

## **The Economics of Consumer Actions against Products with Child Labor Content**

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Public opinion polls in high income countries regularly document near universal condemnation of child labor in low income countries. Calls for consumer boycotts against products with child labor content are ubiquitous in America's universities. This essay assumes that this concern about child labor is motivated by a genuine concern for the welfare of working children. Can consumer boycotts and product labeling campaigns against products with child labor content make affected children better off?

Restrictions on choice are generally not welfare improving. If an agent can freely choose between A and B and subsequently chooses A, the agent is not better off when choice A is eliminated. Put another way, children are working in a particular job, because it is perceived as better than the other jobs or activities in which they might participate. If that job is eliminated, what will the child do? If nothing happens to eliminate the factors that cause the child to work, the child switches to a less preferred job or activity, perhaps for less income or in worse conditions.

This essay looks at this revealed preference argument in depth. The argument relies on several assumptions. The agent making decisions about the child has the child's best interest at heart. There is free choice over activities at the time of employment and full information about all the amenities associated with all of the choices open to the child. The restriction is effective at eliminating the job. The restriction does not otherwise alter the options available to the child nor does it fundamentally eliminate the factors that cause children to work in the first place. This essay examines these assumptions in detail.

### **Why do children work?**

Sadly, there is child abuse and neglect in the world. However, systematic abuse and neglect cannot explain why over 200 million children work in the world today. Abuse and neglect as a principal cause of child labor would imply that child labor is not responsive to changes in the broader economic environment. Hundreds of studies document exactly the opposite – whether and how a poor child works is extremely sensitive to a wide variety of economic factors (Edmonds 2007 surveys this literature in detail). Broadly speaking, children work either because it is the best use of their time or because it is the best use of the child's time that their family can afford.

#### *Sometimes working is the best option available to the child*

How can work be the best use of child time when wages are low? Most working children are helping in their family farm or business. A 2000 UNICEF study of children in 34 low income countries found that less than 3 percent of children work for wages and most of these wage working children are in agriculture. That said, most of the children directly affected by consumer actions or trade sanctions will be wage earners. Low wages paid to children are often cited as evidence of exploitation and coercion in child labor markets. However, in a competitive labor market, workers are paid the value of their labor's marginal product. Children are involved in the production of low value products, and children are often not especially productive workers. The most detailed case-study we have on child productivity in manufacturing focuses explicitly on an industry where these developmental advantages should be most important: the hand-knitted carpet industry. Levison et al (1998) study child and adult labor productivity in the hand-knitted carpet industry in India. Adults and children tend to work on the same types of carpets. Children are 21 percent less productive in hand-knitting than adults (productivity is measured in square inches knit per hour). A profit maximizing firm must pay less productive workers less money.

The fact that children work despite low observable wages is often referenced to suggest that only uncaring parents send their children to work. Even if the child's earnings are small, it might be perceived by the parent or child as important to the well being of a very poor household. 50 cents is trivial to most readers of this essay, but 50 cents is at least a 50 percent

increase in income to the billion or so people living on less than a dollar a day. Moreover, sometimes, the working child's most important economic contribution might be the avoidance of costs associated with alternative uses of child time such as schooling

Even if wages are low, often the alternative uses of child time are not attractive. When children are not participating in economic activities, they may be involved in domestic activities, enjoying play and leisure, or attending school. Whether domestic activities should be considered work is controversial, but when a child's domestic responsibilities require substantive hours, they can be as deleterious for schooling as market work. Assad et al (2003) observe that lower schooling attendance of girls relative to boys in Egypt can be partially explained by the additional domestic activities of girls.

The value of play, leisure, and schooling to the child's family can vary a lot depending on specific circumstances. It is not hard to imagine that too much leisure time might have negative consequences to the child's future well-being, but there is a psychological literature emphasizing how important play is to the child's social development. The family's value on schooling depends both on schooling's availability and the family's perceptions about its quality and its returns. In many developing countries, access to schooling is a serious issue. 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). Even when it is available, it is not always obvious that schooling is the best use of the child's time. School quality can be deplorable. Teach absenteeism is a serious problem in many countries. Chaudhury et al (2006) document that fewer than 1 in 4 teachers were present in Ugandan schools during random visits on school days. The quality of facilities can also interfere with the return to time in schooling. The Public Report on Basic Education in India (1999) documented that nearly 90 percent of rural primary schools lacked a working toilet and that class sizes in many states would exceed 100 students per classroom if all of the students of primary school age attended.

*Often, children work even though it is not the best use of their time*

Poor families tend to face a lot of risk in their economic lives, and poverty is often associated with other market failures such as weak insurance and poor access to credit. Market failures can cause families to choose to have their children work even though they would rather

the child do something else such as attend school. For example, Baland and Robinson (2000) and Ranjan (2001) emphasize that when families cannot borrow against future income, they might need the child to work today even though they would be better off if they could educate the child and somehow borrow against future income. Baland and Robinson (2000) label this "inefficient" child labor in the sense that the family would rather the child not work given the wage available to the child and the return to education but yet the child works because of an inability to access future income. Striking evidence of the importance of credit constraints comes from South Africa. Edmonds (2006) observes that schooling and child participation in market work respond strongly to the timing of fully anticipatable changes in family income (in this case, from a social pension program). Without credit constraints, the timing of anticipatable income should be irrelevant for child time allocation. This idea that child labor is not "efficient" in the sense that unconstrained households would not choose to have children work is implicit in most studies of child labor in economics and is thought to be a large part of the reason why work appears so responsive to family income changes.

In fact, poverty stands out as a strong correlate of child labor. Three fourths of the cross-country differences in economic activity rates of children can be explained by variation in living standards (Edmonds and Pavcnik 2005). Within country studies often find a similarly strong association between improving living standards and child labor. 80 percent of the decline in child participation in market work in families living near the poverty line in Vietnam in the 1990s can be explained by improving living standards (Edmonds 2005) and over half of India's decline in child labor in the 1980s and 90s can be explained by falling poverty (Edmonds, Pavcnik, and Topalova 2007). Sometimes economic growth is associated with additional earning opportunities to children. This may cause higher wages, making work the best use of the child's time. However, consistently, when economic growth is accompanied by poverty reduction, child labor appears to decline rapidly. This evidence strongly suggests that children often work because of factors related to poverty rather than it being the best use of their time.

*Are children free to choose and leave employers?*

One difficulty in considering the welfare consequences of any job is that children are often not free to make their own decisions about how they spend their time. The data seem broadly consistent that parents are trying to do what is best for their children. Rogers and Swinnerton

(2002) emphasize that parents can be misinformed about the child's working condition and may agree to allow a child to leave home for work when they otherwise would not if they knew the child's working circumstances. In a normal job, a worker would leave if the working conditions are not sufficiently compensated. However, children may be less able to leave their job, especially children working away from home. Caring parents that allow their children to leave for school or work typically want to be confident that the child will be protected and supervised in their destination. If the employer has taken this responsibility, it is possible that he may feel that preventing the child from leaving a job is in the child's best interests. Moreover, some working children who live away from home are bonded laborers, a portion of their wages having been paid in advance of their departure from home. There are an estimated 5.7 million bonded child laborers who are not free to leave their jobs (ILO 2002). The relative immobility of children creates a greater risk of exploitation, especially when the child is living and working away from home. It is much easier to argue that it is possible to improve welfare by removing workers from a job that workers cannot themselves leave. Given the possibility of forced or bonded labor, any individual concerned with child welfare should consider whether the child can leave the job before considering the revealed preference argument discussed above. That said, most working children are not bonded, and a concerned consumer cannot not assume that children are bonded and lack free choice without additional evidence.

### **The economics of restrictions on employment**

Product boycotts and labeling campaigns on particular products aim to restrict the involvement of children in specific types of employment. In product boycotts, consumers choose not to buy certain products that are known to have a child labor component. Labeling campaigns reduce the informational costs to the consumer associated with knowing what products to boycott by certifying some producers of a given good as "child labor free". Boycotts have the potential to lead to product labeling, or if universal and effective, boycotts could completely eliminate jobs for children in a particular industry in contrast to labeling campaigns which lead to differentiated products with and without labels. This latter scenario of boycotts leading to entirely child labor free industries is less likely than consumer actions leading to products that differ in their child labor content.

*What happens when the target of consumer action is a small share of local employment?*

When a job is a free choice, as is typically the case, the welfare consequences of restrictions on employment depend on how important the job is in the relevant labor market. Most often, child and adult wages are set in local labor markets. When the affected export oriented job is a small fraction of the total labor market, the likely effects of employment restrictions for child and adult wages are small. Nothing happens to any of the reasons why children are work, and the sole effect of the action against child employment in a particular job is to cause children to change employers. When individuals are free to make decisions about employment and jobs, then restrictions on children in one job mean that they switch to other jobs which are not preferred to the lost job according to the revealed preference argument above. It is very difficult to see how these consumer actions could be welfare improving when they have little effect on local labor markets.

Baland and Duprez (2007) emphasize that consumer demand for the label (or willingness to boycott) and the label's availability both influence the impact of consumer action on child welfare. Suppose the label is accessible freely to all qualifying employers, demand for the label is sufficiently small, and adult and child workers can perform the same tasks, in that case there may be little effect of the labeling campaign on wages and hence child labor rates. Brown (2006) points out that this absence 'no effect' result also follows if wages are determined by international markets rather than local labor markets. Adults replace children in the export sector and children replace adults in producing for the home market or other markets where there is no labeling premium. This reshuffling of workers may not be beneficial to children if they are now more isolated from their parents or other adults, but overall the net effect on child labor of this "displacement effect" can be minimal.

*What happens when consumer actions are significant enough to impact local labor markets?*

An alternative scenario is that in a given labor market, affected employment is large enough to have a substantive effect on the employment opportunities open to children. With fewer jobs but the same number of children willing to work, child wages should decline. Basu et al (2006) emphasize that wages can also decline if labeling campaigns induce consumers to buy fewer products overall. The consequences of lower wages for children depend on why children work. Suppose children work, because it is the best use of their time in the sense that wages are

higher than other uses of child time (wage work is "efficient"). Lower wages should mean fewer children working in wage employment. Children switch to their next best alternative such as other forms of work or even schooling. Note that the child's family is made worse off by this decline in wages. It is possible that if the family's interest diverges from the child's best interest or if the family is not as well informed as the consumer about the child's best interest, the child can be made better off by this change in activity induced by changes in prices.

Typically, families would rather children not work based on its relative return, but children are working because of other market imperfections (wage work is "inefficient"). In this case, reduced employment opportunities do not eliminate the market imperfection and motive for work. Children then switch to other, less preferred jobs. Essays in this volume by Quddus (2007) regarding Bangladeshi action against children in textiles and Badry's (2007) essay on the Pyjama Trail in Morocco both emphasize this effect. Moreover, under very plausible assumptions, this can increase child labor (Basu and Zarghamee 2006). For example, if children are working to cope with extreme poverty, then lower wages can cause working children to need to work more or induce additional children, previously supported by working children, to start working. Jafarey and Lahiri (2002) formerly show that as access to credit improves and thereby the incidence of inefficient child labor declines, it becomes less likely that restrictions on child employment will actually increase child labor.

Efforts to punish products with child labor content, when substantive enough to affect local labor markets, can also change the types of jobs available. For example, Davies (2005) emphasizes that labeling campaigns can create a profitable niche for adult labor only firms which in turn can create an analogous, profitable niche for low price child labor only firms. That is, not only can child wages be depressed, but employment can be segmented. Rather than working by a parent's side, children end up working away from parents and adults, perhaps in situations where working conditions are more difficult to observe.

*When can consumer action make families better off?*

Another possibility that may change decisions about whether children work arises if employers shift from child to adult labor as a result of consumer action. When access to the label is rationed (Baland and Duprez 2007) or when output markets are not perfectly competitive and consumer action increases prices for adult only firm products (Davies 2005), adult wages

can increase in labor markets that produce the child labor free good. When child labor is inefficient in the sense that family would rather children not work given wages and returns to education in the labor market, this increase in wages to adults will reduce the number of working children through reducing poverty.

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. Perhaps most importantly, this scenario assumes that the affected employer is large enough to have a substantial impact on local labor markets and that this impact is large enough to eliminate poverty motives for child labor. Thus, in even the best of scenarios, the effect of consumer boycotts on child labor supply depends on local conditions.

### **Implication for consumers**

The main implication of this discussion is that information about local economic conditions is critical for inferring whether consumer action can improve the welfare of working children. The educated consumer should understand why children are working in a given job, what will happen to local labor markets in the absence of child labor in the target industry, and what other options are available to the children affected by effective consumer action. When destitution drives children to work, preventing the employment of children may do nothing other than further drive children and their families further into the despair of poverty.

There are several cases where, with complete information, it is possible to justify consumer action as likely to be welfare improving. When children are bonded, coerced, or somehow unable to change jobs, then it is easier to assert that their work does not reflect revealed preference. When the agent making decisions about the child's time allocation, know less or consider less what's best for the child than the individual taking the consumer action, the



case for consumer action is stronger. Finally, 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. Of course, without proper consideration of the context of child labor, the danger is that consumer action against products with child labor may just punish the poorest in the world for being poor. Consumer actions 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. Brown's (2007) essay in this volume emphasizes one possibility: a donation label certifying that some part of the price goes to provide assistance to poor children. More generally, 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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