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IWH Research Seminar in Economics

October 22, 2018, 2.15pm – 3.45pm, conference room, ground floor

Financial Constraints and Corporate Environmental Responsibility

Professor Martin Götz, PhD, Goethe University Frankfurt and SAFE

This paper analyzes the effect of financial constraints on firms' corporate social responsibility. Exploiting heterogeneity in firms' exposure to a monetary policy shock in the U.S., which reduced financial constraints for some firms, I find that firms increase their environmental responsibility. I use facility-level data to account for unobservable time-varying influences on pollution and find that toxic emissions decrease when parent companies are more exposed to the monetary policy shock. I further find that these facilities are also more likely to implement pollution abatement activities. Examining within-parent company heterogeneity I find that pollution abatement investments center on facilities at greater risk of facing additional costs due to environmental regulation. The findings are consistent with the idea that a reduction in financial constraints reduces pollution as it allows firms to implement pollution abatement measures.

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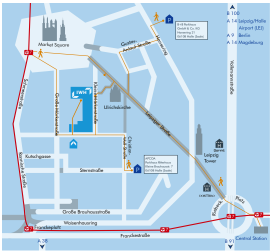

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