Comments on

Claudio Michelacci and Josep Pijoan-Mas:

„The Effects of Labor Market Conditions on Working Time: The US-EU Experience “

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Motivating Observations

1. a comparison over time, or across countries of annual market hours worked by prime-age male working full-time shows that
   - in the US, annual market hours of men started to rise in 1970s
   - widening gap in male workers' hours between US and EU since 1970s

2. rise in dispersion of gross wage distribution of men has been accompanied by rise in within and between skill group inequality, but supposedly no similar change is observed in European wage distributions

3. European unemployment has risen more strongly than US unemployment

What is this paper about?

attempt to link observed changes/differences in market hours to varying labor market conditions such as
- shape of wage distribution
- transition probabilities E→E, U→E

dynamic PE search model on <u>supply side of labor market</u> with employed or unemployed workers; if employed, workers decide how many hours to work

Key feature: market hours help to gather <u>work experience</u>, thereby accumulating human capital *H*

H matters for future wages, (re-)employment probability

Some Praise

- develop a structural dynamic search model on workers' behavior to rigorously test existing hypotheses on reasons for observed differences in male workers' market hours, e.g., Bell and Freeman (2001), using counterfactual experiments

- focus on intensive, not extensive margin of adjustment and gross wages

- combine time-series aspects with cross-sectional components

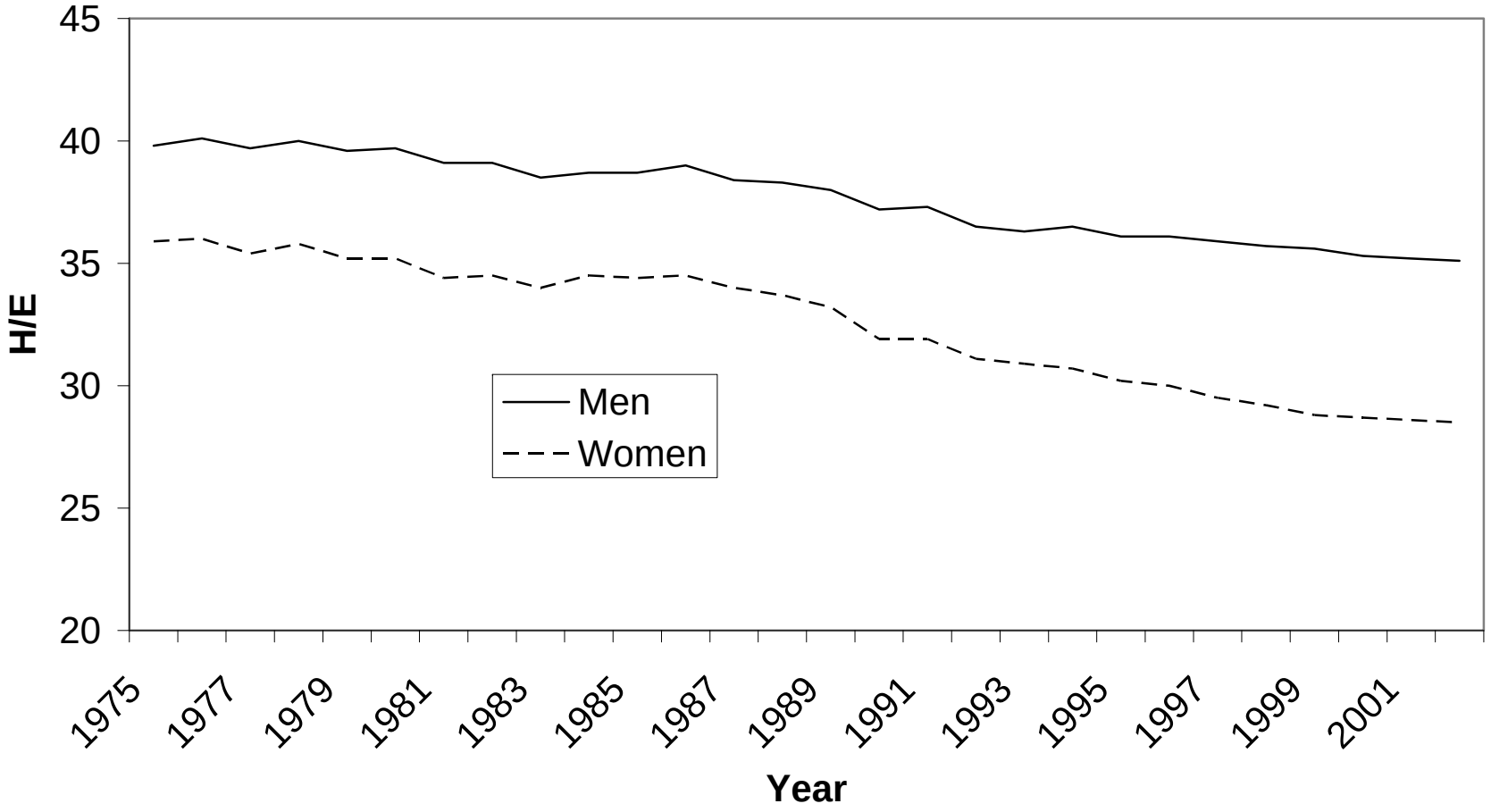
- challenging task of trying to satisfy labor economists and macro economists!

Some Criticism

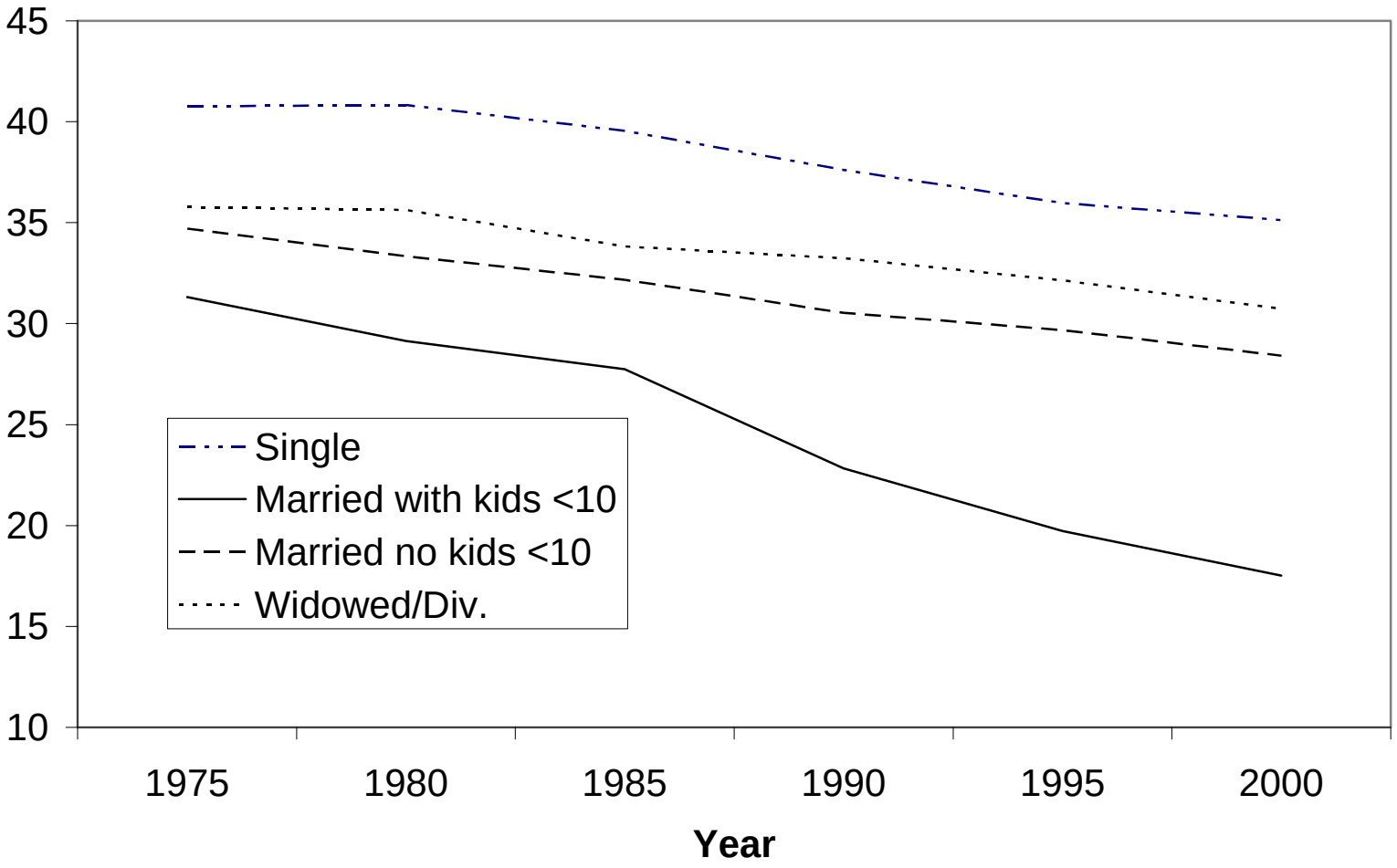
Why limit the analysis to prime-age male?

It is well known that particularly in cross-country comparisons, women play much more important role in explaining differences in hours worked per employee (McGrattan and Rogerson 2004)? In particular, women in partnerships matter!

Weekly Market Hours per Female Employee, Germany (West)



Weekly Market Hours Worked per Female Employee by Marital Status (age 15+)



Partial equilibrium setup ignores possible feedback effects

reductions in effective market hours per employee affect firms' costs of employment, thereby possibly unemployment

also ignore institutional differences over time and between countries

weekly hours: France officially reduced work week to 35 hours in 1998

starting in mid-1980s, trade unions in Germany negotiated agreements which effectively reduced work week in many sectors to 38 hours

annual hours: ca. 6 weeks per year of paid vacation in Germany, but only about 2 weeks in US

Changes in Male Wage Distribution

compelling new evidence based on IAB firm panel data, that in Germany – like in US –dispersion of male wage distribution has increased (Dustmann, Ludsteck, Schönberg, *QJE* forthcoming)

main differences: rise in wage inequality particularly among high skilled

rise in dispersion started only in mid-1980s

wage distribution in Germany more compressed at lower end than in US (trade unions)

So, is GSOEP a good dataset to test your hypotheses?

Why not look more into hours reduction by skills, rather than by age?

How exactly is human capital *H* measured?

- in real life, human capital is not only build through work experience, but also through schooling

- I find 3rd panel in figure 4 very strange