

Structural and institutional change in EMU labor markets

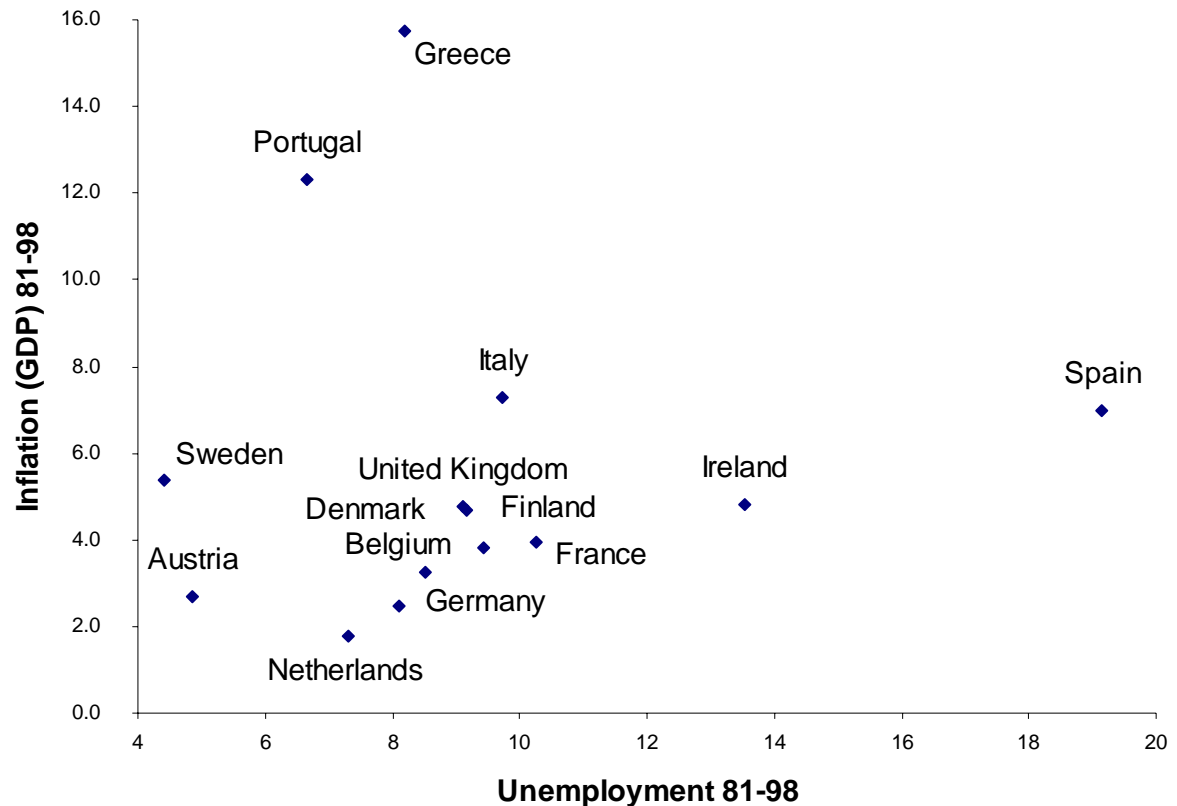
Giuseppe Bertola,

Università di Torino

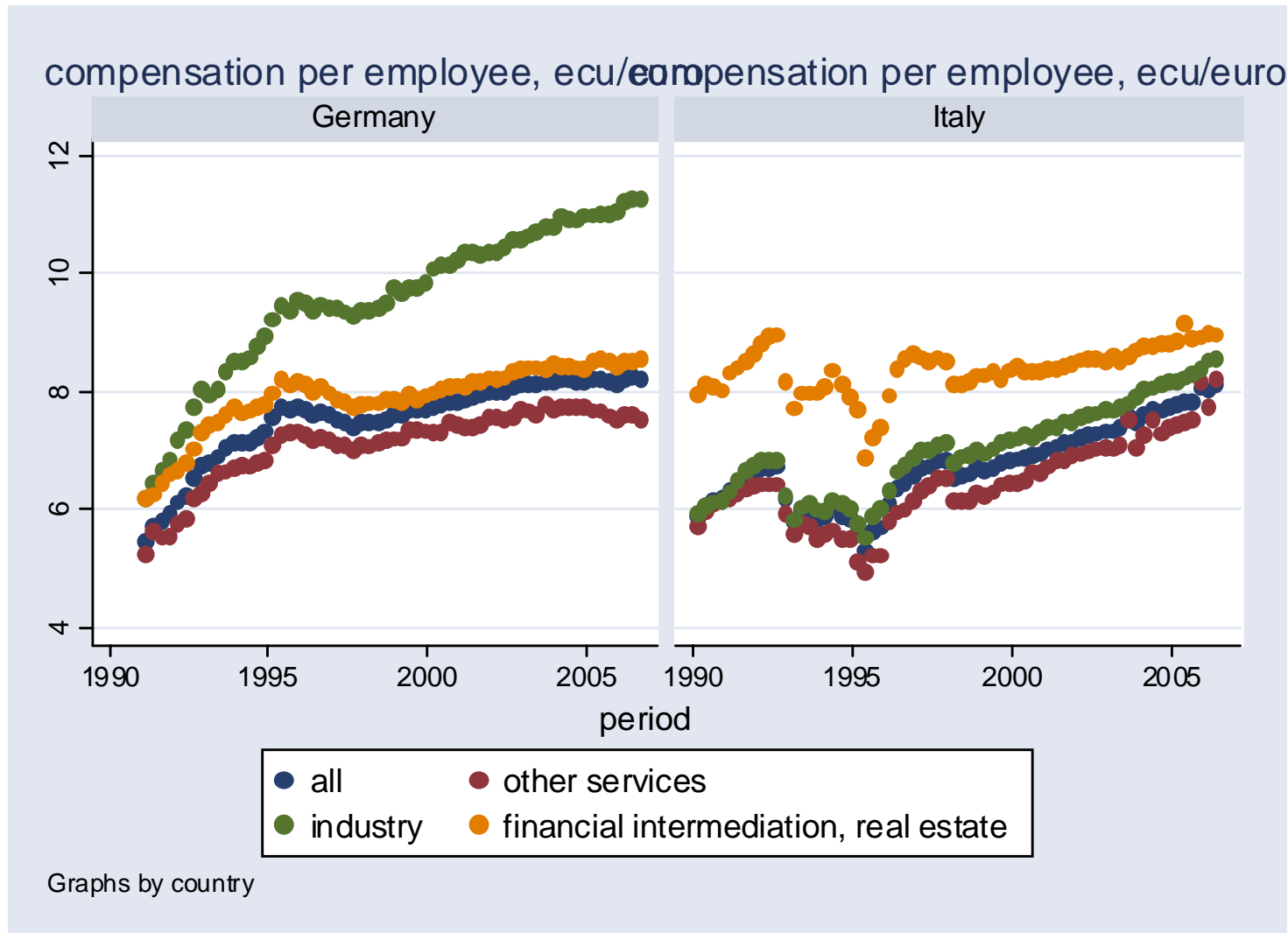
Brussels Economic Forum, 31 May 2007

pre-EMU, inflation **with** unemployment:

- structurally high unemployment,
- temptation to inflate, devalue
- stagflation



EMU: the end of devaluations



What is driving Europe,

- Economic and Monetary Union?
- Enlargement?
- Global cyclical developments?
- Policies, interacting and changing?

The data can't say.

What does theory suggest?

Broader product markets,

production more diverse,

more sensitive to cost:

Incomes can diverge.

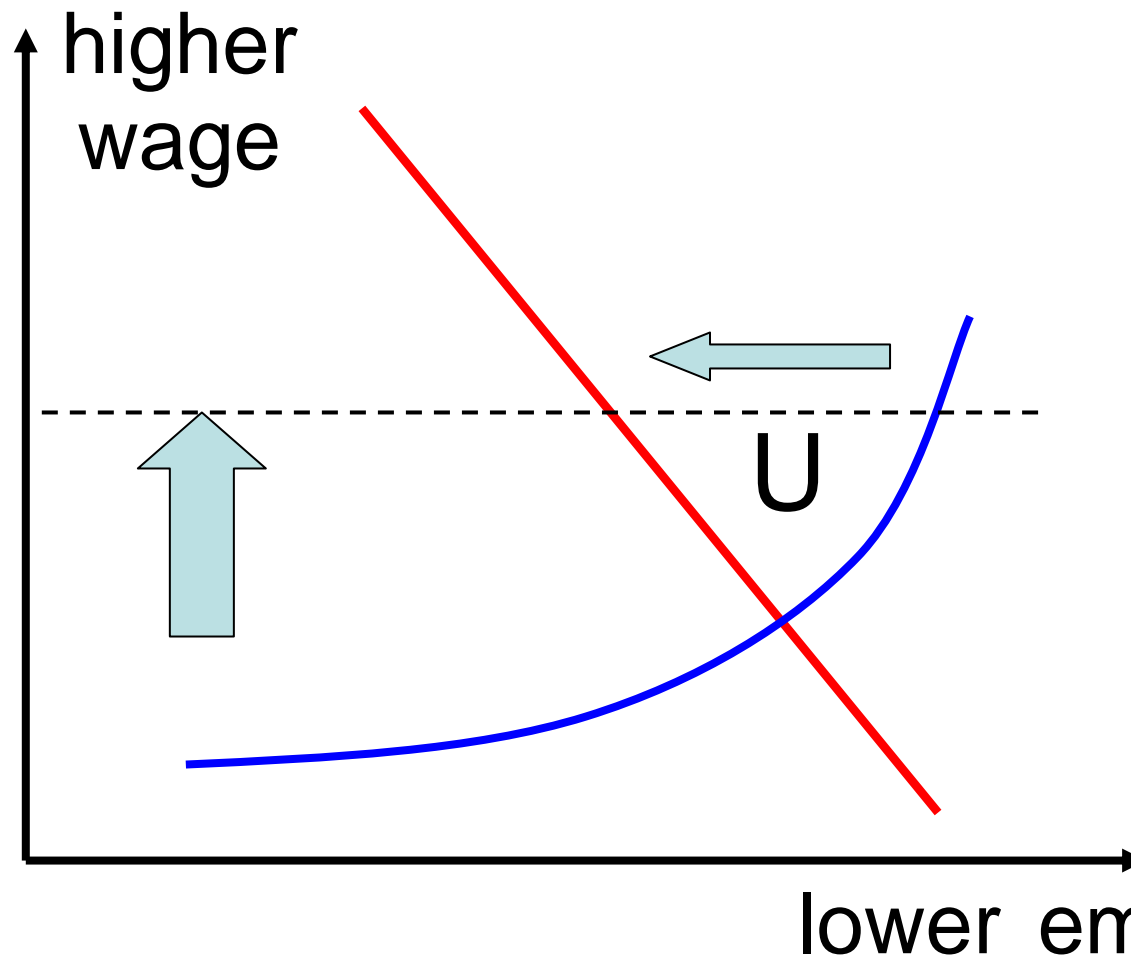
Financial market integration,

Smooth consumption: Current accounts, ...

(Financial) markets imperfect:

Labor market policies

Minimum wages, Collective bargaining, Labor taxes & nonemployment subsidies

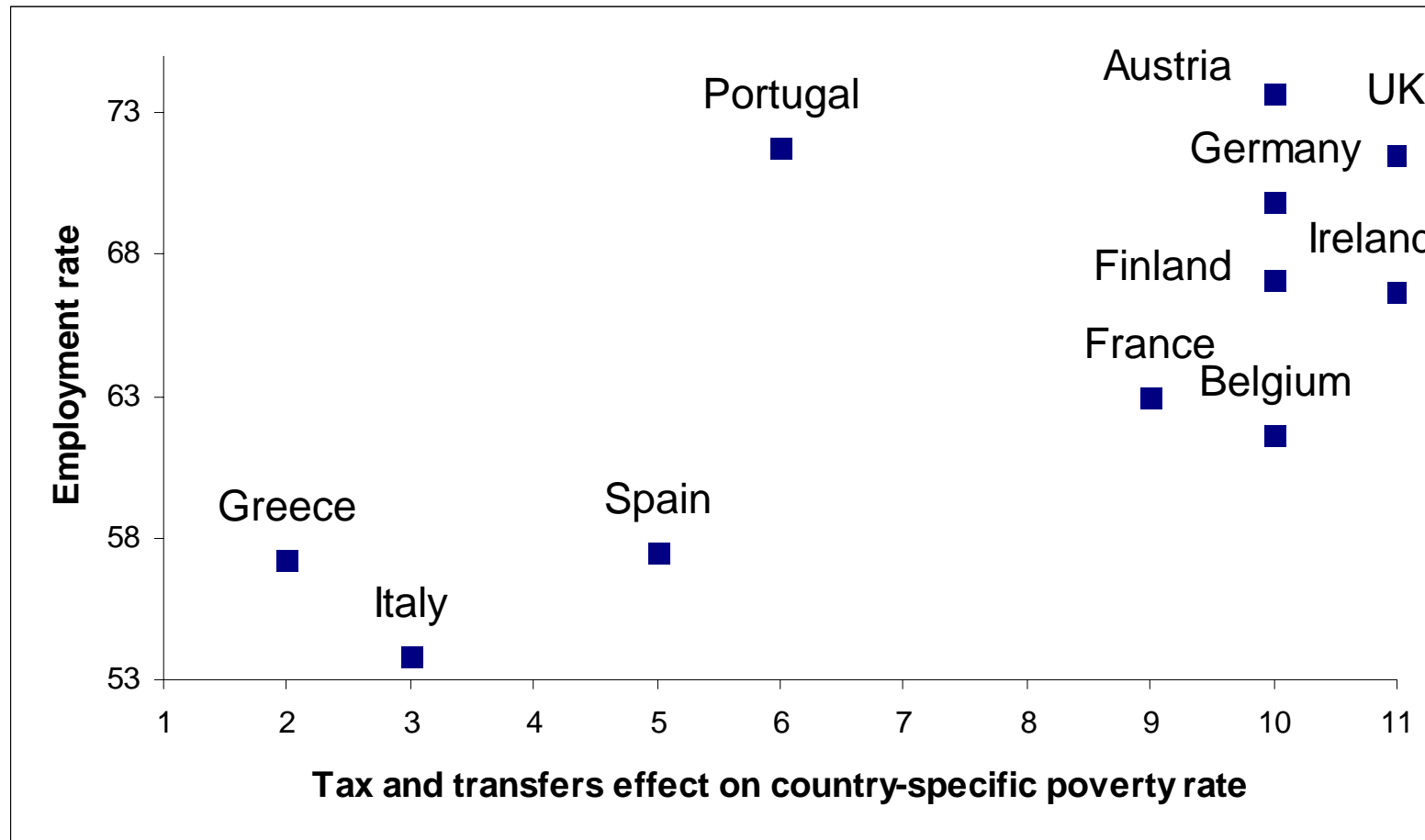


Purpose:
redistribute and
smooth income.

side effect:

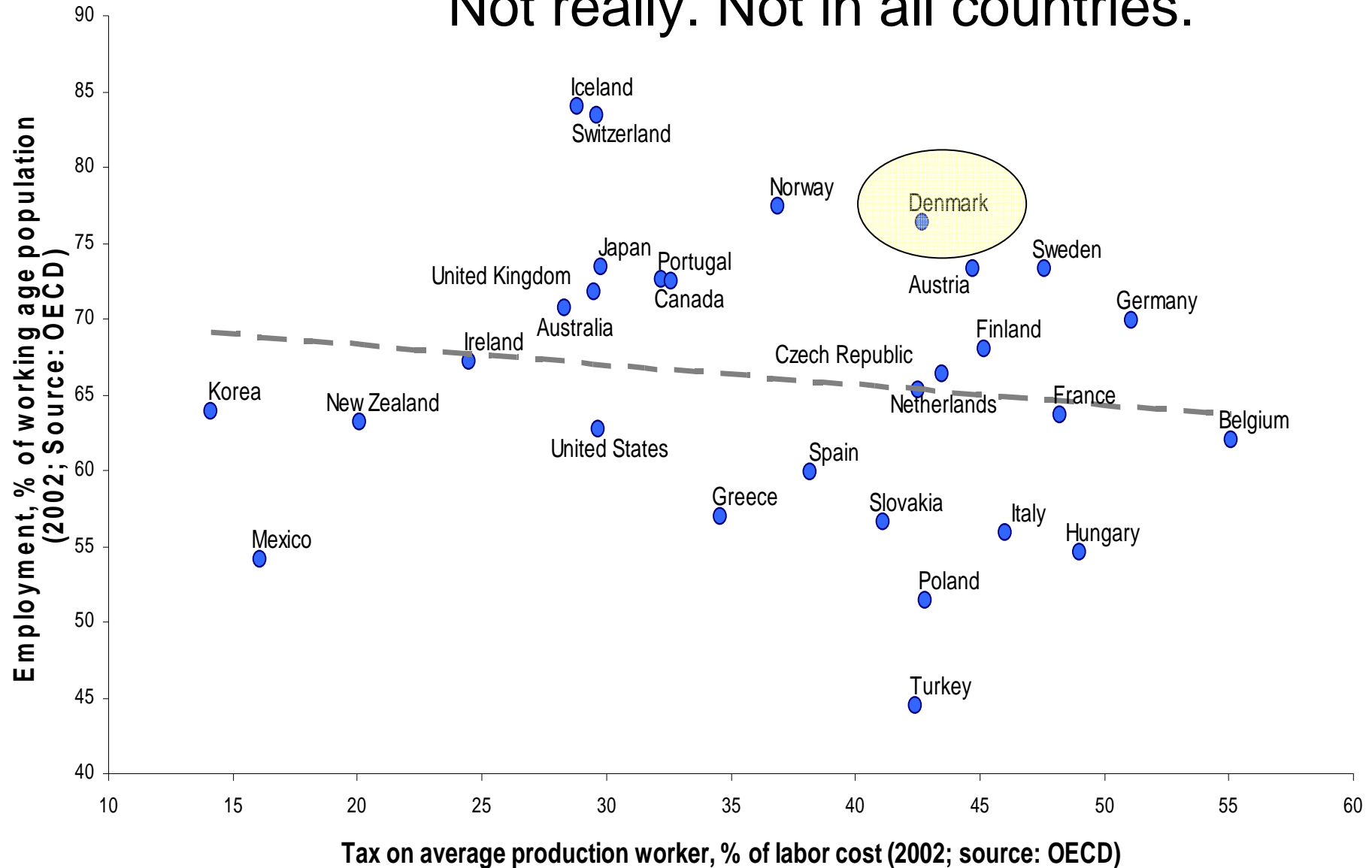
Redistribution, less employment?

Not in cross-section:



More taxation, less employment ?

Not really. Not in all countries.



Across different countries,

- different imperfections,
- different cost and benefit tradeoffs:
different variety of policies,
differently different outcomes.

If interference is sensible,

convergence is unwarranted,

reforms **not** costless:

Diverging dynamics can be due to
new effects of old policy frameworks.

Reform if problems go away

(better financial markets, less welfare state?)

or policies obsolete, because

negative effects overwhelm positive.

Across countries, over time,

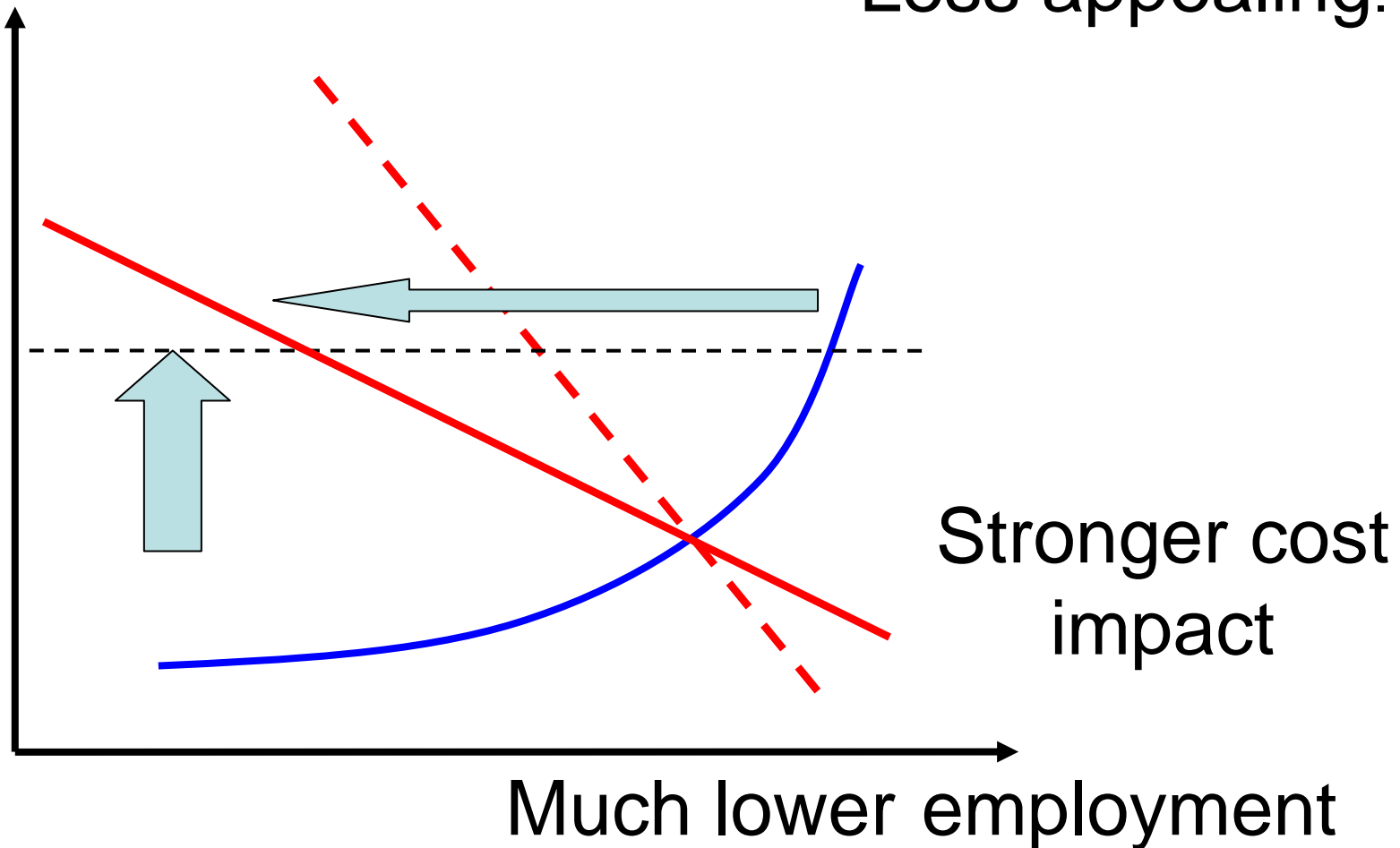
what changes with economic integration?

old institutions, new effects:

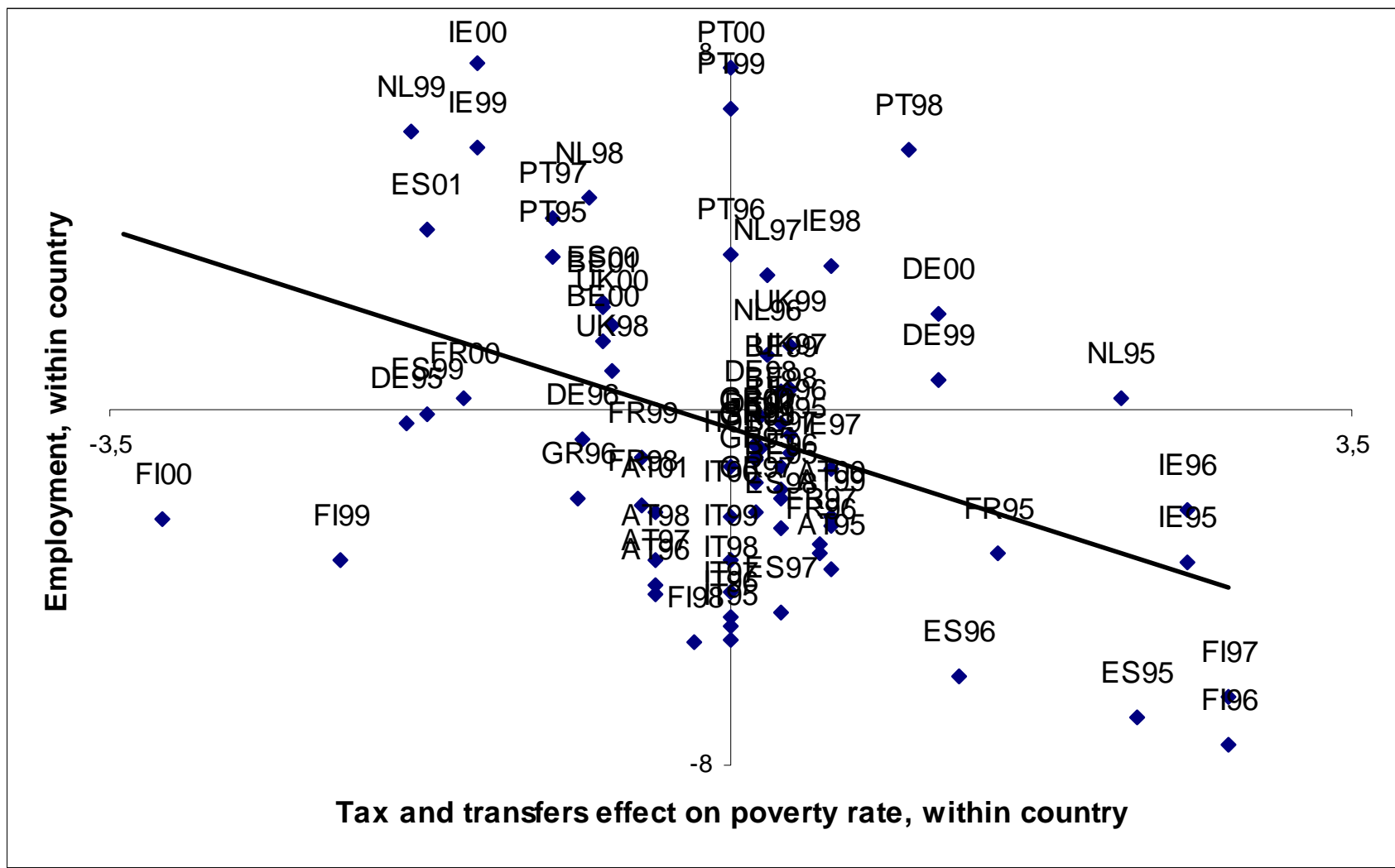
More competition,

Larger employment loss,

Less appealing.



Within countries, over time (EU 1990s):
do see redistribution \Leftrightarrow employment, inequality



Labor market rigidities:

- Sensible if needed to target poverty, risk.
- Stressed by competition.

Can't afford them, still need them.

Resent economic integration...

Strategic targets:

Household financial market access,

Supranational policy framework?