

Dear Hannes,

Based on the advice of the referees and an invited reader, your comments on the referee reports, and my own reading of your submission, MS 667, entitled

"The Wage Premium of Globalization: Evidence from European Mergers and Acquisitions" (joint with Harald Oberhofer and Matthias Stöckl),

I am happy to offer you the chance to revise and re-submit your paper.

As you might have guessed from the reports, the two referees reach different conclusions. Referee 1 recommends that I accept it subject to revisions (and the invited reader seems also positive). Referee 2 is more skeptical. My own reading of the paper is that it addresses an important issue and that an appropriately revised version of the paper can make a significant contribution to the special issue (and the literature more generally).

I do have little to add to the points raised by the referees and the invited reader. I thus suggest you to proceed as outlined in your well-taken comments on the reports. In particular, I agree that the major issues to be tackled are the framing of the paper, the clarification of its value added and parts of the empirical strategy. I am also happy with the new title that you propose in your comments.

I still have a few additional comments. Most of them are either closely related to the points raised by the referees or minor in nature. You find them below this letter.

I hope that you will send us a revised version of your paper. If you do, please include a note explaining how you have addressed the referees' and my own comments.

Thank you for considering *Economics* as an outlet for your work. I look forward to seeing a revised version of your paper.

Please do not hesitate if you have any questions about my decision or my comments.

Best regards,

Sebastian Braun

Comments by the editor

1. Introduction:

- I agree that you should re-frame the introduction of the paper, and explain that you focus on the wage effects of just one (important) aspect of globalization. In this context, you could also briefly mention the literature on the wage effects of offshoring, another important aspect of globalization (see, e.g., Geishecker and Görg, forthcoming, for a recent contribution). This literature seems to be more closely related to your work than the literature on globalization and the scope of the welfare state that you discuss in the introduction.
- From your description of the two strands of the literature on MNE and wages, the reader may get the impression that the two co-exist on an equal footing. Yet, the second strand seems to be an improvement over the (earlier) first strand.

2. Data and descriptive statistics:

- It was not entirely clear to me (as a non-expert on the topic) how you treat firms once they are acquired. I guess that they drop out of the sample one year after they were acquired. Is that correct? Please clarify before you show the descriptive statistics.
- Related to the previous point, please state (in the text and in the figure notes) that the wage growth of acquired firms in Figure 1 refers only to the first year after acquisition (if this is correct).
- I am also not sure whether I understand your statement “(...) *the wage difference between acquired and non-acquired firms in the full sample is obviously driven by a corresponding difference in Western European countries. The only exemption is 2002 with a slightly negative average wage growth of firms acquired in 2001*”. Exemption to what? To the fact that most of the difference in the wage growth between acquired and non-acquired firms is driven by West Europe? If so, your statement does not seem correct, as the difference in wage growth between acquired and non-acquired firms is also larger in East than in West Europe in 2005. Or do you refer to the fact that the difference was generally positive in West Europe? Please clarify.
- Table 1 should be self-explanatory so that the reader does not have to consult the text to understand its content. In particular, you should mention in the table to which year the variables for the acquired firms refer to.

3. Specification and estimation:

- On page 6, you write “Hence, *simply regressing firm-year specific real wages on a dummy indicating whether a firm has been acquired or not along with other controls, would raise a severe endogeneity issue implying seriously flawed estimation results with regard to the impact of M&A-activities on (post-acquisition) wages.*”

Please be a bit more specific here. You argue (and show) that investors cherry pick firms to acquire. If the investors' decision would be based on **observable** characteristics only, I think that you could go a long way to establish causation from a regression with the appropriate

controls. Yet, the main problem, it seems, is that the investor's decision is likely to be based on unobservables as well. Is that correct?

- A standard matching estimator will still not provide causal estimates if the “selection on observables” assumption is violated. Yet, your paper appears to apply a difference-in-difference matching estimator (as you look at changes, not levels). Clearly, the difference-in-difference estimator has the additional advantage of eliminating unobserved time-invariant differences between acquired and non-acquired firms. I think you should be more specific on these issues. It could also be worthwhile to state the formula of the matching estimator explicitly in Section 3 (as in, e.g., Girma and Görg, 2007).

4. Results

- I agree with the two referees that it would be good to explicitly report information / tests on the quality of the matching (as sketched in footnote 6). Also related to the referees, I think that there are inconsistencies in the description of your results. For instance, you write on page 9 that “*Cross-border M&As reported in column (2) turn out to be insignificant, indicating that there are no systematic wage premia for this type of acquisition*”. Yet, on page 11 you write “*These effects (...) tend to be solely induced by cross-border M&As*”. These statements seem to contradict each other at first sight. Please also make sure that the results reported for the firms above/below the median in Table 3 match the description in the text (see point 2 of Referee 1).
- You should probably mention that the overall effect of M&As is even larger in Eastern Europe (3.61) than in Western Europe (3.29). Yet, the coefficient is imprecisely estimated. This may simply be the result of the smaller sample size. The small sample size could also explain why the results for both cross-border M&As and domestic M&As turn statistically insignificant, although the overall effect is significant.

5. More minor points:

- Page 5:
“*Only with regard to leverage (...) and market shares (...) we do not find systematic differences between acquired and non-acquired firms.*” Is this statement based on a formal t-test?
“*For instance, in terms of the number employees (...)*”. Here, an “of” is missing.

References

Geishecker, I. and H. Görg, “Services offshoring and wages: Evidence from micro data”, *Oxford Economic Papers*, forthcoming.

Girma, S. and H. Görg, “Evaluating the foreign ownership wage premium using a difference-in-differences matching approach”, *Journal of International Economics*, Vol. 72, No. 1, 2007, pp. 97–112