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Explaining Changes in Between-Firm Employment Earnings Dispersion in the Canadian Business Sector: The Role of Firms' Characteristics

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The paper examines the role of firms' characteristics in explaining the between-firm average employment earnings dispersion in the Canadian business sector between 2002 and 2015. It uses two decomposition methods to analyse the level and changes in the between-firm average employment earnings dispersion by firm characteristics such as productivity, globalization status (importing, exporting, foreign-ownership), technology intensity, firm size, age, industry and geographic regions. The analysis shows that the between-firm average employment earnings dispersion has been declining at an annual rate of -0.1% as measured by the mean logarithmic deviation dispersion index. The converging earnings between the productivity frontier and non-frontier firms explains about a third of the aggregate decline. Other important factors are converging earnings between industrial sector and geographical regions, contributing respectively 9% and 7% to the aggregate decline.