Discussion of

The role of trade credit during the recent financial crisis: Evidence from German small, medium, and large sized firms

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What is this paper about?

- This paper studies the effect of the 2007-2009 financial crises on trade credit of German SME, medium, and large firms.
- Motivation: Most previous studies analyze the effect for large public firms but smaller firms more heavily rely on trade credit and are thus more likely to be affected.

Research Questions

- How do firms meet liquidity needs during times of crisis?
- Is trade credit a substitute for bank financing? Who receives trade credit during crises? Who extends credit?
- Do financially unconstrained firms (firms with access to bank credit) offer trade credit to more liquidity constrained customers?

Hypotheses

In response to the bank lending supply shock,

- (H1) Accounts receivable and accounts payable decline
- (H2) Trade credit reduction is higher for more finacially constrained firms (”redistribution view”)
- (H3) Short-term bank debt and trade credit are susbtitutes if access to bank financing is restricted
- (H4) Trade credit reduction is higher for smaller firms (”redistribution view”)

Empirical specification(s) and result(s)

- Proprietary dataset (Creditreform AG) that contains financial statement data (2004-2010)
- Similar empirical specifications as in Love et. al. (2007): Trade credit measures as dependent variable, crisis time dummies, crisis interactions, and fixed effects
- Additional tests

Results

- AR and AP decrease (support for H1)
- Financially constrained firms reduce trade credit provision more while trade credit usage is not different (support for H2)
- Short-term bank debt is substituted by trade credit (support for H3)
- No difference in trade credit reduction for small and large firms; however, larger firms reduce accounts payable more than smaller firms (no support for H4)

Comments

- *Difference-in-difference specification:* Financially constrained and unconstrained differ in various respects. This complicates inferences that we can draw from these results. Could exploit propensity-score matched samples.
- *Demand or supply:* The results could not distinguish whether the effects are due to differential changes in demand or differential changes in supply.
- *Further Tests:* Dependent suppliers or big customers? Are the effects different? Suppliers making firm specific investments?
- Too many tables (17)
- *Overall Comments:* Overall, interesting paper.