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Liberalization of product and labor markets: Efficiency and equity implications

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Abstract: This paper studies the aggregate and distributional implications of liberalization in product and labor markets. The vehicle is a dynamic general equilibrium model that incorporates two types of agents (capitalists and workers) and imperfectly competitive product and labor markets. The model is solved numerically employing common parameter values and data from the euro area. A key message is that, although it makes sense that workers are skeptical to a partial liberalization of the labor market only, they should welcome a comprehensive liberalization plan that includes both labor and product markets. The latter can be both efficient and equitable. On the other hand, the public finance use of a bigger pie (tax cuts or spending rises?), once a comprehensive reform has been implemented, can be a matter of social dispute.

Keywords: trade unions, market structure, structural reforms

JEL classification: J5, I1

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