

# The Virtues of Sweatshops

by *Stefan Spath*

**A**n acquaintance said to me the other day how appalling it is to see so many Americans revel in the gifts received during the holidays. “We should be ashamed of ourselves,” he lamented. “Most of this stuff was manufactured in sweatshops.” Such a misinformed notion shouldn’t go unanswered because it reinforces this fallacy in the minds of those who don’t know better.

It is not difficult to understand why he could so easily make this connection between manufactured goods from abroad and so-called “sweatshops.” Over the past few years the issue of sweatshop labor has been thrust on the public’s radar screen by high-profile cases involving such names as Kathie Lee Gifford and Nike Corporation.

However, the public at large seems to be on the fence with this issue owing to a lack of good information. What complicates the situation is the misinformation peddled by some who have ulterior motives that stretch far beyond ending so-called sweatshop labor, such as those who oppose capitalism itself.

The term “sweatshop,” when used in this context, is meant to intimidate people into forming an opinion without considering the evidence. Who, after all, could be in favor of “sweatshops”?

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What are “sweatshops” anyway? If they’re low-wage (by advanced standards), labor-intensive manufacturing facilities, they have existed throughout the world in different places and at different times, although now they tend to be concentrated in developing nations with large populations of low-skilled workers. This pattern of how and where labor-intensive manufacturing is conducted has an economic explanation evidenced by historical examples throughout the centuries. For similar reasons, the Persians bought textiles from the Phoenicians in the sixth century B.C.E.; the Venetians bought spices from Arab traders during the Renaissance; and the Portuguese bought wool from the English in the eighteenth century. It is why 90 percent of the VCRs sold in the United States today are manufactured in Korea. Specialization and the division of labor are guided by each particular country’s comparative advantage. (Comparative advantage, as opposed to absolute advantage, refers to a group’s relative superiority in producing a particular good vis-à-vis other groups compared to other goods.)

In nineteenth-century America, anti-sweatshop activism was focused on domestic manufacturing facilities that employed poor immigrant men, women, and children. Although conditions were horrendous, they provided a means for many of the country’s least-skilled people to earn livings. Typically, those who worked there did so because it was their best opportunity, given the choices

available. More often than not, through schooling and aculturation the children of those workers developed better skills than their parents and graduated into higher-paid occupations.

Today, of course, there are few primitive factories in the United States. That is because our economy has developed so that most Americans have educations and skills that command higher wages than workers in foreign countries with less-developed economies. As a result, the law of comparative advantage has guided the production of certain goods to countries with abundant low-skilled labor. This maximizes productivity both in developed and less-developed economies.

## Working Conditions

How do working conditions, a legitimate concern, fit into the equation?

Last year a well-publicized but poorly organized sit-in at Harvard University put a spotlight on the working conditions of the school's janitorial staff. The students who took part in the operation used the plight of the campus workers to highlight what they described as the unfair working conditions of the world's poor. The word "sweatshop" was used repeatedly. The Harvard students wanted to force multinational corporations (MNCs) of the West to pay a "living wage" to foreign workers in the developing world, just as they were demanding of the university with respect to its custodians.

Do these self-proclaimed champions of the world's poor and their cries for "living wages" help those whom they purport to represent? Unfortunately, so many endeavors that start with good intentions do more harm than good. This too can be understood through an understanding of sound economics.

The vilified MNCs that have set up factories in developing nations have done so out of good business sense. By shifting production to an area where labor costs are least expensive, the cost savings can be passed on to consumers. However, MNCs compete for this labor, creating an incentive for those

companies to make its employment opportunities the best choice among competing alternatives. Companies that establish factories with appalling work environments don't stand a chance competing for workers in a free market. This is why arguments about poor working conditions don't stand up to scrutiny.

It is true that the wages earned by workers in developing nations are outrageously low compared to American wages, and their working conditions go counter to sensibilities in the rich, industrialized West. However, I have seen how the foreign-based opportunities are normally better than the local alternatives in case after case, from Central America to Southeast Asia. There are myriad examples of large MNCs from the West contributing to programs that uplift entire communities, such as the *maquiladora* industrial towns of northern Mexico that have benefited from improved roads, water-purification plants, and the construction of entire school systems around new factories.

One must also consider how the machinations of special-interest groups in this country affect the public's image of so-called sweatshops and the "living wage" issue. Labor unions in the West do not exist to defend the rights of workers throughout the world. They exist to protect the job security of their dues-paying members. Union workers in the United States whose obsolescing skills put them at risk of losing their jobs to cheaper foreign labor use veiled comments and outright threats to intimidate lawmakers and hide their true intentions of self-preservation. When unions succeed at this, the cost of the inefficiency is spread out among millions of unsuspecting consumers who subsidize the unionists' job security through higher prices.

In other words, anti-trade activists, from labor unions to misguided students, try to prevent workers in developing countries from finding better opportunities to raise their living standards. Moreover, the protesters undermine the sovereignty of consumers. Consumers in the rich West, where the cost of low-skilled labor is prohibitively expensive, would benefit from the increased

purchasing power and lower prices made possible by the shift of certain jobs to the developing world. The individual benefit may be small when spread out over tens of millions of consumers, but in the aggregate it eclipses the cost in lost jobs for a relative few in the industrialized economies. If anti-trade activists have their way, consumers lose.

## **New Jobs Created**

Labor unions also obfuscate the issue by claiming that companies which establish operations in developing nations create unemployment in America. Such a claim is only half the story. Production in many of the most labor-intensive industries has been shifting over the past 25 years from the developed to the lesser-developed economies. However, unemployment in this country hit record lows over the same period. The capital freed from inefficient domestic lines has been redirected to growth industries where Americans have a comparative advantage.

Over the past generation, for every job in the textile or auto industry that was lost in the United States, two or more have been created in high-technology or other advanced industries. Rest assured, we probably won't see large American software firms opening manufacturing plants in China or large pharmaceutical companies relocating their R&D laboratories to Guatemala anytime soon—because high-skilled jobs require a level of worker education and skills that poorer countries cannot provide.

The harm to the parties on the other side

of the equation is barely understood because they are thousands of miles away and lack the cohesiveness to counter the arguments of their developed-world self-proclaimed “advocates.” Suffice it to say, they are not the ones clamoring for trade barriers to keep out Western corporations or protect inefficient American union workers. They want jobs and are willing to work for a wage commensurate with their productivity in their economies.

Sound economics teaches us that prices influence behavior. Wages are nothing more than the price of labor. If MNCs are compelled to pay wages comparable to those in the United States, even in countries where local labor-market conditions can't justify them, there would be no production-cost savings and hence no purpose in relocating to those countries in the first place. The poor of these less-developed countries would have fewer opportunities for work and would lose all the other benefits of foreign direct investment, which range from technology transfers to international trade integration. So activists like the Harvard students who believe their protests help the world's poorest workers actually harm them by pricing them out of the market and denying them the opportunity to develop their skills and economies.

Adam Smith's classic argument that trade increases the productivity and prosperity of all involved still applies today. The wealth of empirical evidence compiled over the past two centuries bolsters Smith's argument and should be used to counter the protests.

It turns out sweatshops aren't so bad. □

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