

What effects is EMU having on the euro area and its member countries?  
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## Session IV: Structural reforms in product and labour markets

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# The Effects of EMU on Structural Reforms in Labour and Product Markets

Comments by  
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## The paper

- Congratulate the authors: an extremely useful paper on the likelihood of structural reforms using updated measures of labour market institutions and product market regulations
- Theoretical discussion of the link between structural reforms and EMU
- Descriptive analysis of “intensity of reforms” in OECD countries during the period 1994-2004
- Ambitious econometric exercise: Estimating the impact of fixed exchange rates on the probability of “major” structural reforms with a sample in 21 OECD countries over the 1985-2003 period.
- Negative conclusion on EMU: The speed of reform is slowed down in large countries

## Comments

- **On structural reforms: What drives structural reforms?**
- **On measurement of institutions**
- **On the econometric exercise**
- **On the specification of the probit equation**
- **On the results**

## Comments

- **On structural reforms: What drives structural reforms?**
  - Crisis
  - Ideology. Different institutions →, different attitudes of social partners
  - External forces: International agreements, technology, globalisation, etc.
  - Internal forces: demographics, immigration.
  - Proportional electoral system: Gradualism, coalition-building, low risk of reversal
  - Majoritarian electoral system: Radicalism, without consensus, greater risk of reversal
  - Possibility of using monetary and fiscal policies

## Comments

- **On measuring institutions:**

- Judgement-led ?
- Complementarities among institutions ?
- Is there a unique set of optimal institutions? A unique reform strategy?

## Comments

- **On the empirical exercise:**

- Are fixed exchange rates comparable to EMU? Not only because of the TINA argument...
- Is 1985-93 comparable to 1994-98 or 1999-2004?
- Are we really sure about the consequences of institutions ?
  - *Empirical evidence from cross-international studies*
  - *Some puzzles?*
    - SPAIN: A very low intensity of labour market reforms (rightly measured), yet unemployment from about 25% in 1994 to about 10.5% in 2004.
    - Wage moderation across the EU since the early 1990s.
- Pooled data and stacked data. Can't it be done for each policy area?

## Comments

- The specification of the probit equation

Controls	Likely effect (authors' prior)	Alternative co-variables
<i>Macroeconomic Situation (initial unemployment rate)</i>	+	
<i>Economic crisis situation (dummy)</i>	+	
<i>Small country economy (dummy)</i>	+	
<i>Current state of public finances (general government fiscal balance; level and 1st diff)</i>	+ (-: Swedish reform)	
<i>Political context (general election dummy)</i>	-	Coalitions, majorities, ideologies
<i>Reforms undertaken in other fields</i>	+	

## Comments

- On the results:

- Has the speed of reform really slowed down in EMU countries ?
- Why small countries are more prone to fundamental reforms, independently of the monetary regime ?
- “Peer-pressure” approach versus competitive approach