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Sweatshop Regulation: Tradeoffs and Welfare Judgements

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Abstract The standard economic and ethical case in defense of sweatshops employs the standard of the "welfare of their workers and potential workers" to argue that sweatshop regulations harm the very people they intend to help. Scholars have recently contended that once the benefits and costs are balanced, regulations do, in fact, raise worker welfare. This paper describes the short and long-run tradeoffs associated with sweatshop regulation and then examines how reasonable constructions of measures of "worker welfare" would evaluate these tradeoffs finding that the standard economic and ethical case against sweatshop regulations is well supported.

Keywords Sweatshop · Minimum wage · Labor law

Introduction

Over the last 20 years, economists from across the political spectrum have generally acknowledged that third-world sweatshop employment is superior to the available alternatives for these workers and have viewed many proposed regulations as likely to lead to a decrease in sweatshop employment that makes workers worse off. Economist John Miller, himself a critic of sweatshops, summarized the consensus view succinctly, "Their proposition is as simple as this: 'Either you believe labor demand curves are downward sloping, or you don't… Of course, not to believe that demand curves are negatively sloped would be tantamount to declaring yourself an economic illiterate" (2003, p. 107).

Numerous scholars (Arnold 2003, 2010; Arnold and Bowie 2003, 2007; Arnold and Hartman 2003, 2005, 2006; Miller 2003; Pollin et al. 2004) attempted to identify mechanisms that would undermine the standard negative employment consequences predicted by economists over the decade following Miller's assessment. Powell and Zwolinski (2012) and Powell (2006, 2014) argue that these scholars made numerous errors and that their arguments do nothing to undermine the standard negative consequences predicted by economists. In evaluating the consequences of sweatshop employment and proposed sweatshop regulations both Powell (2014, p. 3) and Powell and Zwolinski (2012, pp. 450–451) explicitly use the welfare of actual and potential sweatshop workers as their standard of evaluation. However, in both cases, the precise way that they measure welfare is only vaguely or implicitly defined.

The most important objection raised to the standard economic case against sweatshop employment, and that case as reclaimed by Powell and Zwolinski, comes from Coakley and Kates (2013). The crux of their argument is that Powell and Zwolinski focus mostly on the employment costs of sweatshop regulation but that a welfarist evaluation of sweatshop regulations would weigh both costs and benefits. They argue that the costs in terms of employment losses need not be great and that other potential benefits of regulation might outweigh those costs. They conclude that, "The regulation of sweatshop labor has the potential to greatly increase overall human welfare in general, and the welfare of the globally worst off in particular. Powell and Zwolinski provide no reason to think otherwise" (2013, p. 558).

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Unfortunately, Coakley and Kates misconstrue the tradeoffs associated with sweatshop regulation. They focus exclusively on short-run tradeoffs, ignoring the potential long-run consequences that regulation could have on the welfare of the worst off. Their analysis of short-run tradeoffs is based on faulty economic assumptions that lead them to drastically underestimate the negative consequences of sweatshop regulation on the welfare of the worst off and to overestimate the benefits.

Any evaluation of the merits of sweatshop regulation requires both sound economics and sound ethical evaluations. The next two sections rely on economics to explain the tradeoffs associated with sweatshop regulation. The next section examines the short-run tradeoffs. Section 3 examines the long-run tradeoffs. Section 4, welfare judgements, evaluates under which normative frameworks sweatshop regulation would be desirable, and under which frameworks it would not be, given the tradeoffs outlined in the prior to sections. The final section concludes.

Short-Run Tradeoffs

Virtually all economic policies create benefits as well as costs. This section will establish the short-run benefits and costs associated with regulating sweatshops and attempt to use economic theory to give a general idea of some of their empirical magnitudes.

Sweatshop regulations can take many forms and it is beyond the scope of this article to sort out all of the different impacts that each might have.[1] The remainder of this essay will focus on the costs and benefits associated with mandating minimum (or living) wages in countries with sweatshops. A commonality among virtually all forms of sweatshop regulations is that they raise the relative cost of firms hiring the labor that is being regulated, a minimum wage is no exception. Minimum wages have the potential to generate an external benefit from the increased income the workers who remain employed receive and spend thus boosting local labor demand. Similarly, money spent on health and safety improvements to comply with regulatory requirements could also boost local labor demand. Thus, while the minimum wages as is used as the example of a sweatshop regulation, the argument made in this paper generalizes to many sweatshop regulations.

What are the tradeoffs associated with implementing a higher minimum wage in a country where sweatshops operate? Coakley and Kates (2013) give a partial, and somewhat misleading, account of these costs and benefits. They note that,

1. "Sweatshop workers will have more income" (p. 554).
2. "If the price of the produced goods increase, and if consumers reduce consumption accordingly, then employment in developing world sweatshops might decrease as well" (p. 555).
3. The price of the goods that these workers produce might increase (p. 554).
4. Profits for sweatshop owners might decrease (p. 554).
5. "Given that sweatshop workers spend their additional income on local goods and services, the employment of developing world non-sweatshop workers might increase as a result" (p. 554).

Although points three and four would be relevant for many ethical theories, they will be ignored as irrelevant here, since we are employing some version (types of which are discussed in Sect. 4) of a welfare standard that counts only the welfare of poor third-world workers and potential workers. The factory owners and consumers do not fall into these categories. Point five has an obvious, and unrecognized by Coakley and Kates, counterpart:

5a. Unemployed sweatshop workers earn less income and spend less in the local economy and thus decrease the employment of non-sweatshop workers in the third world.

Coakley and Kates also fail to note:

6. Laid off sweatshop workers increase the supply of labor in non-sweatshop sectors driving down wages and decreasing employment opportunities for non-sweatshop workers (who in turn also spend less in the local economy, just as in 5a).

The important tradeoff is between modified versions of points one and two, both of which are misstated by Coakley and Kates.[2] Put correctly, point one would read, "increased wages of those workers who remain employed." Whether the *incomes* of these workers are higher or not depends on how the employers adjust employee hours. In the face of higher wage rates employers can reduce the quantity of labor they hire both by laying off workers or decreasing employee hours.

Point two, as stated by Coakley and Kates is overly specific and subsequently leads them to underestimate the unemployment effects of increased minimum wages. A

[1] Interested readers can see Powell (2014) for an extensive treatment of the effects of the various types of regulation. These include, among others, minimum wages (Chapter 3), health, safety, and working conditions regulation (Chapter 5), and child labor (Chapter 6). See Clark and Powell (2013) and Skarbek et al. (2012) for studies focused on working conditions regulation.

[2] Additionally, if the minimum wage applies to all sectors of the economy and not just the industry with sweatshops, non-sweatshop workers also face the tradeoffs between points one and two *and* the unemployed sweatshop workers have decreased opportunities to get reemployed in other areas of the economy.

decrease in the quantity of goods consumers demand due to higher prices of the goods is only one channel through which unemployment is created. Stated correctly, the important tradeoff is between how much incomes of sweatshop workers who remain employed increase (modified 1), compared to how badly do those workers, who become unemployed as a result of the higher wage mandate, suffer (modified 2), and how do both of these factors impact non-sweatshop workers (5, 5a, and 6).

Coakley and Kates' argument relies entirely on their misstated point two. The crux of their argument (pp. 555–556) is that significant mandated increases in sweatshop worker wages will do little to increase the price of consumer goods, so unemployment effects would be minimal unless consumers had extremely elastic demand. They summarize their position by writing:

> Thus, aside from the general product price elasticity, there are two fundamental factors to consider in determining whether an increase in the minimum wage paid to workers is likely to lead to an expected welfare gain overall. First, how poor are the workers compared to owners and consumers? Second, how much of the product price is attributable to worker wages? This in turn yields two predictions: That the poorer the workers compared to owners and consumers, the larger the welfare gain from the income transfer effects; and that the smaller the proportion of the cost attributable to worker wages, the smaller the welfare loss from direct employment effects. The upshot is that welfare gains from an increase in the minimum wage paid to workers are expected to be the highest in the following set of circumstances: where consumers and owners are much more wealthy than workers and where worker compensation is a small part of the product price overall. These are precisely the dominant characteristics of developing world export-oriented sweatshops (2013, p. 556).

But share of labor's cost of the final product and consumers' elasticities are not the only, or most important, factor determining the unemployment effect of mandating higher minimum wages. There are many ways to make products that come out of sweatshops. Yet nowhere do Coakley and Kates consider substitutability of inputs in production. Virtually everyone in the scholarly debate surrounding sweatshops agrees that firms are greedy and attempt to maximize their profits. If laws increase the cost of sweatshop labor in any country, firms can remix their inputs of how they make products, in order to minimize costs in light of the new relative price structure. The remixing will take place regardless of labor's share of the total cost.

There are three obvious substitutes for using third-world labor from any given country: more productive (and expensive) first-world labor; less labor and more capital; and labor in other third-world countries. In any given situation, one or more of these channels will be used. The first two of these channels is clearly "bad" when using any welfare standard that exclusively counts the welfare of the workers and potential workers from poor countries. Section 4 will explore the welfare implications of a shift of production between third-world countries.

How much of the burden of a higher wage mandate is borne by which parties effected by it will depend on *relative* elasticities (just like a tax). In this case, the burden of higher wages for some employees will be borne by some combination of owners of firms, consumers, and other third-world workers. In a world where multinationals order from domestic subcontractors and can shift their orders around the globe, and where capital is internationally mobile, both the multinationals and the owners of capital that can go into factories are highly elastic. Labor is not highly mobile though. Labor is not highly mobile partly because it is bundled with the consumption of being near ones family, friends, and enjoying the culture one was raised in. But more importantly for laborers in poorer countries, significant policy barriers prevent the international mobility of labor.[3]

Coakley and Kates considered only the least important channel of how wage mandates could decrease employment in third-world sweatshops. When the entire market is examined, it is obvious that the third-world workers' labor supply is the least elastic factor of production and thus the one likely to bear most of the burden of any mandated wage increase.

The fact that poor laborers are likely to bear the largest share of the burden of an increased wage mandate does not, by itself, settle the debate. It just means that Coakley and Kates were making ill-informed general empirical guesses. The desirability of a wage mandate remains an empirical question of how big the income gains are to those who remain employed and how big the losses are to those who lose their jobs (and the losses to others caused by increased labor market competition from the unemployed workers) coupled with a specific measure of "welfare."

It is beyond the capability of economic science, to lay out any permanent estimate of the empirical tradeoff between wage mandates and unemployment. The laws of economics dictate that the tradeoff exists, but its size will vary by time and place, as relative elasticities vary. All measures of elasticity are historical data, not permanent relationships. With that in mind, rather than making

[3] See Powell 2015, particularly Chapter 2, for a summary of the negative economic consequences for world welfare, and particularly the welfare of those trapped in poorer countries, caused by government restrictions of international labor mobility.

calculations of labor's share of the cost of a good and hypothesizing about consumer elasticities, as Coakley and Kates did, the more appropriate way to get a better idea of the size of the tradeoffs involved is to look at actual minimum wage mandates in poorer countries and the associated unemployment effect.

The real value of the minimum wage in Indonesia more than doubled from 1989 to 1996. Harrison and Scorse (2010) study the Indonesian labor market over this time period, including the employment and wage impact of the minimum wage increase. They find that employment dropped by 35 % in the industries, footwear and apparel, that are most associated with sweatshop labor (2010, p. 265). Coakley and Kates are correct that this information, in and of itself, is not enough to make a welfare judgement. These employment losses need to be weighed against the wage increases of remaining workers. However, one cannot assume that the wages of the remaining workers doubled, as Kates (2015, p. 202) later mistakenly does. Some workers earned more than the minimum wage before it was increased. A 35 % drop in employment could be associated with not a single worker receiving a wage increase, if firms fire all low wage workers and retain only those who were previously earning more than the new statutory minimum. Harrison and Scorse control for the fact that the initial minimum wage was often non-binding and find that a 1 % increase in the real value of the minimum wage was associated with only a 0.675 % increase in the real unskilled wage (2010, p. 259). As a rough first approximation, doubling the minimum wage led to a 67.5 % increase in the wages of 65 % of the workers at the expense of unemploying the other 35 %.[4] Even this is a low-end estimate of the employment costs because Harrison and Scorse's difference in difference methodology of studying the employment impact of the minimum wage necessarily does not account for jobs lost when entire firms exit or fail to enter the Indonesian market because of the minimum wage increases.

To make a welfarist judgement, one must weigh the gains to the winners against the losses to the losers. No reliable estimates are available about how big the losses were for those who were unemployed by the minimum wage increases. But it bears keeping in mind that 57.1 % of the Indonesian population was living on less than $1.90 per day between 1991 and 1995 (World Bank 2015).[5] Extreme poverty earnings were likely the norm for those who were forced out of the apparel sector by minimum wage increases.

What does this say about point 5 and 5a above? Workers who lose their jobs likely see substantial falls in their incomes. This, at best, leaves a very small net increase in total income to all current and former apparel industry workers when the gains are taken against the losses.[6] But this is not the end of a short-run welfare calculation. Now point six needs to be considered. Increased labor market competition for non-sweatshop workers results from the 35 % of sweatshop workers who were unemployed. Also, the negative employment impact of firm exit (and failure to enter) would need to be added to these costs. Under many likely scenarios this turns what at first might be a small net gain into a net drain, even in the short-run.

The Indonesian case illustrates how one would correctly begin to assess the short-run tradeoffs that Coakley and Kates suggest should be considered. The estimated empirical results of the wage increases and unemployment effects from Indonesia in the 1990s are merely that. There are no universal empirical laws of magnitude (direction is another story) but as we outlined above we have good theoretical reasons, based on characteristics that lead factors to be more or less elastic, to believe that there are substantial tradeoffs between mandated wage increases and job losses in the affected industry. Furthermore, as Powell and Skarbek (2006) and Powell (2014) demonstrate, the alternatives to sweatshop industry employment in most countries where they operate are usually quite dire. But there are long-run tradeoffs that also need to be considered in any welfarist perspective.

Long-Run Tradeoffs

Sweatshop regulations, such as a minimum wage or mandated safety improvements, are aimed to make a one-time permanent improvement in sweatshop conditions. For example, mandating a minimum wage of $2 per day aims to lift all workers immediately above that standard. If there were not the problematic short-run tradeoffs documented in the previous section, this policy would once and for all lift workers above that wage and never let them fall below it again. However, I know of no reasonable argument that a

[4] This unemployment estimate is derived from statutory minimum wages as they were actually enforced. It is widely appreciated that enforcement of minimum wage laws in poor countries is extremely lax (Strobl and Walsh 2000; Bell 1997; Rama 1996). Thus a vigorously enforced minimum wage, as most anti-sweatshop activists desire, would have even greater unemployment effects.

[5] In 2011 PPP international dollars.

[6] Curiously, though Coakley and Kates cite Powell and Zwolinski's use of the Harrison and Scorse study and say that we must weigh these costs and benefits, they never actually perform these calculations themselves. Instead they rely on their faulty method of considering only labor's share of a goods cost and assume consumers have fairly inelastic demand and then assert that net income could go up substantially and create a multiplier that stimulates the local economy leaving even those who lose their jobs not much worse off. Kates (2015) later attempts to make the calculation but does so incorrectly.

minimum wage or other safety regulation mandate would change the future expansion path of wage growth over the long-run. Without the short-run adverse effects, at best, poverty would just permanently be less bad than it otherwise would have been. The regulations do nothing to speed the process of economic development that eventually eliminates extreme poverty.

However, there are good reasons to believe that sweatshop regulations harm the long-run process of wage growth that occurs through the process of economic development. The proximate causes of high living standards are the quantity of physical capital, level of technology, and quality of human capital. When sweatshops operate in third-world countries, they bring physical capital with them in the form of investment, they often bring new production technologies, at least relative to those technologies previously being used in the country where they locate, and, relative to agricultural labor or other service sector employment where their employees might otherwise work, they often provide more opportunities for human capital improvements.

Even if a short-run tradeoff led to larger income gains to those who keep their jobs compared to the income losses of those laid off, and the losses to those in the other sectors who face lower wages because of competition from the laid off workers, that does not necessarily lead a farsighted welfareist to conclude that welfare has been improved. Laid off workers will likely build less human capital while working in non-manufacturing sectors which will limit their income growth relative to what it could have been had they been able to stay in factory employment. The higher costs associated with sweatshop regulation will lead fewer firms to open new factories than otherwise would have. That limits capital creation through investment and decreases the amount of technology transfer that occurs compared to what it otherwise would have been.[7] These two factors lower the future productivity, and thus wage growth, of everyone, including the sweatshop workers who remained employed.

There is also a large literature that shows that higher levels of economic freedom (and improvements in economic freedom) are associated with higher income levels, higher growth rates, and better performance on most measures of standards of living (See Hall and Lawson 2013 for a recent survey of this literature and Gwartney et al. 2015 for the most recent version of the index). Although capital, technology, and human capital are proximate causes of high standards of living, good institutions are the fundamental cause. They lead to better economic coordination of whatever resources are available. Better institutions, as measured by economic freedom, also lead to higher levels of investment and a greater productivity out of any given level of investment (Gwartney et al. 2006). When both the direct and indirect channels through investment are taken account of, a one unit decrease in economic freedom has been shown to be associated with a decrease in long-run growth rates by 1.5 percentage points (Gwartney et al. 2006).

Sweatshop regulations constitute decreases in the economic freedom of both employers and employees to agree on any mutually agreeable employment terms. In terms of the economic freedom of the world index cited above, these restrictions decrease freedom in the areas of labor market regulation and business regulation. But corruption of enforcement officials is also likely whenever mutually beneficial exchanges in any market are prohibited. Increases in corruption might undermine measures of property rights and the rule of law in the economic freedom index.

Any, even modest, improvement in worker incomes can make a meaningful difference in people's lives when living standards are so low. But the best case improvements that could hope to be achieved by any sweatshop regulations pale in comparisons to the life altering changes brought about by the process of economic development. Capital and technology flow into countries that embrace policies of economic freedom and secure property rights causing rapid increases in living standards. The sweatshop countries of the 1950s, like Hong Kong, Taiwan, Singapore, and South Korea, that adopted policies supportive of economic freedom jumped from a pre-industrial standard of living to first-world living standards in a generation (Powell 2014). It is hard to imagine a reasonable welfarist position that would weight any small improvement in living standards that might have been achieved for workers in 1960 through sweatshop regulation more heavily than the massive welfare gains over the subsequent 20–30 years that would have been delayed by such regulations.

More empirical work on the size of the negative long-run consequences of sweatshop regulation and growth is warranted. The amount of reduced growth would obviously be related to the size of a minimum wage mandate or the cost of compliance with other sweatshop regulations. The above paragraph does not claim that the Asian economies would not have eventually developed if they had passed a small increase in their minimum wage in 1960. The long-run economic tradeoffs identified only indicate that any growth would have come more slowly and thus the lost welfare in the intervening years needs to be accounted for.

With both short-run and long-run tradeoffs in mind, it is now time to turn to the task of evaluating the tradeoffs

[7] Rama (1996) examines the minimum wage increases in Indonesia discussed above and finds that they were associated with a 5 % decrease in investment.

associated with sweatshop regulation in light of different welfare standards.

Welfare Judgements

Economic science is capable of establishing the tradeoffs associated with policy changes. But economic science, by itself, is incapable of establishing the desirability of any policy. To establish the desirability of an economic policy, an ethical judgement must be rendered in light of the tradeoffs established by economics.

Sweatshop regulations decrease economic efficiency. Any regulation that changes relative prices in a way that does not reflect the real scarcity of resources necessarily creates deadweight losses that shrink the economic pie.[8] But efficiency is, itself, a normative standard that needs ethical justification. It counts the income of everyone, rich and poor, the same. Implicitly, it assumes a dollar of income generates the same amount of human welfare regardless of who receives it. Although there are good arguments in favor of using economic efficiency as a welfare standard, in the context of the debate surrounding the regulation of sweatshops, I have chosen to argue exclusively in terms of the welfare of sweatshop workers and other poor people who are potential factory works, in the third world. This standard, in the spirit of value-free economics, embraces the ends of the anti-sweatshop activists—the welfare of the world's poor—and asks if the proposed means, sweatshop regulations, promote that end.

But "welfare of sweatshop workers and other poor people in those countries" is not something that can be scientifically measured. Utility is not interpersonally comparable and all values gained and lost are subjective to those experiencing them (Stringham 2010). Any time that we are measuring gains to the winners compared to losses to the losers we are necessarily moving beyond the scope of what science is capable of establishing. We can measure dollar gains to winners compared to dollar losses for losers, just like we measure efficiency, but that does not directly translate into utility if those dollars are worth more to some people than to others. Despite these limitations, let's proceed to explore some aspects of "worker welfare" with these important caveats in mind.

[8] If relative prices were failing to reflect the real scarcity of resources, it is possible, in theory, for a regulation to change relative prices to better reflect relative scarcities and thus eliminate deadweight losses and increase the economic pie. Advocates of sweatshop regulations have not made any convincing case that their preferred regulations could fall into this category.

Does Everyone Count Equally?

Should the income gains to the sweatshop workers who remain employed simply be netted against the income losses to those who lose their jobs and the other poor workers who face lower incomes because of competition from the newly unemployed sweatshop workers? If standard economic efficiency was our baseline, the answer for most economists is clear—yes. But the whole point of using "third-world worker (and potential worker) welfare" as a welfare standard explicitly rejects counting the welfare of all equally. It ignores the welfare of capital owners and first-world consumers.

Is there a break point where the welfare of some people counts for nothing and the welfare of all of the rest count equally? Once one uses a welfare standard that explicitly excludes any welfare gains or losses to the relatively rich, one is implicitly adopting a standard where the welfare of the least well off people matters more. If one embraces a strong Rawlsian position, that only values the welfare of the least well off, then clearly sweatshop regulations would be undesirable. Sweatshop regulation cause income losses to the poorest of the poor through layoffs while the remaining sweatshop workers, who are relatively better off, experience gains. But one need not embrace a fully Rawlsian position in order for such considerations to impact how one judges welfare gains and losses from sweatshop regulation.

Once one rejects counting everyone's welfare equally, one does not have to take the polar opposite position that only the welfare of the least well off count. Perhaps, a more consistent line of reasoning would conclude that any gains or losses matter more, the poorer the person experiencing them is? That standard could justify excluding the welfare of the rich people residing in the first world. But, since sweatshop workers usually have much higher living standards than many of the people living in the countries where they operate (Powell 2014; Powell and Skarbek 2006), such a standard would also have to weight the income losses to those who are unemployed (and those who they then compete with) more heavily than the gains to those workers who remain employed after the regulation is implemented.

A complimentary line of reasoning might posit that a given dollar of income would generate more utility the lower the income of the person receiving it is. If this is assumed, then the income losses to the poor who are harmed by sweatshop regulations would again count more heavily than the income gains to those who remain employed. Welfare, as measured this way, could decrease even if total income in the poorer country increased as a result of sweatshop regulation.

It only seems logical to count the income losses to the poorest more heavily than any income gains to the

relatively better off workers once one has already abandoned counting the income (or welfare) of everyone equally by excluding gains or losses the relatively rich in the first world.

When Do People Count?

Coakley and Kates considered only short-run costs and benefits. But, as Sect. 3 demonstrated, sweatshop regulations create additional long-run costs in terms of worker welfare with no corresponding long-run additional potential benefits. What is the appropriate time horizon for evaluating costs and benefits?

It seems odd to employ any welfare standard that cares about the world's poor today but not their welfare a year from today. Similarly, why should not their welfare, and their children's welfare, be counted 20 or 30 years or more down the line. It is obviously appropriate to use a discount rate to discount future costs or benefits compared to those achievable today. But, given the small or non-existent short-run welfare gains that might be achieved through any regulation, compared to the dramatic overall changes in living standards achieved through economic development, it would seem that at most plausible discount rates any, even small, decreases in economic growth because of sweatshop regulations would create welfare losses that dwarf any gain that could possibly be achieved in the short-run.

Where Do People Count?

If a minimum wage increase is mandated in Indonesia, which poor workers' welfare counts? Just Indonesians? Coakley and Kates point out that when factories relocate, in response to an increase in the Indonesian minimum wage, some might relocate to other poorer countries. Thus measuring only Indonesian worker welfare misses the welfare gains to other poor workers who should also count (2013, p. 555). Fair enough. But embracing this line of reasoning has other important implications.

First, given the tradeoffs and welfare considerations outlined above, honesty requires advocates of, say, an Indonesian minimum wage increase, to explicitly admit that they favor a minimum wage increase because they weigh the benefits it will create for poorer Bangladeshi workers more highly than the losses suffered by Indonesia. I know of no anti-sweatshop scholar who has admitted this tradeoff and embraced it.

Second, if promoting the welfare of Bangladeshi workers is the goal, what welfare standard dictates that it should come at the expense of other poor, but slightly better off, Indonesian workers? Would not one instead favor imposing harsher anti-competitive restrictions on even wealthier workers in the first world? Perhaps an international ban on producing apparel in the first world? Then, both poor Bangladeshi workers and poor Indonesian workers would be helped rather than harming one for the benefit of the other.

Some advocates of sweatshop labor might mistakenly take this argument as a case for international sweatshop regulations that proportionately impact all third-world countries rather than regulating sweatshops on a country-by-country basis. An international regulation that eliminated the ability of firms to secure greater profits by moving between third-world countries in order to avoid the cost of sweatshop regulations would only lead to greater substitution of first-world workers and capital for third-world workers. Thus, an international regulatory regime may lead to less switching of production between third-world countries, but it would also cause greater welfare losses than when a single third-world country regulates sweatshops, when employing any welfare standard that takes into account all workers in the third world and weights their welfare more heavily than first-world workers and capitalists.

If we are not evaluating the welfare of only a country adopting a sweatshop regulation, but third-world welfare more generally, then perhaps the policies that could create the greatest gains for poorer countries are not sweatshop regulations at all. They would be policies that raise the welfare of all third-world countries rather than harming some for the benefit of others.

Conclusion

The standard economic case against sweatshop regulation (Powell 2006, 2014; Powell and Zwolinski 2012), based on considerations of the welfare of sweatshop workers and their impoverished countrymen, remains on solid ground despite claims to the contrary (Coakley and Kates 2013).[9]

Coakley and Kates are only able to claim that sweatshop regulation "has the potential to greatly increase overall human welfare in general, and the welfare of the globally worst off in particular" (p. 558) because they: (1) misconstrue short-run tradeoffs and, in particular, ignore the most important channels through which the short-run tradeoffs create unemployment for sweatshop workers; (2) ignore the long-run decreased income growth that results from regulation; (3) adopt an odd welfare standard, that entirely excludes the worlds rich, but then fails to weight the extremely poor any more heavily than the moderately poor.

[9] The arguments in this paper equally undermine the claims made by Kates (2015) with regard to his "preference and choice" argument.

There is no objective scientific way to measure "welfare." Such measurements are more art than science. A measure of welfare can always be constructed in such a way that the person constructing it can reach whatever conclusion they desire. But not all art is equal. Good art incorporates the science that establishes the tradeoffs that policies confront. Good art should have compelling reasons anytime it weights the gains to people differently. In the case of sweatshop regulation, it is certainly plausible to weight the income changes to the poor more heavily than the income changes to the wealthy. But once that is done, it would seem that good art should also weight the income changes to the extremely poor more heavily than the changes to the moderately poor. Good art recognizes both current costs and benefits and future costs and benefits and discounts accordingly.

Once the tradeoffs associated with sweatshop regulation are correctly understood, most (all?) renderings of a reasonable standard of "worker welfare" should lead one to conclude that such regulations harm the welfare of the very people they are intended to help.

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