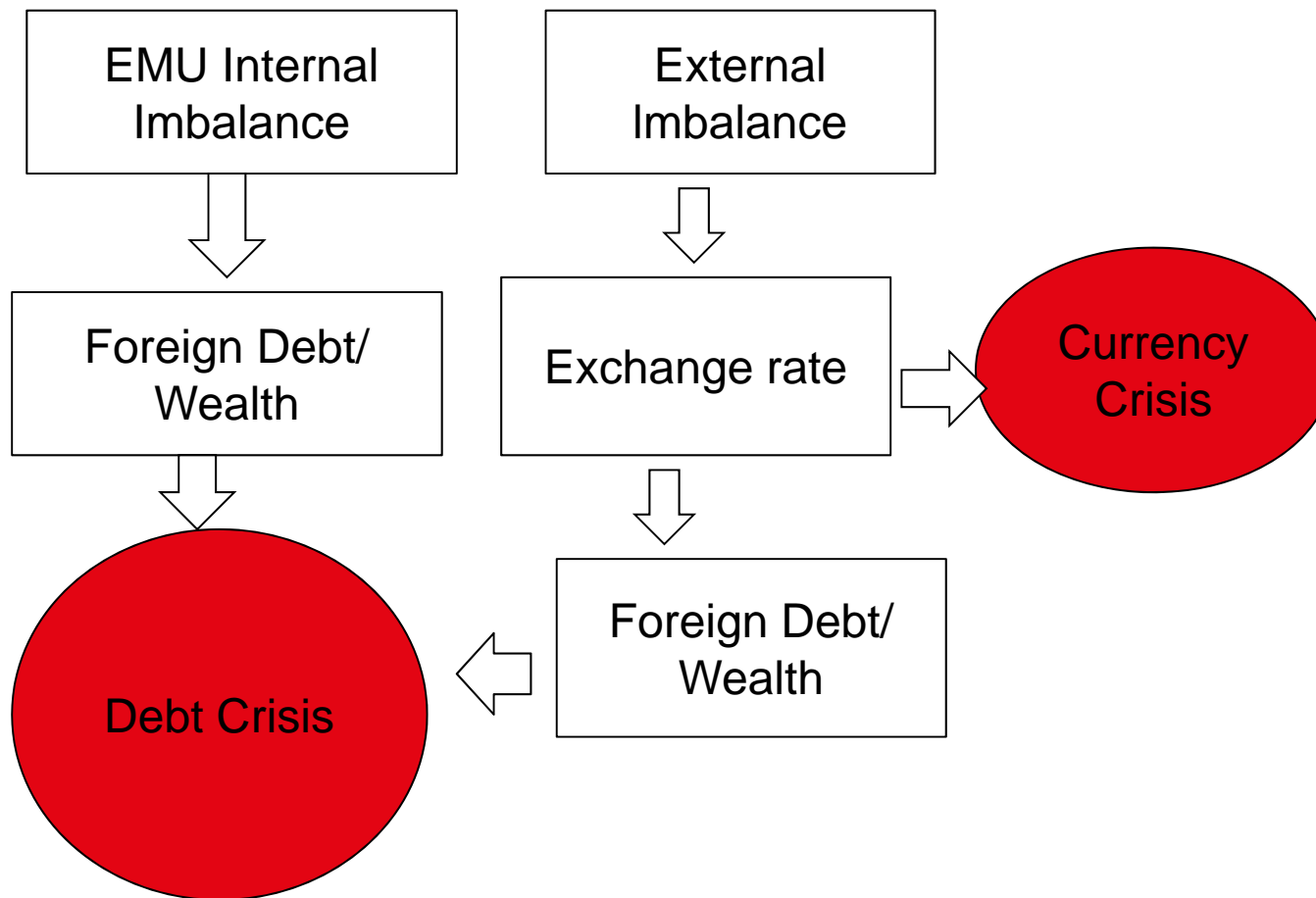


WAGES, COMPETITIVENESS, CURRENT ACCOUNT IMBALANCES

Trade union related economists' conference,
Vienna 22/23 September 2016

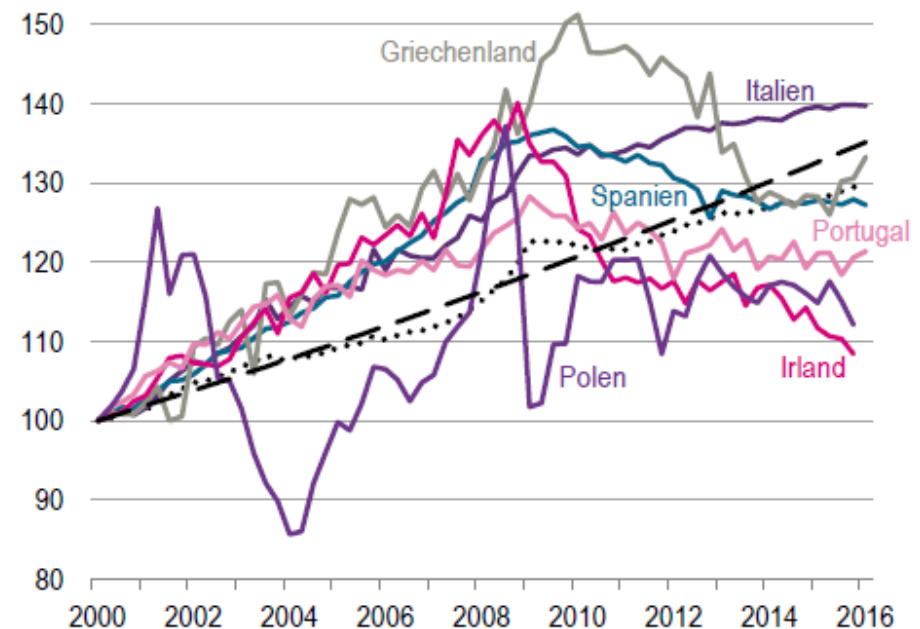
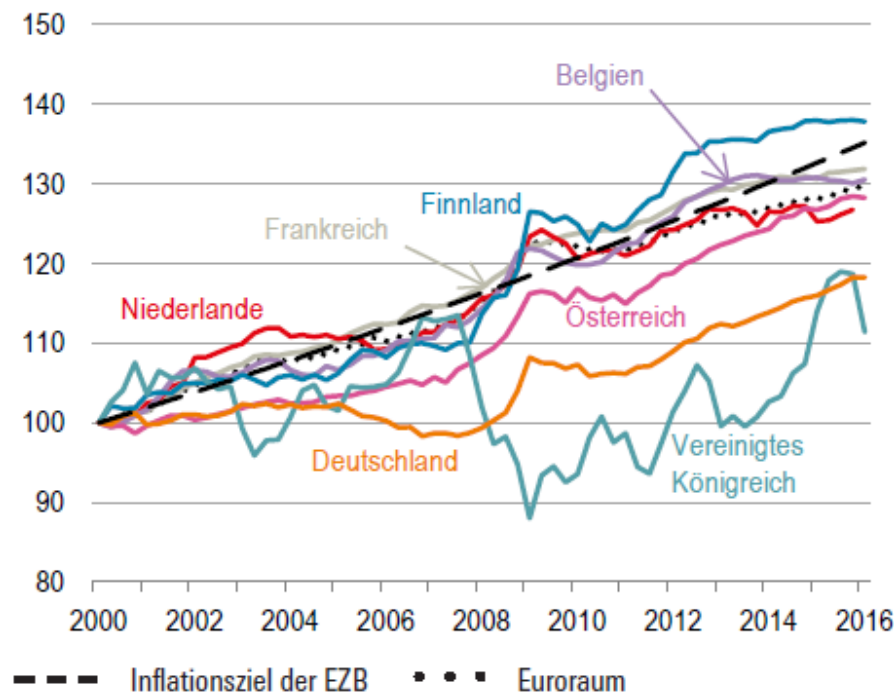
Andrew Watt

Are Imbalances Harmless ? No



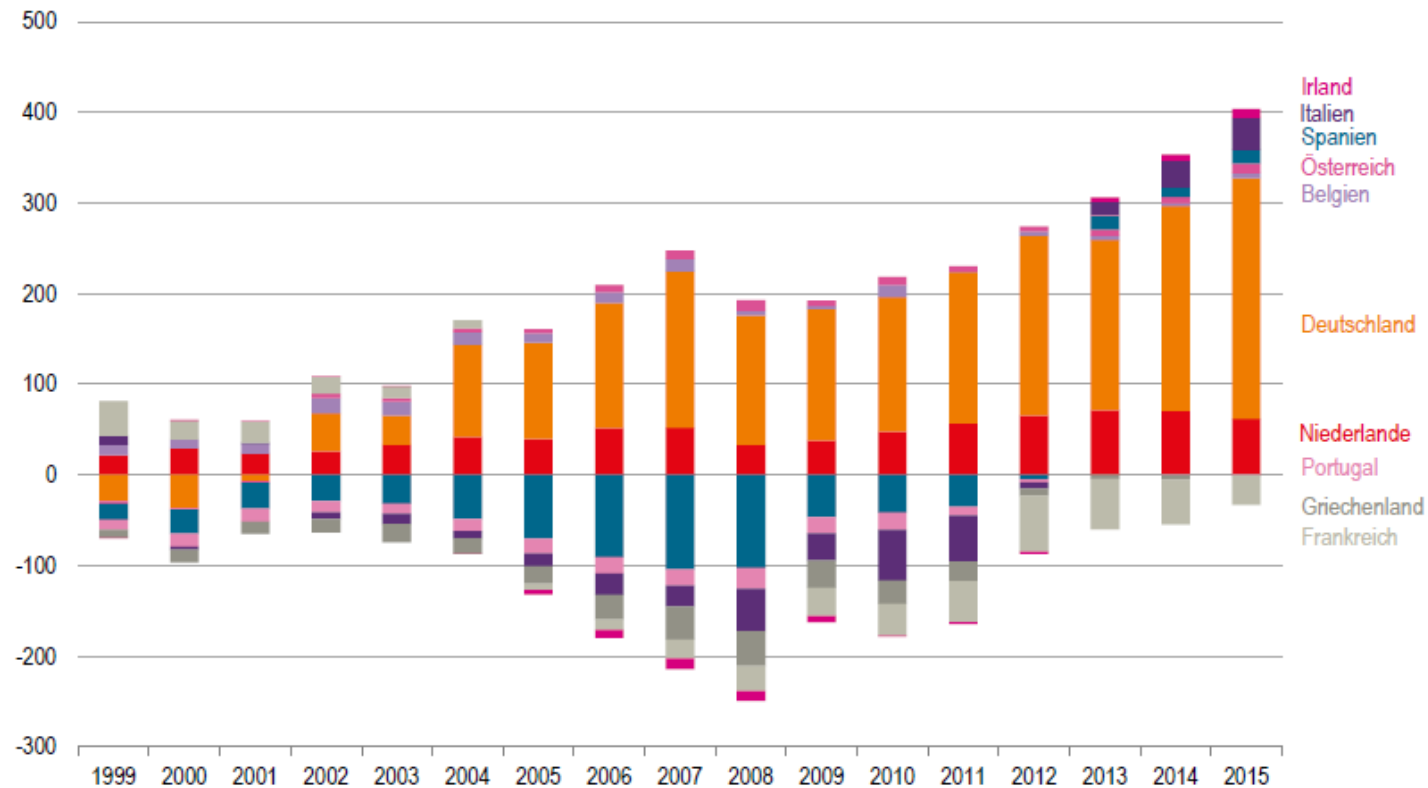
ULC divergence and one-sided correction

Lohnstückkostenentwicklung¹ in der Gesamtwirtschaft im Euroraum sowie in ausgewählten EU-Ländern
2000q1=100



Widening current account imbalances, one-sided correction

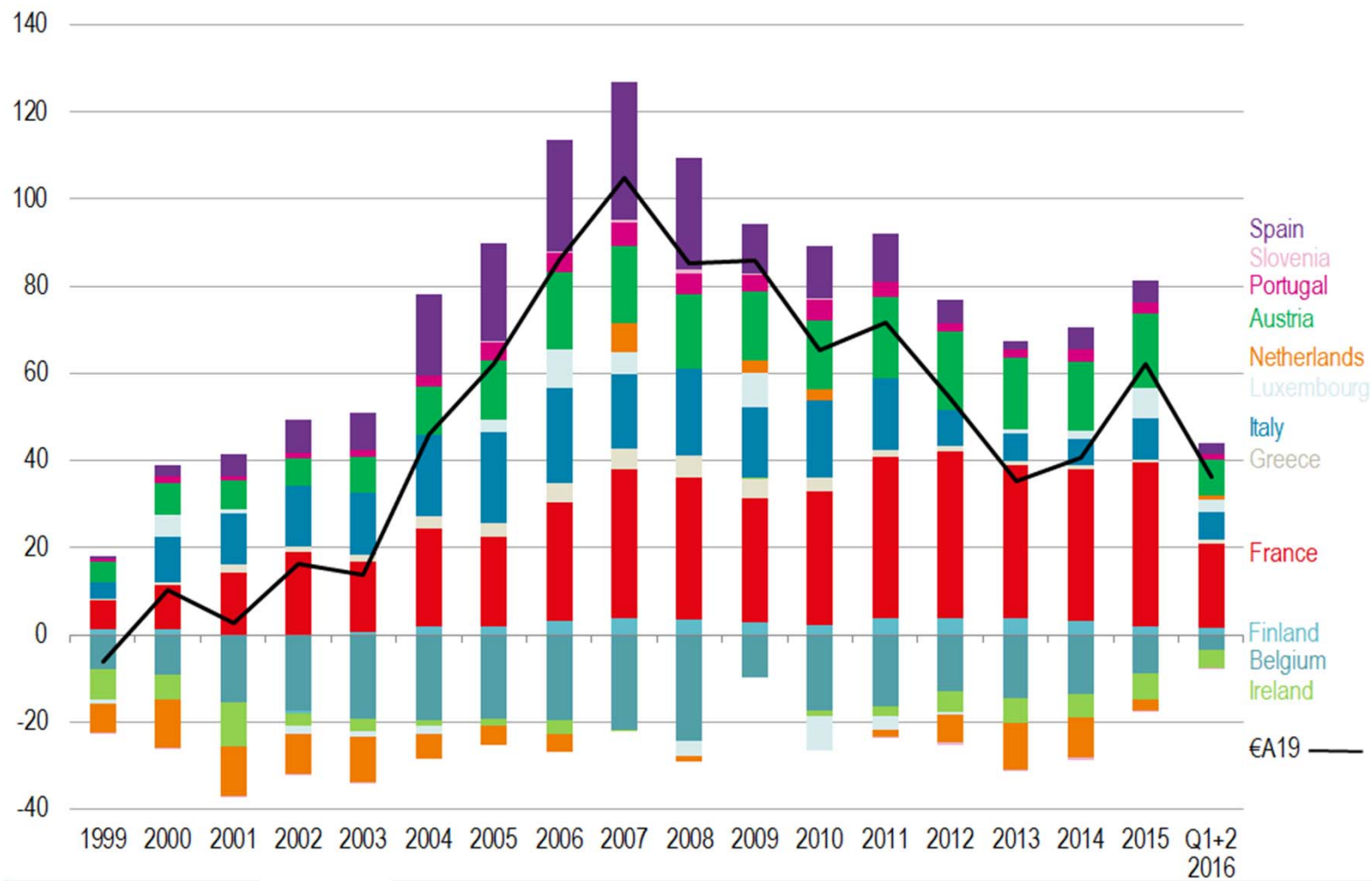
Leistungsbilanzsalden der Länder im Euroraum
in Mrd. EUR



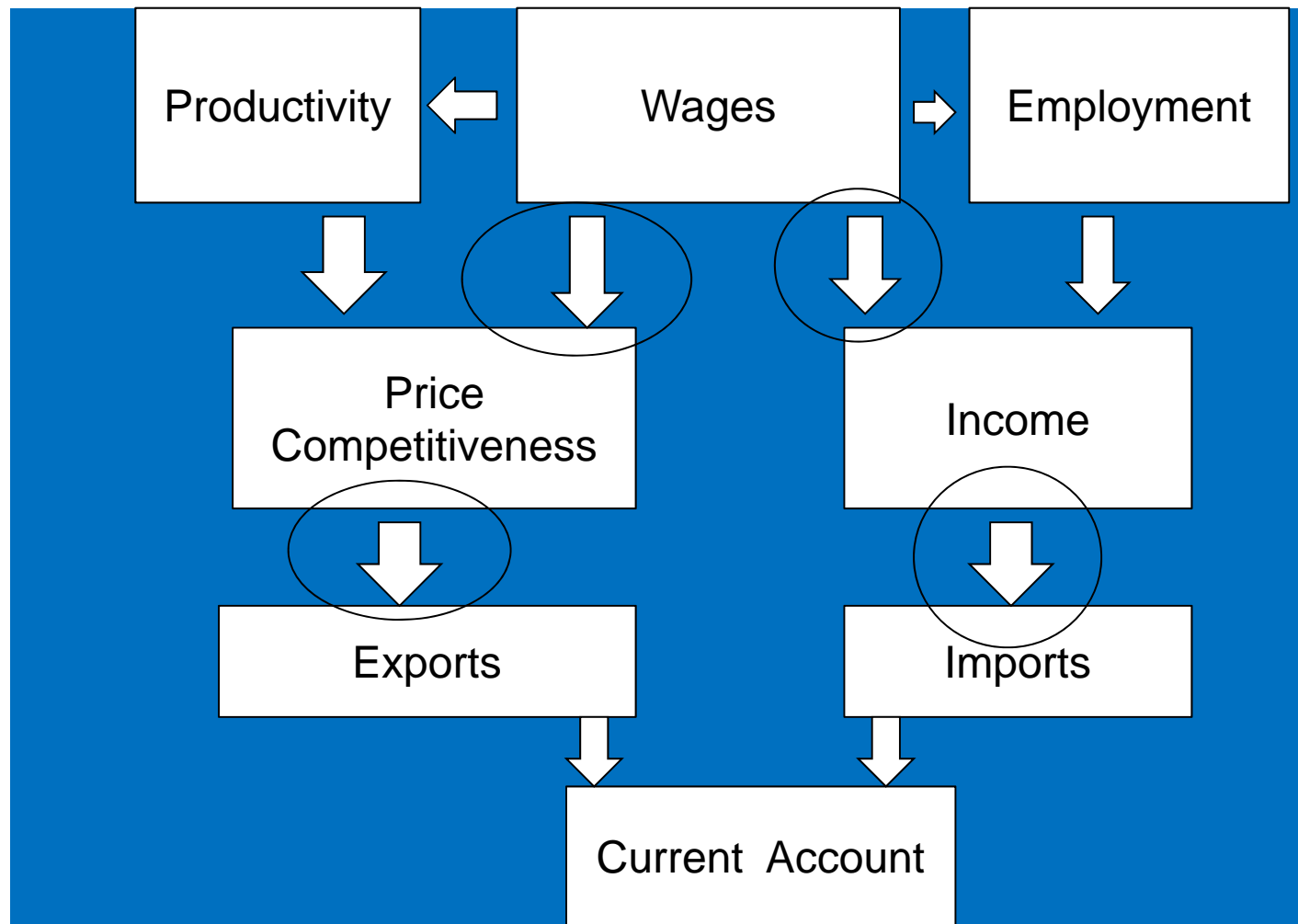
Quellen: Macrobond (AMECO); Berechnungen des IMK (Datenstand 10.05.2016).

Germany bilateral current account Imbalances

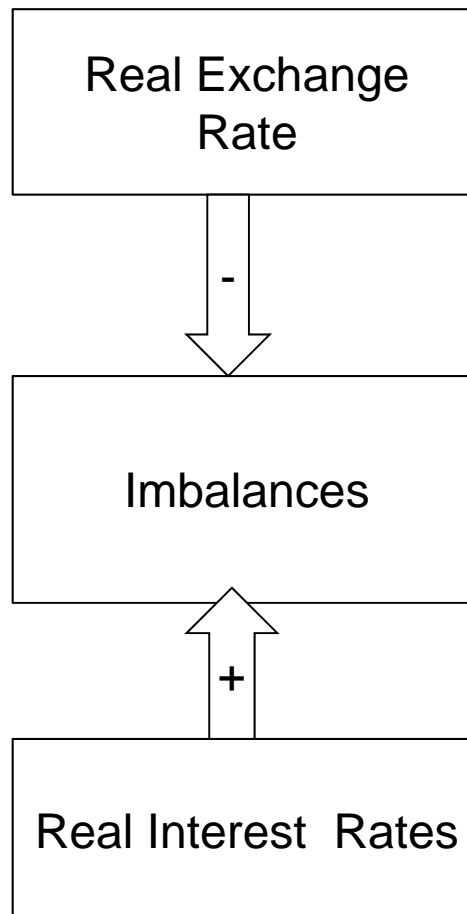
Billions EUR



Wage-current acc't link (yes, there are other factors)



Imbalances initially not self-correcting, until crisis



Three (partially) convincing arguments

1. Wage rules are applied one-sidedly (as illustrated by the MIP)
 - True and applies to almost all variables in MIP
2. It's not just wages, it's profits (or: no 1:1 pass through wages-prices - table)
 - Yes, altho shift in labour share not permanent
3. Nominal wages and prices endogenously driven and unalterable
 - Yes, vital to manage domestic demand
 - Wage policy cannot offset wrong macroeconomic policy
 - But nominal wage not a market plaything (otherwise why TUs, minimum wages etc.)

Inflation = wages, profits, taxes

Inflationszerlegung in ausgewählten Ländern

	Prozentpunkte 1999-2007							
	<i>BIP-Deflator, IST</i>				<i>BIP-Deflator, SOLL</i>			
	Gesamt	Lohn- Beitrag	Gewinn- Beitrag	Steuer- Beitrag	Gesamt	Lohn- Beitrag	Gewinn- Beitrag	Steuer- Beitrag
Deutschland	7,4	-0,6	6,1	1,9	18,0	9,2	7,1	1,6
Irland	33,1	12,5	15,9	4,7	17,8	6,9	9,0	1,9
Griechenland	27,7	12,8	10,7	4,2	18,0	5,8	10,3	1,9
Spanien	33,4	16,0	13,3	4,2	18,0	8,7	7,6	1,8
Italien	21,9	9,2	10,1	2,6	18,0	6,8	9,0	2,3
Portugal	30,1	12,8	12,3	5,0	18,0	8,6	7,2	2,2

	Prozentpunkte 2008-2015							
	<i>BIP-Deflator, IST</i>				<i>BIP-Deflator, SOLL</i>			
	Gesamt	Lohn- Beitrag	Gewinn- Beitrag	Steuer- Beitrag	Gesamt	Lohn- Beitrag	Gewinn- Beitrag	Steuer- Beitrag
Deutschland	11,8	9,2	1,2	1,4	16,0	8,0	6,5	1,6
Irland	-0,4	-6,9	9,0	-2,5	16,0	6,4	8,0	1,5
Griechenland	2,6	0,9	-0,1	1,9	16,0	5,5	8,7	1,8
Spanien	3,4	0,5	2,3	0,6	16,0	7,8	6,8	1,4
Italien	10,4	5,6	3,1	1,7	16,0	6,3	7,6	2,0
Portugal	8,0	0,6	6,1	1,3	16,0	7,4	6,7	1,9

Anmerkung: Die BIP-Inflationszerlegung in die drei inländischen Komponenten erfolgt jährlich. Hier werden die betrachteten Jahre aufaddiert. Damit ergibt sich eine Diskrepanz zur richtigen Wachstumsrate über die betrachteten Zeiträume.

Four unconvincing arguments

1. Non-price competitiveness argument
 - The fact that products are qualitatively different does NOT mean they do not compete on price
2. Price inelasticity argument
 - Doesn't apply to all goods/services, weak in the long run (firms leave money on table?)
3. It's not about relevant prices it's about demand argument
 - Demand side incorporated via (wage) incomes
 - External demand shifts are a given to which MS must adjust
4. No bilateral competition on product market
 - There are strong indirect effects (third country, exchange rate)

Conclusions „dos and don'ts for TUs“

1. Don't deny that price competitiveness and current account imbalances are important
2. Don't deny that wages are an important (but not only) element of competitiveness
3. Do insist that wages are ONE tool amongst others
4. Do insist on symmetry of approach (wage norm, balanced current account)
5. Do insist on including profit inflation
6. Do demand a seat at the macroeconomic governance table
7. Do insist on the overriding importance of countercyclical macropolicy incl. private borrowing

Thank you for your Attention

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Unemployment since 1/2009: disaster, partial recovery

	Max	Increase	Decrease	% reversed
Cyprus	16,7	12,8	-5,1	39,8
Greece	27,9	18,8	-4,5	23,9
Spain	26,3	10,5	-6,7	63,8
Ireland	15,2	5,6	-6,9	123,2
Portugal	17,4	7,8	-6,3	80,8
€A19	12,1	3,4	-2,0	58,8

