

"The Effect of Negotiation on Securing Equal Pay for Equal Work" with R. Gihleb and L. Vesterlund

Abstract

Negotiation is thought to contribute to wage dispersion, either because it allows more productive workers to exploit their bargaining position, or because negotiation skills cause variation in compensation conditional on productivity. Concern for the latter has led some corporation to directly ban negotiations. The effect of negotiation on wage dispersion is however not well understood. This study sheds light on the interaction by first determining the dispersion that results when individuals endogenously decide whether and how to negotiate, and second by examining the counterfactual of an exogenous ban on negotiation. To ensure variation in bargaining power and in subjective assessment of worker effort we assign workers to either a high or low productivity task. Negotiation is shown to generate wage dispersion both between and within tasks. Negotiation only affects the earnings of those on the high productivity task, with some forms of negotiations being more effective than others. We find that banning the negotiation does not cause managers to behave as if a negotiation took place, rather the ban reduces the relative pay advantage of the high-productivity task. We further document that negotiation leads to a gender wage gap, as only men gain from negotiating. A ban however eliminates the differential and causes men and women to receive the same compensation conditional on task.