

WITHIN-FIRM WAGE GAPS BETWEEN FOREIGN AND DOMESTIC WORKERS

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Abstract

This paper uses large linked employer-employee data that cover 1.7 million employees in over 30'000 firms to study foreign-domestic wage gaps in Switzerland within firms. We develop a novel, semi-parametric approach to measure sorting into different firms and to study heterogeneity in within firm wage gaps. We find that average gaps between foreign and domestic workers in Switzerland are relatively small but larger for men than for women. However, the average gaps hide important heterogeneity. Our empirical results suggest that high-skilled foreign workers sort into firms that pay higher wages than the firms that comparable natives choose, while low-skilled foreign workers sort into lower-paying firms. Within-firm gaps are positive for highly educated foreign workers and in high-wage jobs and negative for less-educated workers and in low-paying jobs. Supporting evidence suggests that the relative scarcity or abundance of foreign workers in these types of jobs may explain these differences.

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