

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

## Comments on the invited reader

We would like to thank the invited reader 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 invited reader.

1. Framing of the paper (*“Reading the introduction I got the impression that the research question is about the overall effects of globalization on wages. However, I think the actual research question is a much narrower one, namely to consider the pay differences between foreign acquired and domestically owned firms. I would suggest re-writing the introduction accordingly. I also would tone down the contribution in the title, abstract and conclusions. The advantage of doing so is that the applied technique (propensity score matching) seems to be appropriate then. However, when one would be interested in the overall effects of globalization, matching methods, relying on the stable unit treatment value assumption, would be inappropriate, as they would ignore general equilibrium effects.”*):

We totally agree with this comment (the editor and referee 2 raised a similar one) and re-phrased our introduction accordingly. In particular, we now stress explicitly that our paper is about the wage effects of (cross-border) M&As, which is only one important phenomenon of globalization. Moreover, we changed the title of the paper to *“The Wage Premium of Foreign Ownership: Evidence from European Mergers and Acquisitions”* and also modified the abstract and the conclusions accordingly. Please consult these sections for more details on our modifications.

2. Extensive and intensive margin wage effects (*“Becker and Muendler (2010) emphasize that MNEs change their foreign presence only infrequently but these scant changes are associated with salient employment shifts. They use German manufacturing MNEs data and their majority-owned foreign manufacturing affiliates and document that not accounting for extensive-margin adjustment biases conventional intensive-margin estimates leading to small estimates of those effects. A similar problem could be prevalent in the present study. At least I would like to see a discussion about why focusing only on cross-border merger and acquisitions and not controlling for the wage changes in existing affiliates is the relevant margin to look at.”*):

This is a very well taken comment. We totally agree that it is both interesting and important to investigate intensive margin wage effects (for already existing subsidiaries) induced by M&A activities of multinational corporate groups. In order to investigate this issue, we construct an alternative control group which only contains subsidiaries of multinational enterprises which are not M&A targets themselves and apply our DID propensity score matching approach. The corresponding ATT estimates are reported at the bottom of the new Table 4. For the full sample of all firms we estimate significantly positive wage effects for M&A targets implying that non-acquired subsidiaries of multinational enterprises would

have experienced larger wage growth rates in case of being an acquisition target. For further details on this issue please consult Table 4 and the discussion on page 15.

3. Additional references (*“If you do not decide to restructure the introduction, specifically the first two paragraphs, I think that there are a couple of references that could be added in the introduction. Specifically, the first paragraph misses a reference to (new) trade theory papers or at least to a graduate textbook in international trade. The second paragraph gives some references, but I would like to have seen additional once, like for example Alesina and Wacziarg (1998), Epifani and Gancia (2010) and Ram (2009).”*):

For the revised version of the paper we follow your suggestions and additionally include the mentioned references. Moreover, the first paragraph of the paper now includes a reference to the textbook *Advanced International Trade: Theory and Evidence* written by Robert C. Feenstra.

4. Discussion of the results (*“Concerning the results, I would like to have seen a larger focus on the differences to the existing literature. Where is the advantage of applying data from a cross-section of 16 European countries visible in the results?”*):

In the revised version of the paper we substantially changed and extended the discussion of our estimation results. Thereby, we compare more carefully our estimation results with previous contributions. In a similar vein, we discuss explicitly how our results can augment the already existing evidence which is solely based on single-country datasets. Please see Section 3.2 and the new Section 3.3 for a detailed discussion of our estimation results.