

Mosthaf, Alexander; Schnabel, Claus; Stephani, Jens

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## Low-wage careers: are there dead-end firms and dead-end jobs?

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# **FRIEDRICH-ALEXANDER-UNIVERSITÄT ERLANGEN-NÜRNBERG**

Lehrstuhl für VWL, insbes. Arbeitsmarkt- und Regionalpolitik  
Professor Dr. Claus Schnabel

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## **Low-wage careers: Are there dead-end firms and dead-end jobs?**

ALEXANDER MOSTHAF, CLAUS SCHNABEL  
AND JENS STEPHANI

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## Low-wage careers: Are there dead-end firms and dead-end jobs?

Alexander Mosthaf<sup>a</sup>, Claus Schnabel<sup>b</sup> and Jens Stephani<sup>a</sup>

**ABSTRACT:** Using representative linked employer-employee data of the German Federal Employment Agency, this paper shows that just one out of seven full-time employees who earned low wages (i.e. less than two-thirds of the median wage) in 1998/99 was able to earn wages above the low-wage threshold in 2003. Bivariate probit estimations with endogenous selection indicate that upward wage mobility is higher for younger and better qualified low-wage earners, whereas women are substantially less successful. We show that the characteristics of the employing firm also matter for low-wage earners' probability of escaping low-paid work. In particular small plants and plants with a high share of low-wage earners often seem to be dead ends for low-wage earners. The likelihood of leaving the low-wage sector is also low when staying in unskilled and skilled service occupations and in unskilled commercial and administrative occupations. Consequently, leaving these dead-end plants and occupations appears to be an important instrument for achieving wages above the low-wage threshold.

**ZUSAMMENFASSUNG:** Mit repräsentativen verbundenen Arbeitgeber-Arbeitnehmer-Daten der Bundesagentur für Arbeit verdeutlicht diese Studie, dass nur jeder siebte Vollzeitbeschäftigte, der 1998/99 einen Niedriglohn (von weniger als zwei Dritteln des Medianlohns) bezog, bis 2003 den Niedriglohnsektor verlassen konnte. Bivariate Probit-Schätzungen mit endogener Selektion deuten darauf hin, dass die Aufwärtsmobilität für jüngere und besser qualifizierte Geringverdiener höher ausfällt, wohingegen Frauen deutlich weniger erfolgreich sind. Wir zeigen, dass auch die Merkmale des Beschäftigungsbetriebes die Aufstiegswahrscheinlichkeit beeinflussen. Insbesondere kleinere Betriebe und solche mit einem hohen Anteil von Niedriglohnbeschäftigten scheinen häufig Sackgassen für Geringverdiener darzustellen. Die Wahrscheinlichkeit, den Niedriglohnsektor zu verlassen, ist ferner relativ gering, wenn man in bestimmten (meist weniger qualifizierten) Jobs verharrt. Die Abwanderung aus solchen Betrieben und Beschäftigungen, die Sackgassen darstellen, dürfte deshalb ein wichtiges Mittel sein, um höhere Löhne zu erzielen.

**Keywords:** low-wage employment, wage mobility, Germany

**JEL classification:** J30, J60

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<sup>a</sup> IAB Nürnberg

<sup>b</sup> University of Erlangen-Nürnberg, LASER and IZA

## 1. INTRODUCTION

Since the 1990s, the low-wage sector has expanded considerably in Germany (see Rhein/Stamm 2006 and Bosch/Kalina 2008). In 2005 about 18 percent of full-time employees covered by social insurance earned wages that amounted to less than two-thirds of the medium wage, and they were thus regarded as low-wage earners (Rhein/Grün 2007). While such a large share of low-wage workers may be a cause of concern on its own, for an accurate interpretation of this phenomenon it is important to know whether low-wage employment is a transitory or a persistent experience of individuals in their working career. Put differently, are low-wage jobs mainly stepping stones to better-paid jobs or are low-wage careers the norm where employees in the low-wage sector have limited chances of upward mobility? If the latter is the case, can we identify individual characteristics or obstacles in their working environment that hinder employees from leaving the low-wage sector?

The upward mobility of low-wage earners has been analyzed in a number of international studies for OECD countries and for Germany.<sup>1</sup> Most of these studies find that upward wage mobility differs among employees, with certain groups such as female and older workers having lower chances of reaching higher-paid jobs. While these and other individual determinants of upward mobility have been investigated in many studies, due to a lack of data relatively few studies have been able to analyze the impact of firm and workplace characteristics on employees' chance of escaping low-paid work. To be sure, there exist a few studies that point to the relevance of the size and sector affiliation of a firm for employees' upward wage mobility (see, e.g., Stewart/Swaffield 1999, Cappellari 2002, and Andersson/Holzer/Lane 2005). For Germany, Schank/Schnabel/Stephani (2009) recently have shown that low-wage employment is concentrated (and upward wage mobility is lower) in small firms and in certain industries. With Danish data, Bolvig (2005) has demonstrated that the characteristics of the employing firm matter for low-wage employees' likelihood of escaping a low-wage job, and she has been able to identify three types of firms: firms with high within-firm upward wage mobility, firms with high between-firm upward wage mobility (i.e. stepping-stones) and firms with low upward wage mobility (i.e. dead-end firms).

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<sup>1</sup> See, for instance, the cross-country studies by OECD (1996), Asplund/Sloane/Theodossiou (1998), and European Commission (2004). Country-specific analyses are provided, inter alia, by Andersson/Holzer/Lane (2005) for the US, Stewart/Swaffield (1999) and Cappellari/Jenkins (2008) for the UK, Bolvig (2005) for Denmark, Cappellari (2002) and Cappellari (2007) for Italy, and Eichhorst et al. (2005), Uhlendorff (2006) and Schank/Schnabel/Stephani (2009) for Germany. Deding (2002) compares low-wage mobility in Germany, Denmark and the US, while Grün et al. (2009) provide evidence from administrative data in Germany and Austria.

This paper adds to the literature by paying special attention to the role of the plants and jobs in which low-wage earners are employed. We investigate whether there do indeed exist dead-end firms and dead-end jobs where workers have very low chances of escaping low-wage employment and whether changing firms and/or jobs is a promising means of obtaining higher pay. Using representative linked employer-employee data of the German Federal Employment Agency, we analyze the wage and employment careers of full-time employees who earned low wages in 1998/1999. We show to which extent these low-wage workers were able to earn higher wages in the following years and which individual, plant or occupational characteristics played a role in this context.

The paper is organized as follows: After a description of our data set in section 2, some research questions and hypotheses are identified (section 3). Section 4 presents some descriptive evidence, while the results of our econometric analysis are discussed in section 5. Section 6 concludes.

## 2. THE DATA

In order to be able to investigate the role of both individual and plant-level characteristics for upward wage mobility we make use of the weakly anonymous version of the Employment Panel of the Federal Employment Agency (BAP). This administrative data set is a representative 2 percent random sample of German workers liable to social security drawn from the notifications of employment to the social security bodies (Koch/Meinken 2005, Schmucker/Seth 2006). Beside individual characteristics the quarterly panel also includes detailed information about plants. The data set is available at the Research Data Centre (FDZ) of the German Federal Employment Agency (BA) at the Institute for Employment Research (IAB). For our analyses we linked additional data stemming from the IAB Employment History and the Integrated Employment Biographies of the IAB (IEB) as well as data by the Federal Employment Agency.

In accordance with a number of international studies we define an individual as being low-paid if he or she earns less than two thirds of the median monthly gross wage of full-time employees. We take into account that wages in eastern Germany are markedly lower, which is partly due to the fact that in eastern Germany fewer firms are covered by collective agreements and even if they are covered they less often pay wages above the level stipulated in these agreements than do western German firms (see Görzig/Gornig/Werwatz 2004 and Jung/Schnabel 2009). In order to deal with the wage differential between eastern and western Germany we calculate the low-wage threshold separately for these two parts of the country. We obtain low-wage thresholds that lie between 1546 € and 1740 € in western

Germany and between 1179 € and 1293 € in eastern Germany in the years 1998 to 2003. In our analysis we focus on workers whose wages were below the low-wage threshold both in 1998 and in 1999. By doing so we want to make sure that the individuals we are studying are indeed “true” low-wage workers and not individuals who occupied a low-wage job just for a short time. This could be the case, for example, if a person knows in advance that she will start a high paid job in the future and only takes up a low paid job to bridge the time gap.

For various reasons we restrict our analysis to full-time employees. We thus avoid the problem that some part-time employees may have chosen their (often low-paid) job voluntarily, for example women engaged in childcare or students. Moreover, working hours of part-time workers are only crudely measured in our data set, which would make it extremely difficult to classify them as low-paid or high-paid. To focus on the core group of the labour market and to minimize transitions into retirement, we exclude trainees, interns, working students, retired persons and persons younger than 15 or older than 57 years in 1998. Furthermore, we do not consider observations with implausible information on wages.<sup>2</sup> Since our administrative dataset is highly reliable, this problem affects only about 4 percent of full-time employees.

The resulting sample covers 241,742 individuals, with 28,184 of these being low-wage earners both in 1998 and 1999. We analyze transitions from 1999 to 2000 and from 1999 to 2003 and use information of the BAP-cross-sections at June 30 of each year.

### 3. RESEARCH QUESTIONS AND HYPOTHESES

The data described above enable us to investigate the role of three factors that may be relevant for the upward mobility of low-wage earners: individual characteristics, establishment characteristics and occupational characteristics. While the main focus of this paper is on the latter two factors and on the identification of dead-end firms or dead-end jobs, individual characteristics must also be taken into account.

Individual characteristics such as sex, age, and education have been found to significantly affect employees’ likelihood of escaping the low-wage sector in

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<sup>2</sup> We exclude individuals earning less than 602 € ( $3.5 \text{ €} * 40 \text{ hours} * 4.3 \text{ weeks}$ ) in eastern Germany and less than 645 € ( $4 \text{ €} * 40 \text{ hours} * 4.3 \text{ weeks}$ ) in western Germany (in prices of 2006). In addition, we do not analyze individuals with high-qualification occupations such as managers or engineers who were earning a low wage while being full-time employed. Such presumably wrong information could emerge if an individual who works part-time is incorrectly registered as a full-time employee.

previous studies with German data (see Eichhorst et al. 2005, Schank/Schnabel/Stephani 2009). We are able to include information on employees' sex, age, formal qualification and (non-German) nationality in our analyses. In accordance with the extant evidence and with theoretical considerations (discussed in detail by Schank/Schnabel/Stephani 2009) we expect that upward mobility is higher for younger workers who might not yet have found an optimal job-match and for low-wage earners with higher formal qualifications due to their higher general human capital and productivity potential. In contrast, upward wage mobility can be expected to be lower for women due to interruptions in their working career (and the loss of human capital and the "statistical discrimination" that often go with it) as well as for low-wage earners with non-German nationality who may suffer from language barriers and labour market discrimination.

Taking these individual characteristics as a sort of control variables, we now concentrate on identifying establishment or occupational characteristics that may be detrimental to the upward wage mobility of low-wage earners. One likely suspect for creating dead ends in wage mobility is firm size, which already has been shown to play a role in a previous study for Germany (Schank/Schnabel/Stephani 2009). In Germany, larger firms more frequently offer further training and other chances of human capital accumulation than smaller firms (Gerner/Stegmaier 2008), and they also more often have internal labour markets with hierarchical wages and chances of transition along well-defined job ladders (Klein-Schneider 2003). This implies that the upward wage mobility of low-wage earners may be significantly lower in smaller establishments.

Upward mobility could also be affected by the workforce composition in the establishment. A high share of qualified employees, for instance, may indicate that this is a firm in which human resources development is important (and thus upward mobility easier), whereas a high share of older employees could suggest that the workforce and the internal structures of the firm are less flexible and upward mobility thus more difficult (see Nienhüser 1998). More importantly, labour market segregation could also play a role. Low-wage earners may be concentrated in establishments where a large share of employees are paid low wages (Bolvig 2005), so that we would expect upward mobility of individual low-wage earners to be lower if working in such an establishment. Similarly, the chances of leaving the low-wage sector may be lower for women employed in establishments with a predominantly female workforce, be it due to gender-based segregation, discrimination or just low-cost strategies in such firms (Pfeffer/Davis-Blake 1987, Achatz/Gartner/Glück 2005). The same applies to foreigners working in establishments with a high share of foreign employees. Our data will enable us to

test whether these sorts of firms are really dead ends for specific (low-paid) employees.

In addition to dead-end firms there may also exist certain occupations or jobs that are more likely to be dead ends than others. While it is difficult to set up clear hypotheses here, it could be expected, for instance, that in unskilled occupations the chances to leave the low-wage sector may be lower than in skilled occupations and in semi-professions. In our data we have information on the type of occupation an employee is working in, which is categorized according to a classification by Blossfeld (1987). Since this classification is a little bit dated and since it is not clear how accurately employers categorize their employees, so that we only use eight broad categories of occupations (ranging from unskilled manual over skilled services to semi-professions such as nurses, social workers and interpreters), the results of this investigation must be taken with a pinch of salt. Nevertheless it may be interesting to see whether there are differences in upward wage mobility among occupations.

Finally, it is important to know how employees can escape from the low-wage sector. More specifically, although job mobility is to a certain degree endogenous (i.e. mainly driven by aspirations to improve one's position), we would like to see whether moving to another firm (as suggested by Andersson/Holzer/Lane 2005) or to another occupation is a successful strategy for leaving low-paid employment. In particular if the employee is working in a dead-end firm and/or in a dead-end job with no chances of upward wage mobility, leaving this firm and/or job may be her only way to escape the low-wage trap.<sup>3</sup> Given the limited chances of upward wage mobility in small firms discussed above and assuming that small firms are more likely to promote general skills whereas large firms are more likely to generate specific skills (Bolvig 2005), we would expect that leaving small firms should be particularly promising, whereas leaving large firms may not be so beneficial. A more technical argument would be that individuals in small firms can move to larger and thus better-paying firms whereas individuals in the group of largest firms cannot. We also expect that transitions into higher-paid employment are more likely if individuals leave plants that have a large share of low-paid workers. Similarly, although we do not have specific hypotheses here, we will check whether there are occupations where moving out is particularly important and successful.<sup>4</sup>

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<sup>3</sup> While this is the case for voluntary moves which may reflect that individuals have found a better-paid job, involuntary moves (due to lay-offs, and perhaps associated with temporary unemployment and loss of human capital) could of course also result in lower chances of upward wage mobility. Unfortunately, we are not able to distinguish between voluntary and involuntary separations in our data set.

<sup>4</sup> Since our focus in this paper is on identifying dead-end firms and occupations, we only take into account the characteristics of the plants and occupations in which individuals are currently



In addition to the individual, plant-level and occupational characteristics discussed above, further factors that might play a role for upward wage mobility should be taken into account, even if there exist no clear-cut hypotheses here. For instance, industries differ in a number of difficult-to-observe variables such as the existence of internal labour markets, personnel policies, hierarchies, production processes and traditions that may facilitate or hamper upward mobility. Due to the substantially different labour market situation in western and eastern Germany, in which of these regions a plant is located may also be important for leaving the low-wage sector. In the econometric investigation in section 5 we will therefore control for industry affiliation and for location in eastern Germany and see whether these factors are associated with upward wage mobility.

#### 4. DESCRIPTIVE EVIDENCE

Table 1 presents some information on our sample of low-wage earners based on the representative BA Employment Panel. Recall that we only focus on those full-time employees earning less than two-thirds of the median wage in two subsequent years (1998/99). It can be seen that this group of (true or multi-year) low-wage earners consists predominantly of women and of employees who have lower levels of formal education or are in unskilled occupations. Interestingly, they are concentrated in smaller plants and in plants that have a high percentage of low-paid workers, which points to the relevance of establishment characteristics suggested above.

(Table 1 about here)

In Table 2 it is shown which labour market status individuals who were full-time low-wage earners in 1998/99 reach in the following years. Within one year (i.e. until 2000), about 9 percent of these individuals manage to leave low-paid employment whereas 73 percent stay in the low-wage sector (which means that they earn less than two-thirds of the new median wage in 2000). After four years (i.e. in 2003), more than 15 percent of the low-wage earners have moved into higher-paid employment, and only 45 percent have remained in low-paid full-time employment. About 10 percent have taken up part-time or marginal employment and about 9 percent are not employed anymore. For roughly 20 percent of our sample we have

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employed (and which they leave) but do not investigate into which plants and occupations they move. Such transition matrices between current and future plants and occupations might be interesting, but their implementation in the estimations and their interpretation would be difficult.

no information on their labour market status in 2003 – they may have (temporarily or permanently) left the labour market, could have become self-employed etc. Since some of these persons might have been able to leave the low-wage sector by taking up more lucrative self-employment, the true chance of upward mobility may be higher than the 15 percent identified above. Nevertheless, since only about one in seven low-wage earners manages to reach higher-paid (dependent) employment within four years, upward wage mobility seems to be rather limited on average.

(Table 2 about here)

The upward mobility of those low-paid workers from 1998/99 who were still in full-time employment in 2003 is presented in Table 3 (results for 2000 point in the same direction and are available on request). In this sub-sample, about 25 percent of low-wage earners are able to reach higher-paid employment by 2003. Table 3 makes clear, however, that the chances of leaving low-paid work differ substantially between groups of workers, occupations and plants. Consistent with previous studies for Germany that mainly focused on individual characteristics, upward wage mobility is lower for older employees, for employees with low levels of qualification and for women. It is striking that more than 37 percent of men, but less than 21 percent of women are able to leave the low-wage sector within four years. Somewhat unexpectedly, foreigners show a higher upward mobility than Germans, which may reflect a positive selection effect since foreigners are less frequent in this sub-sample of full-time employees.

(Table 3 about here)

Upward wage mobility is about the same in western and eastern Germany, and it is particularly high in some skilled occupations and in semi-professions. Concerning plant-level characteristics it is obvious that employees in larger plants and in plants with a low share of low-paid workers are more often able to leave low-paid employment. Put differently, in accordance with expectations there is some descriptive evidence that small plants and plants with a high share of low-paid workers might be dead ends for many low-wage earners. It will be interesting to see whether this is confirmed in the following multivariate analysis.

## 5. ECONOMETRIC ANALYSIS

In the econometric analysis we study the probability of a full-time low-wage earner (in 1998/99) reaching higher-paid full-time work in 2000 or 2003 and the factors associated with such an upward wage mobility. In this context it is important to avoid an initial conditions and sample selectivity problem (Heckman 1981) by taking into account that individuals' low-wage status in 1998/99 may be not be exogenous. Following Stewart/Swaffield (1999) and Schank/Schnabel/Stephani (2009), we therefore estimate a bivariate probit model with endogenous selection which takes account of the probability of being low-paid in 1998/99 as well as the conditional probability of leaving this status by 2003. In a likelihood function we include both the determinants of the initial low-wage status (selection equation) and the factors associated with escaping from low-paid work (upward mobility equation). The correlation  $\rho$  of the error terms of the two probits then indicates whether the initial low-wage status is exogenous.

(Table 4 about here)

Table 4 presents regression results for the two years 2000 and 2003 and for two samples: for all full-time low-wage workers from 1998/99 (including those who were not employed full-time anymore in later years) and for the group of those individuals who continued to be full-time employed. Following the research questions and hypotheses in section 3, explanatory variables in the upward mobility equation are individual characteristics (sex, age, level of education, foreigner), type of occupation, plant size, workforce composition (shares of women, low-wage earners, foreign workers, highly-qualified workers and age groups), location in eastern Germany and industry affiliation. In addition, the selection equation, which tries to take into account that the initial status of being a low-wage earner in 1998/99 and the selection into the sub-sample of still full-time employed workers may not be random, contains four identifying variables (regional unemployment rate in 1997, low-wage employment in 1997, work experience in 1993-1997 and part-time or marginal employment in 1997)<sup>5</sup>. Summary statistics of these variables are provided in an appendix table.

In Table 4, the variables in the selection equation show the expected relationship with being in the low-wage earner status in 1998/99, and they are in most cases statistically significant. In all estimations the hypothesis that the error terms are

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<sup>5</sup> We thus assume that the recent individual labour market history and the unemployment rate in 1997 affect the probability of being low paid in 1998 and 1999 but due to the temporal distance do not influence the probability of leaving low-wage employment in subsequent years.

uncorrelated ( $\rho = 0$ ) is rejected, so that a simple probit model not taking account of endogenous selection would result in biased estimates. In the upward mobility equation, the results in the first two columns indicate that individual as well as occupational and plant characteristics seem to play a statistically significant role for individuals' probability of leaving the low-wage sector. However, when interpreting these results it should be kept in mind that in this probit analysis for all low-wage workers the 0 in the dependent variable also includes marginal or part-time employment and leaving the labour market, which could reflect voluntary decisions of the low-wage earners observed. Therefore relationships may be identified with a greater degree of certainty if they also show up in the estimations for the subsample of individuals that continue to be full-time employed reported in the last two columns of Table 4. The latter estimations also include dummy variables for moving to another plant or occupation, which is not possible in the estimations for all low-wage workers (some of which are not employed anymore).

The estimates in Table 4 for the years 2000 and 2003 usually point in the same direction, with effects often being more pronounced in the longer term. Looking at individual characteristics first, all estimations indicate that women are substantially less likely to escape from low-paid work than men, even if they continue to be full-time employed. The results in the last column (which are marginal effects calculated according to Steward/Swaffield 1999) imply that a women's probability of achieving higher-paid work (conditional on the selection that she was a low-wage earner in 1998/99 and continues to be full-time employed in 2003) is about 12 percentage points lower than that of a man with similar characteristics. Upward wage mobility is also lower for older and for unskilled employees, whereas there is no clear difference between German and foreign employees. Compared to the reference group of skilled commercial and administrative occupations, the chance of leaving the low-wage sector is lower in all other groups of occupations except semi-professions.

Turning to plant characteristics, we see that the size of the employing plant in 1999 significantly affects individuals' chances of upward wage mobility in the following years. Workers who continue to be full-time employed in a plant with more than 500 employees, for instance, have a chance of leaving low-paid work by 2003 that is almost 9 percentage points higher than that of similar workers employed in the reference group of plants with no more than 20 employees. Industry affiliation also plays a significant role for upward wage mobility,<sup>6</sup> whereas the location of a plant in

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<sup>6</sup> Compared to the reference group of "wholesale and retail trade; repair of motor vehicles, motorcycles and personal and household goods", the probability of obtaining a higher-paid job is significantly lower if the low-wage earner was initially employed in the sectors "manufacture of food products and beverages", "hotels and restaurants" and "other service activities".

eastern Germany does not seem to be relevant (this will be different for men in Table 5).

The composition of a plant's workforce is of lesser importance for reaching higher-paid employment than expected. The coefficients of the percentages of foreigners and of qualified workers are never statistically significant at the five percent level, and by 2003 the percentage of women and the age composition have lost their initial significance. One notable exception is the percentage of low-wage workers in a plant which shows a highly significant negative relationship with upward wage mobility. The marginal effect shown in the last column of Table 4 implies that an increase in the share of low-paid workers by 10 percentage points is associated with a reduction in individuals' chance of obtaining higher-paid work of 1.2 percentage points.

Finally, the estimations in the last two columns suggest that moving to another plant and changing occupations both significantly increase the chance of leaving low-paid work. Taken at face value, by 2003 the (conditional) probability of upward wage mobility is almost 19 percentage points higher if the initial low-wage earner has moved to another plant (and about 9 percentage points higher if he or she has changed occupations). These results should not be taken too literally, however, because obtaining higher wages is usually the main aim of such (voluntary) moves, so that most of these may be endogenous.

(Table 5 about here)

Since the results in Table 4 indicate that upward wage mobility is significantly lower for women, which could reflect deeper gender-specific differences, Table 5 presents separate estimations for men and women for the year 2003. While occupational differences seem to be more pronounced for women and a plant's location in eastern Germany plays a (negative) role for men but not for women, by and large this robustness check confirms the insights described above. The split of sample according to gender also enables us to test the segregation hypothesis set up above. In contrast to this hypothesis, women's chances of leaving the low-wage sector are not significantly lower the higher the percentage of women in a plant is.

In order to test this and the other hypotheses concerning dead ends more specifically and to see where changes of plants and occupations are most successful, we include some interaction effects in the estimations for (full-time employed) men and women in 2003 reported in Table 6. These show quite clearly that plants with high shares of women or of foreigners are not dead-end plants for

women and foreigners since the respective interaction terms prove to be insignificant.<sup>7</sup> In contrast, plants with a high share of low-wage earners seem to be dead ends since there the chance of upward wage mobility is significantly lower for women and particularly for men. Moreover, the positive interaction term of the share of low-wage earners and the change of plants indicates that moving out of these dead-end plants is usually associated with leaving low-wage employment.

(Table 6 about here)

Small plants appear to be another dead end for low-wage earners. Upward wage mobility is relatively low when staying in plants with no more than 100 employees, whereas it is significantly higher in larger plants. Moreover, as the interaction effects indicate, in larger plants with more than 500 employees a change of plants is relatively less successful than in smaller plants. This implies that staying in small plants is a risky strategy for low-wage earners.<sup>8</sup>

Finally, while changing occupations may in general be helpful in leaving the low-wage sector (see Tables 4 and 5), it is not easy to disentangle which occupations are most detrimental to upward wage mobility. The results in Table 6 show that (compared to the reference group of skilled commercial and administrative occupations) the chance of leaving the low-wage sector is particularly low when staying in unskilled and skilled service occupations and in unskilled commercial and administrative occupations.<sup>9</sup> Moreover, the interaction effects suggest that in these three occupational categories a change of occupation is relatively more successful in terms of upward wage mobility. In order to draw more specific conclusions, however, more detailed data must be used, which in turn would complicate the estimation and interpretation even more.<sup>10</sup>

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<sup>7</sup> Since the interpretation of interaction effects in non-linear estimators is not straightforward (see Ai/Norton 2003), we repeated the estimations in Table 6 with a linear probability model, which did not change our insights.

<sup>8</sup> While this analysis only includes information on the plants in which low-wage earners were employed initially, Schank/Schnabel/Stephani (2009) also take into account the characteristics of the plants to which individuals move. They show that moving to a large plant is associated with the highest probability of upward wage mobility.

<sup>9</sup> We exclude individuals whose occupation is unknown in the regressions of Table 6. Interactions of the variable "occupation type unknown" with other variables resulted in estimation problems due to the small number of observations in cells related to this variable.

<sup>10</sup> In order not to complicate matters further and to avoid problems of insufficient numbers of observations in certain cells we have refrained from also interacting the plant change and the occupation change dummies with each other and cross-wise with occupations and plant size.

## 6. CONCLUSIONS

Using representative linked employer-employee data of the German Federal Employment Agency, this paper has investigated to which extent full-time employees who earned low wages (i.e. less than two-thirds of the median wage) in 1998/99 were able to earn higher wages in the following years, and which factors played a role in this context. We have shown that just one out of seven of these low-wage earners received wages above the low-wage threshold in 2003. While upward wage mobility thus appears to be limited, low-wage employment is not a persistent experience or a dead end for all low-wage earners. Bivariate probit analyses with endogenous selection indicate that younger and better qualified low-wage earners record a higher probability of getting higher-paid employment, whereas women are substantially less successful.

While the relevance of these individual characteristics has also been found in previous studies, the main focus of our analysis has been to check whether there exist firms and/or occupations that prove to be dead ends for low-wage workers. We have shown that the characteristics of the employing firm indeed matter for low-wage earners' probability of escaping low-paid work. In particular plants with a high share of low-wage earners seem to be dead ends for individual low-wage earners since there the chance of upward wage mobility is significantly lower. In contrast, plants with high shares of women or of foreigners do not reduce the upward wage mobility of women and foreigners, respectively. Another dead end for low-wage earners seem to be small plants which offer significantly lower chances of upward wage mobility than larger plants. The likelihood of leaving the low-wage sector is also particularly low when staying in unskilled and skilled service occupations and in unskilled commercial and administrative occupations. Consequently, leaving these dead-end plants and occupations appears to be an important instrument for achieving wages above the low-wage threshold.

Although we have not analyzed to which extent wages rose above the low-wage threshold and how permanent such a rise was, our results indicate that low-wage employment can be a stepping stone into better-paid jobs for some employees. At the same time, staying in the "wrong" kind of firm or occupation can make low-wage employment persistent. The matching of employees to firms in the low-wage sector thus may have important and long-lasting effects on the wage and employment careers of these workers. As also suggested by Andersson/Holzer/Lane (2005, 13), labour market policies that seek to improve the access of low-wage earners to higher-wage firms and occupations could have substantial payoffs.

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**Table 1:** Composition of the low-wage worker group in the BA Employment Panel (BAP)

	<b>Low-wage workers (1998/99)</b>
<b>Number of observations</b>	28,184
<b>Sex</b>	
Men	27.22%
Women	72.78%
<b>Age (years)</b>	
15-24	13.80%
25-34	27.66%
35-49	43.37%
50-57	15.17%
<b>Level of education</b>	
School leaving certificate without vocational training	19.17%
Secondary school certificate with vocational training	61.39%
High school certificate with vocational training	1.25%
University degree	0.64%
Unknown	17.56%
<b>Type of occupation</b>	
Unskilled manual occupations	18.85%
Skilled manual occupations	12.49%
Unskilled services	20.93%
Skilled services	12.95%
Unskilled commercial and administrative occupations	15.53%
Skilled commercial and administrative occupations	16.62%
Semi-professions	2.28%
Unknown	0.33%
<b>Nationality</b>	
German	90.03%
Foreign	9.97%
<b>Region</b>	
Western Germany	76.81%
Eastern Germany	23.19%
<b>Plant size</b>	
1-20 employees	58.43%
21-100 employees	24.91%
101-500 employees	13.72%
More than 500 employees	2.93%
<b>Share of low-paid workers in the plant</b>	
Less than 5%	3.39%
5%-40%	22.32%
40%-80%	34.27%
80%-100%	39.70%
Unknown	0.32%

Note: Low-wage workers are defined as full-time employees earning less than two-thirds of the median wage in two subsequent years (1998/99).

Source: own calculations based on BAP.

**Table 2:** Labour market status of the low-wage workers from 1998/99 in later years

<b>Status</b> <b>Year</b>	<b>Low-wage employment</b>	<b>Higher-wage employment</b>	<b>Part-time/ marginal employment</b>	<b>Not employed</b>	<b>No infor- mation</b>
2000	73.04%	8.77%	3.64%	5.20%	9.36%
2003	45.11%	15.20%	10.18%	9.27%	20.24%

Source: own calculations based on BAP.

**Table 3:** Labour market status in 2003 of those low-wage workers from 1998/99 who were still in full-time employment in 2003

	<b>Observations</b>	<b>Low-wage employment</b>	<b>Higher-wage employment</b>
Total	16,998	74.80%	25.20%
<b>Sex</b>			
Men	4,694	62.72%	37.28%
Women	12,304	79.41%	20.59%
<b>Age (years)</b>			
15-24	2,291	53.69%	46.31%
25-34	4,507	67.16%	32.84%
35-49	7,960	81.31%	18.69%
50-57	2,240	88.66%	11.34%
<b>Level of education</b>			
School leaving certificate without voc. training	3,171	77.14%	22.86%
Secondary school certificate with voc. training	10,669	74.28%	25.72%
High school certificate with vocational training	220	63.18%	36.82%
University degree	113	68.14%	31.86%
Unknown	2,825	75.33%	24.67%
<b>Type of occupation</b>			
Unskilled manual occupations	3,265	74.52%	25.48%
Skilled manual occupations	2,132	70.36%	29.64%
Unskilled services	3,477	77.11%	22.89%
Skilled services	2,287	77.04%	22.96%
Unskilled commercial and administrative occ.	2,518	81.57%	18.43%
Skilled commercial and administrative occ.	2,293	69.04%	30.96%
Semi-professions	347	67.44%	32.56%
Unknown	49	67.35%	32.65%
<b>Nationality</b>			
German	15,572	75.25%	24.75%
Foreign	1,426	69.85%	30.15%
<b>Region</b>			
Western Germany	13,006	74.11%	25.89%
Eastern Germany	3,992	77.05%	22.95%
<b>Plant size</b>			
1-20 employees	9,923	77.31%	22.69%
21-100 employees	4,319	73.44%	26.56%
101-500 employees	2,291	69.01%	30.99%
More than 500 employees	465	62.58%	37.42%
<b>Share of low-paid workers in the plant</b>			
Less than 5%	421	60.57%	39.43%
5%-40%	3,948	66.39%	33.61%
40%-80%	6,017	76.30%	23.70%
80%-100%	6,584	79.42%	20.58%
unknown	28	67.86%	32.14%

Note: The personal and plant-level characteristics shown are from 1999.

Source: own calculations based on BAP.

**Table 4:** Advancement of multi-year low-wage workers in 2000 and 2003; probit estimations with sample selection; marginal effects

Independent Variables	All workers		Still full-time employed workers	
	2000	2003	2000	2003
<b>Upward mobility equation</b>				
Female (1=yes)	-0.053*** (0.006)	-0.111*** (0.009)	-0.059*** (0.007)	-0.123*** (0.013)
Age 15-24 (1=yes)	0.062*** (0.007)	0.140*** (0.009)	0.055*** (0.008)	0.209*** (0.014)
Age 25-34 (1=yes)	0.035*** (0.005)	0.060*** (0.006)	0.034*** (0.005)	0.098*** (0.010)
Age 50-57 (1=yes)	-0.014*** (0.005)	-0.065*** (0.006)	-0.011* (0.006)	-0.062*** (0.011)
School leaving certificate without vocational training (1=yes)	-0.015*** (0.004)	-0.028*** (0.006)	-0.016*** (0.005)	-0.040*** (0.010)
High school certificate with vocational training (1=yes)	0.038** (0.017)	0.033 (0.021)	0.050** (0.020)	0.063* (0.033)
University degree (1=yes)	0.014 (0.021)	0.023 (0.028)	0.021 (0.025)	0.019 (0.042)
Education unknown (1=yes)	0.002 (0.005)	-0.009 (0.007)	0.003 (0.006)	-0.017 (0.011)
Foreigner (1=yes)	0.011 (0.007)	-0.021** (0.008)	0.016* (0.008)	0.004 (0.016)
Unskilled manual occupations (1=yes)	-0.014** (0.006)	-0.033*** (0.008)	-0.025*** (0.006)	-0.056*** (0.013)
Skilled manual occupations (1=yes)	-0.016*** (0.005)	-0.030*** (0.008)	-0.026*** (0.006)	-0.061*** (0.012)
Unskilled services (1=yes)	-0.024*** (0.005)	-0.046*** (0.007)	-0.035*** (0.005)	-0.082*** (0.011)
Skilled services (1=yes)	-0.024*** (0.007)	-0.031*** (0.010)	-0.031*** (0.008)	-0.050*** (0.017)
Unskilled commercial and administrative occupations (1=yes)	-0.018*** (0.005)	-0.047*** (0.007)	-0.028*** (0.005)	-0.074*** (0.011)
Semi-professions (1=yes)	-0.004 (0.012)	-0.033** (0.014)	-0.003 (0.013)	-0.040 (0.024)
Occupation type unknown (1=yes)	0.013 (0.025)	-0.017 (0.030)	-0.022 (0.019)	-0.029 (0.048)
21-100 employees (1=yes)	0.013*** (0.004)	0.010* (0.006)	0.011** (0.005)	0.014 (0.009)
101-500 employees (1=yes)	0.021*** (0.006)	0.023*** (0.008)	0.022*** (0.007)	0.049*** (0.013)
More than 500 employees (1=yes)	0.013 (0.010)	0.031** (0.014)	0.033** (0.014)	0.086*** (0.025)
Percentage of women	-1.50E-04** (-7.31E-05)	-7.59E-05 (1.05E-04)	3.09E-05 (8.66E-05)	-1.60E-04 (1.74E-04)
Percentage of highly-qualified workers	-9.54E-05 (1.30E-04)	-7.03E-05 (1.84E-04)	-6.02E-05 (1.50E-04)	1.43E-04 (3.08E-04)
Percentage of workers aged 15-24	3.21E-04*** (1.12E-04)	2.90E-04* (1.56E-04)	2.99E-04** (1.33E-04)	1.85E-04 (2.55E-04)
Percentage of workers aged 25-34	1.61E-04 (1.07E-04)	1.14E-04 (1.47E-04)	2.25E-04* (1.24E-04)	6.44E-06 (2.35E-04)
Percentage of workers older than 49	-1.21E-04 (1.26E-04)	-6.63E-05 (1.69E-04)	-5.49E-07 (1.46E-04)	-1.42E-04 (2.70E-04)
Percentage of low-wage workers	-3.25E-04*** (9.07E-05)	-6.53E-04*** (1.18E-04)	-5.94E-04*** (9.30E-05)	-1.23E-03*** (1.86E-04)
Percentage of foreign workers	-7.97E-05 1.11E-04	2.63E-04* (1.57E-04)	-6.22E-05 (1.34E-04)	5.06E-04* (2.59E-04)
Plant located in eastern Germany (1=yes)	-0.006 (0.004)	-0.006 (0.006)	0.001 (0.005)	-0.014 (0.009)
Change of plants (1=yes)	-	-	0.134*** (0.005)	0.188*** (0.008)

Change of occupation type (1=yes)	-	-	0.050*** (0.009)	0.093*** (0.011)
Number of observations	26,589	26,589	21,858	16,181
<b>Selection equation</b>				
Regional unemployment rate in June 1997	0.003*** (0.001)	0.003*** (0.001)	0.001 (0.001)	0.001 (0.001)
Low-wage employment in 1997 (1=yes)	0.576*** (0.004)	0.578*** (0.004)	0.553*** (0.004)	0.434*** (0.004)
Years of work experience between 1993-1997	-0.083*** (0.001)	-0.084*** (0.001)	-0.075*** (0.002)	-0.062*** (0.002)
Part-time/marginal employed in 1997 (1=yes)	0.185*** (0.004)	0.188*** (0.004)	0.276*** (0.006)	0.309*** (0.010)
Number of observations	237,278	237,278	237,278	237,278
$\rho$ (correlation of the error terms)	0.159***	0.0731***	0.187***	0.163***
Significance of model	$\chi^2$ (42) = 663.2***	$\chi^2$ (42) = 1232.8***	$\chi^2$ (44) = 1726.1***	$\chi^2$ (44) = 1954.1***
Joint significance of variable groups	Age***, level of education***, type of occupa- tion***, firm size***, age composition of workers in the firm***, industry***	Age***, level of education***, type of occupa- tion***, firm size***, age composition of workers in the firm n.s., industry***	Age***, level of education***, type of occupa- tion***, firm size***, age composition of workers in the firm**, industry***	Age***, level of education***, type of occupa- tion***, firm size***, age composition of workers in the firm n.s., industry***

Notes: own calculations based on BAP. Marginal effects calculated at the sample mean. Heteroscedasticity-consistent standard errors in parentheses (clustered at plant level). 16 industry dummies suppressed in the table. Reference categories of dummy variable groups: age 35-49, secondary school certificate with vocational training, skilled commercial and administrative occupations, 1-20 employees, percentage of workers aged 35-49. Significance levels: \*  $p < 0.1$ ; \*\*  $p < 0.05$ ; \*\*\*  $p < 0.01$ ; n.s. denotes statistical insignificance. The selection equation contains all variables from the upward mobility equation, except change of plant and change of occupation type.

**Table 5:** Upward mobility of multi-year low-wage workers in 2003 by gender; probit estimations with sample selection; marginal effects

Independent Variables	All workers		Still full-time employed workers	
	Women	Men	Women	Men
Upward mobility equation				
Age 15-24 (1=yes)	0.126*** (0.010)	0.180*** (0.021)	0.202*** (0.016)	0.219*** (0.029)
Age 25-34 (1=yes)	0.042*** (0.007)	0.112*** (0.014)	0.085*** (0.012)	0.129*** (0.020)
Age 50-57 (1=yes)	-0.059*** (0.006)	-0.075*** (0.017)	-0.054*** (0.011)	-0.072** (0.029)
School leaving certificate without vocational training (1=yes)	-0.025*** (0.006)	-0.030** (0.013)	-0.036*** (0.011)	-0.040* (0.021)
High school certificate with vocational training (1=yes)	0.020 (0.020)	0.100 (0.063)	0.041 (0.033)	0.154* (0.079)
University degree (1=yes)	0.026 (0.030)	0.013 (0.067)	0.032 (0.045)	-0.001 (0.094)
Education unknown (1=yes)	-0.009 (0.007)	-0.007 (0.015)	-0.018 (0.012)	-0.008 (0.024)
Foreigner (1=yes)	-0.020** (0.010)	-0.025 (0.018)	-0.003 (0.019)	0.014 (0.029)
Unskilled manual occupations (1=yes)	-0.026*** (0.008)	-0.039 (0.025)	-0.038*** (0.014)	-0.081** (0.038)
Skilled manual occupations (1=yes)	-0.049*** (0.008)	-0.014 (0.024)	-0.086*** (0.013)	-0.047 (0.037)
Unskilled services (1=yes)	-0.045*** (0.007)	-0.051** (0.024)	-0.077*** (0.011)	-0.095*** (0.036)
Skilled services (1=yes)	-0.032*** (0.010)	-0.071* (0.038)	-0.052*** (0.016)	-0.056 (0.068)
Unskilled commercial and administrative occupations (1=yes)	-0.039*** (0.007)	-0.066** (0.026)	-0.059*** (0.011)	-0.091** (0.044)
Semi-professions (1=yes)	-0.037*** (0.012)	0.031 (0.062)	-0.048** (0.021)	0.037 (0.098)
Occupation type unknown (1=yes)	-0.034 (0.030)	0.037 (0.077)	-0.057 (0.047)	0.050 (0.118)
21-100 employees (1=yes)	0.006 (0.006)	0.031** (0.014)	0.004 (0.010)	0.049** (0.021)
101-500 employees (1=yes)	0.021** (0.008)	0.036** (0.018)	0.047*** (0.014)	0.054** (0.027)
More than 500 employees (1=yes)	0.022 (0.015)	0.076** (0.035)	0.076*** (0.028)	0.115** (0.052)
Percentage of women	-1.03E-04 (1.26E-04)	-1.17E-04 (2.44E-04)	-1.06E-04 (2.14E-04)	-1.57E-04 (3.73E-04)
Percentage of highly-qualified workers	7.52E-05 (1.92E-04)	-4.84E-04 (4.65E-04)	1.79E-04 (3.18E-04)	-7.52E-05 (7.49E-04)
Percentage of workers aged 15-24	2.16E-04 (1.65E-04)	3.43E-04 (3.82E-04)	1.53E-04 (2.70E-04)	1.06E-04 (5.89E-04)
Percentage of workers aged 25-34	2.50E-04 (1.58E-04)	-3.11E-04 (3.41E-04)	1.96E-04 (2.53E-04)	-6.66E-04 (5.15E-04)
Percentage of workers older than 49	-9.50E-05 (1.80E-04)	-3.32E-05 (4.08E-04)	-2.44E-04 (2.89E-04)	1.49E-04 (6.14E-04)
Percentage of low-wage workers	-6.34E-04*** (1.24E-04)	-5.78E-04* (3.19E-04)	-1.32E-03*** (2.00E-04)	-9.35E-04** (4.57E-04)
Percentage of foreign workers	4.65E-04** (1.92E-04)	1.06E-05 (3.10E-04)	7.43E-04** (3.18E-04)	1.74E-04 (4.83E-04)
Plant located in eastern Germany (1=yes)	0.007 (0.006)	-0.037*** (0.012)	0.003 (0.010)	-0.056*** (0.019)
Change of plants (1=yes)	-	-	0.146*** (0.008)	0.300*** (0.018)
Change of occupation type (1=yes)	-	-	0.103*** (0.014)	0.080*** (0.021)

Number of observations	19,621	6,968	11,821	4,360
<b>Selection equation</b>				
Regional unemployment rate in June 1997	0.001 (0.001)	0.008*** (0.001)	-0.001 (0.001)	0.004*** (0.001)
Low-wage employment in 1997 (1=yes)	0.599*** (0.005)	0.523*** (0.007)	0.453*** (0.005)	0.381*** (0.007)
Years of work experience between 1993-1997	-0.076*** (0.002)	-0.098*** (0.003)	-0.064*** (0.002)	-0.054*** (0.003)
Part-time/marginal employed in 1997 (1=yes)	0.161*** (0.003)	0.219*** (0.014)	0.334*** (0.010)	0.243*** (0.021)
Number of observations	88,721	148,557	88,721	148,557
$\rho$ (correlation of the error terms)	0.0312	0.138***	0.124***	0.217***
Significance of the model	$\chi^2$ (41) = 734.7***	$\chi^2$ (41) = 320.9***	$\chi^2$ (43) = 1212.6***	$\chi^2$ (41) = 659.4***
Joint significance of variable groups	Age***, level of education***, type of occupa- tion***, plant size*, age composition of workers in the plant n.s., industry***	Age***, level of education*, type of occupation**, plant size**, age composition of workers in the plant n.s., industry***	Age***, level of education***, type of occupa- tion***, plant size***, age composition of workers in the plant n.s., industry***	Age***, level of education*, type of occupation*, plant size**, age composition of workers in the plant n.s., industry n.s.

Notes: own calculations based on BAP. Marginal effects calculated at the sample mean. Heteroscedasticity-consistent standard errors in parentheses (clustered at plant level). 16 industry dummies suppressed in the table. Reference categories of dummy variable groups: age 35-49, secondary school certificate with vocational training, skilled commercial and administrative occupations, 1-20 employees, percentage of workers aged 35-49. Significance levels: \*  $p < 0.1$ ; \*\*  $p < 0.05$ ; \*\*\*  $p < 0.01$ ; n.s. denotes statistical insignificance. The selection equation contains all variables from the upward mobility equation, except change of plant and change of occupation type.



**Table 6:** Upward mobility of multi-year low-wage workers in 2003 including interaction effects; probit estimations with sample selection; marginal effects

Independent variables	Still full-time employed workers		
	Women and men	Women	Men
Female (1=yes)	-0.129*** (0.023)	-	-
Age 15-24 (1=yes)	0.213*** (0.014)	0.203*** (0.016)	0.231*** (0.029)
Age 25-34 (1=yes)	0.098*** (0.010)	0.086*** (0.012)	0.130*** (0.020)
Age 50-57 (1=yes)	-0.063*** (0.011)	-0.055*** (0.011)	-0.073** (0.029)
School leaving certificate without vocational training (1=yes)	-0.041*** (0.010)	-0.037*** (0.011)	-0.043** (0.021)
High school certificate with vocational training (1=yes)	0.061* (0.033)	0.043 (0.033)	0.162** (0.082)
University degree (1=yes)	0.026 (0.042)	0.046 (0.046)	-0.018 (0.095)
Education unknown (1=yes)	-0.017 (0.011)	-0.018 (0.012)	-0.008 (0.024)
Foreigner (1=yes)	0.020 (0.021)	0.018 (0.026)	0.019 (0.039)
Unskilled manual occupations (1=yes)	-0.051*** (0.014)	-0.040*** (0.014)	-0.075* (0.042)
Skilled manual occupations (1=yes)	-0.066*** (0.013)	-0.078*** (0.015)	-0.074* (0.040)
Unskilled services (1=yes)	-0.097*** (0.012)	-0.089*** (0.012)	-0.129*** (0.040)
Skilled services (1=yes)	-0.072*** (0.017)	-0.071*** (0.016)	-0.120* (0.071)
Unskilled commercial and administrative occupations (1=yes)	-0.089*** (0.012)	-0.072*** (0.011)	-0.133*** (0.048)
Semi-professions (1=yes)	-0.038 (0.026)	-0.049** (0.022)	0.116 (0.118)
21-100 employees (1=yes)	0.010 (0.012)	0.014 (0.012)	2.10E-04 (0.030)
101-500 employees (1=yes)	0.043*** (0.016)	0.050*** (0.017)	0.021 (0.037)
More than 500 employees (1=yes)	0.104*** (0.030)	0.095*** (0.032)	0.195** (0.079)
Percentage of women	-6.49E-05 (2.61E-04)	-9.53E-05 (2.13E-04)	-5.10E-05 (3.79E-04)
Percentage of highly-qualified workers	1.61E-04 (3.04E-04)	1.60E-04 (3.15E-03)	1.57E-04 (7.55E-04)
Percentage of workers aged 15-24	1.47E-04 (2.58E-04)	1.42E-04 (2.73E-04)	5.19E-07 (6.00E-04)
Percentage of workers aged 25-34	8.55E-07 (2.37E-04)	1.86E-04 (2.55E-04)	-5.40E-04 (5.27E-04)
Percentage of workers older than 49	-2.93E-05 (2.73E-04)	-1.85E-04 (2.91E-04)	5.00E-04 (6.29E-04)
Percentage of low-wage workers	-1.93E-03*** (2.21E-04)	-1.59E-03*** (2.28E-04)	-2.97E-03*** (5.51E-04)
Percentage of foreign workers	7.15E-04** (3.48E-04)	9.98E-04** (3.96E-04)	1.40E-04 (7.07E-04)
Plant located in eastern Germany (1=yes)	-0.011 (0.009)	0.006 (0.010)	-0.051*** (0.020)
Female • percentage of women	-2,94E-05 (3,32E-04)	-	-
Foreigner • percentage of foreigners	-0.001 (0.001)	-0.001 (0.001)	-2.44E-04 (0.001)

Change of plant (1=yes)	0.082*** (0.019)	0.109*** (0.021)	-0.005 (0.047)
21-100 employees • change of plant (1=yes)	0.002 (0.017)	-0.028 (0.018)	0.073* (0.039)
101-500 employees • change of plant (1=yes)	-0.002 (0.021)	-0.013 (0.024)	0.045 (0.046)
More than 500 employees • change of plant (1=yes)	-0.081** (0.038)	-0.079* (0.047)	-0.145 (0.091)
Percentage of low-paid workers • change of plant (1=yes)	0.002*** (2.37E-04)	0.001*** (2.58E-04)	0.004*** (5.5E-04)
Change of occupation type (1=yes)	0.015 (0.025)	0.020 (0.025)	-0.014 (0.076)
Unskilled manual occupation • change of occupation type (1=yes)	-0.003 (0.031)	0.024 (0.037)	0.003 (0.084)
Skilled manual occupation • change of occupation type (1=yes)	0.057 (0.036)	0.007 (0.041)	0.123 (0.088)
Unskilled services • change of occupation type (1=yes)	0.121*** (0.038)	0.114*** (0.043)	0.164* (0.089)
Skilled services • change of occupation type (1=yes)	0.241*** (0.052)	0.219*** (0.053)	0.496*** (0.126)
Unskilled comm. and admin. occ. • change of occupation type (1=yes)	0.139*** (0.042)	0.129*** (0.043)	0.181 (0.115)
Semi-professions • change of occupation type (1=yes)	-0.014 (0.061)	0.017 (0.066)	-0.173 (0.122)
Number of observations	16,133	11,789	4,344
<b>Selection Equation</b>			
Regional unemployment rate in June 1997	0.001 (0.001)	-0.001 (0.001)	0.004*** (0.001)
Low-wage employment in 1997 (1=yes)	0.433*** (0.004)	0.453*** (0.005)	0.381*** (0.007)
Years of work experience between 1993-1997	-0.062*** (0.002)	-0.064*** (0.002)	-0.054*** (0.003)
Part-time/marginal employed in 1997 (1=yes)	0.310*** (0.010)	0.335*** (0.010)	0.242*** (0.021)
Number of observations	236,750	88,588	148,162
$\rho$ (correlation of the error terms)	0.169***	0.120***	0.242***
Significance of the model	$\chi^2$ (55) = 2002.0***	$\chi^2$ (53) = 1241.3***	$\chi^2$ (53) = 714.0***
Joint significance of variable groups	Age***, level of education***, type of occupa- tion***, plant size***, age composition of workers in the plant n.s., industry***, plant size • change of plant n.s., occupation type • change of occupation type***	Age***, level of education***, type of occupa- tion***, plant size***, age composition of workers in the plant n.s., industry***, plant size • change of plant n.s., occupation type • change of occupation type***	Age***, level of education*, type of occupation**, plant size*, age composition of workers in the plant n.s., industry n.s., plant size • change of plant**, occupation type • change of occupation type***

Notes: own calculations based on BAP. Marginal effects calculated at the sample mean. Heteroscedasticity-consistent standard errors in parentheses (clustered at plant level). 16 industry dummies suppressed in the table. Reference categories of dummy variable groups: age 35-49, secondary school certificate with vocational training, skilled commercial and administrative occupations, 1-20 employees, percentage of workers aged 35-49. Significance levels: \* p<0.1; \*\* p<0.05; \*\*\* p<0.01; n.s. denotes statistical insignificance. The selection equation contains all variables from the upward mobility equation, except change of plant, change of occupation type and interactions with these variables.

## APPENDIX

**Appendix Table:** Summary statistics of variables in the sample

Variable	Obs.	Mean	Std. Dev.
<b>Multi-year low-wage workers</b>			
Female (1=yes)	28,184	0.728	0.445
Age 15-24 (1=yes)	28,184	0.138	0.345
Age 25-34 (1=yes)	28,184	0.277	0.447
Age 35-49 (1=yes)	28,184	0.434	0.496
Age 50-57 (1=yes)	28,184	0.152	0.359
School leaving certificate without vocational training (1=yes)	28,184	0.192	0.394
Secondary school certificate with vocational training (1=yes)	28,184	0.614	0.487
High school certificate with vocational training (1=yes)	28,184	0.013	0.111
University degree (1=yes)	28,184	0.006	0.079
Education unknown (1=yes)	28,184	0.176	0.380
Foreigner (1=yes)	28,173	0.100	0.300
Unskilled manual occupations (1=yes)	28,184	0.189	0.391
Skilled manual occupations (1=yes)	28,184	0.125	0.331
Unskilled services (1=yes)	28,184	0.209	0.407
Skilled services (1=yes)	28,184	0.130	0.336
Unskilled commercial and administrative occupations (1=yes)	28,184	0.155	0.362
Skilled commercial and administrative occupations (1=yes)	28,184	0.166	0.372
Semi-professions (1=yes)	28,184	0.023	0.149
Occupation type unknown (1=yes)	28,184	0.003	0.058
Plant with 1-20 employees (1=yes)	28,184	0.584	0.493
Plant with 21-100 employees (1=yes)	28,184	0.249	0.433
Plant with 101-500 employees (1=yes)	28,184	0.137	0.344
Plant with more than 500 employees (1=yes)	28,184	0.029	0.169
Percentage of women in the plant	28,184	60.439	31.586
Percentage of highly-qualified workers in the plant	26,710	4.989	12.555
Percentage of workers aged 15-24 in the plant	28,184	16.428	17.370
Percentage of workers aged 25-34 in the plant	28,184	26.830	19.047
Percentage of workers aged 35-49 in the plant	28,184	37.483	21.123
Percentage of workers older than 49 years in the plant	28,184	19.259	18.472
Percentage of low-wage workers in the plant	28,111	63.767	31.971
Percentage of foreign workers in the plant	28,111	8.948	19.590
Plant located in eastern Germany (1=yes)	28,184	0.232	0.422
Change of plant (1=yes)	20,327	0.400	0.490
Change of occupation type (1=yes)	28,184	0.415	0.493
1-20 employees • change of plant (1=yes)	20,327	0.234	0.423
21-100 employees • change of plant (1=yes)	20,327	0.103	0.304
101-500 employees • change of plant (1=yes)	20,327	0.054	0.225
More than 500 employees • change of plant (1=yes)	20,327	0.009	0.097
Percentage of low-paid workers • change of plant (1=yes)	20,283	26.576	37.885
Unskilled manual occupations • change of occupation type (1=yes)	28,184	0.084	0.277
Skilled manual occupations • change of occupation type (1=yes)	28,184	0.063	0.242
Unskilled services • change of occupation type (1=yes)	28,184	0.092	0.290
Skilled services • change of occupation type (1=yes)	28,184	0.045	0.207
Unskilled comm. and admin. occupations • change of occ. type (1=yes)	28,184	0.064	0.244
Skilled comm. and admin. occupations • change of occ. type (1=yes)	28,184	0.058	0.233
Semi-professions • change of occupation type (1=yes)	28,184	0.009	0.092
<b>All full-time workers 1998/99</b>			
Regional unemployment rate in June 1997	241,354	12.212	4.287
Low-wage employment in 1997 (1=yes)	241,742	0.120	0.325
Years of work experience between 1993-1997	241,742	4.336	1.165
Part-time/marginally employed in 1997 (1=yes)	241,742	0.021	0.145

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