

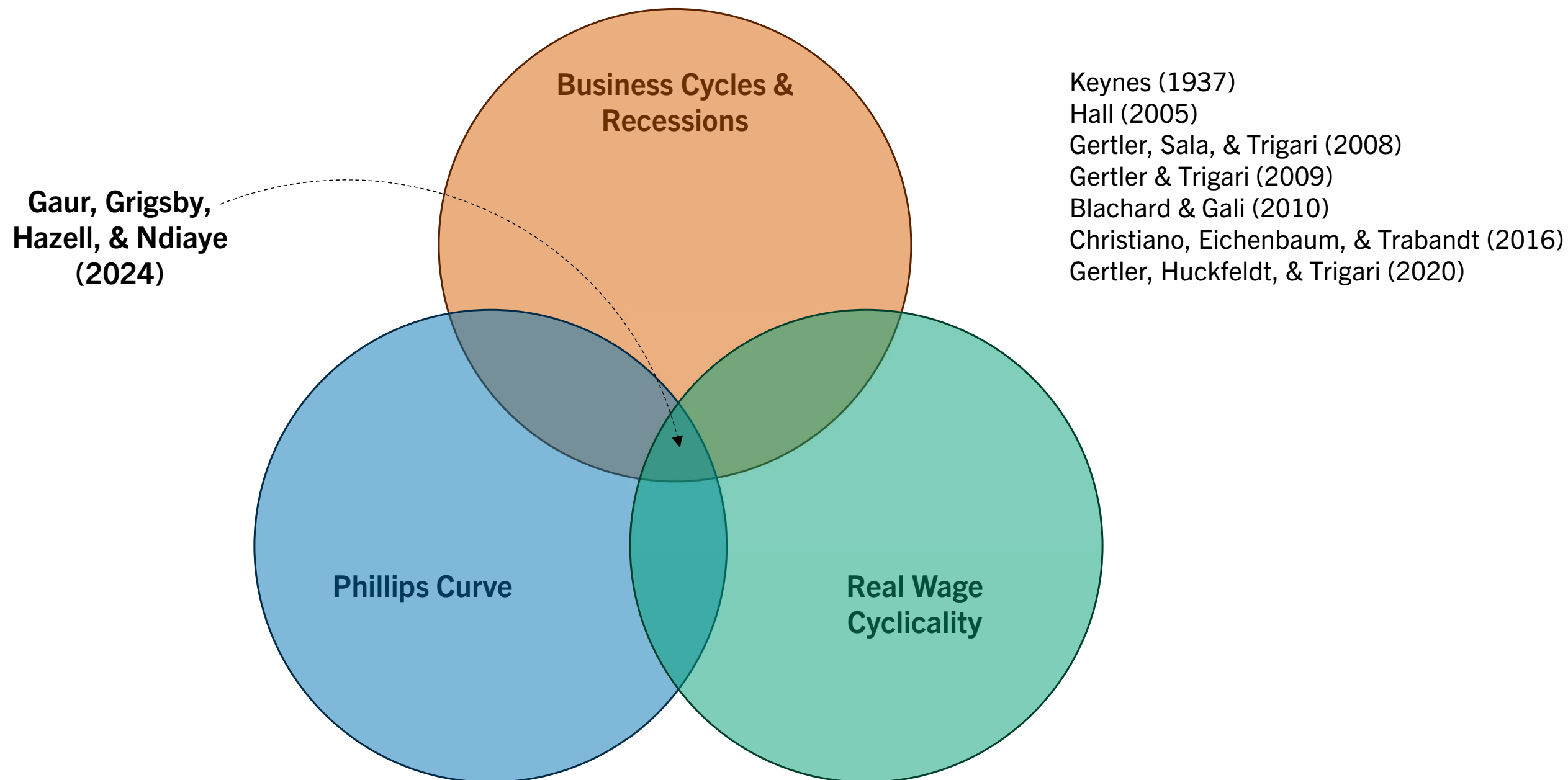
Discussion of “How Does Flexible Incentive Pay Affect Wage Rigidity?”

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This paper sits at the Venn intersection of several important literatures.



Why do we care?

- **35% of US workers received incentive pay in 2019 (Makridis & Gittleman 2020)**
 - **Down from 47% in 2004.**
- **We want to understand recessions better.**
- **We want to understand inflation better.**
- **We want to understand wage growth dynamics better.**

Choices that just make sense.

- **Static and dynamic exercises**
- **Diamond-Mortensen-Pissarides (DMP) search model**
- **Sticky-price Phillips Curve**
- **Tested with two incentive pay models:**
 - Flexible incentive pay of Holmstrom (1979)
 - Rigid wage model of Hall (2005)

Why do we care (Revisited)?

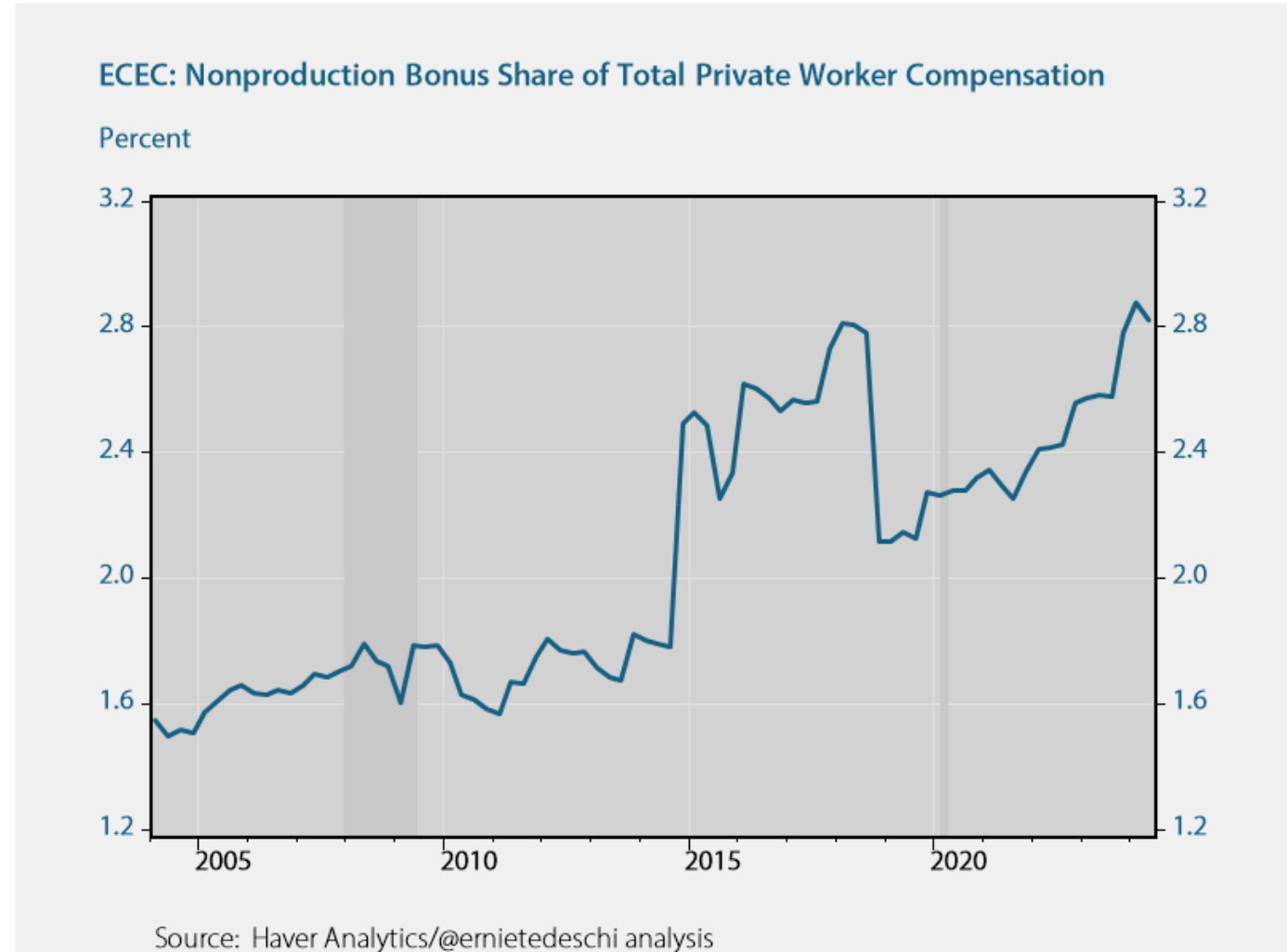
- 35% of US workers received incentive pay in 2019 (Makridis & Gittleman 2020)
 - Down from 47% in 2004.
- We want to understand recessions better.
 - Wage cyclicalities from incentive pay **does not** dampen the unemployment response to a business cycle shock. (Note: wages can still be pro-cyclical!)
- We want to understand inflation better.
 - Wage cyclicalities from incentive pay **does not** affect the slope of the price Phillips Curve.
- We want to understand wage growth dynamics better.
 - **45%** of wage cyclicalities is due to **incentives**, rest is **bargaining**.

Initial thoughts on applications for policymakers.

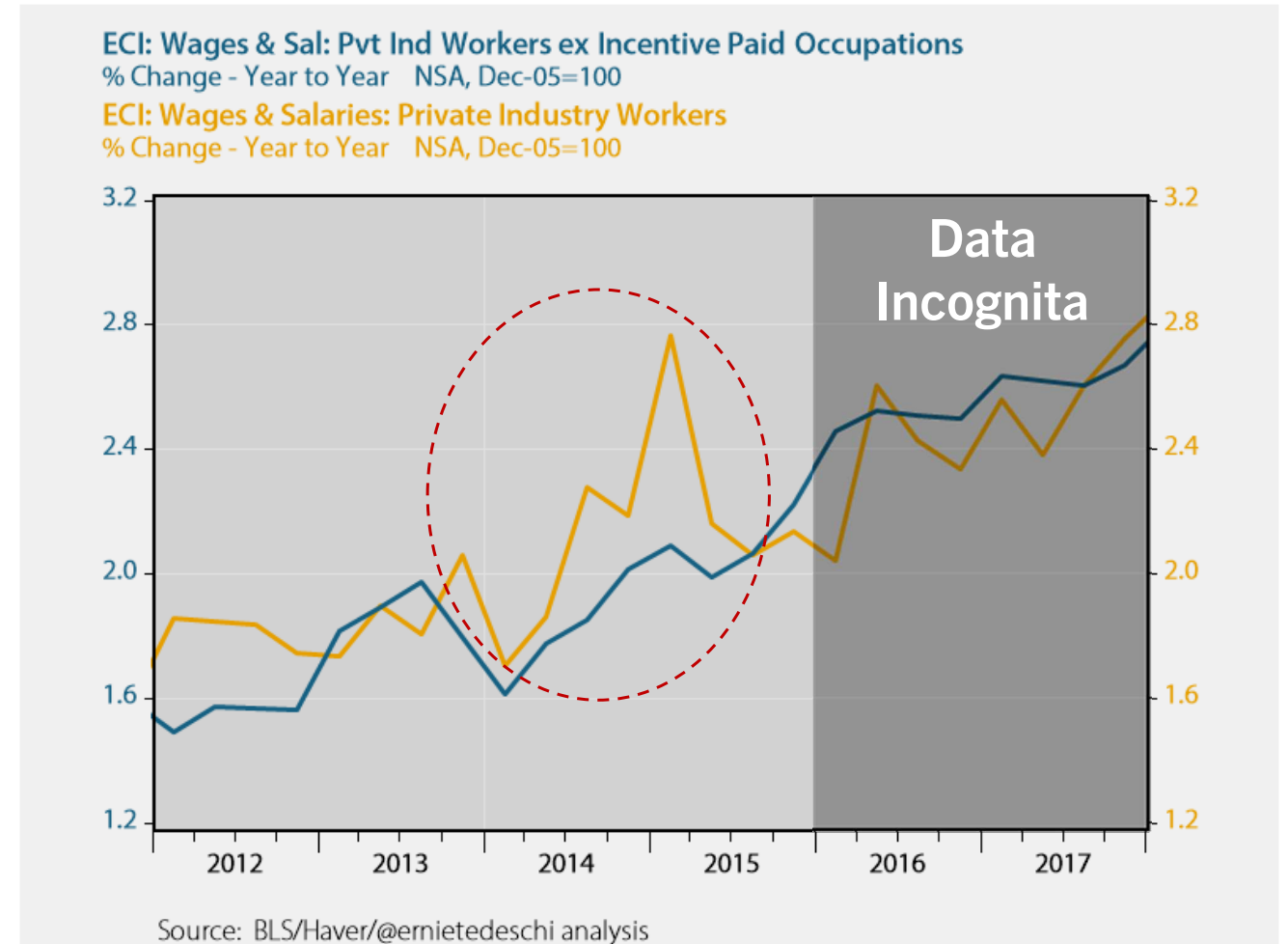
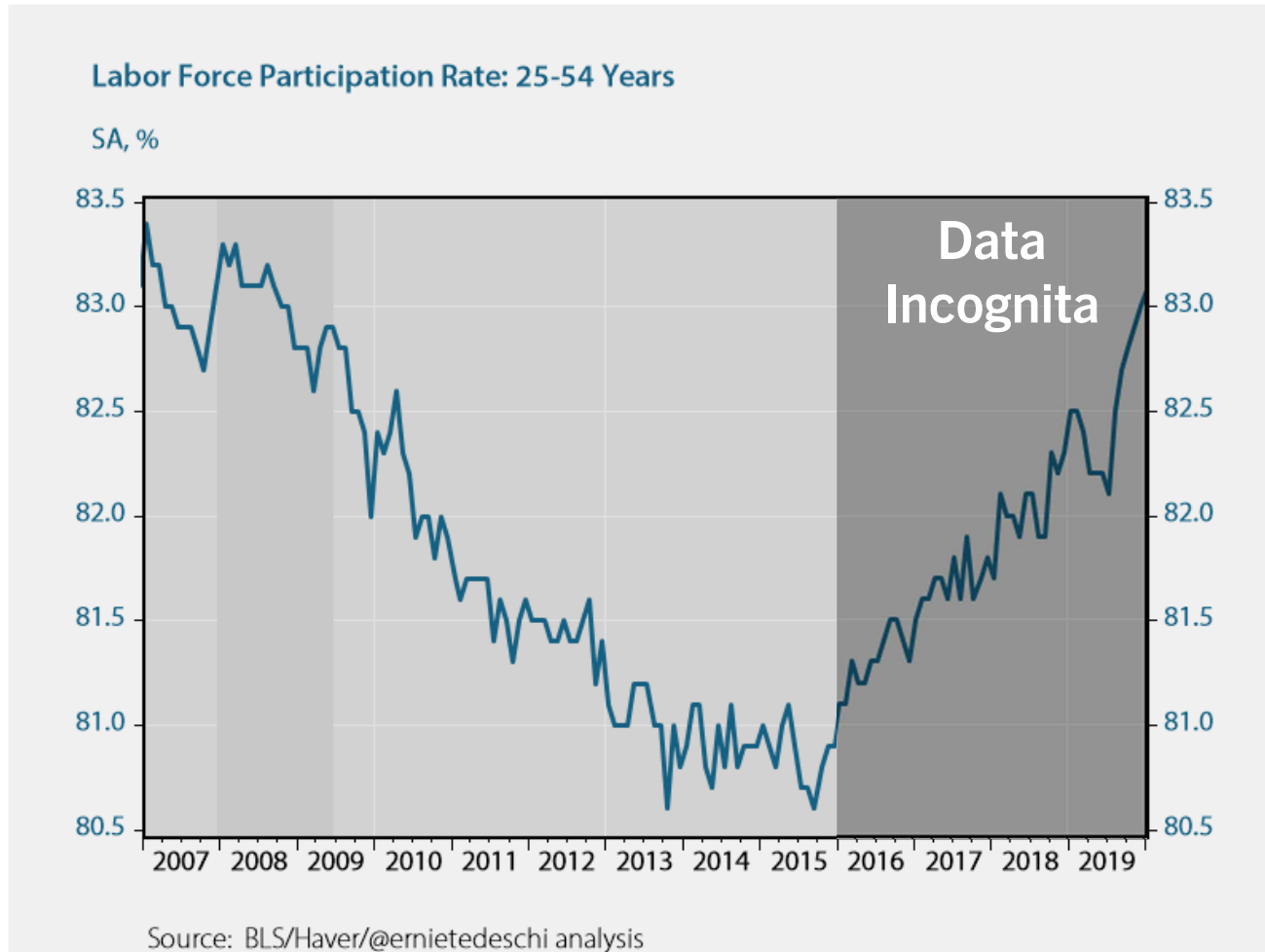
- **We need better data.**
 - Both for validation and future real-time monitoring.
- **Real-time monitoring case study: the 2014/15 surge in ECI**
- **The distributional cyclicalities of real wage growth in the pandemic**

Current incentive pay data is poor for real-time tracking.

- **National Compensation Survey**
 - Small sample (25,000 establishments)
 - Microdata only available to researchers
 - Produces average summary measures (ECI & ECEC, see right)
 - ECI produces a measure that excludes incentive-paid **occupations** (more next)
- **Current Population Survey**
 - Question only applies to hourly workers
 - Question combines tips, overtime, and commissions
- **PSID/NLSY/SIPP**
 - Not suitable for real-time analysis.
 - SIPP appears to underestimate
- **Potential for private payroll provider data.**



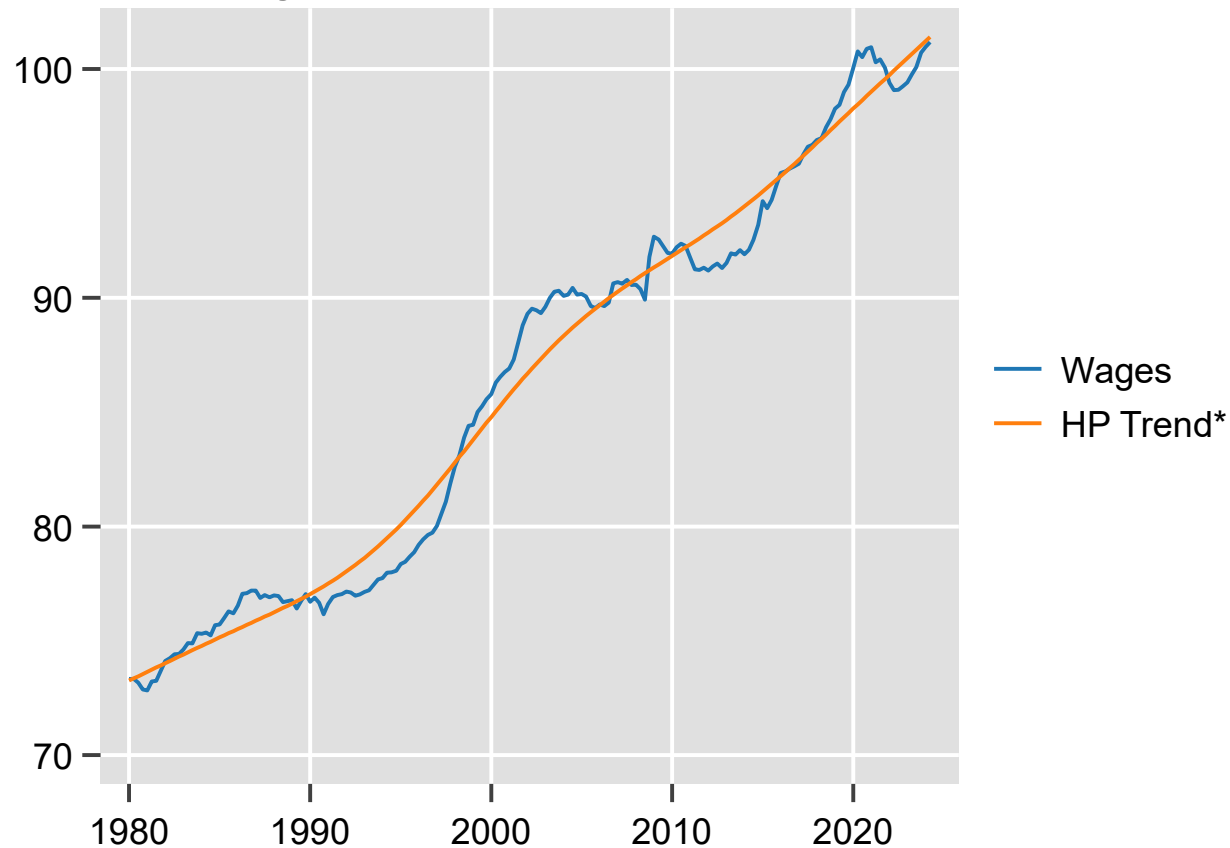
The 2014/2015 surge in ECI



We are still grappling with the implications of the pandemic on cyclicality.

Real Private ECI Wages & Salaries Since 1980

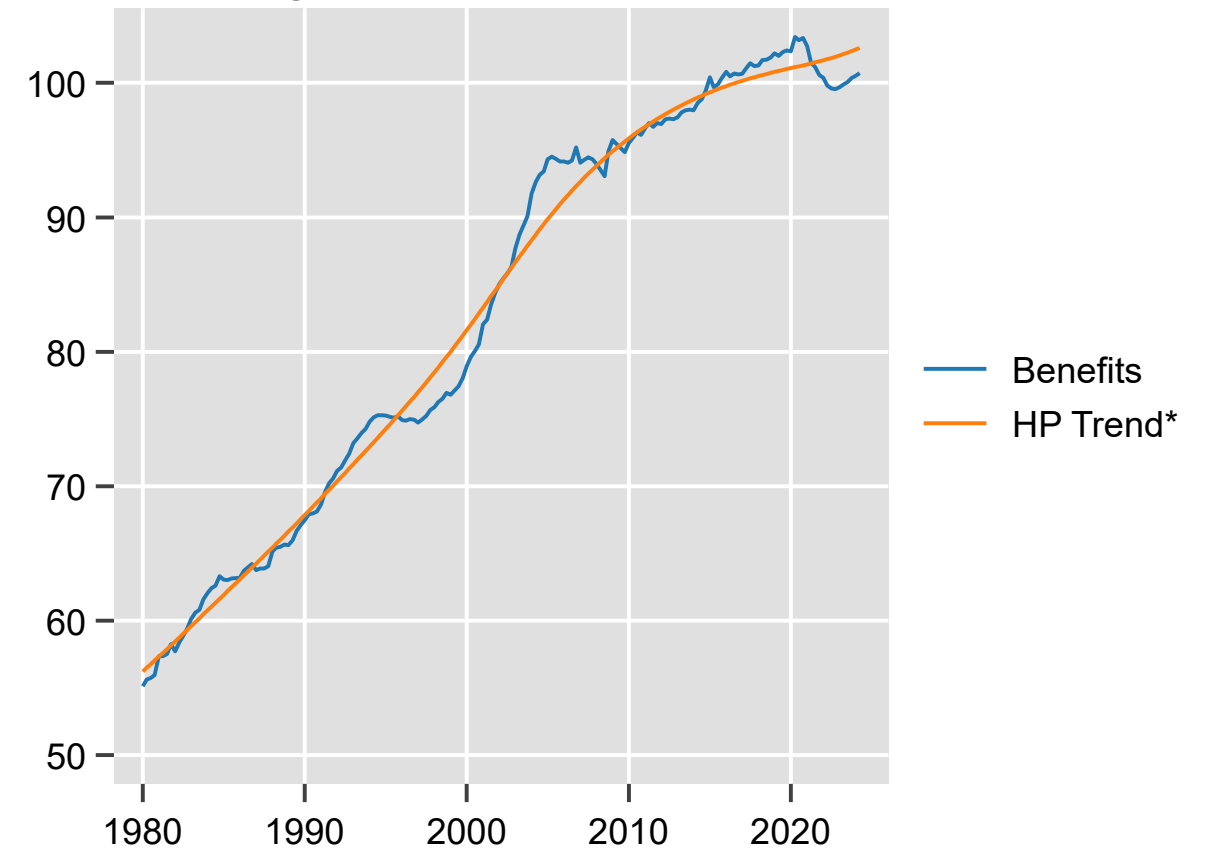
2023=100
PCE-adjusted



* Band pass of 25 years ($\lambda=64204$)
Series extended with an ARIMA(2,1,2) model.
Source:BLS, @ernietedeschi analysis.

Real Private ECI Benefits Since 1980

2023=100
PCE-adjusted

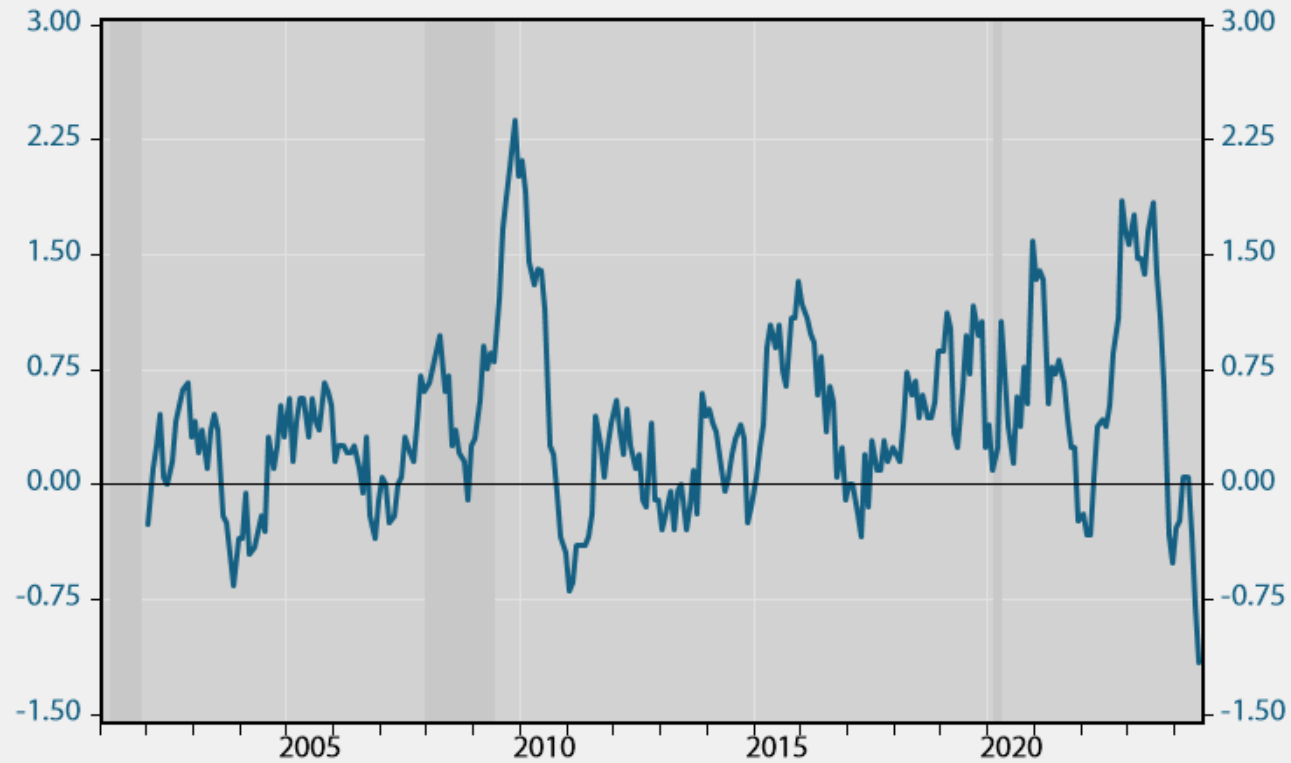


* Band pass of 25 years ($\lambda=64204$).
Series extended with an ARIMA(2,1,2) model.
Source:BLS, @ernietedeschi analysis.

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Upjohn Institute New Hires Quality Index: Wages

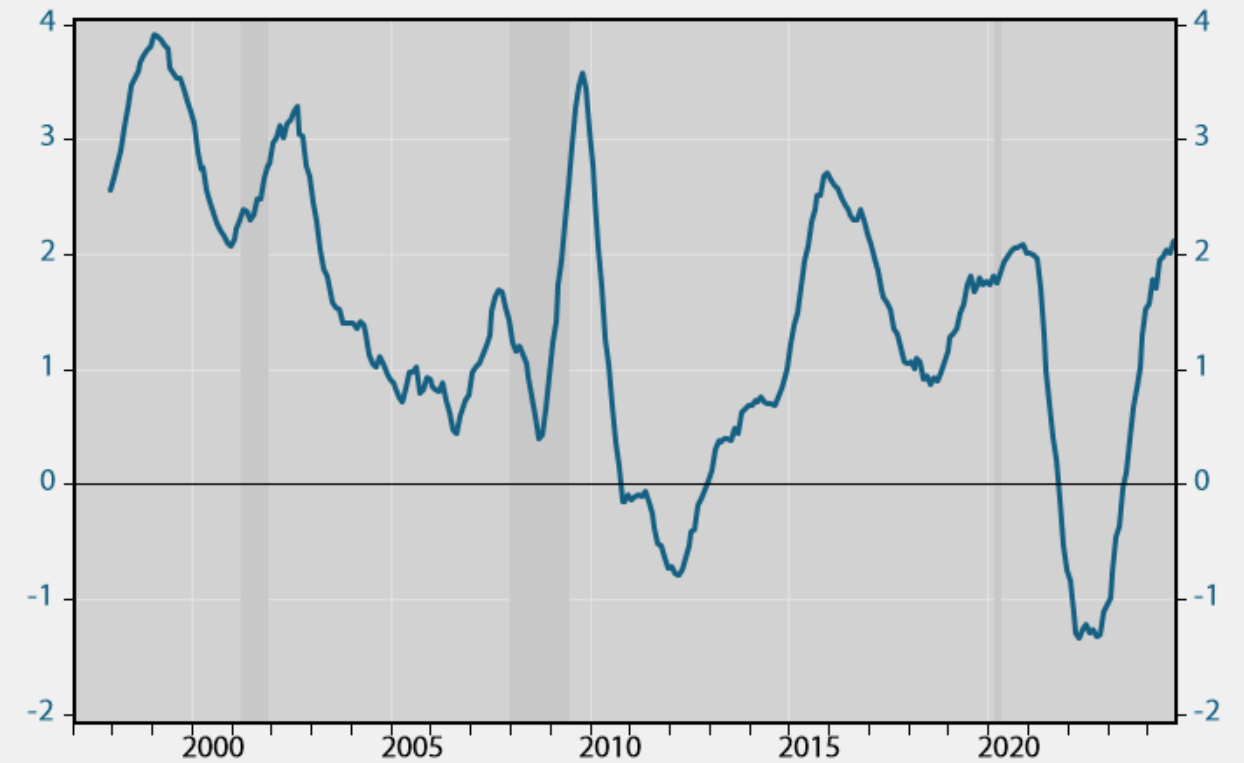
% Change - Year to Year 12-Mo MA, \$/Hr



Source: UPJOHN/Haver/@ernietedeschi analysis

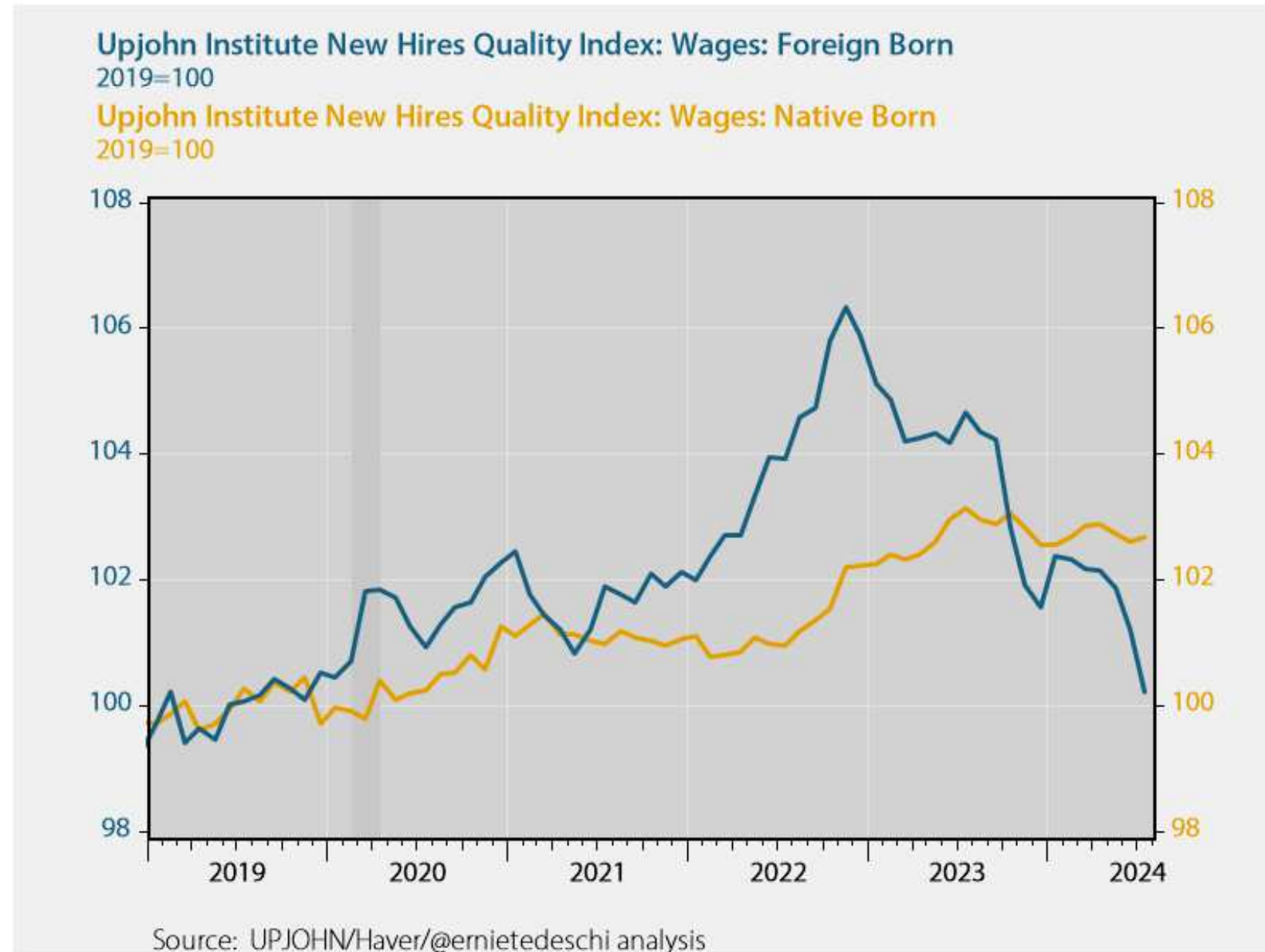
Real Wage Growth Tracker: Job Stayers: Median Wage Growth

PCE-adjusted, 12M-MA of YY



Source: Haver Analytics/@ernietedeschi analysis

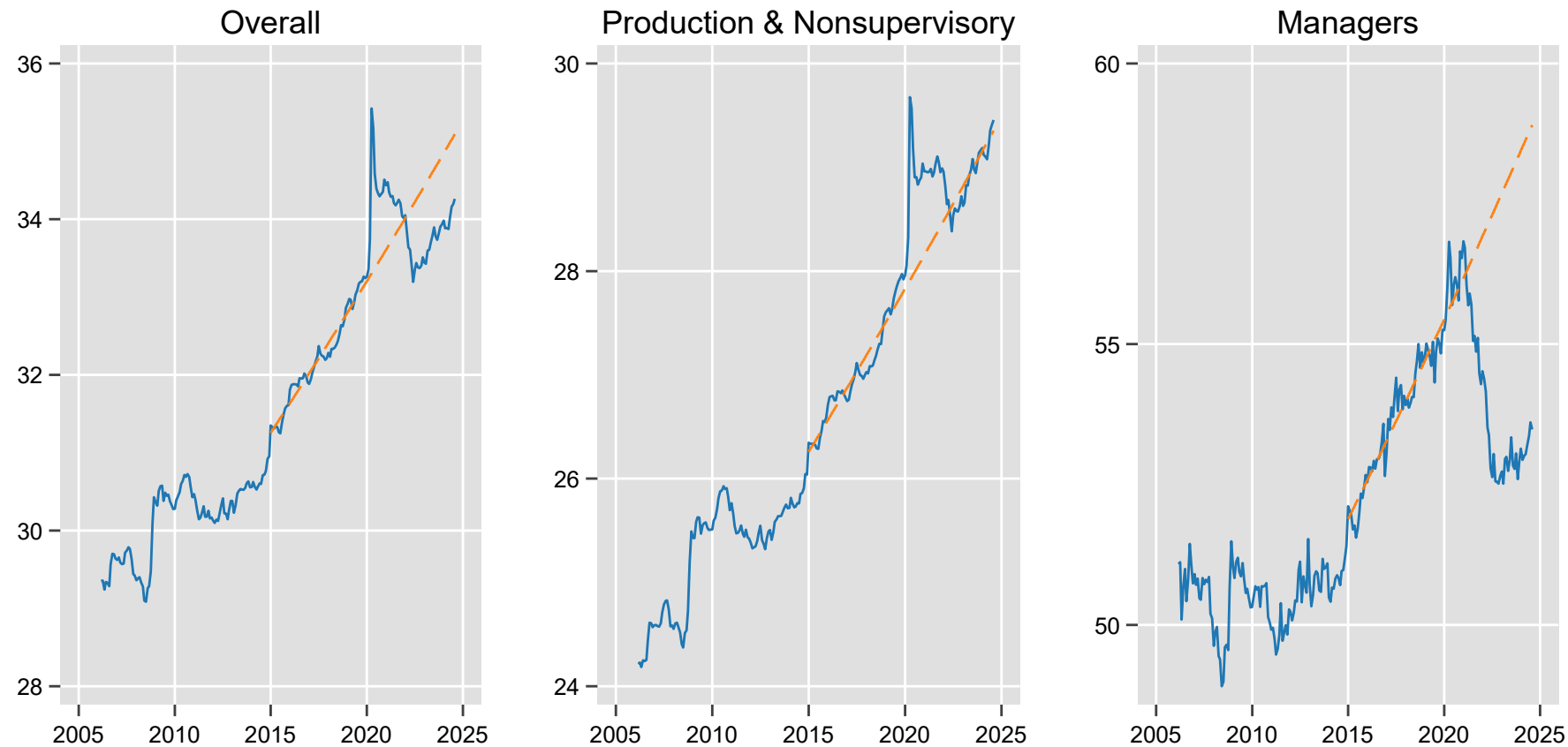
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Distributional Cyclicity

Real Average Hourly Earnings Since 2015

2023\$ per hour
Chained CPI-adjusted
2015-19 log linear trend shown dashed



Source: BLS, @ernietedeschi analysis

Thank you