# FREE MARKET

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## Sweatshops: A Way Out of Poverty

# An Interview with Benjamin Powell

Associated Scholar Benjamin Powell's new book Out of Poverty: Sweatshops in the Global Economy was recently published by Cambridge University Press. Dr. Powell spoke with the Mises Institute about his new book.

*Mises Institute:* Describe for us what you mean by "sweatshop."

**Powell:** Here's an example: Abigail Martinez earned only 55 cents per hour stitching clothing in an El Salvadoran garment factory. She worked as long as 18 hours a day in an unventilated room; the company provided undrinkable water. If she upset her bosses they would deny her bathroom breaks or demand that she do cleaning work outside under the hot sun. Abigail's job sounds horrible.

**MI:** But you assert that jobs like this make the workers better off.

**BP:** These so-called sweatshops are part of the development process that leads to better conditions. Austrian economic theory teaches that people choose purposively to improve their situation. Thus, it is not startling to an Austrian to hear that a job such as Abigail's made her better off than she was before, so long as violence wasn't used to make her accept the employment.



The pure logic of choice is crucial to understanding what actions help sweatshop workers and what actions hurt them. But the logic of choice gets us only so far. It is the task of the applied economist—what Mises would label a historian—to apply the logic of choice to current events and historical phenomenon to understand their relevant institutionally contingent features and empirical magnitudes.

**MI:** So you take an empirical look at the improvements that sweatshops produce?

**BP:** My new book does exactly that. I find that sweatshops in the third world today benefit the



#### IN THIS ISSUE



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workers who toil in them and aid in the process of capital accumulation that leads to higher living standards in much the same way that factories in Great Britain and the United States did during the Industrial Revolution.

Ludwig von Mises wrote that during the Industrial Revolution, "The factory owners did not have the power to compel anybody to take a factory job. They could only hire people who were ready to work for the wages offered to them. Low as these wage rates were, they were nonetheless more than these paupers could earn in any other field open to them." This is precisely what I find in third-world sweatshops today.

I found 83 cases of supposedly exploitative sweatshop wages reported in popular press sources and compared those earnings to the living standards in the countries where they were found. In every country where the sweatshops were located, more than 10 percent of the population lived on less than \$2 per day. In more than half of the countries, more than 40 percent did. Yet, in 77 of the 83 cases, the sweatshop wages exceeded the \$2 a day threshold. Five of the six exceptions occurred in Bangladesh, where the workers earned more than \$1.25 per day—something that more than half the population of that country failed to achieve at the time.

**MI:** But how do these jobs compare to other jobs in that same country?

BP: In fact, sweatshop earnings even compared favorably to the average incomes in the countries where they were located. In six of the 17 countries, the average reported sweatshop wage exceeded the average income in the country-in Haiti, Honduras, and Nicaragua it was more than twice the national average. In another six countries, the average reported sweatshop wages were around the national average. In four of the five countries where sweatshop wages were 50 percent below the national average, the workers were immigrants (sometimes illegal) from other countries and their sweatshop wages exceeded the average wage in their native country.

In short, sweatshops provide the least-bad option for the workers who work in them. But sweatshops are better than just the least-bad option. Sweatshops bring with them the proximate causes of economic development-capital, technology, and the opportunity to build human capital. If countries respect private property rights and economic freedoms, these proximate causes of development lead to higher productivity, which eventually leads to higher pay and better working conditions.

**MI:** It seems the problem many critics have is that the economic improvement is not fast enough.

BP: That process of development took roughly 150 years in Great Britain, because much of the capital had to be created anew and the technology invented. The United States transformed from a pre-industrial society to a post-sweatshop society more rapidly, because it imported technology and capital from Great Britain.

In 1950, Hong Kong, Singapore, Taiwan, and South Korea were just beginning the process of development with sweatshops. In about a generation and a half, they catapulted from preindustrial levels of development to first world living standards. All of these countries embraced property rights and economic freedom and grew rapidly.

MI: Some people believe that these countries have high living standards today because of labor laws.

BP: Regarding the Industrial Revolution, Ludwig von Mises commented that, "The nineteenth century's labor legislation by and large achieved nothing more than to provide a legal ratification for changes which the interplay of market factors had brought about previously." This remains true for countries where sweatshops locate **CONTINUED ON PAGE 6** today.

### England's Levellers: The World's First Libertarian Movement

#### ROBERTA ADELAIDE MODUGNO

he first-ever libertarians were the Levellers, an English political movement active in the seventeenth century. The Levellers contributed to the elaboration of the methodological and political paradigm of individualism, and they are at the origin of the radical strand of classical liberalism. While the Levellers are often characterized as a quasi-socialist movement, closer examination shows that the Levellers had much more in common with advocates for free markets than with socialists.

This interpretation of the Levellers is supported, among others, by Murray N. Rothbard who considers them as "the world's first self-consciously libertarian movement." Rothbard notes that "[i]n a series of notable debates within the Republican Army—notably between the Cromwellians and the Levellers—the Levellers led by John Lilburne, Richard Overton



and William Walwyn, worked out a remarkably consistent libertarian doctrine, upholding the rights of self-ownership, private property, religious freedom for the individual, and minimal government interference in society. The rights of each individual to his person and property, furthermore, were natural, that is, they were derived from the nature of man."

One of the most important of the Levellers' contributions to the theoretical foundation of the libertarian doctrine was, according to Rothbard, that they, "transformed the rather vague and holistic notions of natural law into the clear cut, firmly individualistic concepts of natural rights of every individual human being," including fundamental tenets of libertarianism. This included the right to self-ownership, methodological individualism, individual natural rights theory, sound property rights, and economic freedom.

Lilburne defended natural law as "Nature and reason" and "the grounds of all just laws" and that "therefore against this Law, prescriptions, statutes, not customs may not prevail. And if any be brought in against it, they be no prescriptions, statutes nor customs, but things void, and against justice..."

In 1646 while Lilburne was imprisoned for high treason, Overton wrote A Remonstrance of Many Thousand Citizens, and other Free-Born People of England, to their own House of Commons, urging that Lilburne be freed. The Remonstrance became a great Leveller manifesto.

"We are well assured, yet cannot forget, that the cause of our choosing you to be Parliament-men, was to deliver us from all kind of bondage, and **CONTINUED ON PAGE 5** 

#### Mises Scholar and Alumni Notes

**Senior Fellow Mark Thornton** granted almost 100 interviews in 2013 and was quoted in the *Economic Times* (India), *Norwegian Financial Times, Tejarat-e-Farda* (a leading Iranian economics magazine), *WHDT World News, Barron's, Bloomberg, The Wall Street Journal, Russia Today* (RT TV), *The Thom Hartmann Show*, CNN, and *Le Monde*.



JASON JEWELL

**Associated Scholar Jason Jewell** contributed a chapter on libertarianism to the forthcoming book *Christian Faith and Social Justice*, due in August from Bloomsbury Publishing.

**Associated Scholar Laurence M. Vance** published a new collection of essays, *War, Empire, and the Military: Essays on the Follies of War and U.S. Foreign Policy.* 



LAURENCE M. VANCE

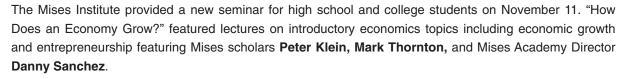
Former Mises Fellow Jakub Wisniewski has published new scholarly articles with "Legal Monocentrism and the Paradox of Government" forthcoming in the next issue of *The Quarterly Journal of Austrian Economics*, and "Non-excludability, Externalities, and Entrepreneurship: An Overview of the Austrian Theory of Common Goods" in the *Journal of Prices & Markets*. Mr. Wisniewski is also an associated scholar of the Mises Institute of Poland.

**Danny Sanchez, Director of Mises Academy**, appeared on *The Tom Woods Show* on November 22 to discuss "How to Do Economics."

#### **Mises News and Events**

The Fall 2013 issue of *The Quarterly Journal of Austrian Economics* is now available, featuring new scholarship from **Jeffrey Herbener** and **Thomas DiLorenzo** (along with contributions from several new young scholars!).

**Tatsuya Iwakura**, an independent scholar in Japan, has translated numerous works by Mises, Rothbard, Hoppe, and Rockwell in recent years. In December, Mr. Iwakura released new translations of Mises's *Theory and History* and Rothbard's *The Essential Von Mises* and *Scholar, Creator, Hero*. Mr. Iwakura's books are all available at Amazon.com.



The Ludwig von Mises Institute of Italy has announced plans for a series of "Austro-Libertarian" books, beginning with an Italian translation of Hans-Hermann Hoppe's *Economic Science and the Austrian Method*.





JEFFREY HERBENER



THOMAS DILORENZO

#### ENGLAND'S LEVELLERS CONTINUED FROM PAGE 3

to preserve the Commonwealth in peace and happiness," Overton wrote. "But

you are to remember, this was only of us but a power of trust, which is ever revokable. . . . We are your principals, and you our agents."

Overton advocated religious tolerance, even for the much-reviled English Catholics, and also denounced the practice of impressing men into the army and navy as a form of enslavement.

Moreover, the Levellers advocated property rights and the freedom to contract and trade, as against monopolies and privileges guaranteed by the state. They celebrated the benefits of economic freedom to society and opposed the government taxes, customs, excises, and regulations that inhibited competition.

In May 1652, Walwyn presented to the Committee for Trade and Foreign Affairs a defense of free trade against

the Levant Company, urging the abolition of monopolies and trade restrictions by the government. In Walwyns Conceptions; For a Free Trade, the author vindicates free trade as a common right conductive to common good. More than a century before Adam Smith, Walwyn directly linked freedom of trading to the public good. Exalting the benefits

of competition, he holds that the results of free trade and competition are more and better goods, lower prices, more ships, plenty of men becoming useful members of the community, and more wealth for active and creative people.

Walwyn explored the question of whether leaving foreign trade "equally free to all Englishmen would be most profitable for the Common wealth," and he concluded "that for foreign trade to be universally free to all English men alike, would be the most advantageous to the Common wealth."

Walwyn criticized Parliament for carrying on the oppressions of the monarchy by maintaining all the monopolies and the privileges granted by the Crown in the field of trade. The right to trade freely, Walwyn maintained, is an

ancient, natural, claimed right of all Englishmen and it is much more profitable than any government restrictions and privileges.

Continuing his analysis of competition, Walwyn notes that, "the numerousness of merchants will occasion a strife and emulation among them, who shall produce the best ordered goods." And he underlines the advantages for the laborers, pointing out that the competition will produce, "greater price for work; whereas merchants in Companyes have noe need of such diligence . . . and workmen must worke at what rate they please."

Walwyn, as well as Overton and Lilburne, attributed lamentably low wages to monopolies, hampered trade, and excise taxes.

The Levellers were concerned with economic rights and these economic rights were a direct consequence of the right to self-ownership and included individual property rights, freedom to produce, sell, buy and trade, and

to do all this without license, monopolies, regulations and arbitrary taxation. That is to say, they advocated a free-market economy. The right to trade freely was considered a natural right by Lilburne, or a "native liberty" as in Overton's "Remonstrance."

Arguing from the theoretical supremacy of natural rights, Lilburne rejects any form of regulation of trade.

Elizabeth I abolished some monopolies, but by the time the Levellers were writing, the old monopolies had been restored to support the economic and fiscal desires of the crown. Lilburne considers such trade restrictions illegal from an ethical standpoint. Moreover they created state privileges for bankers, aristocrats, chartered companies, and corporations.

Charles I created new monopolies and privileged concessions under the name of licenses. The Long Parliament, and subsequently Cromwell, reconfirmed the most relevant monopolies such as the right to export woolen cloth, the privileges of the Merchant Adventurers, and the privileges of chartered companies such as the Levant Company would be protected.

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#### BENJAMIN POWELL **CONTINUED FROM PAGE 2**

Take child labor for example. Antisweatshop groups universally condemn child labor and call for laws banning products made with

it. But the process of development is the best cure for child labor. In countries with average annual incomes above \$12,000, there is virtually no child labor. But for countries whose annual incomes are below \$2,000, more than 30 percent of children work.

As families escape poverty, they remove their children from the labor force. Child labor laws go unenforced, or force children to work in informal sectors, when they are passed prior to achieving a level of development that would have removed children from the labor force anyway.

It's no accident that the United States didn't pass meaningful national child labor legislation prohibitions until 1938. At that time, average per capita income was more than \$10,000 (in 2010 dollars). It was simply codifying what the market process had already achieved. The same is true of other workplace health, safety, and maximum hour legislation in countries with sweatshops today.

**MI:** But why are so many of these areas still so very poor?

BP: Of the poverty in the West prior to the Industrial Revolution Mises wrote, "It is deplorable that such [impoverished] conditions existed [outside the factories]. But if one

wants to blame those responsible, one must not blame the factory owners who-driven by selfishness, of course, and not by 'altruism'-did all they could to eradicate the evils. What had caused these evils was the economic order of the pre-capitalistic era."3

Unfortunately, parts of the third world are still mired in poverty caused by the statist economic order of the pre-capitalist era. Economics is a science of evaluating whether means are capable of achieving desired ends. My book is concerned with ending poverty in the third world. The main lessons are that many of the means of the anti-sweatshop movement are incompatible with that end. Instead, embracing an environment of property rights and economic freedom that allows the process of economic development, which includes sweatshops, to occur is the greatest cure for poverty.



Benajmin W. Powell is Director of the Free Market Institute at Texas Tech University, a Visiting Professor in the Rawls College of Business, and a Senior Fellow with the Independent Institute.

1 Human Action, Scholar's Edition (Auburn, Ala.: Mises Institute, 1998), p. 615.

<sup>2</sup>lbid. p. 612.

<sup>3</sup>lbid. p. 615.

#### The Southwest Regional



The Mises Institute was in Houston for the Southwest Regional Mises Circle on January 18. Ron Paul, Lew Rockwell, Jeff Deist, and Tom Woods came together to discuss the nature, and extent of police-state institutions being employed and encountered in the United States today.

In attendance were 25 Charter Members from across the country. General attendance included 400 attendees from 18 US states and Italy, including California, Colorado, Maryland, Missouri and New York. Sixty students were in attendance, representing 35 colleges, universities, high schools, and homeschools, including Texas A&M, the University of Texas, South Texas College of Law, Rice University, the University of Arizona, the University of South Florida, and others. More than 2,000 people tuned in to watch the live webcast provided online, with viewers watching worldwide including many in the US, the UK, Canada, Sweden, Germany, and France. Toward the end of the event, all the speakers assembled for a question and answer session with the audience.



Transcripts or videos for all presentations are being made available online. Visit Mises.org for more.

Special thanks to Christopher P. Condon, Terence Murphree, and TJ & Ida Goss for making this event possible.

#### COMING EVENTS

Register online at mises.org or by phone at 800.636.4737.

March 20-22, 2014 AUSTRIAN ECONOMICS RESEARCH CONFERENCE • Mises Institute

April 11, 2014 HIGH SCHOOL AND COLLEGE SEMINAR • Mises Institute

June 8–13, 2014 ROTHBARD GRADUATE SEMINAR • Mises Institute

July 20–26, 2014 MISES UNIVERSITY • Mises Institute

#### IN MEMORIAM

We mourn the passing, but celebrate the lives and achievements, of these champions of liberty. Their far-sighted concern for the future of freedom will always inspire us:

**Mr. George A. Crispin,** a longtime friend of the Institute, passed away on January 10, 2014 at the age of 86. Mr. Crispin was a civil engineer who traveled the world extensively working in locales such as Iran, Turkey, Vietnam, Pakistan, and Saudi Arabia. Later, he studied in the doctoral program for economics at Auburn University.

**Allen R. Korbel** of Wisconsin passed away on December 17, 2013. Mr. Korbel was a member of the Mises Institute's Libertas Club. His friend, Institute Member Paul E. Wild, described him as "a rare individual, a lifetime libertarian, secular humanist, and freethinker."

Mises Institute Member and Supporter **Capt. Clarence Teague ("CT") Froscher,** US Navy (retired) passed away June 21, 2013 at the age of 94. Captain Froscher was a Navy pilot and obtained advanced degrees in fluid dynamics and aerodynamics at Stevens Institute of Technology and New York University.

#### ENGLAND'S LEVELLERS CONTINUED FROM PAGE 5

In turn, Lilburne protested against the monopolies of coal, soap, and woolen clothes. The economic concessions by public authorities paved the way to the creation of privi-

leged positions of supremacy in public institutions and to the violation of the individual birth rights to equal opportunity to compete freely. Lilburne realized that the opposite of competition is privilege.

By the eighteenth century, what is now known as classical liberalism would draw heavily upon the work of the Levellers and their support for individual natural rights theory, property rights, economic freedom, and free trade, and the

Levellers' libertarian opposition to government privilege, government monopoly and the suppression of free trade remains as instructive today and as it was in the seventeenth century.



Roberta Modugno is professor of History of Political Thought at the University of Roma TRE (Rome - Italy). A scholar of American libertarianism, she is the author of several works on Murray N. Rothbard and edited the collection of Rothbard's papers, Rothbard versus the Philosphers: Unpublished Writings on Hayek, Mises, Strauss, and Polanyi.

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