

ECB Money Macro Workshop, 21 March 2019

“Monetary Policy, Corporate Finance, and Investment”

by J. Cloyne, C. Ferreira, M. Froemel, and P. Surico

Discussion: Alexander Popov (ECB)

Motivation

- Mature theoretical literature on monetary policy and aggregate investment
 - Bernanke and Gertler (1989), Kiyotaki and Moore (1997), Bernanke, Gertler, and Gilchrist (1999)
 - Role of asset values and net worth in propagating and amplifying shocks
- More recent empirical literature on age and firm behavior
 - Conventional wisdom: **size matters**
 - SMEs create most jobs
 - Haltiwanger et al. (2013): **holding age constant, size does not matter**
 - Young firms create most jobs
- No attempt to link the two literatures yet

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This paper

- Role of firm age in the interaction between monetary policy and investment
- Combine data from multiple sources:
 - Monetary policy shocks
 - Firm investment, employment, financials, and age for listed firms
 - COMPUSTAT for the US
 - WorldScope for the UK
- Distinguish between young and old firms
 - Also condition on whether they are paying dividends
 - Control for whether effect driven by size, indebtedness, etc.

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Main result

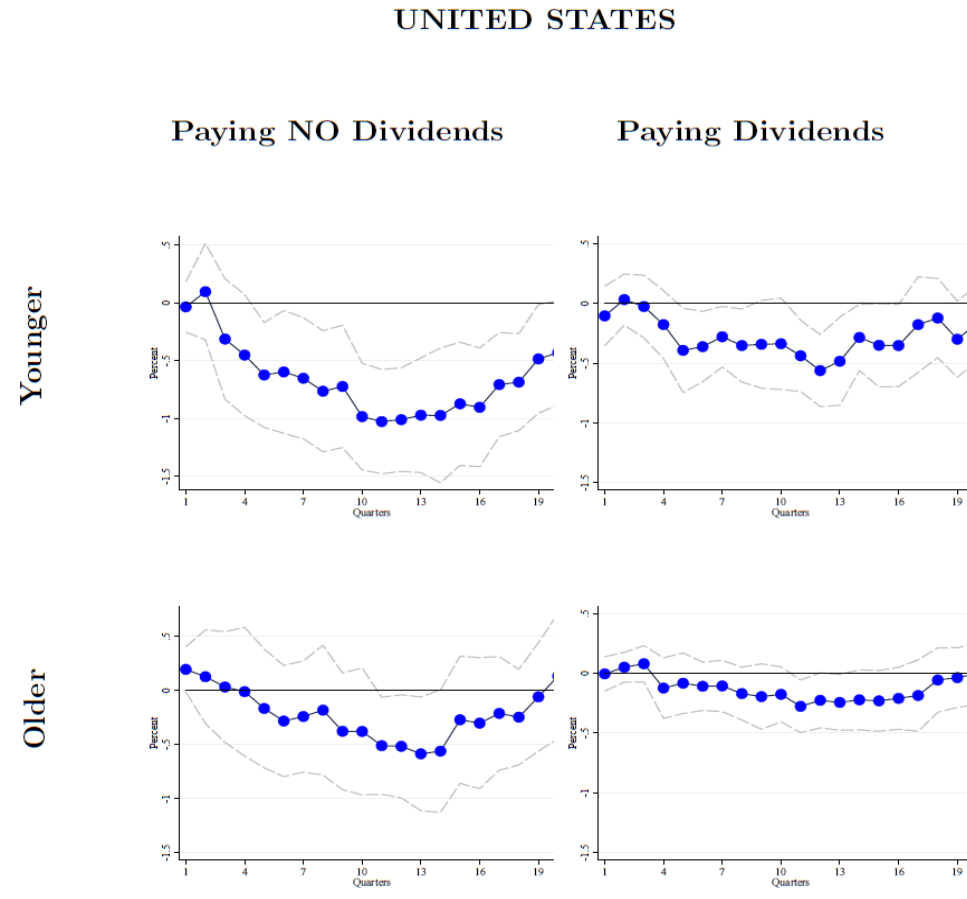
- Investment responds to mon pol shocks
 - Effect stronger for young firms
 - Effect stronger for no-dividend firms
 - Both in US and in UK
 - Not driven by size, debt, cash...
- Need to account for age and dividends
 - In macro models
 - In empirical studies
- Message goes beyond MP and investment

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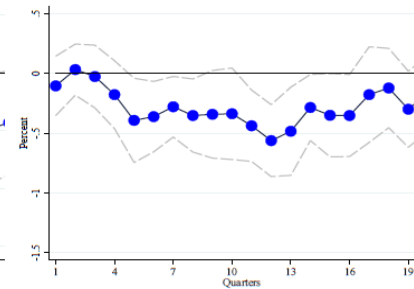
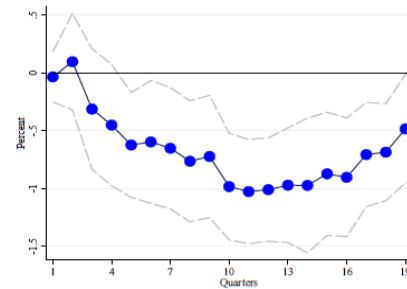
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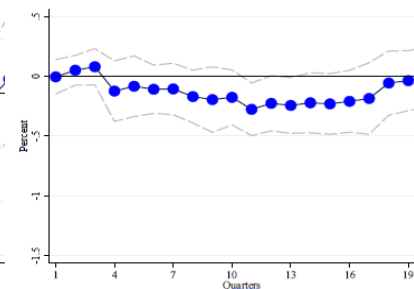
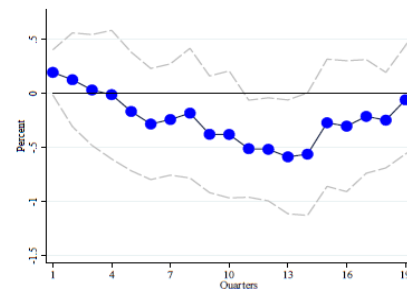
Paying NO Dividends

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Younger



Older

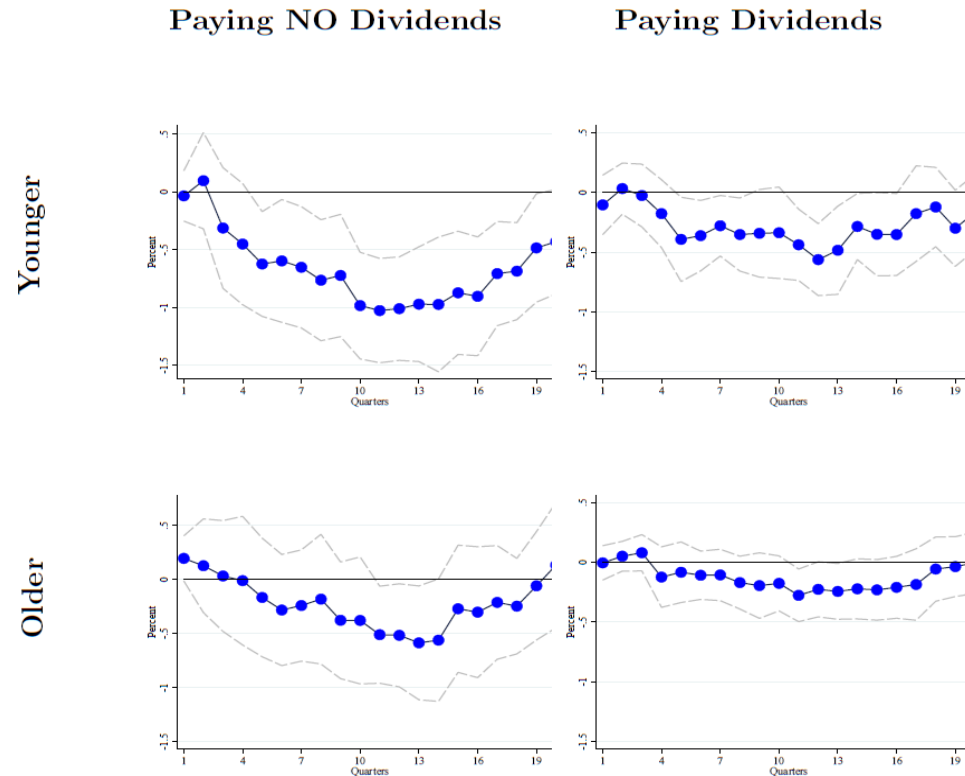


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Main reaction

- Clear message, comprehensive analysis, multiple robustness checks
 - 94 pages
 - 288 Charts and Figures
 - I studied each one very carefully... 😊
 - Beats the 2004 “Atlas of World War II,” with 160 detailed battle and campaign maps
 - Behind “Designed by Apple in California,” with 450 photos of Apple products (\$299)
- Paper already rich and well-developed
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 - Will talk mostly about questions we still need to ask from the data

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Point 1. Is it Age=15?

- Currently, authors compare response of investment to MP shocks across age groups
 - For firms younger than vs. firms older than 15 years
- A-theoretical assumption: there is an age threshold at 15
- This is testable!
 - H0: Impact of age on investment is linear
- If H0 rejected, then threshold backed out from data
- Multiple thresholds?
 - SME analogy: micro, small, medium, large
 - Here: baby, toddler, child, teenager, mature, middle-aged, old geezer...
- Some firms younger than 15 are quite mature...

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The image shows the Alphabet logo, with the word "Alphabet" in red and "Google" in its multi-colored font below it. The logo is centered on a white background with a red bar at the top, a blue bar on the left, and a yellow bar on the right.

Type of company: tech
Age: 3
Assets: USD 233 bln.



Type of company: bookstore
Age: 221
Assets: GBP very few

Point 2. What fundamental property does age capture?

- I welcome focus on age—but what fundamental property of the firm does it capture?
- Does it capture the firm’s project life cycle?
 - E.g., radical innovation when young, gradual when old
 - Different projects responding differently to MP shocks?
- Does it capture the firm’s funding needs?
 - E.g., angels and seed capital when young, bank credit and corporate bonds when older
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Point 3. Is age just a proxy for credit constraints?

- Are young firms simply more credit constrained?
- Problem: credit constraints typically not directly observed
- A whole literature has tried to back out credit constraints from public data
 - Fazzari et al. (1988), Kaplan and Zingales (1997), Cleary (1999), Alti (2003)
- Standard proxies do not work
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- Solution 1: Exogenous shocks
 - Oil prices (Lamont, 1997), Pension contributions (Rauh, 2006), AJCA (Faulkender & Peterson, 2012)
- Solution 2: Credit registers
 - Perfect for credit constraints driven by loan rejections
- Solution 3: Survey data
 - E.g., BEEPS, SAFE...
 - Version of the following question:

“Did you recently apply for a loan, and was your application approved?”

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 - Firms whose loan application was rejected (**denied**)
 - Firms that received less than 75% of what they requested (**quantity rationed**)
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- Relationship non-linear

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	Private	Public	Diff
Age	27.50	33.97	-6.47***
Employees > 250	0.07	0.25	-0.18***
Turnover > 50mln.	0.07	0.28	-0.21***
Credit constrained	0.40	0.38	0.02

Point 5. Lesser quibbles

- Focus of paper on physical capital
 - Look at intangible capital too
 - 60% (0%) of LT growth due to R&D (capital) investment (Fernald & Jones, 2014)
- Is effect of MP symmetric?
- Does effect of MP depend on phase of business cycle?
 - Booms vs. busts
 - Favorable financing conditions vs. financial crises
- Same questions (as with age) apply to dividend-non-paying firms
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Conclusion

- Great paper, well-executed analysis, important message
 - Age matters for the interaction between MP and investment
 - Also firms that do not pay dividends different
- Time to reduce focus on firm size
 - Obsession with size (“supporting SMEs”) permeating too many public policies
 - Need to focus on other margins: young, innovative, fast-growing
- Several directions to take the paper in terms of tying loose ends
- Good luck publishing the paper and getting your message through! 😊

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