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T-Shirt Economics: Labour in the Imperialist World Economy

by Tony Norfield

Everybody knows that workers are paid different wages in different countries. However, the scale of the divergence in wages can nevertheless be surprising: not just 10% or 20% different, but more like a factor of 2, 5, 10 or 20 between the richer countries and the poorer countries. Mainstream economic theory explains this – and justifies it – by arguing that workers in richer countries are more productive than in poorer ones, arguing that the former are more educated and skilled, working with higher levels of technology. Yet this explanation does not sit well with the reality that many manufacturing employees in poor countries are employed, directly or indirectly, by major corporations, and working with technology that is comparable to that in the richer countries.

An American manufacturing worker on some $34 per hour, including welfare and other benefits, may not feel rich, and he is certainly earning a tiny proportion of the salary of his managers and the CEO. Nevertheless, he is earning more than twice what a South Korean manufacturing worker earns, nearly five times the wages and benefits of a Polish worker, around 20 times that of a Chinese worker and an even bigger multiple of those for workers in India.[i] How can this be?

The difference in wages has little to do with currency valuation. The World Bank, and others, calculate 'purchasing power parity' values for currencies to show that a lower local wage, for example $10, may be able to buy the equivalent of $15 or $20 of goods in the US, but this does little to explain the huge gap in earnings. Neither do productivity differences look like a good explanation. The technology used in poor countries to assemble computers and perform other manufacturing operations is not a couple of screwdrivers, with the work done in a shed with no electricity supply. Companies such as the Taiwanese-owned Foxconn have vast production complexes, one employing some 400,000 workers in 15 factories in China.

It is this kind of operation that is more typical of today's international supply chains for major corporations than one where poor countries use backward technology and have far lower productivity. Economic data for a poor country may suggest very low productivity, but this will reflect the economy as a whole, often including a mass of small-scale farming and subsistence activities. It will not be true for the sectors in which imperialist firms have invested and on which they depend for supplies of cheap goods.

It is widely known that US corporate giant Apple depends on low wage suppliers in Asia, as do many others, including Microsoft, Dell and Nokia, and other companies outside the technology sector. In the case of the iPhone 4, total supplies per unit, including flash memory and processing chips, are reported to have cost around $188, while labour assembly costs in China (at the infamous Foxconn factory) were less than $7 per unit.[ii] Yet the iPhone was retailing in the US at $600. Is it really the case that the remaining $400 or so is 'value added' by Apple? Or might it have more to do with the combination of Apple's monopoly practices and the ultra-exploitation of Foxconn's workers?

I have not seen any analysis of this question, but an excellent article in *Die Zeit* detailed the story for another, far less glamorous product: the T-shirt. The T-shirt story is typical for the goods imported into rich countries that are produced by workers in poor countries. It is also a telling example, because here there can be no obscuring of the key relationships by appealing to the superior techniques, productivity or specialist skills of the rich countries when explaining why so little of the final selling price of the T-shirt accrues to the manufacturer in the poor country. It is an example, in other words, of how rich countries *appropriate* value created in poor countries, even though mainstream economics would argue that the price received by the different agents of production reflects the value *created* by them.[iii]

A particular T-shirt made in Bangladesh was sold in Germany at 4.95 euros, kept just below the 5 euro level by the Swedish retailer Hennes & Mauritz (H&M) in order to encourage sales. This is how the selling price was broken down in the stages from the cotton raw material to the shirt ending up in a bag at the shop sales desk:[iv]

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- 0.40 euros: cost of 400g of cotton raw material bought from the US by the factory in Bangladesh;
- 1.35 euros: the price H&M paid per T-shirt to the Bangladeshi company;
- 1.41 euros: after adding 0.06 euros per shirt for shipping costs to Hamburg in Germany;
- 3.40 euros: after adding some 2.00 euros for transport in Germany, shop rent, sales force, marketing and administration in Germany;
- 4.16 euros: after adding 0.60 euros net profit of H&M plus some other items;
- 4.95 euros: after adding 19% VAT, paid to the German state.

The 4.95 euros for the T-shirt and the 60 cents profit per shirt are, of course, multiplied by the many millions: this is a mass market business. The Bangladeshi factory makes 125,000 shirts per day, of which half are sold to H&M, the rest to other western retailers. One worker at the factory, even after a 17% pay rise, earned just 1.36 euros *per day*, based on a 10-12 hour day. The machine she works with produces a target of 250 T-shirts per hour.

Not enough information was given in the article to work out the labour cost per T-shirt, including the other workers involved, but it is well within the 95 cents margin that the factory receives from H&M after the cost of the cotton (i.e. 1.35 –0.40). The 95 cents covers labour costs, power costs, the cost of materials needed (other than cotton), depreciation of machinery and other items, plus a margin for the local manufacturer's profit. A reasonable estimate would be that the average labour cost to produce one T-shirt is around 10-15 cents.[v] In that case, H&M's profit margin is four to six times what is paid to the workers in Bangladesh making the T-shirts.

However, what is just as striking in the details is the fact that a large chunk of the revenue from the selling price goes to the state in taxes and to a wide range of workers, executives, landlords and businesses in Germany. The cheap T-shirts, and a wide range of other imported goods, are both affordable for consumers and an important source of income for the state and for all the people in the richer countries.

The daily wage of the Bangladeshi worker is less than what many people in richer countries spend on a morning cup of coffee in Starbucks. Clearly, if the Bangladeshi worker were to receive the US worker's average wage of more than $30 *per hour*, rather than 1.36 euros *per day*, then there would be no more T-shirts costing less than 5 euros! But the low wage they do receive is one reason why the richer countries can have lots of shop assistants, delivery drivers, managers and administrators, accountants, advertising executives, a wide range of welfare payments and much else besides. The wage rates in Bangladesh are particularly low, but even the multiples of these seen in other poor countries point to the same conclusion: oppression of workers in the poorer countries is a direct economic benefit for the mass of people in the richer countries.

i Wage compensation data are taken from the US Bureau of Labor Statistics for 2010. I include my own 2010 estimates for China and India based on BLS 2007-08 data, taking into account moves in currency values and developments in wage costs reported since then.

ii See *The New York Times*, 'Supply Chain for iPhone Highlights Costs in China', 6 July 2010. See also *The Guardian*, 'Apple factories accused of exploiting Chinese workers', 30 April 2011.

iii John Smith explains the important question of value appropriated versus value created in an excellent analysis of the global division of labour. See 'Imperialism & the Globalisation of Production', http://www.mediafire.com/?5r339mnn4zmubq7. Further discussion of these issues is found on http://economicsofimperialism.blogspot.co.uk/.

iv Details taken from a review article in *Die Zeit*, 'Das Welthemd' ('The World Shirt'), 17 December 2010. See http://www.zeit.de/2010/51/Billige-T-Shirts.

v The textile industry in Bangladesh has the lowest labour costs in the region and employs around 3 million workers, 90% of whom are women. Almost all of its output is geared to exports.

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