He proposes improving businesses with public policy

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MADRID. – Perseverance, academic rigour and dedication to work have marked the career of the Mexican economist, Francisco Pérez, who was recently recognised in Spain for his contribution to designing public policy aimed at improving business.

With a BA in Economics from ITAM and a PhD in Economics from Harvard University, the researcher received from the Prince of Asturias, Felipe de Borbón, the Jaime Fernández de Araoz Award for Research on Corporate Finance. "The winning paper is a study of a tax reform carried out in Belgium in 2006, where what they promote is not debt but the use of company equity," explained the researcher, who currently teaches at Stanford University. "In order to cover their debts," he added, "companies can use two pathways, money coming from a bank or their own money. "If I as a company buy assets with money from the bank I can deduct the interest on the loan from my income taxes, but if businesses use their equity, they do not benefit from this tax credit," he said. The academician, who wrote this paper in collaboration with two professors from Stanford University, Pablo Villanueva and Frédéric Panier, stated that the results encourage, first, a debate on public policy that affects companies.

SUCCESS OF A MEXICAN IN EU AND EUROPE

LEARN ABOUT HIM
Francisco Pérez  
Education: BA in Economics from ITAM; PhD in Economics from Harvard, specialising in Corporate Finance and Public Sector Economics.  
Academic Background: has taught at Columbia University, University of Chicago and University of Texas; he currently works at Stanford University.

"I DON'T THINK MY WORK IS A CONTRIBUTION ONLY TO THE UNITED STATES, YOU CAN CONTRIBUTE YOUR TWO CENTS TO THE COMMUNITY REGARDLESS OF WHERE YOU ARE, AND MEXICO IS PART OF MY COMMUNITY".

Francisco Pérez economist

"And, second, alternatives are visible on how to eliminate this distortion, among them incorporating tax savings for capital with benefits and costs; the benefit is that indebtedness can be reduced. The cost, less tax revenue", said the economist, who was born in Teziutlán, Puebla. "If what we are looking for is something balanced, business owners should look for the capital structure that is most convenient, but according to their business and no the tax issue", he stated.

In Mexico, he added, one of the problems is that the financing system is one of the smallest in the world, since it represents barely 25% of GDP (Gross Domestic Product) of financing to the private sector with relation to the economy, when in other countries with over-indebtedness, such as Spain, the levels exceed 200%.
On the other hand, he emphasised that the world map has changed dramatically as far as the economy is concerned.

“When I was studying Economics we would see the cases in Europe and the United States and say ‘first world, countries with reasonable public policy, macroeconomic stability’, while we in Mexico were a disaster, with public finance out of control, no macroeconomic stability,” he recalls.

“Now the world is the other way around, our countries have certain macroeconomic stability, public finances and the level of indebtedness are under control; growth potential is not in the old world but in the emerging countries.”

He concluded by saying that the perception is improving at a macroeconomic level; however, he questions how much Mexico is going to take advantage of these conditions and the demographic benefit, with very young people.

“The key is still productivity which in Mexico is really low,” he pointed out.

PHOTO CAPTION
>Francisco Pérez receiving the award from the Prince of Asturias, Felipe de Borbón.
Courtesy of Deutsche Bank

DID YOU KNOW...?

The Jaime Fernández de Araoz Award for Corporate Finance distinguishes the work of those who have collaborated in this field through their research or applied experience.

This recognition, received in its fifth edition by the economist Francisco Pérez, together with Pablo Villanueva and Frédéric Panier, is comprised of a sculpture by Martín Chirino and €10,000, sponsored by Deutsche Bank, CUNEF and Universia.