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High Wage Workers and High Wage Peers

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Abstract

This paper investigates the effect of co-worker characteristics on wages, measured by the average person effect of coworkers in a wage regression. The effect of interest is identified from within-firm changes in workforce composition, controlling for person effects, firm effects, and sector-specific time trends. My estimates are based on a linked employer employee dataset for the population of workers and firms of the Italian region of Veneto for years 1982-2001. I find that a 0.1 increase in the average labour market value of co-workers' skills (which is around one within-person standard deviation) is associated with a 3.6 percent wage premium. I also find that a sizeable share of the wage variation previously explained by unobserved individual and firm heterogeneity may be due to variation in co-worker skills. An event-type study, a Placebo exercise and a series of heterogeneity analyses lend credibility to the baseline results. I also evaluate the role of the spillover effects for wage differentials between specific groups of workers. I find that around 12 percent of the gender wage gap and 10 to 16 percent of the immigrant wage gap can be explained by differences in co-worker characteristics.

Keywords:

Spillover Effects, Linked Employer-Employee Dataset, Wage Differentials

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