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Trade unions in the south and co-operation between unions in the South and in the North: A survey of the economics literature*

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TIIVISTELMÄ

Tässä kirjallisuuskatsauksessa tarkastellaan viimeaikaista taloustieteellistä tutkimusta ammattiliittojen roolista kehitysmaissa ja pyritään selvittämään tulevaisuuden tutkimustarpeita. Ammatillisen järjestäytymisen vaikutuksesta palkkaan ja työllisyyteen on paljon sekä teoreettista että empiiristä tutkimusta kehittyneiden maisen osalta, ja jonkin verran myös kehitysmaista. Tavanomaisten palkka-, työllisyys- ja tulonjakovaikutusten lisäksi järjestäytymisellä voi kehitysmaissa olla kuitenkin vaikutuksia myös esimerkiksi työoloihin, erityisesti jos valtion mahdollisuudet valvoa niitä ovat heikot. Kehitysapua kanavoidaan monissa maissa myös ammattijärjestöjen kautta. Tämän toiminnan vaikuttavuudesta ei ole juurikaan järjestelmällisiä tilastoaineistoon perustuvia evaluaatioita. Tutkimuksen tulisikin jatkossa pyrkiä täyttämään näitä aukkoja tietämyksessä.

ABSTRACT

This paper offers a survey of the recent economic literature on the effects of unions in developing countries, with a particular emphasis on the impact of unionisation on labour standards. The paper also discusses the studies – or, more aptly, the lack thereof – of the impact of development aid that is channelled via unions. The observations point towards important areas for rigorous further empirical research.

Key words: trade unions, development, civil society, labour standards, development aid.
JEL classification: J51, O15, O22.

1 INTRODUCTION

There is a considerable degree of variation in the institutional set up of labour markets between countries. For several decades, studies of the impact of these institutions on issues such as wages, productivity, macroeconomic performance, unemployment, and wage dispersion have been popular topics in mainstream economics. There is, however, much less research on similar linkages in the context of developing countries. Institutions and their quality in general are, however, central to the debate on what the most important barriers are to unleashing countries' development potential.

Labour markets are not irrelevant to economic development. Not only are they essential for the majority of people who draw most of their income from work, but also the right to decent work is seen as crucial for human well-being as well as dignity. The most recent World Development Report (2012), for example, is centred on jobs and their instrumental role in development. The World Bank also emphasises in the Report that while excessive regulation of labour markets (by union power, for example) is detrimental to development there is a wide ‘plateau’ of different labour market arrangements that can all be compatible with economic growth. Therefore, the impacts of unionisation as such are not necessarily harmful or beneficial; we need to understand the specific circumstances to know what works and what does not work in a specific country and institutional setting.

On the other hand, it is widely recognised that promoting civil society organisations is essential for enhancing the quality of governance so badly needed in many developing countries. Trade unions are a form of civil society organisations, and indeed the rights to associate and bargain collectively are considered as core labour standards along with the prohibition of forced labour and child labour. Therefore, the impact of collective bargaining is also in a sense an inevitable consequence when the core labour standards are recognised. This further emphasises the importance of studying how the impact arises and how the positive influence of labour standards could be enhanced.

Many unions in the developed world support trade unions in developing countries. Governmental aid agencies also often provide funds for this work. Like development aid in general, even in the presence of potentially beneficial effects, supporting labour unions in developing countries gives rise to the question as to how effective a way it is to promote the goals of international aid. In addition to the impacts (that may be negative) on employment, economic growth, trade and investment unions can, however, serve as a means of promoting well-being directly. This could happen through better working conditions, improvements in social dialogue or strengthening the civil society. The total effect or the means to maximise the benefits and minimise the harm requires further information on the impacts of unions in the conditions that prevail in developing countries.

The aim of this survey is to establish the current state of knowledge on the role that trade unions play in developing countries and to discuss how they could be used to promote positive developments. The emphasis is strongly but not exclusively on the economic impacts or impacts that can be measured. This naturally leaves out some of the potential effects of unions (such as the intrinsic value of the right to form and join unions and much of the dynamism that a vibrant civil society can create).

There is a large literature on the economic impacts of collective bargaining in industrialised countries. Most of the earlier literature is summarised in Aidt and Tzannatos (2002) and we briefly touch upon it. However, the main focus of this survey is in the more recent literature and what is known about the impacts in developing countries. In writing this report, we have relied extensively on the excellent survey by Freeman (2010) and one of the background papers for the World Development Report of 2013, Betcherman (2012), which also draws heavily on Freeman's work. Our novelty is that we (i) focus somewhat more on the notion of 'decent work' and labour standards and, in particular, (ii) we survey the small amount of research work that has been conducted about the development collaboration between unions in the developing countries and in the rich countries.

Before setting out to review the literature in detail, we have to discuss how we can classify the impacts as "good" or "bad" from the point of view of the countries themselves or the aid providers.

Generally, developing countries need economic growth to improve their standards of living and reduce poverty. Factors such as efficiency and productivity contribute directly to the level of income in the country. Employment, however, is the most obvious way out of poverty and generally should not be considered just as a consequence of growth (World Bank 2012). In the globalised world exports and foreign direct investment are also dependent on the quality and costs of production that a country can provide.

However, distributional effects are also of major importance. In many developing countries, the distribution of income is very uneven, and the high poverty rates are partly a result of this. There is an ongoing debate on the implications of the overall distribution of income: in general it is widely accepted, however, that high poverty rates are undesirable for many reasons. The ultimate goal of development aid as well as policymaking in general is to improve the well-being of the citizens of developing countries. Both income and enhancing labour standards contribute to this aim. Similarly, promoting civil society, democracy and institutional quality are necessary, both because they can accelerate economic growth and because they directly improve well-being.

Naturally, in many cases it is not possible to improve one aspect of the economy or society without simultaneous damage somewhere else. For example, a more even distribution of income may require the causing of distortions through higher taxation. Given that we cannot calculate the total sum of well-being directly, if we can only attain one goal at the expense of the other, the burden of weighing costs and benefits observed falls to the policy-maker. The dynamic effects, however, may also differ from the immediate effects.

We approach the issue from the economics point of view: even if the goal itself is not completely measurable, our focus is on finding and reviewing empirical evidence on links that are observable and significant in data. Even when such associations are found in the data, proving causality can be problematic. In many of the macro-level studies we review, it remains doubtful as to which one of the factors causes the other to a larger extent, or whether they are both a result of some underlying process. This problem is particularly prominent when one is studying phenomena where also the outcome itself is difficult to measure or even to define in measurable terms. Thus, studying topics such as the relationship between social capital, the strength of civil society, participation and economic growth, especially establishing causality, is difficult if these methods are used. Studying or drawing inference on the magnitude of more complex long-term influences such as the impact of unions on the economy through the fortification of civil society would be even more difficult. In this review we have not attempted to cover work on all these phenomena but to concentrate on the influence through simpler mechanisms.

The experimental approach described in Section 5 does not suffer from these problems. However, it is not possible to apply this approach to all issues, and the results cannot necessarily be generalised for other contexts. The strengths and weaknesses of this approach are discussed, and we consider how experiments could be used to examine the effectiveness of development assistance given through trade unions.

The structure of this survey is as follows. In Section 2 we discuss the impacts of collective bargaining implied by the economic theory, which has been mainly written from a developed country perspective. In Section 3, we discuss the differences that a developing country context presents for this theoretical analysis. Section 4 reviews the existing empirical evidence on the impact of unions in developing countries on various outcomes, including wages, unemployment, working conditions and also institutional development at the macro level. Section 5 presents the current knowledge on the impacts of development collaboration between unions in the north and south. Section 6 concludes.

2 THE ECONOMIC IMPACTS OF COLLECTIVE BARGAINING

2.1. Theory

In the standard economic textbook model, a trade union acts as an entity that bargains over wages on behalf of the workers (see e.g. Boeri and Van Ours 2008, Naylor 2003 or any textbook on labour economics). In the simplest model, the union is a monopoly that can set a wage unilaterally. Effectively, the union sets the wage at the level where the marginal benefit to the union of raising the wage is equal to the marginal loss. The marginal benefit and loss depend on the preferences of the union and the wage elasticity of demand for labour. Given the wage, the firm decides how many workers it wants to employ. The supply of labour is assumed to be flat: as long as the wage exceeds the reservation wage or the wage required to accept work, each firm can hire as many workers as they like, or in a competitive equilibrium up to the point where the value of the marginal product of a worker equals their wage which maximises the profit of the firm. The union, on the other hand, considers how many individuals in total are employed (and, subsequently, unemployed) and how high their wage is compared with the reservation wage. The more elastic the demand for labour is, the less the union can afford to raise the wage, as higher elasticity will result in a larger decline in employment and higher unemployment.

Usually, it is unrealistic to assume that a union unilaterally sets the wage. Normally, unions and employers' organisations bargain over it (the right-to-manage model). Individual employers then take the wage as given. The two parties have different degrees of bargaining power. When unions have all the power, the result is equal to that obtained in the monopoly union model. Generally, bargaining power, however, is more evenly split between employers and unions. As in the monopoly situation, the resulting wage is higher than that attained in the competitive market but lower than the wage in the monopoly union model. The amount of relative bargaining power influences the outcome: the higher the bargaining power of the unions is, the closer is the outcome to that of the monopoly union model; and the higher the bargaining power of firms is, the more it resembles the outcome of the competitive labour market.

The model can be extended so that the unions and employers bargain over both wages and employment; this is so-called efficient bargaining. In this case, the profit and union utility levels can, in fact, be superior to those in the models where only wages are bargained over. The outcome depends again on the relative bargaining power of the parties, and the stronger the competition in the product market is, the less scope there is for bargaining.

The bargaining model can be extended, for example, by assuming that union membership depends on the characteristics of the workers and the individual gains from membership. Similarly, the preferences of the union become more complex, if we do not assume that workers are homogenous and that decisions within the union are made by means of a ballot box, for example. Under certain assumptions the union's objectives coincide with the median member's preferences. Unions may also provide insurance for example against income fluctuations, and protection for low skilled workers. In the case of developing countries where the enforcement of legislation (concerning, for example, the minimum wage) is weak and social security largely absent we can hypothesise that the insurance function of trade unions is important. On the other hand, as will be discussed in the next section, organisations called trade unions can also engage in actions that have little to do with the protection of workers.

As summarised by Kaufmann and Bennett (2007), the costs of unionisation in the monopoly model compared with a competitive outcome arise from allocative inefficiency, technical inefficiency, reduced capital investment and higher firm deaths. However, the impact of unions also depends on the alternative or the degree of competition without unions. The assumption of a non-competitive labour market or monopsony, where there is only one buyer of labour (for example, a single large factory in a small town) would actually imply that a union increases allocative efficiency.

A key point to remember is that these effects of the unions are compared with the outcome of a perfectly competitive labour market. However, employers also have market power and are to some degree monopsonists (Manning 2003). The presence of a monopsonistic firm reduces wages below their competitive level, and in such a situation a minimum wage, negotiated for example by a union, can raise the wage closer to the competitive one. The evidence in Brummond (2012) suggests that in one particular developing country, namely Indonesia, firms have a significant degree of market power in the labour market. Monopsonists may, therefore, be much more prevalent in developing country contexts.

Furthermore, there may be other sources of imperfections in the labour market. These include the lack of information, mobility costs or incomplete contracts. Though undoubtedly the aim of trade unions, in most cases, is to push wages higher, their activities may have other goals or consequences which may reverse the conclusion about their impact on efficiency. In their seminal work (1984) Freeman and Medoff presented an alternative view. They emphasised the two faces of unions. In addition to the efficiency-reducing monopoly face the union 'voice' is an important factor that, in fact, enhances efficiency, presuming there are imperfections such as imperfect information or mobility costs. The union provides an opportunity for individual workers to express their concerns about workplace issues without the risk of losing their job or being mistreated. As a consequence, not only do workers benefit but also the employee does. Without the union as a discussion platform, unhappy workers may quit their job, whereas with the union voice the employer will be better informed about worker preferences and avoid unnecessary and costly turnover. Similarly, through the union the employer may receive information about how the production process could be organised more efficiently. At best, unions may also provide labour market information, monitor and evaluate. It can also be argued that unions facilitate the drawing up of contracts that are more efficient, and the reduction of transaction costs compared with the situation where bargaining takes place at the individual level. The "worker voice" may thus imply higher overall productivity.

Labour standards, in particular, can be seen as a public good which can be promoted by using the 'voice face' of unions, as discussed above. Public good, by definition, is a good that provides utility for a large number of people; however, the cost of obtaining the good is higher than the benefit for any individual person, so obtaining the good requires aggregating preferences through an institution. For an individual, the marginal cost of demanding higher standards is too high compared to the individual benefit. Thus, attaining efficiency requires aggregation of individual preferences through a trade union. In the context of developing countries the voice face may be particularly significant, as the enforcement of labour standards or worker rights by the authorities is weak.

In the spirit of Freeman and Medoff, Donado and Wälde (2010, 2012) emphasise the role that worker movements have played in improving occupational safety to the levels that are now generally accepted in high income countries but would not have been attained without worker movements. For an individual worker, it is impossible to recognise whether an illness is work-induced, but a group like a trade union can gather information on a large number of cases and establish a connection. In their model, higher levels of occupational health also ultimately provide better returns on investment. According to their analysis, improving occupational health in both developed and developing countries is welfare-enhancing and mutually beneficial.

Freeman and Medoff found that their theory was corroborated by empirical facts in the US economy at the time. Unionised workplaces indeed operated under different and more explicit rules. The threat effect improved wages and conditions in non-union firms too. Unions also increase the share of compensation that goesto employee benefits, and shift the composition towards deferred benefits, and reduce wage inequality. Unionised workers are less likely to quit. During recessions unionised firms more often use temporary layoffs and sometimes agree on wage cuts. Union workers are, however, more dissatisfied, although unionised workplaces also have higher productivity. Unionised firms provide lower return on capital and reduced profits, but reduced profits mainly occur in the concentrated sectors of the economy, where profits are generally above the normal level.

On the other hand, there are several reasons why trade unions may fall short of the optimal outcome even when there are potential gains from unionisation. Unions may have other objectives that override the improvement of labour standards or productivity, or they may only serve the interests of insiders at the cost of outsiders. Unions may be highly adversarial and have high transaction costs, as there are limited channels for worker voices outside formal union channels in the traditional form of unionism, which ultimately leads to a rejection of unionism. This has happened, for example, in the United States (Hirsch 2007). The distributional effects of unions may mainly benefit the unionised workers, unless the 'threat' effect of unionisation is very strong. In a developing country context this problem is acute, as there is typically a large informal labour market which is not covered by regulations or formal institutions.

It can also be argued that the positive voice effects cannot exist without the negative 'monopoly face' (Kaufman and Bennett 2007). In order for a union to effectively promote positive objectives it will have to possess some monopoly power. Even if a positive effect of unions is observed in the empirical data, it may hide a large negative effect. The institution that serves as the voice of the workers does not necessarily need to be a union in the traditional sense. There may be alternative institutional forms that are capable of attaining similar positive outcomes. As pointed out above, the modes of union behaviour as well as the degree of co-operativeness in industrial relations vary a lot.

Globalisation has further heightened the worries regarding the impact of wage pressures arising from union activity. In an open economy, higher wages and inflationary pressures may, in particular, impact on trade. For foreign direct investment, in addition to cost structures, conflict-prone industrial relations may serve as a deterrent for investors looking for a predictable environment for production.

On the other hand, some elements of the role that trade unions play in the light of economic theory may be more relevant in developing countries. As pointed out above, the voice effect may be particularly important because of the low general enforcement of labour standards, whereas the protection provided by unions can serve as insurance when overall social security or social protection policies are largely missing or largely incomplete. It has to be noted that this does not necessarily imply that overall unions in developing countries are optimal labour market institutions. Union membership may be the cause of another source of inequality if it is not accessible to everyone and, on the other hand, other policies or forms of labour market institutions may provide even better outcomes.

Though the economic effects are important, it has to be noted that the freedom of association and collective bargaining are recognised as basic rights and as one of the core labour standards. As such, it is hardly an option to banish unions in the developing world, even if they have negative effects on trade or growth. This is linked to the general question on implementation and enforcement of labour standards. The literature on labour standards is discussed further below. In a broader sense, the freedom of association is also a characteristic of a well-functioning civil society and democracy. These are overarching institutions whose importance in development has long been recognised (see, for example, Rodrik et al, 2004 and Hoff and Stiglitz, 2001).

2.2. Empirical evidence from developed countries

As mentioned in the introduction, there is a large amount of research on the general impacts of collective bargaining. In their extensive survey, Aidt and Tzannatos (2002) review this evidence, which largely concentrates on studies on industrialised countries. Their main observations are that there is little systematic difference in economic performance between countries with difference forms of collective bargaining. Micro studies are often context-specific, whereas the macroeconomic effects are hard to disentangle. According to Aidt and Tzannatos the existing studies suggest that there is an observable wage mark-up and compression of wage distribution, and the return to skill is reduced. The turnover is lower and tenure, on average, is longer in unionised firms, and there is more training. On the downside, unionisation lowers profits, employment growth and investment. The impact on productivity is indeterminate.

At the macro level, Aidt and Tzannatos conclude that bargaining coverage is generally related to higher real wage growth, lower employment, higher unemployment and higher inflation and there is a negative association with earnings inequality. However, the degree of co-ordination has often been stated as a significant determinant of the overall effect. High union density and bargaining coverage do not have as negative an impact when bargaining is highly co-ordinated. Betcherman (2012) presents a shorter review including some more recent work, and argues that there is no consistent evidence on whether different bargaining structures help or hurt employment. The lack of consensus may be partly due to difficulties in measuring structures and practices.

Similar arguments have been presented by others. Freeman (2007) points out that the main channels through which labour market institutions have an impact on economic outcomes are incentives, efficient bargaining, information, communication and trust. According to Freeman the main impact they have is on the distribution of income; the other effects are much less clear. Similarly, Traxler and Brandl (2011) study the economic impact of collective bargaining coverage with OECD data. The results suggest that collective bargaining has little implication for macroeconomic outcomes, except for income inequality in the case of centralised bargaining.

We are interested in whether similar effects can be found in developing countries. In the following we first discuss some special features of labour markets and the state of collective bargaining in developing countries. Later on, we present some existing evidence from studies of developing countries.

3 SPECIAL FEATURES OF DEVELOPING COUNTRY LABOUR MARKETS

Informality

Informal labour markets are a distinctive feature of developing economies. The definition of the informal sector is subject to discussion (see, for example, Kanbur 2009), but in general the informal sector means activities that are outside formal regulation, either because of their small scale or the casual nature of production or because of intentional evasion of regulation.

The role that the informal labour market plays is also subject to theoretical and empirical research. While informality undoubtedly allows, for example, the avoidance of even reasonable forms of regulation, it may be that informality only represents a transient period on the workers' and firms' ladder to the formal economy. Informality is also a heterogeneous phenomenon, including both voluntary and involuntary informality, and diverse types of workers, such as workers working on their own account, unpaid family workers and people working as employees for informal companies and informal employees of formal companies. The share of voluntary and involuntary informal employment varies across countries.

It can be argued that informality is caused by regulation, for example labour market institutions, which is too rigid and cumbersome for the conditions prevailing in developing countries: the costs of following the rules can exceed the potential benefits of formalisation and the cost related to the risk of not abiding by all regulation. Freeman (2009), however, points out that the share of workers in the informal sector increased in the 1990s and the first decade of the 21st century irrespective of the strength of economic growth or the degree of regulation. This alone suggests that the underlying process is not related to regulation alone. There is a large literature on labour market informality, but we shall only review a few studies to present an overall picture of the issues.

LaPorta and Shleifer (2004) summarise the usual perceptions of the informal sector in three views: the romantic view, the parasitic view and the dual economy. In the romantic view the informal economy consists of productive or potentially productive activities that are held back by the burden of bureaucracy. The parasitic view emphasises their illegal nature and the unfair advantage they gain by avoiding taxes and regulation, and sees them as hindering economic growth. The dual view considers the informal firms as the less productive sector of the economy that does not really compete with the formal sector and, by and large, serves different customers and hires different employees. The authors find that informal firms are actually small and unproductive and the growth comes from the creation of productive, formal firms. Therefore, they consider the dual view as the most realistic perception of the informal sector. Though their work concerns companies, a similar pattern seems to be prevalent in labour markets overall: informal work is linked to poverty and in many instances has low productivity (OECD 2009). Kucera and Roncolato (2008) point out that the distinction between involuntary and voluntary informal employment is not meaningful as long as informal workers live in poverty.

In the case of labour standards, informality can be a hindrance to enforcing them. Galli and Kucera (2004) state that, for example in Latin America, countries with higher labour standards tend to have higher shares of formal employment, given the other explanatory factors. This is not necessarily a causal relationship, and does not imply that exogenous changes in civic rights automatically increase the share of formal employment. It may also highlight the fact that attaining high labour standards (or social security coverage) may be obstructed by high levels of informality.

In line with the "parasitic view" the best way to reduce informality is to enforce regulation more efficiently, whereas if regulation is perceived as the main cause of informality, stricter enforcement may only lead to more sluggish economic growth. Brazil is one of the few countries where there has indeed been a significant reduction in the share of informal labour. According to Almeida and

Carneiro (2011), stricter enforcement in Brazil led to an increase in formal sector employment and non-employment and a decrease in employment in the informal sector. This is mainly due to reduction in self-employment. The World Bank (2012) emphasises that various means have to be used to combat informality, as the causes for informality are also diverse, ranging from better enforcement to simplifying regulation and strengthening the social contract.

As far as distributional effects are concerned, it is clear that whatever benefits may be obtained through trade unions, they are largely beyond the reach of informal workers and firms. As the evidence shows, rather than seeing informality as a result of rigid labour market institutions, the aim should be to provide the informal sector with institutions that can provide a "voice" for similar to what the unions in the formal sector provide in order to reap the benefits of "worker voice". A well known example of this is the Self-Employed Women's Association (SEWA) in India, which has operated since 1972. SEWA represents its members at various levels (local council, municipal, state and national planning bodies, advisory boards etc.) and also provides training, social services and collective bargaining (The World Bank 2012). In a recent overview report to the Solidarity Center (Schurman and Eaton 2012) it has been found that there are many ways of organising informal workers: in addition to traditional trade unions there are membership-based organisations, community-based organisations, co-operatives, NGOs, networks and alliances.

Urbanisation

Freeman (2009) points out that earlier "the urban bias" was seen as a major problem in developing countries. Institutionally determined urban wages that were too high drew population from the countryside, resulting in high unemployment in urban areas (the Harris-Todaro model). Labour market institutions that set the wage in the formal urban sector above the market-clearing level were often seen as a hindrance to attaining full employment and sustainable development[1]. The original model did not specify exactly which institutions set the urban sector wage. For example, Calvo (1978) formulated a model based on the Harris-Todaro model where trade unions act as the wage-setting or bargaining agent for the urban sector.

However, in modern times the views are more varied and the impact of labour market institutions is known to be dependent on the context as well as on the exact features of the particular institutions. Fields (2003) finds that, even in the original Harris-Todaro model, restraining the modern sector

[1] Though simplified, the model also highlights the importance of paying attention to all sectors of the economy, which is clearly still of major importance (Fields 2007).

wage does not unambiguously increase welfare. In addition to the rural-urban divide, there are other characteristics of developing country labour markets that may have strong implications for the impact of institutions. One of them is the presence of informal labour markets. This is linked to the lack of official social security systems as well as to the lack of the enforcement of policies and regulation such as the minimum wage. In general, we also have to consider what the role and the objectives of trade unions are in developing countries.

Poverty alleviation

The first of the Millennium Development Goals is poverty eradication. What are the likely impacts of unionization on poverty? While standard economics models would predict that union presence led to involuntary unemployment, unions also tend to raise wages, and therefore the net impact of unions on the extent of poverty is ambiguous. Fields and Kanbur (2007) examine the impacts of minimum wages on poverty, and although they do not discuss the unions' role directly, one could think that unions could be one of the reasons behind the minimum wage. They study both conventional labour markets and cases with the presence of income sharing between those who work and those who end up unemployed because of the minimum wage. Interestingly, unions could be one means to administer such income sharing. The authors demonstrate that minimum wages can either decrease or increase overall poverty and they also present the precise conditions –which depend on the level of the minimum wage relative to the poverty line, the elasticity of labour demand, the extent of income sharing between the employed and the unemployed and the poverty measure used -- under which these effects materialise.

How different are unions in developing countries?

In addition to the existence of informal labour markets, the existing bargaining institutions in general are weaker in the developing world (Freeman 2010). According to several indices developing countries have a lower reliance on collective bargaining (World Bank 2012). Data on collective bargaining suffers from the lack of standardisation, although ILO has put some effort into computing consistent estimates of union density and collective bargaining coverage (Hayter and Stoyevska 2010). The figures calculated by ILO for a number of countries indicate that the coverage of collective bargaining of total employment is as low as 1.1% in countries such as Bangladesh and the Philippines, whereas in Argentina and Brazil it is 60% of wage and salary earners. Thus, there is a large variation in the strength of collective bargaining.

In an overview (2008) of the application and realisation of rights concerning the freedom of association and collective bargaining, the ILO emphasises that there is still a need to increase efforts to promote respect for these rights. According to the ILO there have been positive developments, but also an increase in complaints concerning anti-union discrimination and interference, and government intervention is a recurrent problem. Several countries continue to exclude categories of workers from the right to bargain collectively. According to the ILO, corporate social responsibility initiatives need to be developed with the participation of trade unions, and effort needs to be put into organising informal workers. The ILO World of Work Report (2012) also states that in many middle-income economies industrial relations have recently been reinforced, although overall there is also evidence of the decline of unionisation. In countries such as Argentina, South Africa and Viet Nam dialogue has helped with dealing with the crisis.

The character of unions and the role they play varies widely from country to country. In some cases unions are major players in the field of national politics,; in others they are little more than extensions of the company management and do not constitute what is normally perceived as a trade union. Visser (2003) notes that for the unions' bargaining power it matters whether they are concentrated or fragmented, united or rivals, subservient to other interests, such as employers or political parties, or independent, undemocratic or democratic, and what the managerial quality of the leadership is. The composition of the membership is naturally important. Finally, the labour laws and other institutions within the country as well as conditions in the product market are highly significant in determining the strength and the characteristics of a union.

It is not possible within the scope of this paper to provide a full description and classification of trade unions in all developing countries. However, some general features of unions in various parts of the world can be presented.

In Asia there is great variety in the activities that unions perform and the power they hold, largely due to historical reasons. Unions in China, Viet Nam and Singapore have a strong political voice but little influence at the workplace. In China and Viet Nam the unions are effectively monopolised by central bodies related to the Communist parties of each country, respectively. For example, in China the unions are largely a result of a top-down approach to unionisation, where the All China Federation of Trade Unions serves as a link between the party-state and trade unions. According to Liu (2011) trade unions in China have not been able to prevent severe breaches of occupational health and safety regulations. Liu suggests reforms to the trade union law to improve unions' possibilities to protect workers' basic rights. Lee and Liu (2011) argue that change is leading to more democratic unions. In Singapore, on the other hand, the ruling People's Action Party has a partnership with the National Trade Union Congress, and in this way trade unions have a voice in the policy-making process, but at the workplace level the influence of trade unions is severely limited due to legal restrictions. (Yoon 2009.)

In Cambodia, Indonesia, the Philippines and Thailand trade unions are highly fragmented. In Indonesia total union membership is less than 4%. The Philippines, on the other hand, has 145 competing labour federations that are engaged in unionism across sections. Cambodia recognised basic human rights in 1993, including the freedom of association. There were no trade unions when the civil war ended in the mid-1990s. The garment sector, however, now has unionisation rate of 45% (Yoon 2009). Unions have played an active role in ensuring compliance with the ILO core labour standards. The number of unions has increased over time but the number of strikes has not (Neak and Robertson 2009). In India, trade unions have a long tradition dating back to colonial times. They tend to focus, however, on advancing the interests of employees in narrow formal sectors and are linked to political parties (Visser 2003).

In Africa the attitude of the colonial regimes towards unionism varied. Unions were heavily involved in the struggles for independence and later in the politics for democratisation, thus perhaps representing the type of union tightly linked to national politics. Currently, informality is a major challenge in Africa, and some manufacturing sectors face stiff competition from Asia. Trade unions in Africa have been losing members, partly due to the privatisation of public enterprises (Kocer and Hayter 2011). The collective bargaining coverage rate is as high as 17% in South Africa, but in many African countries it is only a few per cent (Hayter and Stoevska 2011).

As far as Latin America is concerned, collective bargaining coverage rates for salaried workers are relatively high in some parts of it, whereas in others it is very low. The power of unions has suffered setbacks in some countries, due to neo-liberal economic policies. Literature on union effects is perhaps slightly more extensive for Latin America than for other parts of the developing world, and some of these studies are reviewed below.

An interim conclusion

In addition to the factors mentioned above, it is clear that workers in the developing countries have typically had less education and they may suffer more from bad health than workers in the developed world. Unemployed workers in developing countries also have little or no inactivity benefits. Together with the presence of the informal sector, what do these observations imply for the expected impacts of unionisation in poor countries? First, it is likely that the ‘voice’ effect could be more important in the context where knowledge levels and firm productivity are relatively low. Second, the weakness of the official safety net means that workers will put a large value on job protection. Third, increasing low pay can have a direct impact on the incidence of poverty: employed individuals that get a higher wage will gain, whereas there is a worry that the overall number of jobs can go down and wages in the informal sector will remain depressed. The empirical literature, reviewed below, attempts to answer at least some of these questions.

4 THE IMPACT OF UNIONISATION IN DEVELOPING COUNTRIES: EMPIRICAL EVIDENCE

As in the case of higher income countries, there seem to be two views of the role that labour market institutions play in determining macroeconomic outcomes such as unemployment and growth in developing countries. To present it simply, the more negative view perceives them as fatally reducing the flexibility of the labour market; the more positive view perceives them as crucial for issues such as equality. Collective bargaining can also be contrasted with other means of providing income security or poverty reduction, although, as explained below, labour market institutions and social policies are not independent of each other.

Labour market institutions naturally include several factors, in addition to union density and the coverage of collective bargaining issues such as employment protection, unemployment benefits, and other laws regulating employment contracts. Extracting the impacts of individual institutions at the country level is difficult, as they tend to be correlated and the institutions may also have interaction effects that cannot be distinguished, however, from the total impact of the institutional “package”. In the following we concentrate on literature where collective bargaining or industrial relations are specifically mentioned: however, in the analysis it is not always clearly separated from other measures of labour market rigidity. The emphasis is on literature published during the last decade.

Globalisation has also boosted discussion on the impact of domestic regulation, as it is more likely to have a major impact if the country is heavily dependent on international competition. Martin Rama (2003) represents the more negative view of the role of institutions based on collective bargaining and worker rights: he argues that the coverage of collective bargaining is correlated with the income share of the fourth quintile. Therefore, the core labour standards are relatively ineffective in reducing inequality, and universal social protection is a better way of achieving this goal. Rama agrees that rigid labour markets do not change long-term economic efficiency but states that they may affect the impact of reforms and slower recovery after them, for which public sector employment and unions are largely responsible. Since the early 2000s a number of papers have been published on the topic, based on a variety of methods.

Botero et al (2004) conclude in their study that in a panel of countries, including developing countries, heavier regulation is associated with lower male labour force participation and higher unemployment. Their measures of regulation include an index of labour union power and collective disputes. The collective relations index, unlike measures of employment law and social security, is positively related to the size of the unofficial economy. Thus, in their view, the results do not support the hypothesis of labour market institutions as an efficiency-enhancing instrument.

Besley and Burgess (2004) study Indian states. The states have partly similar regulatory frameworks but their laws differ in the ways in which they concern industrial relations. In particular, there is a piece of central legislation, the Industrial Disputes Act, which regulates, for example, the right to strike. The act has been amended by the states individually. The act sets out the procedures to be followed in the case of an industrial dispute, but the states have diverged from the same starting point in different directions. The authors have coded the amendments as pro-worker, neutral and pro-employer. Cumulated scores serve as a measure of regulation which correlates with the number of strikes and lockouts in the state. The paper shows that states which amended the Industrial Disputes Act in a more pro-worker direction suffer from a stagnating manufacturing sector. The reforms have also led to increases in the informal sector activities and urban poverty. The study has been widely cited, but it has also been criticised on the grounds that the data has been simply miscoded and that the definition of pro-worker reforms is not consistent. Bhattacharya (2006) argues that the coding is misleading and largely arbitrary, and the results thus fragile. Neither is the result easy to generalise, as it concerns a very specific situation and context.

Empirical evidence, however, does not only support the negative view. For example, Vandenberg (2010) finds that collective bargaining has no effect on unemployment in a 3-year panel of 90 countries. Based on his own analysis, Freeman (2010) reiterates for developing countries what has been previously said by Aidt and Tzannatos's review about mainly higher income countries: there is no strong evidence that labour market institutions affect economic growth. Freeman also argues that in times of crises and major change collaborative industrial relations may be highly beneficial.

Thus, what is significant is not just the existence of labour market institutions or collective bargaining systems but also their finer characteristics and overall quality. Feldmann (2009) measures the **quality** of industrial relations. The measure is based on a survey of CEOs of a representative sample of companies, in which where they are asked about the nature of the relations between managers and employees. The survey results of the survey together with harmonised unemployment figures are used to investigate the link between unemployment and industrial relations. In his analysis, factors such as geographical variables and ethnic fractionalisation are controlled for as well as the strictness of labour and business regulations. The results show that high quality industrial relations are likely to lower unemployment in developing countries, though the magnitude of the effect is moderate. Justino (2006) analyses data from Kerala, and uses the numbers of strikes as one measure of activism. She shows that excessive activism may harm state income, but collective action in the context of responsible bargaining systems may contribute toward increased economic development.

Micro-level impact of studies on the impact of trade unions in developing countries

The above studies are mainly based on country-level or regional aggregate variables. As pointed out in the introduction, there are severe problems in establishing causal relationships with data across countries or establishments where either union density or status is fixed over time or changes as the result of the same processes that impact on the outcomes.

Freeman (2010) points out that in the 1990s more evidence in the developing countries was gained with pseudo-experiments, for example country-wide changes in union activities as a result of changes in legislation. However, he states that it seems to be very difficult to find general rules about the effects. Findings from a number of studies (the majority of which concern either Latin America or Africa) seem to imply that unions are associated with higher wages, the positive union premium varying between 3% and 20%. There are also results suggesting higher non-wage shares of compensation, lower turnover and less dispersion of pay, but these do not concern a large number of countries. Below we summarise a few relatively recent country-specific studies in more detail.

Many of the studies on union effects use Latin American data. Kuhn and Marques (2005) have edited a collection of studies on Latin America. Johnson (2005) analyses union membership in several countries and compares North American and Latin American countries. Her results show that low unionisation rates in Latin America are partly a result of structural factors such as the age of the workforce or the types of enterprises they work at. However, in Latin America highly educated workers are more likely to be unionised, unlike those in North America. However, as shown by the results, legislation as well as product competition also plays a role.

Saavedra and Torero (2005) study unionisation as well as union impacts on firm performance, labour productivity and profits in Peru. The probability to be a member of a union has declined, which is probably largely due to legislative changes that restricted union power. Detailed econometric estimations show that unions have a negative impact on profits, but the relationship with productivity is less clear. The effect seems to be negative but disappears when a large number of control variables are added. The authors argue that the possible negative relationship may be related to contentious labour management relations. Capital intensity increases with unionisation.

In the same volume, Menenzes-Filho et al (2005) examine the relationship between unions and economic performance in Brazilian establishments. Brazil has undergone significant trade liberalisation, which may have an effect on the role of unions, as there are fewer rents to be extracted after being exposed to international competition. Brazilian unions are regulated, but before 1988 the Labour Code restricted union activity. A new constitution in 1988 changed the situation significantly and since then unions have enjoyed a guarantee of monopolistic representation, but they do not represent workers at the plant level. Bargaining outcomes are extended to all workers in the industry. At the firm or plant level, unions negotiate on working conditions and practices, employment levels and other issues. The econometric estimates show that unionisation reduces plant profitability but up to a certain level raises productivity and employment. Beyond certain levels of union density the impact is, however, less positive or negative.

Cassoni et al (2005) study unions in Uruguay where, too, there has been a decline in union density. There are agreements at the plant or firm level and industry level; the last typically covers small firms. The authors find that unions raise productivity, employment and investment. Firms seem to substitute labour for capital and move to more capital-intensive production. The change in the level of bargaining may have changed the preferences of unions, and they negotiate over employment in exchange for smaller wage increases.

A different result is obtained from Guatemalan coffee farms (Urizar and Lee, 2005); unions are associated with lower productivity. This may reflect the practices of the unions at coffee farms (which are generally perceived to be productivity-reducing) or the nature of the relations between management and unions. When only the changes in productivity following a change in union status (fixed-effects estimation) are considered, the results do not show significant negative effects.

Teachers are, in general, a fairly unionised occupation, and in developing countries teachers are of special interest because of the large role of the quality of and access to education in development. Zegara and Ravina (2005) show that in Peru union status itself has no impact on the effort of teachers or their output (maths and language scores). Murillo et al. (2005) show that in Argentina teachers' unions have mixed effects on the outcomes: union fragmentation and adversarial political alignments decrease the effective number of class days, and unionisation has a negative impact on job satisfaction (and therefore on pupil performance), but on the other hand unions have a positive impact on student outcomes through tenure and smaller class size. No impact of teacher unionisation on resources is found.

Overall, the most robust results obtained from this set of studies are that unions reduce profits and increase employment. There are a number of topics that have been studied in some industrialised countries and would also be of interest in the context of developing countries. These include, for example, the impact of unions on working time and employment security. However, for developing countries these studies are largely missing, in addition to the fact that the number of studies concerning even the basic effects in developing countries is fairly small.

The evidence for high-income countries suggests that the main impact of unionisation is redistributive. For developing countries the lower coverage of unions as well as the existence of the informal sector implies that the overall effect may be very different, although the existence of union premium suggests that, at least to some extent, unions have similar effects on the wages of unionised workers. Hayter and Weinberg (2011) review the evidence for inequality impacts of collective bargaining in both developed and developing countries. Below, we present the main points of their summary as well as some individual studies in detail.

Hayter and Weinberg do not find any convincing evidence from the existing literature that in developing countries collective bargaining emphasises the gap between the insiders and outsiders. On the other hand, unlike that for high income countries, recent evidence on unions actually narrowing the *overall* wage or income inequality in developing countries is not strong or comprehensive, either, although in most cases unions do seem to reduce wage dispersion within the unionised sectors. Some such evidence does exist for Mexico and Argentina. Fairris (2003) shows that unions were a strong equalising force that affected the dispersion of wages in 1984, but were not as effective in 1996. Unionisation has declined and obviously unions have also lost power between these periods.

Overall, it is hardly surprising that the total effect is small, given the low coverage of collective bargaining or the lack thereof in developing countries. As far as overall income distribution is concerned, other factors also play a role. However, in the absence of universal or generous social security systems in developing countries, the lowest income groups in particular obtain most of their income from work.

Reinecke and Valenzuela (2011) discuss the developments in Chile. The article highlights many of the issues that limit the possibilities for collective bargaining institutions to impact on the distribution of income in developing countries. Collective bargaining institutions are very weak in Chile, partly due to legislation, and the wage distribution has become more unequal over the years, especially at the bottom of the income distribution. There have been modest improvements overall in income distribution but these have been due to increased social spending. Strikingly, labour productivity has risen faster than wages. Collective bargaining in Chile is characterised by a lack of trust between employers and workers, and the unionisation rate and coverage are low by regional standards. According to the little data that is available, unionisation is also biased towards better-earning workers. Rios-Avila and Hirsch (2012) compare union effects on wage distribution in Chile and Bolivia, two neighbouring countries of which Chile is economically the more developed. They find that unions do reduce wage dispersion in both countries, although there is indeed less impact on the lower half of the distribution. The results are surprisingly similar to those obtained in the US.

In South Africa the union premium is found to be exceptionally high, and a common finding in the earlier literature is that they reduce wage dispersion (Casale and Posel 2011). Racial wage differentials have typically been found to be smaller in the unionised sector (Azam and Rospabe 2007), although gender wage differentials may even be larger (Casale and Posel 2011). Kerr and Teal (2012) study the determinants of earnings inequalities by using a comprehensive panel data set. They find that individual ability and human capital explain a part of the earnings differentials including the union premium. This would suggest that firms are responding to unionisation, by increasing their capital stock and lowering their labour usage but hiring higher quality workers.

Calderon and Chong (2009) use country level panel data to disentangle the links between labour market institutions and income inequality. They study the impact of labour regulations on income inequality in a large panel of countries (including developing countries). Union density is included in the index and as a separate regressor. They find that both *de jure* and *de facto* regulations **improve** income distribution.

However, contrasting evidence also exists. Hasan, Mitra and Ural (2006) look at the impact of trade liberalisation on poverty reduction and at the way in which this varies with labour market institutions. The results indicate that delicensing in Indian states has had a more beneficial impact on poverty reduction in states with flexible labour market institutions. The states are classified as flexible or inflexible based on the Besley and Burgess data, but some corrections have been made. Baccaro (2008), on the other hand, finds that in a panel of countries, including developing countries and covering the years 1989-2005, changes in trade union density and bargaining structure are not related to income inequality within countries over time, with the exception of Central and Eastern European countries.

Batt and Nohara (2009) compare outcomes in similar establishments across countries with different institutions. Their sample also includes a few developing countries and consists of data from call centres. Though the amount of data is naturally much smaller than in studies using data sets covering the whole economy, the similarity of the settings allows a fairly straightforward comparison of wage structures. Indeed the outcomes, in particular wage dispersion, by country resemble those predicted by theories and other studies. Emerging markets resemble more liberal market economies, as the unions are weak and they also have very high levels of wage dispersion.

Trade unions as a tool for implementing labour standards

Economic effects aside, the theory of a union "voice" suggests, and the conceptualisation of labour standards as a public good suggests, that a trade union can be particularly effective in improving welfare through its impact on working conditions.

Labour standards in general have been subject to a heated debate, especially in the context of globalisation. As countries have become more interdependent and production can now be easily moved to another country or split into several countries, the "race to the bottom" has become a concern, especially for countries that rely on bulk production whose mainly competitive advantage is low costs. In order to avoid the race to the bottom, it is often argued that labour standards need to be agreed on at the international level (Palley 2004). Effective enforcement would, however, still pose a problem.

There is a diversity of views on how labour standards are best promoted: in addition to those arguing for the use of trade unions or governmental regulations there is broad support for voluntary corporate self-regulation, for example through certification. All in all, the core issue with labour standards seems to be analogous to that of collective bargaining: they may increase welfare and even productivity, but in a global environment that may happen at a cost. Singh and Zammit (2004) argue that labour standards are best achieved in a non-coercive and supportive international environment. They also emphasise that the conventions related to collective bargaining should be revised in order to include the provision of a voice for informal sector workers as well as the promotion of co-operation between employers, employees and those working in the informal sector rather than assume that the infrastructure for dispute settlement systems exists.

Not surprisingly, in the empirical economic literature on labour standards the links between gaining growth, trade and investment by lowering labour standards are not clear. Though some authors argue that the level of development needs to be high enough for labour standards to be introduced and that therefore it is too early to improve in the developing countries (Hall and Leeson 2007), there is evidence that labour standards go hand in hand with improved economic performance.

Rene Bazillier (2010) investigates the core labour standards and development, in particular the impact of labour standards on long-term income. He argues that countries with higher labour standards have a higher long-term GDP per capita, as enforcement decreases discrimination and therefore adds incentives to obtain education, and unionisation makes investments in on-the-job training more likely, thus increasing human capital in the long run. In his empirical analysis, Bazillier uses an aggregate index of labour standard enforcement as an explanatory variable in a growth model augmented with human capital. He also uses a method whereby an attempt is made to control for the fact that per capita income also impacts on labour standards. His results imply that good enforcement of labour standards has indeed a positive effect on the long-term GDP per capita.

Busse (2004) studies the determinants of core labour standards in developing countries. The results show that income levels, openness to trade and human capital levels are important in explaining adherence to the core labour standards. The coefficient of openness to trade is, however, negative for civil rights (union rights). However, another study by Busse, Nunnenkamp and Spatareanu (2011) shows that investments by multinationals are significantly higher in countries that adhere to labour rights. They use a panel of developing countries and also try to establish causality rather than plain statistical association. Bonnal (2010a and 2010b) shows that in a panel of countries *de facto* labour standards (measured by the rate of work injuries and the rate of strikes and lockouts) have a positive impact on economic growth and, together with the quality of institutions, are associated with better export performance.

Mosley and Uno (2007) use a panel of countries and construct a labour rights index that measures the legal rights of workers to freedom of association and collective bargaining, key elements of core labour standards and respect for these rights in practice. The results show that foreign direct investment is positively and trade negatively related to labour rights. The level of regional competition and democracy are positively related to labour rights. For the level of GDP per capita (among developing countries) the association is negative, in other words richer developing countries have worse records in labour rights. According to the authors, this may be a result of their being more industrialised rather than of higher income causing the deterioration of labour rights.

Greenhill, Mosley and Prakash (2009) find that strong legal protections of collective labour rights in export destinations are associated with more stringent labour laws in the exporting country, but the effect is weaker in the context of labour practices. Neumayer and DeSoysa (2007) focus on the impact of globalisation on the right to associate. They find that more open countries have fewer violations that more closed ones. Thus, the evidence suggests that, to an extent, globalisation can also promote the right for collective bargaining, or at least it does not cause major deterioration.

As pointed out above, globalisation has been a major trigger for concerns for the implications of trade union activity for competitiveness. Kucera and Sarna from ILO (2006) study how trade union rights affect trade competitiveness and classify the sectors on the basis of labour intensity. The authors, however, find that the relationship between trade union rights and exports is highly sensitive to the classification of labour-intensive sectors.

More broadly speaking, labour standards can also include health and safety at work. Pouliakas and Theodossiou (2008) review the literature on the economics of occupational health and safety and find that there is some evidence that the presence of trade unions improves occupational health and safety. There is also evidence of the opposite: it is however, difficult to establish whether this is because of endogeneity, or dangerous conditions that make it more likely for the workplace to become unionised. They also point out that markets are unlikely to provide an efficient and equitable level of occupational health and safety due to factors such as moral hazard, asymmetric information and externalities, and thus some form of government or other intervention is necessary.

Enforcement of labour standards

Given the number of initiatives and the amount of publicity the topic has gained, there is surprisingly little literature on how labour standards are effectively attained. In particular, published rigorous statistical evaluations of the initiatives are scarce. Several authors have, however, discussed the topic in a broader sense. Graham and Woods (2006) argue that government action is also necessary, and support from international organisations and legal instruments may be needed to assist. Compa (2004) argues that corporate codes of conduct may create tensions between unions and NGOs. Sarovilla and Verma (2006) argue for a new role for soft regulation. In their view, the ILO does not have punitive power. Corporate codes of conduct, on the other hand, are often problematic, as reporting initiatives have limited participation and there is no effective monitoring. The authors propose that national governments should initiate a process by which a minimum standard is set for participating companies, and perhaps provide a tax incentive for companies that participate.

One of the most extensive efforts to monitor and enforce labour standards in a developing country has been the Better Factories Cambodia programme and a more recent multi-country programme Better Work[2]. The programmes are run by ILO and (in the case of Better Work) the International Finance Corporation but rely on co-operation with governments, employers' and workers' organizations, and other parties. The *Better Factories Cambodia* project was initiated by a trade agreement between the United States and Cambodia, whereby the US promised Cambodia better access to US markets in exchange for improved working conditions in the garment sector. BFC assesses and reports on working conditions in Cambodian garment factories and aims to help them to improve working conditions and productivity. *Better Factories Cambodia* conducts unannounced factory visits to check on working conditions. Evaluation includes interviews with workers' management and union representatives. The results are reported back to managers together with suggestions for improvement. The programme also offers a range of training opportunities and resources to the industry. Polaski (2006) shows that a majority of factories remedied problems found as a result of inspections and that the programme has been highly cost effective, although she finds that international buyers received great benefits from the programme without contributing to it.

Better Work was established in 2006 and launched in Jordan in 2008, and a number of countries have joined the programme since then. In addition to ILO and IFC, it relies on donor and buyer support. Both programmes include extensive data collection and regular synthesis reports. The data produced by these programmes has been used to study a number of issues, in addition to evaluating improvements in the actual labour standards. The aim of Better Work is to assess its impact

[2] The websites for the programmes and the source of the information presented here are http://www.betterfactories.org/ and http://betterwork.com/global/.

carefully and the programme's objective is to construct randomized controlled trials to be able to clearly identify which changes can be directly attributed to its operations.

A number of studies are available from the programmes' websites. Rossi and Robertson (2011) describe the state of and changes in industrial relations during BFC, and argue that, although there have been significant improvements, the atmosphere is still challenging and further work needs to be done.

There are a few examples of earlier quantitative evaluations of smaller-scale programmes published in international journals. They may include some data analysis but are generally a combination of qualitative and quantitative analysis. Locke, Qin and Rause (2007) and Locke, Kochan, Romis and Qin (2007) assess a labour standards monitoring programme by Nike. Critics have argued that private, voluntary monitoring crowds out union or government actions. The auditing programme by Nike for its suppliers seems to have produced mixed results, as revealed by a comparison of two plants with different practices and productivities but similar compliance scores. The authors conclude that firm codes of conduct need to be complemented by the effective enforcement of national laws and unions or other institutions that provide employees with a voice.

Bulut and Lane (2011) present case studies on Turkey and China, which are mainly of a qualitative nature. According to them, the success of private regulations (multi-stakeholder initiatives which may include unions) has been only partial. MSIs often have weak connections with workers and co-operation between participants does not work well. Buyers often tolerate partial incompliance or effectively cause incompliance by setting unrealistic demands for delivery times etc.

Barrientos and Smith (2007) conducted an impact assessment of Ethical Trading Initiative codes. They surveyed 29 ETI companies and evaluated the impact that company codes had on workers in the value chains of a few companies in South Africa, India and Vietnam, and further conducted two in-depth company studies on Costa Rican bananas and horticulture. The collection of data is not based on a random sample or a sophisticated experimental set-up but yet they attempt to establish some statistical evidence in addition to the qualitative assessment. Some improvements are found in health and safety and reductions in working hours. The impact on wages is less clear; the initiative has not led to a substantial increase in income and the codes did not benefit contract workers. The impacts on "process rights" are found to be minimal, discrimination had not been reduced and there was no impact on the freedom of association and collective bargaining.

5 EVIDENCE ON THE EFFECTIVENESS OF AID/PROJECTS CHANNELLED VIA UNIONS

Given that high-income countries have devoted a considerable amount of resources to foreign aid, it is hardly surprising that there is a fair amount of research studying the implications of aid[3]. Most of this work concerns intergovernmental aid. Non-governmental and civil society organisations, however, are currently important players in the field of development aid (for an overview of NGOs, see Werker and Ahmed 2008). It is often stated that channelling aid through NGOs or other civil society organisations may get around the fungibility problem or the use of money on secondary purposes. Strengthening civil society organisations is also perceived to be an important goal *per se*, and crucial for long-term development. There is, however, little evidence on the overall relative effectiveness of the different channels. The few existing examples include Masud and Yontcheva (2005), who show that NGO aid reduces infant mortality more effectively than official bilateral aid. Nancy and Yontcheva (2006) show that poverty is the main determinant of the allocation of NGO aid.

To our knowledge, no rigorous empirical work on aid given through trade unions exists, although in many countries governments assist trade unions' work in developing countries. The Trade Union Development Cooperation Network (2012) has explored support mechanisms for trade unions' development aid in 18 countries: the United States, Belgium, Denmark, France, the UK, the Netherlands, Sweden, Italy, Finland, Norway, Spain, Luxemburg, Switzerland, Australia, Ireland, Germany, Japan and Portugal. In these countries governments are or have been funding trade unions' development activities and have indeed been their largest funders in many cases. The share of government funding is 100% in some cases and 10 of the trade studied receive at least two-thirds of their aid budget from the government. In some cases the more political activities are separated from the government-funded ones and are fully self-funded.

The report stresses that "the quest for results" emphasised by government development aid agencies is highly problematic for trade unions' aid, as the impact of their activities is not easily measurable because the goals include phenomena such as democratisation, the strengthening of civil society or political projects. In addition, macro-level effects are hard to attribute to a single cause because of the presence of other confounding factors. The report also states that there are many external factors that influence the outcome, and showing a genuine impact can be impossible. Undoubtedly, these

[3] Extensive reviews of studies on the macroeconomic effects of aid and good practices are, for example, Collier and Dollar (2004) and Bourguignon and Sundberg (2007), Easterly and Pfutze (2008), Minoiu and Reddy (2009).

concerns are well founded. However, in some instances the project evaluation methods described below could provide valuable additional information on the effectiveness of aid. For example, it is mentioned that the number of collective labour agreements, a quantitative indicator, does not give the full picture of the impact of the agreements on people's livelihoods. With proper data collection some of this type of problems could be overcome. For example, the evaluation of the TUC-DFID Partnership Agreement (2011) states that the indicators used do not capture the impact and that what "improvement" would look like is not always clearly defined. Similarly, in the evaluation of Sida's support to the LO-TCO secretariat (Runchel et al., 2008) concerns about the quality and quantity of proper evaluations are raised.

Though there is relatively little solid evidence on the channel of aid, specific projects carried out by NGOs (as well as international organisations or governments) have been evaluated by using experimental or quasi-experimental methods. The issue of interest in these is on the effectiveness of a particular intervention. Current research favours randomised controlled trials (RCT), whereby an intervention is applied to a randomly selected group of individuals or units, and there is a similar control group. Alternatively, if pure randomisation is not possible, the control group can be constructed by using statistical methods to match the treated group as closely as possible. To our knowledge, this approach has not been applied to specific projects carried out by trade unions or projects related to developing industrial relations or working conditions. In the case of labour standards, there are examples from, for example, the use of conditional cash transfers to reduce child labour.

The main advantage of this approach is the ability to solve the problem of causality. In observational studies, or in typical qualitative analysis, it is always left open as to whether the detected developments are caused by a particular intervention or whether they have taken place for another reason. In careful econometric impact evaluation, one measures the interesting outcome variable before and after the intervention, not only within those units of analysis that are subject to the intervention but also from a comparison group. The comparison group should consist of units that are otherwise similar so that the only reason why outcomes vary between treated and control units is the intervention. The best way to ensure that the groups are alike is via randomization: then subjects cannot choose themselves whether they become subject to the intervention or not. For a thorough discussion of the approach, see Banerjee and Duflo (2009).

It is clear that such an approach is not suitable for every possible research question: macro policies can hardly be randomized across countries. It is also always open to what extent the results can be generalised to other settings. (This is the question about external validity.) And while it can be argued that the experimental approach can reveal what works and what does not work, the question why something happens is often left unanswered. However, the last problem can be alleviated by a careful design: the experiment can involve different types of interventions that are being tested at the same time against the no-intervention case and, in the best possible situation, the experiment deals directly with a particular behavioural mechanism (Mullainathan et al. 2011).

To our knowledge there has not been a study whereby an intervention carried out by using a trade union is tested by using this approach. This is quite surprising, since these interventions are often meant to affect labour standards, something which is high on the agenda of global development objectives. Moreover, the interventions are of the type that could be subject to rigorous impact evaluation, at least when they deal with firm-level or worker-level outcome variables. While potential outcomes can be somewhat abstract, they are quite similar topics (such as job satisfaction) that are routinely investigated using surveys and interviews in the developed countries. In our view, there are no conceptual-level reasons why these issues could not be examined using impact evaluations in poor countries as well, although practical problems in managing surveys need to be taken into account.

6 CONCLUSIONS

In this paper we have surveyed a number of studies concerning the economic impact of trade unions in developing countries and we have discussed the potential avenues for future research.

Overall, there seems to be a relative scarcity of evidence on basic issues such as the impact of unionisation on various outcomes. This partly reflects the lack of sophisticated data that are available for the industrialised countries and that allow the study of issues such as the impact of unions on issues such as training intensity or productivity. On the other hand, given that the coverage of collective bargaining is lower in developing countries and the high incidence of informality sets certain restrictions on the scale of the possible impact, it is possible that the current observable impact of unions on the total economy scale would be, in many cases, small. The evidence that does exist suggests that labour standards are not detrimental for economic performance and that unions may have distributional effects. Hypothetically, using the “voice” face of unions to improve labour standards and, ultimately, productivity could be highly beneficial. However, there does not yet seem to be clear quantitative empirical evidence on how this could be best attained. This is, in fact, one of the interesting areas for further research: Can unions be used to implement sufficient labour standards in conditions where the funds and the administrative capacity of the government are limited and, if so, under what conditions?

Other interesting areas for future research that have emerged from the discussion in this paper include the following:

- While rigorous impact evaluations have proliferated in almost all other areas in development economics research, they are almost non-existent in the field of aid channelled via unions.
- Even if the evidence suggests that unions can have at least some negative impact on employment, they also raise minimum wages, and therefore it would be of key priority to examine empirically what the joint effect of these changes on poverty is, which is, after all, the first of the Millennium Development Goals. Kanbur and Fields (2007) examine the impacts of minimum wages on poverty theoretically, and it would be useful to set their analysis explicitly in a bargaining framework. One of their points is that the distributional impacts of minimum wages are dependent on the extent of income-sharing between the employed and unemployed. Interestingly, such income-sharing is common among union members in developed countries, and the suitability of such a framework for poor countries is worth exploring.
- Intuition suggests that monopsony power may be quite prevalent in developing countries. This raises the question of how the impacts of unions depend on the extent of market power on the employers' side.
- While we have some evidence on the impacts of unions on their members' wages and well-being, extremely little is known about the spillover effects of union power on outsiders, in particular, on poorer workers in the informal sector; are there instances where an increase in unionised sector wages gradually trickles down to the benefit of others in the same area/industry, or is it more likely that the outsiders' prospects worsen, as they are shut away from access to better jobs?
- On a more normative note, there is a need to examine the proper balance between job protection that unions tend to seek versus the development of the official social safety net. One possible route would be a gradual transition from job protection to social protection if and when social assistance systems are being scaled up.
- The broader institutional implications of unions are also worth exploring. Much modern development research underscores the importance of proper institutions for success in

development. (A good recent example of this is Pritchett 2012.) When are unions conducive to social stability and good governance and when are they more likely to extract rents for protected elite workers (perhaps civil servants whose position is over-protected)?

Indeed, the research that would be most useful in the future may not be similar to those studies that have been conducted in developed countries. The central issues that need to be studied as well as policy goals are clearly different for developing countries. Also, unions in less developed countries represent very different points on the spectrum of unionism and thus any policy measures and goals need to be in line with the prevailing conditions in each country. In particular, from the donor countries' perspective it would also be important to study how different modes of support for unionism and forms of technical assistance can best contribute to the goals. Addressing many (if not all) of these topics requires new, better data and sometimes also cleverly designed experimental settings.

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