
Comments, “Expansion Abroad and the Domestic Operations of U.S. Multinational Firms”

- Measurement and estimation.
 - Interpretation.
 - Further research.
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Parent Employment (dependent variable)

- Total work force.
 - Mix of skill levels and occupations.
 - Masking of price effects.
 - Substitution between skilled and unskilled labor in parent.
 - Weighted averages of elasticities.
 - Authors estimate separate regressions for R&D employment.
 - Should consider using data about employment mix within industry of parent.
 - Occupational data.
 - Interactions with other RHS variables.
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Parent and Affiliate Output

- Measured as value of output.
 - Price and quantity can change.
 - Offsetting each other?
 - Should consider when interpreting estimation results.
 - Not really “output constant” input demand equations.
 - May capture indirect output demand effects.
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Affiliate Wages

- Composite, fixed-weight index of average compensation in each skill category.
 - Possible labor substitution between foreign affiliates as relative prices change.
 - Upward bias: measured change in cost of labor.
 - Downward bias of elasticity estimates?
 - Try variable weight index, e.g., Fisher Ideal.
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Tax Rates

- Proxy for changes in affiliate cost of capital.
 - Measured changes in statutory rates.
 - Correlated, but probably very different from changes in effective tax rates.
 - Changes in effective tax rates.
 - Other changes in tax law provisions.
 - Changes in multinational's tax planning.
 - Financing.
 - Transfer pricing.
 - Subpart F planning.
 - Bias of estimated tax effect probably toward zero.
 - Should use effective tax rates based on BEA data.
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Industry Fixed Effects

- First-differenced data with industry time effects.
 - Removes all company-specific fixed effects.
 - Removes all industry-specific trends.
 - Examples given by authors:
 - Skill based technical change.
 - Prices of other inputs.
 - May discard too much information.
 - Perhaps why the most interesting effects appear to get washed out in the later sample period.
 - Should consider additional measured fixed effects and broader groupings for fixed effects and trends.
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Interpretation

- **Scale effect.**
 - Foreign labor costs affect size/scale of parent operations.
 - Estimated constant parent sales revenue, constant parent capital labor demand equation.
 - Domestic price decreasing, domestic output increasing, labor intensity increasing.
 - Interesting in its own right.
 - **Scope effect.**
 - Foreign labor costs affect mix/scope of parent operations.
 - Change in labor intensity might really be a scope effect.
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Further Research

- Interesting and important research.
 - Refinements to measurement and estimation.
 - More explicit links to international trade.
 - More explicit links between role of intra-firm trade and multinational employment decisions.
 - Analysis of link between multinational employment decisions and overall effect of international trade on aggregate labor demand.
 - Better understanding of possible role of taxes.
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