



The Triggers of Competitiveness

EFIGE Conference organised by Bruegel jointly with the National Bank of Belgium

Auditorium of the National Bank of Belgium, 06 December 2011

“Countries do not compete, produce and trade. Firms do.”

Welcoming remarks by Jean Pisani-Ferry, Director of Bruegel

The reason why the conference has been organised by Bruegel, in collaboration with the National Bank of Belgium, under the umbrella of the Efige project, is because competitiveness is back on the European agenda. In the last twelve years it was forgotten or considered as a second order priority. Then it came back because European policymakers have learned that the balance of payments matters, even for exchanges within the Euro area, what and whether you export matters, firms' degree of internationalisation matters, and even what firms produce matters. This rediscovery has been painful for many countries, especially in Southern Europe. Countries have thus learned to have a small tradable sector, a too small tradable sector, which has been making the reallocation of resources from the tradition internal sector to the external tradable sector even more painful after the crisis.

How to monitor competitiveness and what theoretical framework policymakers should rely on became of fundamental importance with the crisis. The reason why this conference has been organised is because economic research can give precious suggestions about which policies should be adopted for restoring competitiveness and about which theoretical framework to rely on when monitoring competitiveness.

A comparison that can be done is with what Professor Christopher Pissarides did on the labour market. When employment became really high on the policy agenda in the 80s, an extremely simple analytical framework was initially used for addressing the question. Thanks to the research carried out by Professor Pissarides and others, the functioning of labour markets has been much better understood looking at the determinants of individual behaviour. This shift in the research approach has also changed the approach used by policymakers for deciding what policies to undertake in order to address labour market issues. For example, Professor Pissarides underlined the importance of studying the matching function allowing firms' demand for labour to match individuals' supply of labour. Policies addressed to improving the matching function of the economy have turned out to be one of the most powerful tools to increase employment.

Trade research is facing the same challenge today. Trade research has been traditionally done looking at flows like national imports and exports. The approach that has been more recently developed and has become dominant in trade literature is different. It is all about firms, how many exporting firms a country has, and how a country may be able to increase the number of firms that can compete on international markets. Now, having a more detailed theoretical framework, it is finally possible to establish the link between empirical research and



economic policy. This is what Efige is all about. The scope of the conference is thus to work out the policy implications of research, to find a way that allow policymakers, economists, but also practitioners to communicate with each other. Indeed the approach that has been lately developed speaks more to practical people than to theorists, as people dealing with practical issues do know that firms are heterogeneous and the fiction of an average firm has never been telling for them. Adopting such a practical approach to undertake trade policies is challenging, but more realistic. Eventually it is the only way to go if the right policies are to be put in place.