

Investigating the reasons behind child labour sociology essay

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Analysing the Economics of Child Labour Rashmi Narayan (3068) Table of Contents

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Abstract According to the Bureau of Statistics of the International Labor Organization (ILO), in 1995 at least 120 million of the world's children between the ages of five and fourteen years did full-time, paid work. Child labour, of course, is as old as human history. Until relatively recently, parents viewed children as economically useful and, especially in farm-based economies, had them milking cows or sowing seeds as soon as they were old enough to do so. Child labour was mostly outlawed in now-rich countries more than a century ago. But going by the ethics of it, should rich countries attempt to enforce a ban in poorer countries as well? On the face of it, no. The fact that parents choose to send their children to work suggests, at the very least, that the alternatives are even less attractive " not a pleasant suburban school, but the grinding toil of subsistence farming, joining a militia or prostitution. In economic terms, child labour is merely the symptom of that greater disease called poverty. The paper contains a theoretical discussion and a literature survey on the economic impact of child labour and the practicality of banning this activity. Three main categories of economic impact of child labour are analyzed by taking three major focal points. The first one, which studies the effects of child labour at

the micro family level, particularly on family poverty both in the short and in the long run; the second one analyses the effects of child labour on long-run growth and social development through a number of different transmission mechanisms; and considering the global scenario; while the last one studies the international economic effects of child labour particularly on foreign direct investment;

A. Introduction

Children throughout the world are engaged in a multitude of activities classifiable as work. This ranges from relatively harmless, even laudable, activities like helping parents in their domestic chores, to morally and physically dangerous ones like soldiering and prostitution. If we leave out the former, we are left with what are generally called " economic" activities. Only a small minority, less than 4 percent of all working children, are estimated to be engaged in what ILO defines as the " unconditional" worst forms of child labour. The absolute number of children estimated to be engaged in the ' economic activity' is, however, a stunning 8. 4 million. (Rosati, 2005)

Anti-globalisers have been joined recently by some of America's Democratic presidential candidates, who have cited child labour as a reason why America should reconsider its free-trade agreements with poor countries. The idea that these countries might be exploiting children is more disturbing than the highly debatable claim that poor labour standards for adults in the third world are unfair. Moral indignation has been used to advocate wrong-headed economic policies. One of the more credible critics of child labour, and the leader in the fight to enforce bans on the practice, has been the International Labour Organisation (ILO), a United Nations agency. Until recently, its argument has also rested mostly on moral grounds. Although it seems wrong for children to toil for others' economic

gain, one in six of the world's children between the ages of five and seventeen works" and the proportions are higher in the poorer parts of Asia and Africa. (ILO, 2003). B. Economic choice making for a child labor's household If child labour as a mass phenomenon occurs not because of parental selfishness but because of the parents' concern for the household's survival, the popular argument for banning child labour loses much of its force. However, this assumption about parental decision-making coupled with the assumption of substitutability in production between child and adult labour could result in multiple equilibriums in the labour market, with one equilibrium being where children work and another where adult wage is high and children do not work. (Van, 1998) On the ILO's analysis, the cost of ending child labour, by creating enough school places and replacing the lost income that children provide to their families, would be around \$760 billion over the next 20 years, only about 7% of America's annual GDP (ILO, 2003). However the benefits, says the ILO, might be as much as seven times as large, when the gains of increased human capital, better health and fewer lives lost due to work accidents are considered. The agency seems to have felt the need to buttress its moral case with this economic analysis because most mainstream economists have long argued (as does this report) that using child labour is the best of a set of very bad choices. C. Investigating the reasons behind child labour In the popular mind, child labor is very often equated with child abuse. The phenomenon is taken to be a product of avaricious entrepreneurs seeking cheap labor and selfish parents who would prefer enjoying leisure while their children work. It seems to us that while this popular description of entrepreneurs may well be accurate, the parents

are mischaracterized. Thus, while not denying that child abuse does occur in all societies, we take the position that when we have children working as a mass phenomenon as in many less-developed countries, it is much more likely that this reflects not a difference in the attitude of the parents however the problem of stark poverty where the parents are compelled to send the children to work for reasons of survival. Even in England, which witnessed some of the worst excesses of child labor in the late eighteenth and early nineteenth centuries, a parliamentary report noted that " parents were desperately unhappy about the situations their children were in however could do nothing about it. The social system allowed them no choice." (Humpheries, 1995). There are many other aspects of child labor which are important-its dynamic implications, its relation to education and human capital which have been explored in this report. D. Does banning seem like a good solution? According to the International Labour Organization, in 1990 there were almost 79 million children around the world who did regular work (Ashagrie, 1998). This estimate of child labour would vary depending on how we define work, how we define a child, and how we collect the data. However no matter which estimate we take, the inescapable fact remains that this is a problem of gigantic proportions all over the world, concentrated in developing and less developed nations. Moreover, the magnitude of the tragedy is not captured by numbers alone, since the conditions of child labour can vary. There are children who work in hazardous industries, risking accident and injury; there are others working in conditions that take a slower although definite toll on the children's health. As people become informed about child labour, the natural reaction is to seek ways to banish child

labour. The easiest way to banish it - or so it seems, is to ban it. And across the world there has been an increasing chorus of opinion seeking a ban on child labour, especially from the more developed nations who do not currently deal with the child labour issue. Details of the proposals have varied. In the United States, the 'Harkin's bill' (Child Labour Deterrence Act of 1997) seeks to ban the import of those goods which have used child labour as input. International organizations and many citizens' forums have talked about labelling products which are free from child-labour inputs so that individuals, by confining their consumption to such goods, can bring about an effective ban. It will be argued later that many of these well-meaning interventions can be counterproductive. As established earlier, child labour as a mass phenomenon occurs not because of parental selfishness but because of the parents' concern for the household's survival. Once we accept this description of household decision-making, the case for declaring child labour illegal gets considerably weakened. If we agree that sending children out to work is an act of desperation on the part of the parents, it seems reasonable to expect that parents would not send their children to work if their own wages were higher or employment prospects better. Imagine the following situation. Suppose all children are pulled out from work, say because of a total ban. What effect will this have? Clearly, the first effect of this will be a shortage of labour. And given that child and adult labour are usually substitutes, the wages of adults will rise in response to the excess demand for labour (Tzannatos, 2003). However as adult wages rise, it is possible, given our above assumption that parents will not now want to send their children to work. Hence, the ban may become redundant. In brief,

once a ban is imposed, the ban may become unnecessary due to rise in adult wages. Economists seeking government intervention in the child-labour market have typically justified their recommendation by claiming that there are externalities to child labour or that private returns to education are smaller than social returns. However such arguments need to be substantiated since " externalities" are too often treated as a catchall with too many aspects clubbed together. E. Child Labour & its Impact

1. Economic Impact

1. 1 Short run effects on household income

The most obvious economic impact of child labour at the family level in the short run is to increase household income. All researchers and practitioners agree that poverty is the main determinant of child labour supply, and that child labour significantly increases the income and the probability of survival of the family. Several estimates exist of the proportion in which children contribute to family income: for instance Cartwick and Patrinos (Patrinos, 1999) find that children in urban Bolivia contribute on average around 21% of family income; Usha and Devi (Devi, 1997) find a similar figure (on average 20%) for child labourers from a village in Tamil Nadu (India); and Madhura Swaminathan (Swaminathan, 1998) reports that 40% of children in her sample from Gujarat (India) contributed between 10% and 20% to total household income. This contribution is most of the time critical since children are sent to work when parents' earnings are insufficient to guarantee the survival of the family, or are insecure so that child labour is used as a mean of minimizing the impact of possible job loss, failed harvest and other shocks on the family's income stream. In these circumstances, the survival of the

family depends on child labour irrespective of whether it is carried out in hazardous or non-hazardous activities, in formal or informal economy, or even in paid or unpaid family activity.

1. 2 Long run effects on household poverty through human capital

Although parents may seem to act rationally by sending their children to work in order to increase their probability of survival, they may not perceive the long run negative implications of child labour for their own family. Since child labour competes with school attendance and proficiency, children sent to work do not accumulate human capital per say, missing the opportunity to enhance their productivity and future earnings capacity. This lowers the wage of their future families, and increases the probability of their offspring being sent to work. In this way poverty and child labour is passed on from generation to generation.

2. Impact on long run growth and development

Having discussed the short and the long run economic impact of child labour at the family level, the present section analyses the effects of child labour on long-run growth. A review of the theoretical and empirical literature on child labour has lead to the identification of at least six channels through which child labour might have a negative impact on long run growth: lower human capital accumulation, higher fertility, worse health, slower investment and technical change, higher income and gender inequality (see Figure 1).

Figure 1: Child Labour and Growth

(Source: University of Lugano, Switzerland; Discussion Papers) (Galli, 2001)It

should be reminded that some of these channels " namely human capital, health and inequality " are important indicators of a country's level of social development. So child labour not only indirectly affects long run growth, but also directly affects social development. Moreover, to the extent that higher per capita incomes contribute to social development, child labour can have an indirect effect on social development through long run growth. These channels, and the available empirical evidence on them, are discussed in the following sections.

2. 1 Effects through technological change

Child labour can depress long run growth also by slowing down technological progress. The availability of cheap, unskilled child labour in fact allows employers to avoid investing in fixed capital and upgrading production processes, thereby dampening technological progress, labour productivity and output growth in the long run. Empirical evidences confirm that production processes involving child labour are generally carried out in the unorganised sector and in small units with simple production technologies and relatively little capital (Anker, 2008). Does this imply that successfully withdrawing children from the labour force, by increasing the cost of labour, would lead to higher investment, innovations and long run growth? This is not necessarily the case, since most employers who rely on child labour are uneducated and poor, and hire children to survive in the low-margin highly competitive informal sector (Anker, 2008). Once a child labour " their most important profit source " is removed, the cost of unskilled labour is likely to

go up. To the extent that this will happen, poor employers will go out of business. In the presence of unemployment or underemployment (a common situation in the developing countries) this effect is likely to be small, reducing the incentive for investment. Summing up, while it is clear that child labour is associated with slow investment and technological progress in the involved industries, it is unlikely that removing child labour from the labour force will automatically induce more investment and innovation in the same enterprises. If the removal of child labour boosts technical change and growth in the long run, this is likely to happen together with a redistribution of wealth among employers, with the poorest and least educated bearing the bulk of it.

2. 2 Effects through income inequality

Child labour certainly has an impact on income inequality, although the direction of this impact might be ambiguous and could vary in the short and in the long run. In the short run, child labour provides poor families with the income they need for their survival. From this point of view, therefore, child labour lessens income inequality, by raising the income of those at the bottom of the distribution. On the other side, it is often argued that child labour adds to the supply of unskilled labour, in this way depressing the wage rate of unskilled. This, of course, makes the distribution of income more unequal. A different story works in the long run. As explained above, child labour negatively affects the income of the involved families and of their descendants through mutually reinforcing low education and high fertility. At the same time, the scarce supply of educated labour keeps the skilled workers wage rates at high levels. Therefore in the long run there is

no doubt that child labour worsens, or at least perpetuates, income inequality. Income inequality, in turn, directly reduces a country's level of social development. Moreover, income inequality is likely to have a negative effect on long run growth, and, therefore, to have a further indirect negative effect on social development (Bénabou, 1996).

3. Impact on adult labour market

The earlier mentioned Child Labor Deterrent Act introduced in the United States in 1993 argued that a worldwide ban on trading goods produced by child labour would benefit the exporting countries practicing child labour through reduced adult unemployment. The rationale behind this statement is that, since children's work could be done by adults although it is paid much lower wages, employers prefer to hire children rather than adults. Child labour thus increases adult unemployment, which in turn forces adults to put their children to work generating a vicious circle³³. This idea is not exclusive to the Act, and has been often stated by researchers and by the ILO itself in the book "Combating Child Labour", where it is asserted that '...child labour is a cause of, and may even contribute to, adult unemployment and low wages ...'.^{F. Concluding Remarks} Child labor is an important phenomenon in many developing countries and is widely believed to have impotent impacts on societies. Huge efforts have been made to understand the determinants of child labor and make policy proposals to keep children away from labor markets. In the existing literature, poverty, credit constraint, globalization, and agency problem in the household are mentioned as major factors causing child labor. The major findings of this report are listed down as under:

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- **At the micro family level, the main findings are:**

In the short-run, child labour increases households' income and probability of survival. The evidence on children's contribution to household income is relatively large and pointing roughly at the same figure (20% of family income). Since the evidence shows clearly that poverty is the main determinant of child labour, any effort to reduce child labour should take into account that poor families will not survive without the children's earnings and should take actions to make up for the missing income. In the long run, child labour perpetuates household poverty through lower human capital accumulation. This is probably the most solid result of the empirical literature on child labour so far, with the following qualifications:(i) Child labour and schooling are not necessarily mutually exclusive.(ii) Child labour in most wage-employment non-agriculture activities does not lead to skills development. In the long run child labour perpetuates poverty through enhanced fertility. Virtually no empirical evidence exists of this hypothesis, the only work available referring to rural India in late 1950s.

- **At the macroeconomic level, the main findings are:**

Child labour can slow down long run growth and social development through reduced human capital accumulation. Effects on growth through reduced human capital accumulation appear solidly backed by the empirical evidence. A lower human capital accumulation also has a direct negative effect on the level of social development. Effects on growth through reduced health and higher fertility remain instead working hypotheses until further evidence will be available. Child labour occurs mostly in the unorganised sector and in small units with simple technology and little capital equipment.

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Whether reducing child labour would speed up capital investment and technological change depends on the impact on adult wages. The only evidence available on the elasticity of adult wages to children employment (for industrial Egypt) suggests this impact could be very small. Moreover an increase in adult wages might simply push out of business poor employers relying on child labour, without boosting investment and technological change. Overall, there is very little evidence of child labour slowing down technological change. Child labour can be expected to have an ambiguous impact on income inequality in the short run, and to increase income inequality in the long run. No evidence is available on this hypothesis. Child labour does not attract foreign direct investment. There is no solid evidence that FDI tends to be higher in countries with more child labour. Moreover, the evidence of child labour impact on labour costs is mixed. The evidence on the supposed comparative advantage in labour-intensive goods produced with child labour is also uncertain.

• **In the adult labour market, the main findings are:**

Child and adult workers can be substitutes for one another since evidence shows clearly that children perform unskilled activities that can be done by adults. Whether children actually do substitute adult workers creating adult unemployment and/or reducing adult wage rates remains an open question. To the extent that children compete with unskilled adults for the same jobs, child workers affect adult employment or adult wages depending on the structure of the labour market. If adult wages are downward flexible, child labour is likely to decrease adult wages without affecting adult employment. If adult wages are at the survival minimum child labour displaces adult

employment without affecting adult wages. Finally if both adults and children wage rate are pinned down to the same legal minimum, the impact depends on the employers' preference for children relatively to adults. To our knowledge, so far no empirical work has focussed on this issue. The purpose of this paper was to assess the economic impact of child labour and to provide a survey of the empirical evidence available on this issue. It should be reminded that child labour takes place along with the process of economic development; therefore its impact on economic variables such as income distribution or foreign direct investment is likely to change over the process of development and that banning child labour may have negative policy implications.