



You are cordially invited to

## **UCLouvain Economics Seminar**

On **Thursday March 7, 2019**, from **12:45 to 14:00**

**Doyen 22, Place des Doyens, 1**

**Matthias Doepke**

(Northwestern)

Will give a presentation on

### **Employment Protection, Investment in Job-Specific Skills, and Inequality Trends in the United States and Europe**

Abstract: Since the 1980s, the United States has experienced a sharp rise in the college wage premium. In contrast, in a number of European economies such as Germany and Italy the return to education stayed roughly the same. In this paper, we argue that differences in employment protection can account for a substantial part of these diverging trends. In our model, firms and workers can invest in relationship-specific capital: firms can create jobs that are complementary to experienced workers with long tenure, and workers can make corresponding investments in firm-specific skills. The incentives to undertake such investments are stronger when employment protection creates a common expectation of long-lasting firm-worker matches. Firms and workers also invest in relationship-specific capital in a calm economic environment where match-specific shocks are small. The diverging inequality patterns between the United States and Europe emerge from different levels of employment protection combined with an increase in "turbulence" (Ljungqvist and Sargent 1998) in the economy starting in the 1980s.

(Joint paper with Ruben Gaetani)

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