A Life Cycle Model of Trans-Atlantic Employment Experiences

by Kitao, Ljungqvist, and Sargent

Discussion

The model

- Follows and extends LS1998, *JPE* and LS2008, *Eca*
- Builds upon a rich macro literature summarized in the next table
- Adds new twists:
  - Risk-averse agents
  - Ex-ante heterogeneous (2 types of skills)
  - Unemployment benefits of limited duration in the U.S.
  - Minimum wage in Europe
  - Cobb-Douglas production function for a job

Table 1: Working parts and their sources

Model features	Outcomes	literature
Random earnings with incomplete markets	distributions of heterogenous agents	Bewley (1986)
life cycle	consumption and savings profiles	Auerbach and Kotlikoff (1987)
human capital	income profile	Ben-Porath (1967)
youthful inexperience	job churning	Neal (1999)
indivisible labor with incomplete markets	career length	Ljungqvist and Sargent (2006)
search-island(s)	unemployment	Lucas and Prescott (1974) Alvarez and Veracierto (2001)
minimum wage	youth unemployment	Pries and Rogerson (2005)
layoff costs UI	suppress unemployment promote unemployment	Mortensen and Pissarides (1999)
turbulence	volatility of earnings age-dependent persistence	Gottschalk and Moffitt (1994) Moffitt and Gottschalk (1995)

Turbulence

« Changes in labor income risk indicates an increase in microeconomic *turbulence* in the sense of an ***increased probability of skill losses for displaced workers*** »

(empirical validity of increased turbulence based on Gottschalk and Moffitt, 1994; Katz and Autor, 1999; Kambourov and Manovskii, 2007)

Do We (I) Believe that Turbulence Has Increased ?

- Job Creation and Job Destruction: let us see Davis and Haltiwanger
- Together with other Macro and Micro Measures (Davis and Kahn, 2008)

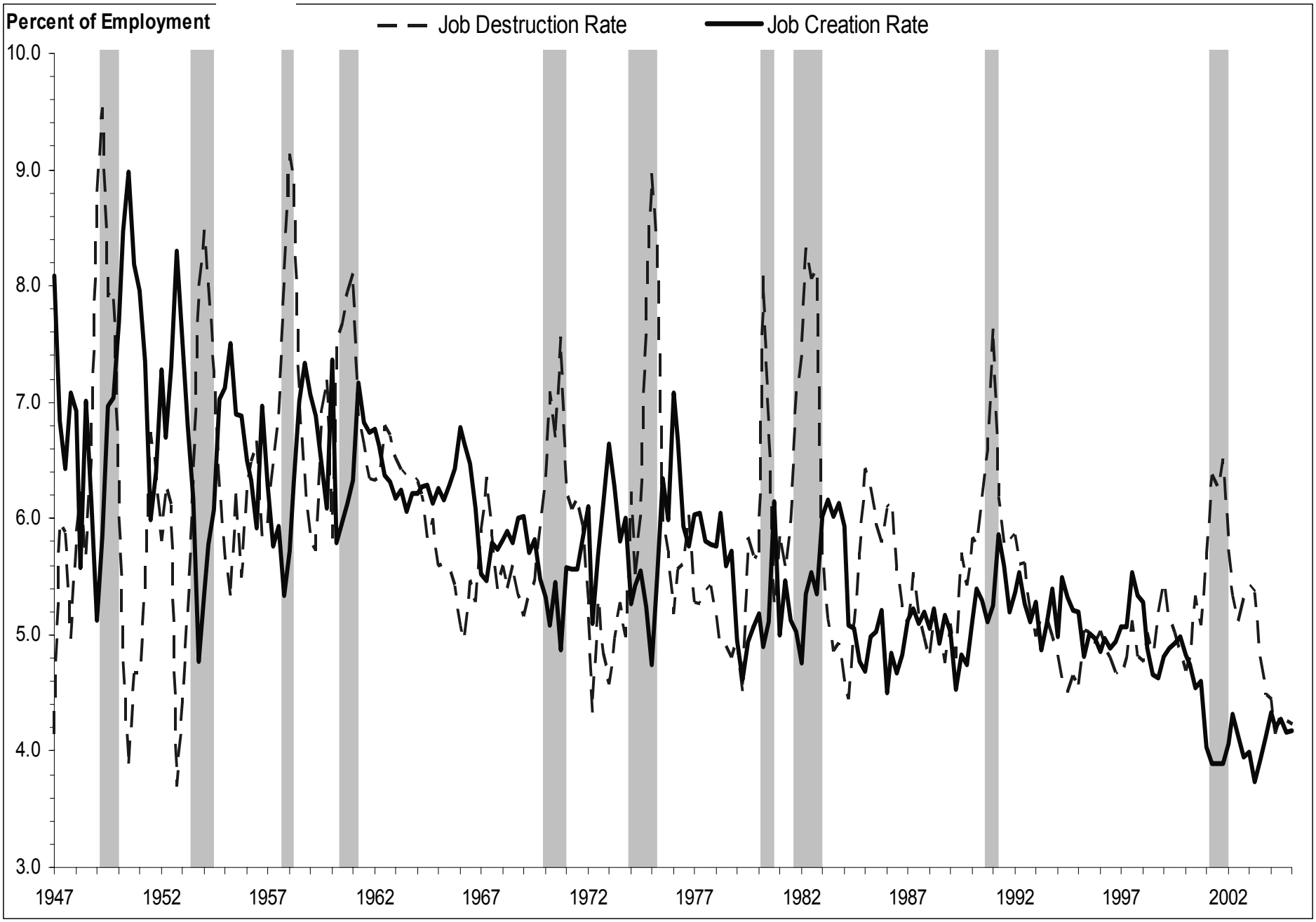
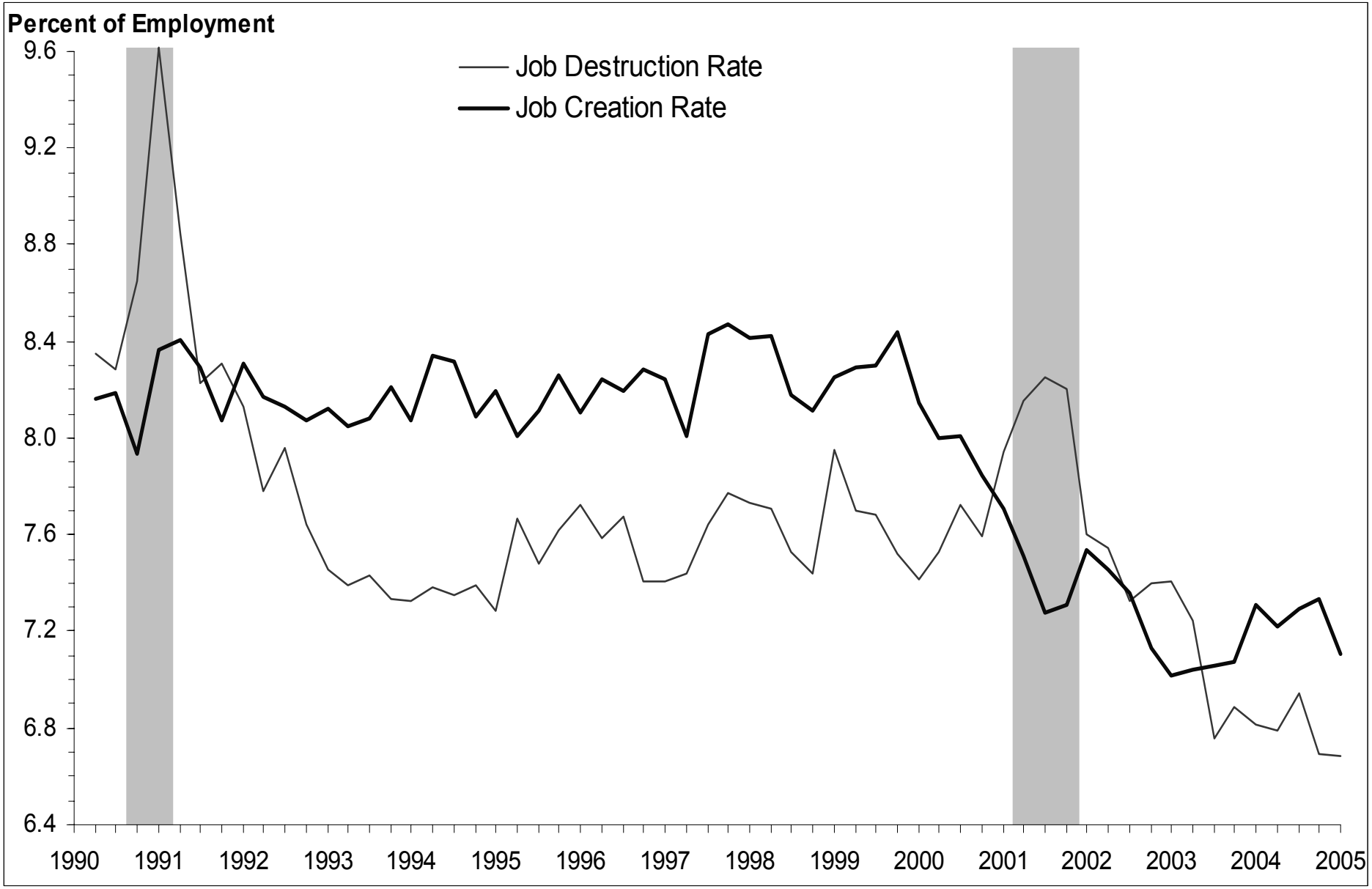
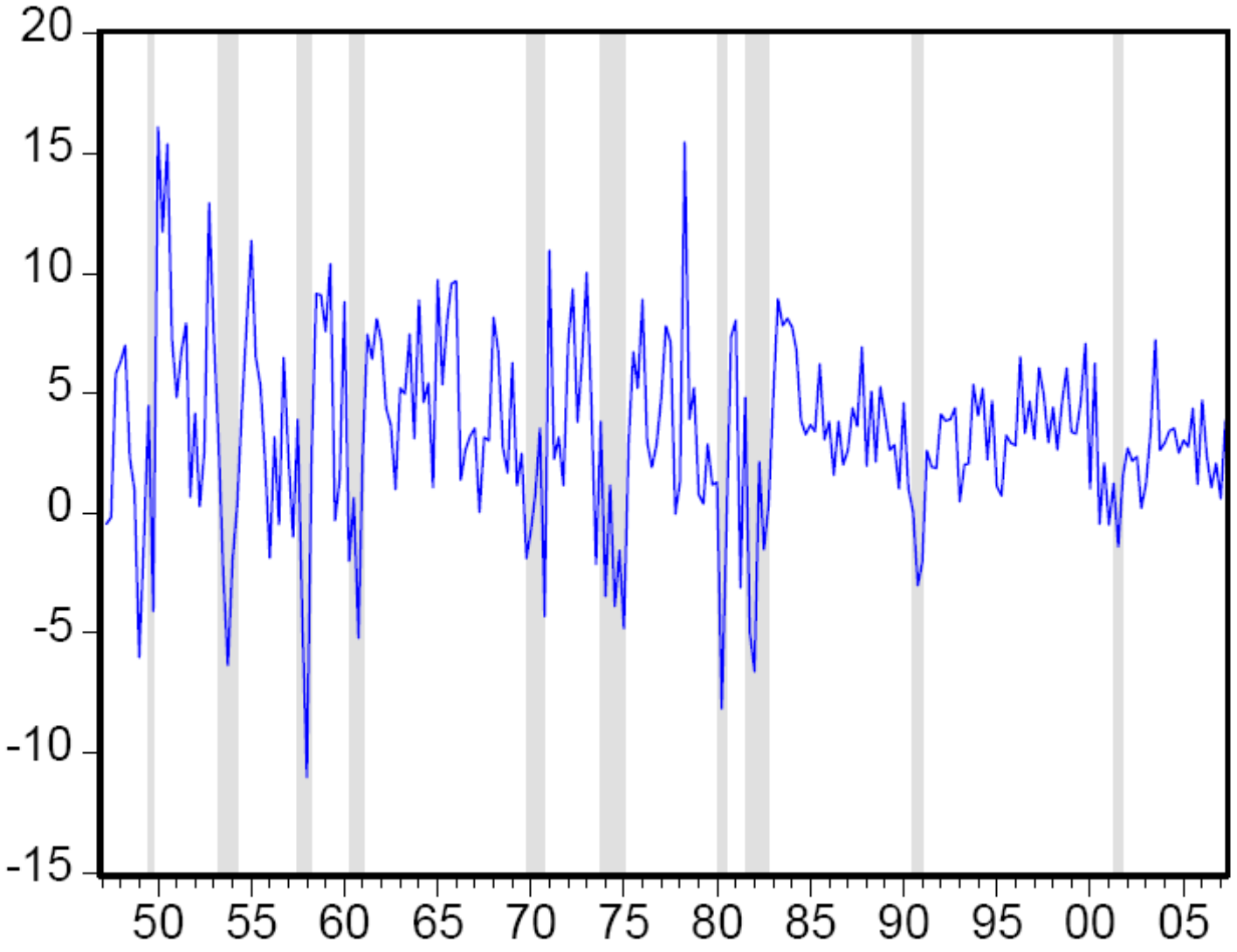


Figure 5. Quarterly Job Flows in Manufacturing, Seasonally Adjusted, 1947-2005



Quarterly Job Flows in the U.S. Private Sector, Seasonally Adjusted, 1990-2005

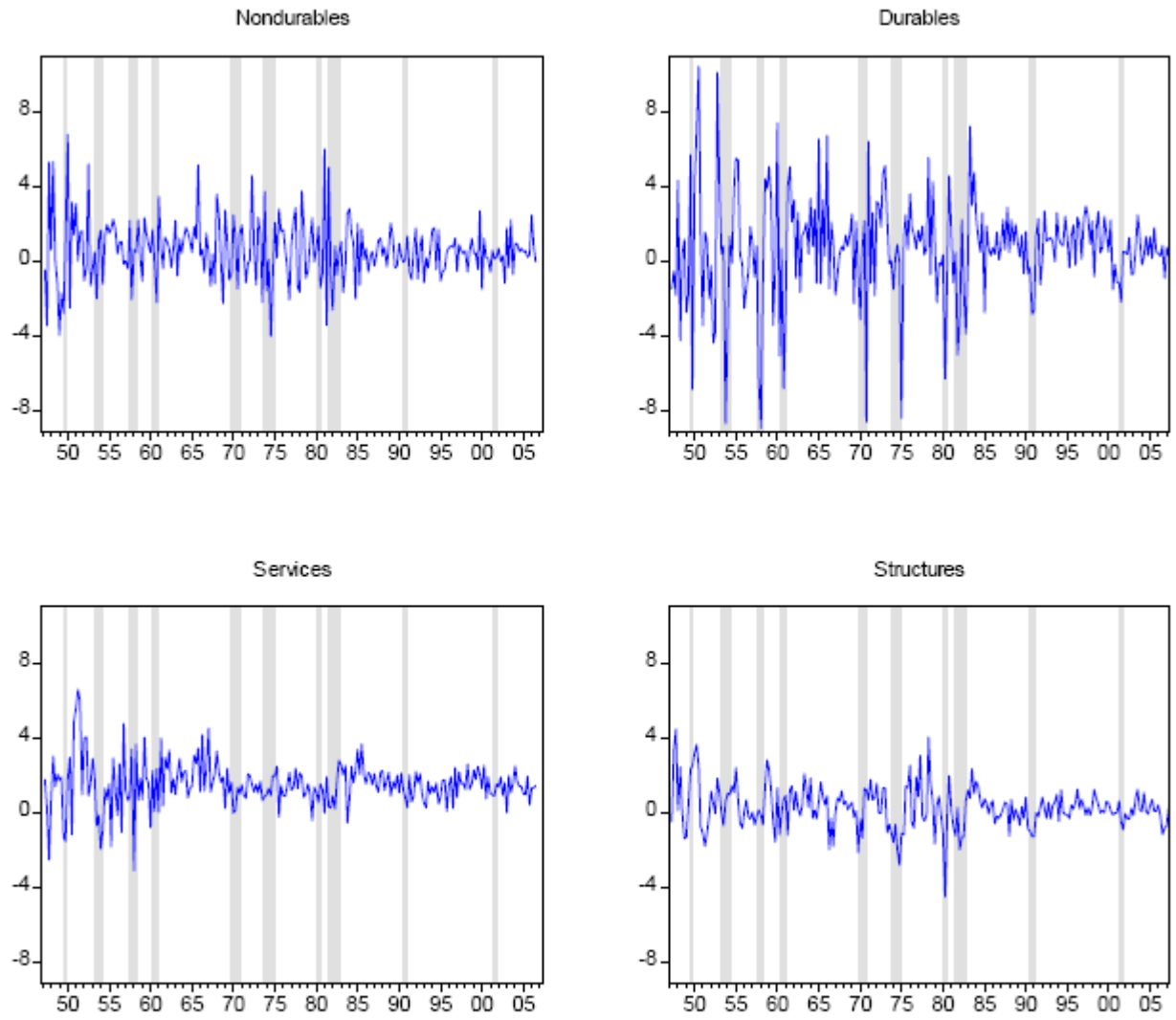
Figure 1: GDP Growth, 1947-2007



Quarterly, Annual Rate. Source: NIPA

Note: Shaded periods represent NBER-designated recessions

Figure 2: GDP Growth Contributions by Major Product

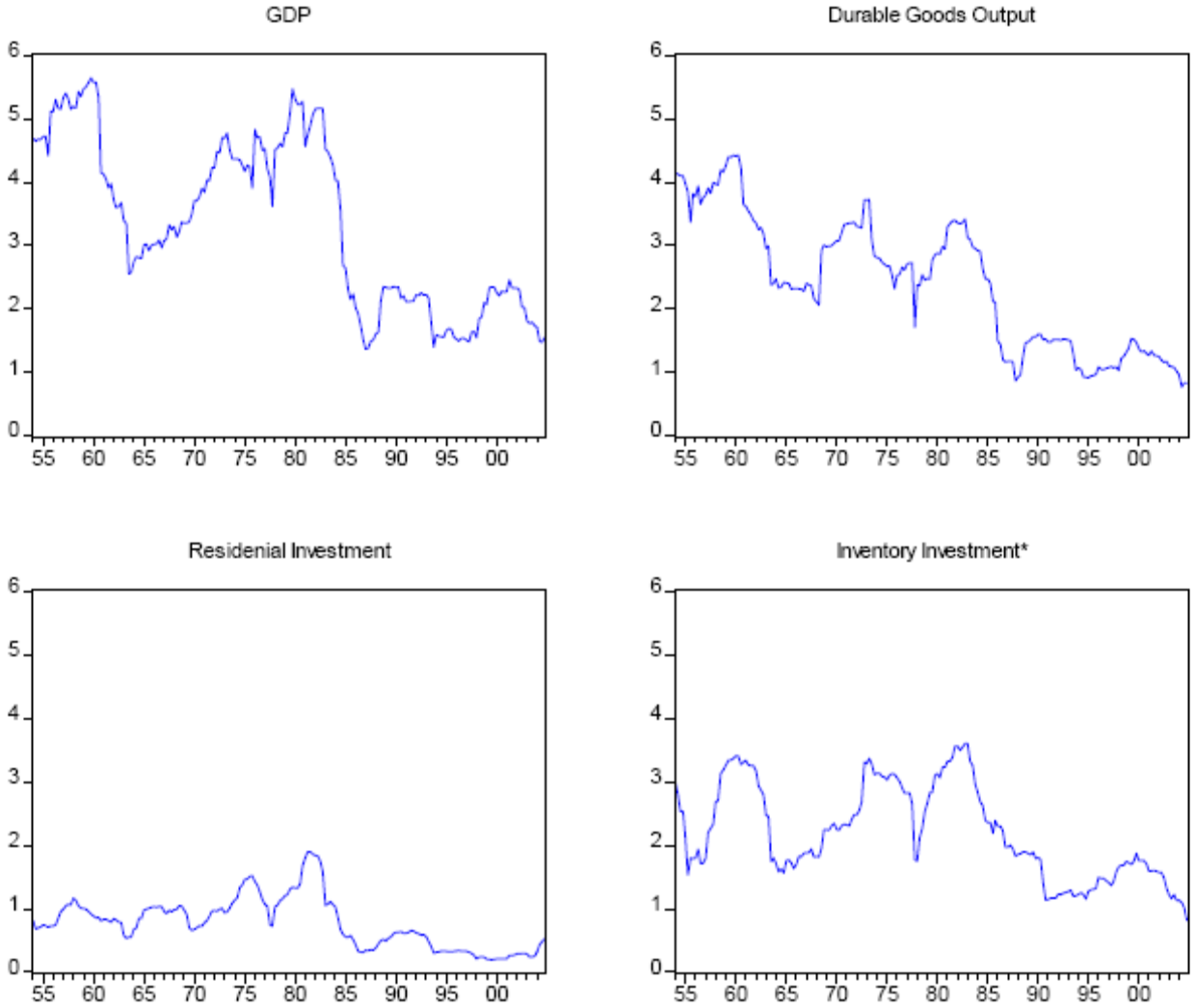


Quarterly, Annual Rate. Source: NIPA

Note: Grow th contributions are grow th rates scaled by the product's share in total GDP. Thus, they are affected by trends in sector shares over time, but the effect is very slight.

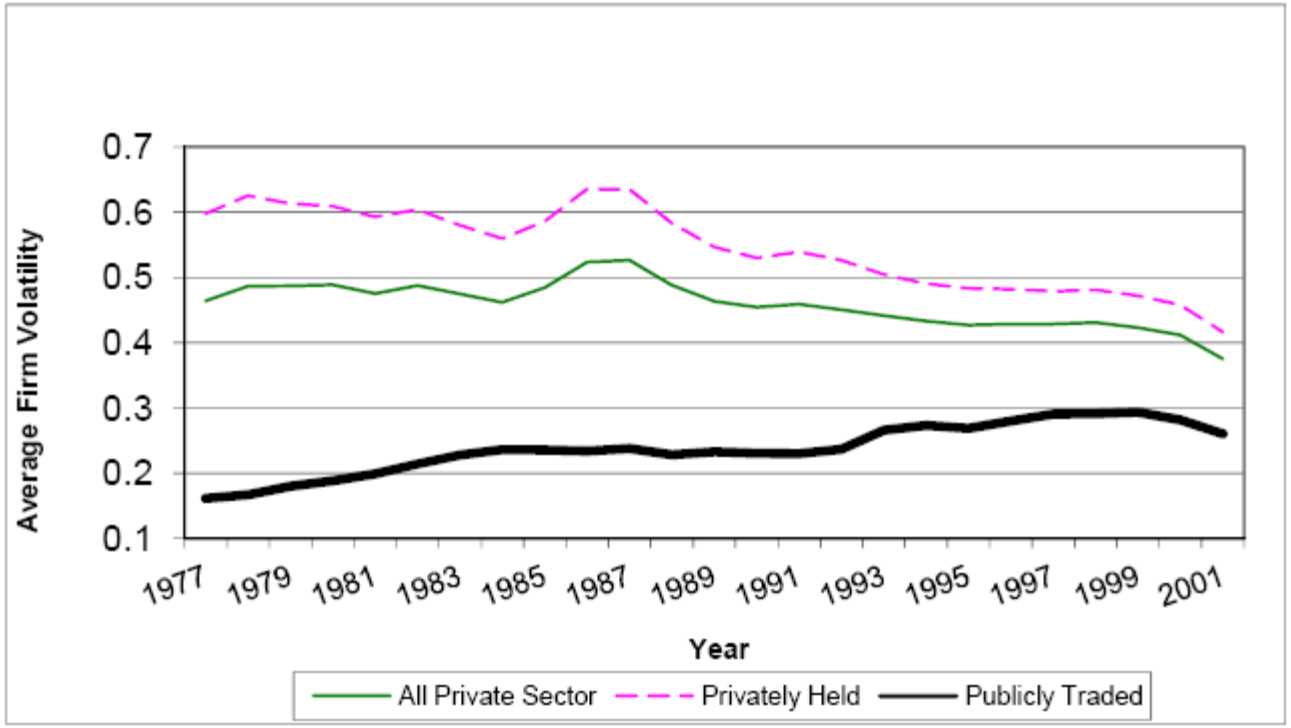
Shaded periods represent NBER designated recessions.

Figure 3: Volatility* over Time in Key Categories



*5-year rolling standard deviations of quarterly annualized growth contributions.
**Inventory investment growth contributions were computed by subtracting fixed investment's contribution from total investment's.

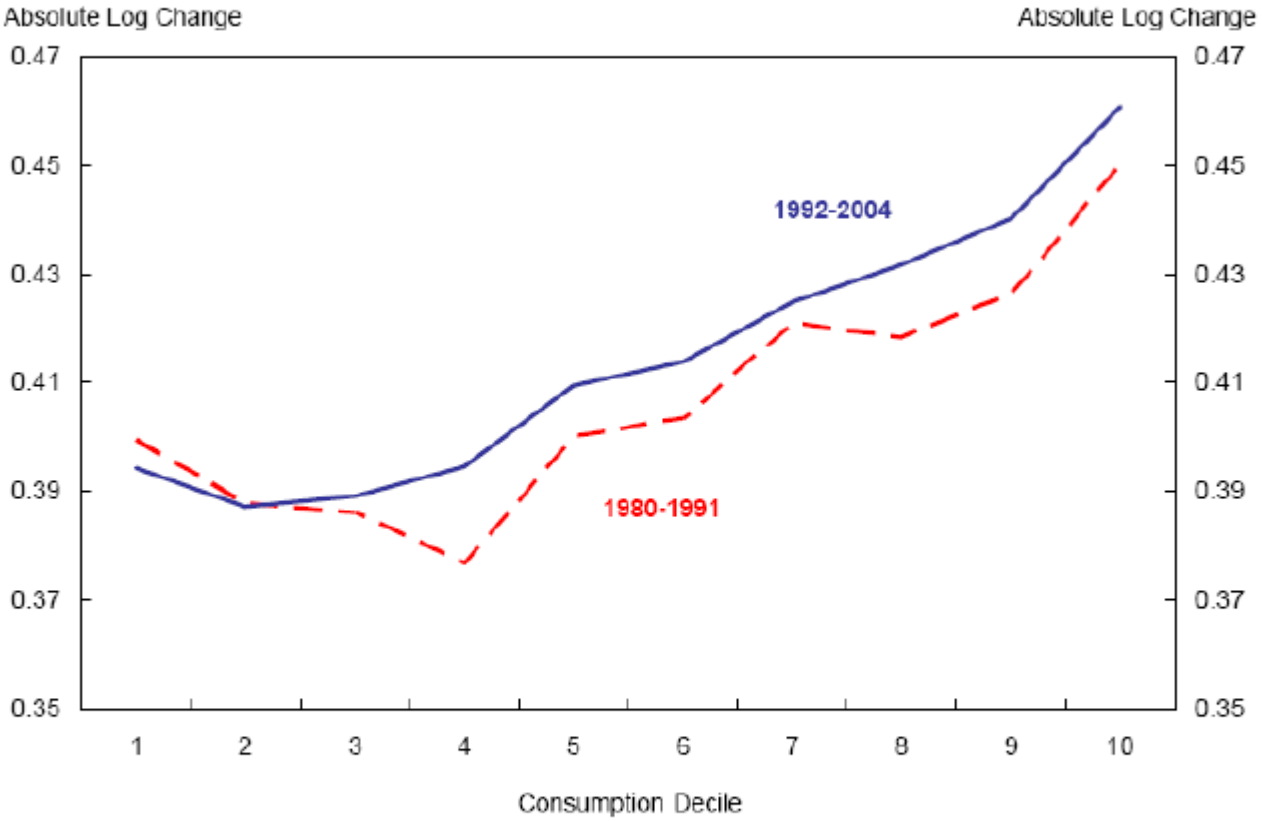
Figure 7: Volatility in Firm-Level Employment Growth Rates,
Overall and by Ownership Status, U.S. Private Sector, 1977 to 2001



Notes: Firm-level volatility calculated as a ten-year weighted moving average of growth rates, inclusive of entry and exit and with a degrees-of-freedom correction. See equation (6) in Davis et al. (2006). Average volatility across firms computed on an employment-weighted basis.

Source: Calculations on the Longitudinal Business Database by Davis et al. (2006).

Figure 8: Household-Level Consumption Volatility by Deciles of Predicted Consumption



Note: We compute the absolute value of six-month log changes in expenditures on nondurable goods and services per adult equivalent in each household. Averaging the absolute changes by time period and decile yields the reported measure of consumption volatility.

Do We (I) Believe that Turbulence Has Increased ?

- *Summary of Micro Findings*:
  - Volatility of firm-level employment growth rates decreased after 1980s
  - Same thing for State-level employment growth rates
  - Among publicly traded firms, volatility in real activity and equity returns increased sharply after the early 1980s. It is solely due to entry into being public (pure selection process)
  - Declines in job destruction rates
  - Declines in the risk of unwanted job losses (sharp decline in inflow into unemployment from the 1980s)

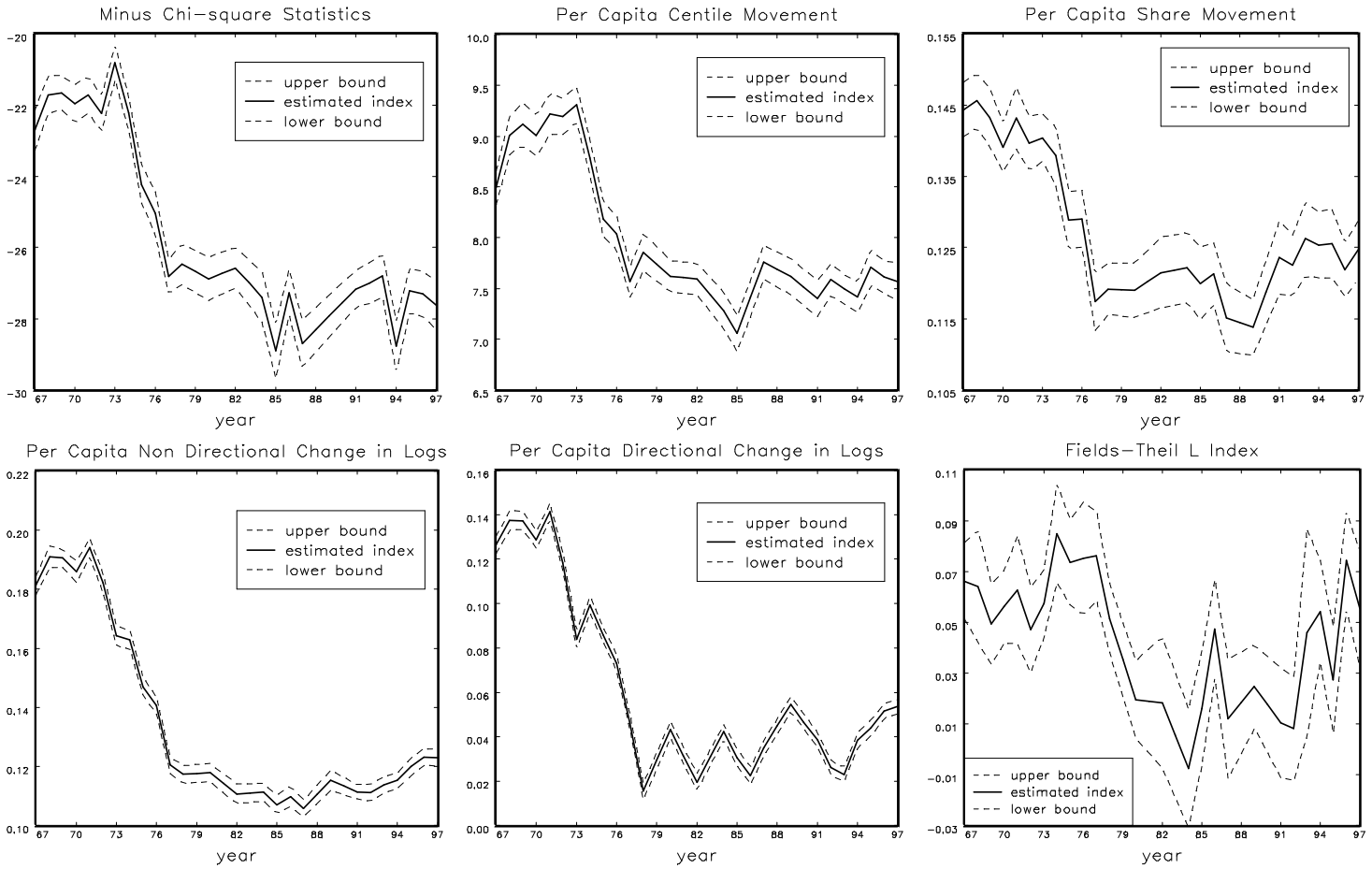
  In contrast, data on labor earnings, income and consumption do not show the same picture

  - At least a modest increase in individual and household uncertainty in earnings…
  - Some increase in occupational and sectoral mobility (measurement is debatable)

The Real Empirical Puzzle

- Why did the great moderation not translate into reduced uncertainty for workers in the U.S.
- On the Europe side, no single picture:
  - Continental Europe
  - The U.K. (looks similar to the U.S.)
  - But it does not look like increased turbulence either at all…

Figure 1 : Evolution of Wage Mobility, 1967–1999 (with 95 % confidence intervals)



My Explanation

- Because institutions are endogenous outcomes
- And firms specialize in response to such institutions (see Cunat and Melitz, 2007)
- …***Globalization*** plus the Great Moderation (because of globalization ?) was accompanied by decreased union power (virtually everywhere, but in particular in the U.S.)…
- Forces sustaining unions weakened…
- This translated into increased inequality and uncertainty in earnings due to this loss of protections
- Not much specific to the Trans-Atlantic divide except that I like to bathe on my side of this ocean… but not in the winter