

Institutions, Labour and the Global South

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Abstract. This article examines the institutionalist tradition as it concerns the study of the conditions of workers. Institutional literature has largely been devoted to analysis of the global North and experiences of the welfare state. An institutionalist framework is proposed analyses and accounts for conditions in the global South. This demonstrates that an institutionalist framework can predict and explain conditions through reference to political power and economic structure. Specifically, a combination of political repression, politics vetoing change, a weakness of organized labour and a weak position in terms of economic structure generate lower levels of wages and working conditions in the global South. An institutionalist framework is therefore a useful and valid perspective for policy makers and activists alike.

Keywords: Institutional Political Economy, Global South, Third World, Labour

1. Introduction

This article examines the institutionalist tradition which spans various disciplines in the social sciences including political economy, industrial relations and development studies. A review of institutionalist literature is conducted which demonstrates the majority of institutionalist analysis has focused on the countries of the global North, and in particular, the development and experience of the welfare state. Such a perspective would appear at face value to have little relevance for the countries in the global South for whom the welfare state does not constitute relevant history or experience. Through an examination of the framework proposed by Moseley and an application to the global South, a case is made for the relevance of institutionalist analysis tailored to conditions in the global South. Such a perspective would provide a valuable insight for policy makers and advocates for workers in the global South as it helps to predict and explain labour rights and conditions, and offer areas of influence to which responses may be targeted. The institutionalist perspective also provides a valuable counter-weight to the orthodox wisdom of neoclassical trade theory, which stresses the need to abandon government intervention into the market and to ensure a climate of free trade and investment in order to achieve the best outcomes for people. The institutionalist perspective reminds us that we need to be concerned about power dynamics when considering how economic outcomes are produced.

Institutionalist perspectives come from a variety of disciplinary approaches such as development studies, industrial relations and political economy. From the perspective of development studies, the central figure from an institutionalist perspective is Rostow, who pioneered modernization theory. Modernization theory suggests that there is an overarching path of development for all countries. Rostow's theory segmented the developmental process into five separate stages through which each individual country would pass: "the traditional society, the preconditions for takeoff, the takeoff, the drive to maturity, and the age of high mass-consumption [1]." These stages are said to categorize the developmental condition and explain the developmental process of any given society. Rostow's argument rests on the importance of institutions in enabling progression in various stages of development. The corollary of this approach is that institutions become important factors for development and thus for the de-escalation of conflict between workers and capitalists and declining demand for transformative social change. Additional writers from the industrial relations perspective who have attempted to develop the connection between institutions and social peace include Kerr, Harbison, Dunlop and Myers. Mirroring Rostow, they see universality in development and gradual evolution in society because of development causing a decline of industrial conflict [2].

There are a range of social institutions, which these authors see as central to industrialization, development and the eventual decline of social conflict. Firstly, the authors see industrialization as being contingent on the development of technology. As such, they see universities, research institutions and laboratories as critical features of a society that seeks to industrialize [2]. Secondly, the authors stress the importance of a highly skilled workforce, meaning educational institutions that are responsive to social and technological change are imperative [2]. Thirdly, and most importantly for this section, the authors suggest that a series of industrial relations instruments must be established in order for industrialization to take place.

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This includes the institutionalization of a rules based industrial relations system for matters such as hiring/firing, compensation, intracompany transfers, retirement and workplace discipline [2]. Following on from this set of rules, it is suggested that the final requirement for the institutionalizing of values such as a work ethic and a sense of responsibility for work tasks [2].

Notable about this theory of industrial relations are the teleological assumptions of the authors. Much like Rostow, they assume universal and uniform progress towards the eventual goal of a system of industrial relations and thus a corresponding decline in class conflict. The following passage demonstrates both these assumptions and the way in which the authors assume working life will develop in their imagined industrial future for all countries, "In all societies, of course, management cherishes the prerogatives of a rule maker. But others, such as the state and labour unions, also seek and gain a voice in the rule making process. As industrialization advances, they tend to limit, to regulate or sometimes even to displace unilateral authority of management over the labour force. As a consequence, dictatorial or paternalistic direction gives way to a kind of constitutional management in which the rules of employment are based on laws, decisions of governments, collective contracts or agreements [2]."

From this, it is apparent what the critical institutional features are for a society to distribute power and wealth. Firstly, there is the assumption of a strong state, which is able to intervene in industrial relations but do so in a way that is beneficial for both management and workers. Secondly, there is the assumption that labour unions will rise and will be able to exert influence in the industrial relations arena. The outcome of the coming together of managers, the state and labour unions according to the authors is the formation of an industrial relations system which regulates industrial conflict between workers and management to the extent that this conflict begins to disappear [2].

The position that industrial conflict begins to disappear is not uncontested. Hibbs, Bordogna and Cella also add to this argument by claiming that the apparent decline in industrial conflict may be due to other factors such as the changing industrial patterns of labour markets to that of 'advanced democracies [3]'. The economies of the global North have moved away from production and are typified instead by service industries. This process is part of what Bordogna and Cella label as the tertiarization of conflict whereby changes "in productive sectors such as the car industry and textiles, the new international pattern of industrial production resulting from the globalization of markets, and the extraordinary growth of employment in the private and public service sectors" have occurred in the global North [3]. Bordogna and Cella argue that these changes give the appearance of a decline in industrial conflict, but it is most likely the arena of conflict has simply changed from the factory floor to the office. They argue that a key challenge for the industrial relations systems in the North is to adjust to this changing character of work [3].

A separate argument against the notion that industrial conflict disappears because of institutions comes from Hibbs. Admittedly, Hibbs wrote during a period of time when trade unionism was particularly strong in Europe, and concluded that countries where social democratic or labour parties were in power during the 1930s and the immediate post-war period were the architects of the modern welfare state [4]. He further argued that these societies are typified by high levels of taxation. This shifts the site of contestation of value from the labour market to the political process and thus what appears like a decline in industrial conflict is again just a shifted battleground [4]. What is interesting about the argument by Hibbs is that it is a tale of two patterns of institutions. On the one hand there are societies typified by the welfare state which grant workers greater incomes through the social wage [4]. On the other hand there are societies more typified by a market distribution mechanism, which according to Hibbs is characterized by institutionalized power from the working class in the form of trade unions [4].

Outside of Hibbs' paradigm sits the Scandinavian social democratic model where strong trade unions were directly involved in politics. Through political engagement, they became shareholders in firms [5]. Meidner notes the goals of the Swedish model are "full employment and equality - and certain policy instruments Keynesian macroeconomic policy to achieve full employment and price stability, active labour market policy, the welfare state and solidaristic wage bargaining [5]." This is evidence of a more interventionist role for unions in government and society.

Despite this, what is common between the two approaches is that they are dependent on strong unions. Meidner notes that: "The condition for the existence and success of the Swedish model is the existence of a strong labour movement [5]." Along the continuum between social democracy and market measures are several examples of industrial relations systems all of which help to mediate the conflict between labour and capital and lead to better outcomes for workers than would otherwise be the case if they had no institutionalized power.

From the perspective of political economy, the most important contribution to the role that institutions can play in generating better outcomes for workers comes from Walter Korpi. Korpi noted that the majority of institutionalist studies have emphasized three critical institutions altering the balance of power between employers and employees: unemployment insurance, job protection legislation, and institutionalized wage setting procedures [6].

Central to Korpi's institutionalism is the idea that power and conflict determine distributional outcomes. Korpi quotes a 1943 edition of *The Times* in the UK that "Unemployment is not a mere accidental blemish in a private enterprise economy. On the contrary, it is part of the essential mechanism of the system, and has a definite function to fulfil. The first function of unemployment (which has always existed in open or disguised form) is that it maintains the authority of master over man. The master has normally been in a position to say: 'If you do not want the job, there are plenty of others who do.' When the man can say: 'If you do not want to employ me, there are plenty of others who will,' the situation is radically altered [6]." Following this Korpi noted that the higher the level of unemployment in an economy, the worse is labour's share of GDP [6] meaning institutions targeting unemployment are critical for labour.

For Korpi, critical to the establishment, maintenance and functioning of institutions are trade unions and political parties which trade unions are closely aligned to. Korpi observed that employers and employees held differing views on unemployment and suggested that: "In democratic countries, we can expect this difference in priorities to become reflected in the collective actions of interest organizations and political parties. In policy making at the national level, left parties with more or less close relationship to trade unions and a working-class electorate are therefore likely to give a higher priority to full employment than are centrist and conservative parties and employers' organizations [6]."

At this point, it is useful to draw on the work of Polanyi in order to bring the thinking of the institutionalists into a historical context, which has witnessed the attempts of people to detach the market from society. Whereas both the classical and neoclassical traditions have argued that markets have always existed and that state intervention through conscious design was an unnecessary imposition, Polanyi argued the opposite to be the case. In Polanyi's view, society and social institutions have always been central to human economic life with the market playing a mere auxiliary role [7]. According to Polanyi, the separation of market from society creates 'fictitious commodities' such as labour, money and land [7]. Polanyi argues that this causes massive social distortions, which undermine both market and society leading society to protect itself from the unregulated market through institutions[7].

Emphasising the role of trade unions, Munck suggests that: "unions influenced social policy and assisted the development of institutions to regulate markets [8]." Munck's Polanyian perspective begins from the position that in the early 20th century the attempt to formulate a self-regulating market by disentangling the market from the social and political led to a response from those actors worst affected by the disembedding process [8]. Because of this, trade unions attempted to regulate the market, and helped to develop the institutions to re-embed the market within a social and political framework [8]. The extension of Munck's argument is that social actors would respond to globalization in the same way. Munck sees trade unions as again being critical social actors in regulating the global market, but within frameworks such as the international trade union movement [8] and the World Social Forum [8].

Each of these arguments stress the importance of institutions mediating the outcomes of capitalism either during the industrial process itself (industrial relations systems), or after the industrial process (the welfare state). The real question however relates to the relevance of a discussion of institutions for the global South. To recapitulate the discussion on institutions, the following passage from Regini encapsulates the basic argument of the institutionalist perspective that "pre-existing institutions play a key role in shaping responses to exogenous factors by acting as a filter or intervening variable between external pressures and the responses to them. The institutional context provides actors with a set of resources and constraints that they must necessarily take into account [9]."

2. The Institutional Perspective and the Global South

Importantly, different historical developments shaped the global South than did the global North. Korpi notes that social insurance institutions emerged against, "the backdrop of the emerging threat to existing societal structures when socialist labor movements in Europe struggled to make industrial workers define their interests, identities and values in terms of class, and to mobilize the dependent labour force for broadly based collective action reflecting their shared position on the labour market as wage and salary earners [10]."

The above authors have also noted the critical role that the trade union movement was able to play in the development of institutions that helped to mediate the forces of capitalism and distribute value to the workers in the global North. The problem with extrapolating such an analysis to the global South is dual fold. With the advent of global production, global competition and a global labour market the historical conditions for creating such institutions in the global South have ceased to exist (if they ever existed with most South countries emerging from a different historical legacy). Secondly that the trade union movement in the global South is not comparable in stature to that of the global North even during the period of globalization where unions are regarded as being most on the defensive, let alone comparable to the early and mid 20th century where unions in the global North were at the zenith of their strength.

One of the key factors limiting the ability of workers and/or unions to grow as institutions and to bargain for better wages and conditions are competing regions regulated by industrial relations regimes that are more appealing to transnational capital. In theory, if workers organizations across borders could act collectively and state collective demands, it would be possible to achieve better conditions. However, in a situation where a workers' organization of a particular industry in one country finds itself to be bargaining, and there is a competing location for investment where labour rights are severely repressed, it greatly limits the ability of that organization to bargain for better wages and conditions unless there is some kind of other advantage.

It is unsurprising that understandings of institutions have been largely limited to the global North. The history of the late 19th and early 20th century as demonstrated by many of the above authors discusses numerous institutions which arose out of the industrial and political conflicts of the time. By contrast, it appears that few such institutions have emerged in the countries of the global South, explaining why little work has been done in relation to institutional analysis. An important exception to this general trend is provided by Moseley . Using the case study of Costa Rica, Moseley sought to examine the extent to which domestic political institutions could mediate the pressures of globalization. Moseley can clearly be identified as part of the institutionalist tradition as she notes that in relation to workers outcomes as a result of globalization, "the key question, then, is how and to what extent this set of pressures is mediated by domestic political institutions and histories [11]."

One of the key responses to globalization is the thesis of a 'race to the bottom'. The idea that competitive pressures of institutionalized patterns of distribution within a given region have a role to play in determining labour outcomes is supported by Moseley, who has noted, "the average level of labor rights in a nation's geographic region is associated significantly with a country's labor rights score [11]." This suggests that if other factors, such as distance to the target country and level of economic development are relatively equal, that there is convergence with regard to labour outcomes. In practical political terms, one of the great millstones around the necks of global labour is the existence of and the vast supply of labour from economies, the defining feature of which is repression. In commenting on the situation in post-reform China, Jehangir Pocha summed up by saying China offers "...global investors the unique combination of nineteenth century business practices and twenty-first century infrastructure...[12]" stating that this combination had won China over US\$800 billion in foreign direct investment since 1979.

China is not the only economy where a culture of repression exists, although as the largest contributor to the world's workforce it is definitely the most significant. It is also not a requirement for labour rights to be absent, and independent trade unions illegal, for a country to be characterized by labour repression. In using the idea of a repression economy to understand the negative weight an individual country has on wages and conditions in competing countries, it is best to understand the process as a relative one that encapsulates the multitude of experiences faced by workers from country to country. As such it is consistent with this understanding that countries such as the Philippines which are formally democratic and have legislation supporting trade unions, to be considered affected by repression given violence against trade unionists. The corresponding effect of limiting the actions of the trade unionists is then felt on the ability of workers in the Philippines to advance their wages and conditions, which then drags down the rest of the world in terms of the competitive benchmarks.

The second variable in the Moseley framework is that of political constraints. Moseley argues that, "the existence of a higher degree of political constraints (operationalized as veto players and including the size of legislative coalitions; the ideological distance among coalition members; the ideological similarity between the executive and legislative branches; the political authority of subnational units; and the number of legislative chambers) can render changes in existing laws less likely [11]." The greater number of political forces in any political formation that can veto changes, the less likely a situation is to change. From the perspective of labour, this means that where historically there has been repression of labour rights, there is inertia to overcome in terms of establishing rights and institutions. It also means that a critical political issue

for labour becomes the management, engagement or elimination of veto players within the political formation which are opposed to its interest, as well as the expansion of its own veto powers.

The third variable is the economic and political strength of organized labour. Moseley links the economic and political strength of organized labour with better labour outcomes. Specifically she draws on literature in the field to note that links between unions and political parties leads to policy positions from left governments where rights and conditions are improved with the state playing a central role in mediating the forces of globalization [11].

The fourth and final variable concerns labour market conditions and economic structure. This involves the relationship between unemployment and the power workers have to impose demands on government and business. Tight labour markets lead to greater levels of union recruitment and cause government and business to be more likely to accept the demands of labour when pressed. Conversely, when there is high unemployment, workers are far more likely to accept conditions imposed on them. Moseley makes special mention of the conditions in South countries, suggesting that ahead of the official unemployment rate, the size of the labour supply in the informal sector is a major factor in determining the power of workers [11]. Moseley also pays attention to the structure of the economy as something that has an indirect effect on the bargaining power of workers. As a general rule, she suggests that, “nations with large agricultural and service sectors, then, will experience lower levels of collective labor organization and fewer demands for respect for collective labor rights, all else equal [11].” With most South countries having large agricultural sectors, this is a particularly important point.

The final aspect of labour market conditions is the type of production taking place. Moseley contends that when labour costs are a high percentage of total cost, such as in industries like garments and textiles, it is more difficult to exert power relative to other industries due to the ease for capital to shift production [11]. Industries which are more capital intensive, give workers more bargaining power due to their wages forming a much smaller part of the overall cost of production. Moseley also noted that labour intensive industries are far easier to shift to more favourable locations, meaning governments and workers are more compliant and as a result labour outcomes are worse [11].

3. The Moseley Framework and Global Labour

While Moseley’s propositions are useful in understanding the domestic politics of labour, the basic framework of her work remains a valid lens when making an assessment of global labour conditions and in terms of devising global labour strategies. Looking at global political conditions, it is relatively easy to make an assessment on a global scale. The obvious lack of a global political structure means there is no competitive political framework, thus the first condition which is conducive to the advancement of labour conditions does not exist in the world today. As such, the formation of global political structures seems a key factor in challenging capital in the 21st century.

The level of democracy within nations is also a problem for the global labour struggle. As previously mentioned China makes up one sixth of the world’s population and is by far the largest contributor to the global labour supply. The repression of a labour force this size has an effect far beyond Chinese borders, most notably on other South countries. Other countries, where democratic institutions are weak or corrupted economically or by paramilitary interference, add to the total repressed labour force. This hurts both workers inside ‘repressed’ countries but also fellow workers in relatively ‘freer’ countries due to international competition. The majority of the world’s labour force is touched by repression in some way. This has a concentrated effect on the global political economy.

Political constraints can also be examined on a global scale. Without a global state, it is important to look at who holds power, particularly veto power, in the global market. In the absence of global regulations, global capital has a kind of veto power given its mobility. In addition to this, concerning manufactured goods, the ‘consumer’ societies have a veto power. Their ability to vote with their wallets allows them to circumvent higher labour costs which may be associated with better wages and conditions thus limiting the level of value available for suppliers. Economies with authoritarian political systems, especially the large ones like China, have a veto power in the sense that they can more easily avoid global efforts to raise standards in order to exploit a comparative advantage.

The third variable concerns the economic and political strength of organized labour. In this sense, the assessment is particularly dim with a declining union movement in the global North and a relatively unorganized labour force in the global South. With regard to the institutional linkages these unions have with political parties and the state, the union movement in most of the global South is usually associated with

minority parties. There are however, important exceptions such as South Africa, and various countries in Latin America where there is a strong association between unions and incumbent political parties, though these represent a small minority in terms of the global labour force.

With regard to the fourth variable of labour market conditions, Moseley contends that tight labour markets are conducive to organizing and bargaining success, and that conversely a labour market characterized by high levels of unemployment and underemployment would have an adverse effect on the attractiveness of unions, as well as their ability to bargain for better conditions [11]. With the United Nations making a conservative estimate of 200 million unemployed globally in 2007 [13], it is entirely plausible that unemployment is a key factor in the politics of global labour in that it diminishes the institutional power of unions. It is also notable that this unemployment figure predates the 2008 global financial crisis, meaning this factor is currently even more significant than it was in 2007.

In addition to unemployment, Moseley noted the size of the informal sector was a particularly important factor in conditioning the organizing and bargaining success of unions. In 2002, Schneider, writing for the World Bank, estimated the average percentage of the informal sector, relative to the total South country economies was 41% [14]. By comparison, the average percentage of the informal economy relative to the total economy in OECD countries was 18%. This figure is inflated given that the OECD includes some South countries such as Mexico and Turkey. The size of the informal sector is an important factor in determining the conditions in which workers organize and bargain.

The final factor considered in relation to labour market conditions concerns the structure of the economy. Moseley noted that workers in the agricultural and services sectors are less likely to organize and are less militant in their attempts to achieve collective labour rights with the converse being true for workers in the manufacturing and public sectors. In the global South where the majority of the workforce is employed in agriculture or the services sector, the impact of the structure of the economy on the ability of workers to organize and bargain is considerable.

The composition of skilled:unskilled workers in an economy was also raised, with it being noted that a situation where unskilled workers (or labour intensive production) are (is) in greater number than skilled workers (capital intensive production) in an economy is associated with a situation whereby labour outcomes are relatively worse. With regard to the global South there are two important points to note. Firstly, an overwhelming majority of the workforce are unskilled labourers. Secondly, particularly in light of export-led development policies, the majority of industry growth in the global South as well as the majority of competition between countries has come in the form of competition between labour intensive industries. In relation to this issue therefore, the prevalence of labour intensive production as well as the dominance of an unskilled labour force constitute major issues conditioning whether or not workers are able to successfully organize and bargain as these issues help determine the political strength of labour.

4. Institutional Analysis and Policy Implications

The institutionalist perspective raises a number of issues for labour in the global South. Important factors include the supply of workers, the economic conditions and policy settings that generate specialization in certain types of production. What is more problematic than the simple ratio between skilled and unskilled workers in the global South, are indications that this gap is widening particularly in India [15] and China [16]. Given the sheer number of workers in those countries, this has implications for unskilled workers throughout the global South.

In terms of policy settings, the conventional policy wisdom since the 1980's has been in favour of labour intensive export-led development. The orthodox wisdom of neoclassical trade theory suggests that countries in the global South have a relative abundance of labour and need only focus on specialization in labour intensive production and removal of barriers to trade and investment to achieve the maximum benefits for all [17]. Against this, considering the trends in the economic structure of South countries, these policy settings are conducive to a situation whereby a progressive increase in the number of unskilled workers coupled with stable or declining North country consumer demand (from either economic or demographic changes) leads to declining outcomes for workers.

When stressing the difference between North and South countries, the Moseley paradigm provides a multifaceted framework to understand several important factors in the global political economy. This represents an advance in thinking in terms of globalization over the 'race to the bottom' argument that relies on international competition and capital flows as the determining factor for economic outcomes. For institutionalist perspectives to be relevant in the 21st century it is necessary to transcend the history of

Western experience and in particular the history of the welfare state. At the core of the institutionalist tradition is an argument that the intersection between the economic, social, cultural and political realities of any society will shape the outcomes experienced by workers. With this in mind, the institutionalist tradition remains a powerful framework for analyzing economic trends and prescribing policy.

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