Is Credit the Answer? The Effects of Credit Constraints, Loans and Productivity Shocks on Child Labor

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Abstract

Characterizing the determinants of child labor has become an increasingly important issue in developing countries. Recent work has focused on whether binding credit constraints drive households to work their children harder and send them to school less frequently than is optimal. This paper examines the relationship between credit constraints, loans, productivity shocks and child labor. In particular, it highlights the notion that loans and productivity shocks to household production may either increase or decrease levels of child labor, depending on whether households are credit-constrained. It estimates the net impact of additional credit and productivity shocks for both types of households using a unique dataset from Thailand. I find that in general, child work rises in response to additional borrowing in unconstrained households but falls in constrained households, although the impact is heterogeneous by activity. The effect of loans is both statistically and economically significant; a 10 percent increase in borrowing lowers child labor in household businesses and farms by 13 hours per child per month in constrained households. However, I also find that the decrease in work hours does not correspond to an increase in school attendance. Moreover, days spent in domestic work increase unambiguously for children in both types of households; this and additional evidence suggests that households respond to loans by redistributing labor within the household, allocating more child time to domestic activities and more adult time to economic activities. In addition, the preliminary productivity shocks results indicate that child time spent in cultivation generally rises in response to positive rainfall shocks. Surprisingly, children of unconstrained households are affected more strongly than those in constrained households. Taken together, these findings suggest policymakers should take caution in implementing programs to increase credit access, as easing borrowing constraints may lead to unintended consequences for child welfare.

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