



Maastricht University

# UM Behavioral Insights Center

School of Business and Economics



## **Costs affect employees' choices to request information on the wages of colleagues**

Increasing wage transparency is an important part of the current debate on labor market policies in Europe. The goal of new wage transparency policies is that if employees not only know their own wages, but also the wages of their colleagues, it will become easier to detect unwarranted wage discrimination and to reduce the gender wage gap. In 2014, the European Commission recommended the EU member states to implement policies targeted at higher wage transparency. In Germany, a new wage transparency law has been implemented since 2018 that gives employees of large companies the right to become informed about the wages of colleagues in comparable positions.

In his study, Peter Werner explores how this general increase in wage transparency will affect labor relationships and how transparent wage profiles will eventually become when employees can ask their employers for wage information. To answer these important questions, Werner set up an experiment in which the participants act as employers or employees. The experiment models wage negotiations between one employer and two employees. Employers have a budget that they can offer as an extra wage to employees. Upon accepting an offer, employees work on a task that generates revenues for the employer. In several experimental variations, Werner compares how employers and employees respond to different policies related to wage transparency.

### **MAIN FINDINGS**

After full wage transparency has been automatically introduced, employers assign equal wages more frequently. At the same time, when employees can demand wage information themselves, the resulting level of wage transparency depends on the costs that are necessary to obtain this information. If employees have to bear costs to get wage information, almost no one requests it, and wages remain mostly private. However, if employees can learn the wage of their colleagues for free, everyone wants to know what the others earn. Further analyses indicate that wage offers tend to be higher under transparency.

### **IMPLICATIONS FOR POLICY AND PRACTICE**

If employees are sensitive to the costs of obtaining wage information, this implies that providing the opportunity to become informed about others' wages might not necessarily lead to more wage transparency. In addition, related research shows that many employees in principle want to know how their wages compare to the wages of others, but that the strength of this preference differs across individuals. If employees perceive the request of wage information as too costly (e.g., because they face barriers within the organization), they might refrain from requesting this information. Thus, to achieve higher overall wage transparency, it may not be sufficient to provide the right to become informed; policy-makers should also think more about potential factors that in practice keep employees away from requesting wage information.

**Reference:** Werner, Peter, 2023. Wage negotiations and strategic responses to transparency, *Journal of Economic Behavior & Organization*, 209, 161-175. [[Link](#)]