Discussion of “A Life-Cycle Model of Trans-Atlantic Employment Experiences" by Kitao, Ljungqvist, and Sargent

Matthias Doepke
Europe had lower unemployment than U.S. in the 1960s, but higher unemployment from the 1970s onwards.

Particularly large increase in youth unemployment and long-term unemployment for older workers in Europe.

Europe also has more employment protection than the U.S., but did so both before and after the change.

What explains the change?
Increase in "economic turbulence" had differential impact on Europe and U.S.

Turbulence takes the form of larger probability of skill loss after job destruction shock.

High minimum wage in Europe explains high unemployment of the young.

Loss of human capital after job loss together with generous unemployment compensation in Europe explains long-term unemployment of the old.
Comments

- Important direction for research: large differences in labor market outcomes by age and experience across countries.
- Model captures many of the key distinctions between Europe and U.S.
- Quantitative analysis shows many successes; model matches:
  - Lifetime earnings and wealth profiles.
  - Decline in job transitions over life cycle.
  - Reaction of U.S. and Europe to increase in turbulence.
Model explains a lot with a little: Only turbulence changes, everything else constant over time.
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More evidence that turbulence changed in similar ways in Europe and U.S. would be useful.
Comments

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- Is holding everything else constant a useful approximation?
Was Employment Protection Really Constant?

OECD index of employment protection for regular employees:
Was Employment Protection Really Constant?

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OECD index of employment protection for temporary employees:

France
Germany
Italy
United States
Unemployment
One Europe?

- While most European countries have more employment protection than U.S., there are also large differences across countries.

- This paper is primarily about U.S. versus France.

- Italy has moved more strongly to an insider-outsider labor market; in Germany, apprenticeship system also plays important role.
Which Policies Matter Most?

- Paper focuses on firing restrictions and minimum wages that apply equally to all jobs.

- Some European countries have more explicit age discrimination:
  - Distinction between regular and temporary contracts.
  - Age-dependent minimum wages.
  - Features like "Sozialauswahl" in Germany for layoffs.

- It should be possible to incorporate some of these features into the framework.
Employment Protection and Change in Skill Premia

OECD index of employment protection versus change in skill premium, 1980–2006:
In Conclusion

- (Another) great paper!
- Beginning of an exciting research program on impact of labor market regulation on the life cycle of workers.