Discussion of Efraim Benmelech's paper

Leverage and the Macroeconomy: Implications of Low Interest Rates for Corporate Debt

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Effi's paper

- … is thought-provoking, diligent and very topical!
- It studies the **firm-distribution of leverage**, **the uses of debt** and the **interest expenses** of U.S. listed firms using Compustat data.
- The evidence supports the conclusion that we should not worry too much about corporate debt in the U.S. at this juncture.
  - Small and fragile firms have low leverage.
  - Firms increasingly borrow to hoard cash, net leverage has even declined for many.
  - Interest expenses have fallen substantially.

This discussion

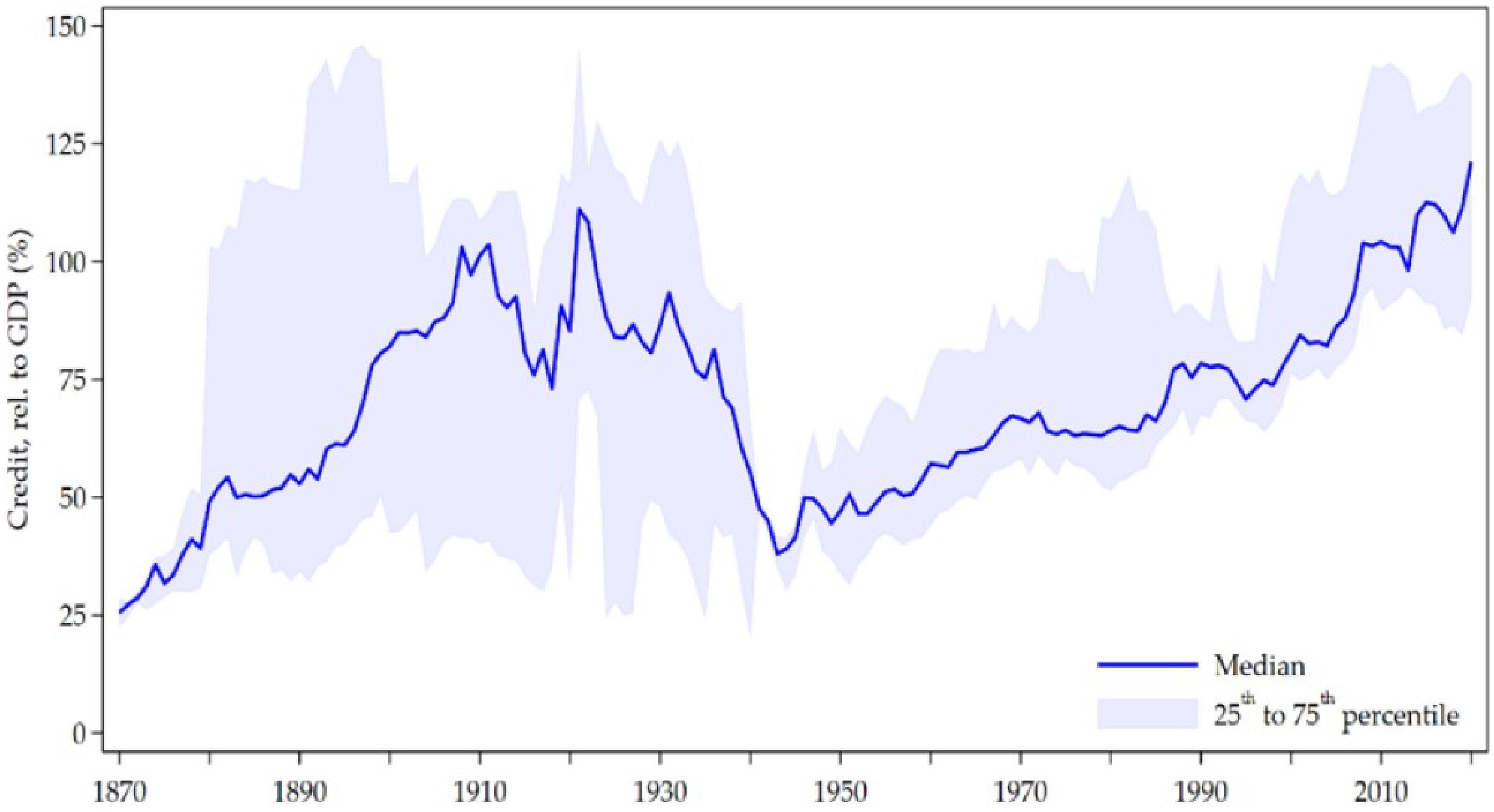
- Provides some context and revisits the key stylized facts.
- Clarifies how the paper contributes to the debate about post-pandemic corporate debt.
- Connects Effi‘s findings to the big macro debate out there:
  - Why are real interest rates so low?
  - Where do all the savings come from?

Context

- Widespread fears of debt overhang slowing down the recovery (cf. household debt post-2008).
- Corporate debt over GDP ratio has risen strongly before and during the pandemic.
- Corporate debt overhang can depress investment and growth (Myers 1977).
- Micro studies often confirm negative effects of corporate debt overhang, but identification is difficult (f.i., Kalemli-Özcan, Laeven, and Moreno, 2020; Popov, Barbiero, and Wolski, 2018) .
- The paper brings new and important evidence on the financial situation of listed U.S. companies.

The macro perspective

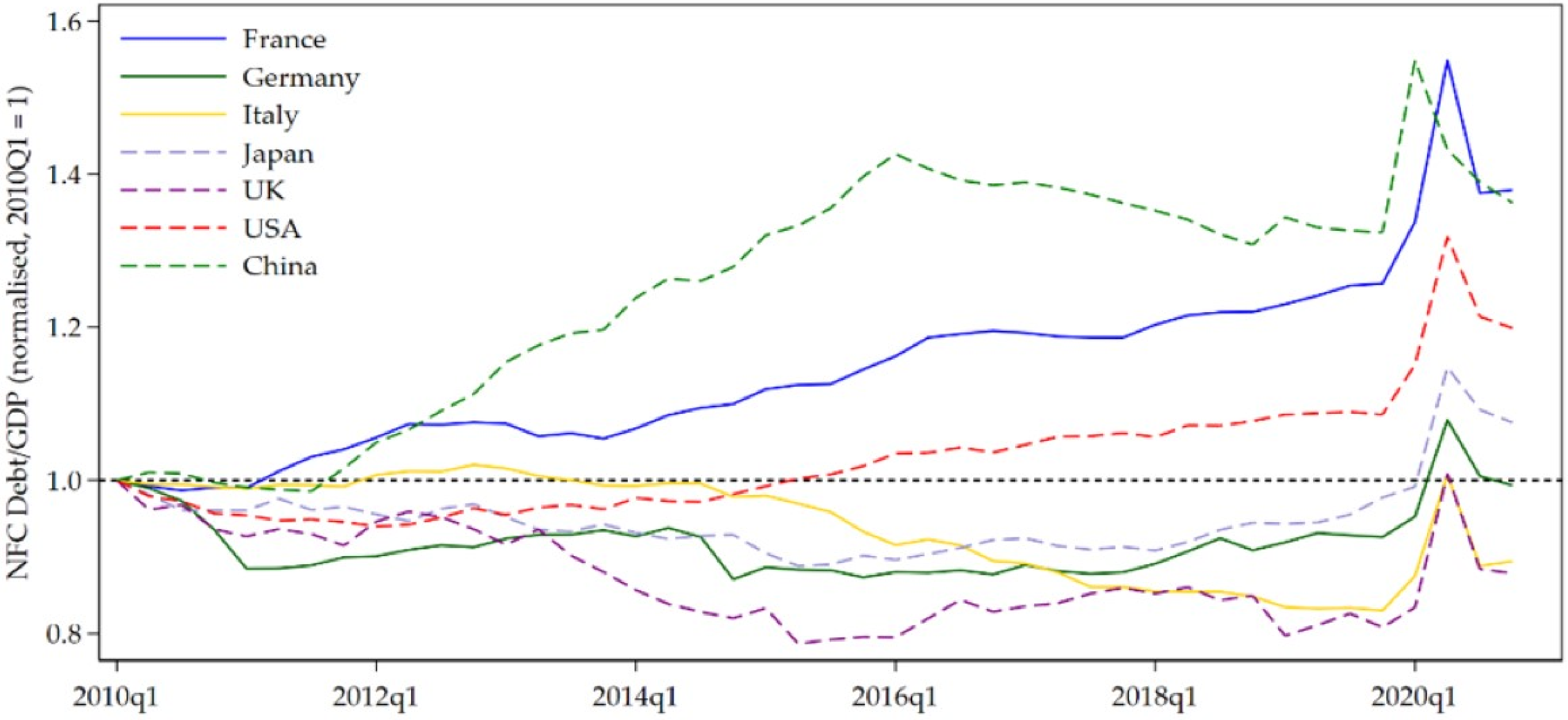
The long-run view: corporate debt relative to GDP across countries



Notes: Cross-sectional statistics based on a sample of 18 advanced economies (Australia, Belgium, Canada, Finland, France, Germany, Italy, Ireland, Japan, Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, UK, USA). Data taken from JST Macro-History database and Jordà, Kornejew, Schularick and Taylor (2020).

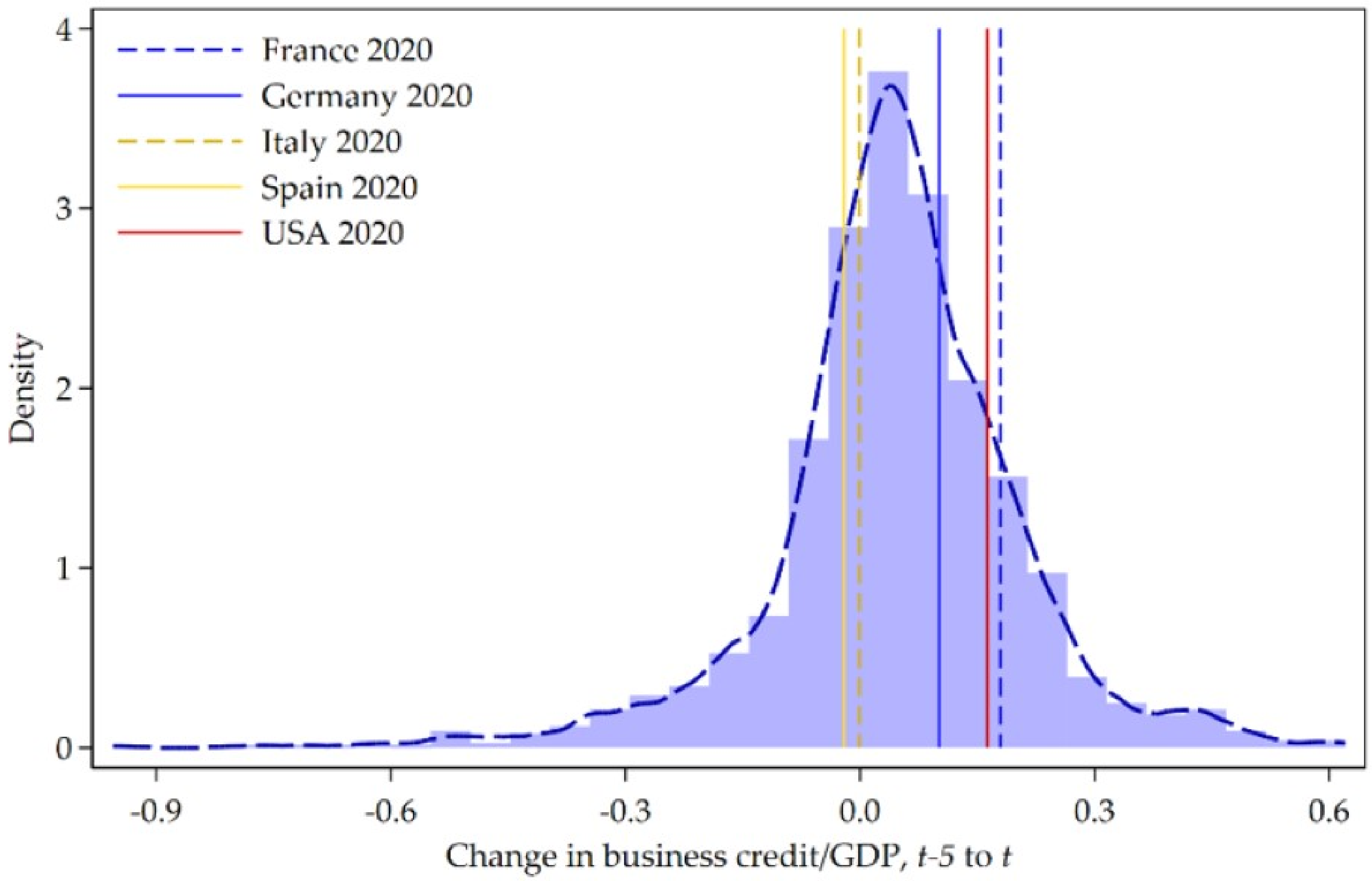
Source: Jordà, Kornejew, Schularick, Taylor 2021

The corporate debt boom of the past decade

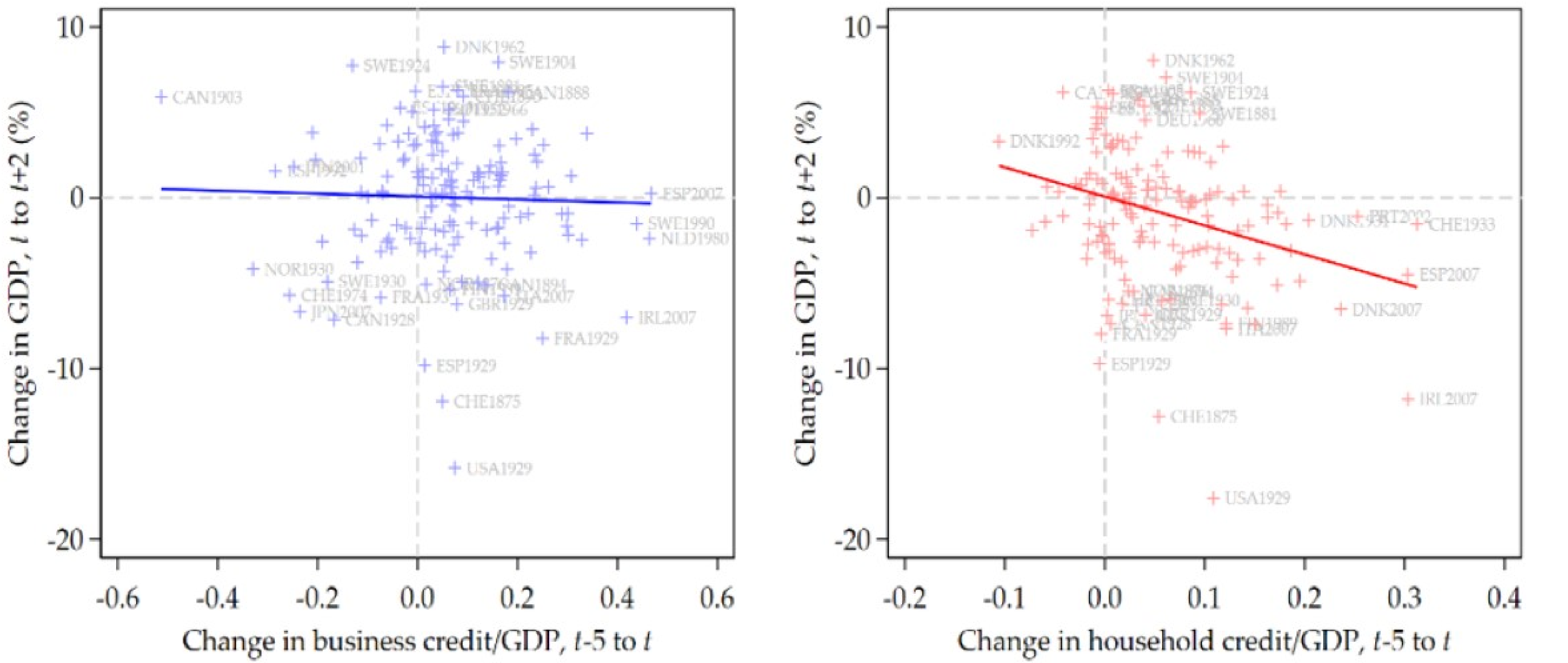


Source: Jordà, Kornejew, Schularick, Taylor 2021

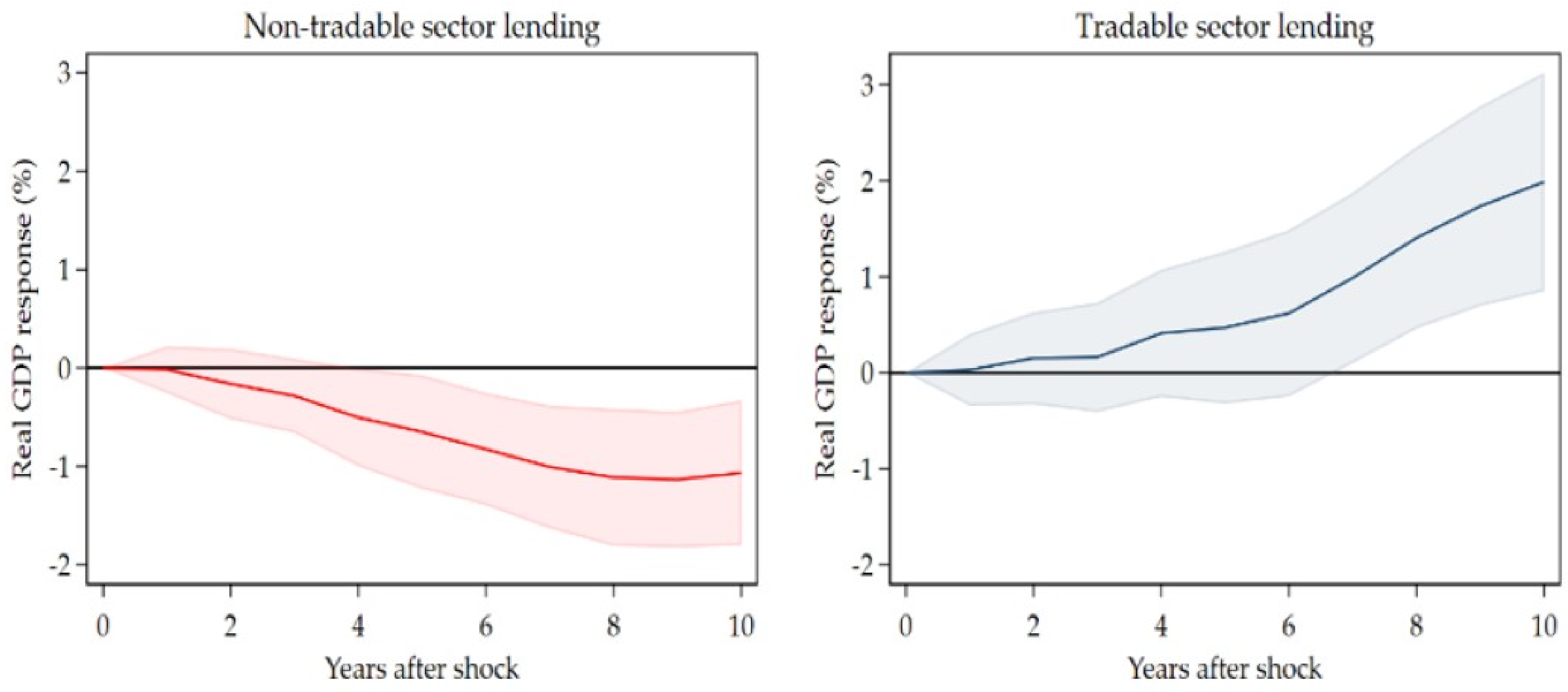
Corporate debt over GDP booms in history



The aftermath of corporate and household debt booms differs

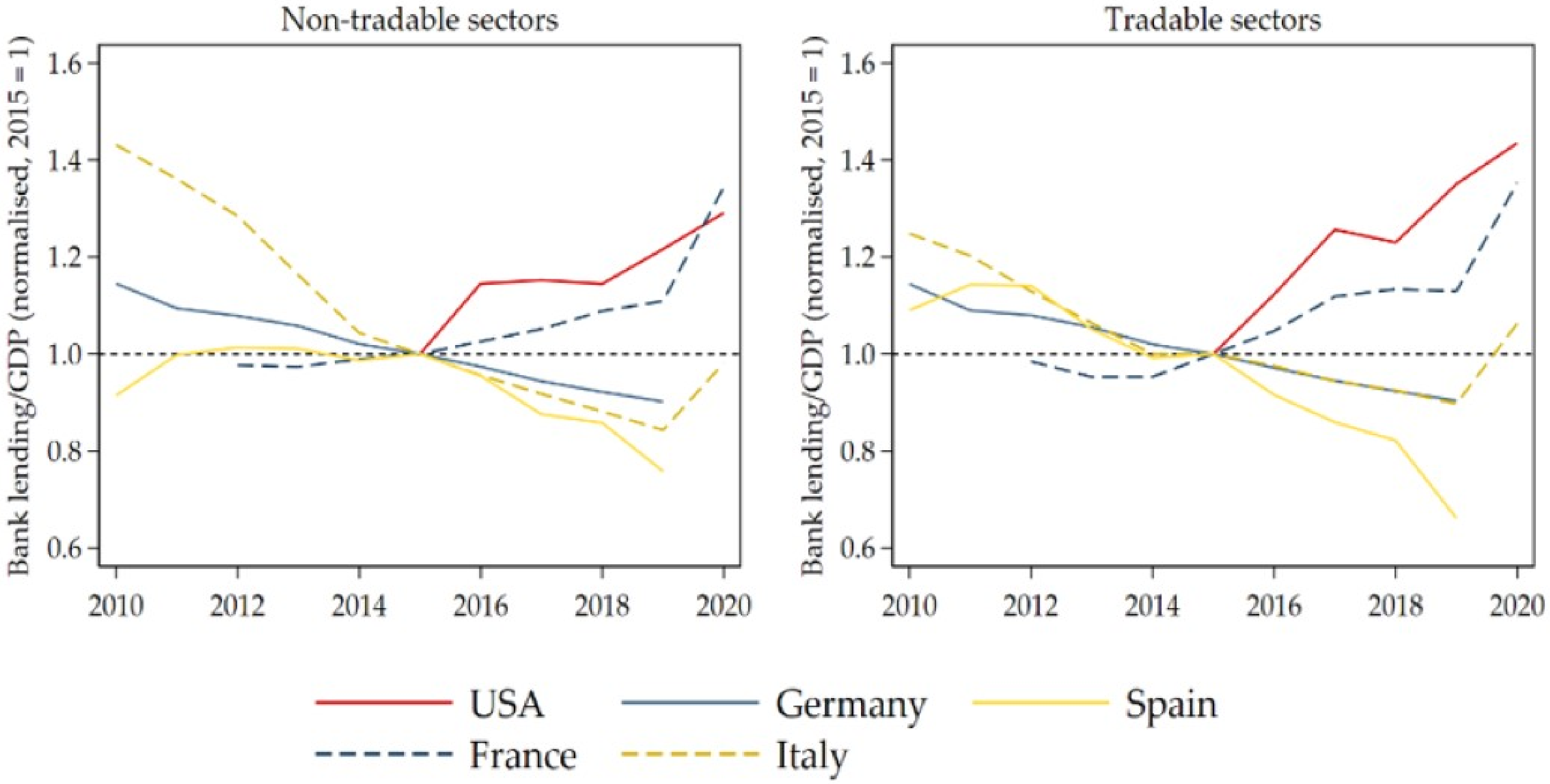


But the sectoral composition matters too



Notes: Reproduced from Müller and Verner (2021). Impulse response functions for a +1 pp. increase in sectoral non-financial business credit/GDP. Shaded area mark 95% confidence intervals. Estimated by local projections on a sample of 116 emerging market and advanced economies over the time span 1940-2014.

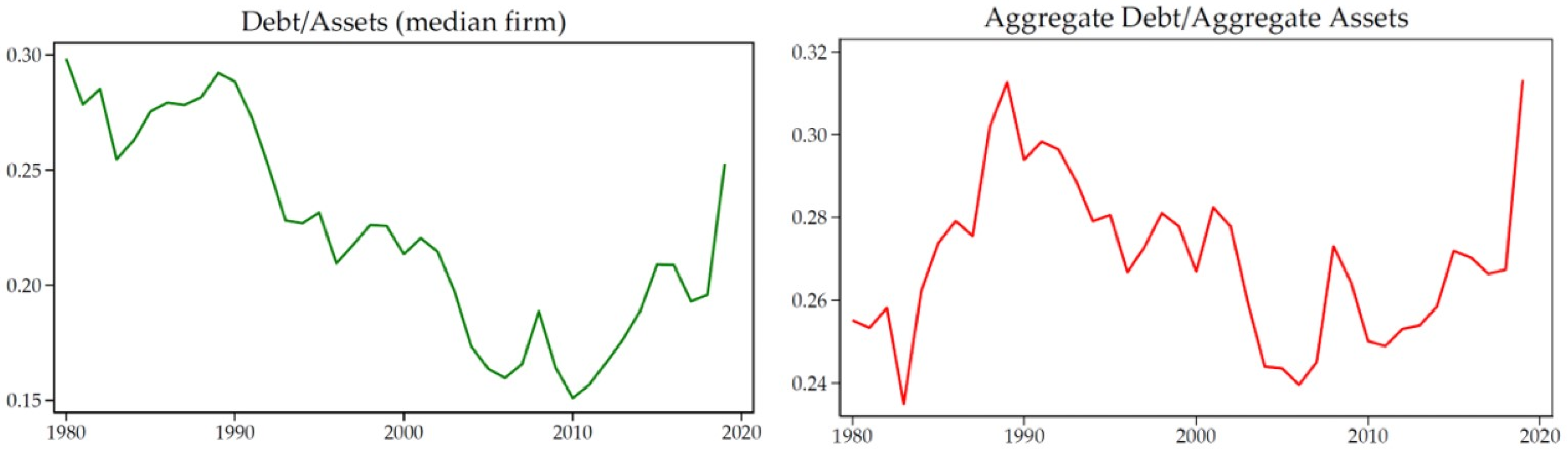
No red flags



Non-tradable sectors
Tradable sectors
Bank lending/GDP (normalised, 2015 = 1)
1.6
1.4
1.2
1.0
0.8
0.6
2010
2012
2014
2016
2018
2020
USA
Germany
Spain
France
Italy

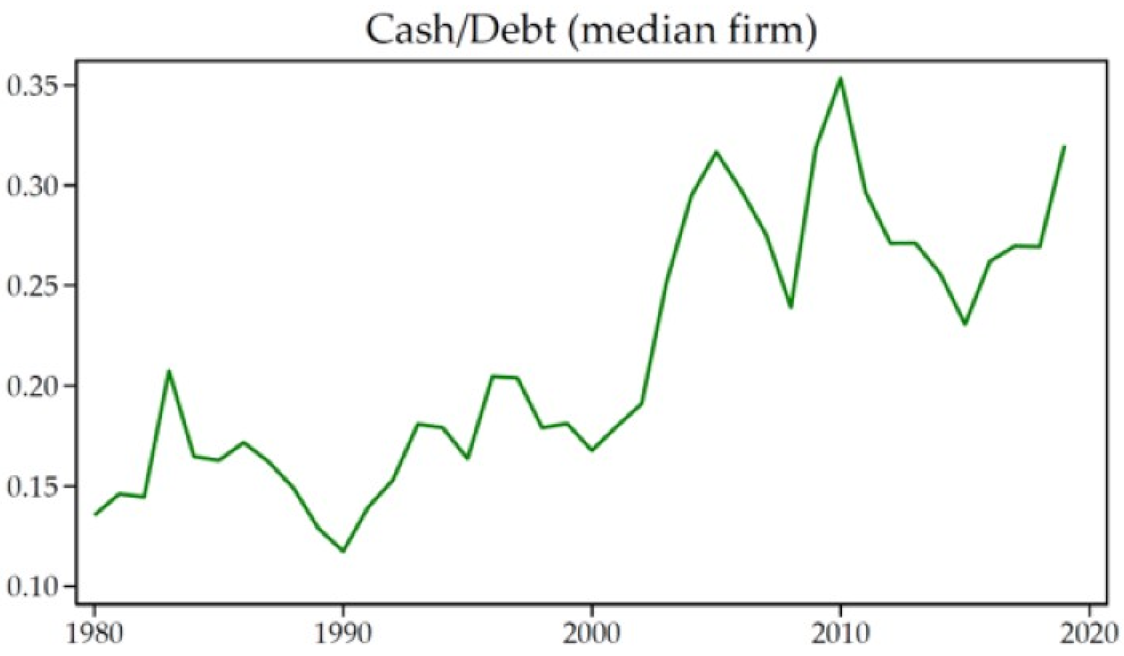
The balance sheet perspective

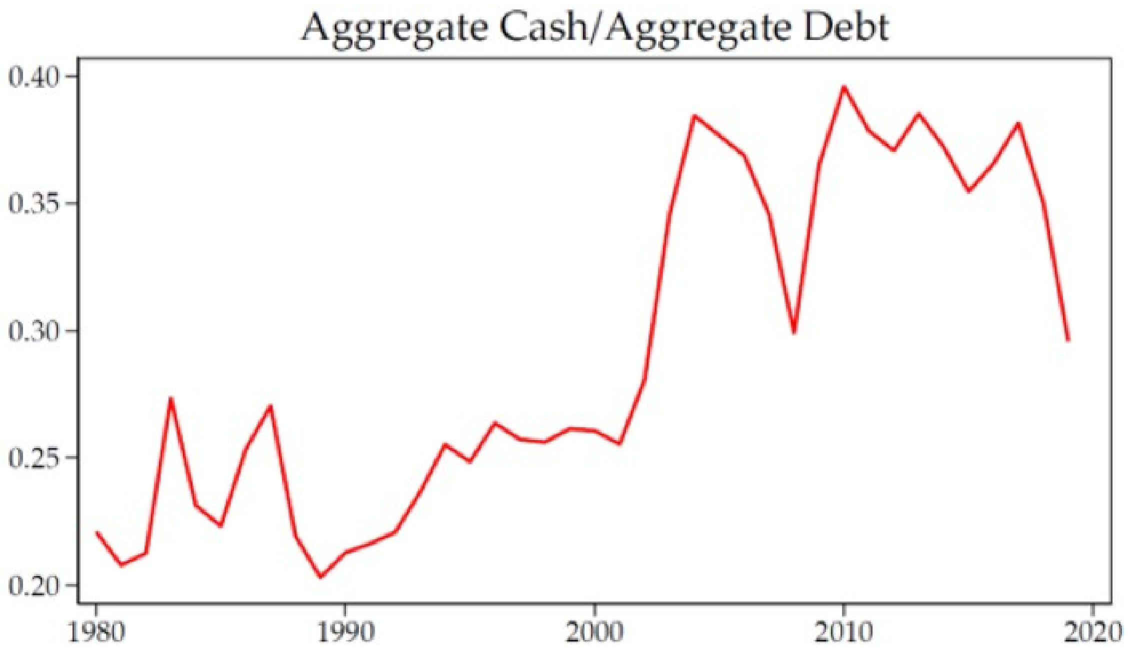
U.S. listed firms: total debt over assets on downward trend (before Covid)



Source: Compustat

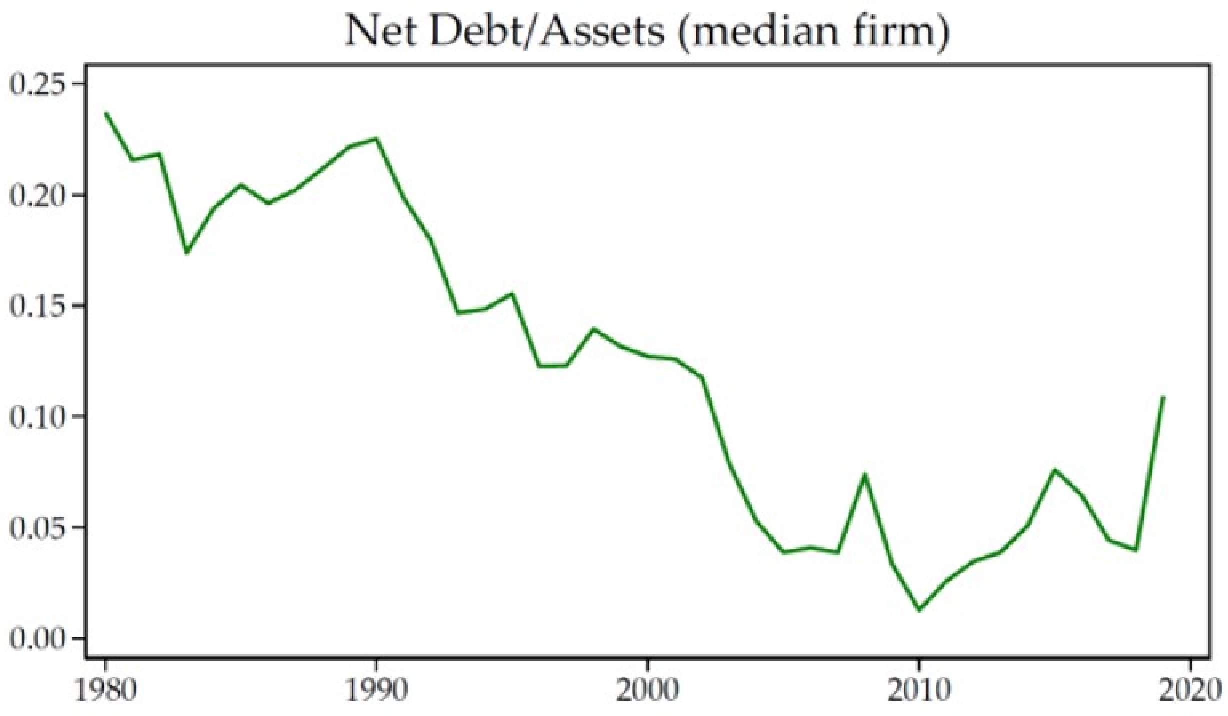
Listed U.S. firms: cash levels have risen

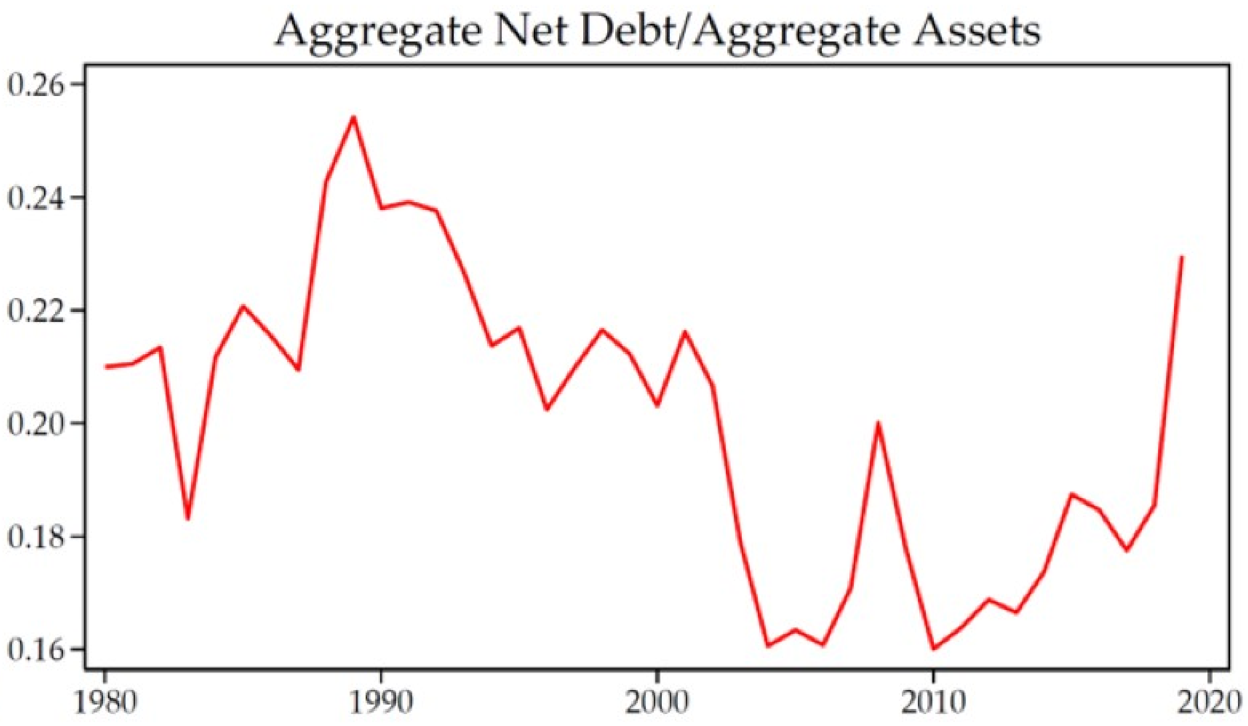




Source: Compustat

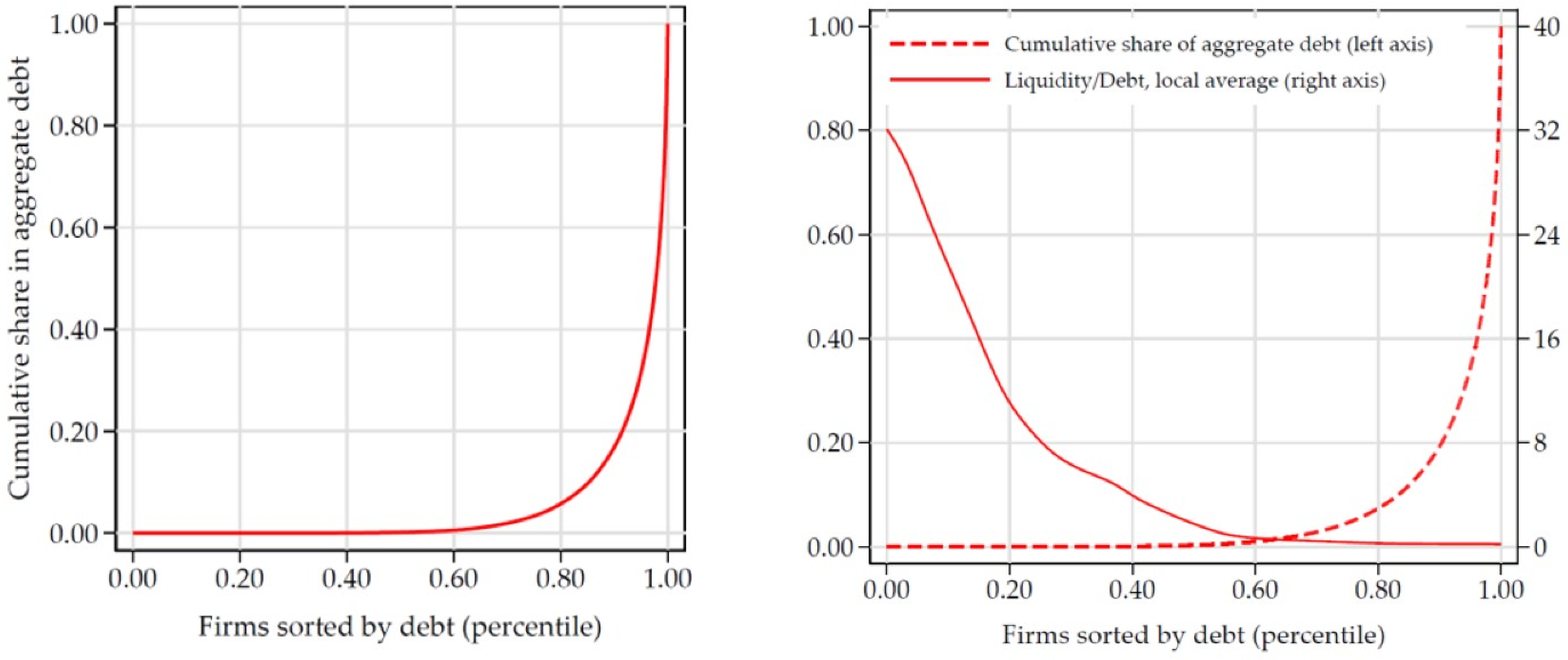
Listed U.S. firms: net debt over assets





Source: Compustat

Distribution of debt and cash ratios



Source: Compustat

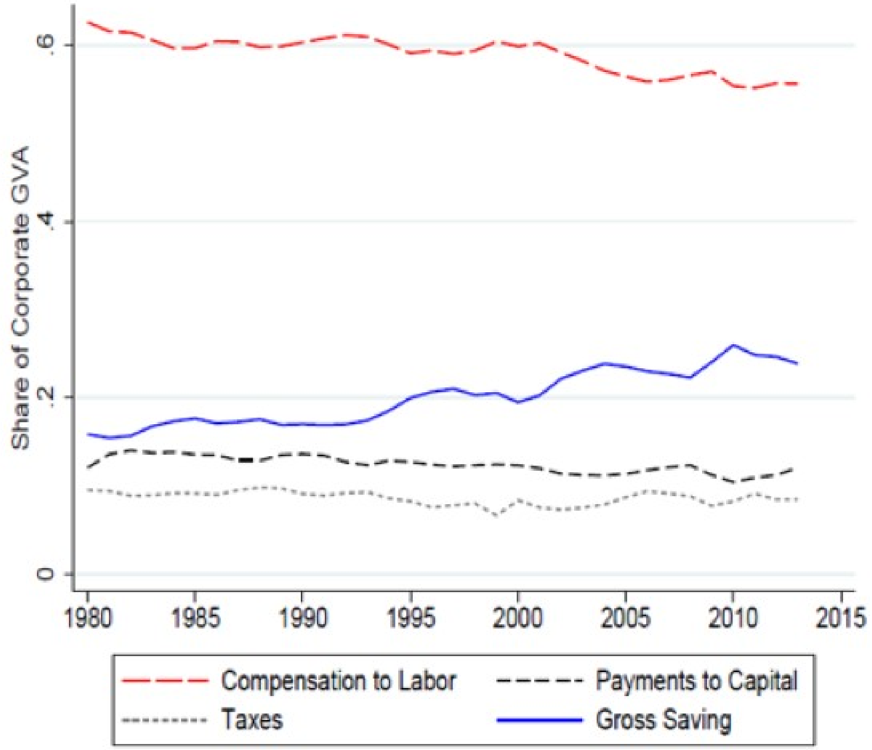
How worried should we be about corporate debt levels at this moment?

- Not so much.
- Key findings of the paper:
  - aggregates mask substantial heterogeneity: smaller & riskier firms are less leveraged
  - cash holdings have increased
  - interest burden down
- These findings mesh nicely with recent macro insights into corporate debt booms and their aftermath
- They also make a lot of sense in light of an important macro trend: the rise of corporate saving

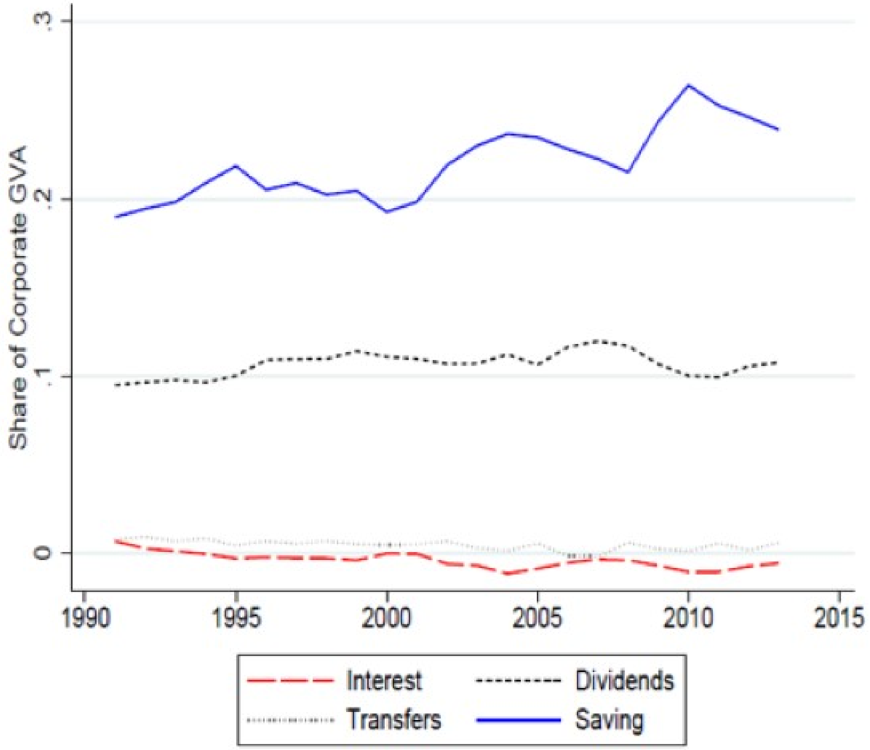
The bigger macro question

- Rise of cash holding part of a bigger phenomenon: the rise of corporate savings
- Corporate savings have increased strongly such that the business sector has become a net lender to other sectors of the economy
- This connects corporate saving to the broader question of increased savings supply and declining real interest rate in recent decades

The Rise of Corporate Savings



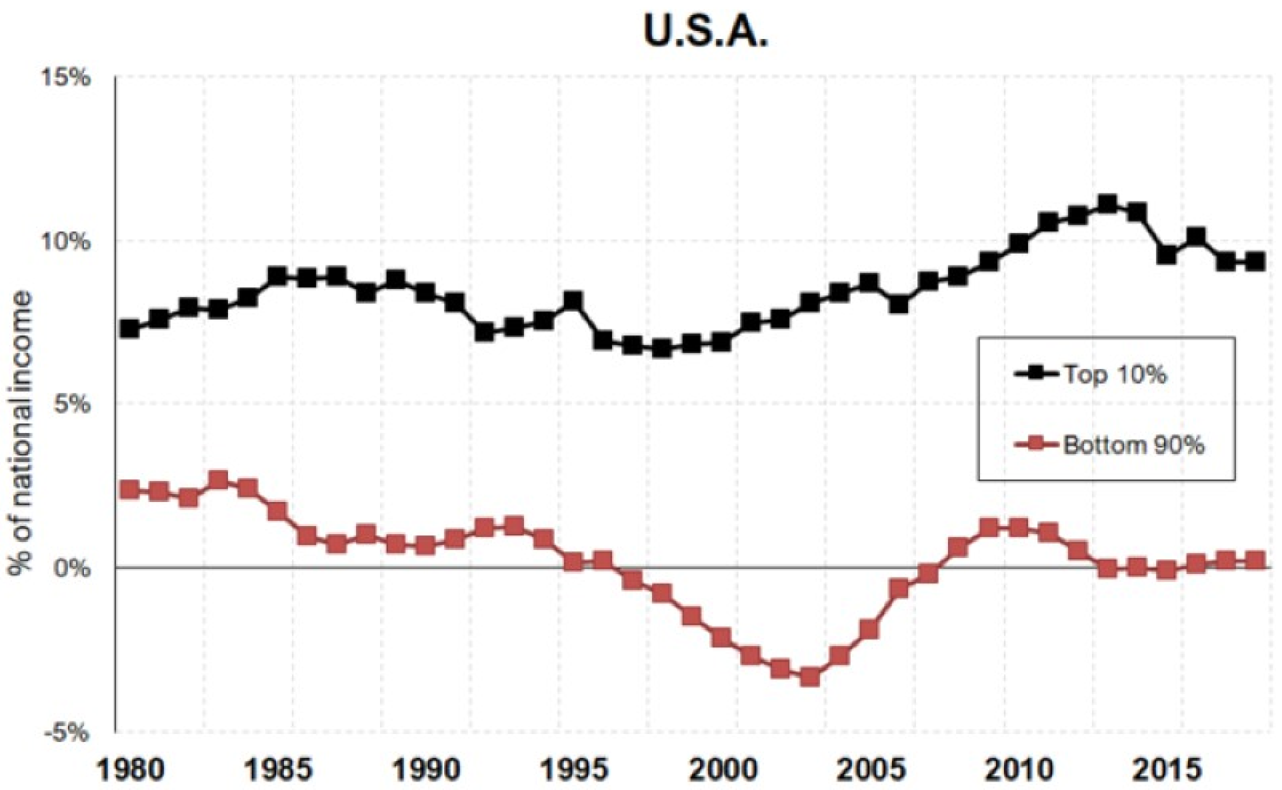
(a) GVA Components



(b) Saving, Dividends, and Interest

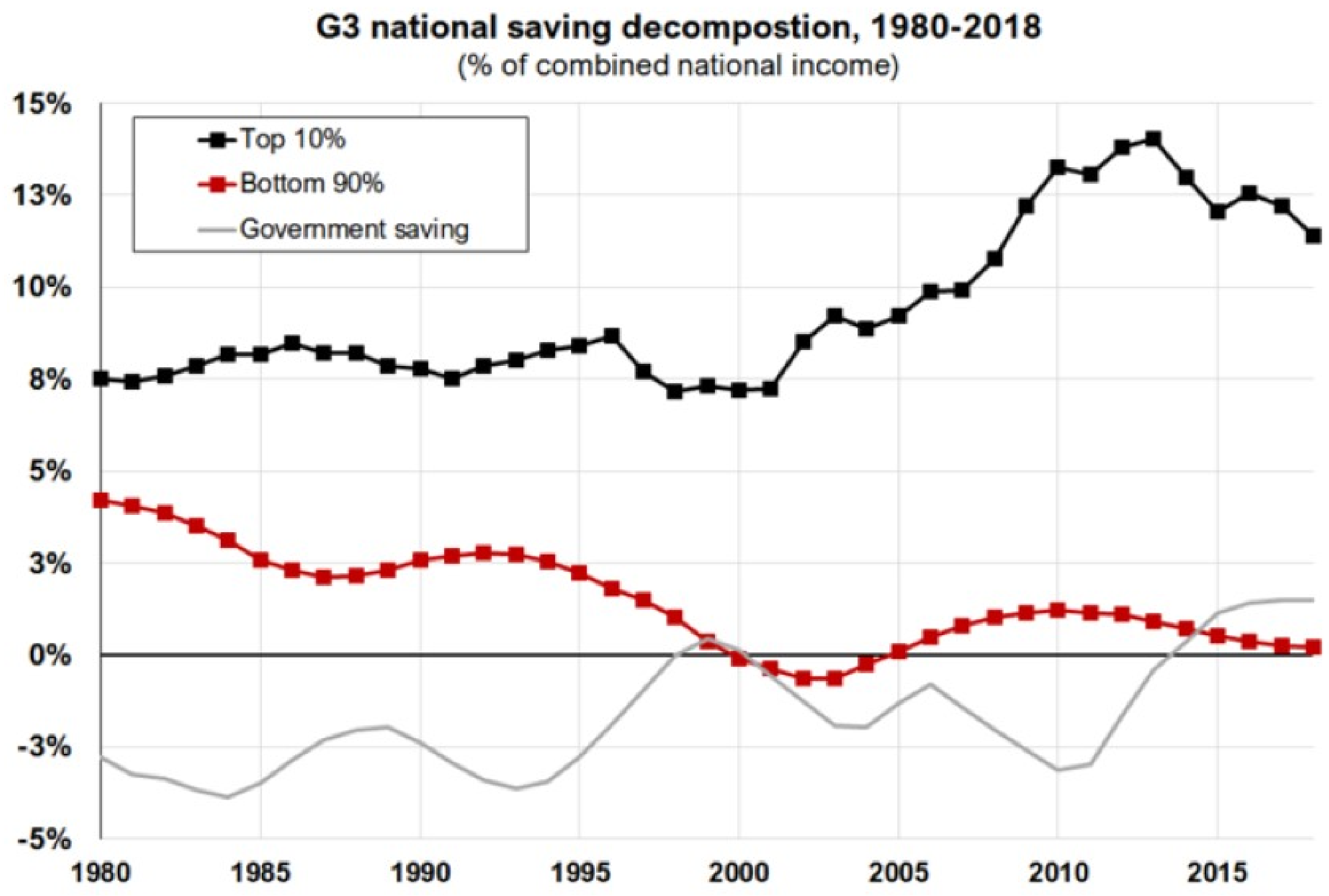
Source: Chen, Karabarnounis, Neiman 2017

The Savings Glut of the Rich (cf. Mian, Straub, Sufi 2021)



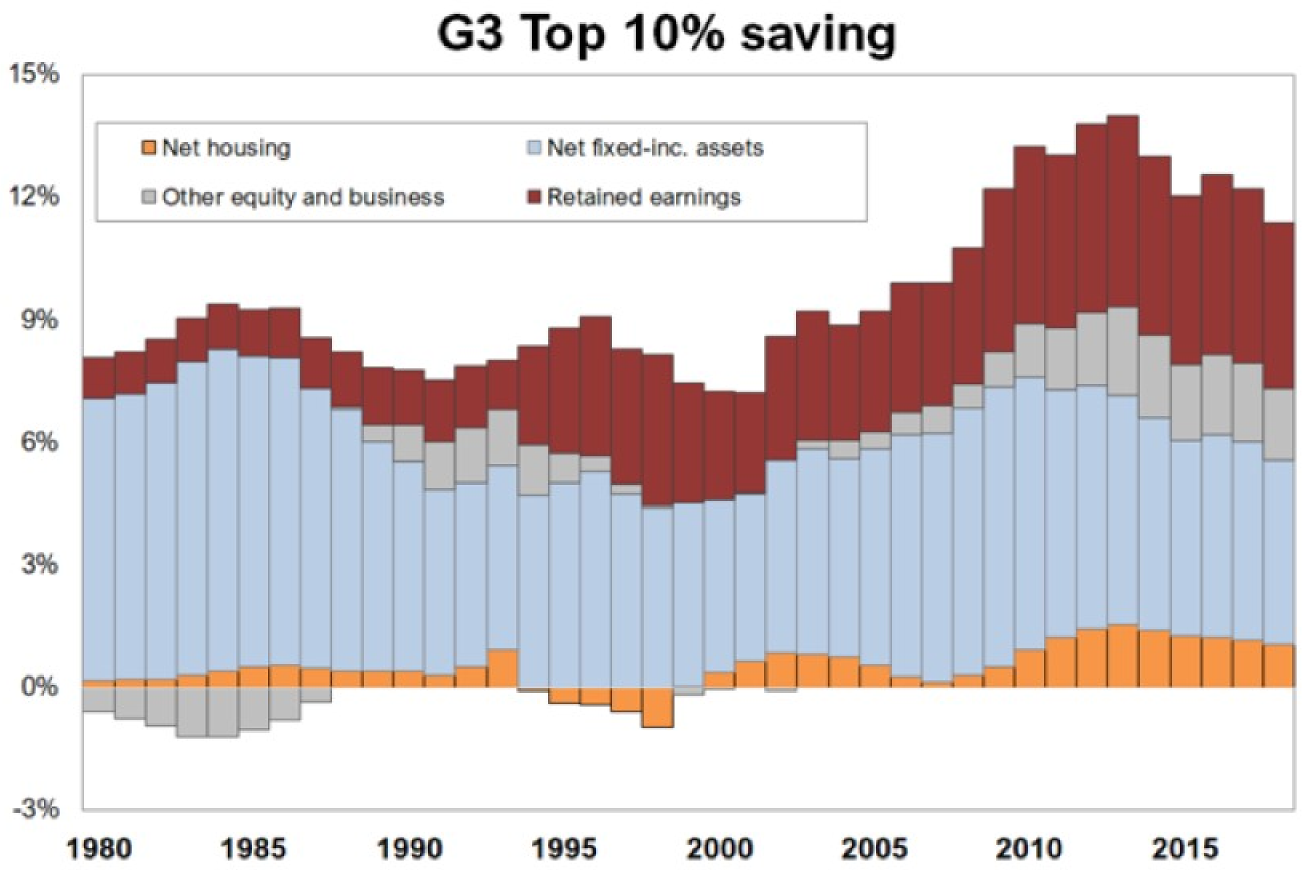
Source: Bauluz, Novokmet, Schularick, The Anatomy of the Global Savings Glut, 2021

The global picture looks similar: U.S., Europe, China combined



Source: Bauluz, Novokmet, Schularick, The Anatomy of the Global Savings Glut, 2021

What's driving it? Mainly corporate savings allocated to ultimate owners



Source: Bauluz, Novokmet, Schularick, The Anatomy of the Global Savings Glut, 2021

Summary

- Excellent paper that provides essential guidance to policy-makers at the current juncture.
- Both from a macro and micro perspective, it seems unlikely that corporate debt overhang will become a millstone around the neck of the economy.
- Effi‘s paper underscores the rise of corporate cash balances and savings as one of the most striking macro developments in recent decades.
- Urgently need more research on the motives behind the accumulation of safe assets on corporate balance sheets in recent decades.