

Invitation

You are cordially invited to the public defense to obtain the academic degree of

DOCTOR OF BUSINESS ECONOMICS

by Nejat Gökhan Okatan

ESSAYS ON CORPORATE FINANCE: INSIGHTS ON THE INTERACTION OF CREDIT AND LABOR MARKETS

Supervisors:

Prof. dr. Klaas Mulier (Ghent University) - Prof. dr. Mike Mariathan (KU Leuven)

Tuesday, 14 May 2024 at 17h00

In the Aula 2de Hoofdwet (TI 01.02), Thermotechnisch Instituut, Kasteelpark Arenberg 41, Heverlee.

Please confirm your attendance no later than **30 April** by email to

Nejat.Okatan@kuleuven.be

EXAMINATION BOARD

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Abstract

In my dissertation, I bring together four substantive chapters, bounded by an introductory and a concluding chapter, which contribute to the understanding of how labor supply shocks affect corporate financial decisions, how credit supply shocks translate into real corporate outcomes, and the combined effects of credit supply and labor supply shocks on corporations.

The first chapter of my PhD (published in *Economic Inquiry*) provides a review of the literature studying the real effects of banks' corporate credit supply shocks. This chapter covers recent methodological advances, provides an in-depth survey of the existing evidence, and includes a brief analysis of the cross-country estimations, allowing us to identify current knowledge gaps and worthwhile avenues for future research. The second chapter of my dissertation provides an in-depth review of the lead-up to and aftermath of the closure of General Motors Antwerp (GM Antwerp). This chapter first shows how global financial crises and oil price shocks contributed to the challenges of General Motors (GM), ultimately leading to the shutdown of its Antwerp plant. The chapter proceeds with the investigation of the ensuing mass layoffs at GM Antwerp, assesses the subsequent responses from the displaced workers, firms, and the government, sheds light on the labor market outcomes of the closure, and acts as the foundation for the labor supply shocks that I study in the next two chapters.

The third chapter of my dissertation studies the role of displaced blue-collar workers' preferences for stable employment in shaping the financial structure of the hiring firms. Exploiting the geographical variation in exposure to the closure of GM Antwerp and intertemporal variation, I show that firms affected by the labor supply shocks hire more blue-collar workers than similar unaffected firms. The employment effect is almost three times larger among firms with higher perceived job security, implying that the employment outcomes are amplified by the displaced workers' job security preferences. Affected firms with higher perceived job security switch to a more blue-collar and less capital-intensive production in line with factor availability. Security-driven employment of displaced blue-collar workers generates added value, exclusively driven by higher wage bills with no additional profits. To accommodate the increased wage bill, affected firms reduce interest expenses by replacing long-term with short-term debt. This chapter provides a novel channel through which labor supply shocks can affect corporate financial decisions and key firm outcomes. In the final chapter of my dissertation, I use granular firm- and loan-level data to examine the role of capital-labor substitution in the combined effects of bank credit supply and labor supply shocks. I show that firms affected by the labor supply shocks on average hire more workers than similar unaffected firms and the employment effect depends crucially on the capital-labor substitutability in the firm and the firm's access to bank credit. Affected firms with low capital-labor substitution hire more workers when they enjoy a high credit supply, as this allows them to make complementary investments in capital. In contrast, affected firms with high capital-labor substitution hire more workers when they face low credit supply, as they are unable to finance the shift towards a more capital-intensive production technology. The interplay between credit supply, labor supply, and capital-labor substitution affects firm-level profitability but has no impact on total labor productivity.

The findings of my dissertation have important policy implications. Mass layoffs are anticipated to continue - and perhaps, accelerate - in the coming years, particularly with the advancements in generative AI technologies. Security-driven employment might prevent the allocation of displaced workers to firms in which they would be the most profitable and productive, disrupting a potentially optimal allocation and pointing to the importance of appropriate outplacement services and guidance, and can make ex-ante safer firms financially riskier, increasing the default risk. Further, access to credit and factor substitutability are two additional and significant determinants of how the labor supply shocks will be absorbed by the local economies, highlighting their importance in the design of targeted subsidies.

Curriculum vitae

Nejat Gökhan Okatan (born in Trabzon, Turkey) holds a Research Master's degree in Economics (KU Leuven, Belgium), a Master of Science degree in Economics (Tilburg University, the Netherlands), a Bachelor of Science degree in Economics (Middle East Technical University, Turkey), and a minor degree in Mathematics (Middle East Technical University, Turkey). Nejat was a joint PhD candidate in Business Economics at the Research Center Finance, KU Leuven and the Corporate Finance Research Group, Ghent University. Prior to his return to academia, Nejat served for four years as a research and policy analyst at the Scientific and Technological Research Council of Turkey. During his PhD, Nejat presented the results of his research at several conferences and seminars including: the 2023 Annual Conference of French Economic Association (Sciences Po), 2023 World Finance Conference (online), 2022 KU Leuven Brown Bag Seminars (KU Leuven). He will present his recent work in the 2024 Belgian Financial Research Forum (NBB) and 2024 European Association of Labour Economists (NHH, Bergen) and act as a discussant in the 2024 Belgian Financial Research Forum (NBB). Chapter 3 and Chapter 4 of his dissertation are at the stage of preparation and submission to leading journals in finance and labor economics.