Behind the Gender Gap in Earnings:
The Role of Firms' Pay Policy Along the Earnings Distribution

Alessandra Casarico
Salvatore Lattanzio

Abstract

This study analyses the role of firms in the determination of the gender pay gap. Using a matched employer-employee dataset for Italy, we show the existence of firm-specific premia which are different across gender and which explain on average 30% of the total gender pay gap over the period 1995-2015. In addition, we decompose differences in premia paid to men and women in a bargaining effect, i.e. men and women receive different premia at the same firms, and a sorting effect, i.e. women tend to work in low-premium firms. We find evidence that sorting plays a major role in explaining gender differences in pay on average and at the bottom of the distribution of earnings, whereas bargaining dominates at the top. We explain the importance of sorting as an outcome of a gender mobility gap, i.e. a differential mobility rate of women relative to men towards firms that pay higher premia. This difference is persistent across various definition of mobility and it is more evident for high-wage workers.