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Conference Paper

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Beiträge zur Jahrestagung des Vereins für Socialpolitik 2016: Demographischer Wandel -
Session: Macro-Labor, No. A18-V3

Provided in Cooperation with:

Verein für Socialpolitik / German Economic Association

Suggested Citation: Bredemeier, Christian (2016) : Wage Gaps, Earnings Gaps, and the Market Power of Employers, Beiträge zur Jahrestagung des Vereins für Socialpolitik 2016: Demographischer Wandel - Session: Macro-Labor, No. A18-V3, ZBW - Deutsche Zentralbibliothek für Wirtschaftswissenschaften, Leibniz-Informationszentrum Wirtschaft, Kiel und Hamburg

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Wage Gaps, Earnings Gaps, and the Market Power of Employers

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Extended abstract for presentation at the Annual Conference of the German Economic Association (VfS), Augsburg, September 2016

Empirically, women are found to be, on average, less mobile between employers than men (Barth and Dale-Olsen 2009; Ransom and Oaxaca 2010; Hirsch, Schank, and Schnabel 2010). Stylized evidence on inter-firm mobility by gender suggests that an average firm that reduces pay by 1% relative to competitors would loose 3% of its male workers but only 2% of its female workers. This gender difference in inter-firm mobility contributes to the gender wage gap through monopsonistic discrimination. Imperfect worker mobility gives market power to firms which they use to keep down wages and they can do more so for women. Quantitatively, the stylized evidence on gender-specific inter-firm mobility implies a gender wage gap due to monopsonistic discrimination of about 8 log points which is roughly 40% of the current gender wage gap in the US.

This paper argues that an important reason for women's lower inter-firm mobility is the gender earnings gap, i.e., the fact that women earn mostly less than men. When choosing employers – or, whether to stay with theirs, – workers weigh pay against non-pay job characteristics. For the case of a double-earner household, relative pay differences between firms are less important when they concern the secondary earner. In turn, non-pay characteristics are relatively more important when choosing an employer for the secondary earner in a household. For this reason, secondary earners are less likely to respond to pay differences between firms or, put differently, they are less mobile between firms. Since, empirically, most secondary earners are women, this can explain why women are, on average, less mobile between employers than men.

I formalize this point in a model of a monopsonistic labor market in the style of Bhaskar and To (2003). The key novelty of the model is that I endogenize the inter-firm mobility of workers by

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explicitly modelling their choice of employers. In couple households, spouses take their labor-supply decisions jointly. In the calibrated model, 80-95% of the gender gap in inter-firm mobility can be explained endogenously as a consequence of the gender earnings gap, depending on specification. Further (exogenous) contributors to the gender mobility gap can be differences in preferences, job finding rates, and firm concentration. The important role of the earnings gap for the mobility gap implies that men and women with similar labor-market outcomes also show similar rates of inter-firm mobility, in line with the evidence by Manning (2003).

Putting thing together, the gender gap in inter-firm mobility is a contributor to the gender wage gap as well as a consequence of the gender earnings gap. This implies a mutually enforcing cycle between the gender wage gap, the earnings gap, and the market power of employers vis-à-vis men and women, respectively.

Understanding inter-firm mobility as endogenous has important implications. I document four biases that occur when when inter-firm mobility is mistaken as exogenous. First, one underestimates the importance of labor-demand factors such as productivity or taste-based discrimination. Second, one overlooks labor-supply factors as wage determinants. Third, one overestimates the causal contribution of monopsonistic discrimination to the gender wage gap. Fourth, one underestimates the effects of changes in firms' labor-demand behavior or in social norms as well as the effects of policy reforms on gender gaps on the labor market.

Further, I demonstrate that conventional Blinder-Oaxaca decompositions underestimate the "explained" part of the gender wage gap because they can not account for the role partner characteristic play for one own's inter-firm mobility and, hence, the market power employers have to keep down one's wage. As a final implication, my model can contribute to our understanding of seemingly anomalous trends in female job satisfactions and life satisfaction.

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