

# Child Bonded Labor

Garance Genicot  
Georgetown University

## I. OVERVIEW

*Bonded labor* – also known as debt bondage or peonage – designates the practice of pledging labor as payment or collateral on a debt. *Child bonded labor* refers to situations where a child’s labor services are offered in exchange for a loan.

In some cases, this occurs because the labor of the child alone, or of the entire family, is *directly* offered. In other cases, bondage is *intergenerational*: once a parent is no longer able to work, debts are passed down from parent to child.

Bonded labor has been already widespread since ancient times and has flourished at various periods in most countries.<sup>1</sup> Bonded labor is outlawed by the 1956 U.N. Supplementary Convention on the Abolition of Slavery, the Slave Trade, and Institutions and Practices Similar to Slavery, and most countries have passed their own ban. However, it is estimated that millions of people are still held in bonded labor around the world, including 15 million of children in India alone (see Human Rights Watch Asia 1996).

At the origin of bonded labor lies a loan that a family takes from an employer (often to repay another loan or to pay for food, health care, wedding, funeral etc.). Having no other asset, the family may pledge the *labor* of some of its members, adults or children, to the employer-cum-lender in exchange for the loan.<sup>2</sup> These members are then forced to work for the employer until the debt is paid off with their wages. Most often, if not repaid, the debt is transferred to their descendants, continuing the cycle. Employers generally charge very high interest rates, pay low wages, deduct payment for equipment or charges fines for faulty work, and sometime take advantage of the illiteracy and lack basic math skills of the debtor; so that in many cases, the debt actually goes *up* instead of *down*. Working conditions are typically very difficult. Children employed as bonded laborers work long hours over many years in an attempt to pay off the debts, and in some cases work in dangerous occupations.

---

Please address all communication to [gg58@georgetown.edu](mailto:gg58@georgetown.edu).

The existence and persistence of child bonded labor raises many questions. Indeed this institution combines many elements that have been banned by governments around the world: child labor, bonded labor and inheritability of net debt. We will first discuss the issue of bonded labor per se, then the additional issues that child bonded labor raises.

## II. VOLUNTARY SLAVERY

In the case of debt-bondage, a tenant or debtor *voluntarily* places himself or his child in a position of servitude. Many find the voluntary nature of this choice puzzling and disturbing. Most countries have actually banned any long term pledge of labor services including bonded labor and contract labor.<sup>3</sup>

Supporters of a ban on voluntary servitude often use paternalistic arguments. They argue that people cannot foresee the consequences of their choices and that, if they did, families would not opt for debt bondage. In this view, banning bonded labor prevents very costly “mistakes.”

However, in regions where bonded labor is prevalent, one would expect families to have a reasonable idea of what to expect. Evidence suggest that in many situations, bonded laborers might be better off than they would be as free worker.<sup>4</sup> There are also numerous account of freed bonded laborers returning into bondage (see Kloosterboer 1960 or Bales 2002). To be sure, there may be different types of employers, some worse than others, and some asymmetry of info – in the sense that families do not know before hand which type of employer-cum-lender they are dealing with (see Rogers and Swinnerton 2002) –, but a rational individual who became a bonded laborer must have preferred bondage *ex-ante* among his available options.

That these arrangements can be voluntary should not be surprising. After all, these labor relationships typically concern very poor workers whose set of opportunities is so limited that such contracts may well represent their best option. Moreover, the voluntary nature of these arrangements does not tell us whether banning them, or better enforcing an existing ban, would result in a welfare improvement or worsening for the workers.

It is easy to see why, in some situations, a ban could actually *harm* the very people it tries to help. Bonded labor can sometimes permit Pareto improving transactions that would not otherwise occur. For assetless individuals, pledging one’s labor could be the only way to obtain much needed loans. For instance, debt bondage is extremely pervasive in human smuggling. Illegal immigrants frequently borrow large amount from their smuggler to cover smuggling fees and have to work for a friend or relative of the smuggler until their debt is repaid (see Kyle

and Koslowski (2001)).<sup>1</sup> Without such arrangements, many of these migrations would never occur. As an other example, Bardhan (1983) shows why ‘tied-labor agreements’ can provide risk-averse laborers with insurance against the wide swings in income due to fluctuations in demand for their service, and ensure landlords with assured cheap labor during the peak seasons. Mukherjee and Ray (1995) provide an explanation for why tied labor agreements can coexist with a large pool of large casual laborers (that are worse off than the tied laborers). Finally, in a case study of child bonded labor in the brick kiln industry in Tamil Nadu, Bhukuth (2005) shows how bondage is a way for employers to guarantee a given labor supply from rural areas in exchange for advance payment for the workers.

On the other hand, even if opting for bondage is the best option for some assetless families in need of a loan, this does not imply that banning bonded labor would make them worse off. In a world where markets are incomplete, it is well known that restrictions on contracting can be welfare improving. This is because the set of options available to a family is not exogenous. Banning bonded labor could *alter* the other options available to families or even spring new ones. For instance, Genicot (2002) shows how the mere existence, or even potential existence, of bonded labor contracts can prevent the development of welfare enhancing credit opportunities for families. Potential lenders who do not need labor or do not have the enforcement power would refuse to lend to assetless borrowers that are susceptible to further borrow from an employer-cum-lender, default on them and enter into debt bondage. In such cases, a ban on bonded labor has the potential to make assetless families better off by stimulating the development of *new* credit opportunities for them, and therefore may be deemed desirable. Basu (2003) provides another *general equilibrium* argument for why banning some forms of labor contracts can be welfare improving for the workers. Consider a situation without a certain form of contracts, say bonded labor. Even if one landlord and one family find it mutually beneficial to enter a bonded labor agreement, once a large number of these contracts – each bilateral improving – everybody could be worse off. In this case again, a ban on bonded labor would improve the welfare of families. Finally, if bonded labor allows employer to collude on low wage a ban could be beneficial (see Conning and Kevane (2006)).

Hence, whether enforcing a ban on bonded labor would help bonded laborers and families susceptible to enter into debt bondage is likely to depend on the specific context. Notice that the fact that a contract is voluntary does not mean that it is not exploitative. In the spirit of Basu (1986), Hirshleifer (1991) and Bardhan (1991), we can say that a contract is *exploitative* when a party uses his power to strategically affect the alternatives available to the other party so that the latter has no better choice than to agree upon a contract very advantageous for the

---

<sup>1</sup>The work is often in sweatshops and immigrants are sometimes locked up until repayment.

first party. Genicot (2002) and Genicot and Ray (2006) characterize settings in which bonded labor arrangements are exploitative in this sense. This concept of exploitation is captured by a judgement of the Supreme Court in a bonded labor trial in India:<sup>2</sup>

*“Any factor which deprives a person of a choice of alternative and compels him to adopt one particular course of action may properly be regarded as ‘force’ and if labor or services is compelled as a result of such ‘force’ it would be ‘forced labor’.”*

#### CHILD BONDED LABOR.

Additional issues arise in the case of *child* bonded labor. Child bondage has two possible origins.

Sometimes, a child’s labor is directly pledged as a security for a loan. Allowing other family members to be responsible for repayment of a debt can clearly improve credit access and is often used informally or formally. For instance, La Ferrara (2003) shows how incentives to default on reciprocal arrangements are lower for community members who can expect retaliation on their offspring as well as on themselves. Even during the borrower’s life, depositing a child, or a wife, with a creditor as security for the repayment of a debt seems a common practice in many regions of the world. One of the first written code of laws in human history, the Code of Hammurabi (1795-1750 BC) in Ancient Mesopotamia explicitly allowed it for up to three years (Harris 2002). South Asia is often cited as the region where child bonded labor is the most prevalent. But the use of children as ‘debtor-pawns’ – children given as household servants by debtors unable to repay – is also well documented at different period of history in Western Africa (Falola and Lovejoy eds. (1994)).

In other situations, the condition of bonded laborer is intergenerationally transmitted to the child after the death of his parent. This raises an interesting question of the *inheritability* of debt. Among different societies at different time, children are responsible for their parents debt at their death.<sup>5</sup> In contrast, nowadays, children are no longer legally responsible for debts that were contracted by their parents for a total that is worth more than the value of their estate.

In all cases of child bonded labor, that a parent can use one’s child as a collateral raises serious questions. In contrast to the “voluntary” servitude of adult debt bondage, child bonded labor is, at least from the perspective of the child, clearly involuntary. As discussed in the previous section, allowing this practice could make households worse off, even when parents are fully altruistic towards their

<sup>2</sup>Supreme Court’s judgement dated 18.09.1982 in Peoples Union for Democratic Rights and Others (W.P. No 8143 of 1981).

children. Moreover, parents do not necessarily have the best intention for their children, in which case allowing parents to pledge their children's labor would be clearly undesirable. Finally, the transmission of debts from parents to children reinforce the intergenerational transmission of inequality and can have long term consequences for the society and its income distribution.

### III. CONCLUSION

This article has argued that the welfare effect of a stricter enforcement of the laws against bonded labor and child bonded labor is ambiguous. We have no guarantee that it will actually help the potential bonded laborers and their family. Now far from suggesting inaction, this calls for *more* but different action from the government and non-governmental organizations. Providing alternatives to the bonded child laborers and their family is crucial in fighting this practice. In particular, it is essential to provide poor families with alternative source of small-scale consumption loans. The rapid development of microcredit organizations that provide small loans is certainly encouraging, although micro-credit loans are given for production purposes mainly. The recent initiatives in providing poor household with micro-insurance product – mainly life, health and insurance – could go a long way in reducing households vulnerability to moneylenders and bondage. In addition, such policies should be complemented with investments in education and vocational training for these children. By raising the opportunity cost of child labor, it should further discourage it. Only when complemented by these policies, can we be confident that enforcement efforts are beneficial.

## References

- (1) Bales, Kevin “The Social Psychology of Modern Slavery” *Scientific American*, April 2002
- (2) Bardhan, Pranab K. (1979), “Wages and Unemployment in a Poor Agrarian Economy: A Theoretical and Empirical Analysis,’ *Journal of Political Economy* **87**(3), 479-500.
- (3) Bardhan, Pranab K. (1983), “Labor-Tying in a Poor Agrarian Economy: A Theoretical and Empirical Analysis,’ *Quarterly Journal of Economics* **98**(3), 501-14.
- (4) Bardhan, Pranab K. (1991b), “On the Concept of Power in Economics,” *Economics and Politics* **3**, 265-277.
- (5) Basu, Kaushik (1986), “One Kind of Power,” *Oxford Economic Papers* **38**, 259-282.
- (6) Basu, Kaushik (2003), “The Economics and Law of Sexual Harassment in the Workplace,” *Journal of Economic Perspectives* **17**, 141-157.
- (7) Breman, Jan (1993), *Beyond Patronage and Exploitation: Changing Agrarian Relations in South Gujarat*, Oxford University Press, Delhi.
- (8) Bhukuth, Augendra (2005), “Child Labour and Debt Bondage: A Case Study of Brick Kiln Workers in Southeast India”, *Journal of Asian and African Studies* **40**(4), 287-302.
- (9) Conning, Jonathan H. and Kevane, Michael (2006), “Freedom, Servitude and Voluntary Labor,” in K. A. Appiah and M. Bunzl eds *The Ethics and Economics of Slave Redemption*, Princeton University Press.
- (10) Edmonds, Eric and Salil, Sharma “Institutional Influences on Human Capital Accumulation: Micro Evidence from Children Vulnerable to Bondage.”
- (11) Ennew, Judith (1981), *Debt Bondage: A Survey*, Anti-Slavery Society, Human Rights Series Report **4**.
- (12) Falola Toyin and Paul E Lovejoy ed. (1994) *Pawnship in Africa : debt bondage in historical perspective*, Boulder : Westview Press.
- (13) Genicot, Garance (2002), “Bonded Labor and Serfdom: A Paradox of Voluntary Choice,” *Journal of Development Economics* **67**(1), 101-127.
- (14) Genicot, Garance and Debraj Ray (2006), “Contracts and Externalities: How Things Fall Apart,” *Journal of Economic Theory* **131**(1), 71-100.
- (15) Government of India (1976), “Bonded Labour System Abolition Act’, in Dingwaney, Manjari, R. Vidyasagar and Anil Chaudhary (1986), *Bonded Labor in India*, Rural Labour Cell, New Delhi, pp. 41-4.
- (16) Harris, Edward M. (2002), “Did Solon abolish debt-bondage?” *The Classical quarterly* 52:2, 415-430.
- (17) Human Rights Watch Asia (1996), *The Small Hands of Slavery: Bonded Child Labor in India*, Human Rights Watch.

- (18) Kloosterboer, Willemina (1960), *Involuntary Labour since the Abolition of Slavery: A Survey of Compulsory Labour Throughout the World*, ed. by E. J. Brill, Leiden.
- (19) Kyle, David and Rey Koslowski ed. (2001), *Global Human Smuggling: Comparative Perspectives*, The Johns Hopkins University Press.
- (20) La Ferrara, Eliana (2003), "Kin Groups and Reciprocity: A Model of Credit Transactions in Ghana" *The American Economic Review* **93**5.
- (21) Lasker, Bruno (1950), *Human Bondage in South-East Asia*, Chapel Hill, University of North Carolina Press.
- (22) MacMunn, George Fletcher Sir (1974), *Slavery Through the Ages*, E.P. Publishing Col (reprint of 1938 edition).
- (23) Mukherjee, Anindita and Debraj Ray (1995), "Labor Tying," *Journal of Development Economics*, **47**(2), 207-239.
- (24) Rogers Carol and Kenneth A. Swinnerton (2002) " Theory of Exploitative Child Labor," working paper.

## NOTES

1. Debt slavery is a well-known phenomenon in ancient civilization. Aristotle himself described the situation of debt bondsmen in Athens. Similarly, various form of voluntary slavery and bonded labor existed in Rome of the Antiquity and in Ptolemaic Egypt. In Judaic law likewise, a distinction was made between chattel and debt slaves, as foreigners and Jews respectively [Ennew (1981), p. 63]. Perhaps less well-known is the extent to which these institutions persist in more recent time. A report of the Temporary Slavery Commission of the League of Nations in 1925 brings evidence Bonded Labor in all South America, the Philippines and parts of Africa, and states that the practice was widespread all over Africa and Asia. [Macmunn (1974), pp. 250-2]. The presence of bonded labor was reported in Indonesia, the Philippines, Malaysia, Siam, Burma, and colonial Laos and Cambodia, [Lasker (1944), pp. 113-67]; and in Ethiopia and Sudan, [Ennew (1981), p. 261].
2. These debts tend to be modest. In India for instance, we are talking on average from 500 rupees to 7,500 rupees for bonded child labor, depending on the industry and the age and skill of the child (see Human Rights Watch Asia 1996).
3. “Contract labor” refers to the practice in which the laborer commits to work for a specific employer for one or a few years, but can choose freely to renew the contract at the end of it. It is illegal in most countries but exceptions exist, such as for military in the United States.
4. Describing the bonded labor relationships in South India, Lumsden wrote in a letter of 1825: “I believe the (debt) slaves to be more comfortable than the free portion of their respective castes.” Half a century later this statement is unequivocally repeated: “Hali (bonded laborers) are still, as a rule, better off than those of their clan who are nominally free labourers,” [Gazetteer of the Bombay Presidency (1877), Vol. 2, Surat and Broach, Bombay, p.201]. And Breman (1993) writes “... instead of wishing to terminate the relation as soon as they could, *both parties* aimed at continuing it as long as possible,” [Breman (1993), p.59, *italic added*].
5. For instance, clause 10 of the Magna Carta provides evidence that debt was inheritable in England around the year 1200, see <http://www.bl.uk/treasures/magnacarta/translation.html>.