
Wage dynamics and sectoral structures in Europe

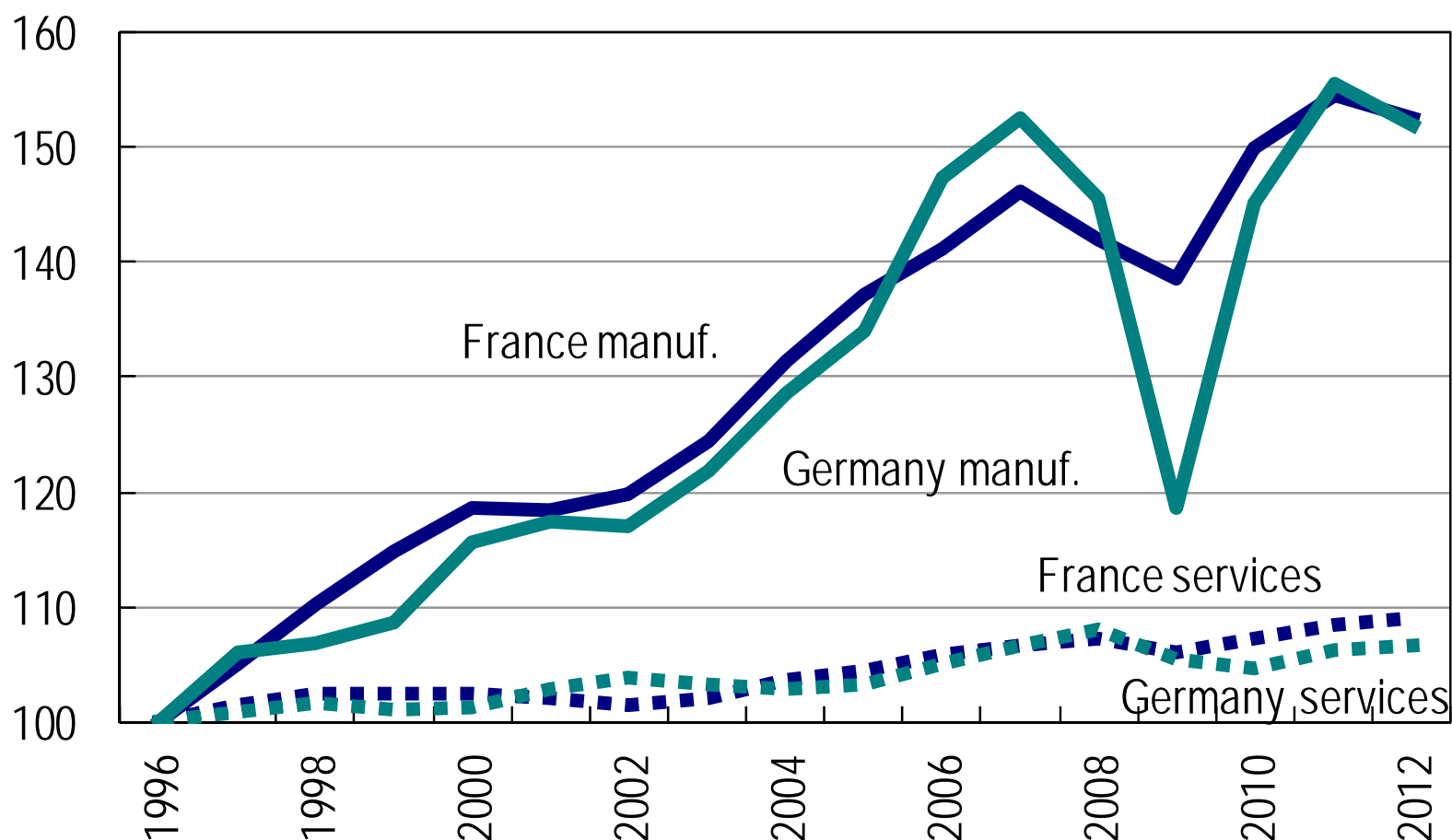
**Odile Chagny and Michel Husson
(Ires)**

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

Starting point

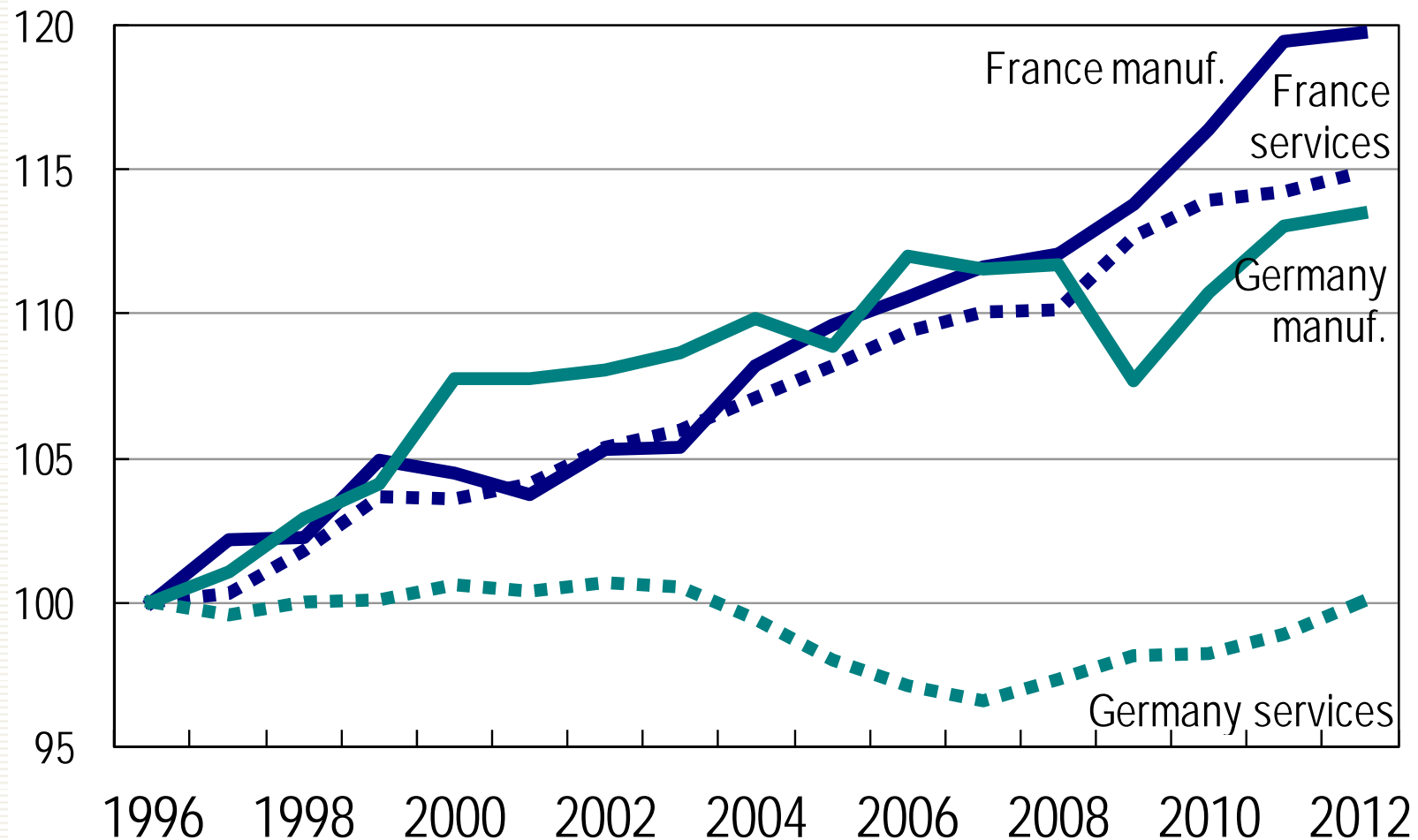
A France-German comparison

- **1. Similar developments in productivity**



manuf=tradables services=non-tradables

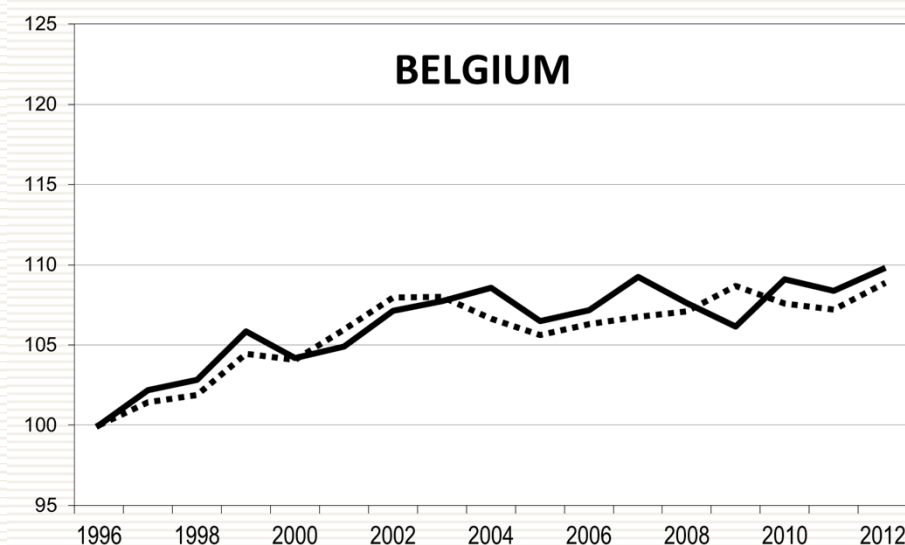
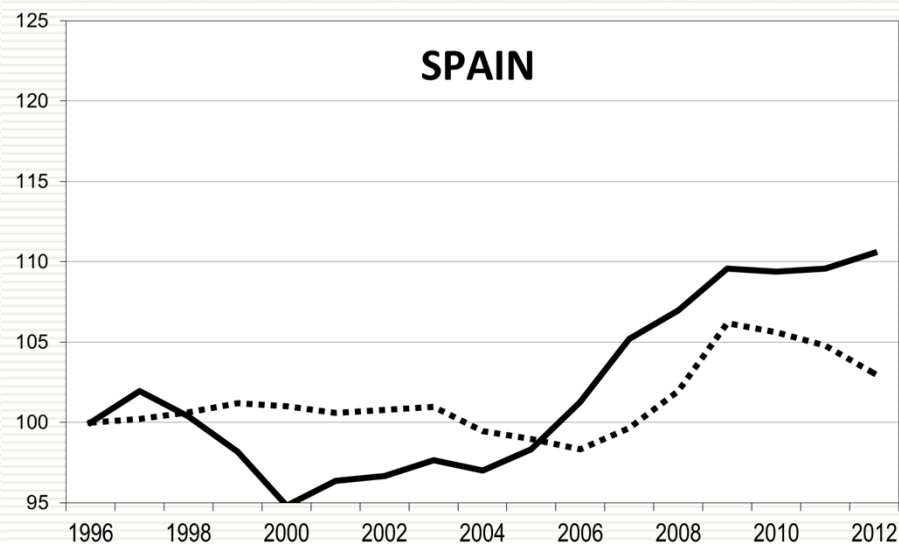
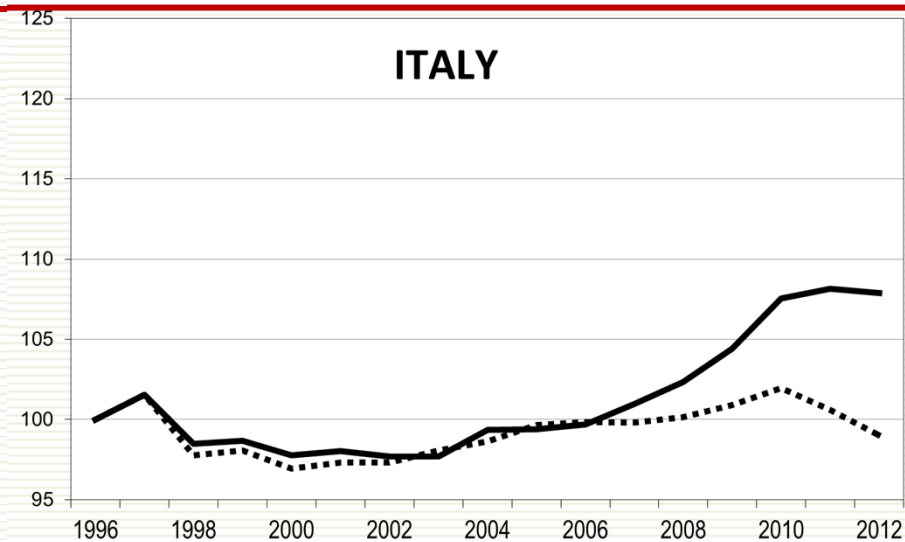
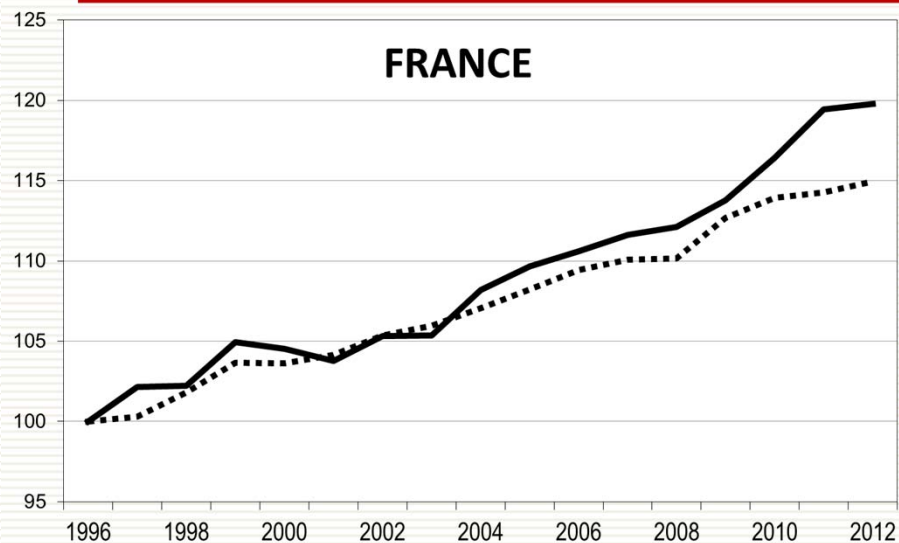
2. Diverging developments of wages



manuf=tradables services=non-tradables

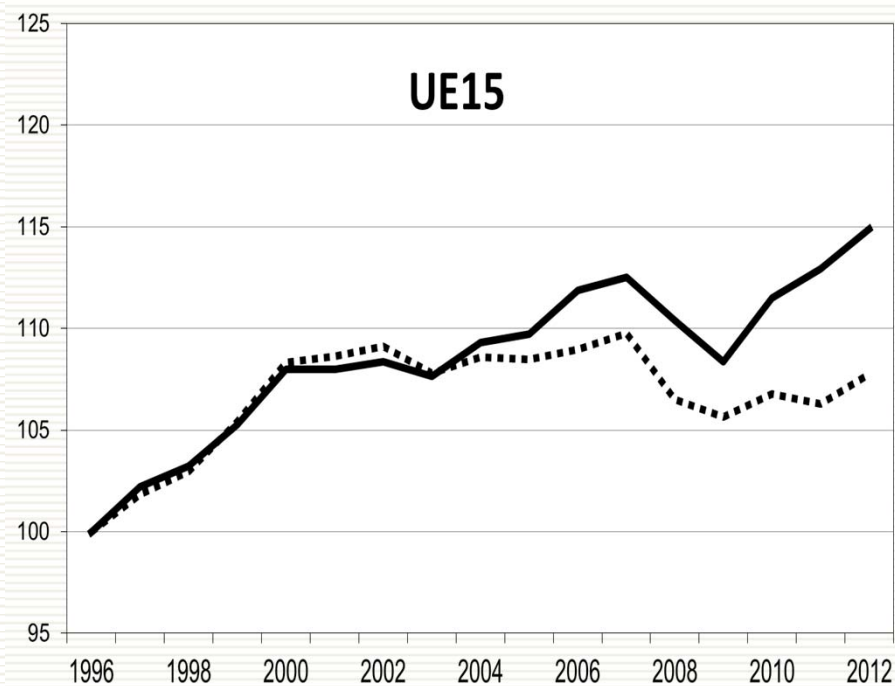
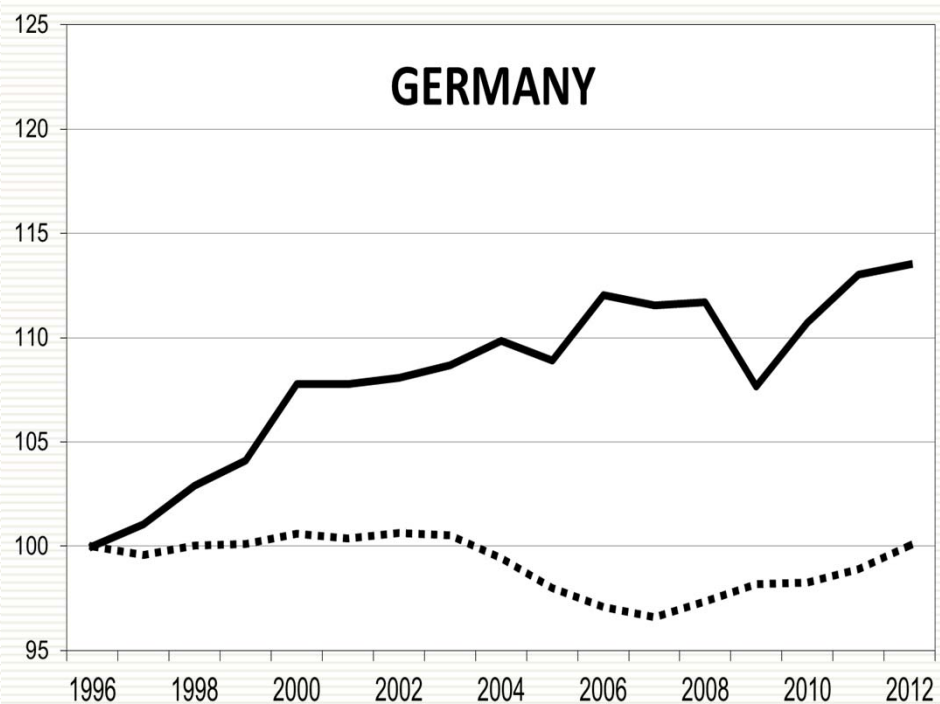
Wage sectoral structure

— tradables non-tradables



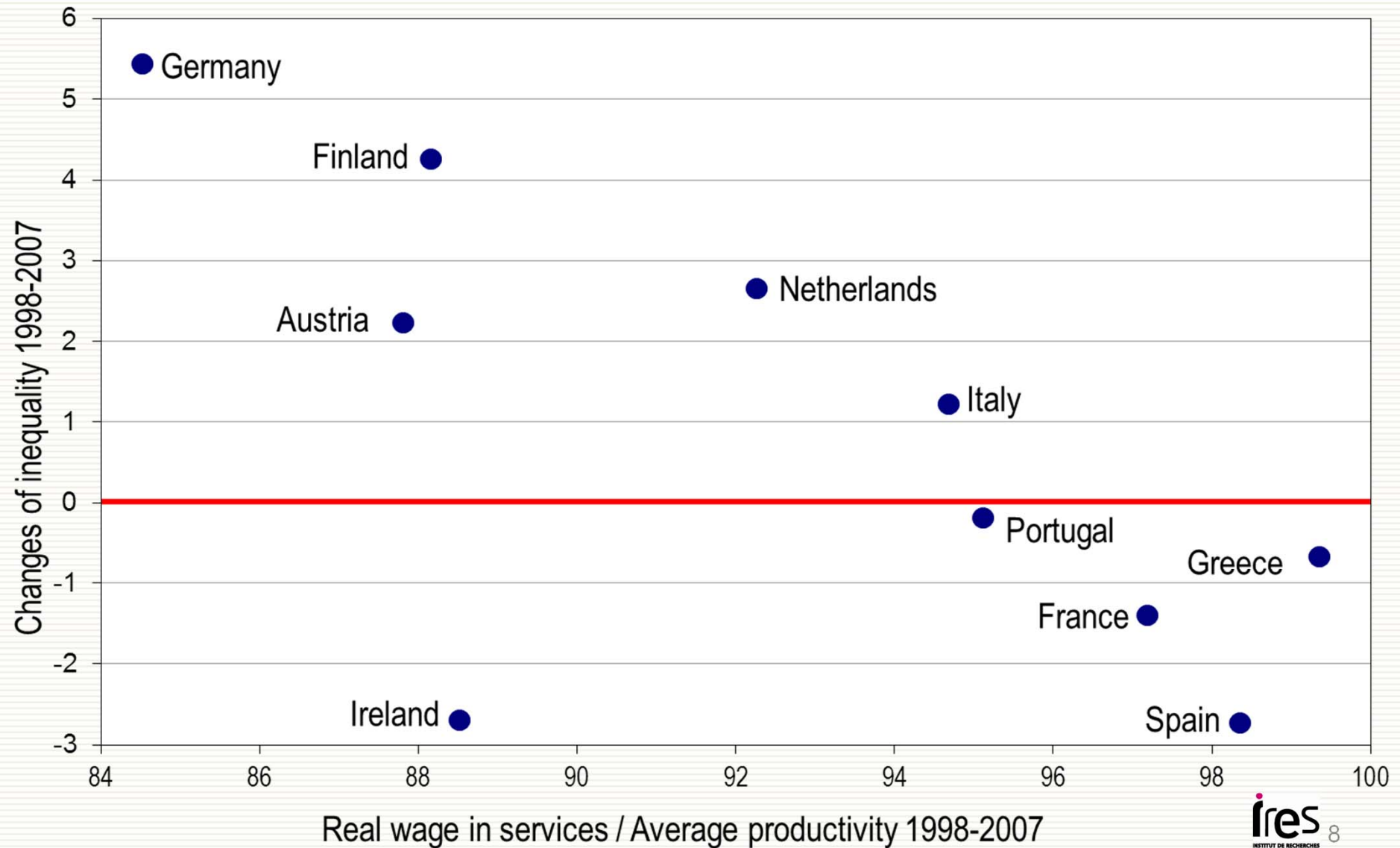
Wage sectoral structure : two polar situations

— tradables non-tradables

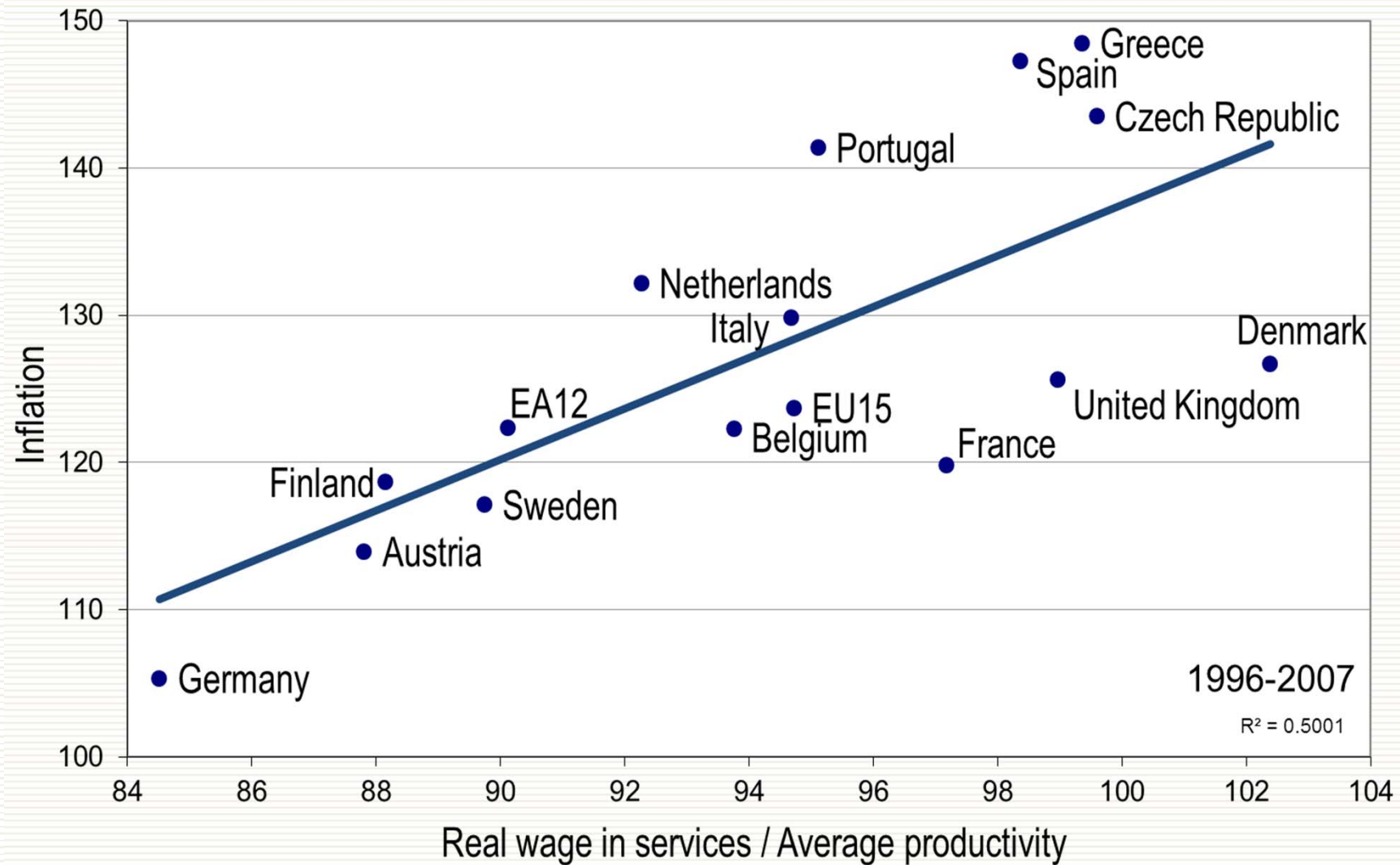


Some stylized correlations

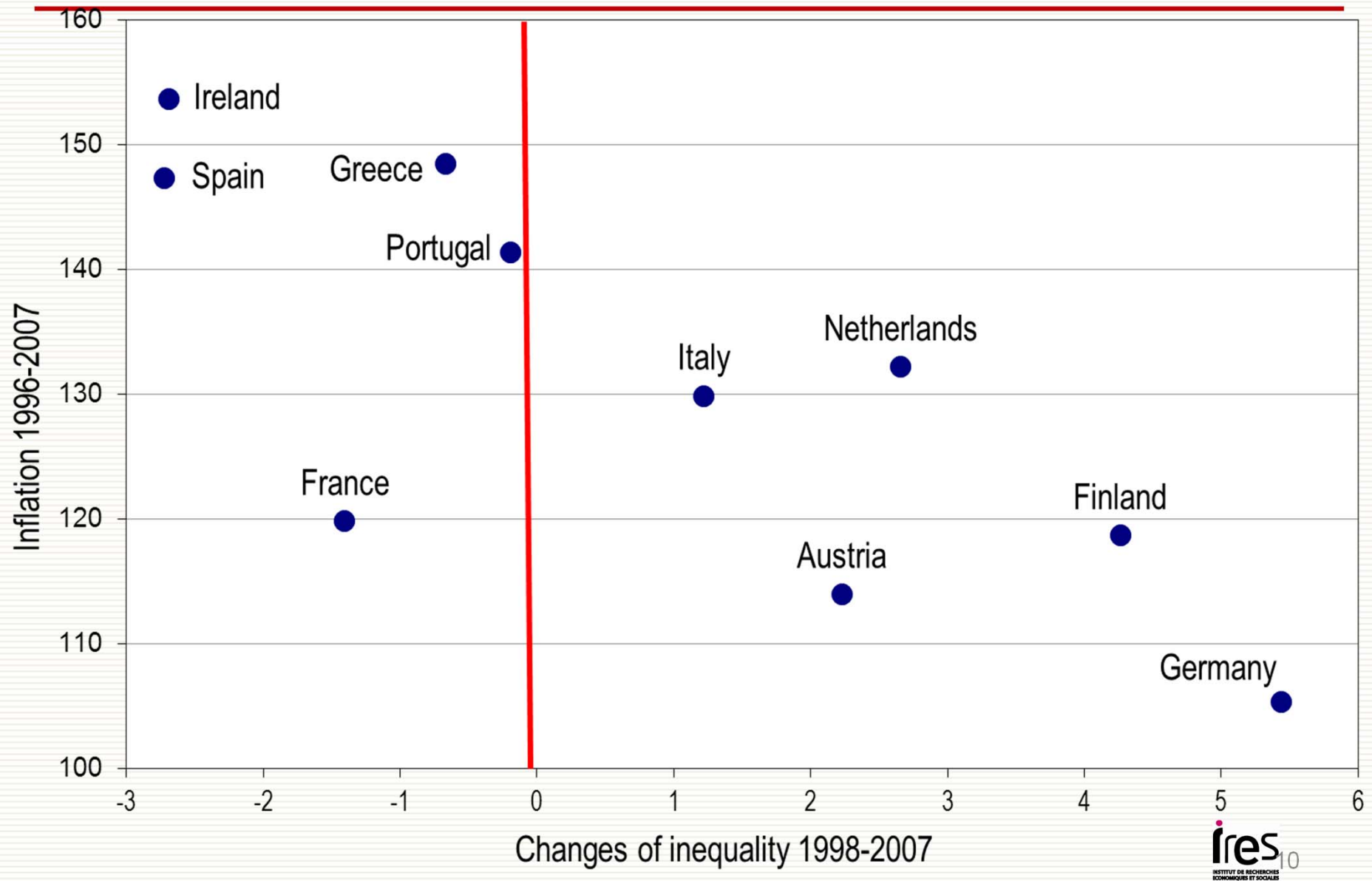
1. More productivity transfers to wages in services → less inequality



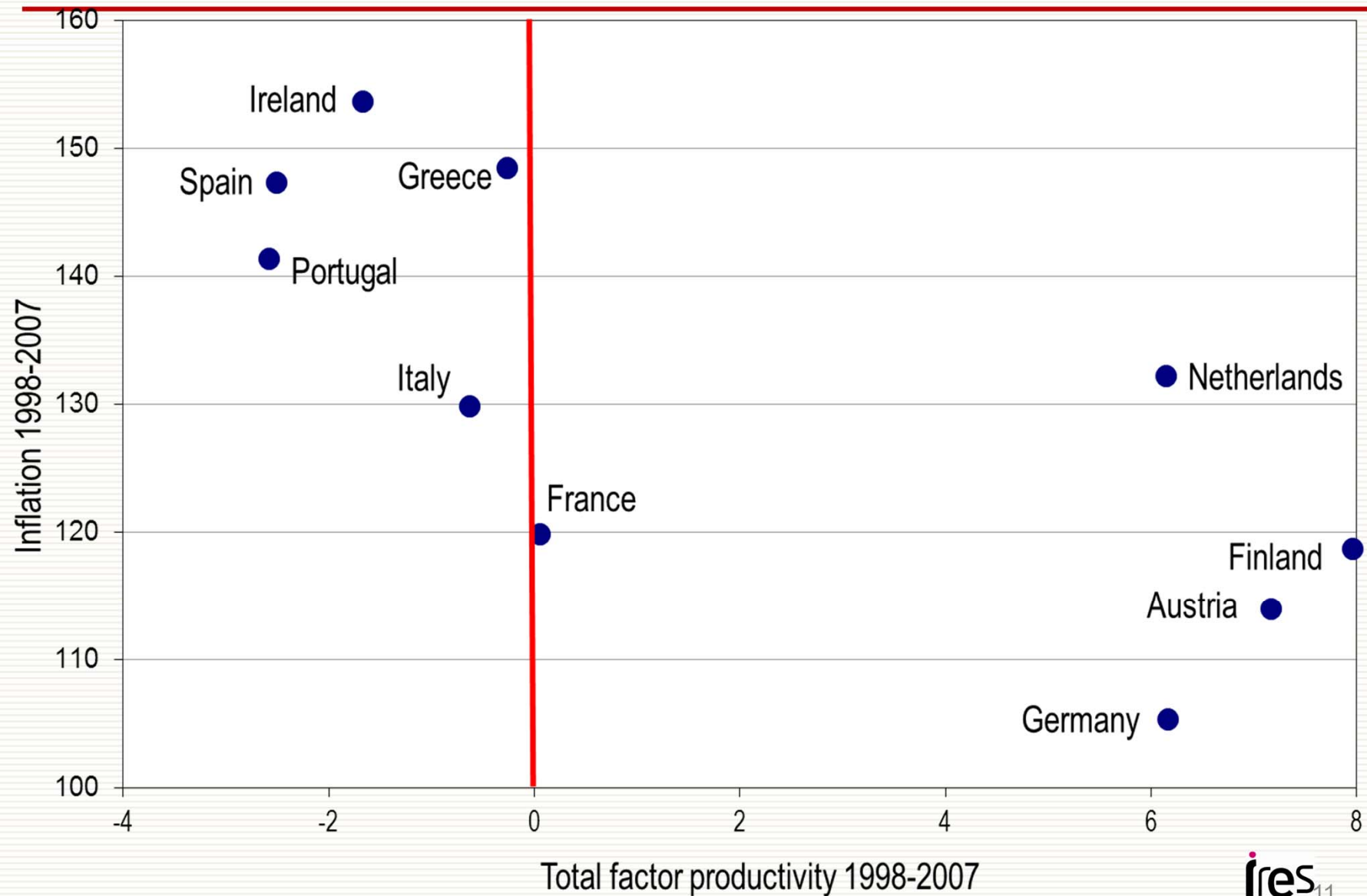
2. More productivity transfers to wages in services → more inflation



3. Less inequality → more inflation

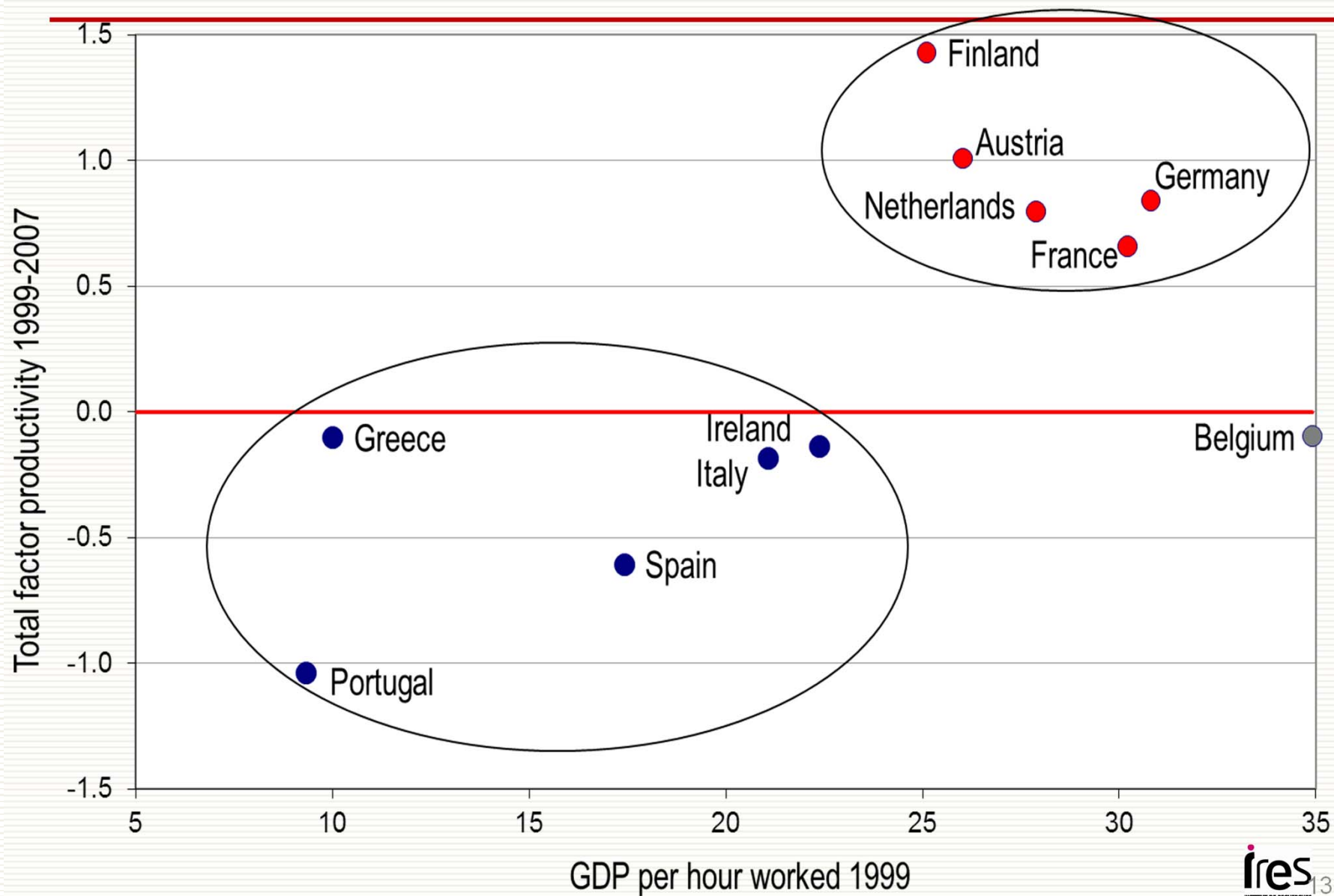


4. Less productive efficiency → more inflation

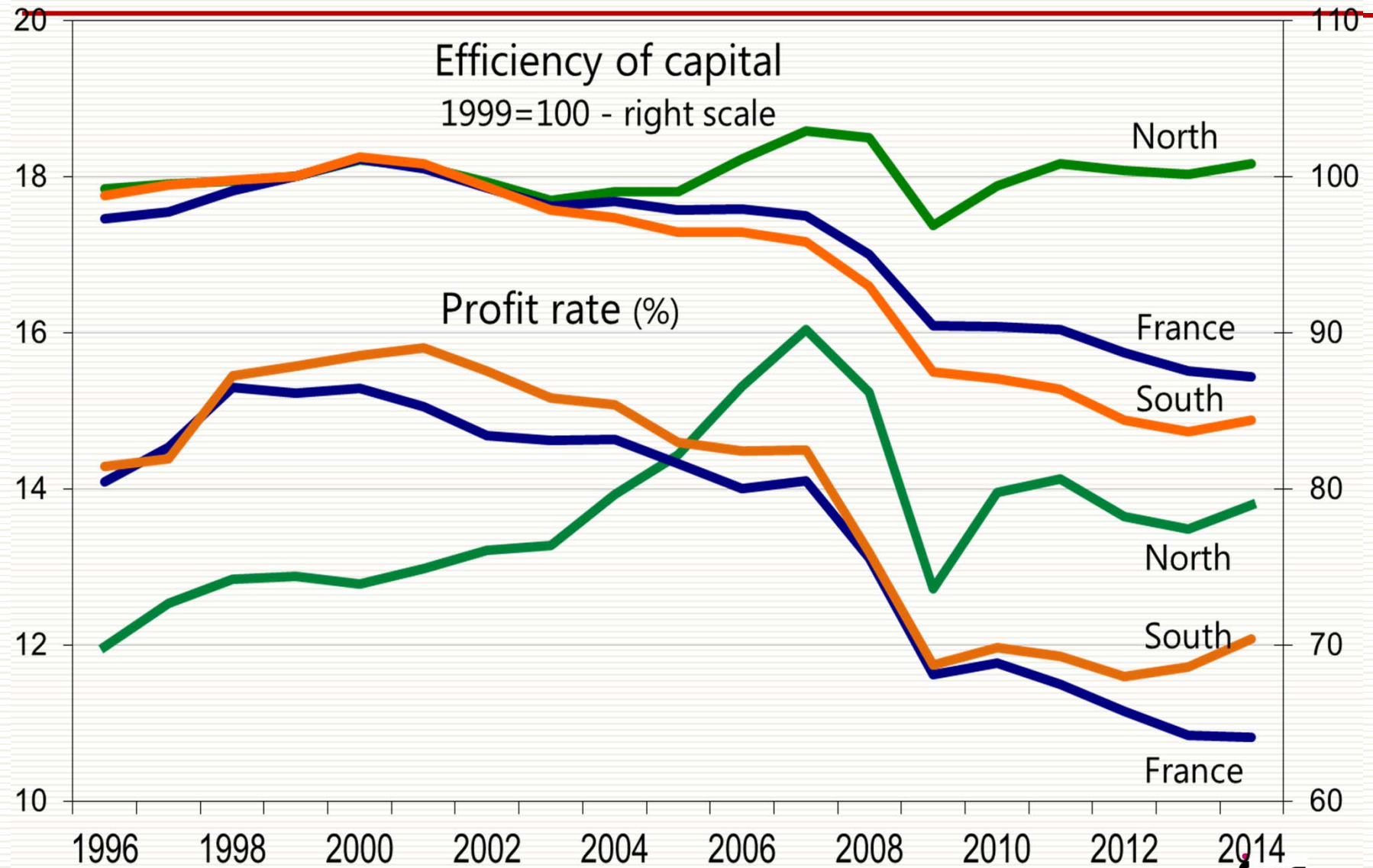


No convergence in productive efficiency

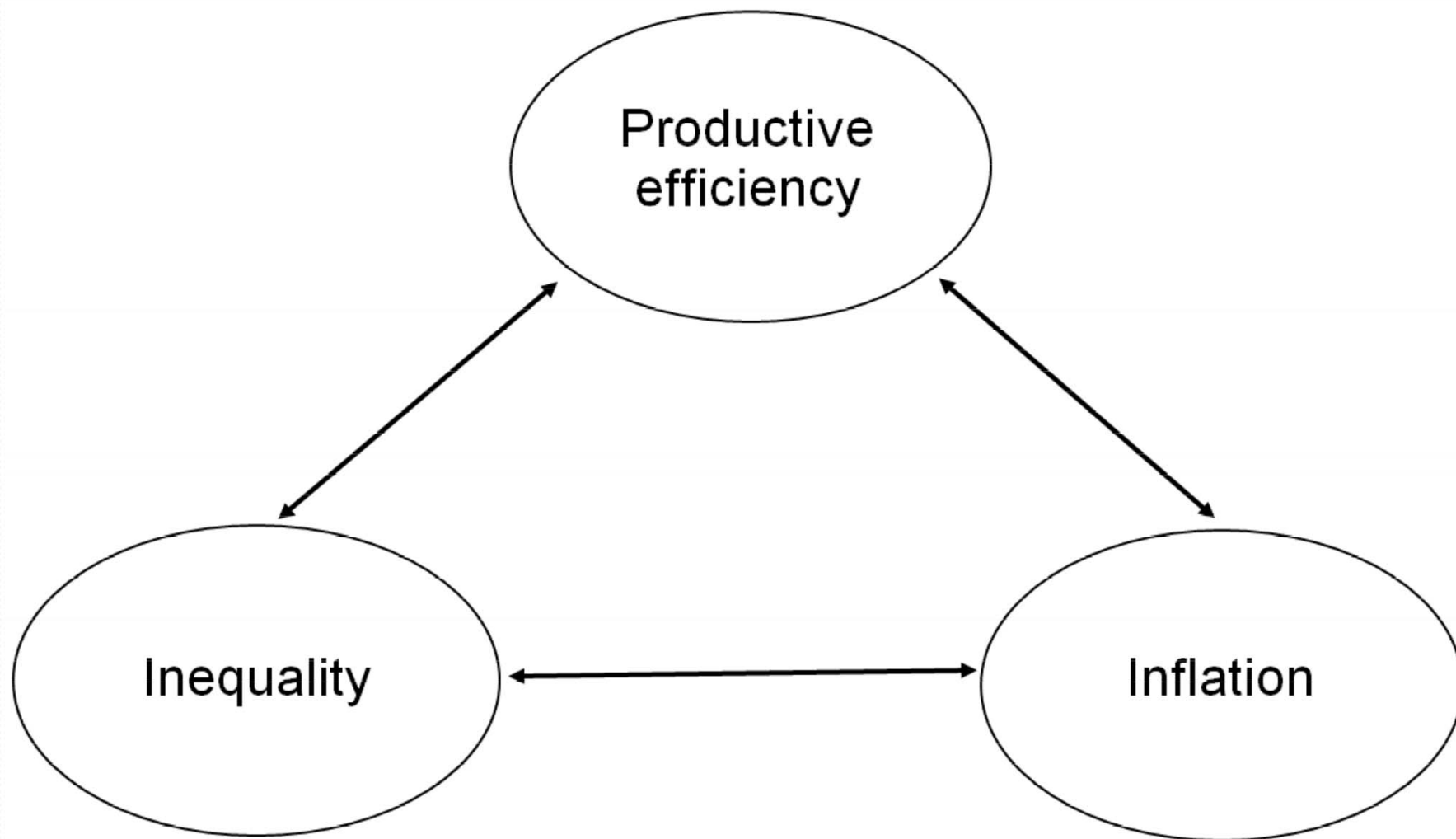
No convergence in productive efficiency



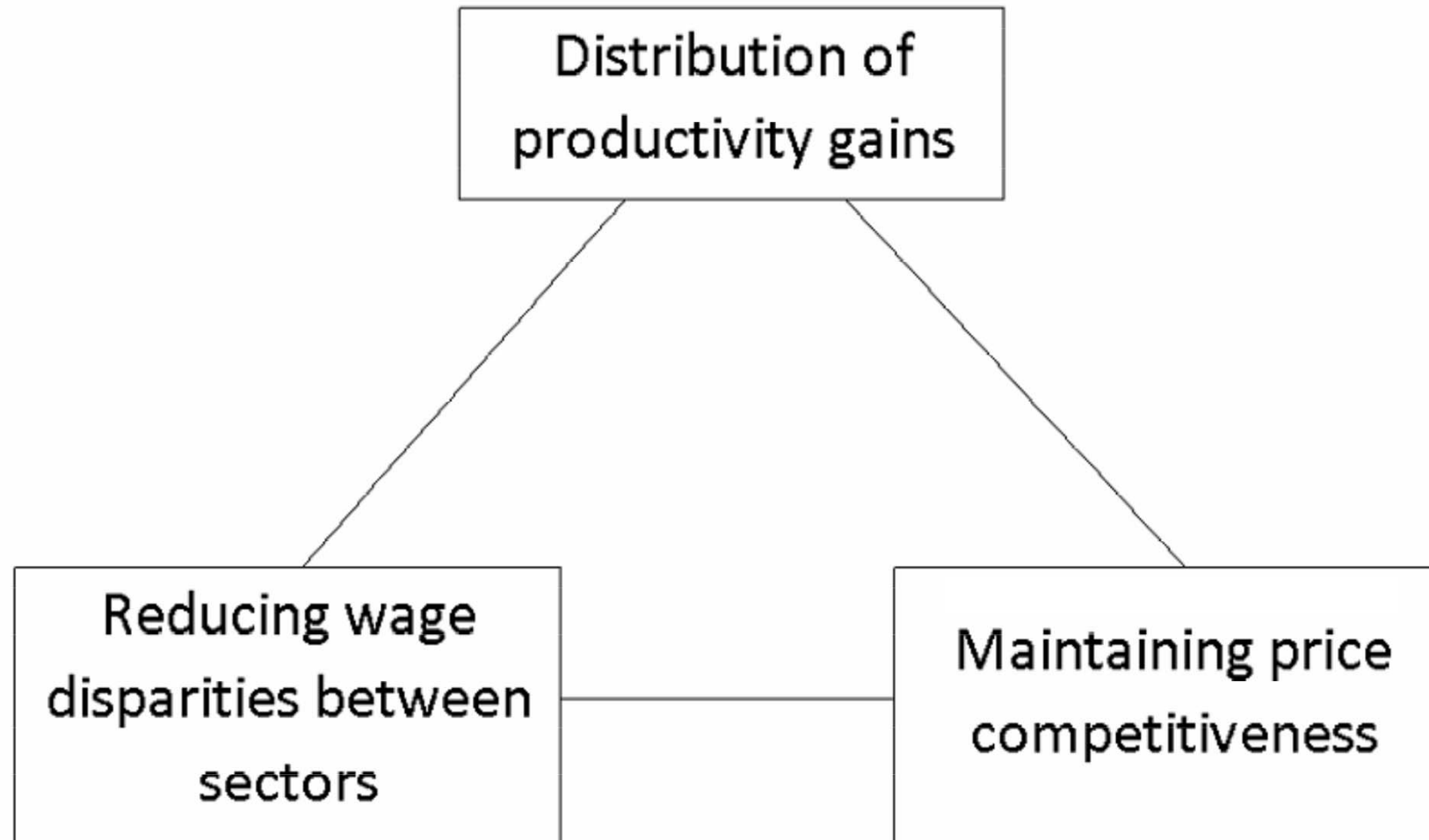
No convergence of productive efficiency



A first “triangle of incompatibility”



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



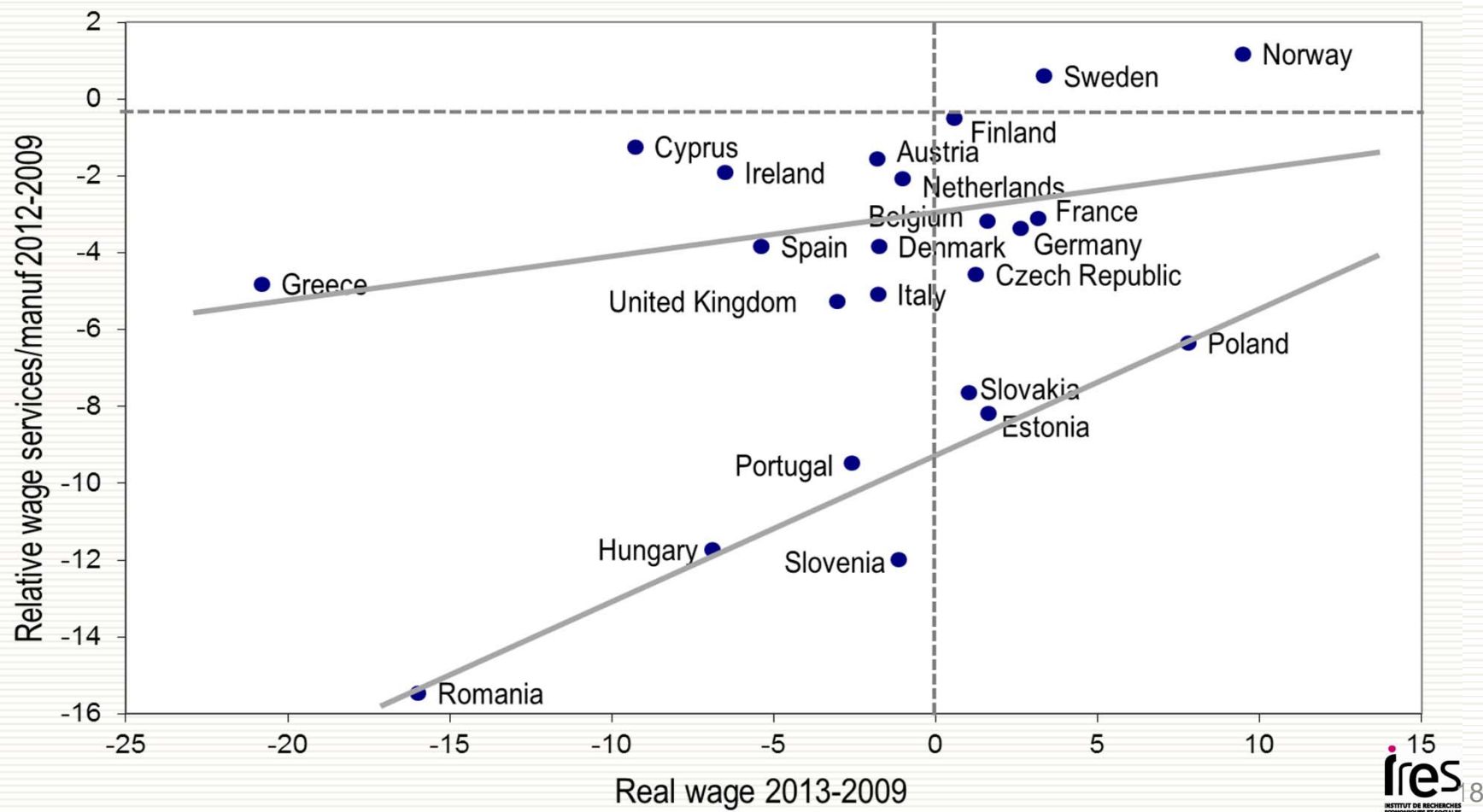
The “neo-liberal way out” of the triangle

- ❖ 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

