Global Spillovers of Structural Reforms

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Outline

- Modeling structural reforms
- Modeling spillovers
- Is there room for coordination?
Structural reforms

- Any policy that increases real GDP/income per capita in the long run
  - Factors productivity
  - Cost of capital
  - Labor supply

- AKL decomposition of GDP

- In (most of) existing macro-models, structural reforms have to be spelt in three letters
  - Innovation cost, firm entry and endogenous varieties
  - Economy of scale: How benefits of a structural reform (innovation) are spread?
Spillovers

- Trade
  - Other countries benefit from cheaper varieties (tot) or a larger set of varieties
  - The cost of capital decreases
- In real life, we don’t trade goods, we trade everything (technology, process, experience, etc.)
  - The role of global companies and processing trade
- Spillovers are expected larger, but depends on structural reform implemented
One example

- Tax shifting from labor to consumption
  - It may increase labor supply (equivalent to a margin reduction)
  - Besides, large redistributive effects (purchasing power of accumulated capital and household subsidies)
- Calibrated on the German 2007 reform, spillovers to the rest of the euro area (Carton, 2012)
  - Amount 20% of the total (welfare) effect
  - Pure term-of-trade effect
What can we expect by type of structural reforms?

The long run

- The three letters alphabet:
  1. Labor mobilization
  2. Cost of capital
  3. Productivity
- Larger if you give access to new goods, process, experience (3)
- Any sign if large economy of scale, labor mobility, etc.
What can we expect by type of structural reforms?

The short run

- Competitiveness enhancing
  - Battle for market shares
- Investment enhancing
  - The expectation shifting is very important
Room for coordination?

- Spillovers are positive and sizeable
  - Enough to motivate an IMF policy paper
  - International coordination requires more
- Negative spillovers may induce more ”incentives” in the euro area