

## Is Bonded Labor Voluntary? Evidence from the Liberation of the Kamaiyas in the Far-Western Region of Nepal

Espen Villanger

**WP 2006:16**



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## 1. Introduction

Bonded labor remains a widespread problem, and the UN has estimated that some 20 million people are held in such working conditions around the world (UNHCHR 1999). Many reports on the livelihood of these people indicate that they are deprived of their basic liberties, and many live their lives in destitution. This has spurred several governments of countries where bonded labor is a major problem to ban this institution, and has also led to some regional agreements prohibiting forced labor.<sup>1</sup> India implemented a bonded labor Act in 1976 and Pakistan in 1992, while Bangladesh has made the institution illegal in its constitution. In Nepal, bonded labor has been prohibited under the constitution since 1990. In order to initiate enforcement, a government declaration against the *Kamaiya* system of bonded labor contracts was issued in July 2000, and a widespread liberation program was undertaken (Hatlebakk 2006 and references therein). Moreover, the Nepali Government passed an Act of parliament in 2002 banning the *Kamaiya* bonded labor system (Anti-Slavery International 2003).

With this background, it is puzzling that much of the economic literature analyzing bonded labor and servitude claims that this is a voluntary relationship, at least *ex ante* (see, for example, Genicot 2002). According to this view, bonded laborers choose to become bonded since the alternative options are worse than putting themselves into the hands of the landlord. If this were in fact the case, then we would expect that banning bonded labor as an institution and emancipating these workers would, *ceteris paribus*, usually have a negative welfare effect on them. Moreover, if working in subordination to the landlord were their best option, they would return into the same subordinate relationship after emancipation. Anecdotal evidence indicates that *some* freed laborers do so (see, for example, Kloosterboer 1960, Prasad and Chandra 1994, and [www.anti-slavery.org](http://www.anti-slavery.org) 2005). However, when so many ex-bonded laborers do not return to the landlord, there is no reason to generalize and describe the bonded labor institution as a voluntary arrangement. Hence, there seems to be a dichotomy in the characterization of bonded labor, which is described as both a voluntary and a non-voluntary relationship.

Despite the increasing focus on curbing bonded labor through legal action, and despite the apparent importance of the impact of this institution on the well-being of the laborers, thorough empirical investigations into whether or not bonded labor is voluntary remain scarce. The relevance of the question of what is voluntary is evident: if the bonded laborers are kept in their relationship with the landlord against their will, then a ban could be an important tool in improving their lives. On the other hand, if the bonded laborers have agreed on a long-term labor contract on a voluntary basis, then a ban could actually decrease their well-being. In this paper we provide some of the first thorough evidence on the voluntary aspect of one bonded labor institution that was banned in Nepal – the *Kamaiya* system in use in the far-western region in Terai. In April-May 2006 we carried out in-depth interviews with 54 households where at least one member was a *Kamaiya* before the liberation that started in 2000.

This paper also addresses the dichotomy and provides a definition that distinguishes voluntary from non-voluntary labor contracts, where only the latter relationship is defined as bonded labor. We demonstrate the importance for policy of making this distinction in practice. Even though we find in the literature rather different mechanisms that give rise to bonded labor, the definition we suggest captures the essential feature of the non-voluntary relationship: these laborers are worse off compared to their feasible alternatives. Moreover, we propose a simple test that can be used for empirical assessments prior to interventions to help bonded laborers. This test reveals the extent of coercion implicit in these labor relationships, which may be crucial for policy intervention.

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<sup>1</sup> Two regional agreements are Article 6 (2) of the American Convention on Human Rights (1969) and Article 4(2) of the European Convention for the Protection of Human Rights (1950), which affirms “No one shall be required to perform forced or compulsory labour” (Anti-Slavery International; ICFTU 2001: 5).

Finally, our paper specifies a simple new model that captures the mechanisms that have made it possible for the landlord to disguise forced bonded labor as a voluntary relationship, and discusses its implications for efforts to emancipate these workers.

A natural starting point for assessing the voluntary nature of a bonded labor relationship is to scrutinize the availability of better alternative options. If there are alternative working relationships that the bonded laborer would prefer to enter into, then the next step is to find the mechanisms that prevent the laborer from pursuing these opportunities. Such a procedure may give important insights into the nature of bonded labor. We build a simple model that highlights the difference between voluntary bonded labor contracts and workers in an unfree relationship with the landlord. In that framework, we assume that there are different types of landlords, bondage landlords and normal landlords, and that this is not revealed to the laborer before the contract is agreed upon. The feature that distinguishes the bondage landlord from the normal landlord is that the former is assumed to have an interest in bonding the laborer while the normal type has no such interest. In our set-up there will be situations where the bondage landlord offers a credit contract where the laborer pledges his future services as a servile laborer as collateral for the loan. We show that strategic moves by the landlord to make the laborer default on the loan can result in the laborer being permanently trapped in servility. The lack of contract enforcement mechanisms and alternative credit providers in the rural economy thus plays a crucial role in explaining bonded labor. In contrast to the existing models of bonded labor, our model explains how the laborer enters involuntarily into bonded labor, and is kept in this relationship. Imposing a ban, providing proper conflict resolution institutions for resolving labor-contract disputes and offering alternative credit would then be major tools for emancipating bonded laborers, making them better off.

One important contribution to our understanding of the bonded labor relationship comes from those who argue that dependency similar to the bonded labor institution may rise from institutions where the outcome for one laborer depends on the actions and beliefs of the others. One example is found in the widely cited paper of Akerlof (1976), in which he models the caste system as an institution where one agent will be punished by all the other agents for deviating from the caste rules. As a result, if agents believe that they will be punished for any deviation by others, then the caste system becomes a self-fulfilling prophecy. Consequently, it is not in the interests of one individual to break out of the system, but if the system itself were banned, all those who are discriminated against under it would be better off. Similarly, if the laborers' loss of bonding themselves decreases in the number of other laborers that bonds themselves, then Schaffner (1995) shows that the laborers can be better off if bonded labor is banned when the workers are not conscious of such group reference effect.

Another example of how the choices of other individuals restrict laborers' options is illustrated by the model in Genicot (2002). She shows that if landlords offer credit to laborers that will renege on their loan to a formal credit institution if they become bonded labor, these laborers are likely to be denied formal credit in the first place since the formal credit institutions would see that they would never repay the formal loans. As a result, the formal credit institutions may be eroded, permitting the landlord to charge a higher interest rate on lending to bonded laborers compared to the market rate. In this case, banning such bonded labor contracts would contribute towards the creation of formal credit institutions, which, once in place, would make the bonded laborers better off due to cheaper credit. For other models that show how the laborers' alternative options can be made less attractive by the strategic behavior of the landlord, i.e. where the laborers' reservation positions can be influenced by the landlord, see Hatlebakk (2006), Chambers and Quiggin (2000) and Basu (1986).

However, when we observe bonded labor in markets with alternative credit opportunities for the laborers, so that Genicot's (2002) model does not apply, and when there is no evidence of threats of reciprocal punishment as in Akerlof (1976) or substantial reference group behavior as in Schaffner (1995), then we are still left with the question of what are the mechanisms that keep *these* bonded laborers in servility. There are frequent observations of workers asserting that they are trapped in their relationship with the landlord against their own will, and the existing literature is

not able to explain the mechanism behind such non-voluntary labor relationships. As a result, our approach is complementary to the above-mentioned models, as they describe different mechanisms that lock workers into the bonded labor institution. Moreover, our framework gives the opportunity to discuss the extent of the voluntary nature of the different bonded labor relationships and to compare them, and we show that this extent has important implications for policy. An important difference is that most of the models analyzing bonded labor incorporate multiple equilibria, i.e. they focus on how the landlord can act strategically to change conditions for all the laborers in the economy. Our approach differs, since we assess direct contracting between landlord and laborer as two individuals, and show that the bonding mechanism will not impact on other laborers' contracts *per se*. This approach has strong empirical support, but is lacking in analytical work on bonded labor.

Despite an increasing focus on bonded labor, empirical investigations remain scarce. A very useful point of contrast between the villages we visited during our fieldwork was that they differed systematically in the degree of help they received from the government. Two villages were permanent settlements where the ex-Kamaiyas had been given substantial help, the most important contributions being ownership of a plot of arable land, a shared borehole with a water pump, tin and wood to build a house and schools built for their children. The three other villages were temporary settlements, and consisted of ex-Kamaiyas who had not received help from the Government or NGOs. As a result, the responses from the former type of village may yield important insights into how a liberation program should be designed since the respondents discussed the pros and cons of the Nepalese approach. However, this must be left to future research.<sup>2</sup> On the other hand, responses from the latter types of village could shed light on whether the institution was voluntary or not since these can serve as a "treatment group" where the only policy intervention has been the effect of the ban on bonded labor. Comparing their well-being before and after liberation can thus shed light on the isolated effect of the ban, and this is one of the main topics of this paper.

In order to put a frame around our focus, a comment on slavery is necessary. There are some observations of slavery in the empirical literature on labor relations in poor rural areas. However, this institution is quite distinct from bonded labor since slaves are usually treated as capital goods, and can be considered to be the property of the employer (Ray 1998). In contrast, empirical evidence indicates that bonded labor is not traded. Moreover, there is probably no disagreement on the concepts and policies needed to implement the abolition of slavery, as it is illegal in every country in the world ([www.anti-slavery.com](http://www.anti-slavery.com)). As a result, we will not go into this form of exploitation.

This paper is structured as follows: in the next section, we present some definitions and anecdotal evidence from the literature on different types of bonded labor. Then, in Section 3, we compare bonded labor to other long-term rural labor contracts, and in Section 4, we present our empirical results and analyze these in relation to the theories. Section 5 contains a simple model clarifying one mechanism that has not been modeled, which distinguishes bonded labor from other long-term labor contracts and voluntary servitude, and analyzes which of the types of relationship makes the laborer worst off. Section 6 discusses policy implications, and section 7 provides the conclusions.

## 2. Definitions

There seems to be considerable disagreement on the exact meaning of what constitutes "bonded labor", and, in particular, whether these laborers find themselves in a voluntary relationship with the landlord. In this section, we start with the literature on definitions and empirical observations of bonded labor that undoubtedly stem from a *voluntary* relationship between the landlord and the bonded laborer. These descriptions of the laborers' servility stem from the poverty of the workers;

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<sup>2</sup> A note on this is available from the author upon request.

they agree to subordination since this is in fact their best option. We therefore label these relationships *poverty-induced subordination*. Then, in section, 2.2, we discuss the literature that uses definitions and presents empirical descriptions of working relationships which are *non-voluntary*, and start by proposing a new definition of forced bonded labor and an empirical test for this relationship. In the case of such forced work, the employer usually has some kind of power that is applied to keep the laborers servile. We therefore call these relationships *power-induced bondage*.

## 2.1 Poverty-induced subordination

One mechanism often claimed to be a source of bondage is the fact that the laborer takes a loan from the employer using his future labor services as collateral. Then, if the laborer is not able to repay the loan, he loses his collateral, and is deemed liable to work for the employer while having only his basic needs covered. This institution is called debt bondage, and Anti-Slavery International highlights the fact that many of these bonded labor relationships are caused by the poverty of the laborers:

“Debt bondage is a system created by severe poverty and perpetuated by heredity. India, Pakistan, and Nepal are just some of the countries where debt bondage exists. For centuries, the destitute have pledged their own labor and that of family members as security against a loan - a loan usually taken out in a time of crisis. Tragically, the original sum is rarely paid off. Workers inevitably incur new debts for food, clothing, and shelter.” (www.anti-slavery.org)

However, debt bondage created by the inability of a borrower to service his debt is not a new phenomenon. Bonded labor was defined by the United Nations in 1956 as:

“the status or condition arising from a pledge by a debtor of his personal services or those of a person under his control as security for a debt, if the value of those services as reasonably assessed is not applied towards the liquidation of the debt or the length and nature of those services are not respectively limited and defined”.<sup>3</sup>

This definition applies to many of the descriptions of bonded labor by Anti-Slavery International (see www.anti-slavery.org). The literature tends to argue that the laborer is bonded because he has pledged his labor to the landlord for an open-ended period as security for the loan. Bardhan (1983) defines bonded labor as “a person who is tied to a particular creditor as a laborer for an indefinite period until some loan received in the past is repaid” (see also Busse and Braun 2003). However, the *length* of the period of the arrangement does not impact on whether it is a voluntary relationship since the discounted life-time value of the arrangement is used as a yard-stick. Moreover, taking a loan from the employer that needs to be repaid when the employee quits is also a common arrangement in developed countries, and is an option for the laborer and not a requirement for being employed. It is hard to argue that there are any non-voluntary aspects of this relationship between the lender and the borrower since future labor services can be pledged as collateral in the same voluntary manner as pledging a property as collateral, even if the former implies life-long laboring for the creditor. In the situation that the laborer has pledged his future labor as collateral and subsequently lost it, one can argue that he is ex-post unfree. This does not imply, however, that the relationship is non-voluntary, since the scenario of becoming unfree must have been a part of the laborer’s assessment when entering the loan contract. However, we reach the opposite conclusion if the children of the borrower are locked in a bonded labor relationship due to the heredity of the

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<sup>3</sup> Article 1 (a) of the UN Supplementary Convention on the Abolition of Slavery, the Slave Trade and the Institutions and Practices Similar to Slavery.

institution. It is clearly not the children's choice at any point to enter the relationship, and hence, none of these children could take any alternative labor opportunities even if these were considerably better than being bonded labor. Moreover, this argument should not rest on whether the child accepts its inheritance, since children are often not able to make a realistic assessment of their future opportunities. Based on these arguments, we can assert that children entering bonded labor do this on a non-voluntary basis and would hence come into the category of power-induced bondage.

The view that the laborer enters the relationship voluntarily, and is subsequently bonded for the rest of his life, is mirrored in recent academic literature. Moreover, the voluntary nature of the relationships embedded in these definitions are not only highlighted in the presentation of the problem, but also operationalized in economic modeling. In a paper analyzing bonded labor, Genicot (2002) gives a good example of this perspective where it is the laborer's deliberate choice to bond himself to the landlord:<sup>4</sup>

“Interestingly, bonded labor is ex-ante voluntary. In the case of debt bondage, a tenant or debtor voluntarily places himself in a servile position, even though he may have little or no choice in the matter. Just as a serf is tied to his master by apparently voluntary acts of fealty, the bonded laborer is a technically free wage laborer whose state of servitude may be terminated on repayment of the debt (see Watson, 1976, p7). So, although once bonded, a worker is un-free, the act of choosing to be bonded is usually one freely made to avert acute poverty or starvation.”

Another contribution to the perception that bonded labor is voluntary is provided by Schaffner (1995). She defines servility as laborers rendering their services to the landlord around the clock, being subordinated socially and even being involved in political activity in support of the landlord. Since there is a cost to the laborer of being servile, she argues that the landlord needs to compensate the bonded laborer in order to make them accept such subordination. However, being compensated in full for the negative aspects of the work indicates that such a relationship should be classified as a voluntary exchange.

Clearly, it is possible to make many individuals subject themselves to unwarranted treatment as long as the compensation is high enough, or their alternative options are worse. Sen (1984) argues similarly:

“...the compulsion to acquire enough food may force vulnerable people to do things which they resent doing, and may make them accept lives with little freedom.”

The same line of argument is found in a lawsuit organized by the Washington, D.C.-based International Labor Rights Fund against the American tire producer Firestone in Liberia in 2005. There, it was stated that the rubber plantation workers are modern day slaves, forced to work by the coercion of poverty, with the prospect of starvation just one complaint about conditions away ([www.allafrica.com](http://www.allafrica.com) 2006). This type of working relationship, where workers are subjected to harsh treatment, with worse alternative options, highlights the importance of distinguishing between voluntary and non-voluntary labor relationships when it comes to policy intervention. Destitute people who render their services in exchange for some extra remuneration could find themselves in a difficult position if such opportunities were removed, especially in poor rural areas where seasonal income fluctuations may exacerbate their hardship. As a result, banning the relationship that enables people to acquire enough food may have severe implications for the welfare of these people, and, for example, if the Firestone plantation in the above example were closed down the workers would be worse off. When policies for poverty reduction are discussed, we seldom encounter arguments in favor of using the law to curb the problem. Similarly, when servility is induced by poverty, it is less likely that banning the institution would have a positive effect on the laborers.

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<sup>4</sup> For additional literature describing entry into bonded labor contracts as voluntary, see Srinivasan 1980 and 1989.

Taken together, we suggest that if the laborer is rational and enters voluntarily into the bonded relationship, then the bonded labor relationship should be classified as a voluntary institution. In Section 3 we show that voluntary poverty-induced bondage as described in the literature is incorporated in existing concepts such as *tied*, *permanent* and *attached* labor. One important distinction is lacking, however. The literature does not usually differentiate between labor relationships where the laborer has pledged his future work as collateral to the landlord and subsequently lost it, and situations where the laborer has lost this collateral. The nature of those two working relationships is very different and requires a distinction, which we propose in section 4.

## 2.2 Power-induced bondage

In order to distinguish between voluntary and non-voluntary working relationships, we suggest that the term “bonded labor” is reserved for power-induced bondage. In Section 4, we relate bonded labor to other long-term working relationships. Our definition of bonded labor, which will be used subsequently in this article, is therefore as follows:

- *Bonded labor* is a laborer that is coerced by the landlord into providing services for the landlord, with the result that not entering the relationship with the landlord would have been preferred from the laborer’s point of view.

Our definition should clarify many of the observations where tied laborers and workers with credit-labor interlinked contracts are mistakenly taken for non-voluntary bonded laborers. We also propose a simple test that will usually reveal whether the relationship can be categorized as bonded labor or not. Take the typical relationship which is often claimed to be bonded labor: a laborer has such a high debt that he is not able to repay the landlord and is therefore required to work for the landlord for the rest of the laborer’s lifetime. Now, whether this is a *bonded* relationship, or just an artifact of not having any other alternatives than to choose such a *tied* relationship, can be empirically tested by assessing the following counterfactual question:

- Would the laborer be better off if the landlord had not used his power to lock-in the laborer?

If the answer is yes, then the worker is a bonded laborer according to our definition. Counterfactual questions are usually difficult to answer, however, and we return to the empirical application of this test and its implications for policy in Sections 4 and 5.

Several anecdotes support our clarification that there are two main types of relationship included in the concept of “bonded labor” as used in the literature. As noted in the introduction, the countries with most bonded laborers have imposed a ban on bonded labor, and this seems to stem from a perception that the bonded laborers are *forced* into the relationship by the landlord. Similarly, the International Labor Organization defines bonded labor as forced work where the worker can be penalized for not complying<sup>5</sup>.

Looking at the observations in the field, we get a similar picture of landlords using power to force the bonded laborer to remain in servitude. The Anti-Slavery Organization states that some landlords keep false records of the bonded laborer’s debt, and this may be one mechanism that can force the laborers to remain with their particular landlord despite a better alternative option ([www.anti-slavery.com](http://www.anti-slavery.com)). To see how such a worker can end up as a bonded laborer, assume that a

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<sup>5</sup> ILO’s Forced Labour Convention ILO Convention NO. 29, Article 2(1) defines *forced labor* as: “all work or service which is exacted from any person under the menace of any penalty and for which the said person has not offered himself voluntarily.” ILO published its first comprehensive report on forced labor in 2001. The report distinguishes between eight types of contemporary forced labor: (1) slavery and abduction for forced labor; (2) compulsory participation in public works; (3) coercive recruitment practices; (4) domestic workers in forced labor situations; (5) forced labor exacted by the military; (6) bonded labor or debt bondage; (7) trafficking in persons; and (8) prison labor.

laborer has agreed to take on a loan from a landlord on the condition that if he is not able to service the debt the laborer must render his future labor services to the landlord for a minimal compensation. If the landlord manipulates the debt up to an amount so large that the laborer is unable to repay, then the laborer is locked in a non-voluntary relationship with the landlord. If this situation is worse than his alternative options before taking on the loan, then the worker has become a bonded laborer. Observations by Breman (1974) in his anthropological study of southern Gujarat, India also suggest that manipulation of the debt is one approach for the landlord to lock-in bonded laborers:

“For that matter, the landlords have it in their power to prevent repayment, and they do not shrink from wrongfully adding all kinds of expenses to the debt... A striking instance is that of a master who went to the hut of a *Dubla* servant to lecture him about his absence. On the way there he hurt his foot on a thorn, with the result that the *Dubla's* account was debited with 5 rupees, the amount the master had spent on medicines. Another *Dubla* entered into marriage at the same time as his brother, and together they obtained 275 rupees from an *Anavil* (i.e., Brahmin of the landlord class). When, after three months, one of them died, the master charged the remaining brother with the total amount.”

Rejecting the laborer's repayment with the expectation that the loan may go to default later on, or the landlord's practice of “wrongfully adding” his expenses to the laborer's debt, can both be strategies to force laborers into bondage. Note, however, that when the brothers in the example take on a loan to cover marriage costs, it need not be manipulation or coercion to demand that the brother repays the full amount of the loan if it was taken on with joint liability between the siblings. To the contrary, most banks will secure themselves against borrowers passing away by offering loans that impose the obligation to repay the full amount on those of the joint borrowers remaining alive. Most common, perhaps, are housing loans taken on by spouses, where if one dies the other must continue servicing the full loan. If this was the case in Breman's anecdote, then the debtors may have taken this into account before entering the credit contract. If so, the expected advantage of taking on the loan must have been higher than abstaining from taking on the loan (i.e., their alternative option), and hence the worker cannot be categorized as a bonded laborer.

Other accounts of bonded labor relationships point in the same direction: some sort of manipulation of the credit contract traps the worker into bondage. Rudra (1982) describes bonded laborers, and how they enter this institution, in the following way:

“There is such a phenomenon as some laborers being attached to certain employer families over years, sometimes over generations, in an unequal relation of mutual dependence, the basis of the relation being some loan taken a long time back. In such cases, quite often, both the parties have lost track of the loan accounts in terms of principal and interest, which accounts are in any case outrageous and total arbitrary. It is the non-significant part played by the loan accounts and the essential part played by the relation of personal dependence and personal domination which qualifies the coercive relationship as being extra-economic.”

As a result, if the laborer is required to work for the employer and is being dominated on the basis of an amount of credit that has been arbitrarily changed by the employer, then this mechanism is in essence the same as in Breman's accounts where the credit contract may be a pretext for acquiring cheap labor. On the other hand, if the laborer's alternative options are worse than continuing in the relationship with the employer and playing along with the debt scheme, then the relationship is not classified as bonded labor.

To exemplify the exact distinction between the two types of bonded labor, assume that there are two laborers working for two different types of landlord, a normal landlord and a bondage

landlord, where the former behaves according to the law while the latter is willing to manipulate the contracts to grab some extra gain for himself. The particular type is not revealed to the laborer ex-ante. Assume further that the laborer working for the normal landlord enters the relationship with the intent of binding himself to the landlord, and hence takes up debt above what can be repaid, and that the laborer working for the bondage landlord has the intention of being able to repay the debt in order to have the ability to enter another working relationship later on. Now, if the bondage landlord manipulates the debt upwards so that the laborer is not able to repay, then it is a very different relationship compared to the laborer staying with the normal landlord. Paralleling the situation to most other areas of commerce and trade, the former situation would be close to an ordinary transaction, while the latter could be a case for the judicial system to re-establish justice.

The ability of the strong party to change the alternative options of the weak party can clearly be important in deciding whether a transaction is voluntary or not. Basu's (1990) example of a man asked for his wallet at gun-point is illustrative. He has the opportunity to decline, but few people would argue that the choice of parting with his wallet in this situation is a voluntary act. As a result, this cannot be claimed to be ex-ante voluntary and is clearly a different kind of situation to that described by Genicot (2002), quoted above, where the laborer chose to enter the relationship. Our example is more in line with Basu's, where one option is removed from the weak party's set of feasible alternatives: the man asked for his wallet no longer has the option of walking from the scene unhurt with his wallet, and the laborer no longer has the opportunity to get out of the relationship with the landlord after the laborer's loan has been manipulated up to an amount so large that the laborer will never be able to repay it.

Clarifying the actual mechanisms that distinguish bonded labor from voluntary labor arrangements, such as tied labor and interlinked contracts, clearly has great importance for policy. Banning a voluntary labor institution, *ceteris paribus*, would usually leave the laborers worse off since they would otherwise have chosen the alternative they have to stick to after the ban. On the other hand, banning an institution where the laborers are trapped and in fact would escape if they could, will clearly improve the situation of this group. With this as a background, the fact that some emancipated laborers return to their landlord after they have been set free is more understandable. The simple explanation for this may be that they are poor people with no better option than to stay tied to the landlord.

Looking beyond the bonded labor literature, it is clear that what is often termed bonded labor can actually be defined by more common labor-credit interlinked contracts whose duration is very long term in nature. The relevant economic literature is discussed next.

### **3. Literature review: long-term rural labor contracts and bonded labor**

#### **3.1 Labor or credit contracts**

The economic literature on permanent labor arrangements focuses on personalized labor relationships usually lasting a year or more, and this type of contract is interchangeably called tied labor, estate labor, farm servant or attached worker. The two-tier labor market models analyze the co-existence of casual labor with permanent workers, and usually investigate the efficiency of such contracts and the role of each type in production. Bardhan (1979) shows that landlords may have incentives to offer such long-term contracts to avoid the costly recruitment of workers in the peak season, while Shapiro and Stiglitz (1984) and Eswaran and Kotwal (1985) analyze how these contracts can give incentives for agricultural laborers to work effectively in the slack season. It is evident that much of the literature on long-term labor argues that these relationships can be efficient.

The two-tier labor models emphasize that the laborer's utility in the permanent labor relationship may be equal to or higher than the utility of being a casual worker (Ray 1998). Being a day-to-day worker is then taken to be the permanent laborer's reservation position, and in order to prevent the permanent laborer from shirking, the landlord offers him a wage premium sufficiently high to make the loss of this job an unwarranted situation for the worker. Consequently, the permanent laborer is better off in this relationship compared to his feasible alternatives. Finally, permanent labor arrangements function as a substitute for insurance (Ray 1998). In terms of hardship, the permanent laborer will still have his daily minimum support from a landlord in contrast to the casual laborer who might be unemployed in this situation. As a result, all these two-tier labor models indicate that the permanent laborer is at least as well off as in their alternative option, and the laborer is always free to choose this other option. We cannot, therefore, define these relationships as non-voluntary. Moreover, since there are many observations of bonded laborers who claim that they are worse off than in the alternative they would have if they were freed from the landlord, we need to go beyond the standard labor models to investigate the mechanisms of bonded labor.

Several authors raise the concern that there is more coercion in the actual relationship than is accounted for in the two-tier labor models. Bardhan (1991), Schaffner (1995) and Genicot (2002) emphasize that the traditional permanent labor models tend to conceal the power relations implicit in these labor relationships. Similarly, Eswaran and Kotwal (1985) argue that permanent labor is highly personalized and involves a high degree of patronage where the landlord demands total loyalty, but this is not incorporated into their model. One interesting contribution in which the employer's power is explicitly taken into account in the modeling is provided by Schaffner (1995). Combining the power of the landlord with the laborers' limited perception of the attractiveness of alternative labor opportunities gives the opposite result to that of the two-tier models: the permanent labor contracts need not be efficient, the laborers are bonded to their landlord and banning the institution could make the laborers better off.

Since Schaffner (1995) points to one interesting explanation for bonded labor it is worthwhile having a closer look at the actual mechanisms that bring about the results. The model incorporates the psychological findings that human beings' attitudes and behavior depend on the perceptions and behavior of members of what is called a reference group, i.e. the group with which the individual identifies. As a result, the larger the number of members of a community that subordinate themselves under the landlord and behave in a servile manner, the lower the cost for a single individual of such behavior. Moreover, if the members of the group that is behaving in a servile manner do not fully appreciate that the behavior of the other members influences their own behavior, then there may be situations where no member breaks out of the group even if they all have knowledge of the better life lived by groups in other areas. Taking advantage of these perceptions, the landlord can isolate the laborers working for him and hence incur lower costs in making the laborers servile, compared to a situation where the laborers work among laborers who behave in a non-servile manner. Hence, the often observed requirement that the laborers must live on the landlord's farm is important economically since it is in the landlord's interest to limit the worker's horizon.

The landlord's mechanism for keeping the laborers trapped in the relationship, according to Schaffner (1995), is the fact that servile laborers are given a wage premium for accepting bad working conditions, unlike ordinary permanent laborers. Consequently, assuming that the laborers' preferences do not depend on reference group behavior, if the market for servile services were to be eliminated, then the servile laborers would lose their wage premium and be at least as well-off as before. On the other hand, incorporating the fact that the laborers are not aware of the effects of the reference group perceptions may give the opposite result. If the laborers are unaware of the reference group effects, then they might find that the wage premium was too low compared to the available non-servile contracts. Banning servile labor contracts would then improve the well-being of the servile laborers.

The implication of the model is quite interesting: servile laborers would reject being removed from the landlord in order to take the alternative option, but after having started to work as non-servile laborer in a community without servility, they would realize that they were better off and would never return to their former servility. As a result, servile laborers in this model are defined as bonded laborers, according to our definition, when assessing the relationship from outside the relationship. Our proposed test would succeed in identifying these laborers as bonded laborers if the question of whether they would ever enter such a relationship is asked of those that are not in a servile relationship. However, the test fails to identify them as bonded laborers if applied to laborers who are in a servile working relationship with the landlord, since these workers believe that the alternative option is no better than what they already have. Clearly, this has important policy implications, to which we will return in section 5 below.

We now turn to the credit market since lending seems important in the bonded labor anecdotes presented in the previous section. It is evident that there is substantial risk involved in lending informally when the contracts are not enforceable and there is asymmetric information on the borrowers' willingness and ability to repay a loan. To reduce this risk, a lender can demand collateral, and/or only lend to people whom he or she knows well, and can monitor or punish. These strategies help explain the monopolistic structure of lending, and why many laborers have their landlord as their sole provider of credit. However, as Basu (1997) points out in his overview of the literature on monopolistic rural credit markets, there are two approaches to modeling this exchange that have important implications for the outcome to the debtor. The first approach is to let the money lender use a "price strategy", under which the terms of the loan are determined by a monopoly pricing strategy, while the second is to use a "reservation utility" strategy, under which it is the debtor's willingness to pay that determines the terms of the offer. In the former, the debtor can get a surplus from the exchange, while in the latter the debtor can be rendered indifferent between accepting and rejecting the loan on the proposed terms. Hence, neither approach is capable of explaining bonded labor institution as defined in this article, where the debtor (laborer) is worse off in the relationship.

Even if standard credit models do not give any insight into bonding mechanisms, credit contracts may shed light on *one* mechanism that explains bonded labor. Badhuri (1977) illuminates the situations in which giving loans may be a cover for the landlord's intention to acquire the collateral. In his model, a farmer pledges a loan from the landlord and uses his land, which is adjacent to the landlord's property, as collateral. Consequently, the landlord values the farmer's land more than the farmer in monetary terms, and situations may thus arise in which the value to the landlord of this collateral is higher than the value of the loan given to the laborer. If this is the case, then the landlord has an incentive to make the laborer default and could, for example, increase the interest rate in order to acquire the land. This mechanism can also be used to explain bonded labor relations if the laborer pledges his labor as collateral, and we explore this opportunity in Section 4 below.

### 3.2 Interlinking labor and credit contracts

The laborers' demand for credit plays a central role in the broad literature describing and analyzing the tight relationship between many landlords and laborers that has frequently been called "bonded labor". The literature explaining the observed exchanges where credit and the labor contract are simultaneously agreed upon also shed light on the importance of separating bonded labor contracts from ordinary interlinkage contracts.

A subtle model in which the landlord uses interlinked contracts between credit and labor to bond the workers is proposed by Genicot (2002). In her model, the existence of bonded labor causes formal institutions to deny loans to the laborers since credit from the landlord may make it profitable for the laborer to renege on a loan from the formal credit institution. This, in turn, enables the landlord to keep the laborers in a relationship under which they would have been better off if the bonded labor institution had been banned. Since this model undoubtedly casts light on the

exploitation that some laborers are subjected to and the way in which the informality of the rural economy works to the disadvantage of the laborers, we discuss it in more detail.

To understand the mechanism that bonds the laborers in Genicot (2002), assume that the assetless laborer is able to take a loan,  $L$ , from a credit institution that is to be repaid during the next period. For fear of default, no formal credit institution will give new loans to the laborer. In general, the discounted value of the opportunity for the laborer to take a loan is given by  $g$ . The laborer is able to repay if his wage in the next period,  $w$ , is larger than the loan plus interest,  $r$ , and he is willing to repay if his utility from repaying is higher than his utility from renegeing. Then the laborer will repay if the *repayment constraint*  $V(w - (1 + r)L + g) > V(w)$  holds. Assume that this constraint is satisfied, so that the laborer would be granted a loan and that this would be repaid.

Assume now that a landlord enters the stage. The landlord is able to commit himself to offering a bonded labor contract in terms of which the laborer must work for him, getting, in addition to the ordinary wage, a loan  $L$  at a slightly higher interest rate than that of the formal lending institution.<sup>6</sup> The landlord's loan is given irrespective of the laborer's past credit history with formal institutions, and the landlord can deduct the installments on the loan from the wage before paying it to the laborer. As a result, the landlord has some security for the repayment of the loan. If the discounted value for the worker of future loans of this type is  $y > 0$ , which includes the disadvantage of bonding himself to the landlord and an interest rate higher than  $r$ , then this implies that the laborer has a better payoff from renegeing as compared to a situation where bonded labor does not exist. This is evident from the repayment constraint, since the laborer can take a formal loan and then renege in order to enter a bonded labor contract and hence achieve  $V(w + y)$ .

The formal credit institutions observe that the repayment constraint is now considerably altered, and note that if the landlord is able to lend on the same terms as the credit institution and give the laborer future loans that are valued to  $g$ , then the landlord is able to make an offer to the laborer so that the laborer will always default on the formal loan  $V(w - (1 + r)L + g) < V(w + g)$ . This implies that the formal lending institution will decline to lend, since it knows that the laborers will renege. Moreover, it is straightforward to show that there is a range of interest rates larger than  $r$  that the landlord can put on his loans and still make the laborer renege on the formal loan. Then, even if the landlord has an opportunity cost of funds that is higher than the market rate  $r$ , he can still make profits from supplying loans to the worker in a bonded labor contract. In equilibrium, there will thus be no formal lending since the credit institutions will see that all laborers will renege, and then all laborers will be bonded. Abolishing bonded labor will make the laborers better off since this implies that there will be lending from the formal institutions at more favorable terms than the higher interest rates in the bonded labor contract.

The interesting result from the model is the fact that the bonded labor contracts drive out the formal credit institutions, since no laborers will be eligible for a loan as long as it is in the landlord's interest to make an offer, so that the laborer will renege on the formal loan. Consequently, the laborers end up in bonded labor contracts through which they pay a higher interest rate to the landlord than they would have paid to the credit institutions. This implies that banning bonded labor would induce the development of formal credit institutions that would render the laborers better off.

One could debate whether or not the landlord is using *force* in this situation, since he is merely using his economic power to propose a contract that destroys the competitiveness of the credit market. Nevertheless, since a laborer in the other community which has a moneylender has better terms on his loan, he would never enter a labor relationship of the kind offered by the

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<sup>6</sup> For a discussion of the consequences of relaxing this assumption, see Genicot (2002), p 123-125. It is evident that once the laborer has defaulted on the loan from the formal credit institution, it is in the landlord's interest to offer a bonded labor contract that gives the laborer the same utility as working as a casual worker without credit opportunities. Then the laborer will never renege on the formal credit. The important issue here, however, is that the landlord is able to solve the commitment problem, by proposing a bribe, for example. However, this makes our simplified disposition more complicated than necessary.

landlord in Genicot's model since this would leave him worse off. On the other hand, if assessed by a laborer who for some reason or another is stranded in that village, it may be that his best option is to work for the landlord. Then the relationship is deemed voluntary by our definition.

### 3.3 Interlinking labor and product markets

The interlinkage between labor and product markets has received far less attention than labor and credit interlinkage. However, in poor rural areas where there are monopolistic product markets, one can find variants of bonded labor relationships that are similar in subtlety to the mechanisms discussed in the previous sections. Basu's (1986) path-breaking model shows that a landlord may be able to induce a merchant to deny a laborer access to the village shop unless the laborer accepts a wage below the market rate. The mechanism used to illustrate the landlord's influence over the merchant, and hence the coercion mechanism vis-à-vis the laborer, is that the landlord is a bigger customer in the village shop and will refuse to buy anything from the merchant unless the merchant agrees to punish the laborer if the laborer rejects the landlord's wage offer.<sup>7</sup>

Now, is the laborer in this model classified as bonded if subjected to our test? That depends on the ex-ante situation of the laborer and whether he is worse off after being subjected to the landlord's threat by way of a third agent. If working for a landlord who does not use such threats is an option in the economy, while getting the market wage for the same job, then the laborer is clearly worse off when entering the labor relationship with the exploitative landlord. In this case, the worker is tied to the coercive landlord and this must be classified as power-induced bondage. However, if all landlords use the same threats, we need a more careful classification. On the one hand, we cannot define the relationship as bonded labor, since the laborer is not worse off in the relationship with a landlord as compared to his feasible alternatives. On the other hand, compared to a village where there are alternative shops, or where such threats are not used, we argue that a laborer would never have entered the relationship as described in the triadic model. As a result, in this case the laborer subjected to the triadic threat would be defined as a bonded laborer.

Interestingly, from the perspective of trying to disentangle the forces behind bonded labor, Basu's model gives important insights into these relationships, since the landlord's influence over the product market can be substituted by other channels of influence useful for bonding labor. Villanger (1999) provides a discussion of such possibilities, the basic finding being that the landlord locks the laborer into a bonded relationship by threats of denying the laborer other basic rights. In such a framework, which resembles the triadic model of Basu (1986), an illegal aspect of bonded labor frequently surfaces when the landlord's sources of power are scrutinized.

Taken together with empirical observations, there seems to be a gap in the literature explaining the mechanisms that trap workers into bonded labor. A landlord's strategic lending with the purpose of acquiring the laborer's future services should be scrutinized as one such mechanism. This is the purpose of the next section.

## 4. Evidence from ex-Kamaiyas in western Terai

### 4.1 Methodology and data

We conducted in-depth interviews on labor and income relations with 54 ex-Kamaiyas who were living in 5 ex-Kamaiya camps in the district of Kailali in Terai in the far-western region of Nepal during April and May 2006. This district was chosen because the Kamaiya system used to be prevalent in this region, and because several camps for ex-Kamaiya had been established there after the liberation. Fortunately for our study, there were important differences between the camps. Three

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<sup>7</sup> See Hatlebakk (2002) for an elaboration on the robustness of this approach.

of the camps were temporarily settled on occupied land that was owned by the government, and these had not been given any help from the government or NGOs. Consequently, the opportunity to assess the sole effect of a ban and whether or not it was better for the Kamaiya to be emancipated from their landlords was close to ideal. The situation resembles a natural experiment in that it seems to us that the only “treatment” that these people got was that they were freed and could go for alternative employment.<sup>8</sup> The other two camps were permanent camps where the ex-Kamaiyas had been granted the land, which was documented by a land-ownership certificate, and also received a range of other measures of support (see the appendix for more information on this aid).

To reduce errors of recall, we asked the respondents to list the villages where they<sup>9</sup> had been living in the past, and the names of the landlords that they worked for in that village. For each landlord we asked detailed questions about working conditions, remuneration, whether the landlord was good or bad and whether he punished them for various reasons. Detailed questions were then asked about the community they lived in at that time, especially on labor opportunities. Then we asked why the respondents had moved to the next landlord, and why at this point they did not take on or consider daily labor instead of entering another Kamaiya contract.

We started out interviewing in the two permanent ex-Kamaiya camps. All the respondents said that their situation was much better now than before, and that the government ban had been a great success. We struggled to get reasonable comparisons of a Kamaiya contract with an alternative labor contract before liberation, and for the purpose of this paper we have chosen to focus on the ex-Kamaiyas in the three camps where no one had received any help. In Table 1 below we provide an overview of our categorization of the responses in these camps as to why the respondents did not change to daily labor or take on other labor opportunities at the time when they were Kamaiyas for a particular landlord. Note that the total number of interviews in these three camps was 28, so the larger number of experiences reported in Table 1 is due to the fact that several of the respondents had different experiences with different landlords. In the next section, we go deeper into each of the categories and discuss the responses with respect to the relevant theories.

**Table 1. Number of responses in each category, temporary camps on occupied land**

<b>Location</b>	<b>Geta temporary camp</b>
<b>Category</b>	<b>Jeetalpur temporary camp</b>
	<b>Milanpur temporary camp</b>
Sequestering	6
Loan as a lock-in mechanism	2
Large start-up costs of moving	2
No daily labor opportunities in surrounding areas	9
Kamaiya better than the alternatives	10
Manipulation of contracts	5
Social bonds between family members in the community	2
Sum experiences	35

<sup>8</sup> However, most ex-Kamaiyas in Nepal did receive help from the government. Hence, if it were those ex-Kamaiyas that were less able to fight for government resources that were not helped, then we may expect that the three villages consist of people who would be more prone to landlords’ manipulation and use of power than the average ex-Kamaiya. In that case our results overstate the true degree of misuse of power and the degree of non-voluntariness in an average Kamaiya relationship. However, we also did fieldwork in two villages where the ex-Kamaiyas had received substantial help, and it is not our impression that the situation differs systematically between the inhabitants in the two types of village.

<sup>9</sup> Kamaiyas could be both women and men. Usually, the Kamaiya contract was established between the landlord and the husband of the family, but the terms would often include the labor and services of the spouse.

## 4.2 On the voluntary nature of the Kamaiya relationship: Must I stay or could I go?

In this section we will summarize the responses to our questions on whether being a Kamaiya was better than the feasible alternatives, and refer to the most important reasons for their assessment. It is evident that there were many different experiences among the Kamaiyas. However, it is important to note that the ex-Kamaiyas in the temporary camp in Milanpur all had small plots (0.03 – 0.06 hectares) on which they could grow some maize, vegetables, wheat and paddy. As a result, when discussing what was better – life as Kamaiyas or the alternative options – this opportunity probably influenced their answers, even though our aim was to elicit their assessment of the two options at the time when they were Kamaiyas. In this village, all but one respondent said that the free life was better than the Kamaiya relationship. On the contrary, 50 % (9 out of 18) of those in the two other temporary camps who were able to assess whether being a Kamaiya was better than the alternative options stated that they were better off as Kamaiyas. Two main reasons emerge for why the Kamaiya contract was preferred. Firstly, they stated that the landlord provided them with a house of good quality, and compared it to the low-quality house that they were living in after emancipation. On the latter issue, it is worth noting that they had settled illegally on government-owned land, and could thus be evicted. Consequently, they probably would not put very many resources into developing their houses, due to this uncertainty. However, if the objective is to assess only the effect of a ban, then one must expect that the ex-Kamaiyas would settle on occupied land, since they did not have any resources with which to buy a plot. This makes these ex-Kamaiyas' self assessment of their welfare situation before and after liberation particularly valuable for our purpose, including their assessment of the housing issue.

The second reason why being a Kamaiya was preferred to alternative options was that they were food-secure in that relationship. Several respondents stated that they were “able to eat a lot” as a Kamaiya, and that they now “often had to go hungry to bed”. One of the respondents illustrated the resentment that some of them felt after liberation: “The Kamaiya system was better. Now we have no land and no food in the house. Government freed the Kamaiya without a plan, the government took the wrong decision.”

We also asked for an assessment from those who stated that the alternative options were better than the Kamaiya relationship. Three major reasons emerged, and the *first* was that they had to work very hard for long periods of time as Kamaiyas. One respondent stated that she did not even get time to care for her child after it was born, but had to return to work very quickly. Another respondent said that the landlord fined her Rs. 1400 for taking two days off to go for family planning, an amount equivalent to her income from working more than 18 days. Similarly, several of these ex-Kamaiyas said that they had to work so long that they did not get enough sleep at night. The *second* reason was that the landlord beat the Kamaiyas, harassed them or shouted at them or used other forms of debasement and punishment. The *third* reason was that they were very seldom allowed to go to other places, including making visits to relatives. Interestingly, when we asked why landlords whom they categorized as “bad” got new Kamaiyas, they stated that those who chose to go to a bad landlord did not know that he was bad and that these Kamaiya often came from far away. This is a feature of the Kamaiya system to which we will return in Section 5.

One respondent clearly stated that it was better to be a Kamaiya at the time when he started in the relationship, compared to other labor contracts. He started out as a wage laborer, but often he did not get any work. After that he tried rickshaw pulling, but the work was so hard that he became ill, and the pay was low. Then he turned to being a Kamaiya, and he agreed when asked if he chose this contract because the terms of other feasible contracts were worse. Moreover, the respondent stated that the landlord was a very good person, that he never shouted and that he provided food for all the children. Another respondent stated that when several members of his caste and family moved from sharecropping contracts in Dang to become Kamaiya in Tigary, he decided to move with them and join as a Kamaiya. When asked to assess which of the situations were best, he stated that it was better to be a Kamaiya since this implied less work than the sharecropping contract did.

This is interesting, since it seems to represent the opposite view of many of the other ex-Kamaiyas in that sharecropping seems to be preferred. Moreover, one would expect that the sharecropper would not work as hard as a Kamaiya since the tenant himself decides how much labor to use in the former contract, while the landlord decides on the labor input in the latter contract. However, if the sharecropping plot was very small or the land of inferior quality, then the need to increase the use of labor to get a sufficient outcome from the land may be one explanation for this response.<sup>10</sup>

Finally, a few respondents were not able to compare the different relationships, and some said that their situation as Kamaiya was the same as in the alternatives. They stated that after liberation they often did not have enough food, while before liberation they had to work very long hours. All the respondents were asked why they did not take alternative employment when they were Kamaiya. The reasons that they gave are categorized below.

### 4.3 Categorizing reasons for remaining Kamaiya when the alternatives were better

In this section we categorize the different reasons that the respondents gave for why they remained in the Kamaiya relationship *prior* to emancipation if this contract was perceived to be inferior to alternative labor arrangements. However, it was difficult for some of the respondents to visualize their new situation if they were to break out of the Kamaiya relationship and take alternative labor options. In these cases we drew on the fact that they had not received any help from the government, NGOs or others after emancipation. We asked them, therefore, to compare the life they lived as Kamaiya with the life they were living at the time of the interview. We discuss these reasons for remaining a Kamaiya in relation to the theoretical explanations of bonded labor and discuss the degree of freedom that the Kamaiyas experienced.

#### 4.3.1 Sequestering

Some respondents in Geta clearly indicated that they did not know about the opportunity to repay their debt, or refinance, and subsequently take on daily labor. Others stated that they did not think that they had this choice, and that it was in the Kamaiya nature to remain in such a relationship. This pattern supports the sequestering model of Schaffner (1995), and one respondent clearly indicated that such forces were at play. She stated that she did not know of the daily wages, did not think about that at all, and was never given the opportunity to visit other places to learn of such options due to the working requirements. Three independent respondents in Jeetalpur support this perspective. They stated that their situation had improved after liberation, and one reason was that they now were free to go wherever they wanted. When they were Kamaiyas, they were not allowed to go anywhere, except to visit relatives once a year. One ex-Kamaiya said that if they asked the landlord for permission to go somewhere, he replied that they first had to repay their loan. Moreover, one of these respondents stated that the landlord's reason for sequestering them was the fear that they would escape, and one interpretation of this is that "escape" means to take up an alternative position, away from the landlord. The other respondent stated that the landlord feared that the Kamaiya would become cleverer from visiting other areas, would understand the inferiority of the Kamaiya contract and then leave for other options. Consequently, if the respondent was right in that the sequestering was a deliberate choice by the landlord to hide feasible working options for the Kamaiya, then this pattern is in close accordance with Schaffner (1995). Similarly, another respondent said that the Kamaiya did not have the thinking power to think of taking on daily wages, and also stated that, while talking about this to the interviewer, it made him sad that he did not move to take on daily wages when he was a Kamaiya. This indicates that he was not aware of the opportunity at the time.

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<sup>10</sup> There is a large literature on sharecropping, and several explanations for the ex-Kamaiyas' assessment could be discussed. However, that is beyond the scope of this paper.

#### 4.3.2 The role of credit

A few respondents (2) indicated that there was no opportunity to repay the loan other than letting other landlords repay in the situation of transferring them from one to another landlord. In this case, the loan acts as a lock-in mechanism, since the Kamaiya could never break out of the relationship and take on daily wages unless it was approved by the landlord. One respondent, who had started rickshaw pulling after liberation, was asked why he did not quit the Kamaiya contract and start rickshaw pulling before liberation. He replied that he had loans to the landlord and earned too little to feed his family – hence there were no opportunities to repay even a relatively small loan. However, there were possibilities for borrowing from relatives and repaying the loan, and many loans were not that high in comparison to their income. As a result, if the terms of alternative labor options were better, many of the Kamaiyas should have been able to repay their loan. Even if the loan was a hindrance for some in ending the relationship with the landlord, it seems to us that the loan in itself did not act as a general barrier against breaking out of the relationship.

Moreover, Genicot (2002) predicts that implementing a ban should lead to alternative credit relations flourishing, since the landlords gave incentives for the Kamaiyas to renege on their loans to other creditors. However, it was almost six years since liberation at the time of interviewing the ex-Kamaiyas, and only three of the respondents had a loan. This is in stark contrast to the situation before liberation, where almost all the respondents reported having a loan. At the time of interviewing, one ex-Kamaiya had a loan from the shop where he was working, one from his father-in-law and one from a village savings group. Even if a full analysis of the predictions of Genicot (2002) would require a survey more focused on credit relations than that which we conducted, it is our impression that the ex-Kamaiyas were largely credit rationed after liberation, except in Milanpur, where a village credit group was established. However, if the village credit group was established and subsidized by NGOs, which was the case for many village credit groups in the area, then our interviews suggest that the predicted rise in alternative credit schemes did not occur.

#### 4.3.3 Large start-up costs

Two ex-Kamaiyas living in Milanpur after liberation stated that the risk of moving to the nearest place where daily labor was available led to great uncertainty. They stated that it was impossible to move to the city when they did not have any relatives or housing there. Interestingly, Milanpur is located 20 minutes walking distance from the local municipality, Dhangadhi, and it is our impression that this was a particularly attractive area in which to settle down. Moreover, there had been substantial quarreling between the neighbors and the ex-Kamaiyas over the use of the land when the latter settled in this area. Consequently, the responses from these two ex-Kamaiyas might indicate their own experiences - that these two may have had someone who helped them move to a particular attractive area on disputed land, and they were therefore able to overcome what was perceived by them as being a barrier.

#### 4.3.4 No daily labor opportunities in surrounding areas

Nine of the respondents said that there were no daily labor opportunities in surrounding areas, and that they did not consider there to be any alternatives to being a Kamaiya. One reason for the lack of other labor contracts seems to be the fact that the landlords used Kamaiyas for the labor they needed, and therefore the Kamaiyas would need to travel quite a distance to seek other opportunities. As a result, the lack of alternative labor opportunities in the community created by the Kamaiya system probably acted to preserve the Kamaiya system itself.

### 4.3.5 Social bonds

Only two respondents indicated that the Kamaiyas were not willing to move far away from their families and relatives. One of them stated that when several members of his caste and family moved from the community to become Kamaiya, he decided to move with them and join as a Kamaiya. Moreover, it was indicated that some Kamaiyas had social bonds with the landlord and it was suggested that this played a role. This was confirmed by another respondent who stated that he was very sad at the time of liberation and did not want to leave the landlord, even if life as a free worker was better than being a Kamaiya. When asked why he was sad to leave the landlord if life as a free worker was better, he responded that he had a good relationship with the landlord and that “he loved me a lot”. In this case, it seems that the strong social bond with the landlord played a role in keeping the Kamaiya in the relationship, even if taking alternative work would yield a more comfortable life with less work.<sup>11</sup>

### 4.3.6 Manipulation of contracts

Several respondents said that they had experienced or heard stories about landlords manipulating the terms of the Kamaiya contract, and the most common approach was that the landlord wrote down a different figure from what was given as a loan. One respondent stated that her landlord added a zero after the amount that was lent – so that a loan of Rs. 100 became Rs. 1000. A telling example of the extra benefit that may accrue to the landlord from this approach is the landlord who had given one of the Kamaiya respondents a loan of Rs. 1100 during a year. At the end of the year, the Kamaiya wanted to move from that landlord. However, the landlord wanted them to stay and claimed that the loan had now increased to Rs. 11,000. Clearly, not even the highest observed informal interest rates can explain such an increase during a period of one year. Interestingly, the respondent was very clear in that the manipulating the debt upwards occurred at the time they stated that they wanted to leave the landlord, and that the landlord’s motive for this behavior was to keep them as his Kamaiyas. Another respondent told us that one of his relatives had a debt of Rs. 50,000 to Rs. 100,000 when working as Kamaiya, and suggested that the debt had been manipulated up to such a high level. In this case, it was almost impossible to find a landlord willing to pay that amount to let the Kamaiya change landlords. As a result, the Kamaiya was permanently trapped in the relationship.

Two explanations for this manipulation arise. The first and obvious is that this manipulation of the debt is purely an extra income source to the landlord since the new landlord will pay for the Kamaiya’s debt. The second is more subtle. There must be an upper limit at which the new landlord will decline to take the Kamaiyas. Hence, increasing the loan as much as possible without it being revealed could serve as a mechanism to keep the Kamaiyas trapped in the relationship with the landlord. Moreover, this approach to keeping the laborers in servility has clearly been overlooked in the literature that discusses bonded labor concepts. In the next section, we develop a model to explain the conditions for when such a strategy is useful for bonding laborers, and use this to discuss principles for interventions against bonded labor.

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<sup>11</sup> In one of the two permanent ex-Kamaiya camps, one of the respondents actually invited his ex-landlord to come and stay at his place for a couple of days every year, and also gave him meals. This is a good example of the strong social bonds that could arise in these feudal institutions.

## 5. An informal model of manipulation of loans as the mechanism to bond laborers

Based on the responses of the ex-Kamaiyas who had loans that were manipulated upwards, we shall develop a new explanation for bonded labor, using the ideas of Bhaduri (1977). We believe that this model reveals an important mechanism landlords can use to subordinate workers. Assume that the laborer is in need of a loan and that there are two sources of credit. In an emergency, the laborer can borrow an amount from friends and relatives, but assume that this entails poor people selling their dearest possessions, and is thus an option of last resort. Call this the *emergency loan*. The other source of credit is taking a loan from the landlord that the laborer is working for, where the landlord and the laborer agree on a constant annual interest rate.

Furthermore, it is agreed that the laborer renders his lifetime labor and servility as collateral. In case of default, the laborer must not only work for a minimum level of support for the rest of his life, but must also subordinate himself to the landlord in every way. This minimum level of support is usually basic food and shelter requirements. The subordination may imply that the laborer must be of service whenever the landlord wishes, that he must support the landlord in political campaigns and elections, and that he is confined to the landlord's property. Let a laborer who has entered such a loan contract with the landlord and subsequently lost this collateral, and is therefore subjected to the landlord on the described terms, be called a *tied laborer*. A laborer that has not lost his collateral can be called an *attached worker* since his working conditions are in line with the freedom usually assumed in two-tier labor markets (i.e. freedom to change employer, freedom to travel outside the landlord's farm, and the freedom not to be servile). Note that the literature uses attached and tied labor interchangeably. However, it is clear that the type of labor relationship before and after the laborer has lost his collateral is very different and warrants dissimilar terms.

Assume for simplicity's sake that only four components matter to the laborer: (1) the discounted net value to the worker of his labor during the remaining life span; (2) the value of the credit contract; (3) the discounted value of avoiding the loss of status and the humiliation of being subordinated to the landlord; and (4) the eventual benefits of having lifetime support as a tied laborer. Now, let the laborer value a free life as an attached worker more than defaulting on the loan from the landlord and becoming a tied laborer.

However, the laborer knows that there are two types of landlord, either the type that prefers to have him as a tied laborer or the type that prefers to have him as an attached worker. The exact type is revealed to the laborer after the contract is agreed upon. Consequently, the laborer knows that the landlord could be more interested in having him as a tied laborer rather than an attached worker, and that there may be unforeseen events that make repayment impossible. In order for the laborer to be sure of not ending up as a tied laborer, he will never take a loan that is larger than the emergency loan, so that last resort borrowing from friends and relatives can be used to pay off the loan from the landlord in the event of the laborer not being able to service the loan.

The landlord, on the other hand, values (1) the laborer's lifetime work; (2) the subordination and servility of a tied laborer; (3) the discounted cost of providing a lifetime's minimum support to a tied laborer; and (4) the value of the credit contract. A landlord prefers to get the loan repaid only if the net value of the joint credit and labor contract of the attached working relationship is larger than the net value of having the worker as a tied laborer, where the latter includes the costs of providing the minimum level of support. Now, an interesting scenario emerges if the laborer is dealing with a landlord of the type that values the servility services of the tied laborer more than he values an attached labor relationship with the associated credit contract. This implies that it is in the landlord's interests that the laborer should default on the loan. Note first that if the contracts were perfectly enforceable and not open to manipulation, then the laborer would remain in an attached working relationship with the landlord, since the laborer by definition is better off in rejecting offers

of being a servile worker. So even if the laborer had difficulties in servicing the loan if unforeseen events occurred, he could always terminate the loan by using the emergency credit.

However, contracts in poor rural areas are usually not enforceable, especially when the strong party deviates from the agreement. Assume therefore that the landlord increases the loan size above the contracted level so that the laborer is not able to pay the installments. As a result, if the laborer is not able to repay the loan by using the emergency loan, as indicated by the empirical anecdotes above, then the loan will go to default if the installments are sufficiently high. In this case, the laborer becomes a bonded laborer and his situation is worse than if he were an attached worker. He is locked in by the debt, however, as the landlord has made sure that the laborer is trapped in the relationship. This scenario explains how laborers can be forced into a non-voluntary working relationship, and hence become bonded according to our definition. The explanation also gives an additional reason as to why we observe high interest rates in poor rural areas. The rates are high because the landlords try to make the borrowers default, in order to force them into bonded labor relationships.

A similar strategy that the landlord may apply is to increase the amount of the loan to a level where the laborer is not able to service the debt. This scenario provides another explanation for such manipulation rather than the often suggested motive that the landlord wants to have a larger pay-off from the lending scheme. The reason for using all possible means to increase the debt is to make the laborer default, so that the attractive bonded labor services become available to the landlord. The empirical evidence given in the section above indicates that there are frequent observations of the landlord manipulating the laborer's debt upwards, and this supports such an explanation for bonded labor.

It is clear that poverty and highly fluctuating income and needs without insurance arrangements can drive a laborer into preferring the tied labor contract. Consequently, if the tied labor contracts provide the laborer with food security in situations of highly fluctuating food prices, or medicines when needed, it is easy to see that the assumption that the laborer prefers the attached labor contract may not hold. In this situation, the laborer enters the subordinate position voluntarily, and becomes a tied laborer if the loan for some reason or another goes to default. Our model therefore distinguishes between two types of servile labor relationship, even if the *observable* states and terms of work at a single point in time for these two laborers are identical. The difference is whether the landlord used his position to manipulate the contract in order to make the laborer subordinated, and whether this resulted in a lower level of well-being for the laborer as compared to not becoming a bonded laborer.

## 6. Policy discussion

Some of the latest interventions aimed at emancipating what is termed "bonded labor" illustrate the dichotomy in the use of the term "bonded labor". The liberation in Nepal, to which the UN International Labor Organization was a major contributor,<sup>12</sup> provided the emancipated "bonded laborers" with a piece of land on which they could both cultivate their own crops and build a house. As a result, many laborers had better alternative options available than before liberation. Despite this, it was observed that some emancipated "bonded laborers" returned to the same landlords that they were emancipated from (anti-slavery.org). As noted above, this phenomenon has also been observed in other countries.

There are at least two plausible explanations for the return of "emancipated" laborers to their landlords. Firstly, if their relationship with their landlord is voluntary, then they will return if their welfare as an "emancipated" laborer is lower than before "emancipation". One plausible

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<sup>12</sup> The ILO program "Sustainable elimination of bonded labour in Nepal" was implemented from 2001 to 2005. See [www.ilo.org](http://www.ilo.org) for more information about the project.

explanation following from this line of argument is that the attached relationship with the landlord may give the laborer a minimum level of support that acts as an insurance against times of hardship, while the situation after “emancipation” entails high fluctuations in consumption and lower welfare. This is the standard insurance argument for attached labor, and our fieldwork on the liberation of the Kamaiyas supports the notion that this may often be an important motive for remaining with the landlord.

The second explanation, which is derived from our model, applies if the landlord has the means to coerce the laborer. In this case, the landlord may use the same power as he used when bonding the laborer in order to make the laborer return as a bonded laborer. Interpreting our model literally, however, would imply that improving access to alternative credit arrangements from independent sources would remove the landlord’s opportunity to bond the laborer. Now, it is important not to underestimate traditional power relations between these individuals in the rural economy. Another example of manipulative approaches is that the laborers are given the right to build a house on the landlord’s ground. Eviction threats may in turn be used against the laborers in order to make them accept servility (Villanger 1999). Even though new credit opportunities and a contract-dispute resolution institution would remove one kind of power from the landlord, and hence make an important contribution towards eliminating this institution, the literature suggests that landlords may have different kinds of power for bonding laborers. This may play an important role in explaining why some laborers return to their landlord after being emancipated from the relationship. Below, we discuss two different sources of the landlords’ power from the above-mentioned literature –limiting the laborers’ horizon and undermining their credit opportunities - and we suggest some additional policy interventions.

Note first, however, that our model indicates that banning bonded labor can be an effective tool in improving the well-being of some of the most disadvantaged people. Nevertheless, as our fieldwork emphasizes, some will gain and some will lose from such a ban. The lesson from the model is that a ban on bonded labor and improving opportunities for laborers by using formal written contracts could be important in abolishing bonded labor. Moreover, a lesson learned from the empirical evidence is that many of the ex-bonded laborers must be helped to overcome volatilities in consumption due to their insecure labor situation after liberation, and they also need help in constructing a proper house. Both NGOs and more formalized public training facilities could play an important role in educating laborers on all of these matters, as BASE did in Nepal, for example (Hatlebakk 2006). Where there is a suspicion of manipulation of contract terms, or plain disagreement about these, there should be a contract dispute resolution service, perhaps integrated into the court system.

One implication of the theories of bonded labor is that the alternative option may determine whether or not the worker is defined as a bonded laborer, and hence, the counterfactual question becomes crucial. The usefulness for policy interventions of distinguishing bonded labor from other types of labor contract may be limited when it is difficult to assess their actual alternative options, and what their situation would be without the bonded labor system. The first example arises in situations as described by Schaffner (1995), in which servile laborers reject being emancipated from the landlord due to their limited horizons. As a result of these, they claim that the alternative option is as bad as their current situation. Consequently, if policymakers do not have insight into the psychology of the laborers, they may have a hard time implementing a ban which is opposed by those it is supposed to help. This is confirmed by several of our respondents in that they state that they did not know about the alternatives to the Kamaiya system.

It is evident from Schaffner’s model, however, that after having started to work as non-servile laborers in a community without servility, they would realize that they are better off and would never return to subordination to their landlords. In this scenario, the landlords can exploit workers who are not conscious of reference group effects by limiting their horizons – i.e. by actively shaping the workers’ social interactions so as to strengthen the forces that contribute to reference group perceptions. This has two implications. The first is that even though a proposed ban would be opposed by the bonded laborers as well as the landlords, it would improve the well-being of the

laborers once implemented. The challenge is to reveal the fact that the bonded labor relationship is in fact worse than the alternative made possible by a ban, and this entails using information from people who are well informed about both alternatives. The second implication is that policies that improve the *mobility* of the laborers (improved public transport, new roads, access to telecommunications and so on) would reduce the effect and make it more difficult for the landlord to exploit the laborers' limited horizons.

The second example of the difficulty in using the alternative option mechanically as a yardstick for determining whether the laborer is bonded arises from situations where the bonded labor system reduces the welfare of *all* the laborers in the economy, as for example in Genicot (2002). It is difficult to draw welfare and policy implications in practice when the bonded labor system has undermined alternative credit opportunities, since the bonded laborers in this scenario have the same well-being as those on the outside, as neither of them have alternative credit opportunities. However, using our test slightly differently reveals that this model operates with a similar bonded labor definition as in our model. Assessing the counterfactual (i.e. what would the laborers' well-being have been without the opportunity for the landlord to prevent the entry of credit institutions) gives the result that in some situations the bonded laborers would have been better off without the bonded labor institution. However, aggregated economic power in the hands of the landlords and the absence of other moneylenders should act as a warning sign that this type of bonded labor institution is in play.

It may seem odd to ban the contracts described by Genicot (2002), where the landlord is doing nothing other than competing in the labor-credit market, trying to come up with an offer so valuable to the laborer that he would choose to both work and take a loan from the landlord. In more developed markets, we observe employers that give loans to their employees as long as they stay in that particular work relationship. Supposedly, such lending is meant to make the employee stay in the relationship from a profit motive, which is identical to the landlord's intention in this model. It follows that the argument in favor of banning bonded labor in Genicot's model should be focused on removing barriers to the entry of alternative credit providers. This argument is similar to anti-trust regulation in richer countries: the aim is not to punish monopolists for wrong behavior, but to ensure that new competitors have the opportunity to enter the market in order to improve efficiency.

## 7. Conclusion

This paper reviews the literature that focuses on bonded labor and related phenomena, proposes a new framework to improve our understanding of the extent of the voluntary nature of these relationships and presents new evidence from ex-Kamaiyas in Nepal in order to discuss the nature of these relationships. Previously, bonded labor has been used as a broad concept covering both voluntary relationships, similar to those described in models of permanent labor, and more coercive working relationships, in which the landlord uses manipulation, coercion, market power or other strategic methods to bond the workers. However, since the policy implications of emancipating bonded labor can be very different if the relationships are voluntary, and since there are several models that explain these types of permanent working relationship, we have concentrated on distinguishing between voluntary and non-voluntary working relationships. We have used evidence from others as well as our own empirical research to define bonded labor as a labor relationship in which the worker is trapped with the landlord due to the latter party's use of power. The important feature of the model is that a bonded laborer is one who would never have entered the relationship if he had been given the choice. Consequently, the bonded laborer's alternative option is, in fact, their preferred choice.

Our simple model highlights the profitability for the landlord of bonding laborers. This model explains the co-existence of two types of relationship, both alleged to be bonded, highlights their

important differences, and brings out some clear policy recommendations for each of them. Firstly, the voluntary labor relationships, i.e., attached labor, need to be combated in the same manner as in ordinary anti-poverty programs for generating higher incomes. Secondly the non-voluntary bonded labor institution needs to be addressed in two ways. Since the outside option is the preferred choice, it is important that the government makes sure that the laborer is able freely to choose that option. This involves legal measures in the rural areas, including judicial help to illiterate people in developing and sustaining contracts for labor and credit relationships, and information about workers' rights. The other route is to focus on keeping the emancipated laborers away from the landlord and not letting themselves be captured again, and to let them learn about alternative options. In this way, both the provision of alternative credit and the stability of the alternative options' income opportunities should be enhanced.

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## Appendix: A description of the different ex-Kamaiya temporary camps

Help received in all villages: the most important contributions were ownership of a plot of arable land, a shared borehole with a water pump, tin and wood to build a house, village roads and drainage and schools built for their children.

Geta camp (VDC ward Geta-2): Temporary, on occupied land owned by the government, 110 households in the camp, of whom 11 were interviewed - chosen on a random basis. Bus service nearby, electricity running through but not utilized by any residents, one water pump to share for the village as a whole. Most land was not suitable for tilling, but small vegetable garden plots existed.

Milanpur camp (Dhangadhi-5): Temporary, on occupied land owned by the government, 58 households in the camp, of whom 8 were interviewed - chosen on a random basis. Bus service nearby, electricity nearby but not utilized by any of the residents. Most land suitable for tilling, but small plots (around 1.5 khatta). Twenty minutes walking distance to the municipality center.

Attariya camp (VDC ward Geta-3), Temporary, on occupied land owned by the government, 112 households, of whom 9 were interviewed - chosen on a random basis. Bus service, electricity running through but not utilized by any residents, one water pump to share for the village as a whole. Most land not suitable for tilling, but small vegetable garden plots existed.

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## SUMMARY

The UN estimates that 20 million are held in bonded labor. Several economic analyses assert that bonded laborers accept these contracts voluntarily, which could imply that a ban would make such laborers worse off. We question the voluntary nature of bonded labor, discuss different theories and new evidence on the issue, and propose a new mechanism whereby landlords keep workers trapped. With different types of landlords not revealed to the laborer, we show how some landlords manipulate loan terms so that the laborer becomes bonded if future labor is rendered as collateral. Enforcement mechanisms and the monopolistic market for credit thus play a joint role. Providing alternative sources of credit, offering proper conflict resolution institutions for settling labor-contract disputes and banning the practice of bonded labor could emancipate bonded laborers, which would make them better off.

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