Technology Entrepreneurship HDCS 4370
Quiz #5: The US Textile Industry
Dr. Adomaitis

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Rosen, E. I. (2002). The Globalization of the U.S. Apparel Industry: Making Sweatshops. University of California Press.

Please answer to the best of your knowledge the following essay question. Use detail where appropriate. Remember grammar, punctuation & spelling count.

a. What was the initial lure for textile mills to move south? Was there any government incentive to attract mill owners to the South? How did unions effect textile mills? (2 pts)

During the beginning of the nineteenth century the United States textile industry started, during this time the Boston Associates created their textile mill complex in Lowell, Massachusetts. The industry had drastically changed by 1880's. "Through a process of mergers and acquisitions, textile companies consolidated, over a period of time, as they moved from New England to the South" (Rosen, 2002, pg. 77, par. 3). The American textile industry was quickly becoming a southern business by the end of World War II. By 1960, the U.S. textile industry had moved to the South.

The reason and explanation for the Southward move of the American textile industry is the South's lower labor cost, the requirements for lower energy and the efforts to lure textile mills in southern communities to a region with state tax breaks. These were some motivating forces but only a small part that there was a move. "Barry E. Truchil and others have argued that the most salient incentive for moving south was the federal tax laws that made it possible for textile companies to deduct a loss of an acquired company against the purchasing firm's profits for at least two years" (Rosen, 2002, pg. 78, par. 3). Massachusetts and Rhode Island firms have been financed by Northern banks large corporations. This was opposed by many northern communities. As a result, the firms in New England would be closed and its workers displaced as a new place of business would be open in the lower cost South.

The Textile Workers Union of America approved a study of the textile industry by a professor of economics at Harvard University named, Seymour Harris. The title of the study was called *New England Textiles and the New England Economy*. This was given the approval of the esteemed Pastore Committee which was appointed by Congress to study the industries problems. "Harris saw the mergers and subsequent move to the South as responsible for the job loss unemployment of Northern textile workers" (Rosen, 2002, pg. 78, par. 4). While the industry was centered in the South with productivity and profitability at an all-time high, there was an increase in man-made fiber production and the process of restructuring coexisted with the intense suffering of Northern textile workers.

b. On top of page 84, Rosen states, *"They were considerably better off than women textile workers in the low-wage South during America's postwar prosperity. Indeed, it was in part the very welfare these workers enjoyed that made U.S. textile and apparel manufacturers begin to seek the comparative advantage of offshore production*." Define comparative advantage. In your own words, describe the author's view, given in these two sentences, of offshore production. (2pts)

Comparative advantage is the ability of an individual or group to carry out an economic activity such as making a specific product more efficiently than another activity. According to Rosen, she views offshore production as a benefit for the women working in textiles in America. Though the working conditions have improved over time, women textile works are still experience low wages when you can have goods being made overseas and pay workers what would be considered a low wage in the U.S. but a somewhat reasonable wage in an underprivileged country. Though the American women textile were skilled and mature the still didn't receive the equal wages against their male counterparts.

c. How did the U.S. government play a part ending production at U.S. textile mills especially in the North? (2pts)

During the 1950's there was a more advanced textile industry that was emerging in Eastern Asia because of American subsidies and foreign aid. "The domestic industry was facing not only a slowed growth in demand in the U.S. market but also the threat of losing traditional export markets in East Asia' (Rosen, 2002, pg. 84, par. 2). With the price of cotton being high and increasing overcapacity, Japanese imports growing levels were considered one of the most significant potential threats. Given the wages for textile workers already, it was impossible to reduce their wages any further.

Rosen, E. I. (2002). The Globalization of the U.S. Apparel Industry: Making Sweatshops. University of California Press. (cont.)

d. What were the textile initiatives offered to the textile industry by President Kennedy? How come no funds were appropriated to the textile industry until 1970? (2pts)

During the 1950's the textile industry had engaged in an incredibly profitable merger and acquisitions which displaced workers in the northern textile industry and provided capital for textile producers with economic scales. The request for financial textile support was refused and ignored during the Eisenhower presidency. That administration focused on its efforts on trade expansion on more valued industries. "Kennedy's textile initiatives offered federal financing for industrial restructuring" (Rosen, 2002, pg. 90, par. 3). The federal government responded to the industries needs during the 1960's by offering support that was more useful than what protection minimalist provided by the Long-Term Agreement.

After the first seven years of the passage of a new law, there was no financial backing to aid firms or support displaced textile workers. The Department of Labor distributed the program in an office they set up in 1970. By 1973, thirty-one firms had made official as eligible to apply for assistance. "They applied for funding that presumably would allow them to restructure their operations. Six of the thirty-one firms were funded; of these five produced textiles and one manufactured apparel" (Rosen, 2002, pg. 90, par. 4). The program established by Kennedy ordered an acceleration of tax depreciation schedules allowed.

e. What the *two-price* cotton policy? How did this effect U.S. textile producers? (2 pts)

The two-price cotton policy, during 1964, had increased the cost of raw cotton for American textile producers more than foreign manufacturers was made equal. "This change made the cost of raw cotton 26 percent lower than it had been for domestic producers and freed capital for new investment" (Rosen, 2002, pg. 91, par. 3). As a result, the American textile manufacturers made new payments on plants and equipment. Production quickly expanded between1960 and 1970. The move to the South was complete by the 1980's.

In the 1970's the U.S. government commanded that the textile industry finance technology for environmental protection was efforts by the industry to promote domestic capital formation. Only the big firms agreed eventually to adhere with OSHA and EPA regulations. "This mandate put smaller, less profitable textile competitors at a severe competitive disadvantage, which led to further centralization and consolidation of U.S. textile production by means of new mergers and acquisitions" (Rosen, 2002, pg. 91, par. 4). Many smaller firms closed their doors because they were unable to afford protection environmentally.