

Hiring Policies, Labor Market Institutions, and Labor Market Flows - 2005

Macroeconomics of labour markets

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Table of Contents

- 1 Introduction
- 2 Model
- 3 Policy analysis

To make efficient use of labour, we need:

- Job turnover – reallocation of jobs from less efficient establishments to more efficient ones
- Worker turnover – reallocation of workers across existing jobs to obtain matches between workers and jobs.

What research gap does the paper aim to fill?

While the levels of job creation and destruction are roughly similar, worker turnover in the US is 2-3 times greater than in Europe.

- Degree of selectivity in firms' hiring practices is the primary determinant of the level of worker turnover (2 facts support this)
- Jovanovic (1979) learning model + Pissarides (1985) matching model
- Job flows - idiosyncratic shocks to job productivity; worker turnover - stochastic accumulation of information about match quality

- Minimum wages and dismissal costs both significantly affect worker turnover.
- Interactions between the various policies can be significant. Eg: the effects of minimum wages on hiring practices are exacerbated by the presence of payroll taxes, even though payroll taxes by themselves have minimal effect.
- The welfare costs of lowering worker turnover via changes in hiring practices are significant. The steady-state welfare cost of a policy that lowers worker turnover by 20 percent exceeds 2.4 percent of output.

- Consider a minimum wage that is 15 percent higher.
- For the case of dismissal costs we consider a cost that is three months' worth of the lowest wage observed in the calibrated equilibrium.
- For unemployment insurance benefits, we consider an increase in benefits that corresponds to 20 percent of the lowest observed wage in the calibrated benchmark equilibrium.
- we believe that a tax of 3–4 percent on expected output reflects the relevant range of differences between the United States and Europe.

Comparative analysis

TABLE 1
EFFECTS OF INDIVIDUAL LABOR MARKET POLICIES

	Benchmark	Minimum Wage	Dismissal Cost	Unemployment Insurance	Taxes
p	.60	.47	.56	.46	.47
$\bar{\pi}$	.21	.31	.28	.24	.22
$1 - H(\bar{\pi})$	.50	.34	.38	.45	.48
$E(\pi | \pi > \bar{\pi})$	.40	.47	.45	.42	.41
Unemployment duration	3.33	6.35	4.65	4.83	4.39
Annual job destruction (%)	11.3	11.1	11.3	11.0	11.0
Annual worker turnover (%)	46.3	40.3	42.0	44.5	45.8
Separation rate at:					
1 month	8.5	7.6	8.0	8.3	8.5
12 months	4.0	3.4	3.6	3.8	3.9
36 months	1.0	1.0	1.0	1.0	1.0
Employment rate	.94	.90	.93	.92	.92
Output	1.71	1.67	1.70	1.68	1.69
Welfare loss (%)	0	1.4	.18	.29	.29

End

THE END