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Positive Economic Freedom:

An Enabling Role for International Labor Standards in Developing Countries?

Tonia Warnecke and Alex de Ruyter

Abstract: Approaches to economic development have overemphasized negative economic freedom for multinational corporations at the expense of a majority of the population in developing countries. An inevitable outcome has been the growth of informal sector and "vulnerable" employment in developing countries and entrenchment of existing inequalities. We argue that rather than an emphasis on negative freedom, an emphasis on using labor standards to facilitate positive economic freedom must occur. Labor standards do this not only through the "core" rights of union membership and collective bargaining, but also in addressing substantive ("non-core") rights at work (wages, working-time, etc), thereby facilitating positive freedom.

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Globalization, Institutions and Economic Freedom

As the shortcomings of the dominant Washington Consensus approach to economic development and well-being become ever more apparent, there has been increasing concern expressed at the pitfalls of globalization, poor financial regulation and the activities of multinational corporations (MNCs) across many countries. Under the pretexts of globalization and free trade, MNCs have extensively subcontracted and outsourced production and employment across developed and developing countries alike (Jones, Kierzkowski and Lurong 2005). This has been typified by a fragmentation of production, whereby MNCs use the threat of relocation as a way to secure lower costs and higher productivity across host economies (Bailey and De Ruyter 2007).

However, at the time of writing, "the world's financial system has undergone its greatest crisis for at least a century," generating the worst economic downturn since the 1930s (Turner 2009: 5). In fact, global GDP shrank by 0.8% in 2009, while a slow recovery is expected to begin in 2010 (International Monetary Fund [IMF] 2010). Since the onset of the crisis in 2008, some 20 million jobs have been lost world-wide and jobs are not expected to recover to pre-crisis levels until 2010 in less-developed countries, and 2013 in developed countries (International Labor Organization [ILO] 2009c). Were it not for labor hoarding and businesses putting workers on shorter hours, the impact of the crisis would have been even more severe (ILO 2009c).

The current economic crisis thus throws into focus the nature of economic development across developed and developing countries alike. Evident is that the past 30 years of neo-liberal dominance have been characterized by an emphasis on *negative* economic freedom (Berlin 1969), a situation characterized by the absence of restraints imposed by others (typically the state) on the choices of individuals. This view of freedom is concomitant with a policy emphasis on deregulation and upholding individual choice (see Bailey and De Ruyter 2007 for a critical discussion), and has implicitly underpinned the Washington Consensus approach of privatization, market liberalization and fiscal consolidation (Bailey and De Ruyter 2007). As such, it is apparent that development has been coterminous with dominant MNCs repatriating profits from host economies (i.e., "corporate hegemony;" see Dugger 1989), a declining wage share and rising earnings inequality (ILO 2009c). In employment terms, an undue emphasis on negative economic freedom has meant a growth in inferior (informal/low wage/part-time/casual) forms of employment and entrenchment of existing inequalities. In 2007, nearly half of all workers globally were deemed to be in vulnerable employment, with the current economic crisis only serving to increase this figure (De Ruyter et al. 2009).

These developments have fuelled criticisms of the Washington Consensus approach (Sen 1999; Rodrik 2001; Stiglitz 2002; Bailey and De Ruyter 2007). The current economic downturn has given renewed credibility to alternative approaches to development that emphasize fiscal stimulus measures and a more egalitarian role for the state (e.g., ILO 2009c). However, a more active role for the state should not be seen as a threat to freedom (and/or recourse to socialism), but rather as the creation of durable institutions that enable and empower all individuals to fully participate in market economies (Bailey and De Ruyter 2007, 395). In this context, we refer to measures that promote *positive* economic freedom (Berlin 1969), i.e., individuals having the means to be more in control of their own well-being, or as Bailey and De Ruyter (2007, 384) state, "the freedom of self-mastery, of control of one's own life, of the ability or power to act." As Galbraith (1996) and Sen (1999) have argued, the greatest barrier to freedom is poverty (whereby in Sen's terminology we can denote poverty not just as income deprivation but deprivation of elementary capabilities; Sen 1999, 20). Hence, positive economic freedom may be seen as being realized by access to (capability endowment of) decent health care, education and a just legal system, for example (Sen 1999). To quote Amartya Sen:

> [I]ndividual freedom is quintessentially a social product, and there is a two-way relation between (1) social arrangements to expand individual freedoms and (2) the use of individual freedoms not only to improve the respective lives but also to make the social arrangements more appropriate and effective (1999, 31).

Hence, an approach to positive economic freedom that emphasizes capability endowment can also be seen as emphasizing access to decent forms of work and rights at work. This in turn links to the debate on international labor standards as a means to secure participation in decent employment (Singh and Zammit 2000; De Ruyter et al. 2009; ILO 2009c). In the discussion that follows, we outline how international labor standards can facilitate positive economic freedom. The second section outlines the failings of the Washington Consensus and provides a brief overview of global trends in vulnerable labor, while the third section revisits the need for international labor standards and illustrates successful examples of how labor standards can improve participation in waged employment, and hence positive freedom across developing countries. The final section concludes with a reconsideration of the role of government (and other groups) in promoting decent work.

The Washington Consensus as Antithetical to Positive Economic Freedom; Global Trends in Vulnerable Labor

The term "Washington Consensus" is bantied about so much that it is worth taking a minute to reflect on its history, before linking it to our discussion of economic freedom. John Williamson coined the term in 1989, using it to refer to a set of development policy reforms that, in his view, "Washington" supported in Latin America (Marangos 2008).[1] Ten policies were included in this bundle: fiscal discipline; reordering public expenditure priorities; tax reform; liberalizing interest rates; a competitive exchange rate; trade liberalization; liberalization of inward foreign direct investment; privatization; deregulation; and property rights (Williamson 2004). While Williamson strenuously notes (2004, 6) that his conceptualization of the Washington Consensus did not mean "bashing the state . . . the creation of a laissez-faire global economy, [or] that the only thing that matters is GDP," it did support a liberal (market-oriented) policy stance in the developing world. Proponents of the Washington Consensus soon expanded its scope to include the liberalization of *all* capital flows, as well as a particular conceptualization of fiscal discipline (government spending cuts). Financial liberalization in particular led to "growing pressures for more and better financial returns;" by encouraging risk-taking behavior, this "adversely affected wages and job stability in the real economy" (ILO 2009c, ix).

Nonetheless, Washington Consensus policies were more than descriptive; they were prescriptive. For Latin American countries reliant on IMF and World Bank (WB) lending, the policies were basically "macroeconomic law" (Schneider 2007, 2). Though economists will disagree about some of the details, it can be said that at the core, the Washington Consensus focused on "macroeconomic prudence, outward orientation, domestic liberalization, and free market policies" (Marangos 2008, 227) — not on full employment and decent work.

This point, of course, brings us to our discussion about the Washington Consensus and its relationship to economic freedom. Support for free market policies translated to support for negative economic freedom and all that it implied — such as regulatory reduction. This was cost-saving for corporations, protecting business from "the heavy hand" of the state. After all, negative economic freedom protects "from" something; it does not give rights "to" something. Negative economic freedom thus reflects the literal meaning of the term "laissez-faire": "let do" or "leave it alone." So in a laissez-faire global economy, who exactly is left alone? This is a simple question with a profound answer: everyone is left alone — both businesses and workers. The difference, of course, is that businesses generally benefit from being left alone, while individual workers may not; this is particularly true in developing countries with high proportions of the labor force in informal or vulnerable work.

In fact, by prioritizing negative economic freedom, the Washington Consensus adversely affected workers in several ways. For one thing, it led to the reduction of publicly-funded programs and enabled firms to focus on workforce flexibility and production cost-savings (De Ruyter and Warnecke 2008). In other words, work became less secure at the same time as public assistance dwindled. Flexible work in developed countries meant that the proportion of "part-time and contingent positions [increased] relative to full-time ones," minimizing employer-provided benefits for flexible workers (De Ruyter and Warnecke 2008, 725). While flexible jobs in the developed world are still largely located in the formal sector, this type of labor market restructuring in developing countries pushes a larger proportion of the labor force into informal and vulnerable work. This trend, however, is exacerbated by financial crises. Financial liberalization without effective governance and regulation leaves developing countries vulnerable to financial crises

(Warnecke 2006). Such crises can erupt within the developing country itself, or, as in the recent crisis, spread from developed countries to developing ones. The ILO (2009c) notes that informal employment spikes in developing countries post-crisis, and developing country workers often find it very difficult to return to the formal sector even after the economy recovers.

According to the ILO (2009b), vulnerable employment is important to track because high rates of vulnerable employment (which usually occur in the informal sector) are associated with high poverty rates. This is particularly significant given the fact that vulnerable employment is more common in less developed countries and more common among women (ILO 2009b). Vulnerable employment refers to contributing family workers or own-account workers who are less likely to benefit from safety nets that guard against loss of incomes during economic hardship (ILO 2009b, 27).[2] While in 2007, 49.9% of total employment in the world fell into the category of "vulnerable employment," the figure was much higher (59.9%) for the developing world (Bacchetta, Ernst and Bustamante 2009, 26). Vulnerable employment in certain regions — namely Southern Asia, Sub-Saharan Africa, and Oceania — constituted an even higher percentage of total employment, at 75.8%, 71.2%, and 68.5%, respectively (Bacchetta, Ernst and Bustamante 2009). It is true that from 1997 to 2007, the percentage of total employment that was "vulnerable" fell slightly in most regions around the world, with the exception of Latin America/Caribbean and Oceania (Bacchetta, Ernst and Bustamante 2009). However, these rudimentary gains are expected to be erased by the recent global economic crisis, and vulnerable employment is predicted to rise to 53% of total world employment in 2009 (ILO 2009a).

The Role of Labor Standards: Enabling Positive Economic Freedom

Given the developments described above, it should not be surprising that there has been a renewed interest in labor standards, and their ability to facilitate positive freedom (Bailey and De Ruyter 2007). However, labor standards have been incorporated into national laws, international laws and conventions for several decades. The "UN Universal Declaration of Human Rights (1948) asserted fundamental rights and freedoms to which everyone is entitled, without 'distinction of any kind'" (De Ruyter et al. 2009, 2). The rights proclaimed for employees include the right to work, free choice of employment, just and favorable conditions of work, equal pay for equal work, just and favorable remuneration, and the right to form and join trade unions (though there is no right to bargain collectively). Some of these rights have been incorporated in parallel conventions of the ILO, setting out what are classed as core labor standards (De Ruyter et al. 2009). In addition to core labor standards, there are a number of other desired standards concerning the terms and conditions of work, relating to the notion of decent work. These so-called substantive, or non-core, standards include working hours, decent wages, parental leave, and decent and safe working conditions, including sanitary arrangements and child care facilities.

An emphasis on core labor standards is a necessary element of promoting positive freedom. However, in developing countries, the large size of the informal sector makes the task of applying core labor standards a very challenging one. Therefore, core labor standards need to be supplemented by a variety of non-core standards to meet workers' needs. To achieve such standards requires organization and solidarity, specifically help from trade unions and labor organizations in the formal sector, as well as from government to promote the growth of waged employment. In addition to (non-core) measures to address wages, working time, parental leave and health and safety at work, we would argue that the organization of informal sector workers and the promotion of secure access to waged employment are highly significant for developing countries. In the discussion that follows, we use examples from major developing economies to illustrate how the enactment of these (core and non-core) standards constitutes capability endowment and thereby significantly helps facilitate positive freedom (Sen 1999).

With respect to promoting the organization of informal sector workers, here we mean not only a core labor standard focus on trade unions, but also in enabling groups of workers to come together in the broadest participatory sense; that is, in educating informal sector workers to enable them to consider themselves as employees, with attendant employment rights. This was evident in India, for example, in a highly successful adult education campaign of scrap metal workers, which fostered collective worker identity and awareness of labor rights issues in Maharashtra province (Wulandari 2008). Here we can see clear parallels with Sen's (1999) notion of positive freedom as having an explicit end-goal in itself of participation; a powerful antidote to the corporate hegemony mentioned earlier – in this case, by enabling participation in employment rights issues through education and empowerment. In a similar vein, this links into the radical institutionalist analysis of Tool (2001), who regards participation in itself as a learning process that generates knowledge and empowerment (cited in Bailey and De Ruyter 2007, 392).

Measures to improve the physical and secure access to waged work can also serve to enhance positive freedom for workers in developing countries. On average, road accidents occur twenty times more frequently in developing countries than in developed ones – so safety issues abound for both men and women in these areas (World Bank 2006). Until recently, it was assumed that improvements to transport infrastructure and services such as roads and buses benefit men and women equally. However, there are important gender issues to consider in the transport sector. In rural areas, efforts to build motorized roads "often do not benefit rural women, who mainly work and travel on foot around the village" (World Bank 2007, 1). However, local responses are already in evidence in developing countries. In Goiana, Brazil, sexual harassment became such a problem that in 2006, the city council unanimously approved the creation of a women-only bus service during morning and evening rush hours (Associated Press 2006). In India, access to waged work for women has been assisted in two arid rural districts by a campaign to assist in the collection of drinking water, thereby boosting health and reducing time poverty (Nanavaty 2000), while in China, innovative approaches to urban transport planning have increased participation through explicit recognition of the needs of different stakeholders (Bennett 2007).

Hence, the key concern with using labor standards to promote positive economic freedom is to promote the positive freedom of individuals and the communities they reside within, through education, participation and access to decent waged work. This, by necessity, would involve a reduction of negative freedom for MNCs and other "elite decision-makers" (Bailey and De Ruyter 2007, 395), and more regulation of (global) financial services – but would be more than offset by the increases in societal well-being that would result from the gains in positive freedom, thereby helping to promote a more "democratic globalization" (ILO 2009c).

Conclusion: Revisiting the Role of Government

In this paper we have argued that a policy emphasis on positive (rather than negative) economic freedom is crucial in order to improve the lives of developing country workers. By reinforcing core and non-core worker rights, international labor standards can be a useful tool for achieving more positive economic freedom through decent work. There is room for many groups — trade unions, non-governmental organizations, civil society groups, private sector groups, and the public sector — to play key roles of support for international labor standards. Apart from supporting labor standards, however, the government itself can enable positive economic freedom simply through the direct creation of waged employment (upholding core and non-core labor standards in the process).

It could be argued that this is even more pressing in the current context of a world-wide economic downturn that stands to impinge severely on developing countries in particular. The April 2009 G20 Summit gave legitimacy to the idea that governments have a responsibility to maintain or generate employment through fiscal stimulus initiatives and other measures that generate employment, including establishing specific work creation programs, and the ILO (2009c) has warned against cutting current fiscal stimulus packages too soon. Hence, the most significant challenge facing policy-makers in developing countries, with regard to promoting positive economic freedom, is not limited to generating employment for the openly unemployed. It also extends to increasing opportunities for decent work for the large numbers of underemployed, informal sector workers and vulnerable workers, for whom income from paid work is generally their only form of social protection.

Notes

1. "Washington" included not only the executive branch of the United States government and the Federal Reserve Bank, but also economic policy-oriented think tanks and key international organizations such as the World Bank (WB) and International Monetary Fund (IMF) (Marangos 2008).
2. The International Classification by Status in Employment (ICSE) defines own-account workers as "those workers who, working on their own account or with one or more partners, hold the type of jobs defined as 'self-employment jobs' . . . and have not engaged on a continued basis any employees to work for them . . . contributing family workers [are] those workers who hold 'self-employment jobs' as own-account workers in a market-oriented establishment operated by a related person living in the same household" (ILO 2009b, 26-7).

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