

Size, sorting or returns?

Decomposing the association of financial sector pay and the rise in Swiss wage inequality*

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Abstract

Upper-tail wage inequality in Switzerland increased in parallel to a sharp rise in financial sector pay after the mid-1990s. The present contribution sheds light on that association analyzing *Swiss Earnings Structure Survey* data. An extension of the semi-parametric decomposition approach by DiNardo and Lemieux (1997) is proposed to relate wage change across the distribution to changes in the financial sector's (1) employment share, (2) work force composition and (3) returns. Overall about a quarter of the rise in upper-tail inequality between 1996 and 2010 is associated with wage dynamics in the financial sector. While sorting of workers with highly remunerated observables into the financial sector and increased finance-specific returns are similarly linked to rising inequality, the contraction of the employment share is associated with more equally distributed wages.

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