

# **Age Sorting in the Labor Market**

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## **Abstract:**

We examine the interaction between the aging labor force and declining business dynamism. Using matched employer-employee data from Germany, we document the patterns of age sorting between firms and workers, where younger firms hire disproportionately more younger workers. We find that such patterns are not fully explained by sorting based on firm productivity or other observables, such as industry and geographic locations. We then construct a directed search model that features both worker life-cycle and firm life-cycle. The model generates age sorting when younger firms face higher uncertainty about their future productivity. As a result, younger firms are more likely to direct their search toward younger workers who have a higher uncertainty tolerance with longer life spans. Lastly, we take the calibrated model to quantify the impacts of the aging labor force and firm on the labor market outcomes of the current young population. We find that changes in firm entry rates and population structure generate a significant decrease in employment rates among the younger population while increasing employment rates among the older population.