

Intergenerational Effects of Debt Relief: Evidence from Bankruptcy Protection

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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
 - **Higher investment in children's education and skill-development**: 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 long-run impact and broader implications to families
 - 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
 - Uncle/aunt: lower intergenerational association estimate
 - Sibling: (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
 - Co-residence bias: 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?*
 -
 - *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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