

RESEARCH BRIEF

The Effects of Foreign Multinationals on Workers and Firms in the United States

Based on BFI Working Paper No. 2019-103, "[The Effects of Foreign Multinationals on Workers and Firms in the United States](#)," by Bradley Setzler, postdoctoral scholar in economics, University of Chicago; and Felix Tintelnot, assistant professor in economics, University of Chicago

KEY TAKEAWAYS

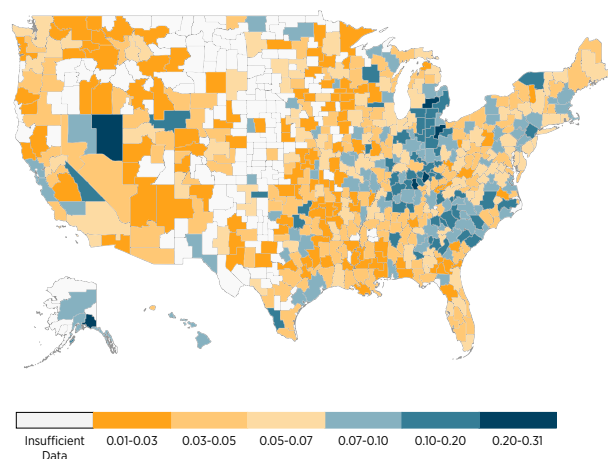
- ✓ Local governments often try to lure foreign multinationals to their cities and counties
- ✓ New research based on a novel dataset reveals large returns to local economies from the presence of a foreign multinational
- ✓ The typical worker earns 7 percent more at the average foreign multinational than at the average domestic firm
- ✓ Every one job created by a foreign multinational adds about 0.42 jobs and \$91,000 in value added at domestic firms in the same commuting zones

Much of the recent debate in the United States over foreign-made goods has involved issues of trade—where products are made and where they are shipped—and who benefits most from their production and sale. However, what if those foreign goods are actually made in the United States by domestic employees of foreign-owned firms? What happens to local firms and their workers when a foreign-owned company decides to open a production plant in the United States?

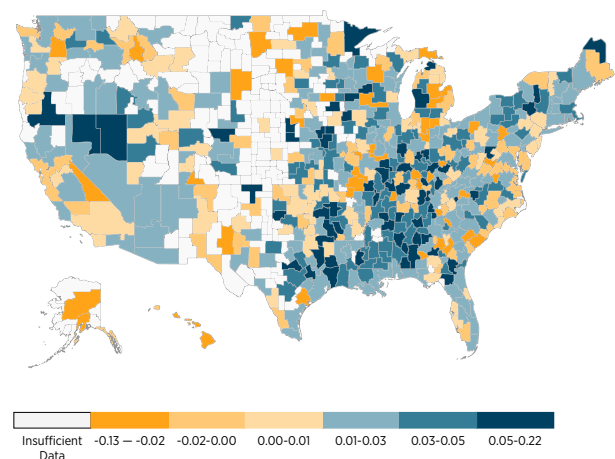
These are some of the questions that motivated recent research by Bradley Setzler, UChicago postdoctoral scholar, and Felix Tintelnot, UChicago assistant professor in economics. In "The Effects of Foreign Multinationals on Workers and Firms in the United States," Setzler and Tintelnot find that the typical US worker earns 7 percent more at the average foreign multinational than at the average domestic firm. Furthermore, one job created by a foreign multinational typically creates 0.42 other local jobs at domestic firms and raises value added at domestic firms by \$91,000. For policymakers who must weigh the costs and benefits of business subsidies, these and other findings

Figure 1: The Spatial Distribution of Employment at Foreign Firms

Share of Employment at Foreign Firms (2001)



Change in Share of Employment at Foreign Firms (2001 - 2015)



Notes: The two figures display spatial variation in employment at foreign-owned firms observed in the tax data for the workers sample of interest. In the first figure, the share of workers employed at foreign-owned firms is plotted in 2001 for each commuting zone. In the second figure, changes from 2001 to 2015 in the share of employment at foreign-owned firms are plotted by commuting zone.

suggest that policies that encourage foreign firms to locate in the US often have net positive effects—at least at the local level.

Foreign firms, local returns

Nearly 20 percent of the world's foreign direct (FDI) investment flows into the United States.¹ Often, this investment takes the form of a foreign-owned firm, and it has long been assumed that the presence of foreign multinationals has a positive effect on a local economy. However, there has been little hard evidence to test this hypothesis. With their novel use of big data from anonymized corporate and employee tax filings during 1999-2017, though, the authors were able to measure the direct and indirect effects of foreign-owned firms on local economies (measured as commuting zones or local economies that extend beyond traditional boundaries to include travel-to-work areas).² These data allowed Setzler and Tintelnot to investigate the direct effects that foreign multinationals have on their own employees, as well as the indirect effects that these firms have on local businesses and their employees.

Direct Effects: In total, the amount of wages paid by foreign multinationals is 25 percent greater than domestic firms in the same industry and region. However, this difference may reflect that foreign

multinationals tend to hire high-skilled workers. Setzler and Tintelnot study workers who move across firms in their data to show that the same worker earns 7 percent more in wages when moving from a domestic firm to a foreign multinational. In the aggregate, this 7 percent raise is not trivial—roughly \$34 billion annually in US wages, or about 0.6 percent of all private sector wages, are paid as a premium by foreign multinationals.

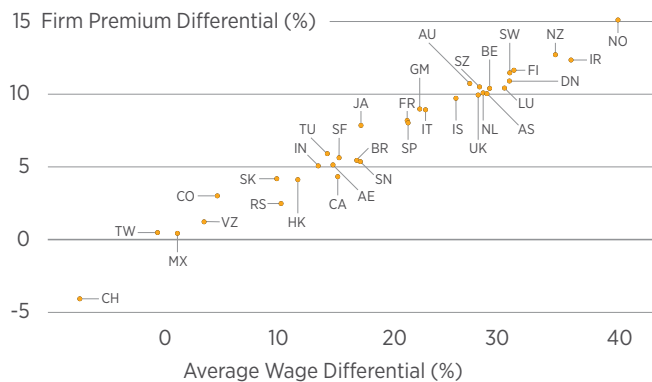
They document four key properties of these direct effects:

- The wage premium is greater for higher-skilled workers, who earn a 12 percent raise when moving from a domestic firm to a foreign multinational. Indeed, for those in the lowest decile of worker skill levels, there is no wage premium.
- There are larger wage premiums at foreign multinationals that originate from countries

¹ In 2017, 19 percent of the world's foreign direct investment (FDI) flowed into the US. However, of the world's stock of FDI, or the amount of total FDI within each country in 2017, the US held 23.5 percent. https://www.oecd-ilibrary.org/finance-and-investment/oecd-international-direct-investment-statistics-2018_bb55ccaf-en;jsessionid=tichSEzXbeouJ8Tuw00Vc5bd.ip-10-240-5-23

² Foreign multinationals are identified as those US-based businesses where foreign firms have at least a 25-percent ownership stake.

Figure 2: Country-specific Firm Premiums



with high GDP per capita, such as Ireland, New Zealand, and Norway.

- These wage premiums are not explained by differences in firm size; indeed, the foreign wage premium is largest when comparing small foreign and domestic firms.
- Finally, these wage premiums are also present among domestic-owned multinationals, which have nearly identical firm premiums as foreign multinationals.

Why would foreign multinationals pay a premium to secure high-skilled labor? One plausible mechanism: productivity. These multinational firms have access to tangible and intangible inputs from their operations outside of the US, and they use these inputs to boost productivity at their US plants.

This would explain why US-owned and foreign-owned multinationals of the same size have the same direct effects on workers in the US.

Indirect Effects: What happens to domestic workers and firms when foreign multinationals enter a commuting zone? The broad answer is that employment and wages increase, and there is overall value added (sales minus the cost of goods sold) for private firms. These positive effects are highest for firms in the tradable goods sector and among those domestic firms with more than 100 employees.

For individual workers, though, the clear winners are those who already earn higher wages and,

presumably, are higher-skilled. Those workers at domestic firms on the lower end of the wage scale experience no positive effect from the arrival of a foreign multinational. Still, in the aggregate, the labor effects are real and substantial. The authors estimate that every one job created by a foreign multinational adds about 0.42 jobs and \$91,000 in value added at domestic firms in the same commuting zone. Indirect effects are largest for those domestic firms that are producing in an industry that uses inputs from foreign-owned firms. Also, the authors find no negative effects for similar domestic firms in the same industry as a foreign multinational; the agglomeration benefits outweigh the costs of competition.

The accompanying maps in this Research Brief show the distribution of foreign multinationals in the US in 2001 and where their employment grew over time (Figure 1). An accompanying figure presents the wage gains when moving from the average domestic firm to the average foreign multinational by country of foreign ownership (Figure 2).

Conclusion and policy implications

For many years, policymakers and others at all levels of government have debated whether subsidies for private businesses are worth the cost. What is the value of an additional job? How much future tax revenue is a city or a county willing to trade for the promise of local jobs and positive spillovers to local businesses? This paper sheds new light on this cost-benefit conundrum by, for the first time, offering insights into how much value foreign multinationals bring to local economies.

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pay an average wage premium of about 7 percent over that of domestic firms, with larger averages for higher-skilled workers and no wage premium for those at the bottom of the earnings scale. These foreign multinationals appear to have greater productivity because they have access to multinational production networks. This connection between multinational production networks and higher productivity is reinforced by similar direct effects found in US-owned multinationals. In the aggregate, the wage gains from foreign multinationals is \$34 billion annually, or about 0.6 percent of US private sector wages.

Given the returns from the presence of foreign multinationals in US commuting zones, should officials actively pursue such companies for their local economies? This paper cannot definitively answer that question, as subsidy packages differ and local economies negotiate from various degrees of economic strength. However, this work does suggest that such efforts are rational at the local level. For the national economy as a

CLOSING TAKEAWAY

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whole, though, such benefits are elusive, as local economies may simply move companies around within national boundaries—while some local economies may benefit, the effect on the whole may be the same regardless of where those firms locate.

READ THE WORKING PAPER

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The Effects of Foreign Multinationals on Workers and Firms in the United States

bfi.uchicago.edu/working-paper/2019103

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