VI Edition of the "Jaime Fernández de Araoz Corporate Finance" Award

Speech by Samuel Bentolila on behalf of the authors

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Your Majesty, Minister, Rector, authorities, president and members of the Jury, members of the the Fernández de Araoz family, guests and friends,

Good afternoon. I address myself to you as coauthor, jointly with Marcel Jansen, Professor at the Universidad Autónoma de Madrid, and Gabriel Jiménez and Sonia Ruano, both Economists in the Financial Stability Department of the Bank of Spain, of the paper that has been awarded the "Jaime Fernández de Araoz Corporate Finance" Award in its sixth edition.

We would like to start by thanking the Jury for awarding us this prize. Our work has competed with many other papers written by researchers from world-class universities and leading business schools. In addition, the outstandingly high scientific level of the previous winners has made this award extraordinarily prestigious in just a few editions. We are therefore very honored to have been granted the prize.

It is, in turn, a great honor to receive this award from His Majesty, whom we thank for his presence, repeated every time since inception of the prize ten years ago. The support that it symbolizes for an initiative that seeks to encourage applied research in corporate finance is very commendable and it gives, if anything, an even higher value to this award.

We also would like to thank the Fernández de Araoz family for the creation of the prize and for their devotion to it. After completing his training at CUNEF and at several prestigious foreign institutions, Jaime Fernández de Araoz Gómez-Acebo devoted his best efforts to improve the financing of many firms. Linking his name to the recognition of advances in scientific knowledge in this field is a unique and socially very valuable initiative.

We also wish to thank the sponsorship in this edition by Deutsche Bank and the cooperation of CUNEF and Universia. Finally, we wish to express our gratitude to the institutions where we work and, last but not least, to our families, who have come to join us in this event, for their continued love and support.

Our work is the result of the collaboration of experts in two areas of research that barely communicated with each other before the latest economic crisis: corporate finance and labor economics. It is inspired by the painful experience suffered by our country during the recession in the area of employment, which, as is well known, is still one of the main problems of the Spanish economy.

Between the end of 2007 and the end of 2013, the Spanish private sector suffered the loss of nearly three million salaried jobs, i.e. a fifth of its initial level. On the other hand, the level of credit from deposit institutions for productive activities fell even further in this period, by almost one-third in real terms. Our research is aimed at finding out to what extent the second fact has contributed to the first one.

Identifying what part of the decline in employment is due to the credit crunch, as opposed to other factors, is far from easy. A first problem arises because in
recessions firms have fewer profitable business opportunities, so that they tend to apply for fewer loans. It is therefore necessary to estimate how much of the credit reduction was due to loan applications that were not granted by banks.

To isolate this supply constraint, our work exploits the observation that banks that were bailed out during the recession due to their solvency problems—mainly savings banks—reduced their lending substantially more than the remaining banks (before their bailouts). Moreover, banks grant loans based on the information they have on firms, which they have usually acquired over a long relationship with them.

Putting both facts together, our approach is to compare the evolution of employment during the recession at two groups of firms: those which at the beginning of the recession had loans with banks that were later bailed out and firms that only had loans from other banks. The hypothesis to be tested is that the former suffered tighter credit constraints than the latter and, hence, also higher employment reductions.

A second problem for identifying the part of the drop in employment that is due to the credit crunch is that firms that worked with subsequently bailed-out banks were less profitable on average. Lower lending by these banks could simply be due to the increased risk that their clients would not pay back the loans. It is therefore necessary to compare firms of similar quality as borrowers. To do this, in our work we use a comprehensive set of indicators of firm quality, including—for the first time in research of this kind—indicators of firms' credit history obtained from the official Credit Register of the Bank of Spain, which are of outstanding quality.

In our empirical analysis, which is known as quasi-experimental in economics, we use data on almost 170,000 firms, excluding those in construction and real estate, between 2006 and 2010. This analysis yields several interesting conclusions. In particular, we estimate that, at firms that were indebted with subsequently bailed-out banks, this relationship caused a quarter of the employment decline that they suffered. The same results are obtained if the two types of banks are defined in terms of their exposure to the real estate industry before the crisis rather than using whether they were subsequently bailed out. In addition, it appears that the recourse to other sources of credit, such as commercial credit, did not ease those constraints. Lastly, the fall in employment due to the exposure to subsequently bailed-out banks was much more pronounced among firms with poor credit history and it affected almost exclusively firms that were indebted with more than one bank.

These results highlight the importance of corporate finance and its characteristics for job creation and it also alert us to the desirability of having strong banks with good governance and that follow responsible lending policies.

I do not wish to end this speech without noting that this is the first time that all authors of the winning paper belong to Spanish institutions. On the one hand, this is a sign that research is being undertaken in this country that is at the same level as in the best institutions worldwide. On the other hand, this fact also encourages us to call attention to the financial hardship currently being suffered by research institutions in our country and to the need to alleviate it if we wish to keep raising our welfare in the future.

This thought leads me to conclude by thanking His Majesty again for his presence here today and the support for research that it signifies, and the Fernández de Araoz family for their sustained sponsorship of applied research in the field of corporate finance. Thank you.