

Transforming Institutions:

Labor Reallocation and Wage Growth in a Reunified Germany

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Overview

Great paper w/ important question, fascinating data, and careful analysis

1. Extra reallocation of workers within east Germany after reunification - especially among the old
2. Associations between extra reallocation and wage growth
3. Quantify the share of aggregate wage growth attributable to the labor reallocation channel
 - Olley-Pakes style decomposition
 - Modified Burdett-Mortensen model identified using the transition path

Contributions

- German reunification as a natural experiment w/ cohort comparisons (Fuchs-Schündeln & Schündeln 2005, Alesina & Fuchs-Schündeln 2007)
- Labor market convergence after reunification (Krueger & Pischke 1992, Burda & Hunt 2001)
- Uses survey data – German Socio-Economic Panel (GSOEP)

Contributions

- German reunification as a natural experiment w/ cohort comparisons (Fuchs-Schündeln & Schündeln 2005, Alesina & Fuchs-Schündeln 2007)
- Labor market convergence after reunification (Krueger & Pischke 1992, Burda & Hunt 2001)
- Uses survey data – German Socio-Economic Panel (GSOEP)
- **Matched employer-employee data** from the social security records
 - Larger sample size and broader coverage
 - Rich variations: East/West, young/old, stayers/movers, new/old firms
- Credibly pins down the labor reallocation channel
 - Connect to the macro-development literature
 - Motivates the structural model

Historical Context

Krueger & Pischke (1992), Burda & Hunt (2001), Snower & Merkl (2006)

- Reunification that is largely unexpected
- EG wage bargained by WG labor unions and employers
- EG inherit generous unemployment support from WG
- One main goal is to reduce mass migration to WG
- Coupled with rapid privatization \implies high unemployment throughout 1990s
- Large transfers from WG, also supporting intense capital accumulation

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Key logic of the empirical part:

Reunification $\xRightarrow{\text{data}}$ reallocation $\xRightarrow{\text{correlation}}$ wage growth \approx productivity gains

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- Last relationship important for macro-development literature and the long-run sustainability of the system
- With collective bargaining agreements (CBA), to what extent does wage reflects labor productivity of individuals?
- Burda & Hunt (2001): convergence in wage levels is similar to convergence in labor productivity – scant evidence at the aggregate level
- # 1: Evidence from dis-aggregated plant-level data?

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- # 3: Change in flow util of unemployment b_a after reunification?
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More of a stretch (brought up because of identification)

- #5: Interaction between young/old workers beyond matching function?
 - Within firm: imperfect substitutability or career spillovers
 - Within households: risk sharing and informal care
 - May check empirical patterns using firm-level data + GSOEP

Conclusion

- Fantastic paper!
- Looking forward to seeing the full estimation results
- Thanks the organizers for the opportunity to discuss