

Collateral Values and Corporate Employment

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Main Result:

Increases in real estate collateral are associate with increases on employment

Employment expenditures \uparrow \$0.10 per \uparrow \$1 increase in collateral

Aggregate employment effect through firm geographical network

Main Comments

1. Paper focus and contribution
2. Empirical issues and minor comments

Comments: Paper focus and contribution

The empirical specification follows Chaney et. al 2012

$$Y_{it} = \alpha_j + \alpha_m \times \alpha_t + \beta RE\ Value_{it} + \theta' X_{it} + \varepsilon_{it}$$

Identification challenge:

Real estate ownership correlation with investment opportunities

... The authors do a great job alleviating concerns using a set of tools (elasticity of supply instruments, industry cuts, controls, etc.)

Comments: Paper Focus and Contribution

What do we know about financial frictions (collateral channel) and “capital and employment”?

Vast literature looking at the effect of financial frictions on investment (Rauh 2006, Chaney et al. 2012) but also employment (Adelino et al. 2015, Benmelech et al. 2011, Chaney et al. 2016, Chodorow-Reich (2013) and Schmalz et al. 2015)

Collateral to employment mechanism

1. Adjustment cost of labor
2. Complementarities between labor and capital

What is new? Spillovers and aggregate effect

Right direction, but...

Chaney et al. 2016. Aggregate Effect of Collateral Channel

Documents how, at the firm-level, capital and labor respond to shocks to collateral in France 2002-2007

Capital growth is on average about **ten times larger** than employment growth.

Capital investment need to be finance ex-ante, employment not

Reduce form translate into a “potentially” big aggregate effect.

12% of investment growth and 10% employment growth

Reduce form to aggregate effect

Need to be cautious aggregate quantifications ignore potential GE effects

... Employment of collateral-rich firms crowding out employment by collateral-poor firms

Chaney et al. 2016 uses a structural model that matched reduce form elasticities

... Find big aggregate effect on investment, but zero (small) effect on employment

... Consistent with increase in collateral more relevant for capital investment

Comments: Aggregate Effect and this Paper

Spillover Effect as in Giroud and Mueller (2015)

$$Y_{ijt} = \alpha_j + \alpha_m \times \alpha_t + \beta_n RE Value_{it} \times Near_j + \beta_f RE Value_{it} \times Far_j \\ + \theta X_{it} + \varepsilon_{it}$$

Aggregate Effects

$$\log(Y_{mt}) = \alpha_m + \alpha_t + \beta \log(RE Value_{-mt}) + \gamma \log(RE' Price_{mt}) \\ + \theta' X_{mt} + \varepsilon_{it}$$

$\log(RE Value_{-mt})$ weighted average of firms real estate values out of MSA, alleviate problems related to local demand effect.

Comments: Aggregate Effect and this Paper

Aggregate Effect

$$\log(Y_{mt}) = \alpha_m + \alpha_t + \beta \log(RE\ Value_{-mt}) + \gamma \log(RE' Price_{mt}) \\ + \theta' X_{mt} + \varepsilon_{it}$$

Aggregate effect on employment at the MSA level driving by financially constrained establishments

Caveat:

Consistent with Giroud and Mueller 2016a. Local labor market risks are shared across regions.

Firms reduce employment across their internal network as a response to local demand shocks.

Comments: Differences and Opportunities

Based on estimates in the paper employment sensitivity is higher than investment sensitivity in the US.

Employment exp \uparrow \$0.10 per \uparrow \$1 increase in collateral

Investment exp \uparrow \$0.06 per \uparrow \$1 increase in collateral (Chaney et. al 2012)

(Opposite) than Chaney et al. 2016 for French firms

Why there is a difference? and what can we learn from it?

Potential Hypothesis:

... Role of complementarities between investment and capital.

Suggestion: Explore Industry Differences

Theoretically, there should be cross-sectional differences across industries

Suggestion: Estimate investment and employment sensitivities across industries

Variable	(1)	(2)	(3)	(4)	(5)	(6)	(7)
	IV Capex/PPE	IV Capex/PPE	IV N Emp/PPE	IV Capex/PPE	IV N Emp/PPE	IV Capex/PPE	IV N Emp/PPE
	Manufacture				Service		
RE Value	0.080	0.075	0.447	0.070	0.297	0.112	1.345
	0.00	0.00	0.00	0.00	0.00	0.00	0.06
Cash	0.030	0.031	0.523	0.027	0.204	0.031	0.929
	0.000	0.000	0.000	0.000	0.006	0.000	0.000
Market/Book	0.075	0.075	0.513	0.067	0.264	0.089	0.907
	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Ln (Sales)	0.021	0.023	0.087	0.027	0.237	0.011	-0.082
	0.001	0.001	0.495	0.001	0.128	0.402	0.797
Price Index	-0.070	-0.028	-0.333	-0.038	-0.345	-0.258	-0.940
	0.319	0.705	0.726	0.644	0.656	0.130	0.782
Firm and Year FE	Y	Y	Y	Y	Y	Y	Y
N	22770	20187	20187	11973	11973	4400	4400
r2	0.42	0.43	0.22	0.41	0.2	0.42	0.24

Replication using Compustat CAPEX and Number of Employees

Suggestion: Role of Industry Composition on Aggregate Effect

Look at differential effect based concentration of industries outside of the MSA with high or low differential sensitivity between labor and capital

$$\log(Y_{mt}) = \alpha_m + \alpha_t + \beta_{ls} \log(RE\ Value_{-mt}) \\ + \beta \log(RE\ Value_{-mt}) \times HS_{-mt} + \gamma \log(RE' Price_{mt}) + \theta' X_{mt} + \varepsilon_{it}$$

Industries with higher differential sensitivity (HS) \implies Stronger emp effect w.r.t. invest.

Industries with lower differential sensitivity (LS) \implies Weaker emp effect w.r.t. invest.

Contributions

Highlight the role of complementarity channel of employment effect

(Different) from the adjustment cost channel. Explore relative importance of adjustment cost channel by interacting other proxies

Empirical issues and minor comments

1. Spillover Regression need to control for establishment location house prices

Importance of house price comovement, it could bias the results. Landier et. al 2015

$$Y_{ijt} = \alpha_i + \alpha_m \times \alpha_t + \beta_n RE Value_{it} \times Near_j \\ + \beta_f RE Value_{it} \times Far_j + \gamma \log(HP_{jct}) + \theta X_{it} + \varepsilon_{it}$$

2. Decision to own might depend on local investment opportunities

Alternatively look at effect within firms that own real estates

3. Miss-measurement of real estate ownership.

Currently robustness check using weighted value by employment, explore a measures related to capital or real estate holding

Conclusion

Very interesting paper that documents a key relationship between real estate collateral and employment

Focus on spillovers and aggregate effect is the right direction

Exploring the different sensitivity of investment and employment to capital by industry will expand the contribution

Looking forward to read the new version.

Thank you!