AN INQUIRY INTO THE COMPETITIVENESS – RESILIENT GROWTH NEXUS

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SUSTAINABLE GROWTH IN SMALL OPEN ECONOMIES

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Research agenda

- Economic resiliency?
- Huge and protracted trade deficits contribute to economic disturbances?
- The relationship of labour costs to labour productivity explains trade flows across world?
- Southern EMU countries faced economic crisis due to lost international competitiveness vis-à-vis a group of large exporting countries?
- How to adjust? Main policy dilemmas and some policy options' implications

The concept of resilience

- The concept of resiliency: “A universal feature that applies to both natural and anthropogenic systems. It is an attribute of dynamic and adaptive systems. The system perpetually evolve through cycles of growth, accumulation, crisis, and renewal, and often self-organize into unexpected new configurations.”
- There are some similarities between systems in nature, especially living nature (e.g. ecosystems) and anthropogenic systems, like societies. Elements interact, adapt and evolve over time. Interactions between units are based on some regularities that can be known or unknown to us. However, physics and biology never go wrong, causality never fails, it is repeated the same way over and over again. The biggest difference between natural and anthropogenic catastrophe is that humans can control the emergence of the latter one.
- Individuals and organizations make many decisions in the deficit of knowledge and without full understanding of processes.

Trade imbalances and economic resilience

- Over the period of last 140 years, huge and protracted CA deficits, helped explaining incidence, duration and overall social costs of financial disturbances within the sample of several most striking international crises in developed world (Jorda et al. 2010)
- The same determinants important in explaining the roots of recent economic crisis across the developed world (Hume and Sentence 2009)
- The most comprehensive review which covered 83 studies found CA balance fifth most frequently cited variable (Frankel and Saravelos 2012)
- For emerging countries CA balance on the top of 7 indicators chosen to make synthetic measure of macroeconomic resiliency (Rojas-Suarez 2015)

Cost of economic resources and economic resilience

- ULC determine international competitiveness (Ricardo 1817, Dornbusch et al. 1977)
- Empirics less clear (Kaldor paradox)

Table 1. **Labour costs and productivity (annual growth, %)**

	GDP per hour worked		**Labour compensation per hour worked**		**Unit labour costs**	
	1996–2007	2007–2015	1996–2007	2007–2015	1996–2007	2007–2015
CA surplus countries						
Germany	1.67	0.58	1.51	2.60	–0.16	2.03
Japan	1.68	0.83	–0.11	0.22	–1.79	–0.61
Korea	5.08	2.92	6.23	4.18	1.15	1.27
Southern Europe and Ireland						
Portugal	1.38	0.78	4.24	0.53	2.86	–0.25
Ireland	3.55	4.95	6.40	1.72	2.86	–3.23
Greece	2.56	–1.15	6.50	–0.89	3.94	0.26
Spain	0.21	1.33	3.04	1.49	2.83	0.16

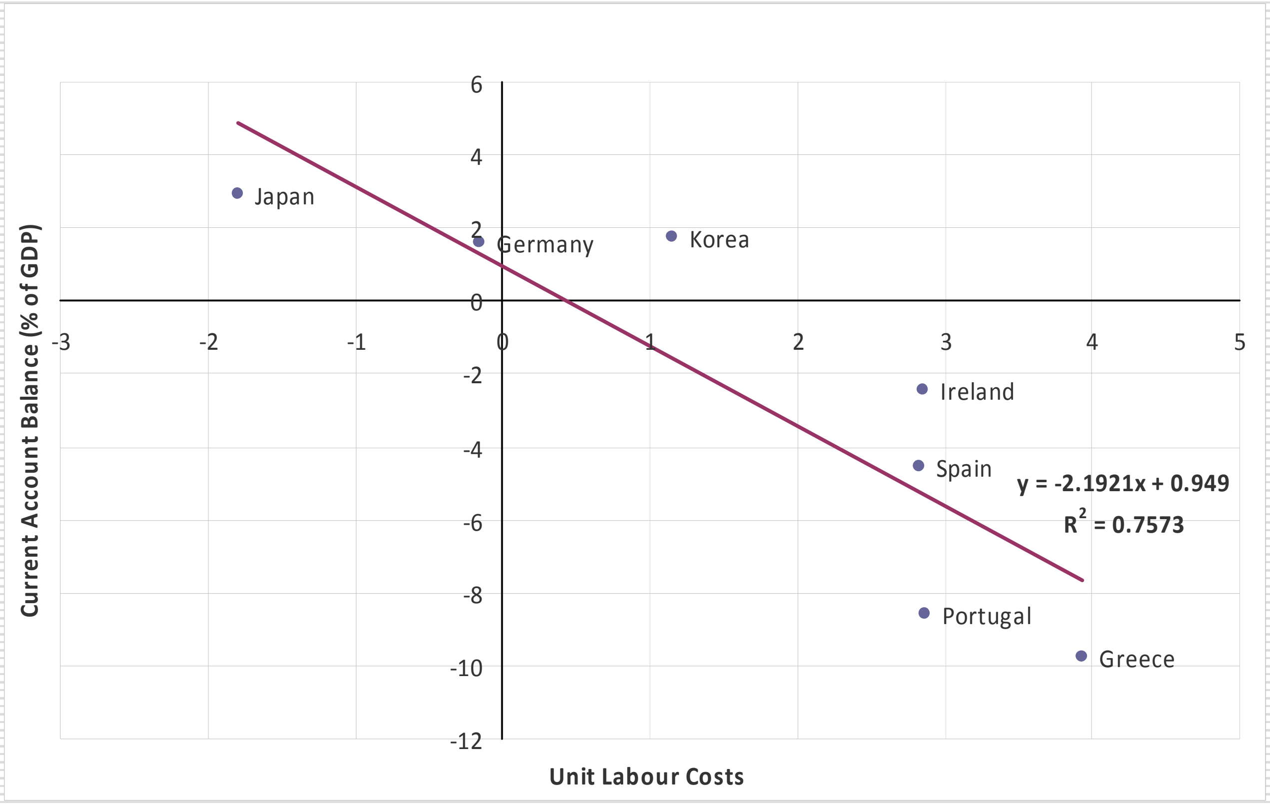
Source: OECD (2017a, 2017b, 2017c, 2017d) authors' recalculation

Table 2. **GDP per hour worked relative to Germany**

	1983	**1996**	**2007**	**2015**
CA surplus countries				
Japan	0.59	0.69	0.69	0.70
Korea	0.17	0.31	0.45	0.54
Southern Europe and Ireland				
Portugal	0.55	0.56	0.54	0.55
Ireland	0.63	0.77	0.94	1.32
Greece	0.65	0.55	0.61	0.53
Spain	0.92	0.88	0.75	0.79
Memorandum				
Turkey	0.43	0.45	0.56	0.62

Source: OECD (2017b) authors' recalculation

Figure 1. **Current account balance vis-à-vis unit labour costs**



Source: OECD (2017a, 2017b, 2017c, 2017d) authors' recalculation

Open questions

- Labour costs vs. capital costs?
- There is no “on-size-fits-all” policy package: Wage-led vs. export-led economies?
- EMU policy package currently combines country specific fiscal tightening response and all-across-EMU relaxation through expansionary monetary policy. Such a combination was designed as a proper response of a monetary integrated area on asymmetric economic shock.
- Through the post crisis recovery package, leading countries (e.g. Germany) endeavour to protect growth, while, in countries hit most hard during the financial turmoil, stability was targeted as their prime concern. However, in this episode, road to stability goes through restored international competitiveness.

Conclusions

- Two policy fallacies:

1. Ongoing monetary integration per se helps achieving pre-conditions necessary for creating one such integration, especially in terms of relative size of output shocks and their synchronization
2. Adjustment mechanism that goes through divergent price and wage trajectories, if needed, will operate well (automatically) and at costs that societies readily accept.