



# The empirical content of the job search model: Labor mobility and wage distributions in Europe and the US<sup>☆</sup>

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## Abstract

Job search models of the labor market hypothesize a very tight correspondence between the determinants of labor turnover and individual wage dynamics on one hand, and the determinants of wage dispersion on the other. This paper offers a systematic examination of whether this correspondence is present in the data by estimating a rudimentary partial equilibrium job search model on a 3-year panel of individual worker data covering 10 European countries and the U.S. We find that our basic job search model fits the data surprisingly well. This also allows us to point at a number of interesting empirical regularities about wage distributions. Our results suggest that cross-sectional data on individual wages contain the basic information needed to obtain a reliable measure of the “magnitude of labor market frictions”, as measured by a parameter of the canonical job search model. Finally, we use our results in a cross-country comparison of the intensity and nature of job-to-job turnover. We arrange countries into two different groups according to their turnover intensity. We further show that the nature of job-to-job turnover is very different between those two

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groups: Turnover is predominantly voluntary in low-turnover countries, whereas it is to a large extent involuntary in high-turnover countries.

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## 1. Introduction

In their review of the job search literature, [Mortensen and Pissarides \(1999\)](#) present job and worker flows, together with wage dispersion, as the two main empirical phenomena making the search framework relevant for labor market analysis. Although the job search literature offers numerous and varied sets of assumptions under which to look at these phenomena, a close correspondence between the determinants of labor turnover and wage mobility on one hand, and the determinants of cross-sectional wage distributions on the other, is inherent to the basic structure of most job search models. The main objective of this paper is to closely and systematically scrutinize the empirical validity of that correspondence.

The general underlying intuition is that in a typical frictional labor market the degree of competition between firms for workers is inversely related to the extent of frictions limiting the ability of workers to find new job opportunities (matching inefficiencies). As a corollary, the cross-sectional distributions of wages contain information on the dynamics of individual trajectories. The complementary observation of individual worker movements should therefore be a source of overidentification which in principle would allow specification testing.

Pursuing this idea, we consider a prototypical stationary job search model which encompasses the structures of many of the labor market models subject to informational frictions restricting the employer–employee match possibilities that one can find in the search literature. We use data from a panel of 10 European countries and the U.S. to test for the overidentifying restrictions implied by the stationary search model.<sup>2</sup> Our European data comes from the European Community Household Panel (ECHP), while our source for the U.S. is the Panel Study of Income Dynamics (PSID).

This allows a number of interesting intercountry comparisons. We find that labor markets of English-speaking countries and Denmark are the most flexible, job durations being shorter on average there than in continental European countries. There is evidence that mobility is more likely to be driven by voluntary quits where mobility is less frequent. Finally, among the countries where mobility is more often constrained (as opposed to freely chosen), the U.K. and Ireland distinguish themselves from Italy, Spain and Portugal by having substantially shorter nonemployment spell durations.

We then perform a series of (formal and informal) goodness-of-fit tests. Here we find that, in spite of its simplicity and high level of aggregation, the basic job search model that we use is reasonably successful when confronting those fit tests. More precisely,

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<sup>2</sup>Most search models in the literature make a steady-state assumption. Remarkable exceptions are [Van den Berg \(1990\)](#) and [Burdett and Coles \(2003\)](#).

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