

## Are “Sweatshops” Bad for Third World Workers?

by Benjamin Powell and David Skarbek\*

Over the past decade many people have protested the employment of “sweatshop” labor in the third world, especially where laborers work directly or indirectly for U.S. companies such as Nike, Wal-Mart, or the Gap. Celebrities, clergymen, politicians, academics, labor unions, and student groups have advocated measures ranging from boycotts to international labor regulations. Unfortunately, much of the public debate has taken place without a grasp of third world conditions and the economic benefits “sweatshops” provide to third world workers.

The word “sweatshop” is broadly applied to factories that have poor working and safety conditions and low pay – sometimes less than 20 cents an hour. “Sweatshop” is also sometimes used to describe factories where owners or governments use threats of violence to coerce workers into working. This study addresses the broader definition of sweatshops—low pay and poor conditions. The arguments do not apply where workers are slave laborers who do not voluntarily choose their employment.

### *The Anti-Sweatshop Movement*

During the mid-1990s, the anti-sweatshop movement gained a lot of publicity and momentum. The best-known incident occurred in 1996 when Charles Kernaghan, the director of the National Labor Committee, ambushed TV celebrity Kathie Lee Gifford with a young girl who worked for low wages in a Honduran factory making Gifford’s line of Wal-Mart clothing. Afterward, many other media reports described the wages and working conditions of workers for U.S. companies and suppliers in other Central American and

Asian factories.

Many U.S. opinion makers reacted fiercely. Reverend David Sydon of the Lafayette Avenue Presbyterian Church in Brooklyn said, “Instead of talking about the global economy and the shattered social contract, let’s go after the Gap when we hear they’re making clothes in El Salvador.”<sup>1</sup> After Jesse Jackson toured an Indonesian sweatshop, he claimed “exorbitant profits are coming at the expense of overworked and underpaid workers.”<sup>2</sup> Some protested the weekly pay of Disney apparel workers because they were paid “less than the retail price of a Pocahontas shirt.”<sup>3</sup> Julie Christie, an actress who recently starred in the film *Harry Potter and the Prisoner of Azkaban*, “called for a boycott of Disney stores over the alleged exploitation of workers in Haiti.”<sup>4</sup>

A number of groups took action in response to the media stories. The National Labor Committee and UNITE, a U.S. garment workers union, have pushed for international labor standards on working conditions and minimum wages to be included in trade agreements. President Clinton created the Apparel Industry Partnership, composed of retailers, importers, unions, and non-government organizations, to address the sweatshop issue. In 1997, an organized campus anti-sweatshop movement began at Duke University. It spread to many other campuses which established their own units of United Students Against Sweatshops. They have worked to ban the use of sweatshops in the production of clothing and other items with their colleges’ logos and have pushed for labor regulations and international minimum wages for third world sweatshops.

The low pay and poor working conditions in the third world are deplorable by U.S. standards, and many privileged Westerners feel the need to help. However, they fail to understand economics and make the wrong comparisons. They compare the amount paid to sweatshop workers with the U.S. retail price of the clothing or with U.S. wages. The pertinent comparison is what sweatshop workers receive compared to their next best alternative.

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**Table 1. Average Hourly Wages of Apparel Workers**

	Hourly Wage in U.S. Dollars
Bangladesh	\$0.13
China	0.44
Costa Rica	2.38
Dominican Republic	1.62
El Salvador	1.38
Haiti	0.49
Honduras	1.31
Indonesia	0.34
Nicaragua	0.76
Vietnam	0.26

Source: *Globalization and the Poor* Table 7.2 p.108.

The anti-sweatshop movement is based on two beliefs. First, that the factories that activists criticize are bad for third world workers. Second, that the reforms they advocate will improve workers' welfare. Basic economic theory should make us skeptical of both claims.

### *Economics of the Sweatshop*

The maximum wage a worker can receive is limited by the productivity of his labor. The minimum wage a worker accepts from a firm must be better than his next best alternative. The actual wage workers get, including sweatshop workers, falls somewhere between these two limits. Sweatshop wages are as low as they are not only because worker alternatives are limited, but also because worker productivity is low. Anti-sweatshop activists who push for higher mandated wages and better working conditions risk raising the sweatshop wages above what worker productivity warrants, thus causing firms to shut down (perhaps leaving the country entirely). If multinational corporations operating sweatshops leave, workers will lose their best alternative.

Although the employees in a sweatshop are by no means in a workers' paradise, they are better off than if they were engaged in the alternatives generally faced by third world workers. In fact, by voluntarily choosing to work in the factory, workers demonstrate that it is their best option compared to their other, even worse, choices. The *New York Times'* columnist Nicholas Kristof observed that in Cambodia hundreds of people scavenge for plastic bags, metal cans, bits of food and whatever else they can find in trash dumps. By scavenging, he says, "Nhep Chanda averages 75 cents a day for her efforts. For her, the idea of being exploited in a garment fac-

tory – working only six days a week, inside, instead of seven days in the broiling sun, for up to \$2 a day – is a dream."<sup>5</sup> Oxfam, a British charity, reported that when a Bangladesh factory was pressured into firing child workers, thousands of the children became prostitutes or starved.<sup>6</sup> When the next best alternatives for workers are trash scavenging, prostitution, and starvation, sweatshops don't look so bad.

Guatemalan economist Lucy Martinez-Mont summarized her view on sweatshops after the Kathie Lee Gifford scandal:

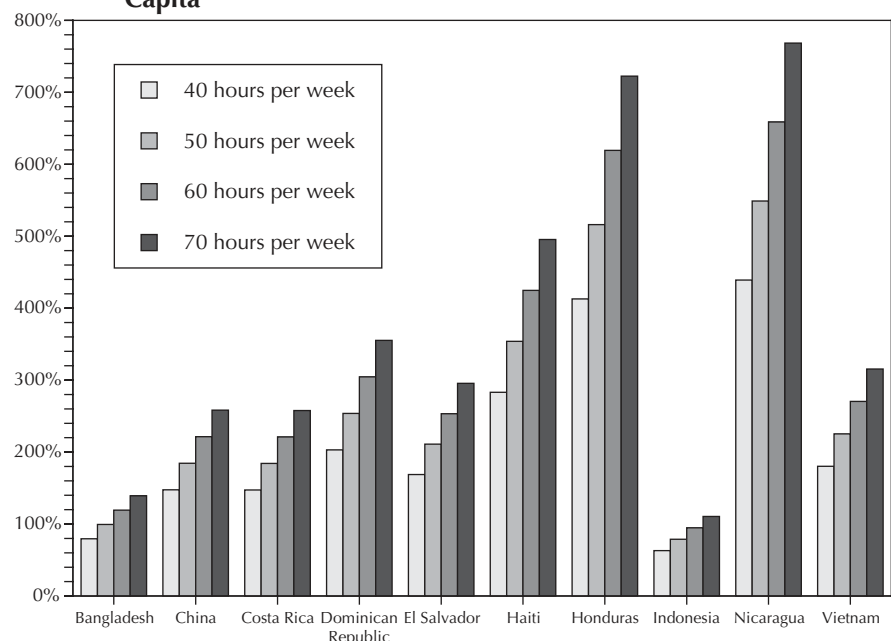
It is true that thousands of children work nights, that workers are locked in until production quotas are fulfilled, that wages are obscenely low, and that, in extreme cases, women and children are beaten up by their supervisors. But it is also true that there are no slaves in Central America. People choose to work in maquila shops of their own free will, because those are the best jobs available to them. Given that unemployment compensation is unheard of in Central America, a lousy job is better than no job at all.<sup>7</sup>

Such jobs are lousy by U.S. standards, but they are far better than the dire alternatives mentioned above. These jobs are also quite good compared to the average standard of living in the countries where they exist.

### *Sweatshop Jobs Compared to Average Living Standards*

Numerous economic studies have documented that

**Chart 1: Apparel Industry Wages as a Percent of National Income per Capita**



multinational firms generally pay higher wages and provide better working conditions than domestic firms in third world countries.<sup>8</sup> In this section we compare wages in the apparel industry, and at firms that have been specifically cited by activists for running sweatshops, with measures of the standard of living in each country.

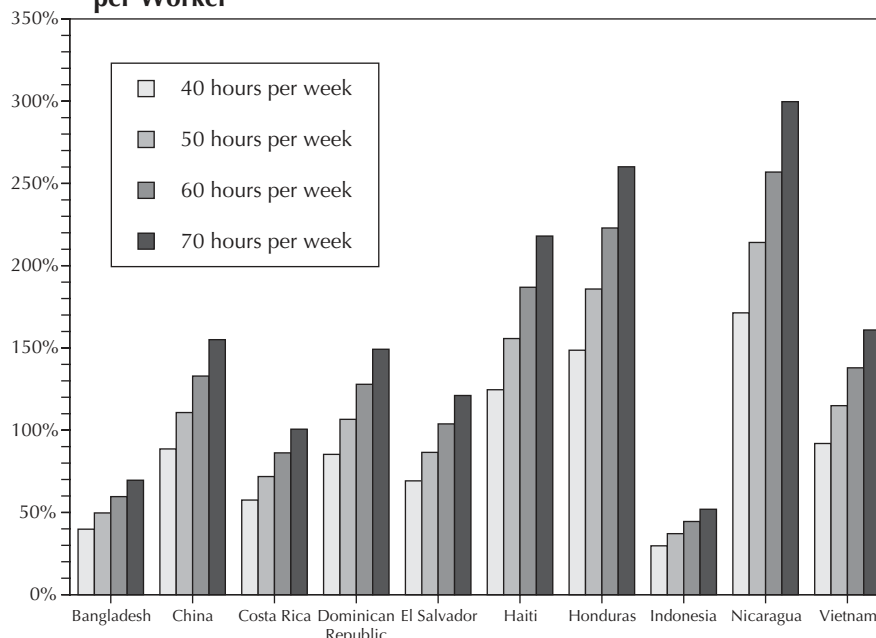
The apparel industry has drawn the most attention for its use of sweatshop labor. Sometimes a U.S. firm directly employs third world workers but more often they have subcontractors producing their products. The subcontractors are often cited for providing workers with the low pay and poor working conditions that characterize sweatshops. Table 1 shows the average apparel industry wages in countries where many of these sweatshops are.

These wages are low by U.S. standards, but they compare favorably with the average standard of living in these countries. Chart 1 shows the estimated average earnings in the apparel industry as a percent of income per capita in these countries. Since there are no reliable data on the average number of hours worked in the apparel industry, we made four earnings estimates based on the assumption that they vary from 40 to 70 hours per week. The 60 and 70-hour estimates are probably the most accurate—workers in these countries often work long hours for six days per week.

Chart 1 shows that by working 70 hours per week, apparel industry workers earn an average income that exceeds the average income in every country. In nine out of the ten countries, their wages exceed the national average income at only 50 hours per week. In some countries, average apparel earnings far exceed average income: In the Dominican Republic, Haiti, Honduras, and Nicaragua, apparel workers earn three to seven times the national average.

National income per capita is the total income of the economy divided by the total population, including both workers and non-workers. If apparel industry workers tend to be young workers without a family, or women and children, then comparing their wages to per capita income gives a fairly accurate assessment of how they live compared with other people in their economy. Women and children were often the workers in the American and British 19<sup>th</sup> century “sweatshops” and evidence from the third world countries suggests it may be the case there too.

**Chart 2: Apparel Industry Wages as a Percent of National Income per Worker**



It is also useful to compare the earnings of apparel workers with those of other workers in their country, rather than the entire population’s income. Good wage data do not exist, so we have used employment participation data to adjust income per *capita* to estimate average income per *worker*. The informal (“off the books”) sector in these countries can be quite large and, unfortunately, data on the size of the labor force do not count workers in the informal sector.<sup>9</sup> Our estimates are thus likely to overstate average earnings per worker, and to understate apparel industry wages as a percent of those earnings. In other words, apparel workers are probably doing better in relation to other workers than our estimates suggest.

Chart 2 shows that despite this statistical bias, in eight out of the ten countries average wages in the “sweatshop-heavy” apparel industry equal or exceed estimated average income per worker. At 70 hours of work per week, apparel workers’ earnings in six countries exceed 150 percent of average income per worker, and they are more than double the average in three countries.

Apparel industry earnings can also be compared to the dire poverty that exists in these countries. Table 2 shows the percentage of their population that lives on less than \$1 and \$2 per day, according to World Bank estimates. In most of the countries shown, over half of the population lives on less than \$2 per day. Yet in nine out of the ten countries, a person working in the apparel industry for 10 hours a day would be lifted above (and often far above) the \$2 per day threshold. Even in the one exception, Bangladesh, a 10-hour day provides

**Table 2. Percent of People Living on Less Than \$1 or \$2 per Day**

	\$1 per Day	\$2 per Day
Bangladesh	36.0%	82.8%
Cambodia	34.1	77.7
China	16.6	46.7
Costa Rica	20.1	94.5
Dominican Republic	20.0	20.0
El Salvador	31.1	58.0
Honduras	23.8	44.4
Indonesia	7.5	52.4
Nicaragua	45.1	79.9
Vietnam	17.7	63.7

Source: World Bank, *World Development Indicators*. Data for the most recent year available were used for each country.

enough income to surpass the 36 percent of the population who earn less than \$1 per day, and fewer than 20 percent of the inhabitants of the country live on more than \$2 per day.

The apparel industry has been widely criticized for “exploiting” third world workers in sweatshops, but the data show that these workers are better off, on average, than most in their countries. Even so, some particular apparel firms have been singled out as exploitative. We next look at specific examples of firms that have been cited for running “sweatshops.”

Our data come from popular press articles that document sweatshop wages. Many of the wages quoted come directly from the mouths of anti-sweatshop activists, so if any bias exists, it would be toward understating actual compensation.<sup>10</sup> Despite this, we still find that when compared to the World Bank’s *World Development Indicators* database on per capita income, most of these sweatshops pay more than the average income in these countries.

Table 3 lists the wages that “sweatshop” workers reportedly earn and, when available, the company involved. As can be seen, these wages are extremely low compared to U.S. wages – but it is important to keep in mind the high percentage of people in these countries who earn less than \$1 or \$2 per day. Out of the 43 cases reported, in all but two, working 10-hour days results in earning over \$1 per day and in over half of the cases it results in earnings greater than \$2 per day. Far from being exploitative, “sweatshop” wages raise the living standards of the workers above a significant fraction of the population.

Chart 3 takes the reported sweatshop wages for each country and shows them as a percent of the country’s per capita income.<sup>11</sup> Since many of the news articles contained only hourly wage data without stating how many hours were worked, we created four different estimates by varying the number of hours worked. For sweatshops that reported daily wage data, we based our calculation on six days of work per

week. The 40-hour estimate is again likely very low since most sweatshop workers work long hours and often work six days per week. In news articles that did mention actual hours worked, most figures were well in excess of 70 per week, so we included the actual hours in our 70-hour estimate when they were available.

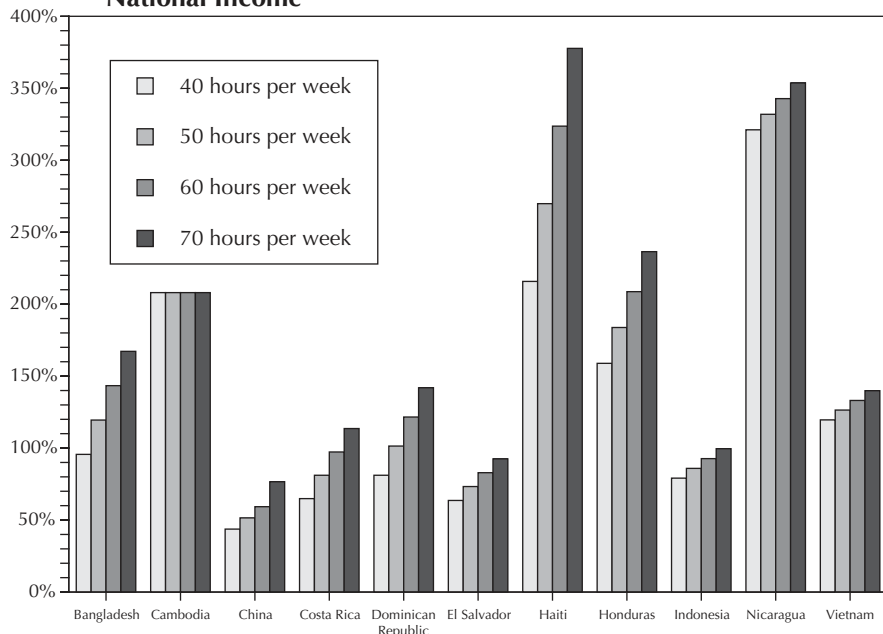
In nine of the eleven countries, the reported sweatshop wages equal or exceed the average income in that country. In Cambodia, Haiti, Nicaragua, and Honduras, the reported wages provide (assuming a 70-hour work-week) more than double the average income. These

**Table 3. Wages Paid by “Sweatshop” Companies**

Country	Year	Company	Reported Wages (\$)
Bangladesh	2004	Mary Kate & Ashley	.18 p/hour
Bangladesh	2004	Mary Kate & Ashley	.08 p/hour
Bangladesh	1997		.25 p/hour
Burma	2004	NBA	.14 p/hour
Burma	2004	NBA	.07 p/hour
Cambodia	2004		2 p/day
China	2004	NFL, NBA, MLB	.165 p/hour
China	2004	NBA	.16 p/hour
China	2002		.12 p/hour
China	2001		.20 p/hour
China	2001		.15 p/hour
China	1998		.13 p/hour
China	1998		.30 p/hour
China	1997	Nike	1.75 p/day
China	1997		16 p/month
China	1996		25 p/month
Costa Rica	1998	Rawlings Baseball	1.12 p/hour
Dominican Republic	2000		.69 p/hour
El Salvador	2001	Gap	.55 p/hour
El Salvador	2001	Gap	.60p/hour
El Salvador	2001	Gap	30 p/week
Haiti	2004		.55 p/hour
Haiti	1996	Disney	.28 p/hour
Honduras	2003	P Diddy	.75 p/hour
Honduras	1996	Levi’s and Nike	5.40 a day
Honduras	1996	Kathie Lee	.31 p/hour
Honduras	1996	Wal Mart	.31 p/hour
Honduras	1995		.30 p/hour
Indonesia	2002	Nike	.27 p/hour
Indonesia	2002	Nike	43 p/month
Indonesia	1997	Nike	2.46 p/day
Indonesia	1996	Nike	2.28 p/day
Indonesia	1996		117 p/month
Indonesia	1996	Nike	115 p/month
Indonesia	1996	Nike	.14 p/hour
Indonesia	1996	Nike	.22 p/hour
Indonesia	1996	Nike	.45 p/hour
Nicaragua	2001		135.50 p/wk
Nicaragua	2000	Kohl’s	3 p/day
Nicaragua	2000		.17 p/hour



**Chart 3: Average Wages in Protested Sweatshops as a Percent of Average National Income**



figures do not include the non-monetary compensation that employees receive. Nike's employees in Indonesia receive free health care and meals in addition to their monetary wages.<sup>12</sup> Since Nike factories were cited as alleged sweatshops in seven out of our eight Indonesian examples, excluding non-monetary compensation causes our Indonesian sweatshop wage estimates to appear far lower than they should. If firms in other countries also provide additional benefits, their sweatshop wages may be similarly understated. Overall, even with our data limitations, the above graph demonstrates that most of the very "sweatshop" jobs that some protestors cite raise their workers' standard of living above the average in their country.

The above figure compared sweatshop wages with the average income for both workers and non-workers combined. We can again make the adjustment, with the same data limitations as before, to compare protested "sweatshop" jobs with average income per *worker*. Again, because the official employment data omit many people who work, we are likely understating "sweatshop" earnings as a percent of average earnings per worker. And our figures may low-ball sweatshop earnings, because they come directly from the mouths of those with

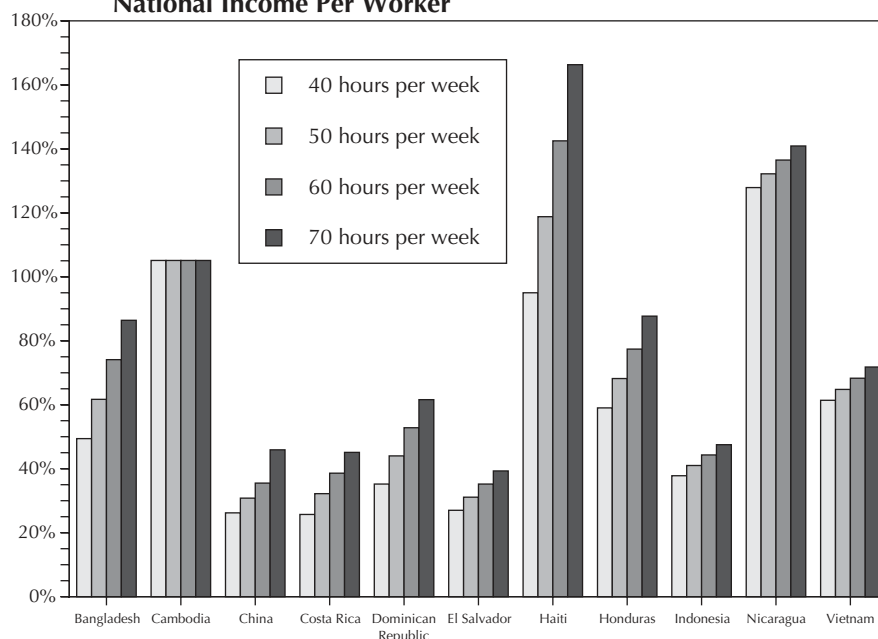
the most incentive to understate earnings.

Chart 4 shows that the average wages of workers in "sweatshops" cited by protesters are higher than the average income per worker in Cambodia, Haiti and Nicaragua. In most of the countries, they are over 60 percent of average income per worker. It is important to keep in mind the biases and limitations of these data when making comparisons with these numbers. Also, the relevant comparison facing an individual worker is not average wages, but individual alternatives. Sweatshops make a worker better off when they pay better than that specific worker's next best alternative. Thus, even where earnings are less than 100 percent of average wages, as long as workers voluntarily choose

to work there, the sweatshops make the individual worker better off.

Caution should be used when looking at the reported sweatshop earnings in China. There are reports that some workers are being forced to work in Chinese sweatshops. If this is so, we cannot assume that their jobs make them better off. Since the extent to which the Chinese wage examples cited here represent voluntary or coerced labor is unclear, we simply averaged them all. As such, coerced labor may be what is causing their

**Chart 4: Average Wages in Protested Sweatshops as a Percent of Average National Income Per Worker**



reported wages to be a lower percentage of average income than in other countries.

### *The Process of Development*

The sweatshops that exist in the third world today are not a new phenomenon. Britain, the United States, and the rest of the developed world once had factories with long hours, low pay, poor working conditions, and child labor. As worker productivity rose, conditions eventually improved, pay went up, and child employment decreased. The factory system and “sweatshop” labor began the process of economic development that caused the increase in standards of living.<sup>13</sup> If the process of development is allowed to operate, sweatshops in the third world today will similarly become a thing of the past.

Although agricultural work is often held up as idyllic, the move from working in agriculture to a factory often greatly increases the standard of living for workers. As has been shown above, apparel industry and sweatshop workers often earn more than many workers in their economy. In most of these countries a large percentage of the population still works in agriculture, often subsistence-level (see Table 4). As workers voluntarily leave their farms to work in factories, their earnings rise and, more importantly, they begin the process of increasing their productivity, which will lead to even higher wages in the future.

Third world sweatshops contribute to worker productivity increases in at least three ways. When multinational firms locate in a third world country, they often bring new technological and organizational know-how; capital that augments workers’ efforts is often imported; and workers “learn by doing,” acquiring skills while working in the factory.

As worker productivity improves, they can receive more compensation for their labor. As productivity and compensation increase, workers will have better condi-

tions, shorter workweeks, and fewer of their children working.

Reliable economic data for third world countries are hard to come by, but World Bank data show the percentage of the workforce employed in agriculture, the percentage of children working, and Gross Domestic Product (GDP) per capita (adjusted for price inflation). Table 4 summarizes this information for the countries that have been accused of having sweatshop labor. The data give us reason to believe that the process of economic development has been occurring in these countries even as critics have been protesting their sweatshops. Since the anti-sweatshop movement began in the mid-90’s, there has been a shift away from agricultural employment, the percent of children working has decreased, and real GDP per person has increased. The anti-sweatshop movement risks undermining this process of economic development by discouraging firms from opening factories in these countries.<sup>14</sup>

### *Conclusion*

Sweatshop jobs in the third world are better than the alternatives workers face and usually provide higher-than-average income. Policies that force employers to pay more than justified by worker productivity will only result in the loss of the best jobs these workers can get, because they will drive companies to move to other locations. Perhaps this is what some of the less genuine anti-sweatshop advocates desire.

The AFL-CIO and the United Needle and Textile Workers Union in the United States have been particularly active in organizing student anti-sweatshop activism. It is no accident that a recent survey of student anti-sweatshop activists found that 31 percent of them had been in a trade union.<sup>15</sup> U.S. garment workers benefit when their third world competition is priced out of the market. Although many anti-sweatshop activists are well-intentioned (if ill-informed), it should be no sur-

**Table 4. Evidence of Economic Development**

	Percent of Workforce Employed in Agriculture		Percent of Children Age 10-14 Employed		Real GDP Per Capita	
	1995	2002	1995	2002	1995	2002
Bangladesh	63%	62%	30%	27%	\$316	\$396
Cambodia	75	70	25	23	316	416
China	49	47	12	6	581	944
Costa Rica	22	16	6	4	3,416	3,938
Dominican Republic	15	15	16	12	1,638	2,254
El Salvador	27	22	15	13	1,676	1,787
Haiti		51	25	22	352	338
Honduras	37	33	9	7	703	712
Indonesia	46	44	10	7	1,049	1,060
Nicaragua	41	43	14	11	415	496
Vietnam	70	70	9	4	284	413

Source: World Bank, *World Development Indicators*. When data were not available for year listed, the closest available year’s data were used.

prise that many of those who would benefit from lack of third world competition are active in organizing opposition to sweatshops. Walter Williams's characterization of the anti-globalism alliance as "union leaders and their useful idiots" applies as well to the anti-sweatshop movement.<sup>16</sup>

At recent World Trade Organization talks, third world countries actively opposed including any international labor standards or minimum wages in any agreements, because they understand that this would result in the loss of their best jobs. Charles Arthur, a staff member at a Haitian-based organization called the Haiti Support Group, says, "Companies moving out – that is definitely not what the workers want. We wish they would send more orders."<sup>17</sup> Similarly, Candida Rosa Lopez, a Nicaraguan garment worker who earns less than a dollar an hour, says, "I wish more people would buy the clothes we make."<sup>18</sup>

Ultimately, buying their products is the best way to help third world workers. As more factories locate there and workers build human capital, wages will rise. This is the process of economic development. Policies advocated by the anti-sweatshop movement harm third world workers by destroying the best jobs these workers have and slowing the process of economic development.

### Endnotes

<sup>1</sup> *New York Times*, "Taking a Stand Against Disney and Its World" by David Gonzalez. September 7, 1996.

<sup>2</sup> *Washington Post*, "U.S. Industry Overseas: Sweatshops or Job Source?" by Keith B. Richburg and Anne Swardson. July 28, 1996.

<sup>3</sup> *New York Times*, "Taking a Stand Against Disney and Its World" by David Gonzalez. September 7, 1996.

<sup>4</sup> *Daily Telegraph*, "Haiti Slave Claims Hit Disney" February 28, 1997.

<sup>5</sup> Nicholas Kristof, "Inviting All Democrats," *New York Times*. January 14, 2004.

<sup>6</sup> David Henderson, "The Case for Sweatshops" [www-hoover.stanford.edu/pubaffairs/we/current/Henderson\\_0200.html](http://www-hoover.stanford.edu/pubaffairs/we/current/Henderson_0200.html)

<sup>7</sup> *Wall Street Journal* June 25, 1996.

<sup>8</sup> For a good summary of these studies see Drusilla Brown, Alan Deardorff, and Robert Stern, "The Effects of Multinational Production on Wages and Working Conditions in Developing Countries" NBER Working Paper 9669.

<sup>9</sup> The common perception is that "everybody works"

in these countries, yet because much of the work is in agriculture or the informal sector, many workers do not make it into the official labor force participation numbers used here.

<sup>10</sup> Each article converted domestic wages into U.S. prices without mentioning what exchange rate method they used for conversion. It is possible, although not verifiable, that a couple of the articles may quote two different wages when referring to the same case because of different methods of conversion. When we were able to identify multiple articles referring to the same case, we included the individual sweatshop only once in our sample.

<sup>11</sup> We compared each reported sweatshop wage with the average income in the year for which the wage was reported. To compare the average sweatshop earnings to the average income for a country without biasing the results, we also averaged the per capita income data for each observation. For example, if a country had two reported sweatshop cases in 1996, one in 1997 and one in 2000, we averaged those wages and compared the result to a weighted average of per capita income over the three years.

<sup>12</sup> Del Jones, "Critics Tie Sweatshop Sneakers to 'Air' Jordan" *USA Today*, June 6, 1996.

<sup>13</sup> See F.A. Hayek, *Capitalism and the Historians*, for an excellent account of why the factory system and capitalism, not government regulations, were responsible for the increase in worker well-being.

<sup>14</sup> We are not claiming that sweatshops are all that is necessary for growth. Private property rights, economic freedom, and other market institutions are important and often lacking in these countries. See Benjamin Powell, "Private Property Rights, Economic Freedom, and Well-Being," *AIER Economic Education Bulletin*, November 2002, for more on the role that private property and economic freedom play in development.

<sup>15</sup> Kimberly Elliott and Richard Freeman, "White Hats or Don Quixotes? Human Rights Vigilantes in the Global Economy" *NBER Working Paper* 8102, 2001.

<sup>16</sup> Walter Williams, "Sweatshop Exploitation," [www.gmu.edu/departments/economics/wew/articles/04/sweatshop.html](http://www.gmu.edu/departments/economics/wew/articles/04/sweatshop.html)

<sup>17</sup> *The Independent (London)*, "Sweatshop Controversy Tarnishes Disney's Big Night," October 10, 1997.

<sup>18</sup> David Henderson, "The Case for Sweatshops" [www-hoover.stanford.edu/pubaffairs/we/current/Henderson\\_0200.html](http://www-hoover.stanford.edu/pubaffairs/we/current/Henderson_0200.html)

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