

# How the Rich Keep Workers Poor - Outsourcing and Sweatshops

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## **Outsourcing**

*Outsourcing is where company A pays company B to do work that could be done by company A. Internationally, this means that jobs which were done in rich nations are now done in poorer nations because wages are lower. Many goods are made in China, clothes come from Bangladesh, and call centres are in India. The typical earnings for workers in the clothing industry in Bangladesh are £75/month, about half the amount needed to live on.(1)*

## **Sweatshops**

A sweatshop is the term used to describe companies where employees work excessively long hours for very little pay with few rights, often in extremely unpleasant or unsafe working conditions. This can include sewage on the floor, no toilet breaks, serious bullying (including physical violence), extreme temperatures, inadequate ventilation, fire hazards, unpaid overtime, arbitrary fines and poisonous materials. This can lead to poor health, extreme stress, and increased suicide. Sweatshops are particularly prevalent in the fashion industry. In one study in 2010 it was found that workers earned 10c for each \$80 shirt that they sewed.(2) Big corporations and their PR departments would like you to believe that sweatshops are a thing of the past. This is not true.

The issue is debated occasionally in the media when something dramatic happens. In 2013, 1100 workers died in a garment factory known as Rana plaza in Bangladesh.(3) Cracks had appeared the day before, but workers were forced back to work. The building collapsed.

In another famous example, the tech company, Apple, used a subcontractor in China called Foxconn where, in 2010, 18 workers committed suicide.(4) Each incident leads to promises from companies saying how hard they are working to solve these problems, and there have been some improvements in some places, but the general situation has not improved.

## **The Importance of Unions**

These workers are often being exposed to pollution and emissions that have been deemed illegal in more advanced nations, and they get poisoned by all manner of toxic substances

such as lead or mercury. If they suffer illness and injury, they can be fired and replaced. It is estimated that less than 10% of garment workers are in unions, so they have no-one to help them. People who attempt to create unions have been beaten, thrown in jail, blacklisted and even killed. The right to unionise might not seem important to richer people, but historically it has been extremely important in helping employees bargain with employers for better pay and working conditions. One of the main reasons why international companies want to outsource to poorer countries is that they know they can exploit people.

### **Companies Are Not Passive**

Corporations claim that these are difficult problems to solve because they do not have control over what goes on in other countries. In reality the opposite is the case. The corporations demand ever-cheaper workers and weaker employment law. Companies are not just passively taking advantage of the system. They actively lobby their governments to reinforce the system, and they lobby foreign governments to crush unions. They take advantage of weak enforcement of regulations, and widespread corruption. Low cost factories (known as maquiladoras) were set up in Mexico, only to be subsequently relocated to China.(5) When China tried to raise standards, corporations closed their factories and moved production to countries with even lower standards.(6)

Big brands put pressure on factories overseas. This has become worse due to the development of what is called fast fashion,(7) which involves large numbers of new clothes, of very low quality, being introduced each week. Suppliers are expected to be able to increase production very quickly, putting pressure on staff. The prices that are paid by big Western companies can be so low that subcontractors cannot afford to comply with safety laws, so accidents and injuries are common. Many of these people are extremely productive, but the extra profits go to rich people in advanced nations.

The trend towards fast fashion has led to people buying five times as many clothes as they did 20 years ago.(8) Much of this is rapidly discarded and ends up in landfill. The clothing industry is one of the most polluting in the world.

### **Hiding Exploitation**

Outsourcing overseas is not simply about being cheaper. It is also intended to make it more difficult to hold companies to account, because they can say that any problems are not their fault. They claim it is the fault of a subcontractor, or a subcontractor of a subcontractor, in another country. They are therefore able to say that they have no legal obligations to the workers.(9) They are deliberately secretive about the supply chains for their goods, so it can be impossible to know who is producing their raw material, such as cotton, and under what conditions. This is a deliberate strategy to hide exploitation.

### **The Big Picture**

One argument that is put forward repeatedly in defense of low wages paid by big corporations is “What else would these people do? If sweatshops were not employing them, they would be unemployed or earning even less.” Some economists even argue that sweatshops help poor countries escape poverty. This is yet another theory that sounds good in a textbook, but is not true in practice.

We need to understand why these people are unable to find better jobs, and why children

need to work, in their country. The explanation is the bigger picture described in other posts. Their governments are not doing the things that would end poverty, and developing better-paying alternatives, because they do not represent their people. They represent the rich in their own country, and Western corporations, either by choice because they will benefit, or because they have been threatened and/or bribed by the US. The focus of their economic policies is on working with rich countries and corporations to allow them to control resources and trade.

A country like Bangladesh, which has a terrible track record regarding sweatshops, provides an excellent case study. The US helped to overthrow the government in 1975 and replaced him with a military dictatorship. They pursued extreme economic policies intended to benefit rich people and exploit poor people. Two family dynasties have dominated politics in Bangladesh ever since, maintaining similar policies.(10) Much of the debate, among economists and in the media, about low wages paid by big corporations in poor countries, overlooks the powerful forces that manipulate the economic system.

### **Proper Laws Could Make a Difference**

It is important to note that simplistic solutions are not the answer. Closing down sweatshops, and even banning child labour, in circumstances where those employees have no alternative income, has created problems on some occasions.(11) We should obviously strive to end child labour and sweatshops, but we need to ensure that governments put in place other policies to ensure that children can go to school, and to ensure that their families can meet their basic needs. Ultimately, solutions will involve changing many aspects of the system described in these posts.

For the people in poor countries, outsourcing might make sense if everyone was paid enough to live on, and they were employed in good conditions. There is no reason why international companies cannot be forced to ensure that all employees in their production chain (including subcontractors) have decent pay and conditions. This could easily be used as a route to a better standard of living for a large number of poor people.

### **Propaganda - The Ethical Trading Initiative (ETI)**

Some companies are part of a system known as the Ethical Trading Initiative. Under this system, companies are supposed to ensure higher standards of pay and working conditions for suppliers overseas. However, an investigation in 2016 found that the ETI was not very effective, and most companies involved merely see it as Public Relations to give the impression that they are better than they really are.(12)

### **Roger and Me - Destroying Whole Towns and Cities**

For the people in rich countries, outsourcing only makes sense if we can find replacement jobs at good wages for everyone. Unfortunately, the US and British governments are not interested in this. Some of the downsides of outsourcing for rich nations were described by Michael Moore in his 1989 film, 'Roger and Me.'(13) This looked at the sequence of events that took place in Moore's home town of Flint, Michigan between 1978 and 1992, when General Motors (GM) closed down some of the large car plants that were the biggest employers in the town. GM relocated production to Mexico, with lower wages and no unions. Tens of thousands of Flint GM workers lost their jobs. The social safety nets and opportunities for re-training were inadequate. Those local businesses that were dependent

on the earnings of the GM workers went bust. This had a ripple effect, causing more and more businesses to close, until eventually Flint had almost become a ghost town with mass unemployment. Crime skyrocketed. Flint was then described by Money magazine as the worst place to live in America. The situation in Flint did not begin to improve until 2002.

General Motors will have increased its profits by relocating, but the cost to society (impossible to measure accurately) was many times greater. This is an excellent example of how a corporation can create terrible outcomes for society when it aggressively pursues profit. This pattern has been replicated throughout industrial regions of the US, and in some areas in Britain, where industries such as shipbuilding and coalmining closed down, leaving swathes of people unemployed. The average income of US citizens has not improved for 40 years, partly because of outsourcing overseas.

### **Workers in Britain and the US are Still Being Exploited**

Sweatshops have reappeared in the UK and US in the last few years, with clothing companies paying employees well below the minimum wage.(14)

This is part of a wider pattern where companies are finding ever-more deceptive ways to exploit people. In a recent analysis, it was found that many Deliveroo drivers were earning less than the minimum wage in Britain.(15) Deliveroo, and other companies such as Uber, were able to do this by pretending that their riders and drivers were self-employed. The UK Supreme Court has now ruled against this.(16)

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### **Notes**

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