

**Comments on:**

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***The Evolution of Inequality in Wages and  
Productivity: International Panel Data  
Evidence***

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# Contributions

- ◆ Incredibly ambitious data collection project
  - Firm level accounting data
  - Across countries: UK (today), France, Norway, US
  - Permitting inferences about dispersion in micro-level productivity
- ◆ Linking three important literatures
  - Technological change and diffusion
  - Dynamics of firm growth, entry and exit
  - Wage inequality
- ◆ Findings: The rise in wage inequality reflects
  - Rise in measured *between-firm* wage inequality
  - Driven by rise in measured *between-firm* productivity dispersion
  - Little role for *within-firm* inequality
  - Suggesting a role for technology?

# Decomposing Wage Inequality

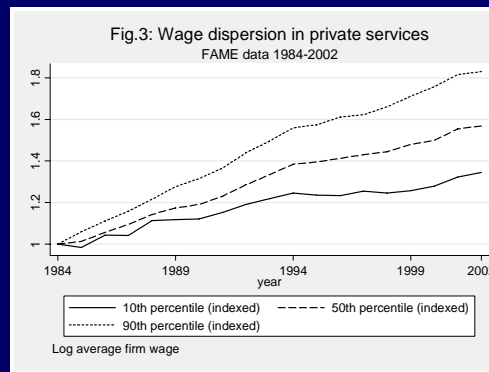
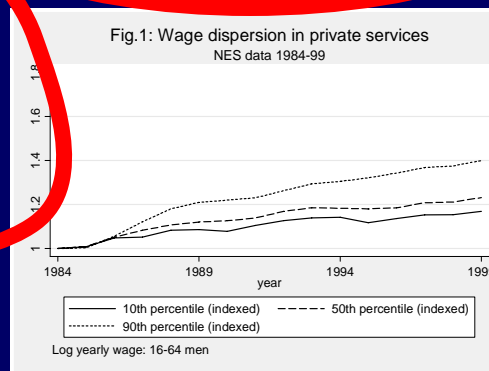
$$\begin{aligned} \text{Variance of wages} &= \sum_f \sum_i^{\text{firm worker}} \left[ (w_{fi} - \hat{w}_f) + (\hat{w}_f - \bar{w}) \right]^2 \\ &= \sum_f \sum_i^{\text{firm worker}} (w_{i,f} - \hat{w}_f)^2 + \sum_f \sum_i^{\text{firm worker}} (\hat{w}_f - \bar{w})^2 \end{aligned}$$

We observe this in Individual-level wage data

Infer:

Inequality within firms is not rising.

NOT: CEO pay, de-unionization, minimum wages, changing norms



We observe this in Firm-level data (Variance of average firm wages)

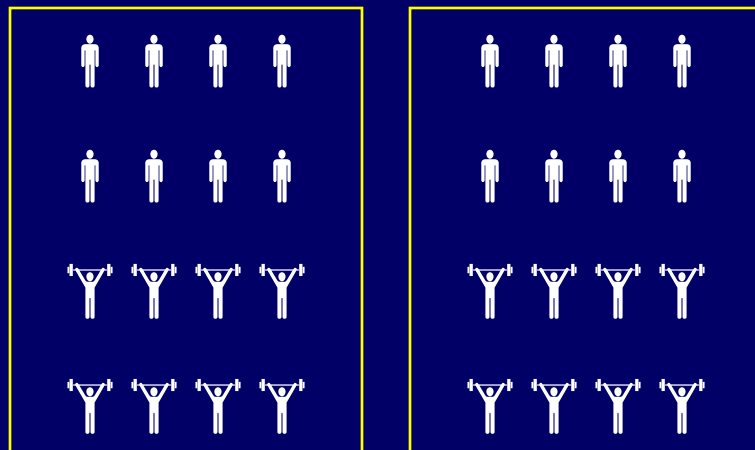
# Rising Between-Firm Wage Inequality

Why is there a measured increase in the dispersion *across firms* in average *wages per worker*?

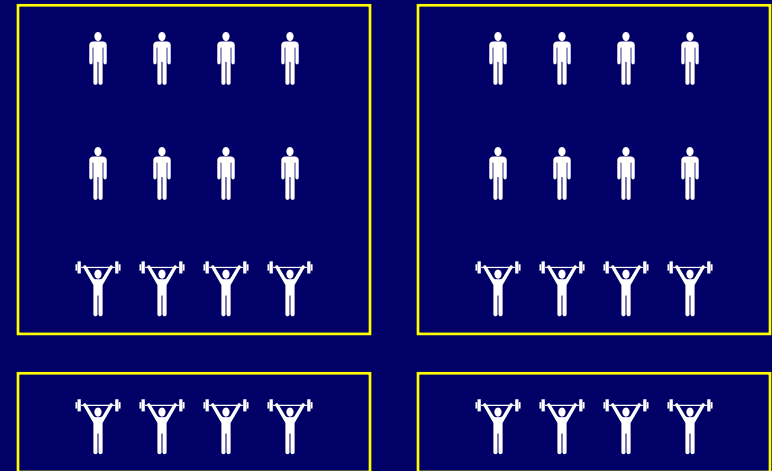
- Van Reenen: Differential adoption of a new technology across firms
    - Implies dispersion in “true” productivity and wages between firms rises
    - Dispersion in *measured* productivity and *wages per worker* rises
  - My alternative: Differential adoption of part-time work across firms
    - Implies dispersion in “true” productivity and wages unchanged
    - Dispersion in *measured* wages and *productivity per worker* rises
  - ⇒ Are we witnessing rising dispersion in
    - ⇒ average wages across firms
      - ⇒ Van Reenen: infer rising overall inequality reflects between-firm inequality
    - ⇒ OR: average hours across firms
      - ⇒ Infer that rising overall inequality reflects within-firm inequality
- Existing data cannot resolve this

# Rising Reorganization of Firm Activities

## ◆ Before



## ◆ After



◆ Very little between-firm dispersion in wages and productivity

◆ Substantial between-firm dispersion in wages and productivity

⇒ Data cannot tell us whether we are witnessing rising dispersion in

⇒ average wages across firms

⇒ Van Reenen: infer rising overall inequality reflects between-firm inequality

⇒ OR: increasing specialization of the same economic activity across firms

⇒ Infer that rising overall inequality reflects within-activity inequality

# Conclusion

◆ Important (and uncontested) fact:  
Wage inequality has risen in the UK

◆ New facts:

- Dispersion in *measured wage* between firms has risen
- Dispersion in *measured productivity* between firms has risen

[Measurements are per worker, across firms]

◆ Van Reenen's inference:

Inequality within firms roughly unchanged

- Suggesting an important role for a technological revolution

◆ But the rising dispersion in measured wages and productivity between firms may reflect other factors (reorganization of work)

- And hence inequality within firms may still have risen
  - » Consistent with firm-level case studies, rising CEO pay, declining influence of minimum wages and unions on within-firm wage structure

