

# A Model of Market and Political Power Interactions for Southern Europe

Tryphon Kollintzas

Athens University of Economics and Business and CEPR

Dimitris Papageorgiou

Bank of Greece, Economic Analysis and Research Department

Vangelis Vassilatos

Athens University of Economics and Business

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In this paper, we develop a dynamic general equilibrium model of market and political power interactions aiming to capture the politicoeconomic system of Southern European countries like Greece, Italy, Portugal and Spain. This model is a synthesis of the insiders-outsiders labor market structure and the concept of an elite government. Outsiders form a group of workers that supply labor to a competitive private sector. And, insiders form a group of workers that enjoy market power in supplying labor to the public sector and influence the policy decisions of government, including those that affect the development and maintenance of public sector infrastructures. The model is consistent with several stylized facts of those countries, where wages in the public sector relative to the private sector are high and these wage differentials correlate negatively with public sector employment over total employment, total factor productivity, and output growth. Most importantly, the model explains the growth reversal that characterizes the economies of those countries, in recent years.

The full working paper can be found [here](#).