

Topics in Labor Economics

Instructor: Francesco Devicienti (12 hours)

Module I: Inequalities in the Labor Market: Workers, Firms and Institutions

Course description

This course focuses on inequalities generated in the labor market, owing to the heterogeneity of workers and firms, and their interaction with labor market institutions and the general evolution of the economic and social context. The approach will mostly be empirical, generally relying on the econometric analysis of large-scale longitudinal micro datasets, especially those of the matched employer-employee type. Emphasis will also be given on how to select a promising topic for your JMP in this or related areas, how to get the data and a proper empirical strategy, by focusing on discussing the elements that made particularly successful a number of papers selected below.

Evaluation

Students will be evaluated on the basis of an in-depth classroom presentation of an important recent paper in empirical labor from an assigned reading list (max 2 students per paper). During the presentation, students are expected to show that they master, and can critically discuss, the details of: (i) why the paper's topic was important, (ii) why the empirical strategy was appropriate, (iii) the pros and cons of the data used, (iv) any other selling point of the paper (e.g., policy implications, broader lessons, bridges to other literatures, etc.).

Meeting 1 (2 hours): 14 May 2019

Competitive vs non-competitive labor markets;

Longitudinal matched employer-employee data (LMEE): specificities, advantages and pitfalls;

Two-way fixed effect models (AKM models); reconciliation with economic theory;

Available LMEE data; differences across the various LMEE data sets; accession policies; Italian examples: INPS data and VisitINPS; COB (Veneto Lavoro), LFS from Istat, data from Inapp; Examples from other countries: IAB, Portugal, others;

How to publish in a top journal in labor economics.

References:

D. Mortensen (2003) "Wage dispersion. Why are similar workers paid differently?", MIT press.

P. Cahuc and A. Zylberberg (2004), "Labor Economics", MIT Press.

Abowd, John, Francis Kramarz, and David Margolis, "High Wage Workers and High Wage Firms," *Econometrica*, 67 (1999), 251–333.

Meeting 2 (2 hours): 16 May 2019

Wage inequality, sorting, rent sharing

References:

Song, Price, Guvenen, Bloom, Von Wachter (2018) "Firming up inequality", *Quarterly Journal of Economics*.

Card, Heining and Kline (2013) "Workplace heterogeneity and the rise of west Germany Wage Inequality", *Quarterly Journal of Economics*.

Bartolucci, Devicienti, Monzon (2018) "Identifying assorting in practice", *AEJ: Applied Economics*.

Devicienti F, Fanfani B. and A. Maida (2018) "Collective bargaining and the evolution of wage inequality in Italy", *WorkINPS Papers*, n. 12/2018, *British Journal of Industrial Relations*, forthcoming.

Card D, Devicienti F., A. Maida (2014) "Rent-sharing, hold-up and wages-Evidence from matched employer-employee data", *Review of Economic Studies*.

Card D, Cardoso AR, Heining J, and Kline P (2018), "Firms and Labor Market Inequality: Evidence and Some Theory," *Journal of Labor Economics*, 36, S13–S70.

Card D, Heining J, and Kline P (2013), "Workplace Heterogeneity and the Rise of West German Wage Inequality," *Quarterly Journal of Economics*, 128, 967–1015.

Van Reenen J (1996) "The Creation and Capture of Rents: Wages and Innovation in a Panel of UK Companies," *Quarterly Journal of Economics*, 195–226.

Meeting 3 (2 hours): 21 May 2019

Inequality and outsourcing; diff-in diff technique; event-study analyses.

References:

Goldschmidt D and Schmieder JF (2017) "The Rise of Domestic Outsourcing and the Evolution of the German Wage Structure," *Quarterly Journal of Economics*, 132, 1165–1217.

Meeting 4 (2 hours): 23 May 2019

Partial labor market reforms and inequality; diff-in diff technique; event-study analyses.

References:

Diego Daruich D, Di Addario S., Saggio R (2018) "The Effects of Partial Employment Protection Reforms: Evidence from Italy", working paper.

Leonardi M, G. Pica (2013) "Who pays for it? The heterogenous effects of employment protection legislation on wages", *Economic Journal*.

Berton F, Devicienti F, Grubanov S (2018) "Employment Protection Legislation and Mismatch: Evidence from a Reform, Working paper.

Fanani B (2019) "The Employment effect of collective bargaining", working paper.

Meeting 5 (2 hours): 28 May 2019

Labor market effects of the Great Recession; (great) data and methods

Example of nice data collection, easy and clear methods, to get in a top-5:

Reference:

Giroud X and Mueller H (2018) Firm leverage, consumer demand, and employment losses during the great recession, Quarterly Journal of Economics.

Example of great data effort (COB+AIDA+ASIA+Credit register) / initiative to find teams / co-authors; sound IV methods:

Reference:

Berton F, S. Mocetti, A. Presbitero, M. Richiardi (2018) "Banks, firms and jobs", Review of Financial Studies.

Meeting 6 (2 hours): 30 May 2019

Effects of pay inequality and wage rigidity; Field experiments.

Reference:

Breza, Emily, Supreet Kaur, and Yogita Shamdasani (2018) "The Morale Effects of Pay Inequality," Quarterly Journal of Economics, 133, 611–663.

Further reading

Abowd, John, Francis Kramarz, Paul Lengeremann, and Sebastien Perez-Duarte, "Are Good Workers Employed by Good Firms? A Test of a Simple Assortative Mating Model for France and the United States," unpublished manuscript, 2003.

Abowd, John, Kevin L. McKinney, and Nellie L. Zhao, "Earnings Inequality and Mobility Trends in the United States: Nationally Representative Estimates from Longitudinally Linked Employer-Employee Data," Journal of Labor Economics, 36 (2018), S183–S300.

Abowd, John M., Robert H. Creecy, and Francis Kramarz, "Computing Person and Firm Effects Using Linked Longitudinal Employer-Employee Data," Technical Papers 2002-06, Center for Economic Studies, U.S. Census Bureau, 2002.

Abraham, Katharine G., and Susan K. Taylor, "Firms' Use of Outside Contractors: Theory and Evidence," Journal of Labor Economics, 14 (1996), 394–424.

Acemoglu, Daron, and David Autor, "Skills, Tasks and Technologies: Implications for Employment and Earnings," in Handbook of Labor Economics, 4B (2011), 1043–1166.

Akerlof, George, and Janet Yellen, "The Fair Wage-Effort Hypothesis and Unemployment," Quarterly Journal of Economics, 105 (1990), 255–283.

- Alvarez, Jorge, Felipe Benguria, Niklas Engbom, and Christian Moser, "Firms and the Decline in Earnings Inequality in Brazil," *American Economic Journal: Macroeconomics*, 10 (2018), 149–189.
- Andrews, M. J., L. Gill, Thorsten Schank, and Richard Upward, "High Wage Workers Match with High Wage Firms: Clear Evidence of the Effects of Limited Mobility Bias," *Economics Letters*, 117 (2012), 824–827.
- Autor, David H., David Dorn, and Gordon H. Hanson, "The China Syndrome: Local Labor Market Effects of Import Competition in the United States," *American Economic Review*, 103 (2013), 2121–2168.
- Barth, Erling, Alex Bryson, James Davis, and Richard Freeman, "It's Where You Work: Increases in the Dispersion of Earnings across Establishments and Individuals in the United States," *Journal of Labor Economics*, 34 (2016), S67–S97.
- Bloom, Nicholas, Fatih Guvenen, Benjamin S. Smith, Jae Song, and Till von Wachter, "The Disappearing Large-Firm Wage Premium," *American Economic Association Papers and Proceedings*, 108 (2018), 317–322.
- Borovičková, Katerína, and Robert Shimer, "High Wage Workers Work for High Wage Firms," NBER Working Paper No. 24074, 2017.
- Cobb, Adam, and Ken-Hou Lin, "Growing Apart: The Declining Firm-Size Wage Premium and its Inequality Consequences," *Organization Science*, 28 (2017), 429–446.
- Davis, Steve J., and John Haltiwanger, "Wage Dispersion between and within U.S. Manufacturing Plants, 1963–1986," *Brookings Papers on Economic Activity: Microeconomics* (1991), 115–200.
- Davis, Steven J., and Till Von Wachter, "Recessions and the Costs of Job Loss," *Brookings Papers on Economic Activity*, 43 (2011), 1–72.
- Diamond, Rebecca, "The Determinants and Welfare Implications of US Workers Diverging Local Choices by Skill: 1980–2000," *American Economic Review*, 106 (2016), 479–524.
- Dickens, William T., and Lawrence F. Katz, "Interindustry Wage Differences and Industry Characteristics," in *Unemployment and the Structure of Labor Markets*, Kevin Lang and Jonathan Leonard, eds. (Oxford: Blackwell, 1987), 48–89.
- Dube, Arindrajit, Laura Giuliano, and Jonathan Leonard, "Fairness and Frictions: The Impact of Unequal Raises on Quit Behavior," IZA Discussion Paper 9149, 2015.
- Faggio, Giulia, Kjell G. Salvanes, and John van Reenen, "The Evolution of Inequality in Productivity and Wages: Panel Data Evidence," *Industrial and Corporate Change*, 19 (2010), 1919–1951.
- Goldschmidt, Deborah, and Johannes F. Schmieder, "The Rise of Domestic Outsourcing and the Evolution of the German Wage Structure," *Quarterly Journal of Economics*, 132, (2017), 1165–1217.
- Goux, Dominique, and Eric Maurin, "Persistence of Interindustry Wage Differentials: A Reexamination Using Matched Worker-Firm Panel Data," *Journal of Labor Economics*, 17 (1999), 492–533.
- Guvenen, Fatih, Greg Kaplan, and Jae Song, "The Glass Ceiling and The Paper Floor: Gender Differences among Top Earners, 1981–2012," Working Paper, University of Minnesota, 2014.
- Guvenen, Fatih, Serdar Ozkan, and Jae Song, "The Nature of Countercyclical Income Risk," *Journal of Political Economy*, 122 (2014), 621–660.
- Håkanson, Christina, Erik Lindqvist, and Jonas Vlachos, "Firms and Skills: The Evolution of Worker Sorting," Working Paper 2015:9, Institute for Labour Market Policy Evaluation, 2015.
- Handwerker, Elizabeth Weber, "Increased Concentration of Occupations, Outsourcing, and Growing Wage Inequality in the United States," Working Paper, U.S. Bureau of Labor Statistics, 2015.
- Helpman, Elhanan, Oleg Itskhoki, Marc-Andreas Muendler, and Stephen J. Redding, "Trade and Inequality: From Theory to Estimation," *Review of Economic Studies*, 84 (2017), 357–405.
- Katz, Lawrence F., and Alan B. Krueger, "The Rise and Nature of Alternative Work Arrangements in the United States, 1995–2015," *Industrial and Labor Relations Review* (Forthcoming).

- Katz, Lawrence F., and Lawrence H. Summers, "Industry Rents: Evidence and Implications," *Brookings Papers on Economic Activity: Microeconomics*, (1989), 209–290.
- Kline, Patrick, Raffaele Saggio, and Mikkel Sølvsten, "Leave-Out Estimation of Variance Components," arXiv Working Paper 1806.01494, 2018.
- Kopczuk, Wojciech, Emmanuel Saez, and Jae Song, "Earnings Inequality and Mobility in the United States: Evidence from Social Security Data since 1937," *Quarterly Journal of Economics*, 125 (2010), 91–128.
- Kremer, Michael, and Eric Maskin, "Wage Inequality and Segregation by Skill," NBER Working Paper no. 5718, 1996.
- Krueger, Alan B., and Lawrence H. Summers, "Efficiency Wages and the Inter-Industry Wage Structure," *Econometrica* (1988), 259–293.
- Lachowska, Marta, Alexandre Mas, and Stephen A. Woodbury, "Sources of Displaced Workers' Long-Term Earnings Losses," NBER Working Paper No. 24217, 2018.
- Machado, José A. F., and José Mata, "Counterfactual Decomposition of Changes in Wage Distributions Using Quantile Regression," *Journal of Applied Econometrics*, 20 (2005), 445–465.
- Mishel, Lawrence, and Natalie Sabadish, "CEO Pay and the Top 1%: How Executive Compensation and Financial-Sector Pay Have Fueled Income Inequality," *Economic Policy Institute Issue Brief 331*, 2014.
- Moretti, Enrico, "Real Wage Inequality," *American Economic Journal: Applied Economics*, 5 (2013), 65–103.
- Mueller, Holger M., Paige P. Ouimet, and Elena Simintzi, "Wage Inequality and Firm Growth," *American Economic Review*, 107 (2017), 379–383.
- National Academies of Sciences, Engineering, and Medicine, *The Growing Gap in Life Expectancy by Income: Implications for Federal Programs and Policy Responses* (Washington, DC: National Academies Press, 2015).
- Piketty, Thomas, *Capital in the Twenty-First Century* (Cambridge, MA: Harvard University Press, 2013).
- Piketty, Thomas, and Emmanuel Saez, "Income Inequality in the United States: 1913–1998," *Quarterly Journal of Economics*, 118 (2003), 1–39.
- Prahalad, C. K., and Gary Hamel, "The Core Competence of the Corporation," *Harvard Business Review* (1990).
- Segal, Lewis M., and Daniel G. Sullivan, "The Growth of Temporary Services Work," *Journal of Economic Perspectives*, 11 (1997), 117–136.
- Slichter, Sumner H., "Notes on the Structure of Wages," *Review of Economics and Statistics* (1950), 80–91.
- Smith, Matthew, Danny Yagan, Owen Zidar, and Eric Zwick, "Capitalists in the Twenty-First Century," *University of Chicago Working Paper*, 2017.
- Song, Jae, David J. Price, Fatih Guvenen, Nicholas Bloom, and Till von Wachter, "Replication Data for: 'Firming up Inequality'," *Harvard Dataverse* (2018), doi: 10.7910/DVN/QVVHOM.
- Weil, David, *The Fissured Workplace* (Cambridge, MA: Harvard University Press, 2014).