Discussion of Desai, Foley and Hines

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The Paper Supports My Priors

- U.S. firms face stiff competition from foreign multinationals
- When a U.S. firm succeeds abroad, it is good for domestic activity, since the counterfactual is success by foreign firms, not more domestic activity.
- They find positive correlation with all sorts of activity.

But….
The Paper Might Not be Convincing to Skeptics ☹

- Intuition 1: The paper is all about technology, but it has no real treatment of technology. There is too much parsimony.
- Intuition 2: It is not obvious that the solution to the "intangibles" problem is a solution.

Multinational Technology

- Problem 1: success feeds on itself. If you win at home, you will likely win abroad as well (exception: NBA). Need to filter out common intangible to run true experiment.
- But: there are many different types of multinational
  - Food products---locate abroad to sell abroad
  - Semiconductors---locate abroad to sell globally
  - Computers---locate abroad to sell in the U.S.
  - Luxury items---locate sales abroad, production in developing country, management in the U.S.

Differential Growth and Technology

- Suppose you operate a plant in a high growth developing country
  - Food service---good for sales, bad for labor costs. No elasticity wrt labor costs. Sales go up and maybe U.S. activity does to.
  - Semiconductor. Sales don't change, but relative costs do. Should move production back home (or somewhere else)
  - Computers. Competitors in low growth countries gain cost advantage. Production at home might increase. Lost market share to firms in low growth countries.
  - Luxury items bad for costs, profits drop. U.S. activity may as well.
  - Answers change if it's a developed country sub.

Intangibles More or Less Important?

- Suppose a high growth country sub increases sales as does parent. Why? Costs are going up at the sub? Perhaps because intangible is so valuable that the higher costs do not matter much (demand elasticity for final product low).
- Results suggest this might be happening. Coefficients INCREASE when instrumented, often a whole bunch. But the instrument was meant to screen out a positive bias.

Next Steps

- They could do more careful sorting of the data into different types of operation. Is the local plant serving the local market? Is the plant in a developed or developing country? Etc.
- They could treat the technological question more rigorously.
- Matt is more advance on this, but still needs to ratchet sophistication up. (Will the real elasticity please stand up?)