Joshua Hall
and Ricky Thorson

Was Guatemala "Ready" for More Stringent Labor Standards in 2001? A Comparative Development Approach

1. Introduction.

In March of 2001, after considerable debate, the Guatemalan Congress passed a set of major labor reforms (de la Torre, 2001). The motivating force behind this set of labor reforms was to move towards compliance with International Labour Organization (ILO) guidelines. The ILO, a specialized agency of the United Nations, is a tripartite commission of government, labor, and business interests that works to define and improve so-called "core" labor standards throughout the world. According to the ILO (2006), these standards are so basic and universal that "they apply to all people in all States—regardless of the level of economic development."

The ILO pushes for improved labor standards in two ways. First, through international conventions where ILO members are encouraged to ratify "conventions" covering issues such as paid holidays and bans on child labor. Ratification of these conventions by an ILO member country typically makes it law within the country. Second, the ILO publishes, publicizes, and disseminates information on violations of conventions and core labor standards. The hope is that sunshine and peer pressure will work to engender reform within a country. Note, however, that the ILO has no formal enforcement power, and thus can not directly sanction or punish countries found to be in violation of agreed to conventions or core labor standards. This is important because in the eyes of many, the current method of encouraging improvements in labor standards has been ineffective, as evidenced by the failure to achieve worldwide universal core labor standards. This failure has led labor activists to suggest that trade policy be used as an enforcement mechanism to ensure compliance (Brown, 2001). The primary mechanism that has been suggested has been as a part of WTO negotiations, but bilateral trade sanctions have been discussed as well.

The issue of tying labor standards to trade agreements is an important one. Since the Industrial Revolution and widespread international trade between "developed" and "less-developed" countries, there have been concerns raised about a "race to the bottom" with respect to labor standards. At its core, this is an argument

Joshua Hall is a professor in the Department of Economics and Management, Beloit College (Wisconsin, USA). Ricky Thorson is an economics student at Beloit College. Hall would like to thank the Visiting Scholar program at the Social Philosophy and Policy Center for its support. Thorson would like to thank the McNair Scholars Program at Beloit College for its financial and intellectual support. Both authors would like to thank participants at the 2009 SEA Conference in San Antonio, in particular Thomas Hogan and Peter Boettke.

about there being a "prisoner's dilemma" situation among countries, where no country can unilaterally increase its labor standards without placing itself at a competitive disadvantage with respect to other nations. This idea that a failure of one country to improve its standards creates a problem for other countries wishing to do so is even enshrined in the ILO (2006c) Constitution, which states that "the failure of any nation to adopt humane conditions of labour is an obstacle in the way of other nations which desire to improve the conditions in their own countries." Although not generally acknowledged by labor activists, implicit in this argument is that labor standards have a cost to those countries that adopt them.

It was in this context of tying labor standards to trade agreements that then U.S. Ambassador to Guatemala, Prudence Bushnell, inserted herself into the Guatemalan legislative process in May of 2001. According to some reports, Ms. Bushnell was unhappy with what she viewed as a limited set of labor reforms passed by the Guatemalan Congress in March of 2001 (de la Torre, 2001). She threatened to kick Guatemala out of two preferential trade programs—the Caribbean Basin Initiative (CBI) and the General System of Preferences—if the Guatemalan Congress did not pass an additional 28 labor regulations. The economic consequences of losing less-fettered access to U.S. markets was clearly large, as the Guatemalan Congress passed 25 of these additional 28 regulations before the month was out. Included in these reforms were changes to the country's minimum wage law, labor law administration and oversight, and measures to strengthen the power of union officials, such as exempting union officials from criminal prosecution for any actions that are the result of a strike (de la Torre, 2001).[1]

In the wake of her decision to insert herself into the Guatemalan legislative process, Ms. Bushnell was criticized for her actions in the pages of the *Wall Street Journal* (de la Torre, 2001). These criticisms focused primarily on the fact that these reforms were bad for Guatemalans as a whole and would only serve to enrich a few special interests. While we view these criticisms as essentially correct in that they recognized that there exists an aggregate trade-off between more stringent labor standards and income levels, from the standpoint of positive economics there is a sense in which her call for higher standards (but not necessarily her actions) could be viewed as appropriate. Hall and Leeson (2007) examine the timing of labor standards in modern developed countries to find the income thresholds at which these countries—with no external pressure—were willing to trade-off between labor standards and income. If Guatemala were above these income thresholds, then Ms. Bushnell's call for increased labor standards could be viewed as part of the normal conversation

[1] All of the changes could be viewed as strengthening existing labor standards. For example, Guatemala already had a minimum wage law on the books. The change urged by Ms. Bushnell was to give the Minister of Labor unilateral power in adjusting the minimum wage. Similarly, many of the reforms dealt with strengthening the power of unions. For our purposes, what is important is the argument that Guatemala's labor standards at the time were too lax. Since they had some labor standards at the time, the threshold approach we employ in this paper is appropriate to addressing the question of whether Guatemala was ready for this strengthening of standards.

that occurs during the process of economic development.

Using the comparative historical political economy approach most recently employed by Hall and Leeson (2007), we find that Guatemala was far from the income thresholds necessary for safe adoption of most "core" labor standards suggested by the ILO.[2] Since many of the proposals pushed by Bushnell were not new labor standards, but strengthening of existing standards, this suggests that a developmentally appropriate push would have been for relaxed labor standards in Guatemala at the time.

Section 2 briefly describes the comparative historical political economy approach to labor standards that we employ. In Section 3, we demonstrate that Guatemala was not ready for basic core labor standards, let alone strengthened minimum wage laws and collective bargaining rights. Section 4 calculates how many years Guatemala is away from reaching these income thresholds and the implications for various growth paths on the timing of their passing those thresholds. In Section 5 we conclude.

2. Labor Standards and Comparative Development.

Labor "standards," in general, did not exist until the early part of the nineteenth century (Engerman, 2003). According to Brown (2001) the first major labor standard was the English Factory Act of 1802. From there, legislation restricting maximum hours worked of certain groups and working conditions spread slowly by country. In the United States, for example, the first real labor standard was an 1842 law in Massachusetts that restricted those under the age of twelve to a maximum ten hour workday.

What is important to note about this spread of labor standards is that it occurred entirely because of internal pressures and did not require coordination among countries. Nor did it require any external "carrots" or "sticks" to provide incentives for countries to adopt higher labor standards. The fact that Great Britain, France, the United States, Japan and other countries were able to unilaterally increase their labor standards with little to no external pressure or coordination provides some evidence that a prisoner's dilemma does not prevent developing countries from unilaterally raising labor standards. From a historical perspective, labor standards appear to be, in a collective sense, a normal good for which demand rises with income. At low levels of development it is too costly to have children not work or go to school, but at higher levels of income individuals begin to make that trade-off. At some point, so many individuals have made the trade-off that discussion turns toward codifying this change in practice into law.[3]

The experience of currently developed countries in adopting labor standards thus provides a standard for evaluating whether currently developing countries are "ready" for more stringent labor stan-

[2]This approach is as old as political economy itself (Boettke, Coyne, and Leeson, 2009). Some other recent examples in a similar vein include Boettke (2002), Coyne (2005), Powell and Skarbek (2006), and Leeson and Trumbull (2007).

[3]This is why many of the ILO pressured labor standards are continually violated – because they do not meet the on-the-ground facts.

dards.[4] If the United States was not wealthy enough to outlaw child labor when its GDP per capita was under $1,000, why should we expect that the Democratic Republic of the Congo would be able to do so today when it its residents are equally as poor? Following Hall and Leeson (2007), we use the United States as our benchmark for establishing income thresholds. In many cases the U.S. was the leader in adopting labor standards and when it was not, it was not an outlier. Further evidence on the point that the United States is an appropriate benchmark can be found in Hall and Leeson (2007: 664-65).

In Table 1, we list each major federal labor standard in the United States and the date of its passage. For example, slavery was outlawed in 1865 with the adoption of the 13th Amendment to the U.S. Constitution. We then use the historical real GDP per capita series (in 1990 international dollars, PPP) of Maddison (2003; updated in 2009) to provide an estimate of the U.S. income threshold at the time. According to Maddison (2003), U.S. GDP per capita in 1865 was $2,445 per person. Some evidence of how the U.S. was not an outlier in terms of labor standards can be seen in Table 2, which shows the comparative level of development for several countries (and states within countries) when they passed major child labor legislation.

Note that for many of these standards in Table 1, the changes were not sweeping. Child labor laws at first only slightly restricted hours of work in certain occupations (children working in agriculture were often excluded, for example). Minimum wage laws were at a low amount and did not pose a binding constraint for a large number of workers. For our purposes here, the fact to note is that the U.S. thresholds were for the *first* national law passed, and thus represent a very low threshold. Nearly all of the changes in labor standards pushed by the U.S. Embassy in Guatemala represented a strengthening or extension of existing labor standards. Using the date of first U.S. adoption as the appropriate standard we thus are biased in favor of finding that the policies advocated by Ms. Bushnell were developmentally appropriate.

3. Guatemala Was Not Ready.

Guatemala is at a lower level of development than the United States. This is also true of all of the countries in Central and South America that are in major trading agreements with the United States. Currently Guatemala is in a trading agreement with the United States and five other countries: Costa Rica, Dominican Republic, El Salvador, Honduras, and Nicaragua. The agreement, called the Dominican Republic–Central America Free Trade Agreement (DR-CAFTA), essentially is an attempt to create a free trade area similar to the North American Free Trade Agreement. In many respects, this agreement supplanted the Caribbean Basin Initiative for Guatemala in terms of trade with the United States.

In Table 3, we use Maddison's data to identify the "U.S. equivalent dates of development" for the six non-U.S. DR-CAFTA countries. Guatemala's 2001 GDP per capita (in 1990 international $, PPP) was $4,086, which is developmentally equivalent to the United States' GDP per capita in 1900. This places Guatemala as one of the wealthier and more

[4] Again, to see a fuller argument in favor of this approach see Boettke, Coyne and Leeson (2009) and Hall and Leeson (2007).

Table 1. US Federal Labor Standard and Relative Stage of Development

Labor Standard	Date of Ratification	Labor Law	US GDP/Capita (1990$) at the Time Law was Introduced
Child Labor	1938	Fair Labor Standards Act	$6,126
Collective Bargaining	1935	National Labor Relations Act	$5,467
Equal Opportunity and Treatment	1964	Civil Rights Act of 1964	$12,773
Indentured Servitude	1885	N/A	$3,106
Labor Administration	1884	Bureau of Labor	$3,056
Labor Inspections	1970	OSHA	$15,030
Maternity Leave	1993	Family and Medical Leave Act	$23,477
Minimum Wage	1938	Fair Labor Standards Act	$6,126
Safety and Health	1970	OSHA	$15,030
Slavery	1865	Thirteenth Amendment	$2,445
Social Security	1935	Social Security Act	$5,467
Unemployment Insurance	1935	Social Security Act	$5,467
Vocational Guidance and Training	1962	Employment Act of 1946	$11,905
Work Hours	1940	Fair Labor Standards Act	$7,010

Source: Hall and Leeson (2007). Data is from Maddison (2003) and U.S. Department of Labor (2007).

Table 2. Child Labor Laws and Comparative Development

Country	Date of Ratification	Labor Law	GDP/Capita (1990$) at the time Law was Introduced
United States	1842	Massachusetts Law	$1,806
	1848	Pennsylvania Law	$1,806
	1903	Alabama, NC and SC Laws	$4,551
	1938	Fair Labor Standards Act	$6,126
Belgium	1886	First Child Labor Law	$3,153
Denmark	1873	First Child Labor Law	$2,057
France	1841	First Child Labor Law	$1,456
	1874	2nd 'Effective' Child Labor Law	$2,157
Germany	1839	First Prussian Child Labor Law	$1,428
	1853	Prussian Statute of 1853	$1,413
	1891	German Industrial Code of 1891	$2,469
Great Britain	1802	Factory Act of 1802	$1,653
	1833	Factory Act of 1833	$1,774
	1867	Factory and Workshop Regulation Act	$2,966
	1874	1874 Act	$3,386
	1891	1891 Act	$3,975
Italy	1873	1873 Law	$1,524
Japan	1916	First Factory Law Implemented	$1,630

Source: Naiman, Rudiak, & Weisbrot (2002), Maddison (2003), and author calculations.
Note: For years with missing GDP data, figures are rounded to next closest year. Thus the value for 1836 Massachusetts is U.S. GDP per capita in 1840, for example.

Table 3. Comparative Economic Development: U.S. and DR-CAFTA Countries

Country	2001 GDP p/c (PPP, 1990 $)	U.S. Equivalent Level of Development
Costa Rica	$6,137	1923
Dominican Republic	$3,723	1897
El Salvador	$2,711	1879
Guatemala	**$4,086**	**1900**
Honduras	$1,912	1860
Nicaragua	$1,533	1840

Source: Maddison (2003).

Note: For ranges of data, most recent date used. For example, a country whose 2001 GDP p/c surpassed the United States' between 1850 and 1860 would have a U.S.-equivalent date of development = 1860.

Table 4. Guatemala and U.S. Equivalent Labor Standard Thresholds

Labor Standard	Date of U.S. Adoption	Had Guatemala Passed U.S.-Equivalent Development Threshold in 2001?
Child Labor	1938	No/Yes
Collective Bargaining	1935	No
Equal Opportunity and Treatment	1964	No
Indentured Servitude	1885	Yes
Labor Administration	1884	Yes
Labor Inspections	1970	No
Maternity Leave	1993	No
Minimum Wage	1938	No
Safety and Health	1970	No
Slavery	1865	Yes
Social Security	1935	No
Unemployment Insurance	1935	No
Vocational Guidance and Training	1962	No
Work Hours	1940	No

Source: Maddison (2003) and author calculations.

developed Central American countries, especially relative to the fellow non-U.S. DR-CAFTA countries. Costa Rica is the wealthiest of the non-U.S. DR-CAFTA countries with a GDP per capita of $6,137, the U.S. equivalent of 1923. The least developed of the list is Nicaragua at $1,533, the equivalent of the U.S. in 1840.

In Table 4 we take the general labor standards listed in Table 1 for the United States and we see where Guatemala's 2001 GDP per capita was relative to the United States' when it first passed the labor standard in question. If 2001 Guatemalan GDP per capita exceeds the U.S. GDP per capita at time of ratification, we say Guatemala passed the threshold and is therefore "ready" to ratify the labor standard. However, we see in many cases that Guatemalan GDP per capita is still significantly lower than the U.S. GDP per capita at time of ratification.

For example, the U.S. passed maternity leave legislation first in 1993, when its GDP per capita was $23,477. Clearly, Guatemala's current GDP per capita of $4,086 does not meet this threshold. Thus we have a NO in the third column. We find that for most of the standards Guatemala was not "ready" for these standards in 2001, at least from a comparative development standpoint. Child labor is listed as a No/Yes to reflect the fact that some states had passed child labor legislation at a point in time when U.S. GDP per capita was below $2,000.[5] For example, U.S. GDP per capita was $1,588 in 1842 when Massachusetts passed its law. For most of the legislation that was the focus of Ms. Bushnell's push (collective bargaining rights, minimum wage changes, etc.), Guatemala clearly was not "ready" from a comparative development perspective. This is also true for most of the other DR-CAFTA countries, as can be seen in Table 5, which repeats Table 4 for the other five DR-CAFTA members.

4. When Will Guatemala Be Ready?

Using Maddison's data, we calculate the average annual growth rate for Guatemala from 1996-2001 (before Bushnell's induced changes) and for the five years following (2001-2006). The average annual growth rate for the "before" period was 1.04 %, and the annual growth rate for the second five-year period was nearly half that, 0.55 %. We use these two measurements as starting points to help answer the question of "how long?" If we are correct that binding labor standards are an outcome of growth, not an input to growth, it is important to ask how long it will take at current growth rates before Guatemala can be said to be "ready" for a particular labor standard such as maternity leave. To the extent that premature labor standards lower growth and impede the advancement of living standards, they actually make it less likely that working conditions will improve overall in the near term.

In Table 6 these growth rates were used to estimate how many years it would take Guatemala to reach the income thresholds suggested by the timing of U.S. adoption. At the 1996-2001 higher growth rate of 1.04 % it would take 170 years for Guatemala to reach the GDP per capita at which the U.S. adopted its fede–

[5] Again even using the year of state adoption as the standard, this is biased towards a finding that Guatemala's labor standards are developmentally appropriate since it was those states (such as Massachusetts) with the highest level of economic development that were most likely to adopt labor standards.

Table 5. Remaining DR-CAFTA Countries and U.S. Equivalent Labor Standard Thresholds

Labor Standard	Date of U.S. Adoption	Costa Rica	Dom. Republic	El Salvador	Honduras	Nicaragua
Child Labor	1938	No/Yes	No/Yes	No/Yes	No/Yes	No/Yes
Collective Bargaining	1935	No	No	No	No	No
Equal Opportunity and Treatment	1964	No	No	No	No	No
Indentured Servitude	1885	Yes	Yes	No	No	No
Labor Administration	1884	Yes	Yes	No	No	No
Labor Inspections	1970	No	No	No	No	No
Maternity Leave	1993	No	No	No	No	No
Minimum Wage	1938	No	No	No	No	No
Safety and Health	1970	No	No	No	No	No
Slavery	1865	Yes	Yes	Yes	No	No
Social Security	1935	No	No	No	No	No
Unemployment Insurance	1935	No	No	No	No	No
Vocational Guidance and Training	1962	No	No	No	No	No
Work Hours	1940	No	No	No	No	No

Source: Maddison (2003) and author calculations.

Table 6. Years Until Guatemala Reachs U.S.-Equivalent Labor Standards Threshold

Labor Standard	US GDP/Capita (1990$) at the Time Law was Introduced	Years Till Guatemala Reaches Threshold (1996-2001 Growth Rate)	Years Till Guatemala Reaches Threshold (2001-2006 Growth Rate)
Child Labor	$6,126	40	74
Collective Bargaining	$5,467	29	54
Equal Opportunity and Treatment	$12,773	111	208
Indentured Servitude	$3,106	-31	-31
Labor Administration	$3,056	-31	-31
Labor Inspections	$15,030	126	238
Maternity Leave	$23,477	170	319
Minimum Wage	$6,126	40	74
Safety and Health	$15,030	126	238
Slavery	$2,445	-38	-38
Social Security	$5,467	29	54
Unemployment Insurance	$5,467	29	54
Vocational Guidance and Training	$11,905	104	195
Work Hours	$7,010	53	99

Source: Maddison (2003; 2006) and author calculations.

Note: 1996-2001 Average Annual Growth Rate = 1.04%; 2001-2006 = 0.55%.

Figure 1. Timing of Development Appropriate Labor Standards for Guatemala (low-growth)

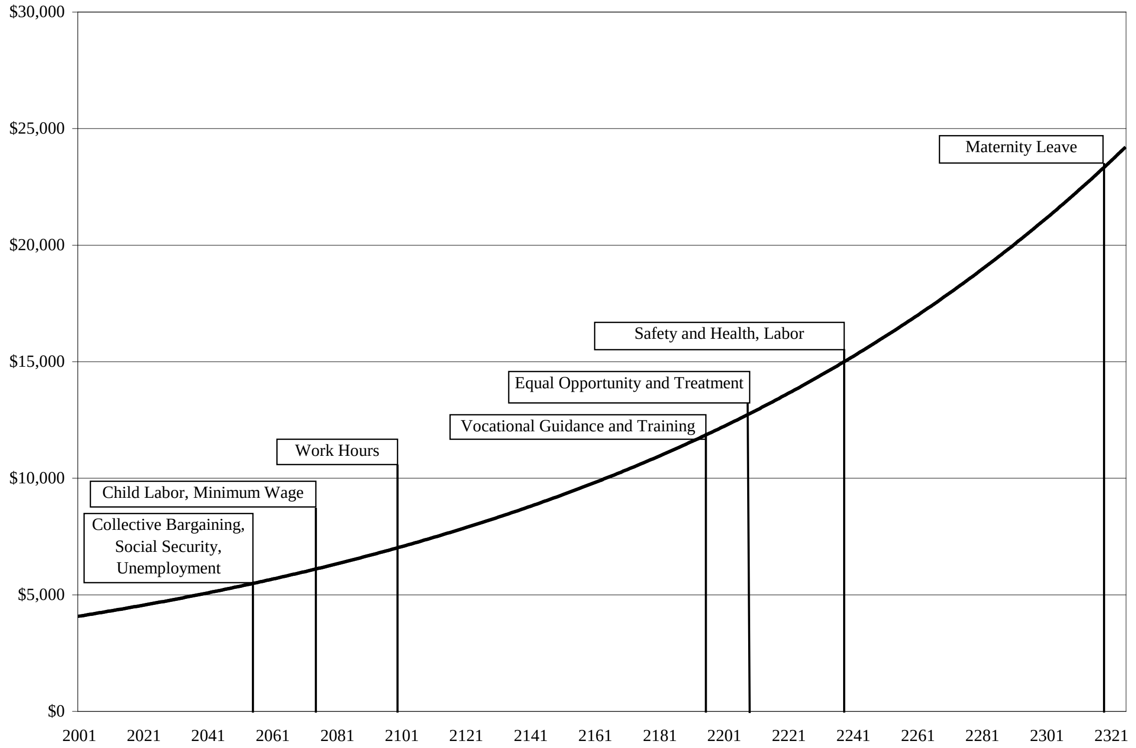
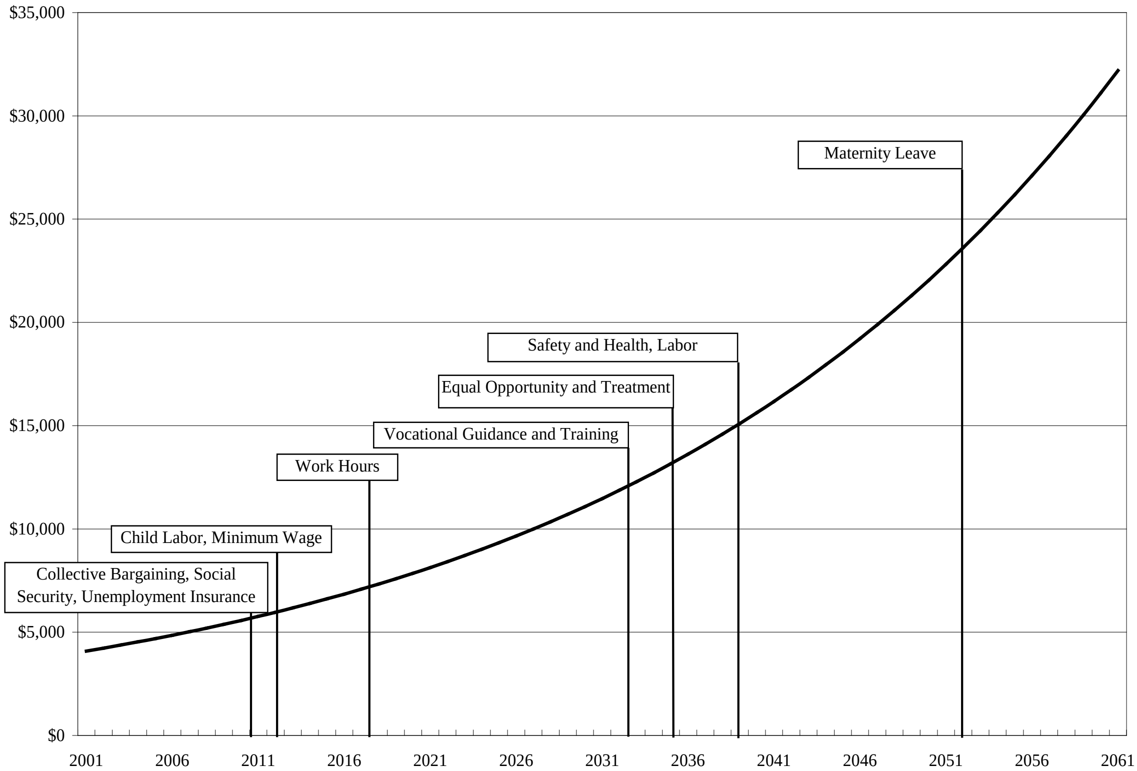


Figure 2. Timing of Development Appropriate Labor Standards for Guatemala (high-growth)



ral policy with respect to maternal leave. At the reduced low-growth rate of 0.55%, it would take twice as long (319 years!). Although the other labor standards are projected to occur sooner, the general outlook is that Guatemalan GDP per capita will not resemble the U.S. equivalency for many years. Again it should be noted that this is the threshold at which the United States adopted its first formal national labor standard in an area, not its current labor standards. This table shows the importance of economic growth to determine when countries will be "ready" to adopt higher labor standards, at least from a comparative development sense.

Figure 1 plots the data from column 3 of Table 6, showing how many years it would take for Guatemala to reach the U.S. equivalent level of development. Figure 2 shows the same income threshold, only with an annual average growth rate of 3.5 %. Thus if Guatemala were able to have a period of sustained growth similar to that of the United States during the nineteenth century, we suspect the issue of higher labor standards would quickly become moot. As can be seen in Figure 2, at this higher (but not impossible) level of economic growth, Guatemala would be expected to voluntarily adopt most major labor standards by 2051, using the U.S. equivalent level of development.

5. Concluding Remarks.

In this paper we have looked at whether Guatemala was "ready" for improved labor standards in 2001, as U.S. Ambassador Bushnell and ILO suggested. Using U.S. adoption of major labor standards as a benchmark, we find that Ms. Bushnell's actions cannot be defended even on the grounds that Guatemala was "ready" for these standards. The evidence suggests that many of these more stringent standards were premature and the proper policy prescription would be instead to eliminate many of the current standards, such as minimum wage laws, as they impede Guatemala's development, which will ultimately delay the adoption of better working conditions.

References

Basu, K., H. Horn, L. Roman, and J. Shapiro. 2003. *International Labor Standards*. Blackwell, Malden.

Boettke, P. 2002. *Calculation & Coordination: Essays on Socialism and Transitional Political Economy*. New York: Routledge.

Boettke, P., C. Coyne, and P. Leeson. 2009. "Comparative Historical Political Economy: An Old Research Program in a Modern Age" (mimeo).

Brown, D. 2001. "Labor Standards: Where do they Belong on the International Trade Agenda?" *Journal of Economic Perspectives*, 15: 89-112.

Clark, G. 2003. "Farm Wages and Living Standards in the Industrial Revolution: England, 1670-1869." *Economic History Review*, 54 (3): 477-505.

Coyne, C. 2005. "The Institutional Prerequisites for Post-Conflict Reconstruction." *Review of Austrian Economics*, 18 (3/4): 325-42.

de la Torre, Armando. 2001. "Labor's Anti-Trade Drive Claims a Victim, Guatemala." *Wall Street Journal* (May 18).

Hall, J., and P. Leeson. 2007. "Good for the Goose, Bad for the Gander: International Labor Standards and Comparative Development.” *Journal of Labor Research*, 28: 658-76.

International Labour Organization. 2006. “About the Declaration.” At www.ilo.org (accessed May 14).

International Labor Organization. 2008. Web site: http://www.ilo.org.

Leeson, P., and W. Trumbull. 2006. “Comparing Apples: Normalcy, Russia, and the Remaining Post-Socialist World.” *Post-Soviet Affairs*, 22: 225-48.

Maddison, A. 2003. *The World Economy: Historical Statistics*. Paris: OECD. (Data updated by Maddison in 2009 and available at: http://www.ggdc.net/maddison/).

Naiman, R., N. Rudiak, and M. Weisbrot. 2002. “Can Developing Countries Afford to Ban or Regulate Child Labor?” Political Economy Research Institute (University of Massachusetts, Amherst).

Powell, B., and D. Skarbek. 2006. “Sweatshops and Third World Living Standards: Are the Jobs Worth the Sweat?” *Journal of Labor Research*, 27: 263-74.

U.S. Department of Labor. 2007. “History of Department of Labor.” Available at: www.dol.gov/asp/programs/history/ (accessed 19 April 2007).