

The necessity of child labor economics essay

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\n[/toc]\n \nAn Economic Analysis of a Much Discussed Topic

Introduction

" Few human rights abuses are so widely condemned, yet so widely practiced. Let us make (child labor) a priority. Because a child in danger is a child that cannot wait." This quote made by former UN General Secretary, Kofi Annan (UN, 2000) is just one statement amongst countless having the same wording. They refer to the around 215 million children are expected to work throughout the world. The number of undetected cases is estimated to be a multiple of the official figures as those do just include children which regularly carry out remunerated work (BMZ, 2012). What child labor is, is not clearly and commonly defined on an international level. One definition is that the activity has to involve persons below the minimum working age in a certain country. But official age limits differ from country to country and can be as low as 12 in Egypt and 14 in the Philippines (UN, 2010). Summarizing all official definitions it can be assumed that child labor is an economic activity which endangers the mental or physical development of a child by abuse or by keeping the child from going to school. Extreme forms of child labor do also include drug trafficking, pornography, prostitution, slavery, <https://assignbuster.com/the-necessity-of-child-labor-economics-essay/>

work in harmful environments, involvement in violent conflicts as child soldiers and other unlawful activities (Child Labor Public Education Project, 2011). To quantify the definition many institutions do add certain working hours in combination with the age as determinant. For example would a certain economic activity classified as child labor if it is conducted from humans between the age of 5 and 11 for more than one hour per week. Additionally is, for this age-group, domestic work in the business or household of the parents for more than 28 hours categorized as child labor (UNICEF, 2012). Many organizations, activists, politicians and even celebrities do claim the abolition of child labor. Most of them do so by simultaneously demanding stricter laws and severer punishments for offenders (N24, 2012). Those open claims however just seem to be a simple method to gain positive publicity as they do not really change the underlying motives for child labor, but just sanction the incidents as they have already happened. That those laws and their enforcement alone are no effective tool to reduce child labor can be learned when assessing the current global child labor law situation. Virtually all countries worldwide have included some form of laws and policies against child labor today. Most of them did even implement a form of the most common child labor law recommendations issued by the International Labor Office and the United Nations (ILO, 2004: 203-205). Nevertheless, does child labor pose a regular activity and occurrence in many countries spread all over the world. A look at the following figure, depicting the region wise distribution of child labor, shows a certain pattern which will serve as basis for the following analysis (ILO, 2010: 11). Figure : Proportion of working 5-14 year olds by world region This statistic shows that child labor is especially common in poor regions with <https://assignbuster.com/the-necessity-of-child-labor-economics-essay/>

relatively low average incomes (World Bank, 2012). Further looking at the types of economic activities in which children are utilized helps to get a clearer picture on the major forms of child labor for the later analysis (Diallo et al, 2010: 13). Figure : Distribution of working 5-17 year olds by branch of economic activityIt shows that children are mostly employed related to agricultural activities like field work, hunting, fishing or forestry. The question arising out of this knowledge is what the main reasons for child labor are. In cohesion with the statistics on the regions and types in which child labor is mainly prevalent, many researchers claim that it is a necessary activity for the affected in order to survive. Only through child labor they are able to nourish themselves, their families, relatives or communities. Traditions and other outdated ideologies are just a minor reason (ILO, 2008). Another reason for child labor could be ruled out by researchers. This reason would be that parents send their children to work solely for the reason of selfishness to have more leisure time (Basu & Van, 1998: 412). Keeping those findings in mind, is this paper aiming towards investigating how economically necessary child labor is. Economically necessary also in a sense as to which extent certain situations increase or decrease the welfare of all respectively a part of the involved parties. This analysis creates the simulated case in which child labor is not only prohibited by law but would literally no longer exist. The economic effects of such a case are compared to the current situation and will be analyzed beginning from a microeconomic perspective up to a level taking the whole economy into consideration. Eventually a conclusion can be drawn and the author will give certain recommendations on how the current child labor situation might be improved.

Limitations and Restrictions

It is important to understand that this analysis is not about whether child labor is ethically and morally reasonable. The author wants to distance himself from any judgment concerning such questions and reflections. This paper has the sole intention to determine in how far child labor is economically necessary for families respectively whole economies. All information at hand is derived from secondary research. The author noticed that a lot of research on child labor is done on behalf of activist groups or international organizations which work towards the abolition of child labor. Reports available from such sources are therefore in the majority of cases biased towards negative aspects of child labor. Therefore important data on economic value of child labor is difficult to derive and might be falsified by prejudiced researchers who get paid for convincing others to join in their campaigns. Additionally it has to be mentioned that generally research on child labor is difficult to realize as it is a phenomenon which is widely dispersed throughout the world. The available reports do often just depict a rather random sample which has been projected to a global level (Hindman, 2009: XXIX-XXXII). Child labor does come in many different forms and shapes. Additionally it is illegal in virtually all countries which does add a further obstacle for researchers as many affected people do not want to talk about the issue. Furthermore, does research on children add certain difficulties concerning their concentration or honesty (ILO, 2004: 177-179). Therefore, it is not possible to describe all incidents to the full detail. Both effects reflect a typical disadvantage of secondary research which is often a lack of relevant and accurate data (McDaniel and Gates, 1998: 90). The author has been trying to take those restrictions into consideration during <https://assignbuster.com/the-necessity-of-child-labor-economics-essay/>

the economic analysis of child labor. Information from biased reports has been used to an extent where the author could be sure that data is cited on a neutral and accurate basis.

Micro-Level Analysis

The first part of this analysis is done on the lowest level of economic entities involved. Those are microcosms consisting of single persons or households respectively small interrelated families or communities. The following scenarios will be constructed around the results of the studies presented in the introduction. Therefore the starting point is taken that the following child labor will take place in a very low-income respectively least developed country (LDC). Those LDC countries make up around 12% of the total world population, most of them are in Africa and Asia (UN-OHRLLS, 2011).

Simultaneously are LDC's those countries which do face the highest share of hungering population with often over 30% (WFP, 2012). Many LDC's officially introduced free primary education but overall enrollment rates remain low as there is a huge lack in capacity caused by financial deficits and non-availability of qualified teachers. A further reason is that free primary education has been anchored in a LDC country's constitution, due to the pressure of developed countries, but has never been enforced like it is the case for the Democratic Republic of Congo where primary education still costs a family around 15 USD per month and child (Maila, 2010). The cost of private, and therefore paid, primary schooling for such low income families would lie at around 22% of the household income per child. Considering that around 70% is already spent on food there is absolutely no way to finance private education (Lavinias, Figueiredo & Gore, 2001: 22-23). Therefore half

of children coming from the poorest households in LDC's still remain without any school education (d'Orville & Stark, 2011: 14-23). The assumption for the micro-level is that parents do have the power to decide whether their children go to work or not. In every case the parents are working full-time in unskilled labor as well. The parents themselves earn far below the poverty threshold and, in the early days of the child's life, consume exactly what they earn. There is no extra money left for feeding the newly born children. Therefore they will send the children to work as soon as possible to compensate for the gap between family income and expenses. Sending children to work might lead to a short relief of suffering respectively hunger but eventually is a vicious cycle. Taking as premise that the children work, as official reports suggest the majority does, in agricultural labor it has necessarily to be assumed that through the physically demanding job the calorific intake of the children increases as well. Studies in Nepal confirm this strong correlation of calorific intake and working children in a family (Chakrabarty, 2007: 167-170). This fact will increase the household expenses for nutrition according to the hours a child is working. Furthermore will a child, working in a physically demanding or even hazardous environment with obsolete tools and machinery, suffer health issues much earlier in life (WHO, 2012). This results in two options. The first is that the child will seek medical treatment which would increase household expenses over time as there is virtually no free healthcare in LDC's (Peters et al, 2008: 166). As families are struggling anyhow with surviving they are most likely to choose option two which is to go without medical treatment. This will eventually lead to a decreasing performance of the child over his lifetime and therefore gradually lower income. The lower income will last until the end of the life of

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those " children" as there are no pension or social security payments in LDC's which could compensate in later a later life stage for less performance caused by health and / or dietary issues. There are no pension systems in such countries because all the poor people could not afford to pay contributions to such a systems and the governments cannot afford to allocate additional budgets to them. Therefore are retirement schemes in such countries only available for wealthier parts of the population. Parents living below the poverty threshold are therefore more or less compelled to get children which will care for them when they are old (Turner, 1998: 21). This is next to a missing sexual education and contraception availability the reason for rapid population growth and the high fertility rates of 4 to 8 children per woman in LDC's (UNFPA, 2010: 18-33). Through declining working performance the aged " children" will no longer be able to cover their costs of living and will have to send their own children to work. This is when the circle starts again. The following graph depicts the equilibrium for necessary child labor in each family based on the previous observations.

Figure : Overview necessary child labor amount in families (different scenarios) Child laborers do earn a very low wage of around 4 to 14 USD per month. It is however assumed that the children will reach a point where they could cover their own costs of living as many of them are fed for reduced costs respectively wage deductions at their workplaces (ILO, 1996). As the parents consume exactly what they need they are omitted in this graph and just additional expenses and income of the child are observed. While the essential living expenses for the child cannot be covered if it does not go to work, this changes as soon as equilibrium one (E1) is reached. Here the working child covers its own living expenses. As soon as costs for schooling

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are added the equilibrium changes to point E2 which results in longer working hours and thus a higher total wage. Research however indicates that parents let their children work as long as possible which would create a point E3 where the maximum amount of salary is earned at a maximum amount of working hours. The amount of working hours depends on the industry and is regularly between 60 and 100 hours per week per child (AIPE, 2011). At such a point the child would earn enough to attend a school but there would virtually be no time left to do so. Parents act in such irrational patterns because they are either not aware of the positive impact education could have on their children's future or they do just not believe in a scenario where their child could escape poverty through education (Duflo & Banerjee, 2012: 91-93). The question remains in how far proper education can have an influence on child labor utilization in the long term. Any investments in primary education in LDC's are expected to deliver a remarkably high return of around 31 to 45% for primary education and a further 15 to 26% for secondary education. University education adds another 18 to 32% to those figures depending on the geographic area. While children with primary education will earn later around twice as much uneducated children does this number rise to around five times as much for children absolving secondary and thirty times as much for university students. The costs of the different schooling forms however increase drastically and over proportionally. Secondary education costs around 12 times as much as primary education and higher education even 88 times as much (Todaro & Smith, 2009: 367-368). It can therefore be assumed that the optimum level of child labor to be utilized in each family can be found at equilibrium point E2 where the child works exactly as much as necessary in order to be able to

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afford at least primary education. The following graph shows the income and expense curves of a child respectively household over his lifetime running through different educational scenarios. The x-Axis depicts the age with an average life expectancy in a LDC of around 59 years it can be expected that a child's parents will die when it is around 40 years old (World Bank, 2010).

Figure : Development family/ child income/expenses over lifetime (different scenarios)The parent's performance decreases as stated when they get older and weaker and face more health issues. If the parents income would be regularly above $Exp1a$ or $Exp1a$ plus $Exp2b$ the incentive to send their children to work would be decreased dramatically. A child in a situation in which it does not experience any education ($Inc2a$) will face the same faith as it gets older. The child does work here as many hours as possible, as it was the situation at point $E3$ in Figure 3. While in early working days it will contribute to cover the total family expenses and even create excess income this will change at point $P3$. Here again the " child's" income does drop below the money needed to survive. In such a situation the " child" is most likely to send its own children to work to cover this gap. An argumentation might be that the excess capital earned in the time between points $P1$ and $P3$ might be used as buffer to cover for this gap. However this is a typical paradox of the poor. Due to the lack of information, education and proper banking facilities the poor do not have the opportunity and willingness to save money. As soon as they have excess cash they are much more likely to adapt and increase their current consumption to this new situation (Duflo & Banerjee, 2012: 184-194). The opportunity costs of education are in this case the difference of $Inc2a$ and $Inc2b$ during the time of education from the age of around 5 to 19. The second income situation $Inc2b$ where a child works to

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such an extent to which it can earn the living plus education expenses would however lead to a much higher income at a later stage in life. Not only will it be able to care for itself but it will also be able to care for its parents in old age. Furthermore is this child educated towards the importance of savings and will therefore save money for its own old age. It is more likely that it can then care for its own children either without having them going to work or at least for less time (Basu, 1998: 45-47). It will however take several generations of saving before a family can completely escape the poverty trap and eventually one child might be able to visit expensive secondary and higher education facilities without going to work. Those examples show that a total abolition of child labor is likely to lead to an exponentially increasing number of starving families if there is no simultaneous attempt to improve their situations otherwise. This is due to the fact that if a child does only start to work at an adult age there is a huge gap between family income and expenses accumulating over the years. This will most probably lead to severe health and malnutrition issues and even early death in the families. The best way to reduce the problem as far as possible would be to send children to work and let them earn the money necessary for their own education and food. Problems would still remain in the early childhood days, before point P1 is reached, when children do not work and parents do not have enough money to nurture them. That assumption is supported by the mortality rates and rate of undernourishment in early childhood respectively below five years of age when children are not yet able to work. The malnutrition is in LDC's regularly at over 30 to 40% for children below five years (Merson, Black & Mills, 2006: 562-564). Every tenth child dies in LDC's before the age of five years (World Bank, 2011). Potential solutions to this

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substantial underlying problem in those early days are given at a later stage of this paper.

Macro-Level Analysis

The reasons why whole market economies and large enterprises utilize child labor will be investigated in the next step on a macro-economic level. Then the consequences of an actual abolition of child labor on the macro economy can be established. While on the micro-level children do supply labor because of the poor environment they live in, there are mainly two reasons for companies and economies to seek such kind of labor practices. The first reason is that child labor is extremely cheap. Children regularly earn 60-90% less than equally qualified adults do. They even get paid significantly less than the minimum wage, if one is enacted, to which they would be officially entitled to (Burton, 1995). Most adults would refuse to work for such low payment. This cheap labor is also based on the fact that employees do not adhere to any labor regulations when employing children. They can do so due to the fact that children are majorly used in the informal sector which is not taxed or controlled by any governmental or other regulative bodies. The ramifications child laborers have to face are excessive working hours and highly unfavorable working conditions. Another benefit for employers utilizing child labor is the fact that children are easy to control and they are much less likely to form unions or perform strikes for better conditions (Schwartz-Kenney, McCauley & Epstein, 2001: 53-54). Due to the large supply of potential child laborers in LDC's they are treated as a "commodity" which can easily be replaced at no cost in case of illness or injury because no compensation or other social security payments have to

be rendered (Ali & Shukla, 2006: 178-184). Most employers argue that children are not as productive as adults and should therefore be paid less, even though this argument does not prove to be right in most cases. The high supply of child labor results in the following supply-demand curve in LDC's. It is based on the assumption that adult labor is a direct substitute for child labor (Basu & Van, 1998: 413). Figure : Effects of change in wages through child labor abolition on economy income (Elastic Workforce Demand)

Total Workforce Whole Economy in Million Hours per Month
Wage per Month per Person in Currency

It can be observed in the graph that if child labor would be abolished, wages should rise from equilibrium one (E1) to equilibrium two (E2) as total supply of labor hours factually decreases. Based on the type of elasticity of workforce demand prevalent in a certain LDC there are now two scenarios which might arise. In the graph above, a relatively elastic demand can be observed (Samuelson & Nordhaus, 2010: 90-91). This results in the fact that while wages increase from Y_1 to Y_2 there is a comparably larger decrease in actually utilized working hours from X_1 to X_2 . Such an assumption can be based on a situation where producers in a LDC are simply dependent on cheap labor in order to be able to keep up production. If wages increase to a large extent due to an abolition of child labor several companies might have to close down and will no longer demand workforce. The total income of an economies workforce would therefore shrink by the result of the equation; $(X_1 * Y_1) - (X_2 * Y_2)$. The second possible scenario is one where the demand is relatively inelastic. This might be the case when companies in LDC's derive high profits through keeping the labor costs down but would be effortlessly able to afford higher workforce wages. In such a case an increase of the total available income of

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an economy can be observed. The paradox consequence of the second scenario would be that the abolition itself would get redundant because parents are no longer incentivized to send their children to work when they themselves earn a higher wage and can through that cover the substantial family expenses. Taking the general long-term consequences into consideration, such an executed prohibition would most probably lead to higher costs in many industries across a country. Those higher costs which are based on higher wages will then especially occur in industries related to food production. This is due to the fact that a large share of the informal work activities and therefore child labor in LDC's are in correlation to industries producing food items (Wilkinson & Rocha, 2006: 1). Such abolitions will therefore eventually raise inflation rates enormously. This might also be a reason why politics in LDC's is very reluctant in severely implementing and enforcing child labor regulations. They already have to cope with escalating inflation rates (CIA, 2011). The enormous cost increases through such a process can have additionally a negative impact on the competitiveness of a country as a business and production location in international comparison and would probably equalize any positive consequences of higher adult wages. For such a case an abolition of child labor is expected to have a severe negative effect on a country. Figure : Changed budget constraint and effect on combination of inferior/superior goods (Inelastic Workforce Demand) A further argument against the abolition of child labor arises as markets for inferior and superior goods are inspected. A superior good is a one which demand will increase if a consumer's income increases and relative prices remain stable. An inferior good on the other hand is a good which demand decreases as incomes increase (Schotter, <https://assignbuster.com/the-necessity-of-child-labor-economics-essay/>

2009: 71-72). As food supply is one of the most important factors when talking about child labor, the situation of inferior good 1 (which is the basic nutrient cereal like wheat or rice) and superior good 2 (which is beef respectively meat) will be assessed. Taking the second scenario of a relatively inelastic demand and therefore a higher economy income after child labor abolition into consideration, the following graph can be sketched. This scenario has been selected for the graph as it does imply an interesting and unexpected ramification of child labor abolition. As adult wages sharply rise through the abolition of child labor, it can be expected that people consume less of the basic grain food and invest more in tastier and more expensive food like beef or other meat. Their consumption pattern shifts therefore from C1 to C2. Taking the direct consequence of a lower demand for the basic nutrient it might be assumed that the price of good 1 might fall as adult wages increase. This should then lead to a better situation for poorer people as they can afford more basic nutrients. This assumption is a fallacy. As people consume more meat the input of grains or arable land to produce this meat increases dramatically. This correlation can be depicted by utilizing the so called Production Possibility Frontier (Pugel, 2012: 40-41). This concept shows the maximum achievable combination of outputs which can be produced with the currently available scarce resources. For the introduced case of meat and cereals in the LDC the following PPF graph can be derived. Figure : Effects of child labor abolition depicted on the Production Possibility Frontier (Inelastic Workforce Demand) It does take 11 - 17 calories of basic nutrients like rice or grain in order to produce one calorie of beef. Additionally is a remarkably high amount of freshwater necessary to feed the livestock (Dauvergne, 2008: 147-149). In other words, around 7 to 10 kg of

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cereals are needed in order to create 1 kg of beef (UNCCD, 2012). The dramatic reduction in supply for basic nutrients following this procedure will lead to increasing prices for those essential inferior goods and therefore again to a worse situation for the poor. A further imaginable situation would also be that a LCD has not yet achieved productive efficiency and therefore will only reach output A_{ineff} . This means they would have to trade-off even more for the production of the superior good (Samuelson & Nordhaus, 2010: 9-13). Nevertheless, would also the case of a relatively elastic demand curve as depicted in Figure 5 lead to a negative outcome for the population. The decreasing total income available would be a trigger to consume more grains and less meat. The price of inferior goods would therefore dramatically increase and poor adults can afford less to eat and of course also feed their children less. A further interesting aspect can be derived if children themselves are taken into perspective. Setting fertility and intelligence into correlation it can be stated that the more intelligence respectively the more income a family has the fewer children they will receive (BMJ, 1972: 125-126). This effect can be expected to be even stronger in developing countries as families with higher income do no longer need to rely on their own children in order to be able to survive in old age. Therefore children themselves can also be labeled as inferior goods.

Conclusion and Recommendations

Concluding can be stated that the widespread effect of an abolition of child labor in LDC's would be likely to have a severe negative effect on the life of the population if no further measures are implemented to improve the situation. Therefore can be stated, that from an economic perspective child

labor, in the current situation, is necessary and should not be abolished. If education will continue to be unattainable for the poor there little chance to get out of the vicious cycle of child labor. Families are likely to remain poor as they will keep working in unskilled and unhealthy labor conditions. Families need to be convinced and informed on the positive effects of education. If parents are eventually convinced to let their children work to such an extent that they earn the money needed for their own education, this might be the first step out of poverty. The problem is that cultures in LDC's mostly do not so much think about the future but are much more occupied by coping with surviving in their present situation (Duflo & Banerjee, 2012: 194-196). This is why immediately effective benefits are the basic requirement in the following recommendations. One of the largest problems families definitely face is how to nurture their child in its first years of living. While in industrialized countries those costs are covered through the excessive income of the parents as well as transfer payments, people in LDC's have extreme problems to bring up the necessary funds. A potential solution to finance those first years as well as the education might be loans for the families. Not regular loans but loans which payback amount and interest rates are directly connected to the future income of the child. This is a derivative of the model which some economists and politicians propose also for the financing of tuition fees in Germany. Australia and the UK have already been implementing a successful pilot project on such a concept (Chapman, 2012). An argumentation might now be that the poor do have bad payment morale and will never pay back the taken loan. The concept of micro-credits as introduced by Muhammad Yunus and his Grameen Bank proved the contrary. Due to the strong connection of taking loans and the

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high significance of honor for paying them back, the ratio of defaulting loans is remarkably low. Often even half as low as in industrialized countries (Bloomberg, 2005). Such a deferred payment of education expenses in the future might be a real alternative for families instead of sending their children to work. But again has to be mentioned that families at first have to be convinced about the usefulness of such an approach and accept the opportunity costs for educating children now instead of letting them generate income in the present. Furthermore, there is a high need for control in order to avoid parents who receive cash / loans and additionally send their children to work. If no national financial institutes or even the national government can be convinced to introduce such a project it would be an alternative approach to international development aid. Involving international development aid (IDA) properly is another way to improve the child labor situation. Many observation and control committees claim that IDA from industrialized to poor countries has a negative effect on the willingness to work and evolve in those countries. This phenomenon which is economically processed in the so called Samaritan's Dilemma has been coined by the late James M. Buchanan (Schmidtchen, 1999: 1-3). Amongst others are corruption, fraud and misuse further major objections towards IDA (Duflo & Banerjee, 2012: 3-7). To give incentives to participate, an IDA process needs to be developed which enables families to improve their situation and benefit from it immediately. An economically feasible solution would be to give private high-tech countries from industrialized countries certain sales guarantees if they set up a production facility in one of those LDC's. Those companies should ideally produce technology or equipment which increases efficiency or output in a certain field. Examples in the agricultural sector

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would be modern tractors, genetically altered seeds or fertilizers. The sales guarantees are rendered by the organizations or governments which would usually transfer regular IDA to the LDC's. The respective companies should then employ children as well as adults to salaries which enable the individuals to survive. The employment is automatically linked to a compulsory free schooling which is taking place in the factory own school. Working hours are adjusted accordingly and the companies need to commit to reinvest a certain small fraction of their profits made in the country. The products manufactured in the LDC's are then bought by the bodies supplying IDA and allocated to demanding communities or families in the LDC's. A certain rental fee might be considered depending on whether this is affordable to the poor or not. Those high-tech products should allow the LDC to shift its Production Possibility Frontier outward which will enhance the economies welfare. As LDC's in their current position are often not capable to invest respectively abstain from consumption in order to shift the PPF outward, is the utilization of modern machinery, utilities and technology the only way to optimize their position. The procedure of foreign purchasing should be continued as long as the overall situation in the LDC improved. Then appropriate private demand should be prevalent, IDA support can be cancelled and the company can then sell unattached to the market economy or even export excessive product capacities. Companies would definitely benefit from such a program as they would mitigate their entrance risk in the beginning and would have a preferential and advantageous position in the market as regular selling sets in based on the improving economic situation. The poor will be paid properly and similarly education in the factories enables the children to get a better paid employment in the long-term.

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Additionally it is likely that such companies adhere to higher labor standards and provide a more healthy work environment. Even if it is beneficial for them, ethical factors will be the main obstacle for employing children. If the global community and international organizations do see the combat against child labor truly as their task to solve, they should try to exploit their possibilities and create incentives for LDC's to enforce child labor abolition. Developing countries presently claim that the terms of trade with industrialized countries have been significantly worsened in the past (Carbaugh, 2008: 260-262). This fact is partially based on the free trade or other economic union agreements negotiated between developed countries. Examples would be the European Union (EU), the North American Free Trade Agreement (NAFTA) or the Association of South East Asian Nations (ASEAN). While such agreements further improve the trade modalities of industrialized countries, they leave out LDC's completely as they usually cannot become members of those agreements due to their low labor standards and the utilization of child labor. Therefore should the industrialized world build up pressure and offer the LDC's certain trade benefits if child labor is abolished efficiently.