

Discussion of

“Labor Market Policies and IMF Advice in Advanced Economies during the Great Recession”

IMF Staff Discussion Notes No. 13/2

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One Note, Three Papers

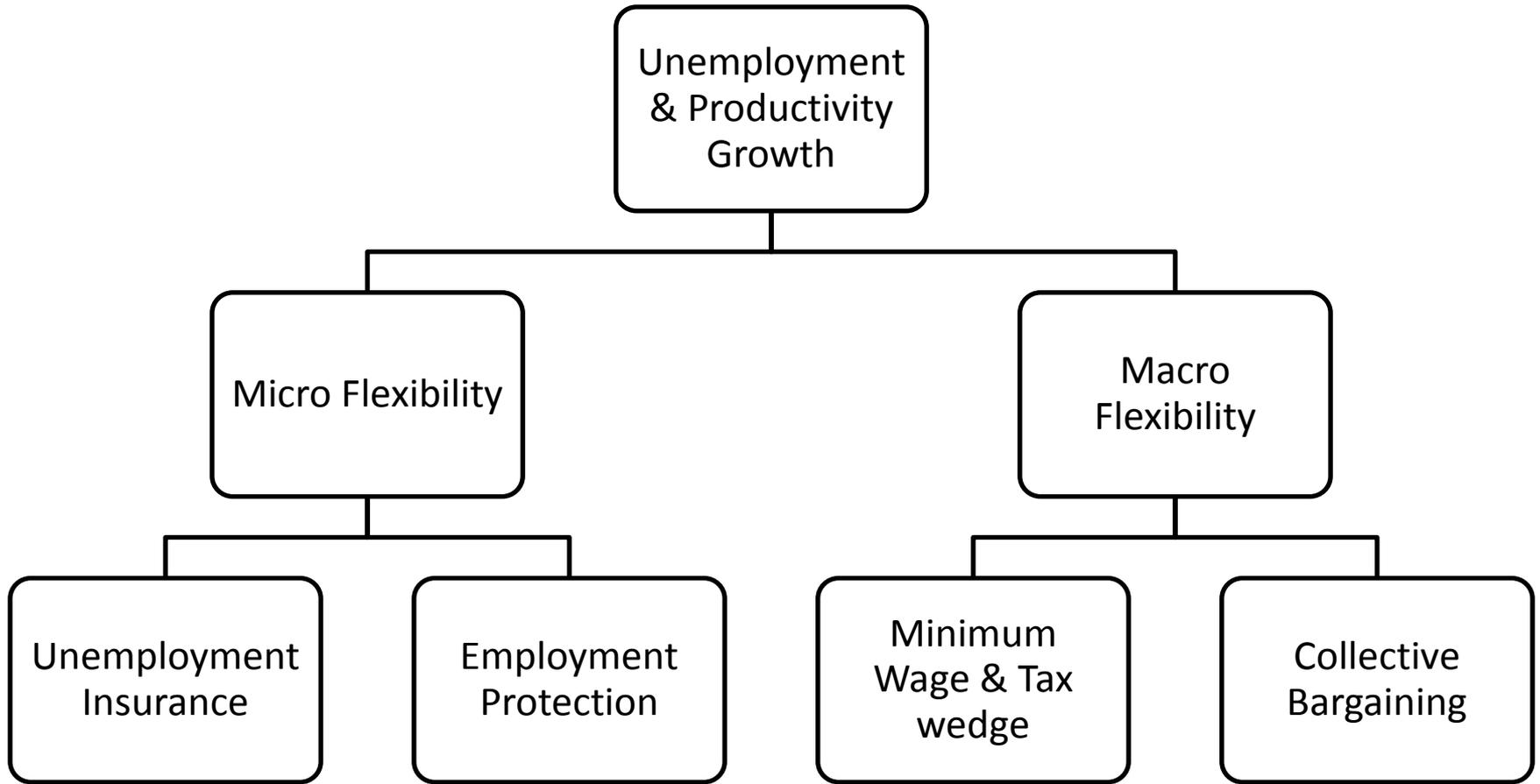
- Labor market institutions: a brief review of the literature
- An analysis of the current labor market crisis
- A policy proposal for Europe

My discussion

- A quick summary of the main points
 - The view of the labor market
 - The diagnostic and the IMF advice
- Three questions on policy options
- Three remarks on topics not discussed in this note

The view of the labor market

From Labor Market Institutions to Economic Performances



A Balanced View of Labor Market Institutions

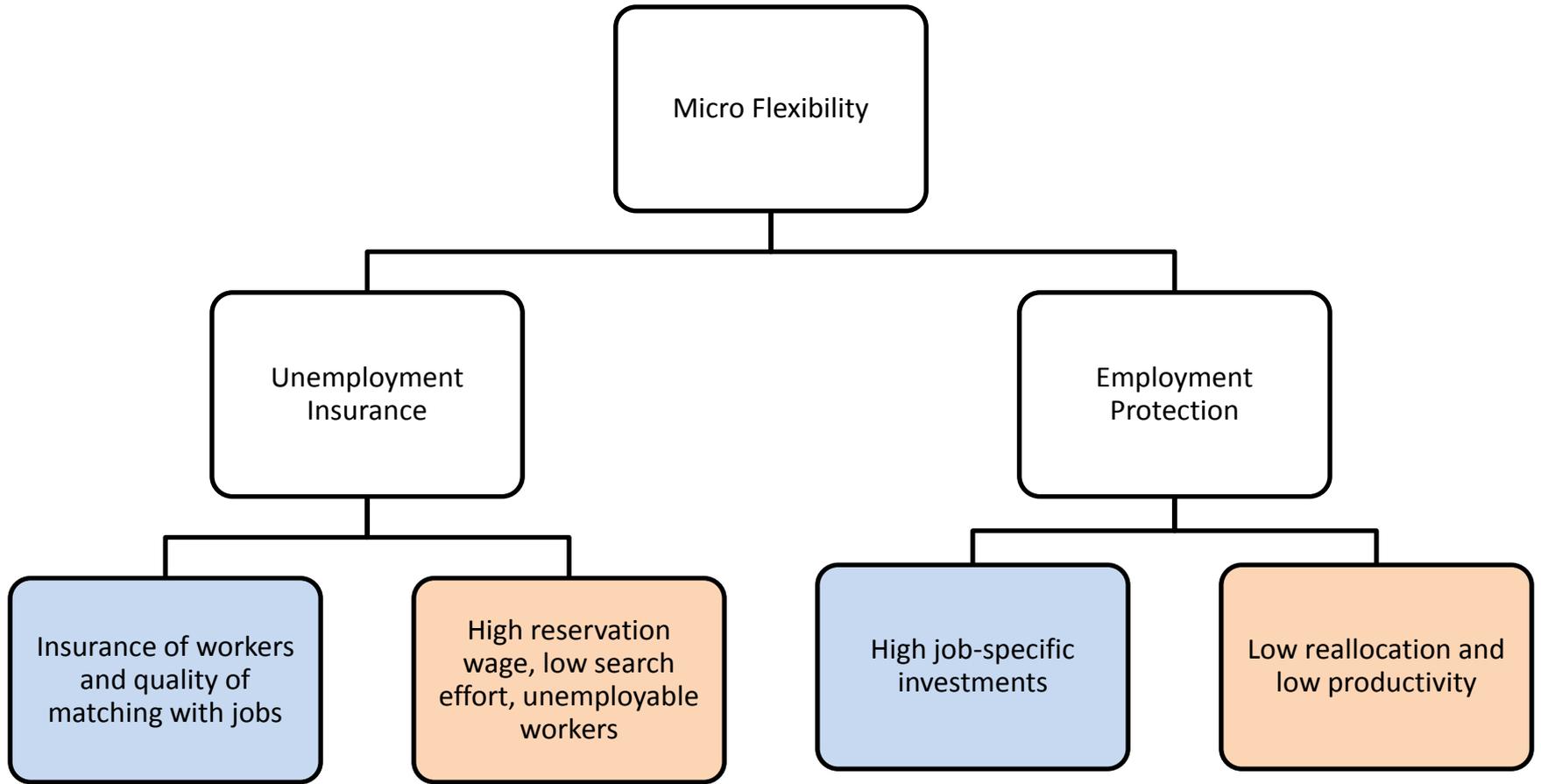
- “Achieving both types of flexibility ... is not that simple, and **the design of labor market institutions faces delicate trade-offs.**” (p.4)

⇒ Each institution has its costs and its benefits

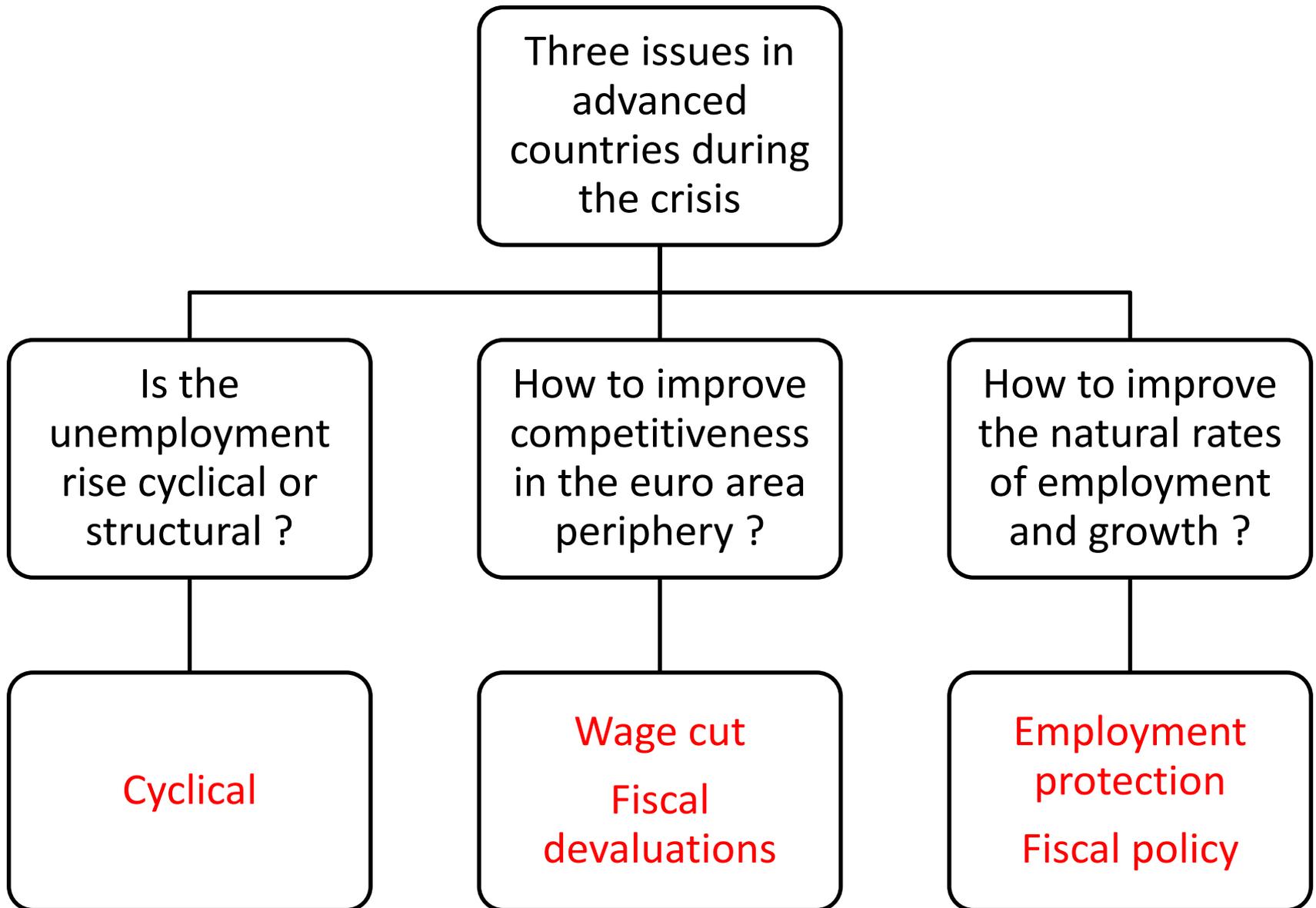
The Case of Micro Flexibility

Benefits

Costs



The Diagnostic and IMF Advice



The Diagnostic and IMF Advice

- Policies for the short-run
 - (No longer fiscal stimulus, fiscal consolidation)
 - **Macro policies** (Unconventional monetary policy and improvement of financial intermediation)
 - **Labor policies** (Unemployment insurance, improvement of competitiveness)
- Other labor market policies are for the medium-run
 - (**when the recovery will arrive**) They may have negative short-run effects and should be implemented with caution

Question #1

Competitiveness and aggregate demand

- How to improve the competitiveness in large European countries ?
 - The note supports fiscal devaluations for France (but with small expected benefits)
- Is the Greek-type policy (cut in public wages and/or minimum wage) an option for a large country as France?
 - Is there any risk for the aggregated demand if this policy is widely applied in Europe ?

Question #2

Monetary policy

- It is recommended in to allow for more dispersion of inflation rates in the Euro Area
 - Greece entered in deflation last month, it is good news from the IMF point of view ?
- “a point that has been emphasized by the IMF but has not been always fully understood ?” (p.16)
 - Do you know the opinion of the ECB on the divergence of inflation rates ?

Question #3

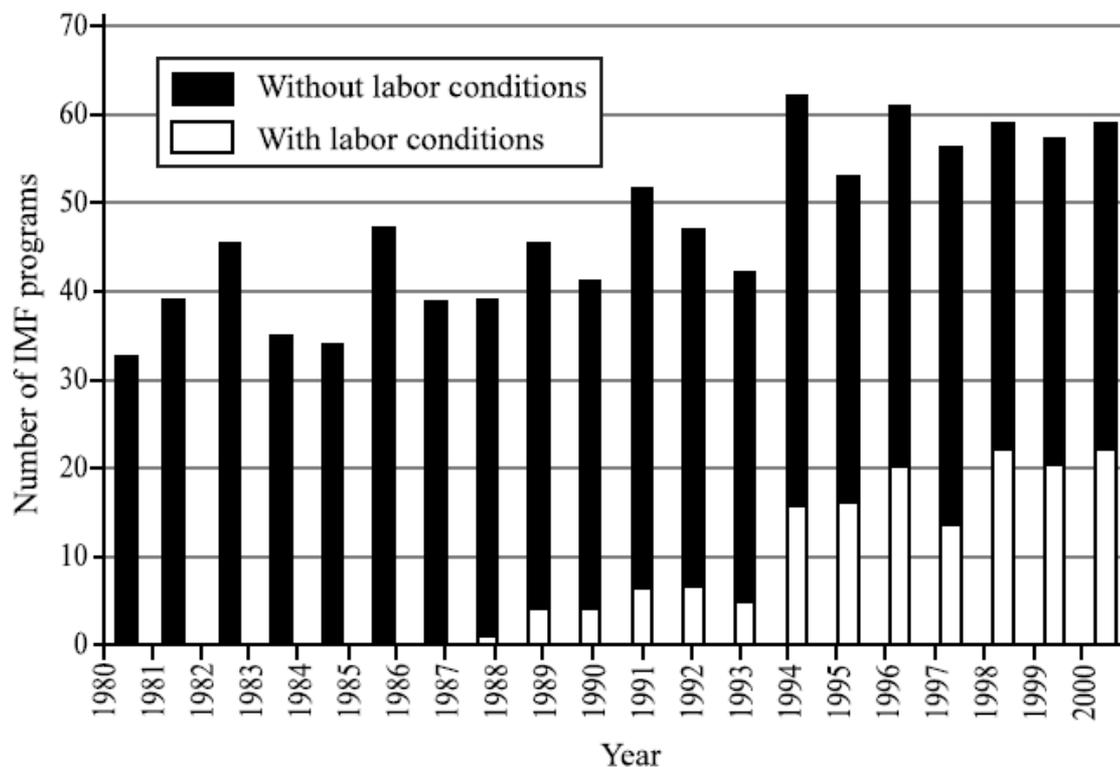
IMF bargaining with Governments

- IMF bargaining with Governments: Do the labor market institutions matter?
 - A study of Caraway et al. (2012) for developing and emerging countries 1980-2000
 - “We find evidence that democratic **countries with stronger domestic labor receive less intrusive labor-related conditions in their IMF loan programs.** We argue that governments concerned about workers’ opposition to labor-related loan conditions negotiate with the IMF to minimize labor conditionality.”
- **Is it consistent with the recent experience of the IMF in Europe ?**

International Negotiations and Domestic Politics: The Case of IMF Labor Market Conditionality

Teri L. Caraway, Stephanie J. Rickard, and Mark S. Anner

International Organization 66, Winter 2012, pp. 27–61
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Note: Labor conditions reported here include only performance criteria coded from staff reports made at the time of the initial loan request.

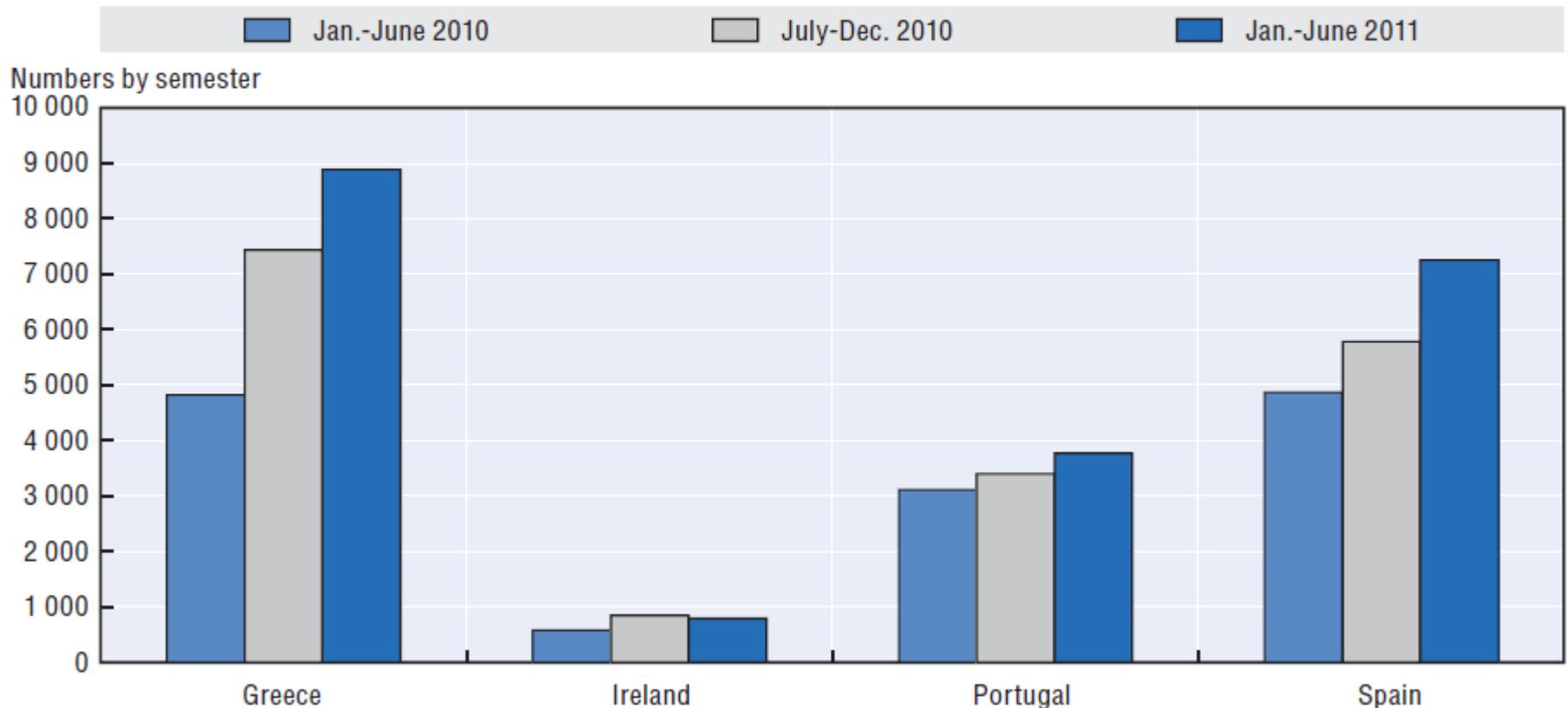
FIGURE 1. *IMF loan programs by year*

Last remarks on topics not discussed in the note

- Topics no discussed (**rightly**, to focus on labor market institutions) but that may be of interest for the future of the Europe

Topic #1 Migration

Figure I.7. **Recent trends in migration from Greece, Ireland, Portugal and Spain into Germany**



Source: DESTATIS (Statistisches Bundesamt).

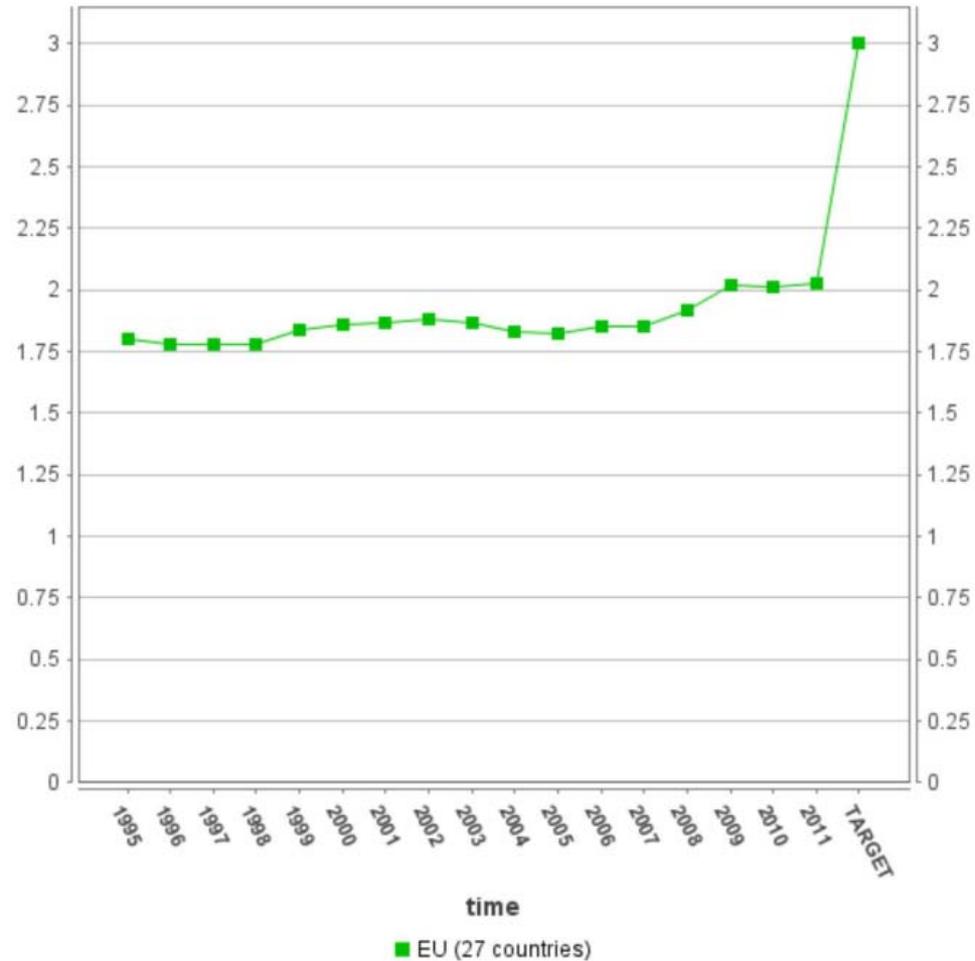
StatLink  <http://dx.doi.org/10.1787/888932615099>

Topic #1 Migration

- Migration is important
 - it determines the supply of labor
 - it is an important part of the European integration process
- The current crisis is a test of the existence of the common (labor) market in response to asymmetric shocks
- Does the IMF study and eventually encourage migration of European workers within European countries?

Topic #2 R&D

Gross domestic expenditure on R&D (GERD)
% of GDP



Source of Data: Eurostat

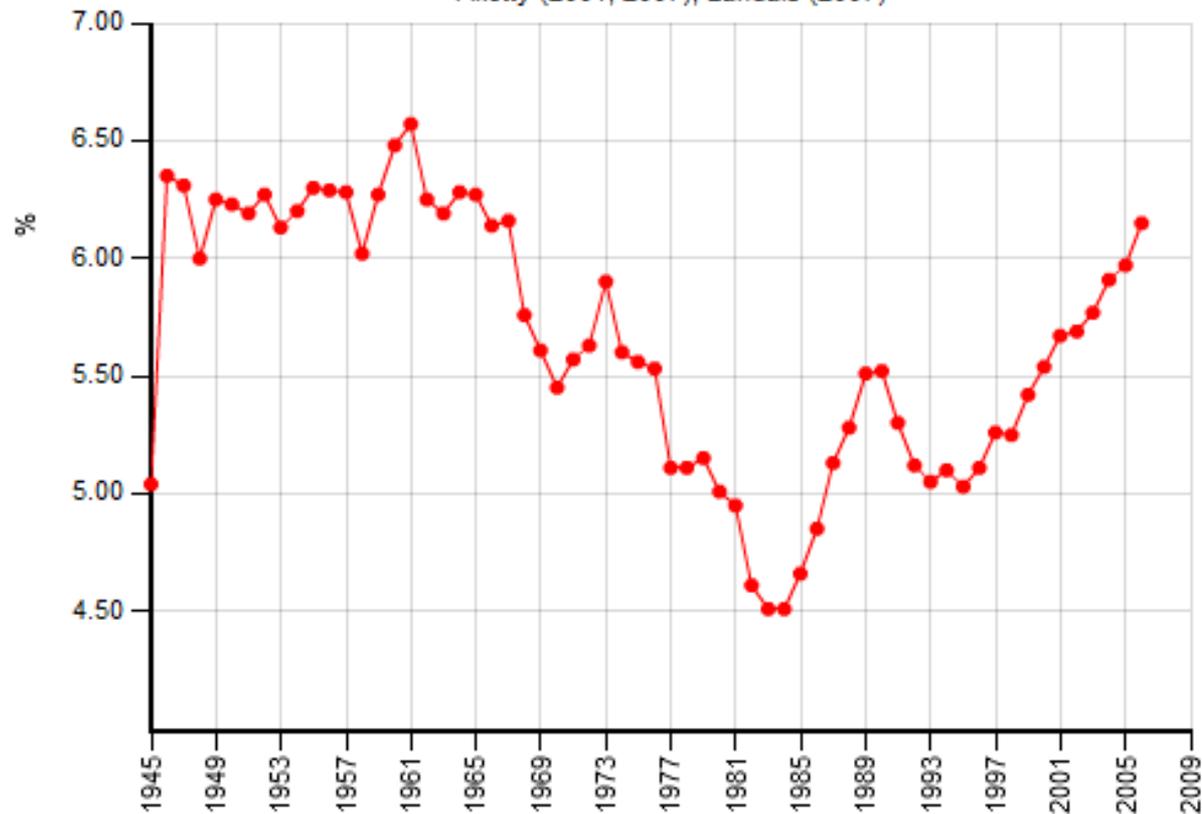
Topic #2 R&D (and the long-term “Okun Law”)

- R&D determines productivity gains (which induce worker’s reallocation through creative destruction)
 - European Policy to support R&D has failed (Lisbon Agenda, 2000, “3% of the EU's GDP to be invested in R&D”)
- The note focuses on the long-run causality from labor market to growth
 - What about the causality from growth to the labor?
 - Inefficient growth policies may also be at the origin of the low performances of European countries

Topic #3 Inequality

Top income shares. France. 1945-2009

Sources: The World Top Incomes Database. <http://topincomes.g-mond.parisschoolofeconomics.eu/>
Piketty (2001, 2007); Landais (2007)



✓ Top 0.5% income share

Topic #3 Inequality

- Income inequality is left aside in footnote 2
- Duality is pointed out as a source of inequality between insiders and outsiders on labor markets
 - Several labor market reforms have to be decided (indirectly) by citizens rather than workers
 - Citizens may consider that income inequalities are more important and unfair than job-security inequality
- What is the position of the IMF on the rising inequality in advanced countries?
 - Does the IMF support more progressive fiscal systems to reduce income inequality?

Conclusion

- The paper concludes with “Some of these recommendations have been **controversial**, but we have done our best **to explain their logic.**” (p. 21)
- I guess that the controversy will not go away, but this note is very useful because it provides a solid basis for rich discussions between academics and politics