

Comments on

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Questions: how do we

- Increase labor supply of the elderly?
- Make the labor market more efficient?

Praise

- This is a thoughtful speech
- The speech tackles serious questions
 - How to align pay and productivity?

Pay peaks later than productivity

- Productivity peaks in the 40s (Skirbekk 2009)
- US:
 - Wages peak in the 50s (French 2005)
 - Earnings of displaced workers fall 25% (Jacobson LaLonde Sullivan 1993)
 - Severance packages are common
- Netherlands:
 - Wages never peak
 - Re-employment rates of unemployed 55-59: 10% over 1 year

Reasons why pay peaks later than productivity in life

- Search
- Incentive reasons: motivate workers to work
- Firm specific human capital
 - current pay < productivity on current job
 - current pay > productivity on other jobs
- Unions: represent workers in bargaining
 - Union membership in Netherlands is declining (15%)
 - Median voter in union is old

How should wages be set?

- Unions should not be the only representative of workers

Training of workers

- Return to education at young ages is large
 - Preschool education
 - Return to college education
- Return to education at older ages: not so clear
 - Return to job training programs is low

From Cunha, Heckman, Lochner, Masterov (2006)

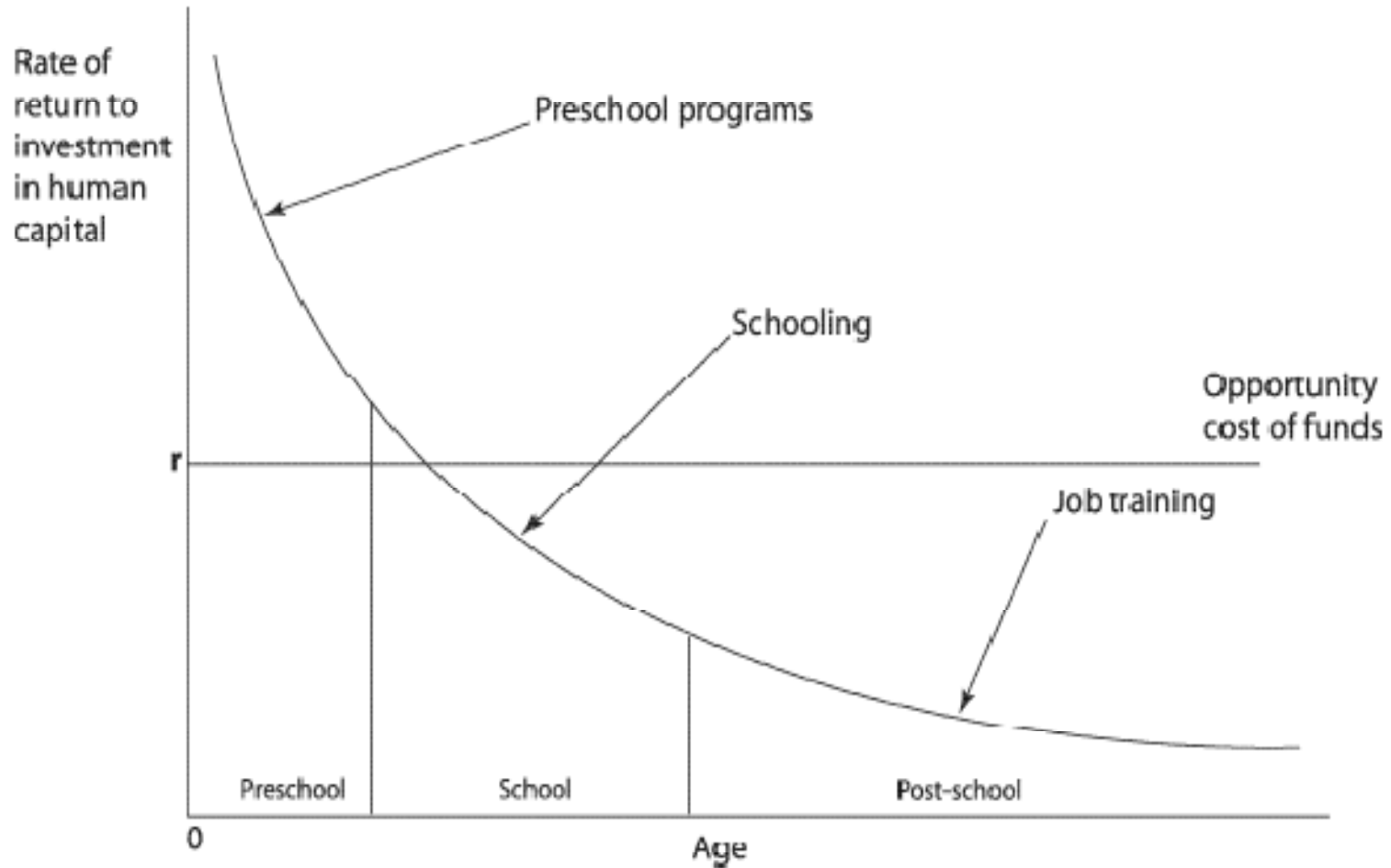


Figure 1A. Rates of return to human capital investment initially setting investment to be equal across all ages.

Important Caveats

- Little evidence on the return to on the job training
 - Theory says likely to be underinvestment
- Standard return measures do not account for
 - Gains from redistribution
 - Other benefits (reduced disability and unemployment benefit expenses)