

Abstract:

Using administrative data for the entire universe of private sector employment in Italy for the period 1985-2018 we investigate the drivers of the growth in earnings and wage inequality. First, we find that the majority of the increase in inequality in Italy (62% for annual earnings, 84% for wages) is due to an increase in the dispersion of average pay across firms. Second, we decompose between firm variance into between industry variance and between firm within industry variance. We find that the dominant driver of the rising inequality of both earnings and wage rates in Italy is growing heterogeneity of pay across industries. Finally, the growth in inequality was extremely concentrated with just 5% of industries accounting for all of the increase in between-industry variance.