Key Findings from the Paper:
The Impact of Credit on Village Economies

A major argument in favor of microfinance is that the poor who live in areas without banking services will gain higher returns on investments and increase their assets when provided with credit. But research by economists Joseph P. Kaboski and Robert M. Townsend indicates that the true returns of expanding access to credit are much more complex. In their paper, “The Impacts of Credit on Village Economies,” they suggest that some of the greatest benefits of microfinance may be in the impact that such programs have on driving up wages.

Kaboski and Townsend examined changes in behavior resulting from the Thai Million Baht Fund. This initiative by the government in Thailand transferred one million Thai baht (about $24,000 at the time) to each of 77,000 villages throughout the country. The goal of the program was to increase available credit and stimulate the economy. The authors’ findings are based on an economic model they developed, using data captured as part of the Townsend Thai Data project, a monthly household panel survey that Townsend has led since 1997.

Their key findings of their study include the following:

• The village fund had the desired effect of increasing overall credit in the economy.

• In the long run, the program led to an overall expansion of credit.

• Significantly, wages increased by approximately 7% in a typically-sized village during the first two years that were tracked.

• Wages increased for general non-agricultural labor, such as construction in the villages, but not for professional occupations or occupations outside of the village.

• Other effects of the injection of credit were more short-lived, including: a notable jump in consumption, and increases in borrowing, business and labor income, and investment in agriculture.

The authors suggest that the wage impacts may be because the fund led to a more efficient distribution of capital to entrepreneurs, which then increased the demand for labor.
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