“Macroeconomic fluctuations and the timing of labour market reform”
and “Why are European countries diverging in their unemployment experience?”

Papers by Gilles Saint-Paul

Comments by Alexandr Hobza
Directorate General for Economic and Financial Affairs

European Commission workshop on Sequencing and incentives for reforms
Brussels, 28 March 2006
On timing of structural reforms …

Agree: issue not settled

Two polarised views:

1) Bad times: back-against-the-wall argument
2) Good times: more resources

Empirically:

IMF (2004): Period of recovery following a period an extended period of slow growth but LM in good times

IMF (2005): EU LM reforms in bad times (reflects the strong status quo)
On timing of reforms and EPL …

The example of EPL is useful: provides a useful framework for analysing public support for reform:

1) Exposure effect
2) Identifiability effect
3) Constituency effect

But does not necessarily explains the actual timing of reforms which might be driven by other factors as well … such as political cycle, interactions with other reforms, starting conditions, macroeconomic policies

… this is also indicated by the fact that reforms to EPL take usually place at the margin of the labour force …
Sequencing, complementarities and interactions

Packages of reforms might take into account synergies among reforms (i.a. PM reforms can drive LM reforms) and might be easier to implement as they spread gains and losses more evenly across population. On the other hand, higher complexity which generates uncertainty concerning their effects and difficulties in explaining the benefits.

Empirically, packages often include compensatory measures

… economic efficiency vs. political feasibility

LM packages: comprehensive approach better for reducing unemployment (Coe and Snower, 1997) but politically more difficult to pursue

Therefore, trade-offs – EPL vs. UB (e.g. Boeri)
Scope for supranational coordination of reforms?

Empirics: EU membership helps (IMF)

Reasons:

1. Economic spillovers, economies of scale
   - More significant in the area of product and capital markets than in labour markets
2. Learning spillovers
3. Political economy considerations
   - To overcome domestic policy constrains
4. But agency problems: political accountability of bureaucrats
5. Euro area dimension
# Empirical evidence on determinants of reforms

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