Discussion of "Q: Risks, Rents or Growth?" by Corhay, Kung and Schmid

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Background

- Two (medium-run) facts about the US economy

  returns to capital are stable or rising

  growth and investment have been lackluster

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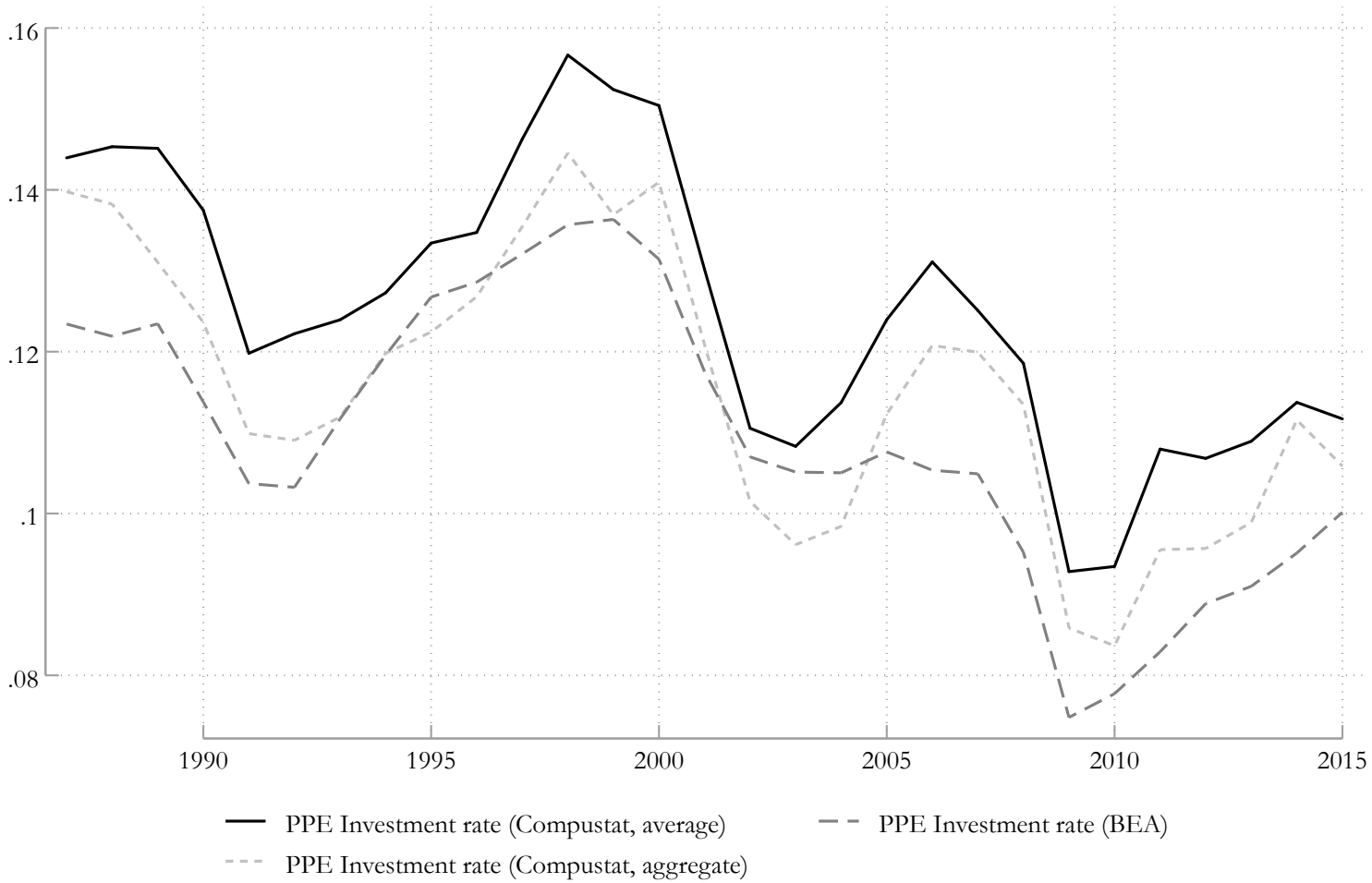

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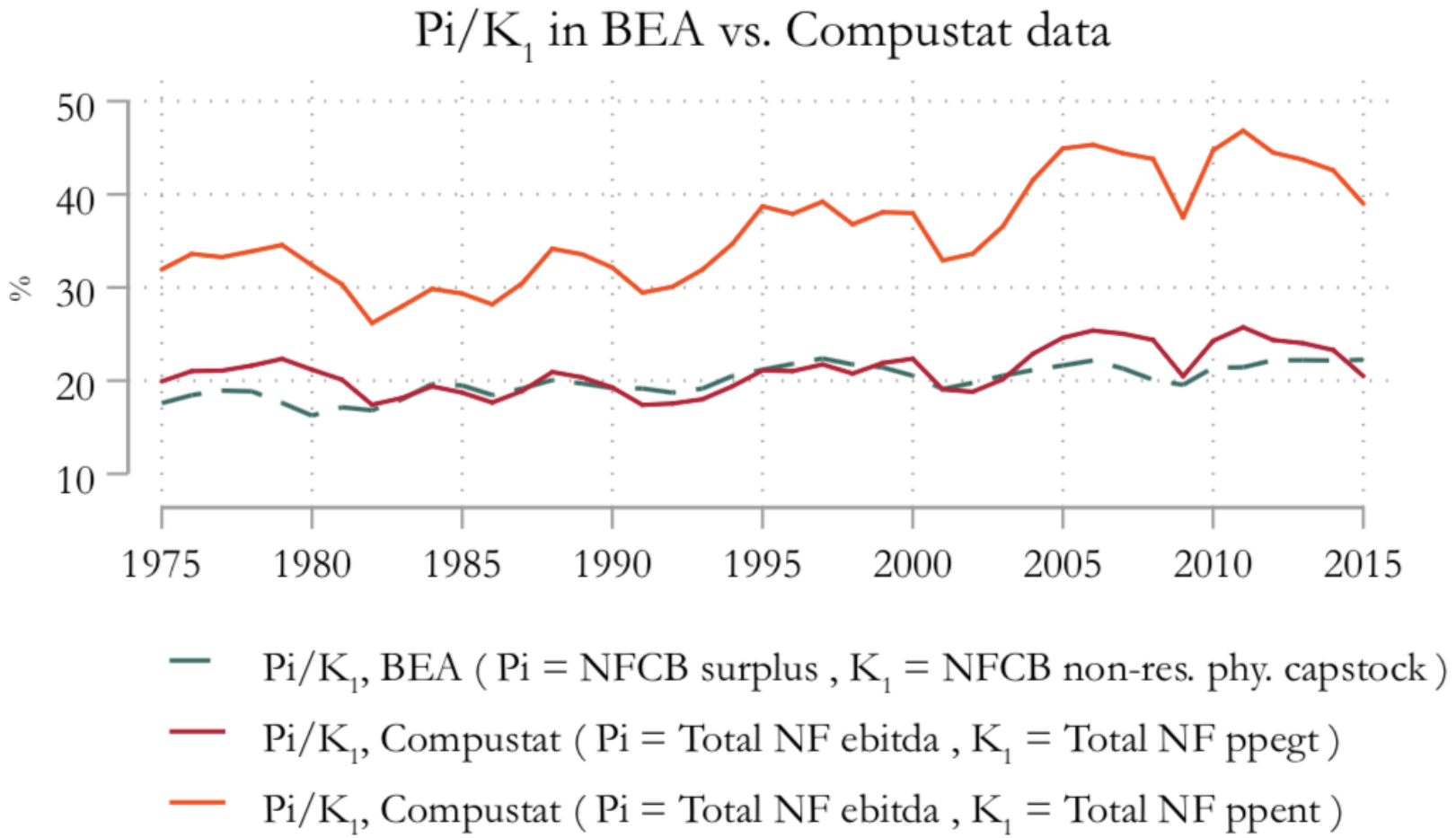

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- Hypotheses:

  1. market power (Gutierrez and Philippon, 2017; Barkai, 2017)
  2. risk premia (Farhi and Gourio, 2019)
  3. intangibles (Crouzet and Eberly, 2018)

This paper sorts out these hypotheses

- Macro model with ingredients corresponding to each hypothesis:
  1. oligopolistic competition + entry/exit
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- Counterfactuals

  isolate effect of changes in key structural parameters

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Moment	Δ (data)	Contribution of: g_A	β	entry cost	Intan share	RRA
Output growth	-1.46 %	-1.92%	3.74%	-0.50%	0.01%	0.04%
Risk-free rate	-3.57 %	-0.32%	-1.73%	-0.85%	0.12%	-0.27%
Markup	18.74%	0.55%	-3.41%	18.96 %	-0.05%	0.00%
Intan/Phys. ratio	3.24%	-0.38%	-0.22%	-0.05%	6.18 %	-0.05%
PE ratio	5.03	-2.72	85.45	-2.78	0.65	-0.56

From Table 1 in the paper

Note off-diagonal terms + things don't really add-up ...

Points to interactions between hypotheses

Comment 1: can we really isolate these hypotheses?

- Super-simple environment

  $\Pi_t = A_t^{1-\frac{1}{\mu}} K_t^{\frac{1}{\mu}}$

  K_t = CES of physical ($K_{1,t}$) and intangible ($K_{2,t}$) capital

  $A_{t+1}/A_t = 1 + g$

  No adj. costs, so marginal $q = 1$ if $\mu = 1$

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- (This decomposition turns out to be fairly general — Crouzet and Eberly, 2019)

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$$\mu = \frac{\Pi}{(r + \delta_1)K_1 + (r + \delta_2)K_2} \qquad \text{(BEA gross operating surplus)}$$

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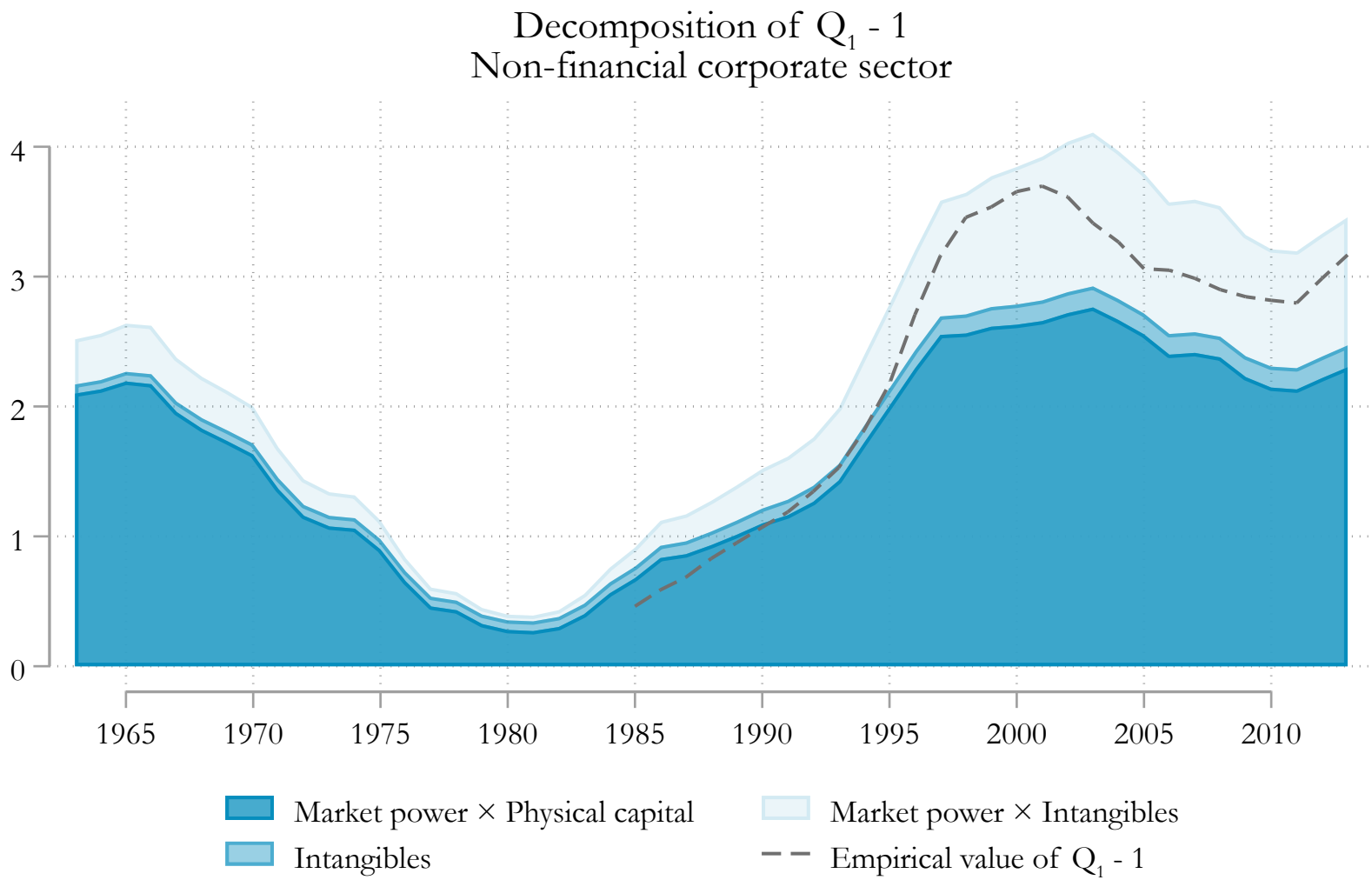

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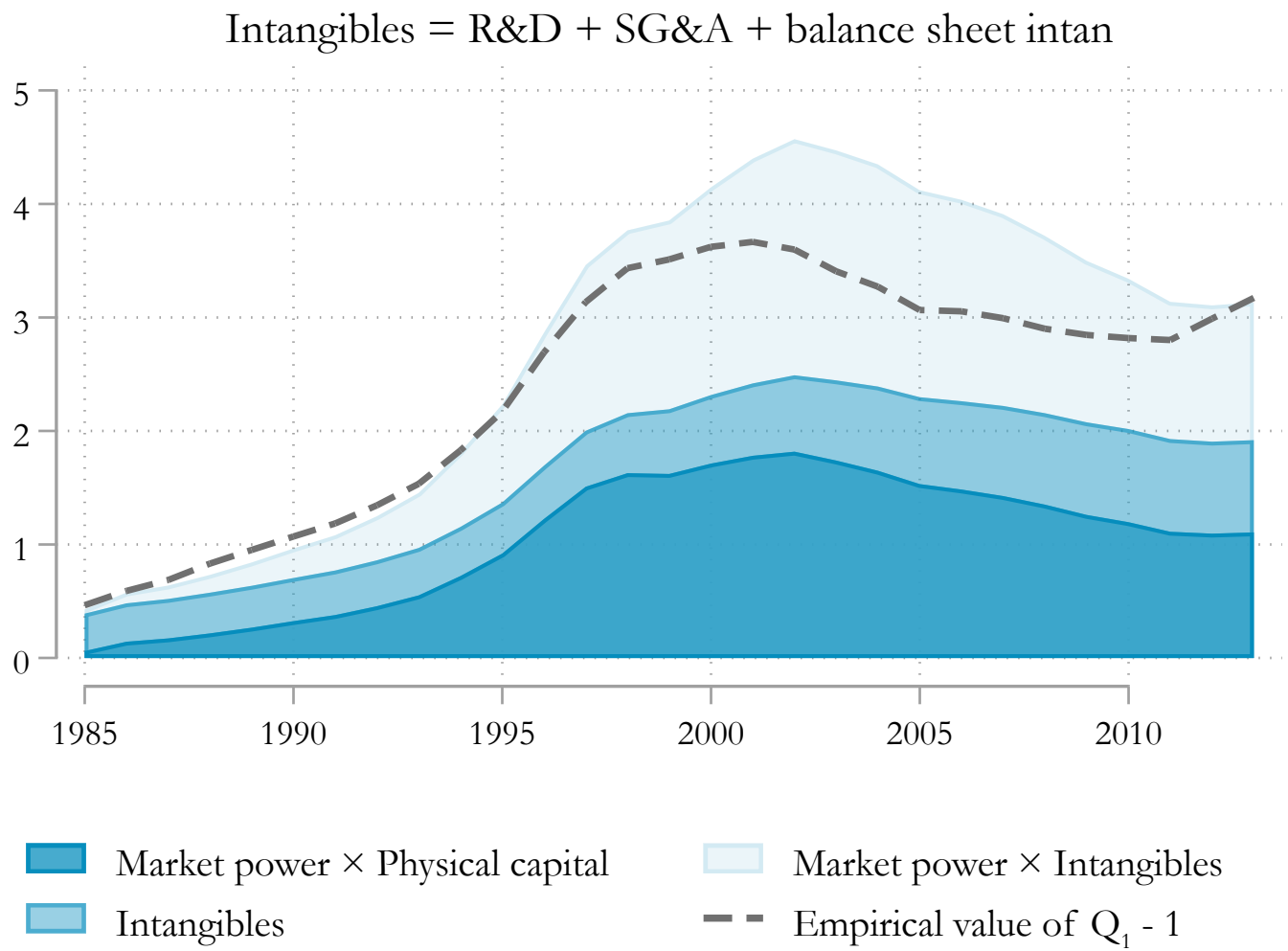

From Crouzet and Eberly (2019) — with Compustat data, where K_2 is larger

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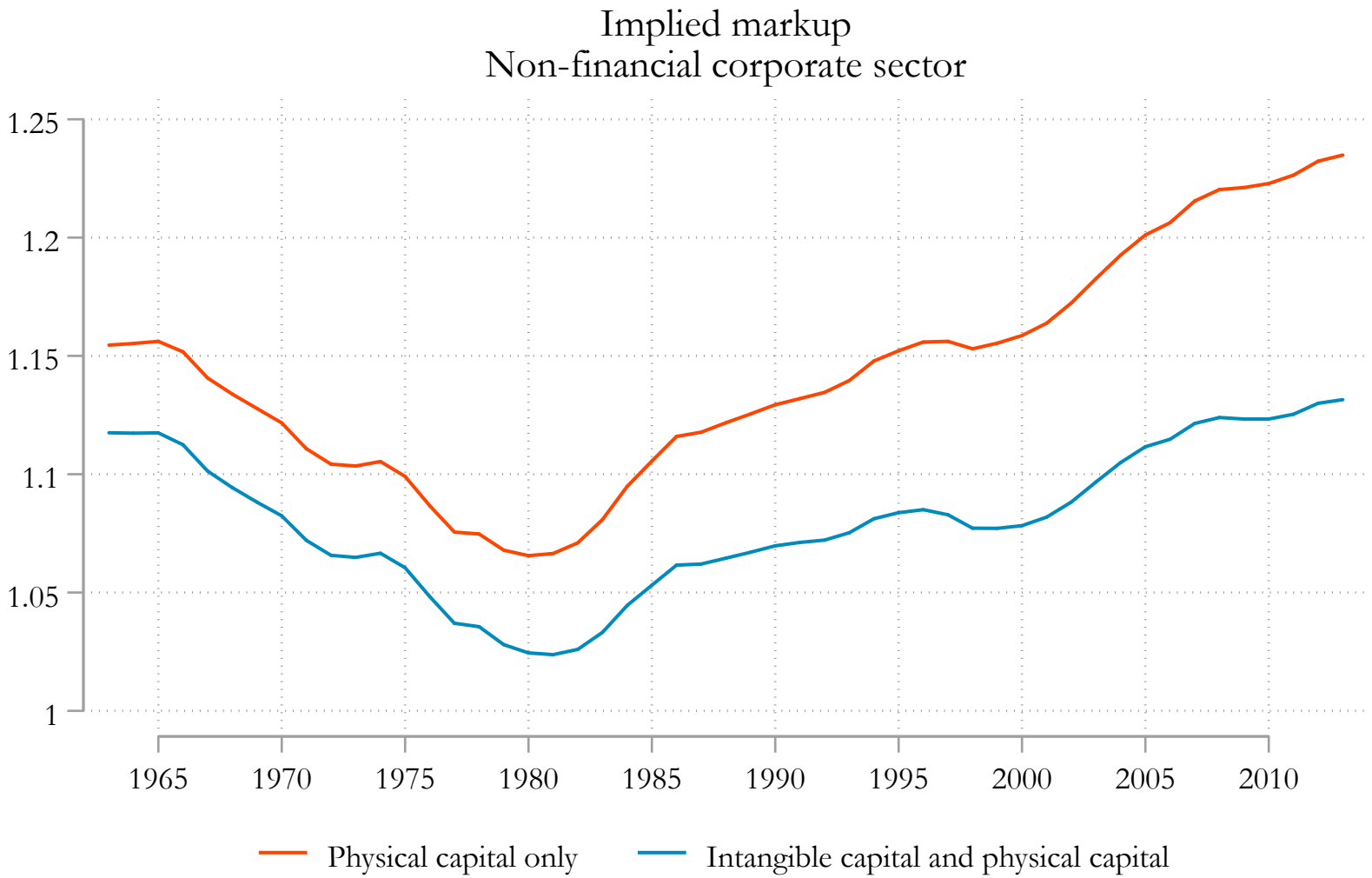

With Compustat intangibles, markups rise from 1.02 in 1985 to 1.07 in 2015.

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- unclear what the correct way to get at this is

  pairwise changes in parameters?

  fewer structural parameters — focus on κ, η, γ?

Comment 2: competition and markups

- entry and exit dynamics — great, missing elsewhere in the lit
- calibrate κ (entry costs) using ϕ (markups)

$$\phi = \frac{-\nu_2 N + (\nu_2 - \nu - 1)}{-(\nu_2 - 1)N + (\nu_2 - \nu_1)}$$

$$N = f(\kappa; .) \text{ (free entry)}$$

- I'm really not sure about using DLE (2017) markups for ϕ

  problems with the `sale/cogs` ratio — it misses a lot of operating costs reported in `xsga`

  but `xsga` also contains things that are probably intangible investment

  see Traina (2018), Crouzet and Eberly (2018), Ayyagari et al. (2019)

  this is kind of a mess and I would suggest comparing ROA to user costs + labor share instead

- Why not match some measure of decline in entry rates?

Comments 3+: other small suggestions

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- I was unclear about leverage in PD ratio computations

Conclusion

- This is a great paper

- To my knowledge, it's the first in this emerging literature that takes the modelling of imperfect competition seriously

  in "pure macro": Edmond, Midrigan, Xu (2018)

- I hope it's published well!