# Discussion of "Labor Market Institutions and the Cost of Recessions" by Tom Krebs & Martin Scheffel

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- Build a framework to study welfare cost of recessions

# OVERVIEW

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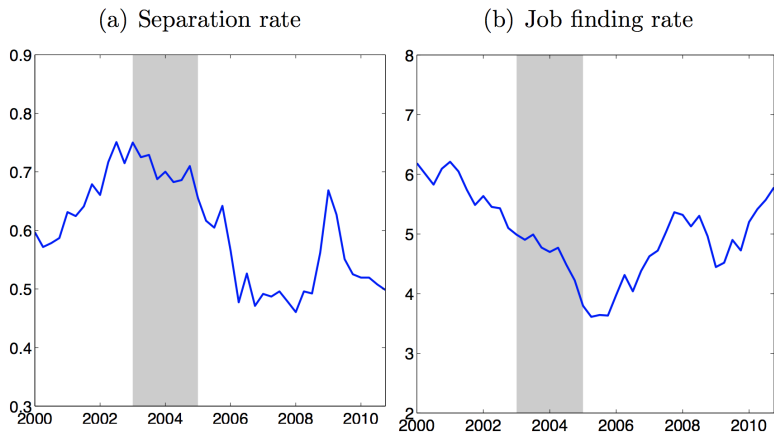► First discuss empirics, then quantitative exercise (won't cover everything, paper 111 pages...)

## Unemployment Rate

# EMPIRICAL EVIDENCE FOR HARTZ REFORMS: $\delta$, $f$



(a) Separation rate
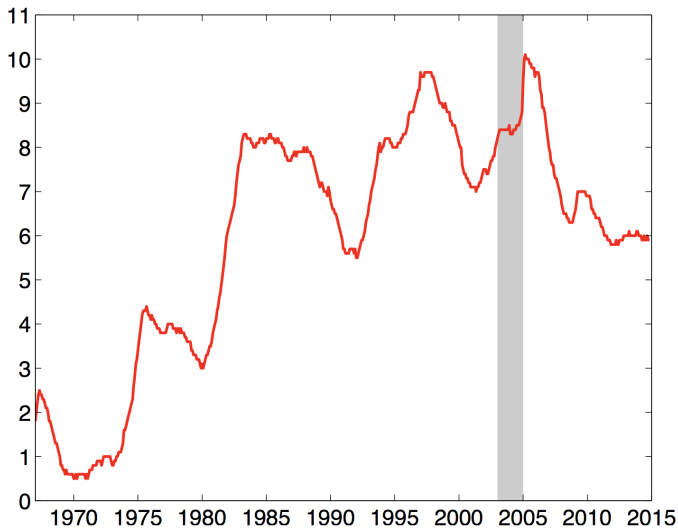
(b) Job finding rate
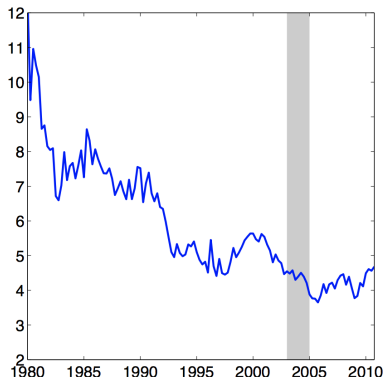
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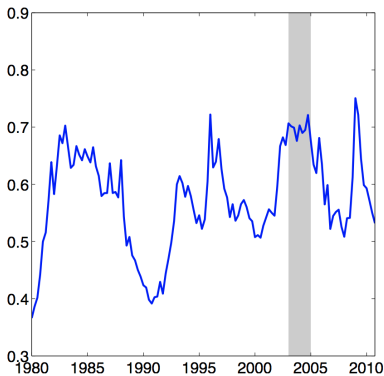
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# CONSISTENT WITH U.S. EVIDENCE ON UI CUTS



Employment Population Ratio
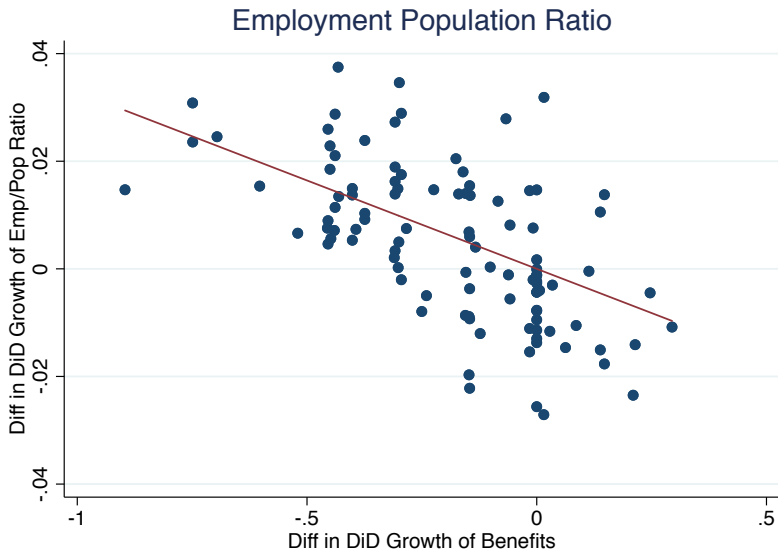
Hagedorn, Manovskii and Mitman (2015)

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- ▸ Admits decomposition for welfare costs:

$$\Delta(\Omega_0, S_0) = \underbrace{\Delta_y(\Omega_0, S_0)}_{\text{Output}} + \underbrace{\Delta_r(\Omega_0, S_0)}_{\text{Risk}} + \underbrace{\Delta_l(\Omega_0, S_0)}_{\text{Effort}}$$

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▶ Introducing DMP-style labor market is a step in the right direction (why not benchmark?)

▶ Adding nominal rigidities could add further amplification and propagation (and maintain analytical tractability)
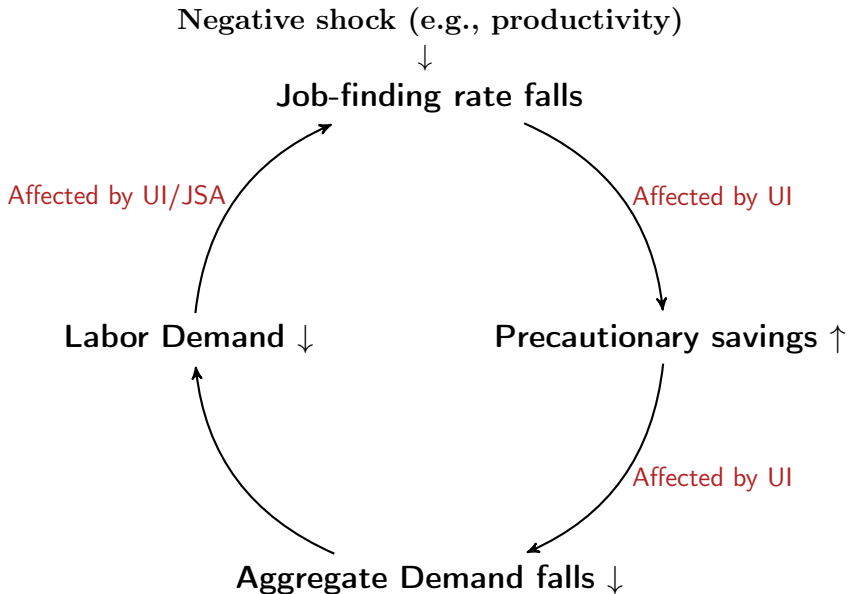
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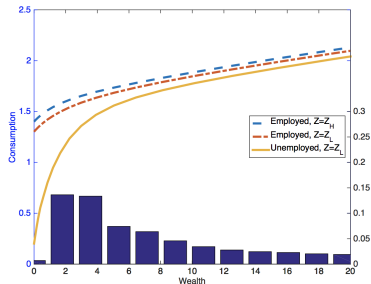
# FINANCIAL AUTARKY

- ▶ Lack of self-insurance means welfare costs likely upper bounds

- ▶ Further, self-insurance responds to changes in UI and JSA

- ▶ Differential long-run and short-run effects of changes to policy

# Endogenous response of wealth distribution



High UI
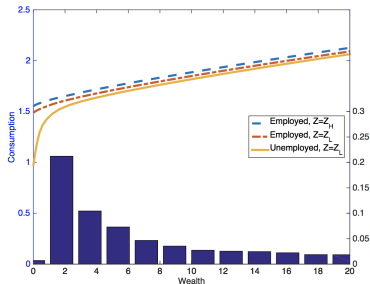
Low UI

Krueger, Mitman and Perri (2016)

# Summary

- Nice paper

- New take on the welfare costs of recessions and how labor market policy affects them

- Admits a nice decomposition of the welfare costs

- Would like to see more internal propagation to fully evaluate the effects of UI/JSA