

In Praise of Cheap Labor

The economical and philosophical discourse about sweatshops and cheap labour

I. Introduction

In 1997 Paul Krugman, Nobel Memorial Prize in Economic Sciences award winner, wrote his seminal article “In Praise of Cheap Labor”. Therein he claimed that sweatshops are not as bad, as their reputation. One can only imagine the replies Krugman got with that kind of message. Even though this point of view seems extreme at first, Krugman puts forward a compelling argument for sweatshops and cheap labour, which cannot be ignored. One of his most prominent adversaries in discourse was John Miller, who tried to disprove Krugman’s arguments and to propose for a counter-position. These are the two main points of argument I want to present, because they mark the starting point of an interesting and still vivid debate in economical and philosophical academia.

Krugman opens his argument with the example of Smokey Mountain. Smokey Mountain was an enormous pile of dump in Manila, Philippines. On this dump several thousand men, women and children lived and made a living collecting scrap metal. Krugman’s argument was that those people lived there willingly, because it was actually the best option for them. A family could earn more collecting scrap, than they could through any alternatives. On this Krugman builds his argument that people always choose the best option for them (i.e. rational choice), even if it seems horrible to the observer and that this principle is also applicable to sweatshops.

Many multinational companies use sweatshops in their chain of production; H&M, Zara, Primark, Adidas, Converse, Ralph Lauren, Esprit, Apple, Fairtrade¹, Hilfiger and Victoria’s Secret to name some of the most prominent examples. A sweatshop is a manufacturing establishment that fulfils certain criteria. To be qualified as a sweatshop, a factory or company does not have any tariff agreements, no protection against unfair dismissal, pays very low wages and usually has long working hours. These factors are usually given in any legal definition, when talking about sweatshops. In reality things are even worse. There are many cases of child labour, factories with no security standards and practices of coercion through mental and/or physical abuse.

¹ Products sold under the Fairtrade label only guarantee that resources are bought at a fair price. It says nothing about the conditions under which the goods are manufactured. In the case of clothes usually in sweatshops.

II. Krugman's Argument²

Paul Krugman brings forward three main reasons for sweatshops (or at least why we should not be so strongly against them). These reasons are the positive ripple effects throughout the economy, the fastidiousness of the argument and the choice argument.

Positive ripple effects: Historically, most 3rd world countries were exporters of raw materials (i.e. jute or coffee) and importers of manufactures. Cheap labour was not enough for them to compete in the world market for manufactured goods. Good infrastructure, technical know-how, larger market size and political stability, amongst other factors, outweighed the heavy disparity in wage rates, but in the course of globalization some major changes happened. Tariff barriers lowered, telecommunication improved, air transport became cheaper, in short transaction cost sunk. This development reduced the disadvantages of producing in developing countries. Countries that mainly produced raw materials now were known for their manufactures, especially clothing. Krugman's argument states that 3rd world workers are the biggest beneficiaries of globalization. Sweatshops open new alternatives for them, which are better than those they had earlier. They typically offer higher wages, than any alternatives. This rise in wages is based on competition among companies to acquire new workers and set incentives for workers to move. Through this urbanization, pressure on land decreases, which leads to rural wages also rising. Where this rise goes on long enough, i.e. South Korea or Taiwan, workers can earn approximately, what an American teenager can earn at McDonalds. The case of China demonstrates this trend even more prominently. China grew from a 3rd world country into the world's second largest economy and shifts its production to Africa, because work became too expensive. China made the transition from provider of raw materials, to sweatshop manufactures towards high quality production and services, i.e. Alibaba, Lenovo and Huawei.

Fastidiousness: The second argument is that our benefiting from sweatshops makes us feel unclean. Women and children work for our benefit earning very little and facing poor working conditions, but what would happen if we implemented fair wages for sweatshop workers. Krugman argues that fair wages would not benefit the majority of workers in a country. Only sweatshop workers would be better off, leaving all other workers behind. This would lead to a privileged labour aristocracy of comparatively wealthy factory workers, but would not benefit rural workers, which still face even worse conditions than factory workers do. An even more

² Krugman (1997)

likely outcome would be that by depriving 3rd world countries of their competitive advantage, economic growth will be denied or even reversed. Large multinational corporations would resettle in cheaper or better environments, providing no more jobs for the working people. In short, a policy of good jobs in principle, but no jobs in practice, might assuage our conscience, but is no favour to its alleged beneficiaries.

*Choice argument*³: This highly philosophical argument focuses on the moral significance of workers free choice. The cascade goes as follows:

1. Individuals choose to work in sweatshops willingly, even if the choice is made in a severely constrained set of options
2. Within that set it is the most preferred option
3. Taking that preferred option away is harmful to workers and their autonomy to choose
4. Ceteris paribus, it is wrong to harm people or to violate their autonomy

This reasoning is morally significant. One should not harm workers by removing their preferred option or by constraining their autonomy. Bans and boycotts, legal regulation or even voluntary self-regulation of firms can lead to this harmful outcome. Therefore, sweatshops should neither be regulated, nor closed.

III. Miller's argument⁴

Miller presented some arguments against Krugman's view and brought forward some empirical evidence to disprove him. Miller started by questioning the freedom of sweatshop workers. He argued that workers are subjugated. They often are held captive and are subject to physical and mental abuse. Work agreements in sweatshops are seldom taken up willingly and usually are trades of last resort that need to be protected by labour legislation regulating the wage floor, health standards, etc. and even if workers are paid more on average in sweatshops, nothing is said about their working conditions. Miller states:

“If workers are denied the right to organize, suffer unsafe and abusive working conditions, are forced to work overtime, or are paid less than a living wage, then they work in a sweatshop, regardless of how they came to take their jobs or if the alternatives they face are worse yet. [...] Sweatshop jobs are a ticket to slightly less impoverishment. “

³ Zwolinski (2007)

⁴ Miller (2003)

Miller further gives comments on Krugmans arguments regarding core labour standards, a living wage, historical change and social improvement and fastidiousness.

Core labour standards: Among economists, there is little debate that some kind of standards are good and necessary. The main question is, what are those rules and are any of them so basic that they should be applied universally, transcending the normal bounds of sovereignty. Miller argues that core standards should include freedom of association, elimination of forced labour, abolishment of child labour and elimination of discrimination. Nonetheless, empirical evidence on implementing such labour standards are ambiguous. Labour standards can increase economic growth and efficiency⁵, but also harm export performance⁶. They enhance a country's comparative advantage in the production of labour-intensive goods, but deter direct foreign investment⁷.

The living wage: Regarding the argument that a living wage would harm the nation's economy Miller again shows some empirical evidence against economical models. In a case of shirt production in Mexico a 100% raise in wages led to the shirts being \$0.50,- more expensive, a raise which a consumer probably would accept. Furthermore, historically there is no significant relationship between real wages and employment growth in the apparel industry. A living wage would not lead to a reduction of jobs⁸.

Historical change and social improvement: Although it could be observed that every society went through a sweatshop stage, i.e. England or the tiger states, this fact does not establish that sweatshops caused or contributed to the enhanced productivity that further improved working conditions. Sweatshop phases were not extinguished by market-led forces alone, but when economic growth combined with social action, enlightened collective choice and social legislation⁹.

Fastidiousness or commodity fetishism: This section should answer why the plight of rural workers, who often are poorer and suffer more than sweatshop workers, does not inspire more first-world movements dedicated to their betterment. Miller references Marx's commodity fetishism. Therein commodities become the bearers of social relations in capitalist economies, meaning that the product we consume connects us with the producer and the worker of this good and transport a certain responsibility. Consumers and citizens are empowered to change

⁵ OECD (2000)

⁶ Mah (2002)

⁷ Rodrik (1996)

⁸ Pollin, et al. (2001)

⁹ Kuznets (1955)

their consumer behaviour and inflict pressure on their nation's corporations and their subcontractors, leading to a betterment of working conditions. The complaint of fastidiousness only suggests that the plight of sweatshop workers need to be seen in the context of pervasive world poverty and gaping inequalities of the global economy.

IV. Conclusion

This presentation aimed to show the starting point of the discourse about cheap labour and sweatshops. Even today, no final conclusion has been met, if sweatshops are to be banned or if they are beneficial to a nation's economy and its workers. The discourse is as heated and controversial now, as it was 30 years ago (see further readings). It was not my aim to take or promote any side, for I think that both sides have compelling arguments regarding their position. I wanted to give an introduction to an interesting topic, which probably concerns everyone in a modern society.

V. Literature

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VI. Further Readings

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