



BANK OF CANADA
BANQUE DU CANADA



BANK OF ENGLAND

NOVEMBER 15, 2022

Conference on Diversity, Equity and Inclusion in Economics, Finance, and Central Banking

Discussion of "Bank Competition and
Entrepreneurial Gaps: Evidence from Bank
Deregulation", by Xiang Li

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Overview

- Main Question: Does increased access to “quality” finance help close gender/racial gaps in entrepreneurship?
- This paper uses mostly post-1994 interstate banking deregulation to establish that:
 - ▶ Racial and gender gaps in entrepreneurship exist
 - ▶ Bank deregulation increases access to high quality bank services due to “increased competition” and helps close some (most?) of these gaps
 - ▶ Female and minority entrepreneurs start profitable and long-lasting firms. Contributes to economic growth
 - ▶ This helps close the wealth inequalities based on gender and/or race

Overall: A Lot to Like

- An (obviously) important topic that is mostly overlooked by the large literature on the impact of US bank deregulation
 - ▶ Establish the existence of gender and racial gaps first
 - ▶ Then say something about how bank deregulation narrowed these gaps
- Extremely thorough paper, which attacks the problem from many different angles
 - ▶ Multiple data sets, each answering one part of the question
 - ▶ Just the expansion of the Rice and Strahan (2010) index is worthy of praise
- Main empirical findings about transition to entrepreneurship are convincing
- There is a lot going on, but the paper is certainly worth the time and effort!

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- Three main categories of comments
 - 1 Timing and mechanism
 - 2 Data and methodology
 - 3 Gentle suggestions on improving and/or streamlining the paper

Timing and Mechanism

- Deregulation took a while and something happened in each stage:
 - ① Pre-1994: Faster income growth (Jayaratne and Strahan, 1996); more entrepreneurial activity (Kerr and Randa, 2009); more student loans (Sun and Yannelis, 2016); more credit for durables consumption (Damar, et al., 2022)
 - ② Between 1994 and 2006: Lower interest rates on business loans (Rice and Strahan, 2010); more mortgage credit (Favara and Imbs, 2015); more patents and innovation (Cornaggia, et al., 2015)
 - ③ Post Dodd-Frank (2010): Less discriminatory lending, increased access to PPP loans (this paper)
- What happens when? Why *no difference in credit access* in Rice and Strahan (2010) but *more credit access* in this paper? Is the impact of deregulation “evolving”, so some outcomes need more time?
- The paper spans 30 years, so this is worth some discussion

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Timing and Mechanism

- When do gender and racial gaps close due to deregulation?
 - ▶ Just 27 states (out of 51) have any deregulation after 2010
 - ▶ 10 states have no change in the index throughout the sample period
- Should transitions into entrepreneurship in Michigan during the 2010s be attributed to a “deregulation shock” from 1995?
 - ▶ Do racial/gender gaps start small in states that deregulated early?
 - ▶ Or, does it take time for gaps to disappear (Panel (b) of Figure 3)?
 - ★ For example, gaps in human capital need to disappear first and entrepreneurial activity follows later?
 - ▶ Cross-tabulations of entrepreneurial gaps with the timing/stage of deregulation would be very helpful
 - ▶ Alternatively, cut the sample into different periods?

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Timing and Mechanism

- What exactly is the “increased competition” mechanism?
 - ▶ Do new entrants lend to the “best of the best” female/minority entrepreneurs for easy market share? If so, how do they overcome informational problems or the lack of soft information?
 - ▶ Or is it the adoption of more efficient hard information technologies/methods (like credit scoring) by local banks?
 - ▶ Who is making these loans? New entrants? Incumbents? Everyone?
 - ★ Can studies on racial discrimination in PPP be helpful in this regard?
- Data challenges are obvious but some discussion and links to existing papers would be helpful

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Data and Methodology

- Are these “deregulation shocks” or comparison of fully vs. partially deregulated states at a given time period?
 - ▶ Repeated cross-sectional data avoids the multitude of problems associated with “DiD with staggered treatment”
 - ▶ Still, the term “shock” suggests comparing states with recent index changes to those with constant indices. Is this the specification?
 - ▶ Consistent and clear use of terminology would help with the flow
- The deregulation index is only improving over time. Are there any “control” states left by the 2010s?

	0 (reg)	1	2	3	4 (dereg)
2010:	0	8	14	13	15
2000:	9	20	6	7	8

- Should we expect similar results from the 2000s vs. 2010s?
- Also, is the impact necessarily “linear”? Does the type of (de)regulation matter?

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Data and Methodology: A Wish List

- Much more on the empirical specification, including the “timing” of index changes and their implications on the regressions
- Much more on the data, including entrepreneurial transitions based on index values, time periods, etc. What is the average lag between the most recent index change and entrepreneurial transition (for advantaged vs. disadvantaged persons)?
- More details on the specification that leads to Figure 3. A discussion of why/how the reduction in the racial gap takes longer and how many observations are in the “> 3” window
- A discussion of “entrepreneurial churn” (Kerr and Randa, 2009) and the presence of “serial entrepreneurs” in the data
- Clear discussions of why/how the sample sizes are (constantly) changing within and across tables

Trying to do “too much” with limited data?

- 1 CFPB complaints: Really cool idea and impressive implementation. However, the data starts (a) late in the sample period and (b) are there enough complaints? In 2015 there were 162K complaints (55K with narrative) for 41K zip codes. Is this enough or are your findings due to a few outliers?
- 2 Branch entry: The (extensive) literature on bank entry argues that banks start with major urban areas of new markets, which will often have more minority residents. So, is the paper simply capturing the sequence of how banks enter and expand in new states?
- 3 “Big firm” start-ups: Using Table 1, I approximated 750 big firms, 344 of them by female/minority entrepreneurs (out of 182,959 total observations). Is that enough variation?

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Trying to do “too much” with limited data? Continued

- ④ External financing and firm performance: What is the distribution of female/minority start-ups across industries? Do you have/need industry controls? Some industries are going to have smaller and lower profit margin firms (like restaurants)
- ⑤ There is a substantial (and expanding) literature on PPP, some of which have data on whether firms have PPP/minority owners. Given how much is already going on, is the PPP extension necessary?

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Concluding Remarks

- A paper that was clearly crafted with much effort and care on an extremely important topic
- The main point is clearly and convincingly made, although the empirical methodology can benefit from some more discussion
- It is not the easiest read in places but more than worth it in the end
- A clear narrative that combines the various moving parts might streamline the paper and make it even better