

The Impact of Fair Trade on Child Labor Working Hours in a Small Open Economy

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Abstract

This study formally examines the effects of fair trade on child labor in a small open developing country. A fair-trade firm employs only adult workers and provides them with a fair-trade wage and pays a fair-trade premium, which is used to develop local infrastructure, whereas a conventional firm may employ both children and adults and pay them discriminatory wages. Households are categorized into fair-trade households, where only adults work, and non-fair-trade households, where both adults and children may get employed. The number of households in each group is endogenous. The analysis illustrates that although the world price of a fair-trade good contributes to the number of fair-trade households, it also increases the total working hours of children. Conversely, an increase in the fair-trade wage has the opposite effect. Furthermore, the utility of any household depends on local infrastructure, which is constructed using the fair-trade premium. The fair-trade premium reduces the total number of children's working hours when the share of non-fair-trade households is relatively low. However, this requirement is relaxed when the child labor supply is inelastic.

Keywords: fair trade, child labor, ethical consumption, local infrastructure, fair-trade premium, fair-trade wage, poverty.

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