

**Discussion of
“Business Cycle Contingent
Unemployment Insurance”**

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Introduction

- Easy to be sympathetic to the main idea of business cycle contingent UI
- These issues should have been discussed before the crisis
- But economic research and policy is often backward looking (Jonung, 1999)
- Need for further analysis towards implementation

Quantitative analysis

- The authors goes towards providing a quantitative model with business cycle contingent UI
- What I would have liked to see:
 - same basic model (Diamond, Mortensen, Pissarides)
 - carefully calibrated to match the labor market and business cycle properties of some economy (Denmark?) without business cycle contingent UI
 - policy experiment: introduce business cycle contingent UI and check implications for unemployment, wages, welfare for different groups, etc
- But this is not an easy task (Shimer, 2005; Hagedorn and Manovskii, 2008)

Address long term unemployment

- Robert Barro (WSJ, Aug 2010): “the jobless rate could have been as low as 6,8%, instead of 9,5%, if jobless benefits hadn’t been extended to 99 weeks”
- Barro’s fear: cyclical (short-term) unemployment has become structural (long-term) unemployment
- Europe has suffered from high unemployment rates due to long-term unemployment since the 1980s
 - This has been attributed to generous UI in Europe (Ljungqvist and Sargent, 1998;2008)

Address long term unemployment

- Imperative to maintain activity if benefits are extended
 - Coaching?
 - Job search activities?
 - Labor market training?
- Business cycle contingent UI could reduce inflow into other social insurance systems in slumps

Credible implementation

- Fear that benefit hikes (or extensions) are difficult to reverse
- This calls for a rule based system
- What is the appropriate trigger?
 - Uncertain estimates of the equilibrium unemployment rate
 - Equilibrium unemployment is not constant over time
 - Increase in equilibrium unemployment should not trigger permanent rise in benefits
 - Deviation from average of past actual unemployment rates?