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Title: From Loans to Labor: Access to Credit, Entrepreneurship, and Child Labor

Understanding the role of financial intermediation in household decisions is important for identifying the underlying determinants of economic growth, building institutions necessary for sustainable development, and designing effective policy. This paper examines the role of credit constraints in entrepreneurial and labor supply choices of households. I focus on the use of child labor by households that enter into entrepreneurship. A simple model suggests that households at certain wealth thresholds might be able to overcome the fixed costs of entering entrepreneurship when they have increased access to credit. In the presence of labor market imperfections, however, these same households may also be more likely to employ child labor.

I then test these predictions using household- and child-level panel data from Thailand. I exploit the exogenous timing and institutional features of the Million Baht Program, one of the largest government initiatives to increase household access to credit in the world. I find that, consistent with the model, expanded access to credit raises entry into entrepreneurship for households in specific wealth groups while simultaneously increasing the use of child labor in these households. The results suggest that through the avenue of encouraging entrepreneurial activity, expanding credit access may have unintended consequences for the supply of child labor. An important and novel result of the paper is that the effects of credit vary non-monotonically over the wealth distribution, a relationship that ultimately stems from the nature of credit constraints and barriers to entrepreneurial entry.

An oft-cited goal of microcredit programs is to improve the lives of the poor by financing entrepreneurial ventures among credit-constrained households. However, these results indicate that expanding access to credit may increase in entrepreneurship in only some households. In particular, even though the Million Baht Program is in many ways an effective and inclusive institution, it has been largely unable to increase business investment and entry among the poorest households, who have few resources with which to supplement loans. Thus while increasing credit access may be an effective tool for poverty reduction in theory, extending limited funds may lead to positive effects for only a subset of households in practice.