

Inequality: New Explanations, New Challenges

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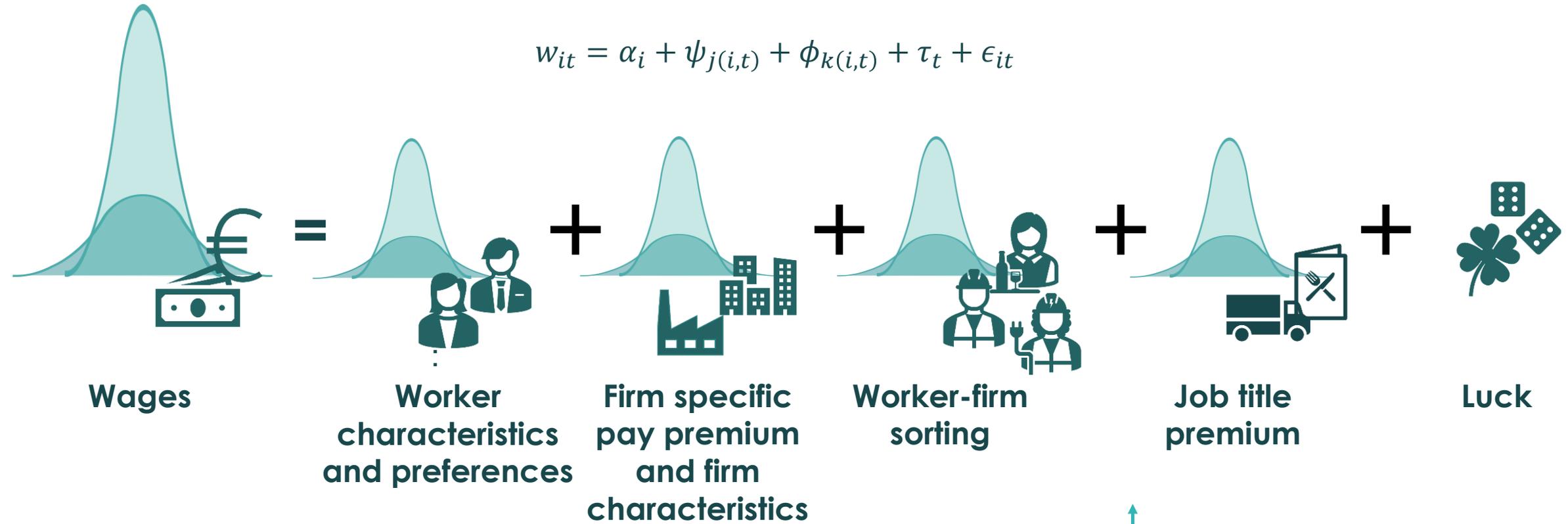
Wage inequality in Portugal (1986-2019)



Source: Authors calculations using Quadros de Pessoa.

Contribution of worker vs firms: AKM regression

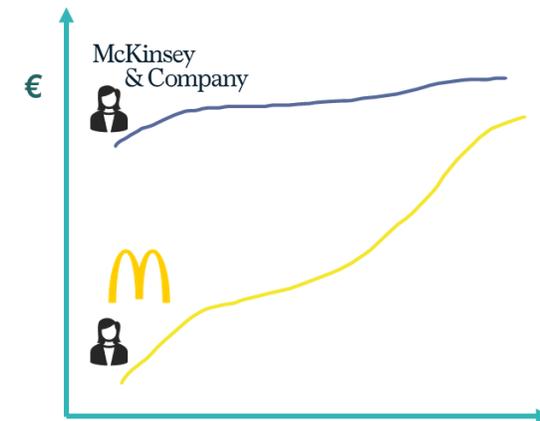
$$w_{it} = \alpha_i + \psi_{j(i,t)} + \phi_{k(i,t)} + \tau_t + \epsilon_{it}$$



AKM model (worker i , at firm j , occupation k , time t)

Data: Rich combination of administrative employer-employee job title administrative data linked with firms' financial information and survey data of technology/big data adoption

Workers' contribution to the decline inequality: ~20%.



Why?

Mechanisms

➤ **Convergence of firm characteristics**

- E.g. Increasing presence of small firms (compared to large firms)

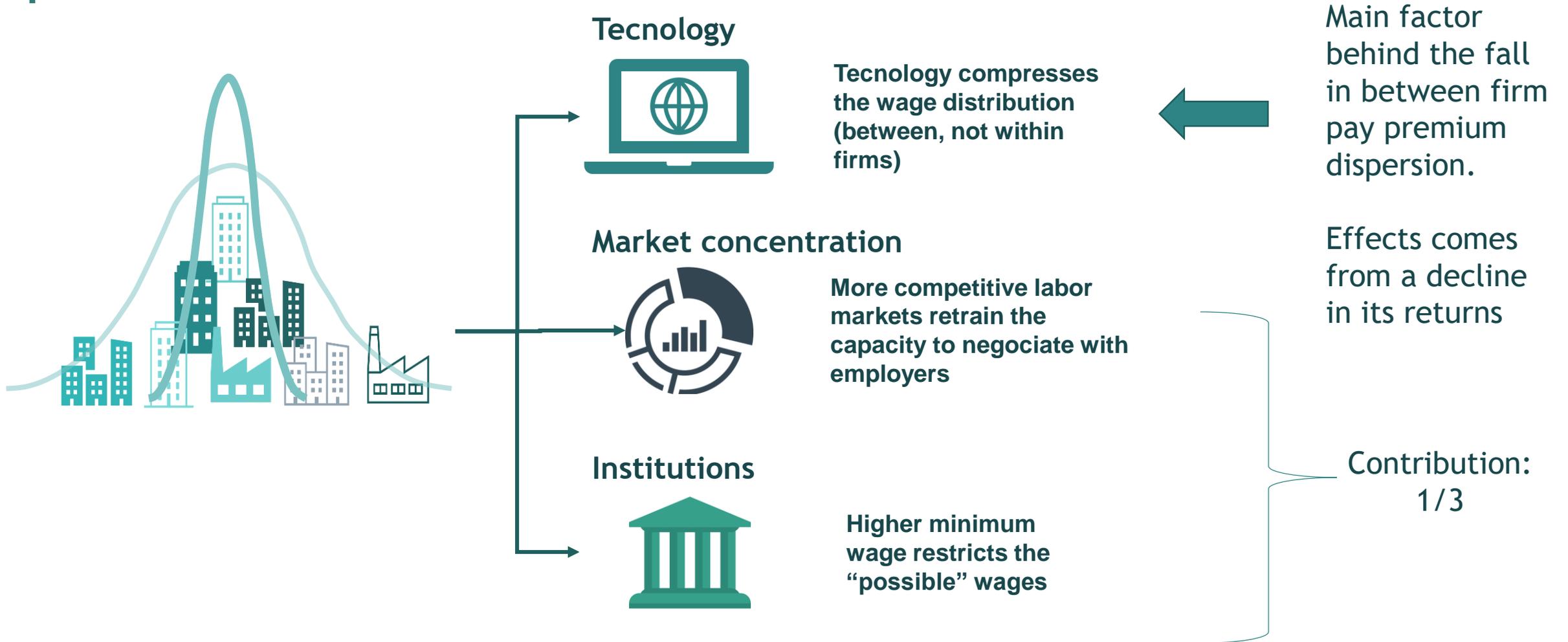
20%

➤ **Change in the returns to firm characteristics** (the extent to which a given characteristic translates into wage premium)

- Firms may continue to be similar, but the extent to which working in a large firm translated into a higher wage may change

80%

What explains the reduction in the dispersion of firm pay premium?



Policy implications

Worker

- ✓ Investments in **high quality education**;
- ✓ Policies that increase **mobility** and **access to services**;
- ✓ Reforms to **wage-setting institutions**.

Firms

- ✓ Policies that propel idiosyncratic **technology adoption** for technologically laggard firms
- ✓ **Competition policies** that limit the product market concentration
- ✓ On the job **training**