Comments:
Short-term structural reforms and the macro situation

UNCTAD

G-20 Workshop
Paris, 1 June 2015
De-Serres, OECD: Short-run impact of structural reforms

• **Value of the approach: Brings together different types of evidence**
  - A variety of DSGE models (what you put in determines what comes out)
  - Empirical studies (admittedly few)
  - OECD case studies

• **Structural reforms with weak demand conditions**
  - Deflationary reforms in product and labor markets likely to be contractionary
    • Weak external demand unlikely to compensate (and these are very important, as evidenced by case studies)
  - Reforms increasing labor supply less effective
    • Few jobs to be had and less geographic mobility
De-Serres, OECD: Short-run impact of structural reforms

- **Demand-side polices to the rescue?**
- **Monetary policy at ZLB or in monetary union can’t do much, and might even be damaging (higher real interest rates)**
- **Fiscal policy more promising**
  - **Fiscal multipliers higher when AD is weak**
    - **Incomes policies to support liquidity-constrained households is part of the story**
  - **Spending is more effective than tax cuts**
    - **Public infrastructure investment is perhaps the best kind.**
In t’Veld, EC: ECFIN Pilot Exercise

- On structural reforms at ZLB, and a contractionary shift in AS curve: AD to the rescue?
  - Increased profitability of investment
  - Increase disposable income of liquidity constrained households
  - Competitiveness effect boosts external trade

These are problematic
The critical question is how the AD shifts
Wage share and investment patterns 2010-15

**France**

**Italy**

**Germany**

**European Union**

- Wage share (% GDP)
- Private investment (% GDP)

2014: preliminary or projected
2015: projected
Wage share and investment patterns 2010-15

2014: preliminary or projected
2015: projected
Wage share and investment patterns 2010-15

- Republic of Korea
- India
- Indonesia
- Mexico

Wage share (% GDP) and Private investment (% GDP)

2014: preliminary or projected
2015: projected
Wage share and investment patterns 2010-15

Argentina

Brazil

South Africa

Russian Federation

- Wage share (% GDP)
- Private investment (% GDP)

2014: preliminary or projected
2015: projected
Wage share and investment patterns 2010-15

**United States**

**United Kingdom**

**China**

**Japan**

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**Wage share (% GDP)**

**Private investment (% GDP)**

2014: preliminary or projected
2015: projected
GPM model multiplier effects of a rise of profit markup by 1 per cent

Vertical axis shows per cent points of GDP for each country

- GDP
- Consumption
- Private investment
Conclusion: to succeed with structural reforms proactive policy must shift the AD
A net-export recovery instead?
The aggregation problem (Capaldo & Izurieta, 2013)

Figure 2. Aggregate demand and distribution in wage-led and export-led economies, omitting global feedbacks

Similar studies: La Marca & Lee (2014)
von Arnim, Carvalho & Taviani (2014)
Dynamics of competitiveness and global demand causing deflationary pressures

Figure 3. Shifting patterns of aggregate demand and distribution in export-led regimes when global feedbacks are taken into account.
Effects are sharper for wage-led economies