

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

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Abstract

A majority of surveyed consumers say they would be willing to pay extra for products made under good working conditions 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 product labeling profitable for firms. We provide new evidence on consumer behavior from experiments conducted in a major retail store in New York City in 2005. Sales rose for items labeled as being made under good labor standards, and demand for the labeled products actually rose with price increases of 10-20% above pre-test (unlabeled) levels. If the results hold more generally, there is a strong latent consumer demand for labor standards that many more retailers and producers could satisfy profitably by switching to certified and labeled goods.

I. Introduction

Critics of globalization have argued that competition among developing countries to establish export sectors and attract new investments may be producing a “race to the bottom” in labor standards (e.g., Klein 2000). They have raised alarms about the spread of “sweatshops” in poorer nations, producing items for export in conditions characterized by low wages, long working hours, and unsafe and unsanitary facilities, where children are frequently employed and organization among workers is forbidden. In recent years, citing these fears, labor unions and human rights groups have campaigned against trade agreements and many have become vocal critics of the World Trade Organization. These groups, and others, have lobbied for the inclusion of labor standards in the WTO framework and in all new trade agreements signed between developed and developing nations (e.g., Rodrik 1996). The notion that trade policy can be discussed (and legislated) separately from its attendant social dimensions has grown increasingly less tenable (see Destler and Balint 1999).

Regulating labor standards at the international level is no simple matter, of course. There are serious concerns about the feasibility and desirability of the endeavor. The International Labor Organization has had no success brokering enforceable agreements on labor standards, and it has been working this for almost 90 years. The largest developing countries, China and India, have adamantly rejected the notion of introducing labor standards into WTO negotiations. Even if developing nations were compelled to enforce higher labor standards, the immediate effect might be to slow economic growth in the poorest parts of the world by slowing investment in labor-intensive production in those economies.

One potential alternative to international regulation is a market-based approach that involves the voluntary certification and labeling of manufactured products by firms that have adopted certain labor standards. The idea has recently attracted attention from economists (see Freeman 1994; Rodrik 1996; Elliott and Freeman 2003; Brown 2006). Labeling would allow

concerned consumers to identify and reward firms for improving labor standards by paying higher prices for their goods, compensating them for the costs associated with higher standards. Surveys indicate that a majority of western consumers say they would be willing to pay extra for products they could identify as being made under good working conditions rather than in sweatshops. But there is no real evidence that enough consumers would actually behave in this fashion, and pay a high enough premium, to make social labeling profitable for firms and potentially significant as a mechanism by which to improve labor standards abroad. Without clear evidence along these lines, firms and other actors – including the independent organizations that might be able to credibly monitor and certify standards in factories – are unlikely to make large investments in labeling programs.

We report new evidence on consumer responses to the social labeling of products from field experiments conducted in 2005 in a major retail store New York City. In the tests, sales of products rose when they were labeled as being made under good labor standards. In fact, demand for labeled products actually increased with price rises of 10-20% above pre-test (unlabeled) levels. Generalizations from these results require great caution, of course, as we conducted the test among a specific set of relatively well-heeled New Yorkers. It is difficult to speculate about what the results might say about other, broader sets of consumers. But at the very least we can say that the results do not clash with the available survey evidence suggesting that there is a strong latent consumer demand for labor standards that is not being met. If the results hold more generally, more retailers and producers could satisfy such demand profitably by switching to certified and labeled goods.

II. Social Product Labeling

Social product labels are not a new idea. In 1898 the National Consumers' League introduced a label for products made by American manufacturers who had been inspected and certified by the League as satisfying a range of criteria aimed at improving factory conditions –

they could not employ children under 16 years of age, for instance, or keep workers on the job for more than 10 hours a day or 60 hours a week (Kelley 1899). The label was widely used by American manufacturers of underwear up until the First World War. Around the same time, various American labor unions created labels that could be applied to products manufactured in unionized workplaces (Boyle 1903). Perhaps the earliest of these was the label adopted by the cigar makers' union in 1872. Various forms of union labels are still in use today. Of course none of these labels addressed, or addresses, labor standards in workplaces in developing nations.

The Fair Trade label, perhaps the best known social product label, specifically addresses concerns about working conditions among marginalized producers in the developing world. The label is administered by a network of non-profit organizations that oversee certification and license the use of the "Fairtrade" (or "Fair Trade Certified") trademark in each national market. The oldest and best know of these organizations, Max Havelaar, was founded in the Netherlands in 1988. In the United States, fair trade certification is organized by Transfair USA, created in 1998. The separate national organizations (there are now about twenty) have created an umbrella international organ known as FLO (Fairtrade Labelling Organizations) and have developed a harmonized set of fair trade standards covering production and trade in a range of agricultural products, including coffee, tea, cocoa, bananas, sugar, rice, and cotton. The standards include a minimum price for growers and a fair trade premium (both set annually), safe conditions and freedom of association for workers, and prohibitions on child labor and discrimination. The program is still small: at the end of 2006 there were 586 certified producers – mostly small farmers' cooperatives growing coffee – with global sales of around \$1.5 billion.¹

To date, no move has been made to extend the Fair Trade program to cover trade in manufactured goods, the primary focus of concern for those who worry about the spread of

¹ See: <http://www.fairtrade.net/>

sweatshop conditions in the developing.² In 2006, in fact, Transfair USA released a report on the feasibility of extending the fair trade certification system to the apparel sector, and concluded that it would not be able to manage such a leap anytime soon.³ One notable social labeling program, *Rugmark*, has been developed to address specific concerns about child labor used in the carpet industry in India and Pakistan. *Rugmark* was launched in 1994 by a group of German rug importers and Indian labor activists who conduct inspections of producers and certify that no children are employed in their facilities. The organization collects licensing fees from producers and importers, and uses these to fund school programs for children once employed in the industry.⁴

The attractions of social product labeling are clear. Rather than focus on negotiating international agreements to punish bad behavior, certification and labeling programs offer a way to make good behavior more profitable. If consumers in western nations really do care about labor standards in developing countries, they should be willing to pay higher prices for products that they know are produced under good working conditions. They just need a simple and reliable way to identify products made under good working conditions. Social labels remove an inefficiency that exists in markets for imported goods due to incomplete information on the part of consumers.⁵ With labels, the demand for different goods (and their equilibrium prices) reflects the degree to which consumers value the standards under which they were produced. Labeling is essentially a form of ethical product differentiation.

In theory, social labels benefit everyone involved. Consumers who choose to pay for the

² FLO has developed specific standards for only one type of manufactured product, sports balls, and has certified only four producers.

³ The main difficulties cited by the report involve setting minimum prices and fair trade premiums for various types of apparel, and managing certification of all material inputs and all links in the apparel supply chain. See: <http://www.transfairusa.org/content/certification/newproduct.php>

⁴ To date, the program has not expanded much beyond the German market – only about 1 percent of carpets imported from India to the United States carry the *Rugmark* label (see Vogel 2005, 103)

⁵ See Bonroy and Constantatos (2003) for a formal treatment in which lack of information about the moral quality of goods available to consumers leads to welfare losses, as conscientious consumers cannot identify (and thus adequately reward) high quality producers, and the latter are driven from the market by low quality producers.

labeled goods get to consume in a way that provides them with more satisfaction given their ethical concerns. Consumers who do not choose to pay the higher prices for the labeled goods (perhaps simply because they cannot afford it) are not forced to do so. Producers in developing nations can improve working and living conditions without losing business, and so there is no adverse effect on rates of investment and growth.

In practice, of course, social labeling may run up against a variety of problems. Consumers must trust what the labels tell them. Since producers have incentives to misrepresent working conditions if they can get away with it, keeping labor costs low but charging higher prices, one concern is that, if labeling becomes popular, firms may make all sorts of misleading claims. Consumers might be fooled, or discouraged to the point of indifference. Independent (non-profit) humanitarian organizations, like FLO, could help solve the problem by serving as credible agents for ethically sensitive consumers,⁶ but even so the prospect of consumer confusion and “label fatigue” looms large.

There are other concerns too, which we mention here only in passing. The specific standards that might be included in labeling programs are controversial. Some critics of current labeling programs worry about limits on child labor, for instance, fearing that these could make a bad situation worse for poor families in developing nations – since the elimination of jobs for children in the formal sector does not lead to a proportionate increase in demand for adult workers, and wages and conditions for children are far worse when they must find employment in the informal sector (Brown 2006). Other critics worry that importers and retailers may take too large of a cut of the premium that consumers pay for socially labeled items, making labeling a very inefficient method for channeling aid from consumers to workers in poor nations (Stecklow and White 2004).

⁶ Elliott and Freeman (2003, 47-48) point out that this role for NGOs, as intermediaries who provide critical information to consumers, has a precedent in financial markets that rely heavily on ratings agencies such as Moody's.

But the most fundamental reason for skepticism about the potential impact of social labeling is the presumption that, when push comes to shove, not enough consumers care enough about these issues to give up their hard-earned cash to help raise labor standards for foreign workers (Vogel 2005, 102). This skepticism may be unwarranted. Evidence from surveys indicates that a majority of consumers say they are willing to pay more for manufactured products made under good labor standards. A survey administered in 1999 by the Program on International Policy Attitudes, for instance, found that 76% of respondents indicated that they were willing to pay \$25 for a \$20 garment that was certified as not being made in a sweatshop (PIPA 2000). A poll conducted in the same year by the National Bureau of Economic Research found very similar results: roughly 80% of surveyed individuals said they were willing to pay more for an item if assured it was made under good working conditions.⁷ But of course, what people *say* they will do when asked, and what they will actually *do* when it comes to spending their own money, may be two different things.

To date, very little evidence is available to indicate whether and how consumers alter their spending behavior when given the opportunity to buy products with labor standards labels. The evidence that does exist tends to favor the skeptics. The most rigorous study was conducted in 2002 by a team of sociologists at the University of Michigan (see Kimeldorf et al. 2004).⁸ They placed two groups of plain white athletic socks in a department store in a small (unnamed) city in Michigan, labeling only one group as being made under “Good Working Conditions.” They also placed a sign above the labeled group of socks explaining that Good Working Conditions meant no sweatshops, safe workplaces, and no child labor. The socks in the control group were identical to the labeled socks, and were priced at \$1 per pair. The researchers then varied the price of the labeled socks, raising it from \$1 (in increments of 5 cents) up to \$1.40, and monitored sales.

⁷ For a discussion of the survey evidence see Elliott and Freeman 2003, pp.29-35.

⁸ Elliott and Freeman (2003, 37-38) describe two other labeling experiments conducted on college campuses – at Occidental University and the University of California, Santa Barbara – that found only weak demand for garments described as “sweat free.”

Some 838 pairs of socks were sold over several months. Of those sales, 254 (30.3%) were purchases of the labeled socks. Strangely, when the prices of both types of socks were equal, only 43% of customers bought the labeled socks. When the labeled socks were set at prices higher than the non-labeled socks, only about a quarter of consumers bought the labeled type.

The Michigan study was limited in several ways, as the authors themselves acknowledged (Kimeldorf et al. 2004, 17-23). To generate more sales in the limited time period they were allowed for the tests by the department store, the prices charged for the socks were reduced substantially from what would be a realistic level. The authors paid the manufacturer of the socks \$2.33 per pair, but sold them for only \$1-\$1.40 per pair. With items priced below cost, and both groups of socks identical in physical terms and made by the same company, the Michigan team worried that consumers did not trust their Good Working Conditions label.⁹

III. Research Design

We initially approached a variety of firms in Boston and New York, concentrating mostly on apparel retailers, hoping to persuade them to participate in a social labeling experiment. Most were extremely nervous about drawing attention to the labor standards issue in their stores.¹⁰ We found one large retailer, ABC Carpet and Home, which was willing to help us conduct the study in its New York City store between June and October 2005.

A. The Store: ABC Carpet and Home

ABC Carpet and Home is a prominent Manhattan retailer of fashionable, high-quality home furnishings located at 888 Broadway, one block north of Union Square. It is actually an offshoot of a much older and well-known carpet company, ABC Carpet, still based across the street at 881 Broadway. ABC Carpet and Home attracts around 22,000 customers per week and

⁹ In a later version of the experiment the researchers did use two slightly different types of socks and found that the overall results were not markedly affected: see Kimeldorf et al. 2006. The later research also included follow-up interviews with some 45 sock buyers. In these the authors discovered that 70% of the customers either did not notice the label or did not understand it, or both.

¹⁰ Firms we approached, and which declined to participate in the study, include: Marshall's, Wal-Mart, Target, Eastern Mountain Sports, Adidas, Nike, American Eagle, Gap, Urban Outfitters, J. Crew, The Harvard / MIT Coop, Free People, Patagonia, Abercrombie and Fitch, and Timberland.

earns approximately \$80 million in annual sales. It has established a reputation for being committed to social and environmental causes. These causes are supported, in part, through the ABC Home and Planet Foundation. ABC Home also sells a variety of cause-related items, including a range of products aimed at benefiting marginalized groups in developing nations (e.g., handcrafted items produced in a women's refuge in Afghanistan) and promoting environmental conservation (e.g., furniture made using only reclaimed wood in Indonesia). Customers drawn to ABC are thus likely to be distinguishable from the median American consumer in that they can afford to pay relatively high prices for high-end home furnishings, and they may also be more attentive to social and environmental issues. We will discuss the problem of external validity, or how general our results might be in terms of American consumers, in more detail in section V. But it is safe to say that we are looking for a market for labor standards in a place where one might reasonably expect to find it.

B. The Products

To maximize the number of observed buying decisions we wanted to select products for the experiment that had a high volume of weekly sales. We also needed products for which ABC carried comparable items made by two different brands – one brand that we could label (the treatment product) and one that could serve as an unlabeled control product. Of course we had to be able to verify that labeled products were actually made under our working definition of good labor standards: that is, without the use of forced or child labor, and in safe and healthy workplaces. As far as we could ascertain, there were no products in the store that were made in workplaces that were formally certified for labor standards by an independent certification organization, so we looked for reputable producers running facilities in locations generally associated with high standards. ABC gave us permission to experiment using several brands of towels and candles.

ABC carries a full line of towels made by *Christy*, a British brand, and *Besana*, an Italian brand, displayed side-by-side in one section of the store. Prices ranged from \$7 for hand towels to

around \$60 for bath towels, and price differences between brands on basic items were small (see Appendix for a complete price list). We confirmed that both the *Christy* towels, manufactured in the United Kingdom, and the *Besana* towels, manufactured in Italy, were made under good labor standards as we defined them.¹¹ We applied our labels to the *Christy* towels, chosen by coin toss, for the main experiment; we were later able to switch the treatment for a period, labeling the *Besana* rather than the *Christy* towels.

In another location in the store we worked with comparable lines of candles produced by two American brands, *Santa Fe* and *Way Out Wax*. Again, these competing brands were displayed side-by-side, with prices (again very similar across brands) ranging from \$5 for the smallest votive candles to around \$35 for the largest pillar candles. We confirmed that both the *Santa Fe* candles, manufactured in the United States (New Mexico) and in China, and the *Way Out Wax* candles, produced domestically (Vermont), were made under good labor standards.¹² Again choosing by coin toss, we applied labels to the *Santa Fe* towels for the main experiment.¹³

These products provided a useful mix. Towels are a staple household item, and most people are not attached to any particular brand; candles are (we speculate) less of a necessity and more of a luxury (or gift item) for most shoppers, and as such demand for candles may be more price sensitive.¹⁴

C. The Label

With ABC we designed a label for the treatment products that would attest to the labor

¹¹ Both companies sent us letters attesting to the standards enforced in their factories. *Christy* does manufacture some lines of towels in Turkey, Egypt, India, and China, but the “Renaissance” line sold at ABC is only manufactured in the UK.

¹² Again, the companies sent us letters attesting to the standards in their facilities. *Santa Fe* was explicit in assuring us that candles produced in its partner facility in China were made under conditions consistent with our definition of good standards (in particular, no child workers were employed).

¹³ We had hoped to switch the experimental treatment between brands for a period in the fall, as we did in the towels experiment, labeling *Way Out Wax* rather than *Santa Fe*. But ABC was altering its displays in that area of the store in September 2005, and we could not extend the experiment any longer there.

¹⁴ We also experimented with a line of beaded dolls sold under the brand name *Monkey Biz*, made by hand by HIV-positive mothers in Cape Town, South Africa. ABC was especially interested in this product line and its appeal to consumers. There were no other dolls that we could compare directly to the *Monkey Biz* dolls, however, so they were not ideal for the experiment. Results from the doll experiment are reported in the online supplement: <http://www.people.fas.harvard.edu/~hiscox/SocialLabelingSupplement.pdf>

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 promotions about social and environmental issues and for the ABC Home and Planet Foundation. Underneath this logo heading we included the statement: “These [towels/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.”¹⁵ In choosing the language for the label, ABC only requested that we not make any specific reference to sweatshops or child labor, to avoid putting negative ideas or images in the minds of customers. Figure 1 shows the label we applied to *Santa Fe* candles.

[Figure 1]

Initially we had hoped to apply the label to tags attached to each individual item on sale, the approach used in the previous Michigan experiment and something firms would do as part of a developed social labeling initiative (just like the “Fair Trade Certified” labels applied to packages of coffee beans by retailers like Starbucks). But we were dealing with thousands of individual items, and a limited research budget, and the costs associated with manufacturing tags or stickers and attaching them to individual towels and candles were prohibitive. We settled on applying the label to signs placed in prominent positions beside and above the displays of each of the treatment products.

The two towel brands were displayed on opposite walls of one room on the 3rd floor of the store that opens onto the larger bath and bedding department. The *Christy* and *Besana* towels were sorted by size and color along shelves on each wall, in almost identical fashion, some 25 feet apart. We placed labeled signs along the length of the display holding the *Christy* collection (see Figure 2). The *Santa Fe* candles were displayed in a center area on the 1st floor of the store, on a cabinet with four levels of shelving. The candles were sorted by size by shelf, and then

¹⁵ The labels were designed and printed by Diego Fernandez under the supervision of Art Director Amy Elias and Grace Kim, her deputy.

arranged by color along each shelf. Our labeled sign hung at eye level on the cabinet, just to the left of the third shelf (see Figure 3). For customers standing in front of the *Santa Fe* display, the alternative *Way Out Wax* candles were only 5 feet away on their right, displayed on a large shelf tower in a similar manner.

[Figures 2-3]

D. The Treatment Schedule

Besides applying the label, ABC gave us permission to raise prices of the labeled products by up to 20%. Making the price changes was a labor-intensive process that involved entering new prices for all items in a particular product line (identified by SKU numbers) into the ABC computer system, printing price tags, and placing these tags on all the displayed items. Given the amount of work involved, and ABC's preference that we keep price adjustments to a minimum, we made a limited number of price changes (in 10%-20% increments).

We had 5 months to conduct the experiment (June-October, 2005), and we divided this time into a series of phases, each comprising several weeks and corresponding with a different combination of experimental treatments:

- 1) A baseline phase in which we simply observed and recorded sales of towels and candles without altering the way they were displayed or priced;
- 2) We put our label in place for selected brands (*Christy* towels, *Santa Fe* candles) and left prices at baseline (pre-test) levels;
- 3) We kept our label on the selected brands and raised the prices of the labeled products by 10% over baseline levels;
- 4) We kept our label on the selected brands and raised prices of the labeled products by 20% over baseline levels;
- 5) We removed our label and returned all prices to their baseline levels.

We also implemented a sixth phase for the towel experiment in which we applied our label to the brand (*Besana*) that had been used as the unlabeled control in the prior phases of the experiment.

The sales tracking software used by ABC (called “Retail Ideas”) collects and summarizes sales figures for all products sold in the store on a weekly basis (Sunday-to-Saturday), and ABC provided us with this weekly data. Each new experimental phase was timed to begin on a Sunday morning and end at close-of-business on a Saturday.

IV. Results

A. The Towels Experiment

Table 1 reports the weekly sales figures for *Christy* and *Besana* towels during each phase of the experiment. To keep things simple, we report aggregate sales data for each brand. It is possible that the *composition* of sales of various items of each brand might have changed with changes in labeling and pricing (e.g., perhaps more brand-switching occurs on bigger-ticket items), but we can get a sense for this by comparing aggregate sales in terms of both total dollar revenues and total number of units sold.¹⁶

[Table 1]

ABC warned us to expect a seasonal decline in sales of all home furnishings during the mid-summer months. This is apparent in the weekly sales figures for both *Christy* and *Besana*, with sales of both brands dropping off from mid-June (phase 1) until mid-September (phase 5). The critical issue for us, however, is just how the experimental treatments altered the ratio of sales of the (treated) *Christy* brand versus the (control) *Besana* brand. Labeling the *Christy* towels raised the ratio of weekly sales of *Christy* versus *Besana* immediately in phase 2 of the experiment, in terms of units sold (by 11.5%) and dollar revenues (4.7%). Moreover, raising prices of the *Christy* line by 10% and then by 20% (phases 3-4) appears to have accentuated this effect, generating further increases of 20.6% (62.2%) and 4.3% (17.8%) respectively, in terms of

¹⁶ In an online supplement we report results for sales of several specific items (e.g., wash cloths) carried by each brand. See: <http://www.people.fas.harvard.edu/~hiscox/SocialLabelingSupplement.pdf>

units sold (dollar revenues). The effects of the label and the price increases can be seen more clearly by charting when the ratio of sales of *Christy* versus *Besana* towels (see Figure 4).¹⁷

[Figure 4]

When we removed our label from the *Christy* brand (phase 5), the distribution of sales between brands returned to what it had been in the baseline period. And when we labeled the *Besana* towels instead of the *Christy* towels (phase 6), the ratio of sales of *Christy* versus *Besana* actually fell. The effect is not a large one, but we took this as a good indicator of the impact of the label: it was apparent even though prices of the *Besana* towels were unchanged, and even allowing for the fact that some returning ABC customers may have been confused to find the label had been removed from *Christy* and attached to the *Besana* brand instead.

Broadly then, the results suggest that a retailer like ABC could increase dollar sales of towels (and market share) by shifting to brands made under good labor standards, labeling them as such, and charging 10-20% more for them relative to unlabeled alternatives. The price elasticity of demand for labeled *Christy* towels (relative to unlabeled towels) is positive: it is 2.1 for the initial 10% price increase, and 0.41 for the second 10% price rise.¹⁸ What might account for this? One obvious interpretation is that shoppers reasoned that towels made under superior labor standards *should* be priced higher than other towels and thus regarded the label as more credible. It was more believable that standards were higher if the price was higher. In essence, the label might have helped convert the towels into a type of “credence good.” Of course, since we did not raise prices of towels in the absence of the label, we cannot be sure that it is the labor

¹⁷ Note that it does not appear that the price adjustments caused any drastic change in the composition of consumption – buying more big-ticket items from the lower-priced brand, for instance – as the figures on total dollar sales and units sold track closely.

¹⁸ Measuring elasticities in a more standard fashion, solely by reference to sales of the *Christy* towels at different prices, is inappropriate here given the marked seasonal decline in demand for all towels over time as prices were changed.

standards referenced in the label (and not some other type of unobserved quality associated with towels) that is responsible for this effect.¹⁹

B. The Candles Experiment

The weekly sales figures for *Santa Fe* and *Way Out Wax* candles are shown in Table 2.²⁰ The seasonal effects on sales seem less severe in this case, than with towels, perhaps because candles are more popular among the out-of-town tourists who visit the ABC store during the summer months than more basic types of home furnishings. The experimental treatments had clear effects again, however, altering the ratio of sales of the *Santa Fe* versus *Way Out Wax* brands. When the label was placed on the *Santa Fe* candles in phase 2, weekly sales of *Santa Fe* candles rose relative to sales of *Way Out Wax* items – by 26.2% in terms of units sold and 7.7% in dollar revenues. And again, raising prices of the labeled brand (*Santa Fe*) by 10% and by 20% (phases 3-4) actually appears to have accentuated this effect, consistent with the interpretation – suggested above – that consumers expect that credible assurances of higher standards will only come with a higher price tag. Figure 5 charts the changes in the ratio sales of *Santa Fe* versus *Way Out Wax* candles.

[Table 2]

[Figure 5]

Again, there seems to be some clear evidence here that retailers like ABC can expect to increase sales (and market share) when switching to brands that can be labeled as being made under good labor standards, even if they need to charge 10-20% more for them than for unlabeled brands. The price elasticity of demand for labeled *Santa Fe* candles (relative to unlabeled candles) is positive (3.1) for the initial 10% price increase, but negative (-4.0) for the second 10% price rise. Notice, however, that while the relative number of units of labeled vs. unlabeled

¹⁹ Although it seems unlikely that the existing (equilibrium) prices charged by ABC (and other retailers) for these towels would not already reflect alternative types of credence good effects; that is, one might reasonably assume unit price elasticities for unlabeled towels at the pre-test, baseline prices.

²⁰ Again, for analysis of sales of several specific items (e.g., votive candles) carried by each brand, see the online supplement: <http://www.people.fas.harvard.edu/~hiscox/SocialLabelingSupplement.pdf>

candles did decline when prices of labeled candles were pushed up to the highest level, relative sales *revenues* actually kept rising – while some shoppers began switching to the lower-priced candle brand, this effect was less prevalent for purchases of bigger ticket items (bigger, fancier candles).

V. Discussion

The evidence from our experiments in the ABC store suggests that labeling programs aimed at encouraging higher labor standards might hold considerable potential. Sales rose markedly (compared with sales of control products) for the items we labeled as being made under good labor standards, and demand for labeled products was actually increasing for price rises of 10-20% above the pre-test (unlabeled) prices. These results are much more promising than those obtained in previous labeling experiments in which similar labels generated only weak responses. At the very least we can say that the results are consistent with the evidence from surveys suggesting that there is considerable demand for labor standards among consumers that is not presently being met.

There are several reasons for exercising caution here, however, when interpreting the results. There are some obvious concerns about external validity. We conducted the test among a specific set of New Yorkers who could afford to buy high-quality furnishings and many of whom, if regular ABC customers, may share the store's general interest in social and environmental causes. It is difficult to speculate about what the results might say about other, broader sets of American consumers. On the one hand, it is not entirely clear that an appeal to improving standards for workers would necessarily resonate more among well-heeled New Yorkers than among a more blue-collar set of shoppers for whom factory working conditions have sharper personal meaning. On the other hand, of course, thinking about such issues when shopping is perhaps a luxury that only the well-off can afford to indulge. We suspect that we have tested for the impact of social labels in a place we are quite likely to find it. If possible, it would obviously be best to conduct similar experiments among other, broader sets of consumers – those who

frequent Wal-Mart and Target, for instance, but also those who shop at Whole Foods.

If the location did bias the findings in one direction, other aspects of the design probably tilted results back the other way. The label we used was simply an assertion about labor standards made by ABC, the retailer. ABC may have more credibility than the average retailer when it comes to claims about such things, given its solid track record of support for social causes. Even so, a label that advertised certification of labor standards by an independent organization should have even more credibility with consumers and hence a larger positive impact on sales. If possible, future experiments would test a label that more closely resembles the “Fair Trade Certified” mark administered by Transfair USA – perhaps using products made in workplaces certified as having good standards by nonprofit organizations such as Social Accountability International.²¹

Another aspect of our design that may be limiting, in terms of the positive impact of labeling on sales, is that we applied our label to only one brand each of towels and candles in the store. Rather than sell labeled and unlabeled brands of products side-by-side – a deliberate part of our experimental design – retailers might reasonably choose instead to sell *only* labeled brands of certain types of goods (e.g., towels), thereby distinguishing their department (or even the entire store) from competitors selling unlabeled brands. Selling labeled and unlabeled goods side-by-side might deter sales of both, if consumers are actually more worried by the thought that unlabeled goods were made under poor standards than they are attracted by the assurance that labeled goods were made with excellent standards. (This concern probably helped deter some retailers from allowing us to conduct an experiment like this in their stores.) In actual fact, even though we conducted our experiment during the summer months when sales of home furnishings typically experience a seasonal lull, comparing total sales of towels and candles at ABC during

²¹ Social Accountability International is a “multi-stakeholder” organization (representing business firms and labor and humanitarian groups) that supervises the certification of workplaces around the world according to its own labor standards code (ISO Code SA8000). The code closely resembles the core covenants of the International Labor Organization. See <http://www.sa-intl.org/>

periods when our labels were in place and when they were not indicates that there was no marked decline (the Appendix provides charts of total sales of towels and candles by period for easy reference). Still, future experiments might focus on how competition between rival retailers is affected when one retailer applies a label to an entire department or store.

One final reason for caution here, more generally, is a version of the famous “free lunch” aphorism: if social product labeling is really so profitable, more firms would be doing it already. It is difficult to deflect this claim entirely, but there are at least two problems with its simple application here. Firstly, for large retailers, a credible and substantial social labeling initiative would require cooperation with independent humanitarian organizations that could certify labor standards in factories abroad. Part of the issue for retailers is whether and how such cooperation might be developed – not a trivial matter given the antagonism that has existed between many firms and activist groups in the recent past when groups have mounted publicity campaigns attacking large retailers for sourcing from sweatshops. The uncertainty about establishing a credible labeling program with independent groups, on top of the uncertainty about consumer demand itself, may be a significant deterrent for many firms that might otherwise be interested in social labeling. Secondly, many firms may consider it too risky to do public market research on labor standards labeling. Several retailers declined to participate in our labeling experiment simply because they could not vouch for the labor standards in all the factories from which they currently source and they were anxious about negative publicity if journalists or activist groups, attracted by the experimental labels on only a few items, actually used it as an opportunity to target them again (this time for hypocrisy).

If we want to know whether there is enough consumer demand to support the development of a large market for socially labeled goods, of course, we can just wait. Fifteen years ago, did anyone imagine the extraordinary growth in the market for foods labeled as organic? Beginning in the early 1990s, the organic market has grown by roughly 20% per year and now represents a \$15 billion industry in the United States. If a latent market for labor

standards exists on anything like this scale, its development could conceivably have a real impact on working conditions in developing nations.

Appendix

1. Product Lists

a. Christy Renaissance Towels*	Prices:		
	Baseline	+10%	+20%
BATH RUG ROSE DUST	\$34.99	\$38.99	\$41.99
BATH SHEET 35X65 BLK	\$39.99	\$43.99	\$47.99
BATH TOWEL ROSE DST	\$19.99	\$21.99	\$23.99
HAND TOWEL 16X30 BLK	\$14.99	\$16.99	\$17.99
TUB MAT ROSE DUST	\$24.99	\$27.99	\$29.99
WASH CLOTH 13X13 BLK	\$6.99	\$7.99	\$7.99

* Each *Christy Renaissance* line listed has 14 to 16 individual colors; every color has its own SKU.

b. Besana Towels*	Prices
700 GM B SHEET GRAY 40X72	\$38.00
700 GM B SHEET LINEN 40X72	\$45.00
700 GM B TOWEL MARINE 25.6x54	\$22.00
700 GM H TOWEL GRAY 21.6x31.4	\$11.00
700 GM H TOWEL LINEN 21.6x31.4	\$12.00
700 GM T MAT GRAY 20X32	\$19.00
700 GMS B SHEET LT.BLUE 40X72	\$50.00
700 GMS B TOWEL LT.BLUE 25x54	\$25.00
700 GMS H TOWEL LT.BLUE 21x31	\$15.00
700 GMS T MAT SAGE 20X32	\$26.00
700 GMS W CLOTH LT.BLUE 13X13	\$8.00
DUKE HAND ROSEMARY	\$35.00
FYBER BEACH TOWEL SNOW PEA	\$85.00
FYBER B-MAT PETROL#925	\$34.00
FYBER B-SHEET BROWN 833	\$90.00
FYBER B-SHEET PETRO#925	\$64.00
FYBER B-TOWEL WINE#630	\$50.00
FYBER G-TOWEL ACID GREEN 399	\$20.00
FYBER G-TOWEL WINE#630	\$14.00
FYBER H-TWL ORANGE 527	\$40.00
FYBER W-CLOTH PETROL#925	\$9.00
GLICINE B-TOWEL RED	\$49.00
LUXOR B-MAT DK ORANGE	\$55.00
LUXOR B-SHEET MAUVE 39.4X63	\$68.00
LUXOR B-SHEET WHITE 39.4X63	\$105.00
LUXOR W-CLOTH DK ORANGE	\$16.00
VENDOME BEACH TOWEL BLACK	\$125.00
ZIA BICE GUEST TOWEL CROCHET	\$7.00
ZIA COCCA CROC H-TWL BLUSH	\$17.00

* Each *Besana* line listed has 7 to 14 individual colors; every color has its own SKU.

c. Santa Fe Candles*	Prices:		
	Baseline	+10%	+20%
DIPPED TAPERS,PERSIMMON 12"	\$8.00	\$9.00	\$10.00
SOLID CAST PILLAR CELADON 3X3	\$15.00	\$17.00	\$18.00
SOLID PILLAR,DSRT OLV 8X2 RND	\$18.00	\$20.00	\$22.00
SOLID PILLAR,DSRT OLVE 8X3 FLT	\$35.00	\$39.00	\$42.00
TEA LIGHT,NTRL YLW-BOX OF 12	\$10.00	\$11.00	\$12.00
VOTIVE BRIGHT RED 2"	\$5.00	\$6.00	\$6.00

*Each *Santa Fe* line listed above has 3 to 7 individual colors; every color has its own SKU.

d. Way Out Wax Candles	Prices
CEDARWOOD VOTIVE	\$3.00
CEDARWOOD SMALL SKINNY PILLAR	\$10.00
PATCHOULI MINI ROUND PILLAR	\$12.00

* Each *Way Out Wax* line listed above has 7 individual colors; every color has its own SKU.

2. Total Absolute Sales of Towels and Candles

We have focused mainly on the effects of labeling on sales of labeled brands *relative* to sales of unlabeled brands. If firms choose to market both labeled and unlabeled products, they may be concerned that sales of unlabeled items would fall, and by an amount that was not offset by increases in sales of labeled items. Figures A1 and A2 plot total *absolute* sales of towels and candles during each phase of the ABC experiment. Sales of towels clearly fell during the middle of the summer, as expected, but this decline cannot be attributed to the presence of our labels, as sales rose sharply at the end of the summer (when our labels were in place, and switched to the *Besana* brand). There is no clear temporal pattern in total sales of candles that would seem to suggest that labels had an adverse effect.

[Figures A1-A2]

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Figure 1: The Label

fair & square



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: The Towels Display



Figure 3: The Candles Display



Table 1: Towels Experiment

Experimental Phase	Total sales per week:						
	Weeks	<i>Christy:</i>		<i>Besana:</i>		Ratio: <i>Christy/Besana</i>	
		Units	Dollars	Units	Dollars	Units	Dollars
1: Baseline	1-3	33.67	\$559.50	38.67	\$1,313.33	0.87	0.43
2: Christy labeled	4-6	29.67	\$499.55	30.67	\$1,116.67	0.97	0.45
3: Christy labeled & prices +10%	7-11	28.60	\$586.73	24.40	\$804.00	1.17	0.73
4: Christy labeled & prices +20%	12-15	23.50	\$480.77	19.25	\$559.28	1.22	0.86
5: Return to baseline	16-17	26.50	\$499.24	28.50	\$1,126.25	0.93	0.44
6. Besana labeled	18-19	42.00	\$725.33	46.00	\$1,779.15	0.91	0.41

Figure 4: Towels Experiment

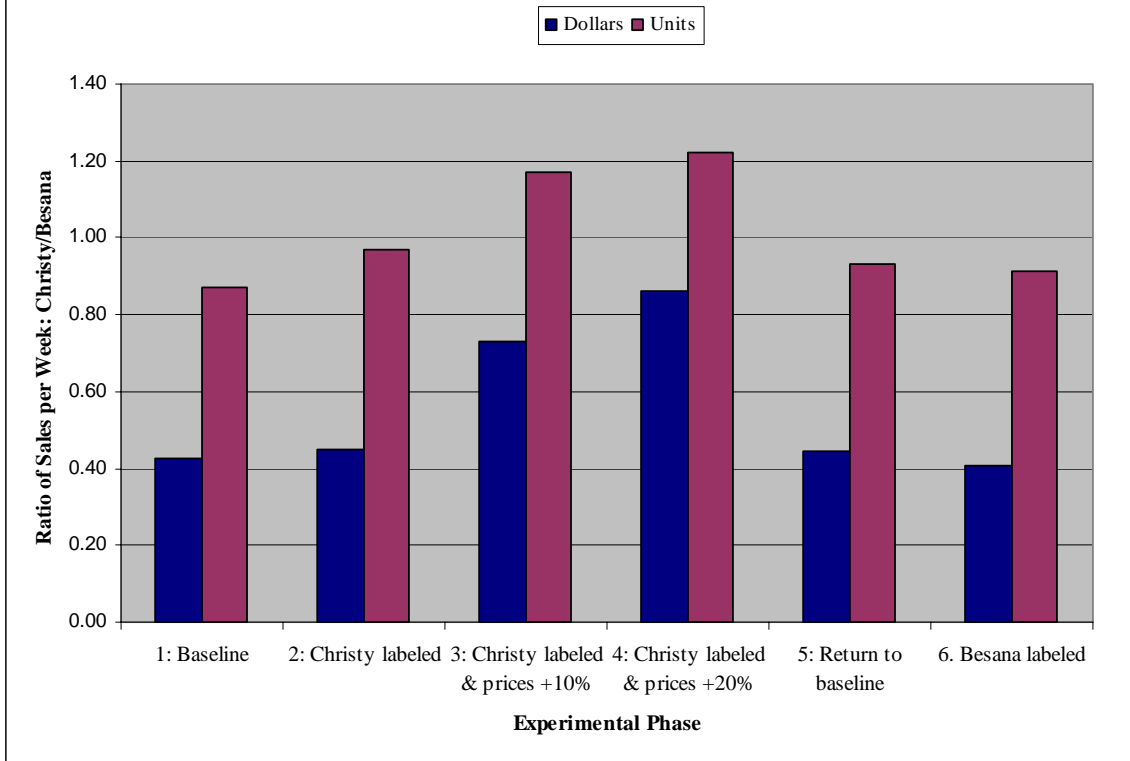


Table 2: Candles Experiment

Experimental Phase	Weeks	Total sales per week:				Ratio:	
		<i>Santa Fe:</i>		<i>Way Out Wax:</i>		<i>Santa Fe/Way Out</i>	
		Units	Dollars	Units	Dollars	Units	Dollars
1: Baseline	1-3	14.33	\$153.17	23.67	\$147.67	0.61	1.04
2: Santa Fe labeled	4-6	25.00	\$234.70	32.67	\$210.23	0.77	1.12
3: Santa Fe labeled & prices +10%	7-11	15.80	\$137.22	15.80	\$102.80	1.00	1.33
4: Santa Fe labeled & prices +20%	12-15	12.75	\$214.25	21.25	\$136.50	0.60	1.57
5: Return to baseline	16-18	14.67	\$164.00	23.67	\$173.60	0.62	0.94

Figure 5: Candles Experiment

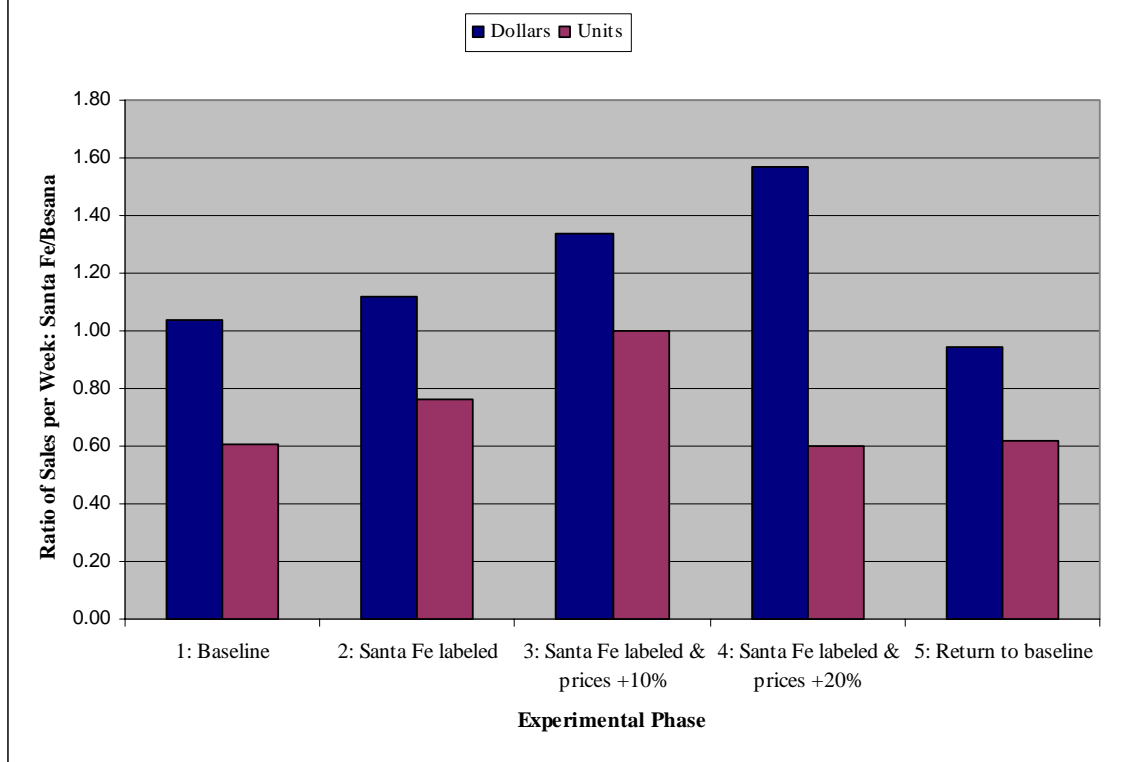


Figure A1: Total Sales of Towels

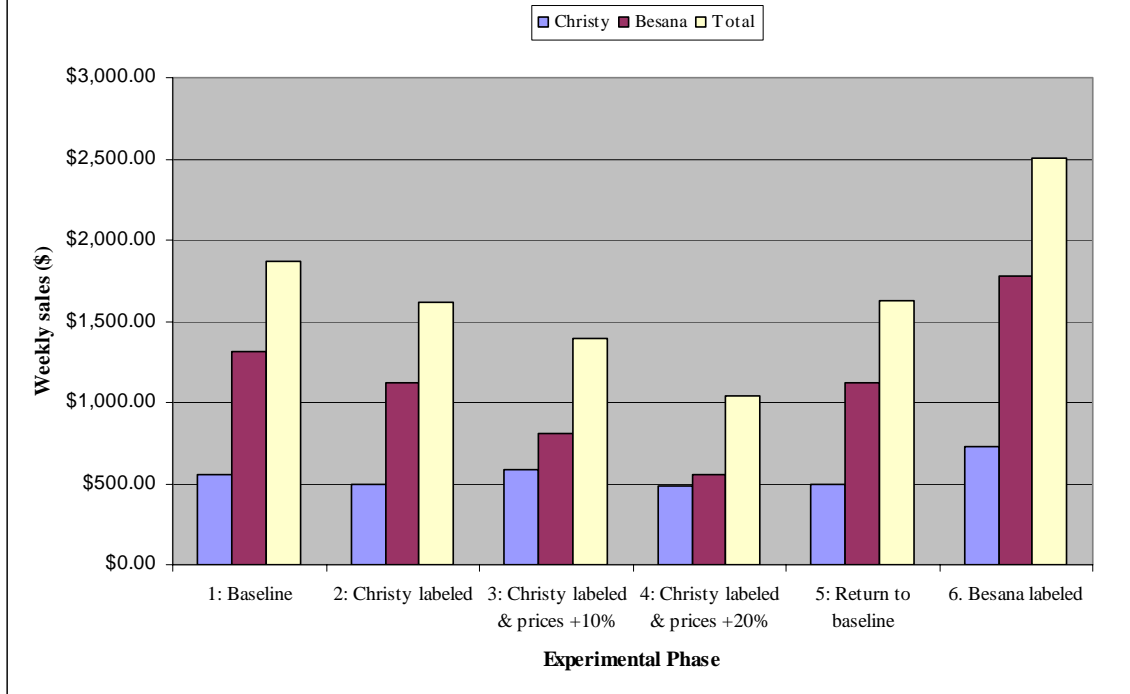


Figure A2: Total Sales of Candles

