

A high-angle, wide shot of a large, multi-story garment factory. The factory is filled with workers, mostly women, sitting at long rows of sewing machines. The workers are wearing light-colored shirts. The factory has a high ceiling with visible structural beams and lighting fixtures. The overall atmosphere is one of a busy, industrial environment.

Do MNCs Exploit Foreign Workers?

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Multinational Corporations in a Changing Global Economy
Authors' Conference #2

Brookings, December 2019

What is exploitation?

“To exploit someone is to take unfair advantage of them. It is to use another person’s vulnerability for one’s own benefit. Of course, benefiting from another’s vulnerability is not always morally wrong—we do not condemn a chess player for exploiting a weakness in his opponent’s defense, for instance. But some forms of advantage-taking do seem to be clearly wrong, and it is this normative sense of exploitation that is of primary interest...”

-- Stanford Encyclopedia of Philosophy

Exploitation in our setting is more than: *“Do MNCs pay more than domestic firms?”*

1. Consequentialist definition of exploitation:

- Transactional: Would workers be better off had they not been employed by an MNC?
- Systemic: Would home-country workers be better off had MNCs not engaged in offshoring?

2. “Unfairly-low share of surplus” definition of exploitation:

- Do profitable firms share profits with their employees?
 - Workers gain a little while MNCs gain a lot?

3. Deontological definition of exploitation:

- Do MNCs treat workers wrongly by violating their human rights?

1. MNCs and wages: a consequentialist approach

Transactional exploitation evidence:

MNCs pay higher than average wages in foreign labor markets, because they:

- Hire better workers
- Operate in higher-wage sectors & with high-wage characteristics such as large size
 - Pay efficiency wages to increase effort and reduce turnover
 - Share product market rents
- Inconsistent evidence MNCs may compensate for uncertainty of job tenure or other working conditions

1. MNCs and wages: a consequentialist approach

Unclear whether MNCs contribute to “systemic exploitation”

- Low-wage outsourcing lowers wages and employment in home
 - But: alternative of technological change might eliminate most of those jobs
- MNCs may
 - Expand higher-wage sectors in developing countries
 - (Note: counter-claim that they cause production segmentation that lowers skill level of workers at the system level)

2. Do MNCs benefit unfairly from workers' vulnerability?

- Public debate focuses on whether MNCs pay **unfairly** low wages (given many MNCs' high ability to pay)
 - Psychology & econ literature show most people have concerns about the fair sharing of surplus
- Transactional: Some evidence MNCs in high-income countries share rents with workers
 - but no studies for lower-income countries
- Systemic: MNCs may depress the labor share globally
 - but robust causal evidence is limited



3. MNCs and rights: a deontological approach

Source :ILO.org

ILO member states committed to Declaration on Fundamental Principles and Rights at Work

- the elimination of forced or compulsory labor
- freedom of association and the right to collective bargaining
- the abolition of child labor
- the elimination of discrimination in respect of employment and occupation

Evidence on violations of rights at work



- Measurement is often difficult
- Auditing by NGOs and by MNCs themselves shows widespread violations by MNC affiliates and suppliers
 - Exploitation by this deontological (human rights) definition is evident
- But note that in almost all studies MNCs treat workers at least as well as domestic firms

Beyond exploitation

- Evidence **MNCs exploit workers by some but not all definitions.**
 - Important to continue holding MNCs to internal and external standards.
- Neoclassical economists tend to think **improving the welfare of vulnerable workers should be the focus**, rather than exploitation.
- That goal cannot be achieved via pressure on MNCs alone.
 - Arguably better to focus on domestic firms, governments and institutions (including unions and education).