

The Low-Pay Debate in Germany

Conference on
**Dynamics of Low Wage,
Low Pay, and Transfer Receipt**

IAB

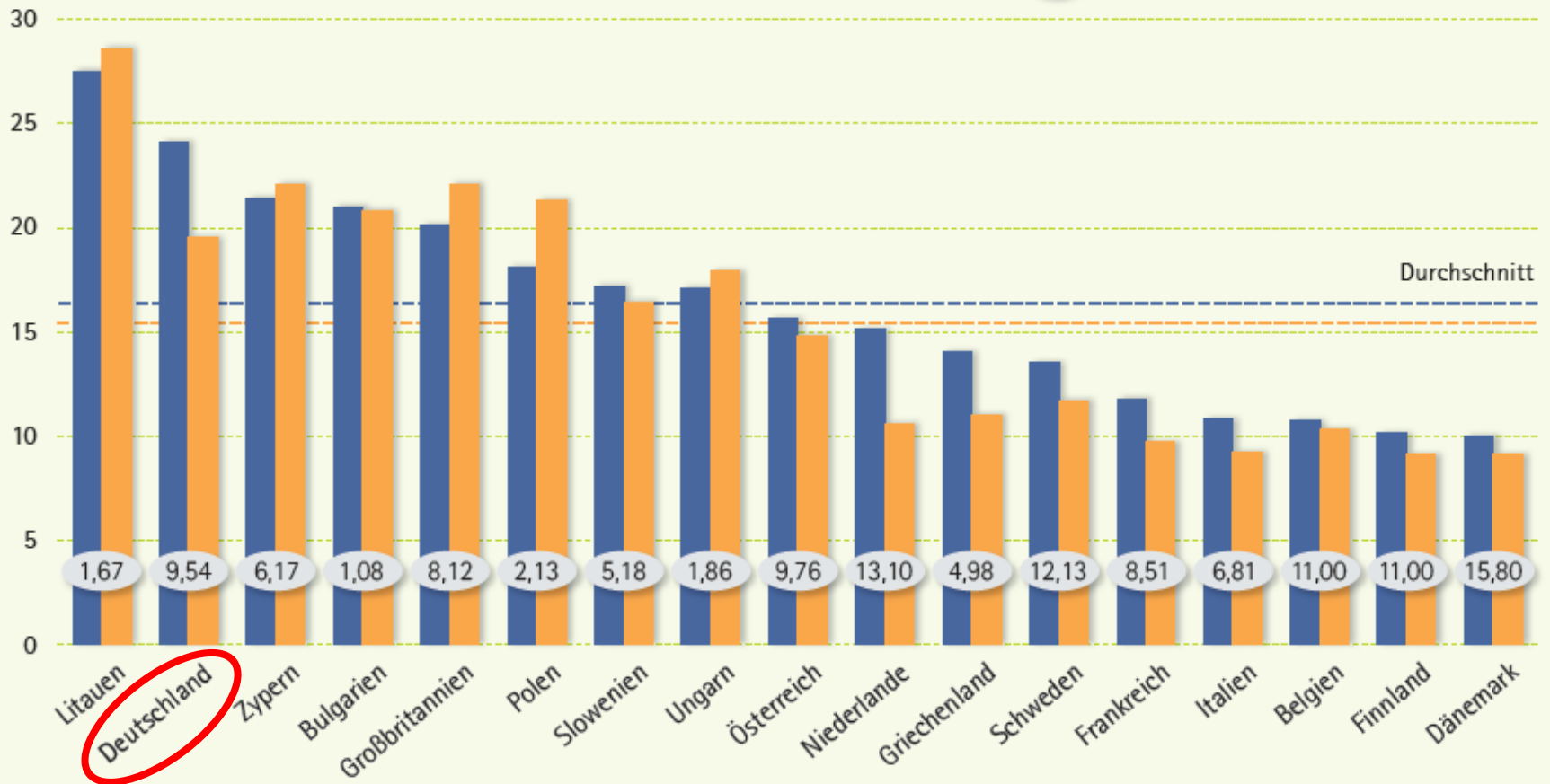
November 15-16, 2013

Prof. Dr. Dr.h.c.
Joachim Möller

Size of the low-pay sector in 17 European Countries

Niedriglohnquoten¹⁾ in 17 europäischen Ländern 2010
in Prozent

■ alle Beschäftigte
■ Vollzeitbeschäftigte
 Niedriglohn-Schwellenwert²⁾ (in €/Stunde)

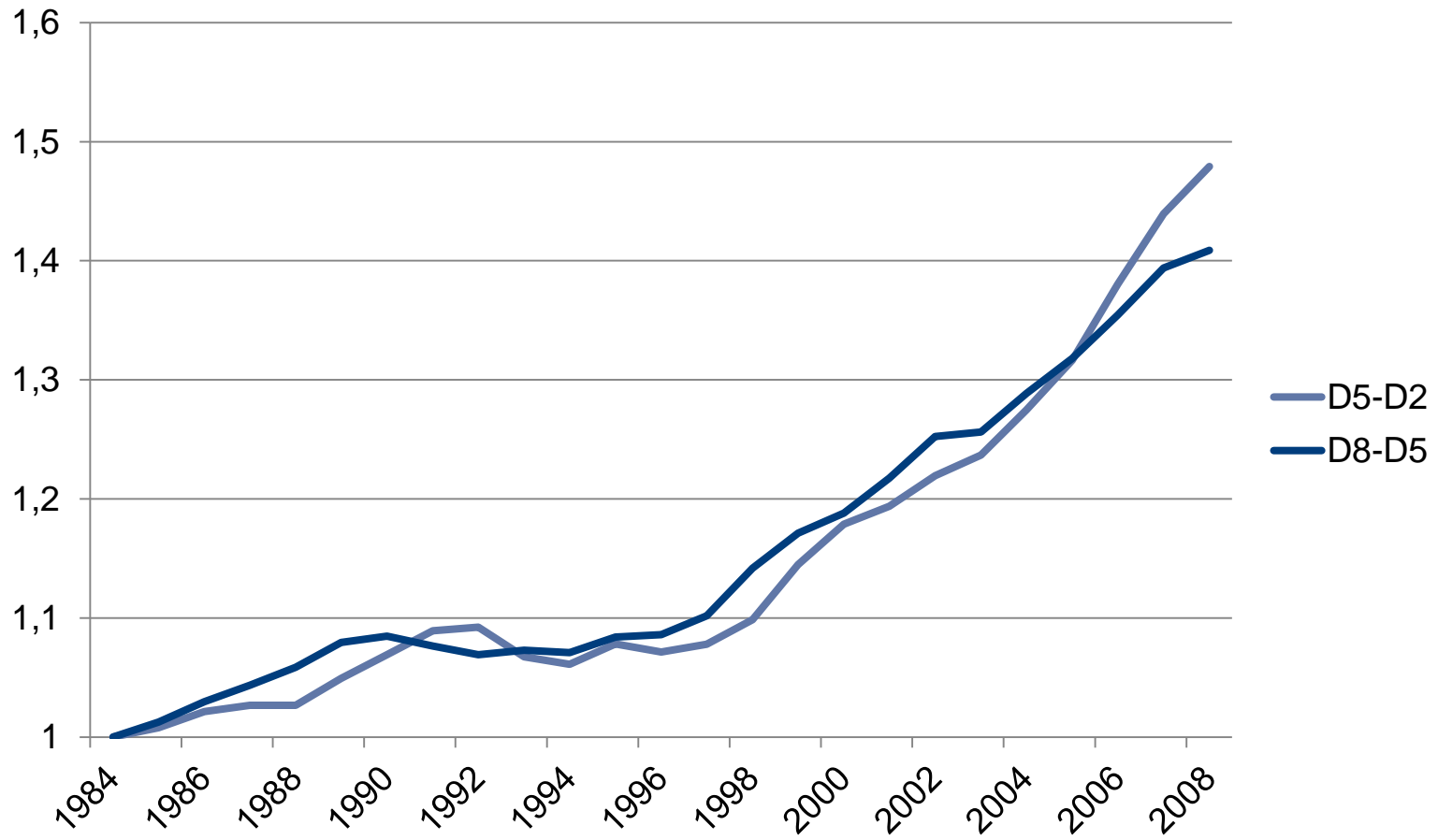


¹⁾ Anteil der Geringverdiener an allen Beschäftigten.

²⁾ Zwei Drittel des mittleren Lohns (Median); die Werte von Nicht-Euroländern wurden zu nominalen Wechselkursen umgerechnet.

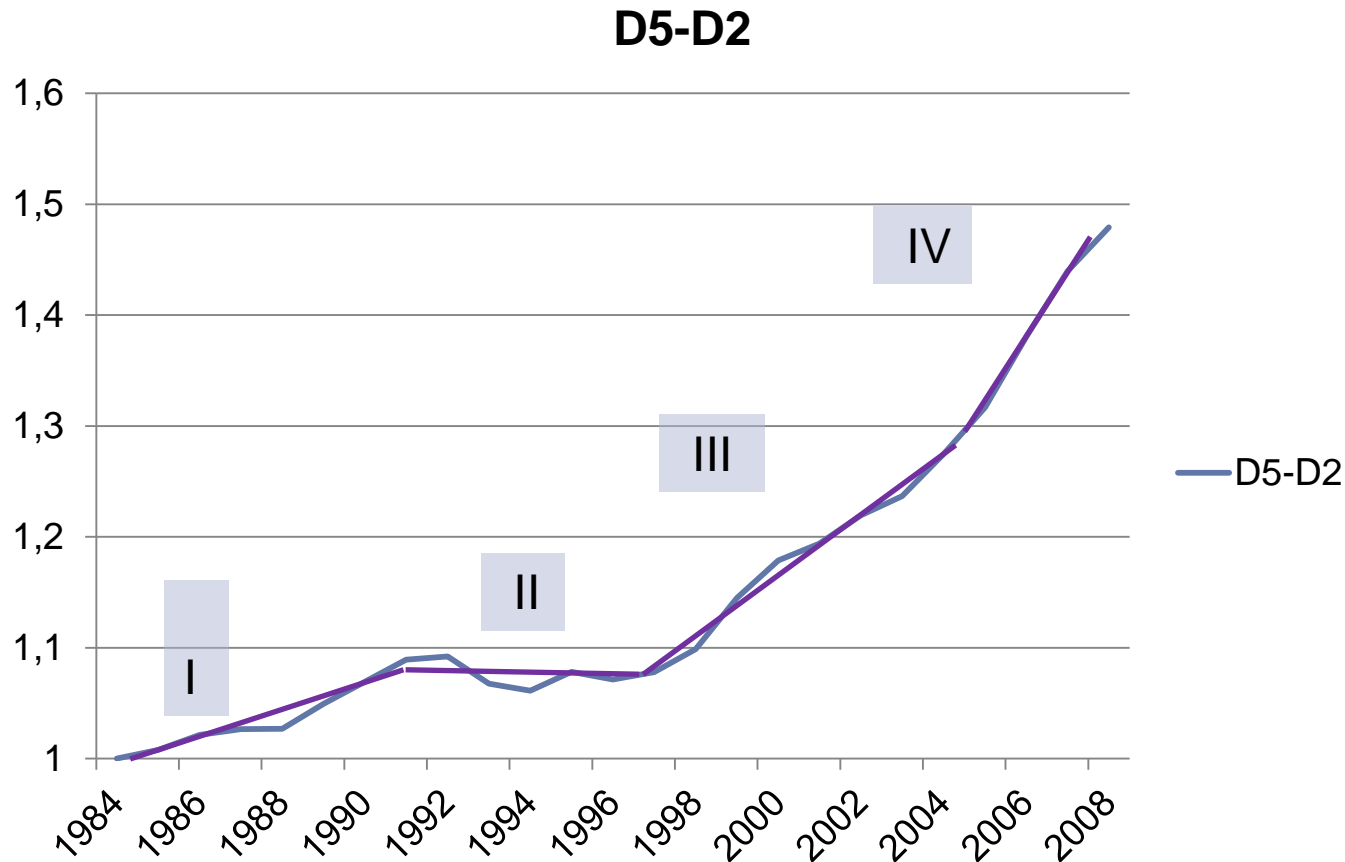
Development of Inequality

- Inequality index for male full-time workers 25-55, West Germany



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Studies for Germany

- Gernandt, Pfeiffer (JNatStat 2007)
- Möller (1998 FBundesStat, 2008 IntEconPol.)
- Schank, Schnabel, Stephani (IAB-DP 2008)
- Dustmann, Ludsteck, Schönberg (QJE 2009)
- Gebel, Pfeiffer (Schmollers Jb. 2010)
- Biewen, Juhasz (IZA DP 2010)
- Riphon, Schnitzlein (IZA DP 2012)
- Card, Heining, Kline (QJE 2012)

- Increasing wage inequality/ low and declining intertemporal mobility

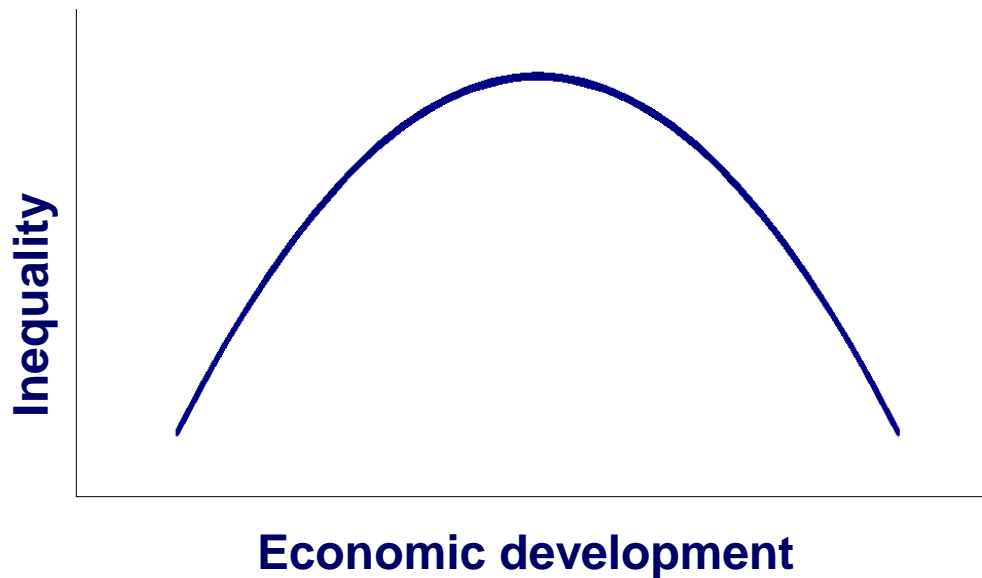
Basic Questions

- Which factors explain the rising wage inequality?
 - How skill differentials changed over time?
 - What is the role of composition effects (age, gender, skills)?
 - Is there an influence of structural change ?
 - Do we see effects of the deep labor market reforms 2003-2005?
- Why should we care about rising inequality?
- Was the increase in wage inequality inevitable to get low productivity workers into jobs?

Inequality in a long-run perspective

The Kuznets Curve

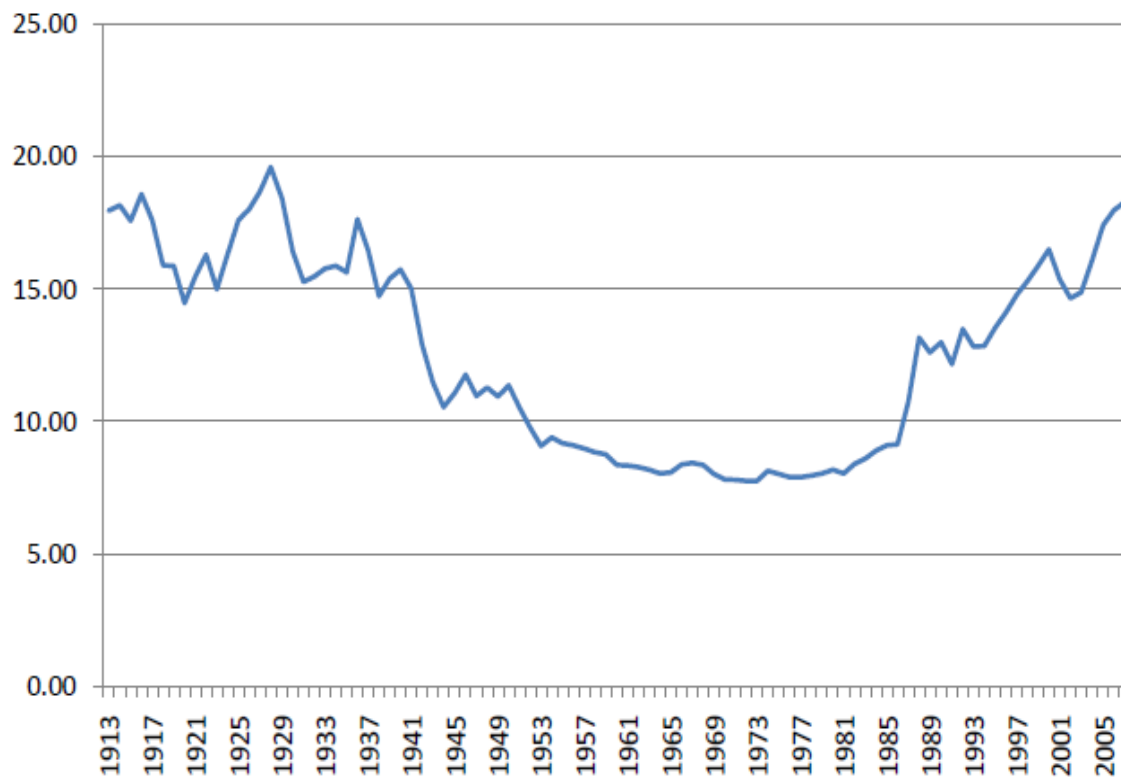
- Inequality increasing during industrialization
- Maximum in the first half of the 19th century
- Decreasing inequality since then ...



Was Kuznets wrong?

Long-run development of inequality in the US

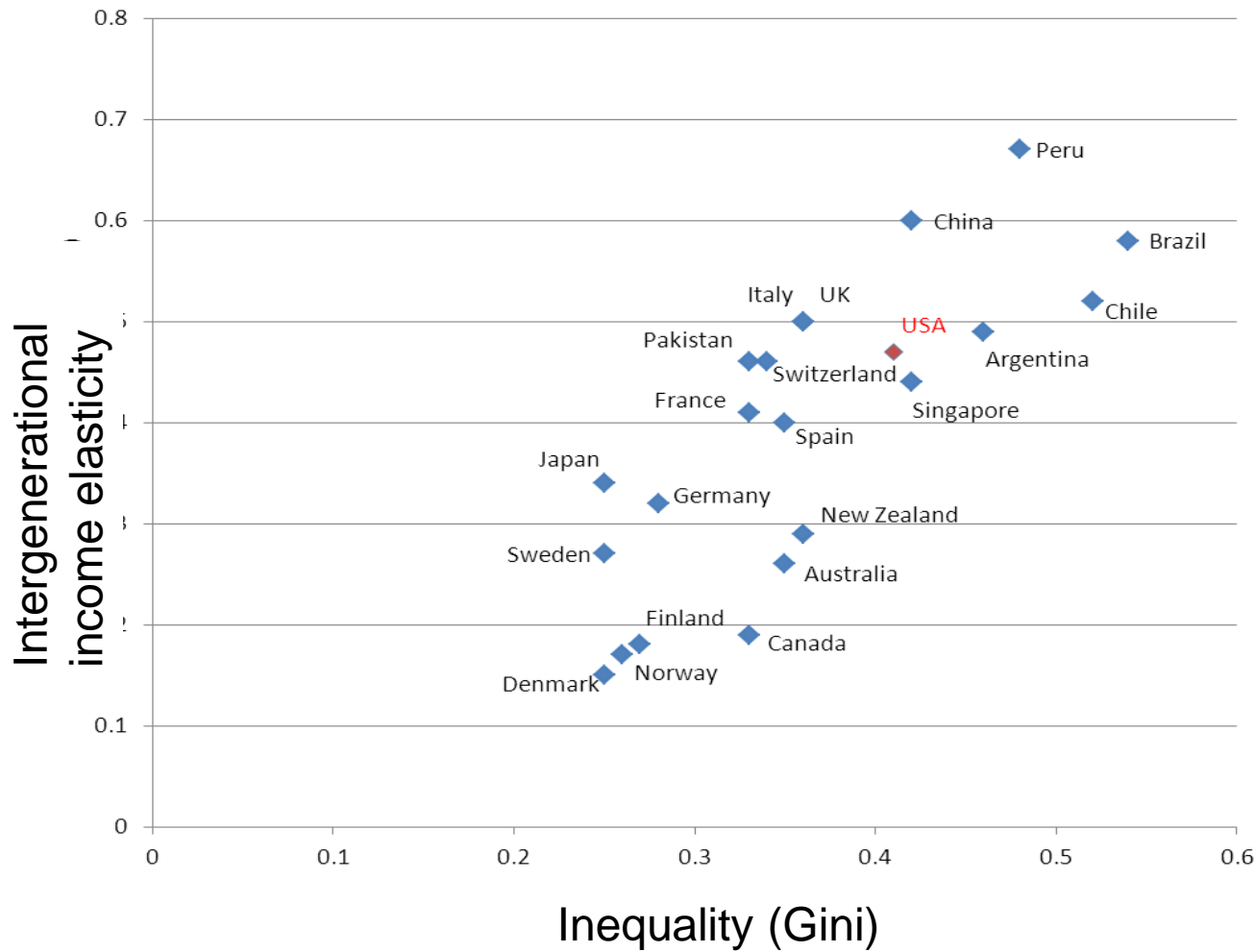
(Income share of top 1%-percent earners 1913-1998 in percent)



The inequality debate in the U.S.

- Arthur Okun (1975): “Equality and Efficiency – The Big Tradeoff”
- Alan Krueger (2002): “Inequality - too much of a good thing“
- Frank, Levine, Dijk (2010): “Inequality □ more financial distress”
- Krugman (2010): “Inequality possible cause of financial crisis”
- Warren Buffett: “Trickle-down economics failed”
- Alan Krueger (2012): “The Great Gatsby Curve“

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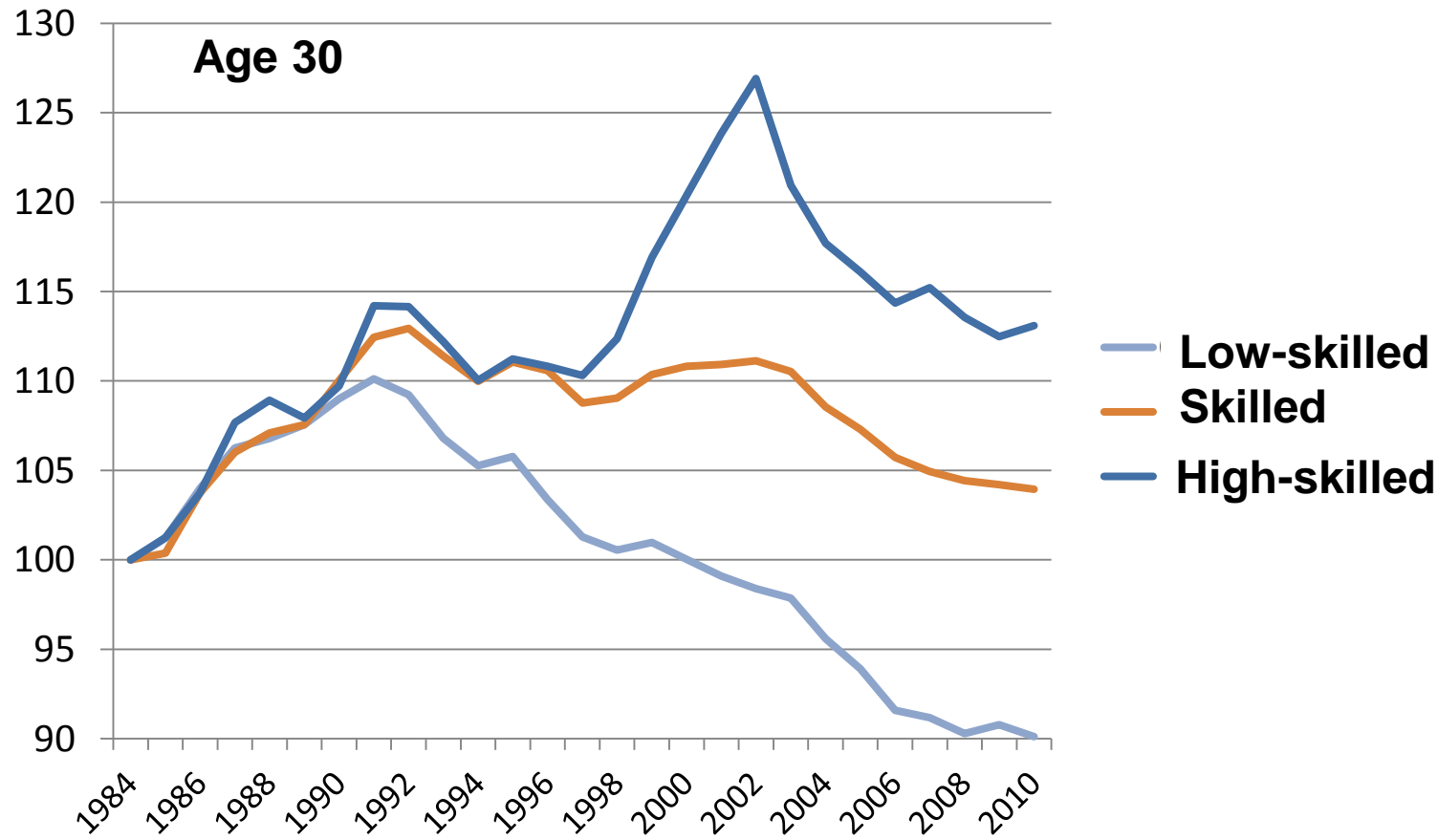


Rising inequality trend in Germany:
A between-group or within-group phenomenon?

Index of Real Gross Earnings 1984-2010 by Skill Group at Age 40



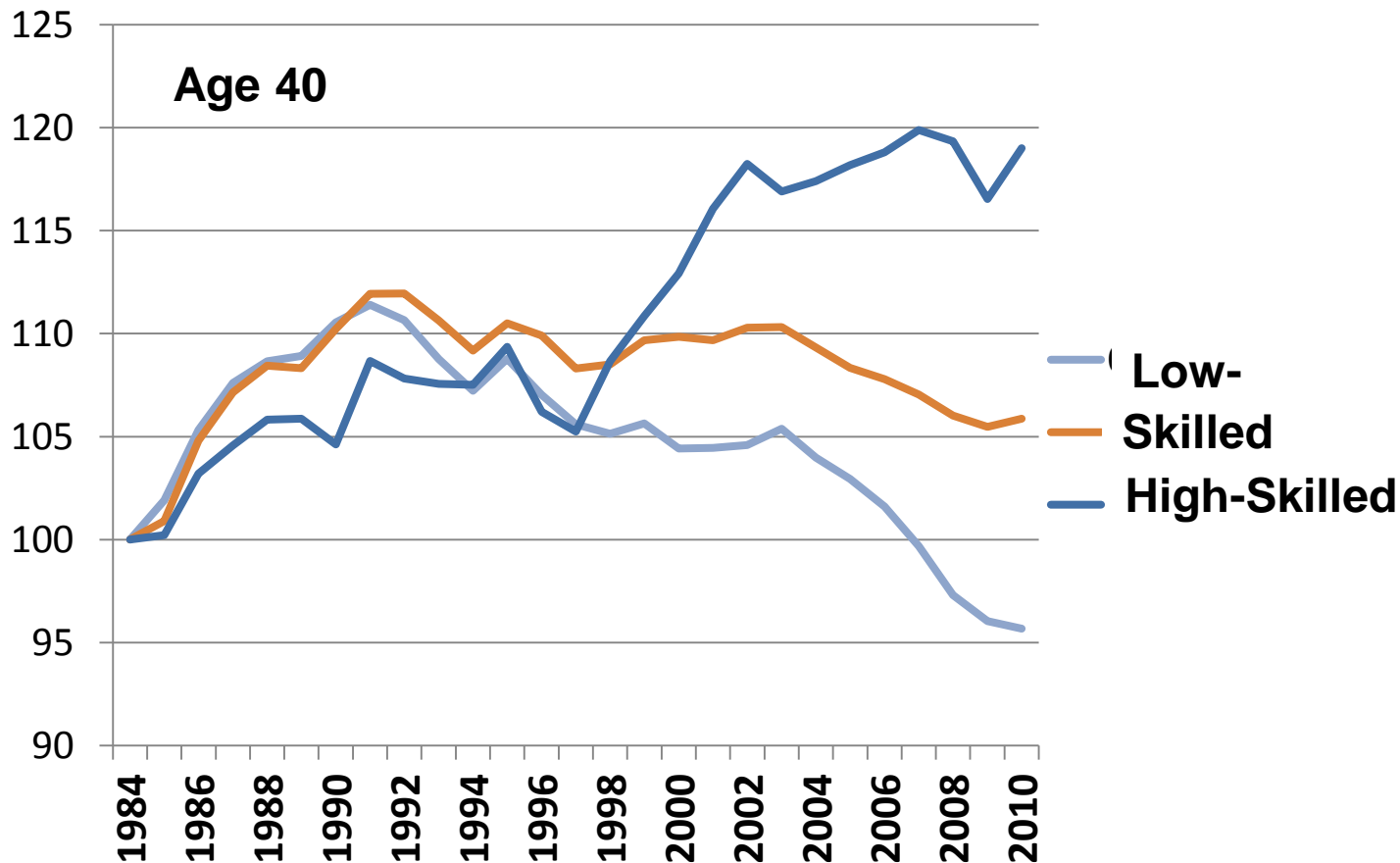
(1984=100, male full-time workers 25-55, West)



Index of Real Gross Earnings 1984-2010 by Skill Group at Age 40

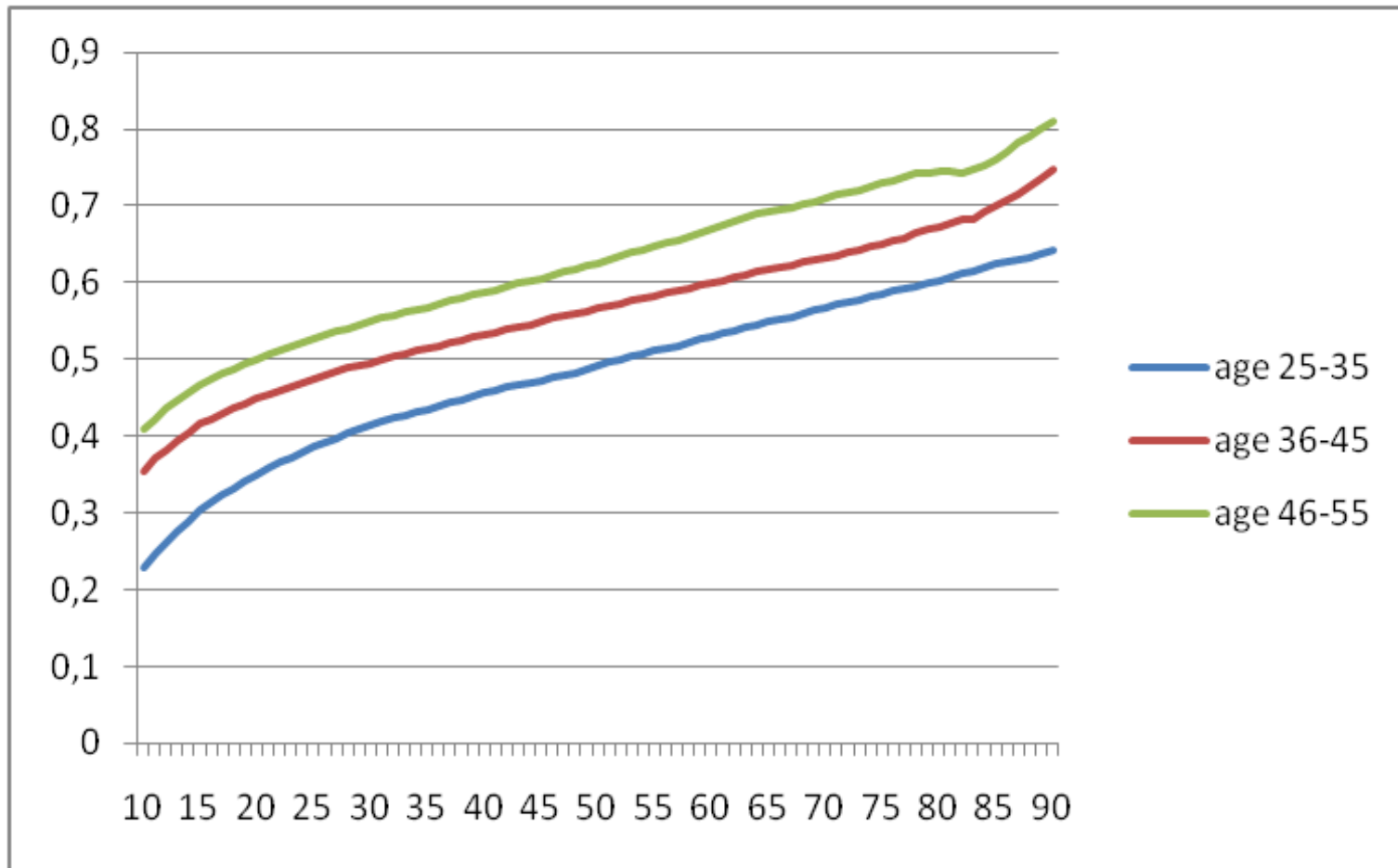


(1984=100, male full-time workers 25-55, West)



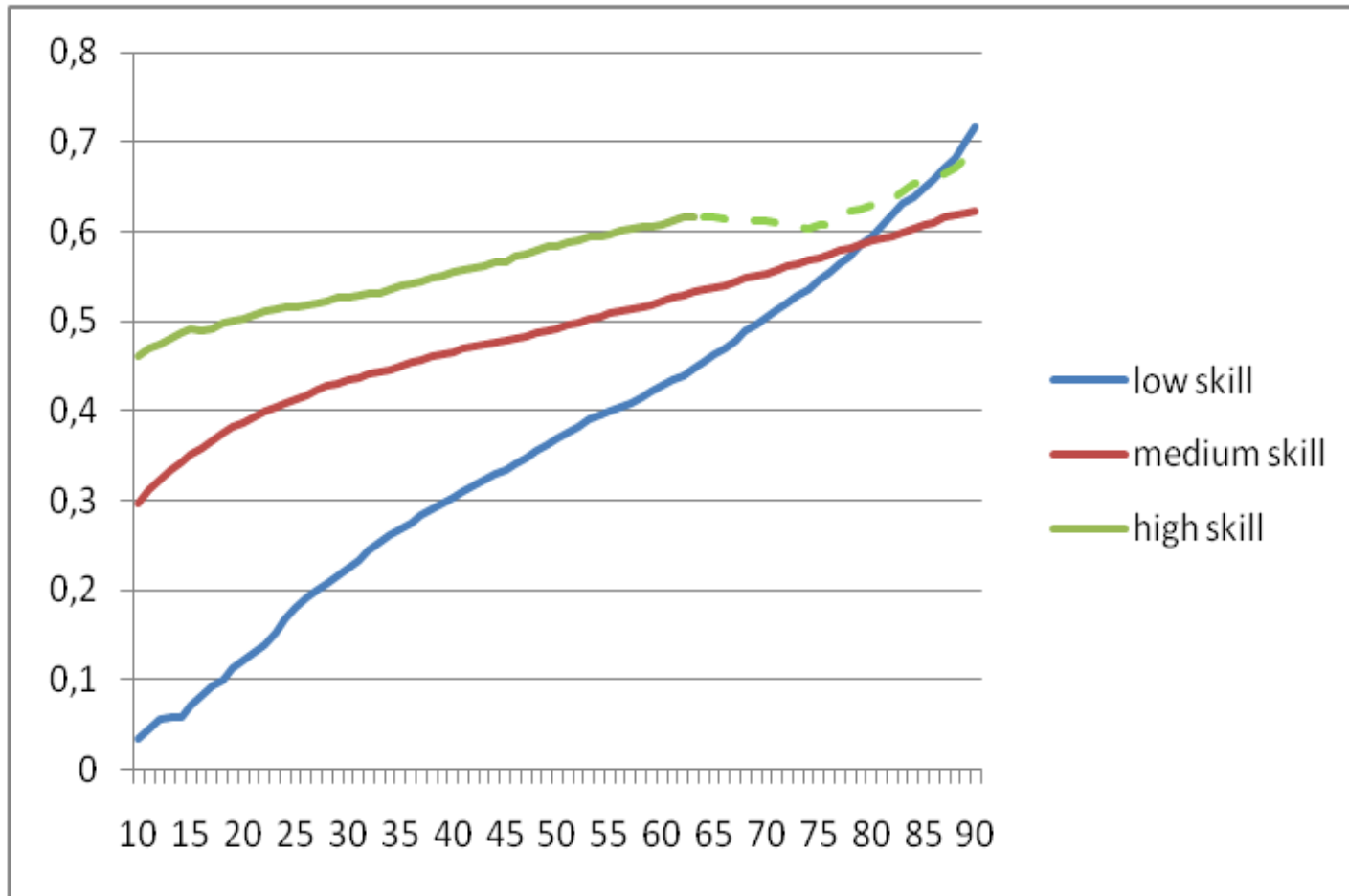
Wage growth by percentile of the wage distribution and age

(1984=100, male full-time workers 25-55, West)




Wage growth by percentile of the wage distribution and skill

(1984=100, male full-time workers 25-55, West)



Decomposition of the variances in earnings within and between sector of the economy

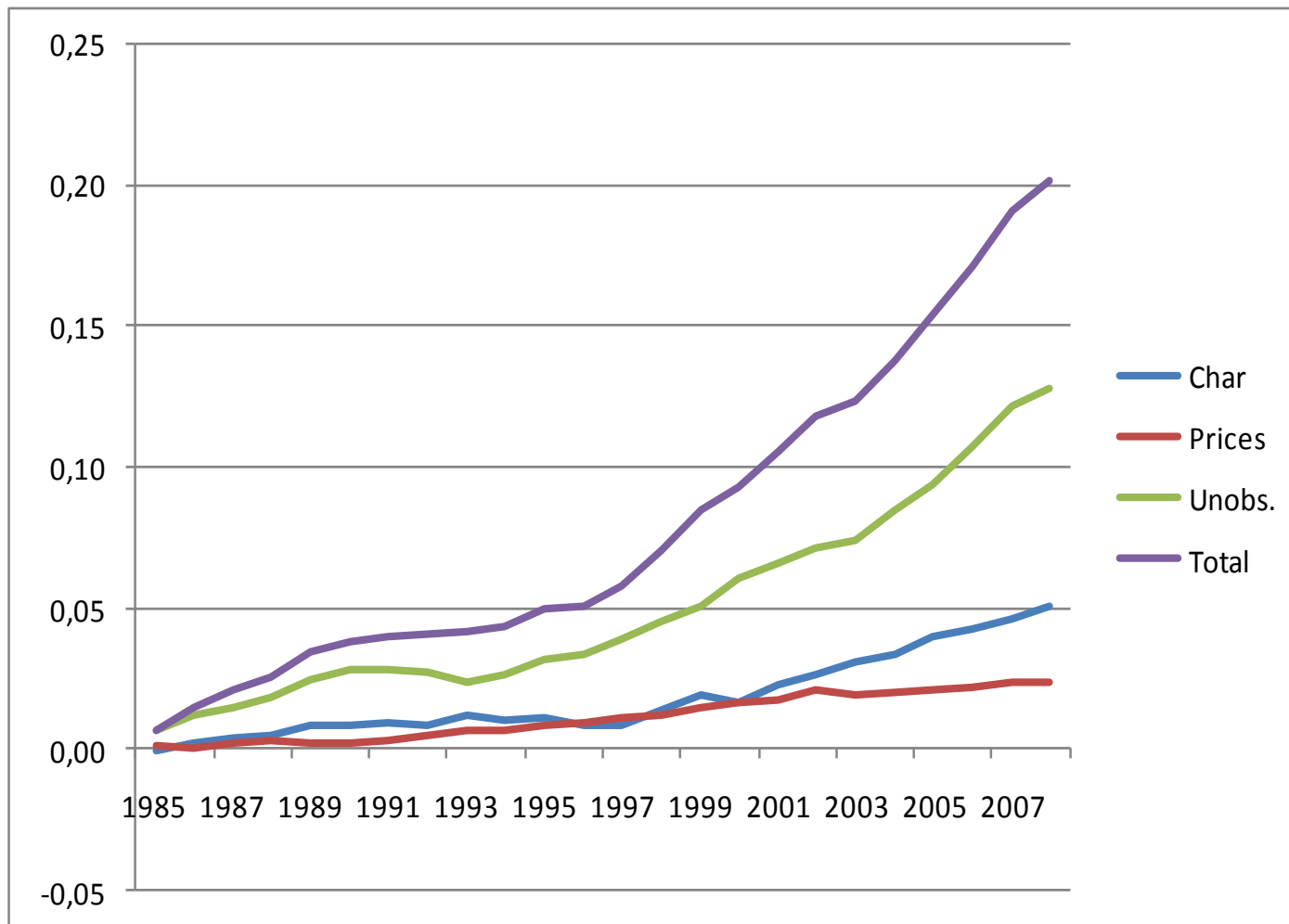
Period	Within Industry			Between Industries	
	Total Change	Wage Change	Composition Effect	Wage Change	Composition Effect
1984-2008	0.132	0.103	0.009	0.019	0.002

A blue arrow points from the bottom center of the slide towards the 'Wage Change' value of 0.103 in the 'Within Industry' column for the '1984-2008' period.

Decomposition of the total increase in wage inequality

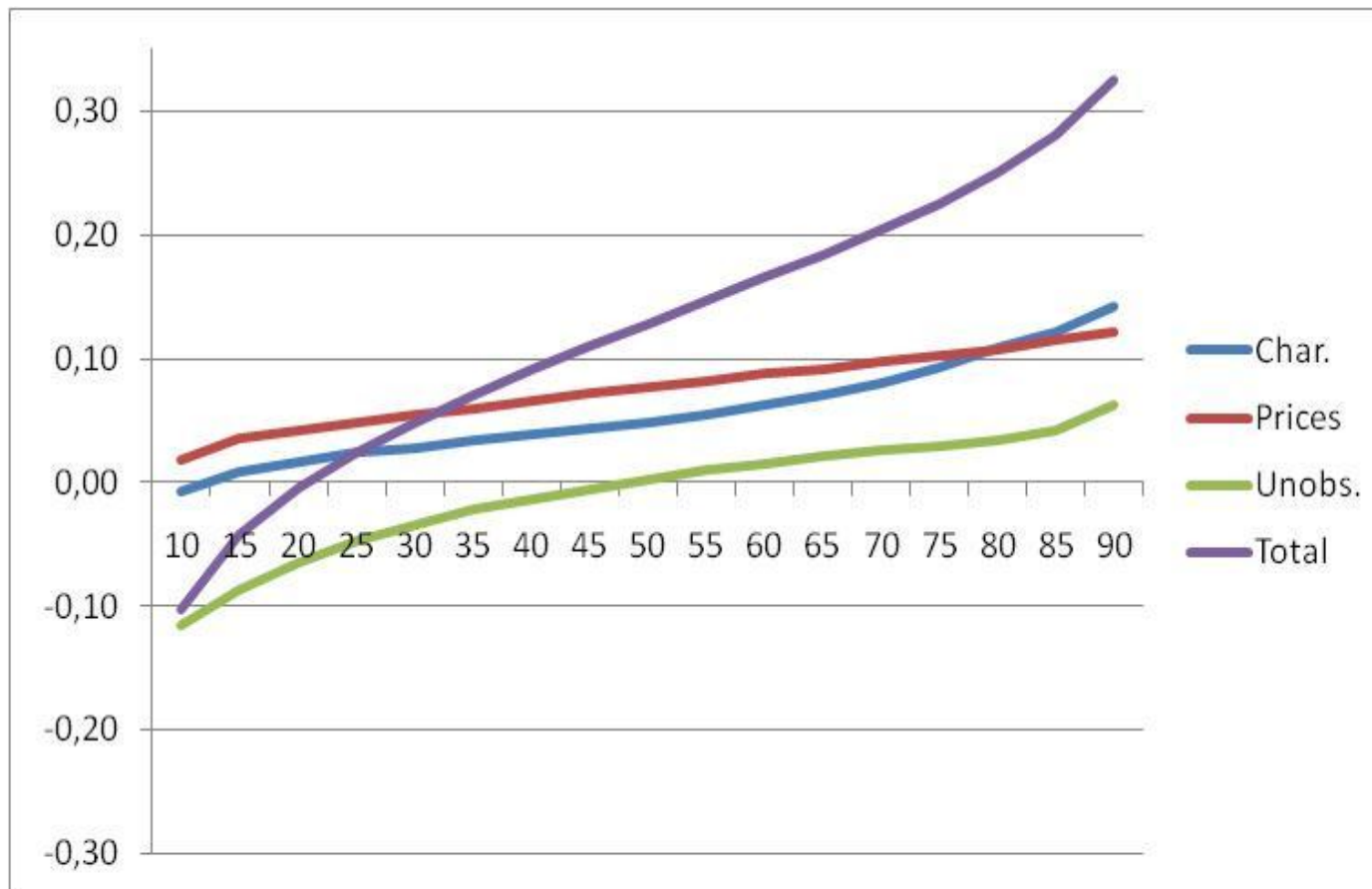
Decomposition of the interquartile distance of the earnings distribution

(1984 – 2008, Juhn-Murphy-Pierce Method, only male full time workers 25-55, West)



Decomposition of wage changes by percentiles of the wage distribution

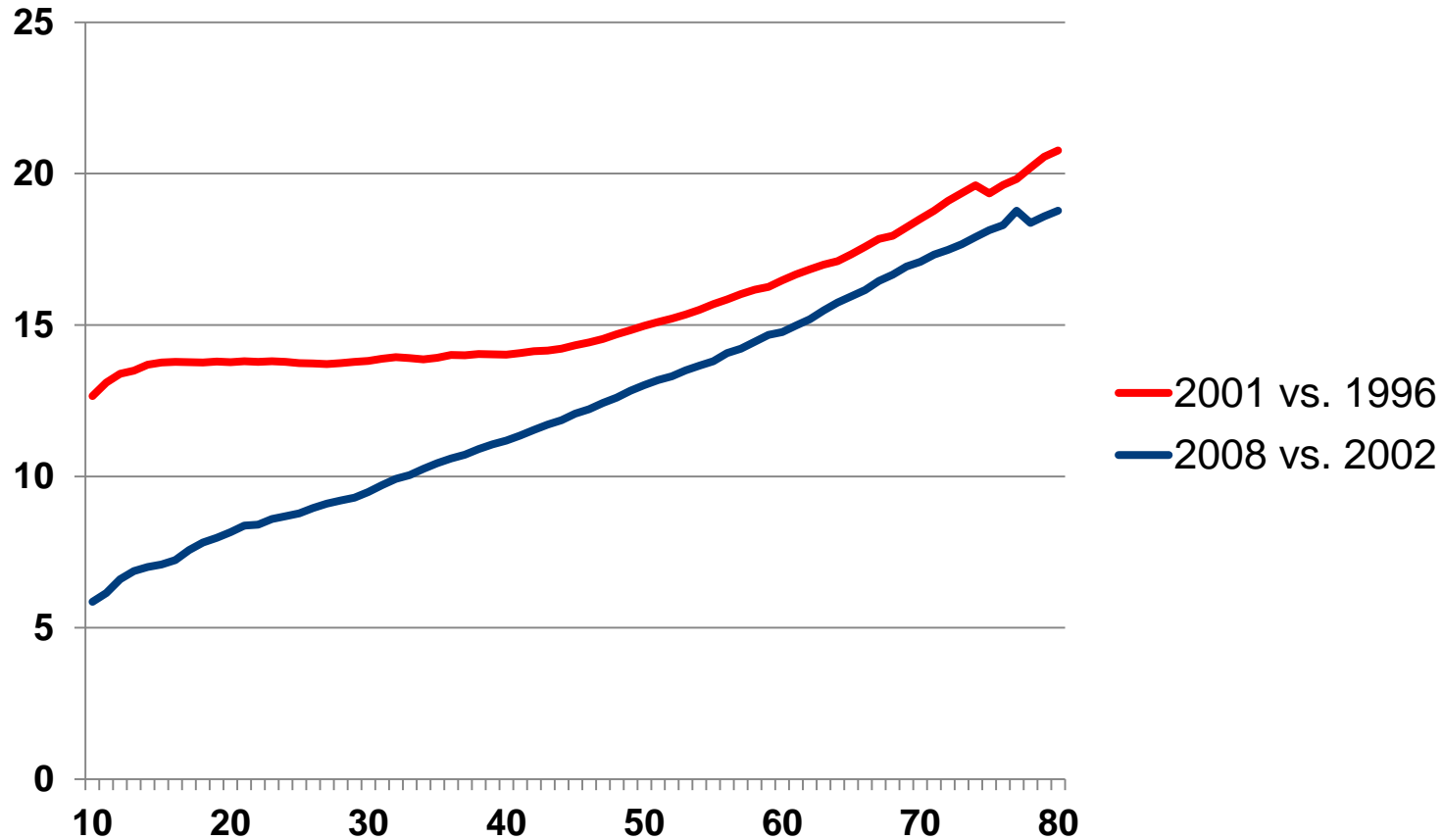
(1984 – 2008, based on quantile regressions, Melly-Method)



Was the increase in wage inequality inevitable to get low productivity workers into jobs?

Wage growth 2001/1996 and 2008/2002 by initial percentile in the wage distribution (employed workers only)

(1984=100, male full-time workers 25-55, West)



Conclusions

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- Significant rise in wage inequality below and above the median since the mid-nineties
- Increasing skill premia, real wage losses for the unskilled
- Rising inequality mainly a within group phenomenon
- All components (relative wages, characteristics) contribute to the interquartile distance; dominating role of „unexplained factors“

Possible explanations:

- Role of collective bargaining, technology, globalization, reforms
- Increasing assortativeness in the matching of workers to plants (Card et al 2012)

Open question: „Inequality: too much of a good thing?“