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Authors: Emiliano Brancaccio, Nadia Garbellini, Raffaele Giammetti



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Structural Labour Market Reforms, GDP Growth and the Functional Distribution of Income

Emiliano Brancaccio^a, Nadia Garbellini^b, Raffaele Giammetti^{c*}

^a Department of Law, Economics, Management and Quantitative Methods, University of Sannio, Via delle Puglie 82, Benevento, Italy

^b Department of Management, Information and Production Engineering, University of Bergamo, Viale Marconi 5, Dalmine (BG), Italy

^c Department of Economics and Social Sciences, Marche Polytechnic University, Piazzale Martelli 8, Ancona, Italy

Highlights

- Two empirical analyses on possible relations between Employment protection legislation (EPL), real GDP growth and wage share.
- EPL reductions have no significant links with real GDP growth whereas they are significantly related with wage share reductions.
- These results contradict some features of the neoclassical theories of growth and distribution.

Abstract

The view that "structural reforms" designed to deregulate the labour market would be able to increase employment and income is questioned by controversial empirical results, while the likelihood that these reforms accentuate inequalities seems to be supported by recent evidence. The wide literature on this issue, however, lacks studies on the specific implications of "structural labour-market reforms" on growth and functional distribution of income. The purpose of this study is to fill this gap by proposing two new empirical analyses aimed at verifying the existence of statistical relationships between changes in the Employment protection legislation index (EPL) on one side and variations of real GDP growth and wage share on the other side. Results indicate that EPL reductions have no significant links with real GDP growth whereas they are significantly correlated with wage share reductions. These results contradict some features of the neoclassical theories of growth and distribution.

JEL classification: B5, C1, E25

* *E-mail addresses:* emiliano.brancaccio@unisannio.it (Emiliano Brancaccio, corresponding author), nadia.garbellini@unipv.it (Nadia Garbellini), r.giammetti@pm.univpm.it (Raffaele Giammetti).

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