

# 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?