The Unequal Impact of Firms on the Gender Wage Gap

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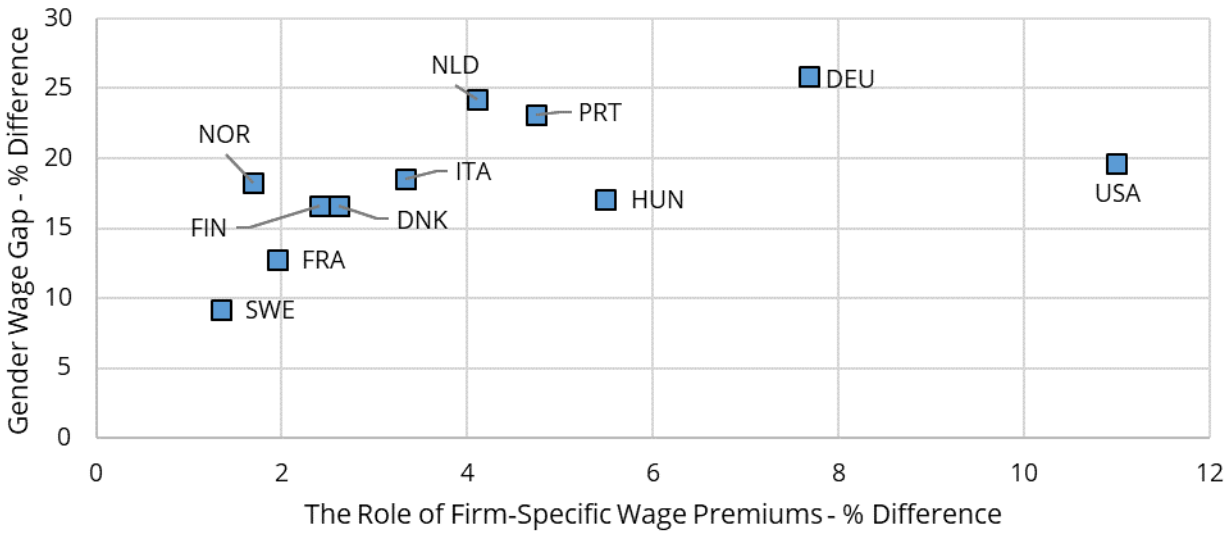
Firm-specific wage premiums - the extra pay that similarly skilled workers receive in some firms compared with others - contribute greatly to the gender wage gap in US and European labor markets. Women capture a smaller share of firm surpluses than equally skilled men, and are concentrated in part-time-intensive firms, associated with smaller wage premiums.

Figure 1 – Gender Wage and Wage Premium Gaps



Source: Palladino et al. (forthcoming)
Note. The y-axis shows the unconditional gender hourly wage gap. The x-axis displays the gender wage premium gap (sum of sorting and pay-setting components).

Why do women still earn less than men? Traditional economic theory suggests that in a perfectly functioning labor market, any difference in wages should simply reflect differences in skills or preferences for certain job characteristics - such as flexible or more regular hours.

A substantial body of recent research has shown that firms have considerable power in setting wages and are able to offer or negotiate wage premiums for identically-skilled workers (Card,

2022). This means that two identical workers can earn different wages simply because they work for different firms. In this scenario, the gender wage gap can arise through two additional channels. A between-firm component (*sorting*), which captures whether women work in lower-premium firms compared to equally-skilled men. And a within-firm component (*pay-setting*), which reflects whether men and women are paid differently within the same firm because of gender differences in bargaining power and/or unfair pay practices.

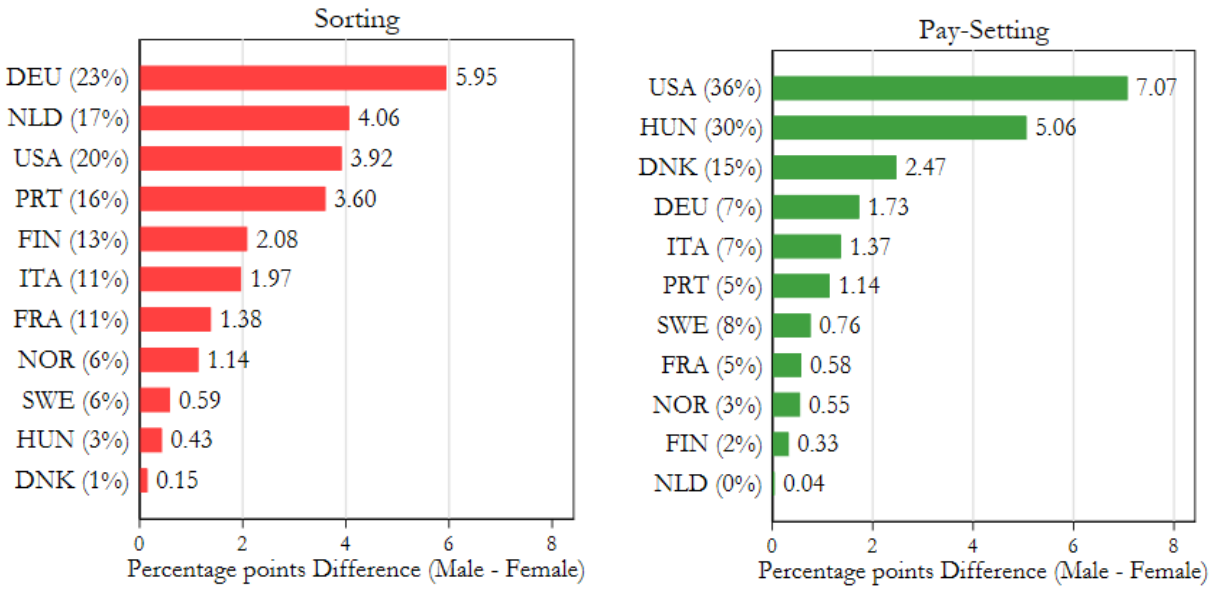
In this post, we present the findings of Palladino et al. (forthcoming) concerning how firm wage premiums shape the gender wage gap across the United States and 10 European countries. We also investigate the role played by the unequal sharing of firm productivity gains and the relationship between part-time work and firm pay policies.

We use detailed employment records for each country– including information on workers' earnings and hours worked – to quantify the importance of the gender wage premium gap, i.e. the sum of *sorting* and *pay-setting*. For each country, we build matching datasets of workers and their employers, harmonize sample selection, and use econometric techniques for hard-to-measure differences between workers and firms to isolate the true impact of firm-specific premiums, following the approach of Card et al. (2016).

Firm Wage Premiums account for about 10% to 50% of the Gender Wage Gap

The raw gender wage gap, defined as the unadjusted difference between average men's and women's hourly wages expressed in percentage terms, ranges from 9% in Sweden to 26% in Germany, with a moderate gap of 12% observed in France (y-axis on Figure 1). We note that firm-specific premiums significantly contribute to this raw gender wage gap in every country studied. In countries where this gap is wider, firms' wage premiums tend to play a greater role, as shown in Figure 1. However, the relationship varies between countries: differences in firm premiums account for about half of the raw gender wage gap in the United States, while their impact is generally smaller in European countries.

Figure 2 – Gender Wage Premium Gap: Sorting vs Pay-setting



Source: Palladino et al. (fortcoming)
Note. This figure breaks the gender wage premium gap down into its sorting and pay-setting components, shown as a percentage of the gender wage gap to the right of the country name.

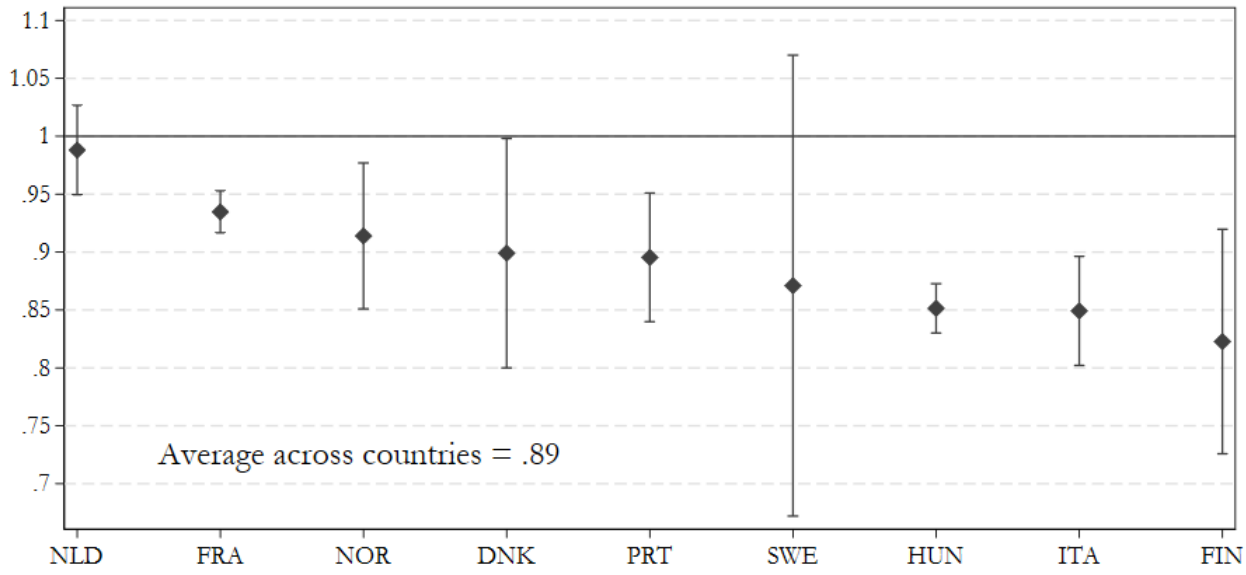
Figure 2 breaks down how firms create gender-based wage differences through the two channels previously introduced: where women work (*sorting*) and how they are paid within firms (*pay-setting*). Countries are ranked from highest to lowest based on the percentage difference in these components between men and women. In France, firms account for 16% of the total gender wage gap. Most of this (11%) comes from sorting, while the remaining 5% is due to pay-setting. In the United States, firms play a much larger role, accounting for 56% of the gap - 20% from sorting and 36% from pay-setting.

Women receive less than men from their firms' performances

When firms are more productive and profitable, they often share some of these gains with their workers through higher wages - what economists call *rent-sharing*. *Do men and women benefit equally from their company's surplus?*

To answer this question, we look at firms' financial records to measure their productivity - essentially, how efficiently they turn resources into output. We find that when firms share their success through higher wages, women capture on average 89% of what equally-skilled men receive. In other words, for every extra euro in wages that men receive when they work for a more productive firm, women receive only 89 cents.

Figure 3 – Share of Male Rent-Sharing Captured by Women



Source: Palladino et al. (forthcoming)
Note : The ratio between the firm-level elasticity of productivity to female wage premiums on the elasticity of firm-level productivity to male wage premiums.

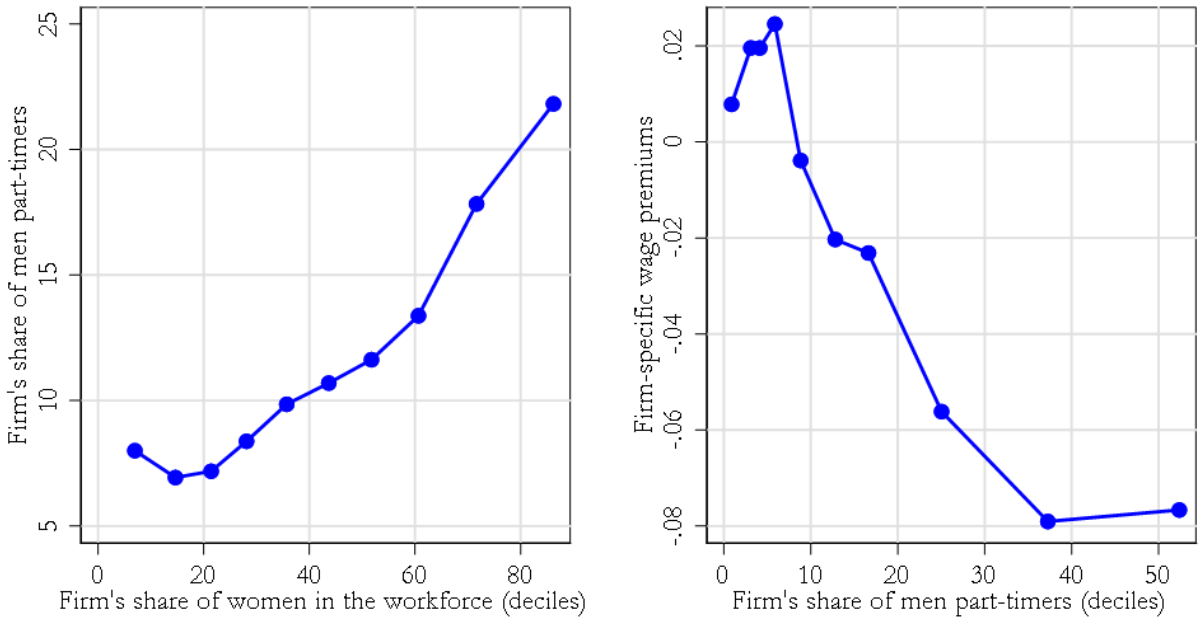
Figure 3 shows this rent-sharing ratio for each country in our study, where 1 would represent equal sharing between men and women. The situation varies from country to country: it's closest to parity in the Netherlands, while in all other countries women receive significantly less than men

from their firm's performance (in France, the figure is 95%). This systematic pattern of unequal sharing suggests that in most countries women face disadvantages, either in negotiating their share of the gains, or they are subject to discriminatory pay practices within more productive firms.

The Role of Part-Time Working Arrangements

Research by Goldin (2014) suggests that some of the gender wage gap may be explained by firms who offer packages that combine higher premiums with longer working hours - arrangements that might be less attractive to women. While differences in hours worked in full-time jobs may also matter, the authors focus on part-time working arrangements as they can be consistently measured across countries.

Figure 4 – Part Time Jobs, Firm Wage Premiums, and Share of Women



Source: Palladino et al. (forthcoming)
Note: The left-hand graph shows the share of part-time vs female workers in the workforce (deciles). The right-hand graph shows firm wage premiums vs part-time shares (deciles). Country estimates are grouped together.

Figure 4 combines data from all countries to examine two key relationships: how part-time work in firms affects both women's share of employment and firm-specific wage premiums. In both panels, firms are divided into ten equally-sized groups according to the variable on the x-axis, and average values are shown for each group. The left-hand panel shows a key pattern: women are more likely to work in firms where men do a high proportion of part-time work. In other words, it is not just that women are more likely to work part-time, they also tend to work in firms where part-time working is more common overall. The right-hand panel shows that these part-time-intensive firms pay less well: if 40% of male workers in a firm are part-time, this firm pays about 9 percentage points less to workers with the same skills as firms with no part-time male workers.

This is consistent with the findings of Garbinti et al. (2023) whereby differences in working time between men and women are an important explanation for the persistence of the gender pay gap.

Taken together, these findings show how firm-specific factors combine with workers' preferences/constraints for flexible arrangements such as part-time work to create and maintain gender wage gaps across countries. This suggests that tackling pay inequality requires an understanding of both the structural factors that give rise to wage premiums and the individual worker-level factors that shape preferences.