IAB-Colloquium
zur Arbeitsmarkt- und Berufsforschung

Einladung
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Explaining cross-country labor market cyclicality: U.S. vs. Germany

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The paper studies cross country differences in labor market dynamics over the business cycle between Germany and the U.S.. We provide new empirical evidence for Germany using the IAB employment panel from 1975 to 2004. We document the importance of firings in Germany, explaining 80% of the unemployment volatility. When we control for tenure, we find that 75% of all firings (and quits) come from matches with tenure less than two years. We document that the firing and quitting probabilities as well as the sensitivity to the business cycle strongly decrease with tenure. Turning to the wage dynamics over the cycle we show that, in contrast to the U.S., German wages of workers in ongoing job relationships move almost one-to-one with the business cycle. Wages of job-finder and quitter are found to be mildly more rigid. To explain the observed differences we provide a labor market search model with endogenous firings, quits on the job, and skill heterogeneity. Allowing for institutional differences across countries the model is able to replicate jointly the observed labor market dynamics in Germany and the U.S.. We find an important role for differences in the bargaining power potentially associated with the influence of unions across countries. The model with skill heterogeneity is furthermore able to generate a large average surplus.

Dienstag, 29. September 09
12:30 Uhr

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