Economic Shocks and Worker Inequality: Evidence from the Great Recession

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This Paper

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- What is the impact of aggregate economic shocks on *employment inequality*?

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Idea

- Recessions are periods in which many firms/establishments exit
- Some worker types are more concentrated in firms more likely to exit during recessions
- These workers will be more affected by economic downturns
- Use cross county/industry heterogeneity to split decline into *between* and *within* components

Industry Heterogeneity: Employment

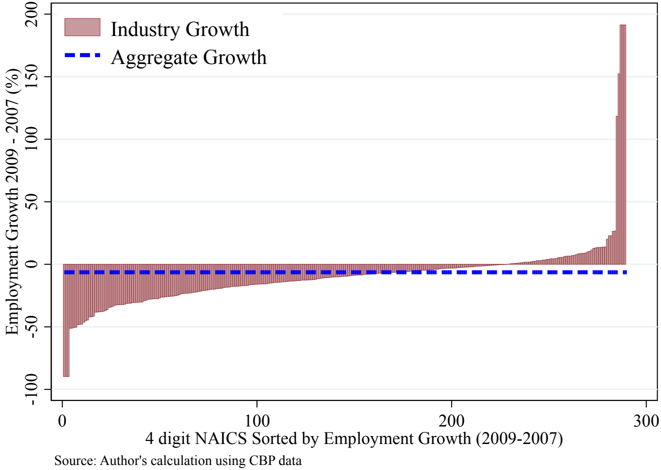


Figure 1: Large heterogeneity of employment growth during the Great Recession

Industry Heterogeneity: Establishments

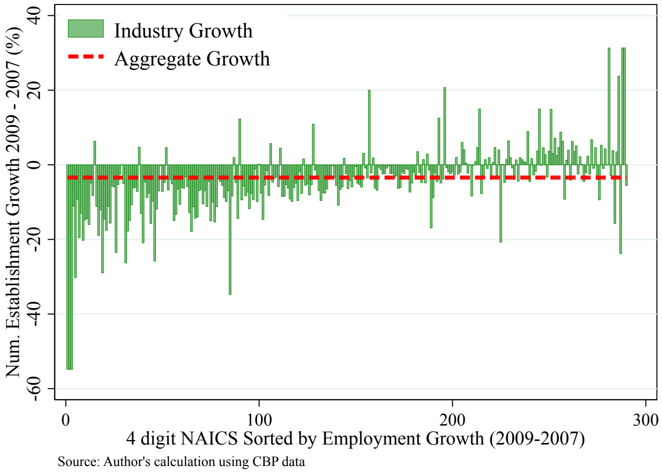


Figure 2: Strongly correlated to decline in number of establishments

Industry Heterogeneity: Employment

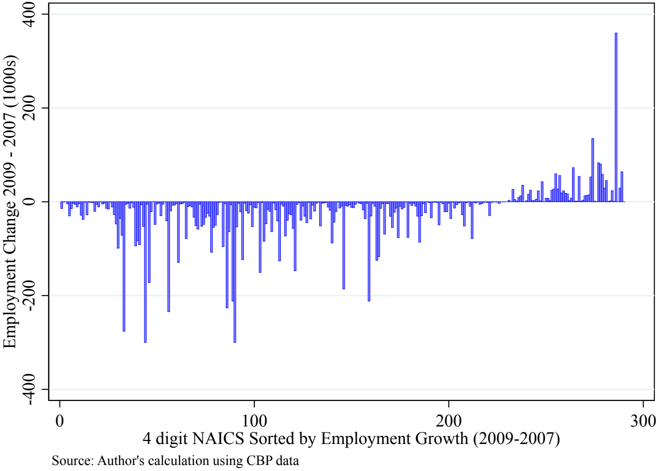
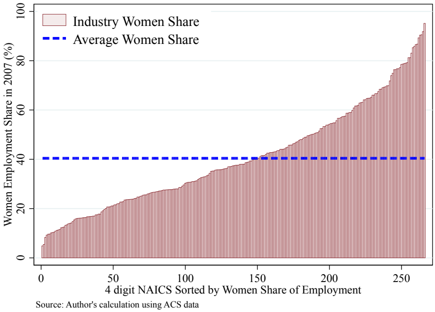


Figure 3: Heterogeneity not driven by small sectors

Industry Heterogeneity: Women and College Share



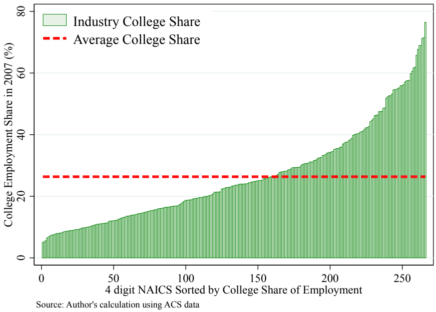


Figure 4: Industries Differ in the Employment Composition

Questions/Comments

Why focus on exit?

- Great Recession: Large decline in the formation of new businesses
- Decline in firm entry was larger than increase in exit
- Heterogeneous impact: Young firms hire a disproportional share of young workers

Entry and Exit of Firms in Great Recession

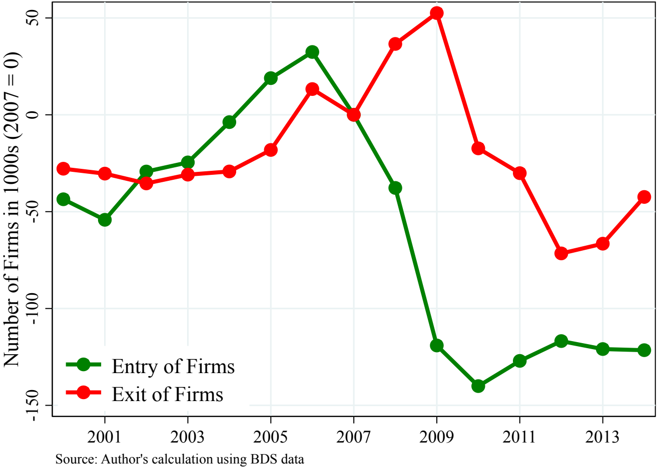


Figure 5: Decline in Entry Was Larger than Increase in Exit

Entry and Exit Rates of Firms in Great Recession

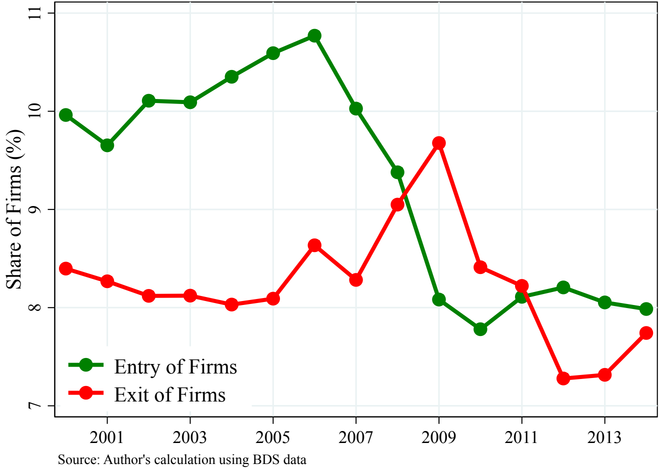


Figure 6: Similar when looking at Entry and Exit Rates

New Firms Employment

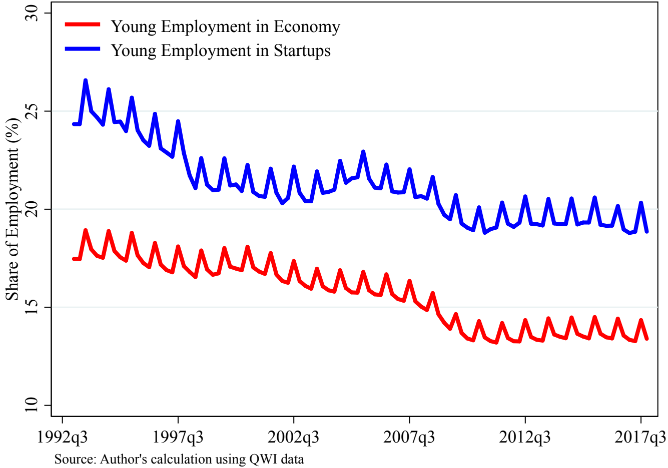


Figure 7: Young Firms Hire a Disproportionate Share of Young Workers

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Why focusing on employment inequality?

- Can methodology be applied to other firm-level outcomes? Income inequality
- Useful to understand gender gap, college premium, and aggregate vs. cross-sectional elasticities

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Re write equation (7) in paper

$$\Delta W_j^\tau = \alpha_i^\tau + \beta_i^\tau D_j + \epsilon_{ij}^\tau,$$

- ΔW_j^τ is the mean real wage of group τ in industry j and D_j is the death of establishment
- Then we can do $\hat{\omega}|_D = \frac{\hat{W}_j^\tau}{W_j^\tau}$ as in equation (9)

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Apply to gender differences

- Use data from QWI for wages of women and men at the 2-digit NAICS
- Establishment deaths come from CBP
- $\hat{\omega}^{Men} - \hat{\omega}^{Women} = -2.4\%$: wage of men drop an additional 2.4% because of establishment exit

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- Great to see other applications
  - Decline of startup rate (Should we care about the decline in firm formation?)
  - Income inequality (How much do firms contribute to income inequality)
  - Other recessions (Was the Great Recession special?)