

Is There Consumer Demand for Improved Labor Standards? Evidence from Field Experiments in Social Labeling

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Summary

Social Labeling and Labor Standards

- We investigate a market-based approach to improving labor standards in developing countries via the labeling of products manufactured abroad. If firms raise labor standards in facilities in developing countries, and label their products so that consumers know that they have been made under good working conditions, many consumers would be willing to pay more for such items.
- If the higher prices compensate the firms for the costs associated with improved labor standards, it would thus be possible to improve working conditions without adversely affecting profitability, investment, and job creation in developing countries.
- Labeling provides information to consumers so that they can *reward* firms for making products in socially desirable ways. Unlike alternative *punishment* strategies, aimed at sanctioning foreign nations or multinational firms for failing to raise or enforce labor standards abroad (e.g., by imposing higher tariffs on imports), labeling would not reduce investment in developing nations or encourage protectionism.
- A majority of surveyed consumers *say* they would be willing to pay extra for products they could identify as being made under good working conditions abroad rather than in sweatshops. But as yet there is no clear evidence that enough consumers would actually *behave* in this fashion, and pay a high enough premium, to make social labeling profitable for firms and effective as a means by which to raise labor standards abroad.
- Without clear evidence along these lines, firms and other actors (including organization that can do social audits) may be unwilling to make cooperative investments in labeling.

Experimental Design

- We provide new evidence on consumer behavior from field experiments in social labeling in a major home furnishings store in New York City: ABC Carpet and Home.
- ABC gave us permission to conduct the experiment using three types of products sold in different locations in the store: towels, candles, and handcrafted dolls. ABC carries two comparable brands of towels (*Christy* and *Besana*) and two competing brands of candles (*Sante Fe* and *Way Out Wax*). We labeled one brand in each case and used the competing brand as a control product. We also applied our label to the *Monkey Biz* line of beaded dolls, made by hand by women in townships in South Africa, and marketed by a non-profit organization.
- We raised prices on all the labeled products during the course of the experiment and measured the effects on demand for the goods.
- With the ABC executives and artistic team, we designed a label for our treatment products that would attest to the good labor standards under which they were manufactured. The label featured the logo *Fair and Square* on a rainbow background with a lotus symbol that ABC uses for signs and displays about social and environmental

issues and for the ABC Home and Planet Foundation. Underneath this logo heading we included the statement:

- These [towels/candles/dolls] have been made under fair labor conditions, in a safe and healthy working environment which is free of discrimination, and where management has committed to respecting the rights and dignity of workers.
- Figure 1 shows the label we used for *Sante Fe* candles.

Results

- Sales of products rose dramatically when they were labeled as being made under good labor standards and these effects were accentuated when prices were raised by 10% and 20% (perhaps because consumers regarded the labels as more credible when the products were sold at a premium).
- Figures 2-3 show the results for the experiments using the competing brands of towels and candles.
- Demand for these products was quite inelastic for price increases up to 20% above unlabeled items. The estimated demand elasticity for labeled towels is -0.36 when prices are raised by 10% over the baseline levels, for instance, and the corresponding elasticity for labeled candles is 0.53. These are much lower than past estimates of demand elasticities (-3 to -5) derived from responses to opinion surveys about goods made under good labor standards.
- The bottom line here is that firms like ABC can expect to *increase* sales by shifting to brands made under good labor standards, labeling them as such, and charging 10% to 20% more for them than for unlabeled alternatives. Larger increases in sales are likely for luxury goods (like candles and beaded dolls) than for normal goods (such as towels).

Conclusions

- The evidence from our experiments in the ABC store suggests that social labeling has considerable potential.
- While we are optimistic about social labeling, given the apparent strength of the demand for labor standards among this set of consumers, it is clear that we are testing for the market in a place where we expect to find it: that is, among well-to-do New Yorkers with a taste for contributing to social causes.
- Future studies should be aimed, if possible, at testing for demand for labor standards among other sets of consumers.
- Demand for standards is clearly not likely to be as strong among a broader class of customers with less money to spend (shoppers who frequent Wal-Mart, for instance). But not everyone can afford to buy organic foods at stores like Whole Foods either, and yet there has been a dramatic expansion in the market for labeled organic foods in the last 10 years. If a latent market for labor standards exists on anything like this scale, its development could produce rapid improvements in working conditions in developing nations.

Figure 1: The Label



These candles have been made under fair labor conditions, in a safe and healthy working environment which is free of discrimination, and where management has committed to respecting the rights and dignity of workers.



Figure 2: Towels Experiment

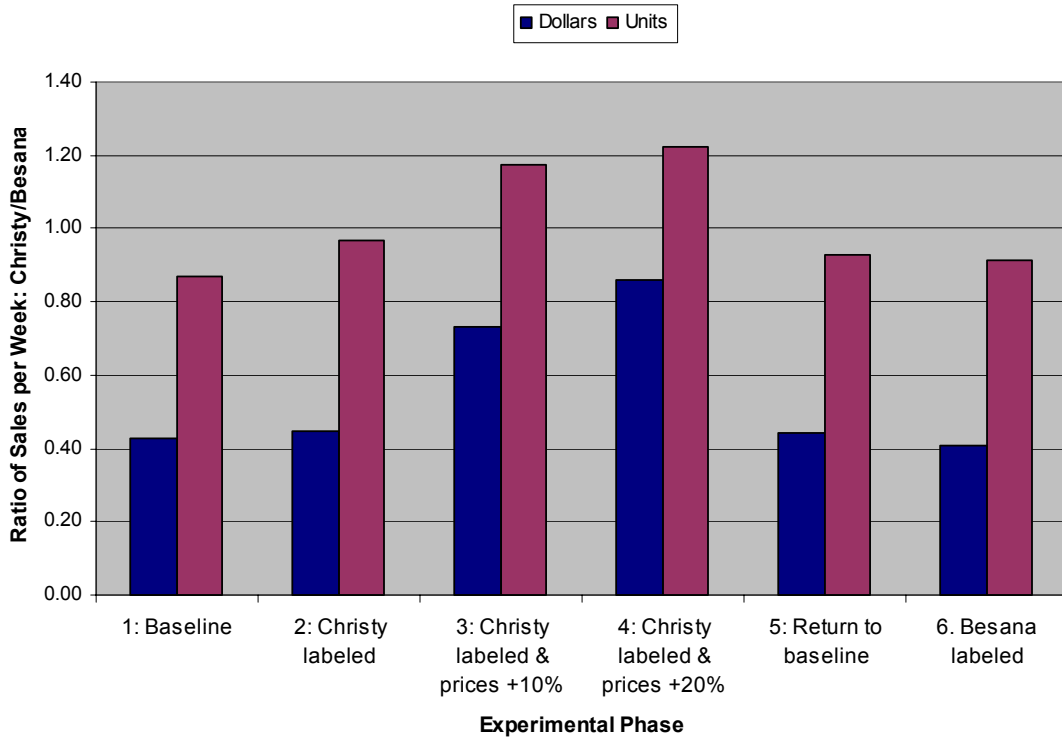


Figure 3: Candles Experiment

