Invitation

wiiw seminar series

'Policy Perspectives for European Integration'

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Revisiting the 'Kaldor-paradox': the real exchange rate, export performance and economic growth in the European Union

Thursday, January 26, 2017, 4 pm

wiiw, Vienna 6, Rahlgasse 3, lecture hall
(entrance from the ground floor)

Abstract

The presentation addresses the contemporary relevance of Nicolas Kaldors's (1908-1986) empirical propositions and policy recommendations regarding the real exchange rate (RER). The proposition concerning the relationship between changes in RERs and market shares is known as the 'Kaldor paradox' (KP). In a narrow sense the KP involves that real exchange rate (RER) changes either 'do not work', or have 'perverse' effects (i.e., depreciations are associated with decreasing market shares, and vice versa). Our empirical results, relying on alternative RER-indicators, and on the analysis of trade data of the EU member states between 1995 and 2015, contradict this assertion. They do, however give support to a broader interpretation of the KP, involving the relevance of non-price/cost competitiveness. This leads us to revisit Kaldor's policy proposal regarding the importance of maintaining a 'competitive' RER level to promote economic growth. Our estimates for the EU-countries suggest that overvalued RERs involve non-linear negative growth-effects, but the relationship is asymmetric. Undervalued RERs are associated with milder positive effects on growth, and the returns to increasing undervaluation are diminishing.

Gábor Oblath is senior research fellow of the Institute of Economics, Centre for Economic and Regional Studies of the Hungarian Academy of Sciences. His academic work and teaching is related to macroeconomic analysis. He taught at the Central European University, Corvinus University and ELTE University. He worked with the UN

Economic Commission for Europe and was guest scholar at the Helsinki School of Economics, the Brookings Institution and the Bank of Finland. Between 2001 and 2008 he was a member of the Monetary Council, National Bank of Hungary. In 2009-2010 he was a member of Hungary's Fiscal Council. His recent research topics cover economic convergence, methodological issues of macroeconomic statistics, accession to the euro-zone and international competitiveness.

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The wiiw seminar series **'Policy Perspectives for European Integration'** is the continuation of three earlier wiiw seminar series: 'Crisis management in Central, East and Southeast Europe: What is to be done?'; 'Policy options for the post-crisis economy in Central, East and Southeast Europe'; and 'EU in Crisis'. In this series, our emphasis is on issues that affect the future of the European Union: we look at the policy perspectives which may emerge after the crisis and affect the EU and its neighbourhood. Reforms of the EMU, the closer fiscal and economic cooperation of the Member States, bail-out schemes, solutions to the prevailing debt problems in the Southern Rim of the Union, the controversial relations between the EU and Russia affecting border countries and, furthermore, migration policy challenges within the EU and with neighbouring regions are topics we expect to remain of utmost importance in this and the coming years. Policies impacting on the further integration of the new Member States and future enlargements of the EU will remain an integral part of the discourse in this seminar series as well.

Michael Landesmann
Former Scientific Director wiiw

Dr. Sándor Richter
Organizer