THE GENDER PAY GAP: New evidence from Italy on what drives inequality between men and women's earnings

New evidence suggests that women suffer an earnings penalty with respect to their male colleagues because they work for firms that pay lower wages to all employees. But even when women are able to climb the ladder and work for high-pay firms, they still suffer a penalty because of their lower bargaining power.

These are among the findings of research by **Alessandra Casarico** and **Salvatore Lattanzio**, to be presented at the annual congress of the European Economic Association in Manchester in August 2019.

Their study shows that women have a lower probability of changing jobs and moving towards firms with higher pay rates, compared with men: this differential mobility particularly penalises highly skilled women. They also find some evidence that gender quotas increased the bargaining power of newly hired women and attracted more skilled women.

More…

Do firm pay policy contribute to explain the gender pay gap? If so, is it because women *sort* into firms with lower pay rates or is it because women are worse than men at *bargaining* on their pay and their promotion?

This study addresses these questions using rich administrative data that record the work and pay history of approximately 22 million workers in Italy in the private sector between 1995 and 2015.

The gender wage gap has decreased remarkably starting from the 1960s but its decline has stalled. The median gender wage gap in OECD countries was 13.9% in 2016 against a value above 30% in 1975, but only 1.7 percentage points below its value in 2005.

The behaviour of firms can be an important determinant of these patterns: this observation justifies, for example, the choice of some countries to impose disclosure policies that require firms to report the pay levels of men and women (for example, Equality Act in UK or Non-financial reporting in Italy).

The new analysis reveals that:

- Sorting across firms and differences in bargaining power within firm account for 20% and 10%, respectively, of the average gender pay gap between 1995 and 2015.

- These results hold on average and across the distribution of wages, except at the top, where differences in bargaining power account for a larger fraction of the gender wage gap than sorting.

- When investigating differences between sectors, sorting accounts for a larger fraction of the gender pay gap for most sectors, but not in finance and ICT, where differences in bargaining power dominate the sorting channel.

Overall, the evidence suggests that women pay a penalty with respect to their male colleagues because they work for firms that pay lower wages to all employees. But even when women are able to climb the ladder and work for high-pay firms, they still pay a penalty because of their lower bargaining power.

To explain differences in sorting and bargaining between men and women, the authors investigate whether the latter have a lower probability of changing jobs and moving towards firms with higher pay rates, compared with men, and find that this is indeed the case. This differential mobility penalises in particular highly skilled women and is related to the variability in wages in the destination firms, with women shying away from those firms with high (unexplained) variance in pay. This is consistent with women being more risk-averse, or less prone to competition or having a higher cost of effort compared to men.

Finally, the researchers ask whether differences in bargaining power by gender are innate characteristics or can be influenced by firm environment. To this end, they exploit gender quotas, introduced in 2011, to estimate their impact on the bargaining power of female and male employees. They find some evidence that gender quotas increased the bargaining power of newly hired women and attracted more skilled women.

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