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 argue that differences in the series of firms a worker matches with over their lifetime partially shape the worker-specific income profiles estimated by reduced-form statistical earnings processes. Finally, because young workers do not fully internalize the benefits of matching to high-growth firms, I demonstrate how changes to the structure of unemployment insurance policies can incentivize these workers to search for better matches.

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