Fiscal Stimulus and Labor Market Policies in Europe

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Abstract

Several contributions have recently assessed the size of fiscal multipliers both in RBC models and in New Keynesian models. This paper computes fiscal multipliers within a labor selection model with turnover costs and Nash bargained wages. We find that demand stimuli yield small multipliers, as they have little impact on hiring and firing decisions. By contrast, hiring subsidies, and short-time work (German "Kurzarbeit") deliver large multipliers, as they stimulate job creation and employment.

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