Labor Market Structure and Welfare: A Comparison of Italy and the U.S.*

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Abstract

Characteristics of cross-sectional earnings distributions are often used to compare the equity of various labor market structures. We demonstrate the labor markets in which cross-sectional earnings dispersion is large [as measured by the coefficient of variation, for example] may produce low levels of variation in lifetime welfare outcomes. We use an on-the-job search framework and individual-level event history data from Italy and the U.S. to show that Italian labor market institutions produce lower levels of cross-sectional inequality in hourly wage rates and monthly earnings, but imply higher levels of lifetime welfare inequality in hourly wage rates and only slightly lower inequality in monthly earnings than do U.S. institutions.

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