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Abstract

The discussion on child labor is very often, and understandably so, charged with an emotional content. Exploitation, understood as inhumane working conditions, is something to be avoided *per se*, regardless of the age of the worker. However, even after eliminating exploitative working conditions for children, child labor still has clearly an effect on the children's lifetime welfare. For all these reasons, the causes and effects of this phenomenon require careful analysis. At the heart of the debate lay a controversy over identifying the true causes and motivations behind child labor—a controversy that raised an important question about “preferences” versus “constraints.” The theoretical work on child labor has established several variables that relate to the amount of child labor supplied in the market: i) the poverty status of the household; ii) wages of children and their parents; iii) the adult unemployment rate; iv) education of the head of the household; v) social norms and social interactions; vi) legal framework and restrictions against child labor; vii) credit market imperfections; and, viii) fertility rates and household size. This paper shows a detailed review of the existing theoretical models and the main findings in the empirical literature.

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Child Labor: Myths, Theories, and Facts

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Introduction

The discussion on child labor is very often, and understandably so, charged with an emotional content. Activists throughout the world typically offer a picture of impoverished boys and girls working under hazardous conditions for next-to-nothing wages. This deplorable depiction, however, may lead to confusion by mixing issues that need to be analytically differentiated. Exploitation, understood as inhumane working conditions, is something to be avoided *per se*, regardless of the age of the worker. However, even after eliminating exploitative working conditions for children, child labor still has clearly an effect on the children's lifetime welfare. For all these reasons, the causes and effects of this phenomenon require careful analysis.

One may want to ask first what is the dimension of the problem. In absolute numbers, estimates by the International Labor Organization show that around 250 million children under the age of 12 are working for a salary around the world.¹ For a variety of reasons, such as methodological differences in the collection of data and the existence of underreporting, estimates vary widely across sources. Fixing on a concrete number of child workers is also complicated by varying definitions of child labor, the inclusion or exclusion of part-time work, and different data collecting techniques.

¹ See Basu, K. "Child Labor, Cause, Consequence and Cure; with Remarks on International Labor Standards," *Journal of Economic Literature.*, Vol. 37, 1999

A more relevant variable, however, is the participation rate of children in local labor markets; i.e., what proportion of children under a certain age are indeed working. For children between ages between 10 and 14 years of age, the participation rate in Europe is below 1.5%, whereas Africa shows the highest participation rate in the world, with a figure of 27.87%. The participation rate in Asia is 15.19% and, in 1995, it was around 15% in Latin America.²

Thus, child labor is far from being a trivial issue. But why worry about child labor? There are both normative and positive reasons to believe that child labor is unacceptable. From the normative perspective, it would be difficult to deny that an adequate childhood education and a work-free youth are not ethical considerations. As for the more pragmatic reasons, child labor may, under certain circumstances, bring down adult wages and create a vicious cycle of child labor and poverty. Moreover, it has been empirically established that children who start working at a younger age attain a lower level of education, which has an obvious impact on the child's future income-generation capabilities and welfare. Interestingly enough, both the normative and the positive reasons have been in the debate for a long time. A paper analyzing the results of the U.S. Census of 1900 states that "child labor, of necessity, will affect the conditions under which adults have to work, and to some degree also will affect their chances for wages. It is but fair to assume that in the same measure as females replaced men as factory workers, so child labor, if not restricted, will crowd a proportionate number of adults out

² See Basu, K. "Child Labor, Cause, Consequence and Cure; with Remarks on International Labor Standards," *Journal of Economic Literature.*, Vol. 37, 1999.

of employment. Child labor, therefore, is not desirable and should be restricted” (Moersch, 1902, p.p. 101-102). The same article provides data about the state that showed the lowest level of child labor, Minnesota, saying that “this denotes a condition which its citizens should strive to preserve, for it bears with it a great blessing for the young generation. They are much more fortunate than the many other children in other states who have to enter upon factory life at a time when they should build up their bodies and brains for the great struggle of life” (Moersch, 1902, p. 102). Thus both the ethical and practical arguments against child labor have been advanced side-by-side for the past 100 years. .

Still, difficult questions remain to be analyzed. For example, is child labor in and of itself a phenomenon that negatively affects the welfare of the children and, if so, for what reasons? Are hazardous working conditions and child labor inherently linked? Is the banning of child labor having any positive effect on the poor families’ welfare? As many analysts have emphasized, disentangling the relevant analytical issues regarding the economic causes and effects of child labor is a fundamental task if one is to design effective policies. In order to provide some insight into the complexities issues surrounding child labor, I will provide a selective summary of the relevant theories and empirical findings regarding the economics of child labor. The goal is to provide guidelines for effective policy measures, to debunk the myths of legislative intervention and the harms of child labor, and to offer activists and policymakers a better understanding of the issue. As discussed below, the evidence leads to the conclusion that

nuanced legislative measures can, under certain conditions, enhance protection for children.

Preferences vs. Constraints

The discussion on child labor became more important in both political and academic circles when the Child Labor Deterrence Act, also called the “Harkin bill,” was proposed in the US Congress in 1995. In its original version, the bill proposed to ban all imports where the production process involved any kind of work by children. Opponents to the proposal argued that such a ban was just a form of hidden protectionism against “social dumping,” the idea that social conditions in poorer countries and the use of child labor creates an unfair competitive advantage by lowering production costs. A later version of the bill was changed in what economists believed was the right direction. The new version only took action against child labor “under circumstances tantamount to involuntary servitude” or “under exposure to toxic substances or working conditions otherwise posing serious health hazards.”³ The legislation opened the debate regarding economic factors determining child labor, the potential effects of legislation, as well as the acceptability of international labor standards established by a supra-national entity (like the WTO) had been opened, and prompted an enormous amount of written material in academic and political circles.⁴

³ Version of the Harkin Bill dated April 17, 1997.

⁴ In an interesting empirical work, the author cannot reject the hypothesis that the Harkin Bill was driven by protectionist interests by looking at the constituency that supported it, namely groups that were likely to be affected by a more open trade (Krueger, A. “International labor Standards and Trade,” in *Proceedings of the Annual World Bank Conference on Development Economics*, 1996, World Bank, Washington DC).

At the heart of the debate lay a controversy over identifying the true causes and motivations behind child labor—a controversy that raised an important question about “preferences” versus “constraints.” Would parents prefer to send their children to work if they did not face severe economic constraints? Would parents send their children to work if they really had the opportunity to choose? Again, the idea of positive vs. negative freedom, extensively discussed by Amartya Sen and based on the original idea of Isaiah Berlin, became an issue.⁵ The negative concept of freedom implies that while people are legally allowed to take a particular action, they might not be actually capable of successfully pursuing that objective. The legal possibility, along with the actual capability to pursue it, constitutes freedom in a positive sense. In the specific case of family labor decisions, the legal framework can establish rights for children, but parents may face constraints that thwart their intentions to provide their children with the best conditions for their development.

After its publication in 1998, the article by Basu and Van became a fundamental reference because it was timely and applied an interesting theoretical framework.⁶ As discussed below in more detail, the article set forth the “luxury axiom” which understood child labor to be a phenomenon related to the constraints, not to the preferences, of the parents. In other words, it was assumed that if the income constraint of the parents were relaxed up to a certain level, parents would choose not to send their children to the labor market. This was consistent with the view of other analysts in the sense that child labor

⁵ Sen, A., 1979, “Equality of What?”, *Tanner Lectures on Human Values*, Stanford University.

⁶ Basu, K. and Phan Van (1998); “The Economics of Child Labor,” *American Economic Review* 88, pp.412-27.

was a phenomenon mainly related to poverty. Proving such implications became a fundamental empirical task.

As mentioned above, the “preferences vs. constraints” controversy asks a fundamental question: Would a parent, in the absence of legal constraints, send her child to work instead of sending him to school? Many believe that, under specific circumstances, a parent would indeed prefer to do so. In principle, compulsory schooling laws and regulations that restrict child labor would be unnecessary if parents did not have, under certain conditions, incentives to send their children to work in lieu of sending them to school. T.H. Green stated the following in his lecture on freedom of contract in 1880:

“It was the parliament elected by a more popular suffrage in 1868 that passed, as we know, the first great education act. This act introduced compulsory schooling. The principle was established once for all that parents were not to be allowed to do as they willed with their children, if they willed either to set them to work or to let them run wild without elementary education. Freedom of contract in respect of all dealings with the labour of children was so far limited.”⁷

Indeed, under certain circumstances, a parent would rather send a child to work instead of sending her to school. Such situations alone may be a reasonable justification for public intervention. However, is that enough evidence to conclude that parents are not altruistic toward their children? The research to date indicates the answer is no. Whether the issue of child labor is related to preferences or constraints is an empirical question, not a moral

⁷ Green, Thomas H. (1880); “Lecture on Liberal Legislation and Freedom of Contract”, in Nettleship, R.L. (1900); Works of Thomas Hill Green, Longmans, Green, and Co., London.

one. Empirical evidence throughout the world leads us to believe that child labor is a constraint-related phenomenon strongly linked to poverty.

Poverty, on the other hand, is a characteristic of underdevelopment. Historically, developing countries showed a higher incidence of child labor. Such was the case in England during the nineteenth century. Data collected in Lancashire in 1883 demonstrates that the composition of the labor force in cotton mills was heavily biased towards children.

Historical statistics show that child labor did not start declining in Britain and the United States until the second half of the nineteenth century.⁸ The facts also show that legislation banning child labor might not have had as large an effect as economic growth itself. Studies have yet to establish, in a robust manner, the causality between child labor laws and a measurable reduction in the incidences of child labor. The laws may have been passed after improving economic conditions had already initiated a clear declining pattern in child labor. C. Moehling proposed the later in her 1998 detailed empirical study in the U.S.⁹

Perhaps the most important lesson to be learned from the academic work in this area is that child labor tends to be a phenomenon related to poverty and difficult social conditions, rather than the perverse preferences of the parents. In that sense, any policy

⁸ Cunningham, Hugh and Pier Paolo Viazzo (1996); "Child Labor in Historical Perspective, 1800-1985," *Past and Present* 126, pp. 155-50.

⁹ Moehling, C. (1998); "State Child Labor Laws and the Decline of Child Labor," mimeo, Ohio State University.

oriented towards eliminating the problem must take that fact into account if it is to be effective. For example, improving the labor conditions of parents or compensating the families who send their children to school for the economic cost that such action implies, may be more effective ways to deal with the problem from a public policy perspective.

Theory, Models, and Facts

The theoretical work on child labor has established several variables that relate to the amount of child labor supplied in the market: i) the poverty status of the household; ii) wages of children and their parents; iii) the adult unemployment rate; iv) education of the head of the household; v) social norms and social interactions; vi) legal framework and restrictions against child labor; vii) credit market imperfections; and, viii) fertility rates and household size.

As can be seen, most of these factors are supply-side determinants that drive the willingness of households to provide child labor. Less work has been done analyzing demand-side conditions, even though the relevance of technology and technological change has been included in the agenda, though only informally discussed.¹⁰

The poverty status of the household is related to the so-called “luxury axiom” and the fact that parents under a certain minimum level of consumption or wages would find it optimal not to invest in education and obtain higher levels of current consumption. This is strongly related to the labor market conditions of the parents. Parents who work in low-

¹⁰ See, for example, Grootaert, C. and R. Kanbur (1995); “Child Labour: An Economic Perspective,” *International Labor Review*, vol. 134, 187-203.

quality, poorly paid jobs, tend to be more vulnerable to poverty and thus send their children to work.¹¹

There is a line of research in the literature that claims that the children's labor force could be used as assets for consumption-smoothing for the family; i.e., families strive to maintain a certain level of consumption whenever the family faces economic shocks. Specifically, whenever the parents go through bad times, these papers argue, children leave school and go to work, but eventually return to the classroom once the economic shock has been absorbed.¹² This consumption-smoothing motivation for supplying child labor is seen as a substitute for formal credit and insurance markets.

The strongest result in the empirical literature shows that the poverty status of the household and the education of the household head are the most robust determinants of child labor.¹³ In addition, female children are more likely to work at home and less likely to work for a salary in the labor market. Not surprisingly, the wages of the children do not seem to affect child labor decisions at the margin, which means that child labor

¹¹ Pioneer empirical work is represented by Rozensweig, M. and R. Evenson (1977); "Fertility, Schooling, and the Economic Contribution of Children in Rural India," *Econometrica*, vol. 45, 1065-1079, and Parsons, and Goldin, C. (1989); "Parental Altruism and Self-Interest: Child Labor among Nineteenth-Century American Families," *Economic Inquiry*, vol. 27, 637-659. The recent wave of empirical work using micro-data for developing countries started with Grootaert, C. and H. Patrinos, The Policy Analysis of Child Labor, The World Bank.

¹² Jacoby, H. G. and E. Skoufias (1997); "'Risk, Financial Markets, and Human Capital in a Developing Country," *Review of Economic Studies*, vol. 64, 311-335.

¹³ The following results are based on Grootaert, C. and H. Patrinos, op. cit.; Ray, R. (2000); "The Analysis of Child Labor in Peru and Pakistan, A Comparative Study," *Journal of Population Economics* 13, p.p. 3-19; Freije, S. and L. F. López-Calva, 2001, "Child Labor, School Attendance, and Poverty in Mexico and Venezuela," El Colegio de México, Working Paper No. 2001-I, and Emerson, P. and Portela, A.P., "Is There a Child Labor Trap: Intergenerational Persistence of Child Labor in Brazil," Cornell University,

supply cannot be modeled as a traditional individual labor supply model. Given the fact that parents are poor, they may send their children to work regardless of the wage level for children. One of the most relevant results found in several countries is that the consumption-smoothing hypothesis of child labor is partially validated, with some caveats. It seems, for example, that permanent shocks, like divorce, have a clear impact on children's school attendance, whereas during temporary shocks, like unemployment, parents tend to protect the school time of their children whenever possible.¹⁴ Even more important, children who leave school and start working are less likely to stop working in the future, even if they go back to school, and their final educational attainment is hurt by the decision to start working earlier in life. This means that shocks that force parents to send their children to work might have a permanent effect on the child's future earning potential.

It is important to mention that all models discussed above assume the "unitary" model of the household, where one parent makes the decisions for the family. This hypothesis has been questioned given the evidence that the bargaining power of women within the household matters more for decisions about the use of children's time.¹⁵ Based on this evidence, poverty-alleviation programs intended to induce a higher level of investment in human capital by poor families do so by transferring money to the woman in the household. These programs reject the unitary model and recognize the importance of

Department of Economics Working Paper. These papers show evidence mainly for Africa, Asia, and Latin America.

¹⁴ Parker, S. and E. Skoufias, 2000, "Job Loss, Change in Marital Status, and the Allocation of Time Within Families," mimeo, CIDE, Mexico.

¹⁵ Galasso, E. "Intra-Household Allocation and Child Labor in Indonesia," 1998, Working Paper, Policy Research Department, The World Bank.

women's empowerment in reducing the incidence of child labor. Such is the case with the PROGRESA program in Mexico, a program in which monetary transfers to poor families are conditioned on the school attendance of children. The accumulated evidence has demonstrated improvement in the consumption pattern within the household, the time allocated to education and the women's self-esteem.¹⁶

Another theoretical assumption that has been challenged by the facts is the substitutability between child labor and adult labor. In many cases, enough cases to show in the statistical analysis, children often work with their parents in the same activities, even in urban areas. This implies that whenever the father is unemployed, the child is less likely to work and demonstrates a complementary relationship between adult and child labor. Obviously, the sector in which they work and the technological characteristics matter for this result. An area in which there is very little empirical work is the interaction between child labor and access to credit markets. Credit market imperfections are theoretically an important variable in models of human capital investment, but data are typically very poor in this respect and little can be done to verify the empirical implications.

Social norms and culture are also important variables for the analysis of child labor. For instance, it is not the same to analyze the phenomenon in rural areas as opposed to urban areas. In the former, there is a tradition of the "household farm" in which child labor is seen as a basic component of everyday life. The effect of social norms on economic

¹⁶ See IFPRI-SEDESOL, *Evaluación del Programa de Salud, Educación y Alimentación*, México, 2000 [Evaluation of the Program on Education, Health and Nutrition].

behavior has become an integral part of development economics in the last years and child labor is among the issues in which such norms matter.¹⁷ An example is the social stigma attached to parents who send their children to work.¹⁸ Assume the following is true: as the number of parents who send their children to work increases, the stigma lessens, because there is a higher “acceptability” of the phenomenon. Under that realistic assumption, we may find a situation of self-fulfilling prophecies. If a parent believes that no one in the community will send her child to work, the expected stigma would be too high and she will decide not to send her child either. In the opposite case, when thinking that everybody will send their children to the labor market, a parent will do the same, for the stigma cost would be very low. In this scenario, public policy might be an important coordination device. Public regulations could reduce the expectation of children entering the labor force, increase the expected stigma cost and thus avoid the “bad” equilibrium. Recent empirical evidence supports the idea that such types of social interactions indeed matter¹⁹

The Role of Legislation

In order to understand the role of legislation, we must evaluate the effectiveness and side-effects of legal interventions. The literature suggests that the record is mixed. A recent study of child labor in Ghent, Belgium, revealed that, by the mid-nineteenth century the number of child laborers under twelve had diminished substantially absent any legislative

¹⁷ See, for example, Basu, K. (2001); “A Prelude to Political Economy: The Social and Political Foundations of Economics,” Oxford University Press, Chapter 4.

¹⁸ López-Calva, Luis F. (1999); “A Social Stigma Model of Child Labor”, Center for Analytic Economics - Working Paper 99-13, Cornell University.

¹⁹ Freije, S. and Lopez-Calva, L.F., op. cit.

intervention.²⁰ By contrast, the law played an important role in the decline of child labor in the cotton mills of Manchester. Another study cited in the same work, a study of the fruit and vegetable canning industry in the U.S. between 1880 and 1920, found that the decline in the incidence of child labor was due to both natural economic reasons and legal factors, though the economic forces were the stronger explanatory variable. Basu (1999) reminded us that, as a matter of policy, Karl Marx himself was against a total ban on child labor for the Europe of his time, while favoring restricted working hours and compulsory education. Along the same lines, the study by Moehling (1998) has exploited cross-state variation in child labor and the establishment of child labor restrictions in the U.S. to analyze the same phenomenon. She cannot find strong evidence of legal changes having an impact on the reduction of child labor incidence. The improvement of economic conditions seems to have had a stronger effect, reducing child labor endogenously.

The evidence leads us to believe that compulsory schooling should be linked to a child labor ban, in order for labor legislation to be more effective and be more likely to have a positive impact on welfare. Public policy experiments, on the other hand, show that it is difficult to have a real impact on child labor incidence by legislative measures alone, while the reduction can be attained by financially compensating financially the families for the economic cost of sending their kids to work. Examples of this are the PROGRESA and *Bolsa Escola* targeted-subsidy programs in Mexico and Brazil, respectively.

²⁰ Basu, 1999, op. cit.

Theoretically, however, child labor restrictions may have a coordination role, as explained above. Coordination problems may arise when there is strategic complementarity in the actions of the parents. In order to understand these type of coordination failures, think of another example not related to social interactions but to pure labor market conditions. Consider the case in which more child labor has an effect on market wages by increasing the total supply of labor. That being the case, a parent may not have the individual incentive to withdraw her child from the market because the income foregone does not compensate for the small increase she would induce in her own wage by reducing total labor supply by a very small amount. However, if many parents did that at the same time, wages of adults would go up, improving their economic conditions and eliminating the need for the children to work. Thus, a situation may arise in which a minimum threshold amount of adults withdrawing their children from the market would be needed to increase wages substantially, for example, and make child labor unnecessary by improving the labor market conditions of the parents. That would be a simple case of coordination failure in which public policy could play an important role by coordinating expectations and leading the economy to a better equilibrium for all.

A Race to the Bottom, from the Bottom?

International Labor Standards (ILS hereafter) involve restrictions on child labor that have been internationally agreed-upon. The objective of ILS in general is to achieve minimum levels of standard of living across countries. As many analysts have pointed out, it is paradoxical that the strongest opponents to those agreements are very often those

countries who are supposed to benefit from them: the poorest ones. Sometimes it is even argued that ILS may be an instrument of developed nations to take hidden protectionist measures against poorer nations. One of the reasons to believe this is that ILS are usually supported by powerful lobbies in developed nations, such as labor unions interested in protecting local industries from competitive trade. Theoretical work has been done to show under what conditions the imposition of international standards of different kinds—basically environmental and labor standards—may lead to an undesirable equilibrium among poor countries. This has been termed “the race to the bottom, from the bottom.”²¹ This comes from a Southern countries’ competition in standards in order to become successful exporters to the Northern countries.²² The race to the bottom, the authors explain, is possible but not inevitable. The model derives in detail the conditions under which the race to the bottom can be exacerbated, showing that an increase in protectionist policies in the Northern countries undermines Southern standards.

One of the leading analysts of child labor in the world from an economic perspective, Kaushik Basu, claims that there is a myth which has fueled support for protectionism among the uninitiated of the North. The myth consists of the serious belief that low work standards in developing countries is robbing the jobs of adults in developed nations. There are many facts that contradict the latter belief. One simple one is the fact that most of these poor countries are net importers from the U.S., which means that slowing down their export capabilities would also reduce their imports from the U.S., inflicting thus a serious harm on Northern employment. Another piece of evidence is the fact that the

²¹ Chau, N. and R. Kanbur, 2001, “The Race to the Bottom, From the Bottom,” Department of Applied Economics and Management, Cornell University.

more export-oriented the industrial plant becomes in developing countries, especially in terms of manufactured goods, the less likely are the factories to employ children, for the technical sophistication required is higher.

An intermediate view, so-called the “third approach,” suggests that there is indeed room for a certain set of ILS, as long as they support demands coming from developing nations and become an instrument for those countries to “coordinate” and improve the standard of living of their workers.²³ Again, developing countries can use standards to coordinate their policies and deal with the legitimate? long-needed demands of the workers in such countries, without harming their economic capabilities by hurting their competitive position with respect to their peers. This domestic coordination is a reasonable and politically useful view of ILS.

5. Final Remarks

There are several myths surrounding the discussion on child labor. One is that parents send their children to work because they have exploitative preferences, while the evidence shows that poverty limits their capacity to choose. A second is that legal intervention banning child labor would *per se* have an effect on child labor incidence, while historical and contemporary data support the idea that improving the economic conditions of the families is a necessary condition for the elimination of child labor. A third myth is that low labor standards in poor countries are affecting employment in developed nations, while, on the contrary, it is the proposal to restrict the export

²² In the paper, Northern and Southern countries are understood according to the geopolitical connotation.

capabilities of poor nations which may very well have a severe negative effect on productive activities in the North.

Something that is clearly not a myth, but a worrying fact, is that child labor is rampant around the world and it is likely to affect current and future welfare of many generations. Understanding the real causes of the phenomenon is thus a fundamental academic task in order to contribute to effective policy making.

Though there is a long way ahead, empirical evidence to date teaches us important lessons in this respect. Perhaps the most important lesson is that child labor is a consequence of poverty and that measures affecting growth and employment potential in poor countries are very likely to backfire and increase child labor as an unintended consequence. Banning child labor may have a positive effect, mainly if it is accompanied by compulsory schooling, better supply of public education and, whenever possible, by targeted subsidies aimed at compensating the economic cost of schooling for the families. The measured effect of programs like the so-called PROGRESA program in Mexico, which involves precisely that set of measures, is a sign of hope for effective public intervention. In any case, the dimension and relevance of the problem deserves more attention in both academic and public policy circles.

²³ Basu, K., 1999, "International Labor Standards, Globalization, and Marginalization; with Special Reference to Child Labor," Background paper for the *World Development Report 2000*, Washington DC.