



7 Debate Community

Fall 2020 Week 2 Lecture

Introduction to citation method

Tuesday 17:35 @LT1



Please read this material before lecture

Macroeconomic Effects of Regulation and Deregulation in Goods and Labor Markets
Olivier Blanchard and Francesco Giavazzi
NBER Working Paper No. 8120
February 2001
JEL No. E24, L16, J50

ABSTRACT

Product and labor market deregulation are fundamentally about reducing and redistributing rents, leading economic players to adjust in turn to this new distribution. Thus, even if deregulation eventually proves beneficial, it comes with strong distribution and dynamic effects. The transition may imply the decline of incumbent firms. Unemployment may increase for a while. Real wages may decrease before recovering, and so on. To study these issues, we build a model based on two central assumptions: Monopolistic competition in the goods market, which determines the size of rents; and bargaining in the labor market, which determines the distribution of rents between workers and firms. We then think of product market regulation as determining both the entry costs faced by firms, and the degree of competition between firms. We think of labor market regulation as determining the bargaining power of workers. Having characterized the effects of labor and product market deregulation, we then use our results to study two specific issues. First, to shed light on macroeconomic evolutions in Europe over the last twenty years, in particular on the behavior of the labor share. Second, to look at political economy interactions between product and labor market deregulation.

Olivier Blanchard
MIT Department of Economics
Bldg. E52-373
Cambridge MA 02139
USA
and NBER

Francesco Giavazzi
Università Bocconi
IGIER
Via Salasco, 3/5
20136 Milano, Italy
and NBER