

The Effects of Multinationals on Workers: Evidence from Costa Rica

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Summary

Research question: what are the effects of multinational corporations (MNCs) on workers?

This paper: exploits novel microdata on all formal worker-firm and firm-firm relationships in Costa Rica

- Reduced-form evidence:
 - *direct effect*: moving from domestic firm to MNC entails a wage premium ($\approx 9\%$) relative to movements between domestic firms
 - firm-size and industry account for 50% of the premium
 - other mechanism: MNC-wide wage setting policy
 - *indirect effect*: MNC expansions have positive and impact on the wages of workers in domestic firms
 - better outside options in the labor market
 - firm-level input-output linkages

Summary

- Quantitative model:
 - wage posting model a la Kline et al (2019):
 - richer product market with domestic firms vs MNCs
 - exogenous wage premium paid by MNCs
 - formalizes three channels by which MNCs affect workers in domestic firms
 - changes in level of labor demand
 - shift in the composition of labor demand toward jobs with a wage premium
 - increase in the demand for domestic inputs
 - quantifies labor market distortions
 - estimate of retention-wage elasticity = 9.28 \implies low labor market power of domestic firms
 - estimate of hiring costs of first new worker = 60% of market wage
 - estimate of marginal cost elasticity = 0.25 \implies convex costs

Comments

Reduced-form *direct* evidence

- Possible violations of exclusion restrictions due to endogenous mobility (Card et al. 2013)
 - sorting based on the idiosyncratic firm and match component of wages
 - changes of drift in the expected wage a person can earn at all jobs predicts mobility patterns
 - transitory shocks associated with systematic movements between domestic firms and MNCs
- How much of wage gains due to firm-specific unobserved heterogeneity?
 - wage dispersion can arise when labor markets are frictional and firms are heterogeneous

Quantitative model

- job posting vs wage bargaining model?
- effect of MNCs on aggregate employment and unemployment?