

Book Review

**Powell, Benjamin (2014) *Out of Poverty: Sweatshops in the Global Economy*. New York: Cambridge University Press.
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“Extremism in Defence of Sweatshops is No Virtue”

You might consider any defence of sweatshops extreme. But *Out of Poverty* is no run-of-the-mill defence of sweatshops. Powell pushes the economic defence of sweatshops to libertarian extremes that even other economists who defend sweatshops would not endorse.

Ironically its extremism is what is most valuable about *Out of Poverty*. Through the consistency of his positions, the zeal with which he defends those positions and the clarity of his exposition, Powell exposes how many economists use arguments that obliterate power differences between employers and workers, and ordain profits as sacrosanct and immutable in order to defend sweatshops and dismiss labour market interventions aimed at alleviating sweatshop abuse as counterproductive. For these reasons, anyone intent on debunking the economists’ defence of sweatshops would be well served by responding to Powell’s arguments with the consistency, zeal and clarity with which he makes them.

The bulk of Powell’s book consists of developing what he calls the ‘standard economic defense of sweatshops’ (p. 97). Economists’ pro-sweatshop arguments rest on two propositions: (1) Sweatshops are better than the other alternatives; and (2) in most cases sweatshop workers voluntarily choose these jobs.

What Powell and other economists say about the choices most sweatshop workers confront has a certain truth. The alternative jobs available to sweatshop workers, as Powell documents, are worse yet, especially where a large portion of the population continues to work in agriculture. But even if in most cases workers do choose these jobs, their choice is hardly ‘voluntarily’ or made without coercion. Nor are these arguments an excuse for sweatshop abuse: that conditions are worse elsewhere and workers may have ‘chosen’ these jobs does nothing to alleviate the suffering of workers in export factories (see Miller, 2003).

Long on Authority, Short on Evidence

‘The main message of this book’, writes Powell, ‘is that the anti-sweatshop movement’s failure to mandate policies such as minimum wages and working standards is a victory for the sweatshop workers’ (p. 157). The hand Powell plays to support this message is long on invoking the authority of economic reasoning but short on evidence. The economic reasoning that Powell uses to make his argument goes something like this. Any improvement in working conditions raises firms’ labour costs. Faced with higher costs and lower profits a firm would either cut back on the number workers it employs or lower other costs. ‘These trade-offs’, Powell assures readers, ‘are binding constraints, not something activists can assume away’ (p. 82).

But does Powell's economic reasoning hold in practice? The answer is: not very often when it comes to sweatshops. For instance, higher wages for sweatshop workers do increase costs, but not by much. Wages paid to sweatshop workers and factory costs make up an inordinately small share of the retail price of the commodities they produce. Recently, for instance, a leading Bangladeshi garment maker told *Businessweek* that their total factory costs for a \$22 pair of jeans was 90 cents, or just 4 per cent of the price paid by consumers (Srivastava and Shannon, 2013).

Nor does empirical evidence suggest that higher wages result in fewer jobs in the apparel industry. For instance, using a sample of forty-five countries over the period 1992 to 1997, economists Robert Pollin, James Heintz, and Justine Burns (2001) found no statistically significant relationship between real wages and employment growth in the apparel industry.

Also there is good evidence that improvements in wages could be accomplished without diminishing profits. In their study, Pollin and his co-authors found that doubling the pay of non-supervisory workers in Mexican apparel factories would add just 50 cents to the production costs of a men's casual shirt that sold for \$32 in the United States, or just 1.6 per cent of the retail price. That increase in price would be far less than the amount that surveys suggest US consumers are willing to pay to purchase garments produced under 'good' working conditions as opposed to sweatshop conditions. For instance, a 2009 study of the sales in a major New York retail store found that the company could use 'social labelling' to charge up to 20 per cent more and still expect sales revenues to rise (Hiscox and Smyth, 2012). Powell calls these survey results 'a poor substitute for actual market transactions' (p. 44). But he offers not one counter-example of actual market transactions that conflict with these surveys or other surveys that produce different results.

Extremism in Defence in Sweatshops

Powell is surely not alone among economists in his insistence that interventions into labour market exchanges between sweatshop employers and vulnerable workers are counterproductive. Where other neo-liberal economists hedge their bets, Powell goes all out in his defence of sweatshops.

Violate labour law when it boost profits

Most economists who defend sweatshops are careful to point out that they do not advocate breaking labour laws. Not Powell. He advocates violating labour laws (other than prohibitions on forced labour), when 'disregarding labor regulations would be better for workers than adhering to them' (p. 80). For Powell his position is a matter of consistency. 'If new labor regulations are bad because they lead to unemployment', Powell asks, 'shouldn't the enforcement of existing labor regulations be bad for precisely the same reason?' (p. 76).

Powell's argument is that corporate law-breaking would boost owners' profits and that in turn would lead to more jobs and improved conditions for sweatshop workers. But in the absence of systematic empirical support, his justification for corporations and employers violating labour laws rests on little other than faith in trickledown economics.

Safety standards are just another cost

Some economists who oppose imposing wage standards on developing economies favour the imposition of safety standards as a matter of human rights (see Amsden, 1995). Powell's support for sweatshops comes with no such qualification. He emphasises that for an employer 'a cost is a cost'. If improvements of safety conditions drive up costs and reduce employer's profits then, in Powell's analysis, factories would hire fewer workers. On top of that, a survey conducted by Powell and like-minded economist J.R. Clark on 'sweatshop' workers employed in the Nicotex and Sam Bridge

garment factories in Guatemala found that workers would not want better or safer working conditions if it came at the cost of lower wages (p. 74). Powell and Clark's interview results, however, say nothing about what would happen if safer working conditions were financed out of profits. Would improving working conditions actually endanger sweatshop workers' jobs? It does not seem so.

The costs of improving safety conditions can be quite modest. For instance, in the wake of the recent fire and the collapse of Rana Plaza in April 2013 that cost 1 139 Bangladeshi garment workers their lives, the Worker Rights Consortium, an independent labour-rights monitoring group, estimated that it would cost a total of \$3 billion to elevate each of Bangladesh's 5 000 garment factories to Western safety standards. If that \$3 billion were spread over five years, it would add an average of about ten cents to the price of a garment (Dudley, 2012). That evidence was enough to convince economist Paul Krugman, who once penned a defence of sweatshops entitled 'In Praise of Cheap Labor' (1997), that imposing 'modestly higher [safety] standards for all countries' can be achieved without undermining the competitive position of the export industries in the developing world (Krugman, 2013).

The Best of All Possible Worlds for Whom?

To his credit, when he is not hectoring activists, Powell does suggest some policies that sweatshop critics should support. Two of his suggestions are especially attractive. He proposes to pay parents to send their children to go to school rather than to send them to work. Also true to his libertarian convictions, Powell advocates relaxing immigration restrictions. Surely today's global economy, where capital is mobile and labour is not, would benefit from fewer restrictions on immigration.

Despite those suggestions, *Out of Poverty* remains above all else an attempt to show that today's global economy is the best of all possible worlds, even for sweatshop workers. Now that's extreme.

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BIOGRAPHICAL NOTE

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