CFM-DP2022-03

National Wage Setting

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How do firms set wages across space? This question is important in the United States and around the world, because local labor markets are increasingly dominated by a small number of large firms that operate in many regions. We study how firms set wages using vacancy data with detailed job-level information, and supplement this analysis with a survey of HR managers and self-reported data on workers' wages. Standard models of the labor market assume that firms vary wages freely across space, adjusting wages across space to account for local differences in productivity or labor supply. Unless firms face identical labor market conditions, this will lead to differences in wages across locations within the firm. In this paper, we find that instead, wages within the firm are very compressed, with around 30-40 percent of jobs within the firm having exactly the same posted wage. Compared to differences between firms, nominal posted wages within the firm vary relatively little with local prices, a pattern that is present for realized wages as well. Using the pass-through of local shocks to wages in other locations of the firm, we argue that the limited variation of wages within firms is due to national wage setting, meaning that firms choose rigid pay structures in which they set very similar nominal wages for the same job in different regions, even if labor market conditions are different across the locations. Our survey suggests that one reason firms set wages nationally is that nominal, rather than real, wage comparisons matter to workers.