"What hides behind the German labor market miracle?"

by Benjamin Hartung, Philip Jung and Moritz Kuhn
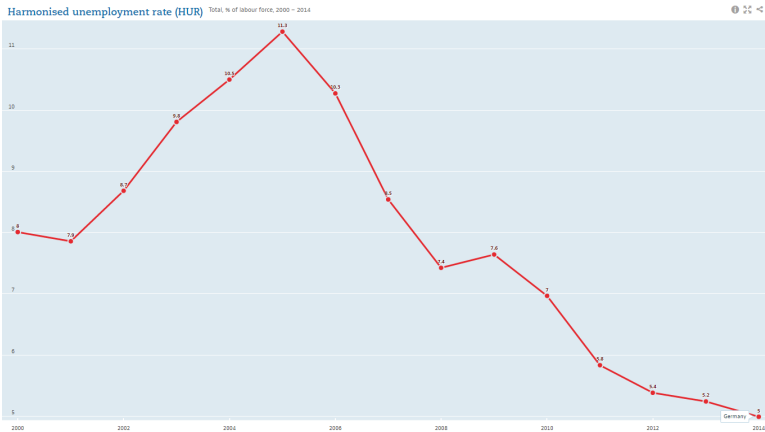
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Employment creation after the crisis

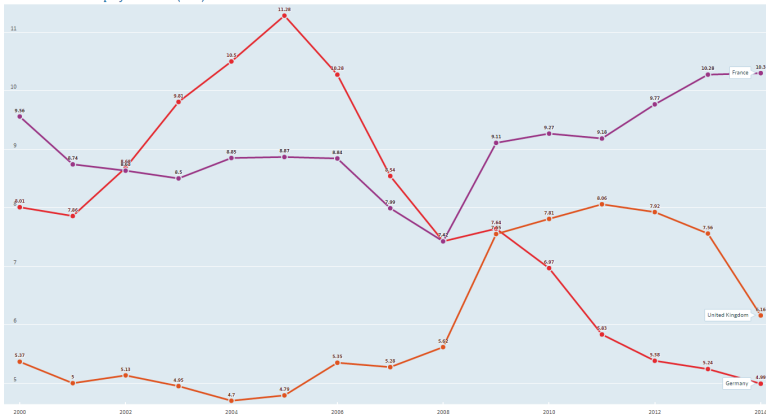11th joint ECB/CEPR Labour Market Workshop

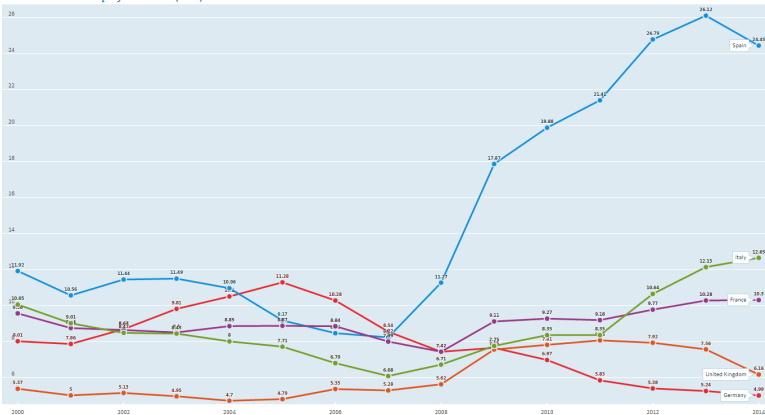Frankfurt, 17-18 December 2015

The German labor market miracle

Harmonised unemployment rate (HUR) Total, % of labour force, 2000 – 2014

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What hides behind the German labor market miracle?

Focus on in and outflows of unemployment

1. Document evolution worker flows in Germany

2. Separate effect reforms from the cycle

3. What part of the reform was most important?

   - Hartz I: temporary work
   - Hartz II: marginal employment + self-employment
   - Hartz III: matching process
   - Hartz IV: unemployment benefits

Document evolution worker flows in Germany

- Great quality data 2000-2010

  - Administrative data

  - Registered unemployment

  - Information on marginal employment and active LM policies

  - Information on demographic composition

  - Information on job-to-job flows

- Very good quality data 1980-2010

  - Administrative data

  - Benefits-based unemployment

- Not too bad quality data 1967-2014 (1980-2014)
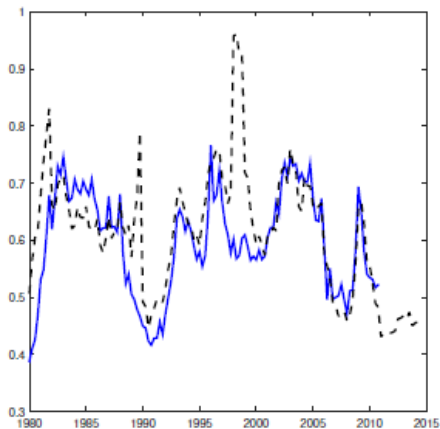
  - Benefits claimant count data

Document evolution worker flows in Germany

Figure 3: Separation and job finding rates

(a) Separation rate
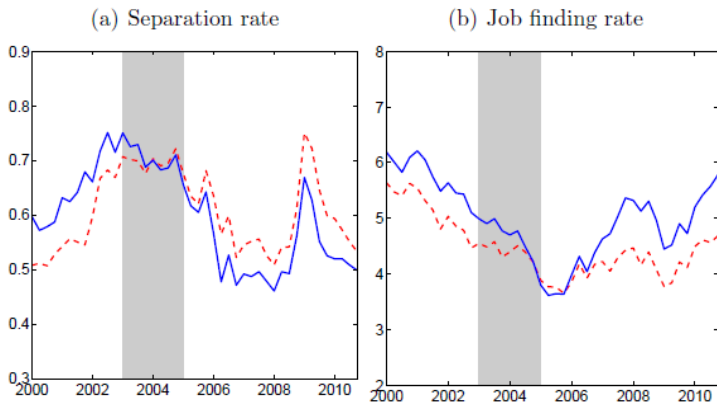
(b) Job finding rate

Registration and benefits-based unemployment 'similar level and trend'

(c) EU rate (level adj.)
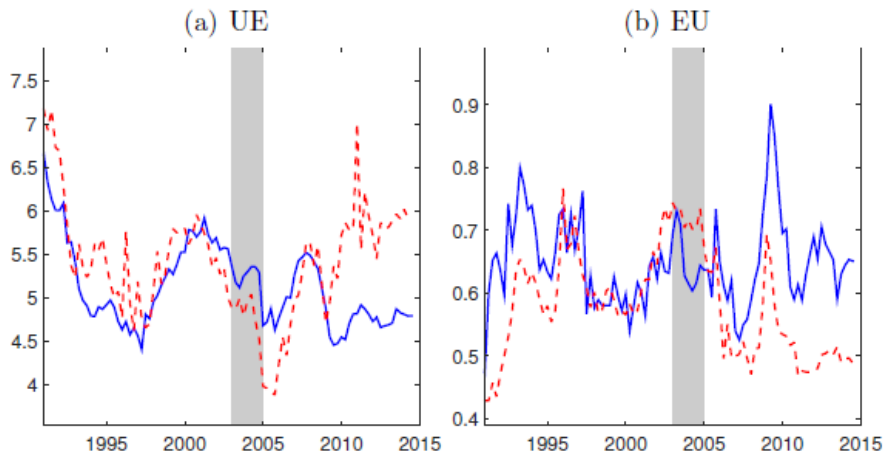
(d) UE rate (level adj.)
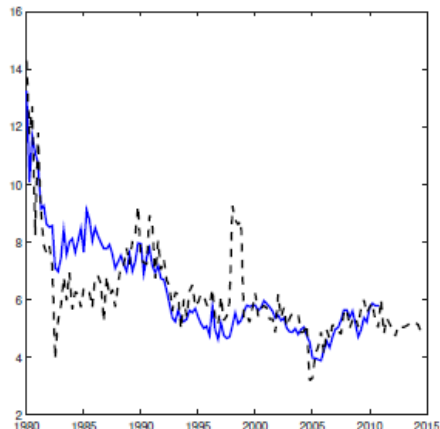
Separation rate fell (53%) and job finding rate stopped decline (47%)

Separate effect reforms from the cycle

- Simulate counterfactuals without reforms

    - Use structural model

    - Simulate with observed productivity shocks

    - Keep reform parameters constant

Figure 13: Model fit - no change in policies

(a) UE

(b) EU

Separate effect reforms from the cycle

- Simulate counterfactuals without reforms

    - Use structural model

    - Simulate with observed productivity shocks

    - Keep reform parameters constant

- Do we observe aggregate shocks?

    - Is filtered GDP a good estimate?

    - Are productivity shocks only aggregate shocks?

- Calibrated model not the right tool

    - If observe the shocks, simple MA regression

    - If not, estimate model, VAR with TVC, or simply filter

What part of the reform was most important?

- Structural model is crucial for this exercise

  - Random search, free entry

  - Endogenous separations

  - Job-to-job flows

  - Heterogeneity in skill workers

- Estimate change reform parameters to match flows

  - Increased matching efficiency (Hartz III)

  - Lower replacement ratio (Hartz IV)

  - Higher disutility from separation (Hartz IV)

  - Higher bargaining power workers (Hartz ??)

What part of the reform was most important?

Work in progress...

- Model seems (more or less) appropriate

- Some quibbles

  - Unemployment benefits move countercyclically with output

  - Compositional shift unemployment pool is exogenous

- Hartz reforms look a bit different in the model

What hides behind the German labor market miracle?

Important question, contribution: focus on worker flows

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