



Multinational firms, acquisitions and job tasks



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ABSTRACT

We revisit the question how inward FDI and multinational ownership affect relative labor demand. Motivated by the recent literature that distinguish between skills and tasks, we argue that the impact of multinational and foreign ownership on the demand for labor is better captured by focusing on job tasks rather than education. We use Swedish matched employer–employee data and find that changes of local firms to both foreign and Swedish multinationals increase the relative demand for non-routine and interactive job tasks in the targeted local firms. Hence, in a high-income country, both inward and outward FDI have a task upgrading impact on local firms. The effect is primarily driven by wage effects leading to increased wage dispersion for workers with different non-routine and interactive task intensity. We also show that the effect is not the same as skill upgrading since dividing employees by educational attainment does not capture changes in the relative labor demand. Hence, our results suggest a new aspect of the labor market consequences of FDI.

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1. Introduction

The labor market influence of multinational enterprises (MNEs) has unsettled policymakers worldwide. Some argue that MNEs are more inclined than local firms to offshore jobs and downsize inefficient plants – or even shut them down entirely. In developed countries – where multinational firms locate knowledge intensive production while offshoring low-skilled jobs elsewhere – unskilled workers are generally believed to be threatened.

Yet studies on foreign direct investment (FDI) find mixed evidence for the effects of outward investments on home country demand for white- and blue-collar workers (e.g. Slaughter, 2000; Hansson, 2005; Head and Ries, 2002). On a related issue, studies on inward FDI have also found acquisitions of local firms by foreign multinationals to have little impact on the relative demand for skills. For instance, Almeida (2007) shows that foreign acquisitions of Portuguese establishments do not affect the educational composition of workers, and Huttunen (2007) documents a very marginal decrease in share of workers with higher education after foreign acquisitions of local establishments in Finland.

The weak empirical support for labor market effects from FDI may stem from previous studies' focus on the demand for high- and low-skilled labor. Several economists make a point of distinguishing between skills and tasks. Acemoglu and Autor (2011), for instance, argue that such distinction is essential for understanding recent labor market trends. In the

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international economics literature, the distinction between skills and tasks is highly relevant since it has been argued that characteristics other than skill intensity explain which tasks remain at home and which can be located away from headquarters and main production facilities (Blinder, 2006; Markusen, 2006). In particular, routine tasks and tasks that do not require personal interaction can more easily be located at a distance from the home country.

Hence, a more appropriate approach to labor market effects of FDI might be to examine the effect on different job tasks. How the employment structure responds to inward and outward FDI in a high-income country remains an open question. Traditional models on vertical and horizontal FDI provide some predictions of the home and host country effects on relative skill demand but how well these translate into predictions for relative task demand remains unresolved. More recent theoretical models, in which production processes are fragmented into separate stages with different factor intensities, explain the increase in trade of intermediates and predict how associated cost reductions may accrue to different types of workers (e.g. Jones and Kierzkowski, 2001; Grossman and Rossi-Hansberg, 2008, 2012). Still there remains disagreement on the direction of expected effects on the relative labor demand.

Our analysis departs from the approach of the recent literature that makes a point of distinguishing between skills and tasks and examines the employment and wage effects of FDI in a high-income country, Sweden. Previous studies on FDI and relative demand for different job tasks are scarce. One notable exception is the study by Becker et al. (2013) who examine how in-house offshoring, i.e. outward FDI, affects the composition of job tasks in German MNEs' home country operations. Our paper relates to Becker et al., but also differs from it in several respects. First, while they study home country effects of outward FDI, we study the effects of both inward and outward FDI. Second, we are able to address some of the questions that remain open in the study by Becker et al. (2013). In particular, by using rich employer–employee data including information both of foreign takeovers and shifts of domestic local firms to Swedish multinationals, we may scrutinize whether changes in the labor demand take place right after local firms become MNEs. Becker et al. (2013) suggested that these effects may be larger than the effects observed in firms that are already MNEs and make additional outward investments, and the fact that they are not able to capture them in their analysis may explain why they find small effects.

Our approach to examine changes in ownership and firm types does also bring other advantages. We can better address the issues of endogeneity and the identification of relationships as causal. For instance, unobserved firm characteristics might be correlated with the employment mix and thereby bias the results of previous studies that examine changes within a sample of firms remaining MNEs throughout the period. We control for this possibility by examining the changes in employment after a change in ownership or firm type: we would not expect to see an effect after a change if unobserved firm characteristics rather than firm ownership are important for relative labor demand.

An important challenge is to establish the causal relationship between FDI and employment changes since there could be reversed causality: firms changing employment composition and specialization could more likely become multinational either by acquisitions or by investments abroad. Thus, a shift of a local firm to a multinational firm is presumably not exogenous but determined by firm characteristics. We use propensity score matching to control for this endogeneity and to reduce the bias from differences in firm characteristics, by comparing the outcomes for similar acquired and non-acquired firms, based on the pre-treatment characteristics.

Our detailed worker level data allow us to examine changes in relative labor demand in more detail than what has been done in previous studies. We use comprehensive Swedish matched employer–employee data for the period 1996–2005 to analyze the effects of changes in ownership or firm type on the composition of labor force both in terms of wage costs and employment of different job tasks. The data include all Swedish firms with at least 20 employees and detailed information on occupations for a representative sample of the labor force. We use information on the task content in different occupations to distinguish the workforce between those performing non-routine and those performing routine tasks, as well as distinguishing between workers in occupations with more or less requirement of personal interaction.

We show that MNEs – both Swedish and foreign-owned – have a higher share of employees carrying out non-routine tasks or tasks requiring personal interaction than local firms. Moreover, shifts of local firms to either Swedish or foreign multinational firms, increase the relative demand for employees carrying out non-routine tasks or tasks requiring personal interaction. We do not find any significant changes in the composition of job tasks when both the acquirer and the target are multinational firms. This result provides further support that it is the distinction between multinational and local firms, rather than between local and foreign firms, that is important for differences in the relative demand for tasks. Thus, we find that both inward and outward FDI increase the relative demand for non-routine and interactive tasks in a high-income country like Sweden.

We also find that the changes in relative task demand primarily work through changes in relative wages rather than through changes in employment shares. The increased demand for more advanced tasks is captured by increased wage dispersion for workers with different non-routine and interactive task intensities. In order to scrutinize whether tasks and skills are interchangeable, we estimate the effects of acquisitions on the skill composition of firms by dividing the labor force according to educational attainment, the standard measure in previous studies. We find no effects of acquisitions on the educational composition of firms' workforces. It suggests that the increased internationalization of production does indeed have an effect on the composition of workers which is not captured by traditional educational skill measures.

The rest of the paper is organized as follows. In the next section, we discuss the related literature, Section 3 describes the empirical approach, Section 4 presents the data and show descriptive statistics, Section 5 presents the results and Section 6 concludes the paper.

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