

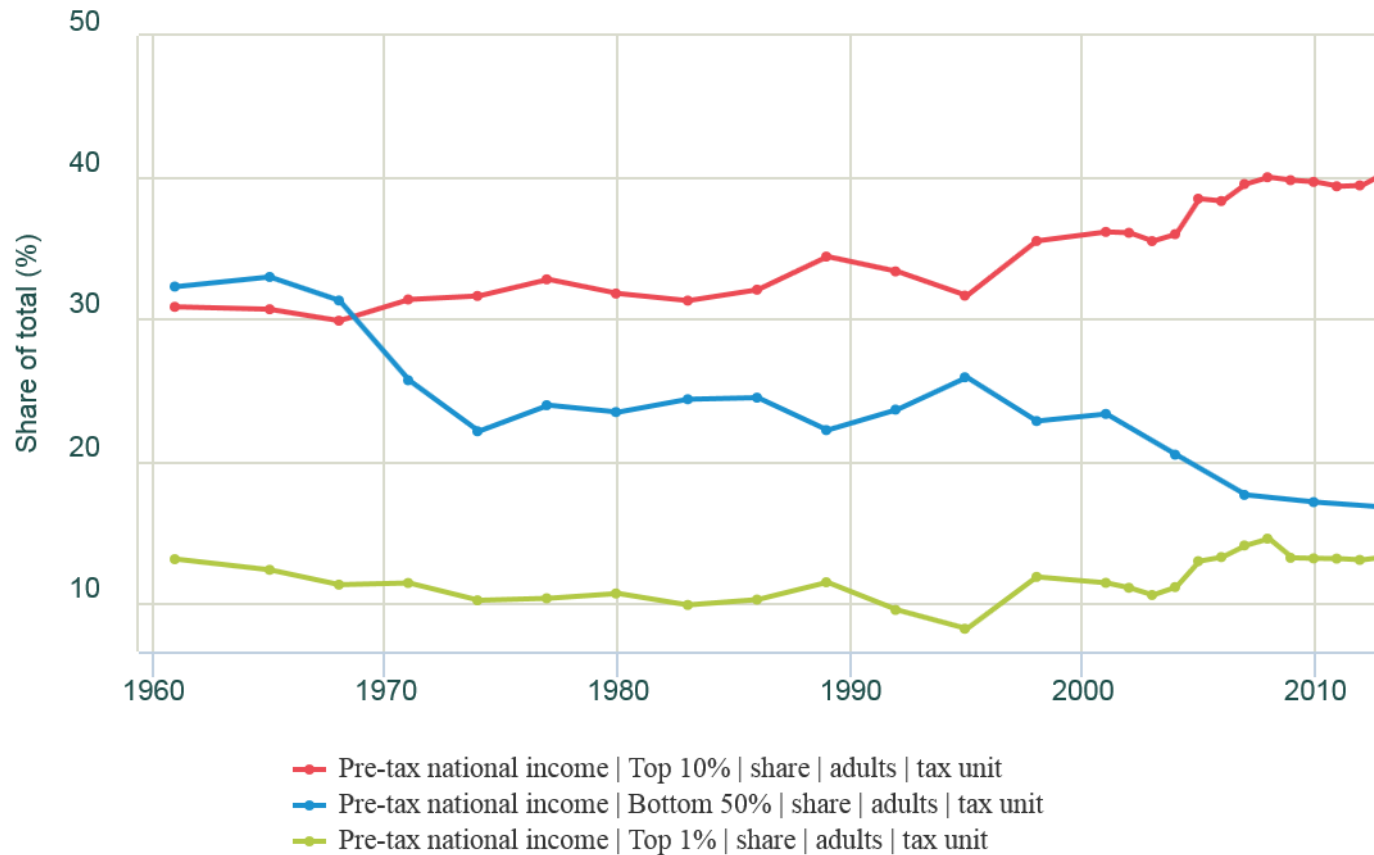
The effects of credit supply on wage inequality between and within firms

Discussion:

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World Inequality Database

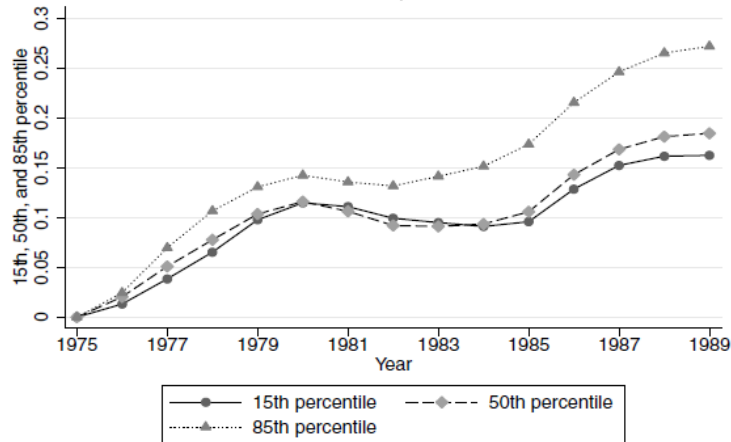
Income inequality, Germany, 1959-2013



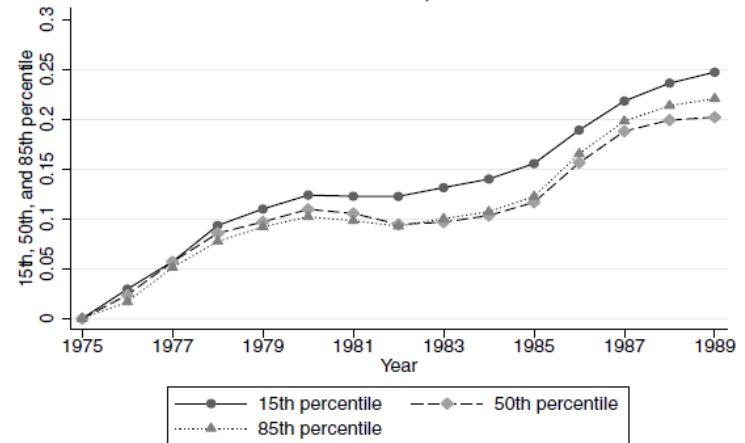
Graph provided by www.wid.world

Dustmann *et al.* QJE 2009

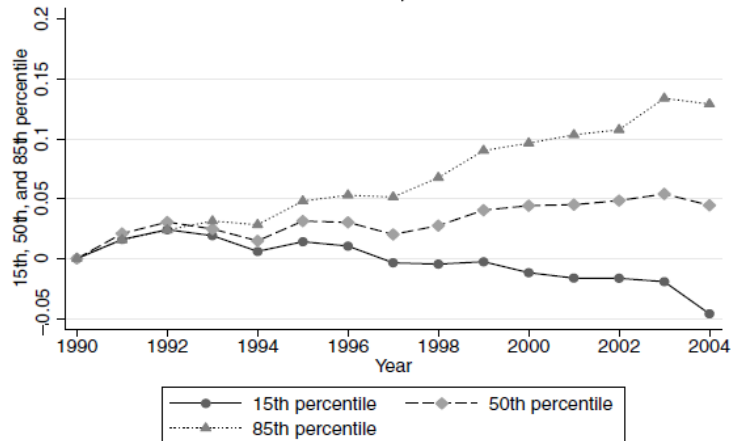
Panel A: Men, 1975–1989



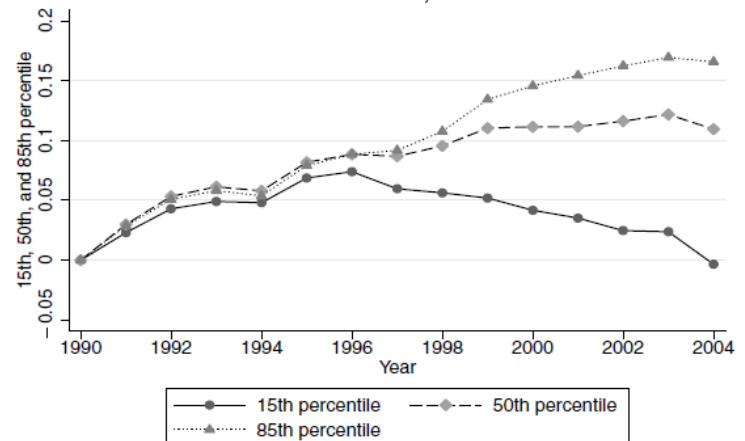
Panel B: Women, 1975–1989



Panel C: Men, 1990–2004



Panel D: Women, 1990–2004



Big picture and motivation

- After all, wages are paid by firms...
- Firm-level wage inequality can help better understand aggregate trends (Acemoglu and Autor 2011; Atkinson *et al.* 2011)
- Authors pose a great question: How does credit supply affect wage inequality between/within firms?

My comments revolve around two questions

1. How does credit supply exactly show up on sample firms' wage inequality?
 - Comment on post-crisis labor market reforms
 - Comment on within-firm wage inequality results
 - Comment on the sample firms
2. Are negative monetary policy rates beneficial overall?

Post-crisis labor market reforms

- Like many countries in Continental Europe, Germany undertook significant labor market reforms in the aftermath of the crisis
- One of the largest reforms was the introduction of a federally mandated minimum wage law ('Gesetz zur Regelung eines allgemeinen Mindestlohns')
 - See the 2015 ILO report 'Labour Market Measures in Germany 2008–13: The Crisis and Beyond'
- Timing and economic consequence of the law:
 - Introduced in July 2014, while the implementation of a negative monetary policy rate in the euro area started in June 2014
 - 3.7 million workers were beneficiaries by April 2015 according to the Ministry for Labor and Social Affairs

Post-crisis labor market reforms: Implications for between-firm wage inequality results

- The observed decline in between-firm wage inequality is explained by changes in firm pay policies (not worker mobility)
- Potential confounding events (i.e. the law but also other changes in the labor market) may affect the conclusion of the between-firm results
- To what extent is the inclusion of μ_{jt} , capturing firm-level changes, sufficient?

$$y_{ijt} = \beta_1 \text{Deposit ratio}_j \times \text{After}(2014)_t \times \text{Bottom}20\%_i + \dots + \mu_{jt} + \theta_i + \varepsilon_{ijt}$$

- Isolating both reforms might thus be difficult as the treated group is likely to react very similarly to this labor market reform than to the negative interest rate policy because treated firms are riskier and are likely to have on average more low-paid employees (cf. also 'decomposition 2', p.22)

Post-crisis labor market reforms: Suggestions

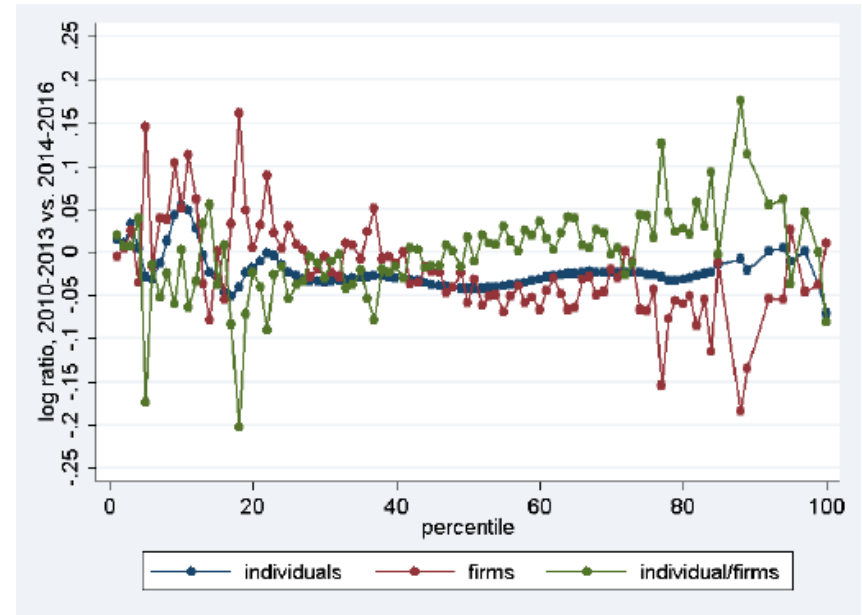
- Perform some sub-sample analyses:
 - Keeping constant some key characteristics of firms in terms of labor market conditions (sector, etc.)
- Add discussions (and tests) that relate to the changing German labor market conditions between the period 2010-2016

Within-firm wage inequality results

- Within-firm wage inequality at treated firms increases, which is driven by:
 1. disproportionate rise in compensation for executives
 2. distribution of wages of newly hired employees
- Within-firm effect is overall statistically significantly weak
- Does credit supply really affect within-firm wage inequality?
 - Perhaps not (at least in large firms)
 - It remains quite unclear why does credit supply only impact within-firm inequality at privately-held firms?

Within-firm wage inequality results (cont'd)

- Mueller, Ouimet and Simintzi (AER P&P 2017): size matters to explain within-firm wage inequality; large (public) firms are less likely to be credit constrained
- Is there a role of co-determination and other sectoral collective agreements, in contrast to Mueller, Ouimet and Simintzi (RFS 2017) for the UK?
- Include time-varying control variables (size, age, unionization rate)
- Examine $\ln(p80/p20)$, $\ln(p85/p15)$, etc.

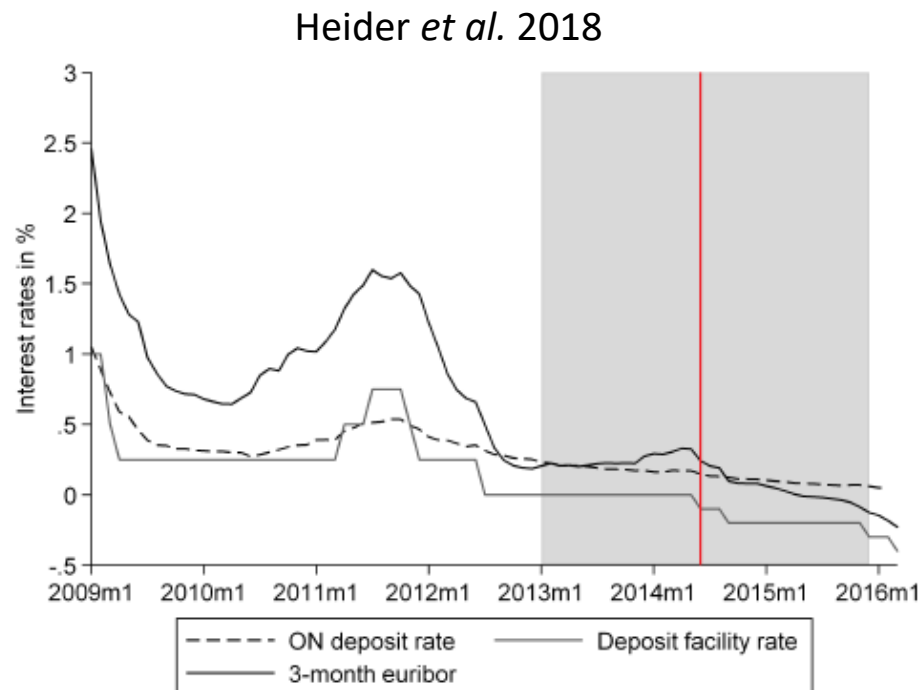


What are the sample firms?

- No statistics/information about the sample firms provided
- Difficult to appraise (1) the economic consequences of the documented results, but also (2) some sample selection choices; e.g.:
 1. More about cross-sectional variations:
 - Proportion of average high- versus low-deposit lead arrangers of syndicated loans?
 - Proportion of treated and untreated firms across sector? Recent evolution in wage-setting mechanisms explain the existence of large wage differentials across sectors (see 2015 ILO report)
 2. What is the reason of considering other syndicate members when examining lending volume? The focus (and the transmission mechanism) is on lending relationship with lead arrangers

What is the takeaway?

- Supporting private lending to firms in times of economy-wide stress is an objective of monetary policy
- Negative interest rates are not expansionary
- Brunnermeier and Koby 2017 on 'reversal interest rate'
- Contrasting results on between- and within-firm wage inequality



Conclusion

- Great question, nice setting: important paper
- Better motivate/position the paper
- Strengthen explanation of the mechanism and interpretation of within-firm results
- Emphasize welfare implications
- Some rough ends to polish
- Good luck with the paper!