INSTITUT DE RECHERCHES ECONOMIQUES ET SOCIALES

Wage dynamics and sectoral structures in Europe

Odile Chagny and Michel Husson
(Ires)

ETUI-ETUC conference « Europe at a crossroads »
25 September 2014 – Panel 11 « Wage as an engine for growth »

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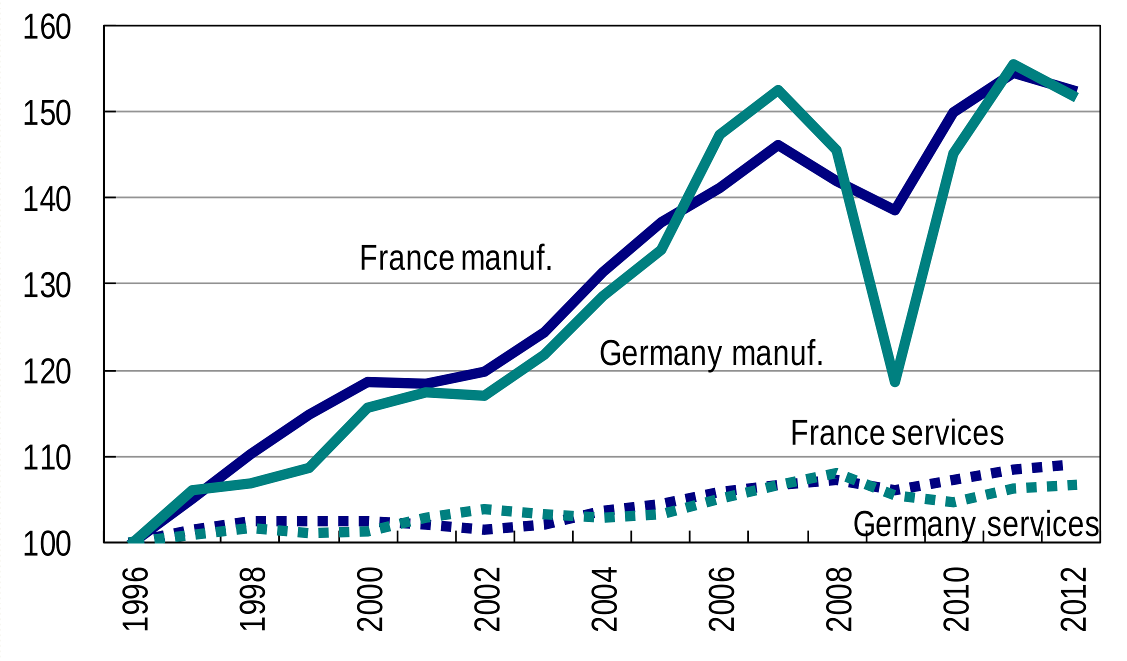
Starting point

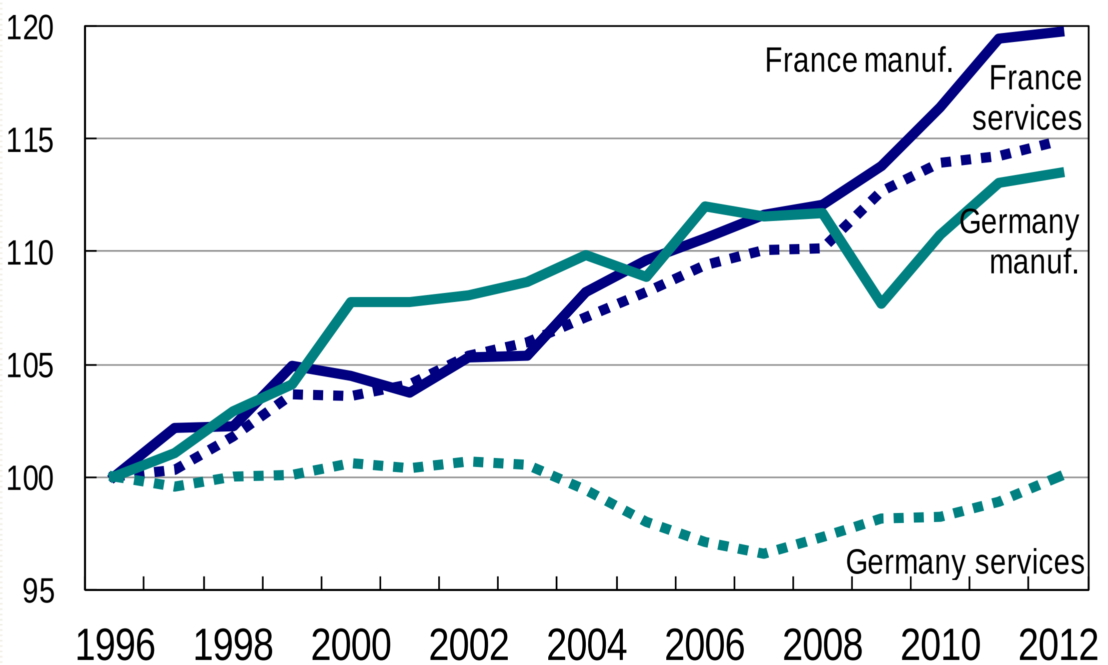
A France-German comparison

•1. Similar developments in productivity



manuf=tradables services=non-tradables

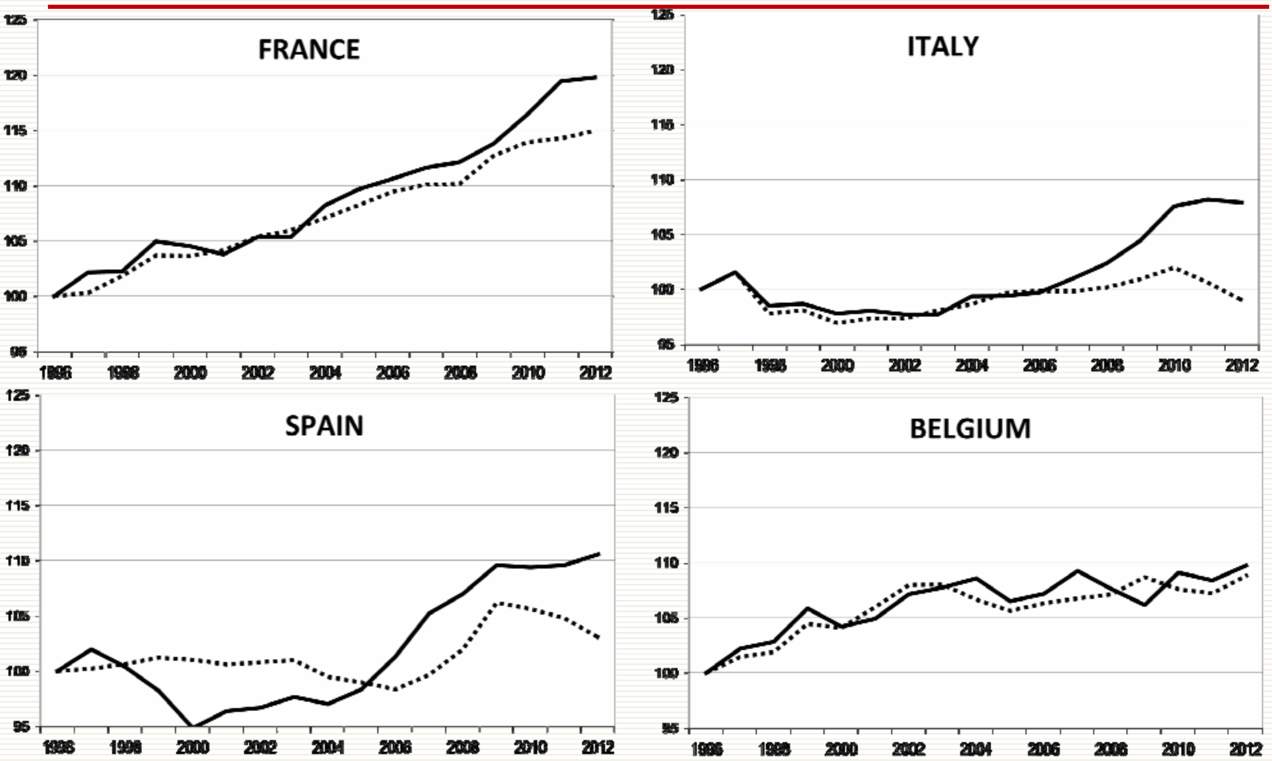
2. Diverging developments of wages



manuf=tradables services=non-tradables

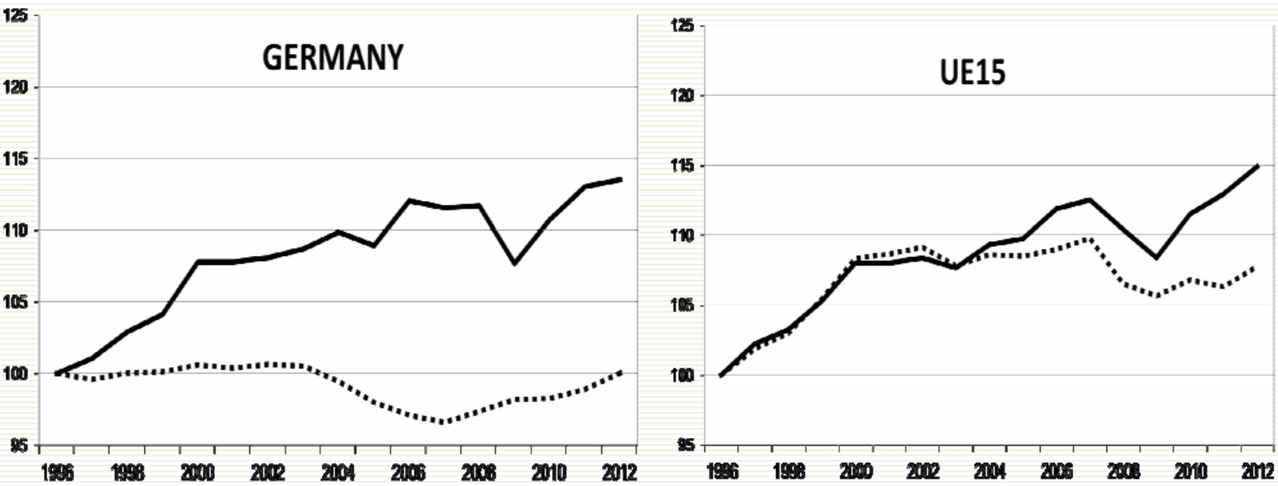
Wage sectoral structure

—— tradables ⋯⋯ non-tradables



Wage sectoral structure : two polar situations

—— tradables ⋯⋯ non-tradables



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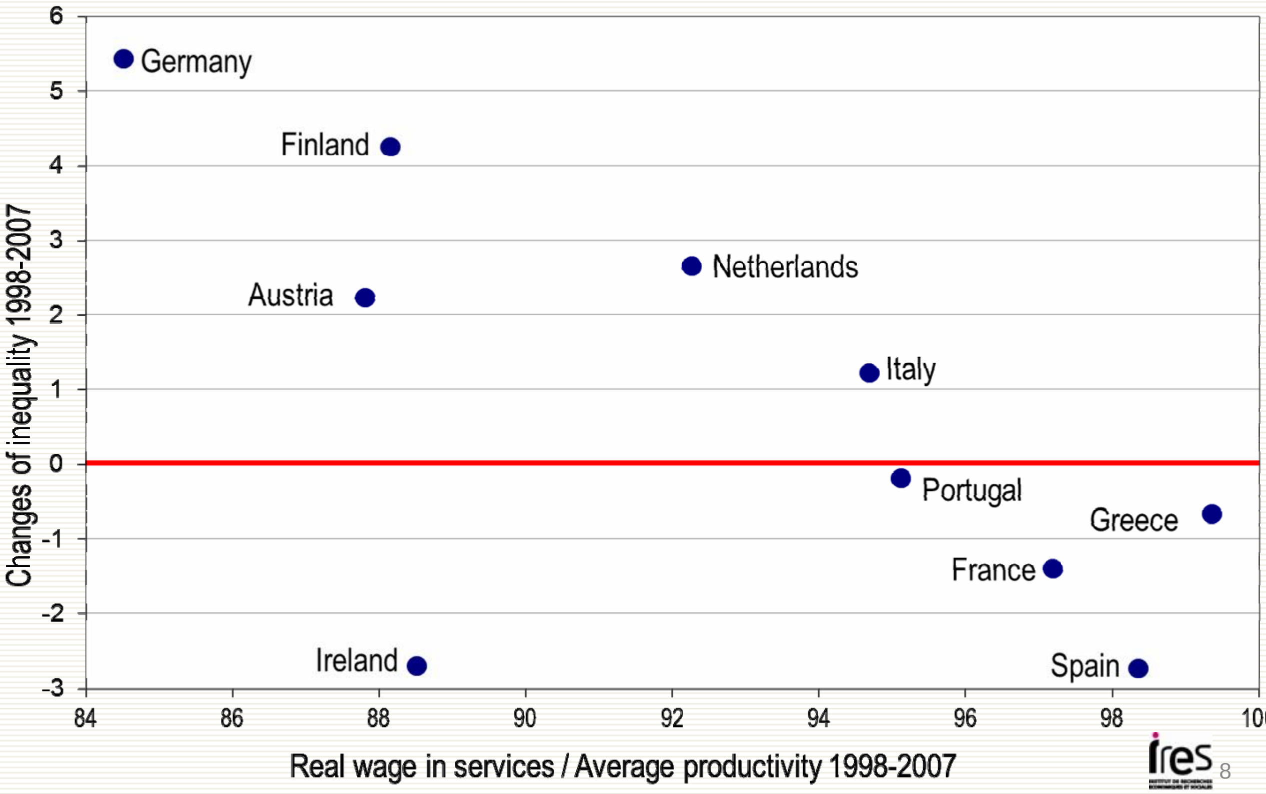
Some stylized correlations

1. More productivity transfers to wages in services ➔ less inequality



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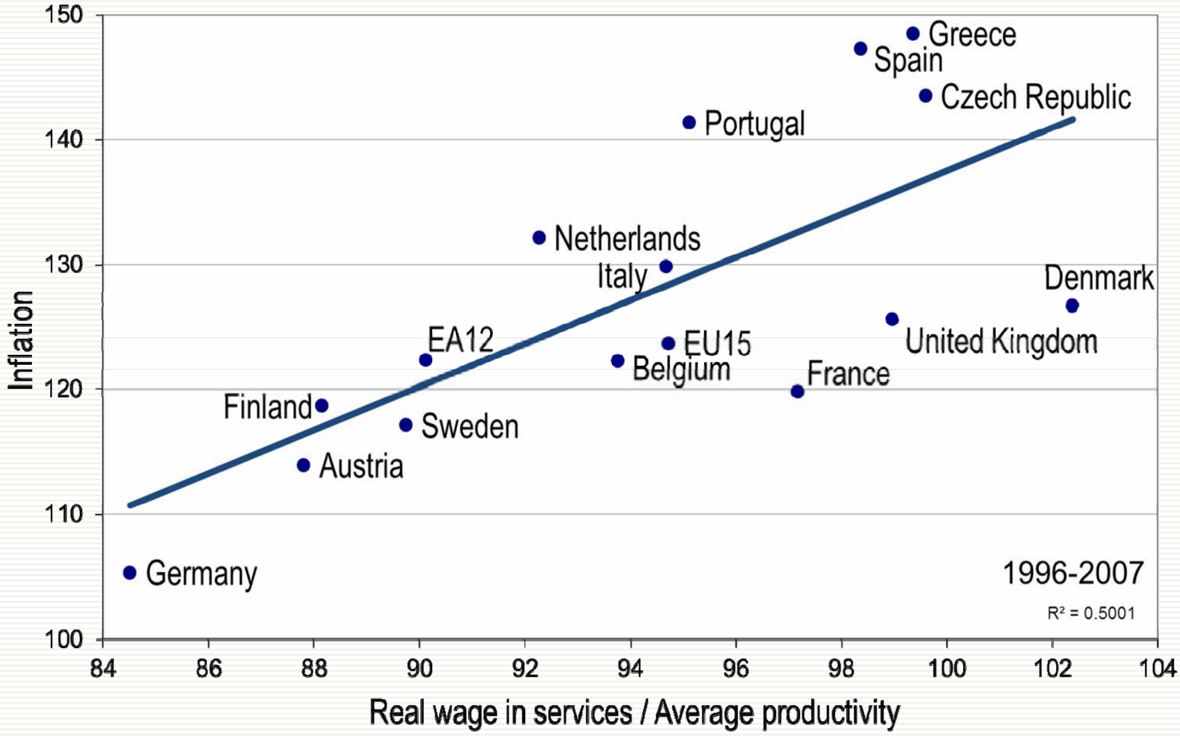
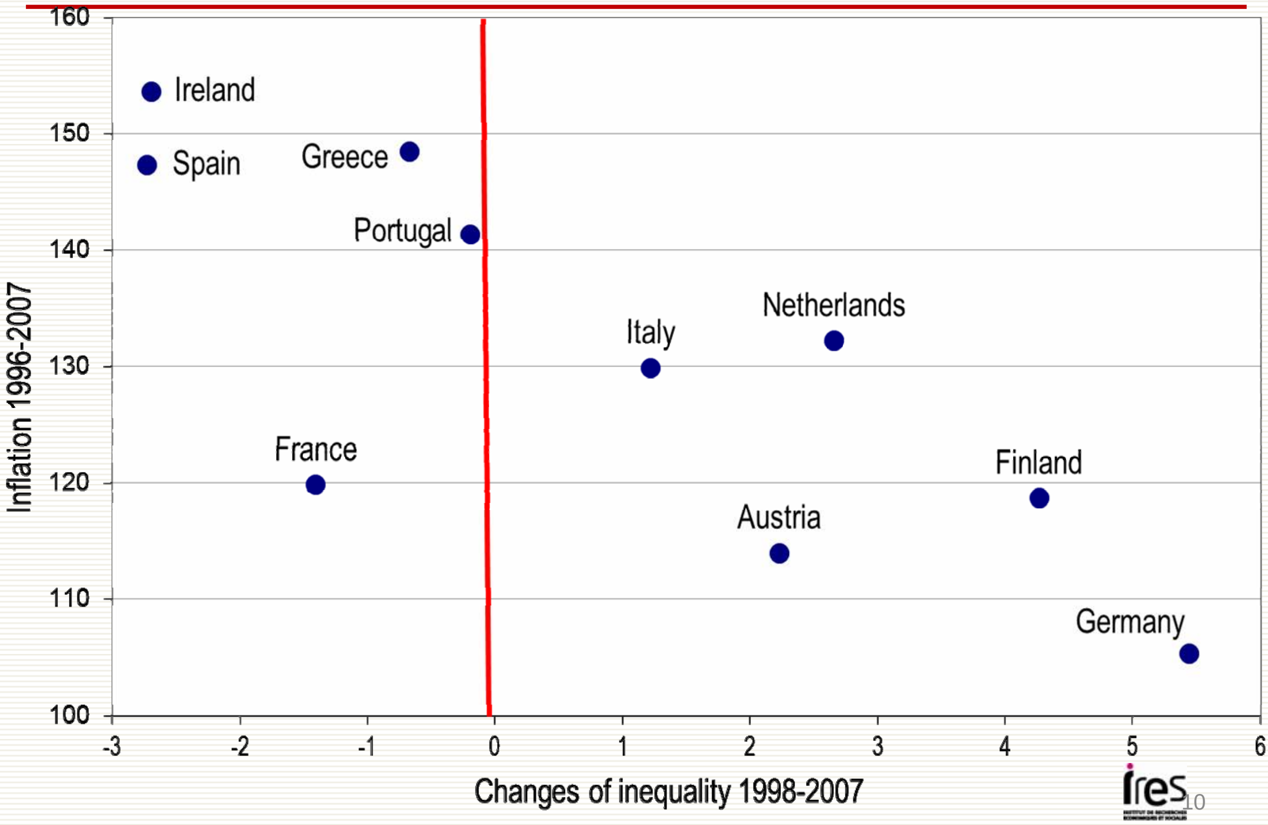
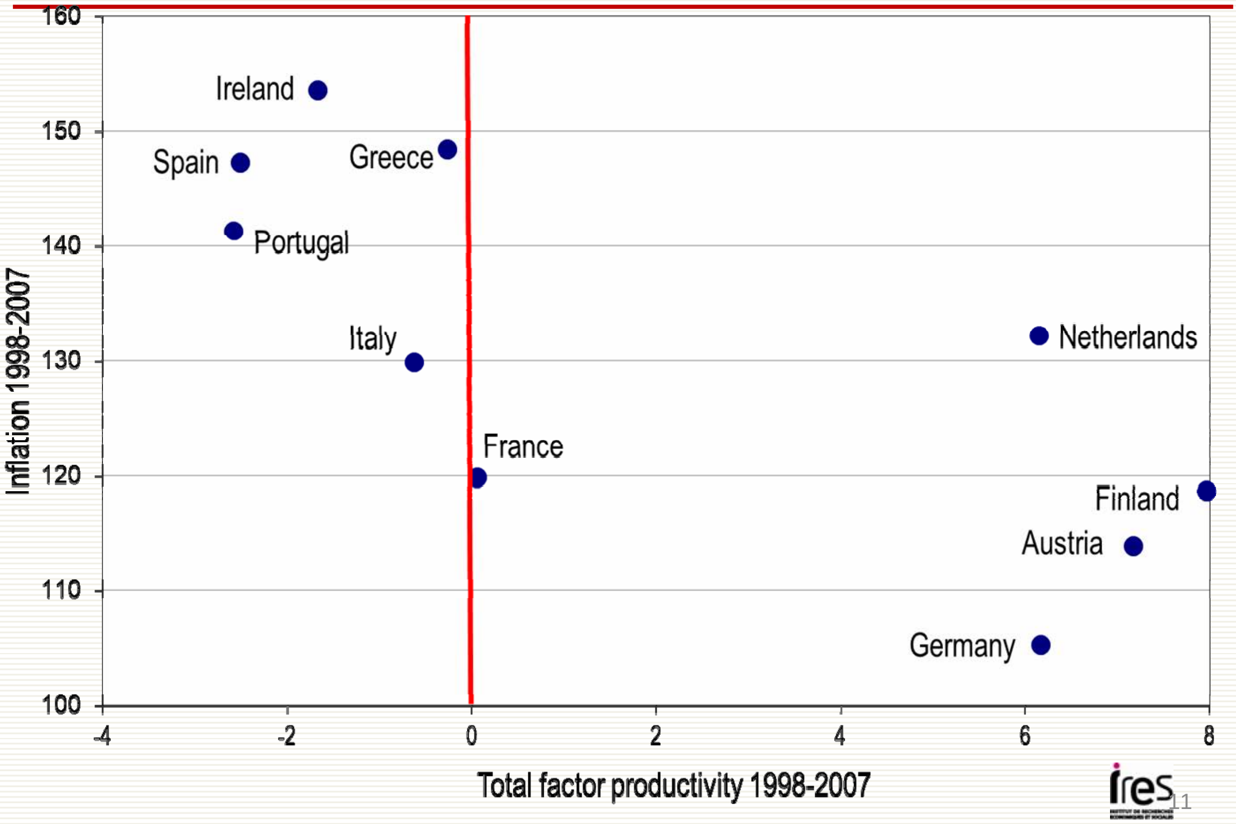
2. More productivity transfers to wages in services ➔ more inflation



3. Less inequality ➔ more inflation



4. Less productive efficiency ➔ more inflation



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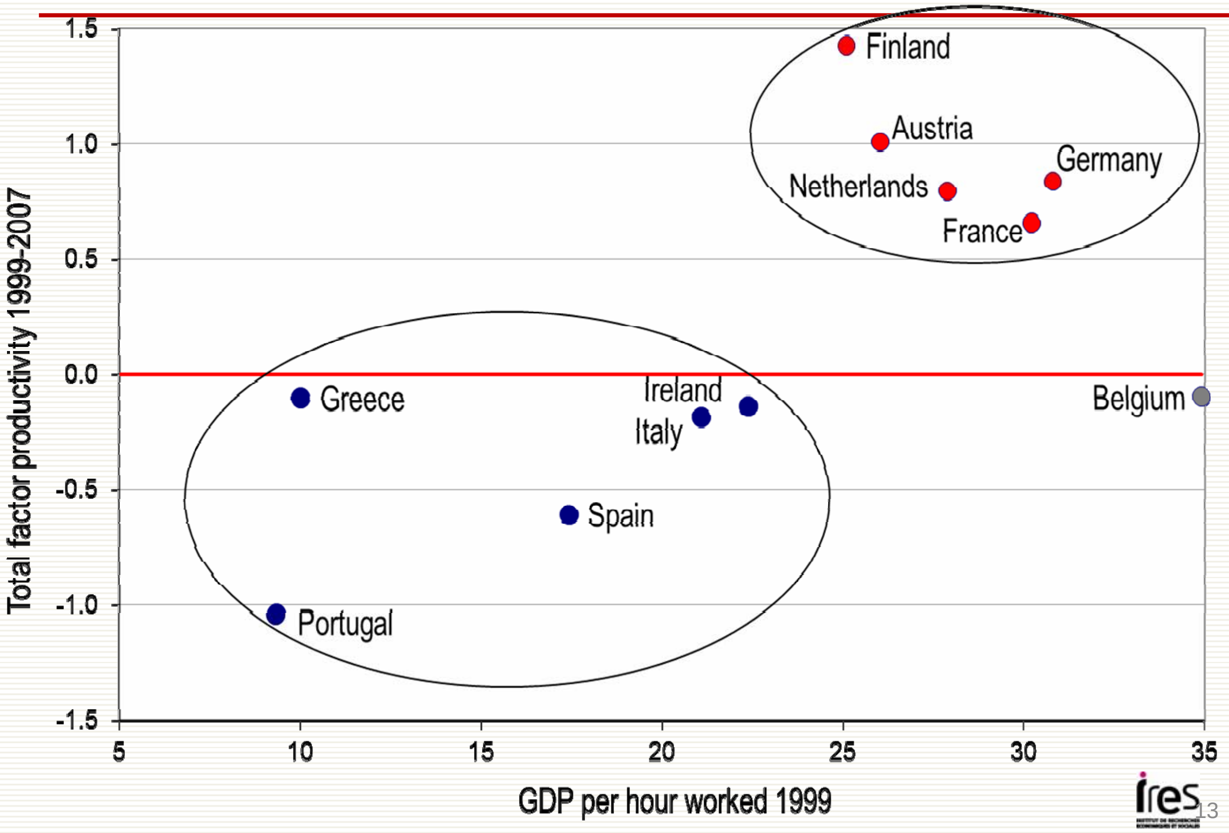
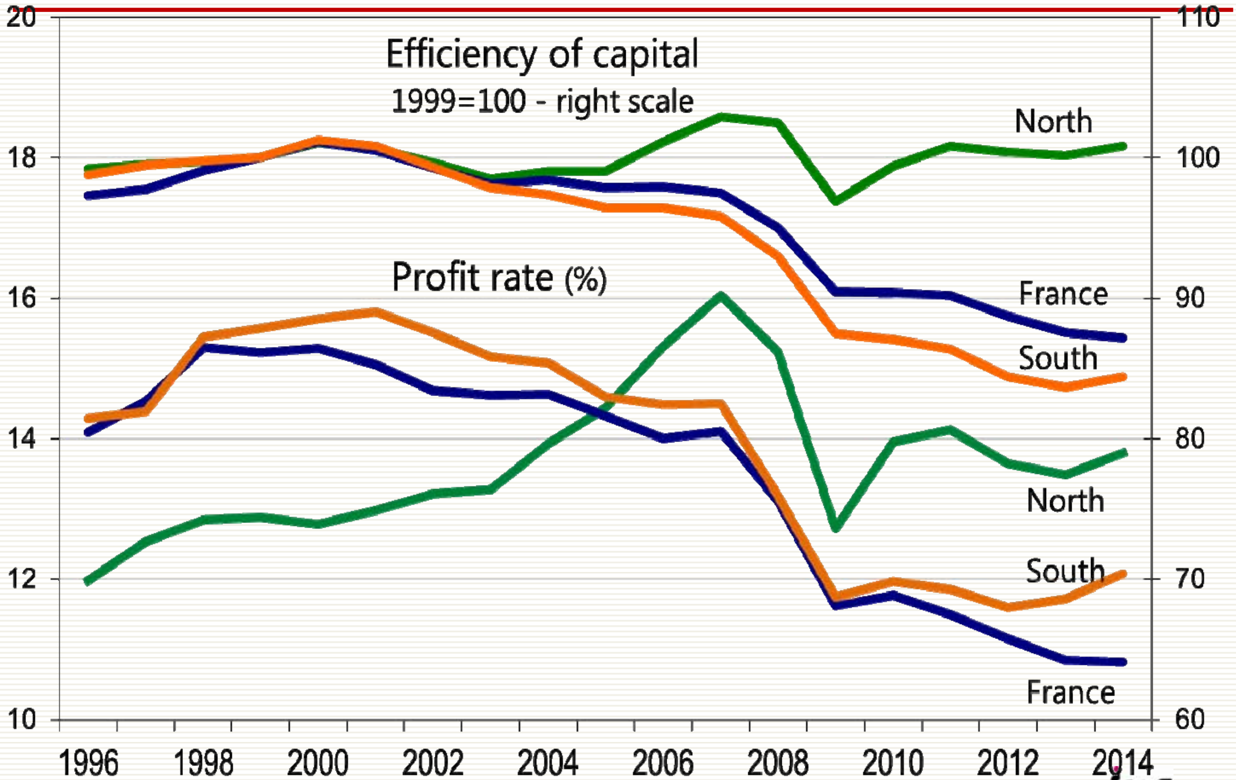
No convergence in productive efficiency

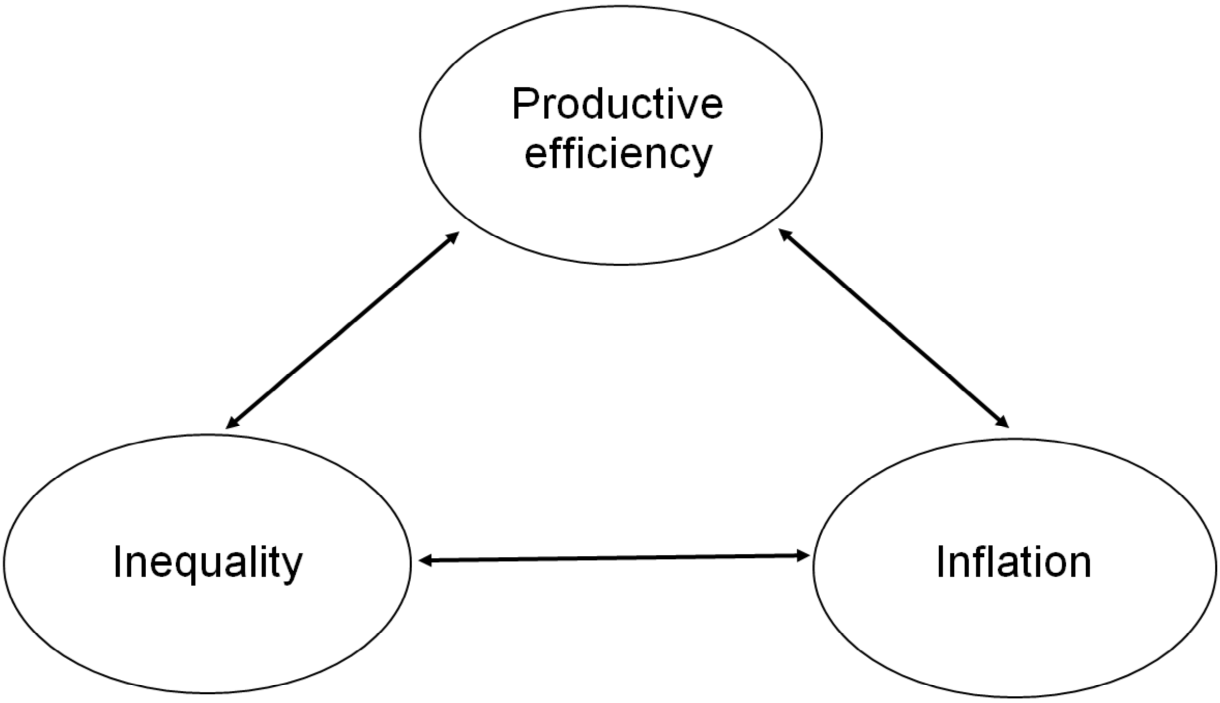
No convergence in productive efficiency



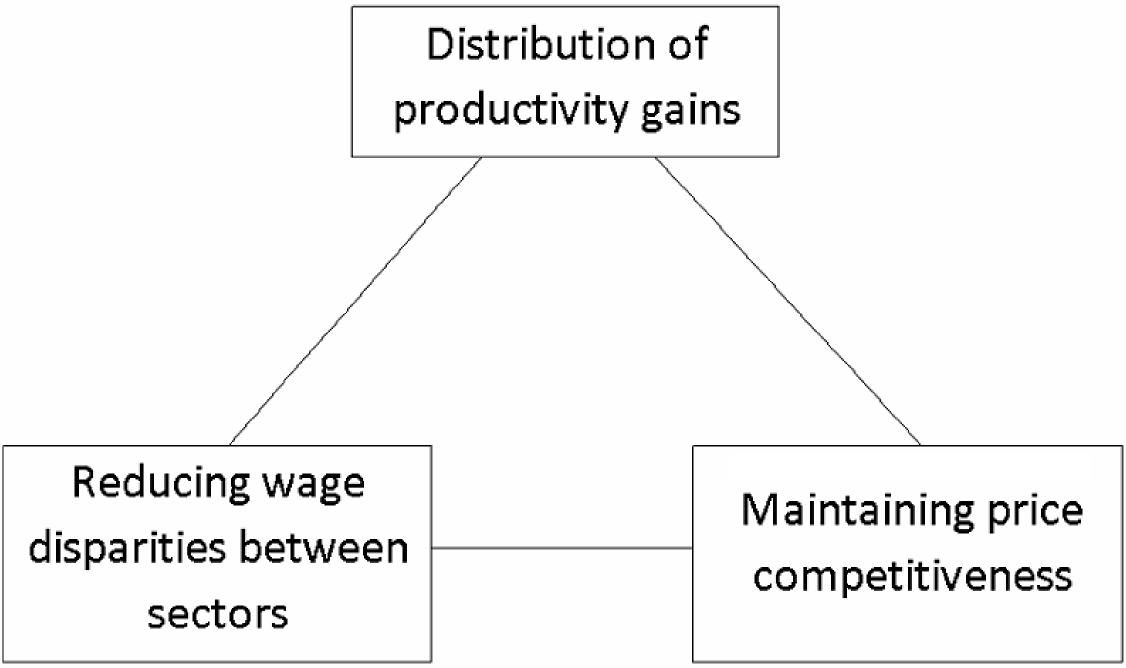
No convergence of productive efficiency



A first "triangle of incompatibility"



Looking for an optimal "wage rule"
A second "triangle of incompatibility"?



The “neo-liberal way out” of the triangle

❖ A reform of the markets in the non-tradables sector, through its modernization **combining increased competition and wage moderation**, would exert a downward pressure on the internal exchange rate of France and would contribute to reducing its current account deficit.*

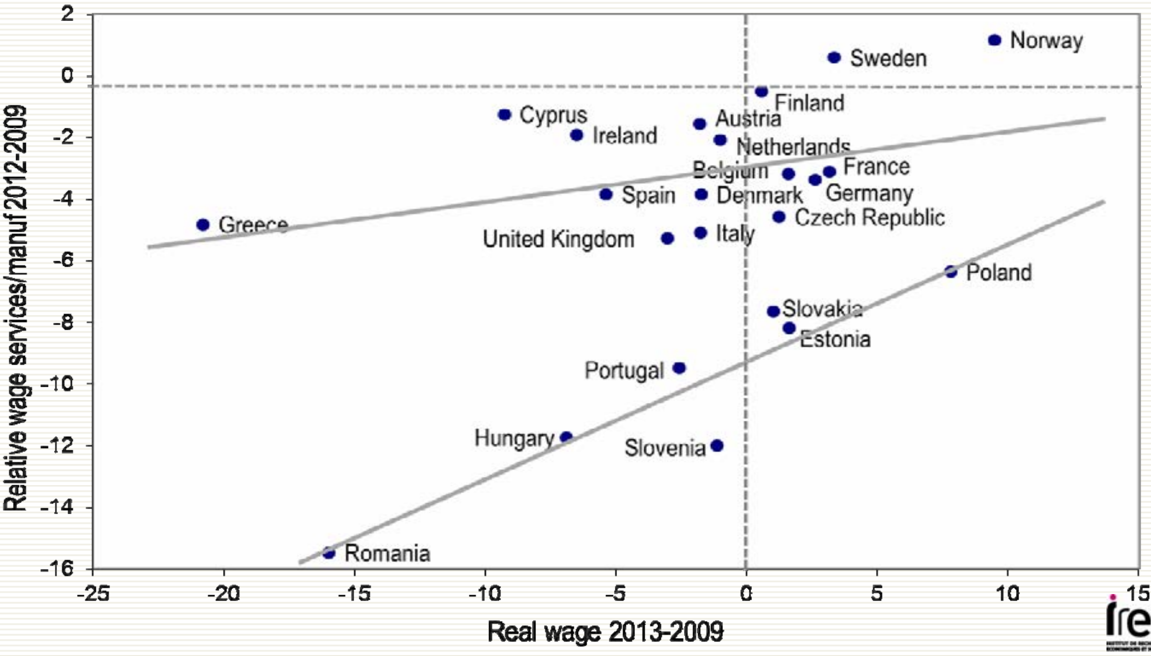
❖The recovery in the relative price of manufactured goods will make it attractive again to invest in manufacturing. It will raise the industrial capacity of production and trigger the re-industrialization. [It could come] from **increased competition in services, which would lower the price of services**.**

** Mouhamadou Sy, « Réduire le déficit des échanges extérieurs de la France. Le rôle du taux de change interne », France Stratégie, septembre 2014.*
*** « La France et l’Italie se redresseront quand le prix relatif des produits manufacturés remontera dans ces deux pays », Patrick Artus, Flash Natixis n° 686, 11 septembre 2014.*

❖ Since 2009 wages have fallen more (or risen less) in non-tradables than in tradables.

❖ More “wage moderation” leads to a wider gap.

❖The correlation is particularly pronounced for CEE countries.



A more progressive way out of the triangle

1. A wage rule: an overall rise of wages according to the general price index and the average productivity

➔ **fair distribution of productivity gains**

2. A European system of minimum wage

➔ **reduction of discrepancies between sectors**

3. A "price rule" to obtain an equalization of profit rates between sectors: the relative sectoral prices should vary inversely with the relative sectoral productivities

➔ **constant profit share in all sectors**

4. Transfers and investments (structural funds) in the productive sector to ensure a faster productivity growth in the catching-up countries

➔ **convergence of inflation rates between countries**

Thank you for your attention