

Entrepreneur Debt Aversion and Financing Decisions: Evidence from COVID-19 Support Programs

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Overview of the Paper

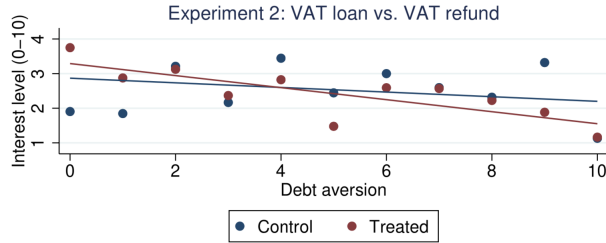
- Entrepreneur attitudes towards debt affect the use of debt within the firms they manage
- Uses survey experiments to show that debt averse entrepreneurs are more likely to avoid using debt in their firms
- Implication: framing support policies in non-debt terms may increase their effectiveness
- Already has an R&R, my discussion will focus on interpretation and some future directions

Sample

- The firms in the sample are really small: 61% have <5 employees (39% have only 1 employee!), 48% do not have any debt
- Exclude professional non-owner managers, which most of the larger firms have
- Around 40% of the firms are *not* limited liability
- These are small mom-and-pop shops (not necessarily young firms)
- These firms behave like households; results are aligned with the household finance literature on debt aversion

Distributional effect

- Debt aversion is strongly negatively correlated with firm size
- Implication: government support programs in the form of debt could have distributional effects



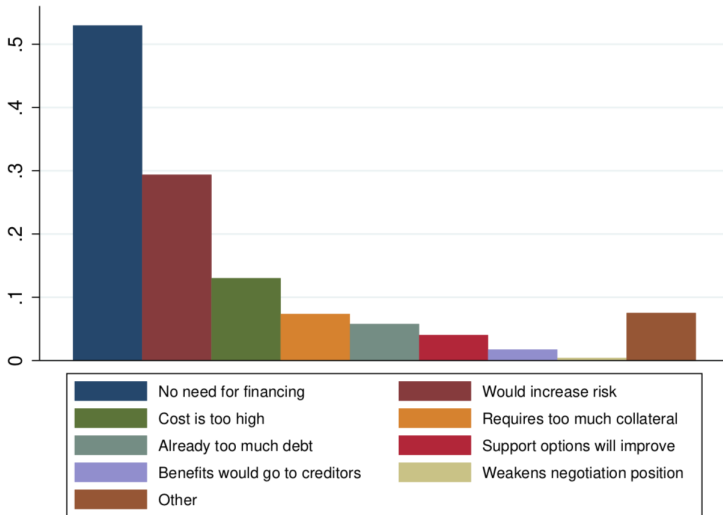
- Echoes with Maksimovic and Yang (2021) that COVID hurts smaller retailers more and PPP or bank credit don't help much

Measurement

- Measure debt aversion using stated preference: *“Do you agree with the following statement?: I consider taking on debt to be unpleasant”*
- People might report untruthfully to lobby for government grants vs loans
- Most firm outcomes are also reported from the survey
 - Can you match to more firm outcomes from the registry data?
- Use household balance sheet data to measure debt aversion using revealed preference?

The dogs that didn't bark

- High debt aversion is *not* associated with more layoffs or lower wages (results are in the opposite direction)
- Results are mostly on the extensive margin: whether take on any debt rather than debt levels



Mechanism

- Owners prefer to use own wealth/debt to finance their firms due to fixed cost of getting a business loan?

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- Owners prefer to use own wealth/debt to finance their firms due to fixed cost of getting a business loan?
- If they are time-inconsistent and sophisticated, could avoid debt to commit themselves in the future?

- **Experiment 1:**

***Control:** The government will pay 75% of salaries if employees are not temporarily laid off or permanently dismissed.*

***Treatment:** The government offers a loan of which 75% will be forgiven if employees are not temporarily laid off or permanently dismissed.*

Conclusion

- Great paper! Highly recommend reading it.
- Comments:
 - Context (sample and measurement) is important when interpreting the results
 - Distributional effects of loan programs
 - Why are some entrepreneurs debt averse? Could it be rational?