Distribution and growth in demand and productivity in Switzerland (1950-2010)

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Abstract

I investigate whether demand growth and productivity growth in Switzerland have benefitted from the wage moderation that set in at the beginning of the 1990s in this country. The results suggest that the Swiss demand regime is profit-led while the productivity regime is wage-led. The preferred model specification (which includes a positive impact of wage moderation on investment growth) predicts the actual change in GDP growth after the inception of wage moderation around 1990 very well. It suggests that wage moderation added almost one percentage point to GDP growth after 1990. In other words, the drop in real GDP growth, which was mainly caused by a slowdown in the international economy, would have been more severe without wage moderation. Average GDP growth would have been little more than 0.5% instead of 1.5%. The results also show that the productivity regime is wage-led in Switzerland. This means that wage moderation has contributed to the drop in productivity growth after 1990. This effect, however, is weak.