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# Meet the Old Sweatshops

## *Same as the New*

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BENJAMIN POWELL

**T**he 2013 collapse of the Rana Plaza garment factory in Bangladesh, which killed more than 1,100 people, reignited worldwide calls for new labor laws and increased government regulation in poorer countries that produce garments in so-called sweatshops. However, these calls for laws and regulation fail to view sweatshops in the proper historical perspective.

*Sweatshop* is a common term used to refer to factories that typically produce apparel; that have very low wages by modern U.S. standards, long working hours, and unsafe or unhealthy working conditions; that often don't obey labor laws; and that would generally be considered unpleasant places to work by most citizens in wealthy countries.

Sweatshops first appeared in Great Britain in the late eighteenth century and persisted there until the early twentieth century. In the United States, the first textile sweatshops appeared in the early nineteenth century in Rhode Island and Massachusetts. Virtually every wealthy country in the world had sweatshops at one point in their past. Sweatshops are an important stage in the process of economic development. As Jeffery Sachs puts it, “[S]weatshops are the first rung on the ladder out of extreme poverty” (2005, 11).

This article traces the role sweatshops played in the process of economic development in wealthy countries today. It also examines the role that labor laws played in the eventual improvement of working conditions. The conclusion contains historical lessons for countries where sweatshops are located today.

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## Sweatshops in Nineteenth-Century Great Britain and the United States

“Whenever I raise the point that it is immoral to shut us up in a close [*sic*] room twelve hours a day in the most monotonous and tedious of employment, I am told that we have come to the mills voluntarily and we can leave when we will. Voluntarily! . . . The whip which brings us to Lowell is necessity. We must have money; a father’s debts are to be paid, an aged mother to be supported, a brother’s ambition to be aided and so the factories are supplied. Is this to act from free will? Is this freedom? To my mind it is slavery.”<sup>1</sup>

These were the words, in 1845, of Sarah Bagley, who worked in Lowell, Massachusetts, and became the vice president of the Lowell Union of Associationists, a utopian reform organization. But they could easily be the words of an antisweatshop activist describing Third World sweatshops today.

Working conditions have been harsh and standards of living low throughout most of human history. Farmers worked long hours for near-subsistence returns for much of recent human history. There is no doubt that chattel slavery imposed horrid working conditions and standards of living on innumerable people. But it wasn’t until the Industrial Revolution that something resembling modern-day sweatshops emerged.

Prior to the Industrial Revolution, textile production was decentralized to the homes of many rural families or artisans, and output was limited to what could be produced on the spinning wheel and hand loom. In 1733, the invention of the flying shuttle increased the demand for yarn by boosting each weaver’s production. Yarn spinning was mechanized in 1767 with the invention of the spinning jenny, and water power was harnessed shortly thereafter. With these inventions and steam power later, large-scale textile factories that are similar to today’s sweatshops emerged.

The conditions in these early sweatshops were worse than those in many Third World sweatshops today. In some factories, workers toiled for sixteen hours a day, six days per week. Attendance at traditional festival days was curtailed because factories would fine workers for absences. The working conditions were unhealthy and dangerous. Dust from textile fibers was inhaled in poorly ventilated rooms, and workers were maimed by fast-moving machinery (Stearns 2007, 35). Child labor was common.<sup>2</sup> Factories employed orphan children from London and other major cities in exchange for providing them room and board.<sup>3</sup> As historian Peter Stearns summarizes

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1. Quoted at Lowell Mills Museum, Lowell National Historical Park.

2. Using data from an 1819 *British Parliamentary Report*, Herman Freudenberger, Francis Mather, and Clark Nardinelli conclude that “children formed a substantial part of the labor force” in the textile mills (1984, 1087). They calculate that although only 4.5 percent of the cotton workers were younger than ten, 54.5 percent were younger than nineteen.

3. An important distinction within child labor during Britain’s industrial revolution is often overlooked. There were “free-labor” children who lived with their families and freely chose to work, and there were “apprentice children” who were orphans and under the direct control of government officials. Many of the worst accounts of child labor during this time describe factories employing apprentice children who were forced to work by the authority of the state. The first reform laws were targeted at the abuses of apprentice children, who didn’t have normal market mechanisms to protect them. See Reed (1991).

the situation, “Extensive use of child and female labor was not in itself novel—families had always depended on work by all members to survive—but use of children and young women specifically because of the low wages they could be pressed to accept reflected the pressures of early industrial life and unquestionably constrained the nascent working class in the factories” (2007, 34).

It wasn’t just the work in the factories that was dangerous. The cities themselves were unhealthy. Their swelling population and poor sanitation led to the spread of disease. Housing was cramped, poorly constructed, and sometimes expensive. On many margins, the quality of life in cities was lower than in the country. Yet workers flocked to the mills. The proportion of people in Great Britain living in cities with more than five thousand people rose from 21 percent in 1750 to 28 percent in 1800 and then ballooned to 45 percent by 1850 (Mokyr 2009, 456). Meanwhile, the share of the labor force working in agriculture shrank from 35 percent in 1801 to 22 percent in 1851 (Mokyr 2009, 476). Why did people move to the cities in such numbers? The exodus was in part due to involuntary enclosure of agricultural lands, but also the rural folk, much like today’s Third World sweatshop workers, were attracted by the opportunity to earn higher wages than they could elsewhere. In fact, economist Ludwig von Mises defended the factory system of the Industrial Revolution in much the same manner as I and others have defended modern sweatshops (see Powell 2006, 2014; Powell and Skarbek 2006; Powell and Zwolinski 2012; Clark and Powell 2013), writing, “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.” He continued, “It is a distortion of facts to say that the factories carried off the housewives from the nurseries and the kitchens and the children from their play. These women had nothing to cook with and to feed their children. These children were destitute and starving. Their only refuge was the factory. It saved them, in the strict sense of the term, from death by starvation” (1998, 615).

Mises’s argument is supported by historical evidence. Economist Joel Mokyr reports that workers earned a wage premium of 15 to 30 percent by working in the factories compared with other alternatives (2009, 457). The transformation of Great Britain during this time was dramatic. As economist and historian Donald McCloskey describes it, “In the 80 years or so after 1780 the population of Britain nearly tripled, the towns of Liverpool and Manchester became gigantic cities, the average income of the population more than doubled, the share of farming fell from just under half to just under one-fifth of the nation’s output, and the making of textiles and iron moved into steam-driven factories” (1985, 53).

The increased income translated into meaningful improvements in the standard of living. McCloskey reports that “[t]he amounts of bread, beer, trousers, shoes, trips to London, warmth in winter, and protection against conquest increased from 11 [pounds] per head in 1780 to 28 in 1860. . . . Because he produced two-and-a-half

times more than his great-grandfather produced in 1780, the average person in 1860 could buy two-and-a-half times more goods and services” (1985, 56). Peter Lindert and Jeffery Williamson similarly find impressive gains in the standard of living between 1781 and 1851. Farm labor’s standard of living went up more than 60 percent, blue-collar workers’ standard increased more than 86 percent, and overall workers’ standard increased more than 140 percent (1985, 198).<sup>4</sup> Along with this increase in the standard of living came a decrease in the share of women and children working beginning sometime between 1815 and 1820. As Lindert and Williamson summarize, “The hardships faced by workers at the end of the Industrial Revolution cannot have been nearly as great as those of their grandparents” (1985, 199).

By 1851, Great Britain’s annual per capita income stood at \$2,362.<sup>5</sup> This was 65 percent higher than in Germany and 30 percent higher than in the United States (Mokyr 2009, 476). Some historians debate whether the Industrial Revolution improved the standard of living much before 1820. An analysis is complicated by an expensive foreign war and other unfavorable external circumstances. At a minimum, they agree that the early Industrial Revolution prevented the standard of living from falling when facing these circumstances plus an enormous increase in the population, which traditionally would have been expected to drag down standards of living. But there is little doubt that there was a meaningful improvement in people’s living standards during the first seventy years of the Industrial Revolution. And all but the most willfully blind can recognize that living standards improved greatly for the generations born within the century following 1850.

The Industrial Revolution began in Great Britain, but the United States was one of the earliest places to which it was exported. When textile production was mechanized in Great Britain, all of the technology had to be created, and new capital had to be accumulated that could embody that technology. The United States was in a position more like many Third World countries today. It could import technology and capital from abroad to jump-start its Industrial Revolution. The British were extremely secretive and protective of their technology. But Samuel Slater, who had worked his way up from apprentice to overseer in a British factory, eventually immigrated to America, taking with him the plans for an Arkwright water frame that he had memorized. In 1790, he set up the first cotton-spinning mill in the United States in Rhode Island. At first, textile factories in the United States were limited to carding and spinning. Then Francis Cabot Lowell introduced a workable power loom, and all stages of textile production were integrated into a single factory. He and his associates opened a factory in Waltham, Massachusetts, in 1814 and went on to found factories in Lowell and Lawrence, Massachusetts, and throughout New England.

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4. Lindert and Williamson’s figures adjust real full-time earnings for changes in unemployment, higher urban costs of living, and even urban-industrial disamenities (such as unhealthy living conditions).

5. Unless otherwise indicated, income figures are updated for inflation to 2010 U.S. dollars using the income data in Maddison (2010), which is in constant 1990 International Geary-Khamis dollars.

The United States later, particularly in the latter half of the nineteenth century and on, contributed many of its own technological breakthroughs, but for much of the nineteenth century it remained dependent on foreign technological advances. At first, U.S. businesses imitated technology mostly from Britain and France; later, in industries such as chemicals, they imitated the Germans and Swedes (Stearns 2007, 62). The United States also embraced the investment of foreign capital. Peter Stearns reports that “[t]he United States also relied unusually heavily on foreign capital. The nation was rich in resources but lacked the funds to develop them as rapidly as industrialization required. Huge investments from Europe, in particular Great Britain, fueled U.S. industry throughout the nineteenth century” (2007, 66).

This infusion of foreign capital and technology allowed the United States to proceed through its industrial revolution more rapidly than Great Britain. In 1820, before the United States had started its industrial revolution, its per capita annual income was a little more than \$2,000—approximately the British income level in 1700. But by 1903, roughly seventy-five years into its industrial revolution, the United States had caught up to Britain’s per capita income.

The infusion of foreign capital and technology did not allow the United States to skip the stage of sweatshop development, however. Early textile factories were similar to those in Great Britain at that time and in the Third World today. Hours were long. In 1845, more than two thousand Lowell textile workers unsuccessfully petitioned the state legislature for a ten-hour workday. Their petition described some of their working conditions:

We the undersigned peaceable, industrious and hard working men and women of Lowell, in view of our condition—the evils already come upon us, by toiling from 13 to 14 hours per day, confined in unhealthy apartments, exposed to poisonous contagion of air, vegetable, animal and mineral properties, debarred from proper physical exercise, mental discipline, and mastication cruelly limited, and thereby hastening us on through pain disease and privation, down to a premature grave, pray the legislature to institute a ten hour working day in all of the factories of the state. (Lowell Textile Workers Petition 1845)

The description of the work environment given in the museum at the Lowell Mills National Historic Park could be a description of many of the Third World sweatshops today:

Weave rooms were hazardous work environments. Life threatening accidents and long term health disabilities were common by-products of employment in the textile mills. Cotton dust caused lung and respiratory diseases. The noise was deafening and impaired hearing. The lighting was poor, the hours long, the work tedious, and the machinery and belting dangerous.



In the weave room, both heat and humidity are kept high to prevent the yarn from breaking. Workers, who were paid by the piece, were often willing to endure the humidity because it increased both productivity and their pay checks. Nevertheless, work in this environment was eventually debilitating.

Compared to agricultural life, a worker's day was highly regimented and hectic. As one woman described it in a trade newspaper in 1841, "I object to the constant hurry of everything. We cannot have time to eat, drink, or sleep; we have only thirty minutes, or at most three quarters of an hour, allowed us, to go from our work, partake of our food, and return to the noisy clatter of machinery."<sup>6</sup>

Yet despite these conditions, workers flocked to the mills. At first, in the cities north of Boston it was mainly rural women and girls who left the farm to populate the early textile mills.<sup>7</sup> During the 1830s in Lowell, a woman could earn \$12 to \$14 a month (in 1830s dollars) and after paying \$5 for room and board in a company boarding house would have the rest left over for clothing, leisure, and savings. It wasn't uncommon for women to return home to the farm after a year with \$25 to \$50 in a bank account. This was far more money than they could have earned on the farm and often more disposable cash than their fathers had (U.S. National Park Service 1992). There was another benefit for the women as well: independence from their fathers. For the first time, they earned their own money, lived on their own, and could choose their leisure activities without male interference (Levinson 2007). The mill cities availed the young women with many amenities, from libraries to public lectures to wider consumer-goods options than they had had in their rural lives. The story of a young female factory worker in early-nineteenth-century America is not unlike the situation of a young rural woman in China who moves to the factories for both better pay and greater independence despite tough working conditions.

As women demanded greater pay and more competitors in other regions entered the textile market, immigrants eventually came to be the main textile workers in the United States. Nevertheless, much like in Great Britain, living standards improved over time. In 1820, before the Industrial Revolution, annual per capita income in the United States stood at a little more than \$2,000. By 1850, it had grown by 50 percent to more than \$3,000 and then doubled again by 1900 to more than \$6,600. Along with the rise in incomes came improvements in working conditions and greater consumption. By 1900, ten-hour workdays were becoming very common—the average length of the

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6. The quote in the museum's text comes from *The Lowell Offering*, a pamphlet published by the mill workers published in 1841 and displayed on the wall at the museum.

7. The factory system in these cities was known as the "Waltham System." South of Boston, factories employed the "Rhode Island System," which tended to hire entire families.

workweek in manufacturing fell from almost seventy hours in the first half of the nineteenth century to about sixty hours in 1900 and then almost to fifty hours in 1919, and other industries followed a similar trend (Whaples 2001). New forms of leisure also expanded and were related to advances in industry:

Much of the new leisure also depended on industrial technology, from the tram lines that took the urban masses to large concrete and metal stadiums, to the vulcanized rubber balls that were mass-produced from the 1840s onward. Clearly a revolution in leisure was underway, but it came a bit later than the industrial revolution itself. . . . By the late nineteenth century, however, consumerism could be more widely indulged throughout the West. New products like bicycles—an 1880s fad—and the automobile represented more expensive consumer items than had ever before been sold widely. (Stearns 2007, 176)

In both Great Britain and the United States from 1900 on, incomes continued to rise, hours were reduced, and working conditions improved. By midway through the twentieth century, anything that could be meaningfully labeled a sweatshop for textile or apparel production ceased to operate on any widespread basis. In Great Britain, depending on when one dates the start of the Industrial Revolution and how stringent the wage and working condition standards have to be for one to label a factory a sweatshop, the process of development involving sweatshops lasted from 130 to 160 years. In the United States, the process was faster, taking around 100 years. When we look at countries that have developed more recently, we see an even faster process of development.

### **Post–World War II East Asian Sweatshop Development Successes**

Today, South Korea, Taiwan, Hong Kong, and Singapore are wealthy First World countries. South Korea and Taiwan have per capita income levels on par with the 1990s United States, and incomes in Hong Kong and Singapore are roughly on par with current U.S. income levels. However, just sixty years ago, Hong Kong and Singapore had an average annual per capita income level of around \$3,700, and Taiwan and South Korea's level was around \$1,500. At that time, U.S. income levels were around \$16,000 per capita. In 1950, these four East Asian countries were at roughly pre-Industrial Revolution income levels, and, like the United States and Great Britain more than a century earlier, they went through a sweatshop stage of economic development. But in these East Asian countries the process of moving from sweatshops to a wealthy First World nation took less than two generations rather than the more than one hundred years in Great Britain and the United States.



Although the mix of industries involved in the development of each of these economies differed, a commonality ran through them. All of these countries took advantage of their relatively cheap labor to produce textiles and often inexpensive consumer plastics for export. These factories often had long hours and poor working conditions, much the same as Third World sweatshops today.

Peter Stearns briefly summarizes some of the growth in these countries: “Taiwanese manufacturing sold widely around the world. Inexpensive consumer items, including plastic products and textiles, became a Taiwanese hallmark. . . . Korea was competing successfully in cheap consumer goods, like plastics . . . the same held true in textiles. . . . Oil refineries and textiles and electronics factories joined ship-building as major sectors [in Singapore]. . . . Export production in industry, particularly in textiles, combined high-speed technology with low wages and long hours for the labor force to yield highly competitive results” (2007, 223, 225).

The textile exports from these countries eliminated almost one-third of textile jobs in wealthier and more expensive Japan (Stearns 2007, 223). In fact, Japan focused on high-tech production and came to rely on these countries for less-expensive factory goods that were once key exports when Japan had its industrial surge.

Of course, cheap sweatshop production wasn’t the only industry in these countries, but it was an important part of their recipe for development. “Although textiles and clothing formed 39 percent of Hong Kong’s exports by the 1980s, other sectors, including heavy industry, had developed impressively as well. As in other Pacific Rim industrial nations, a large and prosperous middle class developed” (Stearns 2007, 226). As incomes rose, the sweatshops eventually began to disappear in these countries, just as they did in the United States. These nations began shifting to higher-productivity sectors, while their textile factories saw stiffer competition from other nations with lower standards of living. The sweatshops moved from these East Asian Tigers to many of the places where we see them today. Sweatshops were a necessary stage in the Tigers’ process of development, but one that they moved beyond and did so more quickly than Great Britain and the United States.

## **What Role Did National Labor Laws Play?**

Sweatshops are eliminated mainly through the process of industrialization that raises a country’s income. The increased income comes from increased worker productivity, which raises the upper bound of compensation. The increased productivity isn’t just in one firm, but in many firms and industries, and thus workers’ next-best alternatives improve, raising the lower bound of compensation. As the economy grows, the competitive process pushes wages up. Because health, safety, leisure, and so on are normal goods, workers demand more of their compensation on these margins as their total compensation increases. The result is the eventual disappearance of sweatshops. An obvious point that critics should raise concerns the adoption of labor laws. Didn’t the minimum wages, laws against child labor, maximum work-hour laws, and health

and safety standards laws play a role in eliminating sweatshops historically in the United States and Great Britain? If they did, shouldn't other developing countries adopt them now?

The short answer is that the laws played very little role in ending sweatshop conditions. For the most part, the laws were adopted once the United States had already reached a level of development that had mostly eliminated the conditions the laws made illegal. Great Britain's first restrictions on child labor applied only to children under nine years old, and Massachusetts' child labor law, the first in the United States, limited the workday to ten hours only for children under twelve. The United States didn't pass meaningful national legislation against child labor until 1938, when its per capita annual income was more than \$10,200 (in 2010 dollars). Economist Price Fishback explains the process that led to the adoption of the child-labor laws,

Child labor laws appear to exemplify existing social trends coinciding with or preceding legislation. Between 1880 and 1920, the labor market participation rates of children fell nearly sixfold, while a well-organized social movement pressured state legislatures to enact limits on child employment. Studies of this period suggest that relatively little of the decline in child participation rates can be attributed to the introduction of child labor legislation. . . . As their demand for child labor fell, the employers who had already eliminated it reduced their opposition to child labor laws. In fact, they may have actively supported the legislation to force recalcitrant employers to follow in their footsteps. (2007, 307–8)

The process of limiting working hours for women was similar. “State laws limiting the number of working hours for women may also have passed after many employers had substantially reduced hours for women. Recent studies have found that the laws had relatively little effect. . . . The legislation acted mainly to limit hours for a small number of women who had not yet succeeded in negotiating reduction in hours” (Fishback 2007, 308).

Similarly, the first federal U.S. minimum wage wasn't introduced until 1938, and it set the minimum at 25 cents per hour when average productivity was already 62.7 cents (Cowen and Tabarrok 2009, chap. 7). The first state minimum-wage law wasn't passed until 1912 in Massachusetts, and it applied only to women and children. Other national labor legislation didn't come until the United States was even more developed. Maximum-work-hour legislation was introduced in 1940, the Occupational Health and Safety Act wasn't passed until 1970, and mandatory unpaid maternity-leave guarantees didn't arrive until 1993.

The same pattern is true of workplace safety regulation. Fishback finds that “[m]ost [safety] regulations appear to have codified existing practices in the relevant industry” (2007, 310–11). When safety laws were passed that exceeded industry

standards, they often weren't enforced. Potentially dangerous mines were inspected only once or twice a year at most, and factory inspections were even more limited. "Spending on factory inspection may have been less effective than spending on mine inspection. The number of factories per inspector was huge, making it impossible for inspectors to visit all workplaces within a year" (Fishback 2007, 311). The antisweatshop movement often points to the famous 1911 Triangle Shirtwaist Factory fire as evidence of the need for regulation. Yet Fishback finds that the deaths in that fire "could be attributed in part to violations of building and factory codes that had gone unpunished. Soon after New York State tightened the laws, however, New York newspapers were still describing the inadequacies of enforcement, and statistical studies show no effect of state factory inspection budgets on accident rates" (2007, 311). In short, when laws mandated greater safety than the usual industry practice, they were often ignored, much as they are in Third World sweatshops today. Safety improved instead in response to economic growth.

This is not to say that none of these laws had any effect. There were always occasional firms that lagged behind or some low-skilled workers who were affected. The point is that the United States didn't adopt these labor laws until most workers' compensation and productivity had already exceeded what the law mandated.<sup>8</sup> Thus, the United States didn't experience major disruptions in its process of development because of labor laws.

All too often people see the strict labor laws in the United States and assume that they must be the cause of the good standards rather than simply being the codification of what had already happened. Mises explains, "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" (1998, 612). If the United States had today's labor laws in the mid-nineteenth century, the result would have been massive unemployment and a halt to the development process. An excellent study by economists Joshua Hall and Peter Leeson, amusingly titled "Good for the Goose, Bad for the Gander" (2007), makes this point for sweatshop countries today.<sup>9</sup> If these countries were to adopt and enforce U.S.-style labor laws, it would cut short their process of development. Hall and Leeson document the level of development the United States had achieved by the time it adopted each of its major labor laws and compare it to the level of development in countries that use sweatshops intensively today.<sup>10</sup> They calculate the average income in each of the

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8. Matthias Busse (2004) shows that higher per capita income, increased openness to trade, and enhanced human capital are all positively associated with the level of core labor standards a country adopts and that income is the most important factor in explaining differences in forced and child labor as well as in unionization rights.

9. Incidentally, although this title is amusing, it would be more accurate, if less pithy, if it were "Mostly Indifferent for the Goose, Bad for the Gander."

10. Their list of sweatshop-intensive countries includes Bangladesh, Brazil, China, Costa Rica, Dominican Republic, El Salvador, Haiti, Honduras, India, Indonesia, Nicaragua, Peru, and Vietnam.

**Table 1**  
**U.S. Income and Labor Standards Compared to Sweatshop Countries**

Labor Standard	Date of U.S. Adoption	U.S. GDP/ Capita	Number of Years until Average Sweatshop Country Reaches U.S. Income Level at Time of Adoption
Collective Bargaining	1935	\$9,123	29
Unemployment Insurance	1935	\$9,123	29
Child Labor	1938	\$10,223	35
Minimum Wage	1938	\$10,223	35
Working Time	1940	\$11,698	42
Equality of Opportunity	1964	\$21,314	72
Occupational Safety and Health	1970	\$25,081	80
Maternity Leave	1993	\$39,176	102

*Note:* U.S. income figures are updated for inflation to 2010 U.S. dollars from Maddison's income data, which was in constant 1990 International Geary-Khamis dollars. See Maddison 2010.

*Source:* Hall and Leeson 2007, with dollars updated and abbreviations spelled out.

sweatshop countries and then extrapolate from their recent rates of economic growth how many years it will take them to reach the level of development the United States had achieved when it adopted each of its major labor standards. Table 1 summarizes the main federal government labor standards in the United States, when these standards were adopted, the U.S. average income at the time of adoption, and how many years Hall and Leeson project the average sweatshop country is from reaching that income level.

Countries where sweatshops locate have per capita incomes far below the per capita income the United States had when it adopted the type of labor standards many people want Third World countries to enforce today. Given their recent rates of economic growth, most of these countries are many years away from reaching a level of development at which adopting such standards wouldn't risk undermining the development process. Although that message may seem depressing, it need not be. Although the process of growth that ended sweatshops in Great Britain and the United States took more than one hundred years, and some of the current sweatshop countries are growing slowly today, the process need not take that long anymore, as the earlier quick look at some East Asian success stories reveals.

## Conclusion

This brief review of the history of sweatshops shows how factories with poor working conditions existed long before substantial legal standards, how these jobs

made these countries more prosperous, and how prosperity rather than legal standards led to improved wages and working conditions. This lesson is vitally important to understand if activists want to improve the lives of sweatshop workers today.

The proximate causes of high productivity are physical capital, human capital, and technology. Sweatshops themselves are part of the very process of development that will lead to their own elimination.<sup>11</sup> When foreigners make investments in Third World sweatshops, they bring in capital and new technologies as well as give workers an opportunity to build human capital. All three of these things contribute to making workers more productive, which ultimately raises their wages and leads to improved jobs.

Although capital and technology are proximate causes of development, good institutions are the underlying cause.<sup>12</sup> The Industrial Revolution began and flourished in Great Britain. During this time, Great Britain was eliminating its mercantilist restrictions and respecting individual liberty and economic freedom. It had a high level of economic freedom, and, although it was not formally measured, economic freedom clearly was increasing. The United States also had strong respect for individual liberty and property rights during its transformation.

Some would mistakenly conclude that the East Asian success stories of Hong Kong, Singapore, Taiwan, and South Korea are counterexamples because some of them, in particular Taiwan and South Korea, engaged in industrial planning. Although some industrial planning did occur, these countries were overwhelmingly market oriented.<sup>13</sup> The first year for which economic freedom rankings are available is 1970. In 1970, Hong Kong was ranked the most economically free country in the world, Singapore was the seventh, Taiwan the sixteenth, and South Korea the thirty-first (in the top 20 percent). Since that time, Hong Kong and Singapore have come to dominate the top two spots on the Economic Freedom Index.

The commonality among Great Britain, the United States, and the Asian Tigers during their period of rapid development is that all embraced property rights, markets, and economic freedom, which allowed the proximate causes of development that sweatshops bring with them to raise living standards. Labor laws and government regulation restrict freedom and hamper the process of development that eventually leads to higher living standards. Poorer countries today would be better served if antisweatshop scholars and activists had a better understanding of how the historical process played out in wealthy countries.

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11. For more on the process of development, including several recent case studies of some of the biggest successes and failures in development, see Powell (2008).

12. For an early survey of the literature on economic freedom, see Berggren (2003) as well as Gwartney, Lawson, and Hall (2011).

13. The industrial planning that did occur actually impeded development (see Powell 2005).

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