A Tale of Two Networks: Common Ownership and Product Market Rivalry

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Discussant: Jacob Conway (Stanford University)

SFS Cavalcade 2024

May 21, 2024

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- In this discussion, I will:
  1. Summarize my interpretation of what this paper does and its contribution
  2. Discuss paper's limitations (and why they're not critical)
  3. Discuss potential for future work

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  - Account for common ownership effects via:
    - Potential collusion
    - Innovation
    - Diversification benefits to investors
    - Labor market power
    - Firm productivity or cost efficiency
    - Entry/exit
    - Product differentiation choices
    - Firm structure and other corporate governance

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    - Firms may internalize their shareholders' profits at other firms (e.g., Rotemberg 1984), trends in common ownership and potential impacts on markups (e.g., Backus et al. 2021)
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  - Novel: Empirical estimates of potential welfare and distributional impacts of common ownership (via unilateral product market channel)
- Key questions to assess contribution:
  - Do we care about this empirical target? (I think yes)
  - Does the paper do a reasonably good job of estimating this target? (I think mostly yes)

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- Let's discuss estimation of three key pieces underlying results:
  1. Firm objective and common ownership
  2. Product market competition and cross-price effects
  3. Profit share and consumer surplus

Estimation: Firm Objective and Common Ownership

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- **Suggestion:** Add robustness exercise comparing estimates when using public Amel-Zadeh et al. (2022) ownership data vs. solely 13(f)-based measures

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- Validated by showing that:
  1. Clusters in product similarity network align with industry groups
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  3. Shows that own- and cross-price elasticities are roughly similar to micro-estimates in the literature (for Ford, GM, Toyota; Kellogg's, Quaker Oat's; Apple, Dell)

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- **Suggestions:** Validate against micro-estimates for locally-focused or non-tradeable merchants like restaurants; explain how validation micro-estimates were chosen

Estimation: Profit Share and Consumer Surplus

- Markups are backed out from firm financials, similar to De Loecker et al. (2020)
- Consumer surplus comes from Generalized Hedonic-Linear demand system from Pellegrino (2019), relying on a mix of preferences for characteristics + functional form assumptions
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- **Suggestions:** Validate consumer surplus measurement against micro-estimates; more clearly explain identification of consumer surplus

An Unexplored Implication/Puzzle: Lack of Overlap

- Under assumed firm conduct, common ownership is very profitable!
  - Increases profits by $\sim$50% in 2021 (by incentivizing firms to compete less strongly with their product market competitors)
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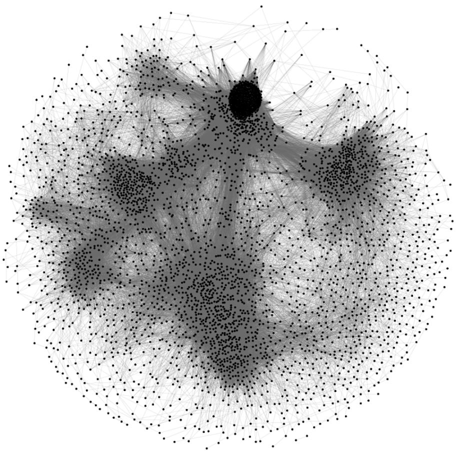
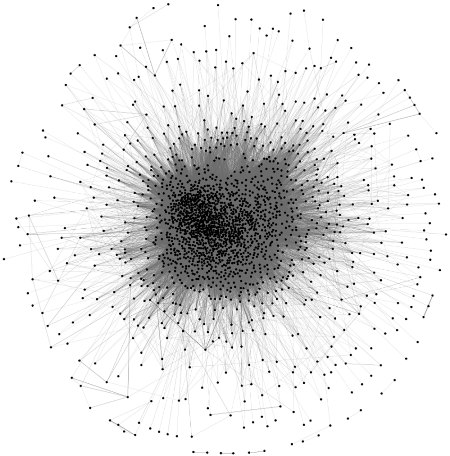
(a) Product Similarities



(b) Common Ownership



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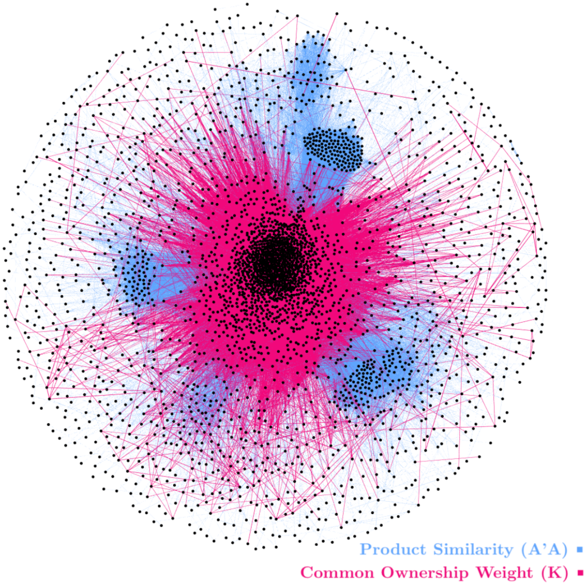

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  - Paper also therefore assumes that investor shares are exogenous
- How should we interpret this lack of overlap?
  - Firm internalization of others' profits (κ) is weaker than assumed?
  - Investors don't know about or choose not to pursue more profitable overlap strategy?
  - Something else? Would love to hear authors' thoughts

Future Research

- Current paper is close to complete as-is, and in my opinion should be published!

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- Generalized Hedonic-Linear demand system could be extended to answer some of these questions (e.g., environmental preferences as an increasingly important firm attribute)

Thank You!