Wages, Amenities, and the Labor Market Equilibrium

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Abstract

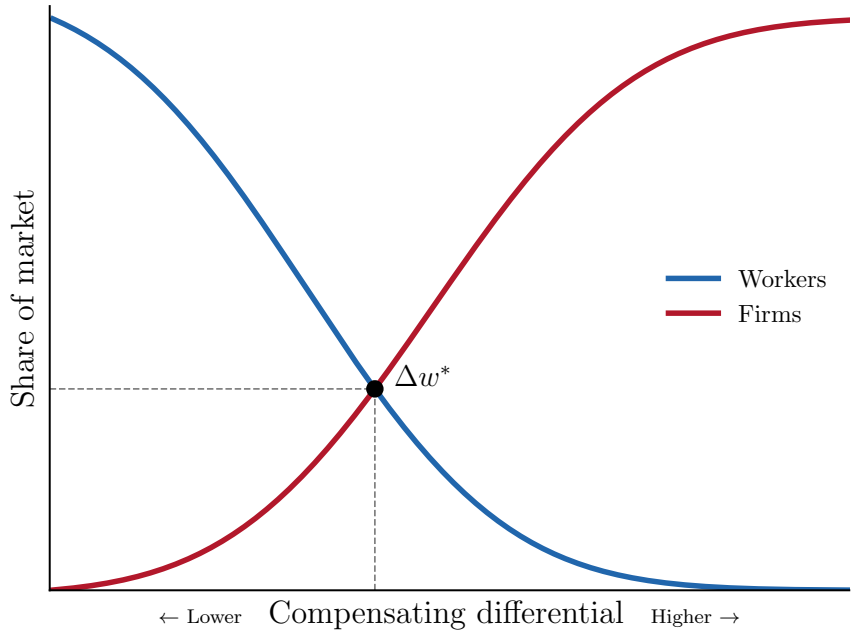
Job choices are shaped by more than wages: workers care about non-monetary aspects of their jobs, such as the hours they work, the flexibility they enjoy, and the broader meaning of what they do. As these amenities become central to how people choose jobs, it is essential to understand how labor markets value them, as it shapes individual welfare and broader patterns of inequality. Yet the preferences of workers, the costs faced by firms, and the prices at which amenities are implicitly traded remain difficult to measure. This dissertation addresses two central questions. First, how do labor markets determine the value of non-wage amenities, and how do workers' preferences and constraints, as opposed to firms' technologies, contribute to shaping these prices? Second, what do these mechanisms imply for persistent policy debates, particularly around gender inequality and fair compensation across sectors? To answer these questions, the thesis presents three chapters that study the pricing of job amenities through complementary theoretical and empirical frameworks. The first chapter examines the wage premium associated with long working hours, showing that workers' aversion to long hours accounts for much of this premium, with important consequences for policies aimed at reducing gender inequality. The second chapter turns to workplace flexibility and the meaning of work, uncovering a 'flexibility puzzle' in which women value flexibility yet hold less flexible jobs because meaningful work tends to come at the cost of flexibility. The third chapter explores the preferences underlying the demand for meaningful work, arguing that fairness concerns are an overlooked force that shapes how much workers are willing to sacrifice, and helping explain why higher and fairer wages, rather than meaning alone, may be needed to address shortages in sectors such as healthcare and education.

General introduction

Job choices are shaped by more than just salaries. While this has long been recognized, credible estimates of the importance of non-wage factors have become available only in recent years. For example, Taber and Vejlin (2020) find that about one in three job choices would be different if workers only considered wages when choosing between jobs. A related literature highlights that people are willing to accept substantially lower salaries in exchange for desirable job amenities such as flexible scheduling, working remotely, or the opportunity to make a social impact (Mas and Pallais, 2017; Maestas et al., 2023). It is then not surprising that roughly forty percent of job-to-job transitions involve moves to lower-paying firms (Sorkin, 2018). These findings emphasize that non-monetary amenities are essential for understanding job choices and the broader distribution of compensation.

The standard framework to study the provision of job amenities and how these relate to wages dates back as far as Smith (1776). Already in *The Wealth of Nations*, he stated that "The wages of labour vary with the ease or hardship, the cleanliness or dirtiness, the honourableness or dishonourableness, of the employment". The *hedonic* model of Rosen (1974, 1986) formalizes that notion. He showed how, in competitive labor markets, wages adjust to reflect both the preferences that workers have for different job amenities and the costs that firms face to provide them. Together, these pin down an implicit price for each amenity. But the preferences of workers and the costs faced by firms are largely unobserved, and the equilibrium amenity prices have proven difficult to measure. A better understanding of these prices is nonetheless important for explaining job choices, comparing workers' welfare, and interpreting earnings inequality.

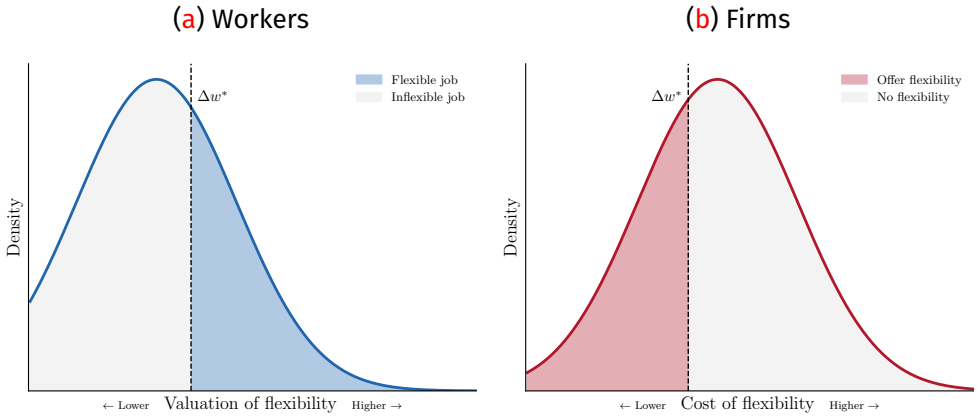
Figure 1: The Supply and Demand of Flexibility



Because each chapter relates to different aspects of Rosen (1974, 1986)'s model, we

briefly discuss several core mechanisms in a simplified setting. Suppose that there are two types of jobs, distinguished only by whether the number of weekly working hours can be scheduled flexibly. Workers differ in how much they value that flexibility, and firms differ in the costs they face to provide it. As workers and firms interact in the labor market, wages adjust, and an equilibrium *compensating differential* (Δw^*) emerges. This is the wage difference between flexible and inflexible jobs at which the share of workers who want a flexible schedule equals the share of firms willing to offer it. Figure 1 illustrates this market-clearing mechanism. As the compensating differential increases, fewer workers want to make the wage sacrifice (= blue line), while more firms find offering flexibility profitable (= red line). The equilibrium price Δw^* (= black dot) is pinned down at the point where both shares are equal.

Figure 2: Equilibrium Worker and Firm Sorting



The equilibrium allocation of workers to firms (*who works where*) segments the labor market. Workers who value flexibility the most end up at the firms that can provide it at the lowest cost. Figure 2 illustrates these sorting patterns. Panel (a) shows that workers who value flexibility more than Δw^* (= blue area) will accept the lower wage associated with a flexible job. The others (= gray area) prefer higher wages and select into inflexible positions. Panel (b) shows a similar pattern on the firm side. Those firms whose costs of providing flexibility are below Δw^* (= red area) find it profitable to offer flexible positions, while firms with higher costs (= gray area) do not. The equilibrium price Δw^* is thus shaped by the full distributions of workers' preferences and firms' costs. Any change in these distributions will alter the compensating differential, and thus the allocation of workers to jobs. The different chapters in this dissertation provide insights into the forces that shape equilibrium amenity prices and the frictions that may distort them. These insights contribute to the ongoing debates about gender inequality, how we structure work, and fair compensation across sectors and occupations.

Chapter 1: The Price of Long Hours studies the compensating differential associated with working long weekly hours. We build on the influential work of Goldin (2014), who argues that long-hour earnings premiums shape gender inequality at the upper end of

the earnings distribution. Women are often less able to work long hours because of their additional household responsibilities, which constrains their occupational choices. But we know little about why these long-hour premiums arise or vary so widely across occupations.

So far, the literature has focused on firm-side productivity differences. The argument is that long hours substantially increase a worker's output, driven by client expectations or business models that reward continuous employee availability. But as we just highlighted through Rosen (1974, 1986)'s model, compensating differentials are *equilibrium* outcomes. They are shaped not only by the production technologies of firms, but also by the preferences and constraints that workers face. This chapter introduces a model to study how the preferences and constraints of workers, the production technologies of firms, and the broader market environment in which they interact shape long-hour premiums.

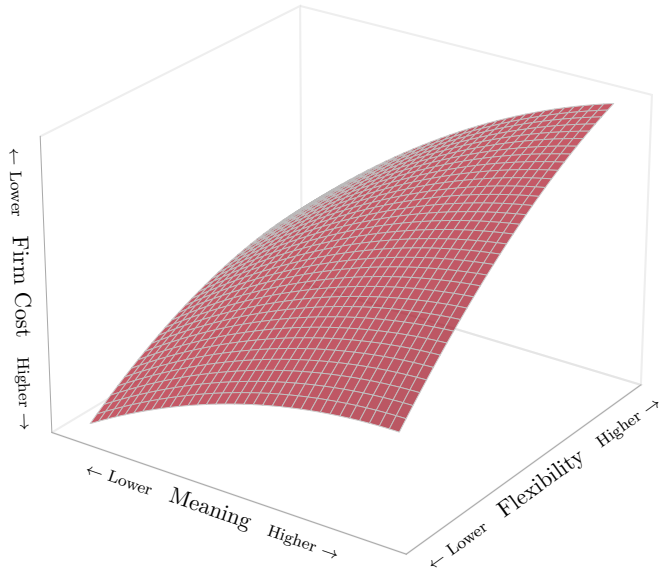
We estimate the model using data from the United States, and find that productivity differences explain less than half of the prevailing premiums. A large part of the earnings difference between regular and long hour jobs reflects workers' aversion to working long weekly hours, which they only tolerate in exchange for substantially higher salaries. This has important implications for policies that aim to increase gender equality by reducing long-hour premiums. Targeting firms' incentives to reward long hours is unlikely to be sufficient. Instead, policies that ease the constraints that workers face, such as expanding childcare and parental leave, may yield better results.

Chapter 2: Work Meaning and the Flexibility Puzzle studies a different set of amenities, focusing on workplace flexibility and work *meaning*, which captures the broader societal impact of a job. We find that women value flexible working conditions, such as having the option to work remotely or to flexibly adapt their schedules, more than men. Yet women do not work more flexible jobs. We call this the *flexibility puzzle*, and show that it relates to differences in meaningful work. Women value meaning more than men, and sort into meaningful jobs more frequently. But meaningful jobs come at the cost of having substantially less workplace flexibility.

We interpret the trade-off between meaning and flexibility through Rosen (1974, 1986)'s framework. Figure 3 extends the model to a setting with multiple amenities. While offering either meaning or flexibility is costly for firms, jointly providing both may be particularly expensive. This results in a negative equilibrium relation between meaning and flexibility. We provide evidence of a mechanism that explains this pattern. While interpersonal interaction is associated with higher levels of work meaning, it also hinders workplace flexibility. Concretely, when there is more personal interaction, multiple schedules need to align, and working remotely may be more difficult. Quantifying this trade-off, we find that the flexibility price of meaningful work is substantial, as meaningful jobs can be up to 70% less flexible than otherwise comparable positions. Through simulations, we show that making meaningful jobs more flexible may substantially reduce inequality. The gender gap in total compensation, which includes wages and the monetary value of amenities, would close by up to a quarter.

Chapter 3: Work Meaning and Fair Wages explores the underlying factors that shape

Figure 3: The Flexibility Price of Meaningful Work

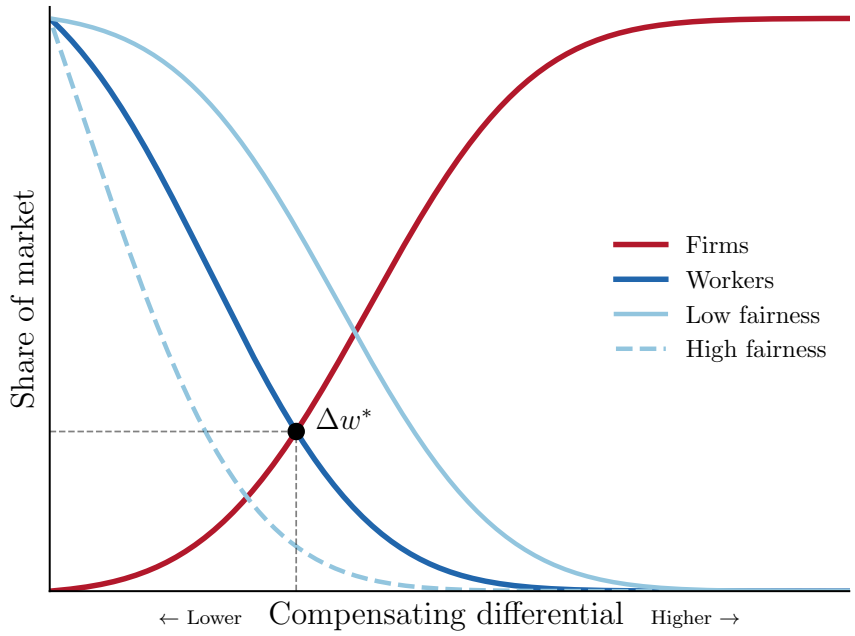


the preferences of workers. We focus mainly on preferences for meaningful work. The existing literature has found mixed evidence on whether, and how much, of their wages workers are willing to sacrifice for a more meaningful job. We want to better understand these findings, and argue that fairness concerns are an overlooked factor that motivate a workers' responses. In contrast to conventional job amenities, work meaning is inherently associated with benefits for others. As a result, it carries an important fairness dimension, as some workers feel entitled to a share of the social benefits they help create.

Through a theoretical model, we show that whether workers demand lower or higher wages for a more meaningful job hinges on the balance between two competing forces. When the sense of deserving a share of the benefits created for others outweighs the positive sentiment associated with meaningful work, wage demands increase. When the positive sentiment dominates, workers accept lower wages. Figure 4 visualizes this distinction. It highlights that workers with different degrees of fairness concerns would sacrifice distinct fractions of their salaries to work a more meaningful job. The equilibrium price reflects the balance across these views, and where it settles depends on how common these different views are.

To examine these mechanisms, we conduct survey experiments that vary the social benefits of a job. We find that the average respondent is willing to sacrifice a small fraction of their wages for a more meaningful job. But this masks substantial heterogeneity. More than 20% of workers demand a wage *increase* for a more meaningful job. In line with the model, both whether and how much additional wages a worker demands correlates strongly with the intensity of their fairness concerns. These results have important policy implications. Given the small average effect, increasing work meaning is unlikely to be

Figure 4: Paying for Meaning and Fairness Concerns



an effective tool to expand labor supply. Instead, attracting and retaining workers likely requires higher and fairer wages. This is particularly relevant for sectors with high levels of work meaning but persistent shortages, such as healthcare or education.

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