

“PAY INEQUALITY AND ECONOMIC PERFORMANCE:
THREE EMPIRICAL ESSAYS”

Summary:

This thesis focuses on personnel economics and more particularly on the relationship between pay inequality and economic performance. I empirically investigate: i) the magnitude and the sources of wage structure differences among employers of different sizes, ii) the effect of within-firm wage dispersion on firm performance and iii) the effects of prizes and heterogeneity in players’ abilities on players’ performance in a professional sport.

The first chapter is devoted to the analysis of the determinants of the structure of wages among employers of different sizes. I use a unique matched employer-employee data set covering several European countries (the ‘European Structure of Earnings Survey’ for the year 1995) to examine: i) the magnitude and sources of the establishment-size wage premium and ii) how the distribution of wages differs among small and large establishments. In the first section, I test the validity of various traditional explanations of the size wage gap (i.e. the labour quality hypothesis, the theory of compensating wage differentials, the role of monitoring and institutions) and of more recent hypotheses (i.e. size differences in job stability and in the concentration of skilled workers). I find some support for traditional explanations, but there remains a significant wage premium for workers employed in large establishments. The magnitude of this premium fluctuates substantially across countries and is negatively correlated with the degree of corporatism. Also noteworthy is that part of the *firm*-size wage premium in Belgium is due to higher productivity of workers among large firms. Final results indicate that the *establishment*-size wage premium is generally larger in the manufacturing sector and for blue-collar workers. In the second section, I investigate how the distribution of wages differs among small and large establishments in four European countries. Empirical findings indicate that *within*-establishment wage dispersion rises with size because large employers have a more diverse workforce. However, they suggest that smaller establishments more closely link pay to performance, particularly in countries with a low degree of corporatism, because they can better measure the individual performance and set up perceptions of pay equity. Further results indicate that *between*-establishment wage

dispersion decreases with employer size because smaller establishments are more technologically diversified and hence exhibit greater diversity in average workforce skills.

The second chapter examines the effect of intra-firm wage dispersion on firm performance in the Belgian private sector using a unique matched employer-employee data set. This data set has been obtained by merging the ‘Structure of Earnings Survey’ with the ‘Structure of Business Survey’ for the year 1995. I find a positive, significant and hump-shaped relationship between intra-firm wage dispersion and firm performance, even when controlling for individual and firm characteristics and addressing potential simultaneity problems. Results also suggest that the intensity of this relationship is stronger for blue-collar workers and within *large* firms with a high degree of monitoring.

The third and final chapter contributes to the understanding of the economics of sports. This study examines how professional female tennisplayers react to: i) prize incentives and ii) heterogeneity in *ex ante* players’ abilities. It is found that a larger prize spread encourages women to increase effort, even when controlling for many tournament and player characteristics. Further results indicate that uneven contests lead favourites to win more games and underdogs to be less performing. They also show that the performance differential between the favourite and the underdog increases with the ranking differential. The latter findings suggest that the outcome of a match is more linked to players’ abilities than to players’ incentives to adjust effort according to success chances.