

PRO-COMPETITIVE REFORMS AND TIMING OF IMPLEMENTATION: AN IGEN-BASED SIMULATION ANALYSIS FOR ITALY

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1. Introduction

In this paper we quantify the potential effects of some pro-competitive reforms for the Italian economy through simulations made using IGEN, the Italian General Equilibrium Model of the Department of Treasury of the Italian Ministry of the Economy and Finance (see Annicchiarico et al. 2013b).

Notably, after some years of deep recession and high unemployment, a wide-ranging economic reform process is taking place in Europe, primarily to restore macroeconomic stability and promote employment, economic growth and social cohesion. This wide reform process, launched by the European Commission in March 2010, foresees a comprehensive and ambitious reform strategy, known as the Europe 2020 strategy. This ten-year strategy, formally adopted in June 2010, offers a precise timetable to achieve improvements centered around some key policy areas of interventions, namely: knowledge and innovation, competition in the product markets, education, labour market participation and fight against poverty (for further details see European Commission 2010 and European Council 2010). In this work we focus on the study of the effects of pro-competitive policies intervening in the goods and in the labour markets.

This paper is related to the literature studying the potential macroeconomic effects of structural reforms in the context of Dynamic General Equilibrium (DGE) models which represent a useful tool of economic policy analysis. DGE models, in fact, embody several market imperfections and sources of inefficiencies and are able to capture the dynamic linkages between the main macroeconomic variables and the interactions between rigidities on labour and product markets. However, the use of DGE models for assessing the macroeconomic impact of structural reforms is quite recent. Relevant contributions are Bayoumi et al. (2004) and Everaert and Schule (2006) who use variants of the International Monetary Fund's Global Economy Model, Roeger et al. (2008) who employ QUEST III, Forni et al. (2010) who study the effects of increasing competition in the service sector in Italy, employing a two-region currency union DGE model, Lusinyan and Muir (2013)

who in a variant of the IMF's Global Integrated Monetary and Fiscal model (GIMF) study the macroeconomic impact of a comprehensive package of reforms in the labour and in the goods markets, Annicchiarico et al. (2013a) who study the effects of structural reforms in the labour and in the product markets using the European Commission Model QUEST III adapted to Italy.

The analysis of this paper covers two wide policy areas of intervention: goods market and labour market. For both policy areas the set of measures aim at promoting and enhancing competition in order to improve growth prospects and boost employment. As a matter of fact there is wide consensus, both in academic and policy circles, on the fact that competitive economies outperform rent-seeking ones, both in terms of growth and welfare.

Our results show that pro-competitive policies may produce beneficial and sizable effects on all relevant macrovariables. However, while in the long run these reforms go in the right direction, their initial impact would depend crucially on the chosen timing of implementation as well as on the inter-linkages between reforms when jointly introduced. A natural question, in fact, arises about the choice between the timing of implementation of these reforms and the appropriate sequencing of them. The timing choice is basically between a 'Big Bang' or a 'gradualist' approach. A Big Bang approach implements reform in a concentrated time frame, whereas a gradualist approach spreads various reforms over a more extended period of time. The gradualist approach is often preferred to minimize the adjustment costs, and, therefore, to ensure that reforms are introduced at a socially acceptable pace. Our results confirm that a gradualist approach is to be preferred so to smooth the related adjustment costs of the reform and reduce the possible initial negative impact.

The appropriate sequencing of the reforms problem arises, first, because markets adjust towards their long-run equilibrium with different speeds (labour markets tend to be more sluggish than goods markets) and second, because pro-competitive reforms are likely to produce important redistributive effects in favour of some groups and against others, potentially undermining the required social support for the reform plan. On the basis of our results, we argue that priority should be given to policies improving competition in the goods market in order to generate the necessary consensus for the reform intervening in the labour markets.

The structure of the paper is as follows. Section 2 presents a non-technical overview of IGEM; Section 3 describes the reform scenarios and presents the results of the analysis; finally Section 4 summarizes the main findings and concludes.

2. IGEM: A General Equilibrium Model for the Italian Economy

IGEM is a dynamic general equilibrium model for Italy recently created at the Department of Treasury of the Italian Ministry of the Economy and Finance to be used as a laboratory for economic policy analysis (see Annicchiarico et al. 2013b). The model, which is based on explicit microeconomic foundations, has been designed to quantify the potential macroeconomic impact of structural reforms, of fiscal policy interventions and of several shocks. Consistently with the conventional New Keynesian models (see e.g. Woodford 2003, Galí 2008, Christiano et al. 2005, Smets and Wouters 2003, 2007) and in line with the New Neo-Classical Synthesis (see Goodfriend and King 1997), IGEM embodies a large variety of nominal and real frictions shaping the short- and the medium-run behaviour of the economy, while neoclassical features tend to prevail in the long run, where the level of economic activity is determined by technology, preferences, the supply of factor inputs, the market structure and the fiscal policy put into place.

Specifically, the IGEM setup consists of a small open economy, which takes as given the world interest rate, world prices and world demand, and features six types of economic agents: (i) firms (monopolistically competitive intermediate goods producers, perfectly competitive final good producers, monopolistically competitive importing and exporting firms); (ii) households (Ricardian households who have access to financial markets and are able to smooth out their consumption profile, and non-Ricardian households who simply consume their after-tax disposable income); (iii) trade unions setting workers remuneration; (iv) a foreign sector; (v) a monetary authority; (v) a fiscal authority. Nominal frictions on wages and prices *à la* Rotemberg (1982), real rigidities on investment, labour and capital utilization, external consumption habit (i.e. "catching up with the Joneses" preferences as in Abel 1990), and imperfect competition in product and labour markets are necessary to create plausible short-run dynamics.

A peculiar feature of the model is that it has been designed to capture some specific features of the Italian labour markets, where several different contract types coexist and a dualism emerges between those workers, sheltered by union coverage and high firing costs, benefiting from stronger job security protection and higher pays, and those workers with little or no security protection, lower pays and low firing costs. The labour force is, in fact, divided in three different categories: (i) employees with a stable contract of employment and strong protection; (ii) atypical workers who have flexible working patterns and weak (or no) employment protection; (iii) self-employed workers and professionals who may supply work under contracts for services and operate under the tutelage of professional orders or registers, so enjoying a certain degree of market power. Adjustment costs on labour are such that it is more costly to change labour inputs of those who are qualified as

permanent workers. In the same spirit, the degree of nominal wage stickiness is much higher for permanent workers than for the other categories, as well as their market power. From this point of view, atypical and self-employed workers represent the more volatile component of the workforce.

An additional feature of the model is that this heterogeneity of the labour market is strictly related to that considered for the households. In particular, it is assumed that Ricardian households supply labour services as employees and as self-employed workers, while non-Ricardian consumers supply labour services as atypical workers and as unskilled employees. The reason goes as follows. Workers with stable contracts have full access to credit and financial markets in general, while atypical workers with flexible labour patterns are more likely to be liquidity constrained. Similarly, in some circumstances, low income workers may likely to be liquidity constrained. From this point of view IGEM is able to provide a rationale for the existence of non-Ricardian households.

The foreign sector is modeled as follows. Italy faces an exogenous world rate adjusted for a risk premium and takes as given world demand and world prices on tradable goods. The development of its external position depends on the current account surplus and so on the behavior of firms, households and government.

Finally, the government purchases final goods for consumption and investment, makes transfers to households, gives subsidies to intermediate goods producers, collects lump-sum taxes and tax payments on labour income, consumption and capital, receive social security contributions and issues nominal bonds. A debt-rule anchoring the level of lump-sum taxes to the stock of debt ensures long-run fiscal solvency. The behaviour of the monetary authority is, instead, described by a weighted Taylor to account for the fact that Italy is in a monetary union.¹

2.1. Inefficiencies of the Economic Equilibrium and the Role of Structural Reforms

The economy described in IGEM is characterized by several distortions and sources of inefficiencies that inevitably conduce to a lower level of economic activity. Clearly, the lack of perfect competition in the labour markets and in the intermediate goods sector generates markups which reduce labour supply and distorts production decisions. More specifically, monopolistic competition in the labour markets distorts the equilibrium as follows. Trade unions for employees, and professional orders for self-employed set the nominal remuneration for each category of labour service in order to maximize households' expected utility, given

¹ For further details about the structure of the model, the interested reader may refer to Annicchiarico et al. (2013b).

firms' labour demand. Each specific kind of labour service is assumed to be an imperfect substitute for the services supplied by other workers under the assumption of a constant elasticity of substitution, which, in turn, determines the degree of market power: the lower the elasticity of substitution, the higher the markup and the lower the employment level. As a result of this behavior, besides the tax wedge (source of an additional distortion not discussed in this paper), there will be a wedge between the real wage rate and the marginal rate of substitution between leisure and consumption, namely the wage markup. Clearly, structural reforms intervening in the labour market, aimed at increasing the employment rate and at boosting the level of economic activity, tend to reduce this wedge.

As already discussed, the intermediate-good sector features monopolistic competition as well. Each firm operating in this sector produces a specific intermediate good, necessary to manufacture the final (homogenous) good, and enjoys some market power given the imperfect substitutability across different intermediate goods. As usual, this lack of competition reflects on prices which will be equal to a markup, over marginal costs. Pro-competitive reforms in the product market will be introduced into the model by decreasing this markup.

2.2. Parameterization and Model Solution

The parameterization of IGEM is mainly based on calibration, with the exception of the preference parameters characterizing the labour supply for which we have used the estimates obtained with the microsimulation model EconLav.² IGEM is calibrated on a quarterly basis and the chosen parametrization was done to match some relevant steady-state ratios and specific features of the Italian economy over the period 2002-2008.

There are two relevant parameters for the exercises carried out in this paper, namely, the elasticity of substitution between goods in the intermediate sector and the elasticity of substitution between differentiated labour inputs. The first elasticity is set at 5, so to have a steady-state level of net markup equal to 25%, while the second elasticity is set at 2.65 so to generate a steady-state level of net markup equal to 60.61%. In addition, it is worth reporting the composition of the labour market. On the basis of the RCFL - ISTAT 2008 data, employees are identified with those workers with a stable labour contract and eligible of employment protection, so belonging to the primary labour market. According to the above mentioned data, this category amounts to 53% of the whole workforce.

² EconLav is a labour market microsimulation tool available at the Department of Treasury of the Italian Ministry of the Economy and Finance. For further details the interested reader may refer to the webpage http://www.dt.tesoro.it/en/analisi_programmazione_economico_finanziaria/modellistica/

In turn, within this category the share of the employees with tertiary education corresponds to the skilled workers and represents 11% of the workers, while the remaining share is identified with the unskilled employees. The share of self-employed workers older than 35, is 21% and we set the model share accordingly. As a matter of fact, we exclude from this category of workers the young, since at early stages of their careers workers tend to be precarious and face the same difficulties of the workers with atypical labour contracts. For this reason, the last category of workers labeled as "atypical" includes young self-employed, apprentices, temporary workers and other workers with atypical contracts characterized by weak security protection and low firing costs. This residual fraction of workers amount to 26% and, as already pointed out, belong to the secondary market. Finally, in this version of the model, we assume that non-Ricardian households supply only atypical labour, hence they represent the 26% of the households. For further details on the calibration, see Annicchiarico et al. (2013b).

Turning to the solution strategy, IGEM is implemented in a TROLL platform which uses a Newton-type algorithm to solve the non-linear deterministic model. The decision rules of the model, which represent the model solution, are expressed in levels. The two-point boundary-problem which characterizes deterministic simulation, (i.e. we need initial conditions for predetermined variables and terminal conditions for forward looking variables), is solved as in Roeger and in't Veld (1999).

3. Pro-Competitive Reform Scenarios

In what follows we will quantify the potential macroeconomic impact of pro-competitive provisions covering two wide policy areas: goods markets and labour markets. The first policy area includes reform packages promoting market competition and favoring business and is mapped onto the model through a reduction of the price markup in the intermediate goods sector. The second policy area refers to labour market reforms, including measures directed to enlarge the labour force participation rate, to remove distortions in the labour markets and to align wages to labour productivity trends. This second set of policies are mapped onto the model through a reduction of the wage markup charged by the trade unions representing employees and by the professional orders acting in the interest of self-employed workers. Atypical workers are, therefore, not directly involved by this kind of reform.

It should be noted that pro-competitive reforms are likely to reduce and redistribute rents across economic agents who, in turn, will be induced to adjust their choices

in accordance with the changed conditions. Intuitively, the lack of competition in the goods market is a source of rents in favor of producers, while the lack of competition in the labour markets, somehow, allows workers to participate in these rents. From this point of view, it is then clear that pro-competitive reforms in the goods market, by reducing the markup charged by firms, by diminishing these rents, tend to reduce the remuneration demanded by trade unions and professional orders. It is then clear why to create the required social consensus for labour and social protection reforms, a labour market deregulation reform should be accompanied or anticipated by a corresponding product market deregulation.³ In order to better evaluate the potential effects of pro-competitive reforms in the two policy areas of interventions we consider different reform scenarios differing in the degree of progress made and in the timing of implementation. Of course, all scenarios are intended to be illustrative and the assumptions on the degree of progress made in each policy area and on the timing of implementation are to some extent arbitrary.

3.1. Long-Run Macroeconomic Impact

In this section we describe the long-run effects of greater competition in the goods and in the labour markets. We first consider increasing competition separately in each market (Scenarios 1-4), we then compare these outcomes with those stemming from a synchronized reform package intervening simultaneously in both markets (Scenario 5). All scenarios and the size of each intervention are described in Table 1.

Table 1 – Pro-Competitive Reform Scenarios

Scenarios	Price Markup	Wage Markup
Baseline	25	60.61
Scenario 1	15	60.61
Scenario 2	10	60.61
Scenario 3	25	50.61
Scenario 4	25	45.61
Scenario 5	15	50.61

In all simulations we only reduce the relevant markups, while all other parameters are set at their baseline values. All results are reported as percentage deviations from the initial steady state, with the exception of net foreign assets and

³On this point, see Blanchard and Giavazzi (2003).

of government debt which, being expressed as share of output, are reported in percentage points deviations.

Consider first the long-run (steady-state) impact of reducing the goods markup shown in Table 2.

Table 2 – Long- Run Effects of Pro-Competitive Reforms in the Goods Market.

	Scenario 1	Scenario 2
Output	3.76	5.02
Consumption	2.59	3.42
Consumption (Ricardian)	2.58	3.39
Consumption (Non Ricardian)	2.66	3.59
Investment	9.03	12.14
Labour	1.43	1.9
Labour - unskilled employees	1.42	1.88
Labour - skilled employees	1.41	1.88
Labour - self-employed	1.38	1.84
Labour - atypical	1.54	2.03
Real wages - total	8.3	11.15
Real wages - unskilled employees	8.41	11.29
Real wages - skilled employees	8.41	11.29
Real wages - self-employed	8.28	11.11
Real wages - atypical	8.16	10.96
Terms of trade	-3.09	-4.07
Export	3.51	4.68
Import	0.31	0.41
Net Foreign Assets (%output)	-0.02	-0.03
Gov. Debt (%output)	-4.72	-6.22

Clearly, a lower markup implies an increase in output, consumption and investment. The increase in output, consumption and investment are respectively equal to 3.76%, 2.59%, 9.03%, respectively, in Scenario 1, where the markup is reduced by 10pp, and to 5.02%, 3.42%, 12.14%, respectively, in Scenario 2, where the markup is reduced by 15pp. Hours worked also increase for all the categories of workers as a result of the higher level of economic activity induced by the lower level of inefficiency. The higher capital stock increases the marginal product of labour, yielding to a higher remuneration for all workers. Domestic production becomes more competitive, so exports increase as well, while imports increase as a result of the higher level of absorption. The Italian terms of trade deteriorate in response to the reforms. This effect is simply the result of a decline in the export prices as a consequence of higher competition in the domestic economy. The negative terms of trade effect, in turn, mitigates the positive effects on consumption and investment stemming from the reforms.

The net foreign assets position is not significantly affected by the reform. The reason goes as follows. Pro-competitive reforms enhancing competition have a positive effect on the current account through higher exports, but at the same time,

the creation of a more friendly business environment expands investments with a negative effect on the current account.

Table 3 – *Long-Run Effects of Pro-Competitive Reforms in the Labour Market and of a Synchronized Reform*

	Scenario 3	Scenario 4	Scenario 5
Output	1.01	1.44	4.8
Consumption	1.12	1.58	3.71
Consumption (Ricardian)	1.34	1.9	3.92
Consumption (Non Ricardian)	0.01	0.01	2.69
Investment	0.78	1.1	9.87
Labour	0.94	1.33	2.37
Labour - unskilled employees	1.12	1.59	2.54
Labour - skilled employees	1.12	1.59	2.54
Labour - self-employed	1.12	1.59	2.51
Labour - atypical	0.11	0.15	1.64
Real wages - total	-0.04	-0.06	8.26
Real wages - unskilled employees	-0.19	-0.27	8.21
Real wages - skilled employees	-0.19	-0.27	8.21
Real wages - self-employed	-0.19	-0.27	8.08
Real wages - atypical	0.53	0.76	8.73
Terms of trade	-0.85	-1.21	-3.9
Export	0.95	1.34	4.48
Import	0.08	0.12	0.39
Net Foreign Assets (%output)	0	0	-0.03
Gov. Debt (%output)	-1.26	-1.78	-5.92

We now consider the effects of pro-competitive reforms in the labour markets regarding employees and self-employed workers. The results are shown in Table 3, where the first two columns refer to the cases in which the reforms only impact the labour market (Scenarios 2-3), while the third column reports the results of a synchronized reform package involving the goods and the labour markets simultaneously. Clearly, institutional reforms able to reduce the market power of wage setters have beneficial effects on output, consumption, investments and labour. The effects are quite substantial, although much lower than those obtained from a similar reduction in the goods markup.⁴ In the long run the overall effect on output amounts to 1.01% when wage markups are reduce by 10pp, and to 1.44% when they are reduce by 15pp. The higher level of economic activity along with the lower labour costs, due to the wage moderation, induces lower prices of domestic production, so promoting exports. Imports will also be higher as a result of the higher level of domestic absorption, although the effect is mitigated by the terms of trade deterioration. Overall, we observe that lowering the markups reduces

⁴ These moderate effects are probably due the fact that the elasticities of labour supply are quite low, since they are based on microdata estimates.

wages and increases hours for all the four categories of workers. However, we observe some important differences motivated by the fact that atypical workers are not directly involved with the reform. As a matter of fact, the positive effect on hours is higher for the employees and the self-employed workers who will ultimately experience lower real remunerations. On the contrary, atypical workers will work harder, but at the same time they will receive a higher wage as a result of their higher marginal productivity due to the increased stock of capital and to the higher employment level of the other categories of workers.

As in the previous case, we observe that the effects on the net external assets position are negligible. Intuitively, labour market reforms increase labour supply leading to a fall in the country's relative wage and prices and so boosting exports and improving the next external asset position. On the other hand, real wage reduction implies lower marginal costs for firms, so boosting investments and capital inflows able to negatively impact the current account. Finally, the improvement in debt ratio is to be attributed to the higher level of economic activity and to the higher tax revenues.

The last column of Table 3 shows the long-run effects of a joint reform involving the goods and the labour markets simultaneously. In particular we assume that all markups are reduced by 10pp. The main insight from this exercise is that the long-run effects of the combined reform package are essentially equal to the sum of the effects of each single reform implemented separately. Output increases by 4.8%, consumption by 3.71%, investment by 9.87% and labour by 2.37%. It is also important to stress that real wages increase for all categories of workers, since the positive impact induced by the pro-competitive reform in the goods market more than compensate the negative effects induced by the labour market reform. This result supports the above mentioned argument according to which structural reforms of the labour market should be anticipated or accompanied by effective reforms in the goods market. In doing so, in fact, it is possible to generate the required support for the structural interventions aimed at moderating wages.

3.2. Transition and Timing of Implementation

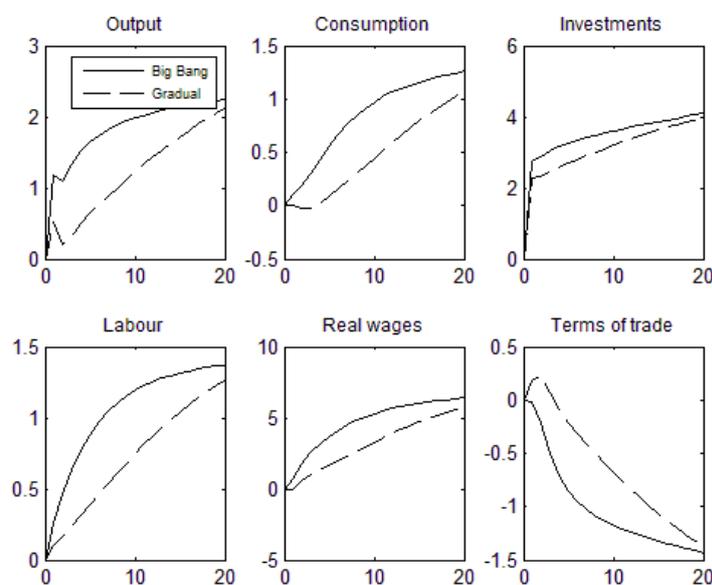
Figures 1-3 plot the transition path of the main macrovariables in response to a pro-competitive reform intervening in the goods market (Figure 1), in the labour markets (Figure 2) and simultaneously in both markets (Figure 3). In all exercises we reduce the markups by 10pp (Scenarios 1,3,5). All variables are expressed as percentage deviations from the initial steady state and results are plotted over a 20-quarter time horizon. The variable labeled "real wages" refers to the average

workers remuneration prevailing in the economy. As before all policy changes are assumed to be permanent. However, since we are interested in the transition of the economy to the new steady state, we now consider two different timings of implementation: (i) immediate implementation (“Big Bang” hypothesis – continuous lines) in which each reform is assumed to be introduced at once; (ii) gradual implementation (dashed lines) in which each reform are introduced gradually in a time span of 5 years, which represents a realistic time span for a reasonably smooth implementation timetable.

Notice that in all experiments we assume that agents have perfect foresight to rule out the effects induced by uncertainty about the time path of the reforms. In addition, we assume that the announced reform plans are fully credible.

In the first place we observe that nominal and real adjustment costs prevent the immediate adjustment of the economy to the new equilibrium also in the Big Bang hypothesis. Rigidities and adjustment costs also explain the strong divergence between the two timings of implementation also at the end of the time interval.

Figure 1 – *Macroeconomic Impact of a Pro-Competitive Reform in the Goods Market*



Now consider Figure 1, where, clearly, the macroeconomic response to the pro-competitive reform in the goods market tends to be more smoothed in the case of gradualism. However, we notice that consumption slightly decreases during the first quarters of the simulation in the case of gradual implementation of the reform.

The reason for this result is the following. In the first period of the simulation the full reform plan is announced and only partially introduced. Since agents are aware of the fact that prices will be lower in the future they will find it optimal to postpone their consumption decisions.⁵ This lower demand for consumption also explains the slight improvement in the terms of trade. It goes without saying that this result stems from the assumption of full credibility of the announced reform plan. The observed slightly decline of real wages during the very first quarter might be also connected to the delayed increase of aggregate demand.

Figure 2 – Macroeconomic Impact of a Pro-Competitive Reform in the Labour Market

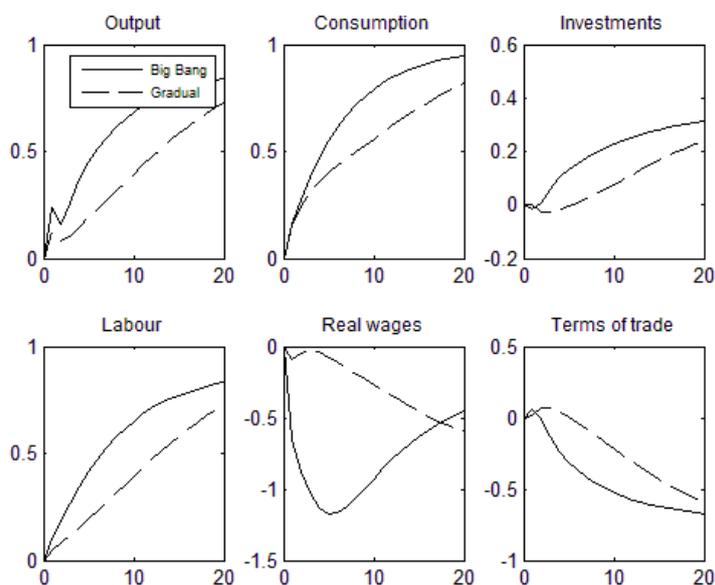
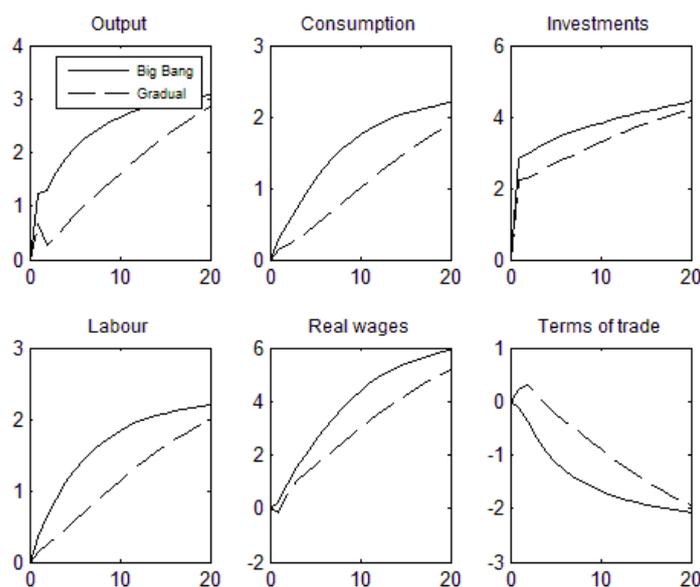


Figure 2 shows the results of a reform promoting competition in the labour market. Again gradualism ensures a more smoothed response of the main macrovariables, which is particularly evident for the average real wage which slowly declines. In the case of immediate implementation, instead, the average real wage falls sharply and only after about 5 quarters starts increasing. Intuitively, the markup reduction induces an immediate drop of workers remuneration, while the benefits of the reform have not yet materialized. After 5 quarters nominal prices have adjusted and the beneficial effects of the reduced inefficiency manifest themselves.

⁵ Of course, only Ricardian households are in the position of accounting for the reform plan when making consumption decisions.

Finally, Figure 3 shows the response of the economy to a joint reform plan. As already pointed out when discussing the long-run effects of the structural interventions, we have that the effects of the synchronized reform package are essentially equal to the sum of the effects of each single reform implemented separately. With a Big Bang hypothesis, half of the observed output increase would materialize during the first three years. Most importantly, the overall effect on real wages is positive all along the transition path, with the exception of the first quarter under the hypothesis of gradual implementation, where the pro-competitive reform in the goods market leads to a slightly retarded response of real wages, as already discussed.

Figure 3 – Macroeconomic Impact of a Synchronized Reform



4. Conclusions

This paper quantifies the potential effects on the Italian economy of different pro-competitive reform scenarios in two specific policy areas, namely: goods markets and labour markets. The simulation exercises have been conducted with IGEM, the general equilibrium model for the Italian economy of the Department of Treasury of the Italian Ministry of Economics and Finance.

We show that structural interventions aimed at enhancing competition in goods market and at aligning wages to productivity trends are likely to bring about beneficial effects on output, consumption, investment and employment.

Our results also stress the importance of the timing of the implementation of the reform plan in shaping the response of the economy during the first years of the simulation exercise. In particular, in the face of a credible and gradual pro-competitive reform plan intervening in the goods market, forward looking households will find it optimal to initially consume less, planning to consume more when the beneficial effects of the reform will materialize and prices will be lower. On the other hand, pro-competitive interventions in the labour markets induce a fall of real wages during the early stages of the reform. Despite the real wage decline is shown to be temporary and strongly reduced in the case of gradual implementation, this negative repercussion of the reform could easily undermine social consensus and jeopardize the full implementation of the reform itself. That is why pro-competitive reforms in the goods market may help to create the support for labour market reform.

Finally, a word of caution is needed. We are aware that quantifying the economic impact of economic reforms represents an extremely difficult task and that all results should be interpreted with extreme caution and accounting for the tight theoretical assumptions of the model used. In addition, there might be delays in the implementation of a reform, problems of credibility and important country-spillovers to be considered in the analysis. We leave these further complications for future research.

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SUMMARY

This paper quantifies the potential macroeconomic effects on the Italian economy of various pro-competitive reform packages using the Italian General Equilibrium Model (IGEM) of the Department of Treasury of the Italian Ministry of the Economy and Finance. Our results indicate that reducing the goods and the wage markups is likely to be conducive of sizable long-run gains in output and employment. Most importantly, our findings support the view that the structural interventions aimed at aligning wages to productivity trends should be anticipated or accompanied by pro-competitive reforms in the goods market in order to generate the required social consensus for labour reforms.

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