

Information Frictions in Labor Markets: Cross Country Evidence from Employment Durations

Abstract

This paper documents how employment durations vary with economic development.

We harmonize repeated cross-sections on individual labor market outcomes for 54 countries, ranging from Niger to Luxembourg, and show that employment durations are increasing with economic development.

Differences in wage worker characteristics explain one quarter of the cross-country variation in employment durations, while differences in return to characteristics explain over two third of the variation.

Also the measured unexplained gap - returns to individual characteristics - is negatively correlated with economics development, which suggests that employment durations, given the composition of their labor force, should be even higher in high income countries. We use a model of labor market turnover to understand to what extent imperfect information about employee-employer match quality, i.e. informational frictions, account for the unexplained cross-country variation in the distribution of employment durations.

The paper is joint work with Jan Grobovšek (University of Edinburgh) and Markus Poschke (Mc Gill University)

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