

Discussion of “Do Cash Windfalls Affect Wages?”

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You will change jobs ten times, move cities eight times, meet people along the way and generally not take notes. **That's okay. We'll keep track!**

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Consistent with many of paper's results:

Exogenous increase in financial resources lead to:

- 9% increase in payroll
 - Begins in subsequent quarter, persists 5+ years
 - Accrue only to incumbent employees
 - Increases with worker's tenure (controlling for wage)
- Increases within-firm wage inequality
- Increases hiring but not retention

Paper's interpretation

- Financially constrained firms use backloaded wage contracts to “delay employee compensation until there is more ability to pay” (p.1)
- “Firm paying back the worker after a windfall” (p.5)

Questions

- How often is there an explicit contract?
- Is this ‘borrowing from workers’ or ‘profit sharing’?

Alternative channels

Productivity growth

Agency frictions

Bargaining power

Match quality

Incentive contracting

Efficiency wages

Dividends through wages

Alternative channels

Productivity growth

“In sum, it is important to emphasize that there is a rich array of reasons we might observe wage increases after a grant, many of which we cannot rule out. In practice it is likely that multiple forces are at play. That said, there appears to be at least a significant role for backloaded wage contracts due to financial constraints, as no other mechanism has such strong support from the data.” (p.38)

Dividends through wages

Survey evidence

“Have you ever paid employees less than you would optimally want to pay them because you were cash-constrained, and then been able to pay them more once you were doing well? That is, do employees sometimes accept lower pay initially so that the firm can grow faster, with the expectation that cash windfalls may be shared fairly with them in the future?”

You can simply reply "Yes" or "No" to this email, but if you have time it would be terrific if you can provide a bit of color or explanation as well.”

Contribution to the literature

- Kline et al. (QJE 2019): Patent grants
 - Increase pay and retention for incumbent workers
 - Boost hiring of new workers (but not their pay)
 - Interpretation: Bargaining (hard to replace senior workers capture economic rents)
- Guiso, Pistaferri, and Schivardi (REStud 2013): Less developed local credit markets in Italy
 - Lower entry wages
 - Steeper wage-tenure profile
 - Magnitude: Borrowing from workers = 30% of bank lending