

# **Competitiveness, 'Superstar' Firms and Capital Flows by Lidia Smitkova**

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# This Paper

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- **Distribution of firm-level productivity, competitiveness, and capital flows**
  - more “superstar” firms → higher aggregate profit rate → lower autarkic interest rate → capital outflows
- **Key assumptions**
  1. quantity monopolistic competition a la Atkeson and Burstein (2008)
  2. agents receiving corporate profits (i.e., capitalists) have a higher saving rate
- **Paper structure:** well executed!
  - three stylized facts: competitiveness and current account imbalances
  - a simple model with oligopolistic trade and heterogeneous households
  - quantitative exercise: 27% of variation in the pre-crisis North-South imbalance
  - possible policy interventions

# This Discussion: Roadmap

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- **Main comments**

1. definition of country-level competitiveness
2. international equity market
3. Europe between 1998-2007
4. other possible applications

- **Minor comments**

# Comment #1: country-level competitiveness

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- **Unit labor cost**  $ulc = \frac{w}{y} = \frac{wL}{Y}$ : labor share
- **Why do we need the quantity oligopolistic competition framework?**
  - competitive market: constant labor share
  - Dixit-Stiglitz model: no cross-sectional variation
  - this paper: a distribution of corporate market power
    - an increase in productivity of the least productive firm pushes up the labor share
    - an increase in productivity of the most productive firm decreases the labor share
- **Speaks to a different literature:** Karabarbounis and Neiman (2018); Barkai (2020)
- **Implicit assumptions:**
  - labor as the homogeneous input: skill labor with span of control (e.g., Lucas, 1978)
  - Hicks-neutral productivity growth: directed technical change (e.g., Acemoglu, 2002)

## Comment #2: international equity market

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- **Key assumption:** risk-free debt only, firm ownership not tradable
- In the quantitative exercise: limited pledgeability of future profits with  $\lambda = 0.22$
- Full financial liberalization might overturn the model prediction

# Comment #3: pre-crisis Europe

- North-South asymmetry

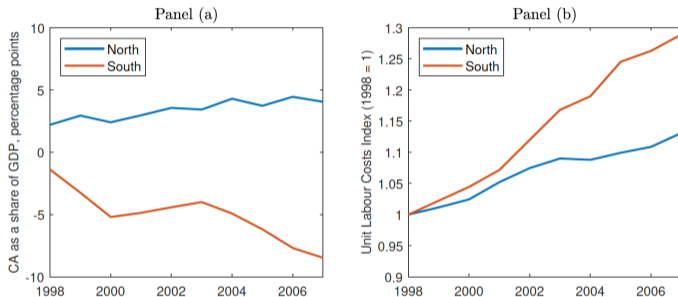


Figure 1: Current Account Imbalances and Unit Labour Costs in Europe

- **Many things happened during this period:** European Monetary Union, low-interest-rate environment, China shock, ...
- **Autarky before 1998?** true for Eastern Europe, but not for North & South

## Comment #4: other possible applications

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- Changes in productivity have mixed predictions on the direction of international capital flows
- **Allocation puzzle** (e.g., Gourinchas and Jeanne, 2013): capital flows from high-growth to low-growth emerging countries
- **Corporate savings glut** (e.g., Chen, Karabarbounis and Neiman, 2017; Li, 2020): “Whereas in the early 1980s most of global investment was funded by household saving, nowadays nearly two-thirds of global investment is funded by corporate saving.”

# Minor comments

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## 1. market share measure

- model: sale share in the total economy  $s_n = \frac{y_n}{\sum_{n \in M} y_n + \sum_{n^* \in M^*} y_{n^*}}$
- data: sale share in the industry

## 2. interest rates changes in North & South?

## 3. superstar firms?

- in this paper: superstar firms are defined as super productive firms
- Rosen (1981); Gutiérrez and Philippon (2020)
- foreign demand  $\rightarrow$  superstar exporters: Panon (2022)

## 4. markup estimation

## 5. generality of this story outside the Europe: Japan v.s. the U.S.



# Final Thoughts

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- **Very interesting paper with a smart idea!**
- **Main take-away**
  - (distribution of) corporate monopoly power affects (aggregate) factor share, through which it affects the direction of international capital flows
  - countries with more powerful firms can be more competitive in the international market
- **Main comments**
  - pre-crisis imbalance between the North-South Europe might not be the best exercise
  - there could be more interesting applications

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