

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

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The Question

- ▶ 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?

This Paper's Answer

- ▶ 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.

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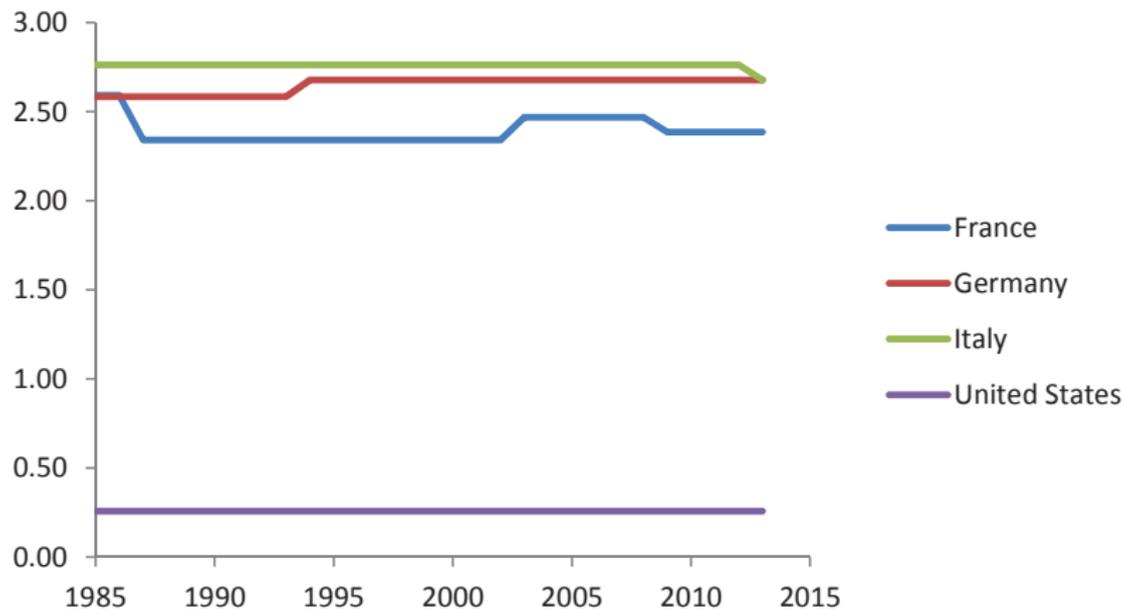
- ▶ Model explains a lot with a little: Only turbulence changes, everything else constant over time.
- ▶ More evidence that turbulence changed in similar ways in Europe and U.S. would be useful.
- ▶ Is holding everything else constant a useful approximation?

Was Employment Protection Really Constant?

OECD index of employment protection for regular employees:

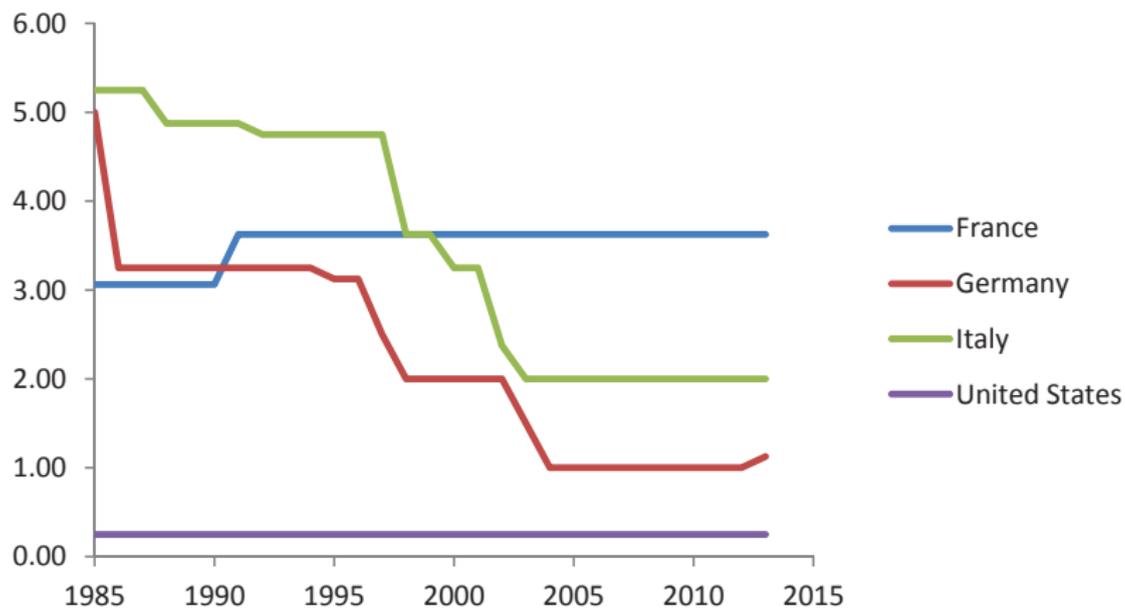
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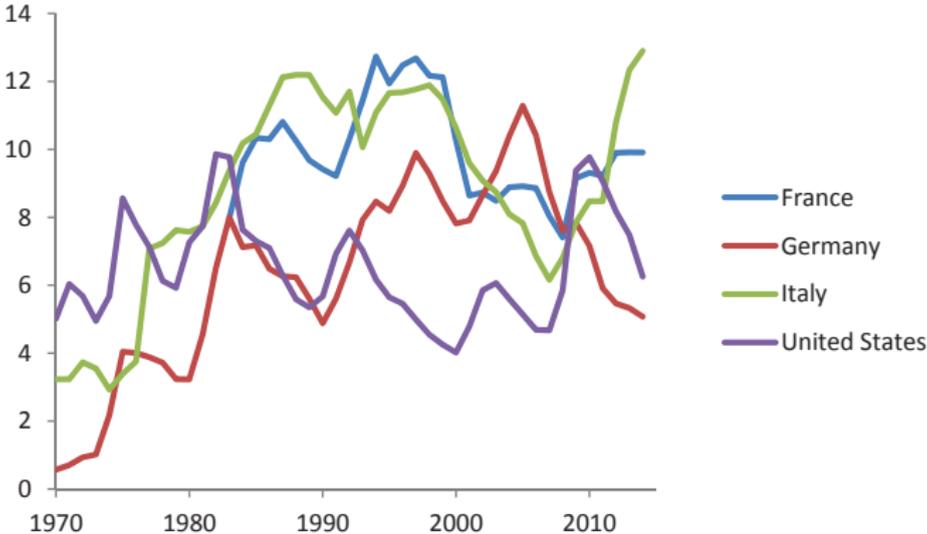


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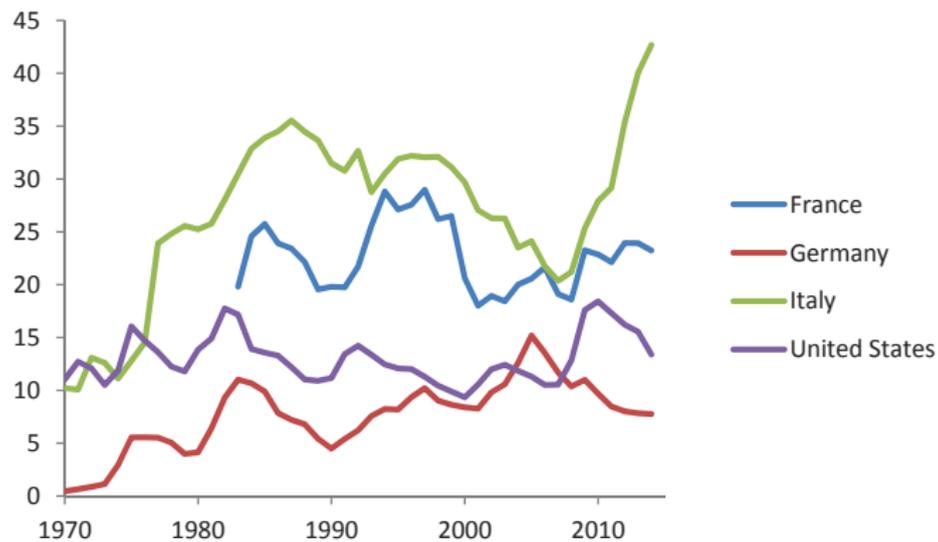
OECD index of employment protection for temporary employees:



Unemployment



Youth 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.