Do Economics Clash with Ethics? A Study of Sweatshops in Developing Countries

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Abstract: In search of a consensus about the root cause of the ethical issues of sweatshops, this paper uses insights from economics to arrive at a fundamental principle: the mother of all evil is the concentration of power. To appraise the ethical value of a transaction or policy, one must investigate the extent to which it creates or sustains monopoly powers. The paper applies this principle to licensure, protectionism, boycotting, trade unions and price controls. The moral guidelines driven from this principle are predominantly negative in nature: they offer actions and decisions which must be avoided in order to prevent the concentration of power.

Keywords: Social Responsibility of Business; Business Ethics; Labour Standards; Employee Rights.

INTRODUCTION

The producers and consumers of fashion products are ever haunted by the ethical aspects of sweatshops. Every dollar earned by the producers is partially indebted to the toil of workers in developing countries. And every dollar spent by consumers helps sustain an industry that is heavily reliant on such labour (Educating for Justice, 2011; Marihugh, 2006). As controversial as ethical discussions tend to be, this paper seeks to establish an objective basis for evaluating the ethical dimension of sweatshops. The research question for this study is: How can insights from economics help one evaluate the moral responsibility of employers, employees, consumers, and governments, with respect to sweatshops?

While it is emotionally stimulating to watch images of sweatshops in developing countries and hear about the working conditions of women and children, can there be a set of guidelines to assess them objectively and strive toward a moral consensus? How can economics and ethics mutually help to build a more comprehensive approach to this issue?

INSIGHTS FROM ECONOMICS

The most important contribution of economics to ethical and environmental discussions is that when resources are limited compared to the desired objectives, sacrifice is inevitable. This is the principle of opportunity cost, which is the very first lesson that economists learn. An economic study of sweatshops tries to identify the limitations which give rise to such enterprises, putting on hold any ethical judgements about their working conditions. In addition, as a social science, economics turns to empirical evidence to test its hypotheses. All these make economic statements inherently descriptive, not normative. An economic investigation involves suspending value judgments which fall outside the jurisdiction of the discipline (Preiss, 2014). Therefore, deducing moral values from an economic analysis would be the is-ought fallacy. Meanwhile, this detachment from ethical values can itself be a stepping stone toward developing objective guidelines that can also be used in ethical discussions.

As such, an economist's first reaction to any scenario or proposition would be to ask: "At what expense? And what alternatives are there?" Economic thinking does not dispute one's objectives but investigates the extent to which those objectives are being achieved and at what cost. It is beyond the scope of economics to issue verdicts about the moral value of an act or system. Instead, the discipline shifts one's attention from the objectives to the results. Milton Friedman famously said: "One of the great mistakes is to judge policies and programs by their intentions rather than their results" (Friedman, 1975). In other words, it is not sufficient to have noble philanthropic intentions to justify a certain proposition. One must verify empirically whether and how these goals are achieved (Sowell, 2013).

While one may subscribe to certain ideals as morally desirable, idealistic perfectionism is incompatible with an imperfect world. There is no perfect solution which meets all objectives, but there is always a trade-off between the desired objectives. “Once we recognize that there are no solutions, but only trade-offs, we can no longer pursue cosmic justice, but must make our choices among alternatives actually available—and these alternatives do not include guaranteeing that no harm can possibly befall any innocent individual” (Sowell, 1996, pp. 224–225). In this light, the question of sweatshops can be reformulated as follows: What working conditions would maximize the well-being of employees in developing countries?

FROM CONTROVERSY TO CONSENSUS

HUMAN RIGHTS AS A BASIS

What is the dividing line between unethical sweatshops and ethical factories? The determining factor can be distilled down to human rights, as an objective and reliable foundation. More specifically, this can be traced to article 23 of the Universal Declaration of Human Rights, which consists of four clauses (United Nations, n.d.):

1. Everyone has the right to work, to free choice of employment, to just and favourable conditions of work and to protection against unemployment.

2. Everyone, without any discrimination, has the right to equal pay for equal work.

3. Everyone who works has the right to just and favourable remuneration ensuring for himself and his family an existence worthy of human dignity, and supplemented, if necessary, by other means of social protection.

4. Everyone has the right to form and to join trade unions for the protection of his interests.

THE CONTROVERSY

The opponents of sweatshops consider them to be unethical since they violate the above basic rights of their employees through (Pierlott, 2011):

1. monetary compensation, where they do not provide their workers with sufficient payment;

2. work hours, where they require their employees to work unreasonably long hours;

3. working conditions, where the workers are exposed to dangerous, unhealthy, or degrading treatment;

4. unionization, where they use force to sabotage the formation of trade unions.

The proponents of sweatshops also draw on the same article to justify that sweatshops are ethical as long as (Kates, 2015; Werhane & Radin, 2019):

1. the job is an informed and voluntary choice of the employees, respecting their freedom of contract;

2. they help reduce unemployment in developing countries;

3. the working conditions and payments are just and favourable from the perspective of the workers, given the alternatives available to them in their circumstances;

4. if some right is not met, it is because the worker has waived it voluntarily.

While the opponents recognize the free choice of the employees, they question the extent to which this choice is made due to pressing circumstances. It is possible that sweatshop workers are grateful for their job while they are nonetheless abused and exploited. In other words, once one enters a relationship with someone, such as an employment contract, they are morally responsible to treat the other side with a minimum standard. It is unethical to offer them less than that even though that may be a step-up for them, and even though they happily agree to it given their circumstances (Pierlott, 2011).

IN SEARCH OF A CONSENSUS

Consider a hypothetical scenario, where a man is drowning in the sea, and a boat is passing by. The captain offers to save the man’s life for one million dollars. The drowning man, desperate, accepts the offer. This transaction meets the criteria of freedom of contract, as well as gains from trade. Both sides participate in the transaction voluntarily, and both are made better off. The captain makes some easy profits that far exceed his costs; the drowning man also saves his life which is worth more than a million dollars to him. Nevertheless, this is arguably an exploitation by the captain given his monopoly power and is not ethically justifiable (Powell, 2014).

This thought experiment demonstrates that freedom of contract is not a sufficient condition for making an act ethical, even when the contract increases both sides' utility. These two factors—voluntary exchange and utility maximization—may be necessary but are not sufficient (Carson, 2013). Instead, a third requirement is the availability of alternatives, unhampered by any party's overriding bargaining power. Milton Friedman, the leading libertarian economist, was careful enough to point this out: "Exchange is truly voluntary only when nearly equivalent alternatives exist. Monopoly implies the absence of alternatives and thereby inhibits effective freedom of exchange" (Friedman & Friedman, 2002). Therefore, Aristotle's ethical principle of "happiness as an end-in-itself" should be qualified by his theory of distributive justice, following Aquinas' lead (Covolo, 2020; Svendsen, 2006).

Consequently, the essence of the controversy can be summarized as: To what extent do sweatshop workers have free choice? This also addresses the question of rights because no one would willingly waive their right in an employment contract if they did not feel compelled due to a lack of alternatives. Hence, one can conclude that sweatshops turn abusive and unethical when the employer dictates the terms of contract while the employee has no tangible alternatives. This is a point of consensus among all those concerned with the ethical dimensions of sweatshops. At the root of the ethical problem of sweatshops is monopoly power.

Having reached this agreement, the next question is: What contributes to the power imbalance between employers and employees? Then the case of moral responsibility would be more patent: any factor that amplifies this imbalance is ethically questionable. The moral responsibility of producers, consumers, and governments would be to act in a way that does not give either the employer or the employee an overriding bargaining power over the other. The guiding principle here is: the mother of all evil is the concentration of power.

DERIVING ETHICAL GUIDELINES

Barriers to Entry

Monopoly profits are not sustainable without outside assistance. If a firm earns profits beyond its productivity due to exploitation or market power, it signals other businesses to enter that lucrative industry. As new entrants come in, they curtail the powers of the initial monopoly, reduce discrimination due to the availability of alternatives, and lower the market price. For a monopoly to maintain its privileged position, it must prevent potential competitors from entering the industry. The only way it can do so legally is through enacting laws that create administrative hurdles for newcomers. These laws are most commonly in the form of licensure: the requirement of some permit or certificate to sell a good or service (Greenlaw et al., 2022).

Since competition among firms limits their power, competition is most beneficial to the weakest members of the society, including low-income households and racial minorities in the labour force. For the same reason, large powerful firms have every incentive to avoid competition through lobbying for government protection which secures them a niche and allows them to earn economic rent: an income in excess of one's productivity due to one's privileged position. While profits are a result of win-win economic activity, rent-seeking through coercive means—such as taxation or licensure—is a zero-sum game.

Such lobbying can take the form of bribery, which is common in some developing countries given their legal institutions (Educating for Justice, 2011). More legally, multinational fashion producers appeal to safety and environmental standards to create barriers to entry. This is where anyone concerned with ethical values should be cautious: often an alliance is formed between activists who have purely philanthropic objectives, and companies who have economic objectives. The movement is framed in the name of enhancing safety or environmental goals, but it effectively safeguards the existing producers against potentially new rivals. This phenomenon is not limited to the developing countries, but is found equally in the West, where well-intended activists are "exploited" by large enterprises who need a becoming cover-up for their rent-seeking behaviour (OECD, 2013).

Another unfortunate alliance which contributes to the concentration of power is between corporations and bureaucrats. Regulatory agencies create employment and income for their workers. Their employees have every incentive to create, sustain and expand such regulations. The problem, again, is elimination of competition, this time compounded on two sides: government agencies do not have competitors, making them prone to abusing their massive powers; and the regulated firms will also be hedged against competitors due to additional administrative hurdles. As more and more regulations are put in place, it is the larger and stronger corporations which get to pass them and maintain their position, while smaller competitors are driven or deterred out of business (Miller et al., 2018).

Once it is understood that the concentration of power is the mother of all evil, it follows that regulation is not the right solution, for it rather exacerbates the problem. In short, to evaluate the moral implications of any scenario, decision, or policy, one must ask oneself: Does it add more barriers to entry? How does it affect the number of competitors in the industry? Does it give any agent special access to the market or a privileged position?

The following ethical guidelines follow from the above analysis:

• It is unethical for producers to lobby for licence requirements which limit competition.

• Instead of pushing for more government regulations to police business operations, it is more ethically justifiable for human rights activists to aim at improvements which reduce the concentration of power. This entails the removal of barriers to entry, both locally and internationally.

• The ethical contribution of governments is rather reducing requirements than introducing them.

• Whenever regulation is deemed necessary, governments may commit themselves to a limited budget and duration for the agency, checked by an external body such as the judicial branch.

Free Trade

Trade barriers, such as tariffs and quotas, are another cause of concentration of power. In the case of sweatshops, this applies to barriers imposed in developed countries to penalize sweatshops in developing countries and promote "sweat-free" products. While the claimed objective of these barriers is incentivizing fashion companies to adopt fair trade, the determining factor is not the intentions, but the results. On the frontline of the advocates of such barriers are local manufacturers, who wish to hedge themselves against foreign competition. The result is that over 70% of these sweat-free factories are in North America, which are either unionized or run as worker cooperatives (Powell, 2014). While it is imperative to communicate the consumers' preferences for fair trade to the manufacturers, imposing trade barriers is not the right medium. Any restriction on economic freedom will inevitably result in the concentration of power, which is the seed of abuse (Powell & Zwolinski, 2012).

Sometimes, tariffs might be imposed not in order to promote "sweat-free" products but rather to increase the revenue of the local government. For example, eyeglasses in Canada are subject to customs tariffs as well as federal and provincial sales tax when they are purchased from abroad (Government of Canada, 2017). These tariffs and taxes raise the price of the imported glasses to the price of the same glasses in Canada, thus lowering the domestic demand for foreign products. Without these tariffs, the eyeglasses produced by sweatshop workers could be sold in Canada at lower prices but in greater quantities, increasing the workers' income and, potentially, improving their standards of living (Hill et al., 2018). With these tariffs, however, the demand for them falls, and the workers' revenues decrease.

Without such customs, producers and workers in developing countries could prosper more economically through their comparative advantage. The Canadian government need not offer them fish, nor teach them how to fish, but rather allow them to sell the fish that they can catch and deliver at a lower price. As some economists have pointed out, the reduction or removal of such barriers could be done in a way that is Pareto efficient (Stiglitz & Rosengard, 2015).

It thus follows:

• It is unethical for governments to protect local manufacturers against foreign competition through tariffs and import quotas.

• It is not advisable for consumers and activists to lobby for trade barriers, even though they reward relatively ethical means of production.

CONSUMER SOVEREIGNTY

An alternative to top-down regulatory solutions is consumer sovereignty, where consumers "vote" with their dollars. By purchasing one product instead of another, they vote for the way in which a product is made. A consumer's power is their purchasing decision, and this is how they can fulfill their moral responsibility. "By demonstrating a demand for economic justice through our purchases, industries will slowly respond" (Pierlott, 2011, p. 183). In the case of fashion products, this can take the form of recycling, swapping, sewing, or boycotting (Cline, 2012). The common denominator is that they are bottom-up consumer-driven movements that are not coercive by nature.

The bottom-up approach is generally more effective than the top-down because it allows people to participate in the decision-making process. In turn, this participation fosters a sense of commitment and accountability, making the process more sustainable in the long term (Kaiser, 2020). Contrary to that is the top-down approach, where a decision or a solution is imposed on the population by an expert or an authority figure (Kaiser, 2020). Such an approach will not be long-lasting since it is external and does not necessarily align with the reality.

Consumer sovereignty has been criticized by two different groups for two different reasons. On one side, some have particularly questioned boycotting as an appropriate strategy, on the grounds that the available alternatives to the sweatshop workers are even worse. After decades of reporting Asian sweatshops, Kristof and Wudunn concluded: "Agitation for improved safety conditions can be helpful, just as it was in 19th-century Europe. But Asian workers would be aghast at the idea of American consumers boycotting certain toys or clothing in protest. The simplest way to help the poorest Asians would be to buy more from sweatshops, not less" (2000). That is why sweatshops are compared to lifeboats: they are limited and uncomfortable, but it is better not to sink them for someone who is stranded or drowning. The problem here is not with the effectiveness of consumer sovereignty, but with boycotting specifically. Emphasis is placed on more long-term solutions such as education and accumulation of capital—including physical, human and social—through free markets and foreign trade (Calton, 2018; Luciani, 2003).

On another side, some activists are disappointed by the ineffectiveness of personal decisions made by consumers in their private life. They point out a lack of improvement in the working conditions of sweatshop workers despite more conscious consumption patterns over the past three decades and propose more radical involvement of consumers through advocacy of bans and regulations (Cline, 2020).

This view is flawed in three ways. First, the working and living conditions of sweatshop workers have indeed improved significantly over the past few decades (Luciani, 2003). The average daily calorie intake has increased by 24% in Latin America and the Caribbean, and by 33% in South Asian countries, from 1965 to 2015 (Vasileska & Rechkoska, 2012). Similarly, adult literacy rate in Indonesia rose from 67% in 1980 to 95% in 2016 (World Bank, n.d.). Whether one is satisfied with the rate of improvement is a subjective assessment which cannot be free from ethnocentrism. Second, the level of responsible consumption of fashion products in the West is highly questionable. Studies and market data indicate that western consumers on the whole still give a higher priority to price than ethical considerations (Carrigan & Attalla, 2001; Devinney et al., 2010; Hassan et al., 2016), which leads back to the idea that consumers vote with their money. It could be that the society has still not reached the critical mass needed to make a significant change (Anderson, 2019; De Pelsmacker et al., 2005; O'Rourke, 2012; Schaverien, 2018). Third, trying to bring about change through legislation will reinforce, not eradicate, the root cause of the problem, which is concentration of power. As public choice theory explains, dispersed consumers do not stand a chance against corporations, unions, and regulatory agencies which have concentrated benefits. Top-down interventions have been consistently hijacked by the very parties that were supposed to be restrained by them—a phenomenon known as regulatory capture (Dal Bó, 2006; Stigler, 1971). In short, advocating top-down government intervention stems from impatience with the natural course of events. While such quick fixes can be pacifying and reassuring in the short run, there is no evidence to support their long-term efficacy. Rather, they have unintended consequences which defeat their purpose.

It thus follows:

• Fashion producers may contribute to the development of human capital in developing countries by providing on-the-job training and education assistance.

• Instead of spending larger sums on clothing due to boycotting sweatshops, it is more constructive if ethically concerned consumers invest in programs and charities which improve the education and skills of sweatshop workers and their children.

• Human rights agencies may assess improvements by measuring market shares in the long run.

LABOUR UNIONS

If the concentration of power is the root cause of abuse and corruption, then trade unions would not receive a high score, for they are also monopolies that reduce competition. The only difference between corporate monopolies and labour unions is the market in which they operate and the service they sell. Otherwise, the same principles, incentives, and consequences apply to all. Like any other monopoly, trade unions concentrate power, reduce competition, and lower accountability. They serve their members at the expense of other would-be employees who are often already in a disadvantaged position, such as visible minorities, immigrants, and single mothers (BasicEconomics, 2012; Friedman, 2011; Miller et al., 2018). For example, when labour unions advocate for job-security provisions or make it difficult to lay off existing employees, they increase employers' costs of having those employees. Higher costs, in turn, reduce the employers' willingness to hire workers all together (Ragan, 2023). While such protection benefits the existing employees, it hurts disadvantaged or less experienced would-be workers who are willing to work even in conditions that do not offer the employment security.

Nonetheless, labour unions are often viewed as a saviour of sweatshop workers for the protection they provide them. This is true when the employer is a monopoly in the region or industry due to barriers to entry. Then the union's concentrated power can counterbalance the concentrated power of the employer. While this may be an improvement *relative* to the previous conditions, it spreads and augments the root problem, which is the concentration of power. Resorting to unions as a way to protect workers assumes that two wrongs make a right. This can be seen clearly in the initial development of unions in the 19th century in the United States (Zinn, 2005).

Instead of treating the symptoms, one must turn to the roots and see what has given the employer monopoly powers. Instead of creating barriers in another industry—that is, the labour market—the right solution is to remove the barriers in the original industry. If a fashion producer is exploiting its employees to earn economic rent, a rival enterprise can drive it out of business by producing and selling the same product at a lower cost. As long as there is freedom of entry and exit, an employer that discriminates would be digging its own grave (Mankiw, 2021).

The workers have the right to form unions. However, mandatory membership and licensure are questionable practices, as they result in concentration of power. It is also questionable why mergers and monopolies in other industries are subject to antitrust regulations while labour unionization is a right. The solution to this inconsistency is not to ban unionization but to remove barriers which contribute to sustained concentration of power. Evidence shows that monopolies—whether among producers or unions—have only been sustainable through government protection (von Mises, 2012). Antitrust laws and labour union rights have both been means of eliminating competition and securing the position of certain sellers at the expense of others (Auer & Petit, 2019; Klein, 1995).

It thus follows:

- It is unethical for corporations to resort to force, either legally or illegally, to eliminate competition or to impose employment contracts on their workers.
- While it is the right of sweatshop workers to form unions, unions may not make membership mandatory.
- It is not ethically advisable for governments to grant unions any protection which hedges them against labour market competition.
- Governments may not favour a certain business or sector by banning a merger of its competitors.

PRICE CONTROLS

Price controls are another means of eliminating competitors and invariably create disequilibrium. In the case of fashion industry, garment producers may lobby for price ceilings on their inputs on the grounds of creating employment and contributing to economic development. This, however, will distort the price signals in other industries, such as the production, trade, and processing of cotton. Fashion corporations may also advocate a price floor on their products to raise their profit margin. Price controls are always enforced through governmental coercion and are often accompanied with subsidies to sustain them. The result, however, is a concentration of power for the existing firms, facilitating abuse. Recipients of subsidies are those with stronger connections, leaving the less privileged in greater deprivation (Miller et al., 2018).

Minimum wage is another form of price control which favours trade unions by limiting outside competition. Once sweatshop workers are unionized, a minimum wage would raise their standard of living, but this is only through adding to the monopoly power of the union, at the expense of less privileged would-be labourers who can no longer get their foot in the door. A minimum wage creates a surplus of applicants, thereby raising the bargaining power of the employers, enabling them to discriminate or enforce unfavourable working conditions (Luciani, 2003).

It thus follows:

• It is unethical for corporations to lobby for a price ceiling on their inputs, or a price floor on their output.

• Governments may not subsidize any corporation or industry, nor enforce minimum wage laws.

• Labour unions may not lobby for a minimum wage for their workers through government protection.

ENVIRONMENTAL ABUSE

Sweatshops are also criticized for their negative impact on the environment. A full study of this aspect is beyond the scope of the current paper. What can be said here is that environmental irresponsibility, like every other irresponsibility, is closely tied to the concentration of power. Hence, the same logic can be applied to this area. Nonetheless, it must also be admitted that environmental preservation is not one of primary human needs. It is a fallacy to expect the same prioritization and investment that is found in the West from the citizens and government of developing nations. Much like the case of child labour and working conditions, people in any area grow in their concern for the environment as their standard of living develops. To facilitate this transition, the best solutions are those which foster economic growth through the accumulation of capital and do not stifle it through corruption and barriers to competition (Friedman, 2011; Luciani, 2003).

It thus follows:

• It is unethical for governments and international organizations to impose environmental standards on operations in developing countries which can be met by only a few manufacturers.

• It is not ethically justifiable for consumers and governments to boycott the products of developing countries based on the environmental standards of the developed countries.

• Instead of attempting to artificially favour green producers through subsidies or embargos, ethically concerned consumers, organizations, and governments may direct their resources into programs and charities which improve the economic and education levels of poorer nations.

CONCLUSION

There is often a trade-off between short-term and long-term benefits. Using one's resources to treat the symptoms on the surface compromises lasting and substantial improvements. Despite significant controversies over ethical judgments, a common denominator that contributes to unethical behaviour is the concentration of power. As Lord Acton famously said, "Power tends to corrupt and absolute power corrupts absolutely" (De Janosi 1940, 316). Using this as a point of departure and consensus, ethicists can more accurately aim at the roots of abuse as opposed to its fruits.

Economic power accumulates through barriers to entry, which prevents potential entrants from competing with an existing monopoly. These barriers come in the form of licence requirements, trade barriers, price controls and union petitions.

Evidence from economics shows that monopoly power, discrimination and abuse are not sustainable in the long run without government protection. Therefore, anyone concerned with lasting improvement in the ethical dimensions of the fashion industry must be sensitive about government regulations which result in the concentration of power in one way or another.

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Received on 19-02-2025 Accepted on 27-02-2025 Published on 05-03-2025