

Pushing the Envelope: The Effects of Salary Negotiations

Ricardo Perez Truglia, University of California, Los Angeles

Abstract

Salary negotiations are a widespread phenomenon that can shape important labor market outcomes such as worker welfare, inequality, and the gender pay gap. Using survey and experimental data from job seekers in the U.S. tech sector, we investigate the role of information frictions in salary negotiations. We find that many workers refrain from negotiating due to uncertainty about whether employers are open to bargaining.

A light-touch information treatment significantly increases negotiation attempts and compensation gains, particularly among those who underestimate how common negotiations are. A second treatment arm shows that negotiation expertise is less important to understand why some people do not attempt to negotiate. We develop a theoretical model incorporating risk and information frictions, which rationalizes our empirical findings and provides welfare and policy implications. Our results suggest that policies that promote negotiation could improve labor market efficiency and pay equity.