

# **Without Prejudices**

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# From labour to product markets

- We get to Lecce from Genova (*Social Policies in a United Europe*, 1999) via Alghero (*European Women at Work*, Lisbon Employment Targets, 2004)
- Two paths to product market reforms:
  1. Effects of labor market reforms in the 1990s: from *jobless growth* to *growth-less job creation*. Now we need growth.
  2. Engineering of labour market reforms: lessons as to ways to *win political support to reforms*

# 1. Acceleration of labour reforms\* in the EU

Average Number of Reforms per Year and Country

	1985-1990	1991-1996	1997-2002
Employment Protection Legislation	0.05	0.14	0.31
Non-Employment Benefits	0.09	0.33	0.82

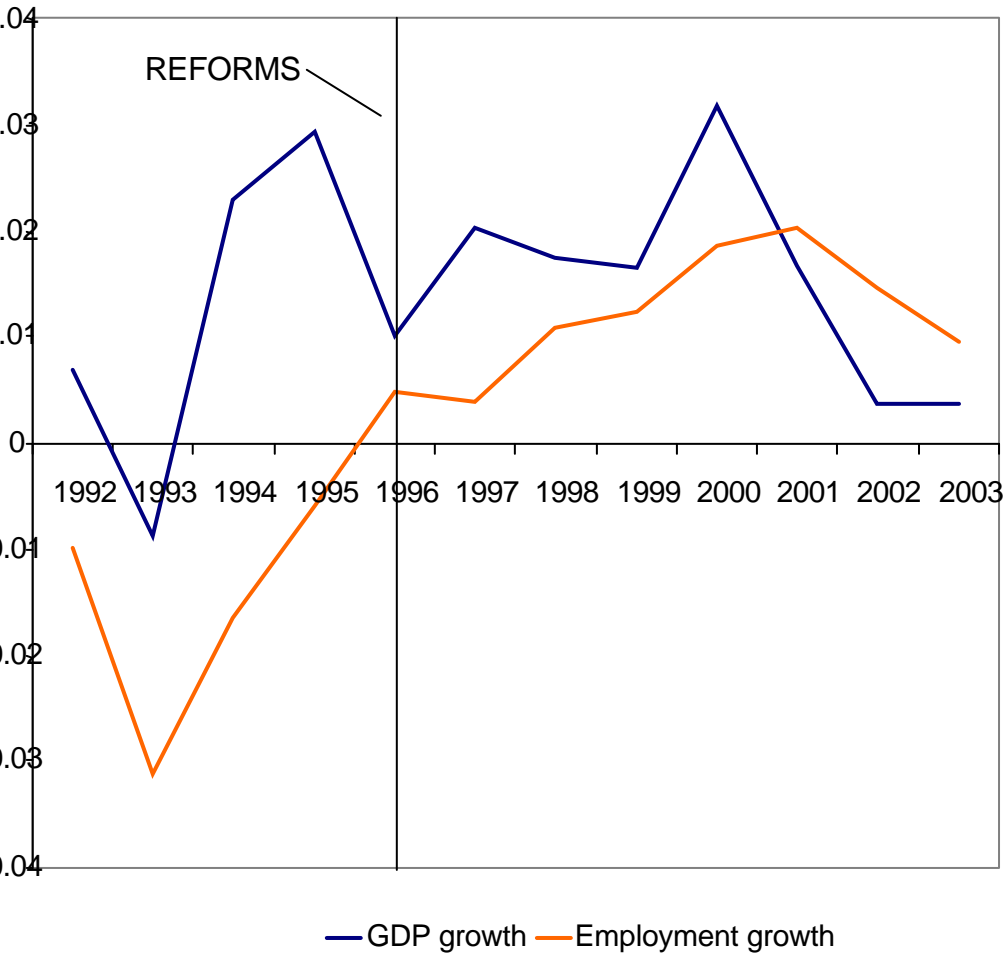
\* Reforms increasing flexibility and rewards from labour market participation.

*Source: fRDB Social Reforms Database*

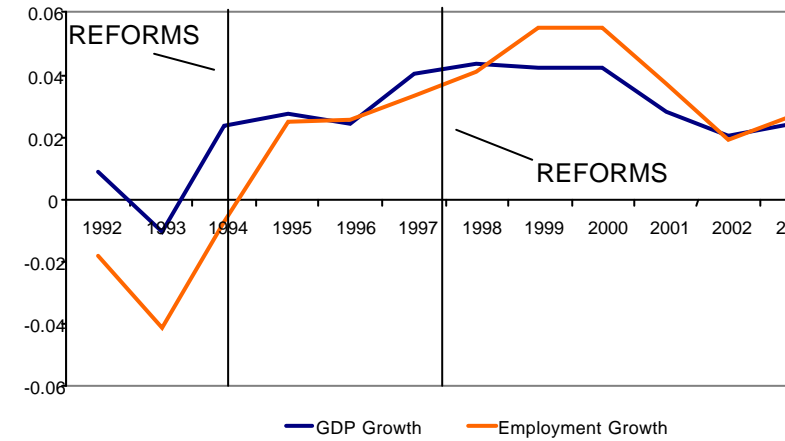
# From jobless growth to growth-less job creation

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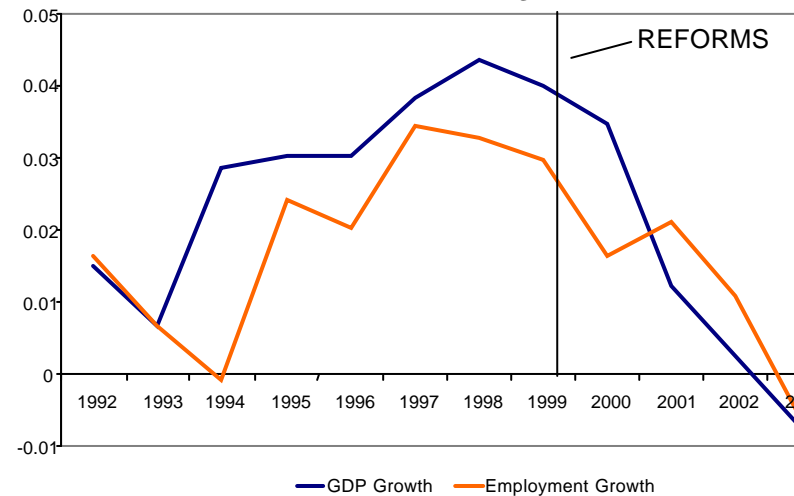
ITALY



SPAIN



NETHERLANDS



# *Report # 1. Can product market reforms increase productivity?*

- Not a trivial issue.
- Not all rents are inefficient.
- Some of these rents can reward R&D and innovation, which is the engine of growth.
- If strong co-ordination and network externalities (e.g., standards for networking), monopolies can be more efficient.
- Need empirical guidance – case-studies

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## 2. Fewer Reforms in Product Markets

- 2002-3; EU: 9 *labour market* reforms (another 6 proposed, but not yet approved) and 5 *product market* reforms (another 3 proposed).
- In spite of stronger role played by supra-national authorities (no “Maastricht for pensions”, but EU Competition Policy)
- Is it politically more difficult to reform product markets than labour markets?

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# Lessons from labour reforms

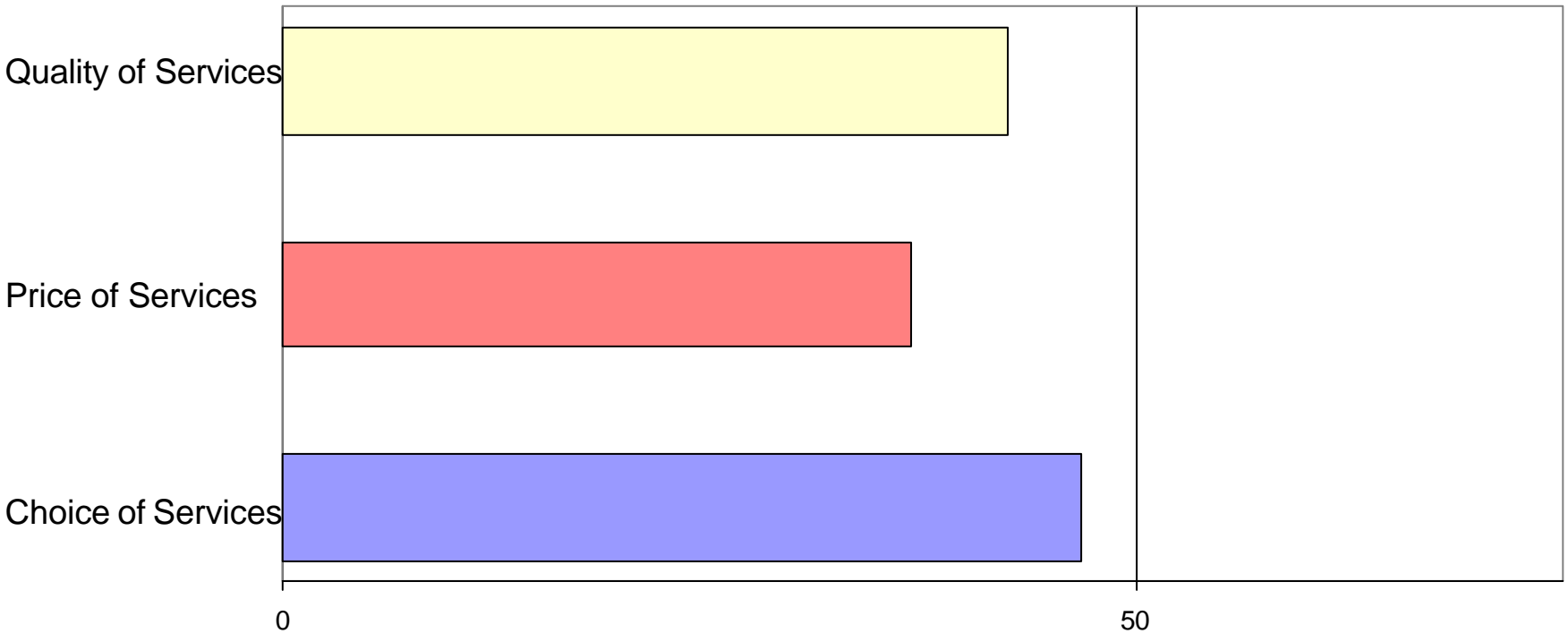
- *Two-tier systems*: feasible in product markets?  
Insider workers can coexist with “flexibility at the margin”, while incumbents firms will just prevent entry of “competitive” firms
- Reforms exploiting *substitutability* between institutions (e.g., more unemployment insurance, less employment protection): is it possible to do this also in product markets?
- Other explanations.....

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# Benefits of product market reforms not hardly perceived by consumers

% of Individuals Stating that the Single Market Has Improved ...



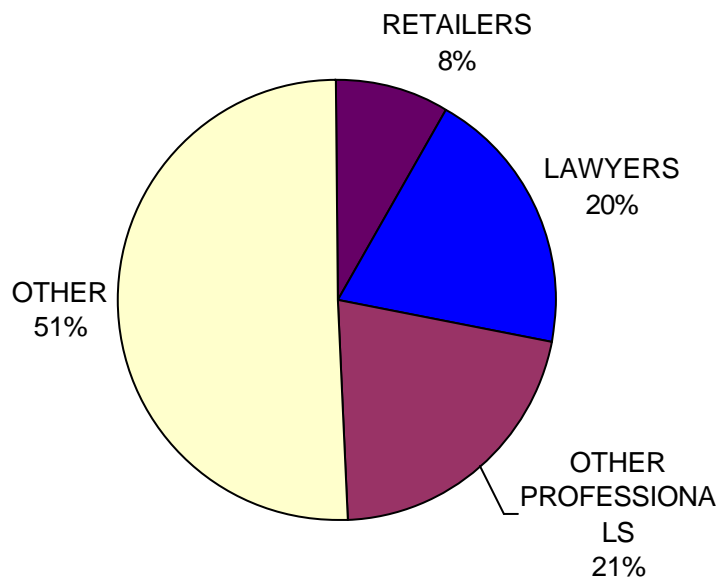
Source: European Commission, "Consumer Protection in the EU", 2003



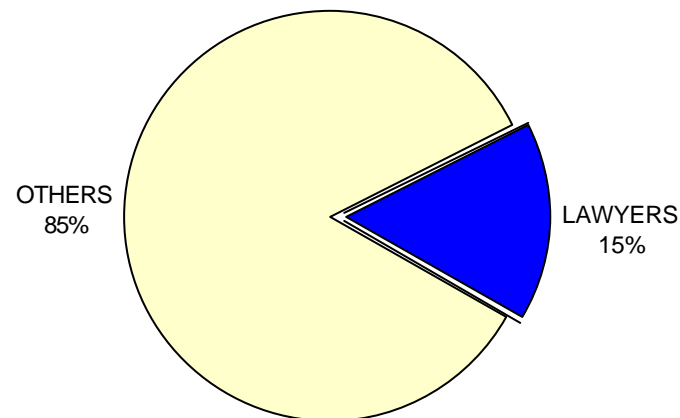
# Product market rents find often a direct political representation

## MPs by occupation

ITALY 2001 - Berlusconi's coalition



UNITED KINGDOM under Thatcher (1979)



f R

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# *Report # 2. How to do Structural Reforms?*

- Gradualism vs. Big-bang. How to prevent reversals?
- What is the nature of the opposition? Only electorate or also interest groups?
- How do you tailor the reforms to the nature of the opposition?
- Are there complementarities across markets to be exploited?

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# Our Long Day in Lecce

- **Report 1:** Why Structural Reforms? Can they give us growth?
- **Report 2:** How to circumvent opposition to Reforms? Can Political Constraints be Overcome?
- **Final Panel:** Did we Forget Anything?
- **Evening:** an Empirical Test of Service Quality in the Salento Catering Industry