U.S. Earnings Inequality and the Disappearing Large Firm Wage Premium

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Large firms have paid a significantly higher wage for more than a century, but over the last thirty years this large firm premium has started to disappear. We show about half of this is due to changes in industry composition - firms in the shrinking manufacturing sector pay an earnings premium while those in the growing services sector do not. The other half is because large firms have stopped paying a salary premium in the Abowd et al. (1999) sense, particularly for lower paid and lower skilled workers. Thus, one reason for increasing overall inequality may be the disappearance of well-paid jobs for lower skilled workers in large firms.