Strategie przystąpienia do Europejskiej Unii Gospodarczej i Walutowej

Analiza porównawcza możliwych scenariuszy

Flexibility of Labour Market and Net Benefits of the EMU Membership

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Key questions

- Is flexible labour market more important under monetary union?
- Is internationally mobile capital a good substitute for labour market flexibility?
- What is the first experience of EMU?
- How much reform needs to be done in accession countries?

Introduction: OCA Theory and EMU

- The risk of asymmetric shocks
- Importance of labour and capital mobility
- Wage flexibility

- Fiscal transfers: political constraints, imperfect information problems

Intuition

- Labour migrations in EMU: practically immobile across borders

- If real wages inflexible and no monetary response:
  - capital immobile
    - Negative shock → lower marginal productivity of labour → lower employment → lower marginal product of capital → lower interest rate
  - capital mobile
    - Negative shock → lower marginal productivity of labour → lower employment → lower marginal product of capital → capital outflow → lower marginal product of labour → etc.

Simple model: small open economy

- Standard production function $Y = AK^{\alpha} L^{1-\alpha}$
- Equilibrium relative price of domestically produced good (terms of trade) $S = \frac{EP^*}{P}$
- Asymmetric shocks to
  - productivity A
  - preferences S

Flexible wages and capital mobility

- Immobile factors of production, flexible wages: adjustment through r and w

$$w-(e+p^*-s)-a=\ln(1-\alpha)+\alpha(\bar{k}-\bar{l})$$

$$r-(e+p^*-s)-a=\ln\alpha-(1-\alpha)(\bar{k}-\bar{l})$$

- Mobile capital, flexible wages: adjustment through k and w (much larger)

$$w-(e+p^*-s)-a=\ln(1-\alpha)+\alpha(k-\bar{l})$$

$$r^*-p^*+s-a=\ln\alpha-(1-\alpha)(k-\bar{l})$$

Rigid wages and capital mobility

- Immobile factors of production, rigid wages: adjustment through r and l

$$\overline{w} - (e + p^* - s) - a = \ln(1-\alpha) + \alpha(\overline{k} - l)$$
$$r - (e + p^* - s) - a = \ln\alpha - (1-\alpha)(\overline{k} - l)$$

- Mobile capital, rigid wages: adjustment through k and l (much larger)

$$\overline{w} - (e + p^* - s) - a = \ln(1-\alpha) + \alpha(k - l)$$
$$r^* - p^* + s - a = \ln\alpha - (1-\alpha)(k - l)$$

… and an option to devalue (r+e and k+e)

Independent monetary policy might be useful when economy is rigid

- Monetary policy (unexpected devaluation) might decrease real product wage when wages nominally rigid
- Costs of nominal wage rigidity increase in the absence of such option.
- This is the cost of participation in the monetary union.

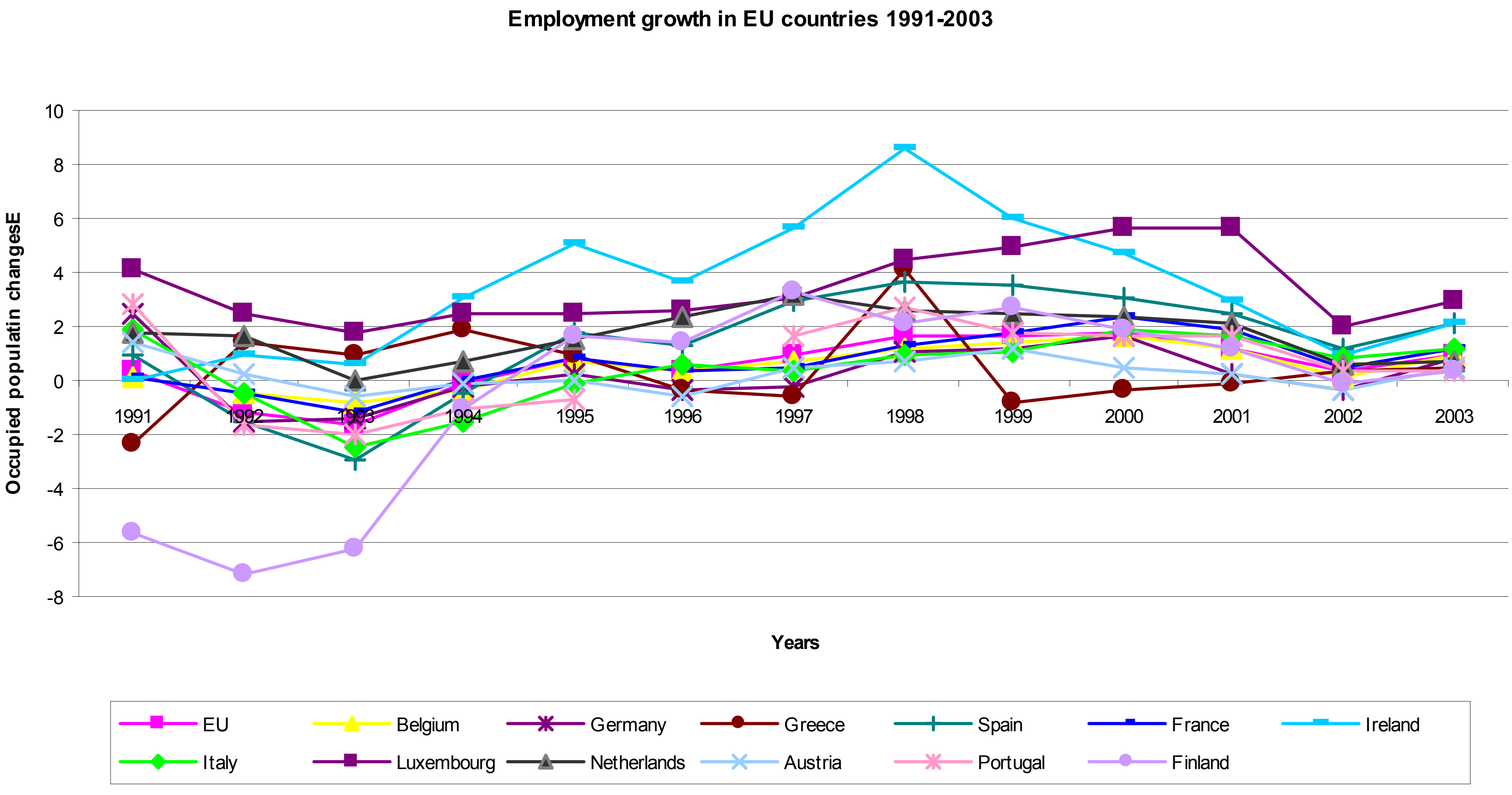
- But inflationary bias…

Large capital mobility reinforces asymmetric shocks

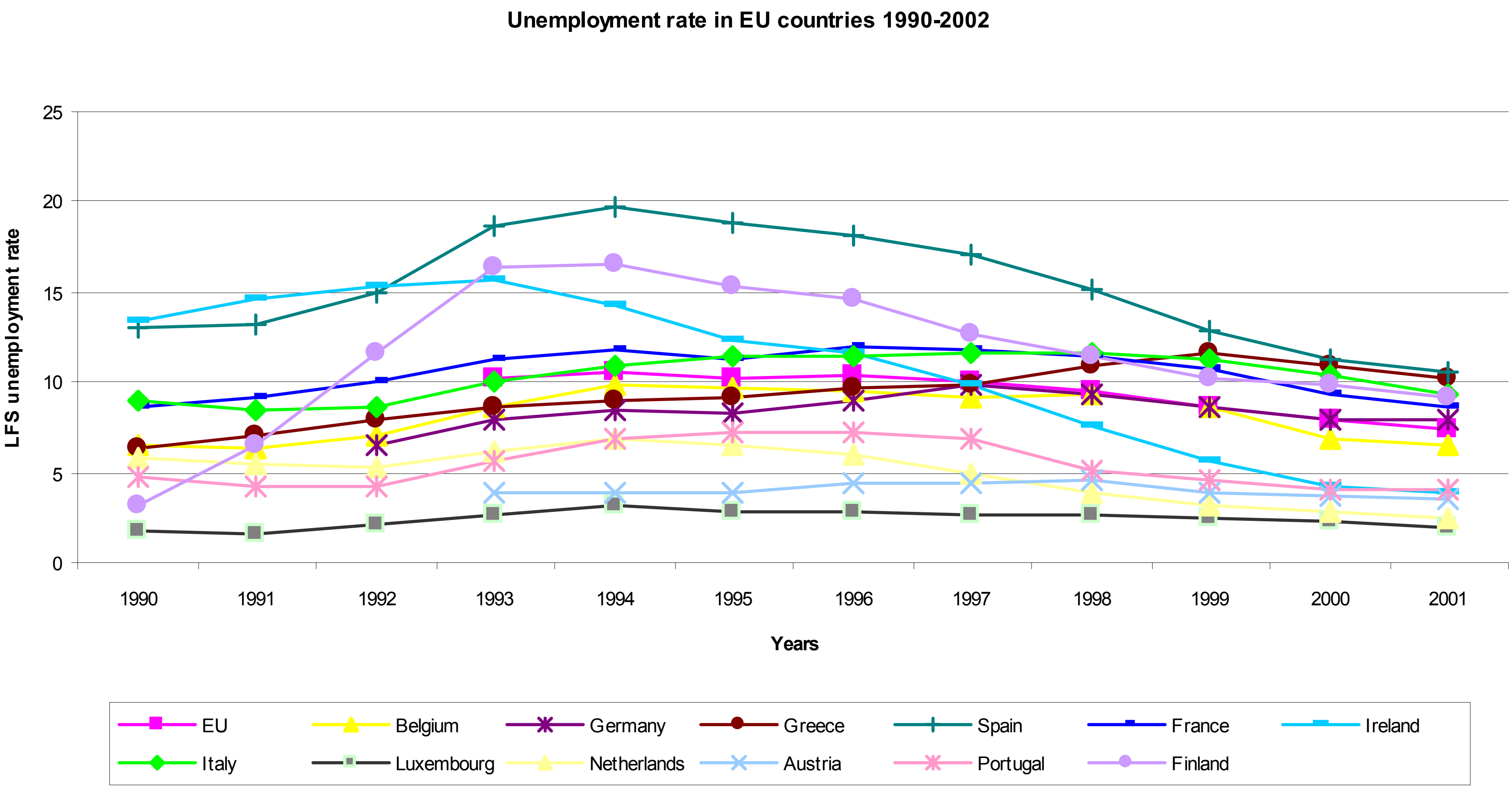
- Need for deeper adjustment:
  - either in wages or employment
- If nominal wages inflexible and no monetary response, high capital mobility leads to high unemployment:
  - Original shocks
  - Capital flight

First years of euro:

Unemployement convergence?

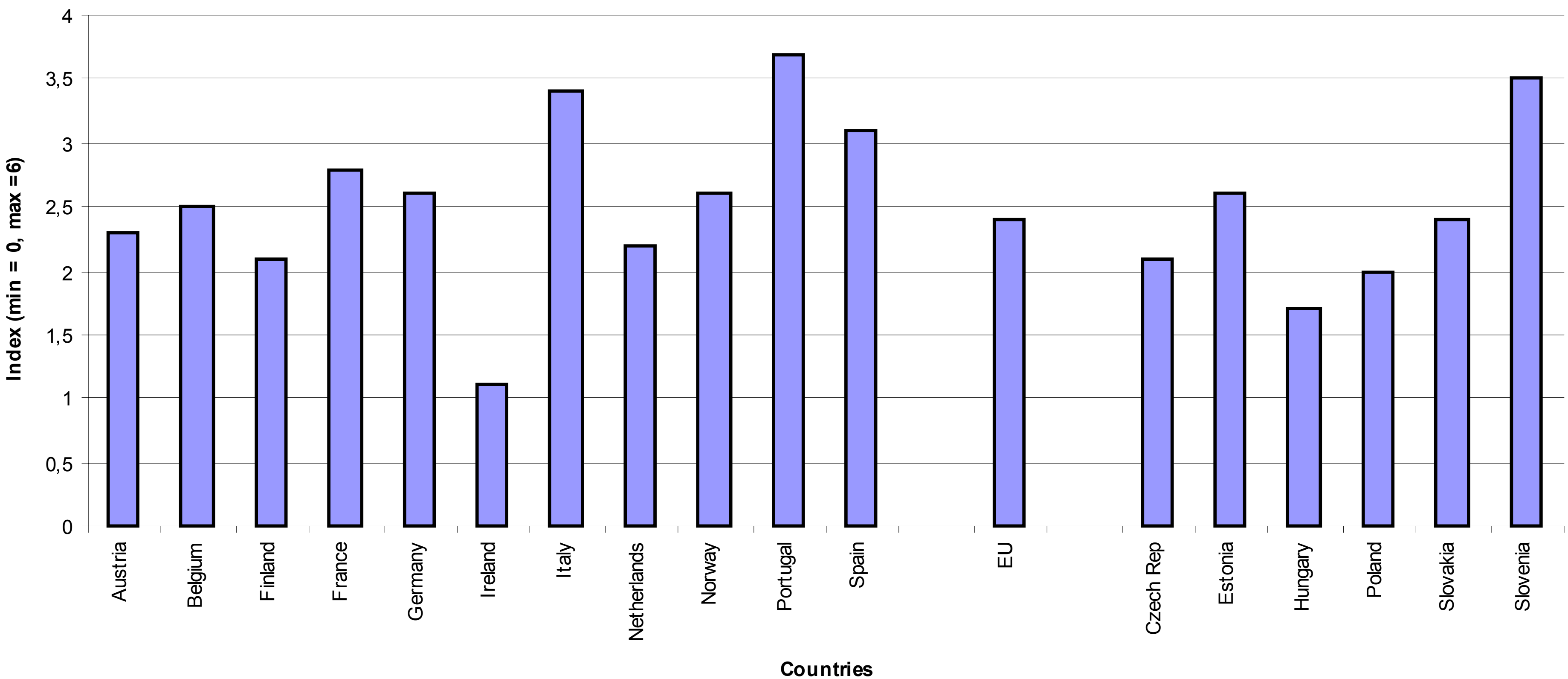


Employment growth in EU countries 1991-2003
Occupied populatin changesE
Years
10
8
6
4
2
0
-2
-4
-6
-8
1991
1992
1993
1994
1995
1996
1997
1998
1999
2000
2001
2002
2003
EU
Belgium
Germany
Greece
Spain
France
Ireland
Italy
Luxembourg
Netherlands
Austria
Portugal
Finland



Unemployment rate in EU countries 1990-2002
LFS unemployment rate
25
20
15
10
5
0
1990
1991
1992
1993
1994
1995
1996
1997
1998
1999
2000
2001
Years
EU
Belgium
Germany
Greece
Spain
France
Ireland
Italy
Luxembourg
Netherlands
Austria
Portugal
Finland

Employment Protection Law rigidity OECD index in EU and CEEC countries in 1998



Real and nominal rigidity

- Higher unemployment in EU as compared to the US argued to be due to:
  - real wage rigidity (higher than in US)
  - while nominal rigidity lower
- Real rigidity explained by unions, insider powers, job security and benefits explains natural rate
- Nominal rigidity explains speed of adjustment to natural rate
  - In US it is quick anyway because interregional worker migrations sensitive to the difference in the unemployment rates

Summary: incentives for reform under EMU

- Reform that increases the speed of adjustment to natural rate
  - Implications of OCA theory
  - There Is No Alternative (TINA) Argument
- Implemented to reduce natural rate
  - More difficult to implement large scale reform without supporting macroeconomic stimulus
  - Two-Hand Argument
- Controversy: more or less reform under the EMU, possible to reconcile