Award Ceremony for the 2\textsuperscript{nd} Edition of the Jaime Fernández de Araoz Corporate Finance Award

Speech by Tano Santos
June 7th, 2011

Your Royal Highness, Madam President of the Community of Madrid, Secretary of State for the Economy, Dignitaries, Chairman and members of the Jury, the Fernández de Araoz family, Guest and Friends,

I speak as the joint author, along with my colleague from the University of Columbia, Patrick Bolton, who is here today, and Jose Scheinkman, Professor of the University of Princeton, of the work that has won this Fourth Jaime Fernández de Araoz Corporate Finance Award. I should first, of course, like to thank the jury for this award, which we accept with great pride. I am aware that many excellent research projects were submitted for your consideration, and we therefore feel particularly honoured to receive this distinction.

It is an honour for me to receive this Award from you, Your Royal Highness, whom I admire and respect as a Spaniard, and whom I especially thank for your presence and for your support for this initiative to promote applied research in the area of Corporate Finance. It is now twenty years since your father presented me with a grant from La Caixa, an institution that plays an important role in research in Spain and which started me off on my journey to other shores. My work as a researcher began, therefore, in the generous presence of your father, and continues in your own. I hope that this will not be the last occasion on which I am lucky enough to attend an event at which you are also present.

I should like to thank the Fernández de Araoz family, and particularly Mr and Mrs Fernández de Araoz, for creating this Award. I can think of no better way of honouring the memory of Jaime Fdez. de Araoz than to attach his name to the development of new ideas in the field with which he was so closely associated. Knowledge, like energy, is never lost, it is transformed, time and time again, and little by little, as the renown of this award spreads from its already prestigious beginnings, his name will be permanently associated with research carried out in this field in our country. What a wonderful memorial!

I belong to that group of researchers that carries out its work a long way from home,
with all the good things, and not so good things, that that entails. I am therefore particularly honoured to win this award as a Spaniard who has for so long, twenty years, been away from home. And as my wife, who is American, isn’t here, but my family is, I’ll take this opportunity to say that all of us who are there want to come back, and this award brings us back a little.

The work recognised by this award deals with an issue that is currently very important in the field of finance, namely the relationship between the financial markets and human capital. It was inspired, in the first instance, by a peculiar pattern observed in the USA over the last few years: the spectacular growth seen in the financial markets. It also found inspiration, however, in our own experiences as teachers. After almost fifteen years’ teaching in a business school, we began to tire of hearing that the sole obsession of our best students was to find work with one of the large US investment banks. Why? Why would the best of our talent prefer to apply that talent to financial mediation rather than using it for pure business activities? It’s not that the latter never occurred, but it occurred so infrequently that when it did it really drew our attention. The purpose of our work is specifically to show that the development of the modern financial markets has biased the distribution of talent. The most gifted, the ones showing most talent, receive higher salaries in the financial sector than in any other area, even when the social benefits of taking on business initiatives are greater.

The reason is that the growth of the financial markets has been concentrated in a segment that is particularly opaque, in which it is easy to leverage someone’s talent without the prices indicating the information or knowledge that have been so expensively obtained. These are the private and OTC markets. Such are the benefits of obtaining liquidity and risk cover in these markets that many counterparties with financing needs will pay a high price for such financing in order to avoid having to obtain it from the central markets. Hence the huge incomes that pour into the financial sector.

Please understand me, as I can see a few nervous faces, it is not that these markets and their financial intermediaries don’t have a role in our society. Indeed, our work shows how these markets and their participants are entirely fundamental to the correct functioning of our economy, and they resolve important incentive issues. What I am saying is that any society must seek a balance between one side, the financial mediation sector, and the other, the business sector, and here there is a bias that must be corrected. This brings me to my purpose, which is to encourage those leaders with responsibilities in financial politics, many of whom are present today, to provide as many incentives as possible for business. It is that which will bring us out
of this crisis. This country suffers from a severe shortage of “Silicon Valleys”, and we must ensure that the proper conditions exist for such places to emerge. To change tack slightly, I would like to take this opportunity to remind you that none of this is possible without large amounts of investment in what we economists, with the literalism for which we are famous, call human capital: everything in the world today is about education and the knowledge economy, everything, and it would be good for our country if we improved the quality of our own education and our position in this field in comparison with our direct competitors.

I should like to close by thanking Your Royal Highness once again for your presence here and the Fernández de Araoz family for their patronage of research in this field. Support for research is the sign of a healthy society. This award makes me very proud, as a researcher and above all as a Spaniard.

Many thanks.