"International Price and Cost Competitiveness"

Bruegel, April 29th, 2011

Jean Pisani-Ferry, director of Bruegel, welcomed the audience by stressing the importance of the debate on competitiveness in Europe, and concretely on how the latter has to be measured.

Session 1 – Price and cost competitiveness indicators: the state of the art

Zsolt Darvas (Research Fellow, Bruegel), who chaired session 1, introduced Alexandr Hobza (DG ECFIN, European Commission) as the first speaker of this session. Mr Hobza focused his presentation on the most commonly used macroeconomic indicators for price and cost competitiveness: Real Effective Exchange Rates (REERs) and Unit Labour Costs (ULCs). He provided their definition, presented their evolution for most of European countries during the last 10 years, and put forward some of their main advantages and disadvantages. On broad lines, Mr Hobza stated that price and cost indicators, although they have to be interpreted with care, provide very useful information at a macro level. He also explained that both REERs and ULCs are related to productivity, which should be considered as the long term objective to be pursued. Mr Hobza stressed that current and future polices will have to be focused on structural reforms rather than on short term fixes.

Robert Inklaar (University of Groningen), the second speaker of session 1, talked about the weaknesses of ULCs as an indicator for competitiveness and suggested productivity growth or level as a proper alternative to it. Essentially, Mr Inklaar stated that productivity is a more adequate measure because (a) it captures both the capital and labour dimension (while ULCs are exclusively focused on the later), and (b) it is more long-term oriented due to its focus on technical changes rather than exclusively on labour costs. Robert Inklaar presented various graphs that showed very considerable disparities between the results of the two measures in question.

Benedicta Marzinotto (Research Fellow, Bruegel) was the discussant of the first session. She divided her presentation into three different points in which she put together various concepts that were tackled by the speakers. Firstly, Mrs Marzinotto talked about competitiveness as an elusive concept at the aggregate level, and referred to (a) the notion of productivity, (b) the distinction between price and non-price competitiveness, (c) how REERs relate to macroeconomic imbalances, and others. Secondly, Mrs Marzinotto covered the main limitations of the most common price and cost measures, as (a) the role of Unit Capital Costs (UCCs) and non-tradables in ULC and ULC-based REER, (b) the influence on ULC by structural changes on labour and product markets, (c) the lack of insight by ULC-based measures into relative levels and (d) the deficiencies by the relative indicators that do so. Finally, Benedicta Marzinotto talked about what are price and cost indicators useful for, and mentioned the measure of countries' capacity to pay their debt back (ex-post) and the detection of unstable positions (ex-ante).

The discussion continued and other participants of the workshop took part in it. The main topics that were discussed were (a) whether the concept of seeing competitiveness as a poetic way of saying productivity (Krugman, 1994) makes sense in a monetary union, (b) the use of a set of measures as opposed to finding a single ideal one, and (c) the consideration of export performance as an adequate measure for competitiveness.

Session 2 – Sectoral price and cost competitiveness

André Sapir (Senior Fellow, Bruegel), who chaired session 2, introduced Jean-Charles Bricongne (Banque de France) as the first speaker. Mr Bricongne first explained that sector specificities entail a level of detail which is necessary, and used several empirical-oriented publications to support this view. He talked about several variables that can be very different across sectors: ULCs, UCCs, cost of inputs, sizes, market power, margins, elasticities, and non-price competitiveness elements. Mr Bricongne also stressed the difficulty of obtaining proper data at a sectoral level. Finally, Mr Bricongne explained that in many cases it can be that the sectoral level is still insufficient or not representative and then firm-level analysis becomes the right choice.

Filippo di Mauro (ECB), the second speaker of session 2, explained that there is an overemphasis on price-cost measures and on exports results. He stated that a broader and more accurate assessment is needed, and that given that firm heterogeneity (on size, organization, etc.) matters in response to shocks, firm level analysis seems the proper approach to take. Even so, Mr di Mauro pointed at the difficulty of obtaining and comparing firm-level data and at the lack of regular indicators. Mr di Mauro presented some initial work on product-level analysis, which he considered as a proper intermediary step until adequate and cross-country comparable firm-level data is available.

Catherine Girard (Renault), as a discussant of session 2, commented on some of the points that had been put forward by the speakers. Mrs Girard agreed on the idea that there is considerable heterogeneity between sectors. She also talked about the availability of information as a relevant issue, and pointed at the absence of homogeneity on data between sectors and countries. She stressed the importance of quality, and stated that it has to be divided into two different dimensions: the measurable aspects and the immeasurable (or subjective) ones. She said that her understanding of being competitive is to find the best ratio between price and quality while maintaining profits in relation to costs.

André Sapir stated that he was very in favour of the product and firm-level analysis, but that the move from sector to firm-level analysis was being done (by the speakers) too "quickly"; he asserted that sector-specificities were present in many sectors and could not be dismissed. Other participants of the workshop joined the discussion, and the main topics that were covered were (a) whether the sectoral dimension is deep enough or how this is the case for some sectors but not for others, and (b) the inclusion and distinction between tradables and non-tradables.

Session 3 – Price-setting in Europe before and after the Euro

Reinhilde Veugelers (Senior Fellow, Bruegel), who chaired session 3, introduced Carlo Altomonte (Bocconi University and Bruegel) as the first speaker of this session. Mr Altomonte's presentation focused on providing evidence based on two publications (Altomonte et al, 2010; Altomonte et al, 2011) and on the European Firms in a Global Economy (EFIGE) project (click here in order to know more). The ultimate goal of Mr. Altomonte's presentation was to use this evidence (mainly on Price Cost Margins as a rivalry indicator) to exemplify how aggregated data sometimes cannot capture crucial effects that are identified at the firm level.
Isabelle Méjean (École Polytechnique), who was the second speaker of session 3, presented some evidence on the impact of the European Monetary Union (EMU) on the integration of European markets. Mrs Méjean presented her firm-level econometric model and provided the main conclusions of her difference-in-difference analysis, which were (a) the introduction of the EMU has induced a drop in the dispersion of prices within the EMU, (b) the price dispersion reduction is more pronounced for large firms than for small exporters, (c) the quantitative effect is small on average, (d) in terms of aggregate value of exports, the effect is not negligible,

and (e) pricing strategies are heterogeneous across firms, which has potential interesting policy recommendations.

Rubén Segura-Cayuela (Banco de España), as a discussant, provided a very detailed commentary on each of the two presentations. Apart from making several comments on the technical part, Mr Segura-Cayuela also contributed to the discussion by putting together the main conclusions given by the speakers. On broad lines, Mr Segura-Cayuela stressed that heterogeneity matters, and that firm-level analysis can make a very big difference when trying to understand and create aggregates.

The other participants of the workshop joined the discussion. Some of the topics that were tackled were (a) the exercise of finding micro-based indicators that complement or substitute the macro-level ones, (b) level of persistence of market leadership, and (c) differences between small and big firms and how they matter at the aggregate level.

Roundtable discussion: does the south of Europe have a competiveness problem?

The discussion began with a presentation by Lorenzo Codogno (Italian Treasury and EPC), who provided a thorough overview of the whole topic. Essentially, Mr Codogno stated that the EU is quite variable when it comes to relating the level of competitiveness to geographic location, thus making a north-south distinction does not make much sense. He used the examples of Italy and Ireland in order to demonstrate that the aforementioned classification has important flaws. Mr Codogno also elaborated on the difficulties to define and measure competitiveness and positioned himself in favour of a broader-based approach: to assess the level of competitiveness by looking at the whole economy and at imbalances.

The other participants of the workshop also took part in the discussion and the following topics were debated: (a) the need and definition of public policies and entities exclusively dealing with competitiveness' issues, (b) the importance of building a broad set of indicators containing measures both at micro and macro level , (c) the role of financial balances, (d)competitiveness within EU2020, and (e) the need to differentiate between stability and growth and the levels in which this two dimensions have to be dealt with.

Finally, Jean Pisani-Ferry closed the event by thanking all the participants for a very fruitful workshop and discussion.