

Training or Search? Evidence and an Equilibrium Model by Jun Nie

Discussion: Michael Krause¹

Deutsche Bundesbank

EES Workshop Nürnberg

¹Disclaimer: opinions not necessarily those of the Deutsche Bundesbank

- Labor market reforms in Germany affected several aspects of labor market policies
 - Active LMP: training for unemployed workers
 - Passive LMP: unemployment benefits
 - Match efficiency
 - ...
- Reforms motivated by the realization that demand-side policies to reduce unemployment were ineffective
- Problem were incentives on the supply-side

Modeling the German labor market

- What is the appropriate model to analyse the reforms?
- Just higher benefits in Europe cannot explain why unemployment in the 60s and 70s was lower than in U.S.
- Ljungqvist-Sargent (1998, 2007a,b, 2008, ...):
 - skill accumulation and decumulation
 - earnings dependent unemployment benefits
- Explains rise in European unemployment as interaction between benefits and skill loss during unemployment
 - Increasing turbulence: higher skill loss if job lost
 - If benefit high but skill low: low search and job acceptance

- Nie introduces detailed institutional features of the German labor market into Ljungqvist and Sargent's (1998) model
- Focus:
 - analyse the role of the various Hartz IV reform elements
 - role training programs and effect on search incentives
- Uses detailed labor market data (IEBS)
- Estimates certain (crucial) parameters
- Simulates the sequence of reform steps
- Conducts counterfactual experiments

(Take home) findings

- German labor market reforms had countervailing effects
 - Only reducing training "subsidy" reduces training enrollment
Higher proportion of low-skilled unemployed, lower output
 - Also reducing benefit duration for all other unemployed
Fall in unemployment, rise in output
 - General fall in unemployment
- Simulation of reforms matches actual path of unemployment
- Moving to a U.S. style benefit structure (holding training system intact) vastly increases output and reduces unemployment

- Very interesting paper on an important issue
- Uses a host of institutional details
- Careful calibration
- Two technical novelties:
 - estimation of transition parameters
 - simulation of the aggregate transitions
- Uncovering new aspects of German labor market reforms
- Quantitative policy analysis. This is the way to go.
- But...

- Are the results believable?
 - Calibration really convincing, but:
 - Rather weak joint effects from actual packages
 - Rather strong effects in counterfactual exercise
 - Change in benefit duration does not seem to have large effects
- Krause and Uhlig (2011) simulate German Labor market reform in Ljungqvist-Sargent model with matching frictions and wage bargaining
 - Reduction of duration and benefits both play role (1/3;2/3)
 - Search externality on labor demand side: Increased vacancy creation (free entry) increases job finding rate
- Effects because of endogenous transition rates!

- (Firm-)specific versus general skills
 - here, all the skills seem general
 - can off-the-job training really substitute for on-the-job training?
 - reforms may change structure of technology and skills
- Unobserved heterogeneity in the data?
 - is there self-selection of workers in training programs?
 - maybe measured flow rates capture more than training effect

- Computational method to calculate transition path
 - solve value function backwards
 - like value function iteration, but you do not iterate to unique steady state
 - find the path of tax rates (or generally, the equilibrating variable) based on which agents make their choices, so transition ends at final steady state
- This shooting algorithm is simpler than Krusell-Smith
 - very interesting and rather new to macro-labor people
- Emphasize more and explain in detail how tax rate is adjusted

- Details of the simulation not well described in the paper
 - what are the various parameter constallations?
 - match reform steps and numbers
- Monthly calibration?
- Some more robustness: change in turbulence
- U.S. benefit system? Is Hartz IV not close?
- Insurance aspect of benefits: refer to Krebs-Scheffel

Conclusion

- Interesting and important paper
- Insights into the wisdom of German reforms, unintended consequences?
- Need to emphasize methods in more detail
- Could be taken a step further by
 - discussing specific versus general skills
 - endogenizing match probability and wage bargaining