

Firm Pay and Worker Search*

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October 8, 2024

Abstract

Whether and how workers search on the job depends on their beliefs about pay in other firms. Yet little is known about workers' knowledge of outside pay. We use a large-scale survey of full-time German workers, linked to their Social Security records, to elicit pay expectations and preferences over specific outside firms. Workers believe that they face considerable heterogeneity in their outside pay options, and direct their search toward firms they believe would pay them more. Workers' expected firm-specific pay premia are highly correlated with pay policies observed in administrative records and with workers' valuations of firm-specific amenities. Most workers are unwilling to search for a new job—or leave their current firm—even for substantial pay increases. Switching costs are equivalent to 40% of a worker's annual pay. Attachment varies across firms, and cannot be explained by either differences in firm-specific amenities or switching costs.

*We thank researchers at the IAB for assistance fielding the survey. We thank Matthew Backus, David Card, Stefano Dellavigna, Lawrence Katz, Patrick Kline, Attila Lindner, Alexandre Mas, Conrad Miller, Jesse Rothstein, Raffaele Saggio, Isaac Sorkin, and seminar and conference participants from the London School of Economics, Stanford University, Stockholm University, University College London, the 2024 NBER Summer Institute (Labor Studies), the Norwegian Workshop on Labor Economics, the Rochester labor economics workshop, the 2023 Society of Economic Dynamics annual meeting, the UC Berkeley labor and macro lunches, and the West Coast Junior Labor Conference for helpful comments. We thank Christopher Ackerman, Cristian Alamos, Marie Hogan, Selina Mäurer, Kyle Neary, and Sebastian Puerta for outstanding research assistance. We thank the National Science Foundation (SES 2242439), the UC Berkeley Department of Economics, the UC Berkeley Hellman Fund, and the Joachim Herz Foundation for funding. Caldwell: scaldwell@berkeley.edu; Haegele: ingrid.haegle@econ.lmu.de; Heining: joerg.heining@iab.de.