Discussion of “Profits, ‘Superstar’ Firms and External Imbalances”

Şebnem Kalemli-Özcan
Brown University, NBER, and CEPR

What does the paper do?

- Connect European imbalances to superstar firm productivity under oligopolistic competition.

What does the paper do?

- Connect European imbalances to superstar firm productivity under oligopolistic competition.
- If HH save non-homotheticly, and if there are profitable superstar firms (owned by HH)

  $\Rightarrow$ Low interest rates under autarky

  $\Rightarrow$ NFA >0 under financial liberalization.

What does the paper do?

- Connect European imbalances to superstar firm productivity under oligopolistic competition.
- If HH save non-homotheticly, and if there are profitable superstar firms (owned by HH)

  $\Rightarrow$ Low interest rates under autarky

  $\Rightarrow$ NFA >0 under financial liberalization.
- Successful calibration to Germany and Rest-Of-Europe

What does the paper do?

- Connect European imbalances to superstar firm productivity under oligopolistic competition.
- If HH save non-homotheticly, and if there are profitable superstar firms (owned by HH)

  $\Rightarrow$ Low interest rates under autarky

  $\Rightarrow$ NFA $>$0 under financial liberalization.
- Successful calibration to Germany and Rest-Of-Europe
- Provide reduced form evidence on the association between:

  $\Rightarrow$ Higher profit share

  $\Rightarrow$ Superstar firms existence

  $\Rightarrow$ NFA$>$0

Key Insights

- Firm size distribution matters:

  $\Rightarrow$ If the most productive domestic firm becomes even more productive home's aggregate profit share increases.

  $\Rightarrow$ If the least productive firm becomes more productive the aggregate profit share declines.

- Imperfect competition + homothetic preferences are important for asset supply and asset demand leading to low rates:

  $\Rightarrow$ Firms that earn rents 'restrict' their production compared to the competitive benchmark, less capital available as a store of value.

  $\Rightarrow$ Profits are income. If propensity to save out of profits is high, then higher profits also imply a higher demand for assets.

Comments

Very nice and elegant, thought provoking paper!

Comments

Very nice and elegant, thought provoking paper!

My only questions are:

- Why US different than Germany with even more superstar firms but a big-fat NFA$<$0?
- How realistic are the 'constructed' firm size distributions (tail parameters)?

  $\Rightarrow$Heterogeneous tail parameters in firm productivity distributions alone can generate 70% of the imbalances.

Why Germany and US are different?

This paper: financial markets less developed in Germany than US

- Atkeson et al. (2022): US deteriorating NFA position is linked to to aggregate profits, with an unexpected change in firm profitability (time series).
- This paper: SS determinants of external imbalances.
- More important difference between papers: asset demand
  - US can generate stores of value out of the future profit streams. Higher profits of superstar firms are in the stock market; US generates more financial assets than RoW, US is net debtor.
  - German firms are 'closely held', with relatively underdeveloped equity markets and most firms in private ownership; German profits largely accrue to German households.
- Any evidence?

Paper Relies On:

- "Over 70% of firms in Germany are in private ownership, with a majority of these owned by one person. Likewise, publicly traded firms are dominated by insiders, with the top three shareholder equity shares adding to around 45%. "

  $\Rightarrow$ <u>Contradicts ultimate ownership:</u> 40% owned by US multinationals.

- "88% of German portfolio investment is held by German investors."

  $\Rightarrow$ <u>Contradicts ECB-SHS data:</u> most held by mutual funds in Lux.

Direct vs Ultimate Ownership

- Aggregate level databases are based on the concept of residence which assigns ownership of financial flows to legal entities' place of registration.
- The legal entity (which is the direct owner) is often located in a tax heaven or financial center.
- Direct ownership overstates exposure to financial centers and hence overstates FDI and understates exposure of countries such as the US.
- The transactor principle allocates transactions resulting from changes in the financial claims/liabilities of the compiling economy/economies.

Example: a German firm may be owned by a British firm, which is recorded as the direct owner, but the British firm may be a subsidiary of a U.S. firm.

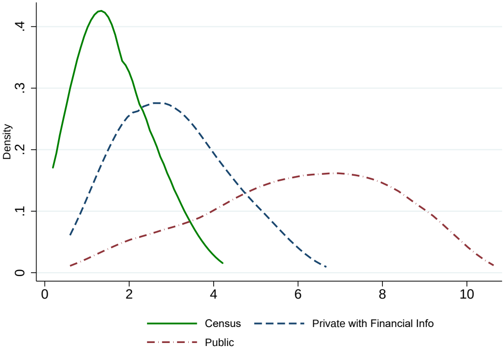
OECD/Direct/Ultimate FO

Country	North America	Western Europe	Eastern Europe	South/Ctrl. America	East/Ctrl. Asia	Total
Austria	10/ 5/ 3	80/ 88/ 89	2/ 3/ 1	1/ 0/ 1	3/ 1/ 1	95/ 96/ 95
Czech Republic	4/ 8/ 14	90/ 87/ 76	3/ 4/ 5	0/ 0/ 3	2/ 0/ 3	100/ 99/ 100
Denmark	10/ 15/ 24	82/ 75/ 69	1/ 0/ 0	5/ 8/ 4	1/ 0/ 2	99/ 98/ 99
Estonia	3/ 3/ 3	90/ 90/ 87	5/ 5/ 7	1/ 2/ 2	1/ 0/ 0	100/ 100/ 100
Finland	3/ 3/ 16	96/ 95/ 78	1/ 1/ 2	0/ 0/ 2	0/ 0/ 2	100/ 100/ 100
France	13/ 25/ 25	82/ 71/ 60	0/ 0/ 0	1/ 0/ 0	2/ 4/ 5	99/ 100/ 99
Germany	12/ 24/ 41	84/ 71/ 53	1/ 0/ 0	1/ 1/ 1	3/ 3/ 12	99/ 99/ 98
Hungary	5/ 14/ 21	89/ 80/ 72	1/ 0/ 1	2/ 1/ 2	3/ 5/ 2	100/ 100/ 99
Ireland	15/ 38/ 38	79/ 52/ 49	-0/ 0/ 1	7/ 8/ 9	0/ 0/ 1	100/ 99/ 98
Italy	6/ 10/ 35	90/ 87/ 52	1/ 1/ 3	1/ 1/ 6	1/ 1/ 3	99/ 100/ 100
Netherlands	20/ 15/ 19	69/ 75/ 59	0/ 0/ 0	7/ 4/ 5	3/ 5/ 17	99/ 99/ 99
Poland	7/ 10/ 13	89/ 87/ 85	1/ 2/ 1	-0/ 0/ 0	2/ 1/ 1	100/ 100/ 100
Portugal	17/ 2/ 3	82/ 91/ 94	0/ 0/ 0	1/ 6/ 2	0/ 1/ 0	100/ 99/ 99
Spain	13/ 17/ 33	84/ 77/ 59	0/ 0/ 0	2/ 4/ 4	1/ 1/ 5	100/ 100/ 100
Sweden	14/ 12/ 14	83/ 84/ 80	-0/ 0/ 0	2/ 1/ 1	1/ 3/ 5	100/ 100/ 100
UK	32/ 20/ 28	58/ 67/ 45	0/ 0/ 1	2/ 5/ 9	5/ 3/ 12	97/ 96/ 94

Firm Size Distribution

- Given lack of data, the paper uses firm size bin from the OECD's Structural Business Statistics (SBS) dataset to construct an index of the thickness of the right tail.
- What is the underlying firm level data?

US Data



Density
0
.1
.2
.3
.4
0
2
4
6
8
10
Census
Private with Financial Info
Public

Conclusion

- **Very nice and elegant, though provoking paper!**
- It will be great if the author can dig more into:
  - Firm size distribution/superstars
  - Germany private firms ownership