Competitiveness. A prerequisite for wellbeing and convergence in Europe?

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UNIVERSIDAD DE CASTILLA-LA MANCHA

1st TUREC
Vienna
September 22-23, 2016

OVERVIEW:

1. **Interpretation and utilization of the concept of competitiveness by the European authorities ("Five Presidents Report").**

2. **Wage restraint policies and the wage-led character of the European economies.**

3. **Recessive effects of internal devaluation and austerity policies: the case of Spain.**

4. **Does all this mean that external imbalances are not relevant? Balance-of-Payment-Constrained Growth Rate and current account imbalances within the Eurozone.**

1. Interpretation and utilization of the concept of competitiveness by the European authorities (“Five Presidents Report”)

1.1. "Competitiveness", at the centre of economic policy strategy → What relation with other more genuine objectives of economic policy (full employment, equality)?

- Full-employment as a side effect of macroeconomic stability and market flexibility ("delayed gratification").

- "Competitiveness channel" as a mechanism to absorb asymmetric shocks in a monetary union. Limited role of macroeconomic policies.

- The specific measures actually displayed to improve competitiveness (labour market reforms, wage restraint, cutbacks in the Welfare State) deteriorate social standards.

1.2. “Competitiveness” and the promotion of export-led (mercantilist) growth model:

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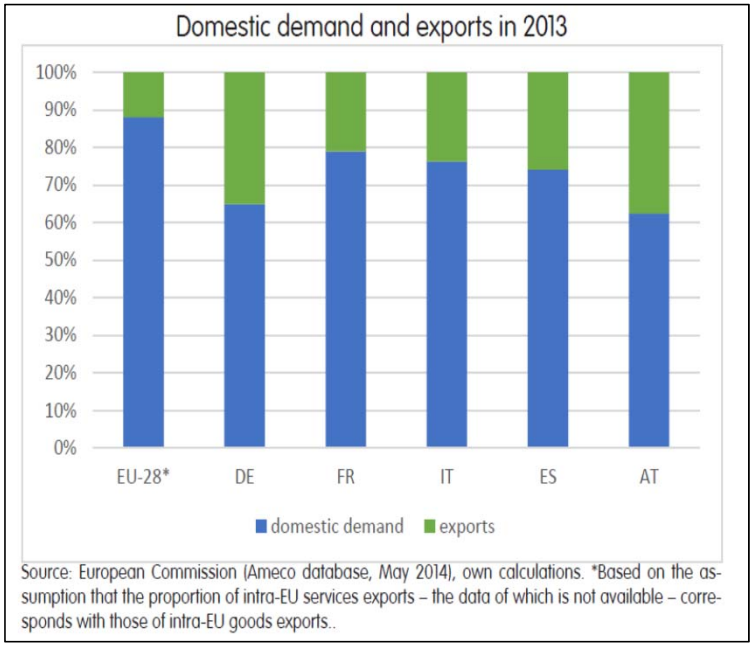
- Domestic demand is –and it should be- the main source of aggregate demand for European countries.



Source: European Commission (Ameco database, May 2014), own calculations. *Based on the assumption that the proportion of intra-EU services exports – the data of which is not available – corresponds with those of intra-EU goods exports..

AK Chamber of Labour (2016)

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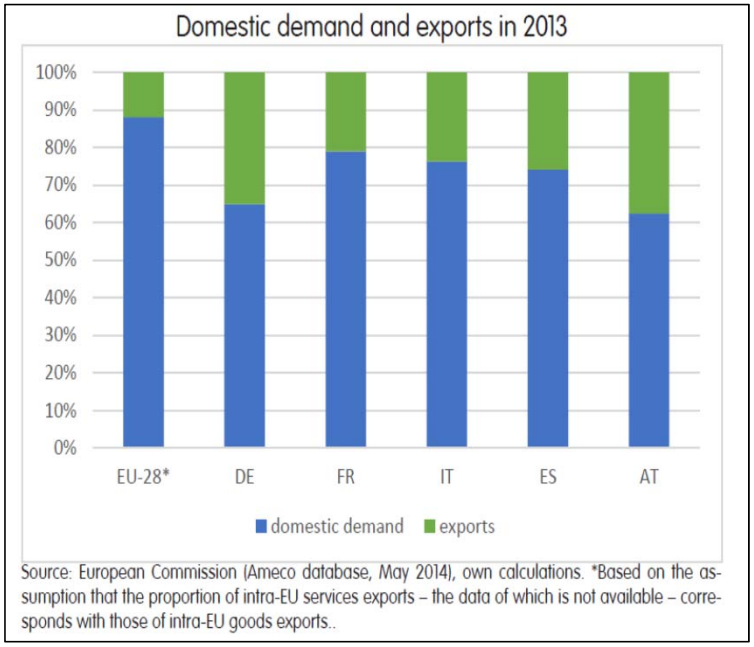

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- The Eurozone actually suffers a demand shortfall (low GDP growth, low inflation, external surplus, high unemployment).

Eurozone, Spring 2016 EC Forecasts			
	2015	2016	2017
GDP growth	1.7	1.6	1.8
Inflation	0.0	0.2	1.4
Unemployment	10.9	10.3	9.9
Current account	3.6	3.7	3.6
Budget Balance	-2.1	-1.9	-1.6

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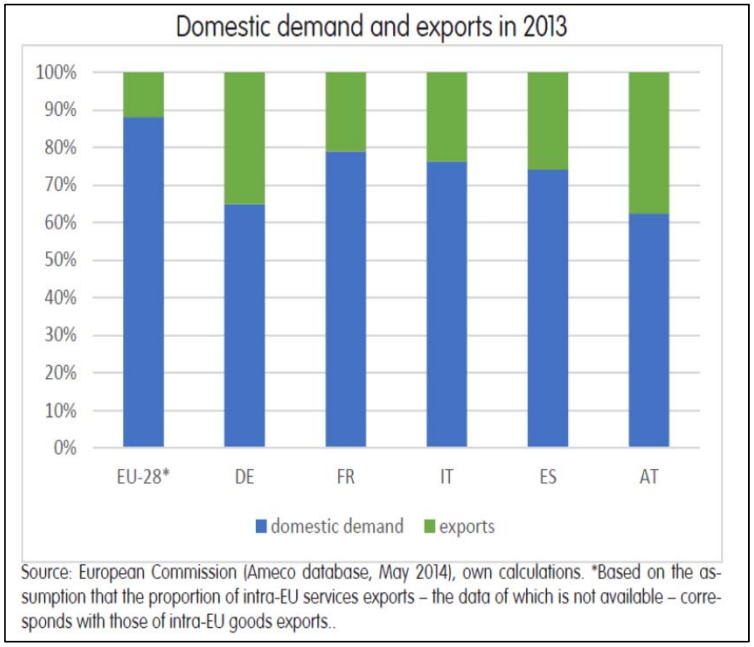

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- Policies recommended to increase external demand (wages) aggravate this lack of demand.

1.3. Is export-led a solution to unemployment due to lack of demand or is only "exporting" the problem? (Beggar-thy-neighbour policies)

"If nations can learn to provide themselves with full employment by their domestic policy (…) there need be no important economic forces calculated to set the interest of one country against that of its neighbours. (…) There would no longer be a pressing motive why one country need force its wares on another or repulse the offerings of its neighbor (…) with the express object of upsetting the equilibrium of payments so as to develop a balance of trade in its own favour. International trade would cease to be what it is, namely, ***a desperate expedient to maintain employment at home by forcing sales on foreign markets and restricting purchases, which, if successful, will merely shift the problem of unemployment to the neighbour which is worsted in the struggle.***"

J.M. Keynes, GT

1.4. Are trade imbalances within the Eurozone mainly due to price-competitiveness / ULC divergence? What role for structural competitiveness and demand divergence?

Table 3. Explanations of current account imbalances and policy recommendations

	Inflationary adjustment in centre countries: higher wages and fiscal expansion	Euro-exit for deficit countries or a dissolution of the Euro	Internal devaluation and fiscal austerity in deficit countries
Costs as prime determinant of current account imbalances; little role for demand	Priewe (2012), Mazier and Petit (2013)	Flassbeck and Lapavitsas (2013) Lapavitsas (2015a,b) Johnston et al (2014)	European Commission (2011) Sinn and Valentinyi (2013)
Costs and demand as important determinants of current account imbalances	Stockhammer and Sotiropoulos (2014), Stockhammer (2016b)		
current account imbalances driven by demand developments, not costs	Storm and Naastepad (2015a)		Diaz Sanchez & Varoudakis (2013) Gabrisch & Staehr (2014) Wyplosz (2013)

Constantine, Reissel and Stockhammer (2016)

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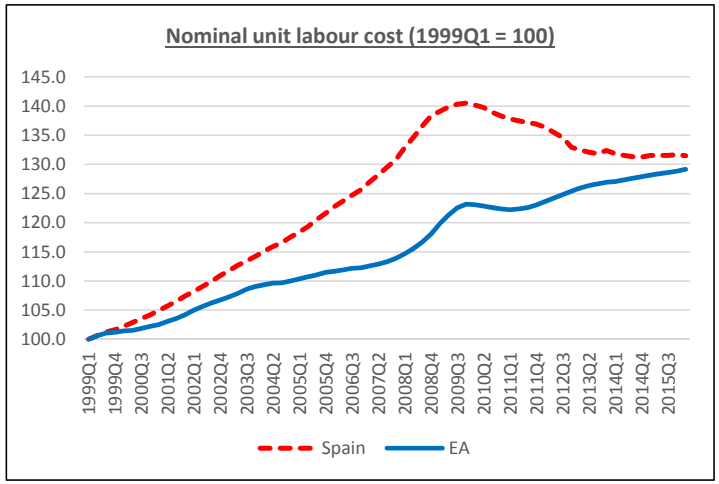

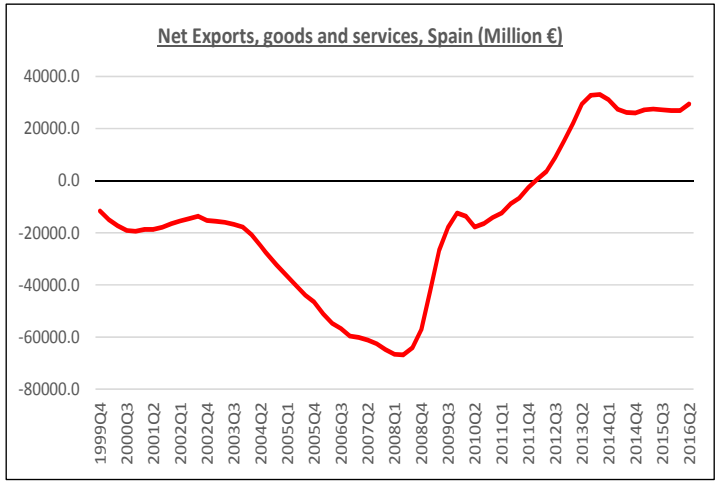

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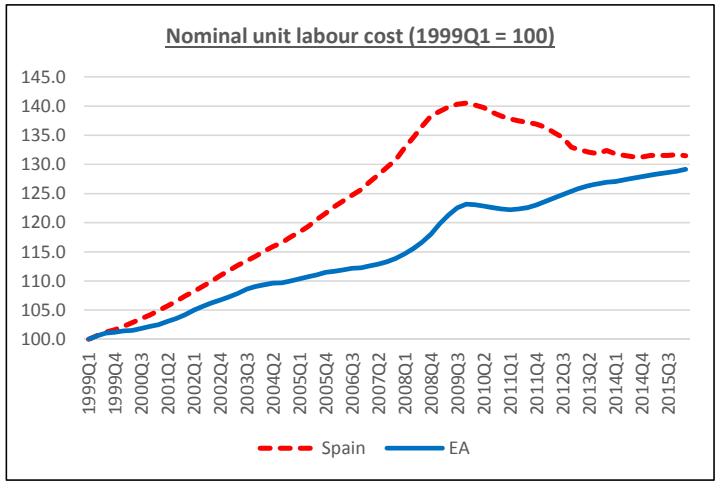

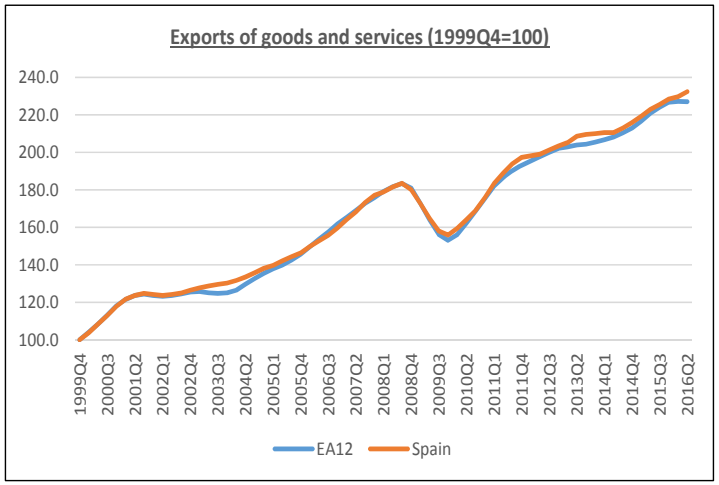

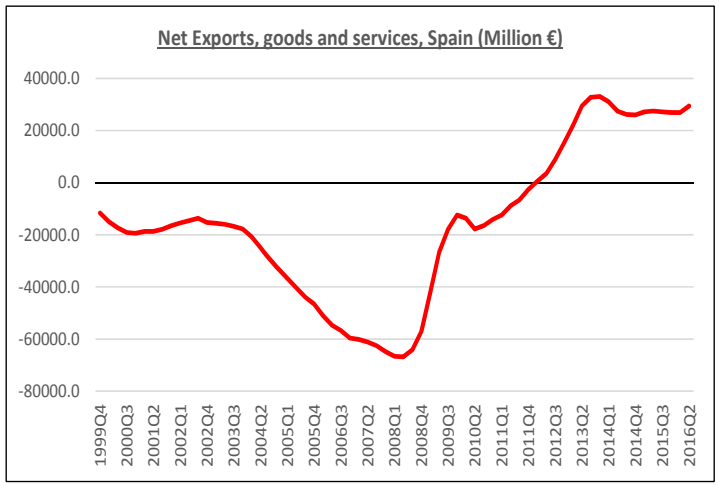

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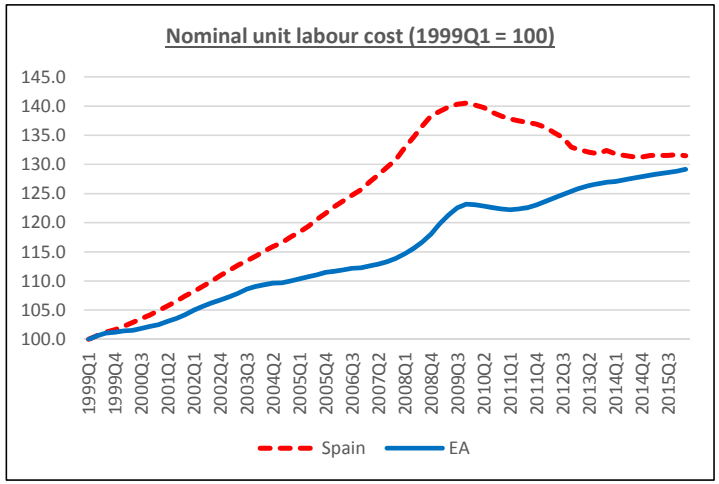

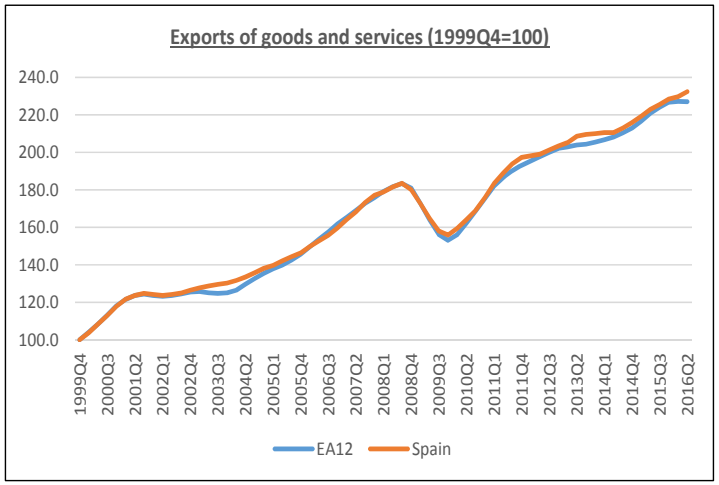

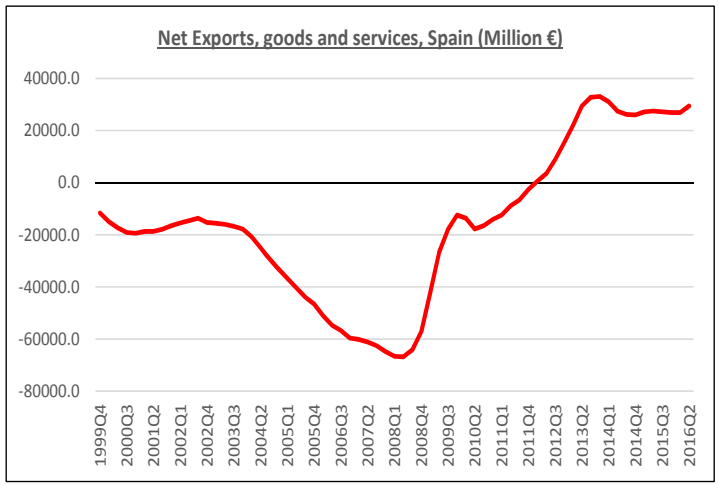

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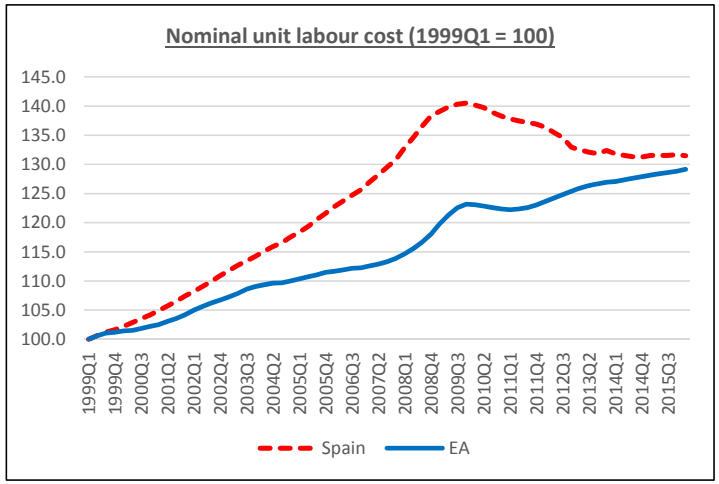

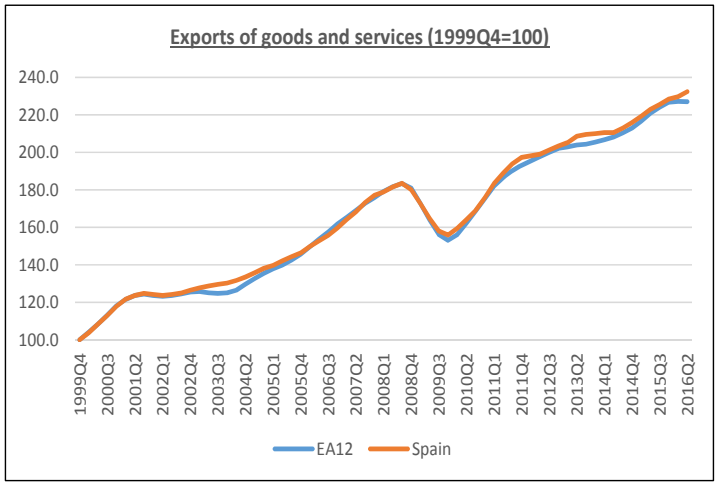

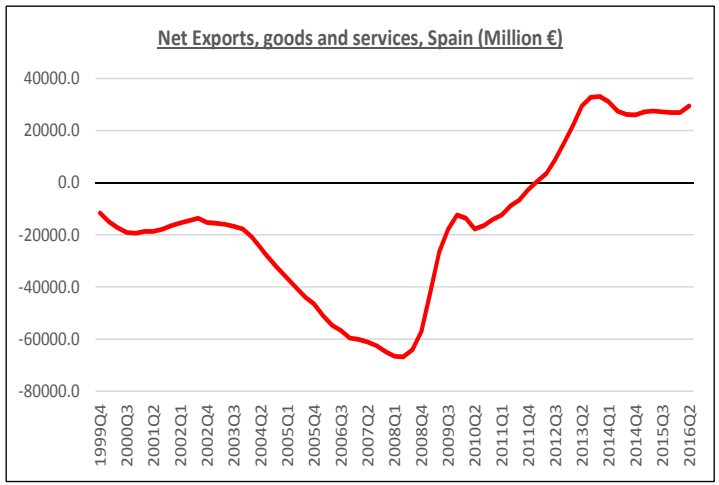

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- Complexity of products, technological differences and other structural competitiveness differences.

1.5. Competitiveness Authorities → what reference for ULC?

- No "optimal wage regime" is explicitly defined, considering macroeconomic objectives. Implicitly → country where ULC growth is lower.

  - ❖ Chagny and Husson (2015): two objectives (homogeneous wage growth within each country, in line with average labour productivity + upward convergence of real wages among countries) and one constraint (cannot lead to systematic distorsion of cost competitiveness).
  - ❖ Hein and Detzer (2015): nominal wages should rise according to the sum of long-run average growth of labour productivity in the national economy plus the target rate of inflation for the Euro area as a whole → ULC growth = 2%.

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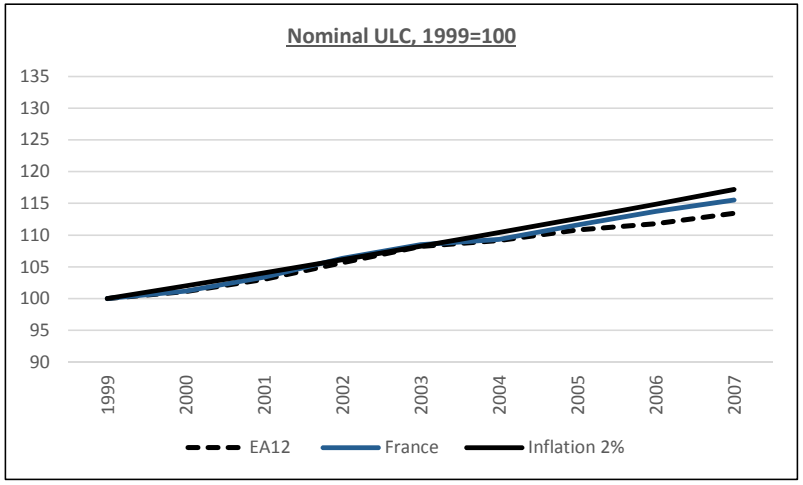

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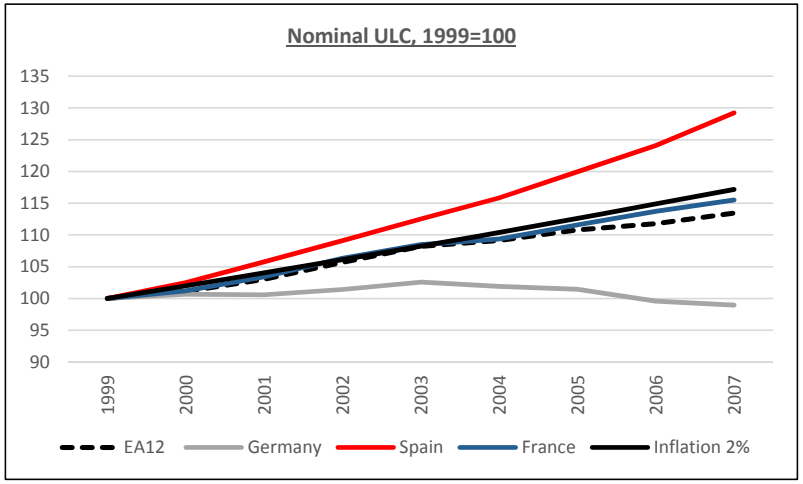

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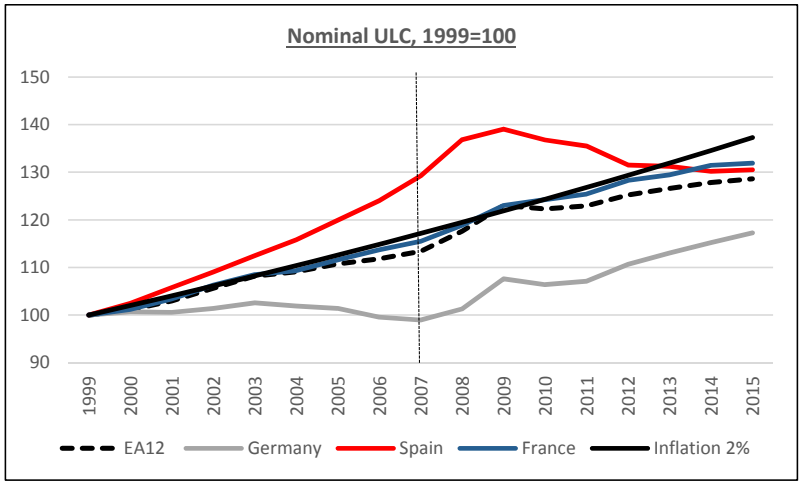
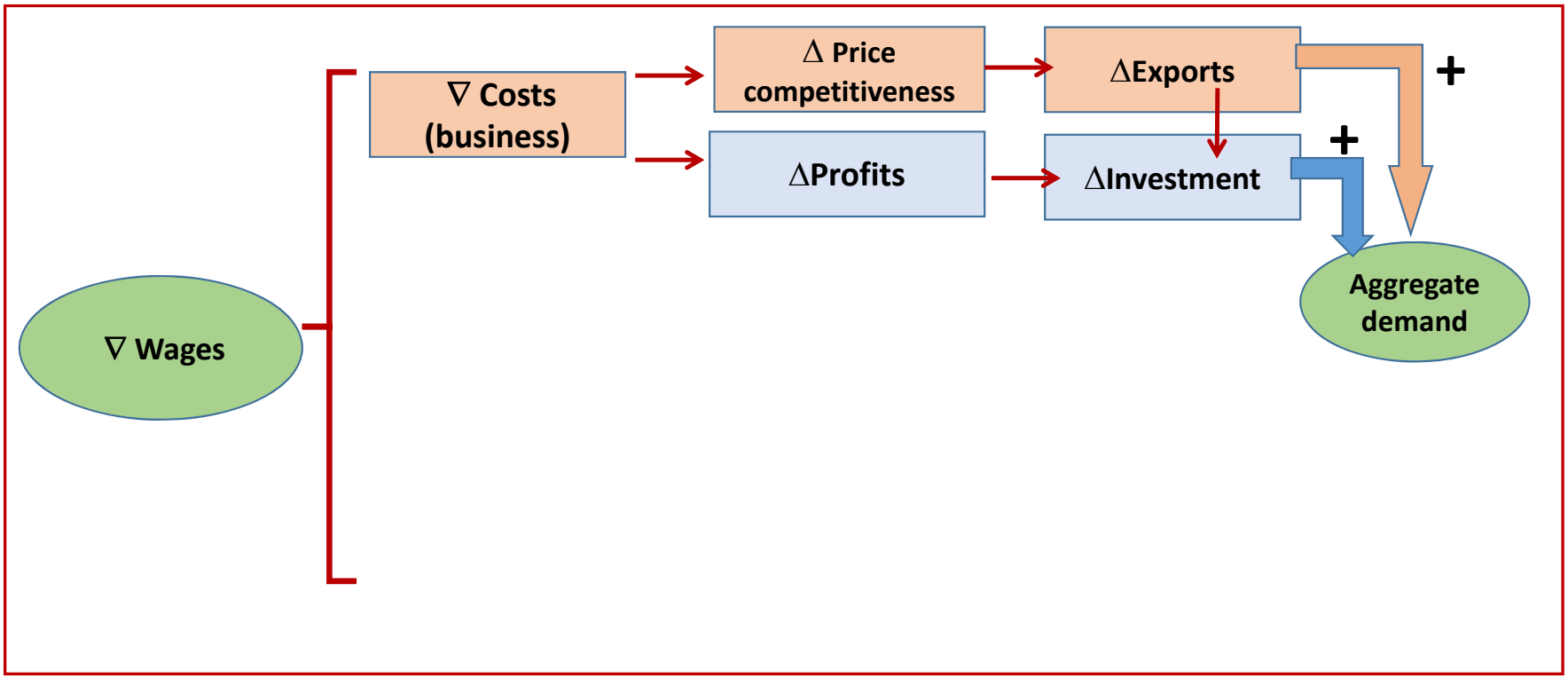


2. Wage restraint policies and the wage-led character of the European economies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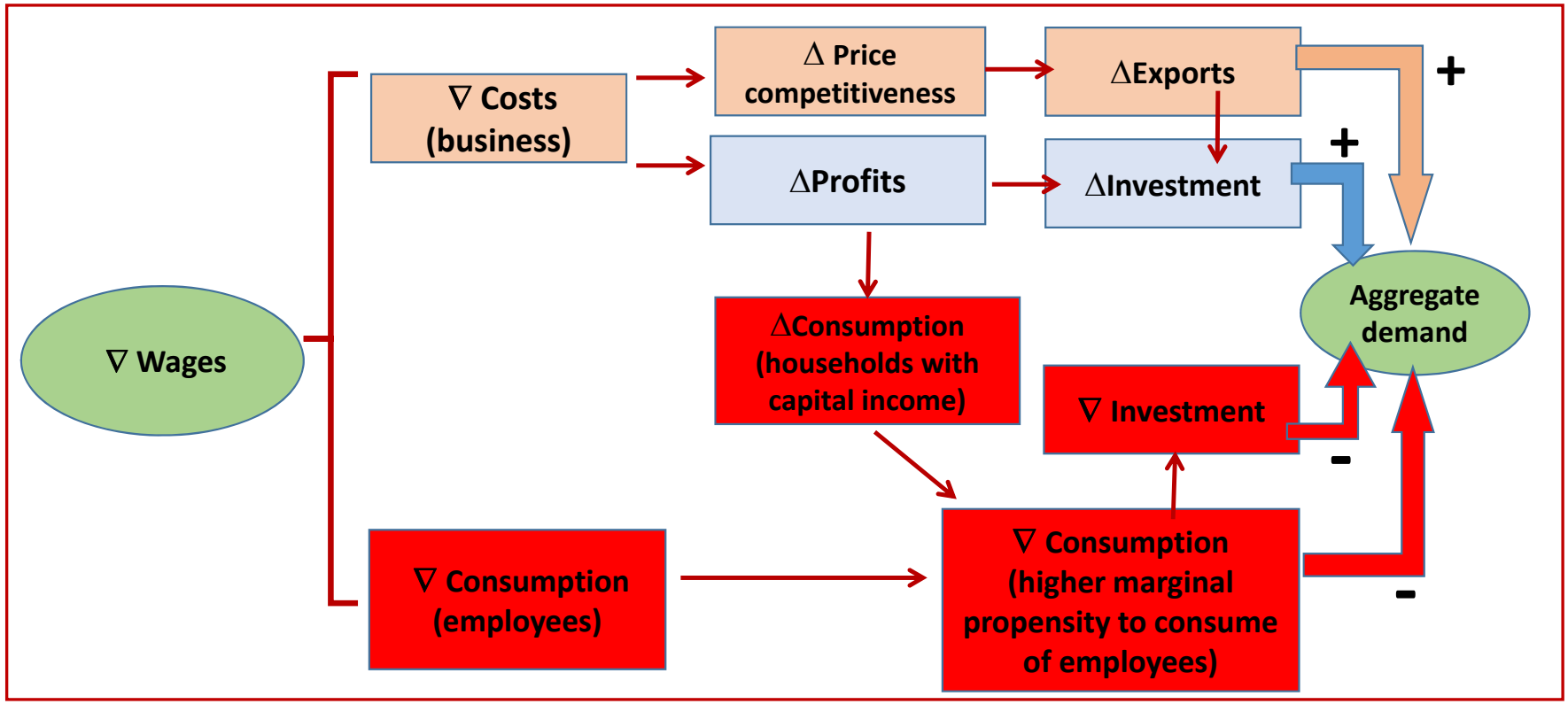
Aggregate demand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Aggregate demand
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∇ Consumption (employees)
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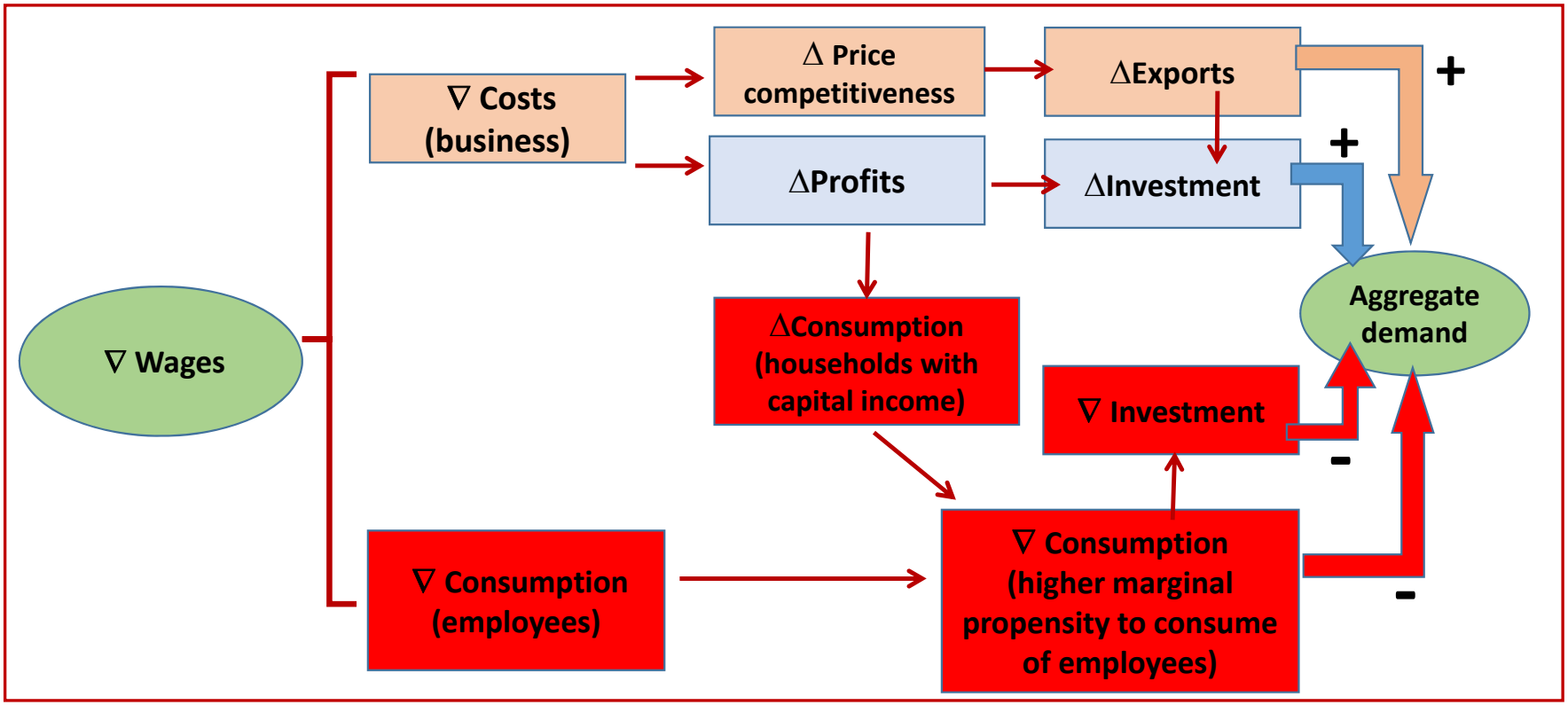

Bhaduri & Marglin (1990) → Wage-led versus profit-led economies.

	The effect of a 1%-point increase in the profit share in only one country on:								
	C/Y A	I/Y B	X/Y C	M/Y D	NX/Y E (C-D)	Private excess demand / Y F (A+B+E)	Multiplier G	% Change in aggregate demand (F*G) H	The effect of a simultaneous 1% - point increase in the profit share on % change in aggregate demand I
A	-0.277	0.000	0.234	-0.161	0.396	0.119	1.039	0.124	-0.185
B	-0.151	0.206	0.000	-0.053	0.053	0.108	0.740	0.080	0.009
DK	-0.155	0.169	0.185	0.000	0.185	0.198	1.246	0.247	0.107
FIN	-0.243	0.000	0.074	0.000	0.074	-0.169	1.316	-0.222	-0.304
F	-0.324	0.101	0.062	-0.078	0.140	-0.083	1.559	-0.129	-0.228
D	-0.397	0.000	0.049	0.000	0.049	-0.348	1.136	-0.395	-0.442
GR	-0.564	0.000	0.099	0.000	0.099	-0.465	1.984	-0.923	-1.027
IRL	-0.229	0.161	0.000	-0.074	0.074	0.006	0.863	0.005	-0.066
I	-0.410	0.156	0.050	-0.087	0.137	-0.117	1.451	-0.170	-0.238
L	-0.153	0.000	0.000	0.000	0.000	-0.153	0.535	-0.082	-0.128
NL	-0.322	0.078	0.000	-0.069	0.069	-0.175	0.820	-0.144	-0.191
P	-0.402	0.000	0.000	-0.182	0.182	-0.219	1.546	-0.339	-0.477
E	-0.410	0.088	0.044	-0.068	0.113	-0.210	2.147	-0.450	-0.544
S	-0.388	0.128	0.057	-0.056	0.113	-0.147	1.058	-0.155	-0.271
UK	-0.252	0.000	0.074	-0.066	0.140	-0.112	1.129	-0.126	-0.195
EU15 GDP									-0.298*

Notes: A = Austria, B = Belgium, DK = Denmark, FIN = Finland, F = France, D = Germany, GR = Greece, IRL = Ireland, I = Italy, L = Luxembourg, NL = Netherlands, P = Portugal, E = Spain, S = Sweden, UK = United Kingdom

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Onaran and Obst (2015)

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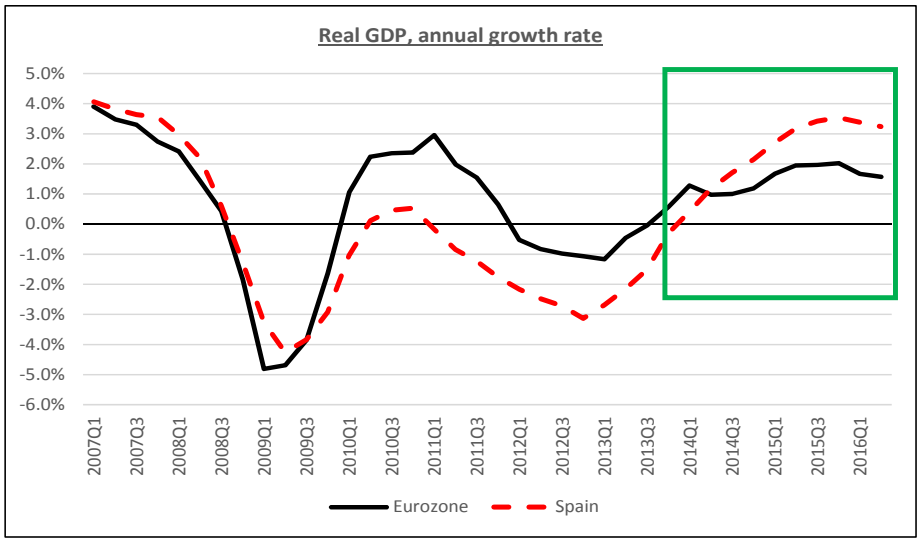
FIN	-0.243	0.000	0.074	0.000	0.074	-0.169	1.316	-0.222	-0.304
F	-0.324	0.101	0.062	-0.078	0.140	-0.083	1.559	-0.129	-0.228
D	-0.397	0.000	0.049	0.000	0.049	-0.348	1.136	-0.395	-0.442
GR	-0.564	0.000	0.099	0.000	0.099	-0.465	1.984	-0.923	-1.027
IRL	-0.229	0.161	0.000	-0.074	0.074	0.006	0.863	0.005	-0.066
I	-0.410	0.156	0.050	-0.087	0.137	-0.117	1.451	-0.170	-0.238
L	-0.153	0.000	0.000	0.000	0.000	-0.153	0.535	-0.082	-0.128
NL	-0.322	0.078	0.000	-0.069	0.069	-0.175	0.820	-0.144	-0.191
P	-0.402	0.000	0.000	-0.182	0.182	-0.219	1.546	-0.339	-0.477
E	-0.410	0.088	0.044	-0.068	0.113	-0.210	2.147	-0.450	-0.544
S	-0.388	0.128	0.057	-0.056	0.113	-0.147	1.058	-0.155	-0.271
UK	-0.252	0.000	0.074	-0.066	0.140	-0.112	1.129	-0.126	-0.195
EU15 GDP									-0.298*

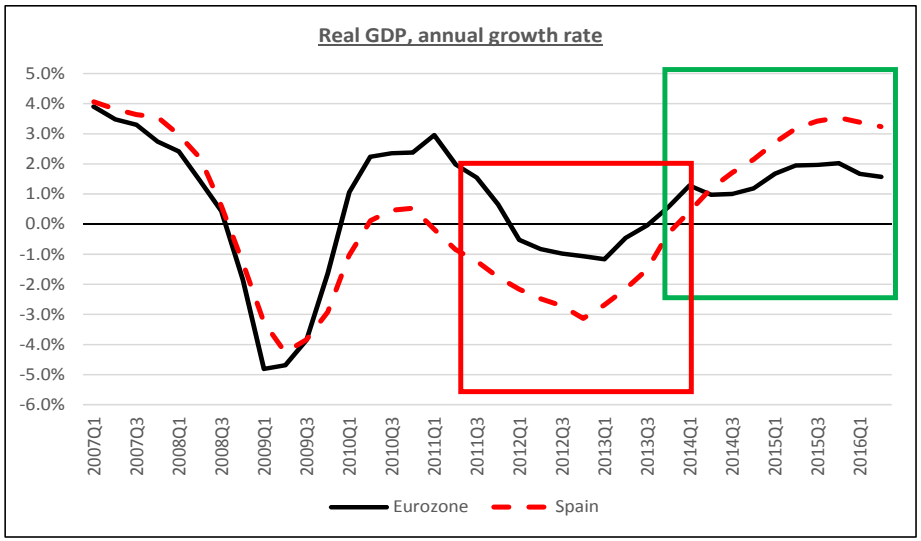
Notes: A = Austria, B = Belgium, DK = Denmark, FIN = Finland, F = France, D = Germany, GR = Greece, IRL = Ireland, I = Italy, L = Luxembourg, NL = Netherlands, P = Portugal, E = Spain, S = Sweden, UK = United Kingdom

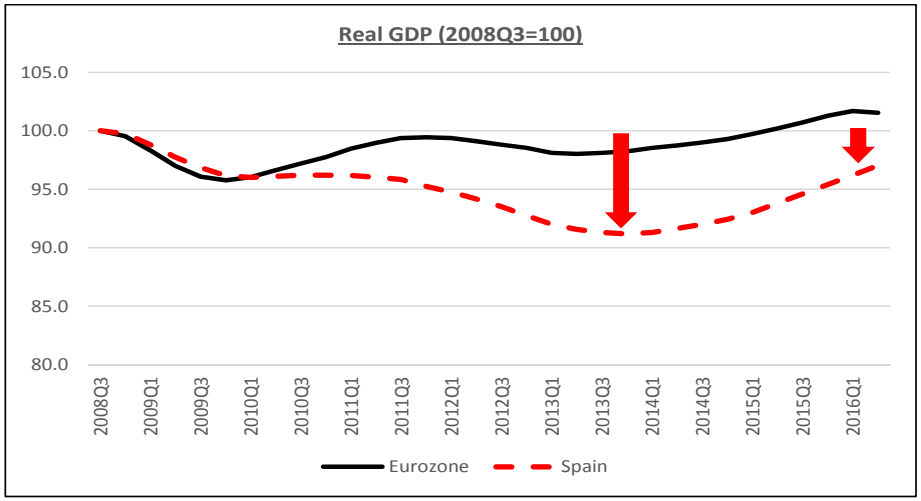
* The country specific growth rates from column I are multiplied with the weighted share of each country in EU15 GDP.

3. Recessive effects of internal devaluation and austerity policies: the case of Spain.



- ✓ Recent economic growth in Spain is sometimes presented as an evidence of a successful economic policy strategy which main elements are:
  - ❖ Internal devaluation, to improve competitiveness.
  - ❖ Fiscal austerity, to assure macroeconomic stability.
  - ❖ Structural reforms, to increase potential output.





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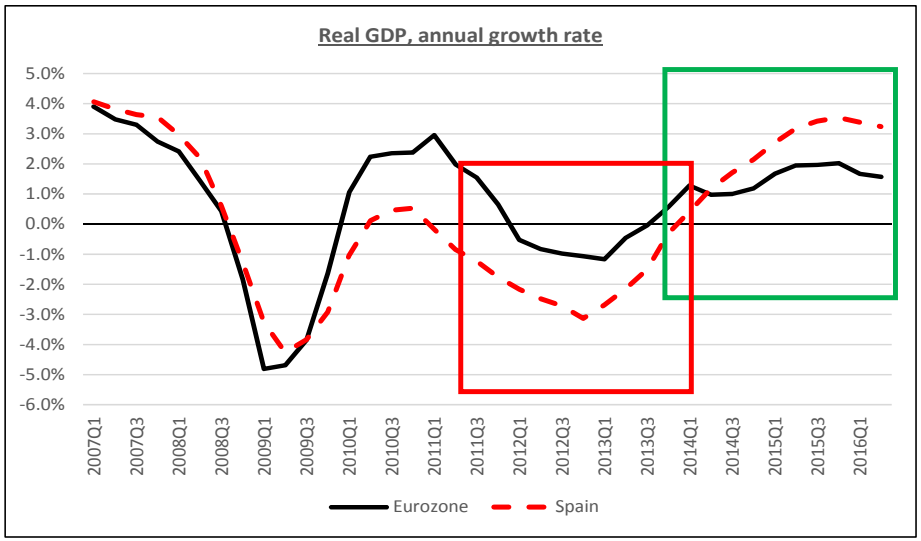
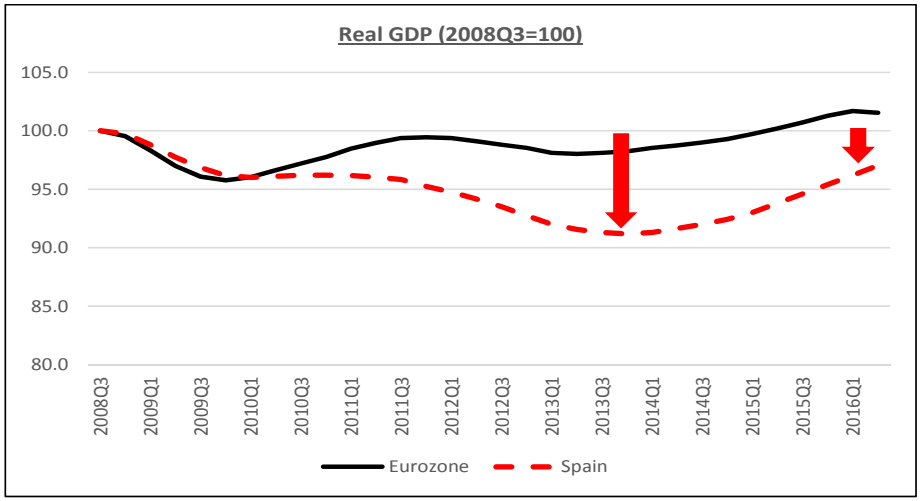
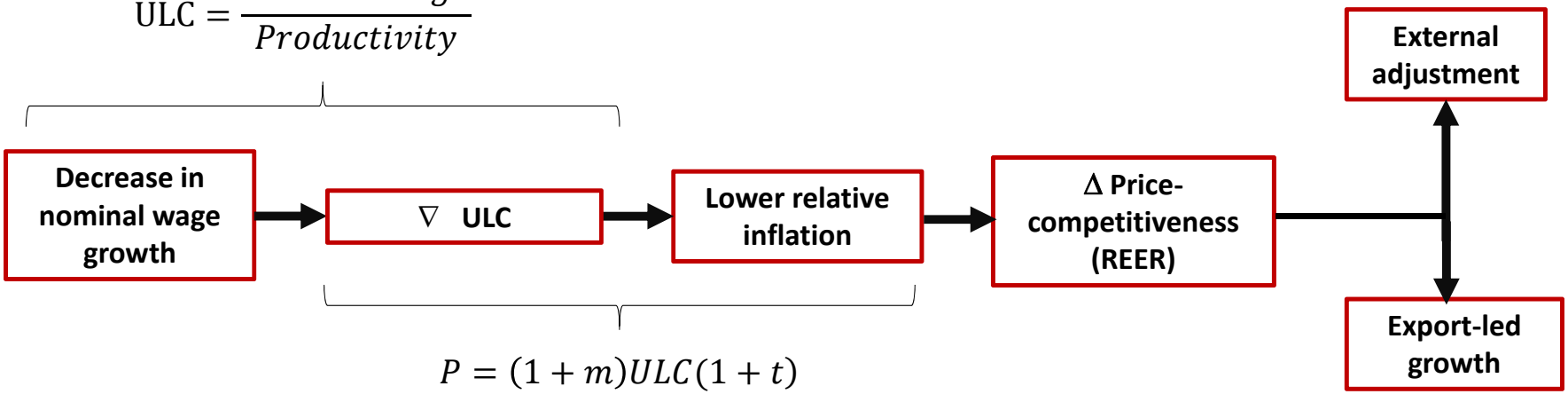




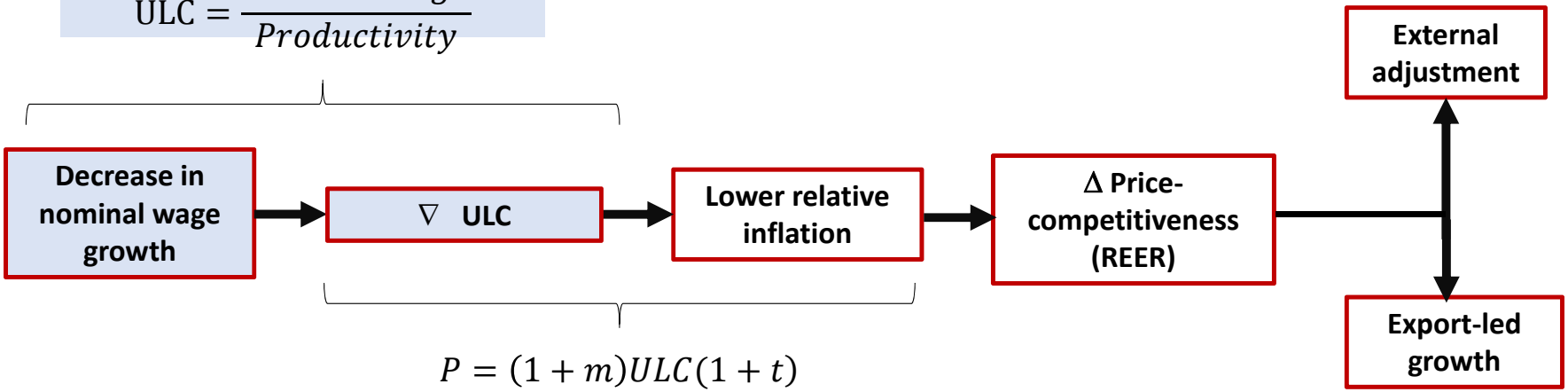
- ✓ Recent economic growth in Spain is sometimes presented as an evidence of a successful economic policy strategy which main elements are:
  - ❖ Internal devaluation, to improve competitiveness.
  - ❖ Fiscal austerity, to assure macroeconomic stability.
  - ❖ Structural reforms, to increase potential output.
- ✓ Specifically, "internal devaluation" policies have been justified with two main arguments: to correct external imbalances; to trigger an export-led growth recovery, compensating weak domestic demand.

$$\text{ULC} = \frac{Nominal\ wage}{Productivity}$$

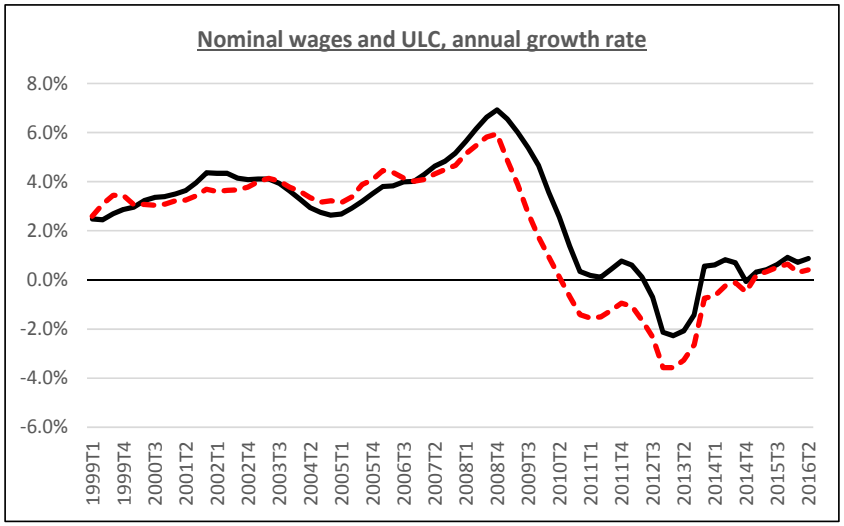


$$P = (1 + m)ULC(1 + t)$$

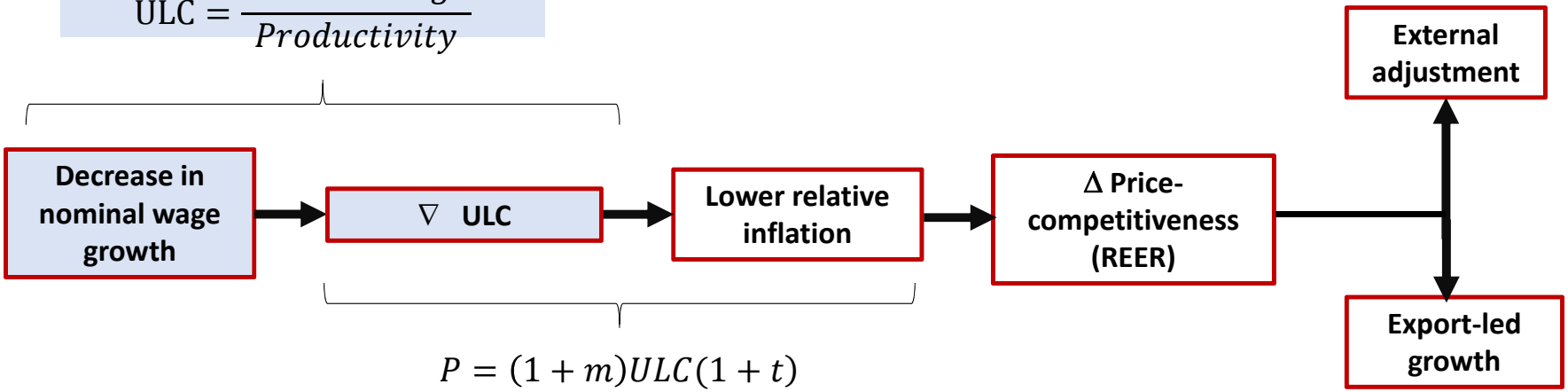
$$\text{ULC} = \frac{Nominal\ wage}{Productivity}$$



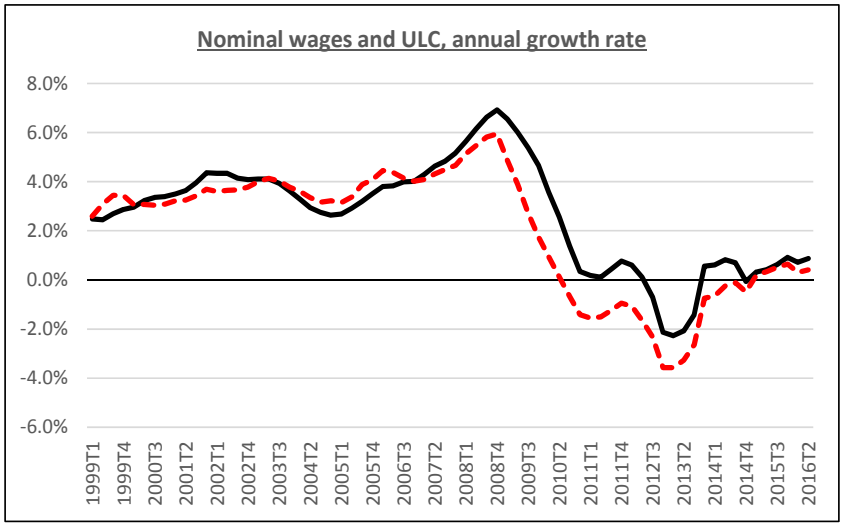
$$P = (1 + m)ULC(1 + t)$$

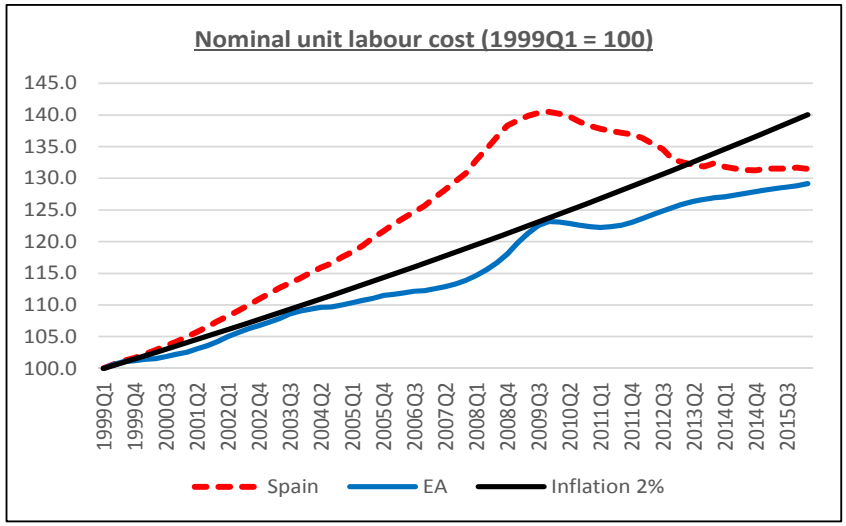


$$\text{ULC} = \frac{Nominal\ wage}{Productivity}$$



$$P = (1 + m)ULC(1 + t)$$





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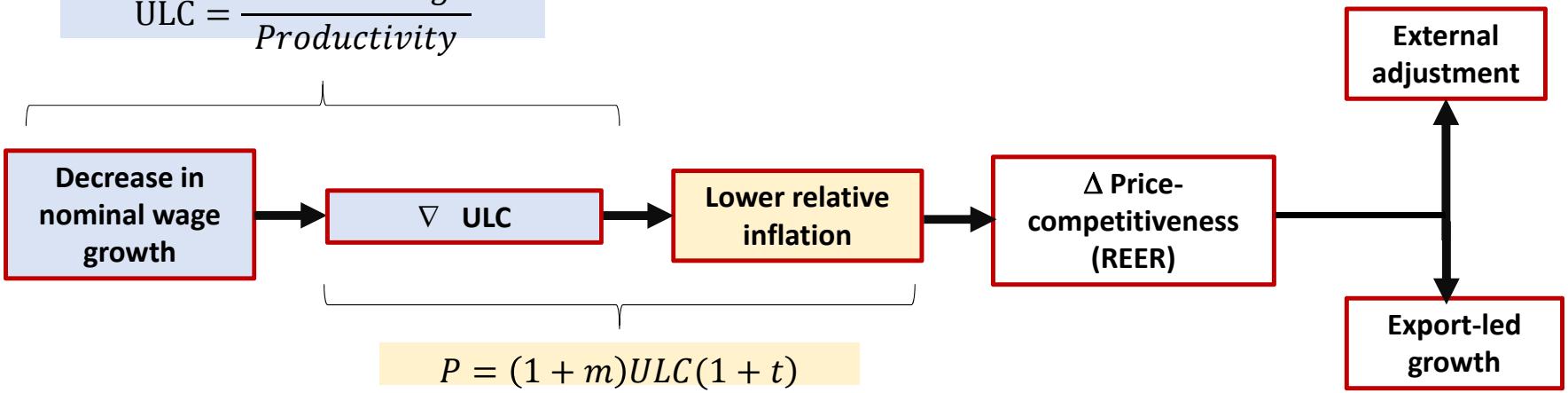
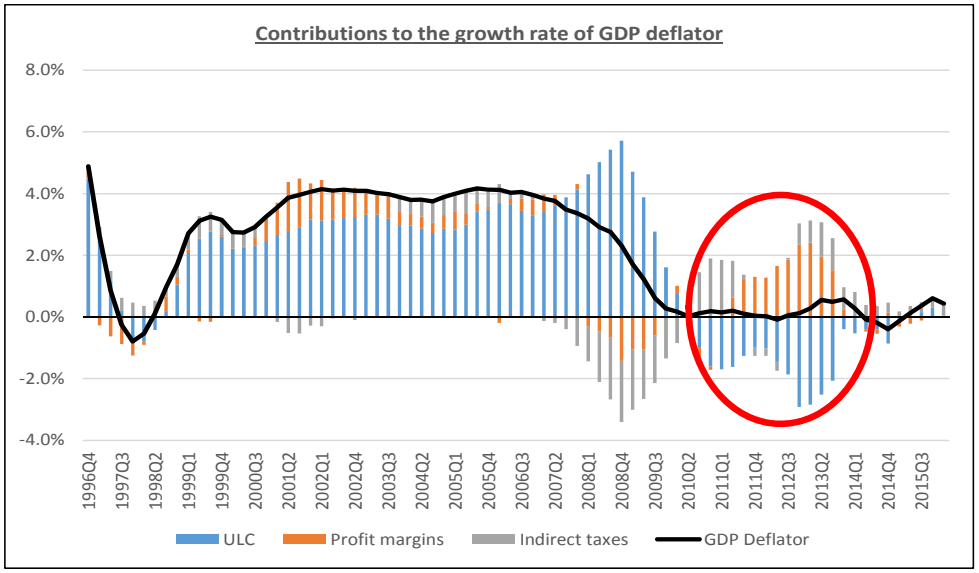
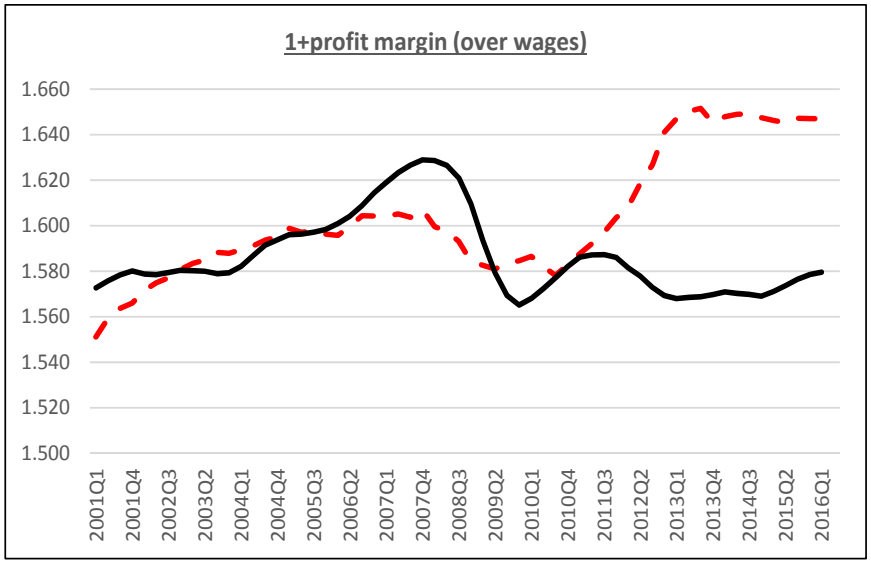
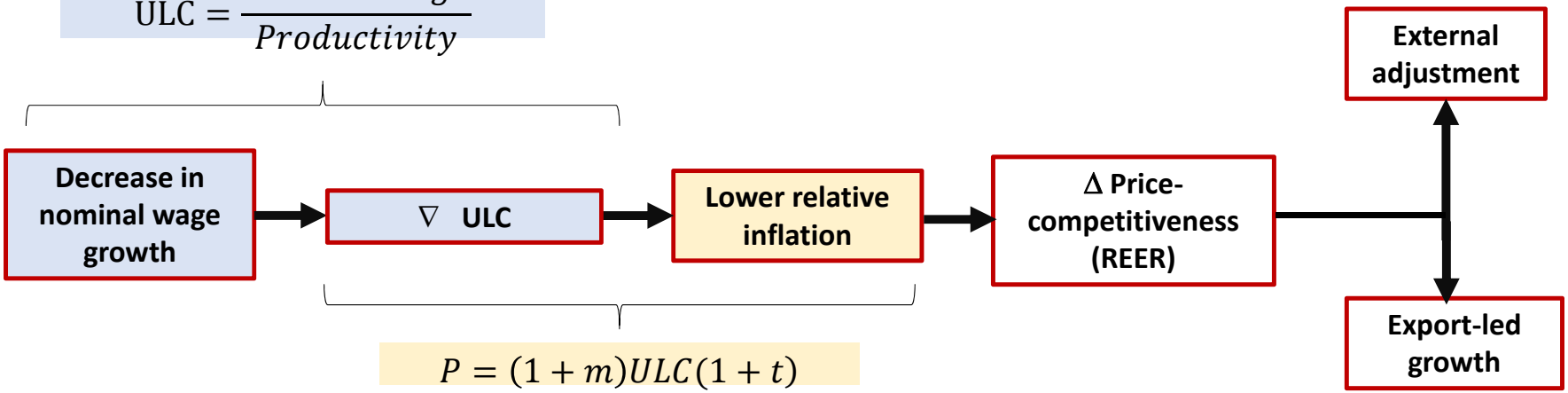


$$P = (1 + m)ULC(1 + t)$$





$$\text{ULC} = \frac{Nominal\ wage}{Productivity}$$



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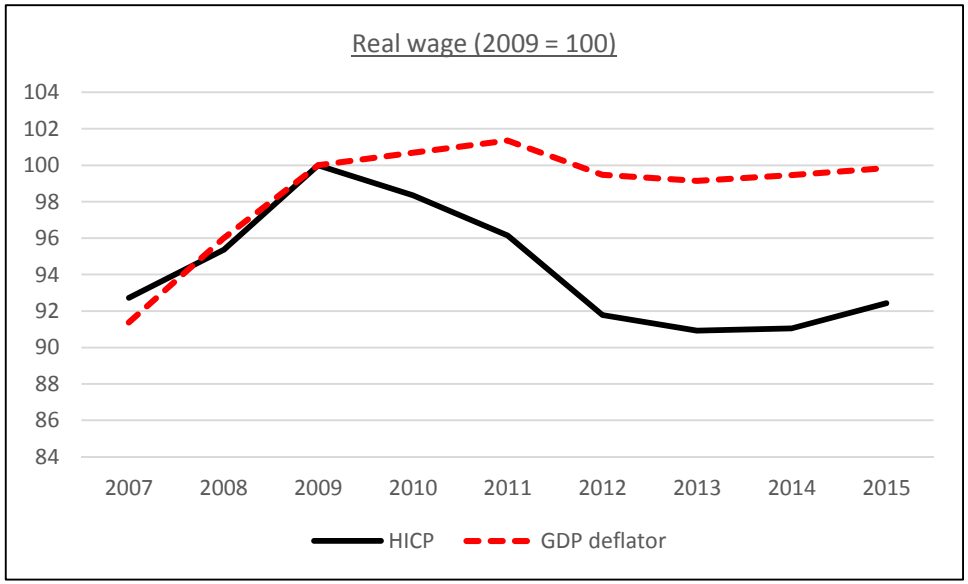
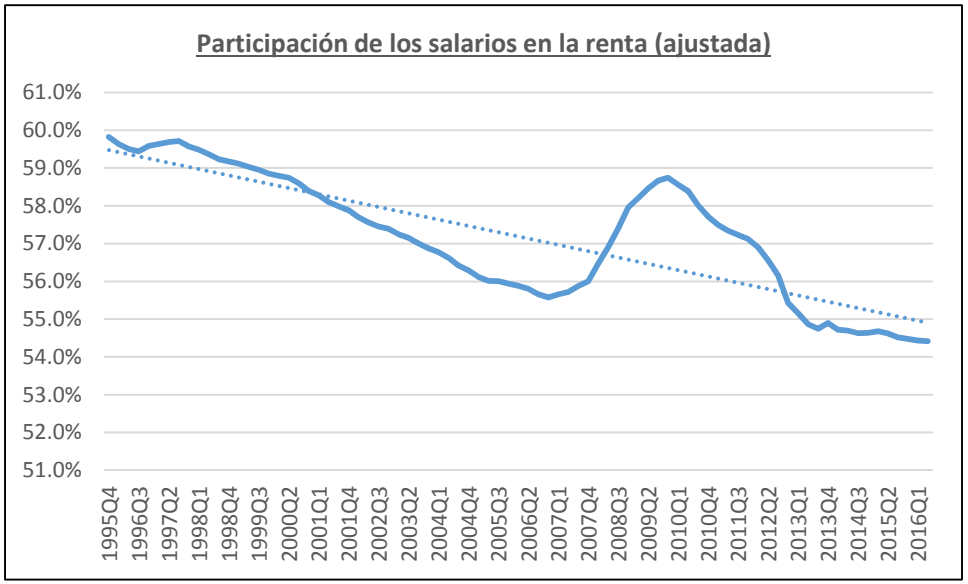
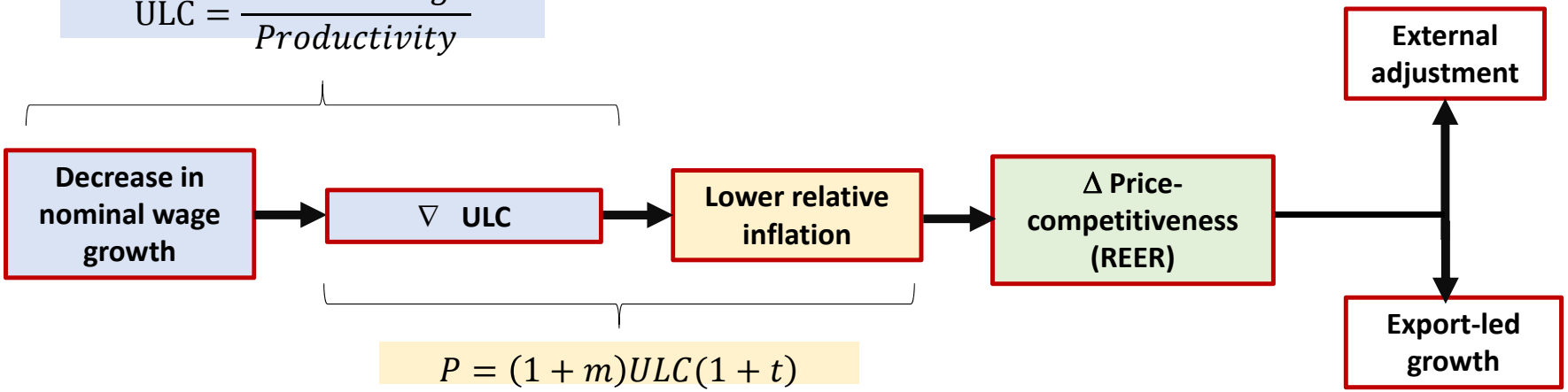
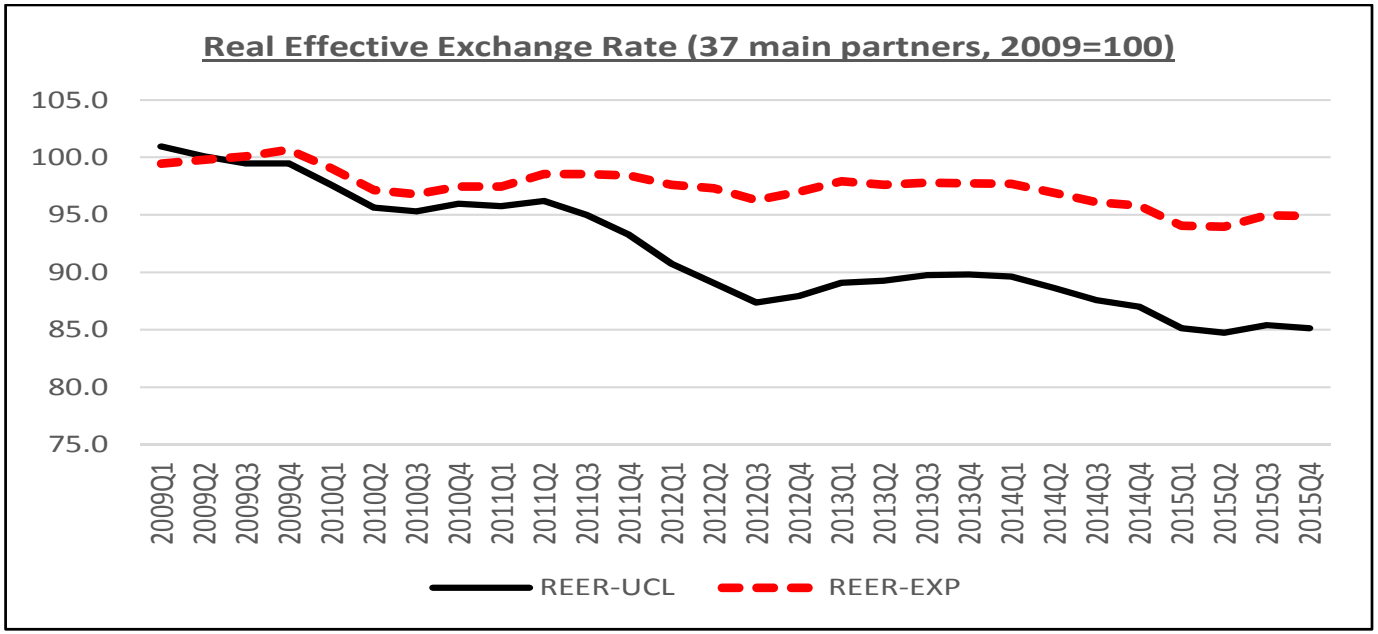




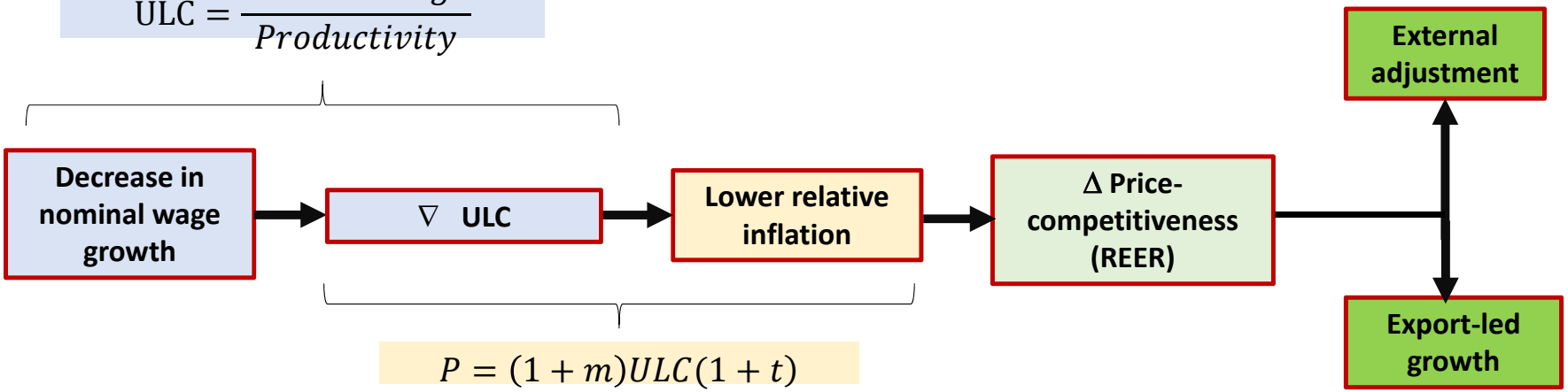
$$\text{ULC} = \frac{Nominal\ wage}{Productivity}$$



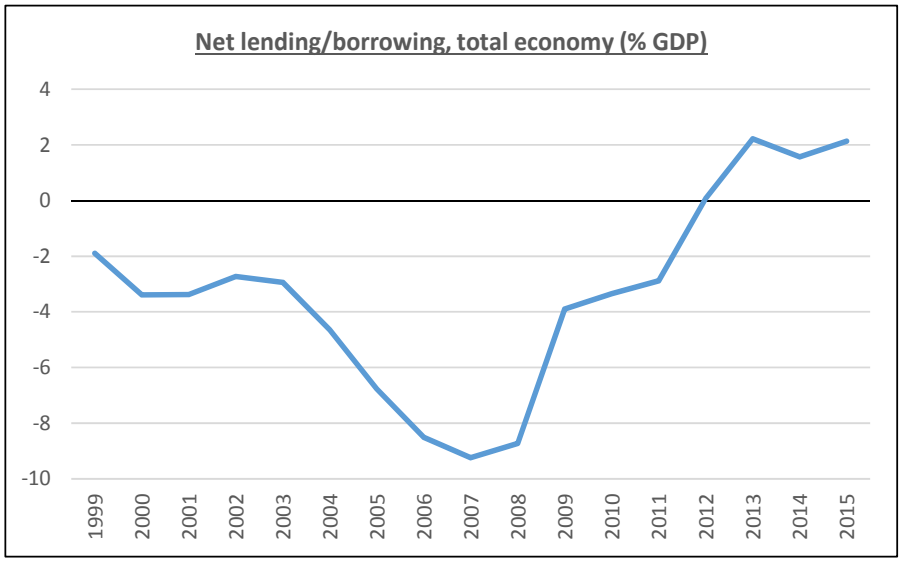
$$P = (1 + m)ULC(1 + t)$$

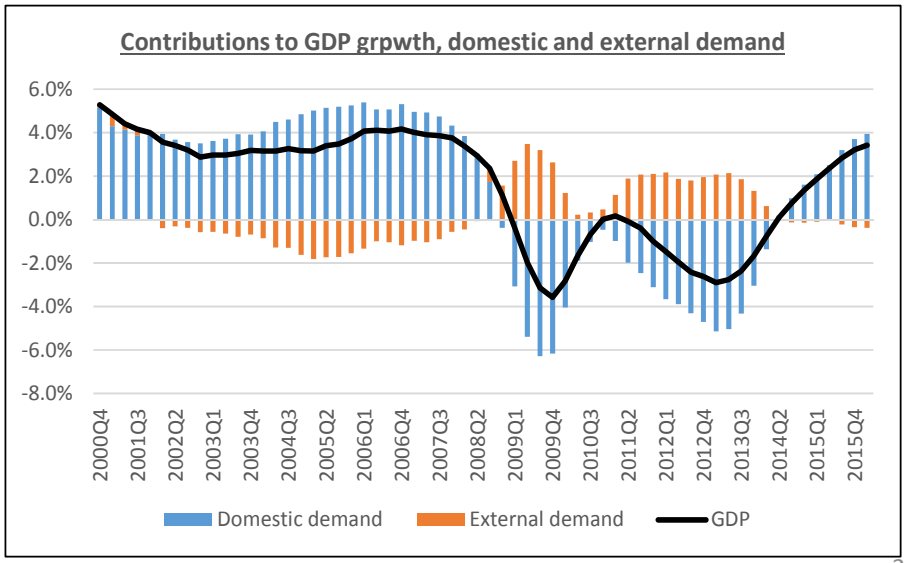


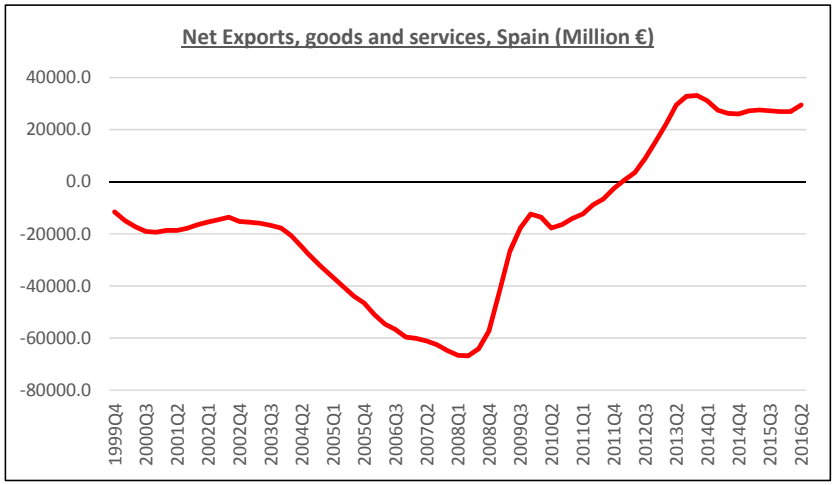
$$\text{ULC} = \frac{Nominal\ wage}{Productivity}$$

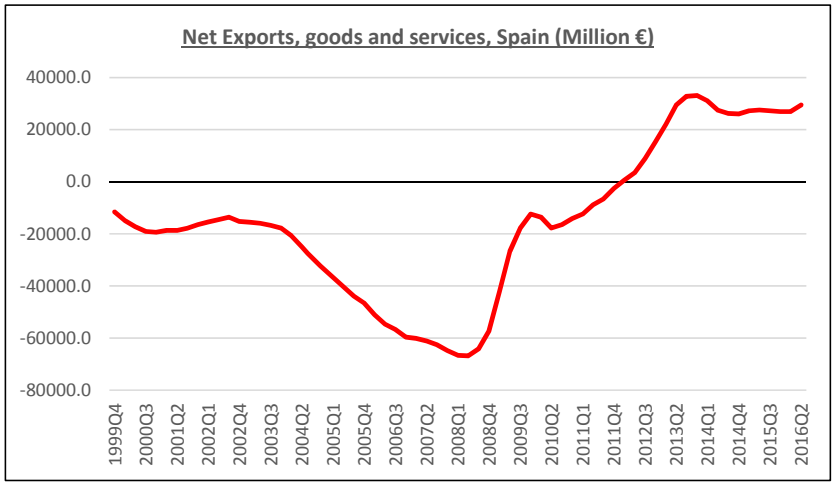


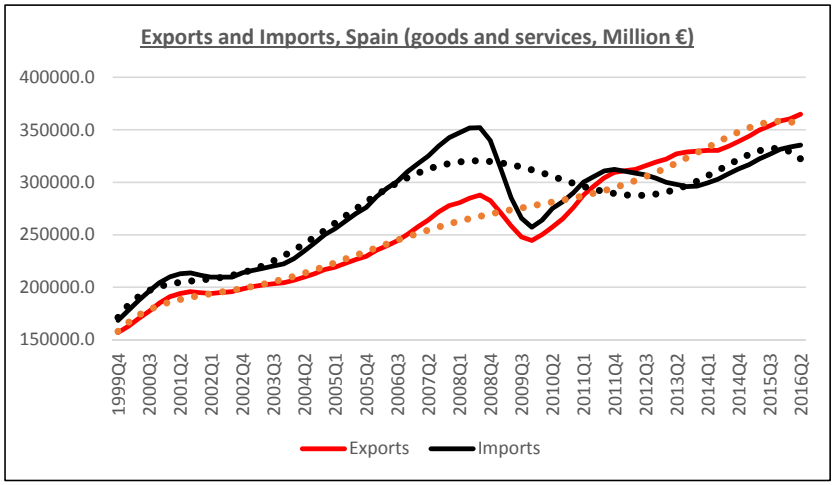
$$P = (1 + m)ULC(1 + t)$$

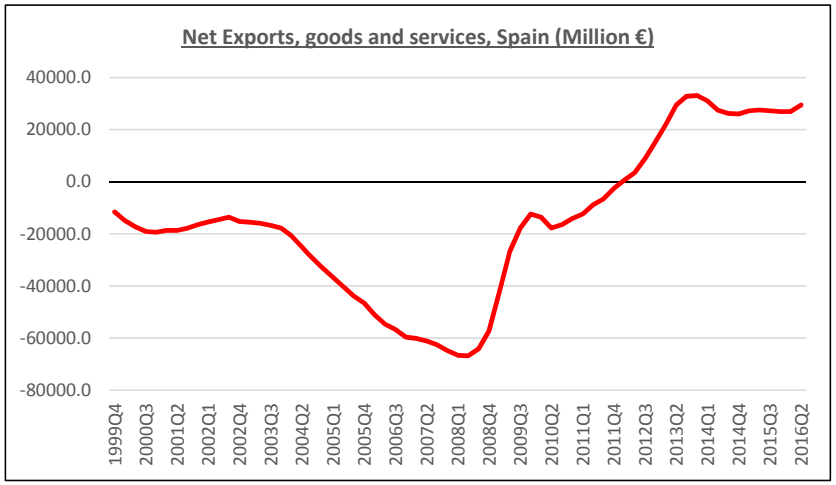





Net Exports, goods and services, Spain (Million €)
40000.0
20000.0
0.0
-20000.0
-40000.0
-60000.0
-80000.0
1999Q4
2000Q3
2001Q2
2002Q1
2002Q4
2003Q3
2004Q2
2005Q1
2005Q4
2006Q3
2007Q2
2008Q1
2008Q4
2009Q3
2010Q2
2011Q1
2011Q4
2012Q3
2013Q2
2014Q1
2014Q4
2015Q3
2016Q2


Net Exports, goods and services, Spain (Million €)
40000.0
20000.0
0.0
-20000.0
-40000.0
-60000.0
-80000.0
1999Q4
2000Q3
2001Q2
2002Q1
2002Q4
2003Q3
2004Q2
2005Q1
2005Q4
2006Q3
2007Q2
2008Q1
2008Q4
2009Q3
2010Q2
2011Q1
2011Q4
2012Q3
2013Q2
2014Q1
2014Q4
2015Q3
2016Q2


Exports and Imports, Spain (goods and services, Million €)
400000.0
350000.0
300000.0
250000.0
200000.0
150000.0
1999Q4
2000Q3
2001Q2
2002Q1
2002Q4
2003Q3
2004Q2
2005Q1
2005Q4
2006Q3
2007Q2
2008Q1
2008Q4
2009Q3
2010Q2
2011Q1
2011Q4
2012Q3
2013Q2
2014Q1
2014Q4
2015Q3
2016Q2
Exports
Imports


Net Exports, goods and services, Spain (Million €)
40000.0
20000.0
0.0
-20000.0
-40000.0
-60000.0
-80000.0
1999Q4
2000Q3
2001Q2
2002Q1
2002Q4
2003Q3
2004Q2
2005Q1
2005Q4
2006Q3
2007Q2
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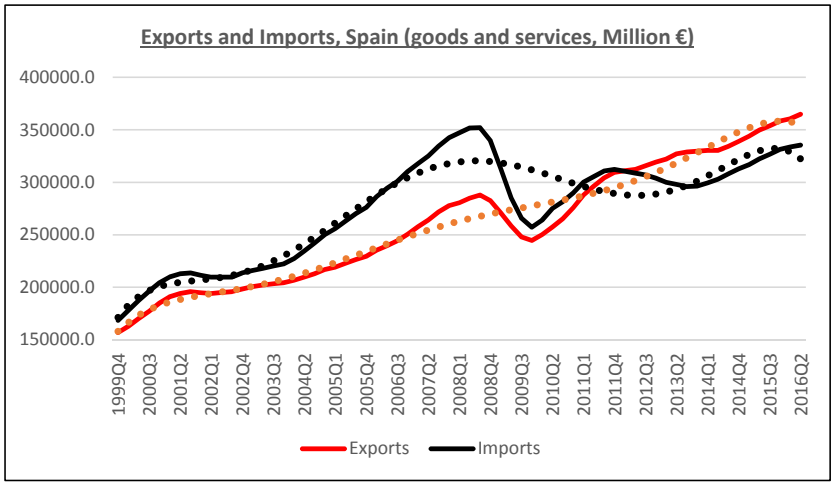
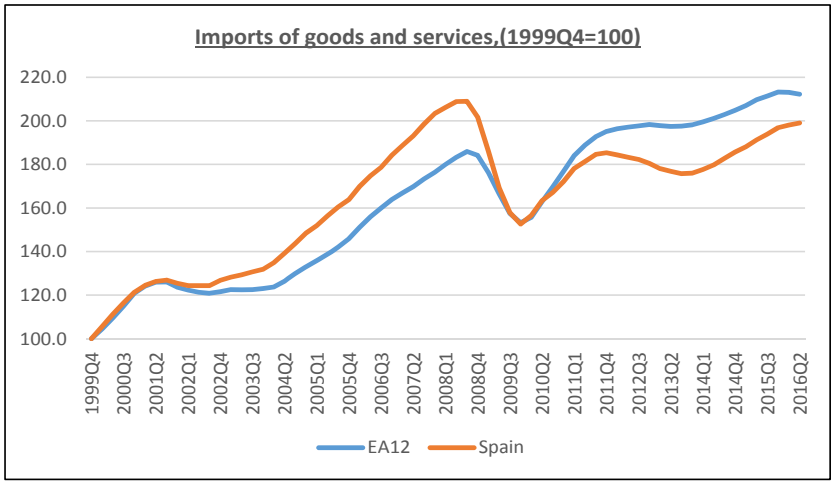
2013Q2
2014Q1
2014Q4
2015Q3
2016Q2


Exports and Imports, Spain (goods and services, Million €)
400000.0
350000.0
300000.0
250000.0
200000.0
150000.0
1999Q4
2000Q3
2001Q2
2002Q1
2002Q4
2003Q3
2004Q2
2005Q1
2005Q4
2006Q3
2007Q2
2008Q1
2008Q4
2009Q3
2010Q2
2011Q1
2011Q4
2012Q3
2013Q2
2014Q1
2014Q4
2015Q3
2016Q2
Exports
Imports

Exports of goods and services (1999Q4=100)
240.0
220.0
200.0
180.0
160.0
140.0
120.0
100.0
1999Q4
2000Q3
2001Q2
2002Q1
2002Q4
2003Q3
2004Q2
2005Q1
2005Q4
2006Q3
2007Q2
2008Q1
2008Q4
2009Q3
2010Q2
2011Q1
2011Q4
2012Q3
2013Q2
2014Q1
2014Q4
2015Q3
2016Q2
EA12
Spain


Imports of goods and services,(1999Q4=100)
220.0
200.0
180.0
160.0
140.0
120.0
100.0
1999Q4
2000Q3
2001Q2
2002Q1
2002Q4
2003Q3
2004Q2
2005Q1
2005Q4
2006Q3
2007Q2
2008Q1
2008Q4
2009Q3
2010Q2
2011Q1
2011Q4
2012Q3
2013Q2
2014Q1
2014Q4
2015Q3
2016Q2
EA12
Spain

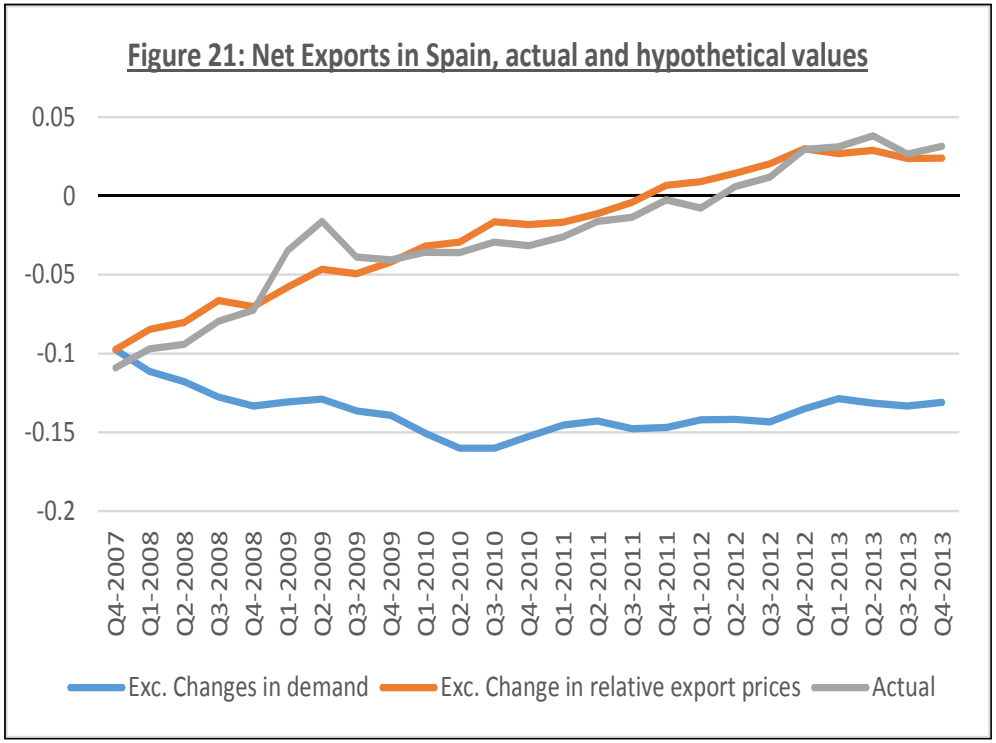


Figure 21: Net Exports in Spain, actual and hypothetical values
0.05
0
-0.05
-0.1
-0.15
-0.2
Q4-2007
Q1-2008
Q2-2008
Q3-2008
Q4-2008
Q1-2009
Q2-2009
Q3-2009
Q4-2009
Q1-2010
Q2-2010
Q3-2010
Q4-2010
Q1-2011
Q2-2011
Q3-2011
Q4-2011
Q1-2012
Q2-2012
Q3-2012
Q4-2012
Q1-2013
Q2-2013
Q3-2013
Q4-2013
Exc. Changes in demand
Exc. Change in relative export prices
Actual

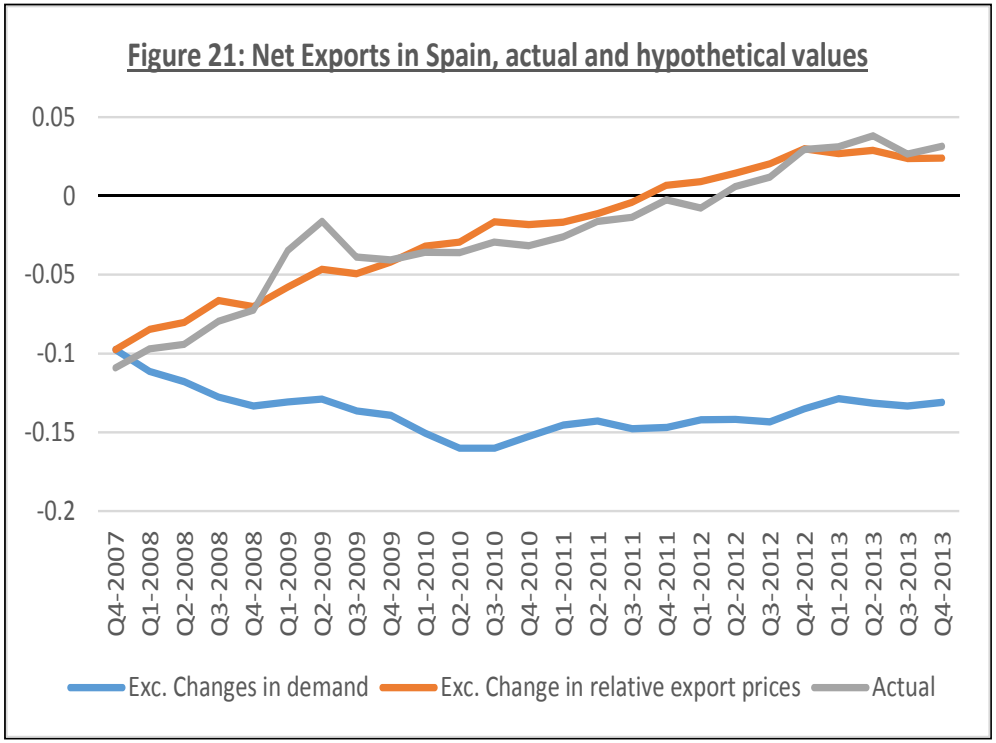
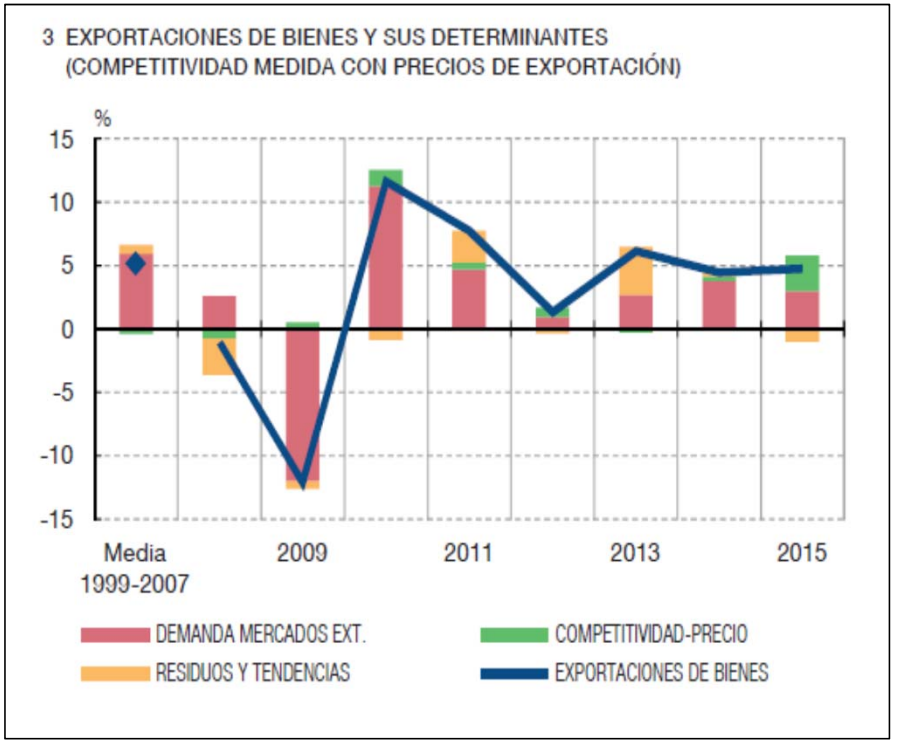
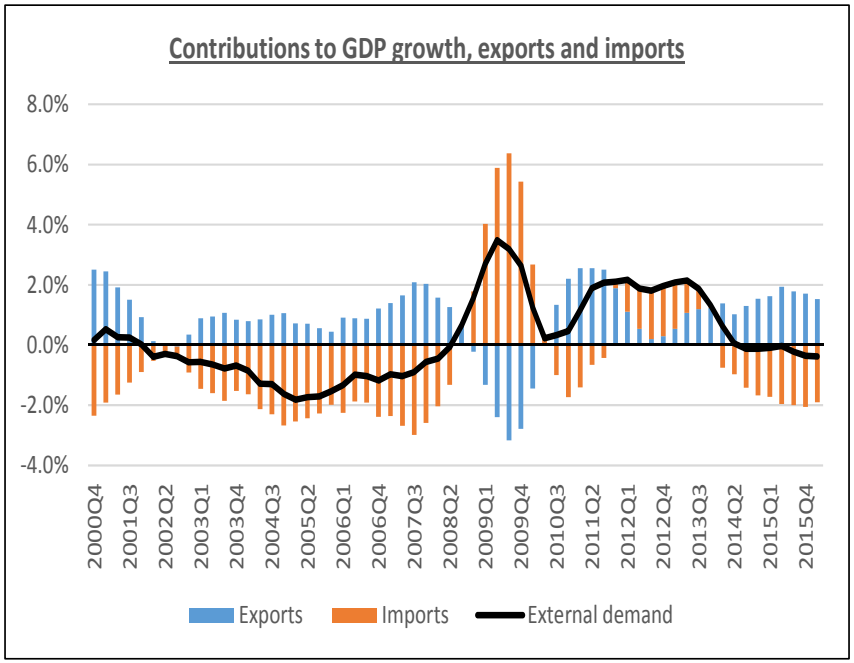
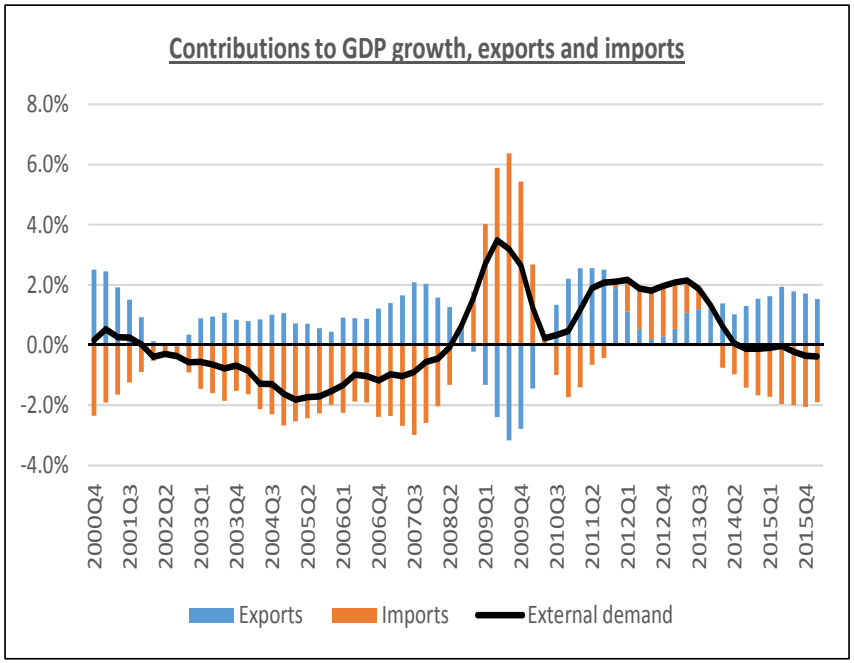


Figure 21: Net Exports in Spain, actual and hypothetical values
0.05
0
-0.05
-0.1
-0.15
-0.2
Q4-2007
Q1-2008
Q2-2008
Q3-2008
Q4-2008
Q1-2009
Q2-2009
Q3-2009
Q4-2009
Q1-2010
Q2-2010
Q3-2010
Q4-2010
Q1-2011
Q2-2011
Q3-2011
Q4-2011
Q1-2012
Q2-2012
Q3-2012
Q4-2012
Q1-2013
Q2-2013
Q3-2013
Q4-2013
Exc. Changes in demand
Exc. Change in relative export prices
Actual

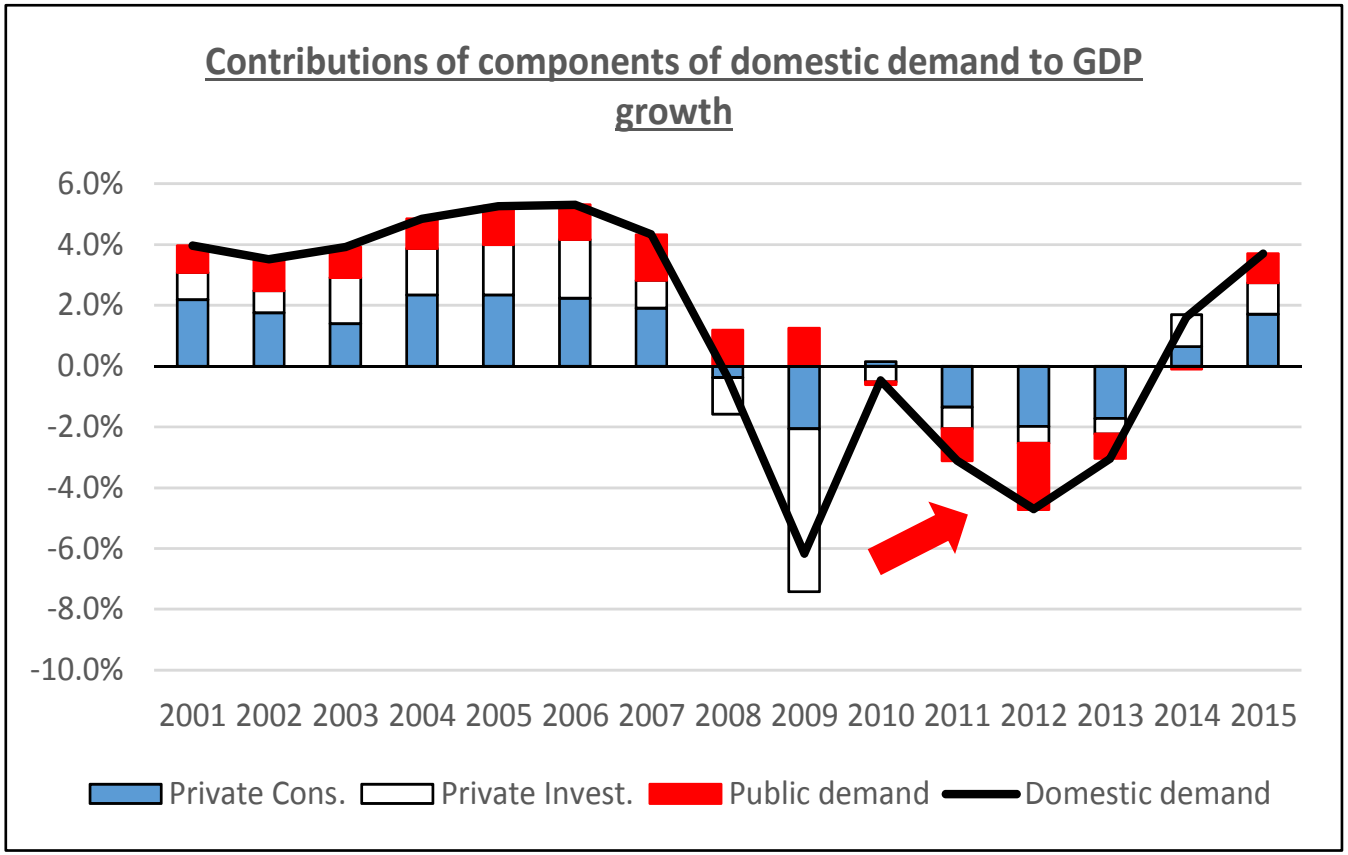

3 EXPORTACIONES DE BIENES Y SUS DETERMINANTES
(COMPETITIVIDAD MEDIDA CON PRECIOS DE EXPORTACIÓN)
%
15
10
5
0
-5
-10
-15
Media
1999-2007
2009
2011
2013
2015
DEMANDA MERCADOS EXT.
COMPETITIVIDAD-PRECIO
RESIDUOS Y TENDENCIAS
EXPORTACIONES DE BIENES

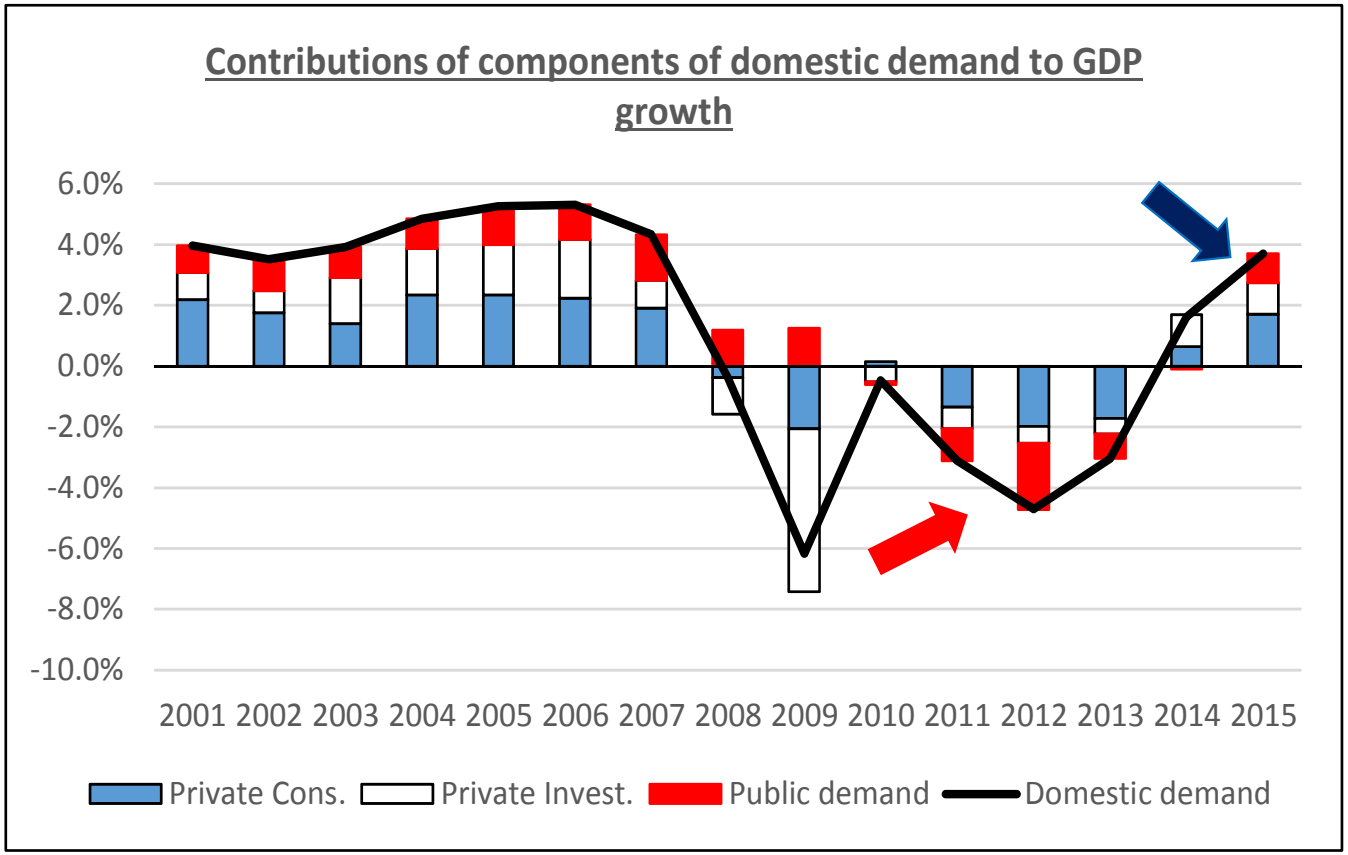


Spain		2001-2007	2010-2013	2014-2016
Contribution to GDP growth	Domestic Demand	4.4%	-2.8%	2.7%
	External Demand	-0.9%	1.5%	-0.2%
	* Exports	1.0%	1.4%	1.6%
	* Imports	-1.9%	0.1%	-1.9%
	Total GDP	3.6%	-1.4%	2.4%
Real growth rate	Exports	4.1%	4.4%	5.0%
	Imports	6.7%	-1.5%	6.0%



Spain		2001-2007	2010-2013	2014-2016
Contribution to GDP growth	Domestic Demand	4.4%	-2.8%	2.7%
	External Demand	-0.9%	1.5%	-0.2%
	* Exports	1.0%	1.4%	1.6%
	* Imports	-1.9%	0.1%	-1.9%
	Total GDP	3.6%	-1.4%	2.4%
Real growth rate	Exports	4.1%	4.4%	5.0%
	Imports	6.7%	-1.5%	6.0%


Contributions of components of domestic demand to GDP growth
6.0%
4.0%
2.0%
0.0%
-2.0%
-4.0%
-6.0%
-8.0%
-10.0%
2001 2002 2003 2004 2005 2006 2007 2008 2009 2010 2011 2012 2013 2014 2015
Private Cons.
Private Invest.
Public demand
Domestic demand


Contributions of components of domestic demand to GDP growth
6.0%
4.0%
2.0%
0.0%
-2.0%
-4.0%
-6.0%
-8.0%
-10.0%
2001 2002 2003 2004 2005 2006 2007 2008 2009 2010 2011 2012 2013 2014 2015
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4. Balance-of-Payment-Constrained Growth Rate (BPCGR) and current account imbalances within the Eurozone.

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- A new perspective on internal devaluation in Spain: has it solved the historic dependence on imports? Will higher growth be sustainable?

  - ❖ Productive structure; energy dependency.

Competitiveness. A prerequisite for wellbeing and convergence in Europe?

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THANK YOU

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Vienna
September 22-23, 2016