

In Praise of Cheap Labor

Bad jobs at bad wages are better than no jobs at all.

By Paul Krugman

(1,669 words; posted Thursday, March 20; to be composted Thursday, March 27)

For many years a huge Manila garbage dump known as Smokey Mountain was a favorite media symbol of Third World poverty. Several thousand men, women, and children lived on that dump--enduring the stench, the flies, and the toxic waste in order to make a living combing the garbage for scrap metal and other recyclables. And they lived there voluntarily, because the \$10 or so a squatter family could clear in a day was better than the alternatives.

The squatters are gone now, forcibly removed by Philippine police last year as a cosmetic move in advance of a Pacific Rim summit. But I found myself thinking about Smokey Mountain recently, after reading my latest batch of hate mail.

The occasion was an op-ed piece I had written for the *New York Times*, in which I had pointed out that while wages and working conditions in the new export industries of the Third World are appalling, they are a big improvement over the "previous, less visible rural poverty." I guess I should have expected that this comment would generate letters along the lines of, "Well, if you lose your comfortable position as an American professor you can always find another job--as long as you are 12 years old and willing to work for 40 cents an hour."

Such moral outrage is common among the opponents of globalization--of the transfer of technology and capital from high-wage to low-wage countries and the resulting growth of labor-intensive Third World exports. These critics take it as a given that anyone with a good word for this process is naive or corrupt and, in either case, a de facto agent of global capital in its oppression of workers here and abroad.

But matters are not that simple, and the moral lines are not that clear. In fact, let me make a counter-accusation: The lofty moral tone of the opponents of globalization is possible only because they have chosen not to think their position through. While fat-cat capitalists might benefit from globalization, the biggest beneficiaries are, yes, Third World workers.

After all, global poverty is not something recently invented for the benefit of multinational corporations. Let's turn the clock back to the Third World as it was only two decades ago (and still is, in many countries). In those days, although the rapid economic growth of a handful of small Asian nations had started to attract attention, developing countries like Indonesia or Bangladesh were still mainly what they had always been: exporters of raw materials, importers of manufactures. Inefficient manufacturing sectors served their domestic markets, sheltered behind import quotas, but generated few jobs. Meanwhile, population pressure pushed desperate peasants into cultivating ever more marginal land or seeking a livelihood in any way possible--such as homesteading on a mountain of garbage.

Given this lack of other opportunities, you could hire workers in Jakarta or Manila for a pittance. But in the mid-'70s, cheap labor was not enough to allow a developing country to compete in world markets for manufactured goods. The entrenched advantages of advanced nations--their infrastructure and technical know-how, the vastly larger size of their markets and their proximity to suppliers of key components, their political stability and the subtle-but-crucial social adaptations that are necessary to operate an efficient economy--seemed to outweigh even a tenfold or twentyfold disparity in wage rates.

And then something changed. Some combination of factors that we still don't fully understand--lower tariff barriers, improved telecommunications, cheaper air transport--reduced the disadvantages of producing in developing countries. (Other things being the same, it is still better to produce in the First World--stories of companies that moved production to Mexico or East Asia, then moved back after experiencing the disadvantages of the Third World environment, are common.) In a substantial number of industries, low wages allowed developing countries to break into world markets. And so countries that had previously made a living selling jute or coffee started producing shirts and sneakers instead.

Workers in those shirt and sneaker factories are, inevitably, paid very little and expected to endure terrible working conditions. I say "inevitably" because their employers are not in business for their (or their workers') health; they pay as little as possible, and that minimum is determined by the other opportunities available to workers. And these are still extremely poor countries, where living on a garbage heap is attractive compared with the alternatives.

And yet, wherever the new export industries have grown, there has been measurable improvement in the lives of ordinary people. Partly this is because a growing industry must offer a somewhat higher wage than workers could get elsewhere in order to get them to move. More importantly, however, the growth of manufacturing--and of the penumbra of other jobs that the new export sector creates--has a ripple effect throughout the economy. The pressure on the land becomes less intense, so rural wages rise; the pool of unemployed urban dwellers always anxious for work shrinks, so factories start to compete with each other for workers, and urban wages also begin to rise. Where the process has gone on long enough--say, in South Korea or Taiwan--average wages start to approach what an American teen-ager can earn at McDonald's. And eventually people are no longer eager to live on garbage dumps. (Smokey Mountain persisted because the Philippines, until recently, did not share in the export-led growth of its neighbors. Jobs that pay better than scavenging are still few and far between.)

The benefits of export-led economic growth to the mass of people in the newly industrializing economies are not a matter of conjecture. A country like Indonesia is still so poor that progress can be measured in terms of how much the average person gets to eat; since 1970, per capita intake has risen from less than 2,100 to more than 2,800 calories a day. A shocking one-third of young children are still malnourished--but in 1975, the fraction was more than half. Similar improvements can be seen throughout the Pacific Rim, and even in places like Bangladesh. These improvements have not taken place because well-meaning people in the West have done anything to help--foreign aid, never large, has lately shrunk to virtually nothing. Nor is it the result of the benign policies of national governments, which are as callous and corrupt as ever. It is the

indirect and unintended result of the actions of soulless multinationals and rapacious local entrepreneurs, whose only concern was to take advantage of the profit opportunities offered by cheap labor. It is not an edifying spectacle; but no matter how base the motives of those involved, the result has been to move hundreds of millions of people from abject poverty to something still awful but nonetheless significantly better.

Why, then, the outrage of my correspondents? Why does the image of an Indonesian sewing sneakers for 60 cents an hour evoke so much more feeling than the image of another Indonesian earning the equivalent of 30 cents an hour trying to feed his family on a tiny plot of land--or of a Filipino scavenging on a garbage heap?

The main answer, I think, is a sort of fastidiousness. Unlike the starving subsistence farmer, the women and children in the sneaker factory are working at slave wages *for our benefit*--and this makes us feel unclean. And so there are self-righteous demands for international labor standards: We should not, the opponents of globalization insist, be willing to buy those sneakers and shirts unless the people who make them receive decent wages and work under decent conditions.

This sounds only fair--but is it? Let's think through the consequences.

First of all, even if we could assure the workers in Third World export industries of higher wages and better working conditions, this would do nothing for the peasants, day laborers, scavengers, and so on who make up the bulk of these countries' populations. At best, forcing developing countries to adhere to our labor standards would create a privileged labor aristocracy, leaving the poor majority no better off.

And it might not even do that. The advantages of established First World industries are still formidable. The only reason developing countries have been able to compete with those industries is their ability to offer employers cheap labor. Deny them that ability, and you might well deny them the prospect of continuing industrial growth, even reverse the growth that has been achieved. And since export-oriented growth, for all its injustice, has been a huge boon for the workers in those nations, anything that curtails that growth is very much against their interests. A policy of good jobs in principle, but no jobs in practice, might assuage our consciences, but it is no favor to its alleged beneficiaries.

You may say that the wretched of the earth should not be forced to serve as hewers of wood, drawers of water, and sewers of sneakers for the affluent. But what is the alternative? Should they be helped with foreign aid? Maybe--although the historical record of regions like southern Italy suggests that such aid has a tendency to promote perpetual dependence. Anyway, there isn't the slightest prospect of significant aid materializing. Should their own governments provide more social justice? Of course--but they won't, or at least not because we tell them to. And as long as you have no realistic alternative to industrialization based on low wages, to oppose it means that you are willing to deny desperately poor people the best chance they have of progress for the sake of what amounts to an aesthetic standard--that is, the fact that you don't like the idea of workers being paid a pittance to supply rich Westerners with fashion items.

In short, my correspondents are not entitled to their self-righteousness. They have not thought the matter through. And when the hopes of hundreds of millions are at stake, thinking things through is not just good intellectual practice. It is a moral duty.