Recent Trends in German Wage Inequality

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After an extended period of increasing wage inequality, German inequality growth has been stagnant in recent years. In order to identify potential reasons for this trend change, I use the "Sample of Integrated Labour Market Biographies" (SIAB), a large administrative social security data set, to study changes in the German wage structure. I investigate whether the slowdown in inequality growth can be traced back to changes in the distribution of wage determinants or to changes in the returns to those determinants by directly comparing two successive periods of increasing and stagnating wage inequality in a series of counterfactual exercises. The results indicate that changes in the wage structure have had an inequality decreasing effect in recent years. Changes in the workforce composition, on the other hand, continue to have a positive impact on wage inequality.