Who bears the markdown?

Abstract

We argue that immigration can fuel the rise of a low-pay sector that Production-based markdowns are measured for firms. We measure them for each worker in matched Portuguese employer–employee data, as the ratio of an estimated claim on value added to earnings. Persistent firm components account for 72% of log-markdown variance and worker components for 28%, while twice their covariance contributes −23%. High-productivity firms have high markdowns but employ high-pay workers with low markdowns. This sorting widens pay dispersion and compresses markdown dispersion. Shocks transmit to claims and pay differently. A firm-specific demand shock raises claims more than pay, evenly across coworkers. A product-wide shock raises claims for workers with high persistent markdowns, but not their pay. After mass layoffs, stayers' markdowns widen as claims recover and pay does not.

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