Discussion of:
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Measuring price competition and the impact on external performance of the largest economies in the euro area

- ► Super relevant debate on the divergence in competitiveness between Euro area economies – G and I in particular
- ► Key to absorb the imbalances in Europe
- ► Clearly, what stands out is ULCM in Italy
- ► Price-based indicators much less divergent
- ► Question: what is the most appropriate measure of competitiveness?
  - ► If ULC, we are in trouble, if PPI, we can work on it
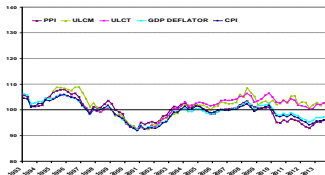- ► Reflected in RER movements

2. The indicators for the 4 largest economies in the euro area (a)

Increasing divergence of indicators since the late 90s, notably in Italy...
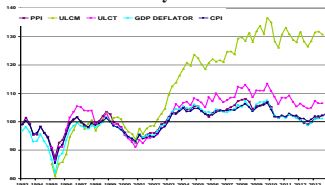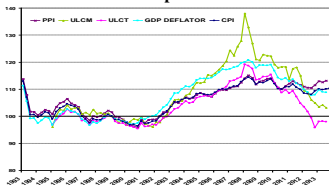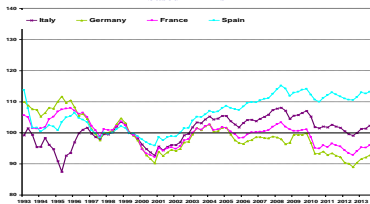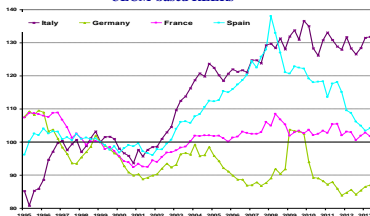

Germany
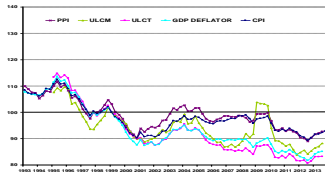
France

Italy

Spain

2. The indicators for the 4 largest economies in the euro area (b)

PPI-based REERs

ULCM-based REERs

Policy implications from alternative indicators may be largely different: **PPI-based REERs**: over the 1999-2007 period Italy lost **5.7 pp** in competitiveness, which have been almost fully recovered since (similar losses and gains are recorded on the basis of the other price-based indicators); the gap wrt Germany currently stands at **9.5 p.p.**.

ULCM-based REERs: since 1999 Italy has lost **30.1 p.p.** in competitiveness; the gap wrt Germany is currently of **41.3 p.p.**.

If the conflicting behaviour of PPI- and ULCM-based indicators is due to diverging domestic labour costs and prices, it may signal an alarming build-up of cost pressures on Italian firms; the process for Italy could be unsustainable in the long run.

Is it a puzzle?

- ▶ It looks so!
- ▶ But within manufacturing, no misalignment between PPI and ULC in I and ES
- ▶ Rather in G and F
- ▶ Given this, a simple simulation shows that one can obtain RER movements as in the data
- ▶ Moreover, price indicators explain exports better
- ▶ So, PPI more telling and the imbalance is manageable

3. Focusing on Italy's puzzle: a) *within country trends*
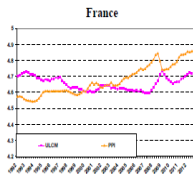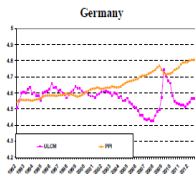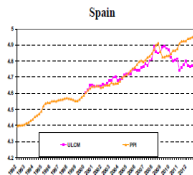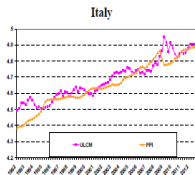
A visual inspection of producer price and labour cost developments in the manufacturing sectors over the past two decades, however, suggests a **comovement in Italy and in Spain** (with the exception of the recent years for the latter), **but not in Germany** (since the mid-2000s) **and in France**.

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It is still a puzzle

- Simulation needs divergence in ULC and PPI somewhere

- Within manufacturing, the misalignment moves from I to G

- But it is still there, and still a something to explain

- It would be important to elaborate more on this

Where is the misalignment coming from?

- Data issues? Not mentioned in the presentation. ULC more elusive?
- If not a measurement issue, then it is an economic one
- Key to understand where it comes from and what its consequences are – will be

  - German wage moderation? Dustmann et al., JEP 2014

  - TFP – but this is a cost factor

- At the end of the day, is the relevant gap 10% or 40%?

Firms and aggregate trade performance

- ▶ Margins approach: regress average export (intensive margin) and number of exporters (extensive margin) on explanatory variables
- ▶ Moment approach: regress the same export indicators on more moments of micro heterogeneity
- ▶ Very sympathetic: importance of higher moments of firms' characteristics distribution
- ▶ But I see the second as an extension to the first approach, rather than an alternative
- ▶ We are not using higher moments of the export distribution
- ▶ Trivializing: expand the set of explanatory variables to include dispersion and asymmetry of LP distribution

Measurement ahead of theory

- ► At the moment, little theoretical guidance on what to expect
- ► This is really needed
- ► Das, Roberts and Tybout (2008): effects of higher moments depend on sectoral characteristics
    - ► Productivity distribution relative to the productivity threshold
- ► Particularly for the extensive margin, unclear one can make "absolute" statements: they depend on the specific industry considered – role of fixed costs of exporting
- ► Sector dummies might not be enough
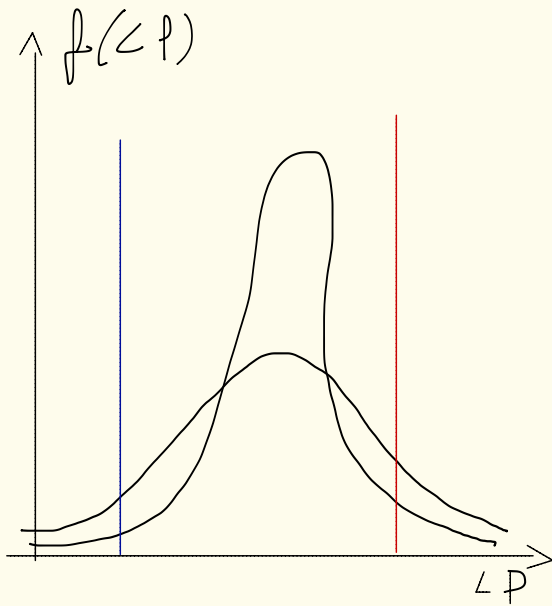
What should we expect from higher moments?

- ▶ Is something like this going on when considering different countries/sectors?
- ▶ Mean productivity "boring", but uncontroversial: higher productivity, higher export (at least in theory...)
- ▶ Not clear that the same statement can be made in general for higher moments
- ▶ This is why specifying the underling mechanisms seems key for the research agenda
- ▶ In particular, no intuition about asymmetry

From micro to macro

- ▶ The paper tells us that micro moments matter to explain macro results
- ▶ But we still need the micro moments to perform the exercise
- ▶ At that point, one can go directly for a micro analysis and aggregate ex post
- ▶ It would be different if we could proxy micro moments directly in the aggregate data
- ▶ Bad news for society, good news for applied micro scholars ⌣
- ▶ Micro data are needed

Specific comments

- ► Include sector dummies
    - ► Sectors differ both in distribution and propensity to export
    - ► Omitted variables causing both
- ► "Extensive margin: the ratio of a country's number of exporters per industry/year to the total export level per industry year of sample countries"
    - ► What does it measure exactly? I understand it comes from a decomposition exercise, but typically it is the share of exporting firms, here something very different
    - ► Why negative first moment?