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Abstract

Spillovers can arise when multinational firms (MNEs) train local employees who later join domestic firms, bringing with them part of the technological, marketing and managerial knowledge that they have acquired. Theoretical models by Fosfuri et al. (2001) and Glass and Saggi (2002) suggest that the direction and the intensity of the mobility of trained workers is affected by market conditions including the degree of product market competition. This, in turn, details an additional channel through which competition is likely to affect total factor productivity. In this paper, we take this hypothesis to the data for the first time by using the Finnish longitudinal employer-employee data. We first quantify the importance of spillovers via worker mobility by estimating augmented production functions. Second, we estimate several competing risks models to assess the impact of product market competition and absorptive capacity on worker mobility. We find that productivity spillovers arise only when workers move from domestic-owned multinational firms to domestic local firms. The spillover effects are economically important. Further, our results point out that competition affects the productivity of purely domestic plants adversely by reducing worker mobility.