The Macroeconomics of Trade Credit

BOCOLA AND BORNSTEIN

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WHAT IS TRADE CREDIT?

- One firms makes tables, another firms makes wood
- Table firm buys wood from wood firm for amount X
  - Pays αX immediately
  - Promises to pay $(1-\alpha)X$ later

$$(1-\alpha)X = \text{loan from wood firm to table firm} = \text{“trade credit”}$$

WHAT DO WE LEARN ABOUT TRADE FROM THIS PAPER?

- How trade credit relationships arise
  1. As a solution to a problem
  2. Simultaneously and in interaction with bank credit
- How trade credit impacts the macroeconomy
  - Financial shocks amplified or dampened
  - Depends on wood firm's access to bank credit

HIGHLIGHTS OF THIS PAPER

- Thinks *deeply* about trade credit
- Elegant exposition
- Careful quantitative evaluation with Italian micro data

PLAN FOR MY DISCUSSION

1. Positioning in the literature
2. What we learn about <u>bank</u> credit
3. Commonality in financial shock across firms

POSITIONING IN THE LITERATURE

- Large (macroeconomic) literature about trade credit
  - Started decades ago: Schwartz (1974)
  - Has continued recently: Reischer (2019), Garcia-Marin, Justel, and Schmidt-Eisenlohr (2020), Hardy, Saffie, and Simonovska (2023)
- Large literature generally about "credit frictions amplify macroeconomic shocks"
  - Here, like in many papers, action goes through labor wedge
  - See Quadrini (2011) for a nice discussion

POSITIONING IN THE LITERATURE

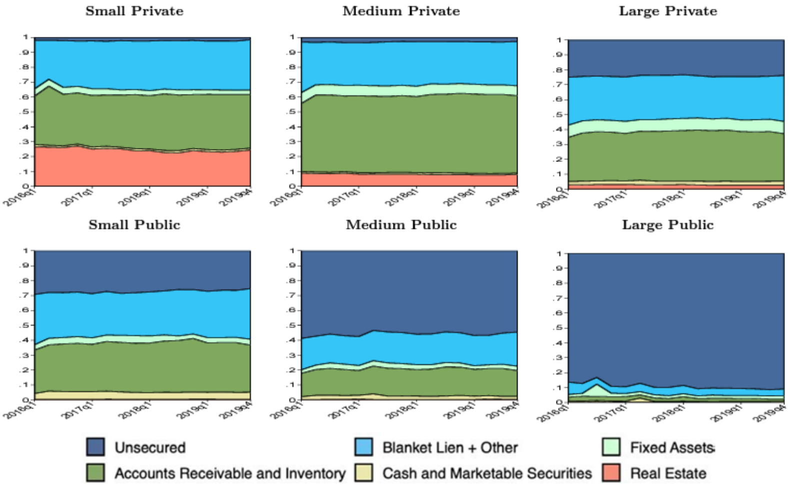
- To me, the key contribution of this paper is the **depth of the theory**
  1. Trade credit as a solution to an underlying problem
  2. Trade credit in interaction with bank credit
- I would more clearly emphasize this from the start

WHAT WE LEARN ABOUT BANK CREDIT

- Both table firms and wood firms can borrow from banks
- 'Morning-afternoon' structure creates inherent connection between
  1. how both firms borrow from banks

     and
  2. trade credit links between the firms
- Obtaining bank debt ≈ pledging fraction of accounts receivable

WHAT WE LEARN ABOUT BANK CREDIT



- From Caglio, Darst, and Kalemli-Ozcan (2021), using Fed's Y14Q data

WHAT WE LEARN ABOUT BANK CREDIT

- Empirically, accounts receivable commonly serve as collateral in bank loans
  - Interesting heterogeneity across firms (Caglio, Darst, and Kalemli-Ozcan, 2021)
  - E.g. more important for medium-sized and private firms
  - But no empirical link to trade credit has been made (as far is I know)

- Potentially this is another, very interesting testable prediction of the model

- Is bank credit backed by accounts receivable predominately extended to firms that have trade credit relationships with other firms?

COMMONALITY IN FINANCIAL SHOCK

- Spot economy
  - Table firm: $p^s \leq [\delta + (1-\delta)(1-\tilde{\theta})]x^\eta$
  - Shock to $\tilde{\theta}$ acts like "familiar" distortion to labor wedge

- Trade credit economy
  - Table firm: $p^s \leq [\delta + (1-\delta)(1-\tilde{\theta})]x^\eta$
  - Wood firm: $Wx - p^s = (1-\tilde{\theta})p^{tc}$
  - Only when $\tilde{\theta} > \bar{\theta}$ in second equation (wood firm constrained):
    shock to $\tilde{\theta}$ acts through first equation in "familiar" way
  - But shock also hits $\tilde{\theta}$ in second equation, it further constrains the wood firm

- In principle, financial shocks could differ between table and wood firm ($\tilde{\theta} \neq \tilde{\theta}$)
  - Expositionally, this might add further clarity by separating two distinct effects

CONCLUSIONS

- Insightful paper
- Made me think deeply about trade credit — and bank credit
- Can still sharpen the positioning in the literature and some of the characterization
- Additional testable predictions about link between trade credit and bank credit?

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