



# Should we boycott child labour ?

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## **INTRODUCTION**

In high income countries, there is nearly universal popular support for boycotts against products using child labor or punitive sanctions against countries with high levels of child labor. This essay assumes that the reason for this popular support is a concern for the well-being of these child laborers. Consumer boycotts or sanctions should then be viewed by advocates as successful if they make children in low-income countries better off.

This essay argues that much of the popular debate on boycotts and sanctions suffers from a failure to consider what children will do if they are not working. To answer this question, the responsible activist or policymaker must understand why children work.

While some circumstances of child laborers are so insidious that policies even more aggressive than boycotts may be justified, most of the work performed by children in low income countries reflects the desperation of their family's poverty. For these cases, if consumer boycotts diminish the earnings power of children, then the incidence of the boycott can be on the poorest of the poor. In this sense, a consumer boycott of products made with child labor can be equivalent to a consumer boycott of poverty relief for both child laborers and their families.

## **WHY DO CHILDREN WORK?**

Researchers, policymakers, and social activists all vary in how they view the determinants of child labor. Central in this debate is disagreement over how parents in developing countries view child labor. In one view, parents view children as nothing more than a source of income today. Parents do not consider the welfare of their children or the future earnings potential of children in their decisions about how much a child works. This view implies that children work so long as the return to their work is non-negative. Thus, variation in the availability of earnings opportunities for children explains differences in child labor supply.

There is almost no empirical support for this view of why children work. In contrast, consider the empirical evidence from a recent study in Vietnam (Edmonds and Pavcnik2003). Between 1993 and 1998, Vietnam liberalized its rice markets. Because most Vietnamese households produce rice, the resulting increase in rice prices expanded the return to child labor. Nevertheless, child labor declined by almost 20 percent during this period. Why? Edmonds and Pavcnik find that households appear to use the additional income that they are earning as a result of rice market liberalizations to replace income previously earned by children. Children have the opportunity to work more, their work will bring more income to the family than it did before liberalization, but yet children work less. Consequently, rather than callously exploiting increased earnings opportunities, parents in Vietnam use additional income to reduce child labor, the opposite of the outcome predicted by the view that parents view children as nothing more than a source of income.

An alternative theory to the callous parent's hypothesis is that parents have the best interests of their family, including the child laborer, at heart. Child labor is the outcome of a difficult household decision. Parents weigh the costs of child labor against its return. The return to child labor is the additional income (real or in-kind) that the child brings into its household. The costs of child labor include any direct health or well-being costs of work as well as the opportunity cost of child labor. The opportunity cost of child labor depends on what the child would do in the absence of work. Children may attend school or have more time for play, both of which may have immediate and long-term consequences for the welfare of children. Thus, this model posits that child labor is a rational household decision. Child labor occurs because the return to work is relatively high or the return to not working is relatively low.

The return to work for children may be high for two reasons. First, the popular press often emphasizes that demand for child labor is high in certain occupations. *Ceteris paribus*, higher labor demand leads to higher wages, and higher wages encourage households to send children to work. There is some evidence to support the theory that higher child wages lead to increases in child labor. For example, Bhalotra and Heady (2001) find a positive correlation between the within household earnings opportunities of children and child labor in rural Pakistan. Duryea and Arends-Kuenning (2003) find that better local labor market opportunities for children are associated with more child labor in urban Brazil.

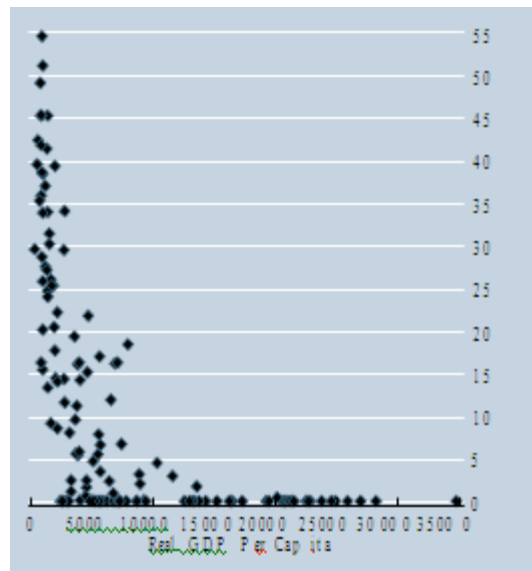
Second, child wages may be very low, but because of low parental incomes, the household's marginal utility of income in the present may be very high. Thus, despite low wages, the household's value of the child's income may be very high. For example, in the case of a household that is living below subsistence levels, a small amount of income may be the difference between life and death. It is through this mechanism that poverty creates child labor.

There is some evidence from Vietnam which suggests that child labor declines dramatically when households pass subsistence levels. Edmonds (2002) notes that in the cross-sectional living standards distribution, there is a range just above the poverty

line (defined as the estimated costs of buying 2100 calories per day per person plus some basic nonfood expenditures) where child labor declines dramatically. Edmonds also notes that with the economic growth experienced in the 1990s in Vietnam, living standards improve so that most households move from below subsistence to well above subsistence. In this way, he finds that 80 percent of the decline in child labor observed in Vietnamese households that exit poverty in the 1990s can be explained by improvements in living standards.

This evidence from Vietnam is consistent with the cross-country picture that suggests a strong negative correlation between living standards and child labor. Figure 1 plots the labor market participation rates of children 10-14 against GDP per capita deflated for purchasing power parity.

**Figure 1: Child Labor and Income Per Capita across Countries in 1995**



source: ILO (1999) and Heston and others (2002)

A glance across countries reveals a strong correlation between GDP and child labor. In the world's poorest nations with per capita incomes below \$1,500 in 1995, it is not unusual to find over 30% of children working. In contrast, child labor is rare in countries with per capita incomes above 8,000 U.S. Dollars. In fact, the relationship between child labor and living standards is so strong that variation in GDP per capita alone can explain 75% of the cross-country variation in child labor. A simple linear regression of child labor participation rates on the log of real GDP per capita for households with a GDP per capita below 8,000 suggests that the income elasticity of child labor participation is -1. That is, if one is willing to extrapolate from the cross-country comparisons in figure 1, a 10 percent increase in GDP per capita would be associated with a 10 percent decline in child labor. While it is possible that the earnings opportunities of children may be higher in low-

income countries, it seems more likely that this strong negative correlation reflects the link between poverty and child labor.

Children may work, because the return to child labor is high as a result of high wages to children or low parental income. However, what matters for child labor is whether the return to child labor is high relative to the return to not working. There are a number of reasons that the return to not working may be relatively low. First, schooling may be unavailable or very low quality. Schooling may be unavailable because it is too costly in terms of travel time, direct fees, or indirect costs. For example, a recent UNICEF study of children that do not attend primary school in Nepal found that 13 percent did not attend school because of a lack of availability (National Planning Commission Secretariat 1996). An additional 29 percent did not attend school, because the household could not afford the fees. Low school quality is a perennial problem in low income countries, and several studies (Case and Yogu 1999 is one example) find a strong association between school quality and school attendance. When schools are ineffective, households may resort to more traditional means (such as work) to educate their children or forego education altogether.

Second, even with large returns to schooling or play, there may be agency problems such that parents do not internalize the return fully. This has often been cited as an explanation for gender differences in educational attainment in India: Girls move away; boys stay near home (e.g. Dreze and Sen 1995). Thus, even if market returns to education are greater for girls, the household decision maker does not internalize them.

Third, information problems may mean that the parents' actual return to having the child do something other than work is higher than the return to having the child work but that parents do not know this. Thus, if parents had full information, they would conclude that the child should not work, but with the information they have, parents mistakenly send the child to work. This could occur if parents misperceived the return to their child's education. Information problems about working conditions may be particularly important in explaining some of the worst forms of child labor. Poor parental information has been highlighted to explain why some households in east Asia allow their daughters to go work as prostitutes or servants in big cities. Households permit this, because they do not know that these atrocities will happen to their children (UNICEF 2001).

Fourth, financial market imperfections may prevent households from considering future returns to investments in children. That is, there may be a large return to education, but parents cannot borrow against that return. Liquidity constraints cause child labor decisions to depend on the marginal utility of income in the present period. Two recent studies suggest that liquidity constraints may force households to send children to work even when the return to education is higher than the market return to child labor. For example, Beegle and others (2003) examine how households in rural Tanzania respond to unexpected crop losses. They find that households use increase child labor to mitigate the consequences of large crop losses. Households with better access to credit employ less labor to buffer unexpected crop losses. In a second example, Edmonds (2002) considers how households in South Africa respond to the timing of an anticipated cash transfer. Households do not appear to be able to fully incorporate future income into present decisions. Thus, child

labor supply and schooling depend on the timing of income. Because of the presence of financial market imperfections, parents may not even be able to consider whether they would rather children not work. Children must work to sustain the household.

Households that cannot meet their basic needs depend upon the income of their children for survival. Without the income from working children, parents in poor households may have to choose which children to feed. Moreover, schooling is expensive in most of the developing world. Thus, it is not uncommon to see children working to support their own schooling or that of their siblings. In this way, efforts to prevent children from working could have a serious, negative impact on the well-being of both working and non-working children as well as their whole family.

## **2. HOW DO CONSUMER BOYCOTTS AFFECT CHILD LABOR?**

Consumer boycotts aim to lower labor demand for child labor. To consider the consequence of a drop in labor demand in one industry, it is necessary to make an assumption about the availability of other forms of work to children. Given the endless array of activities open to a child within her own household, it seems reasonable to assume that if a child cannot work in one activity because of an effective consumer boycott, there are other employment opportunities available to her. In this context, there are three types of effects of consumer boycotts on child labor.

1. Children are diverted into other work. In a typical model of wage determination, child and adult labor are perfect substitutes (e.g. Basu and Van 1998). Equilibrium then implies that the wages of children and adults are equal when adjusted for productivity differences. The available evidence is broadly consistent with the idea that differences in wages between adults and children reflect differences in their productivity (e.g. Levison and others 1998). When child and adult labor can substitute, an employer can shift between adult and child labor. If one type of firm can no longer hire children, it employs more adults and children shift into the work previously performed by adults. It may be worthwhile to note that in the standard small country trade model, wages are determined by international markets (see Dixit 2000 for an example). Thus, consumer boycotts of one good because of child labor may do nothing other than change the type of work children perform. Depending on local conditions, this may or may not be desirable from the perspective of an outsider concerned with child welfare.

2. The wages of children decline. If wages are determined by local markets, a drop in labor demand may lower the return to child labor. If child labor is own-price elastic, declining child wages can lead to a decline in child labor. Moreover, because the relative return to schooling (or not working) then increases, school attendance may rise. This scenario assumes that there are schools available to displaced children, and it is most directly related to reducing child labor that owes to information or agency issues. However, a reduction in child wages may be desirable only if there are not substantive

financial market imperfections in the economy. With liquidity constraints, the household's need to send a child to work could increase if wages decline because of the household's higher marginal utility of income (under an assumption of diminishing marginal utility in income). Moreover, the loss of income associated with a decline in wages may affect the activities of all children in the household. Thus, a decline in child wages may increase or decrease child labor depending on local conditions.

3. Adult wages rise. If employers shift from child to adult labor as a result of the boycott, there will be a rise in labor demand for adults. If wages are locally determined, the resulting increase in adult wages (with financial market imperfections in place) can lower the marginal utility of income and thereby lead to a decline in child labor. This optimistic scenario is probably the one most advocates of consumer boycotts hope for. It has a formal articulation within economics in Basu and Van (1998). Notice, this scenario is based on several strong assumptions. First, it presumes that an increase in wages for adult labor will not draw in more labor through migration or changes in the labor supply of residents. If adult labor is own-price elastic, increases in adult wages from a consumer boycott will be attenuated with an increase in labor supply. Second, this scenario assumes that there are activities such as schooling that the household would prefer the child to participate in. Thus, it does nothing to solve the problem that the household's return to no child labor may be relatively low because of schooling, agency, or information problems. The theorized decline in child labor comes through solving the liquidity constraints problem. Third, this scenario assumes that the affected employer is large enough to have a substantial impact on local labor markets. Thus, in even the best of scenarios, the effect of consumer boycotts on child labor supply depends on local conditions.

### **3. IMPLICATION FOR CONSUMERS**

The main implication of this discussion is that information about local environmental conditions is critical in deciding whether to support a consumer boycott. The educated consumer should understand in a nuanced way why children are working in a given industry, what will happen to local labor markets in the absence of child labor in the target industry, and what other options are available to children that would be displaced by an effective consumer boycott. When destitution drives children to work, preventing the employment of children may do nothing other than further drive children and their families into the despair of poverty.

However, with full information, it is conceivable that a case could be made for a consumer boycott in some contexts. For example, there may be cases where the presence of children in the labor market depresses adult wages so much that children have to work even though adult wages without children in the labor market would be high enough to eliminate child labor supply. Moreover, even in the case when poor households are made worse off in the short term by a consumer boycott, consumers may decide that this is

acceptable. This is likely to be the case for egregious human rights abuses. However, without proper consideration of the context of child labor, boycotts of child labor may just be a way to boycott poverty relief. In this way, consumer boycotts can hurt exactly the people they hope to help.

So what options does this leave the concerned consumer? One policy option is to work to improve the conditions in which children work rather than to prevent children from working. Freeman (1998) argues that the enforcement of labor standards may address many of the concerns raised by consumer activists. To the extent that labor standards raise the costs of labor to an employer, they may be associated with many of the deleterious effects of consumer boycotts discussed herein. However, it is possible that implementation of basic standards may have a minimal impact on labor costs while significantly improve the working conditions of children. A second policy option is to work towards eliminating the reasons why children work. If the ire that fuels consumer boycotts could be redirected towards persistent support for poverty relief, schooling improvements, etc, it might be possible to attain a world where child labor was rare rather than pervasive.

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