The Wage Premium of Foreign Ownership: Evidence from European Mergers and Acquisitions

Comments on Referee 1

We would like to thank the referee for his/her well-taken comments, which we found extremely useful. We think that the comments have helped to improve the paper significantly. Below, we describe how we have responded to the points raised. We hope that the revised paper meets the expectation of the referee.

1. Specification of the selection equation and reporting of the bias reduction statistics (*"The selection equation does not condition on wages/wage growth before the acquisitions, thus it cannot be taken for granted that wage levels have a common support. Moreover, I would report the bias reduction statistics . . . p.9: Size should be non-linearly related to the probability of being taken over, so a quadratic term of employees should be put into the selection equation."*):

   When revising the paper we took these three suggestions on board and extend our selection equation accordingly. Table 2 now reports parameter estimates for probit models which additionally contain firm size squared (measured in terms of employees) as well as a firm's pre-acquisition average wage level. A discussion of the corresponding estimation result is offered on pages 9 and 10.

   Moreover, and also in line with comment 6 of referee 2, we now report balancing property statistics in Table A.1 in the appendix. A brief discussion of this table is provided on page 11 of the revised manuscript.

2. Interpretation of the above/below median income results (*"In the text the authors write that low paying firms before the acquisition are sort of catching up, in Table 3, however, the reverse is stated. This must be clarified because the interpretations change considerably: if above median paying firms pay even higher wages after the acquisitions, (Table 3), then foreign firms appear to pick successful firms which become even more successful (due to complementarities of acquirer and target?) post acquisitions; if the reverse is the case, the interpretation of the authors may apply (globalization does not hurt workers)."*):

   Thank you very much for pointing us to this inconsistency. In fact, Table 3 of the original manuscript contains a mistake which is corrected in the revised version. The figures in the table indeed show that below median wage firms exhibit larger wage growth rates post-acquisition. This is now consistent with the discussion in the paper.

3. Reasons for catching up (*"The following questions remain, however: 1. why do the targets catch up? Is it because of market for corporate control effects (underperforming firms are taken over), technology transfer/complementarities? or is it due to market power (mergers lead to higher profits and therefore higher wages)? At least estimates of the effects on employment and/or sales would be instructive: if it is market power, one would expect decreases of employment/sales."*):

The revised version of the paper includes a new Section 3.3 where we discuss some potential sources for the estimated wage premium of foreign ownership. More precisely, we apply our baseline DID propensity score matching approach to five alternative outcome variables such as employment, capital intensity, productivity, sales and profits (see also comment 4 of referee 2). The corresponding results provide some potential reasons for the observed positive wage effects but are not able to fully explain them. For this reason, we conclude that our data leave some open questions for potential further research. For further details on this analysis please see Section 3.3 of the revised manuscript.

4. Wage effects of M&A's over time (*"The authors have a seven year panel, but estimate only the $t+1$ effects. For some acquisitions, one could look at $t+2$ and $t+3$ effects."*):

   Table 4 of the revised manuscript contains ATT estimates for the second year after a M&A. This approach follows your suggestion and allows to investigate whether the positive short-run wage effects are possible offset by lower wage growth later on. Unfortunately, the small number of M&As and the poor longitudinal quality of the data in the AMADEUS database restricts our analysis to only two years after the transaction. In qualitative terms, however, our results indicate that M&As also induce positive wage effects in the second year after the respective transaction. For more details on this analysis please see pages 13 to 15 of the paper.

5. Number of M&As and sample selection issues (*"The number of mergers is extremely small (432) compared to the number of firms (87000) and the time frame (7 years). Any explanation? Maybe related, the authors must exclude full mergers from the sample (since they look at wages in the target which must remain as a going concern), is there a selection bias here?"*):

   We fully agree that the small number of M&As might be puzzling at a first glance. For this reason, we now offer a more extensive data description in Section 2.1 and especially put our focus on the sample composition. In particular, at the end of this section we offer three reasons for the small amount of M&As. Here, we explain that the quality of the AMADEUS varies both over its longitudinal as well as its cross-country dimensions implying that we have to exclude some M&A cases from our analysis. Footnote 4 provides one specific example for this problem. Finally, in line with empirical evidence we also argue that the small number of cases reflects a massive shift of (cross-border) M&A activities into service industries accompanied by decreasing relevance of M&As in manufacturing industries.

6. Typing errors in the manuscript (*"Cross border not boarder."*):

   For this revised version we once more spell-checked the paper and changed mistakes (such as e.g., cross-border) accordingly.