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
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
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
Commuting Zone

Low-skill Non-Routine Jobs (SVC)

Routine Jobs

High-skill Non-Routine Jobs

Technology Shock (Adoption of PC)

Worker flow

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

Autor and Dorn (2013 AER)
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
This Paper

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→ Ma, Ouimet and Simintzi (2016): Technological change and mergers and acquisitions
Comment #1

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

Technology Shock  →  M&A  →  ↓ routine task intensive jobs  
↑ in mean wage and wage dispersion

Comment #1: A key challenge is to show M&A is a stimulus rather than outcome of 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
Technology Shock

↓ routine task intensive jobs

↑ in mean wage and wage dispersion

M&A

↓ routine task intensive jobs

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Technology Shock

M&A
Comment #1

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

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• **Comment #1**: A key challenge is to show M&A is a stimulus rather than outcome of technology shock
Comment #2

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

<table>
<thead>
<tr>
<th>Advantage</th>
<th>Limitation</th>
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<tbody>
<tr>
<td><strong>CZ level:</strong> CZ ($\alpha$) vs. CZ ($\beta$)</td>
<td>Control for local demand shocks</td>
</tr>
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<td></td>
<td>Different industry composition and different reasons for M&amp;A</td>
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More on Commuting Zone

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

<table>
<thead>
<tr>
<th>CZ1: A</th>
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<tbody>
<tr>
<td>CZ2: T</td>
<td>CZ2: A</td>
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• 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

- Does it make a difference whether A or T or both A and T are from the same community zone?
  
  - CZ1: A
  - CZ2: T
  - CZ1: T
  - CZ2: A
  - CZ1: A, T

- 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

### CZ (α)
- **Industry #1**: Firm A (M&A), Firm B, Firm C
- **Industry #2**: Firm A (M&A), Firm B, Firm C

### CZ (β)
- **Industry #1**: Firm D, Firm E, Firm F
- **Industry #3**: Firm D, Firm E, Firm F

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<tr>
<td><strong>Industry level</strong>: Ind #1 vs. Ind #2 (or Ind #3)</td>
<td>Control for industry level changes (demand shocks, technology shocks)</td>
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</table>
• **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?
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
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!