Discussion of Setzler, Tintelnot: "The Effects of Foreign Multinationals on Workers and Firms in the United States"

Emanuele Colonnelli (Chicago Booth)

July 2019

NAICS 3361 Motor Vehicle Manufacturing: Toyota vs General Motors

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NB: Toyota and GM are different

- Toyota is foreign, GM is not
- Toyota more productive than GM
- Toyota: 8 Emma / 2 Nick ; GM: 6 Emma / 4 Nick

Foreign Firms Have Higher TFP and Better Employees

- they pay more
- they generate positive local spillovers

Should We Care?

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- **Yes**
- Huge debate (economic and political) on how to approach FDI, all even more relevant in current polarized world, trade wars, etc.
- Left Hand Size also very topical: jobs, earnings inequality, ...

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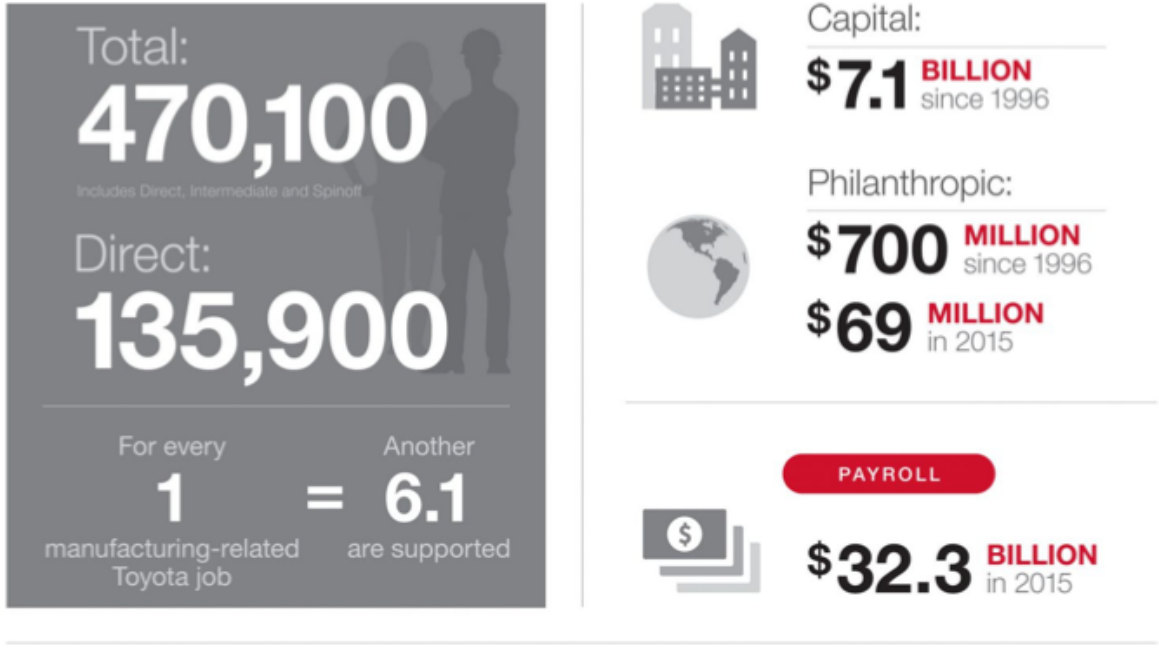
Toyota's own estimates of the job multiplier are different:



Main Comments

1. Empirics and Contribution

2. Foreign Wage Premium: Mechanisms

3. Foreign Spillovers: Mechanisms

1. Empirics and Contribution

Where contribution stands: **[Best paper using micro-data to establish policy-relevant facts on foreign firms in US]**

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Foreign Wage Premium:

- Lots of evidence from many countries, not controversial (Cameroon 20%, Denmark 75%, Finland 3%, France 13%, Germany 3%, Ghana 40-60%, Indonesia 20-60%, Kenya 24%, Malaysia 10%, Mexico 32%, Portugal -3-4%, Sweden, -2-6%, Uk 3-15%, USA 29%, Venezuela 31%, Zambia 37%, Zimbabwe 30%)
- Contribution is data: foreign ownership + matched employer-employee data
- To keep an eye on:
  - Assumption is job moves are exogenous (show more dynamics and trends around moves)
  - Can only observe parent-subsidiary linkages as snapshot in 2016 (measurement error may not be classical, show robustness to acquisitions)

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- Top firms generate positive spillovers also not controversial (e.g. Greenstone, Hornbeck, Moretti 2010), especially in developed countries
- Contribution is use of shit-share design in new setting
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  - Bartik-style assumptions, tests, inference (e.g., Goldsmith-Pinkham et al 2019, Adao et al 2019, Borusyak et al 2018)
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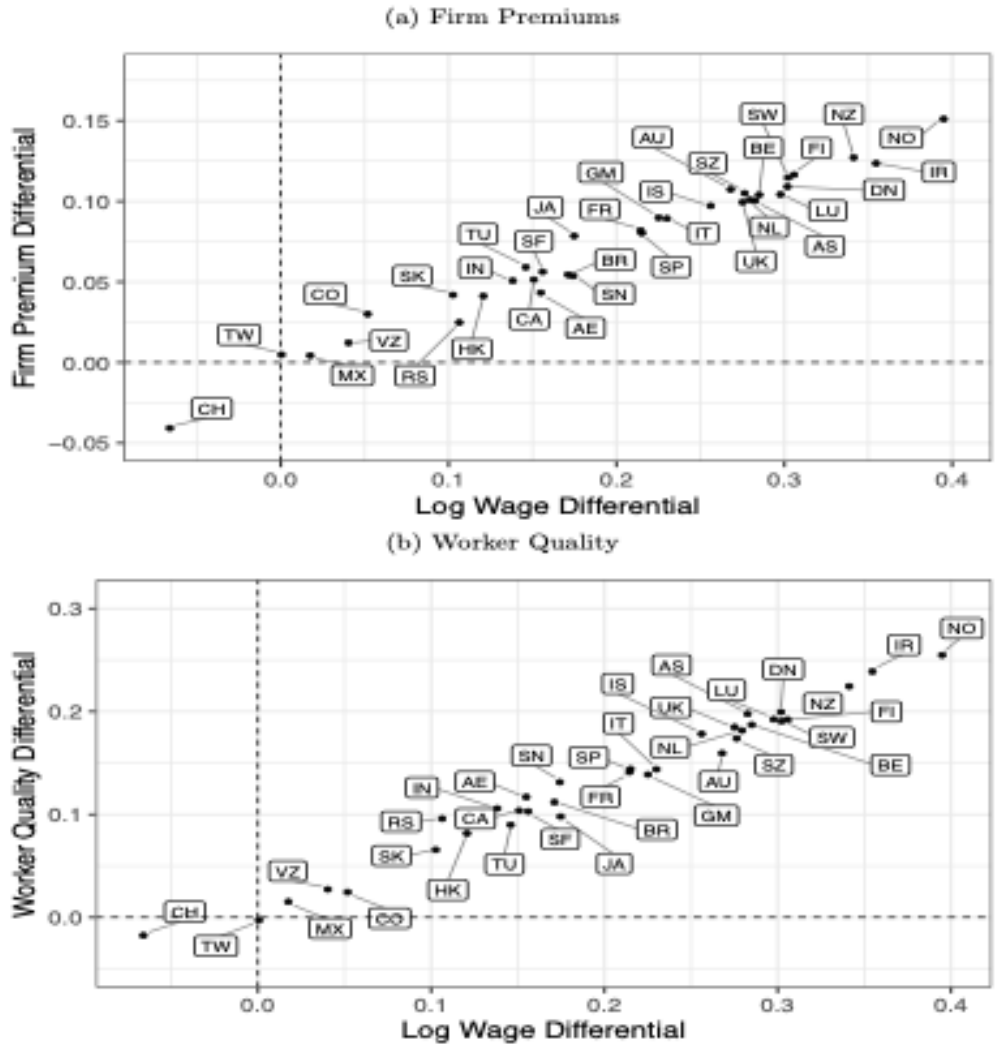
Where I hope extra contributions can be made: **[Open black box of "foreign-ness"]**

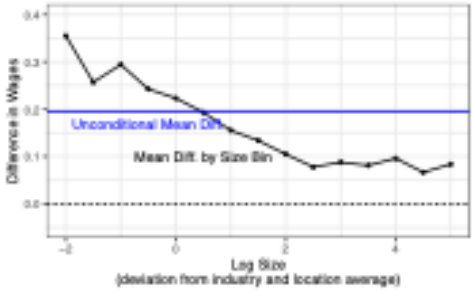
Larger Effects if MNEs of Developed Countries?



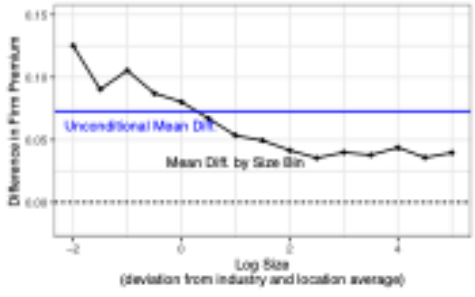
Replicating Findings in Brazil 1/4

USA

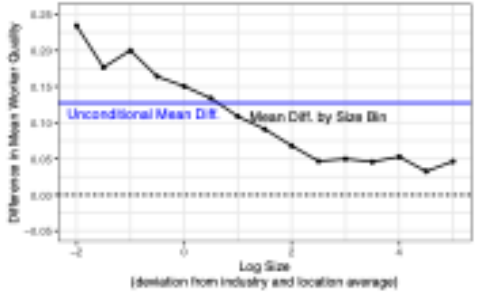
(a) Total Wage Difference



(b) Firm Premium Difference



(c) Worker Quality Difference



(d) Wage Difference Explained

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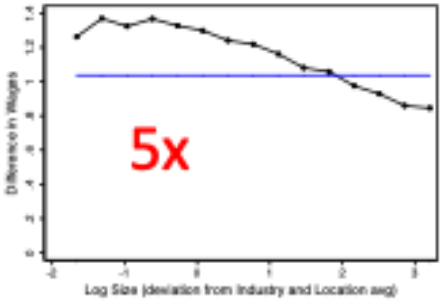
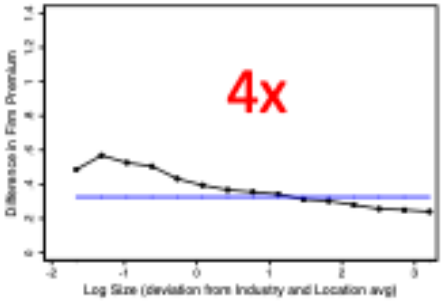


(b) Firm Premium Difference



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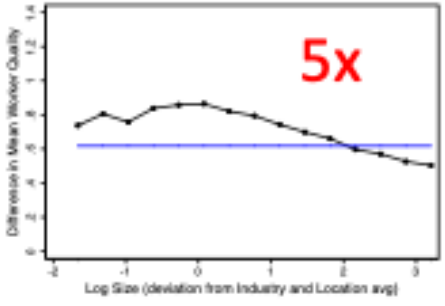

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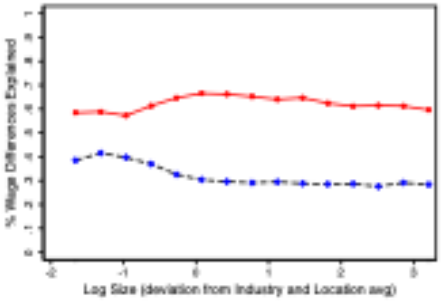


Replicating Findings in Brazil 2/4

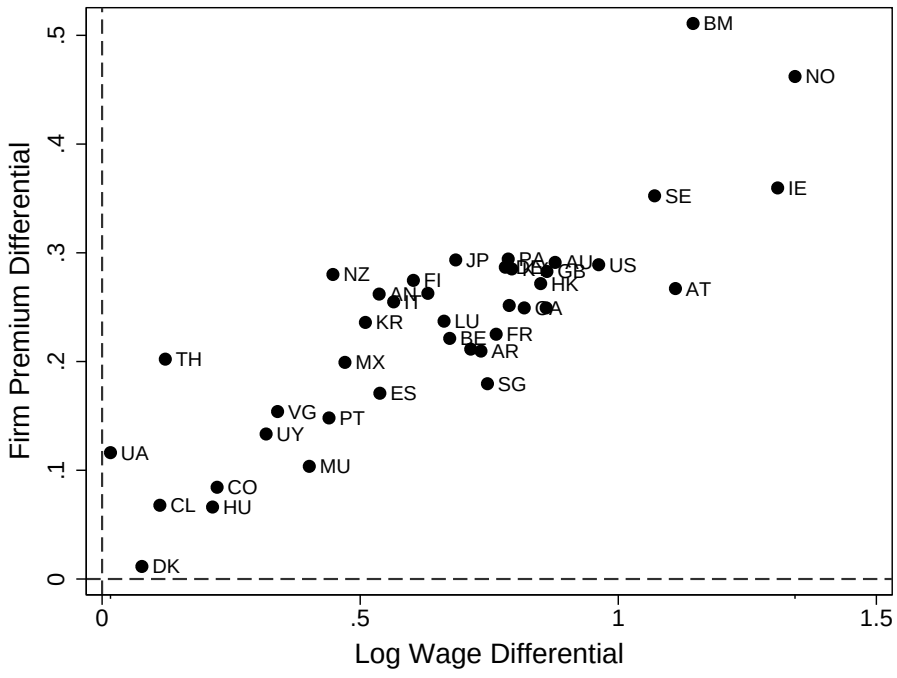
USA

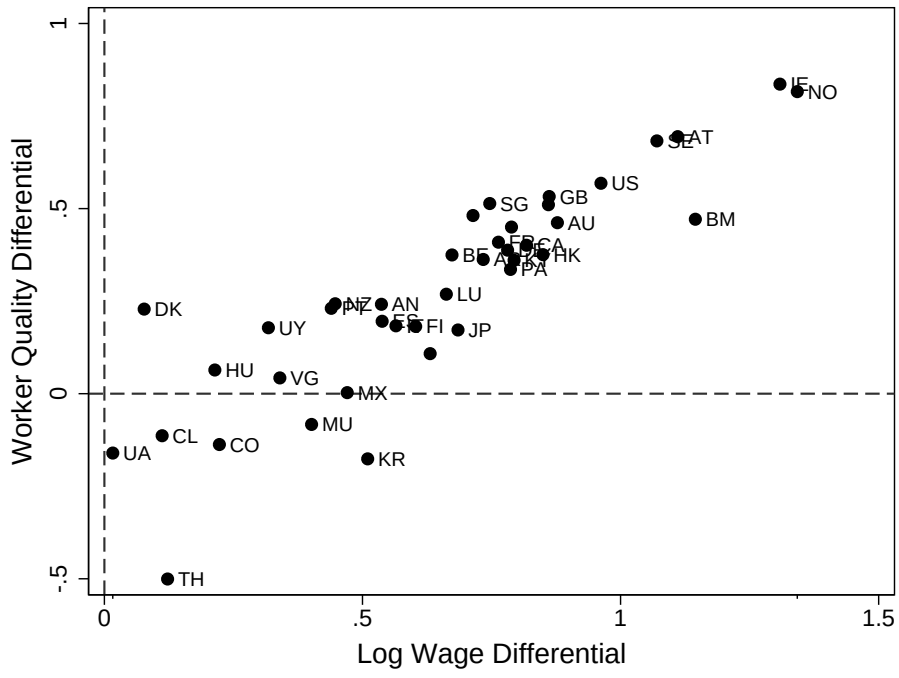
Outcome:	Shorter-term Wage Growth $\log(w_t) - \log(w_{t-1})$	Longer-term Wage Growth $\log(w_{t+1}) - \log(w_{t-2})$
Domestic to Foreign Moves:	**0.045*** **	**0.073*** **
	(0.002)	(0.003)
Foreign to Domestic Moves:	**-0.042*** **	**-0.035*** **
	(0.002)	(0.002)
Domestic to Domestic Moves:	0.005***	0.012***
	(0.001)	(0.001)
Foreign to Foreign Moves:	0.014***	0.031***
	(0.004)	(0.003)
Stayers at Foreign Firms:	-0.001	0.000
	(0.001)	(0.001)

Brazil

Outcome:	Shorter-term Wage Growth $\log(w_t) - \log(w_{t-1})$	Longer-term Wage Growth $\log(w_{t+1}) - \log(w_{t-2})$
Domestic to Foreign Movers ✓	**0.011*** **	**0.025*** **
	(0.004)	**(0.005)**
Foreign to Domestic Moves ✓	**-0.173*** **	**-0.118*** **
	(0.003)	(0.004)
Domestic to Domestic Moves ✗	-0.033***	-0.038***
	(0.001)	(0.002)
Foreign to Foreign Moves ✗	-0.061***	-0.012
	(0.005)	(0.008)
Stayers at Foreign Firms: ✗	0.013***	0.005***
	(0.001)	(0.002)

Replicating Findings in Brazil 3/4





Replicating Findings in Brazil 4/4

USA

V X

Brazil

	Full Sample	By Firm Size		
		Size 1-9	Size 10-99	Size 100+
	Outcome: Log Full-time Workers			
2SLS Indirect Effect	**0.45*****	**0.08**	**0.39*****	**1.23*****
	(0.12)	(0.06)	(0.14)	(0.43)
First Stage Coefficient	0.60***	0.63***	0.58***	0.53***
	(0.03)	(0.03)	(0.03)	(0.04)
First Stage F-statistic	297	434	292	151
Firm Observations (Millions)	45.9	38.3	7.0	0.5
	Outcome: Log Wage Bill			
2SLS Indirect Effect	**0.47*****	**0.03**	**0.37****	**1.15*****
	(0.14)	(0.09)	(0.16)	(0.42)
First Stage Coefficient	0.60***	0.63***	0.58***	0.53***
	(0.03)	(0.03)	(0.03)	(0.04)
First Stage F-statistic	297	434	292	151
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	Full Sample	By Firm size		
		Size 1-9	Size 10-99	Size 100+
Panel A.	Outcome: growth in Log Number of Workers			
2SLS Spillover Estimate	1.235*	0.518*	0.793**	0.109
	(0.733)	(0.268)	(0.327)	(1.131)
Observations	34,978,038	25,583,059	8,703,636	690,704
Panel B.	Outcome: growth in Log Total Wage			
2SLS Spillover Estimate	0.554	-0.342	0.074	-0.261
	(0.768)	(0.399)	(0.413)	(1.189)
Observations	34,973,668	25,578,791	8,703,539	690,699

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- Job-specific skills
- Protecting foreign-specific firm assets

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- Aversion to foreign firms and co-workers
- Cultural differences by country of ownership

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Cannot disentangle everything, but maybe:

- Heterogeneity across sectors and firm types $\times$ Rule out unlikely channels $\times$ Make estimate as tight as possible (e.g., within 6-digit NAICS * zipcode * year) $\times$ Residual is "foreign-ness" (economic, cultural, behavioral, ...?)

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Here I think you can do a lot more:

- Heterogeneity across sectors can go a long way [customer-suppliers networks, product market competition, labor market networks, knowledge/innovation complementarities, ...]
- Do effects vary by geographic distance?
- Extensive vs intensive margin
- Employees' movements across foreign and domestic firms
- Change in firm's input and output (investment mix, innovation type)?
- Lots of other interesting outcomes!

My Takeaways

- Fantastic paper, huge policy implications
- Just some extra empirical checks
- More on mechanisms and "foreign-ness"
- Many many followups

Thank you