Discussion: "Policy effects of international taxation on firm dynamics and capital structure'

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What is the paper about?

- The paper develops a dynamic trade model with financial frictions and firms heterogeneity to study the effect of a reduction on repatriation taxes in the US.

- The paper has theoretical and applied contributions:
  - **Theory:** Develop a dynamic model with firm heterogeneity, capital accumulation, financial frictions and trade.
    - ⋆ Allows to study effects of different reforms both in the SS and in the transition paths
  - **Applied:** Calibration to the US of firm distribution.
    - ⋆ Allows to quantify the effects of the reduction in the repatriation tax for the US

- Findings:
  - The reform induced a welfare gain for the US
    - ⋆ Small increase in consumption of H goods, and decrease of F goods consumption
    - ⋆ Decline in prices increase the purchasing power
    - ⋆ Decrease the number of X firms and increase the number of M firms
    - ⋆ Increase the number of entrants. Incumbents first decrease and then increase
  - Modelling both dynamics and financial frictions are important for the results
    - ⋆ Static version delivers some changes with opposite direction (Consumption of H goods, Welfare)
    - ⋆ Changes without FF are in general with same sign but smaller compared to baseline

Comments-I

- The US has had large and persistent trade deficits, around 5% of GDP. I think it could be important to target this moment for the quant. exercise since it can have important implications
  - After the reform there is a decrease in X and increase in M, so it can further increase trade deficits
  - Small point: Current account balance $\neq$ Trade balance. $CA = TB + Cap.Acc.$
    - ⋆ Maybe you can report the implied trade balance

- Calibration:
  - $\delta = 0.15$ seems a bit high. Maybe since you have equipment it is ok
  - ρ_θ and σ_θ how big/small are they compared to other studies?
  - Both could be important in matching the transitions. Imagine $\rho = 1$ and $\sigma = 0$ (fixed effect) then the only motive for transition would be the financial constraint

Comments-II-Results

- I am not completely sure from where you get the high welfare gains.
  - Overall consumption of H goods only increases by 0.10% while consumption of F goods decline by 1.57%. You mention increase purchasing capacity, but it does not seems to be reflected in consumption

- In the Static vs Dynamic case it would be interesting to see also the comparison between the final SS in the dynamic case and the SS in the static case.
  - The static and dynamic models seems to deliver different final SS. I think it would be interesting to understand the role play by consider the dynamics in reaching to this different steady state

Comments-III-Extensions

- This model does not consider possible reaction of the F country
  - The model is already very complicated, but to have a complete picture it would be interested to see how the foreign country is affected. If it loses may be will react (maybe decreasing τ for multinationals) compensating the initial effect
- How would you think the model need to be adjusted to consider GVC? A lot of trade nowadays is not on final goods but on intermediate inputs. MP seems to be important for GVC
- An additional motive that could reinforce the results is considering BMP, that is the possibility of exporting to third markets when doing MP, not only selling back to the US