Technological Innovation and Labor Income Risk

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\textsuperscript{1}MIT Sloan and NBER
\textsuperscript{2}Kellogg and NBER
\textsuperscript{3}MIT Sloan
\textsuperscript{4}Social Security Administration
Motivation

• Income inequality has risen sharply over the last few decades.
  ▶ Much of increase in inequality between firms (Song et al. 2017).

• Human capital accounts for significant source of wealth.
  ▶ Traditional view: labor income safe, limited pass through of firm shocks to workers. To be debated.

• What are the main drivers? We focus one particular channel:
  ▶ Technological innovation often involves creative destruction (Schumpeter, 1942): new firms / products / technologies displace existing ones.
  ▶ If workers share some of their profits with workers, these workers will bear part of the cost.

• How does technological innovation by firms contribute to labor income risk faced by workers? Overall inequality?
What we do

- We combine direct measures of innovative activity from patent data and stock returns with data on worker earnings (SSA records).

- Study how the distribution of workers’ labor income shifts after major technological advances by their employers and/or their competitors.
  - We estimate quantile regressions rather than only average effects.

- Innovation likely has heterogeneous impact on workers, may increase overall (mostly uninsurable) income risk.
  - Focusing on average worker obscures the distribution of gains and losses.

Caveats

1. We document statistical associations, not causal relations.
2. Not about automation; focus on producers (vs users) of new technologies.
3. ‘Risk’ refers ex-post heterogeneity in outcomes conditional on observables.
What we find

- Innovation by the firm increases profits and average wages for incumbent workers; innovation by competitors has the opposite effect.
  - Implied profit-sharing elasticities are greater on the downside
- Gains and losses concentrated on a subset of incumbent workers
  - Innovation by the firm followed by a more right-skewed distribution of earnings growth
  - Innovation by competitors leads to more negatively skewed distribution of future earnings growth.
- The increase in the left tail is primarily driven by separations
- Magnitudes larger for higher-paid workers.
- Process innovation associated with greater earnings dispersion
- Estimates account for sizable portion of increase in between-firm (& within-firm) inequality
Theoretical motivation

Simple model based on Aghion and Howitt (1992) and Grossman and Helpman (1991) with firm-specific human capital:

- Firms are collections of product lines / jobs.
- Each worker associated w/ single product line, receives wage proportional to product quality.
- Firms innovate at rate $\lambda_{f,t} \in \{\lambda_L, \lambda_H\}$. Innovating firms
  - with prob. $\mu$ they improve quality of existing products
    - with prob. $p$, worker is retained, replaced otherwise
  - with prob. $1 - \mu$ steal a product from another firm; worker is replaced.
- Replaced workers become unemployed, receive outside option.
Model impulse responses: Firm outcomes

Numerical Example: 2 firms, $f$ and $f'$

Response for firm $f$ to an increase in $\lambda_{f,t}$ or $\lambda_{f',t}$

Response to $\lambda_{f,t}$

Response to $\lambda_{f',t}$

Profits

Employment
Model impulse responses: Worker outcomes

Response of the distribution of earnings growth $\log \left( \frac{w_{j,t+T}}{w_{j,t}} \right)$

Response to $\lambda_{f,t}$

Response to $\lambda'_{f,t}$

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How to measure ‘technological innovation’ is not obvious

Patents seem like a natural candidate. By definition, they relate to new inventions—though not all valuable inventions are patentable.

More importantly, not all patents are equally valuable inventions.

▶ proliferation of patents with no value (Jaffe & Lerner 2004)
▶ pro-patent shift in US policy (Hall and Zeidonis 2001)

Easy to come up with examples of not so useful patents.

Need to weigh innovation outcomes by their economic value.

▶ Kogan, Papanikolaou, Seru, and Stoffman (QJE, 2017) estimate the value of patents using firm’s stock market reaction to patent issues as an estimate of the (private) value of patents. KPSS value estimates correlate with measures of ‘scientific value’.
Data

- SSA data: 10% random sample of worker annual earnings.
  - Date range: 1980-2013; males, ages 25-58; minimum earnings level; exclude workers with substantial self-employment income
  - Workers matched to public firms based on highest earnings in given year. (Matched sample has 14m workers. Characteristics: Firms Workers)

- Construct age-adjusted income between periods \( t \) and \( t + k \)

\[
 w^i_{t,t+k} \equiv \log \left( \frac{\sum_{j=0}^{k} W2 \text{wage}_{i,t+j}}{\sum_{j=0}^{k} D(\text{age}_{i,t+j})} \right)
\]

- Main outcome variable is growth in (cumulative) log earnings

\[
 Y_{i,t:t+h} \equiv w^i_{t,t+h} - w^i_{t-2,t}
\]

Our specification emphasizes permanent income changes
Innovation, firm profitability and worker earnings

- Estimate:
  \[ Y_{i,t:t+h} = a_h \text{Firm Innovation}_{f,t} + b_h \text{Competitor Innovation}_{f,t} + c_h Z_{ft} + u_{ft+h}. \]

- Firm- and worker-level regressions:
  - **Firm profitability.** Controls: firm size (assets); firm idiosyncratic volatility; industry; and time FE
  - **Worker earnings.** Controls: as above, plus flexible parametric functions of age; earnings rank within industry; earnings rank within firm; firm rank × polynomials in lagged income growth rates

- Weigh worker-level regressions by inverse of firm-year employment count (allows us to compare across firm- and worker-level regressions)

- Allow for serially correlated errors at the firm level (bootstrap).
Innovation and firm outcomes

Response of profitability to 1 SD shock to

Own innovation

Competitor innovation

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## Firm profitability, worker earnings and innovation

<table>
<thead>
<tr>
<th>A. Market Values</th>
<th>i. Firm Profitability</th>
<th>ii. Worker Earnings</th>
</tr>
</thead>
<tbody>
<tr>
<td>Horizon (years)</td>
<td>(3) (5) (10)</td>
<td>(3) (5) (10)</td>
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<tr>
<td>Firm Innovation,</td>
<td>6.81 7.99 8.82</td>
<td>1.38 1.38 1.07</td>
</tr>
<tr>
<td>market value ($A_{fm}$)</td>
<td>(7.83) (7.04) (5.92)</td>
<td>(15.46) (11.33) (10.01)</td>
</tr>
<tr>
<td>Competitor Innovation,</td>
<td>-3.94 -4.93 -5.99</td>
<td>-1.45 -1.88 -2.28</td>
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<tr>
<td>market value ($A_{sm}^{f}$)</td>
<td>(-4.85) (-4.61) (-4.19)</td>
<td>(-5.42) (-8.45) (-9.27)</td>
</tr>
<tr>
<td>$R^2$</td>
<td>0.197 0.220 0.233</td>
<td>0.045 0.050 0.054</td>
</tr>
</tbody>
</table>

Note: Independent variables scaled to unit standard deviation

- An increase in **own firm** innovation followed by an **increase** in firm profits and an increase in worker earnings for the **incumbent** worker.

- An increase in **competitor** innovation leads to **lower** firm profits and future earnings for incumbent workers.
Are firms insuring workers?

• Focus on 5-year estimates.
  ▶ Own firm coefficients imply a rent-sharing elasticity of $1.38 / 7.99 = 0.17$
    (comparable to most estimates in literature)
  ▶ Competitor coefficients however imply an elasticity of $1.88 / 4.93 = 0.38$

• One interpretation: employees capture $\sim 1/5$ of the benefits of innovation, as firm owners and workers share risks (e.g., Guiso, Pistaferri, & Schivardi, 2005)

• Perhaps. But note that,
  1. Employees capture a larger share of the costs than the profits
     (not very good insurance...)
  2. Above statements hold on average, but benefits and costs need not be symmetrically distributed.

• We next model the how the entire conditional distribution of earnings shifts following innovation shocks using quantile regressions
• All marginal effects for own innovation are positive:
  ▶ CDF of income growth rates shifts to the right (more upside, no change in downside)
- All marginal effects for competitor innovation are negative:
  - CDF of income growth rates shifts to the left (increase in downside, no change in upside)
Effects comparable across horizons

Effects on worker earnings appear permanent. Magnitudes?

- A worker with a CRRA $\gamma = 5$ will experience a 3.4% reduction in her CEQ in response to a one-\(\sigma\) shock to innovation by competing firms
- Comparable to the estimated cost of business cycles due to job displacement (Krebs, 2007)
Thus far...

- Innovation followed by shifts in distribution of worker earnings
  - Own innovation associated with more right-skewed worker earnings.
  - Competitor innovation associated with negatively skewed earnings.

- Ex-post heterogeneity driven by ex-ante differences?
  - Re-estimate allowing key coefficients to vary across observables

- For now, focus on prior income: Rank workers within firm into 5 bins on lagged (life-cycle adjusted) income levels
  - Bins 1-3: bottom three quartiles
  - Bin 4: 75th through 95th percentiles
  - Bin 5: 95th through 100th percentiles
Marginal effects by earnings rank: Own-firm Innovation

Percentiles of worker earnings growth, 5 years

Average marginal effect

Colors indicate worker’s initial earnings rank within the firm:

- [0,25]
- [25,50]
- [25,75]
- [75,95]
- [95,100]
Marginal effects by earnings rank: Competitor Innovation

Percentiles of worker earnings growth, 5 years

Colors indicate worker’s initial earnings rank within the firm:
- [0,25]  - [25,50]  - [25,75]  - [75,95]  - [95,100]

Average marginal effect

Q5  Q10  Q25  Median  Q75  Q90  Q95
### Own Firm Innovation

<table>
<thead>
<tr>
<th>Q5</th>
<th>Median</th>
<th>Q95</th>
<th>OLS</th>
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### Competitor Innovation

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Colors indicate worker’s initial earnings rank within the firm:
- [0,25]
- [25,50]
- [25,75]
- [75,95]
- [95,100]

- **Top workers** have higher exposure to innovation shocks
  - Movements in left tail in response to competitor innovation comparable to difference between expansions–recessions (Guvenen, et al. 2014 [Figure 10](#)).
  - A top worker with a CRRA $\gamma = 5$ will experience a 11% reduction in her CEQ in response to a one-$\sigma$ shock to innovation by competing firms.
Contrast: worker earnings responses to stock returns

![Graphs showing average marginal effects of own and competitor stock returns on worker earnings. Graphs are divided into quartiles (Q5, Median, Q95), quantile OLS (Q5, Median, Q95, OLS), and indicate worker's initial earnings rank within the firm with colors: [0,25], [25,50], [25,75], [75,95], [95,100].]
Understanding the mechanism

- Let us now dig a bit deeper into what drives the increase in the left tail.
- Data allows us to track workers across firms.
- Decompose findings into
  1. Likelihood of leaving the firm $(M = 1)$ following innovation outcomes $I$
  2. Distribution of future earnings growth $g$ conditional on mobility $M$

$$f(g|I) = f(g|I, M = 1)p(M = 1|I) + f(g|I, M = 0)(1 - p(M = 1|I))$$

- No role for skill displacement, hence

$$f(g|I, M) = f(g|M)$$

this obviously need not be the case in the data...
Exiting workers have more left-skewed earnings growth

Stayer \( \equiv \) has same main employer at time \( t + 3 \)

Colors indicate worker’s initial earnings rank within the firm:
Probability of leaving the firm

<table>
<thead>
<tr>
<th>Worker earnings rank</th>
<th>[0,25]</th>
<th>[25,50]</th>
<th>[50,75]</th>
<th>[75,95]</th>
<th>[95,100]</th>
</tr>
</thead>
<tbody>
<tr>
<td>Innovation by the firm, $A_f$</td>
<td>-1.91</td>
<td>-1.74</td>
<td>-1.74</td>
<td>-1.70</td>
<td>-1.46</td>
</tr>
<tr>
<td></td>
<td>(-14.65)</td>
<td>(-13.63)</td>
<td>(-13.13)</td>
<td>(-12.80)</td>
<td>(-9.56)</td>
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<tr>
<td>Innovation by competitors, $A_{I_f}$</td>
<td>-1.09</td>
<td>-0.20</td>
<td>0.42</td>
<td>1.11</td>
<td>1.13</td>
</tr>
<tr>
<td></td>
<td>(-4.22)</td>
<td>(-0.79)</td>
<td>(1.67)</td>
<td>(4.33)</td>
<td>(4.03)</td>
</tr>
</tbody>
</table>

Note: Coefficients multiplied by 100; SE clustered by firm

- Baseline probability that a worker leaves the firm after 3 years is 36%
  - High innovation by firm followed by lower rate of separation
  - High innovation by competitors increase exit rate for top half of workers
- But, only part of the story. Next, examine variation in outcomes among exiting workers following innovation outcomes
  - Estimate quantile regressions separately for movers and stayers
  - Obtain estimates of $f(g|I,M)$
Percentiles of worker earnings growth, 5 years

Stayer $\equiv$ has same main employer at time $t + 3$

Colors indicate worker’s initial earnings rank within the firm:

- [0,25]
- [25,50]
- [25,75]
- [75,95]
- [95,100]
Stayer ≡ has same main employer at time $t + 3$

Colors indicate worker’s initial earnings rank within the firm:

- [0,25]
- [25,50]
- [25,75]
- [75,95]
- [95,100]
Process vs non-process innovation

- In model, own firm innovation can also displace the firm’s own workers
  - Worker replaced with probability $p$

- Replacement more likely in process improvements (vs products)
  - Testable? Text-based classification of Bena and Simintzi (2016)
  - Approximately 30% of all patent claims classified as ‘process’

- Focus on innovation by the firm, and decompose $A_f$ into process and non-process: assign corresponding fraction of each patent.
  - Caveat: process and non-process measures highly correlated (approx. 70%) so results will be noisy
Average marginal effect

Own firm: Process Innovation

- Q5
- Median
- Q95
- OLS

Average marginal effect

Own firm: Non-Process Innovation

- Q5
- Median
- Q95
- OLS

Colors indicate worker’s initial earnings rank within the firm:

- [0, 25]
- [25, 50]
- [25, 75]
- [75, 95]
- [95, 100]

- Own firm ‘product’ innovation mostly a location shift
- Own firm process innovation → more negatively skewed earnings growth for top workers (estimates even larger for movers)
How much did firm innovation contribute to income inequality?

Fact: During the 1990s, both level and dispersion of innovation increased across firms (mostly a within-industry effect)
Quantitative implications for inequality

• Given our point estimates, shifts in the distribution of firm innovation will lead to movements in income inequality across workers, both between as well as within firm.

• We simulate worker earnings from the quantile regression model under three alternatives:
  1. The realized values of firm $A_f$ and competitor $A_{I\setminus f}$ innovation
  2. constant level and dispersion: set $A_f$ and $A_{I\setminus f}$ to 1980–85 (industry) levels
  3. constant dispersion: set $A_f$ and $A_{I\setminus f}$ equal to industry-year mean

• Comparing the time series of inequality between (1) and the two alternatives (2) or (3) quantifies the contribution of the increases in the level or dispersion, of innovation.
A. Cross-sectional SD of log worker earnings, relative to 1985

B. Overall inequality, decomposition

C. Between-firm inequality, decomposition

D. Within-firm inequality, decomposition

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Technological Innovation and Labor Income Risk
Summary and Conclusion

● Innovation associated with considerable labor income risk
  ▶ Workers bear a larger share of the costs of innovation than the benefits

● Creative destruction followed by increase in left tail of labor income
  ▶ Effects stronger for top workers
  ▶ Effects mainly driven by separations
  ▶ Own-firm displacement effects driven by process innovations

● Concentration of innovation outcomes in a small set of firms in the 1990s also accounts for significant increase in between-firm inequality
APPENDIX
Stock price (left axis) and trading volume (right axis) of GENEX Co on August 7, 1990, after award of patent no. 4,946,778 for ”Single-Chain Polypeptide Binding Molecules”
Figure plots the share turnover around patent issuance days. Share turnover $h$ is the ratio of daily volume (CRSP: vol) to shares outstanding (CRSP: shrout). The median daily share turnover is 1.29%. We report the coefficient estimates $b_l$, \( l = -1 \ldots 3 \), (and 90% confidence intervals) from the following specification:

\[
h_{fd} = a_0 + \sum b_l I_{fd+l} + c Z_{fd} + \varepsilon_{fd},
\]
Figure plots the cross-sectional relation between forward patent citations and the estimated market value of patents. We group the patent data into 100 quantiles based on their cohort adjusted citations \((1 + C/\bar{C})\). The horizontal axis plots the log of average cohort adjusted patent citations in each quantile. The vertical axis plots the logarithm of the average patent value in each quantile (scaled by the average value of patents granted in the same year).
Relation between stock market reaction and number of citations across placebo experiments

A. Coefficient (%)  
B. t-statistic

Note: Figure plots distribution of estimated coefficients $\hat{b}$ (panel A) and $t$-statistics (panel B), from estimating equation linking forward citations and estimated patent values (with full set of controls) across 500 placebo experiments. In each placebo experiment, we randomly generate a different issue date for each patent within the same year the patent is granted to the firm. We then reconstruct our measure using these placebo grant dates. The solid line on the right corresponds to the...
Interpreting the dependent variable

- Sum over multiple years for two reasons:
  1. mitigate problem with observations with zero income when using year-on-year growth rates
  2. smooths large changes in earnings that may be induced by large transitory shocks → more emphasis on persistent earnings

- To see 2, suppose that annual log income (net of age effects) is sum of:
  - permanent random walk component: $\xi_{i,t} = \xi_{i,t-1} + \eta_{i,t}$
  - iid, mean zero, transitory component: $\epsilon_{i,t}$

- A log-linear approximation of $Y_{i,t:t+5}$ around zero is:

$$Y_{i,t:t+5} \approx \frac{1}{5} \eta_{i,t+5} + \frac{2}{5} \eta_{i,t+4} + \frac{3}{5} \eta_{i,t+3} + \frac{4}{5} \eta_{i,t+2} + \eta_{i,t+1} + \frac{2}{3} \eta_{i,t} + \frac{1}{3} \eta_{i,t-1}$$

$$+ \frac{1}{5} [\epsilon_{i,t+5} + \epsilon_{i,t+4} + \epsilon_{i,t+3} + \epsilon_{i,t+2} + \epsilon_{i,t+1}] - \frac{1}{3} [\epsilon_{i,t} + \epsilon_{i,t-1} + \epsilon_{i,t-2}].$$
Characteristics of the matched sample

- Exclude financials and utilities ⇒ 11.4 million matched observations
- Matching rates are roughly constant across major SIC industries
  - Somewhat less likely to find matches for larger firms

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## Firm-level summary stats

### Table 2: Firm descriptive statistics: matched vs non-matched sample

#### A. Matched sample

<table>
<thead>
<tr>
<th></th>
<th>Obs</th>
<th>Mean</th>
<th>SD</th>
<th>1%</th>
<th>5%</th>
<th>10%</th>
<th>25%</th>
<th>50%</th>
<th>75%</th>
<th>90%</th>
<th>95%</th>
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<td>Employment (’1000s)</td>
<td>101,980</td>
<td>6.64</td>
<td>29.04</td>
<td>0.01</td>
<td>0.02</td>
<td>0.05</td>
<td>0.15</td>
<td>0.64</td>
<td>3.15</td>
<td>12.50</td>
<td>28.30</td>
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<td>Employment (SSA, ’1000s)</td>
<td>104,071</td>
<td>2.52</td>
<td>12.14</td>
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<td>0.01</td>
<td>0.01</td>
<td>0.06</td>
<td>0.23</td>
<td>1.03</td>
<td>4.19</td>
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<td>Book assets, log</td>
<td>104,068</td>
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<td>0.42</td>
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<td>1.94</td>
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<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
</tr>
<tr>
<td>Firm innovation, process</td>
<td>38,663</td>
<td>0.01</td>
<td>0.06</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
</tr>
<tr>
<td>Firm innovation, non-process</td>
<td>38,663</td>
<td>0.01</td>
<td>0.04</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
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<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
</tr>
</tbody>
</table>

**Note:** Table reports univariate summary statistics for the sample of matched (Panel A) and unmatched (Panel B) public firms. The unit of analysis is the GVKEY-year.
### Table 1: Worker descriptive statistics: Full versus matched sample

#### Panel A. Matched sample

<table>
<thead>
<tr>
<th>Measure</th>
<th>Obs</th>
<th>Mean</th>
<th>SD</th>
<th>1%</th>
<th>5%</th>
<th>10%</th>
<th>25%</th>
<th>50%</th>
<th>75%</th>
<th>90%</th>
<th>95%</th>
<th>99%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wage (in 2013 dollars)</td>
<td>14,621,600</td>
<td>74,199</td>
<td>74,199</td>
<td>146,577</td>
<td>4,826</td>
<td>15,855</td>
<td>24,321</td>
<td>57,577</td>
<td>82,765</td>
<td>123,248</td>
<td>165,383</td>
<td>343,534</td>
</tr>
<tr>
<td>Age</td>
<td>14,621,600</td>
<td>39.6</td>
<td>8.0</td>
<td>26.0</td>
<td>27.0</td>
<td>29.0</td>
<td>33.0</td>
<td>39.0</td>
<td>46.0</td>
<td>51.0</td>
<td>53.0</td>
<td>54.0</td>
</tr>
<tr>
<td>Firm tenure</td>
<td>14,621,600</td>
<td>6.2</td>
<td>0.7</td>
<td>5.2</td>
<td>1.0</td>
<td>1.0</td>
<td>2.0</td>
<td>5.0</td>
<td>9.0</td>
<td>14.0</td>
<td>17.0</td>
<td>23.0</td>
</tr>
<tr>
<td>Firm tenure ≥ 3 years</td>
<td>14,621,600</td>
<td>0.7</td>
<td>0.4</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>1.0</td>
<td>1.0</td>
<td>1.0</td>
<td>1.0</td>
<td>1.0</td>
<td>1.0</td>
</tr>
<tr>
<td>Cumulative 3-year wage growth</td>
<td>14,593,617</td>
<td>-0.07</td>
<td>-0.07</td>
<td>-0.88</td>
<td>-0.53</td>
<td>-0.17</td>
<td>-0.01</td>
<td>0.13</td>
<td>0.38</td>
<td>0.58</td>
<td>1.10</td>
<td></td>
</tr>
<tr>
<td>Left firm after 1 year</td>
<td>14,621,600</td>
<td>0.15</td>
<td>0.47</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>1.0</td>
<td>1.0</td>
<td>1.0</td>
<td>1.0</td>
<td></td>
</tr>
<tr>
<td>Left firm after 3 year</td>
<td>14,621,600</td>
<td>0.34</td>
<td>0.47</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>1.0</td>
<td>1.0</td>
<td>1.0</td>
<td>1.0</td>
<td></td>
</tr>
</tbody>
</table>

#### Panel B. SSA worker sample (based on 10% sample)

<table>
<thead>
<tr>
<th>Measure</th>
<th>Obs</th>
<th>Mean</th>
<th>SD</th>
<th>1%</th>
<th>5%</th>
<th>10%</th>
<th>25%</th>
<th>50%</th>
<th>75%</th>
<th>90%</th>
<th>95%</th>
<th>99%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wage (in 2013 dollars)</td>
<td>110,927,670</td>
<td>58,190</td>
<td>58,190</td>
<td>121,135</td>
<td>2,729</td>
<td>7,836</td>
<td>13,803</td>
<td>26,471</td>
<td>43,366</td>
<td>65,982</td>
<td>100,271</td>
<td>138,168</td>
</tr>
<tr>
<td>Age</td>
<td>103,635,050</td>
<td>38.9</td>
<td>8.1</td>
<td>26.0</td>
<td>27.0</td>
<td>28.0</td>
<td>32.0</td>
<td>39.0</td>
<td>46.0</td>
<td>51.0</td>
<td>52.0</td>
<td>54.0</td>
</tr>
<tr>
<td>Firm tenure</td>
<td>110,762,520</td>
<td>5.1</td>
<td>0.6</td>
<td>5.0</td>
<td>1.0</td>
<td>1.0</td>
<td>2.0</td>
<td>3.0</td>
<td>7.0</td>
<td>12.0</td>
<td>15.0</td>
<td>21.0</td>
</tr>
<tr>
<td>Firm tenure ≥ 3 years</td>
<td>110,762,520</td>
<td>0.6</td>
<td>0.5</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>1.0</td>
<td>1.0</td>
<td>1.0</td>
<td>1.0</td>
<td>1.0</td>
<td></td>
</tr>
<tr>
<td>Cumulative 3-year wage growth</td>
<td>103,635,050</td>
<td>-0.09</td>
<td>-0.09</td>
<td>-1.08</td>
<td>-0.64</td>
<td>-0.21</td>
<td>-0.01</td>
<td>0.15</td>
<td>0.43</td>
<td>0.66</td>
<td>1.26</td>
<td></td>
</tr>
<tr>
<td>Left firm after 1 year</td>
<td>110,540,010</td>
<td>0.25</td>
<td>0.43</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>1.0</td>
<td>1.0</td>
<td>1.0</td>
<td>1.0</td>
<td></td>
</tr>
<tr>
<td>Left firm after 3 year</td>
<td>110,016,540</td>
<td>0.45</td>
<td>0.50</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
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<td>1.0</td>
<td>1.0</td>
<td>1.0</td>
<td></td>
</tr>
</tbody>
</table>

**Note:** Table reports univariate summary statistics for the sample of matched (Panel A) and unmatched (Panel B) worker-level measures. The unit of analysis is the SSN-year.

- Manufacturing workers over-represented (exclude industries w/o patents)
Statistical framework: model for multiple quantiles

- Estimate a parametric model for the 5th, 10th, 25th, 50th, 75th, 90th, and 95th percentiles of $Y_{i,t:t+h}$. Allows conditional quantiles to vary depending on innovation + firm, individual, industry, and time coefficients.
- Use a method from Schmidt and Zhu (2016) to estimate the model:

$$q_j(x) = \begin{cases} x'\beta_0 & \text{if } j = j^* \\ x'\beta_0 - \sum_{k=j}^{j^*-1} \exp(x'\beta_k) & \text{if } j < j^* \\ x'\beta_0 + \sum_{k=j^*+1}^j \exp(x'\beta_{k-1}) & \text{if } j > j^* \end{cases}$$

where $j$ indexes the seven quantiles of interest and $j^* = 4$ (the median).
- Can also estimate average marginal effects:

$$E \left[ \frac{\partial q_j(X_{i,t})}{\partial X_{i,t}} \right] = \begin{cases} \beta_0 & \text{if } j = j^* \\ \beta_0 - \sum_{k=j}^{j^*-1} E[\exp(X'_{i,t}\beta_k)]\beta_k & \text{if } j < j^* \\ \beta_0 + \sum_{k=j^*+1}^j E[\exp(X'_{i,t}\beta_{k-1})]\beta_k & \text{if } j > j^* \end{cases}$$
Comparison: expansions vs recessions (GOS, 2014)

This result is not specific to using P90 or P10 but is pervasive across the distribution of future earnings growth rates. This can be seen in figure 10, which plots the change in selected percentiles above and including the median from an expansion to a recession (top panel). The bottom panel shows selected percentiles below the median. Starting from the top and focusing on the middle part of the x-axis, we see that P99 falls by about 30 log points from an expansion to a recession, whereas P95 falls by 20, P90 falls by 15, P75 falls by 6, and P50 falls by 5 log points, respectively. As a result, the entire upper half of the shock distribution gets squeezed toward the median. In other words, the half of the population who experience earnings change above the median now experience ever smaller upward moves during recessions. Turning to the bottom panel, we see the opposite pattern: P50 falls by 5 log points, whereas P25 falls by 7 and P10 falls by 15 log points, respectively. Consequently, the bottom half of the shock distribution now expands, with "bad luck" meaning even "worse luck" during recessions.
**Figure A.2:** Innovation and growth - Firm-level outcomes across horizons, varying timing conventions

Panel A1 Baseline: Own Innovation (Filing Date)

Panel A2 Baseline: Competitor Innovation (Approval Date)

Panel B1: Own Innovation (Filing Date)

Panel B2: Competitor Innovation (Filing Date)

Panel C1: Own Innovation (Approval Date)

Panel C2: Competitor Innovation (Approval Date)

Note: Figure reports coefficient estimates of equation (7) for firm profits, employment and TFPR. The horizontal axis varies the horizon of the regression. Each dependent variable corresponds with a different line on the graph. Each specification relates firm growth to innovation by the firm (Af, define definition equation (19)) and the innovation by the firm’s competitors (AIf, the average innovation of other firms in the same SIC3 industry, see equation (20)). Panels B and C run the same regressions, changing the timing convention of own and competitor innovation measures to use the filing and approval dates, respectively. Controls include one lag of the dependent variable, log values of firm capital, employment, and the firm’s idiosyncratic volatility, and industry (I) and time (T) fixed effects. All firm-level variables are winsorized at the 1% level using annual breakpoints. Standard errors are clustered by firm. All right-hand side variables are scaled to unit standard deviation.

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Technological Innovation and Labor Income Risk
Figure A.3: Firm stock returns and innovation: movers versus continuing workers

Colors indicate worker's initial earnings rank within the firm:

- [0,25]
- [25,50]
- [25,75]
- [75,95]
- [95,100]

Own Firm Stock Return — Stayers

Own Firm Stock Return — Movers

Competitor Stock Return — Stayers

Competitor Stock Return — Movers

Note: Figure plots the average marginal effects of firm—and competitor—stock returns that are implied by the quantile regression estimates (equation (8) in the main text) for workers with different earnings levels. The equation is estimated separately for workers that remain with the firm (stayers) versus workers that leave the firm (switchers). The worker earnings rank is defined net of deterministic life-cycle effects. We focus on 5-yr growth rates. The units on the vertical axis correspond to log points (times 100).
Figure A.4: Earnings growth and innovation conditional on age and earnings levels

Colors indicate worker’s initial earnings rank within the firm: 
- [0,25] □
- [25,50] □ [25,75] □
- [75,95] □ [95,100] □

Age [25,34] – Own Firm Innovation

Age [25,34] – Competitor Innovation

Age [35,44] – Own Firm Innovation

Age [35,44] – Competitor Innovation

Age [45,58] – Own Firm Innovation

Age [45,58] – Competitor Innovation

Note: Figure plots the average marginal effects of firm innovation that are implied by the quantile regression estimates (equation (8) in the main text) for workers with different ages and earnings levels. The worker earnings rank is defined net of deterministic life-cycle effects. We focus on 5-yr growth rates. The units on the vertical axis correspond to log points (times 100).
Figure A.5: Unconditional quantiles versus average fitted quantiles by firm rank bin

Note: Figure compares the average fitted quantiles plotted from Figure 7 of the distribution of 5-year earnings growth for workers of different earnings levels (earnings ranks) with raw unconditional quantiles calculated for each group. In addition to the specification which is estimated for the full sample, we also repeat the exercise separately for the subsamples of workers that remain with the same firm after 5 years (stayers) and for those that do not (movers). Stayers are defined as workers who are employed at the firm in year t+3; while movers workers who are not employed at the same firm in year t+3.
Figure A.7: Earnings growth and innovation conditional on earnings levels - control for R&D spending

Colors indicate worker’s initial earnings rank within the firm:

- □ [0,25]
- ■ [25,50]
- □ [25,75]
- □ [25,95]
- ■ [95,100]

Avg Marg Effects for Own Firm Innovation - 5 year

Note: Figure plots the average marginal effects of firm—and competitor—innovation that are implied by the quantile regression estimates (equation (8) in the main text) for workers with different earnings levels. The worker earnings rank is defined net of deterministic life-cycle effects. We focus on 5-yr growth rates. The units on the vertical axis correspond to log points (times 100).
Figure A.7: Earnings growth and innovation conditional on earnings levels - control for R&D spending

Colors indicate worker’s initial earnings rank within the firm:
- ▶️ [0, 25]
- ▼️ [25, 50]
- ▼️ [25, 75]
- ▼️ [75, 95]
- ▼️ [95, 100]

Q5  Q10  Q25  Median  Q75  Q90  Q95

Note: Figure plots the average marginal effects of firm—and competitor—innovation that are implied by the quantile regression estimates (equation (8) in the main text) for workers with different earnings levels. The worker earnings rank is defined net of deterministic life-cycle effects. We focus on 5-yr growth rates. The units on the vertical axis correspond to log points (times 100).

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Figure A.8: Earnings growth and innovation: movers versus continuing workers - exclude years with zero income obs

Colors indicate worker's initial earnings rank within the firm:
- [0,25]
- [25,50]
- [50,75]
- [75,95]
- [95,100]

Avg Marg Effects for Own Firm Innovation (No zeros) - Stayers - 5 year

Avg Marg Effects for Competitor Innovation (No zeros) - Stayers - 5 year

Avg Marg Effects for Own Firm Innovation (No zeros) - Movers - 5 year

Avg Marg Effects for Competitor Innovation (No zeros) - Movers - 5 year
C. Own Firm: Process Innovation — Stayers

D. Own Firm: Process Innovation — Movers

Note: