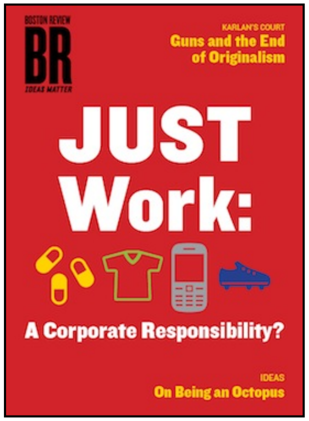

ponse: World Is Not Scandinavia

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This article is part of [Can Global Brands Create Just Supply Chains?](), a forum on corporate responsibility for factory workers.


Aseem Prakash

Richard Locke's balanced and thoughtful commentary on improving labor standards in global supply chains correctly identifies the shortcomings of private regulation—both the overemphasis on the compliance model and a naïve belief in capability-building solutions. And he recognizes the roles of upstream pressures and customers in creating challenges for downstream suppliers. Locke has a "renewed appreciation for the older idea that ensuring fair treatment of workers—including real rights of association—is a public responsibility," and he believes that public regulation is required to ensure fair treatment of workers in developing countries.

In an ideal world, I would completely agree with Locke's prescription. If every country were a well-functioning democracy, where the government had the will and capacity to enforce labor laws, where public corruption was low and social equality prevailed, and where the labor force largely worked in the formal economy, this would be the right

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But the world is not Scandinavia. Across developing countries, governments tend to grossly underperform in terms of providing public goods, including environmental and labor protections. Corruption is rampant. Only a small portion of the labor force works in the formal sector and could plausibly be protected by unions. Should we then rely on public regulation to deliver labor protection? Structural conditions suggest that we should not.

It is tempting to compare a poorly functioning private regulatory regime with an ideal government. But, as the economist Ronald Coase reminds us, we ought to compare an imperfect private regime with an imperfect governmental one. Private regulation arose in response to governmental failures.

I believe the potential for private regulation needs to be carefully explored. We should aim to improve public regulations, but at the same time it may be easier to enlist private regulation as a conveyor of global customers' egalitarian preferences and also to use the power of importing firms to improve labor standards abroad. While poorly functioning governments protect the interests of corrupt elites in developing countries, global firms with huge investments in brand images are susceptible to stakeholder pressure to improve labor standards.

We need to know more about what kinds of private regulation work best.

As Locke correctly points out, the unorganized worker eventually bears the costs of accommodating changing consumer fashions. Private regulation can alert consumers to the political implications of their buying decisions. Yes, the extent to which social labeling has succeeded varies. But if over-consumption, fickle fashions, and addiction to discount pricing contribute to poor labor standards, private regulation can have a constitutive effect on consumer preferences.

Private regulation empowers developed-country stakeholders—who often work with local actors in developing countries—to influence labor and environmental practices in supply chains. The World Trade Organization (WTO) prohibits importing countries from imposing process standards, such as labor laws, on foreign firms, but private regulation is outside the purview of the WTO and allows transmission of desired social standards from importing to exporting countries.

We need to consider which types of private regulation work best. One way is to focus on two aspects of program design: the severity of social obligations imposed on program participants and the mechanisms used to enforce those obligations. We need to assess the efficacy of private regulatory efforts and sort the credible ones from the shams.

All governance systems fail. Looking for the silver bullet that will solve our governance problems probably will not lead anywhere. We live in mixed economies with multiple and overlapping regulations. Institutional monoculture—which is pervasive in both public and private regulation—is neither desirable nor possible. As Locke makes clear, cooperative measures drawing on the expertise of public and private actors have a lot to contribute.

Much of the developing world is not like Scandinavia, and that is not likely to change in the near future. Governance solutions must be devised to fit the messy reality. Locke has challenged us to find creative, efficient, and equitable ways to understand which governance systems work, why they work, and whether they can be scaled up across sectors. This is an exciting area for future work.

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