Discussion of "Has the Paycheck Protection Program Succeeded?"

By Hubbard and Strain

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BPEA Fall Meeting, September 24, 2020

Grading the PPP: A Rubric

Question: What kind of public policy is PPP?

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Question: What kind of public policy is PPP?

1. Fiscal stimulus? No.
   - Goal not to increase economic activity immediately. Perhaps the opposite.
   - Instead, the goal is to enable future economic activity.
   - Wrong/incomplete metrics: Cost per job, impact multipliers

Grading the PPP: A Rubric

Question: What kind of public policy is PPP?

1. Fiscal stimulus? No.
2. Capital market support? Largely no.
   - Lender of last resort is the wrong model when output evaporates
   - Loans unattractive because nonviable for many firms
   - Banks more unwilling and less unable to lend (cf., 2009)

Grading the PPP: A Rubric

Question: What kind of public policy is PPP?

1. Fiscal stimulus? No.
2. Capital market support? Largely no.
3. Disaster relief/insurance? Mostly yes.
   - Severe non-economic shock
   - Low correlation between short-run and long-run performance
   - Risk losing firm-worker matches, fixed startup costs already paid
   - Congestion externalities in bankruptcy courts, labor market
   - **But:** uncertain duration for the disaster, lost revenues instead of lost capital

Grading the PPP: A Rubric

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Key: Framework affects how we think about design and evaluation

Revenue Replacement vs. Biz Continuity Insurance

Problem: How should we design and implement such a policy?

- Compare HS and Hanson-Stein-Sunderam-Zwick "Business Continuity" proposals
- We agree on many design elements.
- Let's focus on differences...

Revenue Replacement vs. Biz Continuity Insurance

Problem: How should we design and implement such a policy?

1. Include payroll?

   Pros:
   - Retain firm-worker match
   - Avoid further overwhelming UI systems

   Cons:
   - Expensive
   - Match quality less important for, e.g., bars and restaurants
   - Firms aren't used to paying workers to idle
   - UI works pretty well!
   - Deters reallocation

   Note: We agree to exclude profits, intermediates, depreciation; and that these should grant-like.

Revenue Replacement vs. Biz Continuity Insurance

Problem: How should we design and implement such a policy?

1. Include payroll?

2. Use the banks as conduits?

   Pros:
   - Pre-existing relationships
   - Underwriting infrastructure

   Cons:
   - Misaligned incentives, have to pay banks (see Main Street)
   - Many firms without relationships
   - Banks also disrupted
   - IRS can implement fiscal policy (impact payments, NOL refunds, homebuyer credit)

   Note: We agree the SBA likely could not stand up a similar program.

Revenue Replacement vs. Biz Continuity Insurance

Problem: How should we design and implement such a policy?

1. Include payroll?
2. Use the banks as conduits?
3. Little to no targeting?

   Pros:
   - Unknown shock severity and timing
   - Political economy of industry targeting
   - Marginal tax rates from forward-looking revenue targeting

   Cons:
   - Expensive
   - Benefits now exhausted while help still needed
   - Marginal tax rates perhaps not prohibitive
   - Unfair

   Note: We agree the largest firms should be treated less generously.

Revenue Replacement vs. Biz Continuity Insurance

Problem: How should we design and implement such a policy?

1. Include payroll?
2. Use the banks as conduits?
3. Little to no targeting?

Takeaway: This is an area deserving more formal study.

Grading the PPP: A Rubric

Question: How should we grade the PPP?

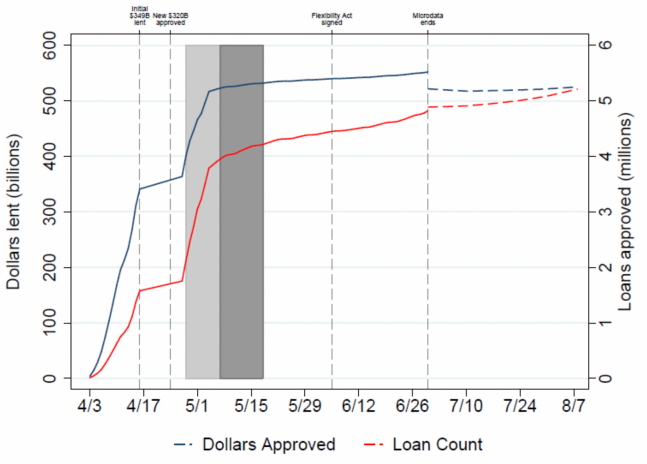
Answer: Insurance value relative to program cost

TODO: Define "insurance value" for firms

First Pass:

1. Did funds go to "high-insurance-value" types?
2. What did firms do with the money?

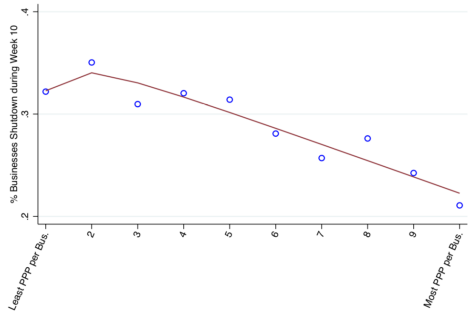
Very Timely



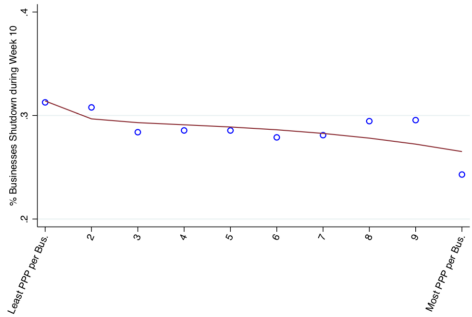
Takeaway: $500B distributed in six weeks!

Not Very Targeted

Round 1



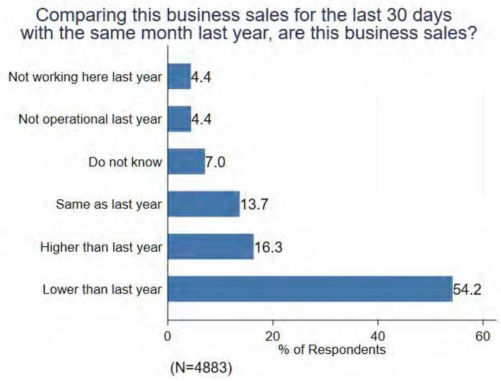
Rounds 1 + 2

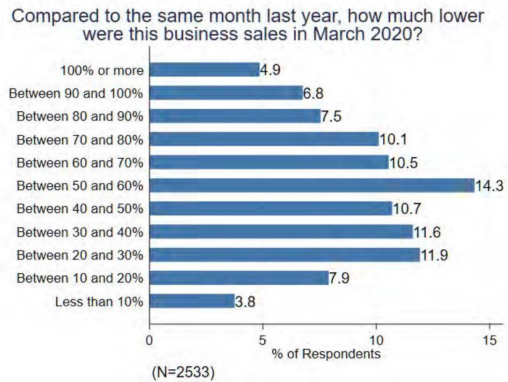


- Initially, less hard-hit areas received **more** funds.
- Ultimately, weak correlation between initial shock and funding $\implies$ broad access
- Regions with late waves received funding at the wrong time?

Source: Granja Makridis Yannelis Zwick

Not Very Targeted

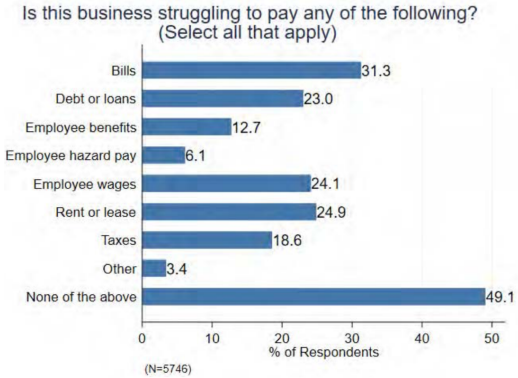


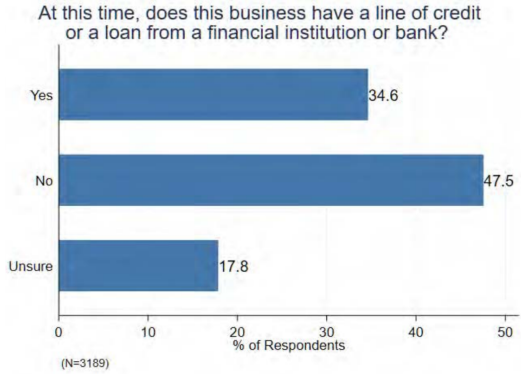


- 30-40% of small businesses did not experience sales declines
- Considerable heterogeneity among those that did
- **Note:** 20-25% of firms did not apply for PPP (Census Pulse)

Source: Alekseev Amer Gopal Kuchler Schneider Stroebel Wernerfelt

Not Very Targeted





- Firms struggling equally to pay rent, wages, debt $\rightarrow$ Initial payroll weight too high
- Half of firms not struggling to make payments
- Half of firms did not have pre-existing relationships as borrowers

Source: Alekseev Amer Gopal Kuchler Schneider Stroebel Wernerfelt

Not Very Targeted

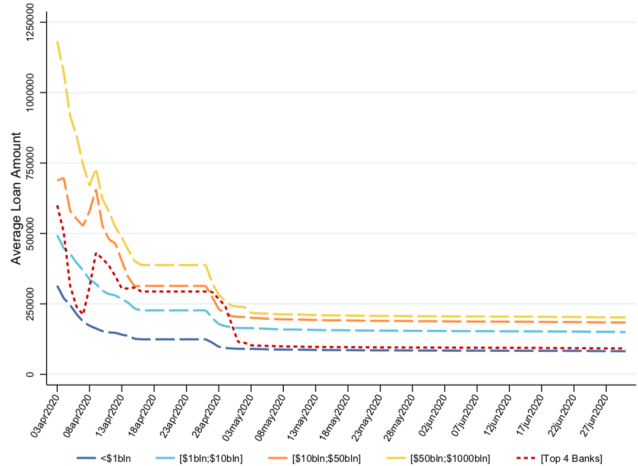
First Round Lender Performance

Financial Institution Name	(2) Share of total vol. PPP	(3) Share of SBL Market	(5) Share of loans in PPP	(6) Share of loans in SBL Market
JPMorgan Chase Bank, National Association	3.9%	6.5%	1.4%	10.5%
Bank of America, National Association	1.2%	9.5%	.56%	11.9%
Wells Fargo Bank, National Association	.04%	6.5%	.07%	4.3%
Citibank, N.A.	.33%	2.1%	.44%	9.7%

- The top-4 banks alone account for 36% of total pre-policy small business loans, but disbursed less than 3% of all PPP loans in the first round of funding.

Source: Granja Makridis Yannelis Zwick

Not Very Targeted



- Larger firms received funding first.

Source: Granja Makridis Yannelis Zwick

What Did Firms Do with the Money?

Main Findings in Hubbard-Strain:

1. Modest employment effects
   - GMYZ find null effects in April, small effects in May and June
   - ACCGLMPRVY, Chetty-Friedman-Hendren-Stepner-OI find modest effects
   - Implies very high cost per job ($\approx 200K$ per job)

What Did Firms Do with the Money?

Main Findings in Hubbard-Strain:

1. Modest employment effects
2. Little impact on financial vulnerability, modest closure effects
   - GMYZ find substantial effects on missed payments and cash on hand
   - Bartik-Cullen-Glaeser-Luca-Stanton-Sunderam find effects on failure forecasts

What Did Firms Do with the Money?

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2. Little impact on financial vulnerability, modest closure effects
3. Effects growing over time
   - Consistent with GMYZ, likely other studies as well

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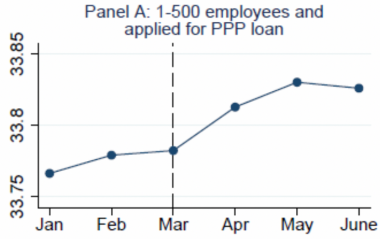
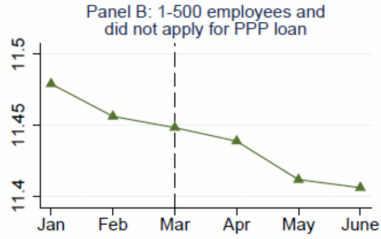
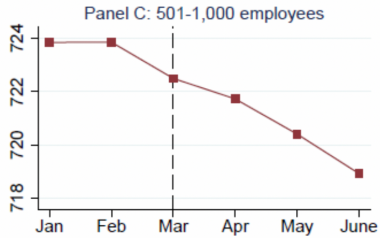
Concerns:

1. Comparing loan applicants to non-applicants does not isolate demand effects.
2. D&B aggregate employment, Paydex, closures are VERY stable
   - Stale measurement will attenuate impacts
   - If small firm data is more stale, this will confound estimates.

Dun & Bradstreet Outcomes are VERY Stable







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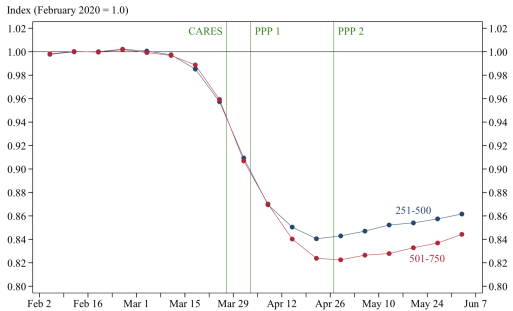
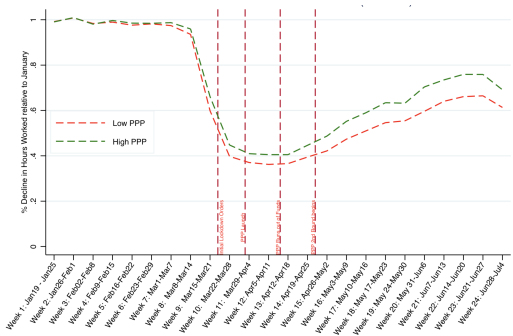
ADP Data



HomeBase Data



- ADP, HomeBase, Earnin, Kronos show declines of 20-60%
- D&B data show essentially no decline in employment
- Similar stability in aggregates for other D&B outcomes

Minor Comments for the Authors

1. I wouldn't use the term "treatment on the treated" to describe the loan applicant regressions. These regressions don't isolate the effect of treatment because of demand/borrower differences.
2. Interesting that several of your criticisms of PPP—too much focus on payroll, not enough reallocation, dealing with the banks—are less a problem with our BCI proposal. Optionality and staging like the VCs do is a feature we like as well. Of course, we are more concerned about targeting and ex post allocation of benefits.
3. In discussion of revenue replacement, I might note that you really have value-added in mind (right?).
4. The discussion of programs in other countries focuses on wage-replacement, but many of these countries also had business support programs that are closer to loans or grants. We collected a list of large ones for France, UK, and Germany in our BPEA presented today.
5. On the D&B data, can you learn more about how often these characteristics are updated for each firm? I'm pretty worried they don't have the apparatus to do real-time measurement for millions of firms. I do think this data will be useful for looking at closures, perhaps after they have updated data for all the firms.
6. My preference for empirics would be to use the eligibility threshold design and focus on a narrower window around 500, so similar to what Autor et al do.
7. The UI system had plenty of problems, but it also managed to reach 30 million workers. It was far from ideal in rollout, but I'm hesitant to throw the program under the bus.
8. The paper argues that slower loan growth starting in mid-May is due to uncertainty from Treasury guidance and negative news coverage. I suspect saturation of 2.5X payroll for eligible firms is also quite important. It's possible there were very firms still around in late May who were eligible but had not applied.

Excellent Paper

Grading the PPP: Incomplete

1. Strong marks on timeliness
2. Weaker marks on equal access, targeting
3. Modest short-term employment effects, significant liquidity effects
   - If prevented large numbers of firm failures $\rightarrow$ A-/B+
   - If large share of the funds prove inframarginal $\rightarrow$ B-/C+

Excellent Paper

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Grading the Paper: Excellent

1. Thoughtful discussion of framework for supporting firms in pandemic.
2. Thorough narrative of implementation challenges and hiccups.
3. Sensible empirical findings, but still a work in progress.

References

1. **AAGKSSW**: Alekseev, Amer, Gopal, Kuchler, Schneider, Stroebel, Wernerfelt. September 2020. The Effects of COVID-19 on U.S. Small Businesses: Evidence from Owners, Managers, and Employees.
2. **ACCGLMPRVY**: Autor, Cho, Crane, Goldar, Lutz, Montes, Peterman, Ratner, Villar, Yildirmaz. July 2020. An Evaluation of the Paycheck Protection Program Using Administrative Payroll Microdata.
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4. **CFHSOI**: Chetty, Friedman, Hendren, Stepner, OI. September 2020. The Economic Impacts of COVID-19: Evidence from a New Public Database Built from Private Sector Data.
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6. **HSSZ**: Hanson, Stein, Sunderam, Zwick. April 2020. Business Continuity Insurance and Business Continuity Loans: Keeping America's Lights on During the Pandemic.