

Econ 613 Reading notes

BARGAINING, SORTING, AND THE GENDER WAGE GAP

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Earlier studies point to two complementary channels for generating gender disparities in wage: a sorting channel that arises if women are less likely to be employed at higher-wage firms, and a bargaining channel that arises if women obtain a smaller share of the surplus associated with their job. The motivation of the paper is to provide the first comprehensive analysis of the impact of firm-specific pay premiums on the gender wage gap and how sorting and bargaining channel affect firm-specific pay premiums.

Firstly, the paper presents some descriptive evidence on the patterns of wage changes and some basic facts are consistent with the wage-setting model, the exogenous mobility condition and the symmetry implications of the AKM model with exogenous mobility. Descriptive analysis confirms that firm-specific wage premiums are an important feature of the wage structure and moves between matched groups of firms affect the wages of men proportionally more than the wages of women, which can be interpreted as strong qualitative evidence that men have greater average bargaining power than women.

Secondly, the paper fits the wage-setting model, which includes fixed effects for individual workers and fixed effects for employers that measure the wage premium paid by each firm relative to some reference firm or group of firms based on AKM model. Estimates of the model show among both male and female workers, person effects account for about 60% of overall wage variation, firm effects account for about 20%, and the covariation in worker and firm effects account for an additional 10%. Moreover, as the wage-setting model is estimated by OLS, the orthogonality condition must hold for unbiased estimation.

Thirdly, the paper decomposes the difference in pay premiums into a combination of bargaining power and sorting effects based on the traditional Oaxaca methodology. In order to conduct the decomposition, the paper renormalizes the estimated firm effects from the models firstly. The paper finds that the under-representation of women at firms that offer higher wage premiums for both gender groups – the sorting effect – explains about 15% of the overall 23 log point gender gap in Portugal. Another 5% is attributable to the fact that women gain less than men from higher-wage firms – the bargaining effect. Furthermore, when assigning each worker to his or her modal occupation, it is obvious that the gender wage gap varies widely across occupations.

Additionally, the paper checks the robustness of findings by an alternative normalization based on the assumption that firms in the hotel and restaurant industry pay zero rents to workers on average. The estimated sorting effects are invariant but bargaining effects, however, are uniformly larger. Overall, this alternative normalization suggests that our baseline procedure leads to a conservative estimate of the bargaining power effect.

Next, the paper establishes and estimates rent sharing model and identifies women receive a smaller share of the component of firm-wide rents that are directly related to excess value-added. As the above, the paper decomposed firm-wide rents gap in gender into bargaining and sorting channels and there is evidence that bargaining and sorting based on the observable component of surplus account for about 80% of the overall impact of firm-specific pay premiums on the gender wage gap.

Finally, the paper examines the effects of changes in the average surplus per worker on the wages of men and women who remain with the firm over a multi-year period. Reassuringly, the paper obtains a nearly identical 90% estimate of women's relative bargaining power, suggesting that the wage setting model with gender-specific bargaining parameters can successfully explain both the between-firm structure of relative wages for men and women and the variation over time at a given firm in male and female wages.