Do labour market reforms reduce labour productivity growth? a panel dataa analysis of 20 OECD Countries (1960-2004)

Abstrak

Based on comprehensive regression analysis, the authors find that weak wage growth and a smaller labour share of national income significantly reduce labour productivity growth. They conclude that supply-side labour market reforms have contributed to reducing labour productivity growth: this cannot be explained by a deregulation-induced inflow of low-productivity labour as proposed by OECD researchers. They also discuss why deregulation, easier firing and higher labour turnover may damage learning and knowledge accumulation in companies, notably by weakening the functioning of the “routinized” innovation model (“Schumpeter II”). Finally, their findings raise doubts about the relevance of Baumol's law and Verdoorn's law.