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# Child labor and the law: Notes on possible pathologies

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## Abstract

The paper demonstrates that the standard policy for controlling child labor by imposing a fine on firms caught employing children can cause child labor to rise. This ‘pathological’ reaction is, however, reversed as the size of the fine increases.

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## 1. The problem

Beginning a little over two hundred years ago—from the time of Robert Peel’s Factories Act of 1802 in Britain—there have been repeated attempts to use legislative action to bring an end to child labor. And one of the more curious features of this phenomenon is how often it has beaten the law and persisted or even got worse (Nardinelli, 1990). While child labor did, eventually, come to a virtual end in industrialized nations, it continues to be widespread in developing countries,<sup>1</sup> despite a plethora of legal

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<sup>1</sup> According to latest ILO (2002) estimates there are 186 million child laborers in the world.

checks. The purpose of this essay is to show that this is one area where seemingly reasonable policy interventions can backfire and there are good theoretical reasons why that may be so.

The policy with which I shall here illustrate the risk of pathological reaction is the standard one where a firm is fined a certain amount if it is found employing children. India's Child Labor (Prohibition and Regulation) Act, 1986, for instance, has precisely such a clause. Section 14 of this Act requires the government to charge a fine between Rs. 10,000 and Rs. 20,000 from a person or firm found employing children in contravention of the provisions of the Act ([Government of India, 1986](#)). What will be shown here is that a small dose of an intervention of this kind can actually exacerbate the problem of child labor. If the fine for employing children is raised, child labor could increase for a while before declining. In other words, the response to the policy could be inverse-U shaped. Hence, developing countries like India, trying to legislate against child labor, have to be careful in their design of the law and in the choice of the size of the punishment. Otherwise the law could have the effect opposite to what is intended.

This is a purely theoretical paper. The reader may thus wonder if its warning needs to be heeded, given that it is not empirically proved. My response to that is to observe that (1) there is plenty of empirical support for the main axiom on which the analysis here is founded and (2) the *negation* of the hypothesis put forward here has not been empirically demonstrated, either. In other words, the claim that an increase in the fine for child labor will cause child labor to decline has not been empirically proved. It is simply taken for granted. The paper demonstrates that there is *no* reason for this presumption. The paper recommends empirical research to investigate the effects of anti-child labor legislation, and, until that happens, caution about the laws commonly used.

## 2. Theory

The reason why child labor policy turns out to be intricate is because of the somewhat unusual factors that cause child labor in the first place. Child labor is intricately linked to poverty. Virtually all the worlds laboring children are located in poor countries. In the same developing country, where lots of children work, one would rarely find the child of a doctor, lawyer, or professor working. The evidence is overwhelming that poverty is a major cause of child labor and, typically, parents send children to work in order to achieve some minimal level of consumption (see [Grootaert and Patrinos, 1999](#); [Edmonds, 2005](#); [Edmonds and Pavcnik, 2005](#)).<sup>2</sup> The counter-intuitive result derived in this paper is a consequence of this assumption.<sup>3</sup>

Consider a labor market in which there are several, identical households with each household consisting of one adult and  $m$  children. Each child produces a fraction  $\gamma$  of the labor that an adult can produce. In other words, full time work by one child is equivalent to  $\gamma$  units of an adult's full-time work. I shall assume that the adult always supplies labor perfectly inelastically, whereas children work only to the extent that this is necessary to achieve a critical subsistence level of consumption for the household. Let  $s$  be that critical amount of consumption.

<sup>2</sup> It must be clarified that to say that poverty causes child labor is not to deny that child labor can have other causes, such as, lack of schooling opportunity or credit, parental illiteracy (see, e.g., [Baland and Robinson, 2000](#); [Emerson and Souza, 2003](#); [Bhalotra and Heady, 2003](#)).

<sup>3</sup> Natural though this assumption is it is at the root of other unexpected results in this area (see [Basu, 2000](#); [Singh, 2003](#); [Rogers and Swinnerton, 2004](#)).

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