The Great Micro Moderation
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Summary

• Extends and complements Sabelhaus and Song (2010)
• In SS data, dispersion in earnings growth declines from 1979 to 2012, not due to changes in composition (true for women, men, young, old)
• Connects decline in dispersion to decline in dispersion of firm employment growth
  ▶ Firms hire/fire less, individuals switch less, and even when they stay with same firm their earnings are less volatile
Provoking message!

• Traditional/anectodical view is (was?): over the past 30 years US workplace has become more volatile
• Lifetime stable manufacturing jobs are gone, and now we move from one gig to the other
• View uniformly validated by evidence from survey data (PSID,CPS,CE)
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- Traditional/anectodical view is (was?): over the past 30 years US workplace has become more volatile
- Lifetime stable manufacturing jobs are gone, and now we move from one gig to the other
- View uniformly validated by evidence from survey data (PSID,CPS,CE)
- Paper suggests view was wrong in the first place, and mistake has persisted because we’ve been looking at the wrong data
- US workers live in a less volatile (but more unequal) workplace
Divergence in measured dispersion:
s.d. of earnings 1yr growth rate, all persons 25-64
Outline

- Is the fall in dispersion also in other administrative data?
- Why do survey data tell a different story?
- Why it matters?
Indeed, for most specifications of an income process, volatility and the variance of transitory income changes tend to move closely together, although in many cases volatility also captures part of the variance of persistent income changes. See Shin and Solon (2011) for a detailed discussion.

For 1-year changes the estimated coefficient is 0.00037, with a standard error of 0.00050. This coefficient would imply an increase of less than 0.01 in the standard deviation over 23 years. For 2-year changes the coefficient is 0.00046, with a standard error of 0.00058.

Following Shin and Solon (2011), we refer to this measure as the "volatility" of earnings. This measure is closely related, although not equivalent, to the variance of the transitory component of income that we will discuss in the following sections.

Figure 2 plots over the sample period the standard deviations of both 1-year and 2-year percentage changes in residual male earnings. The figure shows no clear increasing or decreasing trend in either series. Although volatility increased in the last 3 years of our sample, there is no indication that this represents the beginning of a rising trend. In fact, regressing each of the two volatility series shown on a constant and a linear time trend yields an estimated coefficient on the latter that is essentially zero. There is thus no evidence in our data of a trend in male earnings volatility for our sample period.

Source: Authors’ calculations using SOI data.

- Use tax returns and find flat dispersion for men
Poor’s man administrative data

- SIPP Gold Standard file
- Gives detailed full SS earning records (1978-2014) for all persons in SIPP
- Have both survey and administrative data for the same households
- Publicly available
- Smaller but decent sample size (100k)
P90P10 in 1 year earnings changes

- Flat or increasing dispersion for men
- Decline solely driven by women
Figure 4: Standard deviation of the age-adjusted change in earnings

(a) SIPP data

(b) DER data


- Dispersion in administrative data constant after 1990
- Dispersion in survey increasing
Summary

- Other administrative sources show constant (as opposed to declining)
- Still a gap between administrative and survey data
Explaining the gap

- For women volatility fell as they changed from marginally attached to full time
- Workers marginally attached to labor market display very disperse growth rate (think $\epsilon, w, \epsilon, ..$)
- Recent increase in marginally attached men likely to generate an increase in dispersion
- If earnings of marginally attached men not in administrative data (because they are earnings from informal jobs) but are in reported in surveys, that can explain part of the gap
Some suggestive evidence
Non Participation and Dispersion of Growth rates
Two alternative explanations

- The growing non participation in the surveys is “fake”, and induces the extra volatility
- The administrative data do not capture the non participation/participation switching and predicts falling/constant volatility
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- The growing non participation in the surveys is “fake”, and induces the extra volatility
- The administrative data do not capture the non participation/participation switching and predicts falling/constant volatility
- Suggests looking at non participation patterns in administrative data (right now these are just discarded)
- Two explanations have a very different welfare consequence
Final thoughts

- During recovery from Great Recession dispersion in growth rates in CPS (same in PSID) increases dramatically
- Is it all measurement error?
- The full distribution of log differences (right panel) shows increased dispersion is driven (in part) by increasing fraction of very high log differences
- Consistent with individuals re-entering labor markets
Conclusions

- Excellent paper
- Very thorough analysis on important and relevant issue
- Suggest admin data can changes radically our view on volatility trends in labor mkts
- Survey data still possibly very important for capturing patterns of marginally attached workers