

Strategic Management/Business Policy in a Catholic Business School

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Revised January 2014

Class # 12: Ethics and Globalized Labor – A Living Wage

An increasingly globalized economy forces companies to make decisions about whether to internationalize operations. Should we locate production overseas? Should we partner with foreign suppliers or create production facilities of our own in foreign locations? Should we establish foreign distribution and sales operations in an attempt to benefit from the market potential of a rapidly growing middle class in developing economies? These are questions of obvious strategic importance. Globalization offers vast opportunities for firms but it presents significant threats as well. Poor strategic choices or poor implementation of those choices can have dramatic negative effects on the corporate bottom line. The Nike case, for instance, reveals the reputational risk of a poorly managed supply chain.

But decisions about globalization involve important ethical choices as well. Chief among those are questions about the labor practices to be adopted in developing economies. Students at Catholic business schools should be familiar with Catholic Social Teaching in this area and also be capable of engaging in the secular debates over labor practices in the developing world. Resources for CST (including full text of central documents and selected passages on main themes) are available on-line at www.osjspm.org/catholic_social_teaching.aspx.

Case Resources

For many of our students, the ability to engage will be limited by their unfamiliarity with the facts of developing world labor markets. Case studies can help provide the context for a more full-bodied discussion. Certainly, the many sources available on the Nike case can be useful. So, too, is the Harvard case on Levi Strauss' decisions to abandon and then resume production in China. Students have found the National Labor Committee's video *The Hidden Face of Globalization* (preview available at <http://www.youtube.com/nlcnet#p/u/2/8Bhodyt4fmU>) to be a powerful introduction to some of the more dire circumstances faced by apparel workers. Pietra Rivoli's text *The Travels of a T-Shirt in a Global Economy* offers a counter perspective to that video. Current case information can be found at www.workersrights.org and at www.fairlabor.org. All these resources can provide context for a more substantive ethical discussion in the classroom.

Managing Classroom Discussion – The Living Wage Debate

While the ethical questions about global labor practices raised by the preceding sources involve a wide range of issues (from workplace safety to working hours), perhaps the most controversial question is about wages. Both the Catholic Church and recent campus activists have called for workers to be paid a “living wage,” defined as a wage sufficient to support a person in dignity above mere subsistence levels, to provide sufficient resources for adequate nutrition, housing, health care, clothing and the like and to allow some savings for emergencies and old age. The exact amount of a living wage would vary by location and would be determined by the price of a market basket of goods needed for a decent human life.

Students might best relate to the call for a living wage by becoming familiar with the campaigns for worker rights that are led by their college peers. College activists argue that universities should assure that their own campus workers and the developing world workers who produce the university’s logoed apparel should be paid a living wage. Websites such as the United Students Against Sweatshops (<http://usas.org/>) will give students a taste of the activists’ campaigns. Perhaps more intriguing for students on Catholic campuses would be the narratives of debates at Notre Dame and Georgetown over the wages of campus workers: <http://www.campuslaboractionproject.org/> and <http://www.campusactivism.org/server-new/uploads/gtownlivingwage.pdf>.

While campus activism on the living wage is a relatively recent phenomenon, Catholic Social Teaching since the time of Leo XIII’s *Rerum Novarum* in 1891 has been consistent in holding that full-time workers deserve to be paid a living wage. The following are examples of teachings on wages from Church documents:

Let it be granted, then, that worker and employer may enter freely into agreements and, in particular, concerning the amount of the wage; yet there is always underlying such agreements an element of natural justice, and one greater and more ancient than the free consent of contracting parties, namely, that the wage shall not be less than enough to support a worker who is thrifty and upright. If, compelled by necessity or moved by fear of a worse evil, a worker accepts a harder condition, which, although against his will he must accept because an employer or contractor imposes it, he certainly submits to force, against which justice cries out in protest. (*Rerum Novarum*, # 45)

In determining fair pay, both the needs and the contributions of each person must be taken into account. Remuneration for work should guarantee humans the opportunity to provide a dignified livelihood for themselves and their family on the material, social, cultural and spiritual level, taking into account the role and the productivity of each, the state of the business, and the common good (*Gaudium et Spes*, #67). Agreement between the parties is not sufficient to justify morally the amount to be received in wages. (Catechism of the Catholic Church, #2434)

Finally, remuneration for labor is to be such that people may be furnished the means to cultivate worthily their own material, social, cultural, and spiritual life and that of their dependents, in view of the function and productiveness of each one, the conditions of the

factory or workshop, and the common good. (Gaudium et Spes, #67)
Furthermore, society and the State must ensure wage levels adequate for the maintenance of the worker and his family, including a certain amount for savings. (Centesimus Annus, # 15)

These pronouncements, and the parallel demands by anti-sweatshop activists on college campuses, have been met with much skepticism. That skepticism takes a number of forms and it can be helpful for students for us to distinguish the distinct critiques of the call for a living wage. One approach is to argue that the implementation of a living wage requirement will have harmful consequences for those it intends to help. In one classic case of this complaint, a letter signed by several prominent economists at the University of Michigan (<http://www.fordschool.umich.edu/rsie/acit/>) urged colleges not to adopt a proposed code of conduct, which included a living wage clause, for the suppliers of their logoed apparel. Their argument was that any pressure to increase wages in some locales would cause production to be moved, resulting in the loss of multinational created jobs that paid relatively better than available alternatives. Thus, the very workers activists (and the Church) attempt to benefit would, in fact, suffer economic losses. A similar argument has been advanced by Ian Maitland in “The Great Non-Debate Over International Sweatshops” (in J. DesJardins and J. McCall, *Contemporary Issues in Business Ethics*, 5th edition).

This consequentialist argument against a living wage policy has been challenged by empirical analyses that claim there has been little change in employment levels for firms that have been targeted by anti-sweatshop activists. The research found substantial wage increases but little evidence of an effect on employment levels (Ann Harrison and Jason Scorse, “Multinationals and Anti-Sweatshop Activism.” *American Economic Review* 100(1): 247-273). Arnold, Hartman and Wokutch (*Rising Above Sweatshops: Innovative Management Approaches to Global Labor Challenges*, Praeger, 2004) detail cases where multinationals have taken steps to improve wages and working conditions in response to activist complaints. In fact, some claim that the increase in wages may actually benefit the poor in the local economy by providing a stimulus (Robert Pollin, et al., “Intended and Unintended Consequences: Evaluating the New Orleans Living Wage Proposal.” *Journal of Economic Issues*, December 2002)

We might note for students that the above prediction of job losses when firms relocate to avoid increased wage requirements only applies when firms are pressured from outside and when they behave in purely profit maximizing ways. As the Church has continuously argued, however, management has discretion and a management guided by proper moral principles will not pursue maximal profit at any cost. Whether employment levels drop is thus partly a function of the motives ascribed to management. Is management purely the economists’ rational maximizer or is management motivated by a sense of justice?

Another source of critique of the calls for a living wage suggests that paying such a wage is not the duty of the employing firm. Some taking this approach suggest that the cost to the firm of increased wages will be great. When wage rates are increased at the point of production, they argue, those increases will be multiplied times over as the product moves up the supply chain. The result will be dramatically increased costs to the end consumer and thus dramatically lower sales.

We can note for our students that this account follows only if we assume that the mark-up at each stage of the supply chain is done through a percentage multiplier. However, nothing requires that the price paid to each successive step in the supply chain include a multiplier of the wage increase. Multinationals have sufficient market power to assure both that production wages are increased and that the impact on end purchase price is not overly impacted.

Other arguments students might confront against the living wage claim that wages agreed to in the market are fair and that we have a duty to respect the choices workers make between their available alternatives. This view relies on the fact that many workers in the developing world are in fact better off economically when working in the multinational supply chain than they would be otherwise. See Matt Zwolinsky, "Sweatshops, Choice and Exploitation" (in *Business Ethics Quarterly* 17:4, October 2007) as well as Ian Maitland's article cited above.

Confronting these arguments will require students to assess (a) whether markets always generate fair results and (b) whether the fact that a person is better off than they would have been is sufficient to discharge our duties towards them. Clearly, the Church's view is that there is a baseline standard of living that constitutes a minimum for a life of human dignity and that there is a moral duty to alleviate humanly alterable conditions that cause a person to fall below that level. See John Ryan's historical dignity-based argument in his *Living Wage* (available at http://books.google.com/books?id=e4Wlnkx1PDwC&printsec=frontcover&dq=living+wage&source=bll&ots=tOo8YoNKus&sig=lvmuwxp-aZSJ9NvbUnF-inMU8eg&hl=en&ei=dHaSTPycNcLflged_sylCg&sa=X&oi=book_result&ct=result&resnum=14&ved=0CFkQ6AEwDQ#v=onepage&q&f=false) and Denis Arnold and Norman Bowie, "Sweatshops and Respect for Persons" (*Business Ethics Quarterly* 13:2, April 2003). The resources noted here provide a rich foundation for students to pursue a more careful evaluation of the demand for a living wage. The topic can also provide a good object lesson on how to make ethically based strategic choices by attending to both empirical data and conceptual analysis of central moral notions.