

Growth, National Welfare and Trade Balance in a Small Open Economy: A General Equilibrium Analysis

Biswajit Chatterjee* and Runa Ray**

This article considers a competitive three sector general equilibrium model of a small open less developed economy which exports product produced by child labour. Child labour using export and service sector attempt to incorporate the informal sector into the model. Import competing sector is the formal sector where capital acts as specific factor of production. Labour market distortion is captured by wage differential between formal and informal sectors. Goods produced by export and import competing sector may be traded but the service sector produces non-traded final good. In this set up, the paper shows that the impact of economic expansion on trade balance, as well as, on national welfare will be different as the source of economic expansion is altered. If growth is captured by an increase in domestic capital stock then growth may well be immiserising in nature and trade balance will deteriorate. On the contrary, when increase in adult labour endowment brings economic expansion in our model then there will be improvement in welfare level of the economy and trade balance will be unchanged.

I Introduction

The problem of child labour is an important issue not only for economists but also for government, social groups and citizens of every nation. The theoretical and empirical studies in the recent years have focused directly on the issue of child labour and on policies for dealing with it. Politicians in developing countries like to define child labour as work that impairs the development and well being of children. Economists prefer a less suggestive definition. Economists view child labour as the economic activities in which children participate. According to the ILO convention No.138, the child is called a labour if he is economically active, or if he

* Professor of Economics and Chair, Planning and Development Unit, Jadavpur University, Calcutta -700032, Email: chatterjeeb@vsnl.net.

** Senior Lecturer, Department of Economics, Vidyasagar College, Calcutta -700006, E mail: runa_maju@yahoo.co.in.