

Workplace Heterogeneity in Wage Growth

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very preliminary - do not circulate

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Abstract

We study differential wage growth across firms. To this end, we propose a statistical model that extends the workhorse model of wage determination by Abowd et al. (1999) to allow for firm-type-specific wage growth. We estimate the model using linked employer-employee data from Germany for the years 1996 to 2016. We show that wage growth differs across firms and that these differences can at least partially be explained by differential human capital accumulation. Workers keep the additional accumulated pay when switching firms. This has important considerations for our understanding of the sources of wage inequality. We show that the presence of firm-type specific wage growth biases the variance and sorting components of the AKM model. The dispersion of worker quality and sorting is less important in explaining wage inequality than previously thought.

Keywords: AKM, Wage Heterogeneity, Sources of Wage Inequality

JEL Classification: C23, J31, J62

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