



Ministry of Economic Affairs,
Agriculture and Innovation

Comments on 'Setting it right' *by Martin and Scarpetta (2011)*

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Interesting concept – ‘stylised facts’

- NI: high EP, high participation rates and low unemployment
- Productivity growth declined last decade
- Many SME's; few successful SME's that become multinationals



EP – labour reallocation

Literature focuses on employer

- EP postpones job reduction of declining firms and industries
- EP discourages job creation of growing firms and industries

BUT

- EP also discourages employees to change jobs voluntarily:
 - Severance pay acts as implicit claim (dependent on job tenure)
 - LIFO

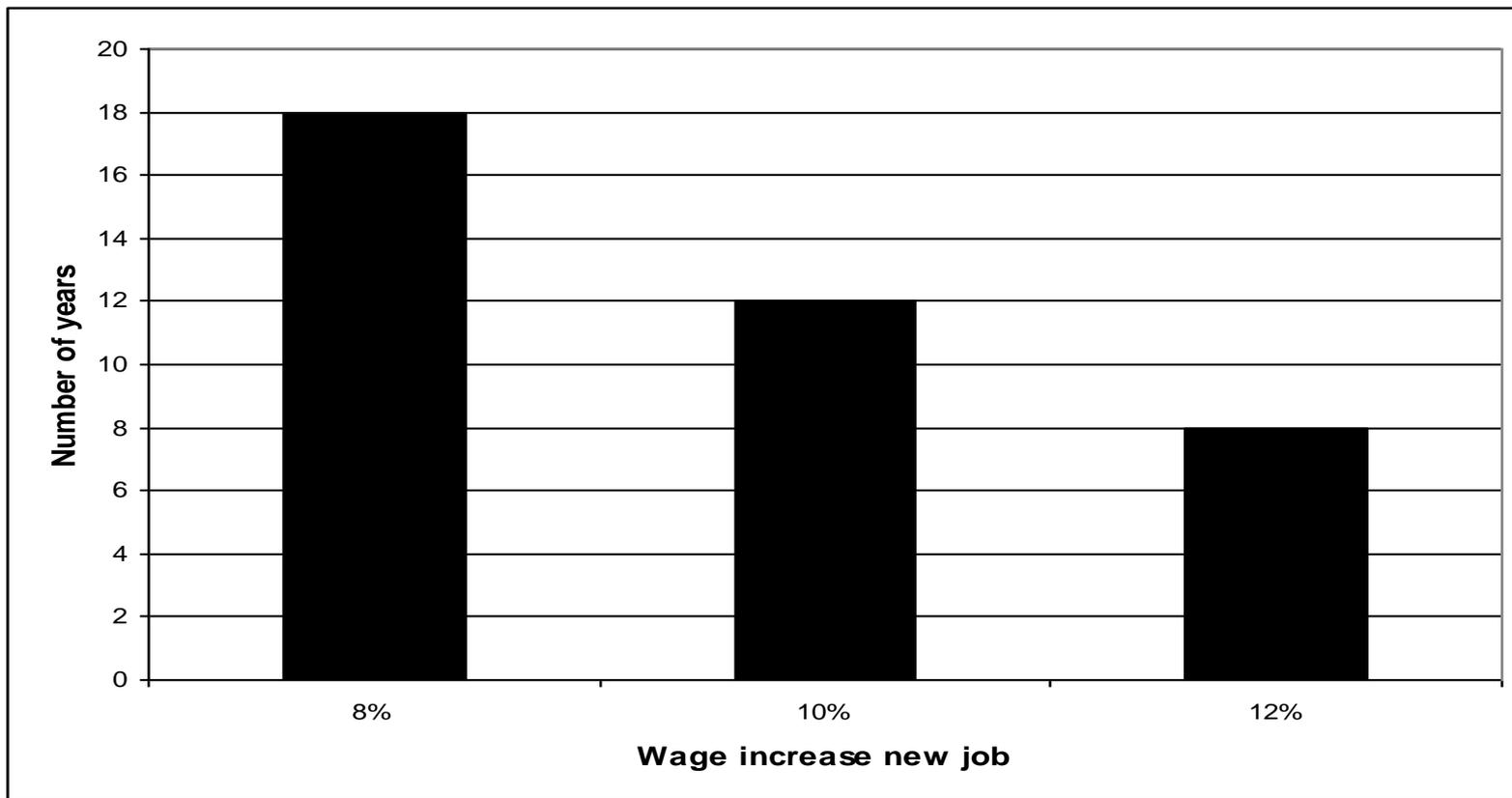


Labour reallocation: other obstacles

- EP
- Wage formation: wage differentials within and between industries
- Costs of moving
- Commuting costs



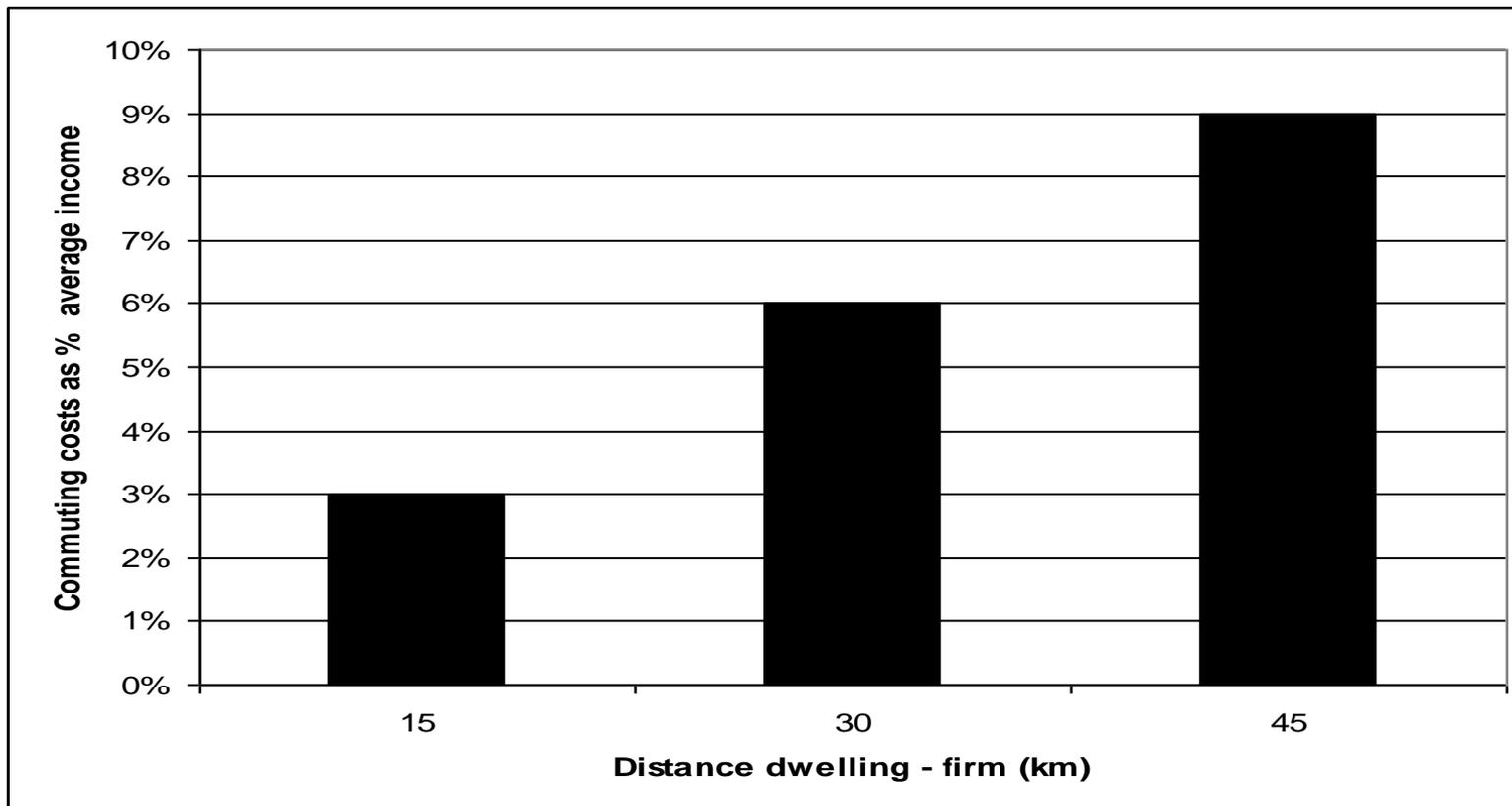
Costs of moving: payback period



Assumptions: average family income & acquisition price = 4,5 * annual income



Commuting costs



Assumptions: 30 km, average income, value of time commuters € 9,- & 5 days a week



Conclusions / questions

- Relation EP and labour reallocation / productivity more relevant than relation EP and unemployment / participation
- Empirical analysis on relation EP and labour reallocation requires broader model of labour reallocation
- Which obstacles hamper productivity growth most?
- [Could strict EP explain small unemployment increase in NI?]