CHILD LABOR

• children under 15 working – widespread phenomenon in developing countries

• lower levels of health and education

• data: ILO estimates 120 mln people (ages 5-14) working full time; 130 mln working half time; (working at home not included)

• 61% in Asia; 32% in Africa; 7% in Latin America

• however, Africa has the highest rate of child labor (41% of people 5-14; vs. 21% for Asia)

• over 20,000 estimated die in work-related accidents
SO SHOULD CHILD LABOR BE BANNED?

- a harsh trade-off: child labor vs. malnourishment or extreme poverty

**Basu’s multiple equilibria model of child labor**

- Assumption 1: households with sufficiently high income would not send their children to work

- Assumption 2: child and adult labor are substitutes (not necessarily perfectly)

- Figure 8.3: 1 child is 1/2 as productive as adult

- Labor supply:
  - AA’ – adult labor supply curve (assumed inelastic supply; very poor)
Figure 8.3 Child Labor as a Bad Equilibrium

– if the wage falls below $w^H$ – start sending children to work – labor supply expands to point E2.
– below E2 the labor supply curve (adults plus children) is on the line TT'
– overall: the labor supply curve is on AA' above $w^H$, then follows the S-shaped curve between E1 and E2; then follows TT' below $w^L$.

• Labor demand:
  – assume follows the $D^L$ line.
  – two stable equilibria at E1 and E2 (explain why)
  – at E2 children work; at E1 they don’t.

• Suppose we start at E2 and equilibrium wage $w^L$. Then banning child labor will move the market to the ‘good’ equilibrium E1 (wage goes up to $w^H$ and no children work).

• Note, no need to enforce the child labor ban at E1 – it is a no-child labor equilibrium! It is self-enforcing (individually optimal for every family not
to send children to work as they are rich enough - remember assumption 1)

- again, coordination failure may cause E2 to happen but a ban can solve that problem

- on the graph households are better off (high wage) but employers could be worse off

- thus, child labor could be Pareto optimal! – can’t make someone better off without making someone else worse off
POLICY

• be careful – not clear if above assumptions and conditions are satisfied

• immediate ban on child labor may hurt families (they did make this choice as an optimal decision, remember)

Policy approaches:

• 1. child labor as expression of poverty (a symptom not a cause of underdevelopment) – eliminate poverty and CL will disappear

• 2. get more children into schools – e.g. using conditional transfer programs (see Case study on Progressa in the book); could be more efficient than compulsory primary schooling

• 3. child labor is inevitable, at least in the short run so legalize it and regulate it (UNICEF)
• 4. ban child labor (ILO); at least in its ‘most abusive forms’ (slavery, prostitution, etc.); estimates high rates of return on eliminating child labor.

• 5. trade sanctions against countries using child labor
  – likely to backfire as children move from export industries to informal sector;
  – also makes it harder for LDCs to grow out of poverty
  – (a hidden protectionist agenda?)