

Sweatshop Economics: When to Pull the Ladder Up?

Blood, Sweat and Tears

May 1996: an ordinary morning of an ordinary day. In households across America televisions burble quietly in corners of rooms, in shop windows, and above diner counters. On many of them an attractive blonde woman is weeping, apparently distraught: “You can say I’m ugly, you can say I’m not talented. But when you say I don’t care about children . . . mister, you better answer your phone because my attorney is calling you today. How dare you?”

The show is *Live with Regis and Kathy Lee*, and the hostess, Kathy Lee Gifford, has just been pilloried before a congressional commission by anti-sweatshop activist Charles Kernaghan, who is about to attain notoriety as “the man who made Kathy Lee cry”. Kernaghan, a long-time campaigner, had previously worked to publicise the use of sweatshop labour by The Gap. Shaken by his public revelation that its Honduran workers made only 18 cents for each \$20 shirt it sold, The Gap had finally caved to pressure, and agreed to pay for independent monitoring of its suppliers’ factories.

Kernaghan, however, was not finished. When he was conducting interviews with the workers employed in The Gap’s factories, many of his contacts had mentioned another – far worse – factory. In this factory, child labour was commonplace, and the bosses would frequently harass and sexually assault workers. The clothes it produced were then sold to Wal-Mart stores in the US.

Contacting the employees of the factory was not easy, but Kernaghan managed to speak to some, who passed him their pay stubs and some tags from the clothes they were working on. The tickets bore a florid signature: that of Kathy Lee Gifford. Ironically, beneath the logo was a text stating that a portion of the revenue would be donated to help deprived children. Armed with this evidence, Kernaghan was ready to speak to Congress.

Though interest in sweatshop labour had been increasing for some time, it was the Kathy Lee incident that brought it to a mass audience. As historian Neal Gabler put it: “To get Americans to engage in a difficult subject there has to be some entertainment value, something that amuses us or holds our attention. Get yourself a star, get yourself a story. That’s the nature of social issues and politics these days. In this case, the star is Kathie Lee. The story: Clothes under her label are being turned out in sweatshops. You have dramatic incidents: Her husband goes to the shop to hand out envelopes full of money. You have a twist: Kathie Lee picks up the cudgel and becomes the poster girl for sweatshops.”¹

The scandal came at a time of growing social and environmental consciousness in the US. This initially emerged among the 90s generation of consumers – young people raised on news of acid rain, the G20 protests and famine in Africa. However, it soon spread among the companies that were competing for their

¹ Barry Bearak, “Kathie Lee and the Sweatshop Crusade”, *Los Angeles Times*. 14 June 1996.

money and attention. The anti-sweatshop campaign blossomed on US campuses following the Kathy Lee episode, with branches of the activist organisation United Students Against Sweatshops holding sit-ins and protests. The goal was to persuade university authorities to cease purchasing their sports uniforms and branded jackets from companies known to use sweatshop labour. As one US student, Molly McGrath summed up the movement: "A lot of the students involved in the campaign are generally like me, white kids who've never been involved in political or social justice activity before, but who recognise that our clothes shouldn't be made by people who are treated like slaves – it's an easy thing to understand."²

From college teams' uniforms, attention soon turned to other kinds of sportswear, with brands rushing to audit their supply chains after Nike's name became permanently linked to accounts of poor pay and conditions in its factories. Suddenly the production chains that had made these businesses rich were a source of immense liability. Conditions in the factories gradually began to improve.

Which is, good, right?

In some cases, yes.

The Comparative Advantage of Sweatshop Labour

Sweatshop labourers earn far less than their counterparts in developed economies to produce goods – often clothes – which are then often sold for high prices in these same developed countries. On the face of it, this seems extremely unfair. From an economic perspective, however, the issue is far less clean-cut, and for multiple reasons.

Almost no one in the US would want to work in a sweatshop, but for many Hondurans, employment in a clothing factory is a step up from the alternatives on offer: agriculture and sex work. In 2018, the average monthly wage for a low-skilled worker in Bangladesh (another key source of sweatshop labour) was around 5,200 taka (USD 60) per month, while the average for clothing industry workers was a little over 8,000 taka (USD 80). Moreover, the conditions under which they worked were – while undeniably bad – far better than those faced by many in rural areas or making a living from prostitution. Thus, while a sweatshop job in Bangladesh would be a step down for the majority of US citizens, for many in Bangladesh it is a welcome opportunity to improve one's quality of living.

In other words, what is at stake here is alternative opportunities. Bangladeshi sweatshop employees tend to be poor and low-skilled, which limits the job possibilities available to them. However, Bangladesh's abundance of cheap, low-skilled labour provides it with a significant comparative advantage on the international clothing manufacture market. High-paid US workers could be retrained to produce clothes – and could probably do it more efficiently than Bangladeshi workers given their access to better machinery and training. The reason this does not happen is on account of its high opportunity cost: US workers are also capable of producing goods with far higher margins than clothing (electronics, computer code, hydrocarbons...), so if they were to devote their energies to textiles, they would be making less money than they could have been had they gone into other industries. This reluctance on the part of US companies and workers to produce clothing creates opportunities elsewhere. US citizens are no longer making clothing themselves, but they still require clothes to wear. Thus, a country like Bangladesh, which can produce large

² Simon Birch, "Sweat and tears", *The Guardian*, 4 July 2000.

quantities of clothing at minimal cost, is perfectly placed to take advantage of this. The result is that a greater overall amount of goods can be produced at a lower cost. Both the US and Bangladesh can buy clothing and electronics at a lower price if they specialise than they would pay if each attempted to produce both products domestically.

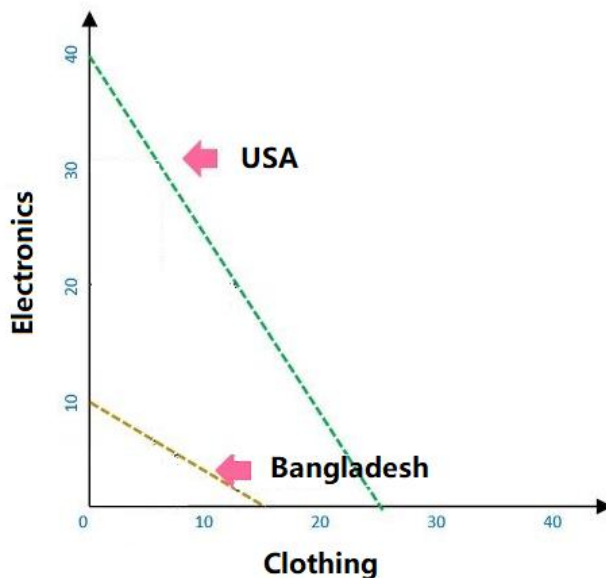


Figure 1 This example graphic illustrates the concept of comparative advantage. The US can make both electronics and clothing more efficiently than Bangladesh; however, it is four times better at producing electronics and only twice as good at producing clothing. It thus makes sense for the US to focus on producing electronics and Bangladesh to specialise in clothing.

This may, on the face of it, seem grimly utilitarian. Why do Americans – by simple virtue of their birth – get to have comfortable and well-paid jobs in electronics while Bangladeshis can dream no higher than dangerous, tiring and badly paid employment in sweatshops? Taking a long-term view, however, this situation begins to look less brutally unjust. Modern Americans have the option to work in electronics (at least in part) because their great grandparents worked in sweatshops. During the 19th and early 20th century the pay and conditions in US sweatshops were just as bad as those prevalent in Bangladesh today. However, the money that these sweatshops generated was – over time – reinvested into higher value-added industries by the factory owners and used by the workers to educate their children such that they would be able to hope for better employment once they grew up.

The clothing industry has, throughout the 20th century, become an important stepping-stone on many countries' paths to development, particularly in Asia. China, Singapore, and Indonesia all took advantage of their comparative advantage in clothing manufacture to build up the economic resources necessary to move into far more lucrative fields such as electronics.

Taking this into account, and factoring in the low-skilled employment crises the West has experienced in recent years, attempts on the part of western governments and international organisations to improve pay and conditions of sweatshop workers in less developed nations may begin to appear more like protectionism than altruism. It is not a coincidence that US trade unions have been among the most vociferous campaigners against the sale of sweatshop-produced clothes by American companies.

Is this, then, simply a case of developed countries – having gained their position through sweatshop labour – trying to kick away the ladder by which they themselves ascended? Various free-market analysts have suggested as much, noting that the majority of the countries that supply sweatshop labour are democratic: if the working population wished to implement higher minimum wages or more stringent working conditions, they have the right to vote for candidates who have promised to do so³. This being so, is foreign intervention to force them to do so a generous act, or an officious neo-colonial intrusion?

The Results of the Campaign Against Sweatshop Labour

There are, of course, a variety of counter arguments. Speculation about the democratic rights and wrongs of sweatshops may seem like a pie-in-the-sky concern given that millions of real-world workers are facing squalid and dangerous conditions for little pay. Moreover, while countries such as Bangladesh are dependent upon the low wages in its textile industry for their economic growth, this does not mean that they should exist in this state forever more. Elsewhere, after all, it was simply a step on the path towards better things. Can campaigns such as that led by the United Students Against Sweatshops be a means to push for gradual improvements as previously occurred in the US?

In fact, evidence from Indonesia suggests that the anti-sweatshop campaigns of the 1990s did succeed in improving the pay and conditions of the workers in those factories that had been targeted by the campaigners. Responding to public pressure, the US government threatened to withdraw Indonesia's GSP (Generalised System of Preferences) privileges if it did not make efforts to improve workers' rights.⁴ This pressure drove the Indonesian government to double the national minimum wage, which in turn helped to increase real wages in the country by 25 percentage points. The benefit was particularly noticeable in export-oriented factories, whose employees experienced an additional 10-20 percentage-point wage gain on top of this. However, over the same time-period unemployment increased by 10 percentage points, with indications that the wage increases and anti-sweatshop action had pushed many clothing companies to shut down or move abroad.⁵

In other words, while anti-sweatshop campaigns have the capacity to improve conditions for the workers in the factories that they target, things may become worse for other workers that are left unemployed as a consequence of the changes.

The flight of companies to other countries is liable to create more granular price discrimination on the part of suppliers. Some factories will accept customer demand for clothes made under more humane conditions, comply, and raise their prices accordingly. Others, however, will do the opposite: they will focus on supplying markets that have no interest in worker welfare at cheaper prices, and hiring the low-productivity workers left unemployed by the improved factories and providing them with worse pay and conditions to compensate for the reduced revenue.

³ Powell, Benjamin, and David Skarbek. "Are "Sweatshops" Bad for Third World Workers?." *Economic Education Bulletin* (2005): 14-4.

⁴ The Generalised System of Preferences is a tariff reduction scheme allowing foreign companies to export certain products to the US without paying import duties.

⁵ Ann Harrison and Jason Scorse. "The Nike Effect: Anti-Sweatshop activists and labor market outcomes in Indonesia." Ann Harrison (UC Berkeley and NBER) and Jason Scorse (UC Berkeley) (2004).

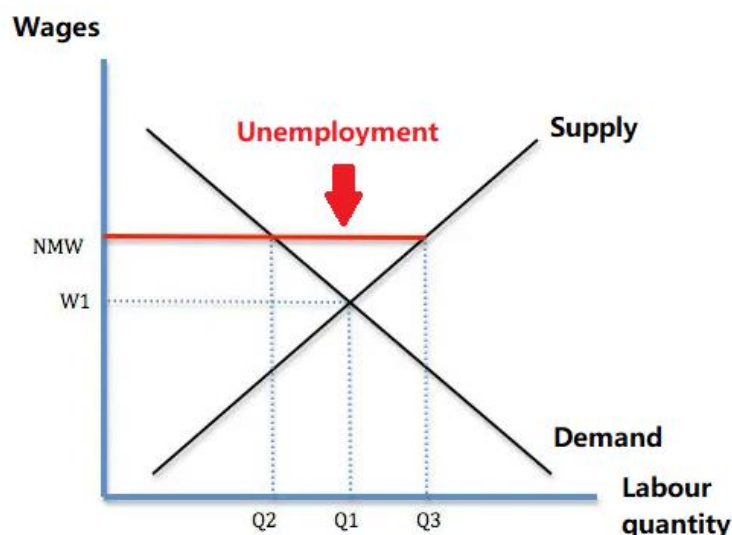


Figure 2 The effect of minimum wage laws on employment. The market clearing wage rate (i.e., the rate at which everyone who wants a job can find one) is at $W1$. Imposing a minimum wage floor increases the cost of hiring the lowest-productivity workers above the amount of value they create, so they are laid off. At this point $Q3-Q2$ workers are seeking jobs and unable to secure them.

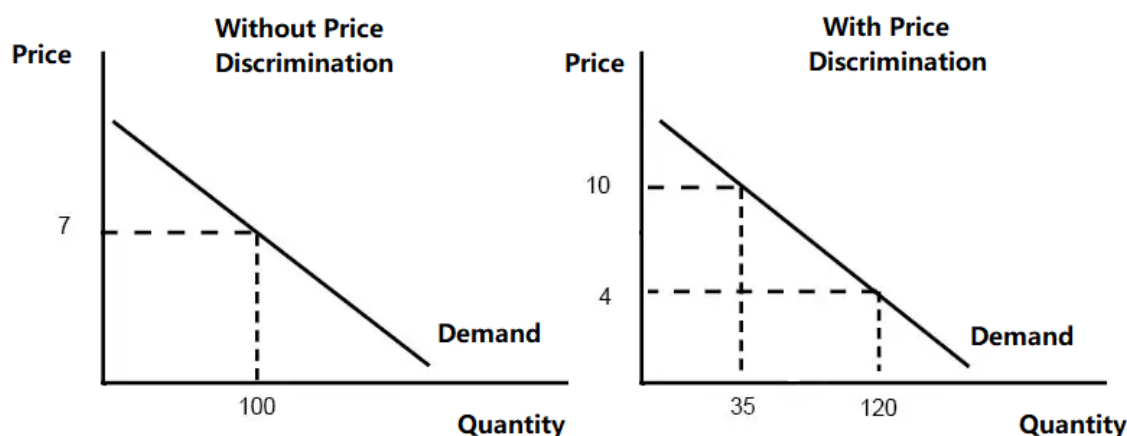


Figure 3 Charging different prices for slightly different products can be a way to maximise company revenue. In the first case, the company makes one standard product, charging seven dollars per unit and selling 100 units. Its total revenue is \$700. In the second case, the company makes a high-end product that sells 35 units for \$10 each, and a low-end product that sells 120 units for \$4 each. Its total revenue is \$830. One well-known example of this phenomenon is airline ticket pricing: by separating planes into economy and business class seats, the companies make far more money than they would if they offered just one or the other.

Doing Good Well

If global wages find their own level in response to multiple external economic factors, does that mean that attempts to improve workers' pay and conditions in the developing world are doomed?

The anti-sweatshop campaigners argue that they are not: the solution is not to give up but to keep fighting for change until everyone has equal compensation and conditions – in other words, to level up. At the opposite end of the scale, recent years have seen a growing backlash against the Western “aid industrial complex”, with proponents accusing foreign activists of causing both market and government failure in states whose situations are already precarious. They argue that distribution of cheap or free goods and

services is effectively “dumping”⁶ – disrupting free market economic mechanisms and democratic accountability in the target states.⁷

Attempting to steer a path between the two positions is the effective altruism movement. This attempts to quantify the precise amounts of good and harm caused by any given intervention, and to donate money to be spent in those areas where the overall benefit is likely to be greatest. Proponents of effective altruism have argued that the way to generate the maximum possible improvement in living conditions for poor populations in developing countries is not to buy non-sweatshop products, but rather to buy the cheapest products available and donate the price difference to charities proven to be acting efficiently in those same countries.⁸ They argue that fair trade and equitable labour products tend to benefit those who are already relatively well-off by the standards of the states in which they are produced, while reducing pay and conditions for the worst off via the mechanisms described above. Thus, those aiming to act ethically should factor this into consideration when making their choices.

Questions and Discussion Topics

1. Of the three positions listed in the previous section – those arguing for more intervention, those arguing for less, and the effective altruists – which would you support, and why?
2. Which do you think you would support if you were a member of the Bangladeshi government? How about if you were a member of the US government?
3. Effective altruism is often criticised on the basis that it is extremely difficult to put a precise figure on the benefits and harms of a given intervention. If you were trying to work out how best to help sweatshop workers, what factors would you consider?
4. What effects do you think the improving efficiency and affordability of robots will have on low added-value industries like clothing manufacture? Will a state like Bangladesh benefit or suffer from this?
5. Recent years have seen more states openly espousing protectionist policies that reduce the ability of poorer countries to profit from sectors in which they have a comparative advantage. Do you think that the leaders of these states are responsible only to their own electorates, or do they have a wider moral responsibility?
6. Do you believe that democratic voting is a good way to establish rules surrounding workers’ rights, or are other methods – such as collective bargaining or international treaties – necessary?

⁶ The WTO defines dumping as “a situation of international price discrimination, where the price of a product when sold in the importing country is less than the price of that product in the market of the exporting country.” Western companies may engage in it to undermine threats from growing markets abroad.

⁷ Dambisa Moyo. *Dead aid: Why aid is not working and how there is a better way for Africa*. Macmillan, 2009.

⁸ MacAskill, William. *Doing good better: Effective altruism and a radical new way to make a difference*. Guardian Faber Publishing, 2015.