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Understanding the case of international labour standards – methodological insights into an ongoing debate

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Figure 1: Dimensions of Institutional Indices

Index of Economic Freedom (Heritage)	Economic Freedom of the World (Fraser Institut)
1. Trade Policy	1. Size of Government: Expenditures, Taxes and Enterprises
2. Taxation Policy	2. Legal Structure and Security of Property Rights
3. Government Consumption of Economic Output	a) Judicial independence
4. Monetary Policy	b) Impartial court
5. Capital Flows and Foreign Investment	c) Protection of intellectual property
6. Banking Policy	d) Military interference in rule of law and the political process
7. Wage and Price Controls	e) Integrity of the legal system
a) minimum wages	3. Access to Sound Money
...	4. Freedom of Exchange with Foreigners
8. Property Rights	5. Regulation of Credit, Labor and Business
a) Freedom from government influence over the judicial system	...
b) Commercial code defining contracts	b) Labor Market Regulations (Minimum wages, call protection, collective bargaining, unemployment benefits)
c) Sanctioning of foreign arbitration of contract disputes	...
d) Government expropriation of property	
e) Corruption within the judiciary	
f) Delays in receiving judicial decisions	
g) Legally granted and protected private property	
9. Regulation Policy	
...	
c) Labor regulations, such as established work weeks, paid vacations, and parental leave, as well as selected labor regulations	
d) Environmental, consumer safety, and worker health regulations	
e) Regulations that impose a burden on business	
10. Black Market	

Bold letters: Included in CORE (Heritage Nr. 8; Fraser Nr. 2) or PROTECT (Heritage Nr. 7 and 9; Fraser Nr. 5b). Data Source: Gwartney/Lawson 2002, Heritage 2002.

Table 1: Average index values¹ and their average annual change for 29 OECD countries and for 77 Low income countries and regions

	CORE² 1994/95	PROTECT² 1994/95	CORE² 2000/01	PROTECT² 2000/01	CORE³ 1990 – 2000/01	PROTECT⁴ 1994/95 – 2000/01
<i>OECD countries</i>	8,8	4,2	9,0	4,1	+0,5%	-0,5%
<i>Low-Income-Countries</i>	4,5	5,6	4,3	5,8	-1,8%	+0,7%
Sub-Sahara-Africa	4,3	5,9	4,5	6,1	+0,9%	+0,7%
Northern Africa / Near + Middle East	3,9	4,8	3,3	5,4	-3,3%	+2,0%
Asia	4,1	5,9	4,1	6,6	0,0%	+2,3%
China and others	3,8	6,8	4,1	6,1	+1,5%	-2,1%
Latin America + Carribian	5,5	5,0	5,3	5,1	-0,7%	+0,4%

Bold: Figure above average of the LIC-group.

1 Non-weighted group averages, with exception of China and others" for which population-weighted averages are applied.

2 Index value.

3 Average annual change rate of group average index value 1990-2000.

4 Average annual change rate of group average index value 1994/95-2000/01.

Source: Schmidt (2005).

Appendix 1: CORE and PROTECT

Construction based on parts of the Heritage and the Fraser Index (see figure one); CORE includes also the index of political rights of Freedom House.

Country	CORE			PROTECT	
	1990	1994/95	2000/01	1994/95	2000/01
Algeria	4.3	3.5	2.3	5.0	5.0
Argentina	8.0	7.1	5.7	3.0	3.0
Bangladesh	2.9	4.7	4.1	8.8	7.0
Benin	3.0	6.4	4.5	n.a.	6.3
Bhutan	1.7	.0	.0	n.a.	n.a.
Bolivia	5.8	6.3	5.3	3.8	5.1
Botswana	8.1	7.4	7.5	5.0	3.8
Burkina Faso	1.7	3.3	3.8	n.a.	6.3
Cambodia ²⁾	.0	2.1	1.7	6.3	n.a.
Cameroon	3.7	3.3	2.9	6.3	6.3
Central African Rep.	6.1	5.8	4.2	n.a.	6.3
Chad ²⁾	2.2	2.9	3.2	7.5	7.5
Chile	7.3	8.4	7.4	4.1	5.1
China	2.9	2.7	2.5	6.0	5.9
Colombia	5.0	4.3	3.7	3.4	4.5
Congo, Rep.	2.3	4.4	2.7	6.3	6.3
Costa Rica	7.7	6.9	8.4	3.8	4.0
Cote d'Ivoire	3.2	4.0	3.2	5.0	5.0
Dominican Republic	6.8	4.2	5.2	5.0	5.5
Ecuador	6.8	5.9	4.2	6.3	6.3
Egypt	3.4	3.8	4.2	5.6	6.2
El Salvador	4.3	5.7	5.9	3.8	3.4
Ethiopia	.0	3.8	2.9	6.3	6.3
Fiji	1.7	5.0	4.3	6.3	5.0
The Gambia ²⁾	8.3	3.8	4.2	7.5	6.3
Ghana	3.7	5.2	5.9	5.0	5.0
Guatemala	4.6	4.9	10.0	6.3	n.a.
Guinea	1.7	3.3	4.1	3.8	6.2

Guinea-Bissau	2.3	3.1	2.1	8.8	6.3
Guyana	3.4	6.0	2.7	5.0	7.5
Haiti	3.5	2.4	1.8	8.8	7.5
Honduras	5.9	5.6	5.1	6.3	5.6
India	6.4	5.3	6.4	5.5	6.4
Indonesia	3.2	2.8	4.2	6.1	5.3
Iran	1.9	3.6	2.5	n.a.	8.8
Jamaica	6.3	6.2	6.3	5.0	3.7
Jordan	3.7	6.2	5.2	4.2	3.7
Kenya	3.5	2.9	3.5	6.3	5.0
Lao PDR	1.7	.0	.0	n.a.	8.8
Lesotho	1.7	5.0	5.0	n.a.	6.3
Lebanon	1.7	1.7	2.1	n.a.	5.0
Madagascar	4.0	5.2	6.0	3.8	3.8
Malawi	2.2	6.1	5.0	6.3	6.3
Malaysia	4.9	6.4	4.7	2.5	4.5
Mali	2.3	5.4	6.1	6.3	5.0
Morocco	4.5	5.9	4.2	5.0	3.8
Mauritania	.0	1.7	2.9	n.a.	6.3
Mauritius	7.3	8.5	8.1	n.a.	5.9
Mongolia	n.a.	7.9	8.3	5.0	6.3
Mozambique	.8	4.6	4.6	7.5	6.3
Myanmar ¹⁾	1.8	2.4	1.1	8.8	8.8
Namibia ²⁾	5.3	5.9	7.6	1.3	3.8
Nepal	5.0	5.6	4.6	n.a.	6.3
Nicaragua	5.3	4.0	4.4	6.3	5.3
Niger	3.5	4.8	4.0	n.a.	6.3
Nigeria	3.1	3.2	3.7	5.0	4.3
Pakistan	3.8	6.4	2.9	6.3	6.3
Panama	4.4	6.3	6.1	3.8	3.9
Papua New Guinea	7.3	6.2	6.3	5.0	n.a.
Paraguay	4.7	4.8	3.7	5.0	6.4
Peru	4.8	4.4	5.5	4.9	5.1
Philippines	4.6	6.1	6.0	4.4	5.5
Rwanda ²⁾	1.7	.8	1.5	7.5	7.5
Senegal	4.5	4.2	5.4	n.a.	7.5

Sri Lanka	3.7	4.8	5.3	2.5	3.9
Swaziland	1.7	4.6	8.3	5.0	n.a.
Syria	1.5	2.5	3.3	n.a.	5.0
Tanzania	3.4	4.6	2.5	6.3	7.5
Thailand	7.4	7.4	4.5	4.9	6.3
Togo	3.1	3.0	7.3	8.8	3.7
Tunisia	3.4	4.1	4.4	2.5	3.8
Turkey	6.4	5.2	2.8	4.0	6.3
Uganda	2.1	4.2	3.8	2.5	3.8
Viet Nam	.0	.0	.0	8.8	8.8
Yemen	n.a.	2.9	2.1	5.0	6.3
Zambia	2.7	5.7	4.6	5.0	6.3
Zimbabwe	2.8	4.6	2.2	5.5	6.7
77 Low- Income Countries⁴⁾	3.8	4.5	4.3	5.4	5.7
Australia	8.9	9.7	9.8	4.0	3.1
Austria	9.2	9.6	9.8	4.4	4.5
Belgium	9.2	8.8	9.4	5.1	4.2
Canada	9.2	9.6	9.8	2.6	2.9
Czech Rep. ⁵⁾	7.8	7.5	8.1	2.5	4.1
Denmark	9.2	9.5	9.8	5.2	2.6
Finland	9.2	9.6	9.8	6.5	3.9
France	8.9	8.3	8.5	4.7	5.0
Germany ³⁾	9.2	9.7	9.7	3.8	4.9
Greece	8.4	8.1	6.9	5.3	5.5
Great Britain	8.9	9.6	9.8	1.8	2.7
Hungary	7.8	7.8	8.2	3.2	4.0
Ireland	8.9	9.7	9.7	2.8	3.2
Island ²⁾	9.2	9.4	9.7	4.5	2.8
Italy	8.9	8.0	8.4	3.8	4.7
Japan	8.9	9.4	8.6	2.5	3.1
Luxembourg	9.2	9.5	9.5	4.6	2.5
Mexico	5.9	5.9	5.9	5.4	5.1
New Zealand	9.2	9.6	9.7	2.5	3.0
Netherlands	9.2	9.6	9.9	5.9	4.1
Norway	9.2	9.6	9.6	5.7	5.4
Poland	7.3	6.7	8.0	5.2	5.3

Portugal	8.9	8.5	8.4	4.3	4.3
Slovakia ⁵⁾	7.8	7.4	7.1	4.4	5.0
South Korea	6.9	8.0	8.1	4.4	4.4
Spain	8.6	8.3	8.3	5.3	4.1
Sweden	9.2	8.8	9.7	4.8	4.7
Switzerland	9.2	9.6	9.8	4.2	4.1
USA	9.2	9.6	9.7	2.5	2.6
29 OECD-Countries⁴⁾	8.7	8.8	9.0	4.2	4.0

1) Heritage: 1995-data from 1996.

2) Heritage: 1995-data from 1997.

3) 1990-data of the united Germany.

4) Non-weighted average.

5) 1990-data of Czechoslovakia.

Source: Schmidt 2005 (with further references).

Appendix 2: Constructing CORE and PROTECT (first explained in Schmidt 2005)

1. Step: Selection of Base-data-series

The relevant sub-indices of Heritage and Fraser (as outlined in figure 1) resp. the Freedom-House-Index of Political Rights form the data-base. The index-values i are given as

$$i_{\text{Heritage}} = \{1,2,3,4 \text{ or } 5\}, \text{ with } i_{\text{min}} = 1 \text{ and } i_{\text{max}} = 5.$$

$$i_{\text{Freedom House}} = \{1,2,3,4,5,6 \text{ or } 7\}, \text{ with } i_{\text{min}} = 1 \text{ and } i_{\text{max}} = 7.$$

$$i_{\text{Fraser}} = \{0 \leq i \leq 10\}, \text{ with } i_{\text{min}} = 0 \text{ and } i_{\text{max}} = 10.$$

2. Step: Transformation of base-data-series

These are transformed into an index scaled to range from 0 (worst value) to 10 (best value).

The transformation formula as applied by Gwartney/Lawson is

a) for the Heritage- and Fraser-sub-indices entering into CORE

$$(i - i_{\text{min}})/(i_{\text{max}} - i_{\text{min}})*10.$$

with i = value of base-data, i_{min} = lowest (possible) value, i_{max} = highest (possible) value.

Here, the base-data-series is paralleling the resulting data-series. That is, **in both data-series higher index-values represent a better situation than lower index-values.**

b) for the Freedom-House-index of political rights entering into CORE and for the

Heritage- and Fraser-sub-indices entering into PROTECT

$$(i_{\text{max}} - i)/(i_{\text{max}} - i_{\text{min}})*10$$

with i = value of base-data, i_{min} = lowest (possible) value, i_{max} = highest (possible) value,

Here, the base-data-series is anti-paralleling the resulting data-series. That is, **lower base-index-values represent a better situation in the resulting data-series** (and thus higher resulting-index-values) **than higher base-index-values** (which are therefore transformed into lower resulting-index-values) and vice versa.

3. Step: Composing the resulting data-series

The resulting data-series are composed by the formula

$$(\text{Sum of available index-values}) / \text{number of summands}$$