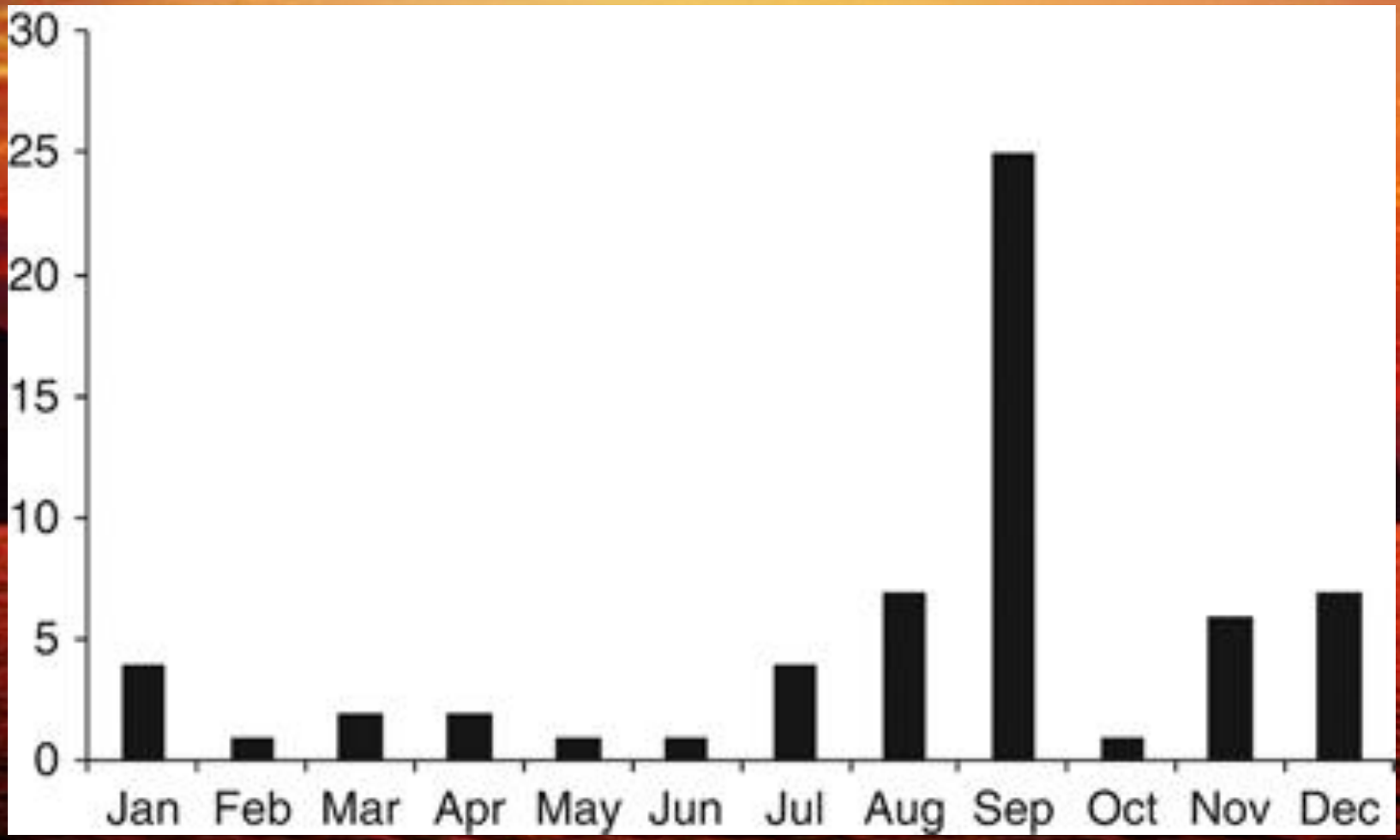
When the summer is gone…



The Effect of Systemic Banking Crises on Entrepreneurship

Jordi Paniagua

Juan Sapena

Catholic University of Valencia (Spain)

AEDEM

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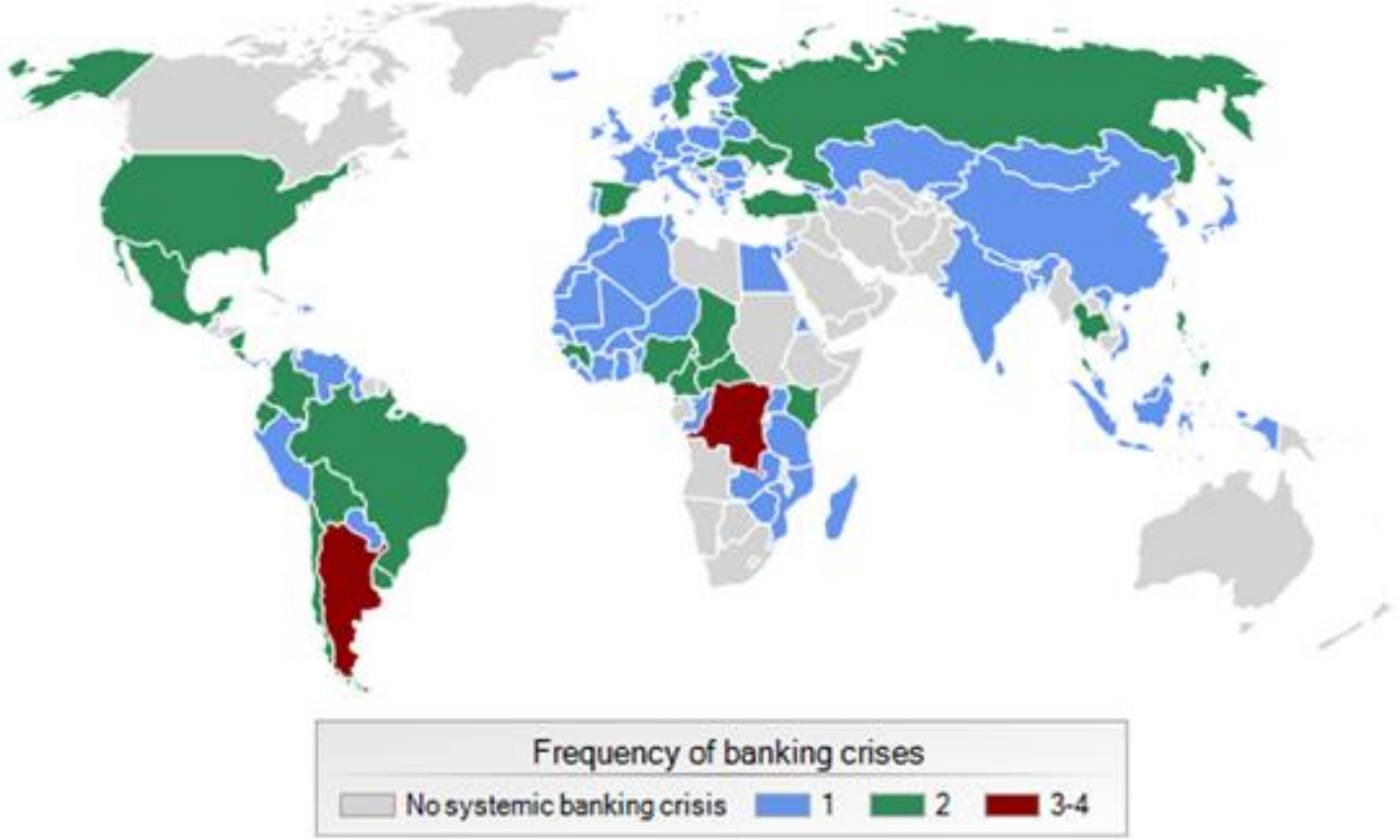
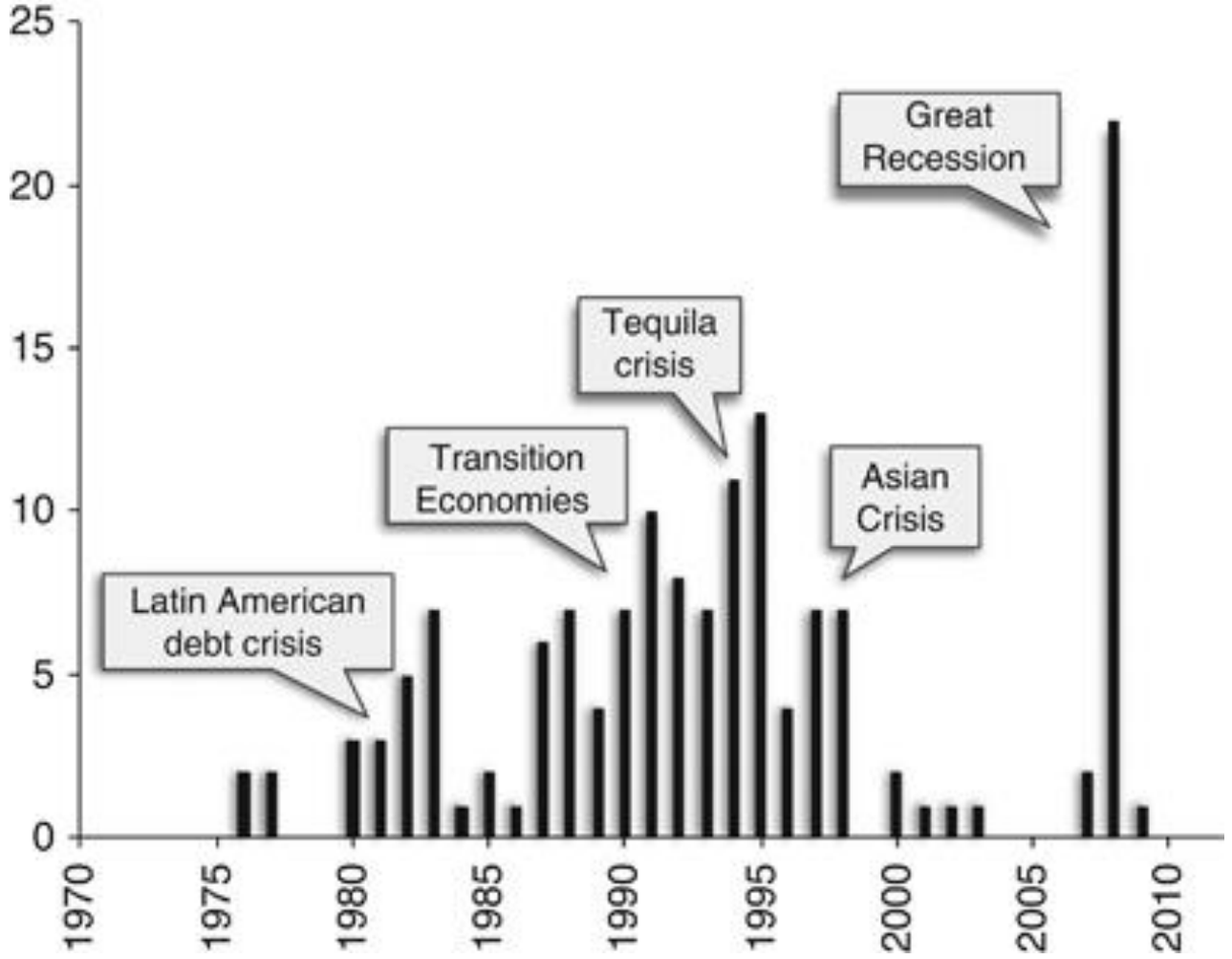
Systemic Banking Crises



Leaven and Valencia (2013)

The Great Recession



Leaven and Valencia (2013)

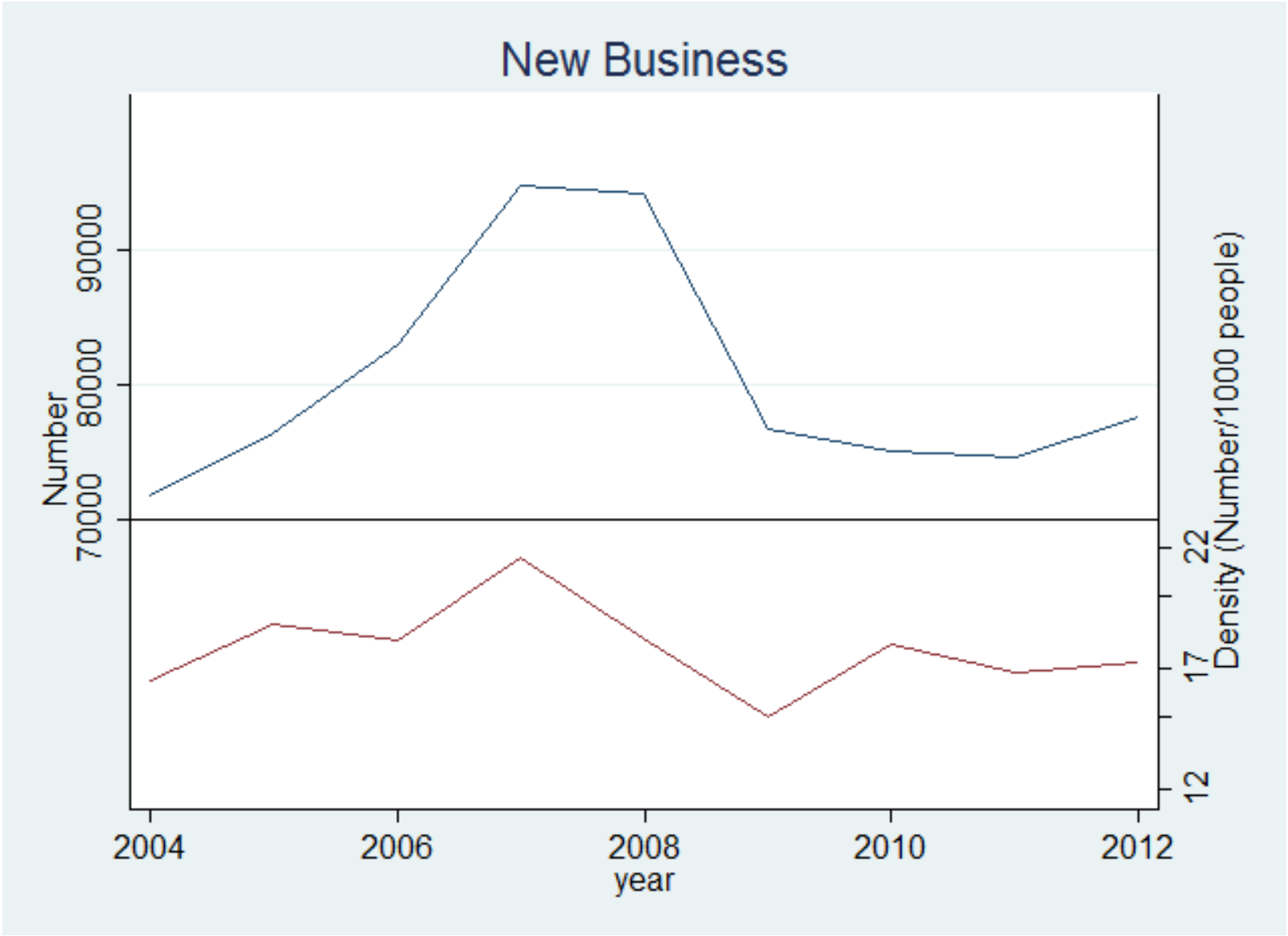
Outline

- Motivation
- Contributions
- Conceptual framework
- Sample and estimation strategy
- Results
- Conclusions

Motivation

- In 2009:
- GDP: 1%
- Trade: 11%
- Foreing Direct Investment: 7%
- And new business activity?

Motivation


New Business
Number
70000
80000
90000
Density (Number/1000 people)
12
17
22
2004
2006
2008
2010
2012
year

Motivation

- Researchers have explained the puzzling effect of the Great Recession on FDI (Alfaro and Chen 2012; Gil-Pareja et al. 2013), trade (Ahn et al. 2011; Amiti and Weinstein 2011), employment (Paniagua and Sapena 2014a)
- New busines activities i.e. enterpreneurship?

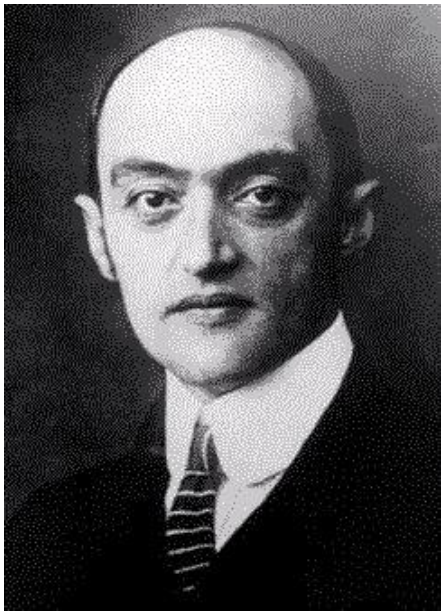
Motivation

Contributions

- Study the determinants of entrepreneurial activity with a focus on banking crises and credit constraints
- A novel analysis of the varying influence of systemic banking crises on the rate of creation of new business endeavors
- We investigate the effect of:
  - Credit constraints
  - Systemic Banking crises
  - Market conditions
  - Unemployment
- On a global dataset 106 countries 2004-2012

Conceptual framework

- Credit Constraints



Knight (1921) vs Schumpeter (1934)

Credit constraints

- Empirical studies back up the Schumpeterian view on entreprenurial fiancance:
  - Evans and Jovanovic (1989), Holtz-Eakin et al. (1994), Hurst and Lusardi (2004), Black and Strahan (2002), Parker and van Praag (2006)
- **H1: Credit constraints (interest rates) produce a negative impact on entrepreneurial activity (new firm incorporations).**

Systemic banking crises

- Different from credit availability (interest rates)
- According to Laeven and Valencia (2013) systemic banking crises share two distinctive traits:
  - 1. Significant signs of financial distress in the banking system;
  - 2. Significant banking policy intervention measures (e.g., liquidity support, guarantees on liabilities restructuring costs, asset purchases, and nationalizations).

Systemic banking crises

- During systemic banking crises, most public efforts and resources are devoted to sustaining the financial system

Country	Year	Country	Year	Country	Year
Austria	2008	Latvia	2008	UK	2007–2008
Belgium-luxembourg	2008	Mongolia	2008–2009	USA	2007–2008
Denmark	2008–2009	Netherlands	2008	Kazakhstan	2008–2010
Germany	2008–2009	Nigeria	2009–2010	Ukraine	2008–2009
Greece	2008	Spain	2008–2011		

Source: Laeven and Valencia (2013)

- **H2: Systemic banking crises have a negative impact on entrepreneurial activity**

Market Conditions

- Domestic market conditions (e.g., domestic demand, regulations, administrative costs, labour demand) affect entrepreneurial activity.
  - Regulatory start-up cost and entrepreneurial activity (Djankov et al. 2002)
  - minimum capital requirements Van Stel et al. (2007)
  - Higher democratic and legal standards attract higher quantities of new foreign firms (Paniagua and Sapena 2014)
- **H3: Market conditions and regulations affect entrepreneurial activity**

Unemployment

- Literature gap
- Credit constraints create unemployment (Acemoglu 2001; Dromel et al. 2010).
- High unemployment increases entrepreneurship (Fairlie 2013; Parker 2004; Shane 2011; Thurik et al. 2008)
- **H4: Unemployment produces a positive impact on entrepreneurial activity**

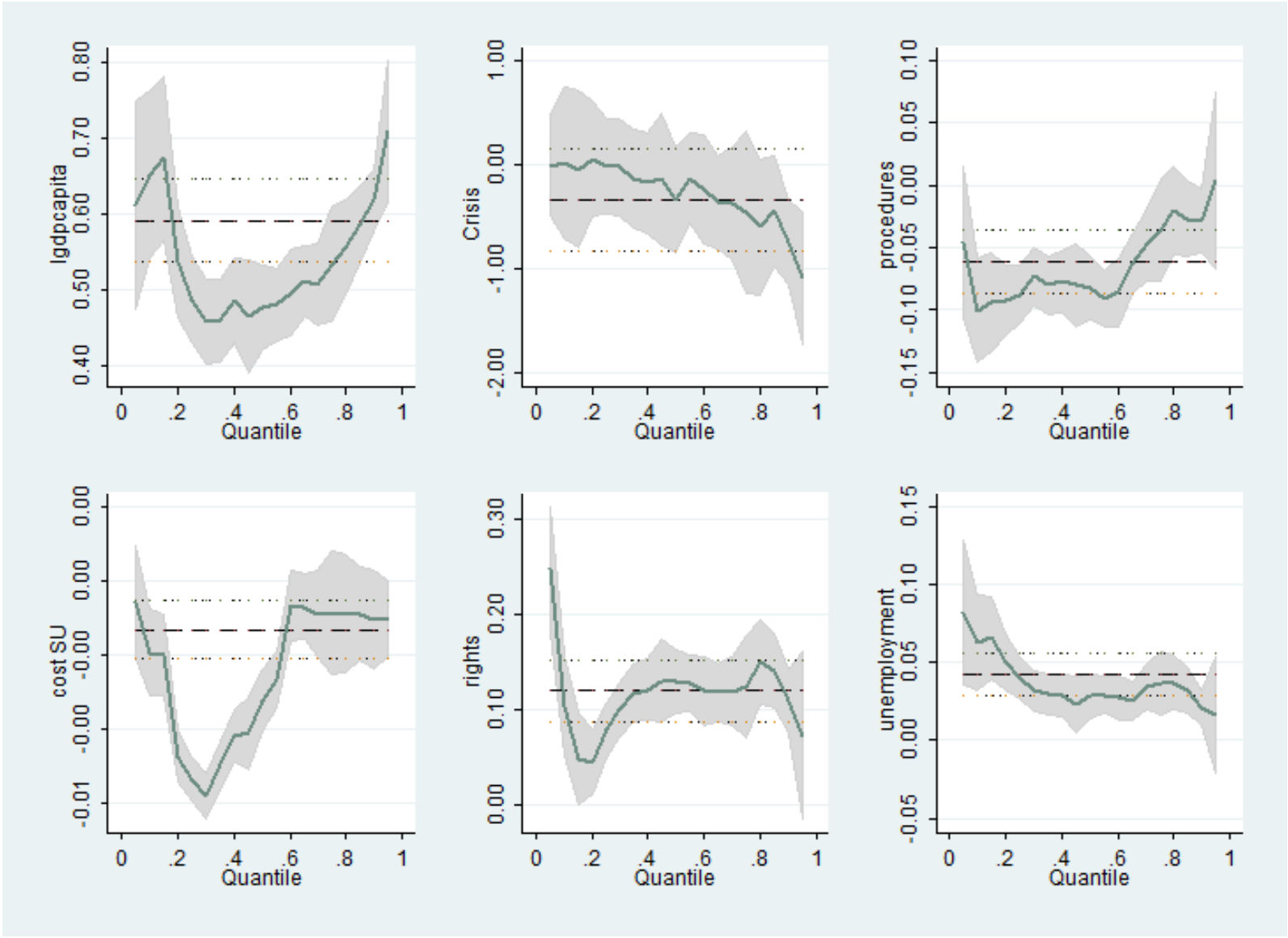
	(1) OLS	(2) OLS	(3) PPML	(4) PPML	(4) GMM	(6) GMM
Interest		0.003		-0.010***		0.007
H1		(0.002)		(0.002)		(0.004)
Crisis dummy	-0.104**		-0.0836**		-0.148***	
H2	(0.05)		(0.04)		(0.0457)	
Ln(GDP per capita)	1.326***	1.335***	0.310	-0.219	0.0640	0.0630
H3	(0.16)	(0.27)	(0.32)	(0.47)	(0.06)	(0.05)
Procedures	-0.031***	-0.043***	-0.0545***	-0.0472***	0.0324	-0.00165
H3	(0.01)	(0.01)	(0.01)	(0.01)	(0.02)	(0.01)
Start-up costs	-0.0003***	-0.003***	-0.000733**	-0.00682***	-0.000377	-0.00165
H3	(0.0001)	(0.0008)	(0.0002)	(0.001)	(0.0002)	(0.001)
Legal rights	0.0457**	0.0128	0.0734***	0.0295	0.0164	0.0249
H3	(0.01)	(0.01)	(0.01)	(0.02)	(0.03)	(0.04)
Unemployment	0.0134*	0.0170**	-0.00851	-0.0117	-0.00468	-0.00597
H4	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)	(0.009)
BussDens(lag)					0.913***	0.856***
					(0.06)	(0.06)
Observations	804	620	804	620	710	548
R^2	0.980	0.981	0.941	0.942	-	-

Notes: Standard errors in parentheses,
Fixed country and year dummies
* $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$

Results

- The model fits well the data
- Results are coherent with theory and robust to non-linearity and endogeneity
- Systemic banking crises cause the new firm density to drop by approximately 10 %.
  - Entrepreneurship is highly elastic to GDP pc
  - Halving administrative procedures would increase entrepreneurial activity by 5% on average.
  - Increasing start-up costs by 1 % reduces new business density by 0.03% on average.
  - Countries with more stringent legal rights have greater entrepreneurial activity
  - An increase of unemployment by 1 % increases new business density by 0.11% on average.

Quantile Regression



Conclusions

- Academics: Systemic banking crises have a deep impact in entrepreneurial activity.
- Practitioners: Our results help reduce the intrinsic uncertainty of entrepreneurship
- Policymakers: can quantify the impact of new regulations accurately with the empirical methodology presented in this research