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Turbulent Firms, Turbulent Wages?

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Abstract

Has greater turbulence among firms fueled rising wage instability in the U.S.? Gottschalk and Moffitt [1994] find that rising earnings instability was responsible for one third to one half of the rise in wage inequality during the 1980s. These growing transitory fluctuations remain largely unexplained. To help fill this gap, this paper further documents the recent rise in transitory fluctuations in compensation and investigates its linkage to the concurrent rise in volatility of firm performance documented by Comin and Mulani [2006]. We find strong support for the hypothesis that rising high-frequency turbulence in the sales of large publicly-traded U.S. firms over the past three decades has raised their workers' high-frequency wage volatility. The evidence comes from two data sets: the Panel Study of Income Dynamics (detailed longitudinal information on workers), and COMPUSTAT (detailed firm information, plus average wage and employment levels). Through controls and instrumental variable probes, we rule out straightforward compositional churning as an explanation for the link between firm sales and wage volatility. We also observe that the relationship between sales and wage volatility at the firm level is stronger since 1980, is present only in large companies and is stronger in services than in manufacturing companies.

Keywords: Wages; Production; Business Earnings; Fluctuation; Performance; Volatility; Relationships; Sales; Business Ventures; United States;

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