Firm Performance and the Volatility of Worker Earnings

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Abstract: The notion that firms provide wage insurance to risk-averse workers goes back to 4Baily (1974). Recently, Guiso et al. (2005) use Italian data and find evidence of full wage insurance in the case of temporary shocks to firm output, although only partial insurance for permanent shocks. Using linked employer-employee data for the U.S. retail trade sector, we examine whether shocks to firm sales are transmitted to worker earnings. We examine both short-term (one-year) and long-term (five-year) changes. We also examine whether this relationship differs by gender or across workers in different parts of the earnings distribution. We find no impact for short-term changes, but small positive elasticities for longer-term changes.

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All results have been reviewed to ensure that no confidential information is disclosed.