Labour market regulations: motives, measures, effects

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1. Pros and cons
   What does regulation aim to?

2. Measurement and effects
   What does it actually do?

3. Reform and international aspects
1. **Cons** and **pros** of regulation

   “interference with individual labor market freedom increases unemployment and is bad for business”

   … True (to the extent theory and data can tell).

   But: there have to be pros for somebody!

   • What do policies try to do?

   • Can they do it?

   It depends… on what?
• What do policies try to do?

Efficiency and distribution in imperfect markets:

Private contracting:
• information and incentive problems

Collective policies:
• better information and enforcement
• incentives still a problem
• rent seeking and distorted choices
Minimum wages, Collective bargaining, Labor taxes & nonemployment subsidies

Higher wage

Lower profits, less business

Purpose: redistribute and smooth income.

side effects!
2. Measurement and effects

• **conditions matter:**
  - for appeal of pros, intensity of cons

• **theory and measurement** both need to be aware of conditions, simple and focused:

  *If* similar labor market shocks, different reactions when EPL different?
2. Measurement and effects

...different reactions when EPL different?

other considerations motivate EPL differences (financial market imperfections, risk management)

• theory inspires measurement,
• indicators (of policy and other drivers of outcomes) can test theories.
Can policies do well what they do? It depends...

Across different countries,

- different imperfections,
- different cost and benefit tradeoffs:

  variety of policies,
  differently different outcomes.
2. Reforms: in light of pros and cons, motivated by changed conditions:

if problems disappear
(better financial markets,
more homogeneous income distribution, ..)

or negative side effects overwhelm positive intended effects.
3. International aspects:

More competition,

Larger employment loss,

Less appealing.

Stronger cost impact

Much lower employment
Economic integration and National regulation.

International regulation: and solidarity, redistribution... across national borders??

Labor market regulations:

• May but need not be sensible for their purposes.
• Side effects: stressed by competition.