

Being low paid in Germany - springboard or dead end? Evidence from the IAB Employment Sample (IABS)

Carola Grün
Thomas Rhein*

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Abstract

Since the mid 1990s, the German labour market is characterised by a rising share of full-time low pay jobs. Today, more than one out of six full-time workers is low paid, when using a low pay threshold of two thirds of the median wage. This development added to an ongoing debate whether or not the low pay sector serves as a stepping stone towards sustainable integration into the labour market. Our analysis focuses on two distinct labour market states: full-time employment (both higher pay and low pay sector) and unemployment. In particular, we examine the duration in low wage jobs and unemployment as well as transition rates between low pay sector and unemployment, respectively, into higher wage jobs, controlling for initial conditions and unobserved heterogeneity. The data have been retrieved from the IAB Employment Sample (IABS), which is a 2% sample (longitudinal data) drawn from the German employment register. Relying upon administrative data allows us to exactly map the lower part of the wage distribution of jobs covered by social security, thereby alleviating an analysis of transition out of and into the low wage sector. The data source also records a number of socio-economic and job-related information which are used as control variables. Preliminary results show relatively low year-to-year transition rates between the low and high pay sector, suggesting that state dependence plays a crucial role, hence limiting the potential of low pay employment to serve as a stepping stone into stable employment. Whether or not individual characteristics are accountable for low transition rates between low and higher pay sector is highly relevant for policy implications. If idiosyncratic attributes were to prevail when explaining low transition propensities, well-designed labour market instruments would allow more people to make the transition. In case of genuine state dependence, however, persons taking up low wage employment are likely to find themselves trapped in a cycle of low pay jobs and/or unemployment.

*Institute for Employment Research, Nuremberg, Germany