

## **Wage Differences between Incumbents and External Candidates**

**Wolter Hassink and Giovanni Russo**

Utrecht University, Department of Economics, Vredenburg

138, 3511 BG Utrecht, The Netherlands. Phone: (+31) 30 – 253 9800. Email: w.hassink@econ.uu.nl

This paper investigates how uncertainty about different components of individual productivity affects the wage earned by incumbent workers relative to external hirees. Uncertainty about general productivity (adverse selection) may lead to a wage premium for the incumbents. In contrast, uncertainty about match-specific productivity would lead to a wage premium of external hirees. To this end, we compare the hourly wage of employees who change jobs within their firm with that of workers who are hired from other employers in the external labor market, where we have controlled for characteristics of the worker and the job. We use a Dutch data set of about 45 thousand workers who are employed at about 18 hundred firms over the years 1997 and 1998. We find a weak indication of adverse selection since external candidates who were not employed previously receive a lower wage, *ceteris paribus*.

Our estimates do not favor one of the predictions about a wage premium that may be attributed to uncertainty about match-specific productivity. Both incumbents and externally hired workers who were previously employed elsewhere receive on average the same hourly wage, *ceteris paribus*. The wage difference remains absent even when we focus on sub-samples of risky workers from the sample of hirees from other employers.

Keywords: Internal labor markets; Wages; Hiring; Adverse selection; Risky Workers

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