

Inter-regional wage differentials with individual heterogeneity: evidence from Brazil

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Abstract This paper uses administrative data to follow Brazilian workers over time and examine what happens to the inter-regional wage differentials after controlling for unmeasured workers' characteristics that are fixed over time. Since the data allow us to track the same workers over the years, we are in the unusual position of obtaining the individual wages before and after the migration process. As a significant share of workers changed States in the sample period, it is possible to examine to what extent the wage differentials reflect the concentration of high-skilled individuals in some States. The results show that the overall wage variability across States drops to almost one third of its original value and the ranking of the State effects is significantly altered after we take into account the workers' fixed effects. A great deal of the inter-regional differentials, therefore, reflects differences in the average ability of workers across States.

JEL Classification R23 · J31 · J24

1 Introduction

Evidence of regional differences in average wages has been produced in a variety of countries with distinct institutional and structural arrangements. Persistent wage

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