

# Everything We Knew About Sweatshops Was Wrong

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## ABSTRACT (ENGLISH)

An experiment in factories in Ethiopia offers some lessons.

## FULL TEXT

In the 1990s, Americans learned more about the appalling conditions at the factories where our sneakers and T-shirts were made, and opposition to sweatshops surged. But some economists pushed back. For them, the wages and conditions in sweatshops might be appalling, but they are an improvement on people's less visible rural poverty.

As the economist Joan Robinson said, "The misery of being exploited by capitalists is nothing compared to the misery of not being exploited at all."

Textbook economics offers two reasons factory jobs can be "an escalator out of poverty ." First, a booming industrial sector should raise wages over time. Second, boom or not, factory jobs might be better than the alternatives: Unlike agriculture or informal market selling, these factories pay a steady wage, and if workers gained skills valued by the market, they might earn higher wages. Factories may also have incentives to pay more than agricultural or informal market work to persuade workers to stay and be productive.

Expecting to prove the experts right, we went to Ethiopia and —working with the Innovations for Poverty Action and the Ethiopian Development Research Institute —performed the first randomized trial of industrial employment on workers. Little did we anticipate that everything we believed would turn out to be wrong.

We picked Ethiopia because its small export industry was beginning to boom. It offered a chance to see what effect these jobs would have at the earliest stages of industrialization. In addition to local exporters, many Chinese, Indian and European companies are setting up factories in Ethiopia, producing everything from clothing to flowers.

The factories seemed professional and clean. Whenever a new factory line opened, we saw long rows of applicants —mostly young, unmarried women. The factory managers supported our study because they shared our optimism about the jobs.

Since there were more qualified applicants than jobs, we had a perfect opportunity for a randomized trial. Five businesses —a beverage bottler, a garment factory, a shoemaker and two industrial greenhouse operations —agreed to hire qualified applicants by a lottery. We followed the 947 applicants who were and were not offered the job over a year, surveying them multiple times.

To our surprise, most people who got an industrial job soon changed their minds. A majority quit within the first months. They ended up doing what those who had not gotten the job offers did —going back to the family farm, taking a construction job or selling goods at the market.

Contrary to the expert predictions (and ours), quitting was a wise decision for most. The alternatives were not so bad after all: People who worked in agriculture or market selling earned about as much money as they could have at the factory, often with fewer hours and better conditions. We were amazed: By the end of a year only a third of the people who had landed an industrial job were still employed in the industrial sector at all.

It would be easy to see this as the normal trial-and-error of young people starting out careers, but actually the factory jobs carried dangerous risks. Serious injuries and disabilities were nearly double among those who took the factory jobs, rising to 7 percent from about 4 percent. This risk rose with every month they stayed. The people we interviewed told us about exposure to chemical fumes and repetitive stress injuries.

Why were people lining up for hazardous jobs? Partly it was because they did not appreciate the risks, or how hard the work was, until they started. Others anticipated the risks but used factory work as a safety net when times were tough. The people who stayed longer had few alternatives.

We have to be careful about generalizing from five businesses in one country, but this study has still shaped our views of factory work. Industrialization is not a quick fix. The first defense of industry probably still holds: Over time, a booming sector tends to improve labor conditions and bid up wages as more businesses compete for workers. But the path there isn't smooth. In the short run workers seem to share few of the benefits but a heavy burden of the risks—a burden borne by the desperate and the uninformed.

We did not test solutions, but history and our experiences give us ideas.

One unexpected lesson is that companies need better middle management. The factory owners and investors told us that high turnover was their biggest concern and that finding good managers to reduce it was their biggest headache. We had the same impression of managers, especially when our study seemed to bring more organization to the hiring process than the companies had seen before. Collecting the names of all applicants, doing a basic screening, briefing people on the job and wages—these were all new to most of the managers we met.

History tells us to expect management practices and working conditions to improve over time. High employee turnover was certainly costly in the United States and Europe a century ago. In 1913, the Ford Motor Company recorded turnover rates of over 300 percent. Pay was poor and the work hard, and workers left in droves. Many of the modern management strategies we think are about factory efficiency started as attempts to lower this turnover. Eventually they helped make these companies better workplaces. “Better human resource management” is not the sexiest economic development strategy, but it is definitely an effective one.

A second possible solution is social welfare systems and safety nets. With those, desperate people are not forced to risk their health at poorly managed factories. An aspect of our study put this idea to the test. We offered some applicants who did not get the factory job a business start-up package of training and cash. Those people expanded their agricultural or market selling, raised their earnings by a third and did not feel the need to resort to factory jobs. Like other poor countries, Ethiopia is experimenting with various social insurance schemes. That should continue.

For poor countries to develop, we simply do not know of any alternative to industrialization. The sooner that happens, the sooner the world will end extreme poverty. As we look at our results, we are conflicted: We do not want to see workers exposed to hazardous risks, but we also worry that regulating or improving the jobs too much too quickly will keep that industrial boom from happening.

It is a difficult path to walk. But supporting insurance systems and encouraging companies to adopt modern management strategies and worker protections could be a way to travel that path faster and more safely.

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## DETAILS

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