

**ECONOMIC POLICY UNCERTAINTY AND CORPORATE POLICIES
AROUND THE WORLD**

**CONFERENCE AND SPECIAL ISSUE OF THE *JOURNAL OF FINANCIAL STABILITY*
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**CONFERENCE ORGANIZERS
Moore School of Business, University of South Carolina
Graduate School of Business Administration, Hitotsubashi University**

**Sponsored by
Mizuho Financial Group
Center for International Business Education and Research (CIBER)**

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The ability to cope with uncertainties surrounding economic policy decisions is becoming indispensable for any modern firm, given the disruptive effect of such uncertainties on firms and their competitive landscape, and their depressing impact on economic growth. Fiscal, regulatory, and monetary policy decisions influence economic activities (Federal Open Market Committee, 2009; International Monetary Fund, 2012, 2013), and hence uncertainty around these policies can be detrimental to the economy (Friedman, 1968; Rodrik, 1991; Higgs, 1997; Hassett & Metcalf, 1999). Uncertainty around healthcare, tax, and environmental policies also influences business activities, as does uncertainty related to noneconomic policy matters such as military actions, elections, and national security policies (Baker, Bloom, & Davis, 2016). Investors and firms adjust their actions when they face significant uncertainty regarding the timing, content, and impact of policy decisions by politicians and regulators. Concerns about policy uncertainty have intensified in the face of rising political polarization, the increase in populism and nationalism, the changing economic role of the government, and the growing number of uncertainty-increasing events such as the U.K. Brexit vote.

Policy-induced economic uncertainty differs from other sources of uncertainty. For instance, unlike firm-specific sources of uncertainty (e.g., new product development, acquisitions, management turnover), economic policy uncertainty (EPU) results from policy and regulatory shocks as well as other shocks largely out of managerial control (e.g., oil-price shocks, unforeseen attacks, a subprime mortgage crisis, and policy and regulatory changes). While firm-specific uncertainty is diversifiable, macroeconomic uncertainty affects a broad range of firms, and hence is relatively more difficult to diversify. Further, while EPU correlates with event-driven

uncertainty such as that of political elections and financial turmoil, it has the advantage of accounting for policy uncertainty outside the timeframe of the event uncertainty. Accordingly, this special issue will focus on the consequences of policy-induced economic uncertainty as opposed to political uncertainty (e.g., elections), general financial uncertainty, and stock market events.

Measuring the economic uncertainty generated by regulatory and political systems has been challenging to scholars until recently. First, it is not clear which events should be classified as causing policy-induced uncertainty, nor is it clear how to measure the degree of policy uncertainty that an event may cause. Second, it is difficult to disentangle policy change-induced uncertainty from general macroeconomic uncertainty. To overcome these challenges, Baker, Bloom, & Davis (2016) construct innovative measures of EPU based on textual analysis of newspaper articles and compilation of policy uncertainty related to government spending, inflation risk, and tax code expiration. Baker et al. confirm that their newspaper-based EPU indexes are distinct in scope from other available indicators (e.g., stock market volatility (VIX), policy uncertainty indicators based on textual analysis of Fed's Beige Books and 10-K filings), and are good predictors of policy-related uncertainty. One important advantage of their newspaper-based approach is that it is not only U.S. based but can be extended to other countries, backward in time, and cover specific policy dimensions.

Drawing on the availability of these new measures of EPU, a growing research literature focuses on the consequences of policy uncertainty. At the macro level, prior studies find that policy uncertainty influences capital flows, the business cycle, and the speed of economic recovery (Bloom et al., 2012; Baker et al., 2016; Julio & Yook, 2016). Research that examines how policy uncertainty impacts firm-level decisions is, however, still in its infancy and focuses mostly on the U.S. Gulen and Ion (2016) estimate the effect of policy uncertainty on corporate investments and Bonaime, Gulen, and Ion (2018) relate policy uncertainty to merger and acquisition (M&A) activity at the macro and firm levels. Nguyen, Kim and Papanastassiou (2018) find that EPU influences firm-level foreign direct investment and hedging decisions. EPU is also found to reduce venture capital investment (Tian & Ye, 2017), hinder M&A activities (Bonaime et al., 2018; Nguyen & Phan, 2017), increase risk premiums on stocks (Pástor & Veronesi, 2012), raise corporate debt financing costs (Waisman, Ye, & Zhu, 2015). Although it is not always acknowledged, some of these adverse effects of EPU on the real economy may reflect the indirect effects on corporate behavior of any reduced bank output. Bordo, Duca, & Koch (2016) document a negative effect of EPU on bank lending and Berger et al. (2018) show that EPU reduces the supply of banking services in the U.S., suggesting that the negative effects of EPU on bank output have causal effects in harming the real economy.

Although these studies provide new insights on the causal impact of uncertainty on firms and real economy, we still know relatively little about how policy-induced economic uncertainty might influence the decision-making of financial institutions and corporations around the world. This is an important omission in a growingly integrated, interconnected, and globalized world. In addition, given the importance of global corporations to economic growth and the transmission role they play between the host and the domestic country, it is critical that we further our understanding of how and to what extent business strategies, structures, and decision-making processes change according to the level of uncertainty driven by policy, and whether global corporations contribute to the proliferation of EPU around the world. The goal of this conference and special issue is

therefore to encourage innovative research that deepens theoretical and empirical insights into how EPU might influence corporate policies and performance of financial institutions and/or corporations, and the impact of the institutional environment in moderating or enhancing such relations. We also encourage submissions that make use of alternative proxies for domestic and global EPU beyond the widely used measures of Baker et al. (2016).

The following are selected examples of possible research topics:

- The effect of EPU on corporate policies, including investment and risk taking, capital structure, payout policy, working capital management, and tax policies.
- The role of domestic and global EPU in influencing multinational corporations' (MNCs) operating and entry strategies.
- The effect of EPU on firms' cost of capital and performance.
- The effect of policy uncertainty and its dimensions on the sensitivity of corporate policies to stock price and overall performance.
- The impact of policy uncertainty on financial reporting quality, informativeness of earnings, and accounting conservatism.
- Does policy uncertainty influence analyst forecast characteristics?
- Can firms use operational (e.g., diversification) and financial (e.g., derivative products) to hedge against EPU?
- What are the factors that influence the exposure of corporations to policy uncertainty?
- The role of a country's legal, political, and cultural environments in affecting the relations between policy uncertainty and corporate policies and performance.
- Do the effects of EPU vary across emerging and developed markets' corporations? What explains these differences?
- The impact of policy uncertainty on the survival and probability of default. Do creditor rights interact with policy uncertainty in influencing the probability of default?
- The role of ownership structure on the relation between policy uncertainty and corporate policies. How different types of owners (family, state, and institutional owners) are impacted by policy uncertainty?
- Do corporate governance mechanisms influence the relation between policy uncertainty and corporate policies and performance?
- What are the characteristics of corporations that are more vulnerable to domestic EPU versus global EPU?
- Is corruption a complement to or a substitute for EPU?
- Do MNCs contribute to propagating the effects of EPU across countries? What are the implications for global financial stability?
- How is Brexit with heightened EPU changing the landscape of MNCs, their competitive environment, the way they do business, and how they pursue their strategies as they work under new additional constraints?

- The effect of EPU on foreign direct investment (outflow and inflow) and exports/imports. Which is more sensitive to EPU?

CONFERENCE FORMAT

This academic conference aims at creating a forum of discussion among distinguished scholars on the conference theme. We will accept a small number of papers to provide rich interactions and discussions among participants. The time allocated to each paper is as follows: 25 minutes for the presenter, 15 minutes for the discussant, and 10 minutes for the audience.

The conference will include a keynote speech by Professor Steven J. Davis. Professor Davis is the William H. Abbott Distinguished Service Professor of International Business and Economics at the University of Chicago Booth School of Business. He studies business dynamics, hiring practices, job loss, economic uncertainty and other topics. His research appears in the American Economic Review, Journal of Political Economy, Quarterly Journal of Economics and other leading scholarly journals. He is a senior fellow at the Hoover Institution, research associate of the National Bureau of Economic Research, senior academic fellow with the Asian Bureau of Finance and Economic Research, advisor to the U.S. Congressional Budget Office, visiting scholar at the Federal Reserve Bank of Atlanta, senior adviser to the Brookings Papers on Economic Activity, and past editor of the American Economic Journal: Macroeconomics. He is also an elected fellow of the Society of Labor Economists.

Professor Davis is known for his influential work using longitudinal data on firms and establishments to explore job creation and destruction dynamics and their relationship to economic performance. He is a co-creator of the Economic Policy Uncertainty Indices, and he co-organizes the Asian Monetary Policy Forum, held annually in Singapore. He has received research grants from the Alfred P. Sloan Foundation, Ewing Marion Kauffmann Foundation, John D. and Catherine T. MacArthur Foundation, and other organizations, including several grants from the U.S. National Science Foundation. In 2013, Professor Davis received the Addington Prize in Measurement, awarded by the Fraser Institute for Public Policy, for his research on “Measuring Economic Policy Uncertainty.”

COSTS

Paper submission is free. Participants are responsible for covering their transportation and accommodation expenses. A registration fee will be charged to participants at the conference.

IMPORTANT DEADLINES

Conference dates: August 1-2, 2019 (Tokyo, Japan)

Keynote speech and reception: August 1, 2019

Conference submission deadline: April 1, 2019

Conference acceptance decision: April 30, 2019

Papers should be submitted at <https://www.sba.hub.hit-u.ac.jp/inquiry/EPU-JFS-Paper-Submission.html>. For information or questions about the conference or special issue, please contact us at epu-jfs@cm.hit-u.ac.jp with the subject heading: “Conference on EPU”

JOURNAL OF FINANCIAL STABILITY SPECIAL ISSUE

A subset of papers presented at the conference will be considered for publication in the *Journal of Financial Stability* special issue on this topic. Submission fees will be waived. Acceptance to the conference does not guarantee publication in the *Journal of Financial Stability* and is subject to successfully addressing comments by referees and co-editors.

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