

# Two topics

- **Sweden and the euro**
- **Sweden and globalisation**

# The framing of the debate

- A political issue
  - How much integration do we want?
  - Which contribution do we want to make?
- An economic issue
  - The economic benefits and costs

# EMU membership mainly seen as an economic issue

- Terms of reference for the Government Commission on the EMU 1995-96 as well as subsequent debate and referendum campaigns
- Overselling of economic benefits
  - main reason: inflation of the 1980s and recession of the early 1990s
  - main argument: the need to import macroeconomic stability
  - the strategy did not work when we started to do better than other EU countries

# The argument that a common currency stimulates trade and growth

- Stronger empirical evidence for this over time
- Also empirical evidence that more trade stimulates growth
- But Sweden has had much stronger productivity growth than most euro countries since 1995
  - increase in productivity growth in Sweden vs decline in the euro area
- Other factors are probably much more important than a common currency for growth
- Incorrect argument that high productivity growth is synonymous with high employment

**Produktivitetstillväxt i näringslivet 1985-1994 och 1995-2004  
(årlig förändring i procent)**

Sverige	2,1	2,7
EU-12	3,0	2,1
USA	1,2	2,8

**1995-2000**

	Sweden	UK	Germany
GDP growth	3.5	3.3	1.7
<i>Contribution from:</i>			
IT capital	0.8	0.8	0.3
Non-IT capital	0.4	0.6	0.3
Labour	0.7	0.7	-0.4
TFP	1.7	1.2	1.5

**2000-2004**

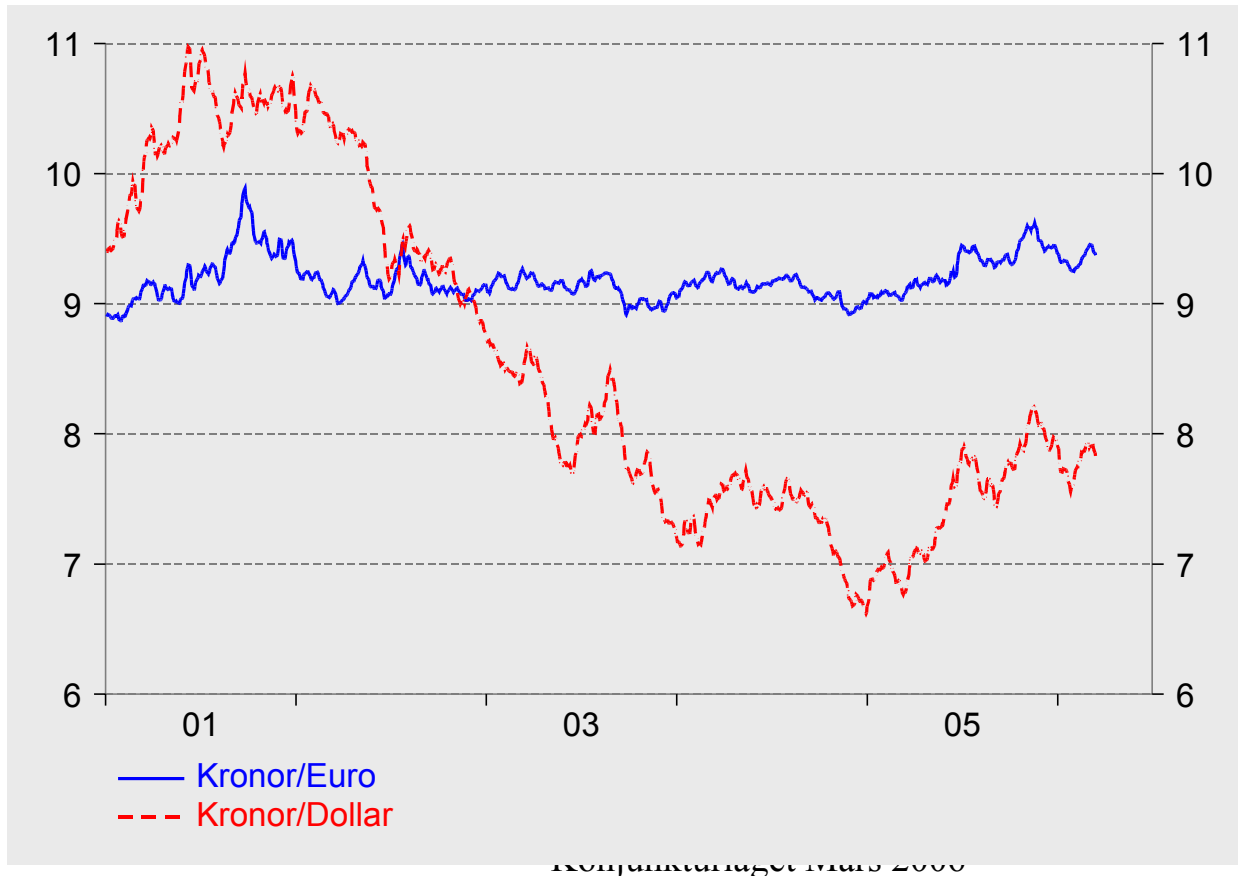
	Sweden	UK	Germany
GDP growth	2.1	2.3	0.5
<i>Contribution from:</i>			
IT capital	0.4	0.3	0.2
Non-IT capital	0.2	0.5	0.2
Labour	-0.4	0.2	-0.5
TFP	1.9	1.3	0.6

The argument that EMU membership is needed for a stable currency, low inflation and low interest rates

- The Swedish krona has been weak against the euro
  - normal medium-term exchange rate misalignment rather than trend
- No problems of holding down inflation
- Lower long-term nominal interest rate than in Germany (but higher real rate)

# Nominella växelkurser

5-dagars centrerat glidande medelvärde

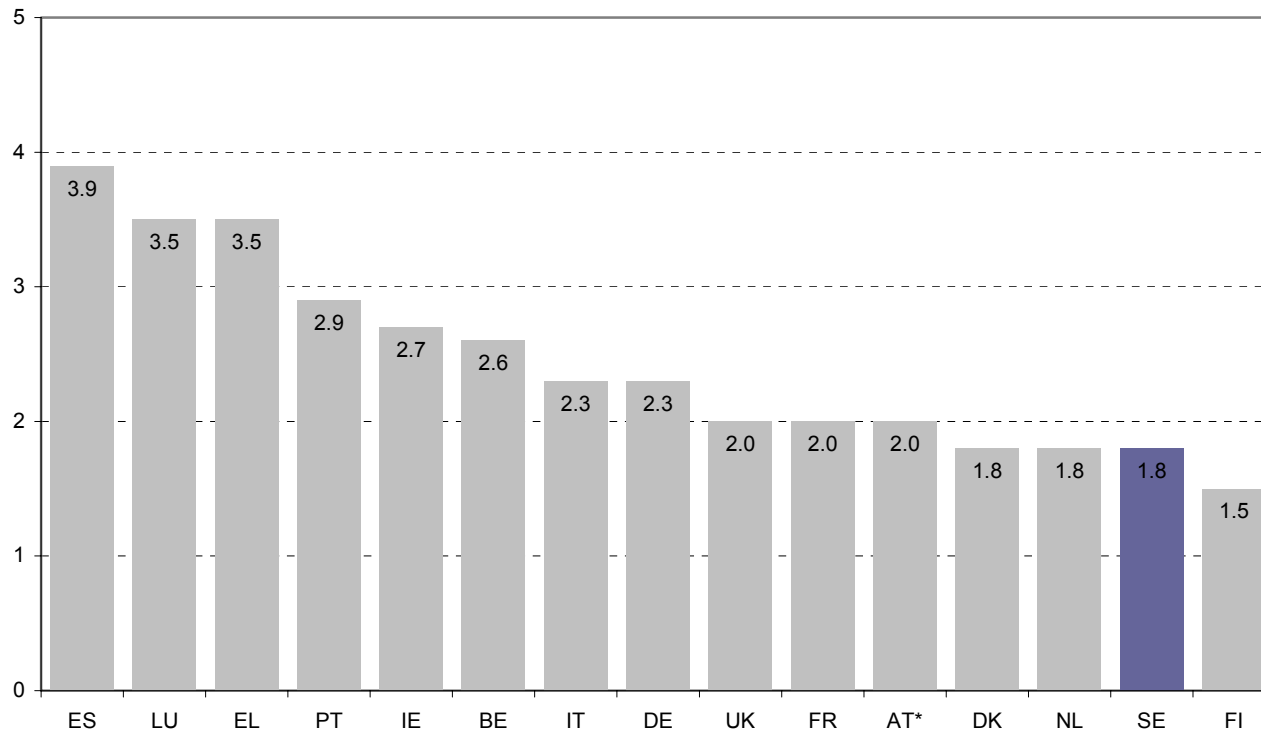


Konjunktutläget Mars 2006



# HIKP i Sverige och EU15

Årlig procentuell förändring, april 2006

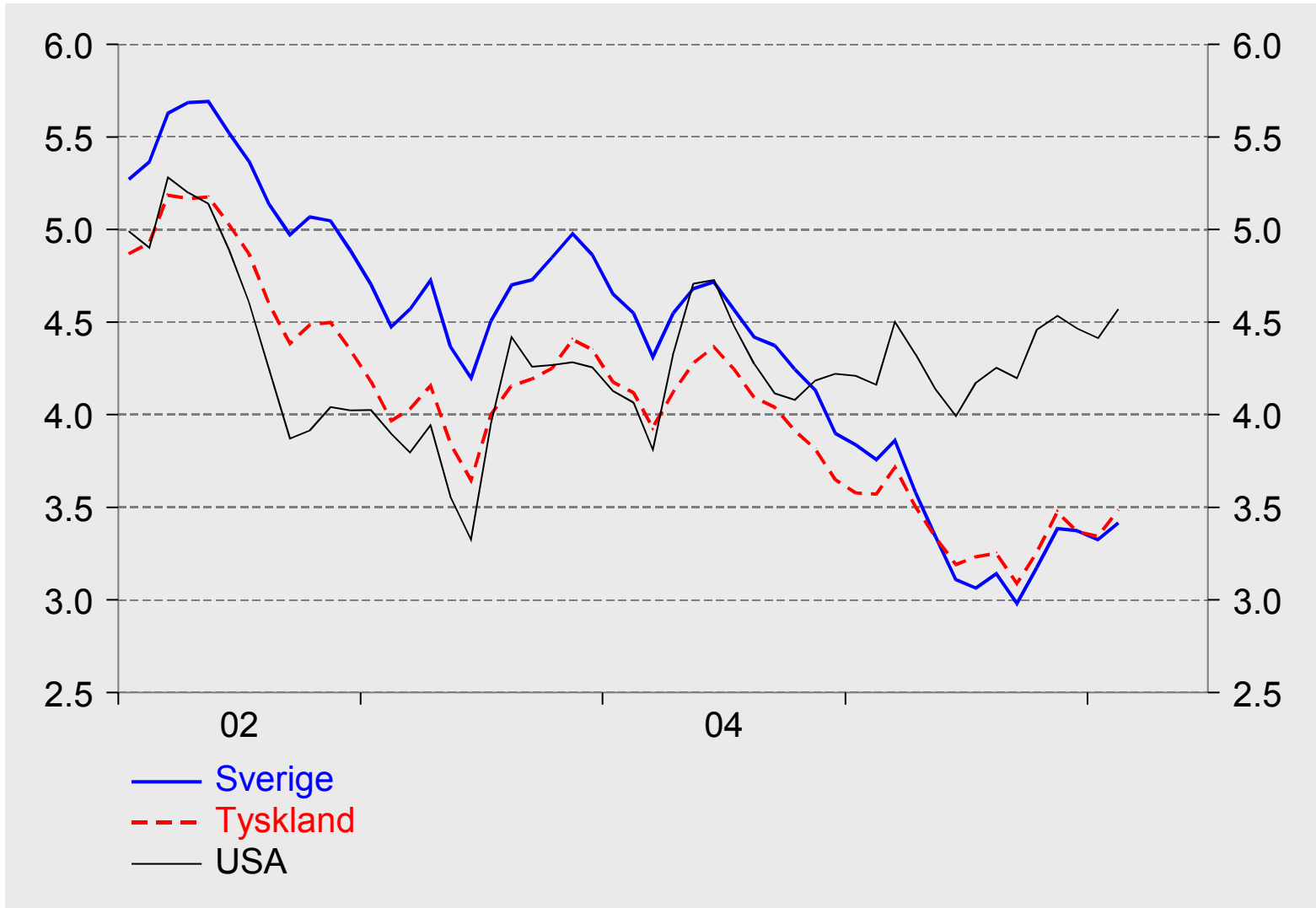


Källa: Eurostat

Fotnot: Värdet för Österrike är 'provisional'

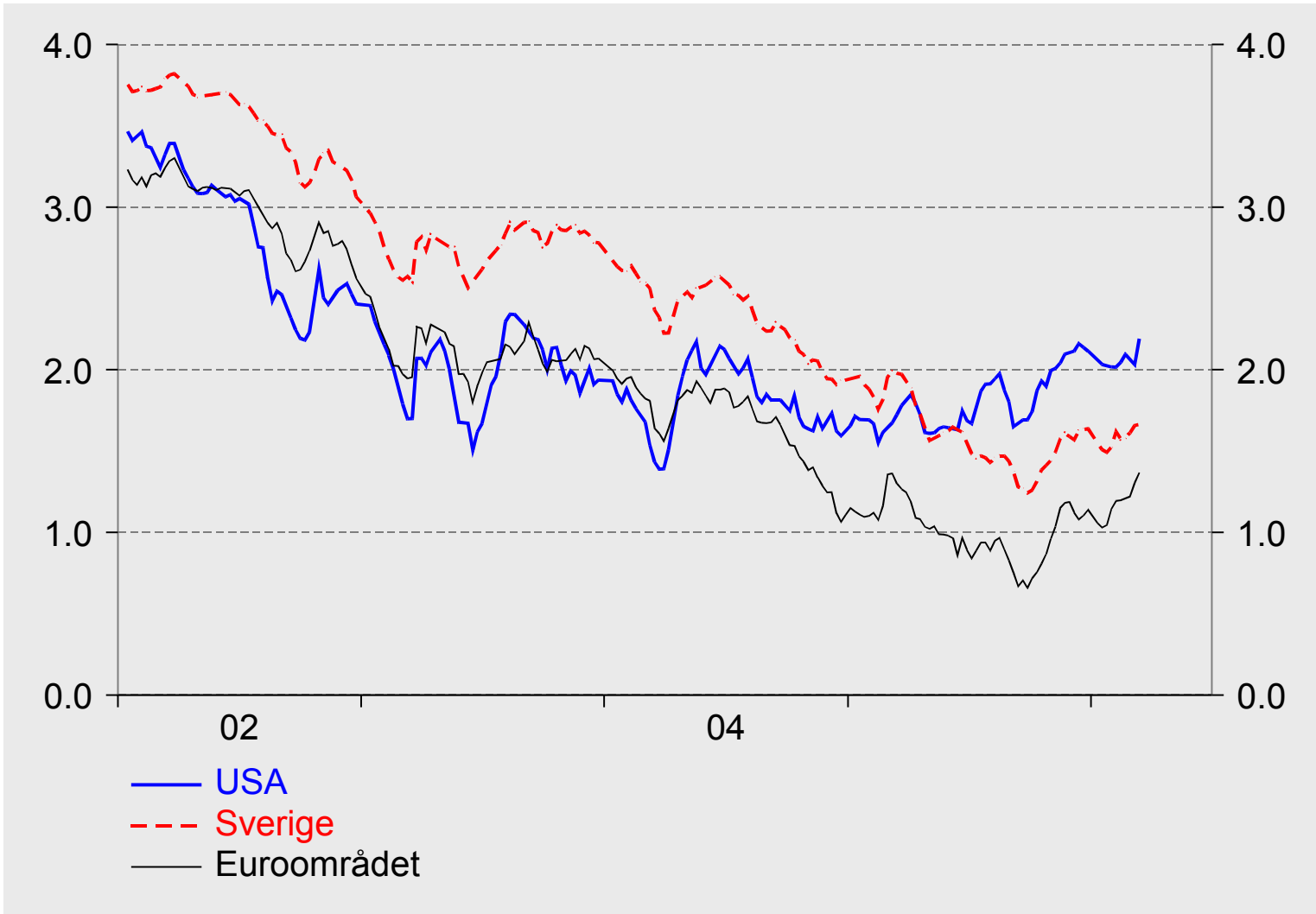
# Långräntor, tioåriga statsobligationer

Procent, veckovärden



# Realobligationsräntor

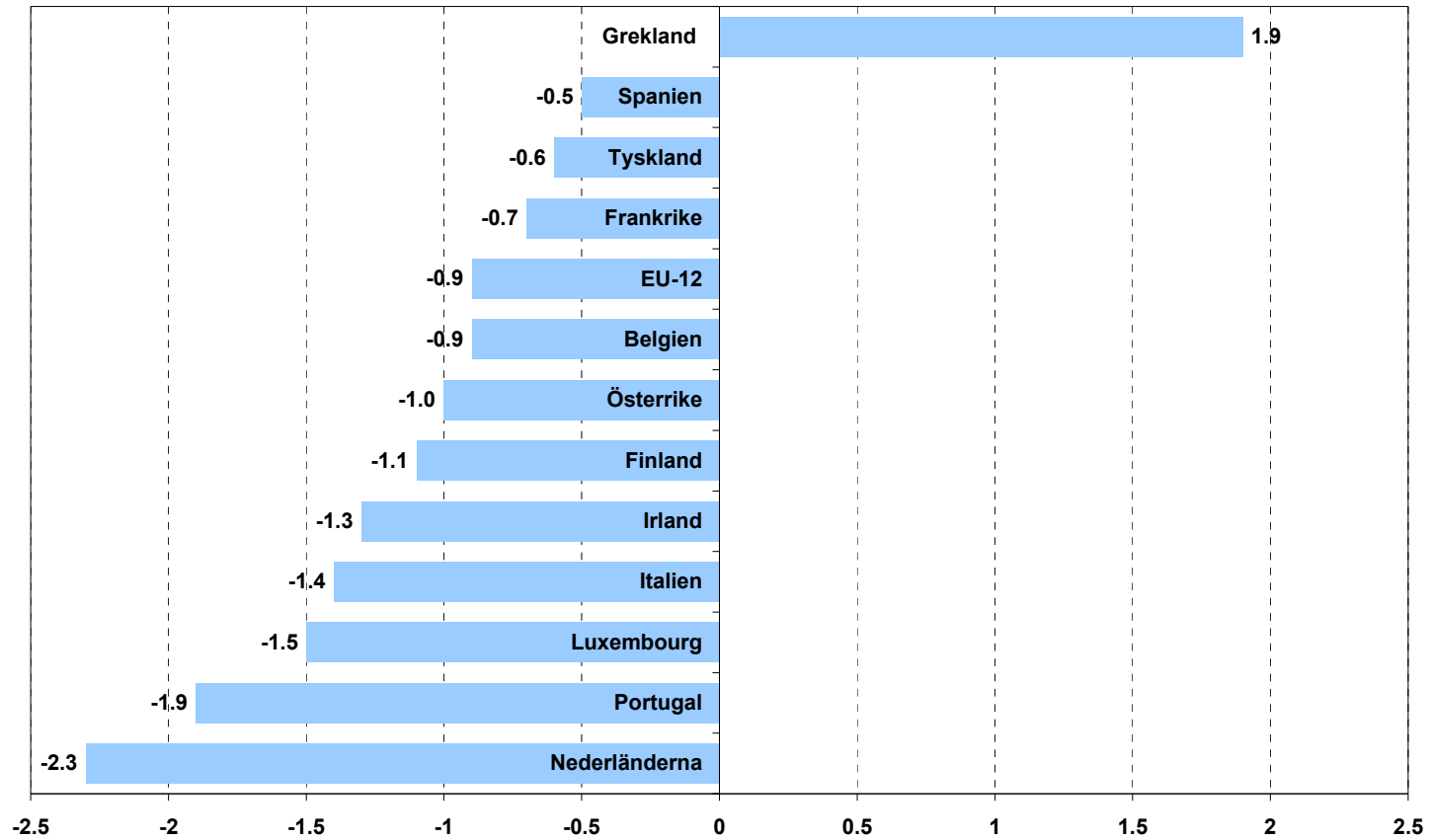
Procent, veckovärden



# The risk of asymmetric (country-specific) macro shocks

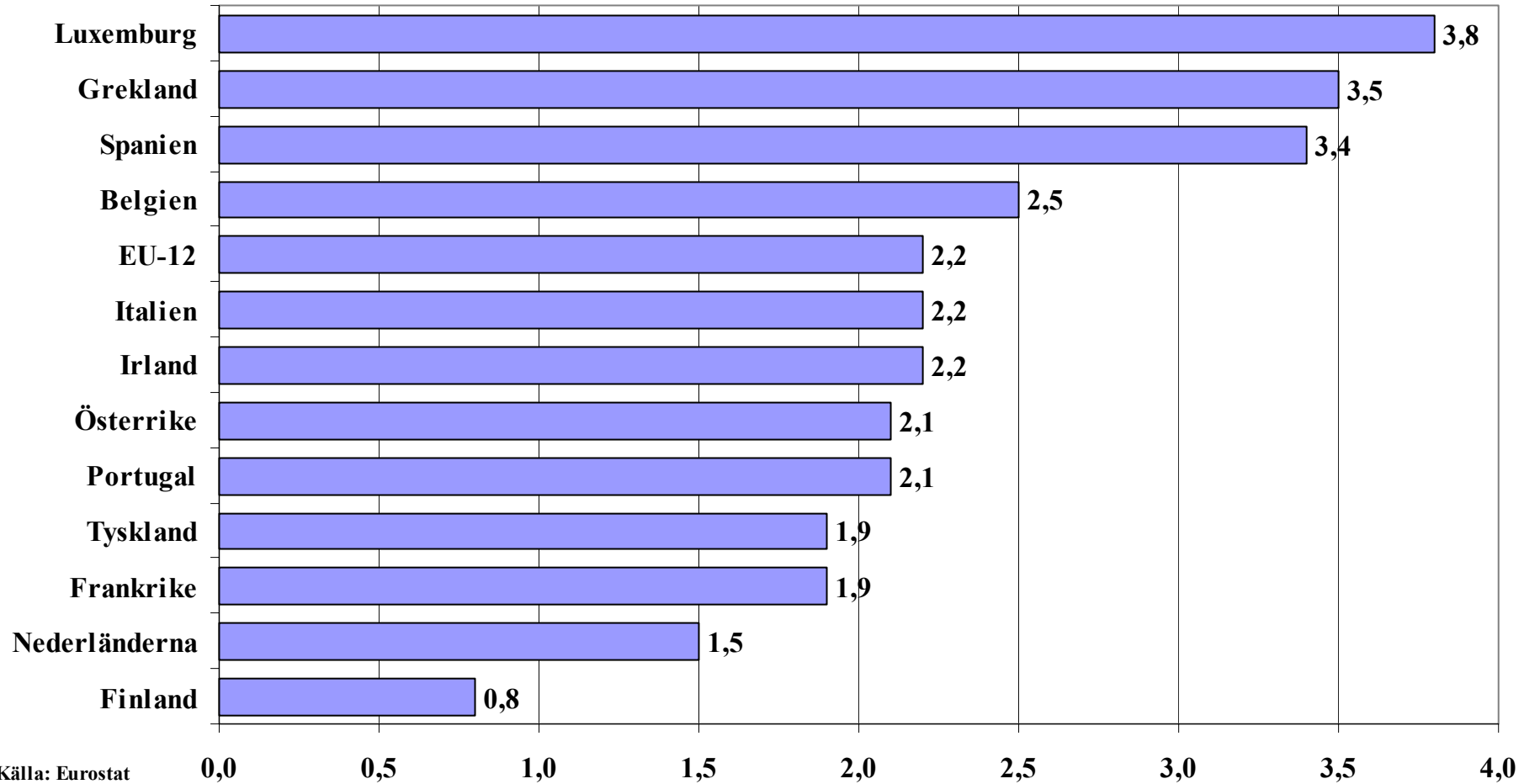
- The risk was downplayed despite earlier Swedish and Finnish recessions and the reunification boom in Germany
- Asymmetric cyclical developments have occurred in the euro area
- Long-term misalignments of real exchange rates
  - Germany
  - Italy and Portugal
  - Spain and Greece?

# Output gap 2005



Källa: Europeiska Kommissionen, Statistical Annex of European Economy, Spring 2006

## Inflation 2005, Euroområdet



Källa: Eurostat

## Annual Average Change in Relative Unit Labor Cost <sup>1</sup> vis-à-vis Euro Area

	1996-2000	2001-2005
Austria	-1.1	-1.6
Belgium	-0.4	-0.2
Finland	-0.6	-0.1
France	-0.6	-0.2
Germany	0.0	-1.1
Greece	3.9	1.1
Ireland	0.3	-1.4
Italy	0.4	1.5
Luxemburg	-0.2	1.2
Netherlands	1.7	0.8
Portugal	2.5	1.5
Spain	1.1	1.0

<sup>1</sup> Compensation of employees per head divided by labour productivity per head, defined as GDP in volume divided by total employment.

*Source:* Economic Forecasts Spring 2006 – European Commission

**Table 2. Compensation of employees per head (percentage change on preceding year, 5-year average)**

	<b>1996-2000</b>	<b>2001-2005</b>
Austria	1.9	2.0
Belgium	2.3	2.8
Finland	2.9	3.2
France	2.3	2.7
Germany	2.4	1.6
Greece	8.0	6.5
Ireland	5.3	5.7
Italy	2.7	3.2
Luxemburg	2.9	3.4
Netherlands	3.0	3.9
Portugal	5.6	3.6
Spain	2.6	3.3
<b>Euro Area</b>	<b>2.4</b>	<b>2.5</b>
Sweden	4.7	3.5

*Source:* Economic Forecasts Spring 2006 – European Commission



**Table 1. Labour productivity (real GDP per occupied person)  
(percentage change on preceding year, 5-year average)**

	1996-2000	2001-2005
Austria	1.9	1.3
Belgium	1.5	1.0
Finland	2.9	1.4
France	1.8	1.0
Germany	2.2	0.8
Greece	0.7	3.3
Ireland	2.9	2.3
Italy	2.1	-0.2
Luxemburg	1.2	0.2
Netherlands	1.3	1.1
Portugal	2.3	0.3
Spain	1.9	0.4
<b>Euro Area</b>	<b>1.8</b>	<b>0.6</b>
Sweden	2.4	2.0

*Source:* Economic Forecasts Spring 2006 – European Commission

# Fiscal policy

- Swedish budget consolidation in the 1990s was helped by the EU fiscal rules
- Today adverse "contagion effects" on our fiscal discipline from the violations of the fiscal rules and the watering-down of the stability pact
- Adverse effects on public opinion from the fiscal problems in many EU countries

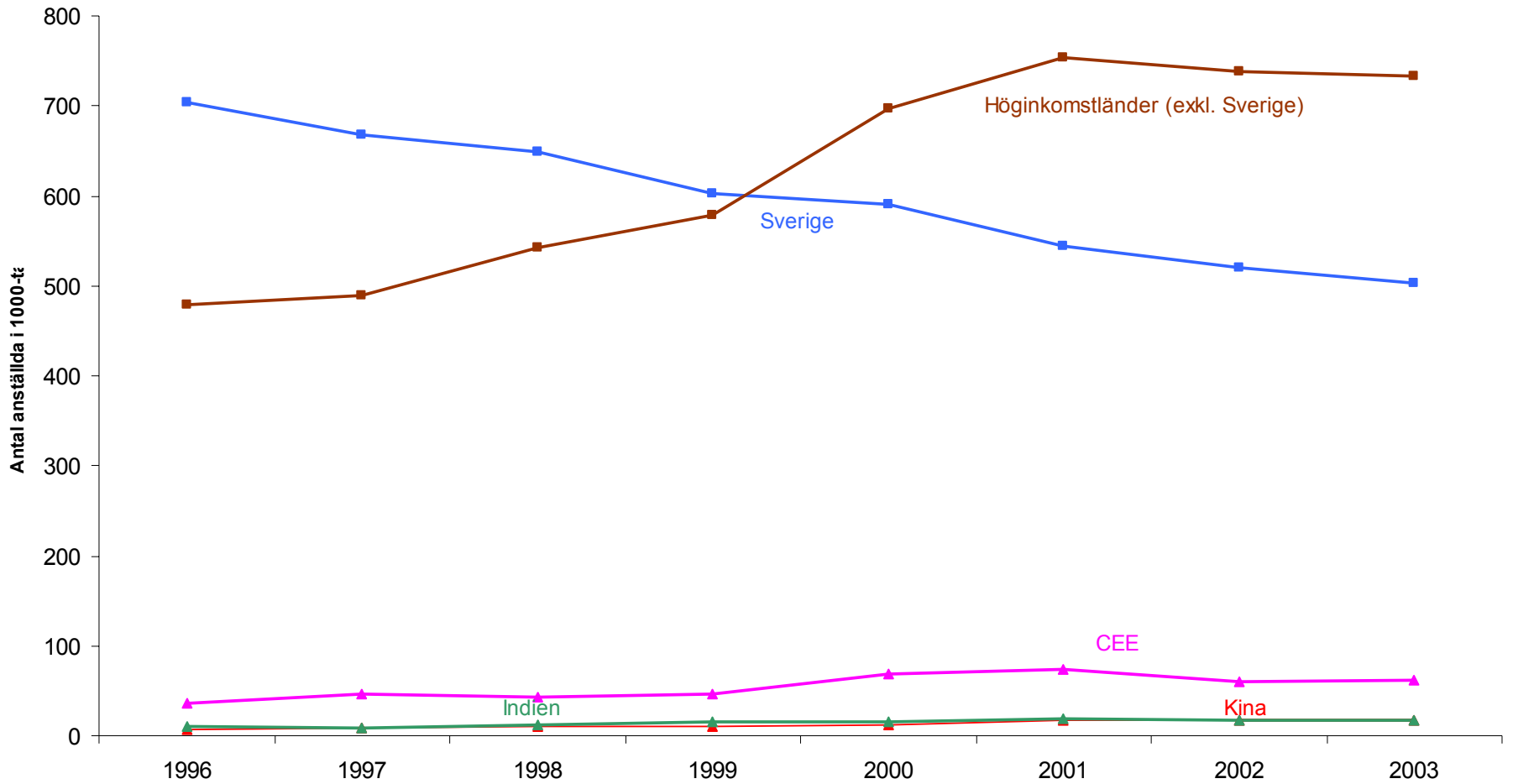
# Bad prospects for a change of public opinion on EMU membership

- Sweden is doing better than most euro countries
  - earlier emphasis on the need to import macroeconomic success has backfired
- The break-down of the stability pact and continued fiscal problems in many euro countries
- Serious macroeconomic adjustment problems in several euro countries
- Small effect from entry of new member states
- General confidence crisis of the EU

# Sweden and globalisation

# Swedish attitudes

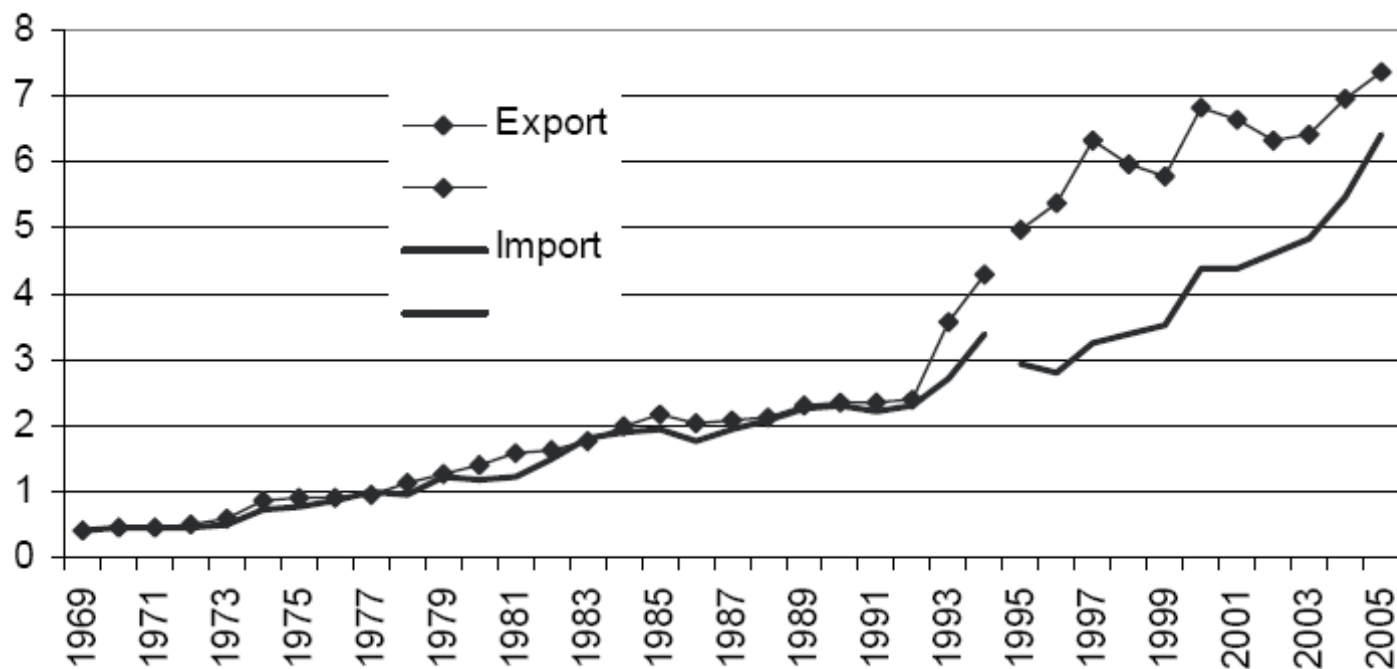
- More favourable (less hostile) attitudes towards globalisation than in most other developed countries
  - Mayda and Rodrik (2005): more favourable attitudes only in the Netherlands, Japan, (West) Germany and Norway
  - dependence on trade
  - the importance of Swedish multinationals



# The Swedish debate

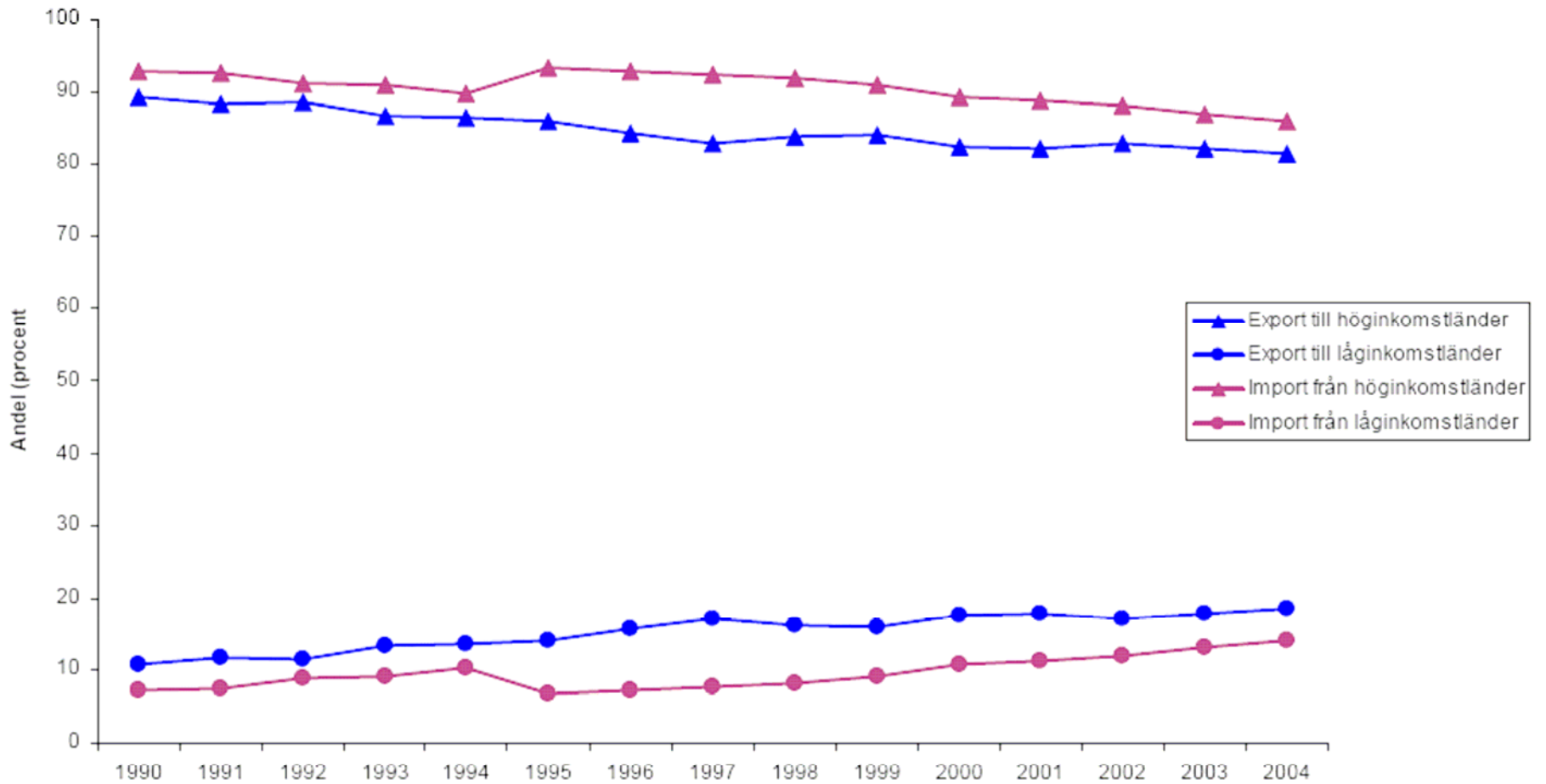
- Not much of a debate until recently
- Explosion of interest in the last year
- Difficult to understand why now
  - no dramatic developments
  - one has not found any major labour-market effects
  - temptation to look for simple causes of employment problems?
  - are we tired of the “ordinary” unemployment debate and the political blockings in it?
  - genuine fear that we are only in the beginning of a dramatic process?

Figur 14 –Sveriges import och export som kommer från respektive går till lågkostnadsländer (OPEC), procent av BNP, 1969-2005.<sup>6</sup>



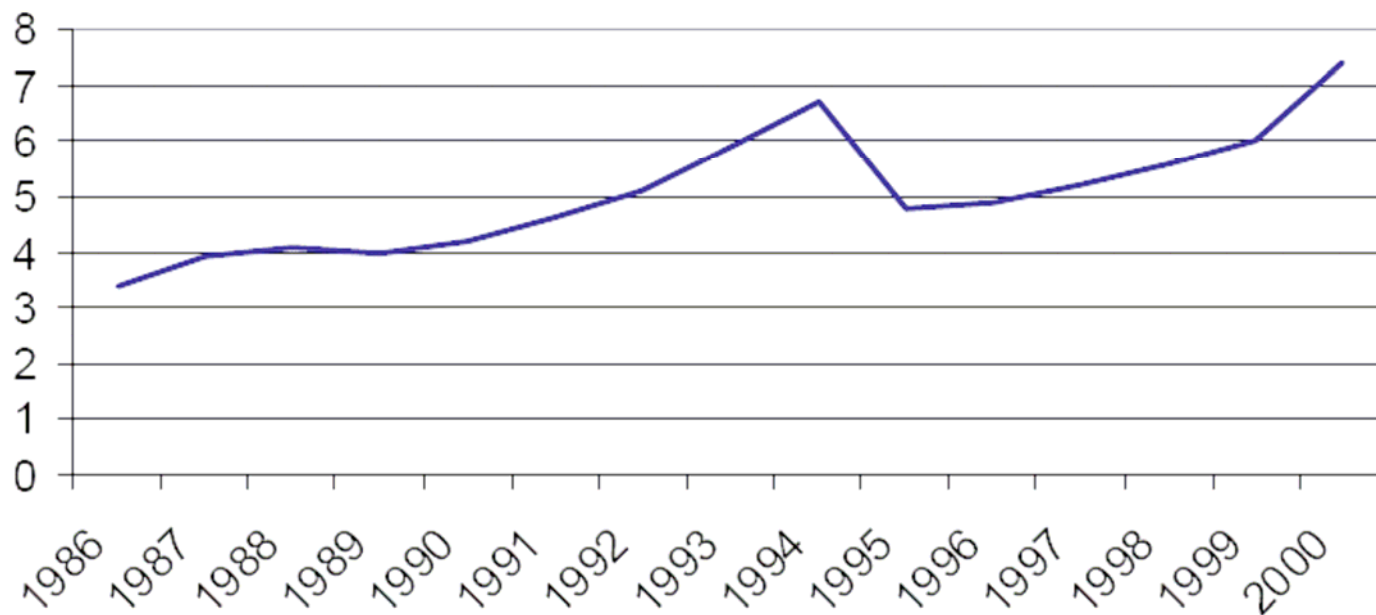
Källa: SCB samt egna beräkningar.





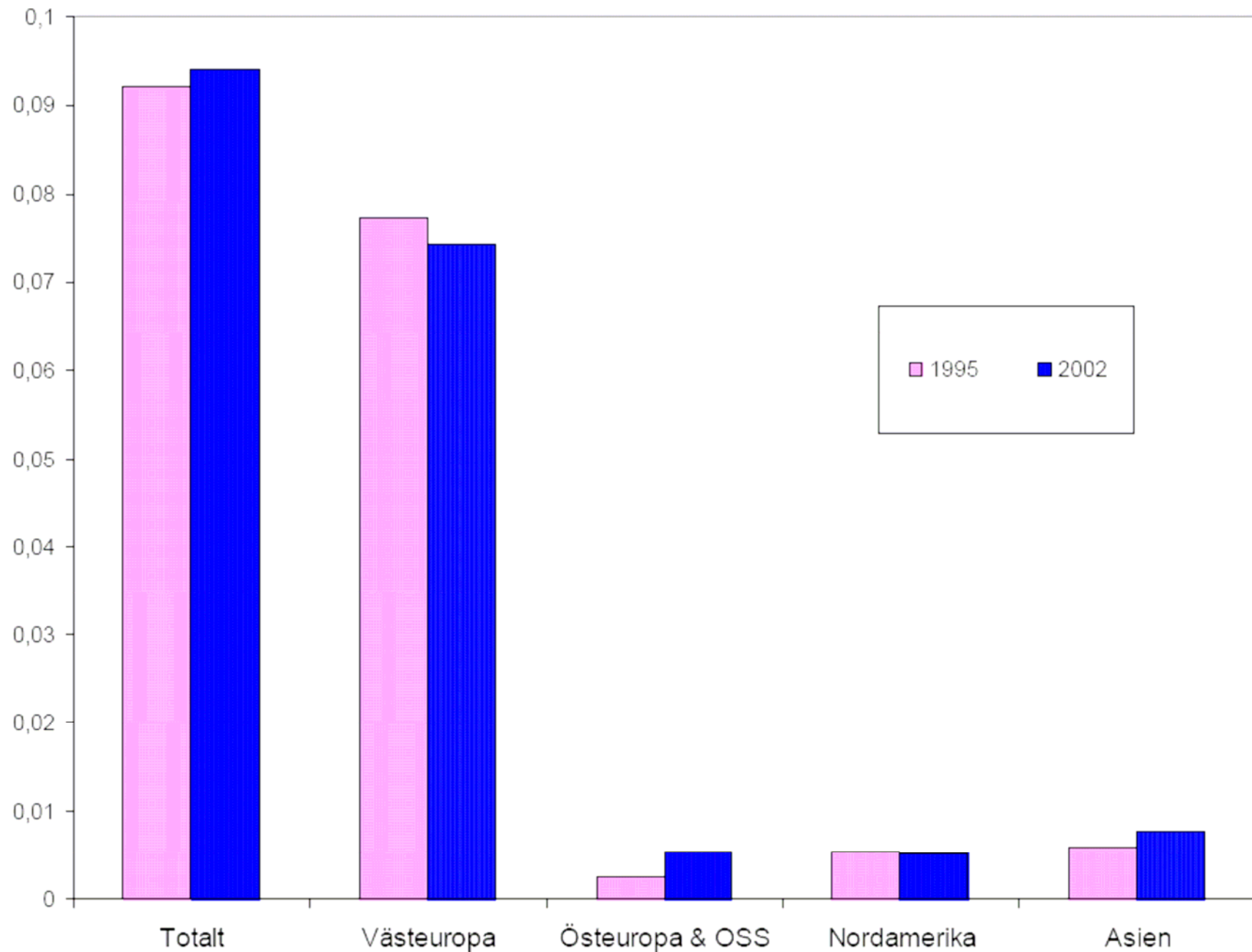
Källa: Karolina Ekholm: *Ordning och reda om outsourcing*, SNS Förlag, 2006

Figur 18 – Insatsvaruimport från lågkostnadsländer, andel av totalt användande av insatsvaror, 1986-2000.

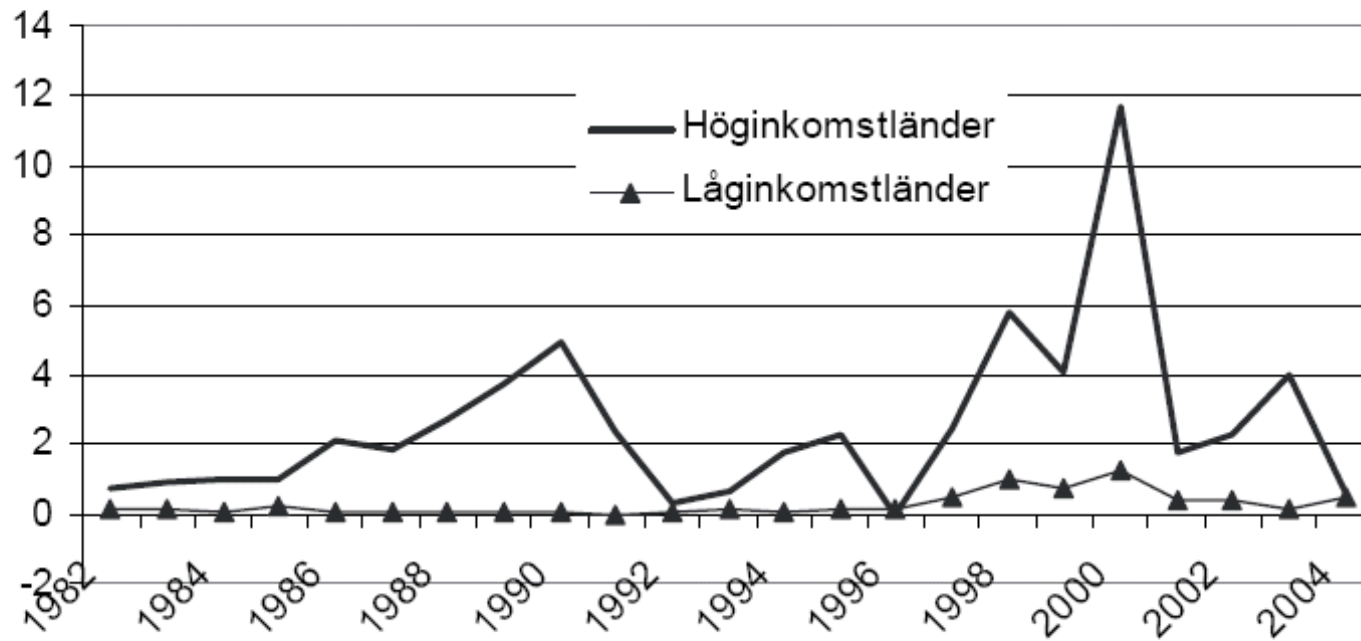


Källa: Bandick och Hansson (2005).

Figur 2: Snävt mått på offshoring uppdelat på ländergrupper



**Figur 19 – Svenska direktinvesteringar utomlands, 1982-2004, andel av BNP.**



Källa: Konjunkturinstitutet (2005a).

# The new service directive and the Vaxholm conflict

- Economists think of trade in goods and trade in services in the same way
- Aggregate long-term gains
- Large adjustment costs
- Both winners and losers in the long run
- Differences in wage costs among countries forms the basis for trade
  - Why do we accept this for goods but not for services?

# Possible motives for why we think that posted workers should be paid domestic wages

1. Low-wage competition is *unfair*
  - why does this argument carry more weight with trade in services than in goods?
  - larger *visibility*?
  - general view about trade: regulate foreign wages only where it is possible
2. Too large *adjustment costs*
  - sudden opening-up of trade in services
  - globalisation in general is proceeding too fast: act where it is possible
3. Protect foreign workers from *exploitation*
  - typically higher wages than in country of origin
  - most of the income will be spent in country of origin: thus higher *real* wage than for Swedes
  - with domestic wages foreign service providers do not get the jobs

## Possible motives for why we think that posted workers should be paid domestic wages (continued)

4. We don't care about foreign workers but do not for our own sake want to see *social differences* here
5. Threat to the *Swedish labour market model*
  - but so is competition in goods markets
  - The definition of the Swedish labour market: all firms with (also temporary) activity in Sweden or only firms with permanent activity
  - trade or labour immigration?
  - demonstration effects on Swedish firms?

# Possible motives for why we think that posted workers should be paid domestic wages (continued)

## 6. Issue of *political economy* – different perceptions

- Trade in goods
  - package deal where all sectors are bundled together
  - gains from trade in other sectors outweigh losses from import competition in own sector
- The building sector
  - extension of free trade to one sector
  - large losses for building workers
  - the gains accrue to employees in other sectors
  - strong incentives for building workers to lobby for protectionism

## 7. Negative attitudes towards *immigration* in general



# Possible options to regulate wages of posted workers

1. Legal extension of sectoral collective agreements
2. Legal minimum wage
3. Apply generally applicable collective agreements to foreign firms
4. Allow labour market conflicts also with the aim of replacing earlier collective agreements for Swedish firms with new agreements
5. Require a Swedish collective agreement as a precondition for getting a government contract