

Performance Pay and the White-Black Wage Gap*

John S. Heywood
University of Wisconsin – Milwaukee

Daniel Parent
McGill University

July 2009

Abstract

We show that the reported tendency for performance pay to be associated with greater wage inequality at the top of the earnings distribution applies only to white workers. This results in the white-black wage differential among those in performance pay jobs growing over the earnings distribution even as the same differential shrinks over the distribution for those not in performance pay jobs. We show this remains true even when examining suitable counterfactuals that hold observables constant between whites and blacks. We explore reasons behind our finding that performance pay is associated with greater racial earnings gaps at the top of the wage distribution focusing on the interactions between discrimination, unmeasured ability and selection.

JEL: J15, J31, J33

Keywords: Racial Wage Differentials, Compensation Practices

* We wish to thank Colin Green, Franque Grimard, and Jenny Hunt for comments on an early draft of this paper.