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Summary of Sweatshop Discussion

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- Developing countries specialize in the export of products like garments and footwear because

  - these products are labor-intensive I.e. have high labor cost content

  - developing countries have abundant low-wage labor so can produce them competitively

  - these are "starter" industries, easy to enter because of low capital and skill requirements (developing countries do not have much money or high skills)

  - these countries need to export *something* in order to pay for imports of goods and services they require for consumption and investment (since they are not/cannot be self-sufficient)

- Some consumers in rich countries e.g. U.S. college students are upset at the low wages and poor working conditions they think characterize these factories. They are supported/instigated by U.S. textile and other unions who oppose competition from developing countries.

- Wages are low and working conditions poor in developing countries *in general* because

  - demand for labor is weak (because productivity is low due to lack of complementary inputs like capital and skills)

  - supply of unskilled labor is abundant (because large families are essential for survival but education is scarce)

  Thus workers are willing to accept these so-called "sweatshop" jobs because they are better-paid, and conditions are no worse or better, than available local alternatives e.g. subsistence farming, casual manual labor, domestic service, prostitution

- Labor-intensive export manufacturing improves wages and working conditions in developing countries by

  - increasing demand for labor (creating more jobs which can pay better because they cater to rich foreign consumers and larger global markets instead of small poor local markets)

  - reducing supply of labor (eventually) by increasing incentives for women to increase education, delay age of marriage, increase labor force participation, and have fewer children

  - this also leads to low dependency ratios and higher savings rates, which are available to fund domestic investment and economic and income growth

  - This transition from low- to higher-skill and higher wage jobs has taken and is taking place in all developing countries which have done this e.g. 4 Asian "tigers", China, Malaysia, Thailand

- Conditions in big multinational factories or their suppliers are typically better than in small locally-owned factories because

  - multinationals have the financial and technical resources, including brand-name advantage so can charge more for their products ("market power") and also have more rich-country experience which has a "demonstration effect"

- But if the consumer wants *more* than market forces can provide, what can be done?

- Rich country buyers can insist that poor-country suppliers/ subcontractors conform to certain minimum labor and environmental standards ("code of conduct") which will be monitored by outsiders.

- But whose/what standards should be applied and to whom?
  - local average (but most export factories esp. multinational ones already match or surpass these)
  - above the local average--but how much above? and why?

- What are the likely consequences of these externally-imposed higher-than-market standards?
  - Employment will shrink unless productivity is increased
  - Privileged jobs may be allocated through non-market means e.g. bribery, corruption, cronyism, favoritism, etc.
  - Highly-educated professionals with scarce skills may be attracted away from their professions to these jobs
  - Production will move from smaller local to larger foreign firms (which can better afford the higher costs)
  - Production may move from poorer countries with lower standards to richer countries with higher standards

- How are standards to be monitored, given that
  - there are hundreds of thousands of factories in dozens of countries e.g. Disney alone has 20,000
  - many/most factories are owned and run by local industrialists who subcontract to multinationals and rich country buyers
  - monitoring is costly, potentially disruptive of work, and contentious because trust is required
  - who is to pay for the monitoring? the customer? the supplier? the shareholder of the "brand" multinational? All can take their business (and capital) elsewhere.

- How are standards to be enforced, given that
  - cutting off the perpetrator (of labor violations) penalizes the workers he exploited by taking away their jobs (capital can be reallocated much more readily than labor)
  - we don't know if an alternate supplier would be any better (probably not)

- Other concerns
  - protectionism (favoring richer countries over poorer)
  - paternalism (external direction vs. local empowerment)
  - national sovereignty (foreign "interference")
  - inhibiting developmental "stages"

- Does this mean we should do nothing? No, because
  - pressure on companies to improve standards keeps them working at it and is likely to have *some* positive effect for *some* workers (even if at the expense of others)

- For universities, the task is daunting and difficult, because
  - they have no technical competence in this area (labor monitoring, social audits)
  - for most, effective monitoring will cost more than the entire revenues they get from licensing e.g. additional staff time, paying monitors for their work
  - they have little clout with companies (small % of total business)

- Easy way out is to join some organization that will do the monitoring. Two major alternatives (for universities):

  Fair Labor Association (all apparel industry)
  Workers' Rights Consortium (college logo industry only)

  Main differences:

  - FLA works with employers to change their behavior, will accept auditing companies as well as NGOs as monitors ("fire prevention" system). After two years, code and monitoring system developed, implementation about to begin.

  - WRC focuses on educating workers to make complaints about employers without engaging employers directly; expects universities to respond to any violations ("fire alarm" system). System not yet developed or started.