

Labour Costs and Productivity

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Globalisation in its present phase has had wide-ranging repercussions. National barriers for trade have been lowered and competition among manufacturers and service providers has increased. There is a need for reducing production costs and the most “natural” way to do this is by reducing labour costs. This can be done in a number of ways but the most popular way is by removing any form of protection given to workers. Organisations like the World Bank (WB) and its allies have been convincing governments of developing countries to relax or remove all forms of protection granted to labour. These agencies point out that protective legislation for labour is in fact detrimental for increasing jobs and investment. Investors would prefer a flexible policy that allows them to hire or fire labour at their will and also fix wages according to what they think are viable.

The WB’s *World Development Report of 1995* noted that,

In many Latin American, South Asian and Middle Eastern countries, labour laws establish onerous job security regulations, rendering hiring decisions practically irreversible; and the system of worker representation and dispute resolution is often subject to unpredictable government decision-making, adding uncertainty to firms’ estimate of future labour costs.¹

Propaganda of Wage Costs

The prescription that reduction in wages reduces costs of production and makes the economy competitive is not shared only by the WB and the corporate sector. Even governments have fallen prey to this

Raising the Global Floor: Dismantling the Myth That We Can’t Afford Good Working Conditions for Everyone

by Jody Heymann and Alison Earle
(Stanford: An imprint of Stanford University Press,
California (USA), 2010; pp xiii+240, \$ 35.

propaganda. Soon after the restructuring process started, most developing countries started making their labour laws more flexible as they believed that if their labour was paid less, costs would decline and the country could produce goods for the world market at competitive rates. Many (India being one of these) firmly believed that multinational companies (MNCs) and other big time investors would be attracted to invest only if they are assured that they could close their ventures if needed. Thus soon after the then finance minister (now prime minister) introduced the new industrial policy statement in Parliament on 22 June 1992 that formally introduced liberalisation and structural adjustment, there were demands from industrialists that the state should introduce an exit policy for industries. Though the government was keen to do so and it had even appointed a committee to suggest changes in the existing laws, it had to admit temporary defeat because of the firm stand of the trade unions. However it introduced a back-door closure called voluntary retirement scheme.

Apart from the corporate sector, the WB and the governments, in many developing countries trade unions too believed that the biggest asset of the developing world under globalisation was the low labour costs. When it was suggested

by the World Trade Organisation (WTO) that the social clause (comprising six major conventions of the International Labour Organisation (ILO) should be introduced so that all exporting countries had to imbibe certain labour standards there was uproar among developing countries. They believed that maintaining such standards would increase costs of production as labour costs would rise. These countries would lose whatever edge they have in competing at the international level. While trade unions in some countries (Malaysia for one) supported this move as it would provide some protection to workers, countries in south Asia witnessed a rare form of unity (solidarity?) among all three sections, namely, government, chambers of commerce and industry and trade unions in opposing the social clause precisely because the protection envisaged would increase labour costs. The social clause was shelved by the WTO. It is hence necessary to examine if increasing labour costs are responsible for increasing production costs. The book under review tries to argue that this view is incorrect and in reality these costs actually help labour perform better.

Investment in Labour

This fairly slim volume discusses the results of studies carried out by the authors that examine “the working conditions faced by fifty-five thousand households in seven countries on five continents...” (p 7). Two thousand in-depth interviews of working adults and employers in 14 countries around the world were conducted. In addition the book also analyses the state of labour laws in the member countries of the ILO.

The underlying argument of the study is that investing in improving quality of

labour does not increase costs. In fact, the book gives a number of cases where investing in labour has increased profitability of the companies. It shows with convincing data that countries that grant facilities to the workforce such as childcare, paid leave for childbirth, paid annual leave, restrictions on work timings and working hours, premium for working extra time are those that have emerged as highly competitive. Most of these countries are in northern Europe.

The authors have shown through their data that most high income countries (with the exception of the us) have extensive laws for social protection and job protection. They discuss the case of Norway in Chapter 2. The state has made heavy investments in welfare, retraining and in higher education. Alongside there are progressive laws for childcare, paid leave for taking care of sick family members, etc. All these measures have in fact improved productivity and Norway stands among the top nations of not just the Human Development Index but also manufacture and services.

The study shows that there are many countries, especially in the South, that

still beleaguer under the myth that decrease in labour costs and flexible employment make them competitive in the global market. The authors give the example of China (pp 50-51) where labour laws were fairly extensive. However, the constant bickering of the American Chamber of Commerce in Shanghai and the us press that these laws are preventing foreign companies from investing made the government reconsider the progressive pro-worker measures. Though it did not rescind the laws it ensured that these laws would not harm global competitiveness. The authors quote an Associated Press (AP) report that states: "Xin, deputy chairwoman of the legislature's Standing Committee tried to assure foreign investors that they would not be hurt..." she further explained that "Even if (companies) violate labour law, (officials) are still hesitant to (confront) them".

The us, the study points out, is one of the major countries that has provided least protection to its workers (p 51). There was widespread opposition by groups representing industry to the introduction of the Healthy Families Act in 2007.


The authors note that

The Act was designed to ensure that – for the first time in history – all Americans would receive at least a small amount of paid leave from work when they or their family members got sick. The proposed seven days of paid sick leave was modest by any global standard.

Even this was found unacceptable to the leaders of industry. In fact, as the authors explain later, they even opposed the idea of leave without pay.

The study comes up with some interesting facts of leave and increase in workload. In p 65 it states "recent studies have documented that the costs that companies incur due to sick employees coming to work often surpass the costs of employees staying at home when they are ill." On p 66 the authors take up the issue of compulsory overtime and long working hours. They state,

Overtime and long working hours also have been shown to have a detrimental effect on health...Studies from Canada and the European Union have documented increased risk of high blood pressure, cigarette and alcohol consumption, heart disease, weight gain and mental health problems as well as mortality. Finally, over one hundred studies across North America, Europe and the Pacific all



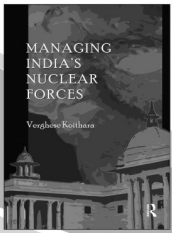
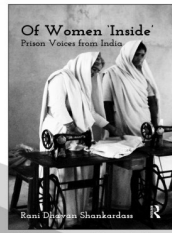
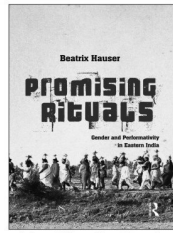
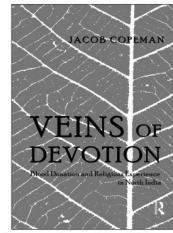
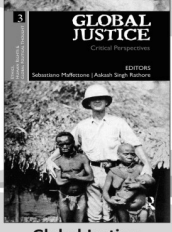
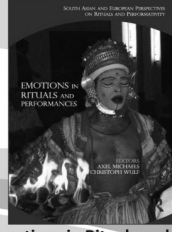
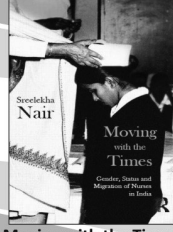

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found that extended daily working hours were linked with increased absenteeism.

Shortcomings

One of the shortcomings of this study is its cursory view of informal employment. It makes some suggestions on how to improve working conditions (p 80) but these are fleeting. The most important issue on implementing decent work for informal workers is that all issues relating to protection, health and welfare should not be administered through the employers. In most countries protection

is given to those defined as “permanent” workers. This in effect means that those workers having permanent employers are permanent workers. Workers in informal employment are in fact permanent because they work throughout the year but not for the same employer. Social protection has to be administered to them and to the self-employed by independent agencies of the state.

The book is a valuable contribution to labour studies and human resource management. There is no speculation; all arguments for improving working

conditions are backed by concrete data. This makes the study more convincing. Besides labour researchers this book must be read by policymakers and senior management because it dispels several myths about welfare issues concerning labour.

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NOTE

- 1 *Workers in a Globalising World: World Development Report 1995* (Delhi: Oxford University Press), 1996, p 34.