Firms as Learning Environments: Implications for Earnings Dynamics and Job Search*

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Abstract

This paper studies the interactions between two features of labor markets: life cycle career outcomes and workplace heterogeneity. I demonstrate that differences in firms' promotion of human capital accumulation significantly influence earnings inequality over the life cycle. Using administrative micro data from Germany, I show that different establishments offer systematically different earnings growth rates to their workers. To rationalize this fact, I develop a life cycle search model with heterogeneous workers and firms. In the model, workers' earnings can grow through both human capital accumulation and labor market competition channels. Human capital growth depends on both the worker's ability and the firm's learning environment. I find that differences in firm learning environments account for 44% of the increase in cross-sectional earnings variance over the life cycle, and that this channel is especially important for young workers. I then show that this channel partially shapes the worker income profiles estimated by reduced-form statistical earnings processes. I also discuss how changes in the structure of unemployment insurance policies can incentivize young workers to search for better matches.

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