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PRESS RELEASE

Inter-industry wage differentials in EU countries: What do cross-country time-varying data add to the picture?

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This paper provides evidence on the existence and causes of inter-industry wage differentials by exploiting cross-country, time-varying information from eight European Union (EU) countries. Wage differentials are estimated using the Structure of Earnings Survey (SES), a dataset of matched employer-employee data, collected from a large sample of firms in eight countries (Belgium, Germany, Greece, Hungary, Ireland, Italy, the Netherlands and Spain). The paper documents the existence and persistence of both observed and conditional (i.e. for similar workers in comparable jobs) inter-industry wage differentials and attempts to answer the following three questions. First, is there any evidence to support the view that inter-industry wage differentials reflect unobserved employee quality? Second, are differences in industry rents and structure associated with the estimated conditional inter-industry wage differentials? Third, do labour market institutions play a role in explaining differences across industries in their ability to capture rents?

Looking at observed wage differentials across industries at the NACE2 level, i.e. raw differentials without controlling for worker, job or firm characteristics, and comparing these differentials across countries and over the two years studied (mainly 1995 and 2002), the following four facts stand out. First, as already well-documented in the literature, raw wage differentials between industries are sizeable. Second, the ranking of industries in terms of the size of the differentials appears to be similar across countries. Third, despite the similarity of industry rankings across countries, there appears to be some cross-country variation in the extent to which wages differ. Dispersion is highest in Spain, Ireland, Hungary and Greece, and lowest in Belgium, Germany and Italy. Fourth, differentials appear to persist over time. The same conclusions hold if wage differentials are controlled for observable characteristics of workers, jobs and firms. Also, unobservable characteristics of workers cannot explain the wage differentials.

We show that industry rents are positively correlated with industry wage differentials, supporting the view that industries share rents with their workers. Further, we find a negative relationship between competition at the sectoral level and industry wage differentials. Finally, our results suggest that rent-sharing is more intense the higher the percentage of companies with a firm-level collective agreement in the industry and the wider the collective agreement coverage. We can conclude that inter-industry wage differentials are consistent with rent-sharing.

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