Discussion: Structural Reforms for Inclusive Growth? Empirical Evidence from the OECD
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Summary

- This paper seeks an answer to the question whether structural reforms generate inclusive growth.

- This is an important question, because the consequences of structural reforms may not always be consistent with institutional objectives, such as inclusiveness. Most of the time reforms aim to increase the size of the pie that can be distributed in an economy <u>and</u> to make a substantial part of the population better off. The ideal situation is that the gains are distributed so that no one is worse off. Most of the time reforms increase the size of the pie, but they fail to make the majority better off (at least in the short run). So, reforms may entail important tradeoffs.

Reforms, Data, Outcome Variables

- Reforms? Labor market reforms. In particular, the employment protection legislation (EPL).
- Data? 32 OECD countries, annual frequency, from 1970 to 2015.
- Outcome variables? Real GDP growth, unemployment, employment share, labor share of income, real wages, and the Gini coefficient.

Empirical Strategy

- First step regression to identify reform episodes:

$$gap_{it} = \alpha_i + \beta y_{it} + \epsilon_{it}$$

  where *gap* is the detrended employment and y is the output gap in country i at year t.

- A reform episode is described by a dummy variable (D) taking 1 if (i) there is a change in EPL, (ii) residual real wage declines declines, <u>and</u> (iii) residual employment goes up.

Empirical Strategy

- Second step regression to estimate the effect of the reform on the outcome of interest:

$$z_{it} = \alpha_i + \lambda_t + \rho z_{i,t-1} + \gamma D_{it} + \nu_{it}$$

where z is the outcome of interest and D is the reform dummy (constructed at the first setp) for country i at year t.

Results

- Labor market reforms have an effect of labor market variables but no effect on income growth and inequality.
- Dual impact on inclusiveness: increase employment, but reduce the labor share of income.
- Some suggestive results indicating that reforms are more effective under supportive monetary/fiscal policies and in more open economies.

Major Comments

- All countries — reform countries — successful episodes in reform enforcing countries.
- ATE — TOT — untraceable bias and hard-to-interpret estimates.
- Already imposing the results on labor market variables at the first step.
- What happens if you construct the reform dummies based on growth and inequality instead of employment and wages?

Minor Comments

- To include product market reforms? I would keep the paper focused to be able to enhance the underlying theoretical channels.
- Link the results to inclusiveness in a better way (related to the previous comment).
- Conditions (ii) and (iii): do you choose the reforms based on statistical significance?