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

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How do multinational corporations (MNCs) affect workers in the host economy? Governments court MNCs with large tax breaks, expecting them to improve the performance of local firms and to create high-wage jobs. With imperfect labor markets, workers' wages react to both changes in the performance of their employer and to changes in outside options in the labor market (coming from changes in the level and composition of demand). Because MNCs can affect workers through both margins, we construct two measures of exposure to MNCs: through the firm of the worker and through the labor market. To provide a causal estimate of the effects of MNCs on workers through both margins, we leverage a novel combination of administrative datasets tracking all worker-firm and firm-to-firm relationships in Costa Rica, together with an instrumental variable strategy exploiting variations in the global performance of MNCs with subsidiaries in the country. We find that both types of exposure to MNCs are equally important. The annual earnings of a worker experiencing a one standard deviation increase in both her firm-level and labor market exposure to MNCs increase around 2 percentage points more than an identical worker with no change in her exposure to MNCs. Last, we write a model that allows us to estimate the main structural parameters that govern the degree of labor market imperfections needed to rationalize our reduced-form evidence.

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