



Unemployment and Labourmarket Institutions : reforms pay off .

by Xavier Debrun in IMF World
Economic Outlook , April 2003

Comments by Rolph van der Hoeven
Informal meeting on Policy coherence , ILO
8 June 2005



What was decided at the last meeting?

- Enhance benefits of Globalization while coping with associated problems of labour market adjustment

- Focus on developing countries



What criteria in discussing this paper ?

- The content of the paper according to its own objectives



- The relevance of the paper for policy coherence for developing countries





- Next steps



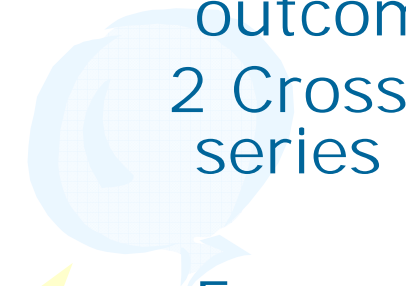
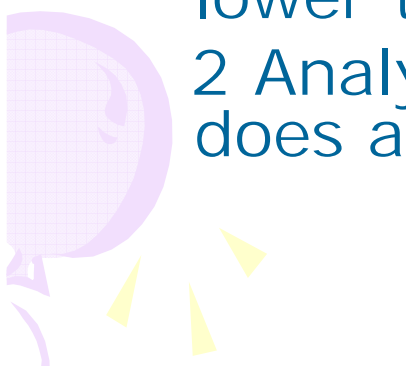
Objectives paper : Explaining unemployment in Industrialized countries and especially Europe

Two points indicated by author:

- Data limitations prevent link between labour market institutions and employment beyond 1998
 - Focus on long run benefits , ignoring upfront costs and adjustment to another equilibrium
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Meanwhile critique in the Literature on the paper


- Baker ,Glyn etc ,2004
 - 1 Analysis is unstable : Small changes in Data definitions and Time periods lead to opposite outcomes.
 - 2 Crosssection results less relevant than time series results, which are inconclusive
 - Freeman (2005)
 - 1 Inconsistent results(If Europe become USA , unemployment disappears in some countries and lower than in USA
 - 2 Analysis too much forced through priors(As does analysis critics)
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Can we look at employment
labourmarket relation per se?



Relevance of labourmarket institutions in
adjustment to globalization


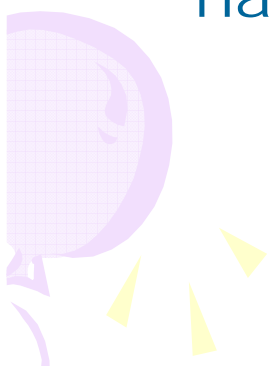


e.g. Current textile debate in USA and
Northern Europe; less call for
protectionists measures in the latter
because of earlier adjustment and
better functioning labourmarket
institutions






new contributions IMF to debate on Europe

- IMF WP 2005- 97 by Tito Boeri, explaining the political economy of labourmarket reform
 - IMF WP 2005-29 by Cerra and Axena, explaining slower growth Sweden through banking crisis rather than labour market
 - WEO 2005 , on reform of the European SGP and arguing for national budgetary councils reflecting national priorities and preferences
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Second point : Relevance of this analysis for developing countries?



Bourguignon (2005) : literature on efficiency cost of labour market policies inconclusive ' it is not clear that labor-market regulations reduce or increase employment and how of payroll and regulation costs are actually shifted to employees through lower wages' (p13, fnt 13)



Efficiency of labour markets cannot be looked at in isolation of working of other variables:



Efficiency in allocation needs to be juxtaposed to efficiency in human capital , equity, social security and social climate.

(allocative efficiency versus dynamic and equity efficiency)



Third point : What next for policy coherence in context of globalization ?

- Find out what are binding constraints for employment creation (different constraints for different country groupings)
- Post 1998: Boom bust cycles (bad for labour, source of macro economic instability) : effects of financial markets .
- Needed ? increased surveillance but also more stable capital flows, increased financial flows , debt relief