

Fashion Economics: FM 4339
Quiz #5: The US Textile Industry
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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)

Rosen states the relocation of the U.S. textile industry to the South. Federal tax laws allowed Textile companies to deduct the financial losses of struggling Northern mills they acquired at minimum of two years from their own taxable profits. As a result, buying struggling Northern mills and shutting them down, helped rebuild new facilities in the South (Rosen, 2002, p.78. par.2). Lower labor costs, for Southern workers typically receive lower wages compared to Northern workers significantly reducing production costs for textile mills. Unions were less prevalent in the South, giving mills owners more control over working conditions and reducing worker bargaining power for wages and benefits.

Rosen argues, government incentives to attract owners to the South, these incentives included various forms of state level tax breaks and offered by Southern communities to lure textile mills to the region (Rosen, 2002, p.78. par.3). Financial assistance from state governments could provide cost assistants with moving south. These laws allowed companies to deduct losses from acquired Northern mills, incentivizing closures and relocations south. Barry E. Truchil and other scholars enabled this law to allow textile companies to subtract the financial losses of struggling Northern mills they acquired from their own taxable income. Overall, government incentives were made with the intention of promoting economic development, job creation, and regional growth, which benefits both the government and the textile mills in the South.

Union effect textile mills, Northern job losses, textile factories in the Northern U.S were closing down, leading to unemployment and hardship for workers in those regions. President Kennedy, the administration of the Textile Workers Union of America analysis on the textile industry, and Seymour Harris, an economics professor at Harvard University (Rosen, 2002, p.78. par.3). Harris argued, job losses in the North industry closures due to mergers in the South relocating, caused significant unemployment for textile workers in Northern regions. The Union affected both South and North weakening the political power as jobs and union membership declined in the North. Harris's findings proved the negative impact of mergers and the relocation of textile operations on Northern workers, highlighting the cost effect of the Unions restructuring efforts.

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)

Rosen defines, comparative advantages refers to, economic principle wherein a country or entity can produce a particular good or service at a lower opportunity cost compared to other countries. Rosen states, offshore production refers to moving production facilities to a foreign country, typically to benefit from lower costs (Rosen, 2002, p.84. par. 1.). U.S. textile manufacturers turned to offshore production because the wages and benefits of American workers made domestic production less efficient as a result, higher relative cost. By moving production overseas, it would potentially find locations with a comparative advantage in textile production due to lower labor costs. Offshore production was significant for the U.S. textile and apparel manufacturers to remain competitive, expand their market reach, and maximize profitability in an increasingly globalized economy.

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

Rosen suggests that the U.S. government indirectly played a role in ending production at U.S. textile mills, particularly in the North. By giving financial support to textile industries in East Asia, the U.S. indirectly helped create new competitors with lower production costs (Rosen, 2002, p.84. par. 3). If the U.S. aided East Asian textile industries, countries in the North might have become self-sufficient or even started exporting to areas previously supplied by the U.S. The U.S. government's actions, while perhaps intended to achieve other goals, ended up strengthening foreign competitors and weakening the export market for American textiles. This, combined with other factors like high cotton prices, made it difficult for Northern mills to compete.

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)

President Kennedy's textile initiatives for the textile industry focused on modernization. In the 1950s, textile mills, especially in the North, were struggling with low profits and outdated technology (Rosen, 2002, p.80. par. 1). This made it hard for North to compete. Kennedy's solution offered tax breaks that allowed textile companies to write off the cost of new machinery faster. This essentially made buying new equipment cheaper. With these tax benefits, Southern textile mills which dominated the industry around this period could afford to upgrade their machinery. This increased the South's productivity, as a result they could produce more textiles with fewer workers.

President Kennedy's program offered tax breaks for modernization and included aid for struggling companies and displaced workers. Although the law was in place, no funds were allocated for seven years to fulfill its purposes. This meant the promised assistance for worker retraining or company restructuring had not become actually available (Rosen, 2002, p.90. par. 5). Rosen highlights this gap between the promised support and the delay. It was not until 1970, seven years later, that a small office was even set up to administer the program. Funding for affected companies only trickled in much later around 1973.

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

The two-price cotton policy, according to Rosen, created an unfair situation for American textile producers. The U.S. government set two different prices for cotton. American textile mills had to pay a higher price for raw cotton compared to foreign manufacturers (Rosen, 2002, p.91. par. 3). This made it more expensive for U.S. companies to produce textiles compared to their foreign competitors. In 1964, this policy was made equal. Rosen states this change as a positive development for the U.S. textile industry. With cotton costs, American manufacturers could invest the saved money around twenty-six percent into new equipment and facilities. In 1964, this policy was finally equalized. This meant the price of raw cotton became the same for both domestic and foreign producers.

Rosen explains how the U.S. textile industry adapted to challenges in the 1970s by focusing on cost cutting technology (Rosen, 2002, p.91. par. 2). The efficiency gains came at the cost of human labor. Newer machines and streamlined processes often meant fewer workers were needed. Overall, Rosen suggests that contributed to job losses and the industry's reliance on low-wage workforce. The focus remained on keeping the workforce cheap, with the new technologies designed to maintain a low-skill, low-wage labor pool.

References:

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