



Exploring Gender Inequality: Firm Contribution and Policy Effects

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RESEARCH



ABSTRACT

We discuss how firms contribute to gender wage inequality, focussing on the role of employer heterogeneity and firm-level responses to childbirth and public policies to support parenthood. We show that firm pay policies contribute to the gender pay gap in a number of countries, with sorting into low-paying firms playing a key role. Such sorting is particularly evident after childbirth. The effectiveness of policies depends on responses at the firm level: on the one hand, firms may statistically discriminate against women in response to policies designed to protect mothers; on the other hand, they provide an environment in which, through peer effects, policies to reduce gender inequality achieve broader goals.

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1 INTRODUCTION

The gender wage gap continues to be a significant issue in labour markets worldwide, with profound implications for economic performance and gender equality. Despite a marked decline over the last decades, inequality persists. In 2022, in OECD countries, median earnings of women were on average 11.4% lower than those of men, with large differences across countries.

A large literature documents the extent of gender wage gaps and their evolution over time,¹ and offers explanations for their presence (7). Demand-side factors, such as taste-based or statistical discrimination,² and supply-side factors, such as productivity and work effort differences, are among the explanations surveyed in Altonji and Blank (8). More recent explanations of the persistent gap in pay focus on the role of social norms (9), differences in psychological traits (10, 11), and the presence of children (12, 13).

Unequal outcomes by gender depend not only on the characteristics and behaviour of female and male workers, or on their childhood environment (14), but also on the behaviour and choices of their employing firms. In recent decades economists have paid particular attention to imperfect labour markets where firms have wage setting power (e.g., 15, 16). Departing from the standard pure competitive model of the labour market, in which workers are paid according to their marginal product of labour, within imperfect labour markets employers influence wage structures and career trajectories through their pay policies, employment practices, and responses to labour market frictions.

The increasing availability of matched employer-employee data enables the observation of workers across firms and closer consideration of the role of demand-side factors in explaining the extent and dynamics of inequality in general, and gender inequality in particular. Indeed, the literature shows that there are large earnings differentials across firms and that the change in the variance of earnings between different firms explains a significant part of the trend in earnings inequality (see (17) and (18) for evidence on the US, (19) for Germany). To this end, firm pay policy can also play a role in explaining the extent and dynamics of gender inequality.

In this paper we address two questions: first, what is the contribution of firms to gender pay inequality? Second, what are the effects on firms and coworkers of public policies aimed at tackling gender inequality? While public policies are often targeted at workers, they also have effects on firms. These should be taken into account for a comprehensive evaluation of policy effects. Answering these questions is crucial for designing effective interventions that promote workplace equality. To do so, we first review the literature on how firms influence the gender wage gap. In particular, we focus on the role of employer heterogeneity, sorting mechanisms, and firm-level responses to childbirth, an event which still sets mothers and fathers on diverging career paths, with implications for their incomes. Second, we provide examples of policies designed to support parenthood, investigating firm-level responses. Finally, we offer some suggestions on what we believe are relevant directions of research to fully understand the role of demand side factors in perpetuating or reducing gender pay gaps.

2 THE CONTRIBUTION OF FIRMS TO GENDER INEQUALITY

2.1 FIRM PAY POLICY AND THE GENDER WAGE GAP

The role of firms in influencing the gender wage gap has been increasingly recognised in recent years, particularly through the analysis of linked employer-employee data. While in competitive markets workers are paid according to their marginal product, in the presence of labour market frictions, firms earn rents that they can share to a different extent with workers with different characteristics.

In their seminal work, Card et al. (hereafter, CCK) introduced an innovative framework for examining gender wage disparities (20) using the Abowd et al. (AKM) model (21). The AKM model divides wage variation into two key components: a worker-specific effect that remains

¹ For cross-country evidence see, for example, (1, 2, 3); for a focus on the US, (4, 5, 6).

² Taste-based discrimination occurs when individuals or decision-makers (such as employers) discriminate against certain groups due to personal prejudices or a 'taste' for discrimination, regardless of the qualifications or productivity of the individuals in those groups. Statistical discrimination occurs when decision-makers rely on group averages as proxies for individual characteristics due to imperfect information about individuals.

constant across employers, and a firm-specific effect, which reflects the wage premium, or penalty associated with a particular employer. For instance, two workers with the same characteristics may receive different wages because they are employed by firms with different wage premia. Building on this model, CCK estimated firm-specific wage premia separately for men and women, identifying two main drivers of the gender wage gap: 1) differences within firms, which they label as women's 'relative bargaining power', and 2) differences between firms, with women more likely to work for lower-paying firms, a channel that they label as 'sorting'. Their analysis, focussed on Portugal, showed that roughly 25% of the gender wage gap could be explained by differences in firm effects between men and women. Of this, two thirds can be attributed to the sorting of women in firms sharing lower rents with their workers.

The CCK framework has broadened the research agenda on gender wage inequality by emphasising the role of firms in wage-setting. Unlike traditional models that attribute gender wage gaps to competitive market forces – such as employer discrimination (22), productivity differences (23), or preferences for job flexibility (24–27) – the CCK approach recognises the non-competitive nature of labour markets, underscoring the influence of firms in shaping gender inequality, particularly through differential access to higher-paying employers and varying bargaining power between men and women (28).

PAPER	COUNTRY	WAGE	YEAR	GWG	SORTING	BARGAINING	FIRM GAP
		MEASURE			(GWG %)	(GWG %)	(GWG %)
Li et al. (30)	Canada	Annual	2001–15	0.268	0.029 (10.8)	0.032 (11.9)	0.061 (22.8)
Sorkin (31)	USA	Annual	2000–08	0.335	0.093 (27.7)	NA	NA
Card et al. (20)	Portugal	Hourly	2002–09	0.234	0.047 (19.9)	0.003 (1.2)	0.049 (21.2)
Casarico and Lattanzio (32)	Italy	Weekly	1995–15	0.204	0.042 (20.5)	0.027 (13.3)	0.069 (33.8)
Palladino et al. (33)	France	Hourly	2002–07	0.183	0.019 (10.8)	-0.002 (-1.4)	0.017 (9.4)
Bruns (34)	W. Germany	Daily	2001–08	0.247	0.063 (25.4)	0.001 (0.3)	0.064 (25.9)
Gallen et al. (35)	Denmark	Hourly	2000–09	0.208	0.033 (15.8)	NA	NA
Masso et al. (36)	Estonia	Monthly	2006–17	0.271	0.077 (28.5)	0.031 (11.6)	0.109 (40.1)
Cruz and Rau (37)	Chile	Monthly	2005–13	0.245	0.088 (36.0)	0.007 (3.0)	0.096 (39.0)

Table 1 Review of research designs and estimates in the literature.

Notes: The table reports a selection of papers quantifying the role of firm-specific wage premia on the gender wage gap. *Wage measure* denotes the measurement of the wage variable. *Year* denotes the period. *GWG* denotes the unconditional gender wage gap measured in logs. *Sorting* denotes the CCK sorting component (using female coefficients). *Bargaining* denotes the CCK bargaining component (using male jobs' distribution). *Firm gap* denotes the sum of both components. Source: (29, Table 1).

Building on the methodology developed in CCK, many papers have quantified how firm-specific wage premia contribute to gender wage disparities. Table 1 – taken from Palladino et al. (29) – summarises the results of studies that employ the CCK approach, consistently showing that firm pay premia play a significant role in explaining gender wage gaps. Across these studies, firm wage premia account for between 9% (in France) and 40% (in Estonia) of the gender wage gap, underscoring their importance across different national contexts. Using a unified approach and sample selection across countries, Palladino et al. shows that firm-specific wage premia account for two-thirds of the gender wage gap in the United States, but much less in European countries (29). In addition, most of the firm contribution to the gender wage gap comes for all countries for which we have studies from the sorting channel, indicating that women tend to concentrate at employers who pay all their workers less.

Italy is no exception to this. In Casarico and Lattanzio (32) we applied the CCK decomposition to Italy, analysing employer-employee data from 1995–2015. With a gender pay gap of approximately 20 log points, firm pay premia contribute 33.8% to this gap. Notably, the between-firm component explains over 20% of the total gap, while the within-firm component accounts for 13%.

While the results reported in [Table 1](#) capture the role of firm effects at the mean of the pay distribution, they do not provide information on how firm effects vary along the earnings distribution. Evidence shows that the gender pay gap at the mean is lower than that observed at the top of the distribution and that the increase in the share of women at the very top (say, top 1%) is smaller than in other high percentiles of the distribution (e.g., top 5%; [38](#)). The firm contribution to explaining the gender pay gap and its split across sorting (between-firm components) and bargaining (within-firm components) over the distribution for Italy is reported in [Figure 1](#). The gender gap in firm effects is negligible at the lower end of the earnings distribution, likely due to the role of sectoral minimum wages, but widens in the middle of the distribution before narrowing again in the top deciles. In the lower and middle parts of the distribution, the between-firm component dominates, while within-firm differences become more significant at the top. These findings suggest that the ‘glass ceiling’ phenomenon ([39](#)) is not associated with larger gender gaps in firm pay policy at the top; in addition, the gender pay gap at the top is driven primarily by within-firm components, suggesting that women with high wage potential sort in the same firms as men but receive lower pay.

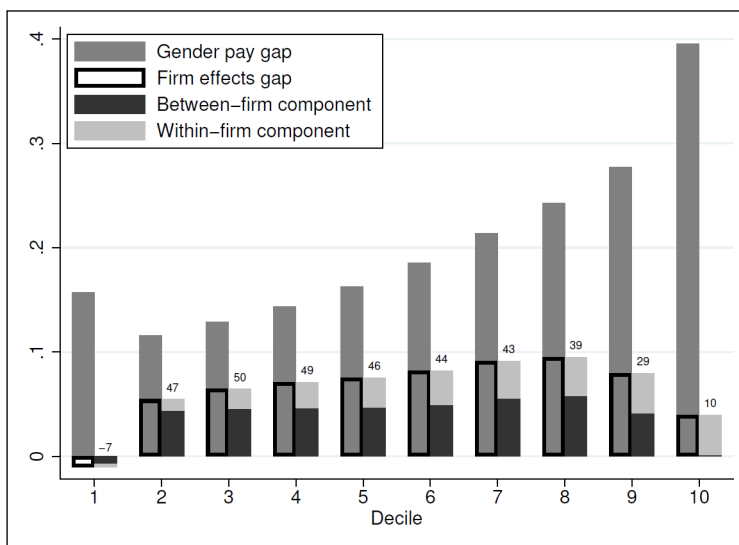


Figure 1 Gender pay gap, firm effects gap, and between- and within-firm decomposition along the earnings distribution.

Notes: The figure shows the gender gap in log weekly earnings, the gender gap in AKM firm effects, and its decomposition into between- and within-firm components across decile bins of the distribution of weekly earnings over the period 1995–2015 (see equations 6 and 7 in Casarico and Lattanzio ([32](#))). The numbers reported at the top of the bars are the ratios between the firm effects gap and the gender pay gap at each decile.

Source: ([32](#), [Figure 3](#)). UNIEMENS, Istituto Nazionale della Previdenza Sociale (INPS).

Thus far, the results we have reported are based on the assumption that firm effects, worker effects, and returns to worker characteristics are fixed over time. However, there is evidence that these factors evolve and, thus, may contribute to the dynamics of gender inequality ([40](#), [17–19](#)). Changes in firm productivity ([41](#)) or shifts in how firms share rents with workers ([42](#)) could lead to fluctuations in firm effects over time. Such shifts may also vary between genders, influenced by factors like changes in the nature of work or shifts in the rewards to specific worker traits ([43](#)). In addition, the contribution of firms to the gender pay gap may vary across different birth cohorts. Arellano-Bover et al. find that most of the reduction in the gender pay gap in the US, Italy, Canada, and the UK is driven by convergence across birth cohorts ([44](#)). The newer cohorts to enter the labour market consistently do so with smaller gender disparities, at least up until the mid-1990s, when convergence slowed down. A relevant question is thus whether we expect the firm contribution to have become more or less important over time and across cohorts as a contributing factor to explaining the gender pay gap.

Regarding the evolution over time, in Casarico and Lattanzio ([32](#)) we estimate separate AKM regressions across four overlapping six-year intervals (1995–2000, 2000–2005, 2005–2010, 2010–2015) and analyse the evolution of firm effects and their within- and between-firm components in each sub-period. As shown in [Figure 2](#), the firm effects gap initially rises between 1995–2000 and 2000–2005 but subsequently declines. Despite the overall decrease in the gender pay gap, the firm effects gap, as a share of the total, increases in importance over time, indicating that the focus on the firm role is even more relevant now than it was in the past. In addition, while the importance of sorting is declining, the within component is rising in relevance. This change in balance between the two forces may reflect changes in wage-setting practices, such as decentralized bargaining agreements, or the impact of rising female labour force participation, which changes the selection of women into the workplace and could reallocate them across firms and affect the relative importance of within- versus between-firm components.

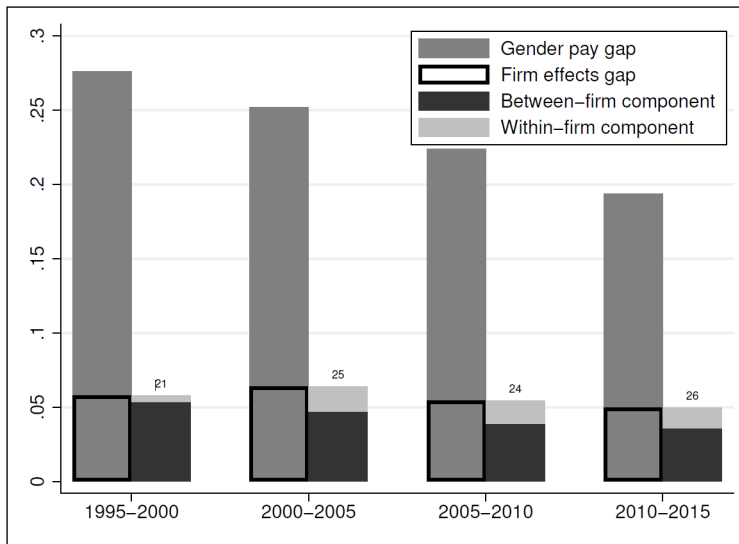


Figure 2 Evolution of gender pay gap, firm effects gap, and between- and within-firm components over time.

Notes: The figure shows the evolution of the gender gap in log weekly earnings, the gender gap in AKM firm effects, and its decomposition into between- and within-firm components over time (see equations 3, 4 and 5 in Casarico and Lattanzio (32)). Gender-specific firm effects are estimated in each of the four overlapping time intervals reported on the horizontal axis. The numbers reported at the top of the bars are the ratios between the firm effects gap and the gender pay gap in each period.

Source: (32, Figure 4). UNIEMENS, Istituto Nazionale della Previdenza Sociale (INPS).

As concerns the evolution of the firm contribution across cohorts, Figure 3 shows that both within- and between-firm improvements contributed to the entry-level gender pay gap reduction in Italy. By the late 1990s, the within-firm gap had largely closed, with men and women receiving equal pay at labour market entry. However, a significant gap persisted between firms, emphasising the role of sorting effects at early stages in male and female careers, with over half of the entry-level gap being linked to gender differences in college major choices.

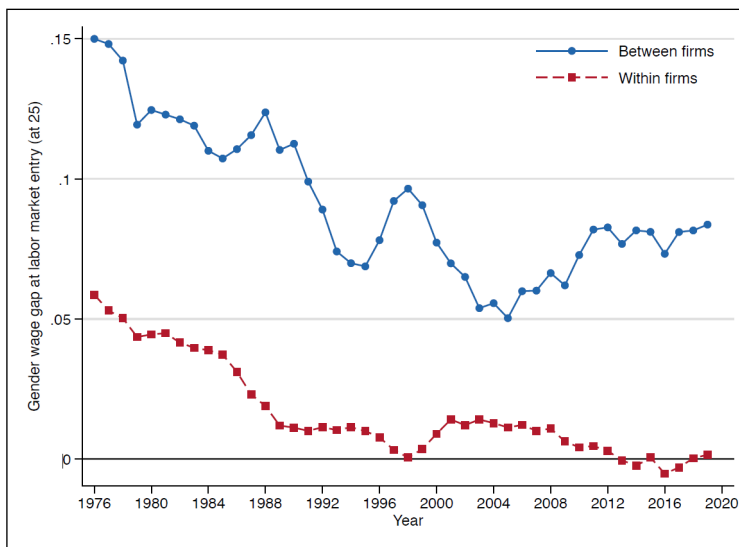


Figure 3 Gender pay gap at age 25 between and within firms.

Notes: The Figure shows the mean gender gap in log weekly earnings at age 25 in Italy between and within firms. In each year, the data encompass information about all workers who were 25 years old, had worked in the private sector for at least 24 weeks, had earned strictly positive earnings, and had not retired by 31 December of any year.

Source: (44). UNIEMENS, Istituto Nazionale della Previdenza Sociale (INPS).

Summarising, firm pay policy contributes to the gender pay gap in all countries for which analyses on matched employer-employee data are available. Sorting of women into lower-paying firms drives gender differences in firm pay policy, particularly at entry in the labour market. Within-firm differences are more important at the top of the pay distribution and, in relation to this, the importance of gender differences in firm pay policy has increased over time. Accordingly, understanding firms' behaviour is essential to ameliorate the gender pay gap and to provide solid ground upon which to build policy recommendations.

2.2 FIRMS AND THE CHILD PENALTY

In the previous section, we provided evidence that firms play an important role in driving gender differences in wages. In this section, we take a step further and see how firms influence the labour market costs that women suffer at childbirth.

Maternity has long been recognised as a key driver of gender inequality in the labour market (45, 46). Kleven et al. estimate that child penalties in female earnings for Denmark amount to around 20% (12). Even higher penalties are observed in countries like Sweden, Spain, the US, and Germany, where the child penalty stands at 32%, 28%, 30%, and 60%, respectively

(47–49), with variations between native-born and immigrant women (50). This evidence, which extends to even more countries in the world as shown in the Child Penalty Atlas by Kleven et al. highlights the persistent role of maternity in gender employment and pay gaps (51), as emphasised also by Bertrand (52), while Kuziemko et al. (53) show that many women tend to underestimate its impact. In line with this, Cortés and Pan explore how both home and work factors exacerbate the career-family trade-off faced by women (13).

We can complement this evidence by looking at how firm characteristics change for mothers and non-mothers after childbirth. In other words, in addition to measuring the so-called child penalty in (weekly) earnings, we can calculate a child penalty in firm characteristics. The focus on firms offers a new perspective to the child penalty literature, which has tended to look more at individual characteristics or policy features as sources of heterogeneity in the child penalty. We do this in Casarico and Lattanzio (54) where, using matched employer-employee data for Italy from 1985 to 2018, covering approximately 7% of the non-agricultural private sector, we adopt an event study approach, as in Kleven et al. (12) and Angelov et al. (47), and track the trajectories of mothers and non-mothers over 15 years following childbirth, with a focus on how firm characteristics contribute to the observed penalties. We find that the impact of motherhood on labour market outcomes is substantial. Fifteen years after childbirth, mothers experience a 52-log point (approximately 41%)³ reduction in annual earnings compared to non-mothers, most of which is driven by a decrease in full-time equivalent weeks worked, with a smaller role for weekly wage differences.

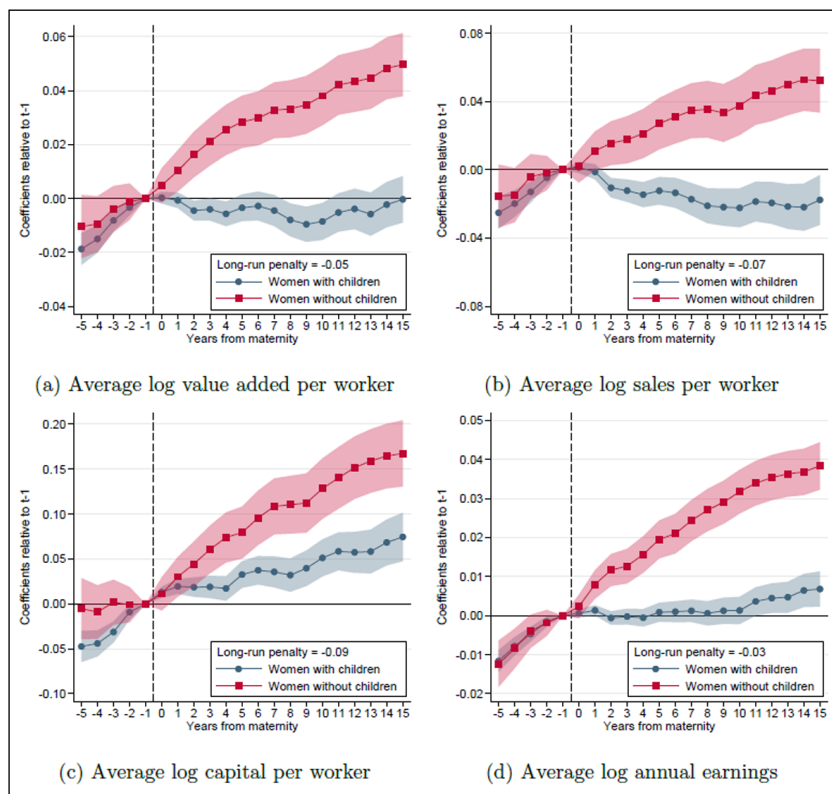


Figure 4 Event study estimates of the impact of first childbirth on firm-level outcomes.

Notes: The figures report event study coefficients around childbirth separately for women with and without children. The long-run penalty reported in each graph is the difference in coefficients fifteen years after childbirth. The dependent variables are firm-level averages over time. Confidence intervals at 95% level are obtained from worker-level cluster-robust standard errors.

Source: (54, Figure 3). LoSaI, Longitudinal Sample INPS.

In Figure 4 we focus on firm characteristics and highlight that mothers sort into less productive firms after childbirth. Panel A shows that before childbirth, women with and without children work in firms with similar trends in value added per worker, but after childbirth, mothers tend to work in firms with lower value added than nonmothers, with a 5-log point gap emerging after 15 years. A similar pattern is observed in terms of sales per worker (Panel B), capital per worker (Panel C), and average firm annual earnings (Panel D). These results underscore a significant sorting process, with mothers moving to less productive, lower-wage firms after childbirth. The analysis cannot tell whether sorting is driven by supply-side factors, such as women’s preferences for flexibility, or demand-side factors, such as employer discrimination against mothers (8, 55), or firm-level costs associated with parental leave (56). However, it suggests a route through which firms can explain the child penalty in earnings. Indeed, with the same rent-sharing model introduced in the previous section, we show that the firm contribution is

³ Converting log points in percent differences we get $100 \cdot (\exp(-0.52) - 1) = -40.5\%$.

around 11.3% of the long-run child penalty in weekly earnings, primarily driven by between-firm differences.

Overall, firm characteristics play an important role in shaping child penalties and sorting into lower-productivity firms after childbirth is a key mechanism through which child penalties are realised. Next to individual and policy features, firm characteristics are relevant ingredients when assessing the impact of motherhood on gender inequality in the labour market.

3 GENDER INEQUALITY, PUBLIC POLICY, AND THE RESPONSE OF FIRMS AND COWORKERS

In the previous section we have provided evidence on the importance of firm pay policy and firm characteristics in explaining the extent and the dynamics of the gender pay gap in the labour market, as well as the size of child penalties. In this section, we further develop our arguments on the key role of firms in the study of gender inequality, bringing in public policies targeting motherhood and parenthood, and focussing on the effects they can have at the firm level.

On the one side, firm reactions to policy influence and mediate its overall effects. On the other, peer effects on policy adoption can operate within firms, further influencing the effectiveness and overall impact of a policy. Next, we provide the example of two policies – unemployment insurance around childbirth and parental leave – and discuss how a focus on firms can improve our understanding of how to design policies that can address gender inequality in the labour market.

3.1 FIRM RESPONSES TO MOTHERS' EXIT FROM THE LABOUR MARKET

A vast literature examines the effects of parental leave characteristics (e.g., duration, replacement rate and degree of job protection) on mothers' employment, wages, and careers (see, among others, 57–61). The literature focussing on the impact of leave policies on firms and coworkers is, however, more limited. This literature suggests contrasting results on the presence and the size of costs for firms due to mothers' absence. For instance, Huebener et al. (62) consider an extension of parental leave that took place in Germany and focus on firms with up to 50 employees. They find extending leave has only small and short-term negative effects on firms' employment and total wage bill. Brenøe et al. (63) further find little evidence of a negative impact of female employees giving birth and taking leave on coworkers' and firms' outcomes. Minimal effects on firms and coworkers of a Danish parental leave extension reform are also found by Gallen (64).

On the contrary, Ginja et al. show that firms bear adjustment costs in the form of wage cost increases to cope with the absence of employees (56). This evidence for Sweden is also consistent with Schmutte and Skira (65), who – using administrative data for Brazil – show that hiring replacement workers is costly. These contrasting effects on the magnitude of the costs at the firm level may depend on different labour markets and welfare state institutions, or on different social and gender norms. To weigh in the debate, in Carta et al. (66) we investigate how firms respond to the exit of mothers from the labour market after childbirth. Specifically, we evaluate whether firms alter their hiring strategies, potentially engaging in statistical discrimination against women of childbearing age, by adjusting wages or offering lower-quality jobs to such women. To address these questions, we exploit a feature of the Italian welfare system that grants women access to unemployment benefits (UB) following voluntary resignation within 12 months of giving birth, as opposed to only being available in the event of dismissal. By leveraging a policy reform that extended the length UB were offered for, we can identify an exogenous shift in the incentives for new mothers to leave their jobs. The extension of UB duration could have both short- and medium-term consequences for mothers and firms. In the short term, increased income support during unemployment may incentivize mothers to resign voluntarily, reducing maternal employment rates. For firms, higher turnover among mothers could raise labour costs through hiring and training expenditures. Over the medium term, these dynamics may have lasting effects on mothers' labour market attachment, limiting their human capital accumulation and future employment prospects. However, the longer UB duration might also encourage mothers to engage in more extended job searches, potentially leading to better job matches and improved outcomes at the firm level, including higher productivity and greater match stability.

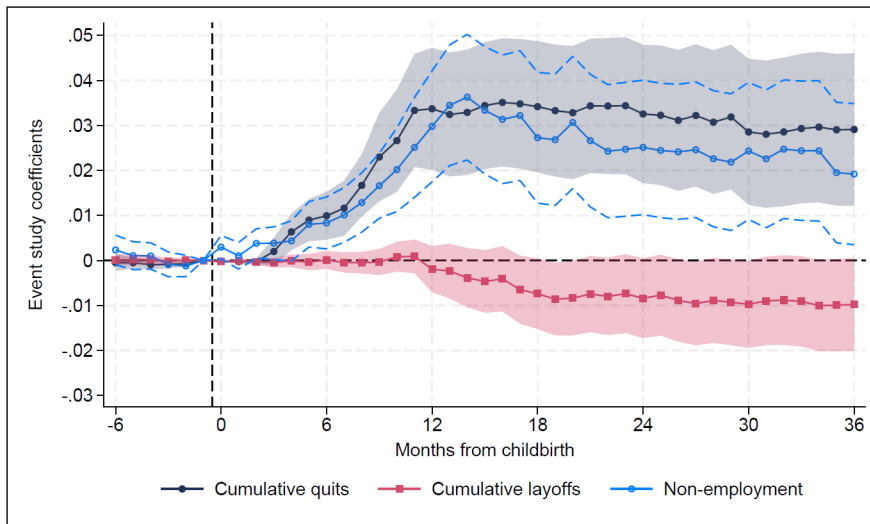


Figure 5 Maternal employment outcomes: quit, layoff, and non-employment rates.

Notes: The figure reports event-study coefficients alongside 95% confidence intervals obtained from cluster-robust standard errors at the individual level. Each dot represents the difference in the quit/layoff/non-employment rates between mothers at each event time around childbirth (between -6 and 36 months), after the reform relative to the period before the reform, comparing those who belong to the two intermediate quartiles of the distribution of the reform-induced increase in unemployment benefit duration with those belonging to the highest quartile (event time -1 is the excluded dummy). See Section 4 of Carta et al. (66) for details.

Source: (66, Figure 2). UNIEMENS, Istituto Nazionale della Previdenza Sociale (INPS).

To analyse firm-level responses to mothers quitting their job, we use a difference-in-differences approach in an event study framework around childbirth. Within this, we compare outcomes for firms that employed a larger share of new mothers affected by the policy (i.e., those more likely to quit) with firms that employed fewer such mothers. We look at the effects of the policy on both maternal employment outcomes (e.g., quit rates, layoffs, non-employment) and firm-level adjustments (e.g., hires, separations, average wages, and types of contracts by gender and age).

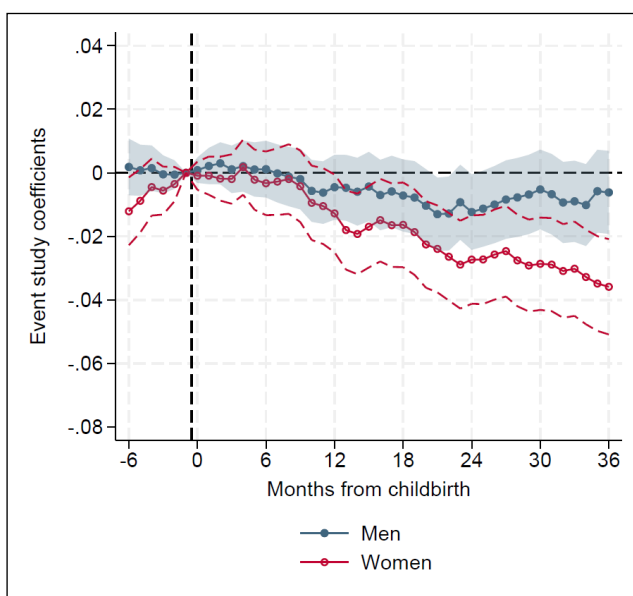
Starting from maternal outcomes, Figure 5 illustrates the estimated effects of the reform on the likelihood of treated mothers quitting. This probability gradually rises between 3 and 12 months after childbirth, corresponding to the period between the end of compulsory maternity leave and the end of access to UB for voluntary resignations. Three years after childbirth, the cumulative probability of quitting increases by 2.9 percentage points (or 14.3% relative to the pre-reform quit rate). Layoffs, on the other hand, decline to a smaller extent, suggesting some substitution between quits and layoffs. Additionally, the probability of non-employment rises, indicating that many of these quits result in permanent exit from employment rather than job-to-job transitions. These effects are primarily concentrated among mothers with permanent contracts, that make up 97% of the sample.

At the firm level, firms employing mothers who are more likely to resign post-childbirth exhibit a significant increase in the female net hiring rate. This increase is concentrated among young women who are hired on temporary contracts, as Figure 6 demonstrates. Such an increase in temporary contracts, coupled with rising turnover, suggests a deterioration in the quality of job opportunities for women in firms affected by the policy. While temporary contracts can serve as a screening mechanism for permanent positions, the sustained rise in turnover and fixed-term jobs implies that many of these temporary positions do not lead to stable employment.

Figure 6 Firm-level outcomes: share of permanent contracts, 20–45 age group.

Notes: The figure reports event-study coefficients alongside 95% confidence intervals obtained from cluster-robust standard errors at the firm level. Each dot represents the change in the share of permanent contracts among male and female coworkers in the 20–45 age group between firms employing new mothers who belong to the two intermediate quartiles of the distribution of the reform-induced increase in unemployment benefit duration and those employing mothers belonging to the highest quartile, at each event time around childbirth (between -6 and 36), after the reform relative to the period before the reform (event time -1 is the excluded dummy). See Section 4 of Carta et al. (66) for details.

Source: (66, Figure 6, panel a). UNIEMENS, Istituto Nazionale della Previdenza Sociale (INPS).



The results speak to some unintended effect of the policy (67, 68), which would not be visible without an explicit consideration of firm-level reactions, and highlight the complex dynamics between labour supply decisions, firm behaviour, and employment outcomes following childbirth.

3.2 PEER EFFECTS IN PARENTAL LEAVE TAKE-UP

As discussed in the previous section, after childbirth, women participate less to the labour market, resulting in lower earnings. Yet men continue to specialise in paid work. This pattern exacerbates gender inequality and highlights the importance of encouraging fathers' participation in parental leave to promote a more equal division of labour. Previous studies suggest that active paternal involvement, supported by parental leave policies, not only benefits child development but also enhances fathers' satisfaction with family life (69, 70). In addition, some previous studies have found positive effects of fathers' leave on mothers' employment (71–74).

Many countries have implemented policies aimed at increasing fathers' involvement in childcare through paternity and parental leave schemes. However, the success of these policies is highly dependent on the cultural and institutional context in which they are implemented (13, 75). Social interactions and peer influences within firms can also enhance or hinder the uptake of such programmes, suggesting that coworkers play a role in shaping fathers' decisions to use parental leave (76).

The literature has documented peer effects in various domains, particularly in the context of family and professional networks. Dahl et al (76) showed that coworkers and family members, such as brothers, significantly influence fathers' decisions to take paternity leave, mostly through information transmission (76). Take-up also depends on career concerns and within-firm coordination in paternity leave among coworkers (77). Carlsson and Reshid (78) further explored coworker peer effects on parental leave take-up in Sweden, while Dottori et al. (79) examined peer effects among Italian mothers.

In Casarico et al. (80), we build on these findings and look at both fathers and mothers within the context of a shared parental leave system. We investigate the peer effects of parental leave take-up among parents in Italy, leveraging a reform introduced in 2015. This reform increased the generosity of parental leave by raising the replacement rate to 30% for parents of children aged 3–5. Specifically, we analyse how peer fathers' take-up of leave influences the decisions of their coworkers, relying on firm-level data to examine these effects across different networks and roles.

Still using the rich administrative data from INPS (Italian National Social Security Institute), we construct individual working histories and map the network of coworkers within firms. We can capture both the marital connections within households and the professional linkages, having the opportunity to assess peer effects across a range of firm characteristics. We find that a 1% increase in the share of peer fathers taking leave thanks to the higher generosity brought about by the reform results in a 0.24% increase in the leave uptake of coworkers who become fathers in the following year (Figure 7).⁴ In addition, peer fathers who take leave do not experience negative career consequences; in fact, they tend to have similar or better career trajectories compared to workers who do not take leave.

We also show that peer effects are more pronounced in firms with higher levels of social capital, which we proxy by the presence of blood donors within the firm, as recorded in the INPS data. This finding aligns with previous studies that highlight the importance of workplace culture and support systems in promoting the take-up of family-friendly policies (81, 82). In addition, we explore the indirect effects on the spouses of coworkers. We find that increased parental leave take-up among fathers positively affects their spouses' labour market outcomes, leading to higher annual earnings, a greater probability of obtaining permanent contracts, and a higher likelihood of being employed in white-collar occupations. These findings are consistent with studies showing that increased paternal involvement in childcare can reduce gender specialisation within households and improve mothers' labour market outcomes (71–74).

⁴ We define *peer fathers* the male employees with children in the firm at time $t = 0$, and *coworkers* the employees that were colleagues of peer fathers at time $t = 0$ that become new fathers at time $t > 0$.

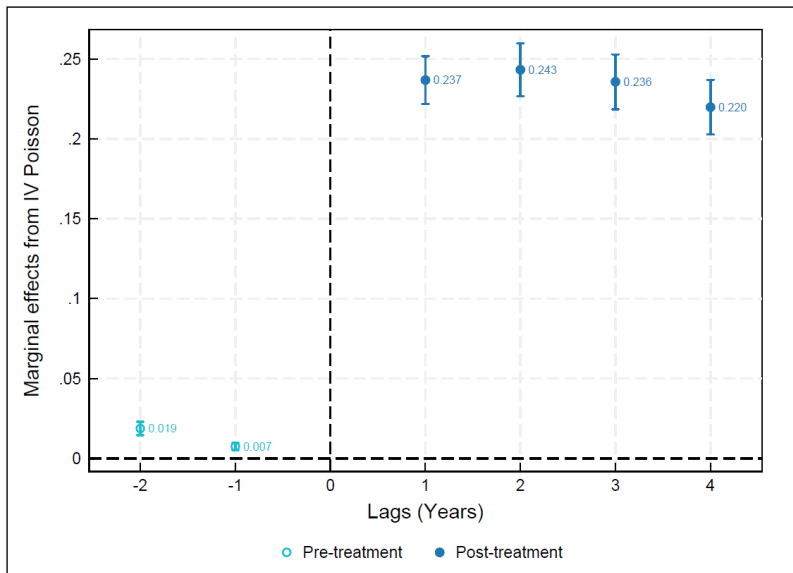


Figure 7 Peer effects in parental leave take-up among fathers.

Notes: The figure shows the marginal effects from an instrumental variable Poisson regression measuring the change in parental leave take-up among coworkers in a firm in response to a 1% increase in take-up at time 0 among peer fathers (fathers of 3–5 years old children, who were subject to a reform that increased the replacement rate of leave from 0 to 30% of the monthly wage). See Section 4 of Casarico et al. (80) for details.

Source: (80, Figure 3). UNIEMENS, Istituto Nazionale della Previdenza Sociale (INPS).

Summarising, peer effects mediate public policy and influence take-up of parental leave, indicating the potential of social networks within firms to promote paternal involvement in childcare, reduce gender inequalities in both domestic and professional contexts, and shape the effectiveness of family-friendly policies.

4 CONCLUSION

We have discussed the role of firms in shaping gender wage inequality, with a particular focus on the dynamics of firm pay policies, the child penalty, and the interaction between public policy and employer behaviour. The increasing availability of linked employer-employee data has allowed for a deeper understanding of how demand-side factors contribute to persistent gender wage gaps. Women are more likely to work in lower-paying firms, a key driver of the between-firm component of the gender wage gap. This sorting mechanism is particularly pronounced following childbirth, when many women transition into lower-productivity firms, exacerbating gender wage inequality. The effectiveness of public policies aimed at protecting mothers' jobs or incomes around childbirth, such as parental leave and unemployment benefits, is contingent on firm-level responses, also through peer effects.

Looking forwards, future research should continue to explore how firms and public policies interact to shape labour market outcomes for men and women. An interesting avenue for research relates to the characteristics of managers and entrepreneurs, who – depending on their gender, attitudes, and psychological traits – may hinder or reinforce gender inequality within and between firms. The increased availability of matched administrative and survey data can help in this direction. In addition, understanding the mechanisms behind firm-level responses to public policies around childbirth can provide valuable insights into how to design interventions that more effectively promote gender equity and address the structural barriers that limit women's economic opportunities.

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COMPETING INTERESTS

The authors have no competing interests to declare.

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