

**“THUMBSCREWS FOR AGENCIES OR FOR  
INDIVIDUALS? HOW TO REDUCE UNEMPLOYMENT”  
BY LAUNOV AND WÄLDE**

Discussion by Björn Brügemann

VU University Amsterdam

Conference “(European) Labour Markets and the Economic Crisis”  
Eltville, 12/13 June 2014

# SUMMARY

## QUESTION

- German unemployment declined a lot since Hartz reforms
- Hartz III restructured Federal Employment Agency
- How much did this contribute via improved matching productivity?

# SUMMARY

## QUESTION

- German unemployment declined a lot since Hartz reforms
- Hartz III restructured Federal Employment Agency
- How much did this contribute via improved matching productivity?

## CURRENT ANSWER

- 1.32 percentage points (33.76% of overall decline)
- Had improvement been uniform: 1.98 percentage points

# SUMMARY

## QUESTION

- German unemployment declined a lot since Hartz reforms
- Hartz III restructured Federal Employment Agency
- How much did this contribute via improved matching productivity?

## CURRENT ANSWER

- 1.32 percentage points (33.76% of overall decline)
- Had improvement been uniform: 1.98 percentage points

## APPROACH COMBINES

- Search and matching model
- Evidence from Klinger and Rothe (2012)

# ILLUSTRATION OF APPROACH WITH SIMPLER MODEL

## MODEL IN THE PAPER

Contains features to model reduction in unemployment benefits

# ILLUSTRATION OF APPROACH WITH SIMPLER MODEL

## MODEL IN THE PAPER

Contains features to model reduction in unemployment benefits

## SIMPLER MODEL

- Pissarides (2000), Chapter 1
- Calibrated to German labor market

# ILLUSTRATION OF APPROACH WITH SIMPLER MODEL

## MODEL IN THE PAPER

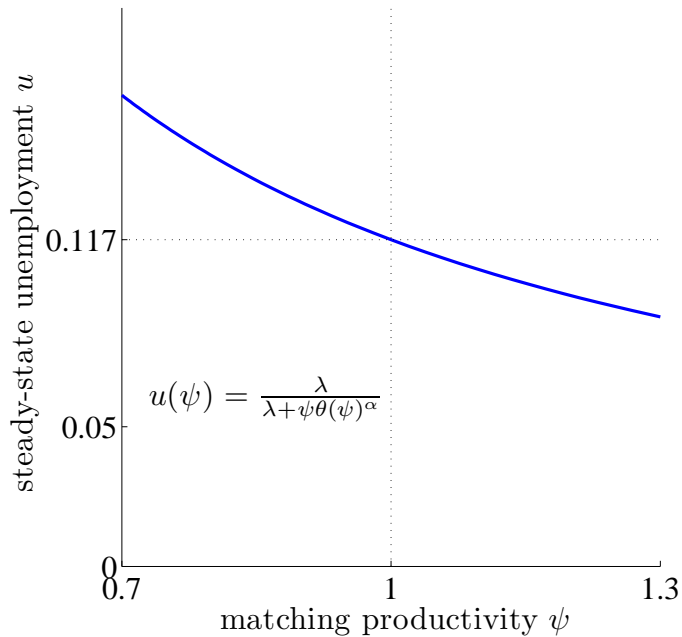
Contains features to model reduction in unemployment benefits

## SIMPLER MODEL

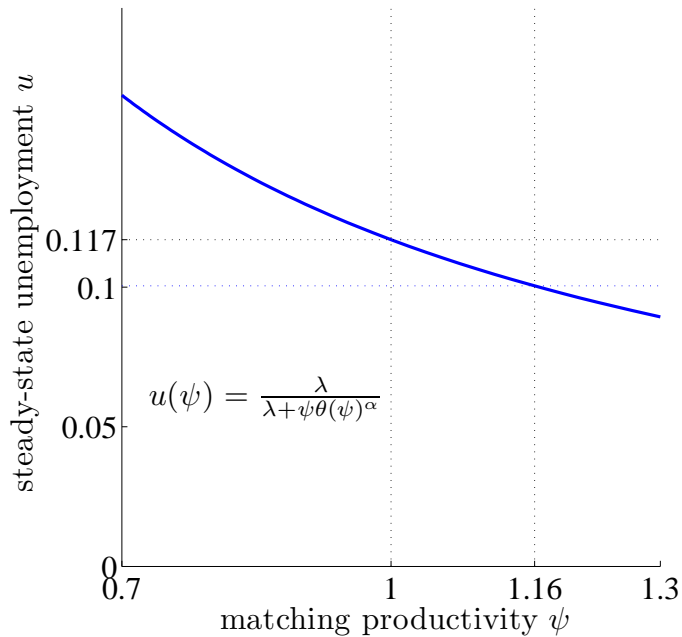
- Pissarides (2000), Chapter 1
- Calibrated to German labor market

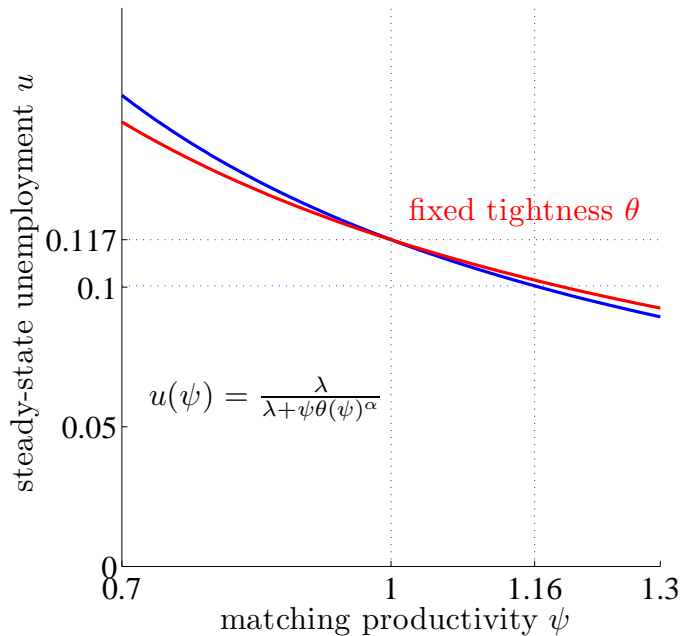
## COBB-DOUGLAS MATCHING FUNCTION

$$m = \psi u^\alpha v^{1-\alpha}$$









# KLINGER AND ROTHE (2012)

## ESTIMATE

$$\begin{aligned}\log(m_t) &= c + \delta^{III} \cdot \text{HartzIII}_t \\ &+ \alpha^{stock} \log(u_{t-1}^{stock}) + \beta^{stock} \log(v_{t-1}^{stock}) \\ &+ \alpha^{flow} \log(u_t^{flow}) + \beta^{flow} \log(v_t^{flow}) + \dots\end{aligned}$$

## RESULT

Estimate of  $\delta^{III}$  is 0.035

# USING KLINGER AND ROTHE'S (2012) ESTIMATE

## TAKEN AT FACE VALUE

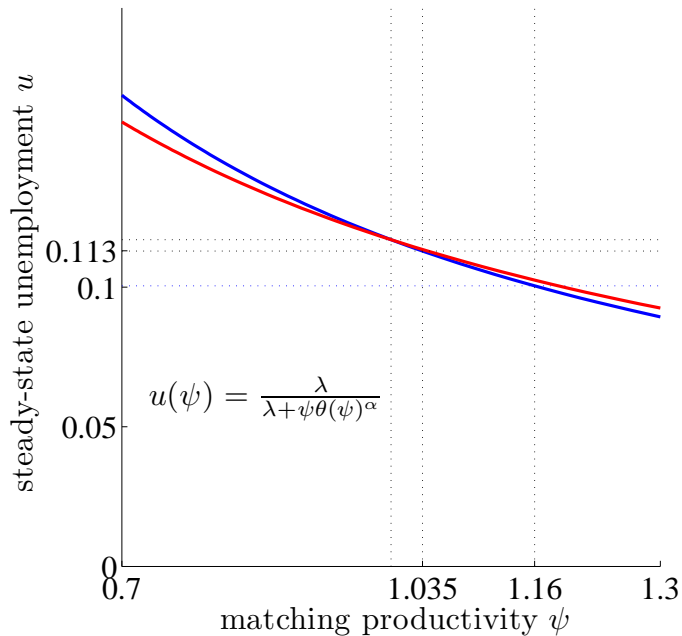
3.5% improvement in matching productivity due to Hartz III

## DIFFICULTY

Estimated matching function differs from that in structural model

## CURRENT APPROACH

- Yields 16% improvement in matching productivity
- Not valid as currently implemented
- Possible solution we discussed: indirect inference



# FINAL REMARKS

## FIRST PASS AT HARTZ III USING PISSARIDES MODEL

- Reduction in Unemployment by 0.4 percentage points
- Primarily through direct effect

# FINAL REMARKS

## FIRST PASS AT HARTZ III USING PISSARIDES MODEL

- Reduction in Unemployment by 0.4 percentage points
- Primarily through direct effect

## MODEL OF LAUNOV & WÄLDE CAN GO FURTHER

- Consider non-uniform matching productivity improvement
- Evaluate Hartz IV in same model