Fashion Economics: FM 4339
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 details 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 affect textile mills? (2 pts)

The initial lure for textile mills to move south stemmed from several factors, according to Rosen one of those factors was primarily driven by lower labor costs and a desire to escape unionization. “The main reasons why textile mills moved to the South, are because it was cheaper to pay workers in the South, the cost of using energy was low, and in the south, they offered special deals to attract these mills (Rosen, 2002, p. 78).” It was a strategic financial benefit provided by federal tax laws, which allowed textile companies to deduct the losses of an acquired company against the purchasing firm's profits for at least two years. The promise of a union-free environment offered mill owners greater control over labor costs and operations.

Such incentives made the South an attractive region for textile mills, contributing significantly to the industry's restructuring and relocation. Government incentives such as tax breaks and subsidies further enticed mill owners to relocate their operations to the South. “Government help allowed the industry to purchase modern machinery and reduce its number of workers, which made it more able to compete with similar businesses in the Asian-Pacific region (Rosen, 2002, p. 80).” These incentives provided financial benefits and regulatory advantages for companies moving their operations to the region.

However, unions posed a challenge to textile mills, as they advocated for better working conditions and higher wages, which increased production costs. Labor unions advocated for better working conditions, higher wages, and benefits for workers, which increased production costs for mill owners. “By 1967, with more competition from low-wage workers making things worse, the leader of the United Textile Workers Union supported limits on imports (Rosen, 2002, p. 95).” Because of this situation, the president of the United Textile Workers Union decided to officially support the idea of import quotas. Import quotas are limits set on the amount of certain goods that can be brought into a country. The idea was to limit the number of foreign textiles being imported, which were cheaper due to lower labor costs abroad, to protect jobs and improve conditions for workers in the U.S. textile industry. The influence of unions often led to labor disputes, strikes, and increased operating expenses for textile mills.

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 refers to a situation where one country can produce a good or service at a lower opportunity cost than another country. Karl Montevirgen defines Comparative advantage, as a concept by economist David Ricardo, who says countries can benefit from trading by focusing on what they're good at making and importing what other countries make better. It's based on the idea that each country has unique resources and skills. By specializing, countries can make more stuff and be better off overall. Even if one country is better at making everything, both can still gain from trading because of cost differences and the chance to use resources more efficiently.

Rosen implies that offshore production became attractive to U.S. textile and apparel manufacturers because of the comparatively lower labor standards and wages in other countries. "During America's postwar prosperity, women textile workers outside the low-wage South had notably better conditions. This improved welfare partly drove U.S. textile and apparel manufacturers to explore offshore production for a comparative advantage import (Rosen, 2002, p. 84)." This quote suggests that women working in textiles outside the low-wage South of the United States had better living and working conditions, especially during the period of economic growth after World War II. Their relatively good welfare, including better pay and working conditions, contributed to a situation where U.S. textile and apparel manufacturers started looking for cheaper production options abroad; because it cost more to produce goods domestically due to the higher welfare of workers, companies began to look for places where it was cheaper to make their products.

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

The U.S. government played a significant role in ending production at U.S. textile mills, especially in the North, because of how trade agreements like (North American Free Trade Agreement) and GATT (General Agreement on Tariffs and Trade) allowed for easier access to cheaper foreign labor and materials, leading to the decline of domestic textile production. These agreements reduced trade barriers, making it easier for foreign competitors to access the U.S. market while exposing domestic producers to greater competition from abroad. Rosen explains that " Trade agreements made it easier for U.S. textile companies to move their production to countries where wages are lower. (Rosen, 2002, p. 90)." Government deregulation and a shift towards free-market policies further accelerated the demise of textile mills in the North. " Government actions like deregulation and neoliberal economic policies led to less domestic textile production by making it easier for companies to move their operations overseas (Rosen, 2002, p. 91)." Therefore, the U.S. government's actions, including trade agreements and deregulation, played a pivotal role in the restructuring of the textile industry, leading to the closure of many mills in the North and the relocation of production to cheaper labor markets overseas.

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 introduced textile initiatives aimed at adapting and building up the textile industry, including programs to improve efficiency and competitiveness. "The federal government didn't step in to help the textile industry until the early 1960s. Kennedy's textile initiatives provided financial support for improving the industry, which might have been more helpful than the limited protection from import quotas (Rosen, 2002, p. 90)." These initiatives offered financial assistance to the textile sector, which was potentially more beneficial than the limited protection provided by import quotas. While import quotas offered some degree of protection by restricting foreign competition, Kennedy's initiatives went further by providing direct financial support to improve the industry's competitiveness. Kennedy's textile initiatives represented a proactive approach to addressing the challenges faced by the industry, offering long-term solutions aimed at improving various measures such as technological advancements, research and development investments, and workforce training programs to upgrade the capabilities of the textile industry.

Despite President Kennedy's proposals, no funds were appropriated to the textile industry until 1970 due to a combination of factors like budget constraints, and political opposition hindered the allocation of funds to support the textile industry. The textile industry faced resistance from other sectors seeking government assistance, leading to delays in securing funding. “Different priorities and disagreements among politicians stopped money from being given to the textile industry, which made it take longer for Kennedy's plans to happen (Rosen, 2002, p. 91).” Therefore, despite President Kennedy's efforts to stimulate the textile industry through proposed initiatives, the lack of appropriations until 1970 reflected the complex political and economic landscape of the time.

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

The two-price cotton policy was a government subsidy program that provided domestic textile producers with cotton at a lower price than the world market price. This policy aimed to support domestic textile manufacturers by reducing their production costs. “the two-price cotton policy, which had previously made raw cotton more expensive for U.S. textile producers compared to foreign manufacturers, was changed. This made the cost of raw cotton 26 percent lower for domestic producers, freeing up money for new investments (Rosen, 2002, p. 91).” This policy change equalized the cost of raw cotton, making it 26 percent lower for domestic producers. As a result, U.S. textile manufacturers had more money available for new investments because they were spending less on raw materials. This change led to increased spending on building new plants and buying equipment. Consequently, between 1960 and 1970, textile production grew rapidly.

The two-price cotton policy had unintended consequences that affected U.S. textile producers. While initially intended to bolster the industry, the policy created artificial advantages for U.S. textile producers, leading to distortions in market prices and inefficiencies. " The two-price cotton policy created distortions in market prices and promoted inefficiency within the domestic textile industry. " (Rosen, 2002, p. 93). By providing subsidized cotton to domestic producers, the policy masked the true production costs and discouraged innovation and cost-saving measures within the industry. When the policy was eventually phased out or modified, domestic textile producers faced challenges in adjusting to the new market conditions, further exacerbating their vulnerability to global competition.

Reference

Montevirgen, K. (2024). Comparative Advantage. In Britannica. Retrieved from https://www.britannica.com/money/comparative-advantage

Rosen, E. (2002). Making Sweatshops. LaVergne: University of California Press.