



Vicente Cuñat, Associate Professor of the London School of Economics and Political Science (LSE) and alumni from the 9th class at CEMFI.

For the interview this month we talked to Vicente Cuñat. Vicente has been a professor at the LSE since 2007. His research focuses on corporate finance and industrial organization, and he has published in prestigious academic journals (American Economic Review, Review of Financial Studies, Review of Finance, Journal of Industrial Economics etc.) and has collaborated in the publication of several books. He has also participated in research projects related to entrepreneurship, risk management and the regulation of financial markets. Last year, Vicente was the Chair of the Scientific Committee of the Spanish Economic Association Symposium that took place in Girona on 10, 11 and 12 December 2015. The Symposium brings together experts in all areas of economics every year in December. The Spanish Economic Association Job Market, intended for PhD graduates in economics, also meets during the Symposium. More information: <http://www.asesec.org/sae.php>

- We always start our interviews in a similar way and this will be no exception. Why did you decide to study economics? Why CEMFI?

I studied economics because I was not sure what I wanted to do in the future. Although I did not completely understand what I was getting into, I found it a very interesting science that applied to almost everything and it was nearly a way of thinking. CEMFI was an obvious choice to continue my studies. In Valencia, I studied a huge 5 year plan with much content but little structure. CEMFI helped me to bring order to all this knowledge.

- What are your best memories of CEMFI? And your hardest moments?

I have excellent memories with my classmates. We got along well and were a very cohesive group. I do not always get a chance to see them, but I still have good friends from my stay at CEMFI.

There were several hard moments, we felt under pressure, although it was never clear how much came from the program and how much was self-imposed. I remember Christmas the first year; a family member asked me what was wrong, if I was sick. Nothing was wrong I just was recovering from the first trimester screening. Other classmates were in the exact same situation.

- When you finished CEMFI you decided to pursue a PhD at LSE. Why did you choose this institution?

There was a connection between the faculty at CEMFI and UK universities that made everything easier. Among other things, I validated the PhD courses with the CEMFI master.

- After your PhD you worked as a teacher in Spain-Catalonia, Pompeu Fabra University, and now you are back at LSE. What are the main differences between these two systems? Which features of the Anglo-Saxon system would you like to be adopted here?

As a teacher, I miss the freedom I had at UPF. The Anglo-Saxon system is more regulated starting at college. In addition, the dual student / client forces us to think about the comfort of the student, which in principle is not bad, but sometimes is to the detriment of learning. The hardness of a program like CEMFI or GPEFM of the Pompeu Fabra is not viable when the school funding depends solely on fees.

Paradoxically, on organization and research the situation is the opposite. In LSE, each department is fully autonomous to organize and recruit. You just have to respond in terms of balancing the budget, the quality of research and teaching. Independence and responsibility is a good formula in education.

- What can you tell us about your experience as a Chair of the Scientific Committee of the Symposium? What advice would you give to your successor, Natalia Fabra of University Carlos III of Madrid?

I would advise her to take care of the symposium. It is a very important event for the profession that is worth maintaining and improving. The first time I went to the Symposium was to present my CEMFI master's thesis in 1998 and since then I have not missed any, so I am very linked to the institution.

I have spoken with Natalia several times, and the Symposium is in very good hands with her.

- We would like to ask for your contributions in "Nada es Gratis". We think it is a great milestone, but what do you think? Is it working to disseminate economic research outside a strictly academic context?

A technocrat is someone who knows something and applies it to public policy. In Spain, the word technocrat is commonly used as an insult by opposition politicians, *todoólogos* (jack-of-all-trades) and talk show guests who often do not know anything. Sites such as "Nada es Gratis" (and others like "Politikon" or "Hay Derecho") have had an important influence to change this perception and focus the debate on public policies based on evidence. It has been an honour for me to contribute to this project.

Still, much remains to be done. For example, in the UK, with every proposal made by the government, IFS and CEP prepare a report discussing whether, from a technical point of view, it is adequate or not. The media often spread these proposals and the government discusses, adapts or withdraws them. In Spain it is very rare and difficult that a report produced by academics receives the attention of the government. Moreover, researchers do not have the incentives to work in applied policy; economics departments do not have press offices, etc. I would like that modest initiatives such as "Nada es Gratis" become a first step towards a structural change in this respect.

- In one of your works with Andrea Caggese, published in Economic Journal, you study the link between financial constraints and hiring/firing of temporary workers. Do you think that this effect may have gained importance in Spain during the recent crisis?

The interactions between finance and the labour market is a subject that interests me a lot and that took a long time working with Andrea Caggese. Currently we are working on a project with Swedish data. The main result in both articles is that restrictions on funding emphasize labour market duality.

The intuition is very simple. Think of a company that is considering firing a worker. You can fire two types of workers: one is temporary, or a few years into the business worker; current low productivity, but much productive potential in the future and with very low firing costs. The other is a worker with many years in the company and with few future productivity gains, but with high firing costs. All companies are faced with this dilemma and have to take into account all these factors. However, for those companies with financial problems, losing cash flow today has a very high opportunity cost. So they fired too many temporary workers and retain too many permanent workers. Financial constraints, therefore amplify the problems of labour market duality.

In our work with Swedish data we found very significant effects. Companies with financial constraints accumulate more inexperienced and temporary workers and they tend to dismiss them when they suffer a negative event. If this happens in Sweden, which has very efficient financial and labour markets, the effects in a country like Spain should be larger.

- In your opinion, which is the main reason for the high levels of the temporary employment rate in Spain? Despite its recent decline – it has sustained greater levels (by far) than other neighbouring countries in Europe.

Temporary work in Spain has fallen because many temporary workers were laid off during the crisis, if we look at data on new hires; there is no clear structural change. The most obvious reason for the existence of this duality in Spain is the existence of laws

that allow it. Other factors intensify the problem: financial constraints, the size of enterprises, the incentives of the unions and employers, etc.

When we formulate a proposal for economic policy from economic theory or empirical evidence, it often has several parts, like the legs of a table. If in practice we only implement one *leg*, it is normal that no results are obtained and it may have all kinds of undesirable consequences related with the other parts of the proposal.

Regarding unemployment and duality, I have the impression that the solutions are always partial, and that there is no willingness to act on all causes at once.

- In your research you have also analysed corporate governance, shareholder participation in the management of the company and the impact of policies such as "Say on Pay". Could you explain what these are and what has been their impact? What has been done about it in Spain and what remains to be done?

Say on pay is a policy that aims to give voice on executive compensation to shareholders. Companies that adopt say on pay rules are obliged to vote in shareholders meetings whether the remuneration of company executives is adequate. These results are not binding, but our research shows that it has significant effects. These effects are not about executive compensation, but about executive performance. One way to understand the results is that the vote is not a vote on remuneration, but a vote on whether the compensation is in line with the results. Shareholder voting imposes a discipline on executives who have to deliver more value to justify similar remuneration.

Both in Spain and in the European Union there are initiatives underway to implement say on pay policies. There are very interesting initiatives to improve corporate governance that often go unnoticed because it is not such a popular topic as in the United States.

- Let us finish asking you for advice: What can we do from the AAA to be useful to partners? And to the rest of society?

I would love to meet other CEMFI cohorts. I think the members would appreciate very much contact with other alumni. I have always found a sense of camaraderie among CEMFI students though they had just met. For the rest of society, the AAA can provide a platform for contacting the academy with the real world and the world of public policy. It is an important asset to have alumni in all these areas.

Thank you very much!

CEMFI Alumni Association