

Online Magazin IAB-Forum

Recent Developments in the Distribution of Labour Income and Skills

15. December 2023 | Lutz Bellmann



Contributing to a better understanding of wage determination and wage distribution as well as job skills – that was the aim of the international conference “Recent Developments in Wage Determination, Distribution, and Job Skills” at the IAB.

The high-profile conference, which took place at the IAB on 13 and 14 2023, dealt with the significant increase in wage inequality and the factors contributing to this development. The focus was on the role of individual determinants of wage inequality, including length of service and job mobility, as well as company characteristics and labour market institutions. The effects of wage losses following job relocations and the wage elasticity of new hires were also discussed.

The traditional human capital model of wage determination cannot explain why wage differences exist within or between companies, as the companies themselves are considered irrelevant. Bernd Fitzenberger, Director of the IAB and Professor at the Friedrich-Alexander-Universität Erlangen-Nürnberg (FAU), emphasized at the opening of the conference that there are a number of data sets now that allow highly interesting extensions of the simple approach of human capital theory for research.



IAB Director Bernd

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The microdata produced by the IAB is also used by external researchers for their own studies. In this context, Fitzenberger emphasized that it is the policy of the IAB not to monopolize these data treasures.

The introduction of the statutory minimum wage has ended the rise in income inequality

[Martin Biewen](#), Professor at the University of Tübingen, presented a study on the effects of the introduction of the general statutory minimum wage on the labour market on 1 January 2015. He was able to draw on a linked employer-employee dataset consisting of data from the 2014/2018 earnings structure survey of the Federal Statistical Office from a cooperation between the IAB and the German Social Accident Insurance.

The results presented show that the introduction of the general statutory minimum wage has put an end to the rise in inequality of labour income. In this context, Biewen also finds no significant changes in working hours. The far-reaching spillover effects on employee groups that were not directly affected by the introduction of the general statutory minimum wage should also be emphasized.

In the ensuing discussion, the cause of these carry-over effects, the legal obligations to document wages and working hours and the role of the announcement of the introduction of the general statutory minimum wage in the coalition agreement of the then federal government of 27 November 2013 were discussed.

Adequate remuneration is an important company strategy when recruiting staff

[Michael Oberfichtner](#), head of the IAB research department “Establishments and Employment” and Professor at FAU, was able to demonstrate the great importance of the wage rate for the successful recruitment of employees using geo-referenced data from the Hamburg labour market region for the period 1 July 2013 to 30 June 2014.

According to his assessment, the determination of adequate remuneration is an important company strategy to ensure the recruitment of employees.

[Kerstin Ostermann](#), research associate in the IAB's "Regional Labour Markets" research department, discussed the research potential of geodata for labour market and regional analyses. She was able to identify very different patterns in wage inequality for individual, narrowly defined districts of major German cities for the period 2000 to 2017. Interestingly, the average level of wage inequality is lower in eastern German cities than in western German cities.



The participants of the international conference "Recent Developments in Wage Determination, Distribution, and Job Skills" at the IAB discussed the significant increase in wage inequality and the factors contributing to this development. Photo: Kurt Pogoda

Employees from larger companies must on average expect greater income and wage losses in the event of redundancies

[Steffen Müller](#), head of the "Structural Change and Productivity" department at the Leibniz Institute for Economic Research Halle and Professor at Otto von Guericke University Magdeburg, presented the results of his study on income and wage losses due to employee layoffs. His empirical analyses were based on data from the IAB's Integrated Employment Biographies and insolvency data from the [Federal Employment Agency](#) for the period 2007 to 2009, which are based on various administrative processes. In contrast to previous research literature, Müller does not only consider redundancies of employees from larger companies.

The results show that employees who lose their jobs and previously worked in a larger company must expect greater income and wage losses on average. The reason for this is that these employees often move to smaller and medium-sized companies. It was emphasized in the discussion that the extension of unemployment benefits for this group of employees could extend the potential search period for new employment and limit income and wage losses.

Women are less likely than men to enter into wage negotiations with their employer

Who wins and who loses when wage negotiations are conducted at the level of individual companies? This research question was the focus of the presentation by [Sydnee Caldwell](#), Professor in the Department of Economics at the University of California, Berkeley. Using data from a survey of 772 German companies on their remuneration strategies, which were linked to detailed biographical information from social security data, she was able to examine the behaviour of companies in terms of remuneration according to their gender, risk preference, and productivity of defined employee groups.

On the one hand, Caldwell's results show that companies have a certain flexibility in terms of pay after at least three years of employment. Secondly, productive employees and those with the expectation of higher pay are remunerated better. According to Caldwell's findings, women are less likely than men to develop such expectations. They are therefore less likely to enter into wage negotiations with their employer.

Working with more competent colleagues leads to a positive wage effect

[Christian Dustmann](#), Professor of Economics at University College London, Director of the Center for Research and Analysis of Migration, and Director of the Rockwool Foundation Berlin, gave the keynote speech at the conference. He examined the role and significance of spillover effects in workplace-based learning using data from the German social insurance system. He distinguished between knowledge-enhancing effects due to cooperation and support from colleagues and competitive effects due to greater competition with competent colleagues when filling higher positions.



Christian Dustmann, Professor of Economics at University College London, gave the keynote speech at the conference. Photo: Kurt Pogoda

Dustmann was able to demonstrate a positive wage effect through collaboration with more competent colleagues. This effect is mainly due to moving to companies where pay is higher. Women are also less likely than men to improve their relative income position by changing jobs due to interruptions in their employment.

These effects are stronger in occupations with a high level of knowledge and depend more often on the number of employees who are dependent on the support of colleagues to acquire knowledge. Furthermore, this research underestimates both private and social returns to workplace training if this transfer of knowledge between employees is not taken into account.

How companies react to high labour costs varies depending on their strategy

[Bernardo Fanfani](#), Assistant Professor at the University of Turin, presented a study on the different reactions of companies to high labour costs based on linked data from the Italian social security system and company wage and turnover information. Various strategies are conceivable here, such as increasing efficiency, raising sales prices, reducing the number of employees, or cutting profits.

Empirical evidence shows a decline in company turnover due to a reduction in production, although overall productivity has not changed. There are no company closures. There are negative employment effects in the companies with the lowest productivity, while the companies with the highest productivity were even able to increase their efficiency.

Despite higher pay, comparatively few employees from the former German Democratic Republic moved to West Germany after reunification

[Alexandra Spitz-Oener](#), Professor at Humboldt University Berlin and Deputy Director of the Rockwool Foundation Berlin, presented her study on the migration of employees from East Germany to West Germany in the first few years after reunification, which was the result of collaboration with the Research Data Center of the Federal Employment Agency at the IAB. The research objective is to gain empirical evidence on social networks and work colleagues that appeared to be particularly relevant due to the political and economic collapse.

For the first it was possible to compare the career development of employees from the former German Democratic Republic in West Germany with the development of those who could not decide to seek employment in West Germany by using a linked dataset of employees from the former German Democratic Republic with social security data for the period of reunification.

Despite the higher pay, comparatively few employees from the former German Democratic Republic moved to West Germany. Spitz-Oener's empirical results prove that employees from the former German Democratic Republic were more likely to take up employment in a West German company if a former colleague had already found a job there. With their help, information deficits and uncertainties could be reduced.

Host and moderator [Lutz Bellmann](#), Professor Emeritus of Economics at FAU and a member of the IAB Director's research group, which also includes Alexandra Spitz-Oener and Christian Dustmann, concluded by reiterating the importance of linking data sets, an area in which the IAB is particularly involved. As the conference showed, it is being used in an excellent way to further develop human capital theory and to produce highly interesting empirical studies for this purpose.

picture: Andrey Popov/stock.adobe.com

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