

A Letter from Professor Bhagwati to a Columbia University Committee engaged in decision on the question of a Living Wage etc. in judging whether apparel firms supplying Columbia T-shirts etc. should be asked to sign on to A Social Responsibility Code

Ref: Defining Social Responsibility in the Apparel Industry, for Our Firms Abroad, for Our Firms at Home And for Our Labor Unions in regard to Their Protectionist Demands

Dear Professor xxxx :

I was happy to see you all today and to be able to share some of my thoughts on the subject of Social Responsibility in general and on the appropriateness of linking that to the concept of a Living Wage in particular.

I thank you for offering me the opportunity to share with you my thoughts on how to think about these questions in an appropriate way, reflecting my long association with developmental economics, international trade issues, and my close association through membership of Boards and/or Advisory Committees with SA8000, Human Rights Watch (Asia), CUTS (the leading Indian NGO on consumer and trade issues) etc.

I might add that, as I said to you all, no one in the Columbia administration has ever discussed my views with me. But, based on the occasional reports of your committee and the campus activities by a group of students as reported in **The Spectator**, I have discussed the issues in my very large SIPA class this term so that the students learn how to think about these issues for themselves and to reach conclusions based on an informed analysis of facts, assumptions, and public policy alternatives. In fact, I have taught these issues to date to nearly 500 SIPA and other students, many with NGO backgrounds and many wanting to rejoin NGOs; many have often come with pro-living-wage ideas and then changed their minds (and told me so AFTER the grades were assigned!).

**I: Why a Living Wage is the wrong way to Go for Defining Social Responsibility by
Employers/Multinationals going abroad:**

Just to recap for your record, I argued that it was not a good idea for the University, in its search for Social Responsibility among its suppliers of apparel with our logo, to embrace the Living Wage concept.

Noting that the student movement has been mainly concerned with the question in relation to wages paid by multinational making apparel etc. abroad, and that also is what Professor Litwak's letter to me explicitly states --- "developing a Columbia Code specifying work conditions *in third-world countries* (italics inserted) --- I would make the following arguments about the multinationals and their wage payments and their economic impact on the poor countries abroad as being relevant to how we wish to think about the demands being made.

I believe that the evidence shows that multinationals generally pay a wage premium of about 10% to the host-country workers they hire (see the work of Ann Harrison of the Business School). These wages are, of course, lower than what you get here; after all, these are poor countries. Also, the multinationals, by increasing the demand for local labour, cannot but help the laboring class in these poor countries: reaching a contrary conclusion requires models that have no plausibility in my view. There is also much evidence that multinationals diffuse technology to the host countries: again, there is much evidence of this in the scholarly literature (see the work of Magnus Blomstrom of Stockholm School and of Richard Caves at Harvard). The notion that multinationals exploit workers or the working class in the poor countries and/or hurt the poor countries' development is simply hard to sustain in the teeth of this analysis.

In fact, in my view, the notion that trade and investment are the source of poverty in the poor or the rich countries is widespread among the unions that fear international competition and drive some of the campaigns for the living wage (though, of course, there are other morally-driven groups doing so also). But there are, in fact, many empirical studies that argue just the opposite. I have dealt with this problem in recent articles that I will be happy to share with the

Committee. [I raise this aspect because, as far as I could understand him, Professor Litwak invoked “globalization” and the resulting “interdependence” as the reason why a Living Wage was necessary in some sense.]

So, the notion that we “need” a living wage to be imposed on multinationals cannot be supported on the grounds that otherwise investment abroad is harmful to, and “exploits”, workers there. No; investors who typically pay the going wage plus a wage premium typically do the opposite. The notion of a “living wage” cannot therefore be meaningfully grounded in a persuasive definition of “exploitation, at least not one that appeals to me and indeed most economists who work on the subject.

This is why many (including altruistic NGOs) in the poor countries see the drive towards raising the local cost of production of apparel in particular (because that is where the export advantage of the poor countries has always raised demands for protection by our textile unions such as UNITE and corporate interests in the industry) by paying yet higher wages (exceeding even the wage premium) as essentially “masked protectionism” which is aimed essentially at reducing the force of international competition.

In consequence, the drive to enforce a Living Wage on firms investing or buying abroad is seen by many there, and some here, as morally obtuse, instead of being the ethically appropriate policy that it is often claimed to be.

II. What we ought to Focus on Instead:

Instead of the Living Wage as part of the Social Responsibility definition, I therefore prefer that one focuses instead on matters such as the following:

- minimum safety standards;
- dignified treatment of workers;
- reasonable restrictions on working hours and rights of women workers regarding treatment of pregnancy et.al.; and

- stakeholder performance for the community, i.e. for the “outsiders”, not the “insiders” who already enjoy the superior (to local alternative) opportunity of being employed by a multinational.

I should reiterate also that the condemnation in such Standards of Child Labour, for reasons explained by me at the meeting, can in fact be morally obtuse and counterproductive, a point widely recognized by NGOs who work on the problem in the poor countries but which unions such as UNITE do not wish to admit. Unless there are programs in place to do the heavy lifting which ensures that children who are displaced from jobs are sent to school, that they are not instead bumped down into yet worse jobs including into prostitution (as has been observed in Bangladesh following on the threat of trade sanctions and market closures), that impoverished parents are not reduced to starvation as children’s incomes disappear, the use of Social responsibility requirements that exclude the use of child labour per se is not just unhelpful; it is also thoughtless and harmful.

III. What About Choice of Standard for Columbia?

If the arguments that I have made, albeit briefly, have any cogency, then public legislation that requires or mandates that our multinationals pay abroad a living wage or exclude the use of child labour altogether is to be rejected. But that does not mean that, as private parties, we do not indulge whatever ethical preferences, no matter how ill-grounded, to insist that such restrictions be placed on what we voluntarily do.

So, if the Columbia community wishes to move in that direction for its purchases of apparel, that seems to me to be fine, even if wrong. My only skepticism is about procedure. We are a cosmopolitan community which must show an extra concern for the effects of our choices on the poor countries which we must seek to assist. As a place for dispassionate inquiry, animated by passionate embrace of higher objectives, we are also supposed to encourage informed arguments and to arrive at choices based thereon.

That suggests more debates of the kind I raise here, in public fora on the campus. It also means a conscious attempt at canvassing the opinion of our huge community of foreign students so they speak for themselves rather than have others claim to speak for them. In short, we need a serious debate on the issues and the options; and a serious analysis of how we then reach a decision which is supposed to reflect our collective preferences. I do not know the answer to the latter problem; but I have no doubt that this is a matter that universities including Columbia have given a lot of thought to. I just want to register the question here.

IV. SA8000; et.al.

But, assuming that Columbia does reach the decision that a Social Responsibility Standard which has a number of features such as a Living Wage and adequate monitoring must be subscribed to for our purchases, the argument in favour of WRC makes no sense to me.

For, such a social standard with adequate monitoring already exists. I draw your attention to the wellknown SA8000 standard (of the CEPAA) on whose Board I serve, having succeeded Labor Secretary Ray Marshall.

It is truly a superb organization with adequate attention to monitoring problems. There is no need to reinvent the wheel with WRC and SA8000 does the job beautifully and is attracting worldwide attention from NGOs, firms and intellectuals. For Columbia, the advantage is that Eileen Kauffman who really runs it is a Columbia Ph.D. and her chief Aide Judy Gerhart is also our SIPA graduate! And it contains a “living wage” which I of course do not agree with; but then it meets many other things that I do like.

While embracing SA8000, Columbia could, in my view, also keep open the possibility of making eligible for our purchase programs other standards which do NOT have a living wage component, for example, as I argue above for reasons I have set forth briefly. But that would depend on what kind of outcome we have to the debate and decision process that I suggest above.

V. Columbia should also denounce Sweatshops and Protectionism HERE!

When adopting the Social Responsibility code(s), Columbia should **simultaneously** dissociate itself from protectionism in its announcement and in all following press releases of what Columbia is doing in regard to apparel purchases and issues. The Code adoption and our attitudes on textile protectionism are both important aspects of our moral concerns; one without the other is incomplete and makes Columbia culpable to the charge of moral hypocrisy.

Let me repeat that unions such as UNITE, and AFL-CIO, embrace protectionism in textiles which hurts the poor workers abroad, making a mockery of their claim that they stand for the poor workers abroad. Many of these workers abroad are women. You may read about the incoherence (many call it hypocrisy) of the unions and of our politicians in this regard in the xerox I circulated at the Committee meeting, entitled “Hillary’s Girls” which is really about, not just Ms. Clinton’s incoherence, but that of most politicians in this regard. Columbia students and faculty should certainly not go along with a Social responsibility Code on sweatshops in textiles et.al. which ignores the untold harm that our protectionism does to workers in the poor countries.

Columbia should also insist on an immediate examination of the sweatshop conditions in the US itself, e.g. in the garment district downtown. Columbia should denounce, even as it adopts a Social Responsibility Code, the abysmally low enforcement expenditures on enforcement of our OSHA and minimum wage laws in the American sweatshops.

Anything less is unworthy of a cosmopolitan university with values that should transcend national borders.

[I might briefly comment here on the computations of a “living wage” that came up. Professor Shubham Chaudhuri’s excellent work is as good as it can get, and I commend it. But it has to do with defining a “living **standard**”, which is an aspiration of what we want poor countries’ people to reach at a minimum. It is a sophisticated version of what I did as my very first job in India, in the context of India’s Third Five-Year Plan in 1961 on returning to India from my studies abroad: I was calculating the “minimum income” which every Indian should

get, reflecting “basic needs”. But we were always clear that this was not a minimum “wage” ! The public policy questions were: how was this minimum standard of living to be attained? Through redistribution, through land reforms, through rapid growth, etc.? Where Professor Chaudhuri would agree with me is that these are two entirely different questions. So, if you consider his measurement as simply measures of “Living Standards” that we as morally responsible people feel must be attained in the poor countries, that is fine. But it is NOT a measure that has any meaningful relationship to the question of what **wage** should be paid. The latter is an altogether **separate** question; and in answer to that question, I propose, as I have already done above, that the demand that a “living wage” be paid by multinationals going abroad is both unpersuasive and arguably morally obtuse, even offensive.]

With my very warmest good wishes, and hoping that this statement of my views on the issues at hand, is of some use in your continuing deliberations.

Yours sincerely,

PS. I did tell the students present that I would take them to lunch at my expense to discuss these issues and perspectives so as to advance mutual understanding. You may kindly remind Ginger (I do not have her last name) to call me at 854-6297 or at jb38 on e-mail.

Copy to: President Rupp