

The Employer Size Wage Effect: Within and Across Firms

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Abstract

We revisit the employer size wage effect (ESWE)—the perhaps most influential departure from the law of one price for labor. Our main result is that this canonical fact *disappears completely* across establishments within the same firm. Our simplest vehicle for this result is to augment the standard ESWE regression of wages on establishment size with a *firm fixed effect*. This research design requires population-wide triple-merged firm-establishment-worker data, which we obtain in the context of Germany (where about 25% of employment is in multi-establishment firms). The precisely estimated zero effect of employment on wages implies that establishments are large or small without any relationship to wages whatsoever. This is despite substantial wage variation across establishments within a firm. This wage-size decoupling poses a challenge to the monopsony view. According to monopsony, employer size and wages go hand in hand, with the inverse finitely elastic firm-specific labor supply curve corresponding to the ESWE (with caveats we discuss and attempt to address). Instead, our findings point towards rationed labor supply, rent sharing, and firm-level personnel policies as theories of wage setting and labor demand. Consistent with multi-establishment firms hiring *off* their labor-supply curves, we find that they pay premia above and beyond what monopsony and firm-specific labor supply would demand. Our paper also includes the first systematic meta-analysis of the ESWE.

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