The Impact of Consumer Credit Access on Employment, Earnings and Entrepreneurship*

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Abstract

How does consumer credit access impact employment prospects, earnings, and entrepreneurship? We answer this question by merging individual employment records from the Census Bureau with individual TransUnion credit reports, and exploiting the discrete increase in individual credit following exogenous bankruptcy flag removal. We find that flows into self-employment increase, flows out of self-employment increase, flows into formal employment increase. Earnings levels and growth rates rise for individuals who make the transition into formal employment. There are two competing economic forces underlying these results: (i) credit constraints loosen after exogenous bankruptcy flag removal allowing households to start self-employed businesses (ii) households who were self-employed because credit checks precluded them from finding formal sector jobs subsequently return to the formal sector after bankruptcy flag removal.

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