Dynamic Credit Constraints: Theory and Evidence from Credit Lines

By Amberg, Jacobson, Quadrini, and Rogantini Picco

Discussion by Dan Greenwald

Overview

- Lots of firms have undrawn credit line capacity, does that mean credit limits are irrelevant?
  - This paper: not necessarily!
- Key mechanism: firms place a high value on committed but undrawn credit due to its use as a precautionary buffer
  - Don't want to obtain additional credit at cost of reducing buffer
  - But with higher limit, would prefer more credit and more buffer
- Very similar to **buffer-stock** model of consumption, where households can have high MPCs despite being off constraint

Renegotiation

- Endogenous renegotiation is a potential identification issue
- Similarly, response to credit line increase can represent
  1. Credit supply change (what the authors have in mind)
  2. Firms asking for an increase in the line (more problematic)
- Analogy: getting a motorcycle license
  - Propensity to buy motorcycle among people getting licenses much higher than if you randomly gave someone a license
  - Using actual licenses to estimate avg. propensity to buy is biased
  - Hard to control for this unobserved demand, even with lots of controls and fixed effects

What are the right weights?

- The paper runs equal-weighted regressions
  - Fine for learning about behavior of the average (typical) firm
  - But may not be the moment that we care about for macro
- Greenwald, Krainer, Paul (2022) find that the distribution of undrawn credit is dominated by large unconstrained firms
  - Biggest 10% of firms have ~75% of undrawn credit
  - This paper includes even smaller firms, may be even more skewed
- Smaller firms very important because they may have the highest propensities to invest, but size still matters

Covid-19 as a laboratory

- One laboratory the paper could use is the Covid-19 episode
  - US firms drew their credit lines enormously during this period
  - Then largely paid them back after Fed bond market intervention (Darmouni and Siani, 2022)
- Greenwald, Krainer, Paul (2022): reduces pressure on banks, allowing more lending to smaller firms
- Here, might provide a good environment to test “MPB”s
  - Opening up the bond market is like expanding credit limits
  - Now firms can borrow **and keep buffer**, should see borrowing rise

Conclusion

- Great paper combining intuitive mechanism and detailed data
  - Firms like both debt and undrawn commitments
  - High MPBs out of credit limit even though not constrained
- Empirical things to think about:
  - Renegotiation/demand (tough to control for completely)
  - Aggregation by firm size
- Covid-19 may provide an interesting laboratory
  - Seems like model would predict that reopening the bond market will increase total debt