Dear Editor,

we eventually managed to conclude our revision. Thanks to your comments and suggestions, as well as to many interesting issues raised by reviewers, we hopefully improved the quality of the article.

Detailed replies to each of the three reviewers' report are provided in separate files attached to the new submission. We here just want to summarise the more general changes implemented to respond to the main points you suggested into your decision letter.

At a general level, we restructured introduction and previous version of Section 2 to better place the paper in the literature, with a twofold aim. First, enlarging the background beyond traditional economic literature, that is encompassing relevant contributions from other fields. They suggest a number of relevant factors and possible channels explaining the multifaceted relations between inequality and level of bargaining. Of course, in the article we do not intend (and could not, due to data available) to explore the relative importance of all of them, but it is worth having a wider positioning. In the new introduction we try to clarify what in this literature is relevant for the specific research focus we have in our paper, that is, asking whether within-firm inequality (as distinct from nation-wide wage inequality, or wage differences for the same job between firms) is higher or not in firms that apply firm-level bargaining.

The second aim guiding the restructuring intro and background section was to respond to the suggestion that the previous version of the paper would have benefited from some theoretical elaboration, guiding the reader on what one could expect from the empirical analysis, and stressing more the cross-country and time dimension of our analysis. Frankly, we have been a bit reluctant about how to address this certainly well posed comment: we would have like much more detailed data on country characteristics and institutions (of various type, beyond bargaining regimes) to provide a test of interesting propositions put forward in Cobb article Or adaptation of that explanation of overall country-wide inequality to our research question about within-firm inequality). And, we would have like to have a unified theory that predicts a clear (e.g. positive) relation between firm-level bargaining and within-firm inequality, offering sharp motivations why such relation should be invariant or not across countries and over time. But there are many and contrasting effects that theories suggest being in place, and thus, we could not really go so far as providing sharp hypotheses/propositions in the revised version. We think it more forthcoming and scientific to keep preparing the reader about the fact that different empirical results may emerge. Overall, our findings shed light on which of the possibly contrasting mechanism seem to prevail, at least within the scope and limitation of our analysis. Eventually, in the revised version we ended up with a mixed solution: (a) we detail our overall research question in three different points, concerning the type of inequality, across-country and over time; (b) for each of these three research questions, we explain what one could expect a priori from theories; (c) we explain to what extent, our empirical result offer a "test" for which are the empirically more robust explanations (or channels or theories) among the possibly many underlying each research question. This strategy hopefully makes the article more complete, and surely helps to highlight the contribution of the article.

In addition to intro and background sections, we also rewritten the conclusions. In fact, we can now take stock --as reviewers implicitly suggest -- of the improved intro and background section to improve the interpretation and discussion of results. Once research questions and underlying mechanisms are more clearly stated, it is of course easier to discuss the findings. The conclusions in the previous version were admittedly a bit too much of a list of findings, while we now have hopefully a more interesting discussion matching with hypothesis and theories.

There is also another issue that you and referees raised, concerning the empirical methodology in general, and possible biases due to estimation method and the selected sample. As you see, in the revised version, the empirical strategy and methodology have remained practically unchanged (apart from providing some more detail on the data, and showing to one of the referees the results of an additional exercise taking a different dependent variable that she/he is suggesting).

Let us explain why this is so, as we suspect that some misunderstanding was possibly created by the way we presented the analysis in the previous version.

First, concerning possibly alternative estimation methods, note that we do not have a panel dataset. For each country, we have two separate cross sections, one for the year 2006 and on for the year 2010. So, there is nothing like a standard diff-in-diff or GMM-like analysis that we can do here. What we do is something very close to that, however, and quite robust and trustworthy --as in fact two referees recognize. In fact, just by placing appropriate dummies for FLB interacted with time, our regressions exactly compare averages of dependent variables across FLB and non-FLB firms, and over time. Plus, by controlling for a bunch of firm-level and employee-level characteristics, and introducing a propensity score for FLB propensity, we really clean a lot of sources of bias. It is difficult for us to imagine an alternative methodology that may be feasible to apply to our data. We do not dwell on this in the revised versions, since it would be confusing to report a lists of methods that one would have liked to apply, but could not. We nevertheless changed part of the text to better clarify what we do.

Second, regarding the sample, there seems to be worries that our results are somehow biased by the fact that we leave out firms that do not have any form of collective bargaining (neither at firm-level nor at higher levels, such as regional, sectoral or national). Here, again, it might be that we did not explained well in previous version. The issue about whether "no collective bargaining at all" vs. "some form of bargaining" is of course interesting, and in fact the object of a wide literature on the role of bargaining and unions. However, our paper is doing something else: we compare firms that engage in collective bargaining at the local level (FLB) vis-à-vis firms that apply some *other* form of bargaining, since this is the only meaningful comparison for the very nature of FLB. FLB is everywhere (and defined like this in the data) additional to other levels: there is no firm that applies FLB without also applying other levels of bargaining, and this is usually what happens by the law. Thus, removing firms with no bargaining at all does not directly matter. We try to clarify this in the revised version, and also add — for the sake of completeness — some more details on shares of different types of firms, as one of the referees suggested.

Thanks again for your assistance. Best regards,

Federico Tamagni (also on behalf of coauthors)