

Discussion on: "Arbitraging Labor Markets"

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- **Question:** Do Business Groups arbitrage local labor markets?
 1. BG firms grow faster when **local labor costs, tightness, and fit** are better relative to peers in the group
 2. Growth occurs through the **external** labor market (arbitrage jobs, not workers)
 3. Stronger effects in low-tangibility industries and high-skill jobs

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- **Contribution:**
 - New mechanism: BGs reallocate **jobs** across locations, i.e. reallocation takes place **across** firm boundaries and not **within**
 - **So what?** Speaks to debate on efficiency vs distortionary effects of BGs

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 - **So what?** Speaks to debate on efficiency vs distortionary effects of BGs
- **My takeaway:**
 - Exhaustive (84 pages!) evidence consistent with **job reallocation** across affiliates
 - Extends international economics “labor arbitrage” literature to BGs within one country

Remark 1: When is arbitraging profitable?

- **Arbitrage:** buying/selling across markets to profit from price gaps
- Correlations consistent with this pattern, but **maintaining multiple affiliates is costly**
- **Question:** When are labor cost gaps large enough to make this profitable?

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- **Suggestions:**
 - Test whether **effective BG-wide labor costs** monotonically fall with the **number** of labor markets spanned
 - Test whether **effective BG-wide labor costs** monotonically fall with the **heterogeneity** of labor markets spanned
 - Construct **synthetic BGs** using matching (same size/industry mix, but no cross-location flexibility). Compare labor costs, profitability, and speed of job reallocation in response to demand shocks.

Remark 2: When are people and when are jobs reallocated?

- Existing literature has emphasized internal labor market benefits of BGs (careers, insurance etc) from a worker perspective, so this happens in some data sets
- You emphasize reallocation of jobs, but your analysis and sample is focused on BGs spanning multiple local labor markets by default

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- **Suggestions:**
 - Test if **distance between locations** relate to **job vs people** reallocation
 - Test if **LLM heterogeneity** relate to **job vs people** reallocation
 - Test if **the managerial labor market** works differently
 - Use your existing heterogeneity analyses to compare job vs people reallocation



Remark 3: Can you improve on identification?

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- **Suggestions:**
 - Use **shift-share shocks** to LLMs on the basis of pre-shock exposure shares (e.g. global price, trade, or technology shocks) like Bernstein et al. ("Who Creates New Firms When Local Opportunities Arise?", JFE 2022)
 - Use **diff-in-diff analyses** utilizing outside BG plant closures, refugee allocation/waves, new vocational programs etc

Minor remarks

- Regression tables provide a lot of information:
 - Four measures, many controls, results not always consistent
 - Suggest focus on one core measure/mechanism
 - Others to appendix/robustness
- Adjust p-values for multiple hypothesis testing
- Clarify “donor” vs “recipient” early in introduction
- Consider additional splits, for instance **local presence intensity** (e.g. hairdressers vs coders)

- Why not use occupation–labor market–year vacancies as tightness measure?
- Relate to “how firms grow” literature (firms expand where labor is available) and to literature on offshoring workers
- Consider starting with **recipient** analysis — easier to interpret “growth” than “decline”
- Benchmarking “fit”: why relative to industry, not relative to BG peers?
- Divestment rate of 0.8% seems very low — possible selection issue?
- Economic magnitudes are at times difficult to interpret.

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- **Suggestions:**
 - When is arbitraging profitable?
 - When are people and when are jobs reallocated?
 - Can you improve on identification?
- **Best of luck!**