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Changing Distribution of Factor Income: The Direct Role of MNEs

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Globalisation enters the lives of people in a very tangible way in the form of employment by a multinational (MNE). The OECD estimates that in 2014 about a quarter of the workforce was employed by an MNE. It is well-known that MNEs are different from non-MNEs. On average, they are more productive, have more imports and exports and pay higher wages.

This paper aims to shed more light on one of the channels through which foreign owned MNEs change the balance between labour income and capital income in the host economy through time. In this way these MNEs sometimes contribute to larger, sometimes to smaller inequality.

The main research question of the paper: what is the direct role of foreign owned MNEs in changes of the distribution of total factor income into labour income and capital income? Using Eurostat data for the period 2008-2016 we consider several European countries and their distribution of factor income in the business economy. Changes are decomposed into an industry mix effect, a foreign owned share effect (in an industry) and a distribution effect (the share of labour income in total income for foreign owned MNEs and domestic enterprises).

The second part of the paper considers which share of value added in the global value chain is captured by workers at foreign owned MNEs and domestic enterprises. It shows how this share changes through time and estimates similar decomposition effects as above. We explore this for the host countries Germany, the United Kingdom and France for the period 2008-2016. We do this by combining the new OECD Analytical AMNE database (to analyse the role of MNEs in global value chains) with Eurostat data (distribution of factor income in the three countries).

The paper concludes by displaying the heterogeneity at enterprise level, for foreign owned MNEs and domestic enterprises in the Dutch business economy. Heterogeneity in distribution is considered for 2016 and heterogeneity in changes is considered for the period 2010-2016. The results clearly show that conclusions at macro level cannot be translated at all one-to-one to micro level.