
Reply to Referee#1: The referee’s report begins with “ Using data from six European nations and two time periods...”

We thank the referee for her/his useful comments and the overall appreciation for our work. Since some of the reviewer’s comment actually match suggestions shared by the other referees and the editor, we organize this reply in two parts. We first present a list of major changes implemented in response to comments shared by referees and the editor. Replies to detailed reviewer#1’s comments follow further below.

Summary of major changes

An overall reading of all comments signaled that the previously submitted version of the article:

- was too much ~~relying~~ on theories originating in economics only, while other frameworks from ~~sociologist~~ and organizational research, could help better positioning the paper;
- **suffered from a very underdeveloped theoretical framework, while some more effort to provide at least tentative hypotheses on possible effects of FLB was worth, in order to guide the reader and also usefull to improve the discussion of results we set out in the conclusion;**
- did not sufficiently emphasize, in the hypotheses and the interpretation of results, the cross-country and the inter-temporal dimension of the analysis, while these could have been stressed more since particularly interesting for SER;
- was not completely clear concerning data structure and definition of some key variables, in turn creating doubts about interpretation and the possibility to employ different estimation methods.

While the core empirical analysis (strategy, estimates and comments to coefficient patterns) is essentially unchanged in the revised version, we undertook a substantial rewriting of the introduction, of Section 2 and of the conclusion to variously tackle the above points. Summarizing the changes, we have:

- completely rewritten the Introduction. We now better clarify how our study is placed in line with recent trends placing the workplace as the key locus of inequality creation, referring to a wider set of literature and mechanisms that may help explaining within-firm inequality. Also, we are now more precise and explicit about the questions we ask. On the one hand, we are more carefull to clarify that we only look at firms that do apply some form of collective bargaining, whereas previous version was a bit ~~cnfusing~~, talking about decentralization and perhaps creating the expectation that we were also talking about firms that do not apply any bargaining. On the other hand, previous version was mostly stressing the addition of the occupational wage-gap as the key element of our analysis. We now are more clearly stating that also cross-country comparisons and inter-temporal patterns are part of our research questions, providing an important contribution, especially if we link our analysis to broad tendencies relating to the great depression and the evolution of varieties of capitalism. At the same time, we made an effort to shape some hypotheses concerning what we could expect from the analysis, or at least to clarify which mechanisms may be underlying contrasting results that may emerge from the estimates. Hopefully, all these changes would provide a better

guidance to interpret our results later on in the concluding section, somewhat preparing the reader for the pretty pattern-less findings.

- reorganised and extended Section 2. In the previous version, this section was a bit underdeveloped, just providing basic descriptions of the wage-bargaining models in different countries. We made an effort in a twofold direction. First, we expanded the presentation of each country to also include some predictions about what one could expect in terms of our main research question, starting from the specificities of each country. Second, we recognise that ~~dispite we stress heterogeneities~~ of wage-bargaining models across countries, one could also a priori think that some common patterns may be expected, both over time and across more similar countries, ~~evoking~~ some sort of varieties of capitalism reasoning, or at least referring to some attempts in the literature to create taxonomies of wage bargaining regimes.
- ~~undertake~~ a substantial rewriting of the conclusion, reflecting the changes made to the introduction and Section 2. In the previous version, the concluding remarks were essentially just a summary of the results. We tried to give more structure, in relation to the now more clearly stated research questions, and vis a vis the hopefully richer discussion of underlying mechanisms and hypotheses. The core message remained similar to previous version, since empirical results did not change. However, it should now be easier to understand the implications of our much pattern-less results for theory: (a) heterogeneities across countries prevail over attempts to taxonomize; (b) different types of employees may differently participate/have power in the within-firm structure of inequality, as reflected by different patterns merging across our two measures of within-firm inequality; (c) offering the opportunity to bargain at the firm-level, on top of more centralised levels, although it may reduce bargaining power of workers, do not necessarily create inequalities.

Specific points raised by the referee

Comment: *“There seems to be a pretty substantial amount of literature... the other conceding that major departure pertains to specific focus on the occupational-related content ... we need to hear more about ...”*

As clarified above, we were admittedly unclear (and perhaps a bit too much cautious) about the contribution of our work, which goes beyond adding the occupation-related measure of within-firm wage inequality. That is an important dimension, since occupation and place in the hierarchy ladder may matter for the relative control over within-firm distributional dynamics. Yet, solicited by referees and the editor, we now give more space to other important contributions of the article.

Comment: *“The analysis seems perfectly competent ... but the article could really use a robust engagement with varieties of capitalism literature or at least a set of hypotheses ... But the discussions aren’t integrated in any way.”*

Well, as explained, much of the restructuring was exactly following the lines suggested here by the referee. We now try to provide more guidance, also with reference to varieties of capitalisms, although we speak of a sort of “narrow version” of it, since we are here looking at only one specific

institutional dimension – wage bargaining regime featuring a country – which does not map one-to-one with placement of each country in a category of the traditional dual distinction between “fre-market” vs. “coordinated-market” varieties of capitalism.

Comment: “*Similalry, the time differences are undertheorized...*”

Again, as explained above, we tried to have clearer predictions about what one could possibly expect over time. A specific emphasys to this is given in new intro, and we try to clarify what we expect in one of the paragraph added at the end of new Section 2. At least to the extent allowed for by our data, where do not directly measure the specific content of wage bargaining occuring in the firm, but only observe some tendencies of a diffucion of such practices among most countries.

Comment: “*On p. 11 the author states that the sample is limited to only firms with at least some form of collective bargaining ...*”

Yes, the referee is right in this, but we do not see a particularly big issue here, as long as we are asking a clear research question: Do firms that also apply firm-level bargaining ~~differe~~ from firms that do not? The fact that the groups of firms applying some form of collective bargaining is larger in some countries than in others exactly motivates our choice to run separate analysis by country. What FLB and non-FLB firms mean do vary by country, but the definition to distinguish them is consistent in the dataset. We do not ~~pretend (and do not need)~~ to have a representative sample of the entire country, but a representative sample of the population of interest, which the SES is ~~believed to ensure~~. The large set of controls and the estimation strategy then takes care of selection and of an appropriate “ceteris paribus” comparison. In the new version: (a) we discuss the “peculiarity” of the UK (and partially also of the Czech Republic), so that this point is perhaps more clear than before; (b) we add some further information in Table 1, also showing percentages of firms that do not apply any form of bargaining, in fact signaling the expected high proportion featuring UK and CZ.

Comment: “*In Table 1 there are dramatic differences ... Why?*”

Well, sincerely there is not much we can do to check underlying dynamics: this is simply due to the original SES data. It may be that a different sampling startegy has been implemented. We cannot but rely on the fact that the sample remained representative in 2010 as it was in 2006. Our strategy implicitly compares average within-firm inequality across FLB vs non-FLB firms in the two years: all we need is that firms in the two groups are representative enough of each country in those years, while controls and p-score tackles cure residual omitted variables and selection biases.

Small issues:

- “... *employees sampled, right?*”: yes, we fixed the text
- “... *without firm fixed effects*”: while ~~it would be quite wrong to fail including~~ firm fixed-effects ~~into~~ the first-step preliminary Mincerian regression, we do not actually use fixed effects in main equation (second step), as we do not have a panel. This is a possible misunderstanding driven by our text, since also another referee asked for panel techniques.
- “... *This is an odd finding, no? May it have to do with the unique set of UK firms ...*”: see comment above concerning UK. Beyond that, in theory, it would also be possible that large

firms are less unequal, to the extent that unions and/or bargaining power is stronger there, and that such power is exercised to pursue compression of wages. We do not analyse this further: size is just a control variable in our study, which we do not overemphasize.