Discussion of
“Intergenerational Mobility and Credit”
by Braxton, Chikhale, Herkenhoff & Phillips

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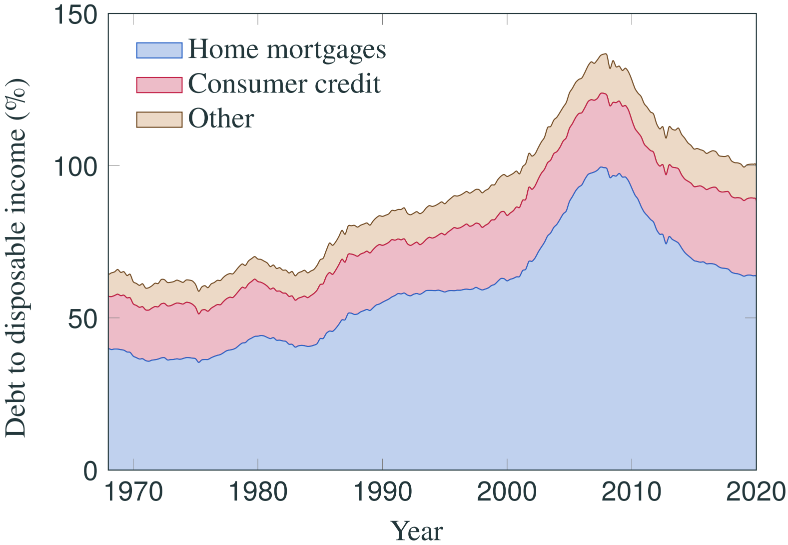
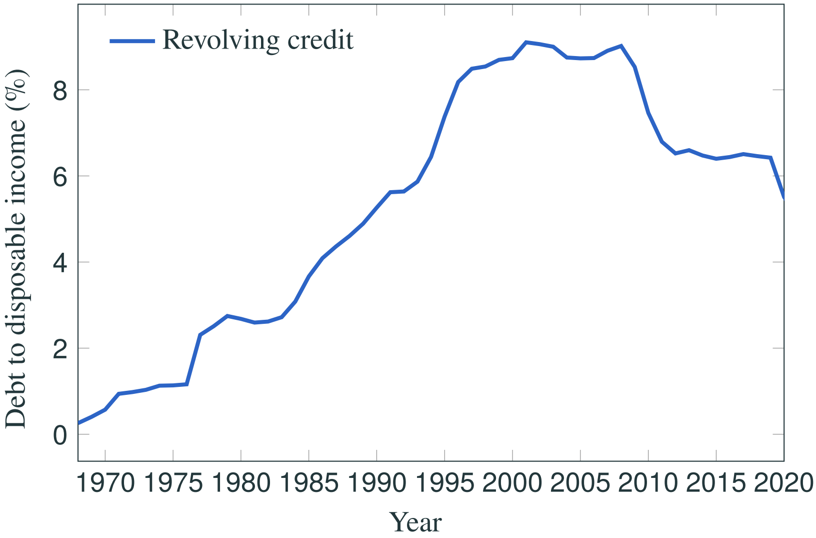
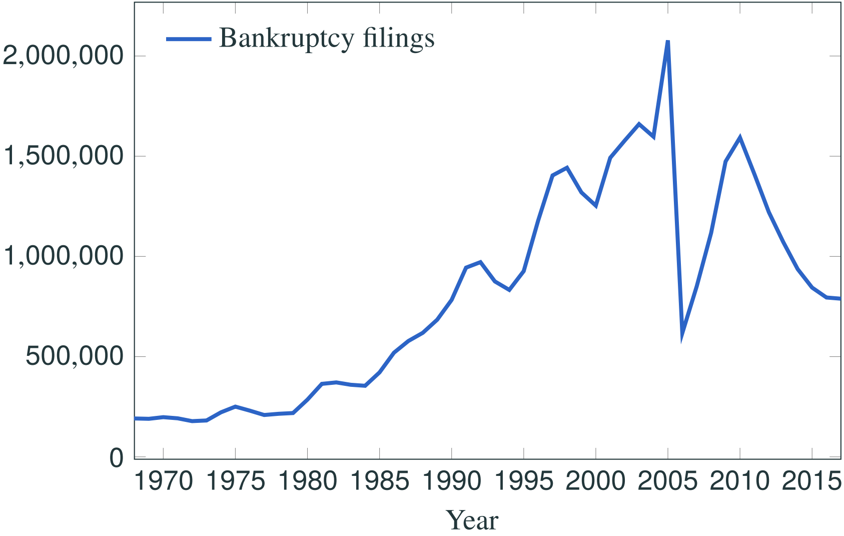
Household debt rises sharply from 1970s to mid-2000s



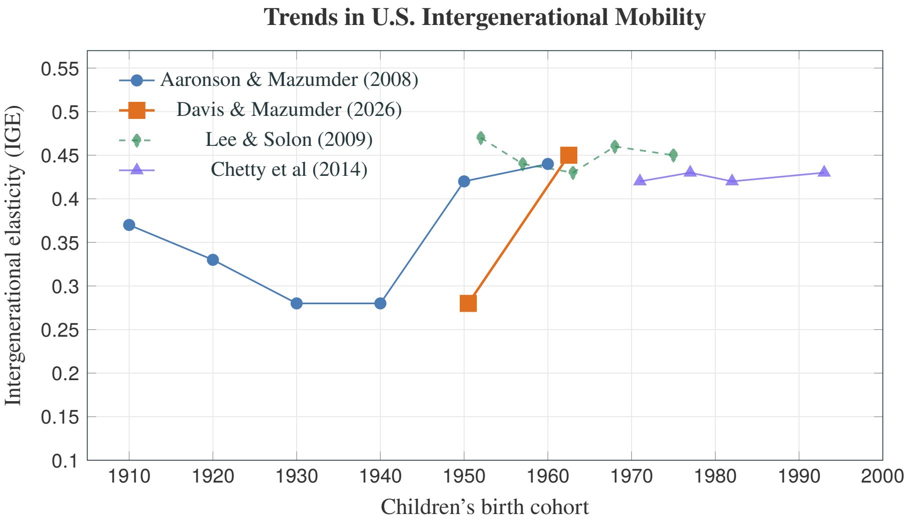
In proportional terms much larger rise in revolving credit



Bankruptcy filings mirror the rise in revolving credit

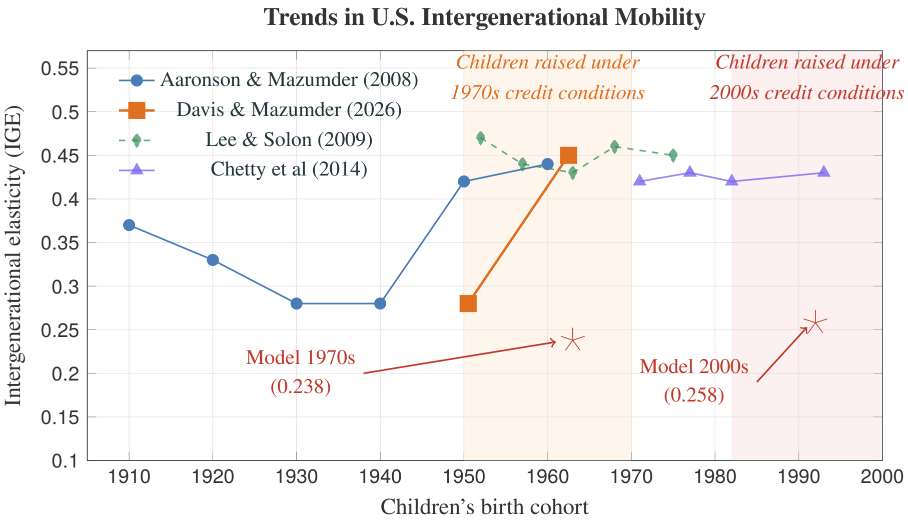


Mobility has declined...



Multiple studies document rising IGE (falling mobility) for post-1940 cohorts.

Mobility has declined... but how much is credit?



The model in this paper attributes 8.5% of this to credit democratization.

Important and timely question

- How did the expansion of credit since the 1970s affect intergenerational mobility?
- Requires new data set linking credit, parents and children's labor market outcomes
- New dataset: TransUnion credit reports $\times$ Decennial Census $\times$ LEHD earnings records.
- Two opposing forces at play:
  - Expanded credit limits $\rightarrow$ relax borrowing constraints $\rightarrow$ more child investment
  - Cheaper bankruptcy $\rightarrow$ less precautionary saving $\rightarrow$ households closer to constraints $\rightarrow$ less investment
- Helps us understand the distributional consequences of financial development.

Their paper in a nutshell

- Use IV regressions to estimate the causal effect of parental credit on children's earnings:
  - Two IVs: (1) age of oldest credit account, and (2) bankruptcy/foreclosure flag removal.
  - Result: 10% more unused revolving credit → children's earnings 0.5–0.6% higher.
  - Mechanisms: credit access linked to more childcare spending, better education and labor outcomes, and better smoothing of parental income shocks.
- Structural model to study increase in credit access from 1970s to 2000s:
  - Discipline 2000s model with LATE estimates
  - Model captures change in the distribution over time, in addition to LATE
  - Credit democratization *lowered* intergenerational mobility (raised IGE by 8.5%).
  - Mechanism: cheaper bankruptcy reduced precautionary saving, left low-income households more constrained.
- Ambitious and comprehensive paper! Now some comments...

Roadmap of comments

Empirical:

1. **Exclusion/selection:** Is the AOC a valid instrument?
2. **Identification:** What does the IV identify?
3. **Measurement:** 2005, HELOCs, and legal/asset-based confounds

Model:

1. **Missing mechanism:** dynastic precautionary savings
2. **Calibration:** Too narrowly parameterized counterfactual?
3. **Modeling choice:** Credit lines vs one-period debt?

Empirics Comment 1: AOC is relevant, but is it exogenous?

- Instrument: timing of when parents first opened a credit account (e.g. 1970 vs. 1972).
- Identifying assumption: conditional on controls, 2-year difference in credit adoption timing is as good as random.
- Concern: early credit adopters (1960s–1970s) were likely different in unobservable ways.
  - Financial sophistication, forward-looking behavior, risk preferences
  - Geography and creditworthiness
- Before Marquette (1978), usury caps likely made card access more state-dependent and type-dependent within state. If the required rate rises with default risk, a binding cap implies rationing.
- Figure 2b is useful, but not a parallel-trends test because it's not event time and there is stack overlap

Some things to check:

1. Drop pre-1980 first-card cohorts / stacks or split sample
2. Add richer geography-by-cohort controls (state, region, state×cohort)
3. Placebo tests on other outcomes (divorce, neighborhood quality)

Empirics Comment 2: What does the unused-credit IV identify?

- Instruments shift credit *limit*. But the endogenous variable is *unused* credit = limit − balance.
- Decompose the first stage:

$$\frac{\partial(\text{unused credit})}{\partial Z} = \frac{\partial(\text{limit})}{\partial Z} \times (1 - \text{MPB})$$

- With heterogeneous marginal propensity to borrow (MPB), the IV **reweights** compliers: low-MPB households get more influence; high-MPB households get less.
- So the chain is: high unused credit ← low MPB ← high wealth ← households that invest in children *regardless of credit access*.
- Young, low-wealth, borrowing against future earnings households are exactly the ones who *use* new credit and get downweighted.

What I would do: Lead with the reduced form

- The **reduced form** (the direct effect of the instrument on children's earnings) is the cleanest causal object available.
- No first stage $\Rightarrow$ no MPB reweighting, no wealth proxy, no log-base artifacts.
- The AOA reduced form answers: "what happens to children's earnings when parents get credit access 2 years earlier?"
- The flag reduced form answers: "what happens when a derogatory flag is removed?"
- These are *directly policy-relevant*: credit democratization operated through exactly these kinds of access expansions.
- Downside: instrument-specific units, so magnitudes aren't directly comparable across IVs, but are mappable to the model.

What I would do: Use limits as the endogenous variable

- When a scaled estimate is needed, the **credit limit** is the natural endogenous variable
- This eliminates three problems in one step:
  1. MPB re-weighting: limits aren't contaminated by borrowing behavior
  2. Wealth proxying: limits reflect credit supply (subject to caveats before)
  3. Log-base inflation: limits don't start near zero for constrained households
- The interpretation is cleaner: "effect of a 10% limit increase on children's earnings" = effect of credit *supply*, which is what credit democratization changed.
- Still a LATE with heterogeneous compliers across instruments, but the heterogeneity reflects who gets credit supply expansions, not who happens to sit on unused credit.

Biggest untapped potential: Heterogeneous effects as the main analysis

- Single IV estimate is inherently ambiguous given the confounds.
- Heterogeneous effects *are* the analysis.
- Interact the instrument with bins (income quartiles X child-age X parental edu)
- Why these dimensions?
  - **Income quartile:** directly tied to the borrowing-limit schedule and the paper's core mechanism
  - **Child age bin:** speaks to timing of exposure / later-childhood vs earlier-childhood channels
  - **Parent college vs non-college:** a clean, predetermined proxy for different **income-risk processes** and therefore different precautionary-saving / borrowing responses
- Going in this direction in the appendix (a good start!)

Trace the mechanism

Step 1: Reduced form on outcomes

- Estimate subgroup-specific reduced-form effects on child outcomes Y
- This shows **where the instrument actually moves outcomes**

Step 2: Mechanism decomposition

- Report subgroup first stage on **limits**
- Construct implied utilization / MPB:

$$\widehat{MPB}_g^{RF} \approx 1 - \frac{\widehat{\Delta \text{Unused}_g}}{\widehat{\Delta \text{Limit}_g}}$$

Reading the subgroup patterns

- **Large ΔY_g, high implied utilization:** consistent with **binding constraints / active borrowing**
- **Large ΔY_g, low implied utilization:** consistent with **slack liquidity / insurance** rather than immediate drawdown
- **Small ΔY_g, large $\Delta Limit_g$:** access expands, but it does not translate strongly into outcomes

This tells us more about the economics than any single IV can: *where* does credit access matter, for *whom*, and through *which channel*?

Empirics Comment 3: Measurement: 2005 + HELOCs + legal/asset-based confounds

Three linked concerns:

- **2005 is special:** peak housing/credit boom and BAPCPA transition dynamics
- **Revolving limits include HELOCs:** may capture collateralized liquidity / housing wealth, not just unsecured access
- **"Unsecured" credit may be partially secured in practice:** Lender recovery on unsecured debt depends on bankruptcy law and exemption structure. Households with non-exempt assets (e.g., home equity above exemption limits) may effectively face different unsecured credit pricing/limits (see Mitman 2016).

What I'd like to see:

1. Decompose: credit-card limits only vs HELOC only vs combined revolving limits
2. Alternative measurement years / multi-year averages (why not use 2000, then get younger kids?)
3. Clarify mechanism language: is it about unsecured access vs making wealth more liquid?

Model Comment 1: Missing channel — dynastic precautionary savings

- Boar (2021): a large share of parental wealth is *dynastic precautionary savings*: parents save to insure children against future income risk.
- Here: parent makes a one-time transfer T *before* child's labor income risk resolves, then the dynasty separates.
- This shuts down:
  - Parents observing child income and responding with additional transfers
  - Precautionary buffers held on behalf of the child
  - Ongoing inter-vivos insurance
- If children can self-insure through credit, rational parents recognize this → less dynastic precautionary saving → freed resources could flow to human capital investment.
- This missing channel works against the paper's main mechanism and could change both the sign and magnitude of the mobility effect.

A simple 3-period dynastic model with child borrowing and log utility

- Parent has income $y \in \{y_L, y_H\}$ and lives in periods 0 and 1
- In period 0 parent chooses consumption c_0, child investment e, and saving a
- In period 1 child receives human-capital income $h(e)$ plus shock $\varepsilon \in \{0, -s\}$, and may borrow up to B

Budgets.

$$c_0 + e + a = y, \qquad c_1^P + T = a + p,$$
$$c_1^C = h(e) + \varepsilon + T + d, \qquad c_2^C = h(e) - d, \qquad 0 \le d \le B.$$

Child problem.

$$V(\varepsilon; e, T, B) = \max_{0 \le d \le B} \left\{ \log\left(h(e) + \varepsilon + T + d\right) + \beta \log\left(h(e) - d\right) \right\}.$$

When the borrowing constraint binds, $\frac{\partial^2 V}{\partial T \partial B} < 0$ so better child borrowing access lowers the marginal value of parental transfers, especially in bad states.

Better child borrowing access lowers ex-post transfers and parental saving

With log utility, if the child borrowing constraint binds in the bad state, the optimal transfer is

$$T^S(\varepsilon) = \frac{\lambda(a+p) - h(e) - \varepsilon - B}{1+\lambda},$$

so

$$\frac{\partial T^S(\varepsilon)}{\partial B} = -\frac{1}{1+\lambda} < 0.$$

- Better child borrowing access reduces the need for parental insurance in bad states
- So ex-post parental transfers fall when children can borrow more

The same force shows up in the parent's period-0 saving choice:

$$\frac{1}{y-e-a} = \beta(1+\lambda)\,\mathbb{E}\left[\frac{1}{a+p+h(e)+\varepsilon+B}\right].$$

Hence $\frac{\partial a}{\partial B} < 0$, better child borrowing access lowers the value of **dynastic precautionary saving**.

Why the mobility effect is ambiguous: direct vs indirect investment responses

Child borrowing access affects parental investment through two channels:

$$\frac{de_j}{dB} = \underbrace{\left(\frac{\partial e_j}{\partial B}\right)_{a_j}}_{\text{direct effect}} + \underbrace{\frac{\partial e_j}{\partial a_j}\frac{da_j}{dB}}_{\text{indirect effect through saving}}, \qquad j \in \{H, L\}.$$

- **Direct effect:** if children can borrow more, parental investment is less valuable as insurance
- **Indirect effect:** if child borrowing reduces dynastic precautionary saving ($da_j/dB < 0$), some of those resources may be reallocated into child investment

For the IGE, what matters is the earnings response, not just the investment response:

$$\frac{d\,IGE}{dB} = \frac{1}{\log y_H - \log y_L}\left[\frac{h'(e_H)}{h(e_H)}\frac{de_H}{dB} - \frac{h'(e_L)}{h(e_L)}\frac{de_L}{dB}\right].$$

- If the insurance-substitution effect dominates, IGE tends to fall
- If richer parents mainly cut saving and redirect it into child investment, IGE can rise
- Poorer children may still have larger earnings gains despite smaller investment changes if $h'' < 0$

Model Comment 2: Calibration of the 1970s steady state

Potential concern: the transition from the 1970s to the 2000s may be too narrowly parameterized.

- The steady-state shift is largely captured by:
  - higher credit limits, and
  - lower bankruptcy costs / more lenient bankruptcy.
- In related quantitative work (Livshits et al 2010), bankruptcy is shaped by several margins.
- By contrast, the current model loads a lot into a single bankruptcy-cost channel (effectively scaling punishment with debt, a bit unusual in this lit). Miss on 1970s non-targeted moments.
- Why this matters
  - Bankruptcy parameters appear to be high-leverage in the model.
  - If many other things also changed historically (intermediation costs, pricing wedges, markups/fixed costs), attributing too much to bankruptcy alone may distort the implied effect on mobility/inequality.
  - Especially since bankruptcy costs capable of flipping the sign of the intergenerational effect.

Model Comment 3: Why one-period defaultable debt rather than credit lines?

- Why credit lines may be the more natural object here
  - The paper's core empirical objects are **credit limits** and **unused credit**, which map much more naturally into **credit lines** than into one-period defaultable debt.
  - With credit lines, contracts are fixed ex ante and households choose how much to borrow ex post.
  - That distinction matters for mechanism:
    - expanded limits may create **slack liquidity / insurance**, or
    - they may generate **active borrowing / binding-constraint relief**.
- Why this would help the empirical interpretation
  - The IVs would map more directly into the model:
    - **early credit access** → gaining access to a line
    - **flag removal** → exogenous expansion/restoration of available line access
  - In a search framework for lines (e.g., Braxton et al 2024), some households naturally obtain access while others do not, creating a cleaner counterpart to heterogeneous/random access in the data.

Concluding thoughts

- Ambitious and thought-provoking paper tackling a first-order question.
- Impressive data construction: linking credit reports, Census, and LEHD.
- The integration of empirical IV estimates with a structural model is the right approach.
- The main result is provocative and important, but needs a little firming up.
- Sharpening the identification and expanding the model channels will strengthen the paper.
- Looking forward to seeing the next version!