The dark side of economic freedom: Neoliberalism has deleterious effects on labour rights

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The common criticism is that market-liberalising policies sacrifice social and political rights. ***Robert Blanton*** *and* ***Dursun Peksen*** *adopt a novel approach, finding more nuanced insights concerning the dynamics between neoliberalism and labour rights. Overall, their findings confirm that the relationship between the two is markedly negative, in spite of the mounting empirical evidence that worker rights may be conducive to a competitive economy. As they argue, achieving a more equitable balance is an issue that needs to be urgently addressed.*

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Neoliberalism – the so-called "Washington Consensus" playbook for economic policies – has generated no shortage of contention over the years. Such controversies have long been a fixture in the global south, as anti-IMF and World Bank protests remain ubiquitous. Over the past decade citizens in the developed world have become "new discontents" against neoliberal policies. Some examples include the recent protracted strikes staged by French workers against labor reforms, a resurgence of anti-globalization populism in the Brexit referendum, and the political ascendance of Donald Trump in the U.S. Indeed, even researchers at the IMF are starting to question whether neoliberalism has been "oversold."

A common area of concern is the "human cost" of neoliberalism, particularly on lower and working-class citizens. Free-market policies were initially hailed as an important step in ensuring prosperity and broader freedoms throughout the world, and a wide body of research attests to the economic benefits in terms of reduced unemployment and increased economic growth. Yet the common criticism of neoliberalism has been that the distribution of resources in free economies is inequitable, and that market-liberalising policies sacrifice social and political rights in the interests of economic competitiveness.

In a recently published article, we examine a facet of human rights that is one of the most commonly-cited "human costs" of neoliberalism: labour rights. More specifically, we analyse the linkages between core worker rights recognized by the ILO (collective bargaining, freedom of association, acceptable work conditions, and prohibitions of child and forced labour) and five distinct policy areas associated with economic liberalisation, namely freedom to trade, business regulation, sound money, government size, and protection of property rights. While our overall results indicate a consistent, and negative, relationship between neoliberalism and labour rights, our analysis does provide somewhat nuanced and distinct insights into the specific dynamics through which neoliberal policies affect labour rights conditions.

First, a key element of neoliberalism is the openness to global trade and investment, through such policies as the dismantling of tariffs and elimination of capital controls. Unlike commonly-used measures of economic globalisation such as foreign trade and investment flows – which are essentially the intended outcomes of neoliberalism – we focus on the actual policies intended to increase economic openness. We find a negative relationship between such openness and worker rights. Most directly this implies that efforts to increase participation in the global economy are accompanied by reduced protection for workers. These results provide some support for the oft-raised "race to the bottom" dynamic regarding global capital and labour rights.

Along similar lines, we find broader policy reforms to establish a "business friendly" regulatory environment, including increased labour flexibility and lower obstacles to starting businesses, also negatively influence labour rights. Such measures have long been a key part of policies aimed at increasing economic competitiveness with the assumption being that respect for worker rights may be antithetical to economic growth, as business and labour regulations "infringe upon the economic freedom of employees and employers" (Gwartney et al.). Somewhat ironically, while there is mounting empirical evidence that worker rights may actually be conducive to a competitive economy, our findings indicate that states may still view the two as contradictory.

We also find that tighter, so-called "smart money" policies are damaging to labour rights. From a macroeconomic perspective, countries face a trade-off between expansionary and tighter monetary policies. Neoliberal policies emphasize the latter, arguing that the price stability created by such policies provides a more predictable environment for commerce. Despite the other advantages of such policies, particularly the control over inflation, such stability can be damaging to labour rights – it imposes downward pressures on wage levels and potentially undercuts the power of labour organizations to protect the wage levels of their members.

Another key facet of market-friendly institutions is a "small" state that plays a less prominent role in its economy. A minimal state, the argument goes, will be less likely to crowd out private investment and interfere with voluntary market transactions. In terms of societal rights, the primary obligation of a state to its people is in the area of "negative" rights, specifically providing protection to individuals and their property versus aggression or repression. However, we argue – and find – that such a minimal state is less able to protect positive rights such as worker rights. Specifically, the protection of labour rights can be a cost-intensive enterprise, as it connotes the provision of state resources to monitor respect for these rights and to prosecute offenders if necessary. Along those lines, a "small" state is less able to prevent employers from violating the core labour standards of their workers.

In all, excluding the policies associated with the legal environment and security of proper rights, we find a consistently strong, negative relationship between neoliberal policies and respect for core worker rights, as more "market-friendly" policies are damaging to labour rights. In addition to the extent that countries follow neoliberal norms, the shifts towards such policies – free-market reforms – are also of interest. Such reforms swept through the world economy during the 1980s and 1990s, widely seen as the heyday for the "Washington Consensus", as East and Central-European countries transitioned into free-market structures while many other states drastically reformed their economies in line with IMF and World Bank programs. We find that such transitions, measured by yearly changes in our indices of neoliberalism, are likewise damaging to respect for worker rights. Thus, both the overall levels of neoliberalism in an economic system, as well as moves towards a more free-market system, have deleterious effects on worker rights.

In sum, we offer support for some of the long-held suspicions regarding the impacts of market-friendly policies, and find some empirical basis for both “old” and “new discontents” of neoliberalism. More broadly, our study suggests that it cannot be assumed that the logic of the market will necessarily lead to better worker rights, and that states need to take active steps to ensure that the “embedded liberalism” consensus is not supplanted by neoliberalism. Free-market policies were to a large extent a reaction to the overly controlled labour and business markets, and bloated state sectors, in many countries during the 1970s and 1980s. Along these lines, the intent of neoliberalism was to push the balance of power between capital, the state, and labour to a new equilibrium that was necessary for sustained economic growth. Our findings imply that this new equilibrium is to the detriment of worker rights, and that efforts should be made towards achieving a more equitable balance between the interests of labour rights and economic competitiveness.

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This post represents the views of the author and not the position of the Democratic Audit blog, or of the LSE.

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