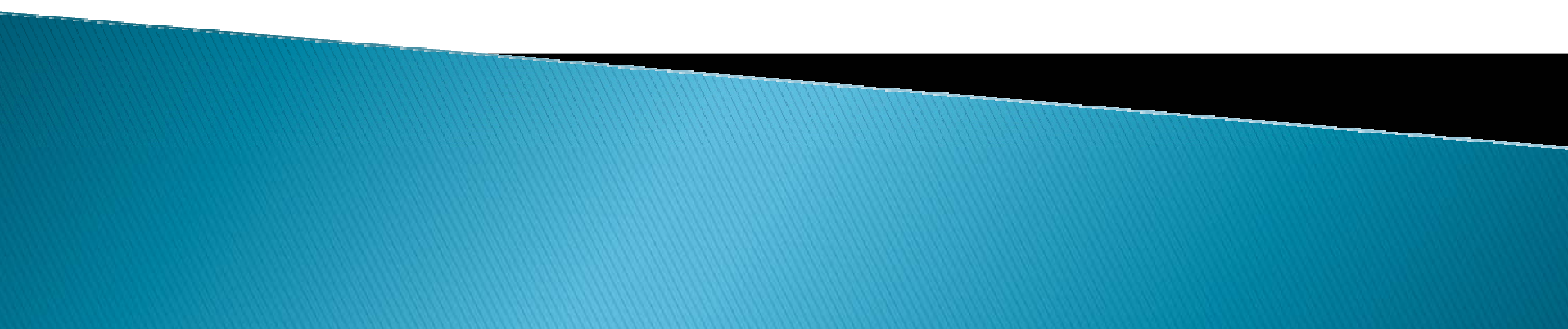
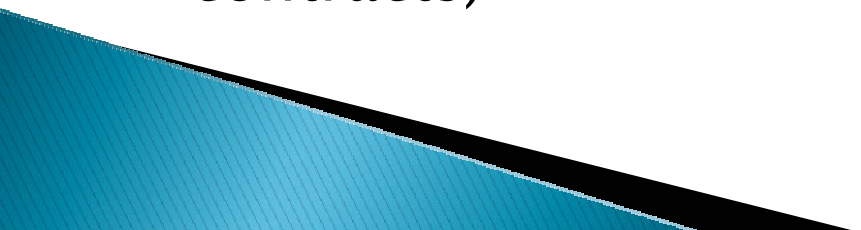


Comments on “The Generation Gap: Relative Earnings of Young and Old Workers in Italy” by Rosolia and Torrini

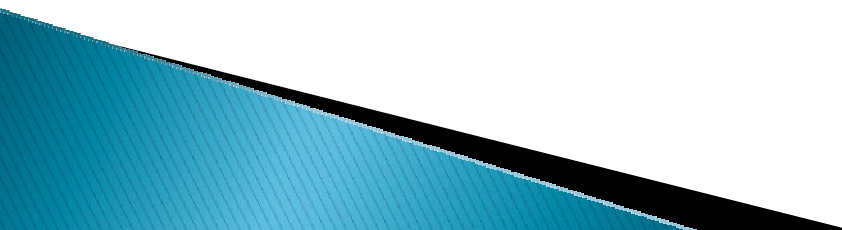
Thomas Lemieux, Univ. of British Columbia
WDN Conference, June 25



Summary of the paper

- ▶ Documents a large decline in the relative earnings of young Italian workers starting in the early 1990s
 - ▶ Found in administrative (INPS) and survey (SHIW) data
 - ▶ Appears to be a cohort effect as opposed to a steepening of the age-earnings profile (permanent as opposed to transitory decline)
 - ▶ None of the traditional explanations (supply changes, composition effects, etc) can explain the observed changes
 - ▶ Suggested explanation: labor market reforms => young workers absorb all the adjustment through institutional reforms (e.g. training and work contracts)
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Main comments

- ▶ Pursue a little further the “active labor market hypothesis”
 - ▶ Try to test institutional explanation more explicitly
 - ▶ Smaller points
- 

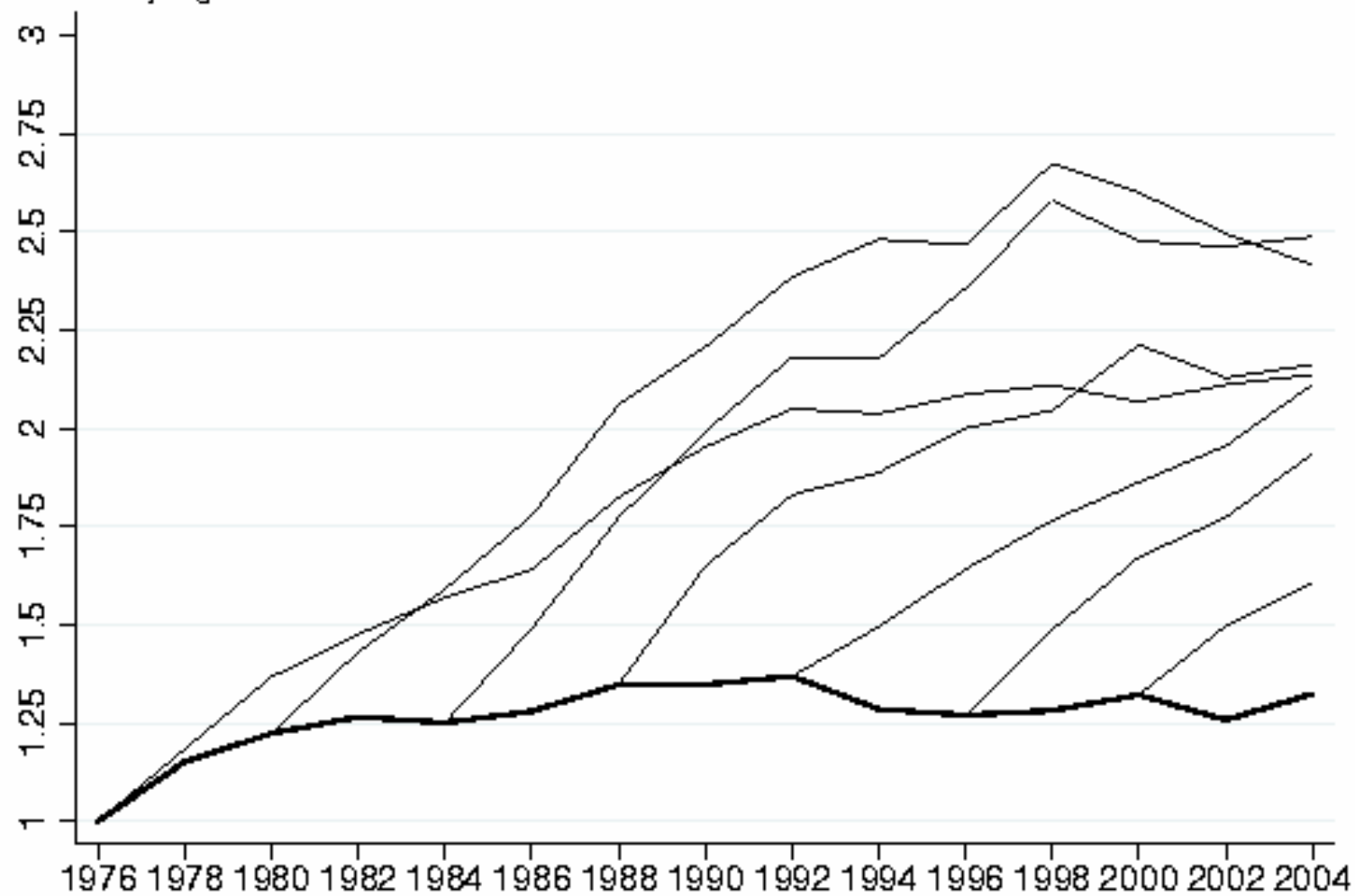
Active labor market hypothesis

- ▶ Even in the absence of explicit sources of rigidities such as unions and regulation, new entrants (young, immigrants, displaced workers, etc.) are typically those most directly affected by a difficult labor market
 - Well known in the case of unemployment but “works” for wages too.
- ▶ Happens in countries with “weaker” institutions, e.g. Canada and the United States in the early 1980s (though demographics played a role too)
 - Note that age differentials in the U.S. are now back to the early 1970s levels
- ▶ Recent work by Oreopoulos, von Wachter, and Heisz show long lasting impacts of graduating in a recession (using administrative data for Canada).
- ▶ They use a mix of search and long-term contracts (e.g. Beaudry and DiNardo, 1991) to account for these effects

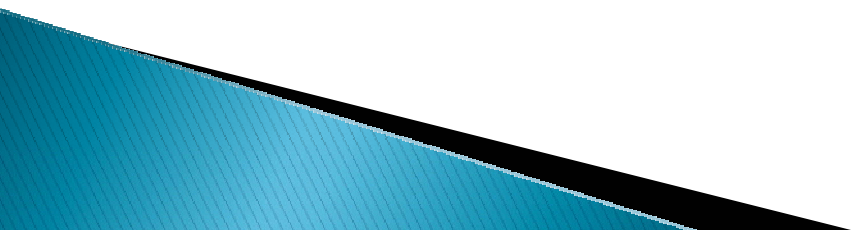
Comments and suggestions

- ▶ Some evidence of catching-up in administrative data for age 25–26 entrants

Entry age: 25–26.



Comments and suggestions

- ▶ Some evidence of catching-up in administrative data for age 25–26 entrants
 - ▶ Would be useful to show model estimates and try out models with unemployment rate (or similar variables) at labor market entry interacted with years since entry.
 - ▶ Do you have information about employers in administrative data? If so can you look at what happened to older workers who lost their jobs during the early 1990s?
- 

Institutional explanation

- ▶ Is there explicit information about unions in these data sets or others? Or firm-level information on contracting or unionization (as in Spain, Germany, or France)
- ▶ In the U.K., U.S., or Canada, lots of the de-unionization due to the fact that new firms hiring new workers (typically) are not unionized
 - Unions a competing explanation for relative supply in explaining age-group specific increase in the return to education
- ▶ Would also be useful to see whether apprenticeships and short jobs (Figures 8 and 9) are linked to lower wages: explicitly test the institutional hypothesis.

Smaller points

- ▶ Test of composition effects based on wage dispersion is useful and convincing, but a fixed effect approach is also worth considering.
 - Doable using the administrative data, though if the fraction of people who never work changes across cohort there is an identification problem
- ▶ Timing does not to quite work in some cases (e.g. growth in apprenticeship comes in a little late)
- ▶ Comparison of the age earnings gap with other countries would be useful. Was the gap really compressed relative to most other countries to start with?
- ▶ More details about the data (descriptive statistics, top-coding, etc.) would be useful
- ▶ Why men and women for administrative data, men only with SWIH data?

Final points

- ▶ Immigrants? Do they show up in the data sets? Potentially an important group of new entrants.
 - ▶ Informal sector. Are both data sets equally limited in this regard?
 - ▶ Is the increase in age differentials large enough to push up the level of earnings inequality? (unintended consequences of labor market rigidities)
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