Private sector valuation of public sector experience: The role of education and geography

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Abstract

The labor and urban economics literature has shown that variation in returns to experience is important for the wage distribution of workers. The return to public sector experience is a neglected aspect. Public wages reflect other factors than marginal productivity – what is the market valuation of public experience? We use rich administrative data for Norway and study the returns to experience in the private and the public sector. To capture the private sector valuation of public sector experience we separate between stayers in the private sector, stayers in the public sector, and shifters from the public to the private sector, notably from public administration. The return to public experience in the public sector is about 60% of the return to private experience in the private sector. Based on the shifters from the public to the private sector we find that the private sector pays much less for public compared to private experience. On average, the return to public experience for shifters is about the same as for the stayers in the public sector. Low-educated shifters to the private sector lose about half of the return to their public experience compared to the stayers, while high-educated shifters gain some. Low-educated women shifting to the private sector are less negatively affected than men. Geography plays a role, and high-educated shifters with experience from Oslo gain about 2%-point extra return. Further work will investigate the heterogeneity of shifters – who they are and why they shift.

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