

Session on “Polarization between Firms”

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Context

- ▶ Natural interest in studying firms: their decisions drive changes in labor demand
- ▶ Firms are very heterogeneous in productivity, employment, wages, profits, etc., even within narrowly defined industries (e.g. Melitz and Redding, 2014; Bloom and Van Reenen, 2011)
- ▶ ... but most of the literature on polarization abstracts from the role of firms
- ▶ Availability of matched employer-employee datasets provide new opportunities to analyze role of firms (Heyman, 2016)
- ▶ Papers in the session are very nice examples of recent contributions to the literature on the role of firms

Heyman (2016)

- ▶ Swedish matched employer-employee data, 1996–2013
- ▶ Understanding decline of middle-wage jobs:
 1. Are firms reducing the share of workers in these jobs (within-firm), or:
 2. Are there changes in firm composition (fewer middle-wage intensive firms)
- ▶ Finding: Both components are important in accounting for overall changes
- ▶ Decline is particularly pronounced within firms that start with off with a high share of routine employment

Heyman (2016): Discussion

- ▶ In what sense does it matter whether the changes are happening within or between firms?
 - ▶ Is it clear that Routine-Biased Technical Change theory has implications for one relative to the other?
 - ▶ Seems intuitive that RBTC could affect both margins
- ▶ Delving deeper into which firms reduce their share of middle-wage employment, and why
 - ▶ Is there evidence that they invest in new technologies?
 - ▶ Why do they start off with more middle-wage employment? Do they differ from other firms along other characteristics?
 - ▶ What other types of firm-level changes coincide with the reduction in middle-wage employment?

Davidson, Heyman, Matusz, Sjöholm, Zhu (2017)

- ▶ Swedish matched employer-employee data, 1997–2005
- ▶ How does global engagement affect skill mix of occupations within firms?
 - ▶ Employment in firms that are more globally engaged is more skewed towards high-skill occupations
- ▶ Is this causal? Do skill-intensive firms become globally engaged, or does global engagement lead to skill upgrading?
 - ▶ Instrumental variable approach suggests that global engagement causes skill upgrading

Davidson, Heyman, Matusz, Sjöholm, Zhu (2017)

- ▶ Skill intensity rises over time
 - ▶ This is driven by skill upgrading among globalized firms, and a compositional shift from local to globalized firms
 - ▶ Increasing globalization \Rightarrow increasing demand for skills
- ▶ Increasing between-firm dispersion
 - ▶ Driven by increasing heterogeneity in the skill mix
 - ▶ And increased assortative matching (higher share of skilled workers in firms that pay higher wages across the board)

Davidson et al (2017): Discussion

- ▶ Analysis of impacts of global engagement on payroll shares:
 - ▶ Might be interesting to decompose impacts on employment and wages
 - ▶ To what extent do globally-engaged firms hire more workers in high-skill occupations?
 - ▶ To what extent do they differentially pay higher wage premia to workers in high-skill occupations?
- ▶ Why is skill mix becoming increasingly heterogeneous, particularly among global firms?
 - ▶ Global engagement increasingly heterogeneous between firms?
- ▶ Surprising that between-firm within-occupation wage inequality small and constant

Autor, Dorn, Katz, Patterson, Van Reenen (2018)

- ▶ Understanding decline in labor share of GDP
- ▶ New argument linked to rise in superstar firms
 - ▶ If globalization/technology favors the most productive firms in the economy, production shifts towards superstar firms
 - ▶ Superstar firms have lower labor shares, so aggregate labor share falls
- ▶ Empirical evidence:
 1. Sales concentration rising over time
 2. Industries with larger increases in concentration experience larger declines in labor share
 3. Fall in labor share driven by between-firm reallocation
 4. Patterns observed not only in the US but also in other countries

Autor et al (2018): Discussion

- ▶ Increasing concentration: should we be worried?
 - ▶ Interesting that a more competitive environment leads to more concentration
 - ▶ Regulators worried about concentration
 - ▶ But preventing concentration may come at the expense of reallocating resources away from highly productive firms
 - ▶ Are superstar firms exploiting their position to prevent entry?
- ▶ Implications for wages?
 - ▶ Framework features competitive labor market and homogenous workers \Rightarrow no wage inequality
 - ▶ In spite of lower labor share, high productivity firms would tend to pay higher wages
 - ▶ Market changes that favor superstar firms would also be associated with increases in between-firm wage inequality

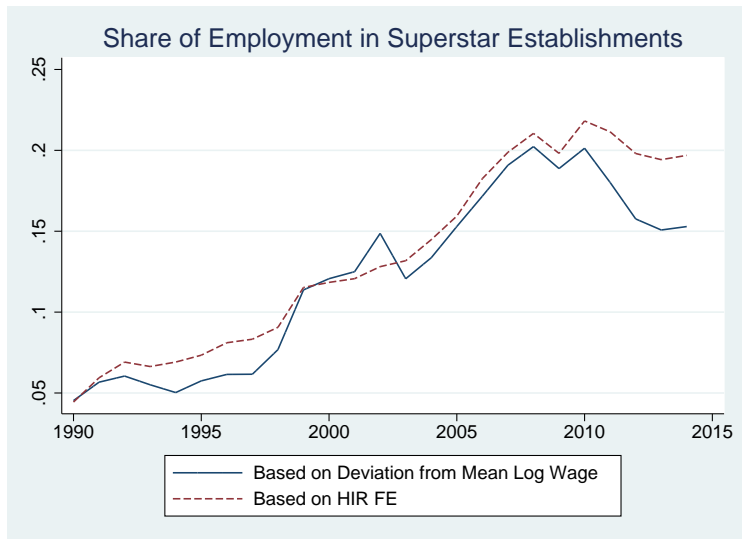
Ongoing work with Uta Schönberg and Jeanne Tschopp using German Social Security Data

Δ inequality between t and t+6 based on:

	Var of Mean Estab Log Wages	Var of HIR Estab FE	Var of AKM Estab FE
	(1)	(2)	(3)
Δ HHI	0.2338 (0.0504) ^{***}	0.1659 (0.0442) ^{***}	0.1009 (0.0267) ^{***}
Year FE	X	X	X
Obs.	61	61	61
R^2	0.4700	0.4523	0.4486
Years	2000-2012	2000-2012	2000-2012
Industries	2-digit	2-digit	2-digit

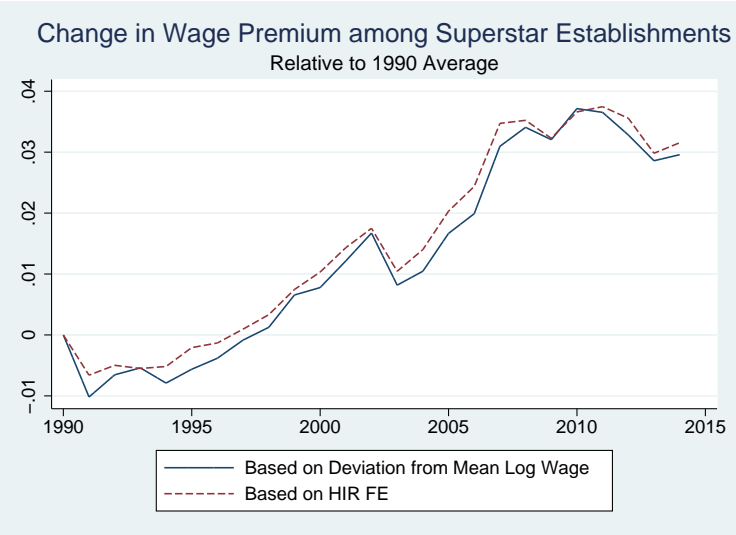
Note: HHI is the Herfindahl-Hirschman Index based on firms' shares of industry turnover from the Competitiveness Research Network (CompNet).

Superstars as High Wage Premia Establishments (within their 3-digit industry)



Note: An establishment is considered a superstar if its wage premium is within the top 5% of the employment-weighted distribution of wage premia within its industry in 1990.

Increasing Wage Premia among Superstars



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Superstars and Trade

*Within-ind Δ share of emp in
superstars between 1995–2012*

	(1)	(2)
Trade with China & East. Eur.	0.0920 (0.0439)**	0.1131 (0.0507)**
Decentralization		-0.3242 (0.0804)***
Baseline Union	Y	Y
Skill Groups	Y	Y
Obs.	86	84
R^2	0.2257	0.3819

Note: Skill group controls: share of medium educated, share of high educated in the industry in the base year.

Recap

- ▶ Lots of interesting work to be done analyzing the role of firms
- ▶ Drivers of increased between-firm wage inequality, increased concentration still not well understood
- ▶ New employer-employee datasets provide many opportunities for new research