

Firm's financial surpluses in advanced economies: the role of net foreign investments

Comment

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Plan

- Recap of the paper
- Some considerations
- Suggestions on future work

Stylized facts and research question

- Since mid-1990s firms in some advanced economies (mainly Japan, UK, Germany and the Netherlands) have been on average net lenders – in some cases (Netherlands) consistently net lenders over the whole period
- This pattern is not found in other advanced economies, as France, Italy and the US
- Research Questions:
 - What could explain firms as net lender in the economy?
 - What could explain the different behavior in various countries?

Explanations

Why should firms be net lenders?

- 1) ***Structural explanation***: better than expected performance generates extra profits during some periods – problem with the Netherlands!
- 2) Prudent firms with ***precautionary motive***
- 3) ***Imperfect capital markets***, but typically in emerging economies
- 4) ***Firms' internationalization***:
 - I. *Accounting effect*: profits of subsidiaries increase assets in the parent company, while investment of subsidiaries does not increase their liabilities
 - II. *Economic effect*: parent companies becomes more efficient and generate excess profits

Results

- Econometric evidence confirms consistently the ***positive role of FDI*** for the net lending of the non-financial sector
- The econometric model includes various types of controls
- The results are robust when including other relevant variables (like leverage, crisis dummies, etc.)

Puzzles and questions

- The puzzle of country sorting between net lenders and net borrowers: ***why UK and US behave so differently?***
- Saving glut and secular stagnation! But why US and UK are different?
- Different forms of firm internationalization may have different effects: outsourcing (à la Mattel) versus offshoring (à la Intel)
- Both forms increase efficiency, but with different accounting effects: countries mainly characterized by outsourcing should have firms that «well-behave» (i.e. are net borrowers)
- Suggestion: at the macroeconomic level consider the fraction of re-importing and re-exporting for each country, or other measures of outsourcing or of value chain positioning