

Abstract: Firms frequently provide training to workers that endows the general skill transferable across employers at the firm's cost.

Theories proposed that the labor market friction creates the wedge between productivity gain and the wage growth and motivates the firm to offer such training. Few studies test the hypothesis. We use unusually rich data from a temporary-help agency that records both the fee charged to client firms for a worker's service and the wage paid to the worker. We document that the temporary-help agency provides training upfront and demonstrate that the fee grows faster than the wages, controlling for the composition changes of workers. The firm recoups the cost of upfront training from the growing gap of fees and wages among retained workers.