

Labor market adjustment and macroeconomic performance

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Abstract

Unemployment remains the main concern of most EU countries. Substantial differences are observed not only across countries but also across regions of the same country. Substantial differences also exist across skill groups. Starting from the example of Belgium, we explore to what extent such differences could be explained in terms of biased technological change and labor market institutions. We evaluate the respective roles of embodied and disembodied technical progress, and the effect of labor tax cuts. We find that it is most important to take into account the effect of such tax cuts on both the job creation and the job destruction rates. The failure to do so may explain the gap between macro- and micro-econometric evaluations of such policies. We briefly discuss the welfare consequences of such policies.