

National Wage Setting

Based on BFI Working Paper 2022-150, “[National Wage Setting](#),” by Jonathon Hazell, London School of Economics; Christina Patterson, Chicago Booth; Heather Sarsons, University of British Columbia; and Bledi Taska, Lightcast

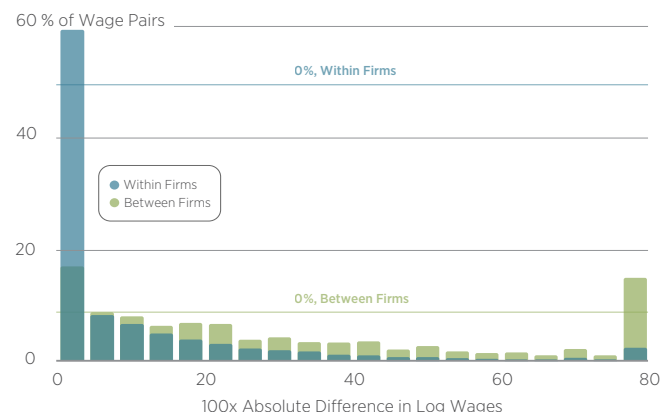
More than 40% of a job’s posted wages are identical across locations within a firm, meaning that a significant minority of firms choose to set the same nominal wage for a job across all their establishments, despite varying local labor market conditions.

Large firms in the United States frequently grow by expanding into new regions, such that local labor markets are increasingly dominated by a small number of large firms that operate in many areas (service-related chains, for example).¹ Given their many locations across heterogeneous labor markets, how do these national firms set wages? This is more than just an academic question, as the answer concerns such issues as wage inequality, the growth of labor market power, and the response of the economy to local shocks. However, little is known about national firms’ influence on these phenomena. This work addresses that gap by employing a novel combination of datasets and a theoretical framework to test empirical findings.

The authors’ primary dataset contains online job vacancies provided by Burning Glass Technologies, including roughly 70% of US vacancies, either online or offline, between 2010 and 2019, of which the authors focus on the 5% that provides posted point wages for detailed occupations across establishments within a firm. These data contain detailed job level information that allow the authors to control for changes in job composition across regions, and they include hourly wages for non-salaried workers and annual wages for salaried workers, which allows them to distinguish between wages and earnings. The authors supplement these data with survey data from human resource professionals, with self-reported salary data, and with reports from firms applying for foreign worker visas, to reveal the following facts:

- There is a large amount of wage compression within firms across space; 40-50% of postings for the same job in the same firm—but in different locations—have exactly the same wage.
- Identical wage setting is a choice made by firms for each occupation—for a given occupation, some firms set identical wages across all their locations, while the remaining firms set different wages across most of their locations.

Figure 1 • Distribution of Wage Comparisons Between and Within Firms



Notes: This Figure shows the distribution of wage differences for within-firm pairs (blue) and the corresponding between-firm pairs (green). 49% of within-firm pairs post exactly the same wage, while only 8.9% of between-firm pairs post the same wage. That number rises to 52% if we consider all within-firm wage pairs rather than just those with a between-firm match. Moreover, 62% of within-firm pairs are within 5% of each other, while only 19% of between-firm pairs are within that same band. Please see working paper for more details.

¹ See C.-T. Hsieh and E. Rossi-Hansberg (2021) “The Industrial Revolution In Services,” including links to a Research Brief and Economic Finding: bfi.uchicago.edu/working-paper/the-industrial-revolution-in-services/

- Within firms, nominal wages are relatively insensitive to local prices.
- Firms setting identical wages pay a wage premium.

The authors compare wage growth in the same job across different establishments over time, and they study the effect of a local shock to wages to provide evidence that the identical wages described above are due to national wage setting. They also survey firms to discover a range of reasons for why they choose to set wages nationally, including hiring on a national market, simplifying management, and adhering to within-firm fairness norms. Of note, government policies such as minimum wages do not appear to drive national wage setting. These reasons point to a mix of firm and occupation specific factors that matter more for higher wage workers, and which suggest that nominal pay comparisons matter to workers.

The authors also develop a model-based exercise to measure the profits at stake from setting wages nationally. Please see the working paper for details, but this theoretical exercise reveals that in the absence of national wage setting, wages for national wage setters would vary across establishments by a median of 6.1%, and profits would be 3 to 5% higher. If firms set wages nationally to raise productivity, the authors' estimate bounds the increase in profits that is needed to make national wage setting optimal.

Finally, this work has three key implications with policy relevance. National wage setting:

- Reduces aggregate nominal wage inequality by roughly 5% by compressing nominal wages across space.
- Raises employment in low-wage areas. Likewise, national wage setters seem to reduce aggregate wage and earnings inequality without dis-employment effects, through raising wages in low-wage regions.
- Raises regional nominal wage rigidity, meaning that regional wages (absent inflation) are more resistant to change.

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