Wage dynamics and sectoral structures in Europe

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Starting point

A France-German comparison
1. Similar developments in productivity
2. Diverging developments of wages

![Graph showing diverging developments of wages](image)
Wage sectoral structure

FRANCE

ITALY

SPAIN

BELGIUM
Wage sectoral structure: two polar situations

GERMANY

UE15
Some stylized correlations
1. More productivity transfers to wages in services → less inequality
2. More productivity transfers to wages in services ➔ more inflation

![Graph showing the relationship between real wage in services, average productivity, inflation, and GDP growth from 1996 to 2007.](image)
3. Less inequality $\Rightarrow$ more inflation

![Graph showing the relationship between changes in inequality and inflation for various countries like Ireland, Spain, Greece, Portugal, Italy, Netherlands, France, Austria, Finland, and Germany between 1998 and 2007.](image-url)
4. Less productive efficiency $\Rightarrow$ more inflation
No convergence in productive efficiency
No convergence in productive efficiency

[Graph showing the relationship between Total factor productivity 1999-2007 and GDP per hour worked 1999. Countries marked on the graph include Finland, Austria, Netherlands, Germany, France, Greece, Ireland, Italy, Spain, and Portugal.]
No convergence of productive efficiency

Efficiency of capital
1999=100 - right scale

Profit rate (%)

North
France
South
North
South
France
A first “triangle of incompatibility”

Productive efficiency

Inequality

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

Distribution of productivity gains

Reducing wage disparities between sectors

Maintaining price competitiveness
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.**

- 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