

Institutions and the Structure of Labour Markets: Matching Processes in the United States and West Germany

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The paper examines the impact of institutional factors on the structure of matching processes in external labour markets. In contrast to earlier studies that have primarily been concerned with young workers entering the labour market, the current paper examines the structure of external labour markets for unemployed workers at all career stages. Drawing on 1984-1995 employment history data from the Survey of Income and Program Participation and the German Socio-Economic Panel, the paper uses two-sided probit models to describe job offer arrival rates and job acceptance probabilities among unemployed workers in the U.S. and the West German labour market. Consistent with earlier research that has emphasized the strong skill stratification in the German market, the data show lower rates of occupational mobility among unemployed workers in Germany. The paper explores two institutional mechanisms that may generate this strong association between individual skills and job requirements. On the demand side, strict labour market regulation and employment protection legislation could be expected to raise employer reservations against hiring workers from skill backgrounds that do not match skill requirements in vacant jobs. On the supply side, more universal welfare state coverage could be expected to provide financial resources that permit workers to search for adequate reemployment in jobs that match their skills. The empirical data support both predictions, so that both low levels of labour market regulation and low levels of welfare state support are conducive to high levels of occupational mobility and loose linkages between individual and job skills in the U.S. labour market.