Credit, Income and Inequality

Manthos Delis, Fulvia Fringuellotti & Steven Ongena
June 22, 2020

Discussed by Laszlo Tetenyi (NYU)

Summary

Quantify empirically, how a European banks' credit decision affect firm owner's income

- Big picture: Differences in access to credit can fuel income inequality
- Panel data of individuals, before and after the loan application
- Idea (RDD): $Income_{i,t+5} = \alpha_0 + \alpha_1 D_{i,t} + \alpha_2 (x_{it-\bar{x}}) + u_{i,t}$
- Finding: $\alpha_1 \in [0.07, 0.11]$
- Mechanism: Firms receiving credit expand short term operations, driving up profitability
- Some other results:
  - Selection based on *hard* information does not affect results
  - Loan size only matters after discretization
  - Unobserved/Soft information in the credit score explains the bulk of the income increase
  - Credit is more important for poorer regions

Comments

- Clean and careful empirical analysis with a ton of robustness checks
- The main result goes against what people find in the micro-finance literature
- I felt that the economic mechanism is still a bit unexplored:
  - Loan size did not matter in the baseline regression - selection maybe based on soft information?
  - Soft information plays a crucial role - banks have a monitoring or supervising role?
  - Are there any other firm variables that change, some notion of productivity?
  - Maybe also think about what is different if governments subsidize their firms?
- The big picture motivation is disconnected from the paper:
  - This paper is mostly about small and young firms, not individuals
  - This type of small business loans are unlikely to contribute to income inequality

Suggestions and questions

- Explore the role of banks or focus on SME-s
- Focus on the result that bank finance is different from the micro-finance programs
- The economic mechanism is crucial and should come before robustness
- Questions:
  - Is income only dividends from the firm? If not, what is decomposition of the changes?
  - Does income inequality increase for the same set of individuals?
  - Any reason why for accepted applicants this is not the case?
  - Are there any changes in the credit score threshold?
  - Firm age as hard information?
  - Any firm characteristic correlated with soft information?
  - Is this related to the credit card and score literature?