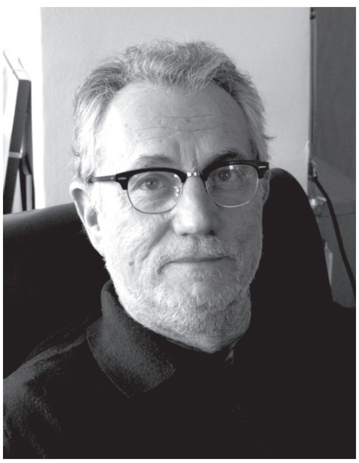
article

WORLD IMBALANCES AND THE DECLINE IN WAGES



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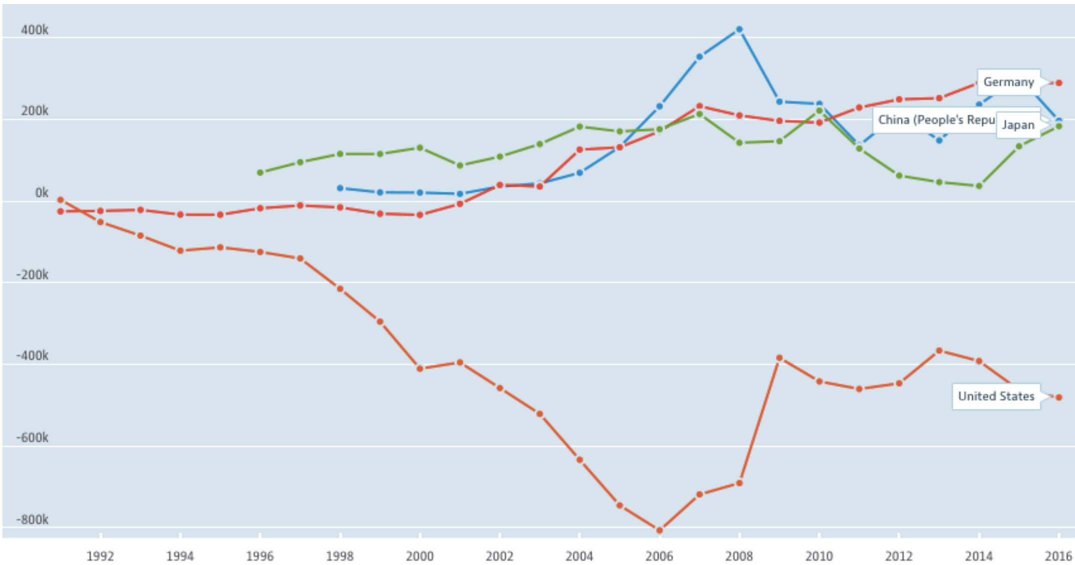
Around 2000, a race to the bottom in labour compensation's share of added value at global level began. In a decade, wages' share of national income (value added) declined six percent on average: from 63 to 57 percent in USA; from 64 to 59 percent in Germany; from 63 to 57 percent in the UK; from 62 to 56 percent in Japan and from 66 to 54 percent in China. Symmetrically, profits grew all over and inequality rose inside almost all countries.

One of the main factors used to explain such phenomena is globalization. With economic borders eroding and capital flowing all over searching for the highest yield, the rate of profit tends to equalize and any increase here, brought through wages' decline, is replicated everywhere. A process that has as catalytic factors trade imbalances among countries. As can be seen in the next chart: it was also around 2000 that trade imbalances rose as never before. On one side, we can see the enormous USA trade deficits; on the other, the surpluses in Japan, China and Germany – with a peak just before the world financial crash.

In China, internal migration helped productivity increase by more than wages; similarly in Germany thanks to reunification. A competitive advantage 'shared' with the USA through its deficit: while it was importing tradable goods, what we can call bubble-jobs emerged – low-paid and precarious jobs in non-tradable sectors such as services and building, linked to the credit bubble that finances the deficit.

In fact, there's no jobs transfer among surplus and deficit countries. Demand in deficit countries sustains jobs in a surplus country; but the latter finances the former's demand in a zero sum game. What certainly happens is a change in the kind of jobs on both sides of the equation with a similar wages' decline: two effects directly linked to imbalances and not to trade itself. If trade is balanced, bubble jobs do not appear nor does the race to the bottom in wages or the credit bubble. Countries exchange tradable goods



Source: OECD

and services at equal value, without modifying their internal structure.

That's why it's vital to establish a surplus/deficit avoidance mechanism as foreseen by Keynes in the Bretton Woods talks, being aware as he was that currencies' adjustments would be unable to achieve this on their own. His idea was a trade-balances' clearing-house, where surpluses would be penalized twice more than deficits. The logic for that double penalization was clear: any adjustment by the deficit side implies an aggregate demand contraction, hence greater unemployment, while the adjustment by the surplus side requires the opposite: an increase in aggregate demand and hence more employment.

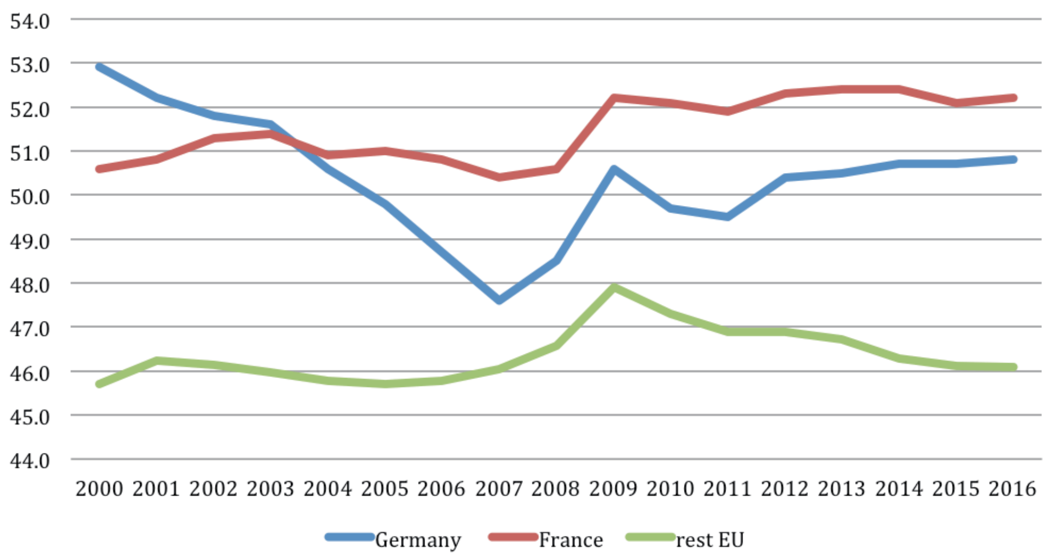
To avoid surplus has another key effect: by dissuading countries from allowing higher increases in productivity than in wages, less developed countries are not forced to survive by decreasing salaries below the living wage level and obliging millions of their citizens to migrate. Therefore, an imbalances avoidance mechanism has beneficial effects all over the world. Who is opposed? Historically, no surplus country has voluntarily renounced the power its surplus gives. Only China has recently accepted to reduce its external surplus and to boost its economy through domestic demand. It now has the moral authority to demand of others that they do the same. Let's hope it uses such authority!

IMBALANCES IN THE EU

Trade imbalances were also behind the euro crisis, once the accumulated deficits in some countries became an external debt almost impossible to be paid back. And those imbalances also started with a labour compensation decline in Germany, the surplus champion, while deficit countries saw bubble jobs and credit bubbles emerge. The Troika rescue program consisted, precisely, in a labour compensation decline in the rescued countries. In fact, only France has resisted such a trend up to now.

Although the EU included the surplus/deficit avoidance mechanism as part of the Macro Imbalances Procedure (MIP), when the euro was close to collapse, it has been never

LABOUR COMPENSATION SHARE IN THE EU



Source: Eurostat

applied. Germany and the Netherlands, the surplus countries that should be obliged to act, have diverted responsibility by pointing to the stability pact, which in fact means a deficit adjustment that has been widely applied. As a result, a huge rise in unemployment and poverty where such adjustment has been imposed and lower economic growth all over Europe with its related rise in populism.

The question now is whether Macron will be able to convince Germany to reduce its surplus or, conversely, if France will follow the path of the other countries, deepening the global wages' decline, increasing inequality and putting pressure on third countries to force their citizens to leave.

Wages in the first world should be high because of its high productivity, and this is the best way to protect workers in the less advanced countries. To welcome migrants is a moral mandate, but to prevent people wanting to migrate is obviously far better. An imbalances' avoidance mechanism could also help in this direction. •

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