

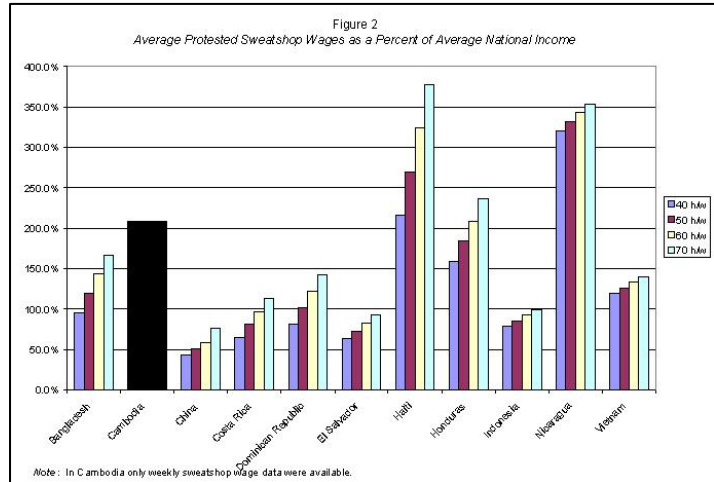
Sweatshops / Child Labor (2/20/2012)

Econ 390-001

Principles

- Sweatshops intuitively appear bad, unfair, and immoral.
- We are accustomed to much higher wages and appreciably better working conditions.
 - Sweatshop workers don't actually have that option.
 - Their next best alternative is something much worse (lower wages, harsher conditions, or both).
 - Many workers previously were farm laborers with longer hours and subsistence wages.
 - The choice of children is not between labor and school.
 - Instead it can be between child labor and starving.

- Fallacy of seen & unseen
 - sweatshop conditions
 - highly visible
 - caused by buyers
 - next best alternative
 - less obvious
 - unrelated to buyers
- Next best alternative
 - subsistence farming
 - scavenging for trash
 - prostitution
 - etc.



- Workers voluntarily choose sweatshops.
 - Working in sweatshops is their best alternative to eat and improve their lives.
 - 70 hour work week is normal.
- Figure 2 (protested sweatshops)
 - In 9 of 11 countries checked, sweatshop wages exceeded average income.
 - In Cambodia, Haiti, Nicaragua, & Honduras: sweatshop wages > double average income.
- Wages
 - The maximum each worker is paid is his productivity.
 - Otherwise the company would be taking a loss on each worker hired.
 - The minimum each worker is paid is his next best alternative.
 - Otherwise the worker would take a different job.
 - $w_{alt} < w < P_g MPL_g$
 - $w_{alt} \equiv$ best alternative wage
 - $w \equiv$ sweatshop wage
 - $P_g \equiv$ sweatshop good price
 - $MPL_g \equiv$ marginal product
 - Wages are low in the third world because productivity is low.
 - Insisting on wages above productivity (so-called "fair wages") makes workers unemployable.
- Benefits
 - Sweatshop owners are indifferent between providing wages and benefits of the same value.
 - Possible benefits
 - health
 - safety
 - comfort
 - longer breaks
 - fewer working hours

- Comfort and safety is a normal good, which means as income goes up workers demand more.
 - Because their wages are low, workers demand most of their compensation in wages.
- When sweatshops are forced to provide better working conditions they must lower wages.
 - This makes workers worse off because they would have preferred the wages.
- Anti-sweatshop movement
 - Violating labor standards determines whether a factory is a sweatshop.
 - no child labor
 - minimum wages
 - occupational safety
 - maximum hours
 - protesters (all in 1st world countries):
 - unions
 - student groups
 - politicians
 - celebrities
 - religious groups
 - Some of anti-sweatshop groups want to prohibit imports from sweatshops.
 - Good intentions, bad results.
 - Boycotting sweatshop goods hurts the “exploited” workers.
 - Boycotts and import bans reduce demand for the product.
 - Reduces demand for workers.
 - Cuts wages by lowering the product price.
 - “Someone who intentionally gets you fired is not your friend.” – David Henderson
 - Mandated benefits hurts the “exploited” workers.
 - Minimum wages or mandated benefits raise compensation.
 - Perhaps above productivity.
 - Employers will respond by laying off workers.
 - To afford benefit mandates they will cut wages.
 - In 1993 Senator Tom Harkin proposed banning imports from countries that had child labor.
 - In response a factory in Bangladesh laid off 50,000 workers.
 - Many of them became prostitutes.
- Real solutions
 - Shutting down sweatshops is not the best way to lift workers out of poverty.
 - The best ways for countries to fix their institutions.
 - Respect private property and the rule of law.
 - Good institutions encourage entrepreneurs to invest in more factories.
 - More sweatshops and other opportunities will bid up wages.
 - Experience increases workers’ productivity.