

Discussion: Mergers and Acquisitions, Technological Change and Inequality

Ma, Ouimet and Simintzi (2016)

By: Liu Yang, University of Maryland

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Summary

- A big and extremely important question
 - What is the role of M&A in facilitating technological change and influencing the welfare for workers involved?
- Data
 - M&A intensity by industry or commuting zone in three decades (80s, 90s, 00s)
 - Occupation and wage information from IPUMS (5% extract from ACS)
 - Routine employment share by occupation code



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Findings

- Industries/Commuting Zones with higher M&A intensity experience
 - Decline in share of routine-based occupations
 - Increase in share of college educated workers
 - Increase in average wage
 - Increase in wage dispersion



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General Comments

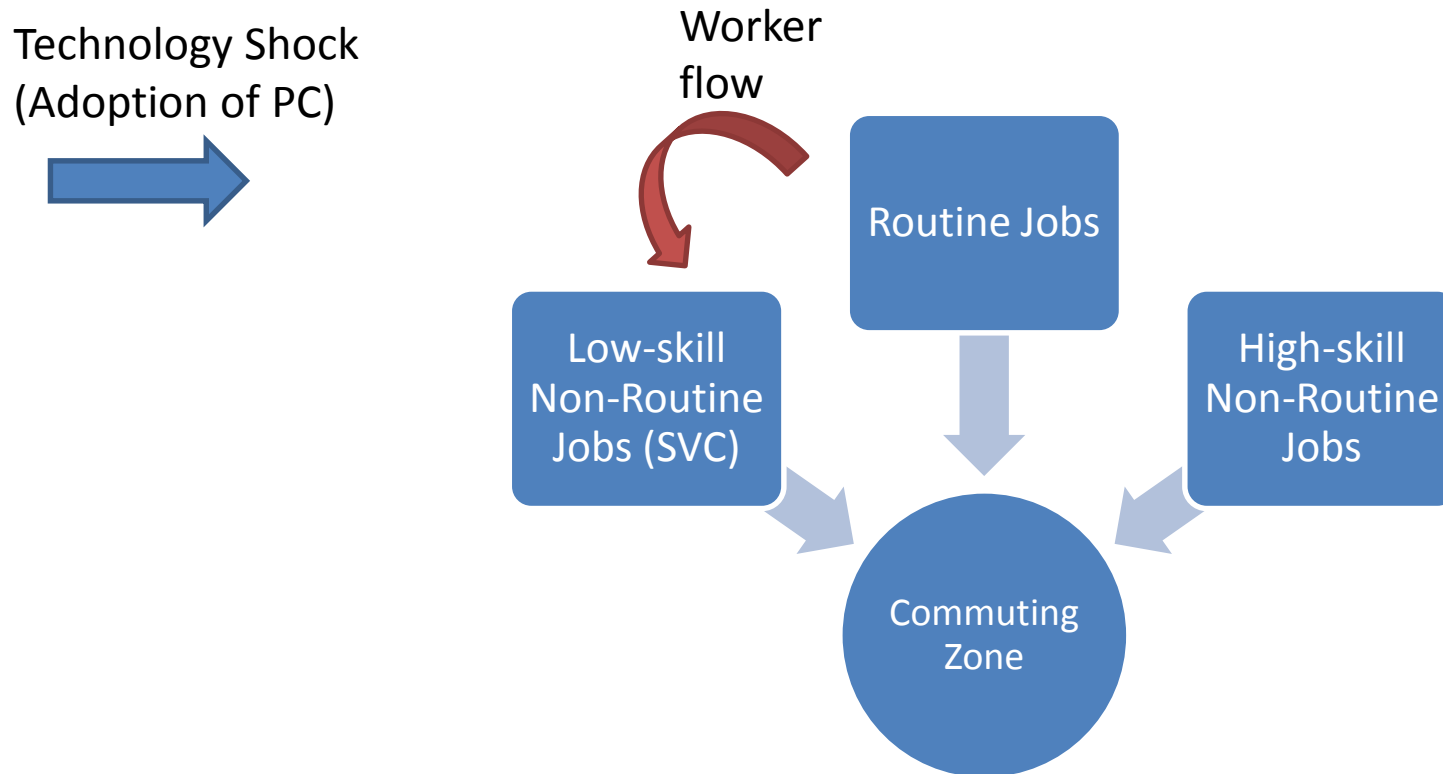
- There are many things to like about this paper
 - Important and very relevant question
 - The perfect blend of finance (M&A) and labor (jobs and wage)!
 - I really enjoyed reading it
- My discussion
 - Where does this paper stand in the literature?
 - What should we interpret the existing results?
 - Suggestions to sharpen the analysis
 - The bigger picture



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Autor and Dorn (2013 AER)



- CZ's with initially higher routine task share
 - ↑ ↑ in computer adoption
 - ↓ ↓ routine task intensive jobs
 - ↑ in mean wage and wage dispersion

More on Wage Inequality

- Autor and Dorn (2013 AER): Worker flow from routine-task jobs to low-skill service industries
- Goos (2013 AER): Technological change and offshoring
- Diamond (2016 AER): Worker flows driven by local demand shocks and quality of amenities
- Hemous and Olsen (2015): Technological change and horizontal innovation



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This Paper

- Autor and Dorn (2013 AER): Worker flow from routine-task jobs to low-skill service industries
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- **Ma, Ouimet and Simintzi (2016): Technological change and mergers and acquisitions**

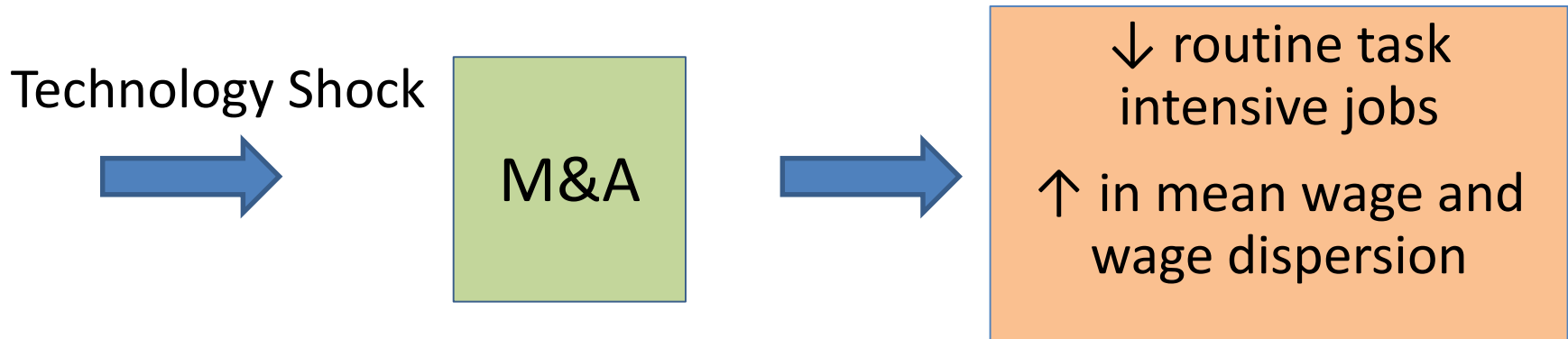


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Comment #1

- *“We propose mergers and acquisitions act as a catalyst for skill-biased and routine biased technological change.”*



Comment #1

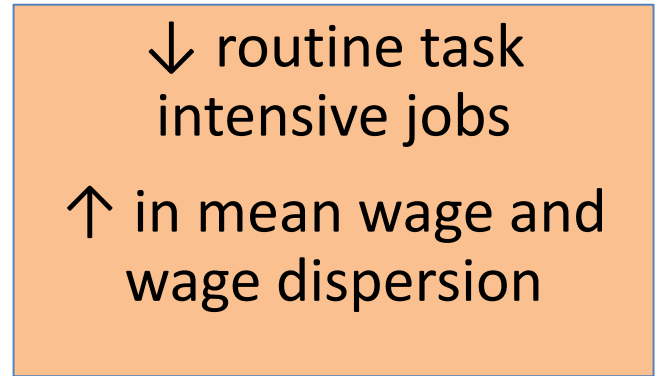
- *“We propose mergers and acquisitions act as a catalyst for skill-biased and routine biased technological change.”*
- Alternative story: M&A is just the consequence of the technology shock
 - Technology shock → Automation
 - Change of production function → Increase in the optimal scale of the firm
 - If demand is not inelastic, then firms need to consolidate



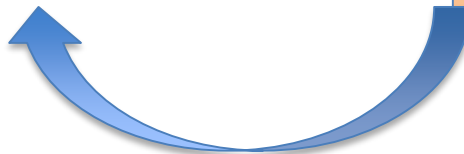
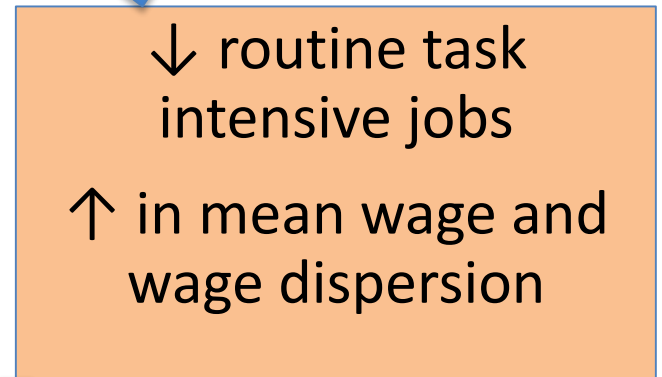
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Technology Shock



Technology Shock



Comment #1

- *“We propose mergers and acquisitions act as a catalyst for skill-biased and routine biased technological change.”*
- Alternative story: M&A is just the consequence of the technology shock
 - Technology shock → Automation
 - Change of production function → Increase in the optimal scale of the firm
 - If demand is not inelastic, then firms need to consolidate
- **Comment #1: A key challenge is to show M&A is a stimulus rather than outcome of technology shock**



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Comment #2

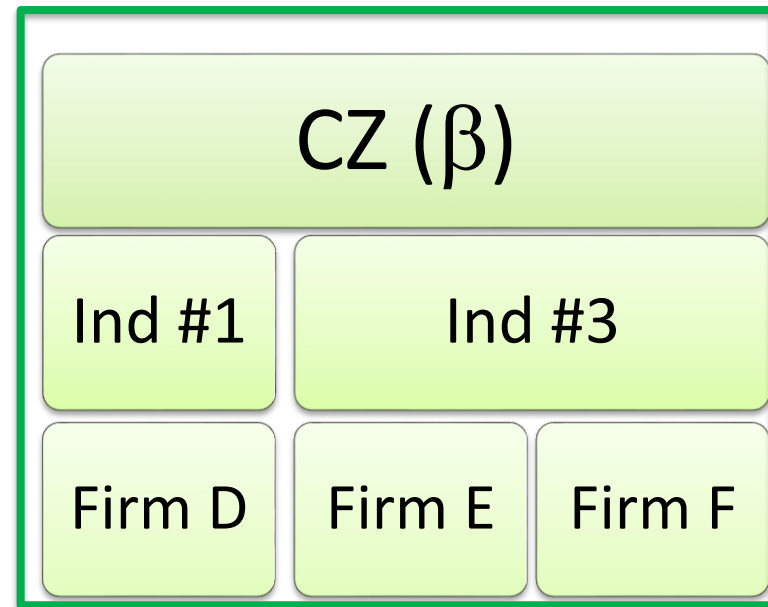
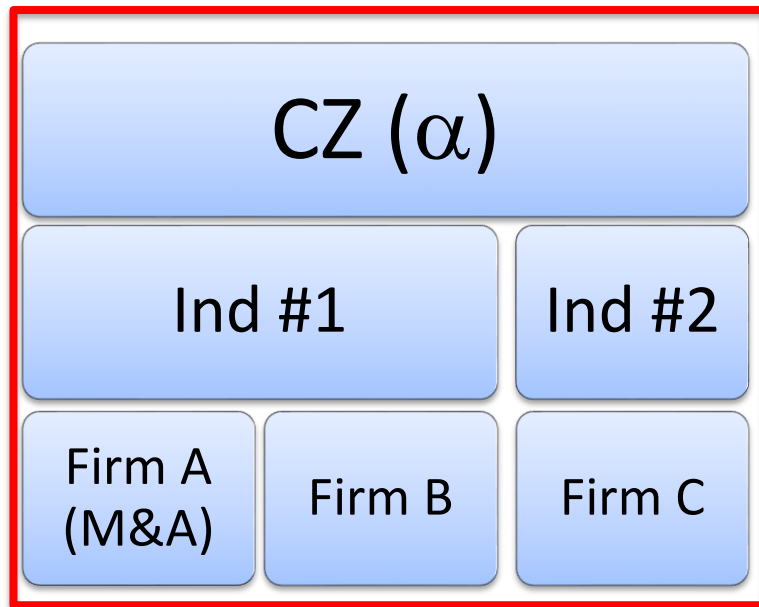
- The paper conducts analysis both on the community zone and industry level
- What are we comparing in each exercise?



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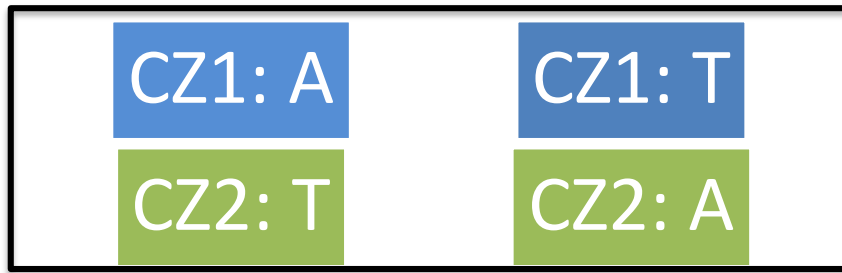
Community-Zone Level Analysis



	Advantage	Limitation
CZ level: CZ (α) vs. CZ (β)	Control for local demand shocks	Different industry composition and different reasons for M&A

More on Commuting Zone

- Does it make a difference whether A or T or both A and T are from the same commuting zone?

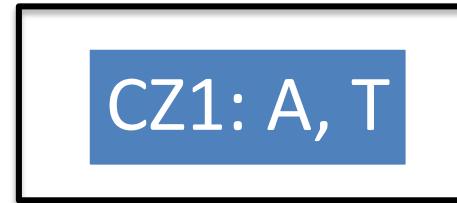
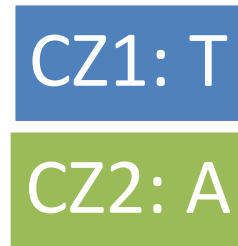
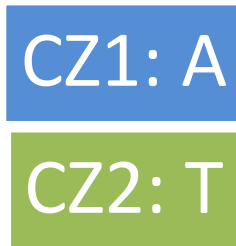


CZ1: A, T

- How to reduce the routine-task jobs if A and T are from different commuting zones?
- Can stand-alone firms also reduce routine-task jobs?

More on Commuting Zone

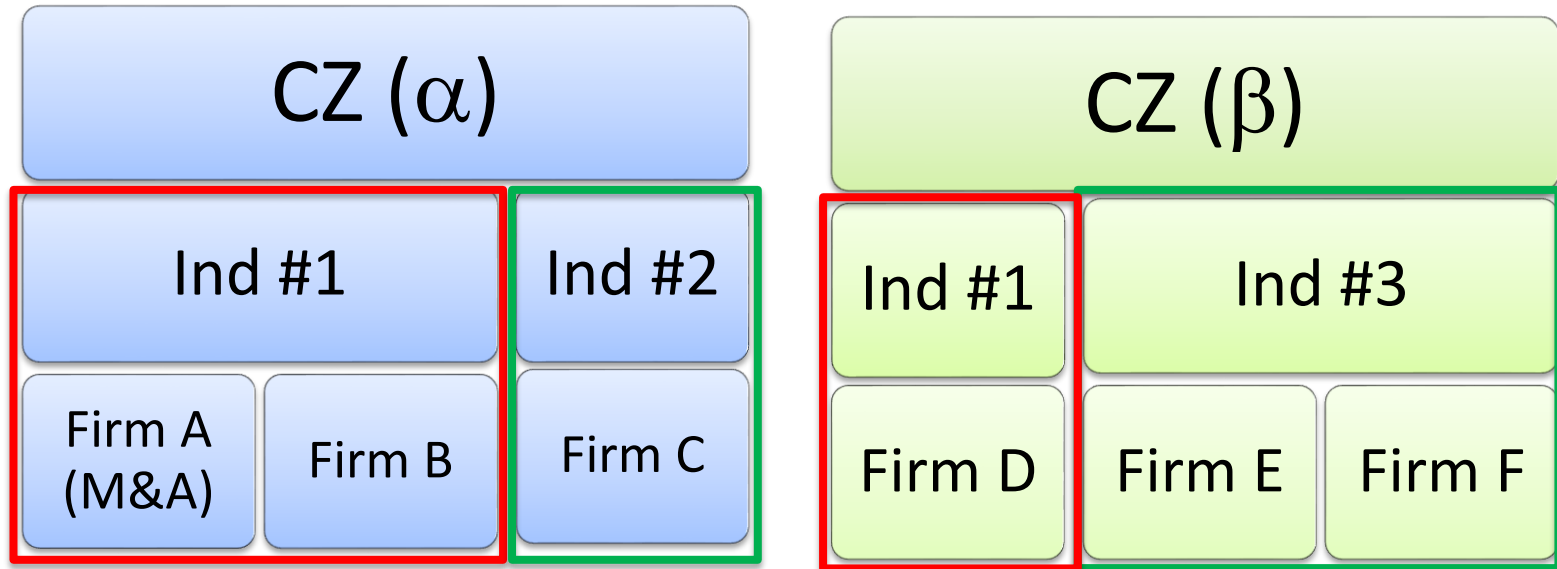
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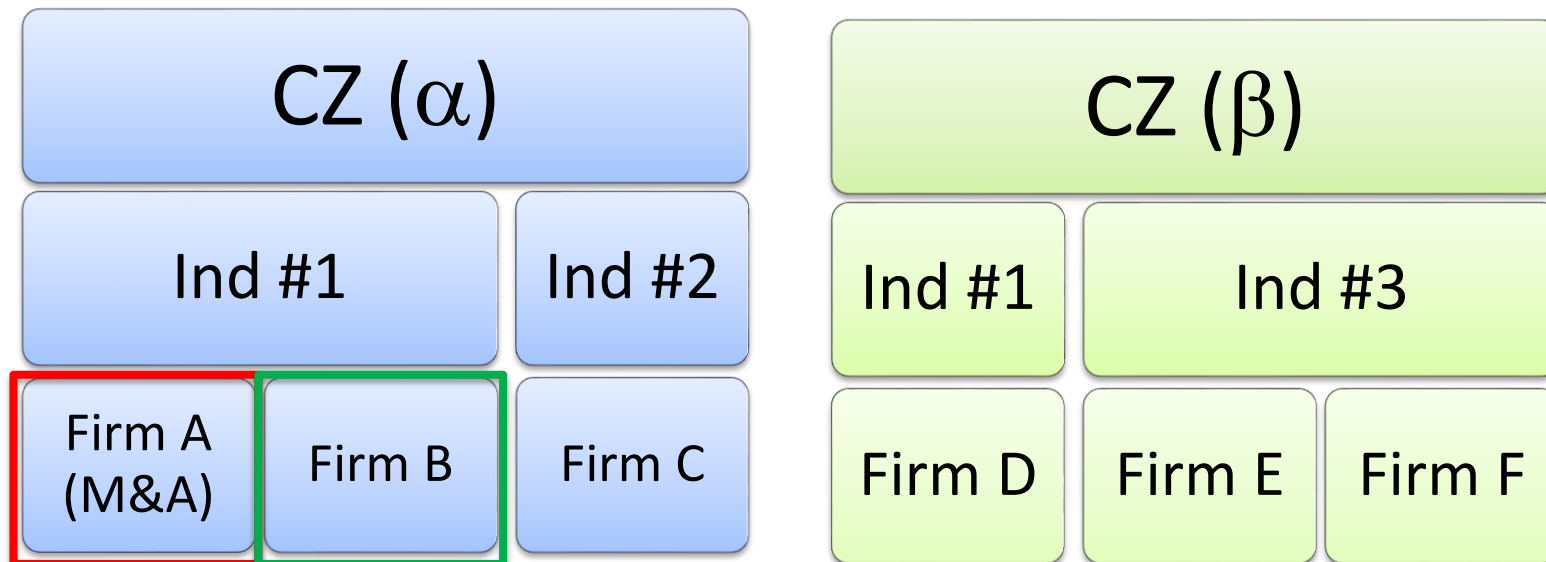
- How to reduce the routine-task jobs if A and T are from different commuting zones?

- If A and T are from the same community zone, it would be very challenging to distinguish the story proposed and from the alternative story
- One possible solution is to separate local (restaurants, hotels, etc.) from global industries (software)

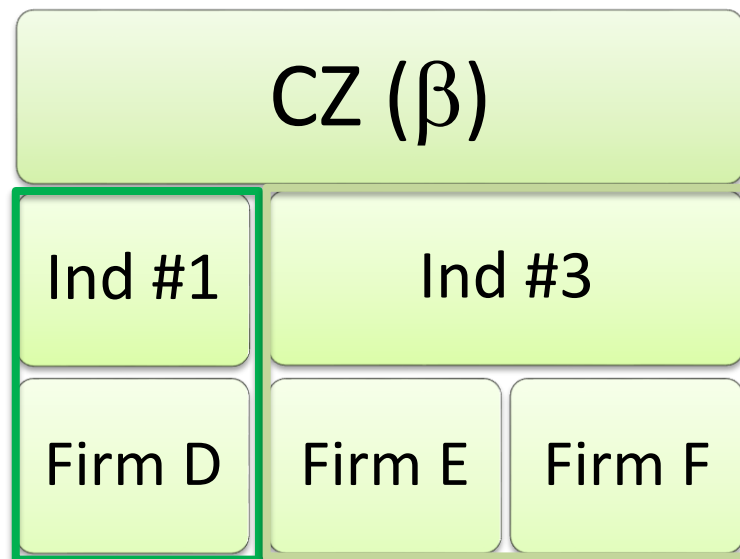
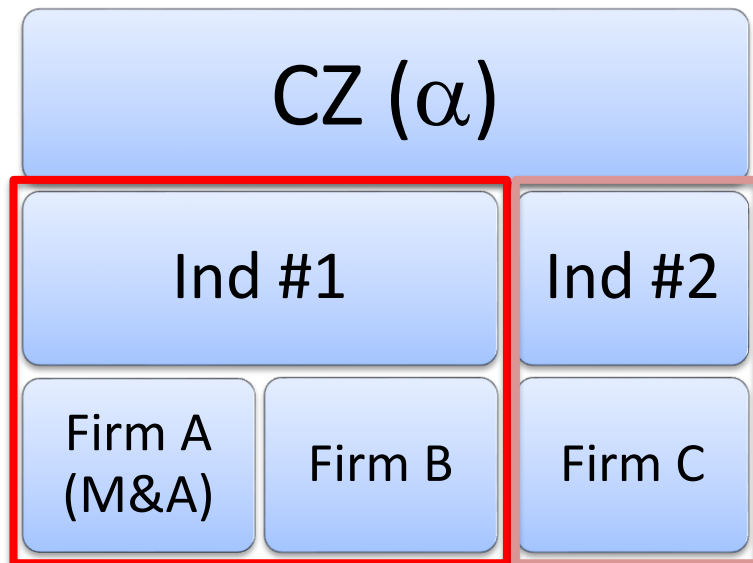
Industry Level Analysis



	Advantage	Limitation
CZ level: CZ (α) vs. CZ (β)	Control for local demand shocks	Different industry composition and different reasons for M&A
Industry level: Ind #1 vs. Ind #2 (or Ind #3)	Control for industry level changes (demand shocks, technology shocks)	Different local characteristics



- **The ideal test:** Compare Firm A and Firm B (same CZ and same Ind)
- Data limitation:
 - Snapshot of workers and no information on the firm



Comment #2: Can the authors perform analysis on the CZ-Industry level? For example, compare Ind #1 in CZ (α) and CZ(β) adjusted for CZ fixed effect?

Other Comments:

Good-Faith Exceptions

- This paper: Use good-faith exceptions as a proxy for costs of replacing routine-task jobs
- Good-faith exceptions
 - Autor (2003): “the implied covenant bars employers from terminating employees to deprive them of earned benefits such as collecting end-of-year sales bonus or drawing pension...”
 - Only 12 states have implemented the law
 - However, it does not bar employers from firing workers due to redundancy
- Other measures that might be helpful
 - Political power, union membership
 - Unemployment insurance?



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Other Comments:

Evidence Concerning Mechanism

- Effect is larger in high firm size industries → Economies of scale
 - Do mergers happen between small or large firms in those industries?
- Effect is larger in periods when credit spreads are higher → Financial constraints
 - Much fewer firms engage in M&A when credit spreads are high – desperate mergers to consolidate?
- Effects is larger in industries with high dispersion in productivity → Promoting efficiency
 - Results are marginal or not significant, especially on the industry level



Comment #3

- This paper: M&A allows firms to restructure and leads to displacement of occupations in routine-tasks and higher wage inequality.
- I can almost see a catchy (and scary) title in media – *“Mergers destroy jobs and increases income inequality!!!”*
- What is the counterfactual?
 - Without restructuring, many firms would not be able to adopt new technology and will not survive → Even more jobs will be lost
 - Wage dispersion is calculated based on workers who have a full-time job and does not take into consideration of workers who are unemployed



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Summary

- Extremely meaningful question
- Interesting idea and the perfect blend of finance and labor
- I learned a lot from the paper. Highly recommend it!

- I encourage the authors to further explore ways to eliminate the alternative stories and sharpen the analysis
- Looking forward to the next draft!



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