The Firm’s Contribution to the Immigrant-Native Wage Gap in a Dynamic Context: Evidence from Austria and the Fall of the Iron Curtain

Mark J. Lambiris
PhD Candidate, University of Lausanne

1. Introduction

The Question
There is growing evidence that wage-setting differs across firms for workers of similar characteristics, in contrast with a perfectly competitive labour market where workers are paid their marginal product. Could these firm-specific wage premia be one determinant of the wage differential between immigrants and natives? How does a large and exogenous shock to the labour market affect these premia and the wage gap?

Goal of study: assess the contribution of firms to these premia and the wage gap?

The Data
• Austrian social security database, with matched worker-firms records.
• Sample: all men aged 24-54 with full-time work.

2. Fall of the Iron Curtain and Impact

• April 1989: communist regime in Poland falls. Others follow in Eastern Europe.
• August 1989: 600 East Germans break through the Iron Curtain into Austria via Hungary.
• Simultaneous political events resulting in a large flow of immigrants into Austria.

3. The Role of Firms in Wage Determination


4. The Immigrant-Native Gap in Firm Premia

Decompositions Before and After the Immigration Shock

<table>
<thead>
<tr>
<th>Year</th>
<th>Wage Gap</th>
<th>Premium Effects</th>
<th>Immigrant Effects</th>
<th>Native Effects</th>
<th>Bargaining Effects</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(1)</td>
<td>(2)</td>
<td>(3)</td>
<td>(4)</td>
<td>(5)</td>
</tr>
<tr>
<td>1985-1989</td>
<td>-0.051</td>
<td>-0.067</td>
<td>-0.033</td>
<td>0.016</td>
<td>-0.018</td>
</tr>
<tr>
<td></td>
<td>(0.025)</td>
<td>(0.33)</td>
<td>(0.16)</td>
<td>(-0.08)</td>
<td>(0.09)</td>
</tr>
<tr>
<td>1990-1994</td>
<td>-0.080</td>
<td>-0.053</td>
<td>-0.033</td>
<td>-0.027</td>
<td>-0.047</td>
</tr>
<tr>
<td></td>
<td>(0.31)</td>
<td>(0.20)</td>
<td>(0.13)</td>
<td>(0.10)</td>
<td>(0.18)</td>
</tr>
</tbody>
</table>

- NB1: Parentheses: share of the total wage gap (column 1) attributable to that channel.
- NB2: Sample based on firms employing at least 1 Native and 1 Immigrant over period.

5. Results: Bargaining, Sorting and the Fall of the Iron Curtain

BEFORE: 25% of wage gap due to firms.
• Sorting: negative.
• Bargaining: sign depends on types of firms.

AFTER: 31% of the wage gap due to firms.
• Sorting: negative.
• Bargaining: negative and larger than previously.
• 54% of the change in Wage Gap due to firms: \( \frac{0.31 - 0.051}{0.051 + 0.31} = 0.54 \)

6. Relevant Literature


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