

Discussion of

“Did PPP Loans Distort  
Business Competition?  
Evidence from the  
Hotel Industry”

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# Paper Overview

- The Covid-19 pandemic has caused a **deep, global economic crisis**
- The **U.S. government** has responded with an **emergency set of economic relief measures** on a near-unprecedented scale
- Small Business Administration's **Payroll Protection Program** (PPP)
- \$525 billion worth of federal loans approved by August 2020

- Research Question

Whether the PPP (government intervention) **was effective** in **containing** the economic damage caused by the Covid-19 pandemic?

- Overall great paper, clearly written, important policy lessons

# My Comments

- Loan characteristics problem
- Data Selection problem
- Long-term effects of short-term financial crisis

# Loan characteristics problem

1) **Loan-size heterogeneity** might be a large factor in assessing the effectiveness and application decision of firms, especially for smaller ones

“**PPP Loan is an indicator** that takes the value of 1 if a hotel obtained a PPP loan in 2020, and 0 otherwise”

2) Since PPP were designed to cover payroll costs, **larger firms might have taken smaller loans** (smaller both in absolute amounts, and relative to their operating expenses), while the same loan-size might be unbearable for small firms

3) Control for **initial liquidity** (liquidity constraints), which might explain probability of PPP application?

4) **Not consistent related robustness check** – firms with no bank access might not be present in the sample

“We evaluate this conjecture by comparing the response of hotels that later obtained PPP loans against that of hotels that never obtained PPP loans to the same level of negative demand shock that occurred early in 2020, before the start of the PPP”

# Data Selection problem

1) Sample might be **leaving aside smaller firms** (that will need assistance later)

“The hotels that participate in the STR daily performance survey tend to be larger, professionally managed, and chain-affiliated. As such, we expect those hotels to pursue sophisticated revenue management strategies”

2) There might **be firms that were rejected** (but badly needed the funds)

“The SBA loan-level data we use in our analyses only include information on loan approvals. Thus, we do not technically observe all PPP loan applications, as some of them may have been rejected...”

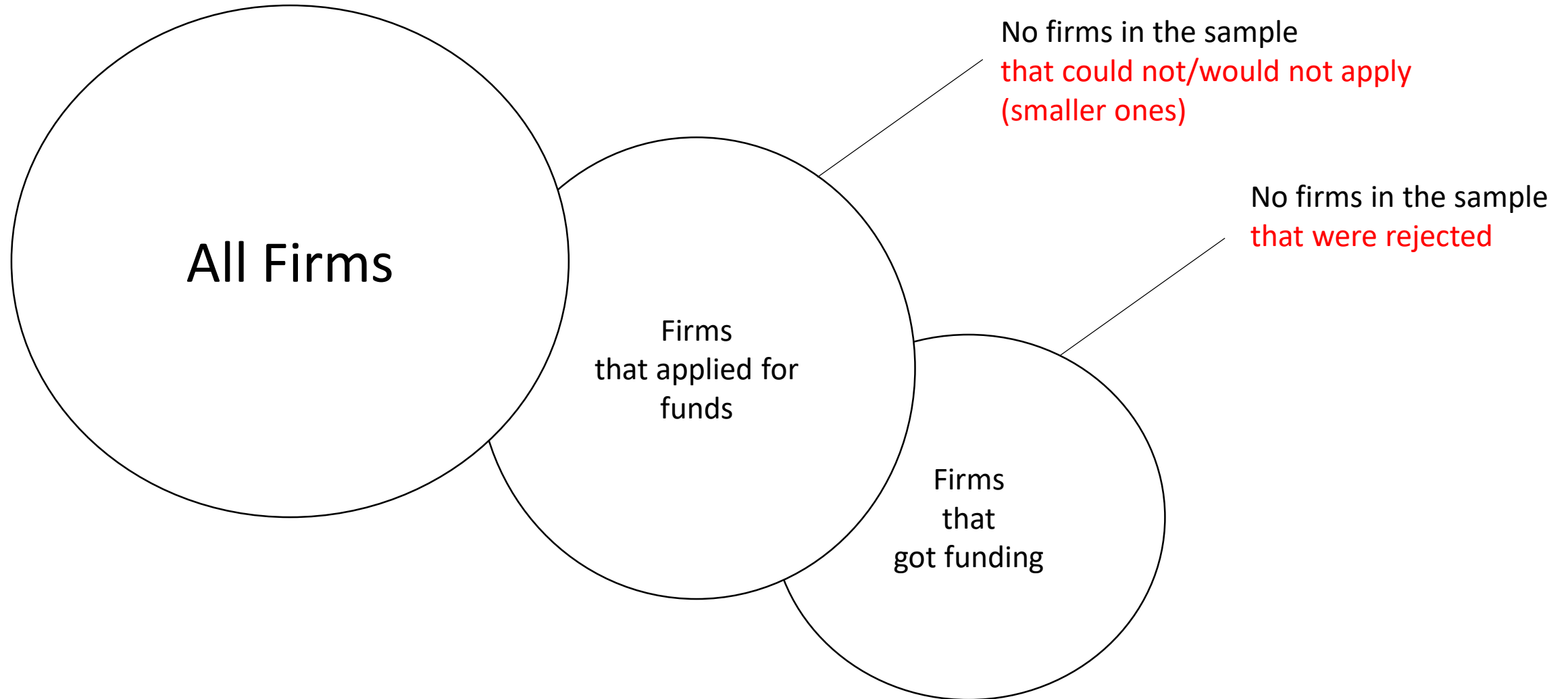
3) Chain-owned firms might not necessarily care on **damages to firm reputation**, but smaller firm would care for their mere survival. Also chain-operated firms might not care on short-term losses either

“Potential drivers of the perceived cost of PPP loans include **damages to firm reputation, future government audits, and regulations** associated with accepting taxpayer-funded financial assistance”

4) **Data quality** from participating firms might **be low**

“In this survey, participating hotels submit confidential performance metrics in return for access to industry benchmarking reports” - why would they need benchmarks if they compete in a narrow business niche?

# Data Selection problem



# Long-term effects of short-term financial crisis

- Potential drivers of the perceived cost of PPP loans include **damages to firm reputation, future government audits, and regulations** associated with accepting taxpayer-funded financial assistance
- Issue of short-term (at the moment) survival? – thereby the **cost of bankruptcy?**  
Probability of default?
- Relevance to **financial crises literature**, where its of **crucial importance to avoid the exit of firms** to save the production capacity of relative sectors and the economy as a whole ← this direction might be of additional value to the paper