

Discussion of

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Global Value Chain and the Great Recession: Evidence from Italian and German Firms

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Foreign ownership and host country employment volatility

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Global Value Chain and the Great Recession: Evidence from Italian and German Firms

Summary of paper

- GVCs as main driver of transmission in global trade collapse ('bullwhip effect')
 - Intermediate firms were hit more
 - => countries populated/self-selected more into intermediate firms hit more
 - Because intermediate firms have worse performance?
 - Because of bullwhip effect?
 - Intermediate firms with more innovative activities were better sheltered from crisis effects
- Firm's positioning in GVCs and strategies explain Germany-Italy gap in crisis performance at country level
- Paper provides cross-section evidence of differences between 'intermediaries' or 'finalizers' (i.e. firms location in GVCs matter)
 - Self-selection into one of these activities?
- Paper has actually two parts (2 papers?)
 - Cross-section differences between I's and F's (descriptive part)
 - Crisis effects (econometric part)

Intermediate firms (I's) are systematically different from finalizers (F's)

- Differences between I's and F's
 - I's are less productive, smaller, etc. as compared to F's (more pronounced in Germany)
 - ? Can turnover be used as size measure (as includes intermediates for F's)?
 - Italy relatively more populated with I's
 - Specific reason behind? (F's = headquarters, ...)
- Firm strategies (better: characteristics?)
 - 5 variables summarized in two factors
 - Is it useful/necessary to apply principal components?
 - Coefficients more difficult to interpret
 - Questions like whether exporters have been more or less hit by crisis cannot be answered, etc.
 - I's are less involved in Inno&Trade and HC strategy
 - Self-selection process
 - Cross-country differences not for Inno&Trade but for HC (negative for Italy, positive for Germany)
 - Role of country characteristics important?

- Crisis performance (regression)
 - I's are doing relatively worse over crisis ('bullwhip effect')
However relatively small effect
 - Inno&Trade and HC strategies attenuates crisis effects
 - Particularly HC strategy is important
BUT: Is result driven by Germany (see exceptional HC differences from before)?
Suggests to run OLS for both countries separately (HC positive for Germany see before)
 - Inno&Trade less relevant
Explained by 'trade part' of this variable
Again would suggest to include both (would provide exporter and innovator effect)
 - Interaction terms
HC strategy has positive effect to weather crisis irrespective of being I or F
Inno&Trade has positive effect mainly for I's
BUT: Huge changes in direct effects (particularly for Inno&Trade which becomes strongly negative) when including interaction
 - Suggestions for robustness checks:
Split sample by country, I's and F's, etc.
Include all variables separately rather than PCA

Italy-Germany comparison

- Dummy approach not convincing as capturing only level effects
- Question is whether Italy was doing worse over crisis
 - Because more populated with I's
 - Because firms do generally worse with respect to Inno&Trade and HC?
 - Because I's in Italy are doing worse
 - Etc.

Final remarks

- Distinction between I's and F's interesting and important
 - Self-selection process in one of these activities
 - Do country characteristics play a role, etc.
 - Is I-firm more seen as passive or active, etc.
- Why only Germany and Italy?
 - Compare Italy I's with other I's?
 - E.g. in Austria a lot of high-specialised I's are active (high innovation, high export intensity, etc.)
- Other econometric tests, e.g. matching procedures, ...
- Results important from macro-perspective
 - If countries - in an otherwise perfect OCA - are populated differently ('intermediary' and 'finalizer') is macro-economic shock absorption different?
 - If so, what are country characteristics to become headquarter or factory country (but specialization maybe necessary)

Foreign ownership and host country employment volatility

Summary of paper

- Foreign ownership related to higher employment volatility
- Explained by differences in labour demand elasticities
 - wage elasticities
 - Turnover-employment elasticities
- Differences in elasticities related to labour market institutions (as measured by EPL)
 - “... EoLD tends to be smaller in the subsidiaries of the FOE originating from the home country with a more flexible institutional framework than the one prevailing in the host country and vice versa ...”

Focus on employment volatility versus output volatility

- Why focus on employment volatility and not (or additionally) output volatility?
 - See previous paper
 - Literature on offshoring and volatility (Bergin et al., 2009; Comin et al., 2009), synchronisation and co-movement
 - If subsidiaries are “dependent firms” then output volatility matters more?
 - Eg. Table 2 also for output volatility as Table 3:
 - “... volatility of turnover is larger than volatility of employment ...”
 - “... sales turnover and employment are more volatile in the subsidiaries ...”

Framework: EPL and LD elasticities

- Conceptual framework

- $l = \frac{\eta^{LL}\eta^S}{(\eta^{LL}+\eta^S)} \ln(pA\beta) \quad w = \frac{\eta^{LL}}{(\eta^{LL}+\eta^S)} \ln(pA\beta)$

- Discussion focused on η^S :

if going to infinity $\text{var}(w)=0$ and $\text{var}(l)=\text{var}(\ln(pA\beta))$

If going to 0: $\text{var}(w)=\text{var}(\ln(pA\beta))$ and $\text{var}(l)=0$

- What is 'labour supply' curve for individual firm?

- Argument suggests link between EPL and labour supply?

- What about EPL and labour demand?

- Effect of η^{LL} (being a function of β ; acts on wage and on shock)

if going to infinity $\text{var}(l)=1$ and $\text{var}(w)=1$

If going to 0: $\text{var}(w)=0$ and $\text{var}(l)=0$

- Does EPL more influence demand or supply? Modelling of labour supply needed at all (in the end labour demand equations are estimated)?

- FOE's have higher employment volatility

- Because more sensitive reaction to wage changes

- Or more exposed to external shocks

Questions – comments - suggestions

- Descriptive : emphasis on difference between WE and CEE
 - Why not e.g. between high and low EPL
- Labour demand equation
 - Why in levels (with all problems of GMM) rather than in first differences?
 - Wouldn't first differences not emphasize more volatility?
 - Include y_{t-k} as control (employment reacts only with lag)
- Including labour market indicators
 - Higher EPL (or union density) associated with lower wage elasticity
 - Higher employment persistence and lower short-term output elasticity
- Interaction with INSTD
 - Lost in results
 - Specify in text to which variable/coefficient you are referring to
 - "Elasticity" used in various contexts (wage elast., turnover elast, ...)
 - Results are rather heterogenous – general conclusions?
- General remarks on presentation of results
 - Clarify discussion of results (wage elasticities rather than turnover-employment elasticity)
 - Can one control for turnover volatility in the headquarter company?
 - Weak evidence (or at least heterogeneous and not consistent across countries)

Questions – comments - suggestions

- Robustness checks (motivation)
 - US in Germany: less regulated labour markets (in US) imply less elastic labour demand elasticity of OFEs
 - Germany in CEE: more regulated labour markets (in Germany) imply higher elasticity of labour demand
 - Alternative explanation: labour market regulations in host countries matter!

		Headquarter country	
		Flexible	Inflexible
Subsidiary country	Flexible		EoLD larger
	inflexible	EoLD smaller	

General

- General suggestions
 - Employment volatility versus wage elasticity?
 - Better explain to which elasticity one is referring to (wage elasticity, turnover elasticity, etc.)
 - Focus results in text (either all countries, all firms), only manufacturing, country groups (high EPL, low EPL, etc.); other results in appendix
- Completely different set-up: Regression on volatility measure on lhs and explanatories on rhs (see literature on offshoring and volatility)

Conclusions

- Distinction between 'DOE' and 'FOE'
 - Dependency issues (as for offshorees, etc.)
 - Labour market institutions in host country matters
- Results important (again):
 - If countries in an otherwise perfect OCA are populated differently ('DOE' and 'FOE') is macro-economic shock absorption different?