The Effects of Multinational Firms on Workers: Evidence from Costa Rica*

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Governments compete to attract superstar firms (typically multinationals, or MNCs), hoping such firms would benefit both workers and firms in the domestic economy. While the effects of MNCs on domestic firms are better understood, significantly less is known about the labor market effects of MNCs. This paper combines matched employer-employee data with firm-to-firm transaction data from Costa Rica to investigate the direct and indirect effects of MNCs on workers. We first propose a stylized model of the labor market that allows for both direct and indirect effects of MNCs. We then use a switchers design to show that direct hires by MNCs earn a premium over wages in domestic firms. The MNC premium is not explained by compensating differentials. Last, we study the effects of changes in MNC exposure on the wages of workers who remain employed at domestic firms, where we instrument the MNC expansion in Costa Rica by MNC expansions abroad. We show that a higher MNC presence (both in ones industry and in connected industries) leads to higher wages through improved outside options. Moreover, MNCs can also lead to wage increases for workers whose domestic employers have direct and indirect supply-chain linkages to MNCs. *JEL Codes:* F23, F16, J21, J23, J24, J31, J63, M55

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