Christian Noyer: Productivity, competitiveness and globalisation

Speech by Mr Christian Noyer, Governor of the Bank of France, at the international symposium on "Productivity, competitiveness and globalisation", Paris, 4 November 2005.

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Ladies and Gentlemen,

It is my great pleasure to open this symposium, which brings together central bankers and representatives of international institutions, prominent academics and high-ranking managers of private banks from both mature and emerging economies to discuss a subject that is of interest and concern to all.

A large body of theoretical and empirical literature has been devoted to the issues of productivity, competitiveness and globalisation in response to major macroeconomic and financial changes. The following changes, in particular, may be cited: the end of the catch-up with US productivity levels by the other industrialised countries, the emergence of new players in the international division of labour and world trade and, lastly, the considerable increase in capital flows. The Banque de France has taken part in the research on these subjects through its work on productivity and offshoring.

This rich body of work may now be summarised and the speakers at this symposium will contribute to this in the course of three sessions and a round table. The first session, chaired by Jean-Claude Trichet, President of the European Central Bank, will focus on developments in productivity and competitiveness and aim to present the main concepts and stylised facts in these areas. The second session, chaired by Axel Weber, President of the Bundesbank, will analyse the impact of these developments on international capital allocation and global imbalances. The third session, chaired by Rodrigo de Rato, Managing Director of the International Monetary Fund (IMF), will consider economic policy responses and the spontaneous adjustment of markets and economic agents. Lastly, the round table, chaired by Roger Ferguson, will draw out the consequences in terms of international financial stability. Stanley Fischer has agreed to take on the difficult task of summarising this symposium. Stanley, like a few others here, is a symbol in himself of the diverse backgrounds of the participants in this symposium: he is a former Professor at MIT, an ex-Deputy Managing Director of the IMF, ex-Vice-Chairman of Citigroup and currently Governor of the Bank of Israel.

As an introduction, I will touch briefly on a few of the questions raised by each of these sessions.

The first session will consider some of the decisive changes in trends in productivity and competitiveness that occurred in the 1990s. First change: as from the mid-1990s, productivity growth accelerated in the United States as a result of the gains arising from the production and use of information and communication technologies (ICT) but slowed down in Europe and Japan. For instance, over the last ten years, productivity growth in Europe has been more than one annual percentage point below that of the United States. This gap may be ascribed to structural rigidities that are thought to have hampered European sectoral specialisation and the spread of information technologies, while labour policies designed to help low-skilled workers re-enter the job market reduced the measured growth of European productivity.

Bart Van Ark, Professor at the University of Groningen and Director at the Conference Board, will kick off the discussions of the first session. Bart is one of the first academics to have described these developments through studies based on international comparisons of macroeconomic or sectoral data. His research has brought to light the importance, in the European lag, of the lower gains in total factor productivity in ICT-producing sectors, and especially in the services that use these technologies. The European countries' inadequate specialisation in ICT-producing sectors limits the gains that may be expected from the sharp drop in the cost of computing power. In addition, the difficulties that services using ICT have in making full use of these technologies could be traced to the structural rigidities of European labour and product markets.

One of the issues raised by this first change is the impact of these developments on the competitiveness of the mature economies and on capital flows. There are indeed numerous links between competitiveness and productivity. In the short term, relative changes in unit labour costs are a component of cost competitiveness. In the long term, according to Paul Krugman, the concept of the competitiveness of an economy merges with that of its productivity: the increase in the standard of living in the United States, Japan or Europe, which, in keeping with Professor Laura d'Andrea Tyson's definition, is the ultimate indicator of a country's competitiveness, has in fact, excluding all external factors, tracked developments in national productivity over several decades. In addition, the flexibility that enables an economy to specialise in promising sectors determines both developments in its productivity and its competitive position: several recent studies show that labour or product market rigidities may thwart the emergence of an ICT-producing sector and limit the use of these technologies in the other sectors, which holds back productivity growth and the development of exports of products that are in high demand.

Second change: the advent of new players in international trade of goods and services and international division of labour. Of course, this is not an unprecedented development – it has occurred several times since the Second World War, with Japan and also with the newly industrialised Asian countries. It has nevertheless taken on a new dimension due to the newcomers' size and competitive edge, the liberalisation of capital flows and the decrease in transport and communication costs. The new international division of labour thus affects every stage of the production process; it influences the localisation of added value and raises the question of the financing of the external imbalances of economies that focus on the design and marketing of products rather than their manufacture.

The second session will deal with the impact of trends in productivity and competitiveness on international capital allocation and global imbalances. These trends may have contributed to the increase in global imbalances reflected in current account balances, and highlight several paradoxes.

The first paradox is that of the US economy, which combines the structural surge in its productivity with a possible loss in competitiveness illustrated by the increase in its external deficit. This paradox is perhaps only apparent if we consider that the improvement in the US' relative productivity performance is mainly in the non-tradable sector and as compared to the industrialised rather than the emerging economies. In addition, while this pick-up in productivity does boost the profitability of investments, logically, it goes hand in hand with an excess of investment over national savings that calls for increasing foreign capital inflows.

However, the predominant nature of capital inflows to the United States changed at the start of the 2000s, switching from mainly purchases of equities and foreign direct investment by the private sector to purchases of government securities by central banks, which are not motivated by the search for increased profitability.

This leads us to the second paradox, a twin to the first, i.e. financing mature economies' expenditure with world savings. Does this situation correspond to the efficient allocation of capital and if not how do we explain it?

More generally, is there any likelihood that a chain that hinders balancing mechanisms has been established? The foreign exchange intervention operations carried out by several central banks help to finance the US budget and external deficits. In the United States, the corresponding maintenance of long-term interest rates at a low level fosters the US domestic savings-investment imbalance. In the Asian countries, and particularly China, the increase in trade surpluses and its corollary, the worsening of the US imbalance, exerts upward pressure on the currencies while swelling foreign exchange reserves increase the costs of an appreciation vis-à-vis the US dollar. Does this configuration correspond to a mutually advantageous and sustainable situation?

In this second session, Bill White, Economic Adviser at the Bank for International Settlements, will clarify these paradoxes in the light of the work carried out by the latter organisation, which makes a vital contribution to the analysis and promotion of macro-financial stability.

In the third session, which will tackle economic policy adjustment and responses to the increase in global imbalances, we will examine private and public players' ability to adapt to the current situation. Can the behaviour of private agents, through a change in their savings or the redirection of capital flows, lead to a spontaneous decrease in global imbalances without engendering destabilising adjustments on the financial markets? More specifically, can greater foreign exchange flexibility in certain areas, and particularly the emerging economies, help to restore some balance? In Europe and Japan, we expect an increase in potential output following structural reforms on financial, product and labour markets. Beyond the mechanical effect of a reduction in the growth differential, what would be the impact on capital flows? In the United States, bearing in mind the savings behaviour of private agents, what lever should be used in addition to the tightening of the policy mix to substantially improve the savings-investment balance? Lastly, could international institutions play a bigger role in the management of global imbalances?

In this third session, Otmar Issing, former Professor at the University of Würzburg and Member of the Executive Board of the European Central Bank, will explore the avenues for finding a way out of the current global imbalances notably by presenting the analyses developed by his institution in the areas of fiscal and foreign exchange policy and structural reform.

The last session will focus on the consequences of these developments for international financial stability against the backdrop of the liberalisation, the increase in and redirection of capital flows. The emerging economies have on several occasions borne the brunt of erratic capital flows. The Asian crisis of 1997 thus brought to light the risks associated with the accelerated liberalisation of short-term capital flows, particularly where prudential supervision structures were inadequate. What is the appropriate global financial integration policy for an emerging economy? For mature economies, the LTCM investment fund crisis in 1998 illustrated not only the risks of the spill-over of crises in emerging areas but also the fragility created by the advent of new players and the development of financial derivative instruments. This fragility was further underscored by the failure of Enron in 2001. What are the prudential issues at stake in the recent developments in financial markets, particularly in the greater interdependence of national markets, the emergence of new instruments and new categories of economic operators in a context of increasing trading volumes?

To find answers to some of these questions, the last session will take the form of a round table bringing together speakers from mature and emerging economies at different stages of integration into international trade, be they central bankers and/or from the private sector. It will afford an opportunity to discuss the consequences of the increasing global imbalances on international financial stability. Stanley Fischer will then provide a summary of the day’s work.

It remains for me, Ladies and Gentlemen, to express my wish for this symposium to enable the further development and convergence of assessments of the current state of affairs and of economic policies. I wish you a fruitful day of discussions and now give the floor to President Jean-Claude Trichet.