

What determines wage differentials across the EU?

Abstract

We analyse determinants of the wage differentials observed between the UK and nine European countries using the European Community Household Panel (ECHP). The empirical decomposition is based on a proportional hazards model. The approach based on rank invariant estimators is borrowed from the literature on failure time data. Donald et al. (2000) pioneered this approach. Behr and Pötter (2006) improved their estimation method by using a marginal likelihood for the regression part of the model and a completely nonparametric estimator for the underlying distribution function. By means of natural splines we allow for nonlinear regression effects. Using this approach we isolate three different underlying forces for wage differentials: differences in skills, differences in prices for skills and differences in the returns-to-skill functions.

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