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The Immigrant-Native Wage Gap in Germany

By Alisher Aldashev, Almaty, Johannes Gernandt, Frankfurt a.M., and Stephan L. Thomsen, Hannover

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Immigration; wage gap; decomposition; educational attainment; Germany; SOEP.
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Summary

Immigrant-native wage differentials are observed in many countries, so in Germany. However, the available empirical literature for Germany defined the groups in consideration, immigrants and natives, by citizenship. This limits the explanatory power of the estimates since citizenship distinguishes foreigners and German nationals, but assigns naturalised immigrants (including the large group of ethnic Germans) to the latter group. Providing a more adequate definition based on the concept of origin we analyse the immigrant-native wage gap. Based on data from the German Socio-Economic Panel Study, we decompose the wage gap between native Germans, foreigners, and naturalised immigrants, and consider further subgroups in the analysis. In the literature, time of residence has been proven to be a relevant determinant of immigrants’ wages. For the natives, time of residence is perfectly collinear with age, and unequal sets of variables have to be considered. We therefore suggest an extension of the Oaxaca-Blinder decomposition technique. Our results show a substantial gap in earnings for all immigrants’ groups compared to natives. Discarding immigrants who completed education abroad reduces much of the immigrants’ wage gap. Hence, educational attainment in Germany is an important component of economic integration of immigrants, and degrees obtained abroad are valued less.
Can Time-varying Parameter Specification Based on Consumption Variables Rehabilitate CAPM, HCAPM and CCAPM?

Von Benjamin R. Auer, Leipzig

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CAPM; HCAPM; CCAPM; zeitvariable Parameter; konsumbasierte Konditionierungsvariablen; Fama-MacBeth-Prozedur.
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Summary
Using a new dataset for the German market, this article analyses whether modeling time-varying stochastic discount factor parameters in the CAPM of Sharpe (1964), the HCAPM of Jagannathan and Wang (1996) and the CCAPM of Lucas (1978) can help to explain the cross-section of book-to-market, size and industry portfolio returns. In addition to classic financial conditioning variables, we focus on modern consumption-based variables – the consumption surplus ratio of Campbell and Cochrane (1999), the consumption-wealth ratio of Lettau and Ludvigson (2001a) and the labour income to consumption ratio of Santos and Veronesi (2006). Our results show that (a) time-varying parameters can drastically increase the empirical fit of the models and that (b) a CAPM using the labour income to consumption ratio as a conditioning variable proves to be the best model specification.
The Optimal Size of German Child Care Centers and the Impact of Regulation: Estimating the Cost Function of a Regulated Multi-Product Firm

By Peter Bönisch and Sven Tagge, Halle

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Regulation; child care; multi-product cost function; economies of scale; economies of scope; Germany.

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Summary

Using a unique data set on German child care centers, we estimate a long-run multi-product cost function for child care provision in Germany while taking into account legal minimal labor input restrictions. For a representative child care center we find economies of scale, a U-shaped average cost curve, and indications of diseconomies of scope. The legally stipulated minimum child-to-staff ratio is manifested in a positive Lagrange multiplier, showing that modeling legal restrictions is necessary to avoid misspecification error. Our study provides a useful tool for policymakers in estimating the effects of future demographic change on child care costs.
Summary

The present paper investigates potential fiscal and distributional effects which emerge due to four reform scenarios on the German income tax rate. The analysis is based on a static simulation model for the German tax system using income tax micro-data. The data shows that changing the present progressive tax system to a flat-tax, which was proposed by the FDP in 2010, could reduce the tax revenue by 15 billion Euro. Such a tax regime would increase the unequal distribution and polarisation of net incomes. The IW Köln suggested an alternative tax rate in 2008. This regime would increase unequal distribution and polarisation of disposable incomes to a greater extent than the FDP-tax rate. An implementation of this income tax scale would go along with losses in tax revenue of 18.8 billion Euro. Likewise, the implementation of a 2009 SPD tax rate proposal would reduce tax revenue by 14.8 billion Euro. Although this regime would reduce unequal distribution, the effect on the polarization of disposable incomes is not definitely predictable. In contrast to all the other scenarios, the realisation of the recent SPD tax rate proposal from 2011 could enlarge tax revenue by 4.7 billion Euro. This tax regime would reduce unequal distribution and polarisation of disposable incomes even more than the present tax system.