

Labor Markets before and after the Great Recession

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“Labor Market Institutions and the Macroeconomy”

Nuremberg, June 17-18 2011

perspective + ads for work
done and to be done.

Labor market policies...

Maintain welfare of unemployed

Prevent job loss

Equalize wages

Promote skills and assist job search

**...useful, as human capital hard to
trade in financial market.**

Labor market policies

Maintain welfare of unemployed

...payroll taxes, lower incentives to find job

Prevent job loss

...also deter hiring and efficient reallocation

Equalize wages

...lower mobility incentives

Promote skills and assist job search

...more expensive than passive income support

...not free lunches:

Pros and cons

equal, smooth income...

good

if imperfect & incomplete markets

but

less employment,

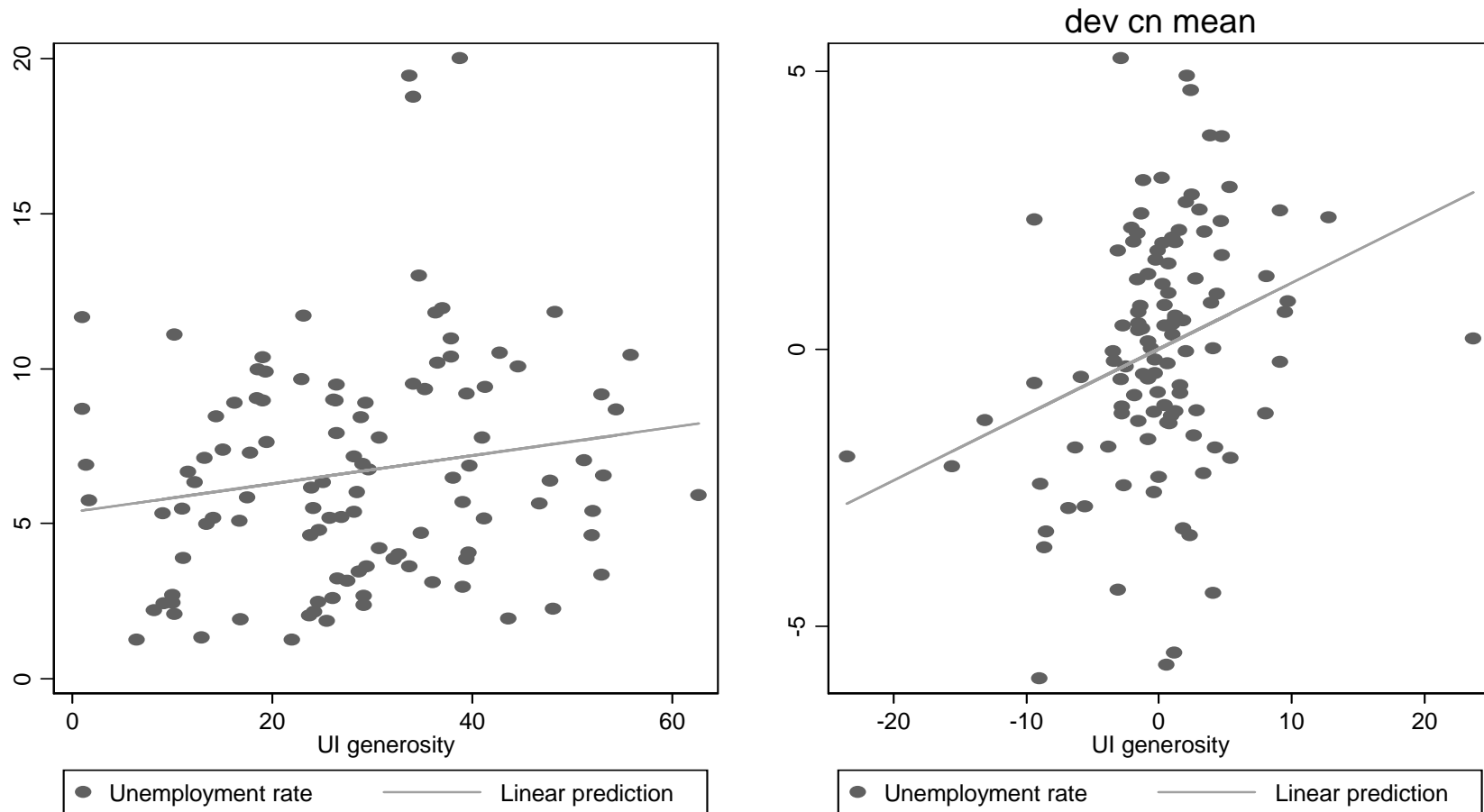
more unemployment,

lower productivity,

more tax and public expenditure.

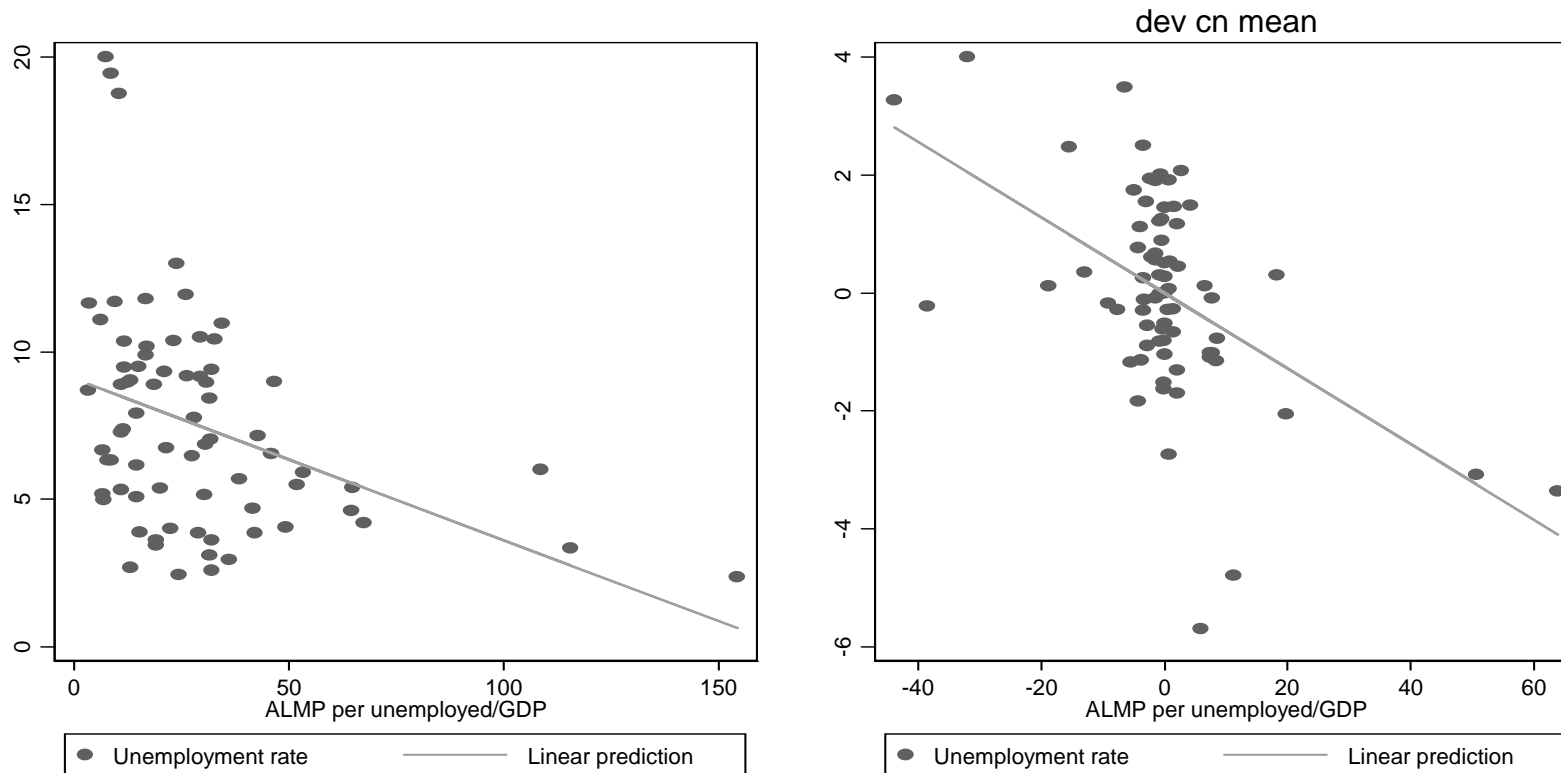
Empirically (simple):

countries, time: Generous UI...



...more unemployment...

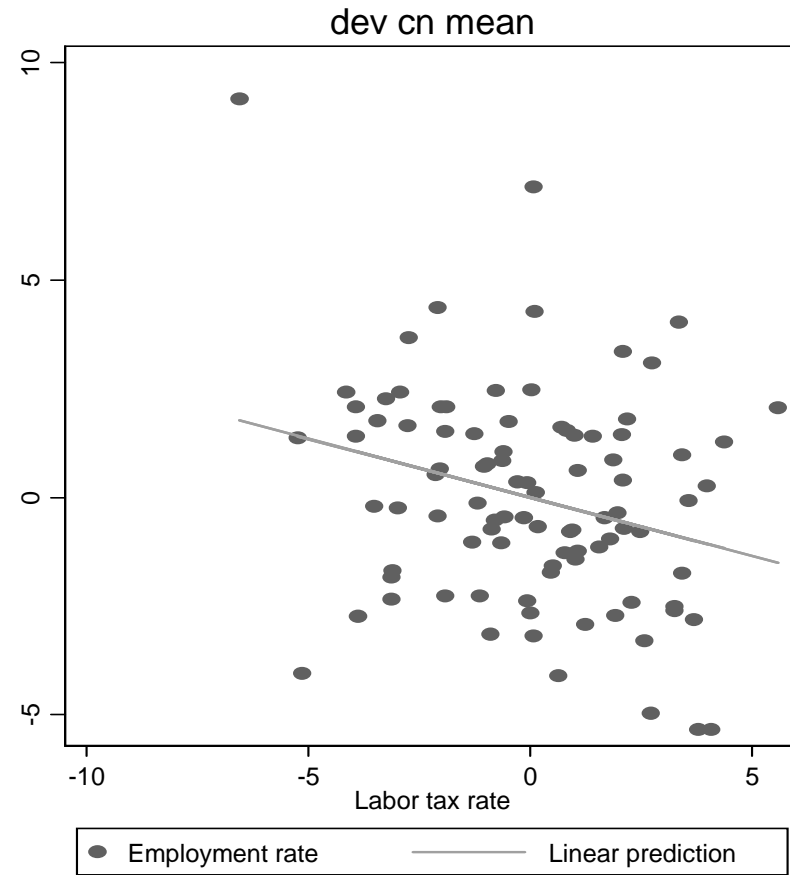
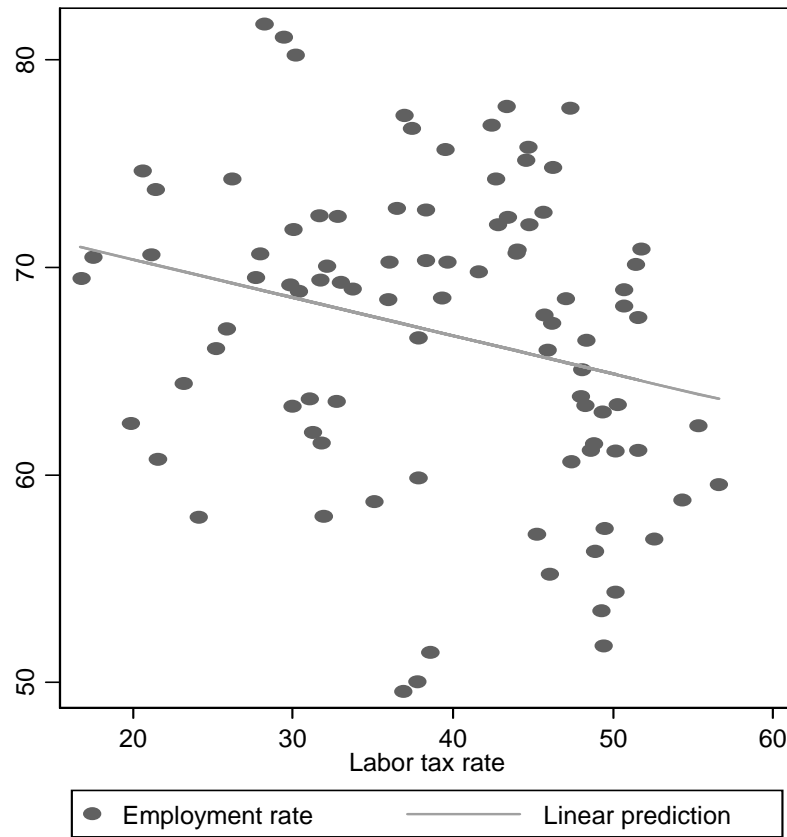
countries, time: **ALMP/GDP per unemplo**



...less unemployment,

but: **EXPENSIVE,**

countries, time: ...high labor taxes...



...less employment.

What drives policy choices...?

1980s-2000s

Economic integration w/out policy integration:
competition among systems =>

labor market flexibility,

less government,

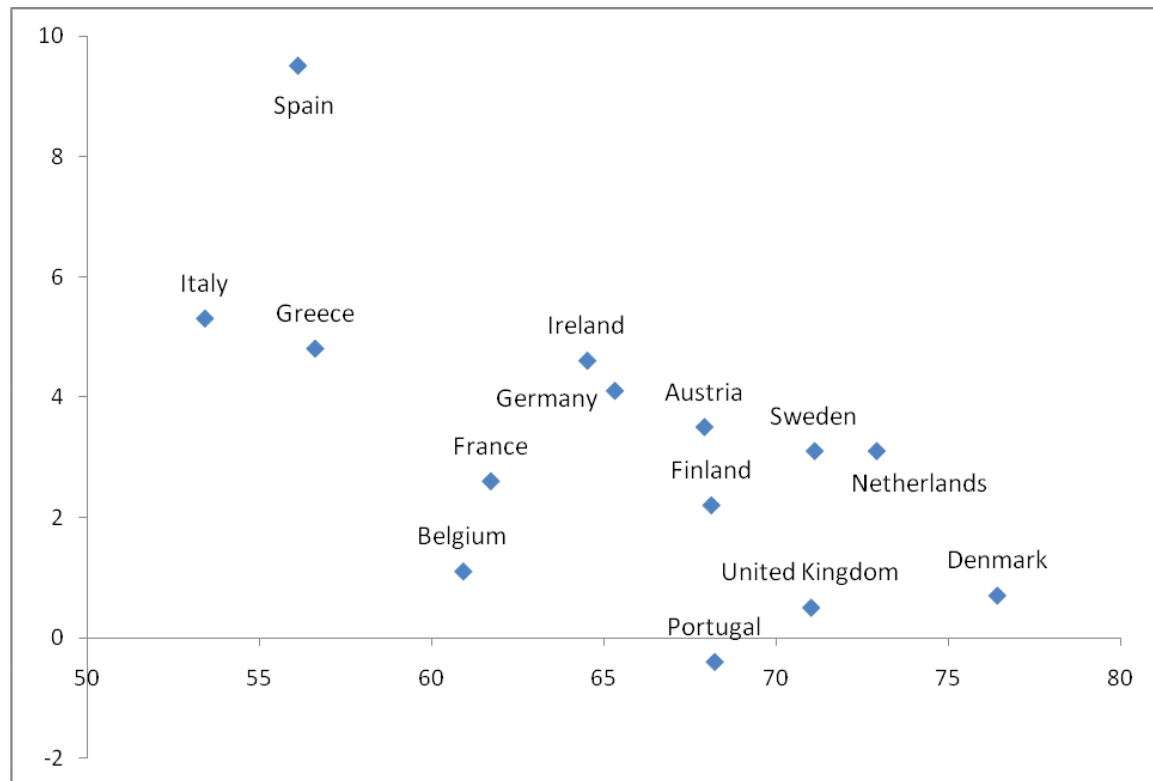
more private finance.

G.Bertola “Social and Employment Policy in the EU
and in the Great Recession” SIEPS European Policy
Analysis 2010:11, 1-12

The 2000s in the EU

“euro area creates 14.2 million jobs”

Change of employment rate of working age population, 2000-07.



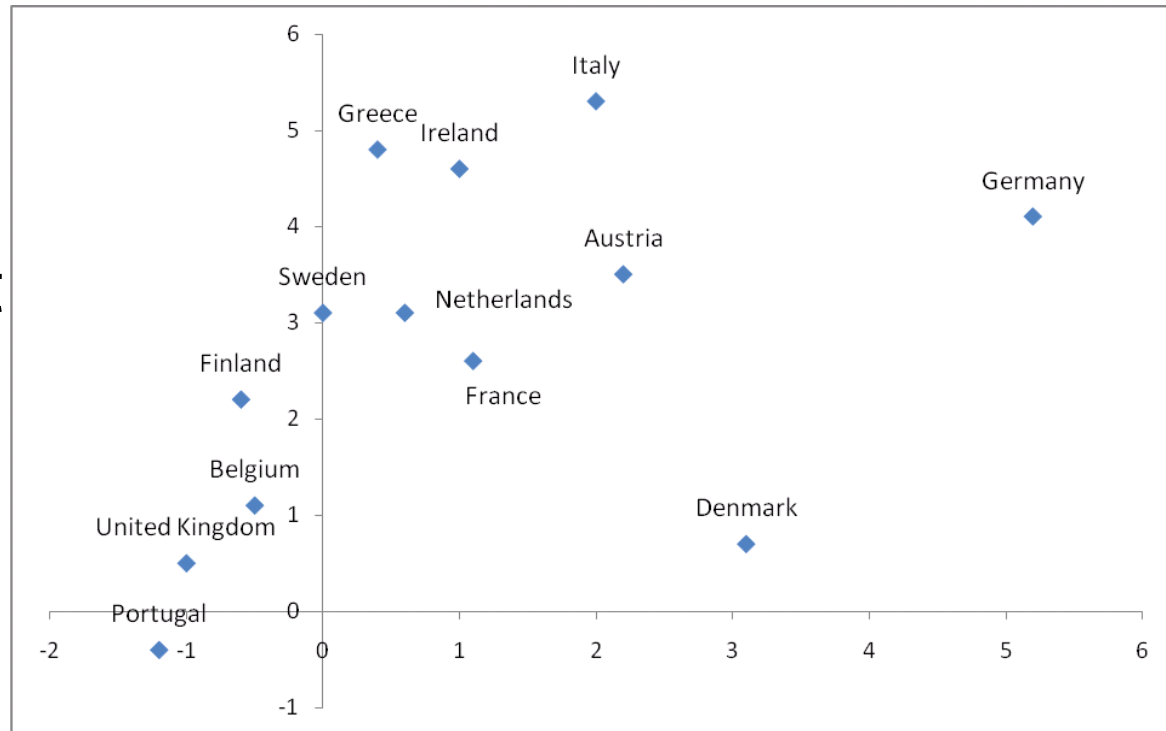
Convergence.
“Lisbon” reforms?

Employment rate of working age population, 2000.

The 2000s in the EU

Something else happened:

Change of employment rate of working age population, 2000-07..



More employment
via deregulation,
not “Lisbon”:
Systems
competition.

Change of Gini coefficient, percent,
between 2000 and 2007 surveys.

Labor market policies...

and the macroeconomy:

more labor market flexibility,

- increase (future) production
⇒ invest and consume more

...CURRENT ACCOUNT DEFICIT?

- precautionary savings, liquidity constrained human capital investment
⇒ consume less, may invest less

...SURPLUS ?

G.Bertola, A. Lo Prete, “Reforms, Finance, and Current Accounts”

Dependent variable: Current Account/GDP

	1	2	3
<i>Structural Reform Variables</i>			
Employment Protection	0.016 0.74	0.072 2.45	0.019 1.18
Trade Union Density	0.026 0.49	0.189 3.30	0.177 4.02
Marginal Tax Rate	0.035 1.88	0.042 2.58	0.035 2.97
Main effect of Relative LTV	0.289 1.29	2.767 4.17	0.980 3.79
<i>Financial Development interaction</i>			
Relative LTV	-0.161 -1.75	-0.065 -4.59	-0.156 -4.54
<i>Control Variables</i>			
Country effects	no	yes	yes
Period effects	no	no	yes
Number of observations	368	368	368
R2	0.040	0.510	0.620

⇒ $\beta_i > 0$

deregulation makes CA more positive

⇒ $\gamma < 0$

to a lesser extent if better developed financial mkts

CA and reform panel facts:

initially highly regulated countries reform,
tend to CA surplus

flexible with better financial market access
tend to CA deficit.

Many other differences, possibly spurious correlation...

1. robust to country and period effects,
and controls.

2. suggest that financial market
imperfections do matter, for welfare as
well as for current accounts.

Labor market policies...

More equal, smoother income, ...

Less employment, more unemployment, lower productivity, more public expenditure.

1990-2007:

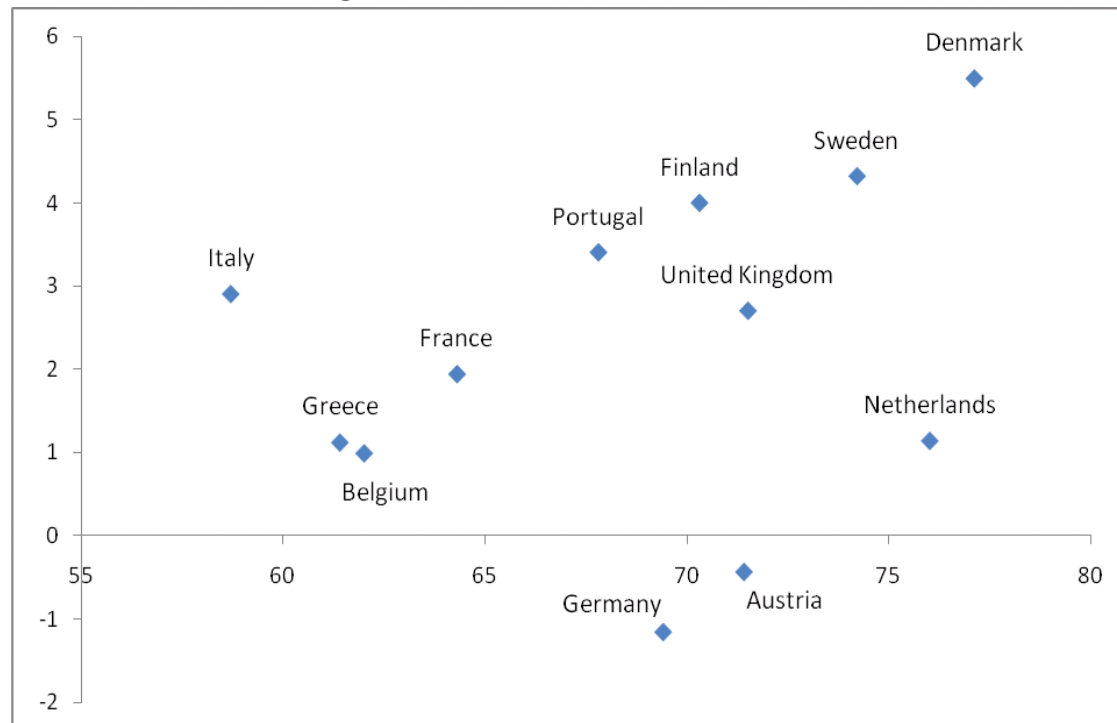
more trade, less government, more finance,
more acceptable labor income instability...

Before: Flexibility (and inequality) trends.

During: Higher to fall if flexible.

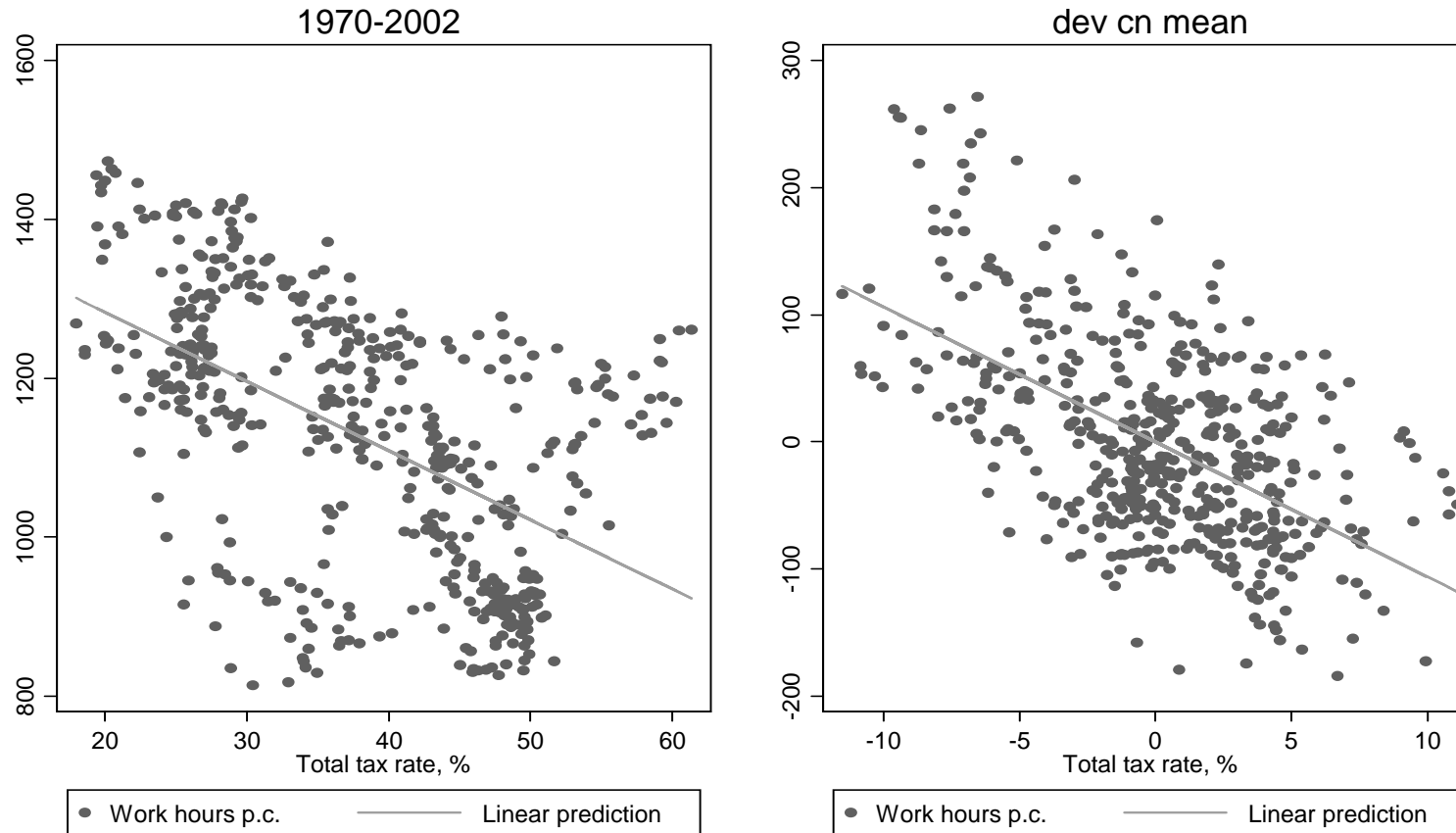
Employment fall in crisis (“Jobs gap” terms)

Flexibility
=>
employment,
price:
inequality,
instability.



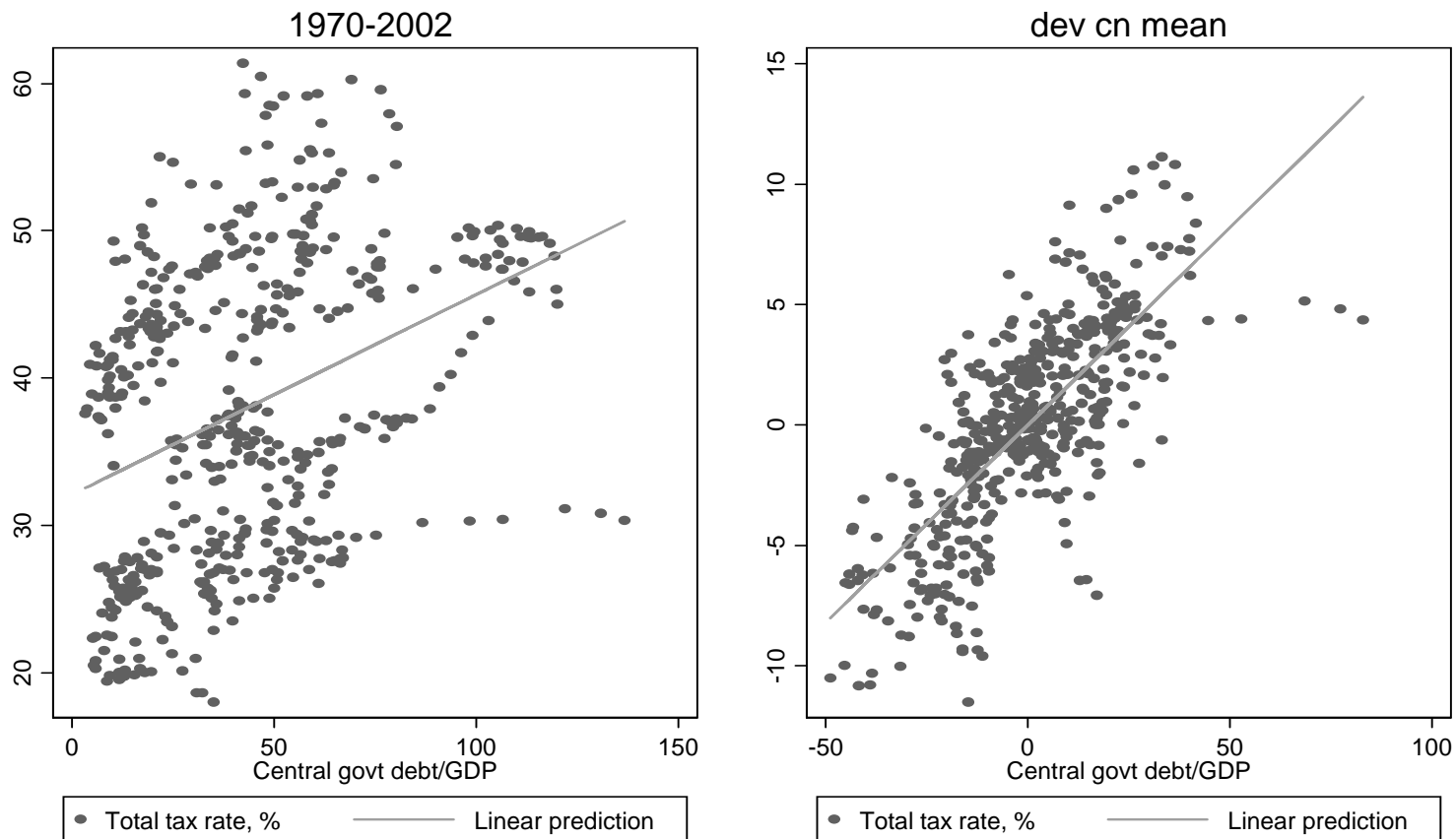
Employment rate of working age population, 2007.

What next? Lesson from the past... less work if more tax,



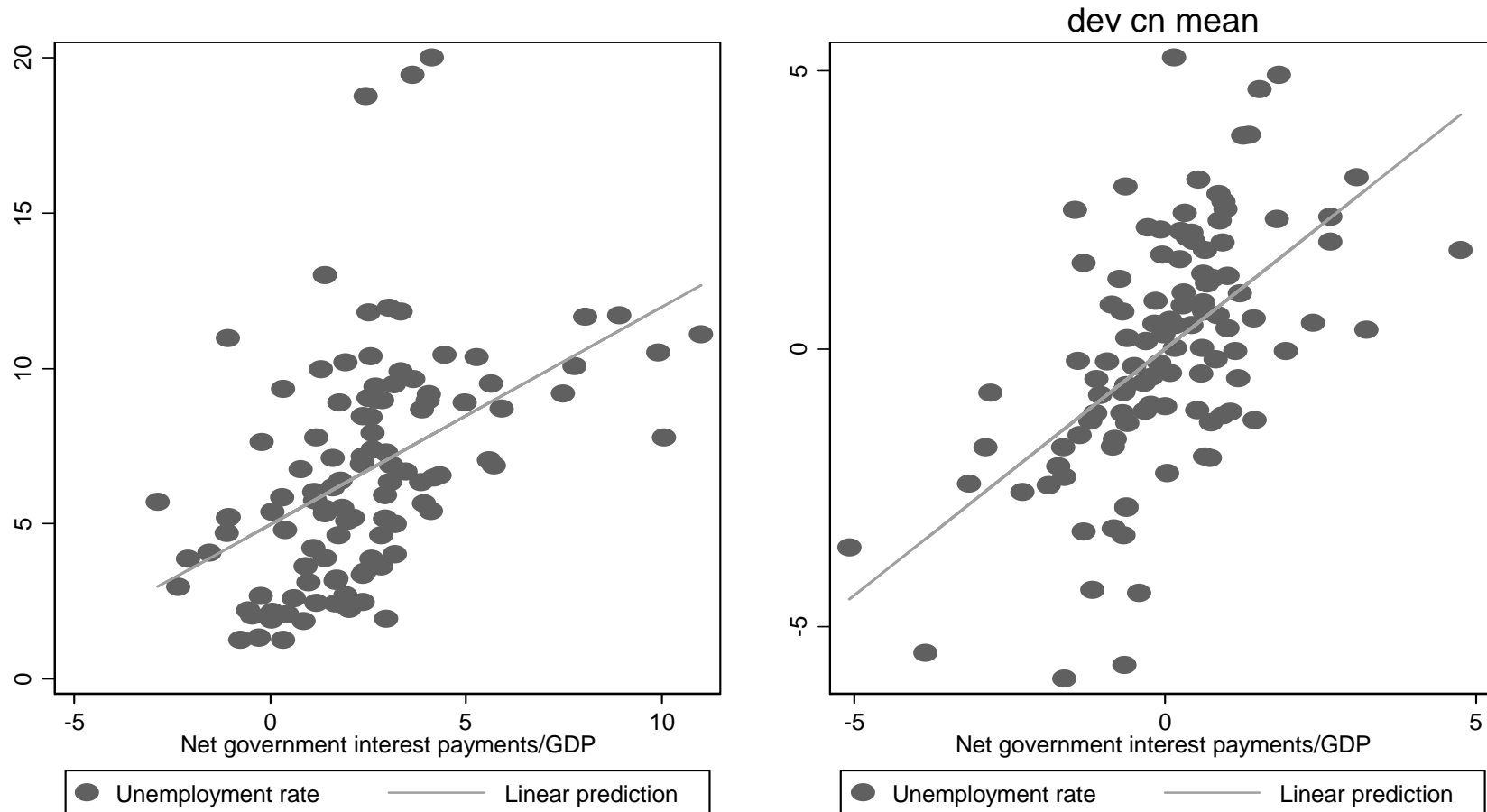
Data from Ohanian, Raffo, and Rogerson (2008) "Long-Term Changes in Labor Supply and Taxes: Evidence from OECD Countries, 1956-2004." Journal of Monetary Economics 55(8)

...more tax if more public debt



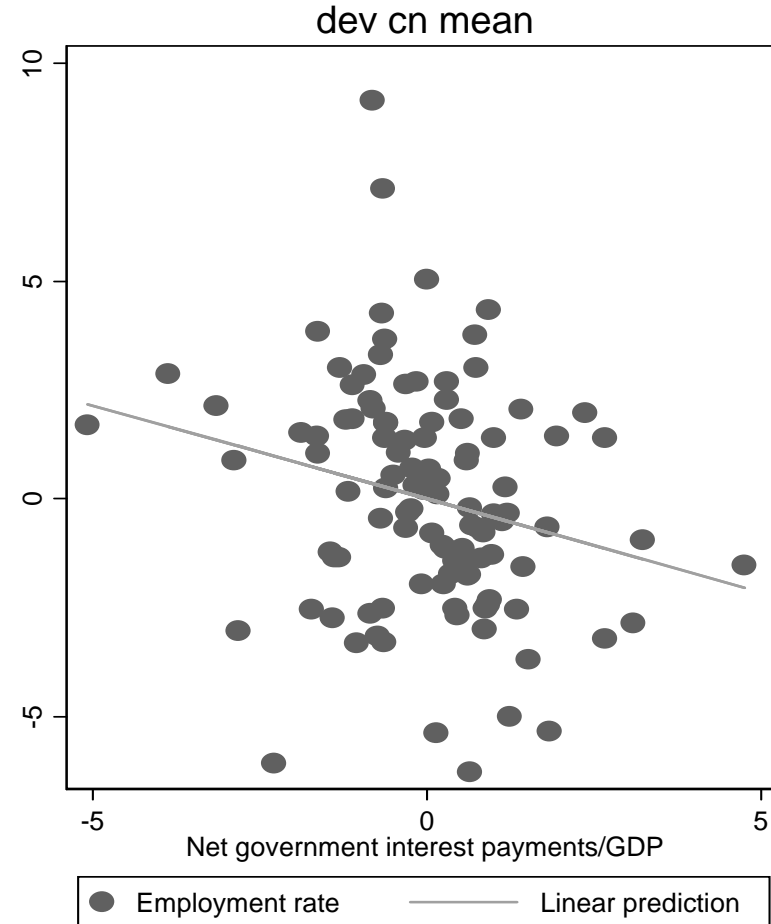
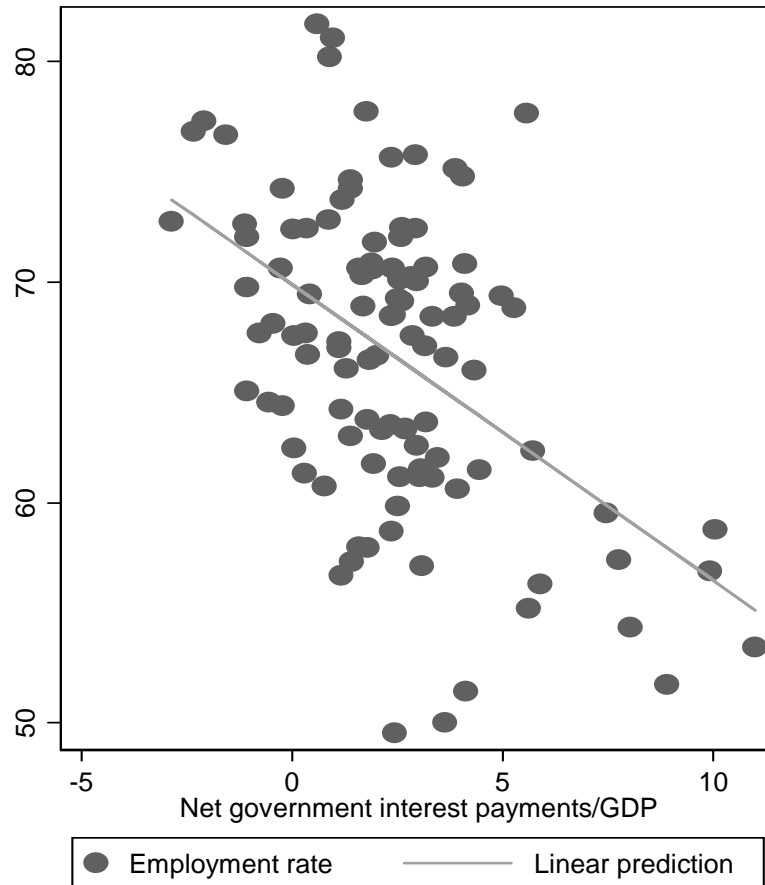
Data sources: Ohanian, Raffo, and Rogerson (2008),
Rheinart and Rogoff (2010).

Public debt service: more unemployment.



G.Bertola “Fiscal policy and labor markets at times of public debt” Nordic Economic Policy Review 1 / 2010: 111-147

Public debt service: less employment.



public debt => employment,
via less ALMP, more tax, ...

G.Bertola "Fiscal policy and
labor markets at times of public
debt" Nordic Economic Policy
Review 1 / 2010: 111-147

policy-choice forcing process,

dynamics of rocks and hard places:

“tax smoothing” intuition:

Public debt, tax, regulation, employment:

Nonstationary, Cointegrated ?

Honest mistakes in assessing persistence,

Persistent employment implications:

1970s-80s... and?

Before: Flexibility (and inequality) trends.

During: Higher to fall if flexible.

After the Great Recession:

More of the same?

(competitive deregulation, no coordination)

Repeat of 1970s-80s?

(persistence via debt, ...)

Something worse?

(less economic integration...)

Something better?

(EU coordination, ...)