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# Lesson 6 – What Should We Do About Sweatshops?

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*The students learn three approaches for dealing with moral problems and then use these approaches to analyze the ethical dilemmas in sweatshops.*

## OVERVIEW

### Economics

Sweatshops are often portrayed as the horrifying underbelly of the global textile and apparel industries. This lesson explains what a sweatshop is and distinguishes between two different types: one operating in a competitive labor market and the other in a coercive labor market. Each has different economic and ethical implications.

### Ethics

We can analyze sweatshops on the basis of ethical outcomes, ethical duties and ethical character or virtues. One of the compelling ethical arguments against sweatshops is that, in some cases, they deny workers the minimum basic treatment that all human beings should receive. This lesson explains why this result is often not the fault of markets but of inadequate systems of justice.

## LESSON DESCRIPTION

This lesson introduces the students to three main ways of analyzing moral problems. The students apply these approaches to evaluate sweatshops. First, the students discuss the elements that make up a sweatshop. Then they read an essay on economics and ethics that defines sweatshops, and discuss the reasons why sweatshops exist. Next the students answer questions that reinforce their knowledge of the structure of labor markets. They consider two opposing views about sweatshops and discuss the ethical implications of sweatshops for the workers themselves and for consumers in wealthier countries. Finally, the students discuss and evaluate three policy options for dealing with sweatshops.

## CONCEPTS

Competition  
Duty-based ethics  
Exploitation  
Gresham's law  
Human rights  
Justice  
Outcomes-based ethics  
Virtue-based ethics

## CONTENT STANDARDS

5. Voluntary exchange occurs only when all participating parties expect to gain. This is true for trade among individuals or organizations within a nation, and among individuals or organizations in different nations.
9. Competition among sellers lowers costs and prices, and encourages producers to produce more of what consumers are willing and able to buy. Competition among buyers increases prices and allocates goods and services to those people who are willing and able to pay the most for them.
10. Institutions evolve in market economies to help individuals and groups accomplish their goals. Banks, labor unions, corporations, legal systems, and not-for-profit organizations are examples of important institutions. A different kind of institution, clearly defined and enforced property rights, is essential to a market economy.
13. Income for most people is determined by the market value of the productive resources they sell. What workers earn depends, primarily, on the market value of what they produce and how productive they are.

## OBJECTIVES

The students will:

1. Identify the economic causes of sweatshops.
2. Distinguish two main types of sweatshop labor markets.
3. Describe three ethical approaches that people use to analyze moral problems.
4. Apply these ethical approaches to a discussion of sweatshops.
5. Evaluate three policy options for dealing with sweatshops.

## TIME REQUIRED

90 minutes

## MATERIALS

1. Visuals 6.1, 6.2, 6.3 and 6.4
2. One copy of Activities 6.1, 6.2 and 6.3 for each student
3. Three posters or sheets of paper. Write “Treaty” on one, “Market” on the second and “Take No Action” on the third.

## PROCEDURE

1. Tell the students that this lesson will help them understand what sweatshops are and how to evaluate them.
2. Explain that many people react to sweatshops without understanding the competing economic and ethical considerations. Ask the students to write a few sentences that describe what they think a sweatshop is. Discuss their descriptions.
3. Display Visual 6.1.
  - A. Discuss the workplace conditions that, in combination, make a factory a sweatshop. Tell the students that the mere presence of a condition does not necessarily constitute a sweatshop. A low wage,

for example, is not a sufficient reason to condemn a workplace. Otherwise, firms could not hire teenagers for summer work or part-time employment. The conditions listed on the Visual become abusive and result in a sweatshop when they occur in combination, are taken to an extreme and last a long time.

**B.** Go over the list of contributing factors. Make sure the students understand the impact of these factors on the workplace environment.

4. Distribute a copy of Activity 6.1 to each student. To save class time, you may assign this as homework reading. Tell the students to write the answers to the questions and be prepared to discuss their answers in class.
5. After the students have finished answering the questions, ask: “How would economists define a competitive labor market? How would they define a less-competitive labor market?” Display Visual 6.2 and go over the characteristics of each market. Emphasize that economists use the structure of a market as a key factor in determining the outcome of the market process — that is, to determine prices and quantities. In this case, the outcome is the wage rate and the number of workers that companies hire.
6. Discuss the answers to Questions 1 through 4 in Activity 6.1.

**Question 1:** What is exploitation? What characteristics make a relationship in the labor market exploitative?  
*Exploitation means workers are paid less than their productive contributions and are prevented from seeking better options. Exploitation can occur when only one business is hiring labor in an industry or a geographic area. It can also occur if businesses collude to keep out competition or gain control over labor from government. Exploitation can persist only if worker search costs are high, migration is*

*restricted and there are high barriers to entry of new firms. In essence, this exchange is coercive because other alternatives have been artificially blocked.*

**Question 2:** Are low wages in factories proof that firms are exploiting workers? Why? *No. A competitive market can result in low wages when the supply of labor is large relative to the demand. It is difficult for firms to exploit workers for very long in competitive markets because a productive yet underpaid worker will find better opportunities with other firms in the long run.*

**Question 3:** What key institutions may be missing in countries with less-competitive labor markets? *Countries with exploitative labor markets often don't have basic institutions of justice, a free press and representative government. Another key institution — competitive markets — is also typically missing.*

**Question 4:** How do labor markets in developing countries become more competitive? *Improvements in education, transportation and communication allow workers to more easily find better opportunities for themselves or their children. Removing government barriers that discourage competition and improving systems of justice are also important steps to improving the lives of poor workers.*

7. Display Visual 6.3. Tell the students that the table shows three ethical approaches people use when they debate public-policy issues such as sweatshops. Discuss these key points with the class:
  - Economists generally use the outcomes-based method of analysis. Being a good economist means examining not only what is visible (sweatshops) but also what may be invisible (extreme poverty in rural areas). For example, a rural worker probably won't have other job opportunities, so working in a sweatshop would be her best choice to improve her standard of living.

- Other ethical approaches enrich our understanding by drawing attention to what makes society civilized and just. The U.S. Declaration of Independence, for example, asserts that all human beings are endowed with certain “unalienable” rights. We have moral duties to other human beings regardless of the repercussions or consequences.

- Most parents want their children to develop good character traits. Most religions strive to teach virtuous conduct. Philosophers from Aristotle to Adam Smith emphasize character. Do sweatshops deprive workers of opportunities to develop excellence in their characters? Or, alternatively, do sweatshops offer opportunities for poor people to practice a work ethic and build character? Nobel laureate economist Milton Friedman notes that his immigrant family's success began when his mother was able to land a job in a New York City sweatshop.

8. Go over the answers to Questions 5, 6 and 7 in Activity 6.1.

**Question 5:** Which of the following features of sweatshops is most troubling from the perspective of virtue-based ethics?

- A. Workers receive very low wages.
- B. Workers do not have leisure or freedom to develop their characters.**
- C. Sweatshops exploit the desperate situation of their workers.
- D. Workers are not treated with respect.

**Question 6:** A duty-based approach to ethics settles moral decisions by

- A. weighing the consequences of an act.
- B. considering the greatest net pleasure that results from a particular decision.
- C. appealing to universal rules.**
- D. considering the decision maker's character and intentions.

**Question 7:** An outcomes-based approach to ethics judges actions by

- A. weighing the consequences for society.**

B. considering what maximizes one’s own happiness.

C. appealing to basic human rights.

D. considering the decision maker’s character and intentions.

9. Tell the students that they will read contrasting perspectives on the sweatshop experience. Distribute Activity 6.2. Ask the students to read it in class and write the answers to the questions.
10. When the students have finished, divide the class into groups of four or five students. Have one-third of the groups prepare to argue Question 1 from an outcomes-based perspective, one-third from a duty-based perspective and one-third from a virtue-based perspective. Allow five minutes for preparation. Give each group one minute for its presentation. Ask for and allow rebuttals from other groups.

**Question 1:** Sweatshops make it possible for wealthy consumers in developed countries to buy cheap products. Does this beneficial outcome make sweatshops morally justifiable? Why? Include in your answer the moral perspective from which you are arguing. *Answers will vary. Make sure the students understand the relevant ethical approaches. Tell them they don’t always need to give each approach equal weight or consideration, but they should come to understand that all three approaches offer perspectives on why some economic issues are so controversial. Critics of capitalism often use nonoutcomes-based arguments that economists find difficult to understand. It is not necessary for the students to think that each ethical approach should always be given equal weight or consideration.*

*An outcomes-based approach focuses on consequences. The outcome of low prices for U.S. consumers is a beneficial result. Even though pay in sweatshops is low, sweatshops create job opportunities in poor countries at*

*higher wages than workers received before.*

*Duty-based ethicists argue that inhumane workplace conditions violate basic human rights. So the “good” outcome for U.S. consumers and higher wages for poor workers are irrelevant because something more important is at stake. According to this view, the economic process must respect basic human dignity and human rights.*

*Virtue-based ethicists aren’t concerned with cheap prices of consumer products but with the development of character. Cheap products might simply contribute to materialism and the degradation of important cultural values. Sweatshops may not be consistent with the opportunity for people to develop a virtuous character.*

11. Discuss the answers to Questions 2 and 3 in Activity 6.2 with the students.

**Question 2:** If Americans refused to buy products made in countries that have sweatshops, who would benefit? Who would be hurt? Why? *If production of the products moved to the United States, owners of U.S. factories would benefit. American consumers would be hurt because they would pay higher prices. Workers in developing countries would be hurt because they would be unemployed or employed under worse conditions. If countries made less economic progress, the standard of living would be lower for their current and future citizens.*

**Question 3:** What can people in developed countries do to improve working conditions in developing countries? *Answers will vary and may include supporting monitoring of factories, promoting more world trade and competition, providing certification of manufacturing operations through trade organizations and providing aid to improve the infrastructure and environment of developing countries.*

12. Display and discuss Visual 6.4 as background for Activity 6.3. The Visual describes the Fair Labor Association's Workplace Code of Ethics and lists some participating companies. As of October 2006, FLA-certified manufacturers covered 3,500 factories around the world. Use this information to help the students understand the market solution to sweatshops in Question 5 on Activity 6.3.
13. Tell the students that they will evaluate and vote on three specific policy options for dealing with sweatshops. Distribute Activity 6.3 and have the students read it and write the answers to the questions. Then discuss the answers.

**Question 1:** If a treaty similar to the Geneva Convention established minimum working conditions in labor markets, what basic rights should the treaty provide for every worker around the world? *Answers will vary and may include the right to safe working conditions, freedom from physical or mental intimidation, regular toilet breaks, a maximum work day (for example, 12 hours), a maximum work week (for example, six days) and the right to organize union or choose not to join one.*

**Question 2:** What are the difficulties of requiring firms to pay all workers around the world a "living wage"? *In some competitive labor markets, firms may pay a low wage because of low productivity. An imposed "living wage" is a price floor, which causes a surplus of labor. Attempting to force a higher wage will simply result in workers losing their jobs. It is also next to impossible to determine what a living wage is. Many entrants to the labor market live with family members and can survive on a low wage. Others cannot, so paying a living wage to all employees would require firms to pay unequal wages to workers with equal skills.*

**Question 3:** In the United States, the Fair Labor Standards Act of 1938 sets basic working conditions that include

restricting child labor and requiring companies to pay employees a minimum wage and overtime if they work more than 40 hours a week. Should all other countries be required to match these standards? Why? *Determining the minimal conditions for employment is highly subjective. It is ethnocentric to assume that the standards of one country are perfect for all others. European countries have much stronger labor regulations than the United States, for example. The key problem is that many countries with sweatshops are very poor. The United States had many sweatshops when it was poor. It is problematic to say a poor country should have the same labor regulations as a richer country.*

**Question 4:** What are the advantages and disadvantages of using treaties to establish workers' rights? *Advantage: There is a level playing field for factories in all countries. Disadvantages: The countries with the worst labor conditions cannot be forced to sign the treaty. In addition, unless there is some mechanism of enforcement, a treaty could lack effective "teeth": Signing it would make a country look good but perhaps produce little change. Regulations also impose costs on businesses. When regulations are excessive, government regulators can be bribed, leading to greater corruption in society.*

**Question 5:** What are the advantages and disadvantages of using the market-monitoring approach to reform sweatshops? *Refer the students to Visual 6.4 if they need help understanding the market solution to sweatshops.*

*Advantages: Businesses listen to consumers. If people insist on improved labor conditions before they buy a product, companies would quickly adapt. This approach is non-coercive, relying instead on the business's own profit motive.*

*Disadvantages: In order for con-*

*sumers to react to sweatshop conditions, there must be a free press (or other mechanism) to report abuses. Even if consumers are informed, they may not be interested in sweatshops. Certification programs cost apparel makers money, which would likely mean higher prices for consumers. Many companies use subcontractors to provide textile products, and there may be a lack of transparency in these arrangements. Finally, different certifying organizations may have contradictory standards (for example, whether there should be a living wage), making it difficult for both producers and consumers. Manufacturers may feel intimidated or blackmailed by certifying organizations, which may have the ability to put them out of business.*

**Question 6:** What are the advantages and disadvantages of using the take-no-action approach to reforming sweatshops? *Advantages: An action might harm sweatshop workers. Foolish acts motivated by good intentions may not make things better, and could make things worse. When the United States was poor, it had many sweatshops. Economic growth, along with social legislation, fixed the problem over time. Clearly, people should be alert to the dangers of ethnocentrism and moral relativism when they evaluate each opportunity for intervention in overseas affairs. Disadvantages: If moral conscience is deeply aroused, doing nothing seems a morally intolerable solution. Standing by to watch human-rights abuses can be a short-sighted approach. Doing nothing may result in capitalism developing a bad image, and this could result in much stricter government controls and intrusion later. One can never have perfect information, so requiring perfect information before acting guarantees only paralysis.*

14. Tell the students they will vote on their preferred policy regarding sweatshops. Remind them that critical thinking means weighing arguments and reaching an independent conclusion for themselves. Place on the floor three large posters or sheets of paper with “Treaty” written on one, “Market” on the second and “Take No Action” on the third. Ask the students to stand near the poster with the policy they find most convincing and briefly explain why they selected this option. *Answers will vary based on the previous discussions.*

### CLOSURE

15. Help the students understand that economic and moral problems are usually more complex than they first appear. Explain that simplistic solutions create their own sets of problems. The role of an economist is to see what is hidden as well as what is visible. An economist can help assess costs and benefits using an outcomes-based approach. Other ethical approaches based on duty and virtue help people evaluate important issues and thereby create a better society.

**The bottom line:** Sweatshops exist because of economic and other conditions. If a sweatshop is profitable, the pursuit of profit will eventually lead to imitation and rivalry, pushing up wages if the market is competitive. When there is a large influx of unskilled workers from rural areas, however, this process can take decades.

Pursuing other ethical approaches can improve some factory conditions but not others and may create new complications such as higher unemployment. A key problem in many countries is the lack of a fair system of justice.

**ASSESSMENT****Multiple-Choice Questions**

6.1. Which of the following is NOT a characteristic of sweatshops?

**A. Sweatshops are workplaces that always earn high profits.**

B. Sweatshops are factories where people work long hours under unhealthy or unsafe working conditions.

C. Sweatshops are workplaces where people can be subjected to intimidation and violence.

D. Sweatshops are workplaces that do not treat workers with dignity.

6.2. Sweatshop conditions are often said to result from

A. a transparent working environment in which outsiders can monitor conditions.

B. the tendency of people to work together, no matter how bad the conditions may be.

**C. a large rural population, heavy population density and high rates of poverty.**

D. the tropical climate of some workplaces.

6.3. According to an economic view, exploitation is a condition that arises in what type of labor market?

A. Markets with a lot of competition

B. Markets with fewer workers than the number of available jobs

C. Markets with many employers

**D. Markets with little competition**

**Essay Questions**

6.1 Do sweatshops prove that firms exploit workers in developing countries? Why? **Not necessarily. Owners of firms are seeking profits, and employees are seeking the best available opportunities. In circumstances of extreme poverty and massive unemployment, a low wage is not proof of exploitation. While the market wage and benefit package can be barely suf-**

**icient to sustain life, it is sometimes all that keeps families alive. Corrupt, weak and undemocratic governments may also fail to protect the poor. Exploitation occurs in less competitive labor markets when employers collude to set wages or use violence to intimidate the flow of labor or restrain the entry of new opportunities for labor. Such situations illustrate that markets can work for the benefit of people and society only when a country has an effective and fair system of justice. Consumers can also more easily ignore the conditions in exploitative sweatshops if poverty keeps workers nameless and faceless.**

6.2 Analyze the advantages and disadvantages of three policy options regarding sweatshops. Which solution do you favor and why? **The three options could be: a) a global treaty, b) market monitoring and c) doing nothing. The advantages and disadvantages of each are addressed in the answers to the questions in Activity 6.3.**

**GOING FURTHER****Do Your School's Sweatshirts Come from Sweatshops?**

- Have the students visit their school store and try to identify where the school T-shirts and other apparel items are made. Do the labels identify the country of origin? Does the school shop participate in any factory-certification group such as the Fair Labor Association or the Worker Rights Consortium? Why?

- Many university shops adhere to one or more certifying codes. For a discussion of one school's policies, see Northwestern University's approach to licensing at [http://www.univsvcs.northwestern.edu/trademark/fla\\_wrc.htm](http://www.univsvcs.northwestern.edu/trademark/fla_wrc.htm)

**Certification Associations:** A number of third-party groups, many of which are nonprofit organizations, have been created to monitor human-rights violations related to factories. Have the students visit the Web site of one of these groups and find a copy of its code of con-

duct or ethics.

- Fair Labor Association  
(<http://www.fairlabor.org>)
- Worker Rights Consortium  
(<http://www.workersrights.org/>)
- Collegiate Licensing Company  
(<http://www.clc.com/clcweb/publishing.nsf/Content/Home.html>)
- Ethical Trading Initiative  
(<http://www.ethicaltrade.org/>)

**Research a Company:** Have the students visit the Fair Labor Association's Web site and research a particular country or company. (For a list of company participants, go to <http://www.fairlabor.org/all/companies/index.html>) If possible, have the students interview a company executive to discuss the business perspective on certification programs.

**Additional Resources:** For general information and additional readings on the sweatshop debate, have the students visit two academic Web sites devoted to this issue:

- In opposition to sweatshops: Scholars against Sweatshop Labor (SASL)  
<http://www.umass.edu/peri/sasl>
- In support of sweatshops: Academic Consortium on International Trade (ACIT)  
<http://www.fordschool.umich.edu/rsie/acit>

## VISUAL 6.1

### FEATURES OF SWEATSHOPS

#### **Workplace Conditions**

- Low wages
- Long work hours
- Health and/or safety hazards
- Arbitrary discipline by managers or owners
- No job security
- Physical abuse, threats and intimidation
- Workers have no voice in government
- Child labor

(**Note:** These conditions result in a sweatshop when they occur in combination, are taken to an extreme and last a long time.)

#### **Contributing Factors**

- Dense populations
- Limited education
- High unemployment
- Few job alternatives
- Extreme poverty
- Workers with low productivity
- No social safety net
- Corrupt, weak or undemocratic government
- Secrecy and lack of workplace transparency, often in places without a free press
- No system of justice to protect basic rights
- Consumer ignorance about or neglect of the plight of sweatshop workers

## VISUAL 6.2

### MARKET STRUCTURES

#### COMPETITIVE LABOR MARKET

##### Characteristics

- Many buyers of labor
- Many sellers of labor
- Free entry or exit
- Voluntary exchange
- Good information for both buyers and sellers

##### Economic Prediction

Firms are forced to pay the equilibrium wage determined by supply and demand. Wages reflect workers' contributions; otherwise, workers who feel exploited are able to find better jobs.

#### LESS-COMPETITIVE LABOR MARKET

##### Characteristics

- One buyer of labor or collusion of several buyers acting as one
- Many sellers of labor
- Entry of competing firms blocked
- High costs for workers to search for jobs
- Coercive exchange because other job options for workers are artificially blocked
- Asymmetric (one-sided) information or bargaining power

##### Economic Prediction

Wages are set below competitive equilibrium. Firms exploit workers because they pay the workers less than the value of their marginal contributions. Exploitation can persist if workers have trouble finding other jobs and problems in the justice system aren't resolved.

## VISUAL 6.3

### APPROACHES TO ETHICAL ISSUES

Ethical Approach	To Determine Whether Sweatshops Are Helpful or Harmful	Consider
Outcomes matter. (Outcomes-based ethics)	Examine the outcomes in people's lives	<ul style="list-style-type: none"> <li>• Impact on workers' standard of living</li> <li>• Opportunity costs</li> </ul>
Duty matters. (Duty-based ethics)	Ask whether the basic dignity of all human beings is upheld. The process, particularly whether anyone's human rights are violated, is key.	<ul style="list-style-type: none"> <li>• U.S. Declaration of Independence</li> <li>• Geneva Convention for Treatment of Prisoners of War</li> </ul>
Character matters. (Virtue-based ethics)	Decide whether sweatshops contribute to the formation of good character and virtues for workers, managers and consumers	<p>“The superior person understands what is moral. The small person understands what is profitable.”</p> <p style="text-align: right;">— Confucius</p>

## VISUAL 6.4

### THE MARKET APPROACH: APPAREL-INDUSTRY CERTIFICATION

Many consumers would like to buy products made under acceptable working conditions. One way to provide this information is for independent associations to certify factories that meet basic standards.

The Fair Labor Association (FLA) is one apparel-industry certification group. Participants include Adidas-Salomon, Eddie Bauer Inc., Gear for Sports, Gildan Activewear, Nike, Outdoor Cap, Patagonia Inc., Phillips-Van Heusen Corp., Puma, Reebok International and 194 colleges, universities and secondary schools in the United States and Canada with more than 1,900 licensees.

FLA members agree to abide by the association's Workplace Code of Conduct, which prohibits

- forced labor, including prison labor
- child labor
- physical, sexual, psychological and verbal harassment and abuse
- discrimination on the basis of gender, race, religion, age, disability, sexual orientation, nationality, political opinion or social or ethnic origin
- unsafe and unhealthy working conditions

The code also requires participants to

- recognize and respect the right of employees to bargain collectively
- pay employees the local or industry minimum wage
- provide workers with legally required benefits
- maintain reasonable hours of work and give employees one day off each week
- pay employees for working overtime

## ACTIVITY 6.1

### SWEATSHOPS AND LABOR MARKETS

**Directions:** Read the information in each section, and write the answers to the questions. Be prepared to discuss your answers with the class.

What are sweatshops? In general, sweatshops are factories that operate under poor working conditions — arguably in violation of basic human rights. These conditions may include the use of child labor, health and/or safety hazards, extremely low wages, excessively long hours, arbitrary discipline, physical abuse, threats and intimidation. A sweatshop does not necessarily exist if one or two of these conditions are present for a limited period, but a factory is a sweatshop if it has a persisting combination of many of these characteristics.

Sweatshops sometimes exist in developed countries, including the United States, but they are most common in less-developed nations, particularly in Asia and Latin America. Textile and apparel factories supply goods to larger corporations, many of which are household names. These larger companies sell the goods to consumers. To keep the companies' business, factories must often compete fiercely with each other on the basis of price.

Are low wages in factories proof that workers are exploited? To answer this question, economists study the structure of markets and ask some key questions: How many buyers of labor are in the market? How many sellers? Is there free entry and exit? Do workers have options?

### COMPETITIVE LABOR MARKETS

A competitive labor market is characterized by a number of firms separately and independently bidding for the services of labor. Experimental data indicate that the number of firms in the market need not be large, as long as the firms bid independently. Likewise, workers separately and independently compete for jobs. The equilibrium wage rate is the wage that clears the market so that supply and demand are balanced.

Low wage rates can exist in competitive labor markets that have high levels of poverty and unemployment and a lack of education. Low wages are a sign that workers have low skill levels and low productivity. Workers can seek jobs from employers that pay more, but until the workers improve their skills, natural forces will hold down wages.

## ACTIVITY 6.1 (continued)

# SWEATSHOPS AND LABOR MARKETS

### LESS-COMPETITIVE LABOR MARKETS

A less-competitive labor market is characterized by only one firm or by a cartel of firms bidding together for labor. Without the force of competition, employers can set wage rates below a worker's worth, artificially holding wages down. Exploitation occurs when employers pay workers a wage below the true value of the workers' contributions as measured by their productivity.

In the early history of capitalism, workers frequently feared — and often faced — collusion among employers. Collusion can include blacklisting workers who try to switch jobs or form unions. This caused Adam Smith, the founder of modern economics, to write that anyone who doubts employers collude “is as ignorant of the world as of the subject.” Smith went on to say that employers in his day “are always and everywhere in a sort of tacit, but constant and uniform combination . . . to sink the wages of labour . . .” (Adam Smith, *The Wealth of Nations*, eds. R.H. Campbell and A.S. Skinner, Indianapolis: Liberty Press, 1981 [1776], 84) The formation of labor unions was a natural response to this.

Smith's solution to collusion was to promote active and open competition, which forces employers to pay workers the market value of their labor. Most workers in developed countries have access to the Internet, cell phones and fast transportation. Thus they have the ability to take their labor to the highest bidder. But modern labor markets can still lack competition for several reasons:

#### 1. Workers face high search costs.

Most of the world's poor are illiterate and live in rural areas. Such factors make it difficult for these workers to search for better opportunities. Additional factors may contribute to this problem:

- Communication and roads are inadequate, and workers lack motorized transportation. Unless workers migrate away from their families, their daily job search is limited to the area they can reach on foot in two or three hours.
- In many Latin American countries, land ownership is highly concentrated. It is difficult for rural workers to find competing employers. Workers still have the option to migrate. However, rural families may be in permanent debt to the landowner, who also owns the local store. Workers in these families cannot leave without facing arrest, yet staying means getting deeper in debt (and debts are transferred to children).
- Asymmetric (one-sided) information or bargaining power may exist. Workers may be unaware of labor laws that provide certain rights such as minimum wages, limited

## ACTIVITY 6.1 (continued)

### SWEATSHOPS AND LABOR MARKETS

hours and rest breaks. Employers may prevent workers from forming unions to counter the bargaining power of the firm.

- Finally, employers have used violence to intimidate workers and members of the press who attempt to raise questions about coercive labor conditions.

#### **2. Competitive firms cannot enter.**

A firm with monopoly power in the labor market can block others from entering if the firm owns all the land in a region and refuses to sell. A business can also use political power to limit competition in the labor market. This occurred in the Philippines under President Ferdinand Marcos when the government gave a company run by the president's close friend an exclusive contract to buy copra, the juicy meat of coconut. ("Mr. Marcos's 'Capitalism,'" *The Wall Street Journal*, July 1, 1985) Companies or government officials can also use intimidation and violence to discourage competitive firms from entering the market.

### JUSTICE AND COMPETITION

Countries in which companies do not compete for workers probably don't have basic institutions of justice and democratic representation. In these countries, businesses control the levers of justice, and no rule of law protects citizens from arbitrary acts. According to Adam Smith, justice is the "main pillar" without which society would "crumble into ashes" (Adam Smith, *The Theory of Moral Sentiments*, eds. D.D. Raphael and A.L. Macfie, Indianapolis: Liberty Press, 1982 [1759]). Smith was a strong supporter of markets as a mechanism for helping the poor rise out of poverty. But for markets to help, there must first be institutions of justice. The government itself must be made to follow the rule of law. Workers must also have a voice in governing the nation through a fair vote on its laws.

## ACTIVITY 6.1 (continued)

### SWEATSHOPS AND LABOR MARKETS

#### Questions

1. What is exploitation? What characteristics make a relationship in the labor market exploitative?
2. Are low wages in factories proof that firms are exploiting workers? Why?
3. What key institutions may be missing in countries with less-competitive labor markets?
4. How do labor markets in developing countries become more competitive?

## ACTIVITY 6.1 (continued)

### SWEATSHOPS AND LABOR MARKETS

#### ETHICAL APPROACHES TO PROBLEMS

In Western society there are three main ways of analyzing ethical problems: outcomes, duty and character.

#### ETHICAL APPROACHES TO SWEATSHOPS

Ethical Approach	To Determine Whether Sweatshops Are Helpful or Harmful	Consider
Outcomes matter. (Outcomes-based ethics)	Examine the outcomes in people's lives	<ul style="list-style-type: none"> <li>• Impact on workers' standard of living</li> <li>• Opportunity costs</li> </ul>
Duty matters. (Duty-based ethics)	Ask whether the basic dignity of all human beings is upheld. The process, particularly whether anyone's human rights are violated, is key.	<ul style="list-style-type: none"> <li>• U.S. Declaration of Independence</li> <li>• Geneva Convention for Treatment of Prisoners of War</li> </ul>
Character matters. (Virtue-based ethics)	Decide whether sweatshops contribute to the formation of good character and virtues for workers, managers and consumers	<p>“The superior person understands what is moral. The small person understands what is profitable.”</p> <p style="text-align: right;">— Confucius</p>

## ACTIVITY 6.1 (continued)

### SWEATSHOPS AND LABOR MARKETS

#### Questions

5. Which of the following features of sweatshops is most troubling from the perspective of virtue-based ethics?
- A. Workers receive very low wages.
  - B. Workers do not have the leisure or freedom to develop their characters.
  - C. Sweatshops exploit the desperate situation of their workers.
  - D. Workers are not treated with respect.
6. A duty-based approach to ethics settles moral decisions by
- A. weighing the consequences of an act.
  - B. considering the greatest net pleasure that results from a particular decision.
  - C. appealing to universal rules.
  - D. considering the decision maker's character and intentions.
7. An outcomes-based approach to ethics judges actions by
- A. weighing the consequences for society.
  - B. considering what maximizes one's own happiness.
  - C. appealing to basic human rights.
  - D. considering the decision maker's character and intentions.

## ACTIVITY 6.2

### TWO PERSPECTIVES ON SWEATSHOPS

**Directions:** Read the two perspectives on sweatshops and write the answers to the questions. Be prepared to discuss your answers with the class.

#### PERSPECTIVE 1

##### **Anh Tien and the Harmony Delight Company**

By Martin Calkins, University of Massachusetts-Boston

(**Note:** This is a fictional case study based on accounts of real-life experiences.)

Anh Tien is a 16-year-old girl from a farming village in Vietnam. Bright and industrious, Anh has worked hard since she was a small child on one of the local farms. However, a prolonged drought caused Anh to lose her job, and there are few other opportunities in the isolated rural area. Complicating matters, her grandmother became ill, and Anh felt increasing pressure to contribute financially to her family.

Anh's friend, Linh Nguyen, came to visit the village one day. Linh had recently moved to the city and found a job in a porcelain factory. She told Anh about the city and the people streaming into it from rural villages such as theirs. Linh said the city was a tough place, but she was glad to have found a job since jobs were scarce. Her work was demanding, but not nearly as bad as the work in a textile factory that she heard about. Anh decided to leave and take Linh's offer to stay at Linh's place in the city until she could find work.

Anh's first days were most unpleasant. The filth, noise, smell and press of the crowds were nearly overwhelming. She saw beggars everywhere and groups of loitering young people. Anh preferred to stay indoors, but Linh's roommates objected to her constant presence. One even suggested that Anh look for work at Harmony Delight Company, the textile manufacturer with the horrible work conditions. With no other job prospects, Anh decided to check out Harmony Delight.

Anh walked into Harmony Delight and was greeted by a surly man who turned out to be the foreman. He asked what she wanted, and Anh replied that she was looking for work. The foreman said Harmony Delight did not have anything for her. As she started to walk away, the foreman said, almost in passing, that the factory might need someone to attend to one of the spinning lines. Anh jumped at the prospect and soon found herself in front of a large contraption.

Her job was simple: She had to make sure the threads coming out of the machine were untangled. The job was easy to understand, but demanding. Anh was not

## ACTIVITY 6.2 (continued)

### TWO PERSPECTIVES ON SWEATSHOPS

allowed to sit down, and she was in constant contact with the material the machine produced. Within a few hours, Anh was covered in fiber and tired of standing. Her hands were red and sore from the friction of the moving threads, and she had to go to the bathroom. Knowing she should not leave the machine unattended, Anh asked the foreman to give her a break. His response took her by surprise: She could not leave her workspace and could use the bathroom only during her short lunch break. In great discomfort, Anh remained at her post.

In late afternoon, Anh thought quitting time must be at hand. Her feet and back were aching, her fingers were blistering and her eyes were puffy from the airborne fiber. As darkness set in, however, there was no move to end work. It was 11:00 p.m. when the foreman finally dismissed Anh for the day. He told her to reappear, ready to work, at 7:00 a.m. She dragged herself to Linh's apartment and collapsed on the space on the floor that she called her own.

The next day Anh arrived at Harmony Delight at 7:00 a.m. To her surprise, there was a line of people at the gate looking for work. She immediately realized these people wanted her job, so she scurried to her post, feeling grateful. Her gratitude, however, was soon replaced by the same numbing fatigue she experienced the previous day.

As days and weeks wore on, Anh pushed herself to become a steady employee six days a week. She worked seven days when times were particularly tight back home. Her \$2-a-day wage could buy food or medicine for her grandmother. Although she was only 16, Anh had circles under her eyes, and her hands were as calloused as those of the old farmers back home. She had seen things at the factory she never would have imagined. The foreman regularly beat laggards. Sometimes the air was clouded with fiber. Anh had heard the dust could explode if one of the machines emitted a spark. Although she wasn't making much money, her income was better than no income at all. And she always saved enough to send something to her family to keep them from starving. If only she could sit down once in awhile.

## ACTIVITY 6.2 (continued)

### TWO PERSPECTIVES ON SWEATSHOPS

#### PERSPECTIVE 2

##### **Two Cheers For Sweatshops** (excerpt)

By Nicholas Kristof and Sheryl WuDunn

*The New York Times*, September 24, 2000

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Nothing captures the difference in mind-set between East and West more than attitudes toward sweatshops. Nike and other American companies have been hammered in the Western press over the last decade for producing shoes, toys and other products in grim little factories with dismal conditions. Yet sweatshops that seem brutal from the vantage point of an American sitting in his living room can appear tantalizing to a Thai laborer getting by on beetles.

The truth is, those grim factories in southern China contributed to a remarkable explosion of wealth. Wages have risen from about \$50 a month to \$250 a month or more today. Factory conditions have improved as businesses have scrambled to attract and keep the best laborers.

In fact, the most vibrant parts of Asia are nearly all in what might be called the Sweatshop Belt, from China and South Korea to Malaysia, Indonesia and even Bangladesh and India. Today these sweatshop countries control about one-quarter of the global economy. As the industrial revolution spreads through China and India, there are good reasons to think that Asia will continue to pick up speed. Some World Bank forecasts show Asia's share of global gross domestic product rising to 55 to 60 percent by about 2025 — roughly the West's share at its peak half a century ago. The sweatshops have helped lay the groundwork for a historic economic realignment that is putting Asia back on its feet.

Of course, it may sound silly to say that sweatshops offer a route to prosperity, when wages in the poorest countries are sometimes less than \$1 a day. Still, for an impoverished Indonesian or Bangladeshi woman with a handful of kids dying of mundane diseases like diarrhea, \$1 or \$2 a day can be a life-transforming wage.

In Cambodia, a large mosquito net costs \$5. If there had been a sweatshop in the area, however harsh or dangerous, [many young girls] would have leapt at the chance to work in it, to earn enough to buy a net big enough to cover all her children.

## ACTIVITY 6.2 (continued)

### TWO PERSPECTIVES ON SWEATSHOPS

Sweatshop monitors do have a useful role. They can compel factories to improve safety. They can also call attention to the impact of sweatshops on the environment. The greatest downside of industrialization is not exploitation of workers but toxic air and water. In Asia each year three million people die from the effects of pollution. The factories springing up throughout the region are far more likely to kill people through the chemicals they expel than through terrible working conditions.

By focusing on these issues, by working closely with organizations and news media in foreign countries, sweatshops can be improved. But refusing to buy sweatshop products risks making Americans feel good while harming those we are trying to help. As a Chinese proverb goes, “First comes the bitterness, then there is sweetness and wealth and honor for 10,000 years.”

#### Questions

1. Sweatshops make it possible for wealthy consumers in developed countries to buy cheap products. Does this beneficial outcome make sweatshops morally justifiable? Why? Include in your answer the moral perspective from which you are arguing.

2. If Americans refused to buy products made in countries that have sweatshops, who would benefit? Who would be hurt? Why?

3. What can people in developed countries do to improve working conditions in developing countries?

## ACTIVITY 6.3

### WHAT SHOULD WE DO ABOUT SWEATSHOPS?

**Directions:** Read the information below and write the answers to the questions. Be prepared to discuss the answers in class.

Any attempt to reform sweatshops through government regulation runs into Gresham's law: weak regulators will drive out strict regulators. Consider this example: If Vietnam established strong labor standards for protecting worker rights, this could lead textile companies to close factories in Vietnam and reopen them in Cambodia where regulations are weaker. Strict but piecemeal regulation of labor cannot succeed as long as capital is freely mobile.

#### OPTION 1: INTERNATIONAL TREATY

One option is to have all countries agree on the rules of the economic game. This is the approach the World Trade Organization takes when its member nations negotiate international trade treaties — some of which include labor-market regulations. Countries have also used international treaties to establish a legal framework for environmental rules across national boundaries. The Geneva Convention is an example of a duty-based approach established by international treaty: Prisoners of war have the basic rights to food, shelter, health care, protection from torture and dignity.

#### Questions

1. If a treaty similar to the Geneva Convention established minimum working conditions in labor markets, what basic rights should the treaty provide for every worker around the world?

### ACTIVITY 6.3 (continued)

## WHAT SHOULD WE DO ABOUT SWEATSHOPS?

2. What are the difficulties of requiring firms to pay all workers around the world a “living wage”?

3. In the United States, the Fair Labor Standards Act of 1938 sets basic working conditions that include restricting child labor and requiring companies to pay employees a minimum wage and overtime if they work more than 40 hours a week. Should all other countries be required to match these standards? Why?

4. What are the advantages and disadvantages of using treaties to establish workers’ rights?

## ACTIVITY 6.3 (continued)

### WHAT SHOULD WE DO ABOUT SWEATSHOPS?

#### OPTION 2: MARKETS AND MONITORING

Instead of using government regulations to reform sweatshops, consumers could “vote” their preferences by refusing to buy goods from companies that fail to provide acceptable working conditions. Since consumers may lack basic information about factory conditions, third-party groups (many of which are nonprofit organizations) have been created to determine where the goods are produced, inspect factories and monitor human-rights violations. Many university students took a role in this process by insisting that their schools buy apparel such as sweatshirts made only in approved factories.

By increasing the demand for certified apparel, the market provides an economic incentive for companies to voluntarily introduce better working conditions. For this option to be effective, business relationships must be transparent: Uncertified Factory A can’t attach to its clothing an apparel tag from certified Factory B.

#### Question

5. What are the advantages and disadvantages of using the market-monitoring approach to reform sweatshops?

## ACTIVITY 6.3 (continued)

### WHAT SHOULD WE DO ABOUT SWEATSHOPS?

#### OPTION 3: TAKE NO ACTION

A final approach is to take no action. Over the past 20 years, living standards have risen rapidly in countries where sweatshops help people overcome rural poverty. Interfering with the lives of strangers can have unintended negative consequences on economic, social and political processes. Noble intentions don't necessarily ensure excellent outcomes.

Ethnocentrism is the mistaken view that the customs governing your society should govern all societies. For example, if child labor is outlawed in a rich country, it should also be outlawed in a poor country. On the other hand, moral relativism is the equally mistaken position that all indigenous practices are morally valid.

#### Question

6. What are the advantages and disadvantages of using the take-no-action approach to reforming sweatshops?



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