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Macroeconomic Policies to stabilize labor markets

FES & LO seminar

**Employment Policy in the Crisis
experience and roads ahead**

Norra Latin Conference Center, Stockholm

Oct. 15, 2009

Overview



- 1. Radicalism: natural rates and rational expectations
(Chicago micro-foundations)**
- 2. European macroeconomic institutions
Stability and Growth Pact (SGP), European
Employment Strategy (EES)
Lisbon Agenda (I and II)
ECB**
- 3. Madrid 2010 Agenda for a New Growth Strategy:
Macroeconomic coordination, structural policy**

Natural rate theory rational expectations

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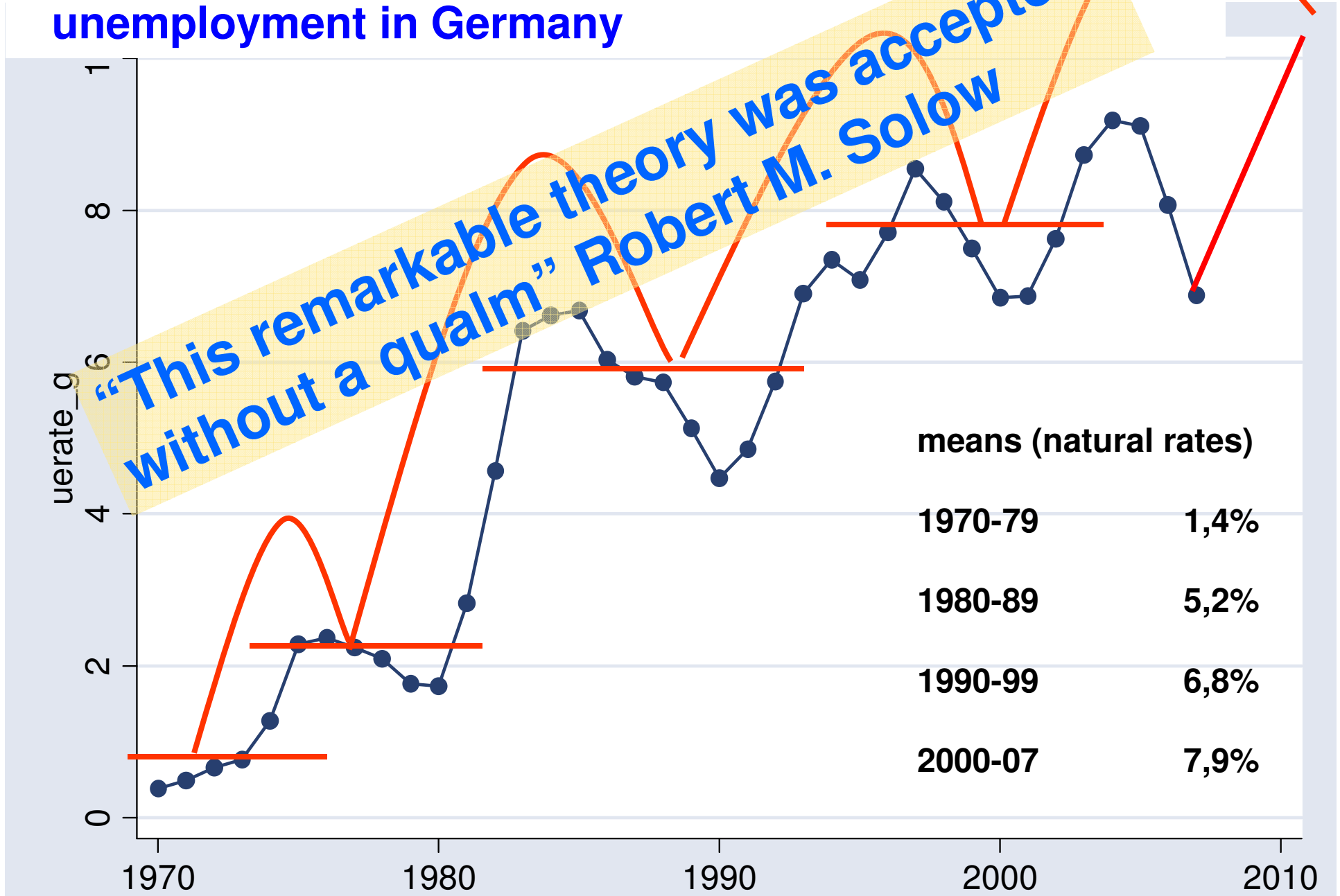
Dramatic change in economic policy

**Unemployment no longer indicator for
underutilization of the production potential**

**But rather a sign of wrong incentives, (labor
market) institutions**

Can natural rates jump?

unemployment in Germany



1

US

**Climbing up the stairway to higher employment requires labor market reforms, labor market reforms, labor market reforms
OECD, IMF, EU, Common view**

- **Unemployment benefits, unions, employment protection (EPL), compressed wage structure**
-


Macroeconomic policy: “stability” (i.e., low inflation), monetary policy neutral

New Consensus in Macroeconomics New division of labor

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- **Central banks: (high) price stability**
monetary policy neutral
- **Governments: (de) regulation**
- **Unions: (low) wages**



**We do good
Price stability
Price stability
We do good**

**Do your homework
Monetary policy does
affect the real economy
negatively**

Presidency Conclusions Luxembourg (1997)

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- „With regard to the **macro-economic context**, it is essential for the Union to pursue a policy of growth geared to **stability, sound public finances, pay restraint and structural reforms.**“(10)
- **Introduction of the euro will provide a permanent framework of stability conducive to growth and employment.**
(11)

Recent EU History



- **Economic and monetary union**
Treaty of Maastricht (1992)
convergence criteria
European Central Bank (1998)
- **Stability and Growth Pact**
Treaty of Amsterdam (1997)
(balanced budgets, employment)
coordination of economic policies, including employment
title
- **European Employment Strategy (EES)**
Luxembourg (1997, Nov.)
Lisbon agenda (2000, March)
relaunch of „Lisbon process“ (2005)

**most dynamic and
competitive
knowledge-based
economy in the
world, sustainable
growth**

Spirit of EU policies



- **Supply-side measures are sufficient**
- **Economic policy largely left to individual countries (OMC), deregulation**
- **Lower taxes stimulate growth and employment**
- **Monetary policy neutral**

roads ahead



- **ECB only strong policy making institutions**
- **Fiscal coordination**
- **Deficitcriterium**
- **Structural policy: enviromental standards**

New growth model (Madrid 2010?)



- **High participation basis for welfare states**
- **Markets have two sides (Marshall)
developing demand: green industries**
- **Rethinking public policy: education, child support (integration, fair chances); social policy**
- **Macroeconomic coordination**
- **Integrating monetary policy into the dialog**



Thanks



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