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Child labor participation, human capital accumulation, and economic development

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Abstract

This paper presents a household theoretical model that explains child labor as a function of household resources, wages, and child work time allocation. The analysis is based on the interplay between household educational investment choices and adult–child wage differentials. The theory dynamics reveal that child labor participation is increasing in wage equality and as the wage gap decreases it reduces the distance by where the households is able to escape the cycle of poverty by investing beyond the dynamically attracting poverty level of inefficient human capital investment. The model dynamics also present the conditions by where poor households use child labor as a development strategy, as a means of accumulating physical assets at the expense of child human capital investment, in the early stages of development. The policy implications of this work are that child labor bans increase the wage differentials between child and adult earners while simultaneously decreasing the household incentive to invest in child education. The impact, of such policies, has a double negative effect on poor households. Furthermore, policies that reduce wage distortions, between adult and child labor, increase adult human capital, and provide universal access to educational will have long-run developmental growth effects. These policies, in the long-run, are shown to produce household substitution away from child labor and toward the acquisition of schooling based education.
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1. Introduction

Child labor has played itself out in the political, public, and academic, forum with a mixed set of policies and remedies. The problem that economists face in addressing the topic of child labor lies on how one interprets the expected welfare utility experience of individual households if child labor is, or is not, eliminated. According to Fan (2004) and Basu and Van (1998) an increase in child labor policy restrictions leads to a positive, negative, welfare effect depending on the structure of the assumed labor market. That is, the imposition of a ban on child labor will shift the supply curve of labor to the left, this, in turn, leads to an increase in the wage rate for adults; yet, the increase in wages raises, lowers, household utility depending on which effect dominates the change, substitution or income effect. The income effect would dominate a substitution effect in the case where child labor is not substituted from one industry to another.[1] In this case, the rise in the adult wage caused by a reduction in the labor supplied will have a positive income effect that could potentially compensate the household for the loss income from its young not being able to participate in the labor market. On the other hand, if child labor is only displaced from one sector and reallocated in another, say from export to domestic production, the substitution of one labor group for another will have zero to negative net effects on household welfare. That is, the child labor entering the domestic production market will displace adult labor lowering overall wages for all participants of the domestic production market. The wages in the primary, export production, market may have overall zero net impact on adult wages due to the influx of adults entering the export production market because of higher wages relative to those earned in the domestic production market. If the substitution of one labor sector to another dominates the income effect, that would in tern depress child wages, and possibly expose children to more hazardous work environments, and have a mixed effect on adult wages. On the other side of the economic debate exits a moral and ethical consumer behavior problem, is the consumption of known child labor produced goods acceptable? Basu and Van (1998), Fan (2004), Edmonds (2005), Edmonds and Pavcnik (2005), among others, argue that child labor while socially wrong, may serve as an economic good. Under some assumptions, and conditions, they argue that child labor bans could have negative welfare effects.

This paper presents a general equilibrium model that addresses the effects of child labor on household outcomes. Of interest is the notion that child labor bans will depress household resources by reducing household income. While work by Baland and Robinson (2000) state that child labor is an equilibrium outcome and that under certain conditions child labor bans may lead to child welfare improving outcomes; this paper, along with Basu and Van (1998), find that child labor bans are not efficient outcomes. The reason for this result lies on the effect that wage distortions have on the incentives of children to participate in the labor market. The dynamics of the model show that child labor participation is a decreasing function of wage inequality between adults and child laborers. The paper sets to uncover the impact of child labor participation as a dynamic approach to household decisions of child educational choices given that a household begins the process of development from a poverty stricken beginning.

[1] Doepke and Zilibotti (2005) work provide the case of a successful child labor regulation that makes regulation implementation dependent on the will of the majority and assures policy success by household self-enforcement.

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