ECONOMIC FINDING

Assessing the Paycheck Protection Program and Economic Outcomes

Jaoa Granja, Assistant Professor of Accounting, Chicago Booth; Christos Makridis, Digital Fellow, MIT IDE; Constantine Yannelis, Assistant Professor of Finance, Chicago Booth; Eric Zwick, Associate Professor of Finance and Fama Faculty Fellow, Chicago Booth

The Payroll Protection Program (PPP) did not have a substantial effect on local economic outcomes during the first round of the program; rather, firms used funds to increase savings, pay loans, and meet other commitments.

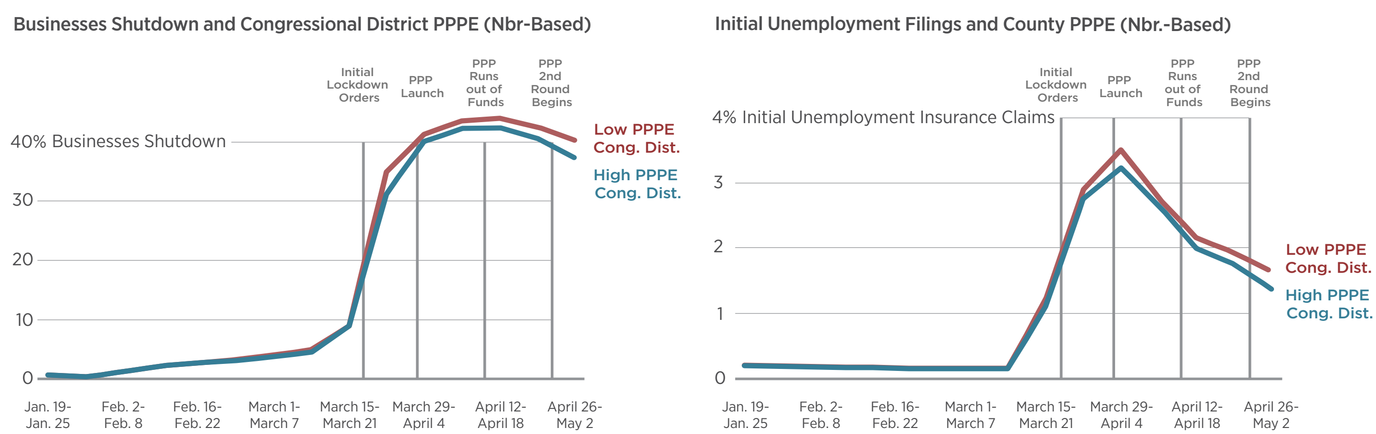
This work builds on the authors' late-April research (The Targeting of the Paycheck Protection Program) that did not find evidence that PPP funds flowed to areas that were more adversely affected by the economic effects of the pandemic, and that lender heterogeneity in PPP participation explains, in part, the weak correlation between economic declines and PPP lending.

In this work, the authors present two new findings:

1. They reveal no evidence that the PPP had a substantial effect on local economic outcomes during the first round of the program. The authors examined weekly firm-level employment and shutdown data, and they confirmed this evidence using initial unemployment insurance claims at the county level. The absence of a significant effect on UI claims during the initial weeks of the program is striking, especially given that one motivation for the PPP was to provide "relief" for congested state unemployment insurance systems. If the significant funds disbursed by PPP had little effect on unemployment, then what did firms do with the extra cash? The answer follows:

2. The authors draw on Census Small Business Survey data to reveal that firms used PPP funds to increase liquidity, to make loan payments, and to meet other financial obligations. For these firms, the PPP may have strengthened balance sheets at a time when shelter-in-place orders prevented workers from working, and when unemployment insurance was more generous than wages for a large share of workers. Importantly, this suggests that while employment effects are small in the short run,

Figure 1 · Paycheck Protection Program Exposure (PPPE) and Post-PPP Outcomes



Notes: This figure shows the ratio of hours worked over time. Data is from SBA, the percent of businesses shut down, initial unemployment filings and small business revenue by above and below PPPE exposure. Homebase, and County Business Patterns.

Becker Friedman Institute FOR ECONOMICS AT UCHICAGO they may well be positive in the medium run because firms are less likely to close permanently. Finally, many less affected firms received PPP funding and may have continued as they would have in the absence of the funds, either by spending less out of retained earnings or by borrowing less from other sources.

For policymakers charged with crafting effective policies that meet desired goals, measuring the social insurance value of the PPP is essential. As data become available, the authors will continue to examine the program's effects on firms' ability to meet commitments, as well as other medium- and long-term effects.

Figure 2 · Firms that Missed Scheduled Payments and State Exposure to PPPE