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The Cato Institute

Before the Trade, Tourism, and Economic Development Subcommittee of the Senate Commerce, Science, and Transportation Committee

Hearing on "Overseas Sweatshop Abuses, Their Impact on U.S. Workers, and the Need for Anti-Sweatshop Legislation"

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Mr. Chairman and members of the subcommittee, thank you for inviting the Cato Institute to testify today at this hearing on U.S. trade policy and global labor standards. My name is Dan Griswold, and I am director of the institute's Center for Trade Policy Studies.

The Cato Institute is a non-profit, non-partisan, voluntarily funded education institution. Through research and public events, we have worked for three decades now to broaden the parameters of public policy debate to allow consideration of the traditional American principles of limited government, individual liberty, free markets and peace among nations.

The constituents you represent have no reason to fear America's growing trade with people around the world, including trade with workers in developing countries. Expanding trade with developing countries not only promotes more U.S. exports, but just as importantly it provides a wider array of affordable products for American consumers—such as shoes, clothing, toys, and sporting goods. Tens of millions of American families benefit from more vigorous price competition in goods that make our lives better everyday at home and the office. Lower prices and more choice translate directly into higher real compensation and living standards for American workers.

There is no 'race to the bottom'

American workers are not pitted in zero-sum competition with workers in poor countries. There is no global "race to the bottom" on labor standards. Through specialization, global incomes and working conditions can rise for workers in all countries that participate in the global economy. American workers can compete profitably in world markets because we are so much more productive. Because of our education, infrastructure, efficient domestic markets, the rule of law, political stability, and a generally open economy, American workers compete and prosper in a broad range of sectors. As our country has become more globalized in the past 25 years, American workers and their families have enjoyed significant increases in real incomes, compensation, and wealth.

Nor has trade with developing countries undermined America's manufacturing base. According to the latest figures from the Federal Reserve Board, the output of America's factories in 2006 was more than 50 percent higher than in the early 1990s before NAFTA and the World Trade Organization came into being. American factories are producing more aircraft and pharmaceuticals, more sophisticated machinery and semiconductors, more chemicals and even more passenger vehicles and parts than 15 years ago. It is true that output of clothing, shoes and other low-tech goods has been declining, but those are not the industries of the future for the world's most sophisticated economy. U.S. factories can produce more with fewer workers because manufacturing productivity has been growing so rapidly.

If there were a "race to the bottom," then the lower wages and labor standards in less developed countries should be attracting large shares of global investment. Of course, developing countries attract foreign investment in those sectors in which they enjoy a comparative advantage, such as light manufacturing, but in fact, the large majority of manufacturing foreign direct investment (FDI) flows between rich countries.[1]

When U.S. multinational companies look to invest abroad, their primary motivation is not a search for low wages and low standards. Far more important than lower costs are access to wealthy consumers, a skilled workforce, modern infrastructure, rule of law, political stability, and freedom to trade and repatriate profits. That is why most outward U.S. FDI flows to other high-income, high standard countries. Between 2003 and 2005, more than 80 percent of U.S. direct manufacturing abroad flowed to the European Union, Canada, Japan, South Korea, Taiwan, and Singapore.[2]

Openness to trade and investment leads to faster growth, which leads to higher wages and labor standards, including so-called core worker rights. That is why the world's most developed economies, which account for most of the world's trade and attract most of its foreign direct investment, also pay the highest wages, and maintain the highest labor standards related to freedom of association, discrimination, forced labor, and child labor.

Trade and globalization are raising labor standards in developing countries

Trade and globalization are lifting wages and working conditions for hundreds of millions of people in developing countries. The pay and conditions offered in foreign-owned factories are almost always far higher than those offered in the domestic economy. In fact, working for multinational companies that export are almost invariably the best jobs available in poor countries. Those jobs offer poor workers, especially young women, their best opportunity at financial independence and the simple pleasures and dignities of life we take for granted.

For example, apparel jobs are among the lowest paying manufacturing jobs in our country, but they are among the best paying in poor countries. A recent study from San Jose University found that the apparel industry actually pays its foreign workers well enough for them to rise above the poverty line in the countries where they invest. In Honduras, for example, where college protestors have targeted its alleged "sweatshops," the average apparel worker earns $13 per day, compared to the $2 a day or less earned by 44 percent of the country's population.[3]

Rising levels of global trade have lifted hundreds of millions of people out of the worst kind of poverty and working conditions. According to the World Bank, the share of the world's population living in absolute poverty, defined as an income equivalent to one U.S. dollar per day or less, has been cut in half since 1981, from 40.4 percent to 19.4 percent.[4] Poverty has fallen the most rapidly in those areas of the world that have globalized the most rapidly, especially China. It has fallen the least or actually increased in those regions that are the least touched by globalization, in particular sub-Saharan Africa.

Openness to trade and the growth it brings exert a positive impact on the welfare of children in less developed countries by reducing rates of child labor. The International Labor Organization recently reported that the number of children in the workforce rather than in school worldwide has dropped by 11 percent since its last report in 2002, to about 200 million. The number working in the most hazardous jobs has dropped even more steeply, by 26 percent.[5]

Globalization is a major reason for the positive trend in child labor. As household incomes rise in developing countries, especially wages paid to adult females, fewer families face the economic necessity of sending their children to work. Studies confirm that labor force participation rates by children aged 10 to 14 decline significantly with rising GNP per capita.[6]

The overwhelming majority of child laborers toiling in poor countries work in sectors far removed from the global economy. More than 80 percent work without pay, usually for their parents or other family members and typically in subsistence farming.[7] Most other child laborers work for small-scale domestic enterprises, typically non-traded services such as shoe shining, newspaper delivery, and domestic service.[8] A report by the U.S. Department of Labor found, "Only a very small percentage of all child workers, probably less than five percent, are employed in export industries in manufacturing and mining. And they are not commonly found in large enterprises; but rather in small and medium-sized firms and in neighborhood and home settings."[9]

Parents in poor countries do not love their children any less than we love our own. When they succeed in rising above a subsistence income, the first thing they typically do is remove their children from working on the farm, domestic service, or factory and enroll them in school. By raising incomes in poor countries, free trade and globalization have helped to pull millions of kids out of the workforce and put them in school where they belong.

In Central America, trade liberalization and other reforms of the past two decades have spurred not only growth in incomes but also measurable social progress. According to the World Bank, literacy rates for men and women 15 and older have risen significantly in every one of the six DR-CAFTA countries since 1980. In fact, between 1980 and 2001, the average literacy rate in the region has increased from 67 percent to above 80 percent. At the same time, the percentage of children aged 10 to 14 who are in the workforce has been steadily declining in all six countries. The average share of children in the labor force across the six countries has dropped from 17.4 percent in 1980 to 10.0 percent in 2002.[10] Expanding trade with the United States will likely accelerate those positive trends.

It is certainly true that working conditions in less developed countries can strike Western observers as unacceptable if not appalling. But two points need to be considered. First, wages and working conditions are likely to be even worse in non-trade-oriented sectors, such as services and subsistence agriculture, sectors that have been largely untouched by globalization. Second, poor working conditions in those countries are not a new development but have always been a chronic fact of life. "Sweatshop" conditions persist today not because of globalization, a relatively new phenomenon, but because of previous decades of protectionism, inflation, economic mismanagement, hostility to foreign investment, and a lack of legally defined property rights. Globalization is not the cause of bad working conditions but the best hope for improving them.

Punitive tariffs aimed at sweatshops will only hurt the people we are trying to help

Perversely, withholding trade benefits because of allegedly low standards would in effect punish those countries for being poor. It would deprive them of the expanded market access that offers the best hope to raise incomes and standards. The use of trade sanctions would target the very export industries that typically pay the highest wages and maintain highest standards in those countries.

The effect of sanctions would be to shrink the more globally integrated sectors that are pulling standards upwards, forcing workers into informal, domestic sectors where wages, working conditions, and labor-rights protections are much lower. Lower wages paid to parents would make it more difficult for families on marginal incomes to keep children in school and out of fields or factories. "Tough" sanctions to allegedly enforce higher standards would be tough only on the poorest people in the world.

Demanding that poor countries eliminate child labor under threat of trade sanctions can easily backfire. In 1993, Congress seemed poised to pass the U.S. Child Labor Deterrence Act, which would have banned imports of textiles made by child workers. Anticipating its passage, the Bangladeshi textile industry dismissed 50,000 children from factories. Most of those children did not end up in school but instead fell into prostitution and other "occupations" far more degrading than weaving cloth in a factory.[11]

America's trade policy is already biased against workers in poor countries without making it more so through "anti-sweatshop" legislation. The United States and other rich countries currently impose their highest trade barriers against products of most importance to poor countries: clothing, textiles, and agricultural products. In fact, our average tariff imposed on imports from poor countries is about four times higher than those imposed on imports from other rich countries.

Our regressive tariff system imposes punitive tariffs on workers in some of the poorest countries in the world. According to the Progressive Policy Institute, the U.S. government collects more tariff revenue on the $2 billion in mostly hats and t-shirts we import from Bangladesh in a year than on the $30 billion in planes, computers, medicines and wine we import from France. Imports from Cambodia face an average tariff of 16 percent, ten times higher than the average 1.6 percent we impose on all imports.[12]

Our trade policies also hurt the world's poorest farmers and their children. A 2002 study for the National Bureau of Economic Research found that higher rice prices in Vietnam were associated with significant declines in child labor rates. Specifically, a 30 percent increase in rice prices accounted for a decrease of children in the workforce of 1 million, or 9 percent. The drop was most pronounced among girls aged 14 and 15. As the incomes of rice-growing families rose, they chose to use their additional resources to remove their children from work in the field and send them to school.[13] If U.S. rice subsidies are indeed depressing global rice prices, as evidence confirms, then those same programs are plausibly responsible for keeping tens of thousands of young girls in Vietnam and other poor countries in the labor force rather than school.

Attempts to "enforce" labor and environmental standards through trade sanctions are not only unnecessary but also counterproductive. Sanctions deprive poor countries of the international trade and investment opportunities they need to raise overall living standards. Sanctions tend to strike at the very export industries in less developed countries that typically pay the highest wages and follow the highest standards, forcing production and employment into less-globalized sectors where wages and standards are almost always lower. The end result of sanctions is the very opposite of what their advocates claim to seek.

If members of Congress want to encourage higher labor standards abroad, they should support policies that encourage free trade and investment flows so that less developed nations can grow more rapidly. As a complementary policy, Congress could seek a more robust International Labor Organization that could systematically monitor and report on enforcement of labor rights in member countries. Meanwhile, civil society organizations are free to raise public awareness through campaigns and boycotts, while importers can cater to consumer preferences for higher standards through labeling and other promotions. The demand for trade sanctions as a tool to enforce labor standards confronts Americans with a false choice. In reality, the best policy for promoting economic growth at home and abroad--an economy open to global trade and investment--is also the best policy for promoting higher labor standards.

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[1] For a more detailed critique of the "race to the bottom" thesis, see Daniel Griswold, "Trade, Labor, and the Environment: How Blue and Green Sanctions Threaten Higher Standards," Cato Trade Policy Analysis no. 15, August 2, 2001.

[2] U.S. Department of Commerce, Survey of Current Business, Bureau of Economic Analysis, September 2006.

[3] Benjamin Powell and David Skarbek, “Sweatshops and Third World Living Standards: Are the Jobs Worth the Sweat?” Journal of Labor Research, 2006, Volume 27, Issue 2, pp. 263-274.

[4] World Bank, World Development Indicators, 2006, available at http://devdata.worldbank.org/wdi2006/contents/Section2.htm.

[5] International Labor Organization, “The End of Child Labour: Within Reach,” Geneva, 2006.

[6] Keith E. Maskus, “Should Core Labor Standards Be Imposed Through International Trade Policy?” Policy Research Working paper no. 1817, The World Bank, August 1997, p. 14.

[7] ILO, p. 8.

[8] “Breaking the Labor-Trade Deadlock,” Carnegie Endowment for International Peace, Inter-American Dialogue, Working Papers 17, February 2001, p. 17.

[9] U.S. Department of Labor, “By the Sweat & Toil of Children (Volume I): The Use of Child Labor in U.S. Manufactured and Mined Imports,” 1994, p. 2. The

[10] World Bank, World Development Indicators.

[11] Jagdish Bhagwati, In Defense of Globalization (New York: Oxford University Press, 2004), p. 71.

[12] Edward Gresser, Testimony before the Senate Subcommittee on International Trade, October 27, 2005.

[13] Eric Edmonds and Nina Pavcnik, “Does Globalization Increase Child Labor? Evidence from Vietnam,” NBER Working Paper no. 8760, July 2002.