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Two-Sided Learning with Applications to Labor Turnover and Worker Displacement

By Gerard A. Pfann, Maastricht, and Daniel S. Hamermesh, Austin*

JEL J33, J63

Learning, job loss, quits, layoffs.

Summary

We make several extensions to the recent literature on job loss while modernizing the very early job-displacement literature. After constructing a dynamic model of two-sided learning between a firm and its workers, we estimate it using personnel data from Fokker Aircraft that cover the path of layoffs and quits through its bankruptcy in March 1996. We find that the firm learns about workers' loyalty (demonstrating the role of information in repeated cooperative principal-agent relationships), while workers do not learn (consistent with earlier empirical results on American workers). The type of data that we use also generates information on the value of learning and on whether and how the characteristics of workers who remain until the firm's death differ from those of all affected workers. It thus allows us to measure the increases in the firm's value from learning about its workers' behavior and to infer the extent of biases in estimating losses from displacement from samples restricted to displaced workers.

Wages, Hours and Human Capital Over the Life Cycle

By Robert A. Hart, Stirling, Scotland, and Yue Ma, Hong Kong, China*

JEL J41, J33

Wage-hours contracts, asymmetric information, four period model.

Summary

We investigate wage-hours contracts within a four-period rent sharing model that incorporates asymmetric information. Distinctions are made among (a) an investment period, (b) a period in which the parties may separate (quits or layoffs) or continue rent accumulation and sharing, (c) a post investment period and, (d) retirement. We establish that increases in both wage rates and hours of work in the post-investment period serve to minimise sub-optimal separations and, moreover that both wage and hours schedules are concave. Testing is based on 13 waves of British Household Panel Survey from 1991 to 2003.

The Phillips Curve and NAIRU Revisited: New Estimates for Germany

By Bernd Fitzenberger, Freiburg, Wolfgang Franz, Mannheim,
and Oliver Bode, Wiesbaden*

JEL C22, E24, E31

NAIRU, unemployment, inflation, Phillips curve, Okun's Law, German unification, Kalman-Filter, partially linear model.

Summary

This paper provides new estimates of a time-varying NAIRU for Germany taking account of the structural break caused by German unification using two alternative estimators, the Kalman-Filter and the partially linear model. Estimating a standard Phillips curve, the sum of coefficients associated with expected inflation is far below unity, whatever measure of expected inflation rates is employed. Therefore, either the NAIRU concept is not applicable to Germany or, as it is our suggestion, one estimates the unemployment rate that is compatible with a tolerable inflation rate of say 2 percent following roughly the inflation target put forward by the European Central Bank. The estimates presented in this paper suggest that the NAIRU compatible with 2 percent inflation in Germany is currently around 7 percent if the definition of unemployment follows the concept of the ILO. In contrast to the consensus in the literature, our estimates suggest furthermore that the NAIRU in Germany has not increased since the early 1990's.

The Aging of the Unions in West Germany, 1980–2006

By Claus Schnabel, Nuernberg, and Joachim Wagner, Lueneburg*

JEL J51

Union membership, union density, cohort effects, West Germany.

*The unions are big business, friend,
And they're goin' out like a dinosaur.*
Bob Dylan (Union Sundown, 1983)

Summary

Using data from the social survey ALLBUS for West Germany in the period 1980 to 2006, this paper demonstrates that union members are on average older than non-unionized employees. The probability of being unionized shows the inverted U-shaped pattern in age conjectured by Blanchflower (BJIR 2007) only in very few years. It is demonstrated that both intra-cohort change and cohort replacement effects have played a roughly equal role in the substantial fall in union density since 1980. If older cohorts with high densities continue to be replaced by young cohorts with low densities, average union density will fall further.

The Causes and Consequences of Adopting a Works Council

By Kornelius Kraft and Julia Lang, Dortmund

JEL J53, J28, J51

Works councils, employment security, wages, matching.

Summary

This paper reports on the results of a study on the determinants of the introduction of a works council and its consequences. We consider the effects of expectations concerning the economic conditions of a firm on the probability of adopting a works council. This is done, on the one hand, by use of employees' expectations on employment security and, on the other hand, by including forecasts of the management concerning employment growth and business conditions. Secondly, the effects of the introduction of works councils on wages and overtime working are investigated. Works councils are introduced when employees are concerned about job security. After the introduction of a works council the concerns about job security are less pronounced.

Company-Level Pacts for Employment

By Lutz Bellmann, Nürnberg, Knut Gerlach, and Wolfgang Meyer, Hannover*

JEL J31, J52

Collective contracts, decentralization of wage-setting, employment effects.

Summary

Company-level pacts for employment are agreements between management and the company's work force that are characterized by concessions from both bargaining partners. Employees agree to company-specific deviations from a collective contract that include negative components like reduced wages or prolonged working time in exchange for employment guarantees or investment programs. These pacts are negotiated to avoid or mitigate a decline of employment or to improve the long-term competitiveness of the firm. Based on the IAB Establishment Panel of the years 2004 to 2007 the employment consequences of these pacts are analyzed. It can be shown that company-level pacts tend to correlate negatively with employment growth. This finding basically holds if the endogeneity of pacts is taken into account.

Parental Background and Earnings: German Evidence on Direct and Indirect Relationships

By Thomas Cornelissen, Uwe Jirjahn, Hannover, and Georgi Tsertsvadze,
Bad Homburg*

JEL I21, J24, J31

Parental education, maternal labor force participation, schooling, wages, intergenerational mobility.

Summary

Using data from the German Socioeconomic Panel (GSOEP), the study analyzes the direct and indirect effects of parental background on employees' earnings. To examine indirect effects we estimate the determinants of the employees' years of schooling. In a second step, we run wage regressions to examine direct effects. Our results suggest that the direct and indirect effects of parental background driving the intergenerational correlation of socioeconomic status are complex. It is not only important to differentiate between mother's and father's education. It is also important to take into account other parental characteristics such as maternal labor force participation and the parents' occupational status and fertility. Moreover, we find that interaction effects play an important role. The returns to schooling depend on the employees' parental background.

Relative Demand and Supply of Skills and Wage Rigidity in the United States, Britain, and Western Germany

By Patrick A. Puhani, Hannover*

JEL E24, J21, J31, J64

Wage, earnings, unemployment, non-employment, rigidity.

Summary

I extend a two-skill group model by Katz and Murphy (1992) to estimate relative demand and supply for skills as well as wage rigidity in Germany. Using three data sets for Germany, two for Britain and one for the United States, I simulate the change in relative wage rigidity (wage compression) in all three countries during the early and mid 1990s, this being the period when unemployment increased in Germany but fell in Britain and the US. I show that in this period, Germany experienced wage compression (relative wage rigidity), whereas Britain and the US experienced wage decompression. This evidence is consistent with the Krugman (1994) hypothesis.

The Effects of Active Labor Market Programs in Germany: An Investigation Using Different Definitions of Non-Treatment

By Gesine Stephan, Nuernberg

JEL J68, J64, J65

Evaluation of active labor market policies, definition of non-treatment, comparison group concepts, propensity score matching.

Summary

This paper estimates the effects of several German labor market programs – starting in March 2003 – on the employment outcomes of participants using propensity score matching. The main objective is to analyze how estimated average treatment effects vary with the choice of the classification window that defines treatment and non-treatment. The first approach does not put any restrictions on the future of the treated as well as of their comparison group. This approach has become more and more common in the evaluation of European labor market policies. In contrast, the second approach considers only potential comparison group members, who have not entered any labor market program during the entire observation period of 3½ years. The third approach additionally restricts itself to participants, who have not participated in further labor market programs during the observation period. The results differ considerably; program effectiveness is estimated to be much lower using the second approach. The paper highlights the fact that program careers are a non-trivial issue that deserves more attention in future research.

Dynamic Panel Data Models with Spatial Correlation

By Reinhard Hujer, Paulo J.M. Rodrigues, Frankfurt a. M., Katja Wolf, Nürnberg

JEL C21, C23

Spatial panel data models, labour market policy, GMM estimation.

Summary

This paper presents an overview of recently developed estimation methods for dynamic panel data models with spatial correlation. We discuss the specification, the main assumptions and the implications of the model. The most important estimation strategy is the application of Generalized Method of Moments (GMM). The focus lies on the derivation of the moment conditions, the estimation of the degree of spatial correlation and the specification of the optimal weighting matrix. Finally we estimate an augmented matching function to analyze the effects of active labour market policy programs in Germany using two different weighting schemes.

Assessing the Rationality of Survey Expectations: The Probability Approach

By Jörg Breitung, Bonn

JEL C42, C53, D84

Rational expectations, survey data, probability model.

Summary

This paper considers popular methods for the quantification of survey expectations. We investigate the asymptotic properties of two variants of the probability approach originally suggested by Carlson and Parkin (1975). It is argued that the traditional method can be interpreted as an instrumental variable estimator that suffers from a severe loss of efficiency if the mean of the target variable is close to zero. The regression approach advocated by Pesaran (1984) can be seen as a special case assuming that expectations of survey participants are uniformly distributed. Applying alternative variants of these approaches to the ZEW survey of expected changes in the inflation rate demonstrates that the regression variant of the Carlson-Parkin methodology yields the best fit to the realized changes of the inflation rate. It turns out, however, that even the best performing quantification method fails to fulfill the requirement of rational expectations, as the variance of the expectation error is significantly reduced by including additional variables such as the lagged inflation rate.

Measuring Research Intensity from Anonymized Data: Does Multiplicative Noise with Factor Structure Save Results Regarding Quotients?

By Gerd Ronning, Tübingen

JEL C10, C43, C81, O30

Data masking, measurement error, mixture distribution, R&D.

Summary

Economic researchers often consider quotients like R&D investment divided by sales which could be used to measure “research intensity” of firms if available. However, data on research in particular are highly confidential and would not be released in original form. Therefore scientific use files have to be generated from anonymized micro data. The paper considers joint anonymization of all variables by multiplicative noise which stems from a bimodal mixture distribution and can be regarded as an error model with factor structure. It is shown that quotients such as research intensity are not modified considerably by this procedure. However, already quotients from original data can give quite misleading results which is illustrated by simulation results and an empirical example using the German Cost Structure Survey.