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Article

"Real hourly wages: low-paid workers are not being left behind": Eight questions for Alexander Kritikos

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Prof. Dr. Alexander S. Kritikos,
Research Director on the Executive Board,
DIW Berlin

EIGHT QUESTIONS FOR ALEXANDER KRITIKOS

»Real hourly wages: low-paid workers are not being left behind«

1. Mr. Kritikos, you've investigated the development of gross hourly wages in Germany. How have these wages developed since Germany's reunification? Immediately after reunification, there were substantial hourly wage increases, up through 1997 or 1998. After that, growth was minimal through 2004, followed by wage losses until 2010. Since 2010, after the financial crisis, wages started picking up momentum again.
2. Which income groups experienced the highest wage increases over the observation period? Here, we must make a distinction between two periods. In the first period, from 1995 to 2010, you could say that the higher the wage level, the better the wage development. The highest three deciles experienced wage increases, while the bottom four or five deciles largely incurred substantial losses. Since 2010, while everybody has seen wage increases, a distinct U-shaped relationship has emerged. People in the lowest and highest deciles have seen larger wage increases, while those in the middle lagged somehow behind. Still, over the past 20 years, those at the top of the wage scales have seen the largest increases in pay.
3. Has the gap between the highest and lowest wages widened even further? Overall, the wage gap was getting wider and wider before the financial crisis. Since then, the hourly wage gap has remained constant between the median of the highest decile and the median of the lowest decile, neither closing nor widening. If you look at the differences between those in the middle and those at the top, the wage gap has probably increased slightly since the financial crisis.
4. How did the 2015 implementation of the legal minimum wage affect development? Right when it was introduced, the minimum wage raised hourly wages in the lowest deciles; at the same time, low-paid workers were seeing wage increases for reasons beyond the introduction of the minimum wage.
5. What are those reasons? First and foremost, between 2010 and 2015 the group composition in the lower deciles has changed in many respects. For example, there are now more dependent employees from West Germany and less from East Germany. As wages in West Germany are still higher, also in the lower deciles, these structural shifts led to a rise in wages in the lowest decile after 2010. Another factor is likely to have been the increases in sector-specific minimum wages.
6. What role do qualifications play? The labor market is undergoing a considerable structural transformation when it comes to qualifications. The demand for highly qualified workers with university education is increasing, while the demand for unskilled workers is decreasing. Of course, this primarily affects the wages of workers without vocational training.
7. Which employee groups – in terms of qualifications – earn the highest wages? On average, the highest wages are paid to workers with a higher education degree, followed by those with intermediate vocational qualifications. Those without vocational training receive the lowest wages. However, sometimes people with tertiary education fall into the lowest deciles, thus taking home very low salaries.
8. What are the chances of low-income earners moving on to higher-paying work? Of those workers who were in the bottom two deciles in 2010 and still working as dependent employees in 2015, slightly more than half moved up to higher income levels. This was especially true for full-time workers and for those who changed jobs. For example, university and high school students, who were working in unskilled job, graduated from school and then changed jobs. Typically this new job paid substantially more than their old one, thus pushing them up the income ladder.

Interview by Erich Wittenberg



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