
Employment Outcomes and the Interaction Between Product and Labor Market Deregulation: Are They Substitutes or Complements?

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Discussion by Christian Haefke
IHS Vienna



Entry Regulation

Entry Regulation

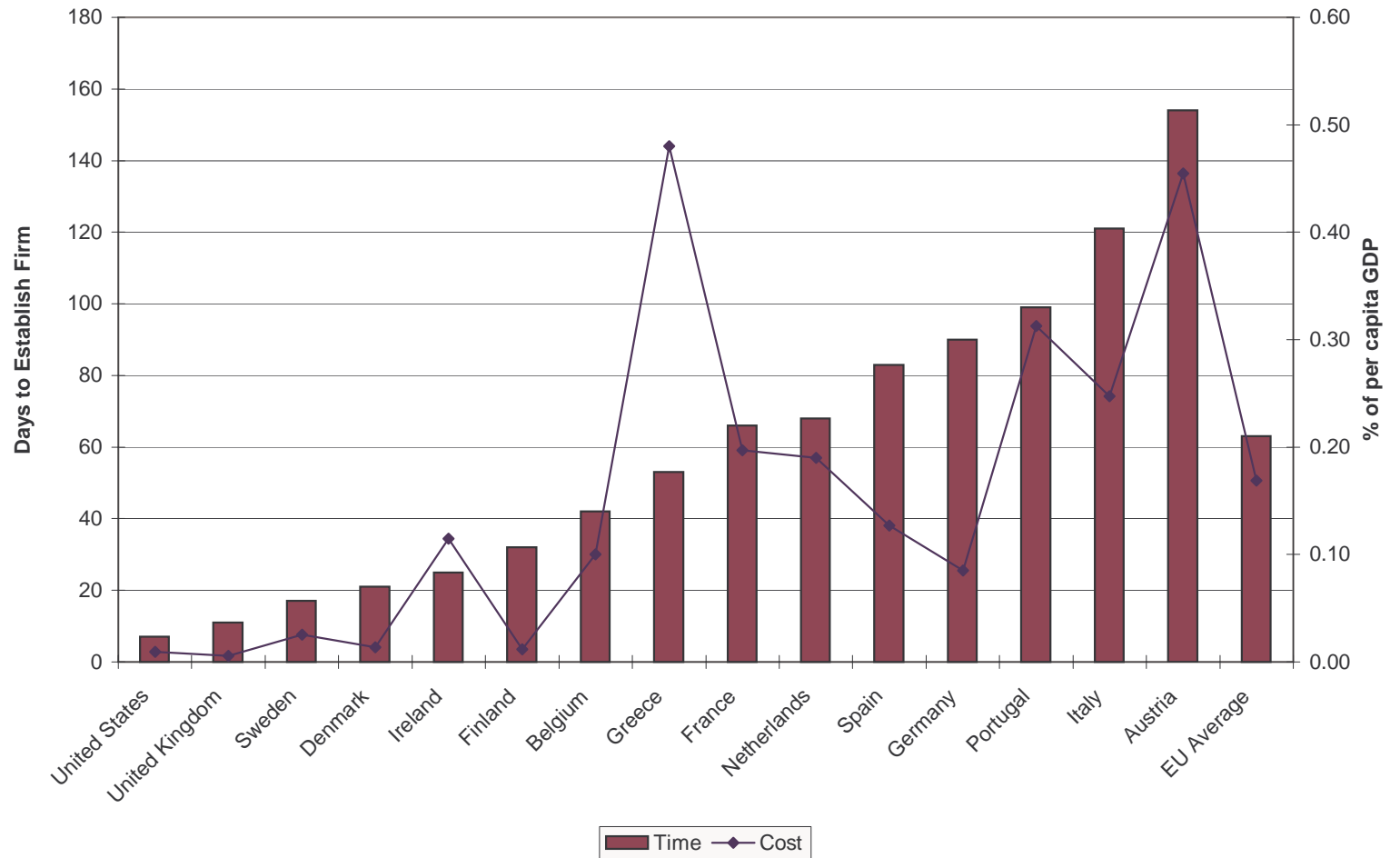
.. and Employment

Key Questions

The Model

Empirics

Barriers to Entry in the US and EU





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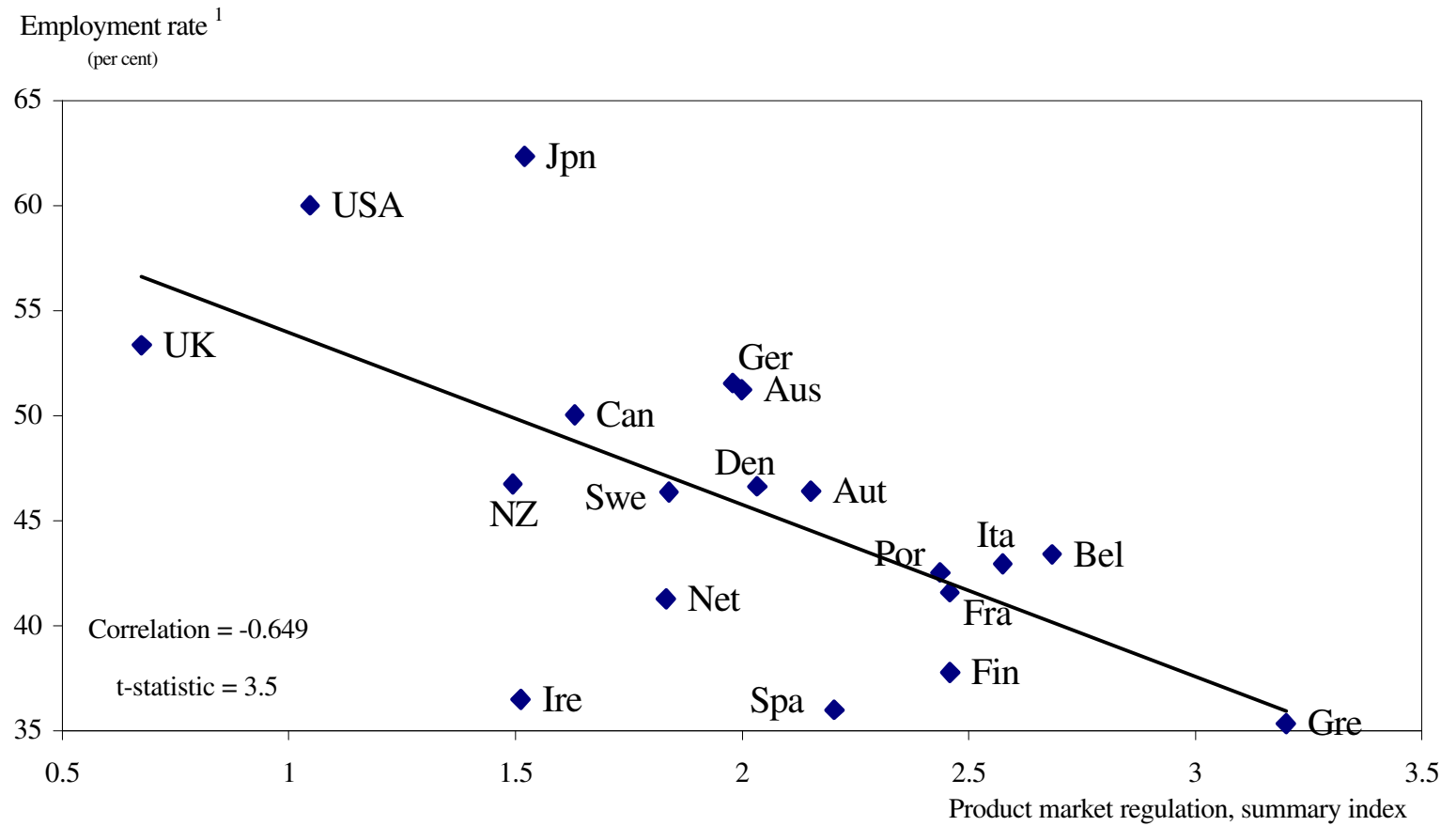
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- ? Do employment effects of product market deregulation depend upon current labor market institutions?
- Yes! Product market deregulation is more effective when unions are strong.
 - ◆ Derived in model,
 - ◆ confirmed by empirical analysis.



Key Questions

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- ? Do employment effects of product market deregulation depend upon current labor market institutions?
 - Yes! Product market deregulation is more effective when unions are strong.
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- ? Do product market reforms promote changes in labor market policies and institutions (unions)?
 - Yes!
 - ◆ Derived in model,
 - ◆ confirmed by empirical analysis.



B & G extended

Entry Regulation
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B & G extended

Comments

Questions

Simulation Results

Empirics

■ Product Market

- ◆ monopolistic competition;
- ◆ demand elasticity: $\sigma \Rightarrow$ markup: $\mu = \frac{1}{1+\sigma}$

■ Labor Market

- ◆ dual labor market:
 - employed with current firm;
 - employed in public sector, unemployed, or other firm;
- ◆ Nash bargaining between firms and employer union;

■ Taxation

- ◆ labor tax wedge: $\frac{1+\tau^P}{1-\tau^L}$;
- ◆ unemployment benefits b ;
- ◆ balanced budget every period.



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- Employment L in the paper is really **private sector** employment.
- How are public employment L^g and unemployment determined?
- No payroll tax for public workers, therefore separate role for labor and payroll tax.



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- Employment L in the paper is really **private sector** employment.
- How are public employment L^g and unemployment determined?
- No payroll tax for public workers, therefore separate role for labor and payroll tax.
- Real **wage is increasing in** degree of product market **competition**.



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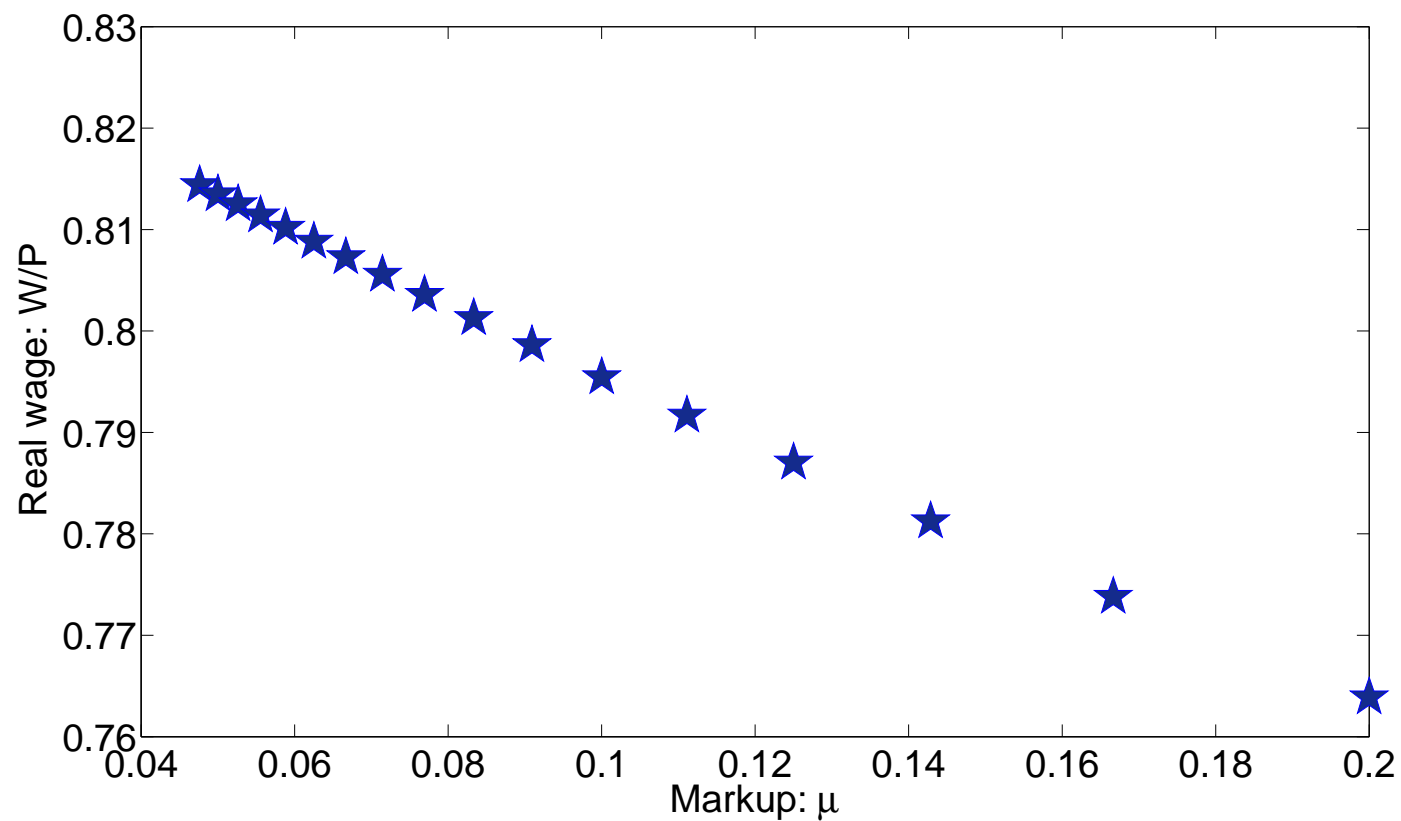
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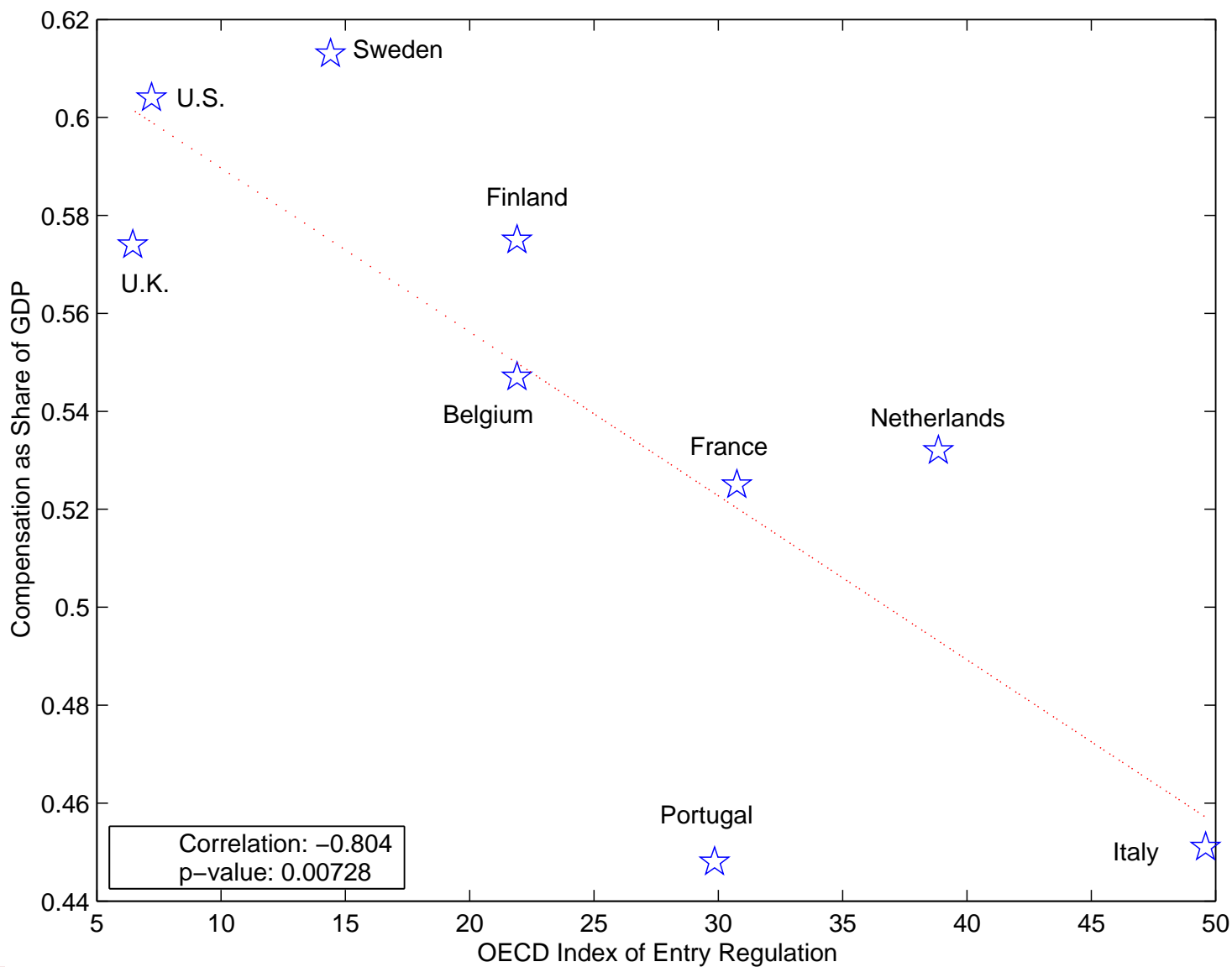
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.. and Data

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- All labor market policies are summarized in union **bargaining power**, but what about policies that affect the **threatpoint**?
 - ◆ With very high outside option a worker can potentially appropriate almost entire revenue (small surplus calibration).
 - ◆ Potentially important when endogenizing labor market institutions.



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- **Balanced budget** financing for unemployment benefits can in general give rise to **multiple equilibria**.
 - ◆ High unemployment needs high taxes but higher taxes imply even less employment . . .



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- **This model predicts signs, . . . but what about the magnitudes?**



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	1998	1978	1978 SmSp	1978 tax
u-rate	5.1	5.3	7.2	7.2
tax wedge	.32	.32	.32	.56
Entry cost (months of output)	0.6	5.2	5.2	5.2



U.S. Data

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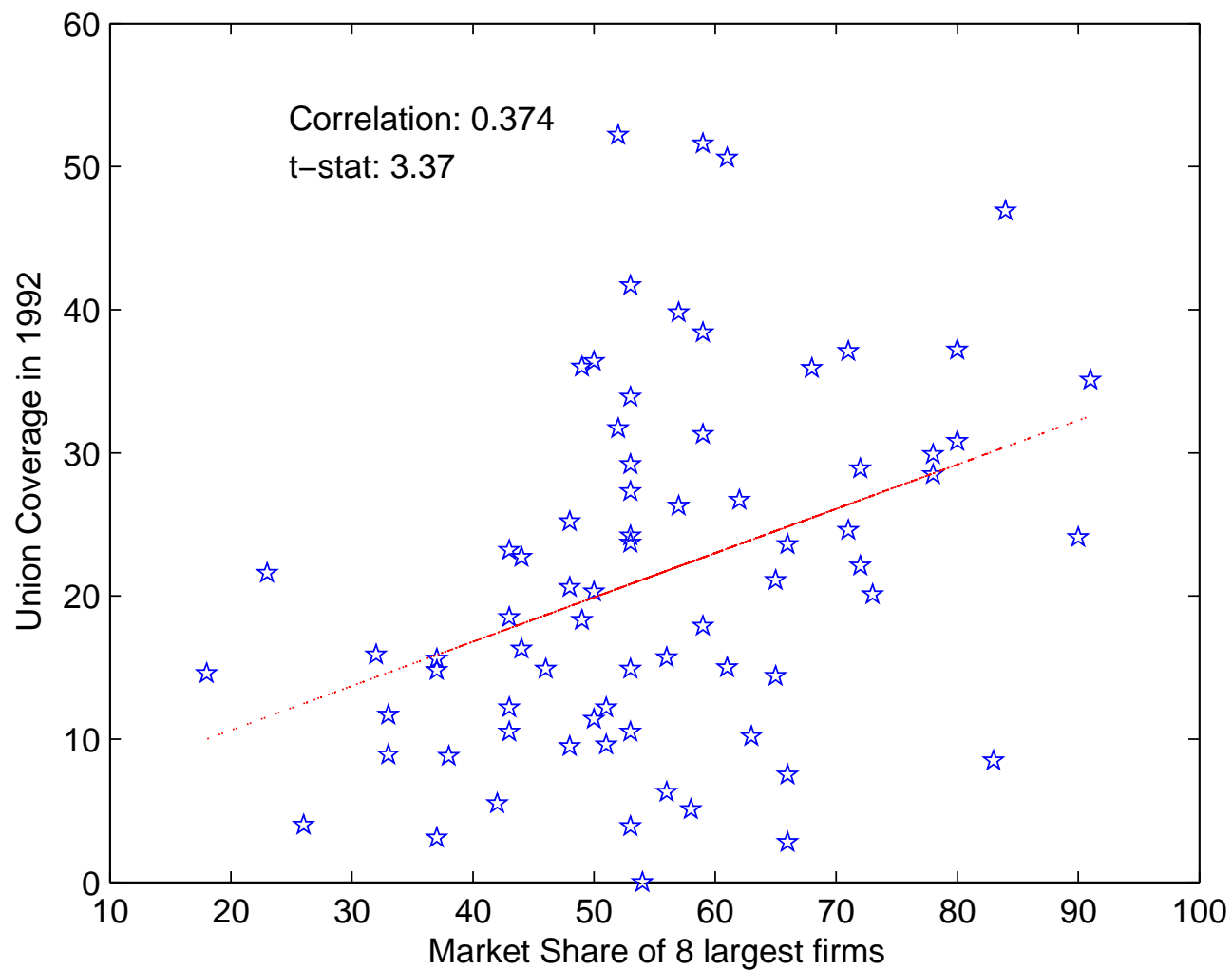
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U.S. Data

OECD Data (IV
results)

Summary





OECD Data (IV results)

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Key Questions

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Summary

- only restrictions on foreign firms (REGfdi) enter significantly:
 - ◆ by themselves;
 - ◆ interacted with LM regulation.



OECD Data (IV results)

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- tax wedge not significant;
- corporatism marginally significant;



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Summary

- only restrictions on foreign firms (REGfdi) enter significantly:
 - ◆ by themselves;
 - ◆ interacted with LM regulation.
- tax wedge not significant;
- corporatism marginally significant;
- What is the marginal effect of product market deregulation?
e.g. reform Germany to U.S.



Summary

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Summary

- Model
 - ◆ simple, intuitive model;
 - ◆ predictions consistent with data;
 - ◆ exogenous unemployment rate;
- Data
 - ◆ long panel of entry regulations;
 - ◆ extremely useful, should be used a lot!
- Empirical Results
 - ◆ confirm model predictions;
 - ◆ consistent with other theoretical predictions;
 - ◆ Important to understand role of International Trade!