

Globalization and the Economics of Child Labor

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Child labor pervades the developing world. The International Labour Office estimates that at least 250 million children between the ages of 5 and 15 are working. This prevalence of child labor upsets many people in rich countries. As a result, governments in Europe and elsewhere have imposed or threatened to impose trade sanctions that restrict the sale of goods from developing countries. The stated aim of these sanctions is to force developing countries to take steps towards the elimination of child labor.

However, several recent studies have found that the employers of these child laborers are usually their parents, and that these parents prefer their laboring children to attend school rather than work. Poverty creates child labor. A new study examining child labor in over 4,000 Vietnamese households during the 1990s suggests that when globalization improves the income of impoverished households, this additional income helps parents reduce the workload of their children and send more of them to school.

What is child labor?

In November of 2000, ten children earning around \$11 per month burned to death in a garment factory in Bangladesh. The exits from the factory were chained shut. Images of children chained into factories, sold as slaves, or forced into prostitution stain the popular imagination about child labor. Fortunately, while many children work in the developing world, relatively few experience such atrocities.

Politicians in developing countries like to define child labor as work that impairs the development and well-being of children. Economists prefer a less subjective definition. Economists view child labor as the economic activities in which children participate. This definition includes slavery and prostitution, but it extends to the types of activities that children regularly participate in throughout the developing world.

In 1999 and 2000, UNICEF interviewed children across 30 developing countries. UNICEF discovered that factory work is rare. Only 3% of children work outside of their household for pay. Unpaid domestic work is more common than is work for pay. UNICEF found that 2% of boys and 5% of girls perform unpaid domestic work for households other than their own. However, most working children are employed in their own household, helping with household duties or the family's farm and business.

Consider the typical 14 year old girl living in rural Nepal who was interviewed in a recent labor survey. She works about 35 hours per week. She spends 19 hours of that time working in agriculture for her family, and 9 hours helping her family with household work. She does not

work for pay, and she does not attend school. An array of activities occupies the rest of her time. Gathering firewood and collecting water are two of her more time consuming tasks.

While economists and politicians differ in their definition of child labor, economists differ among themselves in how they define the economic activities of children. The first wave of child labor studies only considered work for pay, work in a formal household business, and work in agriculture. More recently, economists have begun to recognize that ignoring household activities limits their ability to understand how children spend their time. For example, if a parent leaves the household to work for a local employer, a child may take over many of the parent's household roles. Ignoring time spent by children collecting wood and water, tending to animals, preparing foods and meals, or caring for family members would imply that a child spending two hours a day in agriculture works more than the child laboring twelve hours a day filling in for an absent parent.

Why do children work?

Social scientists vary in how they view a parent's decision to send a child to work. The debate revolves around how parents in developing countries view child labor. In one view, parents want their children to work. Perhaps parents even have children in order to send the children to work. This view implies that parents take advantage of any earnings opportunity open to children. So long as parents benefit more when the child works than when the child goes to school, child labor persists. Improvements in living standards may do nothing to ameliorate child labor.

An opposing view believes that parents in developing countries do not differ from parents in rich countries in how they view child labor. Researchers have observed that parents in poor countries generally say that they would rather their children attend school and work less. So why is child labor so pervasive? For the simple reason that impoverished households need their children to work. 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 some children working so that their siblings may attend school. If governments could somehow prevent children from working, we might see less schooling rather than more, because the loss of income from working children would make schooling even more unaffordable.

A casual cross-country comparison supports the view that child labor stems from poverty. In the world's poorest nations with per capita incomes below \$1,500 in 1998, it is not unusual to find over 30% of children working. In contrast, child labor is rare in countries with per capita incomes above 7,000 U.S. Dollars. Per capita income of the U.S. in 1998 was approximately \$30,000. Thus, parents in countries that are not even a quarter as wealthy as the U.S. are able to keep their children from having to work.

This cross-country evidence on the link between child labor and poverty is supported by a recent study in Vietnam that examines how the economic activities of children evolve as household incomes change. The General Statistical Office of Vietnam and the World Bank followed over 4,000 households during Vietnam's economic boom in the 1990s. Participation rates in child

labor declined by over 25% in rural Vietnamese households between 1993 and 1998. The declines in child labor were largest in the households experiencing the largest growth in living standards during Vietnam's boom. Income growth was largest in poor households. Overall, the study finds that improvements in living standards can explain 94% of the decline in child labor for households near the poverty line in Vietnam. Thus, the evidence from both across and within countries suggests that children work because of poverty. When incomes increase, children stop working.

How can globalization affect child labor?

Globalization and child labor interact in two basic ways. First, globalization may increase the employment and earnings opportunities available to poor households in developing countries. Changes in local labor markets from globalization may increase or decrease child labor. Second, globalization increases the influence of rich countries in the domestic policies of the developing world.

Globalization can enhance employment and earnings in developing countries because of inflows of foreign investment or increases in the value of a developing country's export products. When a country opens to international markets, foreign investment often (but not always) enters the country. This leads to increases in the demand for local labor and hence higher wages. In addition, many of today's developing countries have comparative advantage in agriculture, and integration into international markets may increase the price of the export product to international levels. Thus, trade liberalization may increase employment and wages in these agricultural export sectors.

These changes in developing country labor markets stemming from globalization could increase child labor. Increased earning opportunities may increase the demand for child labor and the wages paid to children. Indirectly, increased earnings opportunities to parents may change the types of work performed by parents. Children may be forced to take over some of the activities usually performed by adults within their household.

Alternatively, globalization induced improvements in earnings opportunities can reduce child labor. If poverty drives child labor, children work either for the income from work or because they cannot afford school fees. When one child makes more as a result of globalization, other children may be able to stop working and attend school. Moreover, increased parental earnings may help parents reduce the work that children perform. Parents can buy substitutes for goods previously produced by children, or they can use their increased income to substitute for the money previously earned by children. Hence, globalization can help parents in poor countries stop child labor without foreign intervention.

Of course, critics of globalization question whether globalization increases the earnings opportunities of residents in poorer countries. Globalization increases a country's exposure to foreign competition. This may force inefficient firms in import-competing industries out of business. Regardless of the long-term benefits of this reallocation of resources, in the short term, these adjustments may create difficulty for some households with children.

A second argument against the link between globalization and increased earnings opportunities claims that globalization encourages the entry of foreign multinationals and that they depress the earnings opportunities and wages of local workers. This can happen if foreign companies wield non-competitive market power in local markets. Anecdotes of this type of "bad" behavior of firms are common in the popular press. Serious researchers have taken the time to collect data on every single manufacturing plant in a vast array of countries. Every one of these studies based on complete manufacturing information finds that foreign firms actually pay higher wages than do local firms after researchers control for other firm characteristics.

Not only does globalization affect earnings opportunities in developing countries, but globalization also increases the ability of rich countries to influence policy in the world's poorer nations. As developing countries integrate into the world economy and increasingly rely on export markets to sell their products, rich countries can use the threat of trade sanctions to coerce policies that attempt to curtail child labor. In December 2001, EU Trade Commissioner Pascal Lamy announced that EU foreign ministers have approved a preferential tariff scheme for countries that adhere to ILO labor standards including child labor. Both the Clinton and Bush administrations have voiced a commitment to a similar policy, and in 1999 the U.S. imposed quotas on Cambodia's garment industry because of working conditions and child labor. Thus, globalization enables high income countries to punish poor nations for high levels of child labor.

Evidence on globalization and child labor

A recent study of child labor in Vietnam evaluates how trade policy might affect child labor. Out of a concern for domestic food security, Vietnam restricted its exports of rice starting in 1989. These quotas suppressed the domestic price of rice. Between 1993 and 1997, Vietnam gradually relaxed this export quota so that by 1998, Vietnam was completely exposed to the international price of rice. During this period of liberalization, the price of rice increased by 30% relative to the rise in the consumer price index.

Rice is an important commodity in Vietnam. It is the primary staple in the Vietnamese diet, the largest single component of household expenditure, and 70% of households produce rice. Moreover, in 1993, before the liberalization of rice prices in Vietnam, 26% of children between 6 and 15 worked in rice production in Vietnam, and rice production was far and away the largest employer of adults. Thus, rice price increases should affect both children and adults.

The study finds that rice price increases can account for 45% of the overall decline in child labor that Vietnam experienced in the 1990s. This corresponds to approximately 1 million fewer working children in Vietnam.

The study identifies several ways in which rice price increases affect child labor. Both child and adult wages rise with increases in rice prices. Higher child wages encourage children to work, but the observed rise in adult wages appears to reduce child labor more than higher child wages increase child labor.

The impact on child labor of these wage increases is tiny compared to the decline in child labor attributable to the additional income captured by households owning land for rice production.

Rice producing households enjoy higher incomes after rice price increases, and they use this additional income to replace the income previously brought into the household by child labor.

Almost all of the variation in how Vietnamese households respond to rice price increases can be explained by landholdings. Households that do not own any land suitable for rice cultivation suffer with rice price increases. It becomes more expensive for these households to buy food, and the study finds that children have to work more in these landless or nonagricultural households. However, land suitable for rice cultivation is sufficiently evenly distributed in Vietnam that most households with children benefit from increases in rice prices. This equitable land redistribution is why over 1 million children appear to benefit from rice price increases.

These results are startling. Even though rice price increases make child labor more lucrative, parents choose to use increases in household income to reduce the amount that their children work. Moreover, the children who work the most before the price changes are the largest beneficiaries of these improvements in household income. Secondary school age girls experience the largest declines in work. Likewise, their school attendance increases with rice prices by more than any other age and gender group.

Extrapolating from this Evidence

How representative are these findings from Vietnam? The primary contribution of this research is the finding that parents in poor countries use extra income to move children out of work. This effect of additional income occurs even in the face of increased earnings opportunities for children. Thus, the patronizing view, held by so many rich country observers, that poor country parents somehow do not care about the well-being of their children seems unfounded.

Moreover, these findings suggest that the use of punitive, income reducing sanctions against countries where child labor is prevalent may not have the intended impact. If children work because of poverty, then sanctions and punishments for countries with child labor hardly seem to be policies that have the welfare of children in mind. A more effective way to discourage child labor would be to supplement support for income generating activities with, perhaps, additional incentives for children to stay in school.

The next round of global trade negotiations aims to bring developing countries into the international trading community. Many of these countries are agricultural economies that will experience price movements in agricultural commodities like the rice price changes studied in Vietnam.

Whether children in other countries will benefit like children in Vietnam depends in part on how the gains from trade will be distributed. In Vietnam, over 70% of the population produces rice and hence benefits from the liberalization of rice markets. Children in countries with less equitable distributions of the gains from trade may not benefit from globalization as much as Vietnam.

Thus, the challenge for the rich country observer concerned about child labor is not to fight globalization and international trade. Rather, it is to make sure that the gains from international

market integration reach the poor in developing countries. The available evidence suggests that child labor could virtually disappear if the poor of the world could attain living standards that are even a quarter of that currently enjoyed by wealthy countries like the United States and Switzerland.

Additional Readings:

- UNICEF's report on progress since 1990's World Summit on Children:
<http://childinfo.org/>
- Understanding Children's Work – a joint project of the ILO, the World Bank, and UNICEF: <http://www.ucw-project.org/index.html>
- The International Labor Office tracks child labor worldwide:
<http://www.ilo.org/public/english/standards/ipec/simpoc/index.htm>
- The World Bank recently completed a survey of research on the consequences of globalization. That survey, Globalization, Growth and Poverty: Building an Inclusive World Economy, is available on-line:
http://econ.worldbank.org/prt/structured_doc.php?sp=2477&st=&sd=2857
- The author's research on child labor is available from his website:
<http://www.dartmouth.edu/~eedmonds/>