

60 to 80 percent of their total receipts. In view of this cost structure and the competitive nature of the industry, the differentials between domestic labor costs and labor costs in the countries which export apparel to the United States take on a critical significance. The problem is magnified by the fact that wages and salaries are the major item of cost subject to management control. While material costs (including the cost of parts, containers, fuel, electricity and other supplies) loom larger than the outlays on wages and salaries, the prices of material are not subject to control by the apparel manufacturer and tend to balance out to no special advantage of any particular firm (see Annex L).

Because of the cost structure of the industry, a firm which obtains lower wage costs obtains a substantial advantage over competitors. In view of the highly competitive nature of the industry, this advantage, however, is not typically retained as profits. Often it is utilized to spur more intensive competition, through price concessions, through increasing the quantity of labor or material input of the garment, or through increased expenditures for advertising and product promotion. The result is continuous pressure on other firms in the industry to seek lower labor costs.

The constant pressure to cut labor costs is the economic basis for the sweatshops which once characterized the production of apparel (knit and woven) in this country and for the many sweatshops that continue to operate abroad in this industry. In response to