

# Not Made in the USA: A Proposal for Sweatshop Reform

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Sweatshop conditions have been widely criticized by scholars because workers are required to work long and hard for very low pay in uncomfortable and unsafe environments; however, many economic scholars recognize that sweatshops play a significant role in the economic advancement of Third World countries and the wellbeing of people in these regions. Therefore, although it is true that many practices implemented by sweatshops are unethical and must be addressed, sweatshops are an economically important part of society that should not be eliminated but reformed. As one's everyday purchases contribute to the economic effects caused

by sweatshops and resultantly affect the wellbeing of factory workers, it is crucial for people to become aware and educated about the purchasing decisions they make every day so that they are not ignorant of the effects that their choices can result in.

In today's Western world, it is typical to purchase an item made and imported from some Third-World country overseas. This normalcy is due to the hard work of many unskilled, low-waged, harshly treated workers employed in factory sweatshops all over the world. Sweatshops are factories typically located in underdeveloped countries and pay low wages for employees who work long hours while facing unsafe and severe working conditions. They have been employed in the world's economic system for almost two hundred years, ever since the start of the Industrial Revolution in the early 1800's. Even America's industrial stage, where conditions were even worse than those in many modern day Third World sweatshops we see today, lasted nearly 100 years (Powell, 2014a). Today, sweatshops abound in many countries around the world, and more developed countries, such as the United States, often

outsource their products from these poorer countries due to the low prices of the goods they produce.

The issue of sweatshop endorsement has been widely criticized since its inception. Many scholars condemn it due to the "morally wrong" practices they use to exploit their workers (Meyers, 2007, p. 620). Aspects such as "coercion, unsafe working conditions, deception, paying workers less than promised, etc." are all fundamental characteristics of sweatshops that workers must endure to make ends meet. Chris Meyers, professor at University of Southern Mississippi, uses the term "beneficent exploitation" to describe the exploitation of workers who make fully informed decisions to work at factories despite the poor conditions they must endure (Meyers, 2004, p. 320). This term was coined because "the exploiter benefits from his use of the exploited in a way that is unfair, for example, by benefiting disproportionately

to the contribution of the exploited” (Meyers, 2004, p. 320). To many, including Meyers, this is morally unacceptable since the worker is still exploited and victimized although he or she gave consent. Therefore, a “collective responsibility” to end the practice of using sweatshops has been deemed necessary by many anti-sweatshop advocates (Meyers, 2007, p. 622). More conservatively, instead of terminating sweatshops entirely, many suggestions have been made by academics such as Arthur Herman to improve the standards factories exhibit, such as creating labor codes of conduct in order to improve working conditions or setting an optimal hourly wage in order to improve the workers’ pay (Herman, 2012).

However, many anti-sweatshop activists tend to dismiss the complexity of the nature of sweatshops and the role it plays in individual lives in addition to the general population. Despite the immoral stigma associated with sweatshops, many economic scholars recognize that sweatshops play a significant role in the economic advancement of underdeveloped countries as well as in the wellbeing of people in these regions. Economist Benjamin Powell argues that the study of economics allows scholars to examine how “actions taken by activists, nongovernmental organizations (NGOs), governments, consumers, and others will impact the incentives of businesses that employ sweatshop workers. Unfortunately, many actions for which the anti-sweatshop movement has agitated adversely impact incentives and harm worker welfare” (Powell 2014b). While it feels wrong to many Western consumers to allow poor treatment and exploitation of workers to take place, Powell suggests that the solution is not found in merely eliminating the immediate source of harm. In doing so, the workers may be placed in even more detrimental circumstances such as unemployment they were never intended for. Therefore, although I believe many practices implemented by sweatshops are morally wrong and must be addressed, sweatshops are an economically important part of society that should be reformed, not abolished. In this paper, I will analyze the economic significance of sweatshops in developing regions by investigating how sweatshops induce economic and industrial growth for Third World countries, by comparing the quality

of sweatshop jobs with that of available alternatives, by weighing factory wages against the wages of other industries in their regions, and by evaluating the effects of a typical anti-sweatshop advocate’s demands. Finally, I will propose a promising solution to maintain adequate pay and good working conditions for sweatshop workers in underdeveloped countries.

To begin making the case for outsourcing from sweatshops, it is vital to understand that sweatshops are highly influential in advancing the economic and industrial development of Third World countries. One of the main reasons established First World companies decide to take advantage of outsourcing from sweatshops is because of the inexpensive labor Third World factories offer. This is explained by an economic principle called “comparative advantage.” Harvard University professor of economics N. Gregory Mankiw describes comparative advantage as possessing an opportunity cost (what one gives up in order to gain something else) in producing a specific good that is lower than another producer’s opportunity cost. Because no single producer can have a comparative advantage in producing everything, this principle illustrates that trade has the ability to make both parties involved in an exchange better off. Therefore, when dealing with international trade, as Mankiw explains, “trade allows all countries to achieve greater prosperity” (Mankiw, 2012, p. 58). When developing countries specialize in sweatshop industries like garments or toys, the low cost of employment gives them a comparative advantage in the markets, and it provides already developed industries an incentive to trade with them. Paul Krugman, a New York Times journalist as well as a Nobel Prize winning economist, wrote an article entitled “In Praise of Cheap Labor: Bad Jobs at Bad Wages Are Better Than No Jobs at All.” In it he argues that “the only reason developing countries have been able to compete with those [First World] industries is their ability to offer employers cheap labor. Deny them that ability, and you might well deny them the prospect of continuing industrial growth” (Krugman, 1997). This form of development is crucial for these regions because, as economist Pierre Lemieux states, “in today’s poorer countries, only economic growth can solve the sweatshop problem” (Lemieux, 2015,

p. 67). Thus, sweatshops give developing countries an advantage in the markets and, as a result, provide them with opportunities to grow both economically and industrially.

The economic and industrial advancement of developing countries that sweatshops stimulate can ultimately lead to their own demise. Economist Joan Robinson notes that “as we see nowadays in South-East Asia or the Caribbean, the misery of being exploited by capitalists is nothing compared to the misery of not being exploited at all” (Robinson, 1962). In this statement Robinson argues that the conditions of people who live in poor countries are actually considered to be better off if companies outsource from these countries than if they do not. This is a popular stance many economists agree with and support. Another economic scholar states that “wherever the new export industries have grown, there has been measurable improvement in the lives of ordinary people” (Krugman). If a country’s revenue and industrial development generated by sweatshops are able to progress substantially, the country will no longer need to rely on sweatshops to sustain its economy. Because of this, scholars attest that “sweatshops themselves are part of the very process of development that will lead to their own elimination” (Sachs). Therefore, exploitation, it seems, is not an antagonist, but a slow yet necessary means to someday achieve prosperity.

Despite the arguments of many economists, people often find themselves still in support of the anti-sweatshop movement. After all, some of the factory owners and managers subject their workers to brutal or unsafe conditions, require laborers to work long overtime hours, refuse breaks during the job, or even demand engagement in inappropriate sexual conduct (Kristoff and WuDunn, 2000). Once becoming aware of this knowledge, contributing to sweatshops through common purchases often instills a sense of guilt within many buyers. This understandably gives reason for buyers to boycott purchasing from companies who sell sweatshop-produced goods in order to detach themselves from condoning immoral practices and to run these unethical factories out of business. However, even though these immoral practices appear shocking and disgraceful, the reaction of these anti-sweatshop

activists disregard the effects sweatshops have in improving the opportunity presented to people in underdeveloped countries. It is crucial to realize that while a virtuous treatment of workers seems desirable, shutting down sweatshops entirely ultimately leads to workers losing their jobs and entering into worsened situations (Powell, 2006). If sweatshops close, workers will lose their jobs, and in many of these Third World countries the alternatives to factory employment are grim in comparison. When a sweatshop worker in an underdeveloped country becomes unemployed, his or her other options are extremely limited. These few alternatives could be working an even lower paying agricultural job, practicing prostitution, rummaging through garbage for food, or even facing starvation (Lemieux, 2015). It is important to keep in mind that “these are still extremely poor countries, where living on a garbage heap is attractive compared with alternatives” (Krugman, 1997) and, in doing so, recognize the comparative enhancement in the opportunity commonly offered by sweatshop jobs.

Not to be misunderstood, I am not endorsing the principles sweatshops maintain. I fully recognize the immorality and exploitation infused in many factory practices. Instead, I wish to bring attention to the significance of sweatshops in the lives of factory workers compared with alternatives. It is common for Westerners to realize how poorly sweatshop workers are paid and to be appalled at the average earnings of only a few dollars per day. This is likely because people in developed countries compare the low wages in developing regions with typical wages seen in the West, causing the poor pay to seem outrageous. However, when looked upon more closely, economic analysis can bring forth a different perspective. Benjamin Powell, the Free Market Institute director at Texas Tech University who has both his MA and Ph.D. in economics, wrote a book entitled *Out of Poverty*. In it, he analyzes the economics behind sweatshops, and one chapter focuses on how the wages of sweatshops compare to the alternatives. After examining eighty-five different sweatshops scattered throughout a total of eighteen countries, Powell found that the hourly factory wages ranged from only 6 cents per hour in a Bangladeshi sweatshop all the way to \$1.12 per hour in a Costa

Rican sweatshop. At a quick external glance, these wages appear horrendous; however, Powell then compares them to the average wages made by workers in other industries of each country. In the end, he found that in Third World countries the average worker in an alternative industry must often live on less than \$2 per day, while almost all sweatshop workers typically earn \$2 per day in wages and occasionally much more. His data show that in every country he examined, sweatshop wages were at least fifty percent of the average national income, and in some countries the factory workers earned over two times the average national income. Powell says that “sweatshop jobs pay wages that are not just superior to earnings from begging or prostitution. They pay better and make them better off than many of their fellow countrymen,” (2014b, p. 62) indicating that comparatively, poor wages are not as poor as many assume.

Now that the economic importance of sweatshops and the benefits they offer have been explained, methods of improving sweatshops will now be examined. As discussed previously, the wages earned by sweatshop workers are sufficient when compared to alternatives, so our focus will shift towards the poor conditions workers endure. Anti-sweatshop advocates often demand stricter safety and labor standards within factories. However, contrary to popular belief, the improvements demanded by activists will ultimately make workers worse off. Many advocate for labor codes to be mandated in factories, but when enforced only in particular regions, manufacturers will relocate to a country with less strict standards and abandon its original location. Therefore, the only effective way to enact labor and safety codes on sweatshops is to do so universally and globally. Unfortunately, this is both difficult to implement and subject to “perverse effects” of which workers must bear the burden (Prasad et al., 2004, p. 64). The nature of profit-maximizing firms indicates that they are unconcerned with the methods in which they pay their workers, whether it is in monetary pay or benefits such as safety, medical care, fewer hours, and comfort. As a result, firms offer workers a desirable combination of the two payment types (where if one goes up, the other goes

down) in order to attract workers who will be the most beneficial to the firm. This indicates that the combination is determined mostly by the desires of the workers instead of the corporations (Powell 2006). In a study conducted in two Guatemalan sweatshops where complaints about working conditions were made by employees, economists Benjamin Powell and J.R. Clark surveyed workers asking them if they would accept lower wages if certain conditions were improved. Table 1<sup>1</sup> shows that when averaged together, the response most workers gave was a resounding “no” as at least ninety percent of employees determined they would not want to receive less pay if their conditions were improved for eight out of the ten improvements (2014b). It can be seen by this data that workers value maintaining their wages far more than they desire any other work benefits.

Powell explains that “if activists push only to improve safety in factories, they are implicitly pushing for a reduction in monetary wages that workers have already demonstrated they prefer more than safety,” or if the firm decides not to lower the wage, the activist push could lead to worker unemployment instead (2006, p. 1034). Therefore, in both cases, a call for improved conditions made by activists will consequentially impede in pleasing the desires and wellbeing of sweatshop workers.

Although many of these well-intentioned means of improvement seem to end in unfavorable outcomes, there are still ways to positively impact the working conditions in sweatshops. The method I propose is a market-based strategy that relies upon ethically conscious consumers who are willing to pay extra in order to purchase a product that does not endorse the immoral and harsh practices workers are forced to deal with. If buyers purchase more ethically produced items from factories at a higher cost, firms earn a higher total revenue. As a result, the compensation firms receive allows them to begin “raising wages, avoiding abuses, and protecting worker rights—all without the risk of falling profits and resulting job losses” (Prasad et al., 2004, p. 58). Similar to how people pay higher prices for goods like organic food, this phenomenon is possible because buyers who want to see working conditions enhanced

<sup>1</sup> Table 1 refers to a table in *Out of Poverty: Sweatshops in the Global Economy*, p. 74, by Powell, B., 2014.

will continue to purchase the same quantity of items as they typically buy, but the price will be high enough to vindicate improvement. When the same quantity is purchased, but a higher price is paid, it is not necessary for firms to fire any of their employees, and firms are given the incentive to treat their workers more uprightly. Therefore, buyers promote the sweatshops offering better conditions and give other sweatshops incentive to improve their workers' conditions as well. One study completed in 2004 and entered into the Labor Studies Journal tested consumers to see if people will actually pay higher prices for ethically produced products. The results showed that one out of four consumers consciously purchased ethically made products at a higher price than the original, and one out of three were willing to pay ten percent more for those products. The writers of the study suggest that "price increases of a few cents at the point of consumption could thus generate the added revenues needed to enable low-wage employers to absorb the higher costs of transforming their sweatshops into better paying, safer, and more productive workplaces" (Prasad et al., 2004, p. 72). Powell proposes that "this is one area in which activists and non-profits could play a valuable role by certifying particular goods as 'ethically produced'" for products made in Third World sweatshops (Powell, 2006, p. 1036). If activists push to create a label for "ethically produced" Third World products, marketing and advertising could appeal to consumers and incentivize them to purchase from certified companies. Thus, the solution to creating a better work environment is not in eliminating sweatshops or forcing higher wages and stricter standards, but in promoting sweatshops that offer their workers good conditions and paying the costs of improvement.

Understanding the topic of sweatshops holds much significance because a vast majority of Western society members are influenced by sweatshops in some way. How often do the tags on clothing state that a garment was made outside of the US? More often than not, one's clothing was not produced or manufactured in America, but rather somewhere overseas in a factory or sweatshop. People are frequently and unknowingly involved in promoting the use of sweatshops by simply buying a new top or purchasing a new pair of shoes. Therefore, one's

everyday purchases contribute to the economic effects caused by sweatshops which resultantly effect the wellbeing of factory workers. Furthermore, when one is aware only of the immoral practices sweatshops implement, ill-informed decisions like boycotting sweatshop products can cause more harm than good. Because of this it is beneficial to buy products from Third World countries and to encourage others to do so as well. In order to enhance the quality of sweatshop workers' conditions, it would be effective to intentionally purchase products from and advocate for sweatshops in Third World countries that maintain good working conditions. Therefore, if activists become involved in certifying ethically produced products, consumers will be more informed about the products they buy and be more inclined to purchase goods produced morally. These are all ways to prevent causing unintentionally poor results when dealing with the sweatshop industry, for it is crucial for people to become aware and educated about the purchasing decisions they make every day to avoid ignorance of effects caused by their choices.

The ethics of sweatshops are not easy concepts to deal with, for what seems evil may surprisingly be helpful, but what seems righteous, may actually be harmful. Despite the moral complications, many scholars recognize the economic significance sweatshops possess. Sweatshops cause industrial and economic growth in underdeveloped countries because of their comparative advantage when they specialize in industries that utilize their cheap labor. In addition, the work offered by sweatshops is more desirable than many of its alternatives. In fact, even the wages are comparatively better than most industries in their respective regions. Unfortunately, many activists have the wrong idea when advocating for workers' rights. The wage, labor, and safety improvements they demand will ultimately worsen the workers' situations. As a result, eliminating sweatshops or enforcing higher wages and stricter standards is not the solution to creating a better work environment, but a solution can be found in paying the costs of improvement by promoting sweatshops that provide their workers with good conditions. Therefore, even though many practices used by sweatshops are unethical, due to their critical role in society and the economy, they should not be

eliminated but reformed.

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