized markets of the United States. In essence, support for downward harmonization is generally associated with support for free trade, less

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3. These issues are discussed, for example, in Adams and Turner (1994), Aggarwal (1995), Brown, Button and Sessions (1996), Charnovitz (1986, 1987, 1992), Erickson and Kuruvilla (1994), Langille (1991, 1996), Robinson (1994a, 1994b), Sengenberger (1992), Sengenberger and Campbell (1994), Stanfords, Elwell and Sinclair (1993), Swinnerton and Schoepfle (1994) and Trudeau and Vallée (1994).

government intervention and a more market-oriented economy. In contrast, support for “fair trade” to inhibit downward harmonization is often based on the notion that political intervention is crucial to foster the forces of collective bargaining and government regulations that are necessary counter-balances to the unequal bargaining power that is so influential in the private ordering of free-market mechanisms (Langille 1996).

The opposition of organized labour to free trade and the associated pressure for labour law harmonization can also be interpreted as having mixed motives. The kinder interpretation is that labour is struggling to maintain rights for which they fought long and hard, and to have those rights apply to non-union and union workers, and workers in countries where labour does not have much political power. The more cynical interpretation is that such actions are meant simply to protect the “rents” and privileged position of union members at the expense of consumers and non-union workers. Otherwise, why did the interest in Mexican labour standards and the rights of child labour in third-world countries seem to peak when these issues became threats to union workers in Canada and the United States?<sup>4</sup>

Clearly, debate in this area will be heated given the political agendas and different interpretations of those agendas.<sup>5</sup> The purpose of this paper is to try to “turn down the heat” and “turn up the light” of that debate, by dealing with the questions posed in the introductory paragraph of this paper. The pressures for the harmonization of labour laws and policies are discussed first, followed by an analysis of the linkages that are necessary for there to be downward harmonization. A theoretical understanding of both the causal pressures that give rise to harmonization and the linkages that are necessary for the harmonization to be downwards towards the lowest common denominator is important so as to predict future changes (when those underlying structural, causal mechanisms and linkages may change) and the impact of policy responses (since their impact in part depends upon whether they can affect the underlying causal relationships). Opposing pressures towards divergence and away from

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4. Krueger (1996), however, presents U.S. evidence indicating that congressional districts with relatively unskilled labour, who are most likely to compete with child labour, are less likely to support a ban on imports made with child labour.
  5. The wide range of alternative views are illustrated in various articles in Bhagwati and Hudec (1996a, 1996b), Castro, Mehaut and Rebery (1992), Herzenberg and Perez-Lopez (1990) Lemco and Robson (1993) and Schoepfle and Swinnerton (1994a, 1994b). A historical perspective on the relationship of labour standards and economic goals is given in Kochan and Nordlund (1989).

convergence and harmonization are also discussed. The paper concludes with a summary and some observations on the advantages and disadvantages of harmonization and the appropriate policy responses.<sup>6</sup>

### *PRESSURES FOR HARMONIZATION*

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Pressures to harmonize labour laws and policies can arise from a number of interrelated forces associated with globalization and international economic integration. These forces include: inter-jurisdictional competition for investment and jobs; elimination of subsidies as part of trade agreements; reduction of non-tariff barriers to trade; increased exposure to and emulation of “best-practices”; social and political pressure to reduce “worst-practices”; uniform application of multinational practices; emulation of other forms of harmonization; internal harmonization to enhance external competitiveness; harmonization through enhanced growth and development; political pressures for upward harmonizations; and union pressures for upward harmonizations. Each of these will be discussed in turn.

#### *Inter-jurisdictional Competition for Investment and Jobs*

The main pressure for harmonization comes from the competition of different political jurisdictions for business investment and the jobs associated with that investment.<sup>7</sup> Such competition — reflected in the slogan “open for business” — can occur across countries and across provincial or even local jurisdictions within a country. Jurisdictions can compete in a variety of ways: industrial and other subsidies; tax breaks; provision of public infrastructures; and reduced regulations, including labour laws and regulations. Such competition can be designed to influence plant location and new investment decisions, as well as to prevent or postpone plant closings and the mass layoffs that are usually

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6. Key elements of a labour market strategy to preserve jobs and the labour standards of those jobs under growing international competition are outlined in Gunderson and Riddell (1995).

7. As stated by Betcherman (1993: 14): “Where ‘footloose’ capital can change its landing spot, does an individual country realistically have the room to manoeuvre to implement a policy regime that is more costly than those of its neighbours and competitors?” As stated by Schott (1992: 240): “Countries are now competing in a global beauty contest to see which have the most desirable economic policies. The judging is being done by investors — both domestic and foreign — who vote with their capital.” Gunderson and Verma (1994) discuss the labour market implications of foreign direct investment and its relationship to labour policy in a Canadian context.

associated with such decisions. The competition can also occur in response to the threat of such closings.

While this pressure has always been present, it is more prominent under trade liberalization since the reduction of tariff and non-tariff barriers allow companies to relocate to the lowest cost country and export back into the higher cost country. It is no longer as necessary to maintain branch plants as a way of “leaping the tariff wall.” This is facilitated by the greater ease of international communications and transportation as well as by industrial restructuring (e.g., international subcontracting and outsourcing). Firms increasingly organize their activities on a global basis, shifting aspects of their activity to different countries reflecting their respective comparative advantages. Bombardier, for example has its head office in Montreal, the fuselage for its new Learjet made in Belfast, the wings made in Toronto, and the plane assembled in Wichita, Kansas.<sup>8</sup> An even more common strategy, especially for less high-technology products, is to have the managerial, financial and research and developments aspects done in the “home country,” financial capital raised throughout the world, and the assembly and parts supplying done throughout the less developed world where labour costs and regulations are low. Under globalization the world becomes a “greenfield site.”

Clearly, in such a world, multinational organizations can play workers, and even countries, off against each other to win concessions in forms such as wage moderation in the case of workers and reduced labour regulation in the case of countries. Rollbacks of legislative protections by governments are akin to wage concessions on the part of workers. Not extending labour regulations to the growing sector of small businesses and subcontractors is akin to two-tier contracts under collective bargaining, where incumbents remain protected but new hires are subject to different terms and conditions of employment. In essence, the greater bargaining power that employers have<sup>9</sup> with their more credible threat of relocating plants and investments, and that can lead to concession bargaining and two-tier contracts under collective bargaining with unions, can lead to similar legislative rollbacks, concessions and two-tier regulatory arrangements in political bargaining with different countries. In both cases, employers have what the other side wants — investment and the jobs associated with that investment.

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8. Globe and Mail, Report on Business, April 1997, p. 42.

9. The enhanced bargaining power of employers under globalization is emphasized in Giles (1995) and Langille (1996).

Langille (1996: 250) argues that when labour adjustment consequences emanated from market-oriented changes *within* the nation-state, the losers were often able to utilize their democratic voting power to win compensation for the losses. In contrast, under global competition the “losers” do not have that political forum (at least under current international arrangements). “Labor and capital are no longer in a bilateral monopoly within a nation-state with equal access to the political process. Capital has slipped the moorings of the nation-state, labor has not done so. Capital has acquired the option of exit, labor has not done so” (Langille 1996: 251).

Just as free trade has contributed to growing wage inequality in countries like Canada and the U.S.,<sup>10</sup> it can also contribute to a growing inequality in labour regulations within each country. It contributes to wage inequality as the increased imports from low-wage countries adversely affect less-skilled workers in Canada and the United States, while the export expansion is from sectors using more skilled labour.<sup>11</sup> In a similar fashion, the pressure to deregulate labour markets can be stronger in low-wage markets so as to slow the loss of jobs.

This competition will also be intense when the “good jobs” are at stake, especially in areas like research and development and high-technology. To a degree, these jobs were “protected” in the past by that the fact that less developed countries were able to compete mainly on the basis of “low wages but low skill”; increasingly, however, they can compete on the basis of “low wages and *high* skill” (Betcherman 1993: 16). That competition for the “good jobs,” however, will likely take the form of industrial subsidies and procurement policies to attract investment, since reducing any regulations that enhanced their pay would be self-defeating in that they then may not be “good jobs.” Furthermore, in many cases they are not jobs that are protected by labour laws, at least by labour standards which tend to establish minimum terms and conditions of employment.

In essence, jurisdictional competition for business investment and jobs can occur in the form of reducing otherwise costly labour regulations. This can foster harmonization to the lowest common denominator — to the jurisdiction with the least regulatory environment. It can also lead to greater inequality of labour protection since the

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10. Evidence on the growing inequality in Canada is discussed in Beach (1995), Freeman and Needels (1993) and Picot (1996).

11. Erickson and Mitchell (1996), for example, provide evidence on this with respect to the labour content of trade between the U.S. and the Four Asian Tigers plus China.



pressure to deregulate may be greatest for low-wage sectors that are at the greatest risk of import competition. In contrast, the jurisdictional competition for the “good jobs” will likely take the form of industrial subsidies and other policies that will preserve them as “good jobs.”

### *Elimination of Subsidies as Part of Trade Agreements*

Pressure towards the harmonization of labour laws and policies can also occur as part of the trade agreements themselves. Specifically, such agreements generally prohibit subsidies to domestic production as constituting unfair trade practices. Imports that embody such subsidies can be subjected to countervailing duties so as to offset the advantage conferred by the domestic subsidy. In effect, the process of establishing a “level playing field” can foster harmonization of laws and regulations that otherwise may have worked against a “level playing field.”

Subsidy programs that assist particular sectors are especially vulnerable. Regional development programs, for example, could confer different benefits on particular sectors, and these could result in a cost advantage to the exports of those sectors (Gunderson 1996). The regionally extended benefits of employment insurance in Canada, for example, could be interpreted as conferring a subsidy on industries that disproportionately rely on employment insurance, such as the fishing industry in the Atlantic provinces. If exports from these sectors threatened the industries in the importing countries, this could engender political pressure to eliminate such subsidies or subject the imports to a countervailing duty.

Because trade liberalization could inhibit countries from pursuing certain domestic social programs that indirectly subsidize their exports, critics of free trade argue that countries may lose control of their social programs under trade liberalization. Supporters reply that, although trade liberalization may stop a country from doing some things it may want to do, it can also inhibit a country from doing things it ought not to do — the subsidies being interpreted as generally inefficient programs involving political rent seeking. Furthermore, subsidies that lower the costs of exports usually involve offsetting tax costs that reduce the unfair trade advantage, although the taxes and subsidies are seldom synchronized to be offsetting within an industry.

After the advent of CAFTA, for example, producers in the United States often argued that they were at an unfair disadvantage with respect to Canadian producers, since the latter were “subsidized” by the state-run health care system. U.S. producers, in contrast, faced higher compensation costs because of expensive health plans. The Canadian

system, however, is not “free” to producers since it is financed out of taxes, including employer health taxes. If the Canadian system costs less than the U.S. system, then this would seem to be a reflection of the cost-effectiveness of one health care system versus another, and not the result of a government subsidy. In fact, if there is any pressure towards harmonization, it will likely see the U.S. converging towards the Canadian system, at least to the extent that it would be deemed to be more cost effective if replicated in the U.S. Recent U.S. attempts at health care reform, for example, were spurred by pressure from employers seeking to reduce their health care expenditures under global competition.

#### *Reduction of Non-Tariff Barriers to Trade*

Trade liberalization typically involves the reduction of tariff and non-tariff barriers to trade. To the extent that the non-tariff barriers involved regulations applied to imports,<sup>12</sup> then their elimination can be a step in the direction of harmonization. This is the case, for example, with the policy of “national treatment” under free-trade agreements. Under that policy, countries that impose regulations on imports are required to impose those same regulations on similar domestic products. This rule is designed to prevent such regulations being used as non-tariff barriers to trade. It will also foster harmonization of policies, however, since uniform practices will be encouraged.

#### *Emulation of Best Practices*

The example of health care reform illustrates another force whereby trade liberalization and economic integration will foster harmonization — the emulation of “best practices.” To the extent that the Canadian health care system is a “best practice” as a social policy, it will be emulated by other countries that are under pressure to be cost effective in their social policies so as to enhance international competitiveness. The emulation of best practices can apply to governments and their social programs, just as it can apply to private employers emulating the successful practices of other employers. This, of course, is “good harmonization” since it involves harmonization towards best practices.

In the private sector, for example, global competition led to pressure on North American employers to emulate many Japanese employment and human resource practices, including team production, quality circles, employee participation, employee commitment (especially for

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12. Examples of non-tariff barriers to trade include nutrition labelling requirements and sanitation requirements on food imports.

quality control), multiskilling and even bonus payments in the form of contingent compensation. This pressure was especially prominent in sectors like autos where the threat of Japanese competition was greatest.

Increased economic integration in general fosters harmonization through the emulation of best practices induced by the exchange of information, ideas, capital and people — all of which are fostered by trade liberalization. As we trade more with different countries, we acquire more information about them, including their best practices.

#### *Social and Consumer Pressure to Reduce “Worst Practices”*

Trade can also foster upward harmonization by enhancing the social and political pressure to reduce “worst practices.” The threat of consumer boycotts against international organizations that follow worst practices (child labour is the most prominent example) can be a deterrent to such practices (Erickson and Mitchell 1996: 765), as can consumer purchasing decisions in general.<sup>13</sup> Political sanctions can serve a similar role. Sanctions against South Africa likely played a role in the elimination of apartheid. In a world of isolationism such a practice may have persisted longer.

#### *Practices of Multinationals*

Multinational organizations can also foster harmonization, in part because they have the internal mechanisms to determine and extend best practices throughout their global operations. This is further encouraged by the exchange of international personnel that is common amongst multinationals. In many areas they may also follow a uniform “corporate” policy, sometimes extending the practices of their “home country” throughout their global operations. To the extent that the home country is a more developed nation, then these practices are usually more advanced and hence upward harmonization is encouraged. This is further fostered by the fact that multinationals can be under strong political pressure to be a model employer in their host country, and to adopt voluntary corporate codes of conduct.<sup>14</sup>

While multinationals can foster upward convergence in the less developed countries, they can also foster downward convergence in the more developed countries. This is so because they can threaten to locate

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13. It is for this reason that Freeman (1994b) recommends that governments provide information on the socially responsible and irresponsible actions of companies.

14. Betcherman (1993) and Compa and Darricarrère (1996).

new plants and investment in countries where labour laws and regulations favour low labour costs.

*Emulating Other Forms of Harmonization and Facilitating Exchange*

Trade liberalization and international exchange brings pressure to harmonize various practices and laws so as to foster exchange. These include standards in such areas as products, technology, laws, commercial transactions, environmental protection, occupational licensing, intellectual property rights, tax policies and even monetary units (e.g., the European common currency).<sup>15</sup> In most cases, such uniform standards are promulgated to facilitate exchange, not only of goods and services, but also of capital, people and ideas.

In such an environment it becomes easier to foster the harmonization of labour standards. Lessons and practices learned in these areas can be adapted to other areas. As well, increased trade and exchange may give rise to pressure for common standards in such areas as occupational licensing, training, and health and safety regulations. As Howse and Trebilcock (1994: 66) note: "Common rules can reduce the administrative costs of compliance for firms that operate over a range of jurisdictions."

*Internal Harmonization to Enhance External Competitiveness*

Trade liberalization can also foster harmonization as it encourages countries to try to harmonize and coordinate their internal policies so as to be more competitive externally. In Canada, for example, increased emphasis is being placed on removing internal barriers to trade and fostering labour mobility to enhance internal competitiveness as a precondition for external competitiveness. As stated by Burton (1996: 48): "Canadian firms have recommended national occupational standards because they promote worker mobility, create a consistent educational system, allow companies to compare applications, make job definition easier, raise the quality of technical staff, improve the organization of the education system, avoid duplication and overlap, and regularize the Canadian system in an international context."

Such practices are also being followed within trading blocs. The countries of the Caribbean Basin, for example, are trying to better coordinate their internal policies so as to compete with the other trading

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15. Many of these are discussed in the various articles in Bhagwati and Hudec (1996a, 1996b).

blocs that are emerging around them. The European Union has moved extensively in this area, harmonizing many of their internal labour laws and regulations (often through the procedure of “mutual recognition”) in part to be more competitive with countries outside of their common market.

Market forces themselves can also foster such harmonization. As in the case of Canada under NAFTA, free trade creates pressure to rationalize production within the country, in part to get the economies of scale that are necessary to compete in the large global market. To the extent that the large conglomerates tend to follow more uniform policies, then harmonization is fostered.

#### *Harmonization Through Enhanced Growth and Development*

Upward harmonization can also occur as a by-product of enhanced development. As countries move to higher stages of development, perhaps enhanced by trade liberalization, they are likely to be able to afford to augment their social programs and labour standards.<sup>16</sup> In essence, the income elasticity of demand for progressive labour standards may be positive, in which case upward harmonization is fostered by policies that enhance growth. Conversely, prematurely compelling poorer countries to adopt labour standards and policies they cannot yet afford, can retard the development that would enable them to naturally adopt such policies as their development progresses.

#### *Political Pressures for Upward Harmonization*

While the market forces that are fostered under trade liberalization tend to lead to downward harmonization of laws and regulations, political pressures can occur to counter those forces and to encourage upward harmonization. Trade policy in general has the potential to require countries to raise their labour standards as a precondition for entering into free-trade agreements.<sup>17</sup> It could also require members of

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16. Fields (1987, 1995), Fields and Wan (1989), Freeman (1994b), Krueger (1996) and Gadbow and Medwig (1996). Casella (1996) also models how income convergence fostered by trade is also likely to lead towards convergence of labour standards as countries are more likely to “buy” similar packages of standards.

17. For discussions of such requirements see Brown, Deardorff and Stern (1996), Charnovitz (1987, 1992), Compa and Diamond (1996), Diamond (1996), Erickson and Mitchell (1996), Fields (1995), Hansson (1983), Hufbauer and Schott (1990), Kochan and Nordlund (1989), Leary (1996), OECD (1994), Park and Lee (1995), Perez-Lopez (1988, 1990), Servais (1989), Schoepfle and Swinnerton (1994), Valticos (1969), and

free trade blocs to apply uniform labour standards, such as those embodied in International Labour Organization (ILO) conventions.

The labour side accord under NAFTA, for example, is intended in part to put pressure on Mexico to enforce its labour laws, which are stringent “on paper” but are regarded as not being applied “in practice.” A variety of special agreements on labour and social policy have also been included in many of the trade agreements that are being negotiated in Latin America and the Caribbean Basin (Aparicio-Valdez 1995).

The Social Charter of the European Union is an even stronger example.<sup>18</sup> The Charter is intended in part to inhibit the member states from competing with each other on the basis of low labour standards. Certain labour standards are to be commonly applied across the member states or the member states must mutually recognize and accept the standards of other member states. Recognizing that some of the poorer members cannot afford to apply the same standard as the wealthier states, a Social Fund exists, whereby the wealthier states are taxed to provide transfers to those poorer states to carry out their programs.<sup>19</sup> Such “equalization funds” under fiscal federalism are a common mechanism to discourage in-migration in response to more generous social programs and public expenditures in wealthier jurisdictions.

ILO conventions provide another type of supranational response to prevent downward harmonization. The conventions provide a series of labour regulations and standards that are to apply to member states that adopt the conventions. While countries tend to adopt only some of the conventions, and enforcement is largely through “moral suasion” and political pressure from the “international spotlight,” the conventions do provide a framework or template for the establishment of harmonized standards. This is especially the case with respect to the “core” standards in such areas as freedom of association, child labour and forced labour.

The political pressure for upward harmonization is further enhanced by the fact that such upward harmonization on the part of the low-cost

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Van Liemt (1989). Betcherman (1993) provides evidence based on interviews with Canadian officials from business, labour, government and international labour organizations, of general support for the inclusion of labour issues within international trade agreements.

18. Addison and Siebert (1991, 1992, 1994), Deakin and Wilkinson (1994), Due, Madsen and Jensen (1991), Ermisch (1991), Kenner (1995), Lemco and Robson (1993), Sapir (1996) and Silvia (1991).

19. Ehrenberg (1994) suggests that developed countries compensate the less developed countries for the cost of labour standards they are required to accept.

trading partners may reduce protectionist pressures in the high-cost country and expand support for trade liberalization.<sup>20</sup> Even those who oppose the requirement of higher labour standards as a precondition for a free-trade agreement (on the grounds that it is thinly-disguised protectionism) may accept such requirements as a second-best alternative to explicit protectionism. It may be a price worth paying to achieve the benefits of trade liberalization.

### *Union Pressures for Upward Harmonization*

Unions may also exert pressure to encourage upward harmonization. One of the avowed purposes of the union movement is “to take labour out of competition.” To the extent that competitive market forces foster downward harmonization, then unions may inhibit such harmonization by blunting those market forces. Of course, their *ability* to do so may be severely restricted by globalization, especially given the credible threat of business relocating into lower cost “greenfield sites.”

It is well known that for unions to be effective, they must “organize up to the level of the product market in which they operate.” Otherwise, their actions will be inhibited — indeed, possibly dictated — by the competitive threat of non-union firms, assuming that unions do raise costs. Under global competition, this means that unions must organize up to the level of the global marketplace. This, of course, is a difficult requirement, given the trend away from “international” unionization and the emphasis on national unions in Canada (Murray 1995: 177). Nevertheless, international cooperation is certainly possible amongst unions, and unions can certainly support the extension of international labour standards. If it is not possible to *organize* up to the level of the global market, it may be possible to encourage the application of regulations and standards at that level so as to at least inhibit non-union competition.

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20. As discussed in Charnovitz (1987) and succinctly summarized in Charnovitz (1992: 354): “When supporters of the trading system defend sweatshops or driftnets as a legitimate form of competitive advantage, they diminish the political coalition in support of trade liberalization.” As stated by Krueger (1996: 14): “Labor and environmental side agreements are likely to enhance political support for trade agreements in industrial countries. If faced with a choice between no trade agreement and an agreement that also requires more vigorous enforcement of labor laws that are already on the books, my guess is that even the most hardened trade economist would prefer the second option.”

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*LINKAGES NECESSARY FOR DOWNWARD HARMONIZATION*

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The previous discussion of the pressures that give rise to harmonization indicated that those forces could lead to a harmonization of labour laws and policies (either upwards or downwards, depending upon the source of the pressure). The main pressure, fostered by freer trade, would come from inter-jurisdictional competition for investment and the jobs associated with that investment. That pressure would generally lead to downward harmonization as jurisdictions compete for investment in part by reducing costly labour laws and regulations. Since this form of harmonization to the lowest common denominator receives the most attention in the industrial relations literature, it is worth emphasizing the linkages necessary for such downward harmonization to occur and to highlight some empirical evidence on those linkages.

In general, for downward harmonization of labour laws and policies to occur as a result of trade liberalization, four linkages must exist: (1) the law in question must be implemented and enforced; (2) the laws must lead to an actual or perceived increase in labour costs to employers (i.e., the costs must not be offset by benefits to employers or shifted, say, to workers); (3) the higher labour costs must deter investment and influence plant location decisions; and (4) jurisdictions must compete for investment and jobs on the basis of reducing their costly labour laws. A break in any *one* of these linkages will sever the connection between trade liberalization and downward harmonization.

Each of these linkages will be discussed in turn. The references to empirical evidence will be mainly illustrative, since systematic evidence is scarce in this important area. The discussion of each of the linkages is illuminating not only because it illustrates the channels that connect trade liberalization to institutional responses, but also because it highlights areas where policy responses may reduce “bad harmonization” while perhaps allowing “good harmonization.”

*Laws Must be Implemented and Enforced*

For labour laws to raise labour costs, the laws must be implemented and enforced. The alleged lack of enforcement of labour laws in Mexico, for example, is one of the pressures that can lead to downward harmonization in Canada and the U.S.<sup>21</sup> In Canada and the U.S., lack of implementation and enforcement might also occur, and there may be

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21. The extensive labour standards legislation that were put in place in Korea in 1953 were also not enforced for fear that it would reduce competitiveness (Park and Lee 1995: 31).



increasing pressure in that direction. Recent government budget cuts, for example, have often decimated implementation and enforcement agencies. Strategies of non-interventionist, conservative governments have often involved keeping the law “on the books” but not providing the budget to administer the law. Pressures towards self-regulatory regimes can be interpreted as non-regulatory regimes. Laws and regulations are usually more difficult to enforce in the new growth sectors of small business, temporary-help agencies and subcontractors. Small businesses are often formally exempt, as are the growing number of self-employed. In fact, the rise of such sectors is often attributed to the growth of costly labour regulations.<sup>22</sup>

It is also notoriously difficult to enforce laws when both labour and management have a vested interest in having the law ignored. This is alleged to be the case with respect to laws restricting the use of overtime, since both employees and employers often want the overtime even if it exceeds statutory limits. Complaints from individual workers are also less likely to be forthcoming if it is difficult to guarantee protection from employer reprisals. In Canada, workers may be concerned about losing their job given high unemployment; in the United States, unions may not provide much protection given the decline of unionization in that country.

For these reasons, trade liberalization may exert little pressure to reduce costly labour legislation because the legislation is not effectively implemented or enforced in the first place. Other forces (government budget cuts, conservatism, the growth of less regulated sectors, deunionization and high unemployment) may have “got there” first. Many of these forces themselves, however, may be fostered by trade liberalization; hence it is difficult, if not impossible, to separate out the net effect of each factor in fostering harmonization.

#### *Laws Must Raise Labour Costs or be Perceived to Raise Costs*

Even if the laws are applied and enforced, they must also raise labour costs in order to influence plant location decisions and deter investment, or they must be perceived to do so on the part of employers, since it is perceptions that can influence investment and plant location decisions. Labour costs, however, may not increase if the costs can be shifted, or they may bring benefits that offset at least some of the costs to employers.

Under trade liberalization it may be more difficult to shift costs “forward” to consumers because they have viable alternatives in the international marketplace. Similarly, it is more difficult to shift costs to

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22. Lee (1995: 105), Kuruvilla and Arudsothy (1995: 179).

shareholders and investors given the greater international mobility of capital. It may be possible, however, to shift the costs “backwards” to the relatively immobile factor of production — labour — because workers generally cannot escape the “tax” by moving elsewhere.

This shifting of the cost back to labour is especially likely to be the case when there is a direct benefit to labour from the law or policy, as occurs, for example, with respect to workers' compensation, health and safety regulations or pension regulations. In such circumstances, workers may ultimately “pay” for the regulation in the form of lower compensating wages in return for the benefit of workers' compensation, reduced workplace risk or enhanced pension benefits.<sup>23</sup> Empirical evidence suggests, for example, that around 80 percent or more (Dahlby 1993) of payroll taxes for such factors as unemployment insurance, workers' compensation, pensions and health care are ultimately shifted back to workers in the form of lower compensating wages for the benefits of such policies. Alternatively stated, if employers did not pay those taxes, they would have to pay higher wages to compensate for such risks as unemployment and workplace hazards, as well as to enable their employees to engage in private saving for such items as pensions or health care.

Costs can also be shifted to the general population in the form of exchange rate adjustments. As Freeman (1994a: 105) argues: “If Canadians want to spend more on occupational health and safety than Americans, and if the cost of such is not shifted back to Canadian workers, Canadian firms will be at a competitive disadvantage at a particular exchange rate. But then the Canadian dollar will depreciate versus the U.S. dollar, and all Canadians will bear the cost of the higher health and safety standards through the higher cost of imported goods from the United States.” Of course, such cost shifting to the general population can induce pressure for downward harmonization of laws to the extent that the general population resists the fall in the real standard of living associated with the depreciated Canadian dollar (more domestic consumption or exports have to be given up to buy imports with a devalued dollar).

In addition to being able to shift much of the costs of regulation, employers may also have some of the costs reduced because of offsetting

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23. Ehrenberg (1994) outlines the basic economic framework for analyzing such cost shifting, and provides evidence for the United States. Canadian evidence on the existence of such compensatory wage premiums is discussed in Gunderson, Hyatt and Pesando (1992) for pensions, and Gunderson and Hyatt (1996) for employer costs of accommodating the return to work of injured workers.

benefits. This is probably most clearly illustrated with respect to workers' compensation whereby employers agreed to pay for such a "no-fault" insurance scheme in return for an exemption from legal liability for workplace accidents.

Other labour laws can also bring benefits to employers that can offset at least part of their costs. Health and safety regulations can reduce lost-time accidents. Overtime regulations can reduce fatigue effects. Anti-discrimination laws can improve morale and foster integration of an increasingly diverse workforce (Jain and Verma 1996). Advance notice legislation and unemployment insurance can foster job search and new job matches. Minimum wage legislation can induce efficiency enhancing "shock" effects elsewhere in the organization. Providing a degree of job security can reduce resistance to otherwise efficient changes, like trade liberalization and technological change (Blank 1994).

Broader social benefits may also arise from the "social capital" associated with some labour regulations. In the extreme, they may "buy" social peace in the form of reduced crime and anti-social actions.<sup>24</sup> As well, they may lead to reduced public expenditures elsewhere in the system such as in health care and other social services.<sup>25</sup>

Many employers may well accept the cost consequences of the legislative initiatives if they are uniformly and consistently applied so as to ensure a level playing field. Those that take a "high road" human resource strategy may not want to compete on the basis of low labour costs. In a world where product prices and the price of capital are increasingly set in world markets, employers may seek their strategic comparative advantage in terms of a high-commitment workforce that has a reasonable degree of protection through labour regulations.

It is likely wishful thinking, however, to believe that such laws "pay for themselves." Otherwise, all that would be necessary would be to inform employers of the benefits and allow them to adopt the policies voluntarily. Employer resistance to much of the legislation likely reflects a correct assessment of the costs rather than a consistently naive miscalculation

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24. As Krueger (1996: 10) queries: "Had Britain refused to purchase cheap U.S. cotton produced with slave labor, one can only speculate about whether the bloody Civil War could have been averted or shortened. When judged against the small increase in prices that may result from international labor standards, the collateral political and social benefits could be quite large."

25. Catalano (1991), D'Arcy (1986), D'Arcy and Sidduque (1985), Jin, Shaw and Svoboda (1995), Grayson (1985, 1989) and Pautler and Lewko (1984).

based on systematically ignoring the benefits.<sup>26</sup> Nevertheless, there are likely to be at least some benefits that offset some of the costs.

### *Higher Legislated Labour Costs Must Deter Investment*

Even if labour costs are increased because of labour laws, governments will only be under pressure to harmonize downwards if such cost increases influence plant location decisions and deter business investment. Unfortunately, there is little systematic evidence on exactly how important labour laws are relative to other factors, such as taxes and regulations, as well as access to markets and skilled labour pools.<sup>27</sup>

Investment is not exactly flooding into countries that have the very lowest labour costs and the lowest regulations, in part because the lack of a labour law infrastructure is often associated with a lack of investment in social capital and public infrastructure in general. There is general recognition in the economic growth literature that growth is enhanced by such factors as political stability and the social and legal infrastructure that facilitates contracts and exchange. These can be enhanced by regulations, albeit excessive regulations can also be a strong deterrent to such growth.

### *Jurisdictions Must Compete for Investment by Reducing Labour Regulations*

The final link that is necessary for trade liberalization to foster downward harmonization is that jurisdictions must compete for investment and employment in part on the basis of reducing labour regulations. Clearly this does occur, as evidenced by the overt advertising of some Southern U.S. "right-to-work states." Likewise, the "Michelin Bill"

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26. Employer resistance may also reflect the fact that the costs of regulations are often immediate while the benefits often occur in the future and to other employers. Mobile capital and jurisdictional competition may increase pressure for short-term payoffs and opportunism.

27. Carlton (1979) provides evidence that labour laws and regulations in the U.S. influence plant location and investment decisions. Further evidence on the importance of labour costs in general is given in Kieschnick (1983), Litvak and Maule (1981), Rugman (1987), and Williams and Brinker (1985), although contrary evidence is given in Forget and Denis (1985), Ghandhi (1990) and Knubley, Krause and Sadeque (1991). Base on data from 30 Latin American and Caribbean countries, Rama (1995: S265) concludes: "Countries with a rigid labour market grew more slowly than flexible ones... none of the labour market policies criticized by the distortionist approach, such as mandatory benefits, social security contributions, minimum wages or severance pay has a noticeable impact on the growth rate of output... bad performance instead is associated with large government employment and high unionization rates."

in Nova Scotia was an overt act of reducing labour regulation to attract business (Langille 1996: 254). Certainly, if jurisdictions are willing to provide subsidies and tax incentives to attract business, there is little reason to believe that they would not be willing to deregulate their labour markets.

Yet, little systematic evidence exists on the extent to which jurisdictions are willing to reduce labour regulations to attract business.<sup>28</sup> Workers are also voters, and this can therefore be a risky political strategy. Labour regulations, unlike subsidies and tax rebates, often have a direct “human component” to them, and reducing such regulations risks making the government appear mean-spirited. The political response is more likely to take the form of “benign neglect,” by reducing the administrative and enforcement resources directed towards such regulations and by not introducing new ones.

Different jurisdictions may have different preferences for different amounts of regulations, with their voting constituencies being willing and able to pay for those regulations even if they are costly. A “Tiebout (1956)-type” sorting mechanism may prevail whereby individuals and organizations “vote with their feet” by moving to the jurisdiction with the combination of public expenditures and regulations, and the associated taxes, that best matches their preferences. Some may opt for the high expenditures and regulations along with high taxes; others may opt for the opposite. Both are sustainable in the political marketplace. Political competition need not lead to a uniformity of policies, just as economic competition does not lead to a uniformity of consumer products. Inter-jurisdictional competition can lead to a diversity of institutional and legal arrangements, just as inter-firm competition can lead to a diversity of products in the product market.

Greater diversity of regulations can also arise from a breakdown in regulatory “pattern following.” Product market competition, for example, has led to a breakdown of pattern bargaining in the collective bargaining arena, as greater emphasis is placed on the ability-to-pay of separate units.

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28. Rodrik (1997) reviews some empirical evidence that suggests harmonization; Cooke (1997) finds U.S. direct foreign investment to be negatively related to unionization, centralized bargaining, restrictions on layoffs and contract extension policies, and positively related to education and works councils; Cooke and Meyer (1990) find import penetration to foster union avoidance strategies; Karier (1995) finds U.S. outward foreign direct investment to be unrelated to domestic unionization rates; Odgers and Betts (1997) find investment in Canadian manufacturing to be deterred by unionization, but not when the industry was already highly unionized; and York (1993) finds evidence of pressure for downward harmonization of corporate tax rates in response to capital mobility.

Similarly, greater emphasis is being placed on the ability of different jurisdictions to pay for their social and regulatory policies. This can yield a greater diversity of outcomes rather than a convergence of outcomes. In Canada, for example, the federal government was often influential in setting the pattern for labour regulations, even though they had jurisdiction over only about 10 percent of the workforce. Such regulatory pattern-following on the part of the other jurisdictions is likely to decline as they come under more pressure to pay attention to the cost consequences of their policies.

Diversity of policy initiatives may also be fostered by the fact that some jurisdictions may seek to experiment and develop new institutions and legal arrangements, just as some firms innovate to introduce new product lines. It is true that jurisdictional experimentation may be hampered by their inability to “patent and sell” their successful innovations to other jurisdictions (unlike product innovations, which can be patented). Yet some jurisdictions are leaders in the field of labour policy, while others follow. Such forces can give rise to divergence rather than convergence.

Multiple-equilibrium are also possible (Fields 1995: 17). Some jurisdictions may compete successfully with an unregulated, laissez-faire labour market. The workforce may be flexible and adaptable, but have costly turnover and little commitment to the organization. Other jurisdictions may have more regulated labour markets, but low turnover and high commitment. Both regulatory environments could be sustainable, providing the labour regulations reduced other costs or had other associated benefits. The high-cost labour markets of Germany, for example, have extensive regulations in areas such as work councils and the apprenticeship system. But these institutions presumably have other positive aspects, such as employee involvement and skill development, that ensure their survival. Similarly, labour markets in Japan have extensive rigidities through such institutions as “lifetime employment,” yet they survive presumably because they confer cost saving in other forms, such as employee commitment and reductions in both turnover and employee resistance to change. There are multiple paths to the same goal.

#### *SUMMARY AND CONCLUDING OBSERVATIONS*

Pressures to harmonize labour laws and policies can arise from a number of interrelated forces associated with globalization and international economic integration: inter-jurisdictional competition for investment and the associated jobs; the reduction of non-tariff barriers to trade, including laws and policies that could be interpreted as unfair

trade subsidies; increased exposure to, and emulation of, best practices, including those in the legislative arena; the practices of multinationals; and legal and political responses to integration pressures.

While these pressures foster harmonization, such harmonization need not be to the lowest common denominator. Upward harmonization could be fostered by such procedures as the emulation of best practices, the uniform application of multinational practices, and concerted political and trade union responses. Nevertheless, powerful forces are exerted in the direction of downward harmonization, mainly through inter-jurisdictional competition for investment.

For such harmonization to be downward towards the lowest common denominator, four key links were identified: (1) the law in question must be implemented or enforced; (2) the laws must lead to an actual increase in labour costs to employers; (3) the higher labour costs must deter investment and influence plant location decisions; and (4) jurisdictions must compete for investment and jobs on the basis of reducing their costly labour laws. Unfortunately, little systematic empirical evidence exists on any one, let alone all of those linkages. Since *all four* linkages must be present for trade liberalization to lead to downward harmonization, there certainly are possibilities that the linkage will be broken at some stage in the process.

Nevertheless, the forces of globalization and trade liberalization are creating powerful pressures *towards* harmonization of labour laws and policies, and that pressure is likely to lead to harmonization *towards* the lowest common denominator in the sense of reducing costly policies. This is analogous to the fact that global competition in product markets puts pressure on the harmonization of products and that harmonization is towards the “lowest price” for a given product — that is, the competitive norm. Phrases like “ruinous competition” are also used to describe this phenomenon, although “healthy competition” is also used by those who emphasize the lower consumer prices. High-cost firms in this environment have to develop market niches and high value-added products to survive. Similarly, jurisdictions with high-cost regulatory regimes may have to develop market niches that emphasize the social value-added of those regulations.

In that vein, trade liberalization compels a country to pay more attention to the cost consequences of its policies and to ensure that they bring benefits or serve a social purpose for which the populace is willing to pay. Costly policies need not disappear under jurisdictional competition, any more than costly consumer products will disappear under product market competition. Yet they both must develop a market

niche and serve a purpose to survive. Regulations that purely protect economic rents will be under more pressure and this will be a desirable consequence of harmonization pressures. Governments will be under pressure to ensure that their regulations enhance rather than work against market forces. They will be under pressure, for example, to develop active labour market policies (e.g., training, mobility, labour market information) that can improve the functioning of labour markets, rather than passive income maintenance programs that can slow down the reallocation of labour from declining to expanding sectors (OECD 1994).

There remains, however, an area of key concern. Policies that have a pure equity or distributive rationale and that do not serve any efficiency purposes will likely come under increasing pressure. Even if most taxpayers are willing to pay for such policies, perhaps for purely humanitarian reasons, the tax burden will likely increase as those who are not willing to pay leave, and as beneficiaries of the policies come into the jurisdiction (or remain in it) so as to receive the benefits of the policy. Just as the free market (even if it operated perfectly) fails to ensure an equitable distribution of income, so does inter-jurisdictional competition (even *if* it led to efficient regulation) fail to ensure the survival of policies that have a pure equity or distributive rationale. Markets can ensure the efficient allocation of resources, including labour resources, but they do not ensure a fair distribution of those resources.

The problem is particularly severe since market forces, led by technological change and globalization, appear to be giving rise to greater inequality and severe adjustment consequences, often for already disadvantaged groups. This creates pressure for a political response to deal with those consequences. Yet inter-jurisdictional competition for investment and the associated jobs inhibits the political response of using costly policies that have only an equity rationale.

Political agreements at the supranational level are possible to standardize such regulations (i.e., to establish a “level playing field”), but such cooperation is difficult to attain when the number of players is large. Furthermore, they are often seen as thinly disguised protectionist measures on the part of the high-cost countries — levelling the playing field to *our* high-cost level and to protect *our* non-competitive sectors. Imposing uniform standards across countries with different preferences for different standards, and varying capacities to pay for such standards, can have adverse welfare effects. Mutual gains from trade are predicted on differences, not similarities, across countries.

The standard efficiency-equity trade-off again appears to rear its head, this time in the form of inter-jurisdictional competition for



investment and jobs, just as it rears its head in the competitive market for goods and services. A smaller economic pie that is more equitably distributed certainly is a legitimate social choice for a jurisdiction to make. The danger, of course, is that distributional issues are more difficult to deal with when the pie is shrinking, as would be the case with a return to protectionism. Furthermore, there is no guarantee that the interest groups that heavily influence the political process will redistribute in favour of the most disadvantaged. The most disadvantaged are seldom at the table involving any of the main mechanisms of private markets, collective bargaining, or political bargaining over laws and regulations.

Informed choices on the equity-efficiency trade-off in this area requires more information on a variety of dimensions. It requires information on the extent of the trade-off, for example, on the effect of trade liberalization and global competition on earnings inequality. It requires information on the relative importance of the different mechanisms whereby harmonization of policies and regulations occur, as well as the importance of factors leading to greater diversity as opposed to convergence. It requires information on the extent to which trade liberalization will foster downward convergence. In that vein, information is needed on all four linkages: the extent to which policies are implemented and enforced; the extent to which they raise net labour costs and are not offset by other benefits or by cost shifting; the extent to which higher labour costs induced by regulations deter investment and influence plant location decisions; and the extent to which jurisdictions compete for that investment and the associated jobs on the basis of reducing such regulation. Until such information is available, the debate in this area will continue to generate more heat than light.

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## RÉSUMÉ

### **Libéralisation des échanges et harmonisation des politiques du travail**

Plusieurs facteurs reliés à la mondialisation et à l'intégration économique internationale peuvent faire pressions pour harmoniser les lois et politiques du travail : la concurrence entre les juridictions pour les investissements et les emplois en découlant, la réduction des barrières non tarifaires pour le commerce incluant ces lois et politiques pouvant être interprétées comme des subventions injustes au commerce, la reconnaissance et la recherche des meilleures pratiques même législatives, les pratiques des multinationales et les réponses politiques aux pressions de l'intégration.



Alors que ces pressions encouragent l'harmonisation, celle-ci n'a pas besoin d'être le plus petit commun dénominateur. Des procédures telles la recherche des meilleures pratiques, l'application uniforme des pratiques des multinationales et les réactions politiques et syndicales concertées peuvent certes encourager l'harmonisation vers le haut. Cependant, des forces pressantes s'exercent en faveur d'une harmonisation vers le bas, surtout par la concurrence entre les juridictions pour les investissements et les emplois qui en résultent.

Pour qu'une telle harmonisation s'exerce vers le plus bas commun dénominateur, quatre liens doivent exister : (1) la loi en question doit être implantée ; (2) les lois doivent mener à une augmentation réelle des coûts de main-d'oeuvre pour l'employeur ; (3) ces coûts élevés de main-d'oeuvre doivent décourager l'investissement et influencer les décisions sur la localisation des entreprises ; et (4) les juridictions doivent concurrencer pour les investissements et les emplois sur la base d'une réduction de leurs lois du travail dispendieuses. Malheureusement, peu de preuve empirique et systématique sur tous les liens et même sur un seul d'entre eux existe. Vu que ces quatre liens doivent coexister pour que la libéralisation du commerce mène à une harmonisation vers le bas, il existe certainement des possibilités que tels liens seront brisés à un stade ou à un autre du processus.

Néanmoins, les forces de la mondialisation et de la libéralisation des échanges mettent beaucoup de pression vers une harmonisation des lois et politiques du travail. Et ces pressions vont probablement mener à une harmonisation vers le plus bas des communs dénominateurs, i.e. la réduction des politiques les plus coûteuses. Alors, la libéralisation des échanges force un pays à faire plus attention aux conséquences des coûts de ses politiques et à s'assurer qu'elles apportent des avantages sociaux que la population est prête à payer. Les règlements qui protègent purement les rentes économiques connaîtront plus de pression constituant ainsi une conséquence désirable des pressions d'harmonisation.

La préoccupation, cependant, est que les politiques à rationnel d'équité pure ou de distribution ne servant aucunement l'efficacité connaîtront une pression accrue. Même si la plupart des contribuables sont prêts à payer pour de telles politiques, peut-être pour des raisons purement humanitaires, le fardeau des taxes va probablement augmenter vu que ceux qui sont en désaccord partiront et que les bénéficiaires de ces politiques intégreront ou demeureront dans cette juridiction pour en profiter. Le problème est d'autant plus sérieux que les forces du marché, menées par les changements technologiques et la mondialisation, semblent créer de plus grandes inégalités et des conséquences sérieuses

d'adaptation le plus souvent pour des groupes déjà désavantagés. Ceci met de la pression pour des réponses politiques à ces conséquences. Cependant, la concurrence entre les juridictions pour les investissements et les emplois qui en découlent freine l'adoption de politiques onéreuses qui n'ont qu'une raison d'équité.

Des choix informés sur cette relation d'arbitrage équité-efficacité exigent plus d'informations sur plusieurs facteurs : l'importance relative des différents mécanismes par lesquels l'harmonisation des politiques et la régulation se font, et aussi l'importance des facteurs menant à une plus grande diversité, à l'opposé de la convergence. La détermination de l'étendue à laquelle la libéralisation des échanges encouragera une convergence à la baisse exige de l'information sur différents liens : jusqu'à quel point les politiques sont implantées, jusqu'à quel point elles augmentent les coûts nets du travail sans être compensés par d'autres bénéfices ou déplacement de coûts, jusqu'à quel point les coûts plus élevés du travail dus à la réglementation décourage l'investissement et influence les décisions de localisation des entreprises et jusqu'à quel point les juridictions concurrencent pour ces investissements et les emplois en découlant sur la base d'une réduction d'une telle réglementation.

## RESÚMEN

### **Armonización de las practicas laborales bajo la liberación del comercio**

Las presiones por la armonización de las regulaciones y las políticas laborales bajo la liberación del comercio están ya demarcadas, con un interés particular a la competencia entre jurisdicciones por la inversión y los empleos. Esto es seguido del análisis de los lazos que son necesarios para que exista una armonización a la baja, con una discusión sobre la evidencia empírica (y la falta de evidencia) de estos lazos. Presiones opuestas hacia la divergencia y la no armonización están incluidas. Este documento concluye con algunas observaciones de las ventajas y desventajas de la armonización y la política apropiada.