A recent literature claims that labour market frictions alone cannot account for the high level and persistence in unemployment. New approaches are required. Interactions with other sides of economies, for instance, credit market frictions, could indeed explain the differences between Europe and US unemployment: in Europe, new entrepreneurs have difficulties to find some financing to create their own firms, which is a brake on job creations (see Acemoglu (2001) and Wasmer and Weil (2004)). Another paper by Blanchard and Giavazzi (2003) analyses interactions between product and labour markets and the deregulation process in Europe. In the same spirit, my research proposal is an investigation of labour markets in the context of open economies. It contains both theoretical and empirical points of view.

Traditional theories in International Economics present the world as a large set of small countries that are dominated by the system of international markets. In this way each country specialises in the production of one good and adapts to international shocks with flexibility. Those theories do not reflect the framework of labour markets when analysing workers’ mobility and short-run reallocation costs. It seems useful to adopt another benchmark.

Today, in the context of globalization, our societies are increasingly connected to the rest of the world and job reallocations operate differently, under the influence of liberalization of trade. Furthermore, according to regions’ features and integration, the degree of influence could vary: we argue that the relationship between a region and the rest of the world is fundamentally a frictional one. These frictions and market imperfections are numerous: they can be imperfect information, imperfect capital mobility, mobility costs, entry cost to export market, frictions on international financial markets…

In this context, Melitz (2003), in his model of intra-industry reallocations, argues that following trade openness, small firms would die and only big firms should survive due to the presence of entry cost in export markets. Even though employment in big firms should be higher, the net effect on employment is undetermined and one might fear a rise in unemployment. However, Melitz considers a full employment economy and my purpose is to merge his model with the large firm model from Pissarides (2000) to account for all the relevant market imperfections that play a role in the globalisation process. Second, such an effect would be tested in the estimation of a panel VAR model and by using the Generalised Method of Moments to account for endogeneity issues.

In another project, I am looking at intersectoral labour mobility in the framework of open economies. I would highlight the trade-off between specialization and labour mobility when an economy has to choose between two types of education: general and vocational education. I develop a two-sector matching model in which workers are endowed either with some sector-specific human capital or with some general human
capital. The former type of worker is more productive whereas the second is more mobile across sectors. I argue that those particular features of the model can account for the steady increase in unemployment that most of the European economies have experienced since the sixties: those countries have known an important structural shift from agriculture and manufacturing to services and IT markets, but have not been able to reallocate their labour force because of overspecialised workers.
References:


