

The Impact of Peers on Wages

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Abstract

In this paper, we estimate peer effects in the workplace. While the existing literature is entirely based on observational case studies of single firms and occupations, or on experimental evidence (see e.g., Mas and Moretti 2009, Kaur, Kremer, and Mullainathan 2009, Bandiera, Barankay and Rasul 2009, Falk and Ichino 2006), we study this in a general workplace setting. Furthermore, we ask the question whether peer effects can be detected not just in productivity, but also in wages. We address identification issues that arise by developing an estimation strategy suggested by Arcidiano et al (2012). Based on analysis of administrative data for a local labour market covering all workers, we find that, overall, a 10% increase in peer ability increases the individual wage by 0.16%, an effect that is about 10 times smaller than what has been reported by Mas and Moretti (2009) and Falk and Ichino (2006) for *productivity*. However, in occupations more similar to those studied in the existing literature, we find a wage effect of about 0.86% for a 10% increase in peer ability. Analysing heterogeneous peer effects for sub-groups along worker and peer group characteristics, our findings suggest that peer pressure is indeed an important channel of productivity spillovers.