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

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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

- the immigrant-native wage gap;
- the change in the wage gap in response to an exogenous immigration shock following the fall of the Iron Curtain.

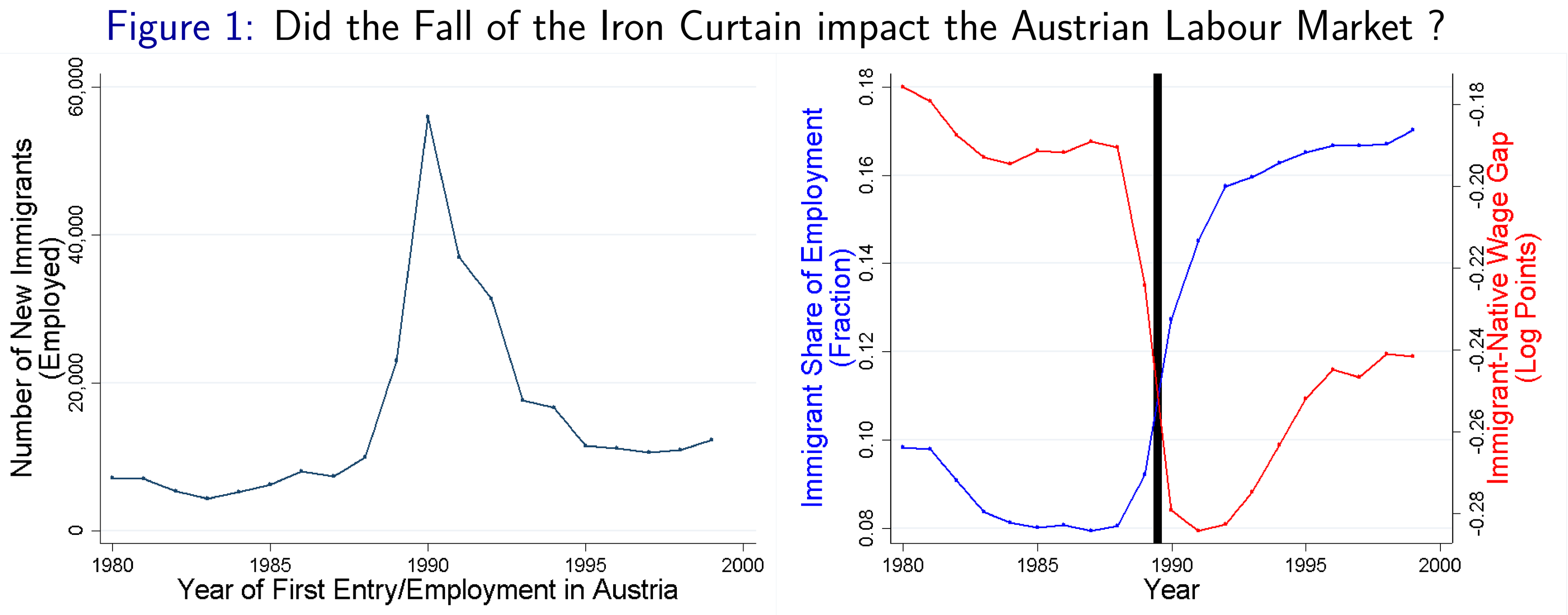
The Data

- 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.
- 1989-1990: Start of the breakup of Yugoslavia.
- ▶ Simultaneous political events resulting in a large flow of immigrants into Austria.

Figure 1: Did the Fall of the Iron Curtain impact the Austrian Labour Market ?



(a) Flow of new Immigrants into Employment (b) Immigrant Share of Employment and Wage Gap

3. The Role of Firms in Wage Determination

- ▶ Basic wage decomposition framework: AKM (1999).

$$w_{it} = \alpha_i + \Psi^{S_i}_{J(i,t)} + X'_{it}\beta^{S_i} + u_{it}$$

- ▶ $\Psi_{J(i,t)}$: FIRM PREMIUM: firm J's specific contribution to the wage.
- Intuition: $\Psi^{S_i}_{J(i,t)} \equiv \gamma^{S_i}\Pi_{J(i,t)}$ where $\Pi_{J(i,t)}$ is the average surplus generated at firm J.
- Different bargains over surplus reached for: $S_i \in \{\mathrm{Native}, \mathrm{Immigrant}\}$.
- Identification of $\Psi_{J(i,t)}$: no endogenous mobility.

4. The Immigrant-Native Gap in Firm Premia

$$E(\Psi^I_{J(i,t)}|\mathrm{immigrant}) - E(\Psi^N_{J(i,t)}|\mathrm{native})$$

$$= \underbrace{E(\Psi^I_{J(i,t)} - \Psi^N_{J(i,t)}|\mathrm{native})} + \underbrace{E(\Psi^I_{J(i,t)}|\mathrm{immigrant}) - E(\Psi^I_{J(i,t)}|\mathrm{native})}$$

$$= \underbrace{E(\Psi^I_{J(i,t)} - \Psi^N_{J(i,t)}|\mathrm{immigrant})} + \underbrace{E(\Psi^N_{J(i,t)}|\mathrm{immigrant}) - E(\Psi^N_{J(i,t)}|\mathrm{native})}$$

BARGAINING EFFECT SORTING EFFECT

- ▶ BARGAINING: mean difference in within-firm premia between immigrants and natives, holding distribution of workers over firms constant.
- ▶ SORTING: immigrants may be more likely to work at firms that pay a lower average premium to all their workers.

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

Decompositions Before and After the Immigration Shock

	(1)	(2)	(3)	(4)	(5)	(6)
			Decomposition of the Premium Gap			
			Sorting; Using:		**Bargaining**; Using:	
	Wage Gap	Premium Gap	Immigrant Effects	Native Effects	Native Distribution	Immigrant Distribution
1985-1989:	-0.205	-0.051	-0.067	-0.033	0.016	-0.018
		(0.25)	(0.33)	(0.16)	(-0.08)	(0.09)
1990-1994:	-0.259	-0.080	-0.053	-0.033	-0.027	-0.047
		(0.31)	(0.20)	(0.13)	(0.10)	(0.18)

- 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.

- ▶ *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:* $\frac{(0.080-0.051)}{(0.259-0.205)} \simeq 0.54$

6. Relevant Literature

- Abowd, J. M., Kramarz, F., and Margolis, D. N. (1999). High wage workers and high wage firms. *Econometrica*, 67(2), 251-333.
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- Oaxaca, R. (1973). Male-female wage differentials in urban labor markets. International economic review, 693-709.

IZA: May 2017, Buch/Ammersee, Germany