Discussion of

"Downward Wage Rigidity in the United States: New Evidence from Worker-Firm Linked Data"

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Introduction

- Very nice project! Interesting new stylized facts and lots of potential for further analysis!

- Understanding presence and consequences of nominal wage rigidities is important.

- This paper: using new administrative dataset, i) revisits estimates of DWR in the U.S.; ii) provides new insights into inference problems with standard measures of DWR; and iii) explores new heterogeneity of DWR at firm level.

Great Data!

Administrative LEHD dataset:

- Almost full coverage of workers and firms in the U.S. over time;
- Alleviates usual survey-related measurement errors in wage reporting;
- Data on total wages, not just base wages, so measures better the total labor cost;
- Earnings can be split into hours/wages for some states;
- Firm-worker match: introduces a firm's dimension into study of wage rigidities.

Hourly Wage Changes

Hourly wage change results:

- Higher flexibility in wage adjustments than has been shown before (13% of job-stayers – no change, 20% – decline in wages).
- Why? Because of 1) (potentially) measurement error in previous studies + 2) here, wage contains both base wages and other compensation.
- Would it be possible to decompose this discrepancy?
- Bonuses vs stock options (+ tips and other gratuities). The second automatically linked to firm's performance/shock. Particularly important in a small/large firm divide later on.

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  - No b/c like unemployment, hours adjustment is one of the *outcomes* of DWR. Underemployment, as well as unemployment, *is* one of the problems we want to understand. Hence including hours adjustment in measures of DWR may be less suited here.

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- To explore:
  - What firm characteristics (size, industry, etc) relate to higher *abilities* to adjust hours?
  - Choice btw wage and hours adjustment. Substitution? Implications for firm's recovery after shocks?

Inferring DWR from Data

Why asymmetries in wage change distribution may not be measuring real DWR?
Two main selection problems emphasized:

1. Observe wages only for job-stayers (while presumably those workers who were most DWR are already laid off).
2. More DWR-constrained firms will (ex ante) hire more productive workers.
   - Would be nice to test this implication of a stylized model. Observe thicker right side of distribution; fewer layoffs?

Potentially other mechanism for endogeneity:

- More DWR $\rightarrow$ flatter profile of wage with tenure to avoid cuts later $\rightarrow$ will mechanically observe less wage cuts. Can check if wage-tenure relation is flatter/steeper.

Inferring DWR from Data

- Suggested solution to the inference problem in the paper: To identify DWR, compare asymmetry statistics across *similar firms*.

- Idiosyncratic shocks. Same DWR-firms facing different shocks will have different "needs" in wage adjustment/firing reflecting in different *observed* asymmetries.

- Size and type of shocks matter (demand/productivity/finance or permanent/transitory).

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- Could history of frequencies of wage adjustments within a firm tell us more about firm rigidities?

Exploring further

Preliminary evidence that small firms are more DWR, while age does not matter. Important implications for the effects of shocks on redistribution.

- Defining "young" group;
- Smaller firms may be just facing more and different types of idiosyncratic shocks that would make them look like more DWR;
- Job title/position changes within larger firms;
- Stock options and non-base compensation more prevalent in larger firms.

Conclusion

- Great project with great data.

- Better measures of DWR (expanding wage setting equation);
  other dimensions of firm heterogeneity;
  further exploration of mechanisms behind the findings.