

How Do Employers Use Compensation History?: Evidence From a Field Experiment

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Abstract

We report the results of a field experiment in which treated employers could not observe the compensation history of their job applicants. Treated employers responded by evaluating more applicants, and evaluating those applicants more intensively. They also responded by changing what kind of workers they evaluated: treated employers evaluated workers with 5% lower past average wages and hired workers with 13% lower past average wages. Conditional upon bargaining, workers hired by treated employers struck better wage bargains for themselves.

JEL: J01, J30, M50, M51

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A Online Appendix: Not for publication

A.1 Survey evidence employer compensation history usage

Following [Hall and Krueger \(2012\)](#), we ran two nationally representative surveys to shed light on match formation and wage bargaining in the conventional labor market. We had two goals for our surveys. First, we wanted to determine how frequently firms ask about applicant compensation history, and when in the process they ask. If compensation history is asked only after a job offer is made, the firm can only be using it for bargaining purposes. In contrast, if the firm asks before making an offer, they can use it during the screening process and during the bargaining process. The latter matches the scenario in our empirical context, in the control group. Second, we wanted to determine how frequently the worker is the first one to make the wage offer, as is the case in our empirical context.

We ran our surveys on Google Surveys, an online marketing research service that compares favorably to other Internet-based panels ([McDonald et al., 2012](#)). In our first survey, we asked subjects:

In the last job that you interviewed for, did the employer ask about your past wage/salary history?

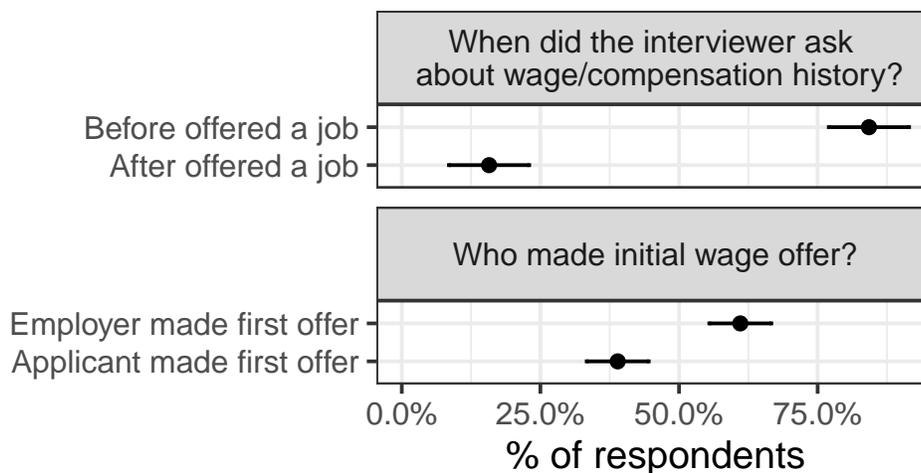
with answer options of:

- *No*
- *Yes, before I was offered a job*
- *Yes, after I was offered a job*

The results of this survey are publicly available.²² For this survey, we received responses from 391 subjects with demographic weights. Of those, 115 reported they were asked about their compensation history, or 29.4%. Among those

²²<https://surveys.google.com/reporting/survey?survey=tfqrbh2keackwzfnzkwtzgp45a>.

Figure 5: Survey evidence on when compensation history is asked about and the order of wage bargaining



Note: This figure reports population-weighted means from two surveys conducted on Google Surveys. In the top panel, the sample is restricted to respondents reporting that in the last job they interviewed for the employer asked for their compensation history. Respondents answered whether the employer elicited this information before an offer was made or only afterwards. In the bottom panel, the sample is restricted to subjects who reported they bargained over wages in their last job. Respondents answered whether they made the initial offer or the employer made the initial offer.

asked, 82.6% report the firm asked about wage/compensation before extending a job offer. The population-weighted fraction is shown in Figure 5, in the top panel, with weighted standard errors, which is very close to the unweighted fraction. This first survey shows that asking about compensation history is fairly common. Additionally, when employers ask about past compensation, it is much more likely to be asked upfront, presumably because it is used in evaluation, or in forming expectations about the likely outcome of bargaining.

In our second survey, we asked the question:

In your current job, did you bargain with your employer over compensation/benefits, and if so, who made the first offer?

with answer options of:

- *No - wage was known when I applied*

- *Yes - bargained, and I made first offer*
- *Yes - bargained, and firm made first offer*

The results of this survey are publicly available.²³ For this survey, we received responses from 1,509 subjects with demographic weights. Of those, 316 reported they bargained over wages, or 29.4%. Among those asked, 39.2% report they were the first to propose a wage. The population-weighted fraction is shown in Figure 5, in the bottom panel, with weighted standard errors, which is very close to the unweighted fraction. Clearly, among workers bargaining, it is more common for the firm to make the first offer. However, a non-trivial fraction of conventional market bargained outcomes have a bargaining structure similar to our empirical context.

A.2 Reliance on other signals of productivity

One way in which policies that remove information from the hiring process can backfire is if employers put more weight on some other, correlated signal in their screening. In our setting, we can directly look at this “signal substitution” by estimating a model of the employer’s selection decision. We compare the effect of five salient signals on the employer’s probability of calling back a viewed applicant by the employer’s treatment status. The five signals we analyze are the applicant’s profile wage rate, the applicant’s mean prior feedback score, the number of previous jobs an applicant has completed, the applicant’s prior earnings, and the applicant’s tenure on the platform.

To make comparing the effect on interviewing across signals of different types easier, we transform each viewed applicant’s signal into a z-score which is normalized within a job opening. For example, if a job received only two applicants, one with 1 day of tenure and another with 2 days, we would give them tenure z-scores of -0.71 and 0.71, respectively.

Figure 6 reports the regression coefficients on each signal from regressions run separately for treatment and control employers, and by employer vertical

²³<https://surveys.google.com/reporting/survey?survey=z5eldvypuvrco4zvo2fkirreq>