The Impact of Firms on the Relative Pay of Women Across Countries

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Gender wage disparity persists globally, with women consistently earning less than men despite similar levels of human capital. One potential explanation for this enduring gap is the imperfect nature of labor markets, granting firms some discretion in setting wages, thus fostering inequality among equally skilled workers. If women are disproportionately represented in lower-paying firms or negotiate less favorable wage agreements compared to their male counterparts, these firm-specific premiums would contribute to the gender wage gap (Card, Cardoso and Kline 2016). Comparing the influence of firm-specific wage premiums on the gender wage gap across countries offers insights into how labor market imperfections shape gender inequality.

To this end, we build a harmonized dataset using administrative employer-employee datasets from the US (Washington state) and European countries (Denmark, France, Hungary, Finland, Portugal, Norway, Netherlands, and Sweden) for 2010–2019 with information on hours worked and hourly wages, combined with firm-level financial data.

We define firm-specific wage premiums using the statistical model of Abowd, Kramarz and Margolis (1999). Then, we closely follow the influential contribution of Card et al. (2016) by first measuring the overall contribution of firms to the gender wage gap.

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The impact of firms on the relative wage of women differs across countries. The fraction of the gender wage gap that firm-specific wage premiums can explain varies between 75% in the US and 20% in France. For comparison, the canonical paper in the literature, Card, Cardoso and Kline (2016) uses Portuguese data to find that the overall contribution of firm-specific pay premiums to the gender wage gap accounts for 21%. The role of firms is particularly high in the US. In other countries in our sample, the firm-specific premiums explain 40 to 20 % of the gender wage gap.

The reasons for the importance of firm-specific wage premiums also differ across countries. Wage premiums play a role either because women work in different firms than men (sorting channel) or because women negotiate (or are offered) worse wage bargains with their employers than men (bargaining channel). We find more variation in the reasons for firm-specific wage premiums than the overall effect of firms. In Denmark, bargaining dominates. In contrast, in Portugal (consistently also with CCK) and Finland, sorting dominates. In the US, Sweden, and France, both components contribute almost equally to the overall contribution of wage premiums to explain the gender wage gap.

Our data allow us to explore heterogeneity within countries. Consistently for all countries, we find that the importance of the bargaining channel is more pronounced among high-wage workers and more productive firms. The result likely reflects the greater role of individual wage setting in such jobs.

References

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