Multinationals, Monopsony and Local Development: Evidence from the United Fruit Company

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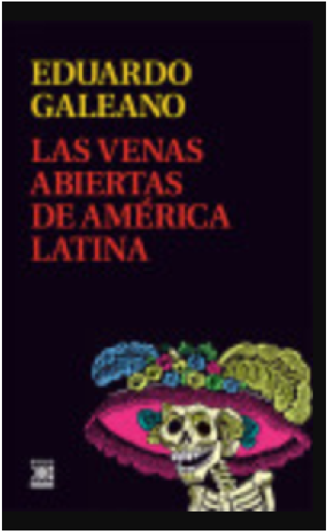
The Infamous United Fruit Company



Contribution: Very Interesting Fact!

- Enormous data work of compiling historical sources
- Quasi-random variation to document that areas belonging to UFCo did/do better
- "Better" is related to more amenities (e.g. schools, hospitals)
- Labor mobility + attractive outside option "offset" MNC monopsony power
  - **new channel on the effects of MNCs on host economies**

I. The Recent MNC Literature

- **Effects of MNCs on domestic firms**
  - Costa Rica, firm-to-firm data: Alfaro-Urena, Manelici, & Vasquez (2019)
  - US counties, Select Selection data: Greenstone, Hornbeck, & Moretti (2010)
  - ⋆ how big are these spillovers for an extractive activity?
- **Effects of MNCs on workers: employer-employee data**
  - Costa Rica: Alfaro-Urena, Manelici, & Vasquez (2019)
  - United States: Setzler & Tintelnot (2020)
  - ⋆ were wages higher in the UFCo; in close-by domestic plantations?

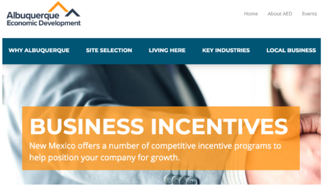
II. How Special is The United Fruit Company?

- Extractive spatially self-contained exporting activity ✗
- Free labor with outside options ✓
- Local monopsony power ✓ ✗
- Isolated under-developed area → amenities become key ✗
  - amenities are excludable ✓
- Concession involved (seemingly) marginal land ✗

III. The Role of the Model

- Evaluate magnitude of mechanism. Role of elasticities.
  - why a dynamic model?
  - why a lump-sum corporate tax? why not an export tax?
  - UFCo pays for amenities in their region, but Gov pays in other regions?
- Calculate Costa Rica aggregate gains of hosting UFCo
  - what's the tradeoff? what's the "cost" of hosting an MNC?

IV. Attracting MNCs: Mega-Deals



Intel in Costa Rica: Incentive Package (Spar, 1998)

- 100% exemption on import duties on raw materials, components and capital goods
- 100% exemption on taxes on profits for 8 years, and 50% for the following 4 years
- 100% exemption on export taxes, local sales and excise taxes, and taxes on profit repatriation
- 100% exemption on municipal and capital taxes
- No restrictions on capital repatriation or foreign currency management
- Fully expedited on-site customs clearance
- Can sell to exporters within Costa Rica
- Can also sell up 40% in the local market with exemption from sales tax

In the Puntarenas free trade zone (one of the largest zones, representative of benefits applied in Intel's free zone), investors also receive:

- 50% longer exemption on taxes on profits: 100% for 12 years and 50% for the following six years
- Job bonus: Every year, for 5 years, the government will repay the investors a percentage of its payroll in the chosen base year:

  Year 1—15%; Year 2—13%; Year 3—11%; Year 4—9%; Year 5—7%.
- Subsidized training program: the government will pay every new direct worker for 3 months while receiving free on-site training, provided by the National Training Institute (INA). This results in 3 months of free labor for corporations in the free trade zone.

As of mid-1997, 190 companies in eight industrial parks operate under the Costa Rican free zone system. Intel will be deemed its own free zone, as its installation will be too large to place within any of the existing industrial parks.

The New York Times | http://nyti.ms/1KIJLID

INTERNATIONAL BUSINESS

First U.S. Airbus Factory Gives Wings to Revival in Mobile, Ala.

By NICOLA CLARK SEPT. 18, 2015

"Airbus studied other locations but kept coming back to Alabama and Mobile, which together were prepared to provide *$150 million in infrastructure investments, tax breaks, employee training costs and other incentives.*"

IV. Back-of-the-Envelop Calculation for the US

Setzler & Tintelnot, 2020

- Local and state US Gov median subsidy per direct job given to a foreign firm = 109,000 USD
- Annual (only) wage benefits for incumbent workers in a commuting zone = 16,000 USD
- With discount rate of 0.10, net present value of avg wage benefit exceeds the typical subsidy by 51,000 USD per job

⋆ Is there a similar calculation for UFCo?

Final Remarks

- Very creative paper! Very interesting historical fact
- Brings to the table a new channel on the effects of MNCs
- Tradeoffs of hosting MNCs