

Free Trade and Sweatshops

Is Global Trade Doing More Harm Than Good?

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Perhaps the fundamental question about globalization is whether it helps or hurts workers, particularly in developing countries. Insight asked Kevin Danaher of Global Exchange and David Henderson of the Hoover Institution to engage in an e-mail debate.

DAVID HENDERSON: People who work in so-called "sweatshops" in poor countries go back day after day and are the envy of the even poorer people in the farming communities they left. Preventing them from having those jobs keeps them poor.

KEVIN DANAHER: To say that a miserable job is better than no job at all is hardly ringing proof of the benefits of so-called "free trade." Free-traders like to say that their system offers opportunity. But a job that does not pay a living wage and does not guarantee workers the right to form independent unions is no real opportunity. Sweatshops are not a sign of progress. For example, look at Mexico, where 15 years of trade "liberalization" have not succeeded in closing the gap between rich and poor, according to a World Bank study.

HENDERSON: Actually, a miserable job is much better than a much more miserable job. People working in "sweatshops" often came from even harder jobs working more hours under the hot sun for less pay. Getting a pay increase and better working conditions is a benefit. If you prevent people from moving up to a higher-paying job, you're helping keep them in poverty.

You've got to get out of your own context, Kevin. It's easy for you to dismiss jobs that pay 50 cents an hour as awful. But that's because you live in the U.S. and you have better options. When you take away from people the best of their bad options, you don't make them better off. If you want these workers to be prevented from having those new, better jobs, you are not their friend.

DANAHER: There were intellectuals who tried to justify slavery and

apartheid and every other system of unfree labor, and now there are intellectuals who try to justify U.S. sweatshops under dictatorial regimes. Some of these same

undemocratic regimes (e.g., China) were, until a decade ago, denounced by corporate-owned politicians. But now that the largest U.S. corporations have factories in China, we don't hear much about the lack of freedom of Chinese workers.

The human rights movement is not trying to prevent Third World workers from getting jobs. We are trying to create a democratic, rules-based system that promotes good-paying jobs instead of leaving job creation totally up to profit-seeking corporations. It's a matter of priorities: Should trade agreements be designed largely to benefit corporations, or should they instead put social and environmental concerns first?

HENDERSON: The key is not whether the workers are in a dictatorial regime but, rather, whether each individual worker has the right to choose. It would be ideal to get rid of dictatorships and, in fact, economic growth tends to lead to that happy outcome.

Meanwhile, the way to let people improve their lot is to let them freely choose jobs, even if that means working for a multinational that pays low wages. These wages are higher than what they can earn elsewhere, which explains why they take these jobs. It also explains why many of these workers whom you claim to care about have expressed their outrage and fear at people who want to put barriers in the way of companies that wish to hire them.

You claim to believe in human rights, but in opposing the right of corporations to hire workers, you're also denying the right of workers to work for corporations. So you're denying one of the most basic human rights of all -- the right to make a living.

DANAHER: To say that any worker is free to escape an oppressive employer by getting a different job is about as realistic as saying that any citizen is free to escape an oppressive government by emigrating. Are workers free to move across borders with the same liberty that finance capital enjoys? No. It's easier for a television set to move across the U.S.-Mexico border than it is for a

Mexican citizen. So much for "free trade."

Now let's look at Mexico, a country that has implemented the full package of free trade "reforms." According to the Mexican government, wages in the country's manufacturing sector dropped almost 10 percent from 1994 to 1999. And the number of Mexicans living in "severe" poverty (surviving on less than \$2 a day) has increased by 4 million since NAFTA began. Free trade is not working for the average Mexican.

HENDERSON: You misunderstand my point about Mexican workers' freedom to choose. Mexicans' choices about the jobs they will take in Mexico aren't choices you or I would like. Their best choice, by their lights, is the one they're in. If that happens to be a "sweatshop" job, and if you persuade a multinational company not to offer it, or, worse, persuade some government agency to prohibit the offer, you make those poor people even worse off.

Your wage data are roughly right. But the reason has to do with the pegging of the peso at an unrealistically high level in the early 1990s, a policy Mexico had to abandon, with the subsequent fall in real wages. Thank goodness for NAFTA, which kept the Mexican economy from falling even further.

The best thing that can happen to the Mexican economy and to economies around the world is free trade. Eliminating trade barriers for their goods means that they have new markets for their goods; eliminating their own trade barriers gives their residents access to lower-priced goods. The 19th century French economic journalist Fredric Bastiat once likened trade barriers to "negative railroads." Just as railroads reduced the cost of transporting goods, opening up trade and making people all along the railroad line better off, trade barriers do the opposite.

DANAHER: We are opposed to economic policies that destroy local livelihoods and force people off their land into migration in search of a way to survive. For example, the flood of cheap, U.S. taxpayer-subsidized corn into Mexico because of NAFTA -- and the changes to the Mexican constitution's land ownership provisions demanded by NAFTA -- are driving millions of Mexican peasants off their land.

The peso was pegged to the U.S. dollar in order to boost investor confidence in the Mexican economy in preparation for NAFTA. The resulting financial crisis

illustrates the inherent weakness in a system that caters to foreign investors at all costs.

Capital controls, such as those that Malaysia used to buffer its economy from the Asian financial crisis, have proven an effective protection against the vagaries of the casino economy.

A small tax on financial transactions, often referred to as the Tobin Tax, would also be an important means of curbing speculation.

HENDERSON: But if U.S. taxpayer-subsidized corn is hurting Mexican farmers, the solution is to end the subsidies, not to end trade. One of the benefits of the World Trade Organization is that foreign companies that are discriminated against by subsidies to domestic companies have been able to use the WTO to end those subsidies.

This debate began with the question, "Does global trade do more harm than good?" My answer is that it does much more good than harm. Trade allows people in each country to specialize in producing what they produce best. Trade helps raise standards of living, and, if accompanied by respect for property rights, low taxes and nonintrusive government, will turn poor countries into rich ones within two generations. Hong Kong was dirt poor in 1950 and, after 50 years of free trade, low taxes and almost laissez-faire economic policies, is one of the economic wonders of the world.

DANAHER: If it is true, as you assert, that "trade allows people in each country to specialize in producing what they produce best," then how do we explain the fact that the United States imports much more computer equipment and electronics from China than China buys from the United States? It's because the big U.S. computer companies moved their factories to China because they can employ unfree workers, pay them pennies per hour, exploit them more than they could exploit American workers and pollute the environment more than they could here.

Of course, they want to sell the computers here, which means they need to lobby Congress to lower "tariffs" (taxes on transnational corporations), which shifts the tax burden onto American workers and small business.

We are not against trade per se. We are against undemocratic, corporate-controlled trade, which disadvantages small business and workers (the majority).

Trade is a secondary issue: The key issue is what kind of global government are we going to have? If a narrow sector of global society (the leadership of transnational corporations) is allowed to dominate rule-making institutions such as the World Bank, the International Monetary Fund and the World Trade Organization, then we will end up subordinating human rights and the environment to corporate profit-making. Wouldn't it make more sense to have the economy subordinated to society and nature, rather than subordinating the life cycle to the money cycle?

HENDERSON: One of the great virtues of free trade is that it allows producers to figure out, in response to market prices, which items to produce. Forty years ago, for example, who knew that Japan would come up with high-quality cars that would force GM, Ford and Chrysler to produce better cars? Had we kept out imports from Japan, we may never have known.

Some goods from China may be the products of slave labor, but whether this is good or bad for the slaves is not as clear as you assume. The U.S. government buys desks made by U.S. prisoners who are paid a few pennies an hour. Would the prisoners be worse off if the U.S. government stopped buying desks? Not necessarily. They might then be idle rather than doing something productive.

Also, the more trade contacts with China, the more open Chinese society is likely to be. This will be good in the long run for most Chinese people.

Free trade also helps the environment. The reason: As people get richer, they demand a cleaner environment. The environment is in much better shape in

the United States, for example, than it was when people were much poorer. Streets in New York are much less filthy than they were 100 years ago because cars have replaced carriages pulled by horses that dropped disease-creating manure. As natural gas and nuclear energy have replaced coal, air in America's cities has also become cleaner. If poor countries are allowed to trade, they will become richer more quickly. Past some level of income per capita, they too will want a cleaner environment.