

Firms Beliefs About Wage Setting

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October 2023

This paper yields new insights into why similar workers are paid differently by surveying Danish firms on their belief about wage setting and linking responses to administrative data. We first assess whether firms correctly perceive their actual position on the wage distribution by asking whether they pay higher or lower wages than firms competing for the same workers and comparing the answers to objective wage measures. We find that a substantial minority of firms misperceive their position on the wage distribution. Inaccurate belief is more likely to occur for smaller and younger firms. Inaccurate beliefs is associated with higher workers' separation rate. We then document firms' motives to set higher or lower wages than their competitors. The main motive for setting high wages is in line with search models, i.e., to retain and attract new employees. Efficiency wage and rent-sharing motives come next. Compensating for negative job characteristics is the least common motive to set high wages.

We thank participants at the EALE, the University of Copenhagen, the IRLE institute at the University of Berkeley, the Workshop in Labour Economics in Helsinki, and the Danish Ministry of Economy. We thank Sydnee Caldwell, David Card, Ingrid Haegele, Nikolaj Harmon, Kristoffer Hvidberg, Patrick Kline, Attila Lindner, Simon Jäger, Ricardo Perez-Truglia, Benjamin Schoefer, Sonja Settele, Daphné Skandalis, and Johan Sæverud for their comments. We thank Christian Gormsen Schmidt and Jakob Roland Munch for providing access to administrative vacancy data and wage bargaining data. Antoine Bertheau appreciates the financial support from the Danish National Research Foundation (Niels Bohr Professorship) and the Economic Policy Research Network (EPRN). We are grateful to Morten Bennedsen, Marianna Kudlyak, and Birthe Larsen who contributed to the development of the survey. The views and conclusions expressed in this paper are strictly those of the authors. They do not necessarily reflect the views of Danmarks Nationalbank. All errors are our own. Bertheau: NHH Norwegian School of Economics and IZA (www.antoinebertheau.com). Hoeck: University of Copenhagen and Danmarks Nationalbank (www.christianhoeck.com). This version: November 1, 2023.