SWEATSHOPS AND BRIBERY

The Great Non-Debate over International Sweatshops

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In recent years, there has been a dramatic growth in the contracting out of production by companies in the industrialized countries to suppliers in developing countries. This globalization of production has led to an emerging international division of labor in footwear and apparel in which companies like Nike and Reebok concentrate on product design and marketing but rely on a network of contractors in Indonesia, China, Central America, and the like, to build shoes or sew shirts according to exact specifications and deliver a high-quality good according to precise delivery schedules. As Nike's vice president for Asia has put it, "We don't know the first thing about manufacturing. We are marketers and designers."

The contracting arrangements have drawn intense fire from critics—usually labor and human rights activists. These "critics" (as I will refer to them) have charged that the companies are (by proxy) exploiting workers in the plants (which I will call "international sweatshops") of their suppliers. Specifically the companies stand accused of chasing cheap labor around the globe, failing to pay their workers living wages, using child labor, turning a blind eye to abuses of human rights, being complicit with repressive regimes in denying workers the right to join unions and failing to enforce minimum labor standards in the workplace, and so on.

The campaign against international sweatshops has largely unfolded on television and, to a lesser extent, in the print media. What seems like no more than a handful of critics has mounted an aggressive, media-savvy campaign which has put the publicity-shy retail giants on the defensive. The critics have orchestrated a series of sensational "disclosures" on prime time television exposing the terrible pay and working conditions in factories making jeans for Levi's or sneakers for Nike or Pocahontas shirts for Disney. One of the principal scourges of the companies has been Charles Kernaghan who runs the National Labor Coalition (NLC), a labor human rights group involving 25 unions. It was Kernaghan who, in 1996, broke the news before a Congressional committee that Kathie Lee Gifford's clothing line was being made by 13- and 14-year-olds working 20-hour days in factories in Honduras. Kernaghan also arranged for teenage workers from sweatshops in Central America to testify before congressional committees about abusive labor practices. At one of these hearings, one of the workers held up a Liz Claiborne cotton sweater identical to ones she had sewn since she was a 13-year-old working 12-hour days. According to a news report, "[t]his image, accusations of oppressive conditions at the factory and the Claiborne logo played well on that evening's network news." The result has been a circus-like atmosphere—as in Roman circus where Christians were thrown to lions.

Kernaghan has shrewdly targeted the companies' carefully cultivated public images. He

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has explained: "Their image is everything. They live and die by their image. That gives you a certain power over them." As a result, he says, "these companies are sitting ducks. They have no leg to stand on. That's why it's possible for a tiny group like us to take on a giant like Wal-Mart. You can't defend paying someone 31 cents an hour in Honduras. . . ."[1] Apparently most of the companies agree with Kernaghan. Not a single company has tried to mount a serious defense of its contracting practices. They have judged that they cannot win a war of soundbites with the critics. Instead of making a fight of it, the companies have sued for peace in order to protect their principal asset—their image.

Major U.S. retailers have responded by adopting codes of conduct on human and labor rights in their international operations. Levi-Strauss, Nike, Sears, J.C. Penney, Wal-Mart, Home Depot, and Philips Van-Heusen now have such codes. As Lance Compa notes, such codes are the result of a blend of humanitarian and pragmatic impulses: "Often the altruistic motive coincides with 'bottom line' considerations related to brand name, company image, and other intangibles that make for core value to the firm."[2] Peter Jacobi, President of Global Sourcing for Levi-Strauss has advised: "If your company owns a popular brand, protect this priceless asset at all costs. Highly visible companies have any number of reasons to conduct their business not just responsibly but also in ways that cannot be portrayed as unfair, illegal, or unethical. This sets an extremely high standard since it must be applied to both company-owned businesses and contractors. . . ."[3] And according to another Levi-Strauss spokesman, "In many respects, we're protecting our single largest asset: our brand image and corporate reputation."[4] Nike recently published the results of a generally favorable review of its international operations conducted by former American U.N. Ambassador Andrew Young.

Recently a truce of sorts between the critics and the companies was announced on the White House lawn with President Clinton and Kathie Lee Gifford in attendance. A presidential task force, including representatives of labor unions, human rights groups and apparel companies like L.L.Bean and Nike, has come up with a set of voluntary standards which, it hopes, will be embraced by the entire industry. Companies that comply with the code will be entitled to use a "No Sweat" label.

OBJECTIVE OF THIS PAPER

In this confrontation between the companies and their critics, neither side seems to have judged it to be in its interest to seriously engage the issue at the heart of this controversy, namely: What are appropriate wages and labor standards in international sweatshops? As we have seen, the companies have treated the charges about sweatshops as a public relations problem to be managed so as to minimize harm to their public images. The critics have apparently judged that the best way to keep public indignation at boiling point is to oversimplify the issue and treat it as a morality play featuring heartless exploiters and victimized Third World workers. The result has been a great nondebate over international sweatshops. Paradoxically, if peace breaks out between the two sides, the chances that the debate will be seriously joined may recede still further. Indeed, there exists a real risk (I will argue) that any such truce may be a collusive one that will come at the expense of the very Third World workers it is supposed to help.

This paper takes up the issue of what are appropriate wages and labor standards in international sweatshops. Critics charge that the present arrangements are exploitative. I proceed by examining the specific charges of exploitation from the standpoints of both (a) their factual and (b) their ethical sufficiency. However, in the absence of any well-established consensus among business ethicists (or other thoughtful observers), I simultaneously use the investigation of sweatshops as a setting for trying to adjudicate between competing views about what those standards should be. My examination will pay particular attention to (but will not be limited to) labor conditions at the plants of Nike's suppliers in Indonesia. I have not personally visited any international sweatshops, and so my conclusions are based entirely on secondary analysis of the voluminous published record on the topic.

WHAT ARE ETHICALLY APPROPRIATE LABOR STANDARDS IN INTERNATIONAL SWEATSHOPS?

What are ethically acceptable or appropriate levels of wages and labor standards in international sweatshops? The following three possibilities just about run the gamut of standards or principles that have been seriously proposed to regulate such policies.

*1. **Home-country standards:*** It might be argued (and in rare cases has been) that international corporations have an ethical duty to pay the same wages and provide the same labor standards regardless of where they operate. However, the view that home-country standards should apply in host countries is rejected by most business ethicists and (officially at least) by the critics of international sweatshops. Thus Thomas Donaldson argues that "[b]y arbitrarily establishing U.S. wage levels as the benchmark for fairness one eliminates the role of the international market in establishing salary levels, and this in turn eliminates the incentive U.S. corporations have to hire foreign workers."[5] Richard DeGeorge makes much the same argument: If there were a rule that said that "that American MNCs [multinational corporations] that wish to be ethical must pay the same wages abroad as they do at home, . . . [then] MNCs would have little incentive to move their manufacturing abroad; and if they did move abroad they would disrupt the local labor market with artificially high wages that bore no relation to the local standard or cost of living."[6]

*2. **"Living wage" standard:*** It has been proposed that an international corporation should, at a minimum, pay a "living wage." Thus DeGeorge says that corporations should pay a living wage "even when this is not paid by local firms."[7] However, it is hard to pin down what this means operationally. According to DeGeorge, a living wage should "allow the worker to live in dignity as a human being." In order to respect the human rights of its workers, he says, a corporation must pay "at least subsistence wages and as much above that as workers and their dependents need to live with reasonable dignity, given the general state of development of the society."[8] As we shall see, the living wage standard has become a rallying cry of the critics of international sweatshops. Apparently, DeGeorge believes that it is preferable for a corporation to provide no job at all than to offer one that pays less that a living wage. . . .

*3. **Classical liberal standard:*** Finally, there is what I will call the classical liberal standard. According to this standard a practice (wage or labor practice) is ethically acceptable if it is freely chosen by informed workers. For example, in a recent report the World Bank invoked this standard in connection with workplace safety. It said: "The appropriate level is therefore that at which the costs are commensurate with the value that informed workers place on improved working conditions and reduced risk."[9] Most business ethicists reject this standard on the grounds that there is some sort of market failure or the "background conditions" are lacking for markets to work effectively. Thus for Donaldson full (or near-full) employment is a prerequisite if workers are to make sound choices regarding workplace safety: "The average level of unemployment in the developing countries today exceeds 40 percent, a figure that has frustrated the application of neoclassical economic principles to the international economy on a score of issues. With full employment, and all other things being equal, market forces will encourage workers to make trade-offs between job opportunities using safety as a variable. But with massive unemployment, market forces in developing countries drive the unemployed to the jobs they are lucky enough to land, regardless of the safety."[10] Apparently there are other forces, like Islamic fundamentalism and the global debt "bomb," that rule out reliance on market solutions, but Donaldson does not explain their relevance.[11] DeGeorge, too, believes that the necessary conditions are lacking for market forces to operate benignly. Without what he calls "background institutions" to protect the workers and the resources of the developing country (e.g., enforceable minimum wages) and/or greater equality of bargaining power exploitation is the most likely result.[12] "If American MNCs pay workers very low wages . . . they clearly have the opportunity to make significant profits."[13] DeGeorge goes on to make the interesting observation that "competition has developed among multinationals themselves, so that the profit margin has been driven down" and developing countries "can play one company against another."[14] But apparently that is not enough to rehabilitate market forces in his eyes.

THE CASE AGAINST INTERNATIONAL SWEATSHOPS

To many of their critics, international sweatshops exemplify the way in which the greater openness of the world economy is hurting workers. . . . Globalization means a transition from (more or less) regulated domestic economies to an unregulated world economy. The superior mobility of capital, and the essentially fixed, immobile nature of world labor, means a fundamental shift in bargaining power in favor of large international corporations. Their global reach permits them to shift production almost costlessly from one location to another. As a consequence, instead of being able to exercise some degree of control over companies operating within their borders, governments are now locked in a bidding war with one another to attract and retain the business of large multinational companies.

The critics allege that international companies are using the threat of withdrawal or withholding of investment to pressure governments and workers to grant concessions. "Today [multinational companies] choose between workers in developing countries that compete against each other to depress wages to attract foreign investment." The result is a race for the bottom—a "destructive downward bidding spiral of the labor conditions and wages of workers throughout the world. . . ."[15] Thus, critics charge that in Indonesia wages are deliberately held below the poverty level or subsistence in order to make the country a desirable location. The results of this competitive dismantling of worker protections, living standards and worker rights are predictable: deteriorating work conditions, declining real incomes for workers, and a widening gap between rich and poor in developing countries. I turn next to the specific charges made by the critics of international sweatshops.

Unconscionable Wages

Critics charge that the companies, by their proxies, are paying "starvation wages" and "slave wages." They are far from clear about what wage level they consider to be appropriate. But they generally demand that companies pay a "living wage." Kernaghan has said that workers should be paid enough to support their families and they should get a "living wage" and "be treated like human beings."[16] . . . According to Tim Smith, wage levels should be "fair, decent or a living wage for an employee and his or her family." He has said that wages in the maquiladoras of Mexico averaged $35 to $55 a week (in or near 1993) which he calls a "shockingly substandard wage," apparently on the grounds that it "clearly does not allow an employee to feed and care for a family adequately."[17] In 1992, Nike came in for harsh criticism when a magazine published the pay stub of a worker at one of its Indonesian suppliers. It showed that the worker was paid at the rate of $1.03 per day which was reportedly less than the Indonesian government's figure for "minimum physical need."[18]

Immiserization Thesis

Former Labor Secretary Robert Reich has proposed as a test of the fairness of development policies that "Low-wage workers should become better off, not worse off, as trade and investment boost national income." He has written that "[i]f a country pursues policies that . . . limit to a narrow elite the benefits of trade, the promise of open commerce is perverted and drained of its rationale."[19] A key claim of the activists is that companies actually impoverish or immiserize developing country workers. They experience an absolute decline in living standards. This thesis follows from the claim that the bidding war among developing countries is depressing wages. . . .

Widening Gap Between Rich and Poor

A related charge is that international sweatshops are contributing to the increasing gap between rich and poor. Not only are the poor being absolutely impoverished, but trade is generating greater inequality within developing countries. Another test that Reich has proposed to establish the fairness of international trade is that "the gap between rich and poor should tend to narrow with development, not widen."[20] Critics charge that international sweatshops flunk that test. They say that the increasing GNPs of some developing countries simply mask a widening gap between rich and poor. "Across the world, both local and foreign elites are getting richer from the exploitation of the most vulnerable."[21] And, "The major adverse consequence of quickening global economic integration has been widening income disparity within almost all nations. . . ."[22] There appears to be a tacit alliance between the elites of both first and third worlds to exploit the most vulnerable, to regiment and control and conscript them so that they can create the material conditions for the elites' extravagant lifestyles.

Collusion with Repressive Regimes

Critics charge that, in their zeal to make their countries safe for foreign investment, Third World regimes, notably China and Indonesia, have stepped up their repression. Not only have these countries failed to enforce even the minimal labor rules on the books, but they have also used their military and police to break strikes and repress independent unions. They have stifled political dissent, both to retain their hold on political power and to avoid any instability that might scare off foreign investors. Consequently, critics charge, companies like Nike are profiting from political repression. "As unions spread in [Korea and Taiwan], Nike shifted its suppliers primarily to Indonesia, China and Thailand, where they could depend on governments to suppress independent union-organizing efforts."[23]

EVALUATION OF THE CHARGES AGAINST INTERNATIONAL SWEATSHOPS

The critics' charges are undoubtedly accurate on a number of points: (1) There is no doubt that international companies are chasing cheap labor. (2) The wages paid by the international sweatshops are—by American standards—shockingly low. (3) Some developing country governments have tightly controlled or repressed organized labor in order to prevent it from disturbing the flow of foreign investment. Thus, in Indonesia, independent unions have been suppressed. (4) It is not unusual in developing countries for minimum wage levels to be lower than the official poverty level. (5) Developing country governments have winked at violations of minimum wage laws and labor rules. However, most jobs are in the informal sector and so largely outside the scope of government supervision. (6) Some suppliers have employed children or have subcontracted work to other producers who have done so. (7) Some developing country governments deny their people basic political rights. China is the obvious example; Indonesia's record is pretty horrible but had shown steady improvement until the last two years. But on many of the other counts, the critics' charges appear to be seriously inaccurate. And, even where the charges are accurate, it is not self-evident that the practices in question are improper or unethical, as we see next.

Wages and Conditions

Even the critics of international sweatshops do not dispute that the wages they pay are generally higher than—or at least equal to—comparable wages in the labor markets where they operate. According to the International Labor Organization (ILO), multinational companies often apply standards relating to wages, benefits, conditions of work, and occupational safety and health, which both exceed statutory requirements and those practiced by local firms."[24] The ILO also says that wages and working conditions in so-called Export Processing Zones (EPZs) are often equal to or higher than jobs outside. The World Bank says that the poorest workers in developing countries work in the informal sector where they often earn less than half what a formal sector employee earns. Moreover, "informal and rural workers often must work under more hazardous and insecure conditions than their formal sector counterparts.[25]

The same appears to hold true for the international sweatshops. In 1996, young women working in the plant of a Nike supplier in Serang, Indonesia, were earning the Indonesian legal minimum wage of 5,200 rupiahs, or about $2.28 each day. As a report in the *Washington Post* pointed out, just earning the minimum wage put these workers among higher-paid Indonesians: "In Indonesia, less than half the working population earns the minimum wage, since about half of all adults here are in farming, and the typical farmer would make only about 2,000 rupiahs each day."[26] The workers in the Serang plant reported that they save about three-quarters of their pay. A 17-year-old woman said: "I came here one year ago from central Java. I'm making more money than my father makes." This woman also said that the she sent about 75 percent of her earnings back to her family on the farm.[27] Also in 1996, a Nike spokeswoman estimated that an entry-level factory worker in the plant of a Nike supplier made five times what a farmer makes.[28] Nike's chairman, Phil Knight, likes to teasingly remind critics that the average worker in one of Nike's Chinese factories is paid more than a professor at Beijing University.[29] There is also plentiful anecdotal evidence from non-Nike sources. A worker at the Taiwanese-owned King Star Garment Assembly plant in Honduras told a reporter that he was earning seven times what he earned in the countryside.[30] In Bangladesh, the country's fledgling garment industry was paying women who had never worked before between $40 and $55 a month in 1991. That compared with a national per capita income of about $200 and the approximately $1 a day earned by many of these women's husbands as day laborers or rickshaw drivers.[31]

The same news reports also shed some light on the working conditions in sweatshops. According to the *Washington Post,* in 1994 the Indonesian office of the international accounting firm Ernst & Young surveyed Nike workers concerning worker pay, safety conditions, and attitudes toward the job. The auditors pulled workers off the assembly line at random and asked them questions that the workers answered anonymously. The survey of 25 workers at Nike's Serang plant found that 23 thought the hours and overtime hours too high. None of the workers reported that they had been discriminated against. Thirteen said the working environment was the key reason they worked at the Serang plant while eight cited salary and benefits.[32] The *Post* report also noted that the Serang plant closes for about 10 days each year for Muslim holidays. It quoted Nike officials and the plant's Taiwanese owners as saying that 94 percent of the workers had returned to the plant following the most recent break. . . .

There is also the mute testimony of the lines of job applicants outside the sweatshops in Guatemala and Honduras. According to Lucy Martinez-Mont, in Guatemala the sweatshops are conspicuous for the long lines of young people waiting to be interviewed for a job.[33] Outside the gates of the industrial park in Honduras that Rohter visited "anxious onlookers are always waiting, hoping for a chance at least to fill out a job application [for employment at one of the apparel plants]."[34]

The critics of sweatshops acknowledge that workers have voluntarily taken their jobs, consider themselves lucky to have them, and want to keep them. . . . But they go on to discount the workers' views as the product of confusion or ignorance, and/or they just argue that the workers' views are beside the point. Thus, while "it is undoubtedly true" that Nike has given jobs to thousands of people who wouldn't be working otherwise, they say that "neatly skirts the fundamental human-rights issue raised by these production arrangements that are now spreading all across the world."[35] Similarly the NLC's Kernaghan says that "[w]hether workers think they are better off in the assembly plants than elsewhere is not the real issue."[36] Kernaghan, and Jeff Ballinger of the AFL-CIO, concede that the workers desperately need these jobs. But "[t]hey say they're not asking that U.S. companies stop operating in these countries. They're asking that workers be paid a living wage and treated like human beings."[37] Apparently these workers are victims of what Marx called false consciousness, or else they would grasp that they are being exploited. According to Barnet and Cavanagh, "For many workers . . . exploitation is not a concept easily comprehended because the alternative prospects for earning a living are so bleak."[38]

Immiserization and Inequality

The critics' claim that the countries that host international sweatshops are marked by growing poverty and inequality is flatly contradicted by the record. In fact, many of those countries have experienced sharp increases in living standards—for all strata of society. In trying to attract investment in simple manufacturing, Malaysia and Indonesia and, now, Vietnam and China, are retracing the industrialization path already successfully taken by East Asian countries like Taiwan, Korea, Singapore and Hong Kong. These four countries got their start by producing labor-intensive manufactured goods (often electrical and electronic components, shoes, and garments) for export markets. Over time they graduated to the export of higher-value-added items that are skill-intensive and require a relatively developed industrial base.[39]

As is well known, these East Asian countries achieved growth rates exceeding 8 percent for a quarter century. . . . The workers in these economies were not impoverished by growth.

The benefits of growth were widely diffused: These economies achieved essentially full employment in the 1960s. Real wages rose by as much as a factor of four. Absolute poverty fell. And income inequality remained at low to moderate levels. It is true that in the initial stages the rapid growth generated only moderate increases in wages. But once essentially full employment was reached, and what economists call the Fei-Ranis turning point was reached, the increased demand for labor resulted in the bidding up of wages as firms competed for a scarce labor supply.

Interestingly, given its historic mission as a watchdog for international labor standards, the ILO has embraced this development model. It recently noted that the most successful developing economies, in terms of output and employment growth, have been "those who best exploited emerging opportunities in the global economy."[40] An "export oriented policy is vital in countries that are starting on the industrialization path and have large surpluses of cheap labour." Countries which have succeeded in attracting foreign direct investment (FDI) have experienced rapid growth in manufacturing output and exports. The successful attraction of foreign investment in plant and equipment "can be a powerful spur to rapid industrialization and employment creation." "At low levels of industrialization, FDI in garments and shoes and some types of consumer electronics can be very useful for creating employment and opening the economy to international markets; there may be some entrepreneurial skills created in simple activities like garments (as has happened in Bangladesh). Moreover, in some cases, such as Malaysia, the investors may strike deeper roots and invest in more capital-intensive technologies as wages rise."

According to the World Bank, the rapidly growing Asian economies (including Indonesia) "have also been unusually successful at sharing the fruits of their growth."[41] In fact, while inequality in the West has been growing, it has been shrinking in the Asian economies. They are the only economies in the world to have experienced high growth *and* declining inequality, and they also show shrinking gender gaps in education. . . .

Profiting from Repression?

What about the charge that international sweatshops are profiting from repression? It is undeniable that there is repression in many of the countries where sweatshops are located. But economic development appears to be relaxing that repression rather than strengthening its grip. The companies are supposed to benefit from government policies (e.g., repression of unions) that hold down labor costs. However, as we have seen, the wages paid by the international sweatshops already match or exceed the prevailing local wages. Not only that, but incomes in the East Asian economies, and in Indonesia, have risen rapidly. . . .

The critics, however, are right in saying that the Indonesian government has opposed independent unions in the sweatshops out of fear they would lead to higher wages and labor unrest. But the government's fear clearly is that unions might drive wages in the modern industrial sector *above* market-clearing levels—or, more exactly, further above market. It is ironic that critics like Barnet and Cavanagh would use the Marxian term "reserve army of the unemployed." According to Marx, capitalists deliberately maintain high levels of unemployment in order to control the working class. But the Indonesian government's policies (e.g., suppression of unions, resistance to a higher minimum wage, and lax enforcement of labor rules) have been directed at achieving exactly the opposite result. The government appears to have calculated that high unemployment is a greater threat to its hold on power. I think we can safely take at face value its claims that its policies are genuinely intended to help the economy create jobs to absorb the massive numbers of unemployed and underemployed.[42]

LABOR STANDARDS IN INTERNATIONAL SWEATSHOPS: PAINFUL TRADE-OFFS

Who but the grinch could grudge paying a few additional pennies to some of the world's poorest workers? There is no doubt that the rhetorical force of the critics' case against international sweatshops rests on this apparently self-evident proposition. However, higher wages and improved labor standards are not free. After all, the critics themselves attack companies for chasing cheap labor. It follows that if labor in developing countries is made more expensive (say, as the result of pressures by the critics), then those countries will receive less foreign investment, and fewer jobs will be created there. Imposing higher wages may deprive these countries of the one comparative advantage they enjoy, namely low-cost labor.

We have seen that workers in most "international sweatshops" are already relatively well paid. Workers in the urban, formal sectors of developing countries commonly earn more than twice what informal and rural workers get. Simply earning the minimum wage put the young women making Nike shoes in Serang in the top half of the income distribution in Indonesia. Accordingly, the critics are in effect calling for a *widening* of the economic disparity that already greatly favors sweatshop workers.

By itself that may or may not be ethically objectionable. But these higher wages come at the expense of the incomes and the job opportunities of much poorer workers. As economists explain, higher wages in the formal sector reduce employment there and (by increasing the supply of labor) depress incomes in the informal sector. The case against requiring above-market wages for international sweatshop workers is essentially the same as the case against other measures that artificially raise labor costs, like the minimum wage. In Jagdish Bhagwati's words: "Requiring a minimum wage in an overpopulated, developing country, as is done in a developed country, may actually be morally wicked. A minimum wage might help the unionized, industrial proletariat, while limiting the ability to save and invest rapidly which is necessary to draw more of the unemployed and nonunionized rural poor into gainful employment and income."[43] The World Bank makes the same point: "Minimum wages may help the most poverty-stricken workers in industrial countries, but they clearly do not in developing nations. . . . The workers whom minimum wage legislation tries to protect—urban formal workers—already earn much more than the less favored majority. . . . And inasmuch as minimum wage and other regulations discourage formal employment by increasing wage and nonwage costs, they hurt the poor who aspire to formal employment."[44]

The story is no different when it comes to labor standards other than wages. If standards are set too high, they will hurt investment and employment. The World Bank report points out that "[r]educing hazards in the workplace is costly, and typically the greater the reduction the more it costs. Moreover, the costs of compliance often fall largely on employees through lower wages or reduced employment. As a result, setting standards too high can actually lower workers' welfare. . . ."[45] Perversely, if the higher standards advocated by critics retard the growth of formal sector jobs, then that will trap more informal and rural workers in jobs which are far more hazardous and insecure than those of their formal sector counterparts.

The critics consistently advocate policies that will benefit better-off workers at the expense of worse-off ones. If it were within their power, it appears that they would reinvent the labor markets of much of Latin America. Alejandro Portes' description seems to be on the mark: "In Mexico, Brazil, Peru, and other Third World countries, [unlike East Asia], there are powerful independent unions representing the protected sector of the working class. Although their rhetoric is populist and even radical, the fact is that they tend to represent the better-paid and more stable fraction of the working class. Alongside, there toils a vast, unprotected proletariat, employed by informal enterprises and linked, in ways hidden from public view, with modern sector firms." . . .

Of course, it might be objected that trading off workers' rights for more jobs is unethical. But, so far as I can determine, the critics have not made this argument. Although they sometimes implicitly accept the existence of the trade-off (we saw that they attack Nike for chasing cheap labor), their public statements are silent on the lost or forgone jobs from higher wages and better labor standards. At other times, they imply or claim that improvements in workers' wages and conditions are essentially free. . . .

In summary, the result of the ostensibly humanitarian changes urged by critics are likely to be (1) reduced employment in the formal or modern sector of the economy, (2) lower incomes in the informal sector, (3) less investment and so slower economic growth, (4) reduced exports, (5) greater inequality and poverty.

CONCLUSION: THE CASE FOR NOT EXCEEDING MARKET STANDARDS

It is part of the job description of business ethicists to exhort companies to treat their workers better (otherwise what purpose do they serve?). So it will have come as no surprise that both the business ethicists whose views I summarized at the beginning of this paper—Thomas Donaldson and Richard DeGeorge—objected to letting the market alone determine wages and labor standards in multinational companies. Both of them proposed criteria for setting wages that might occasionally "improve" on the outcomes of the market.

Their reasons for rejecting market determination of wages were similar. They both cited conditions that allegedly prevent international markets from generating ethically acceptable results. Donaldson argued that neoclassical economic principles are not applicable to international business because of high unemployment rates in developing countries. And DeGeorge argued that, in an unregulated international market, the gross inequality of bargaining power between workers and companies would lead to exploitation.

But this paper has shown that attempts to improve on market outcomes may have unforeseen tragic consequences. We saw how raising the wages of workers in international sweatshops might wind up penalizing the most vulnerable workers (those in the informal sectors of developing countries) by depressing their wages and reducing their job opportunities in the formal sector. Donaldson and DeGeorge cited high unemployment and unequal bargaining power as conditions that made it necessary to bypass or override the market determination of wages. However, in both cases, bypassing the market in order to prevent exploitation may aggravate these conditions. As we have seen, above-market wages paid to sweatshop workers may discourage further investment and so perpetuate high unemployment. In turn, the higher unemployment may weaken the bargaining power of workers vis-à-vis employers. Thus such market imperfections seem to call for more reliance on market forces rather than less. Likewise, the experience of the newly industrialized East Asian economies suggests that the best cure for the ills of sweatshops is more sweatshops. But most of the well-intentioned policies that improve on market outcomes are likely to have the opposite effect.

Where does this leave the international manager? If the preceding analysis is correct, then it follows that it is ethically acceptable to pay market wage rates in developing countries (and to provide employment conditions appropriate for the level of development). That holds true even if the wages pay less than so-called living wages or subsistence or even (conceivably) the local minimum wage. The appropriate test is not whether the wage reaches some predetermined standard but whether it is freely accepted by (reasonably) informed workers. The workers themselves are in the best position to judge whether the wages offered are superior to their next-best alternatives. (The same logic applies *mutatis mutandis* to workplace labor standards).

Indeed, not only is it ethically acceptable for a company to pay market wages, but it may be ethically unacceptable for it to pay wages that exceed market levels. That will be the case if the company's above-market wages set precedents for other international companies which raise labor costs to the point of discouraging foreign investment. Furthermore, companies may have a social responsibility to transcend their own narrow preoccupation with protecting their brand image and to publicly defend a system which has greatly improved the lot of millions of workers in developing countries.

NOTES

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3. Peter Jacobi in Martha Nichols, "Third-World Families at Work: Child Labor or Child Care." *Harvard Business Review* (January–February 1993).
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5. Thomas Donaldson, *Ethics of International Business* (New York: Oxford University Press, 1989), 98.
6. Richard DeGeorge, *Competing with Integrity in International Business* (New York: Oxford University Press, 1993), 79.
7. Ibid., 356–57.
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9. World Bank, *World Development Report 1995, "Workers in an Integrating World Economy"* (Oxford University Press, 1995), 77.
10. Donaldson, *Ethics of International Business,* p. 115.
11. Ibid., 150.
12. DeGeorge, *Competing with Integrity,* 48.
13. Ibid., 358.
14. Ibid.
15. Terry Collingsworth, J. William Goold, Pharis J. Harvey, "Time for a Global New Deal," *Foreign Affairs* (January–February 1994): 8.
16. William B. Falk, "Dirty Little Secrets," *Newsday* (June 16, 1996).
17. Tim Smith, "The Power of Business for Human Rights." *Business & Society Review* (January 1994): 36.
18. Jeffrey Ballinger, "The New Free Trade Heel." *Harper's Magazine* (August 1992): 46–47. "As in many developing countries, Indonesia's minimum wage, . . . , is less than poverty level." Nina Baker, "The Hidden Hands of Nike," *Oregonian* (August 9, 1992).
19. Robert B. Reich, "Escape from the Global Sweatshop; Capitalism's Stake in Uniting the Workers of the World." *Washington Post* (May 22, 1994). Reich's test is intended to apply in developing countries "where democratic institutions are weak or absent."
20. Ibid.
21. Kenneth P. Hutchinson, "Third World Growth." *Harvard Business Review* (November–December 1994).
22. Robin Broad and John Cavanagh, "Don't Neglect the Impoverished South." *Foreign Affairs* (December 22, 1995).

23. John Cavanagh & Robin Broad, "Global Reach; Workers Fight the Multinationals." *Nation* (March 18, 1996): 21. See also Bob Herbert, "Nike's Bad Neighborhood." *New York Times* (June 14, 1996).
24. International Labor Organization, *World Employment 1995* (Geneva: ILO, 1995), 73.
25. World Bank, *Workers in an Integrating World Economy,* p. 5.
26. Keith B. Richburg, Anne Swardson, "U.S. Industry Overseas: Sweatshop or Job Source?: Indonesians Praise Work at Nike Factory." *Washington Post* (July 28, 1996).
27. Richburg and Swardson, "Sweatshop or Job Source?" The 17-year-old was interviewed in the presence of managers. For other reports that workers remit home large parts of their earnings see Seth Mydans, "Tangerang Journal; For Indonesian Workers at Nike Plant: Just Do It." *New York Times* (August 9, 1996), and Nina Baker, "The Hidden Hands of Nike."
28. Donna Gibbs, Nike spokeswoman on ABC's *World News Tonight,* June 6, 1996.
29. Mark Clifford, "Trading in Social Issues; Labor Policy and International Trade Regulation," *World Press Review* (June 1994): 36.
30. Larry Rohter, "To U.S. Critics, a Sweatshop; for Hondurans, a Better Life." *New York Times* (July 18, 1996).
31. Marcus Brauchli, "Garment Industry Booms in Bangladesh." *Wall Street Journal* (August 6, 1991).
32. Richburg and Swardson, "Sweatshop or Job Source?"
33. Lucy Martinez-Mont, "Sweatshops Are Better Than No Shops." *Wall Street Journal* (June 25, 1996).
34. Rohter, "To U.S. Critics a Sweatshop."
35. Barnet & Cavanagh, *Global Dreams,* p. 326.
36. Rohter, "To U.S. Critics a Sweatshop."
37. William B. Falk, "Dirty Little Secrets," *Newsday* (June 16, 1996).
38. Barnet and Cavanagh, "Just Undo It: Nike's Exploited Workers." *New York Times* (February 13, 1994).
39. Sarosh Kuruvilla, "Linkages between Industrialization Strategies and Industrial Relations/Human Resources Policies: Singapore, Malaysia, The Philippines, and India." *Industrial & Labor Relations Review* (July 1996): 637.
40. The ILO's Constitution (of 1919) mentions that: ". . . . the failure of any nation to adopt humane conditions of labour is an obstacle in the way of other nations which desire to improve the conditions in their own countries." ILO, *World Employment 1995,* p. 74.
41. World Bank, *The East Asian Miracle* (New York: Oxford University Press, 1993), 2.
42. Gideon Rachman, "Wealth in Its Grasp, a Survey of Indonesia." *Economist* (April 17, 1993): 14–15.
43. Jagdish Bhagwati & Robert E. Hudec, eds. *Fair Trade and Harmonization,* vol. 1 (Cambridge: MIT Press, 1996): 2.
44. World Bank, *Workers in an Integrating World Economy,* p. 75.
45. Ibid., 77. As I have noted, the report proposes that the "appropriate level is therefore that at which the costs are commensurate with the value that informed workers place on improved working conditions and reduced risk. . . ."