

Intergenerational Effects of Debt Relief: Evidence from Bankruptcy Protection

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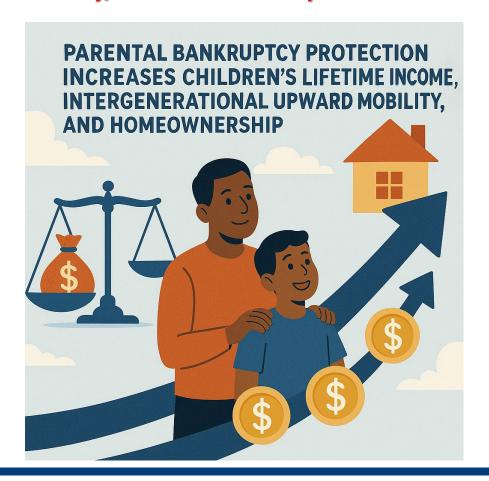
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Overview



 What is the effect of parental bankruptcy protection on children's income, intergenerational mobility, and homeownership?



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Overview: Findings



- What is the effect of parental bankruptcy protection on children's income, intergenerational mobility, and homeownership?
- 1 million+ Parents' bankruptcy filing information + children's administrative data in 2018-2022
- 2SLS using judicial leniency as an instrumental variable

Findings:

- Children of parents receiving Chapter 13 bankruptcy protection experience significant increase in lifetime income: \$1 debit relief ~ \$2 adjusted present value of lifetime earnings
- Increased intergenerational upward mobility: more likely to rank in top tercile of income distribution
- Homeownership: 5 p.p. more likely to own a home by age thirty

Overview: Mechanisms



- What is the effect of parental bankruptcy protection on children's income, intergenerational mobility, and homeownership?
- Mechanisms for intergenerational upward mobility for distressed households:
 - **Protection of assets**: e.g., houses
 - <u>Higher investment in children's education and skill-development</u>: children of recipients more likely to attend college and secure higher-paying jobs
 - Avoiding forced geographic mobility
 - Not support/limited evidence: neighborhood effects/experience effects

Contributions and Policy Relevance



Borrowing is risky; how to assist distressed borrowers?

- Home Affordable Modification Program (in the aftermath of the Great Recession)
- Student loan forgiveness (Biden administration)
- Bankruptcy protection

Conceptually,

- In addition to immediate impact on debt relief recipients, less is known about the <u>long-run</u>
 <u>impact</u> and <u>broader implications to families</u>
- New channel to promote intergenerational upward mobility for low-income distressed households (MTO → neighborhood effect, education equalization)

Methodologically,

- Powerful administrative data (Court Electronic Records & anonymized data from Equifax on credit histories, household members, children's earnings)
- Causal identification using a strong IV of variation in judicial leniency (despite bankruptcy code is uniform)

Comment 1. Social Stigma



- Bankruptcy, unfortunately, can be a social stigma
- Herkenhoff, Philips, and Cohen-Cole (2017WP~2021JFE): "firms believe previously bankrupt workers are 3.8% less productive than non-bankrupt workers, on average"
- Such belief in productivity can affect receipts' employment status and earnings,
- and investment in their children's human capital

Comment 2. Psychological Channel



- A recently studied new channel of intergenerational transmission: mindset
- Huang, Song, and Xie (2023): intertwined dual-pathway socioeconomic pathway (measured by education) + psychological pathway (mindset)
 - Mindset channel is strongly correlated with cognitive skills, personalities, attitudes
- Borgonovi and Porkropek (2025 Science): young people's belief in opportunities for meritocratic advancement can motivate efforts and defend unequal system
- If the stress/mentality of the bankrupted parents passes to the children,
- Children's socioeconomic/financial outcomes may also change, via cognitive skills, perception, attitude

Comment 3. Parent-Child Pairs



Identifying children of bankrupted individuals:

- Anonymized last names & address histories
- "same last name who shared at least one mailing address or their address histories"...
- "between 17 and 50 years younger"

Potential mis-specification:

- Grandparent: the poorer tend to have kids earlier, and over generations
- <u>Uncle/aunt:</u> lower intergenerational association estimate
- <u>Sibling:</u> (i) the part due to parents–children association, and (ii) the other factors shared by siblings but orthogonal to parent's influences (Solon, 1999; Ahsan et al., 2025)
- Changed surname after marriage: potential lose of parent-child pairs
- <u>Co-residence bias</u>: richer or poorer tend to co-reside more likely?

Possible remedies:

- Restrict the sharing of address in early life-stage
- Restrict to even smaller family size (currently drop household with more than 5 children)

Comment 4. Assignment Rules



- Assignment of cases to judges:
 - Is it by rule a random assignment process?
 - Statically, does judges' specialization or history matter?

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Dynamically, is there any Bayesian updating?

• > more institutional background could be helpful!

In Summary,



- Very well written and solid paper
- Overlap labor and finance
- Important policy relevance
- Highly recommend!



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Thank You!

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