Rethinking Sweatshop Economics

By Jason Hickel, July 1, 2011

The news that a Romanian sweatshop manufactured one of Kate Middleton's most famous dresses has inspired renewed popular interest in the ethics and economics of outsourcing jobs to utilize super-cheap labor. This is only the most recent of a string of cases that exemplify the shocking proliferation of sweatshops — even across Europe — over the past few decades. But the truly troubling part of the story is the logic that Kate’s defenders have invoked to justify this trend, drawing on arguments made by allegedly “progressive” U.S. economists.

Jeffrey Sachs, well-known author of The End of Poverty, once famously stated, “My concern is not that there are too many sweatshops, but that there are too few.” Similarly Paul Krugman has argued that sweatshops “move hundreds of millions of people from abject poverty to something still awful but nonetheless significantly better... [so] the growth of sweatshop employment is tremendous good news for the world’s poor.”

In a New York Times Magazine article disturbingly titled “Two Cheers for Sweatshops,” Nicholas Kristof endorsed this logic by explaining that when he first moved to Asia he, “like most Westerners,” was outraged at the sweatshops, but eventually came to appreciate them as “a clear sign of the industrial revolution that is beginning to reshape Asia.” He pointed out that “Asian workers would be aghast at the idea of American consumers boycotting certain toys or clothing in protest. The simplest way to help the poorest Asians would be to buy more from sweatshops, not less.”

These arguments all turn on one simple idea that often vanquishes critics with its apparently unassailable economic logic: that sweatshops exist because people are willing to take sweatshop jobs at sweatshop wages. People have a choice in where they go to work, the thinking goes, and sweatshops are often the best deal in town — certainly better than no job at all. If sweatshops didn’t exist, then millions of people would be hungry on the streets.

This view rests on the assumption that countries that attract sweatshops have
always been populated with masses of poor people desperate for wages, that poverty is somehow an a priori condition. In such a world, sweatshops can only be a boon.

But this assumption entirely misses the crucial point about poverty. People — in Thailand and Peru, for example — only choose sweatshop jobs because they have been made desperate and given no alternatives for livelihood. So it’s not really a “choice” at all. They are forced by circumstance to sell themselves into sub-human conditions. Sociologists refer to this as the “structural violence” of unemployment.

**Colonial and Neoliberal Legacies**

The desperation that drives people into sweatshops is a historically recent phenomenon. Most of the people in the so-called third world used to be subsistence farmers who were able to support themselves sufficiently on the yields of their land. That started to change under late-19th-century colonial regimes. In most places in Africa, Asia, and South America, colonizers initially had a very difficult time getting natives to work in their mines, factories, and plantations. To solve this problem, they either forcibly removed farmers from their land or levied onerous taxes in order to coerce them into seeking wage work, all under the guise of the “civilizing mission.” This caused hundreds of thousands of people to move to industrial cities where they constituted a reserve army of workers willing to take whatever job they could find and ready to underbid each others’ wages.

In the colonial context, substandard wages were not the neutral product of market efficiency but the outcome of a deliberate strategy to render people desperate enough to take jobs that paid pennies. But only recently did things get bad enough that sweatshops started springing up. Beginning in the late 1970s, the World Bank, the International Monetary Fund, and later the World Trade Organization began pushing new forms of market deregulation — known as “structural adjustment programs” — on third world governments, requiring them to stop subsidizing their agricultural sectors and to allow cheap imported grains into their markets. These neoliberal policies crippled small-scale farming to the point of collapse and created a second wave of people forced to migrate to cities to survive.

This happened at the same time as two other crucial structural adjustments. First, protective trade tariffs were drastically reduced, allowing Western corporations to move their operations offshore without paying prohibitive import duties. Second, important labor regulations like collective bargaining rights and high minimum wages were curbed or cut, to the point of giving corporations the power to sue their host governments for regulations that diminish returns on investment. This created an ideal environment for companies like Nike, Walmart, and General Motors to move their production facilities to places where they get away with paying workers many times less than developed economies would ever allow. This process of seeking the most exploitable location possible has become known as “the race to the bottom” — the dark underbelly of what economists so calmly encourage as “comparative advantage.”

A 2002 study conducted by economist Robert Pollin found that the retail prices of clothing in the United States would have to rise by only 1.8 percent in order to cover a 100 percent wage increase for sweatshop workers in Mexican garment factories. In other words, the price of Kate’s £175 dress would increase to £178.15, with the additional money doubling the wages of the seamstresses who made it. This is especially important in light of a 1999 study by the National Bureau of Economic Research that found that consumers were willing to pay 15 percent more on a $100 item — and 28 percent more on a $10 item — if it was made under
“good working conditions.”

The point here is that companies do not have to use sweatshop labor to earn profits, just as workers in third world countries do not have to be desperate enough to work in sweatshops. None of this is natural or inevitable, despite what sweatshop enthusiasts are so eager to have us believe. Sachs’ and Krugman’s absurd conclusion that we should promote sweatshops as a solution to the problem of global poverty derives from a profound deficit of historical perspective. It is a shame that the most cherished priests of progressive economics have nothing to offer beyond a world of sweatshops justified beneath the banner of “market freedom” and comparative advantage. That this has become the utopian vision of our time is tragic.

A New Economics

A few targeted changes to global trade rules could create a world where sweatshops don’t have to exist. If developing countries were allowed to erect import tariffs to protect small-scale agriculture and enforce labor regulations to ensure that every working citizen earned a living wage, the sweatshop concept would be completely unnecessary. Of course, if the workers that make shoes, clothes, and electronics for Western consumers were earning decent wages, that would mean that we would all pay a little bit more for our stuff, and the companies that make it might net a little bit less. But income redistribution along these lines would hardly be a bad thing, especially given today’s historically unprecedented levels of social inequality: The wealthiest one percent of the world’s population controls 40 percent of the world’s wealth while the bottom 50 percent controls a mere one percent.

The counter-argument holds that if working conditions become too humane and wages too decent in any given country companies will relocate to more welcoming states, hurting GDP and leaving the poor with fewer employment opportunities. This could be solved with an international minimum wage law (putting a floor on the race to the bottom) and a targeted trade quota system that channels foreign direct investment to where it is needed to alleviate poverty rather than to where labor is most exploitable. In addition, states can help create good jobs for their citizens by protecting local infant industries and by implementing import substitution programs.

Such policies have been tried before. The United States, Great Britain, and virtually every major economic power have been built on precisely these principles, and they were standard practice for many developing countries emerging from colonialism in the 1960s. If the developing world were to reinstate these policies — winding back the clock to a time before structural adjustment — they would be able to significantly improve local employment and generate an additional $480 billion per year in GDP above current levels. But such reforms would require confronting the entrenched interests of the states and corporations that control global trade policy for their own narrow benefit.

Sweatshops may indeed be preferable to poverty. But instead of taking poverty for granted in the first place, we should question the processes that produce it — the policies that make people desperate. Sweatshops are an easy, unthinking solution, and only make sense if we are ready to bend to the dictates of “market efficiency” and accept exploitation as economically rational. What we need is a new economics, one that can think beyond the limited boundaries of neoliberal ideology and make an effort to construct a more humane and democratic world. The question is not whether we have the ability to do this, but whether we have
Mr. Hickel:

Thank you for an articulate and well reasoned argument. You have put into very precise and understandable language what I, and many other reasonable people, have been saying for a long time.

Steven Matherly
Durham, NC USA

7 months ago  1 Like

I'd like to get a more precise definition of a sweatshop. For instance, the photo you use looks more like a sewing factory than a sweatshop. Well lit, clean, uniforms, etc. My understanding of a sweatshop is deplorable working/unsafe conditions and sub-standard wages.

In my investigation of this issue for our overseas garment manufacturing, the conditions in the sew plants we use are excellent and the wages are at least a living wage. Because so much garment manufacturing is now being done in the developing world, sewers with skill can walk away from a bad job to non sweatshop job so employers provide good conditions and wages.

As a result, we employ only sewing factories with workers who are indeed being raised out of poverty. We regularly visit these factories.

I won't argue with your structural analysis of neoliberal policy resulting in basically an assault on the poor, but there is another side to this argument (which I've tried to present, in brief) where globalization and ethical manufacturing/employment have helped the developing world's poor.

Thanks for reading my comment.

Tim

Well reasoned, well said; thank you.

Alexander Matheson

7 months ago  1 Like
Kudos from a historian who was always sympathetic to the Luddites. Not because they had a clear view on what was happening (that was impossible then, even for the industrialists). And yes, the industrial revolution was inevitable, but not the way in which it happened...