Remarks on Competitiveness

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Defining competitiveness

1. Surprisingly controversial

2. My definition: The right level of competitiveness is when:
   External balance is appropriate

3. "Appropriate" different from "Sustainable"
   Sustainable: Not too low
   Appropriate: Not too low, not too high

4. Many of my remarks: methodological because
   A number of controversies/misunderstandings.
   Result often: Dialogue of the deaf

Relation between Competitiveness and Productivity

1. Discussion about how to call the National Councils.

2. Conceptually very different.
   - Productivity: Absolute
     - Everybody can be more productive
   - Competitiveness: relative.
     - Not everybody can be more competitive

3. Higher productivity good on its own.
   - But if matched by wage growth, no improvement in competitiveness.
   - Higher productivity growth however greases the wheels
   - Makes it easier to limit wage growth and improve competitiveness.

Assessing appropriateness

1. "Appropriate" does not mean zero current account balance

    Should be positive if: adverse demographics, etc.

    Should be negative if: high expected growth, etc.

    Will vary with the cycle

2. Leads to a current account "norm"

    Appropriateness: small deviation from the norm

    According to IMF ESR:

    Germany above it (by a lot). Sustainable but not appropriate

    France below it (by a little).

Why not look at relative prices, relative ULCs instead?

1. Put simply: Poor relation to the current account.
   Prices play a role. But:
   Clearly many other factors at play.

2. Empirically, major role for ``non price competitiveness"
   Non price competitiveness is the unexplained residual

   Case of Portugal: Improvement in exports,
   despite increase in relative price

3. Conclusion: Do not ignore, but do not rely too heavily

What about market shares, markups, etc?

1. Market shares. Often the focus of competitiveness studies.

   But not the right variable. Not a be-all and end-all.

   If market shares increase, but current account worsens?

2. Useful as they help identify trends and future evolutions

   Losing market share is, ceteris paribus, bad news

3. Same with markups:

   Decrease in markup in tradables:

   Likely to indicate increasing costs relative to market price

   Likely problems ahead.

Exports minus imports, or Saving minus investment

1. Thinking in terms of one or the other leads to a dialogue of the deaf
   If first: improve competitiveness, increase pty (decrease wages?)
   If second: increase saving (cut investment?)

2. Both identities have to hold ---and both hold… Two examples
   Spain current account deficit pre-crisis
      I up, Y up, Q up. So X-Q down. S-I down
   Germany current account surplus
      w down X up. S_pub up. Y same.
      So X-Q up. I-S up

3. Important to identify causes to recommend policies.

4. Need to adjust both to achieve internal/external balance

Why Should Germany care about its current account surplus?

1. From its own point of view
   Such a thing as saving too much (same as for people)
   or investing too little (?)

2. An appreciation would:
   Decrease the surplus
   Increase real income (cheaper imports)
   Allow for more public spending (green investment)
   to maintain output at potential and higher future output

3. The appreciation could happen through:
   A general increase in wages keeping output at potential
   An increase in wages triggered by output above potential

Why should Germany's euro partners care and complain about the German current account surplus?

1. German current account surplus leads, ceteris paribus, to euro appreciation, and current account deficits in partner countries

2. They could offset this through larger real depreciations

   Difficult because of low inflation and zero lower bound on nominal wage growth.

3. ECB could offset it through lower interest rates. But effective lower bound puts limits on the scope. Undue pressure on ECB, and risks of negative rates.

4. Result is current account deficits (small because of import compression), output gaps in euro partners.