

The Anatomy of French Production Hierarchies

(joint paper with Lorenzo Caliendo, Ferdinando Monte and Esteban Rossi-Hansberg)

Abstract:

We use a comprehensive dataset of French manufacturing firms to study their internal organization. We first divide the employees of each firm into 'layers' using occupational categories. Layers are hierarchical in that the typical worker in a higher layer earns more, and the typical firm occupies less of them. In addition, the probability of adding (dropping) a layer is very positively (negatively) correlated with value added. We then explore the changes in the wages and number of employees that accompany expansions in layers, output, or markets (by becoming exporters). The empirical results indicate that reorganization, through changes in layers, is key to understand how firms expand and contract. For example, we find that firms that expand substantially add layers and pay lower average wages in all pre-existing layers. In contrast, firms that expand little and do not reorganize pay *higher* average wages in all pre-existing layers.