

Productivity and Competitiveness: The Case of Southern European Countries

TERRITORIAL COHESION IN EUROPE

PÉCS, 27° - 28° June, 2013

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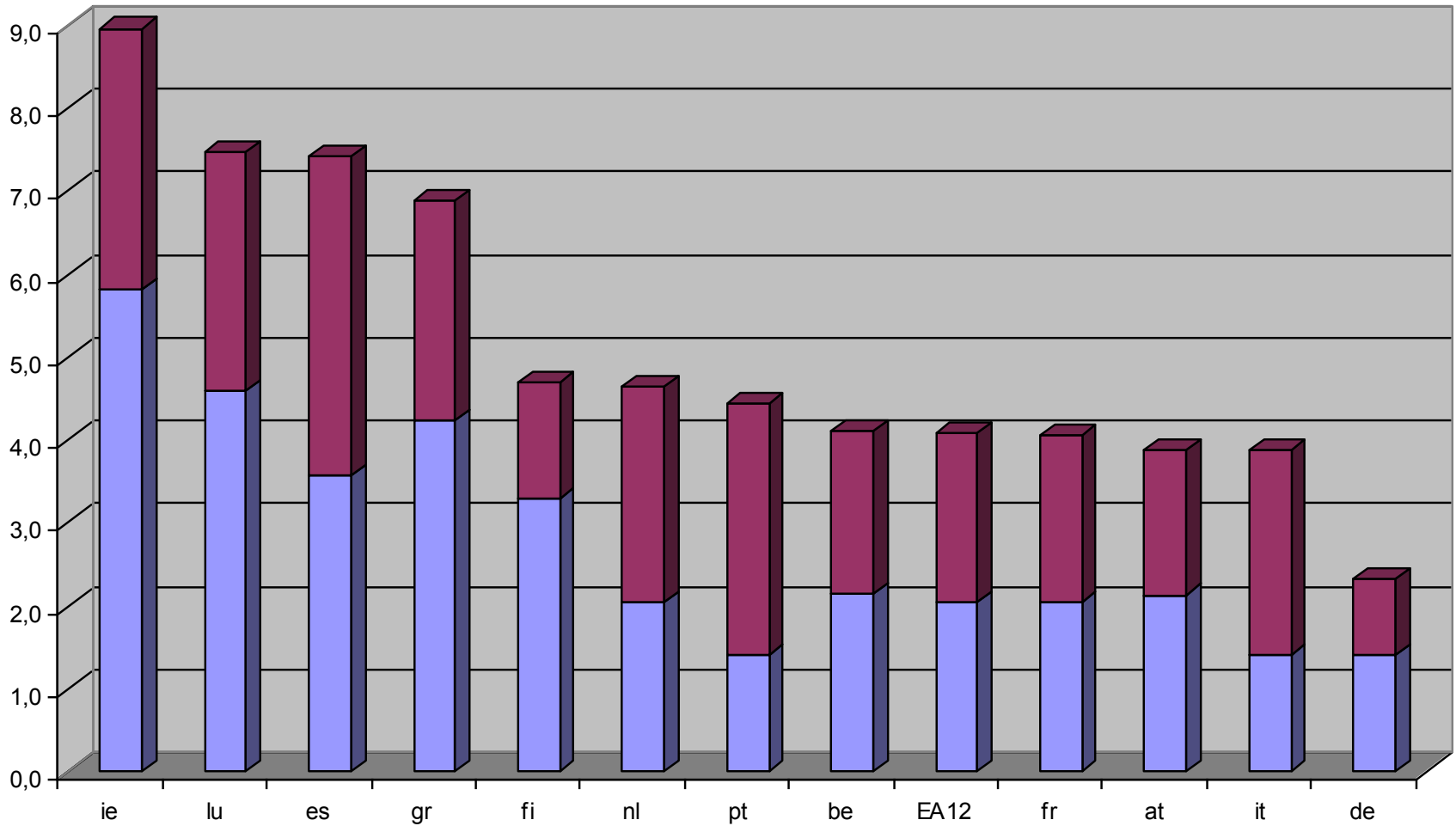
DiSES - Università Politecnica delle Marche, Ancona

Part I, The Euro-Era 1999-2007

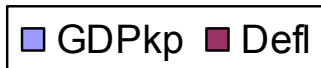
- Since the introduction of the Euro comparing GDP at current prices has become more meaningful.
- Average yearly growth rate of GDP_{cp} has ranged from the 9% of Ireland to the 2.3% of Germany

- Italian GDP growth at current prices has been sluggish (3.9% per year)
- However poor, this rate is not significantly different from other continental countries like Belgium and France (- 0.2) equal to Austria and markedly higher than Germany (+ 1.5)

GDP at current prices Growth rates 1999-2007



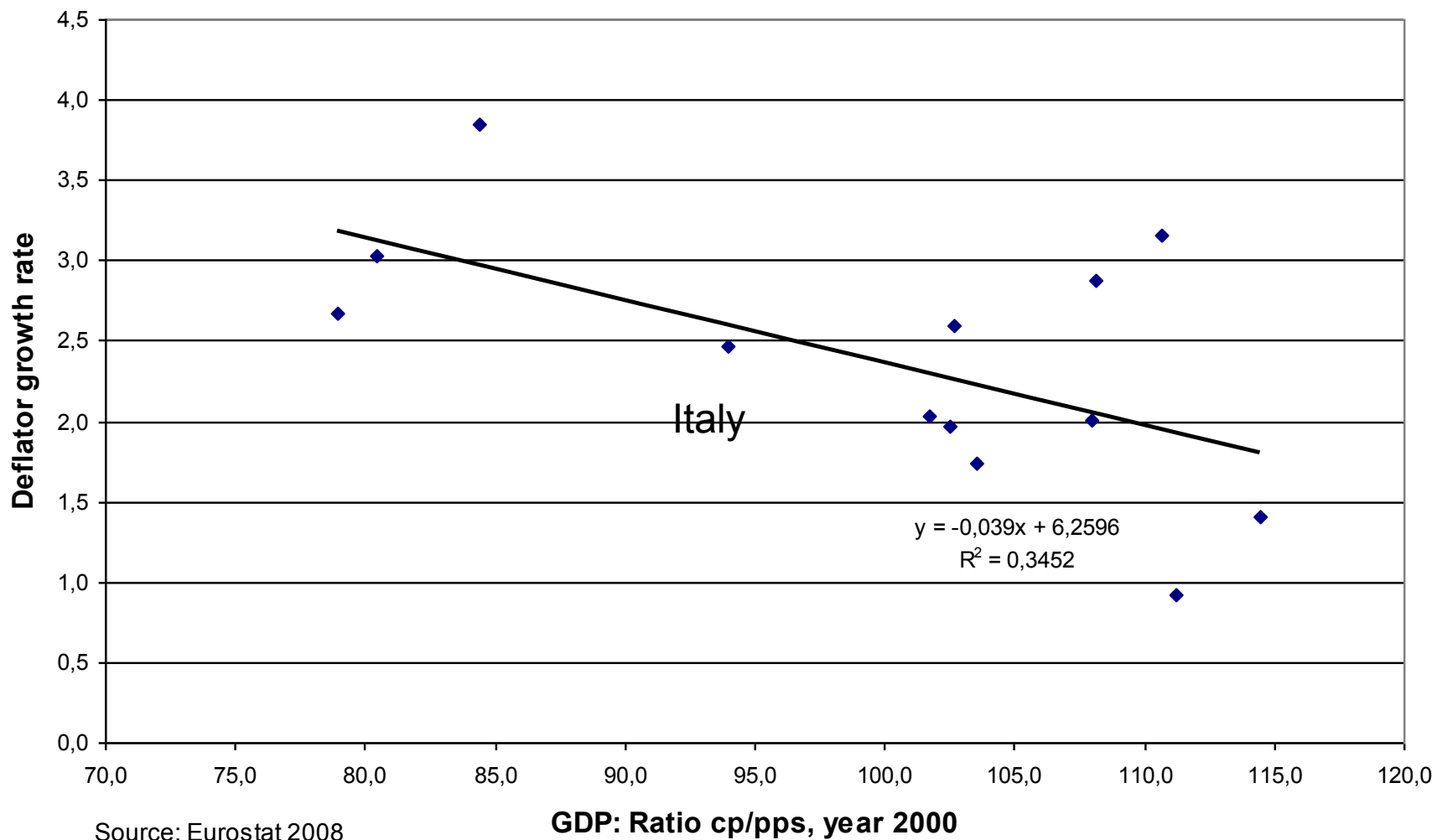
Source: Eurostat 2008



Prices are converging

- Countries with lower price levels in 2000 experienced higher price growth;
- The two outliers, Luxembourg and Ireland, are the countries with higher real Gdp growth in the area
- Mediterranean countries, with lower price levels, experienced higher inflation
- **Italy's inflation was in line with its initial price level**

Price convergence in the Euro Area 1999-2007



Source: Eurostat 2008

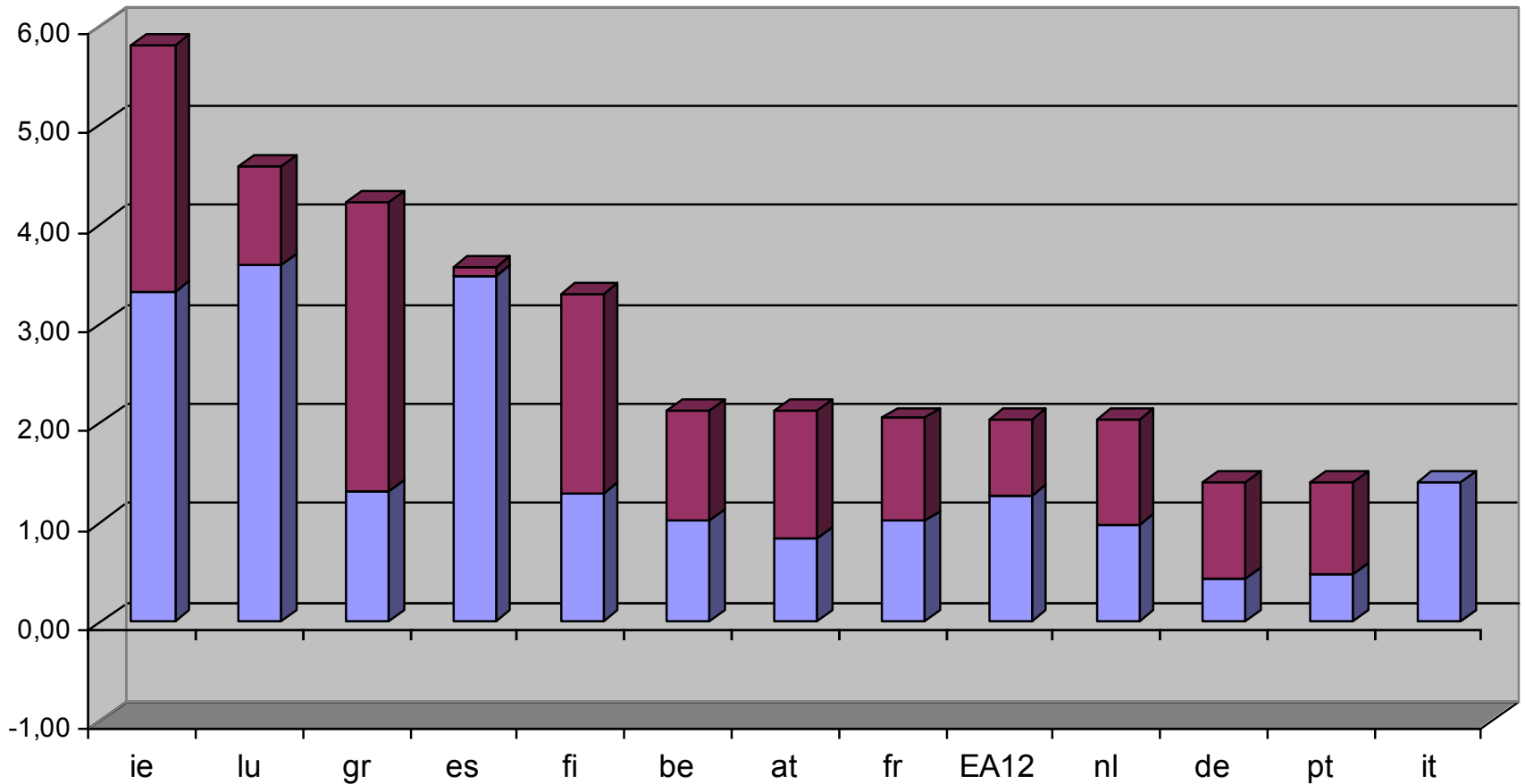
Growth of GDP at constant prices

- Euro countries can be divided into three well defined groups in terms of real GDP growth:
- Fast growing ($>3\%$), *Ireland, Luxembourg, Greece, Spain, Finland*;
- Average growing (2 - 2.15%), *Belgium, Austria, France, The Netherlands*;
- Slow growing ($<1.50\%$), *Germany, Portugal and Italy, the runt of the litter*

Productivity and employment growth

- In spite of the differentiated growth records employment grew in all the countries of Eurolandia;
- However Italy is the only country where real GDP growth was due **exclusively** to employment growth, followed closely by Spain.

Breakdown of GDPkp Average yearly growth rates 1999-2007



Source: Eurostat 2008

Emp ALPkp

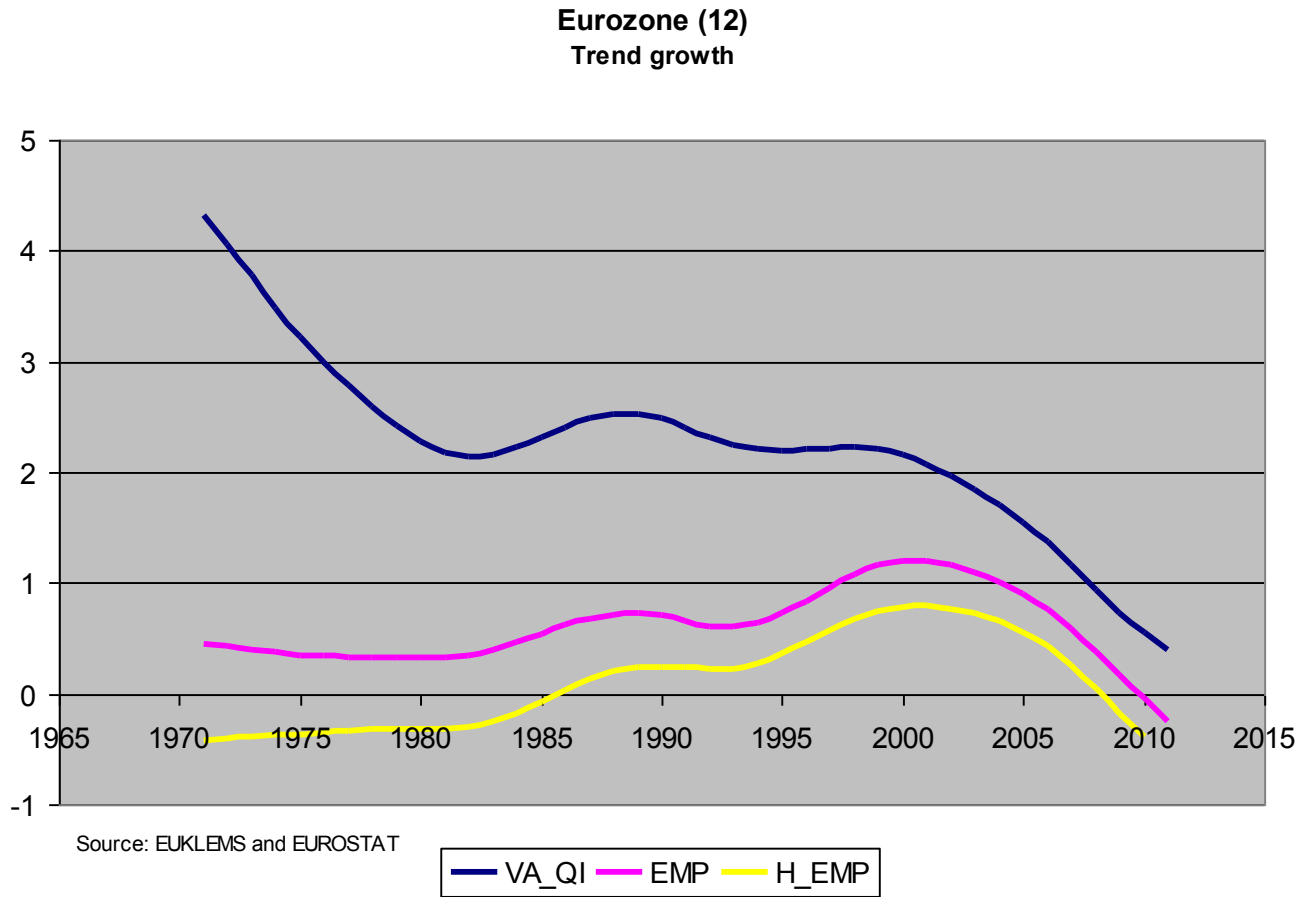
Summing-Up Italian Comparative Record in the Euro-era

- Poor GDP growth at current prices;
- Inflation in line with Euro-Area average and with the initial price level
- Lowest GDP growth at constant prices
- No productivity growth

Part II – When did it start?

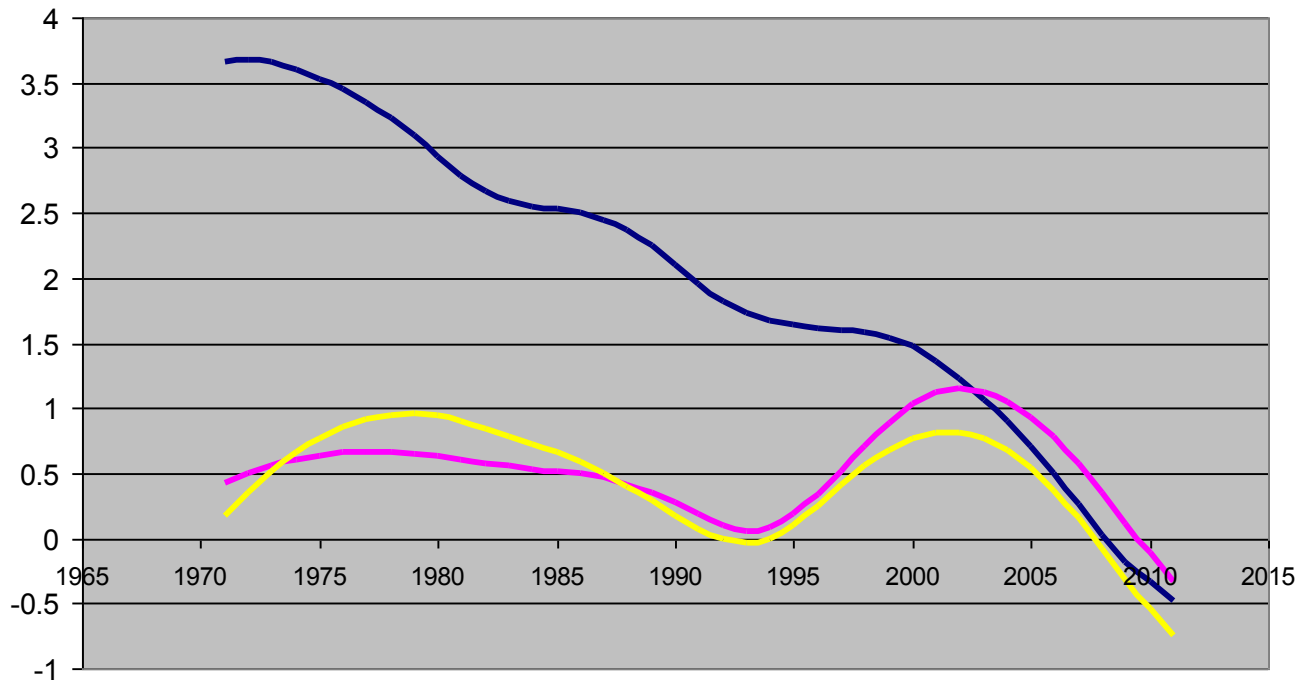
- In this section we try to pinpoint the starting point of the disappointing phase of Italian growth

The context: trend growth in Eurolandia

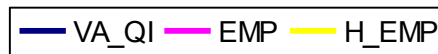


and in Italy

Italy
Trend growth

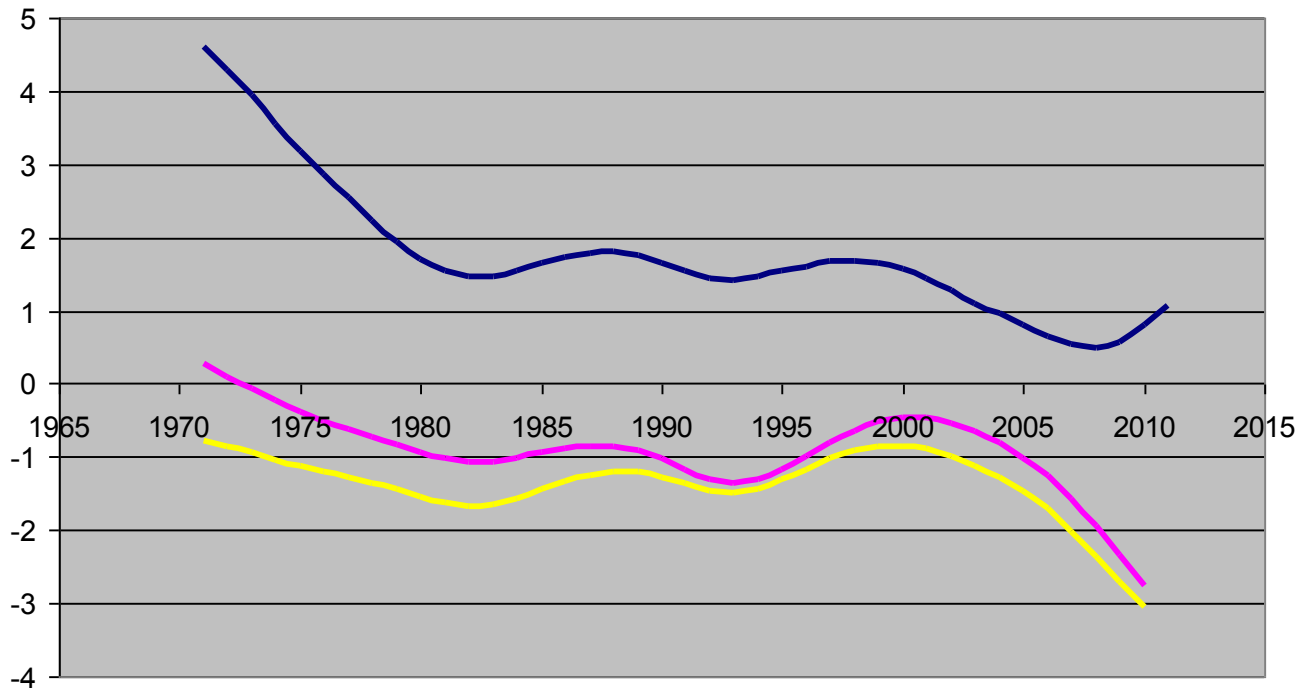


Source EUKEMS and Eurostat

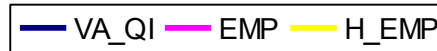


Manufacturing in Eurolandia

Eurozone (12)
Trend growth - Manufacturing

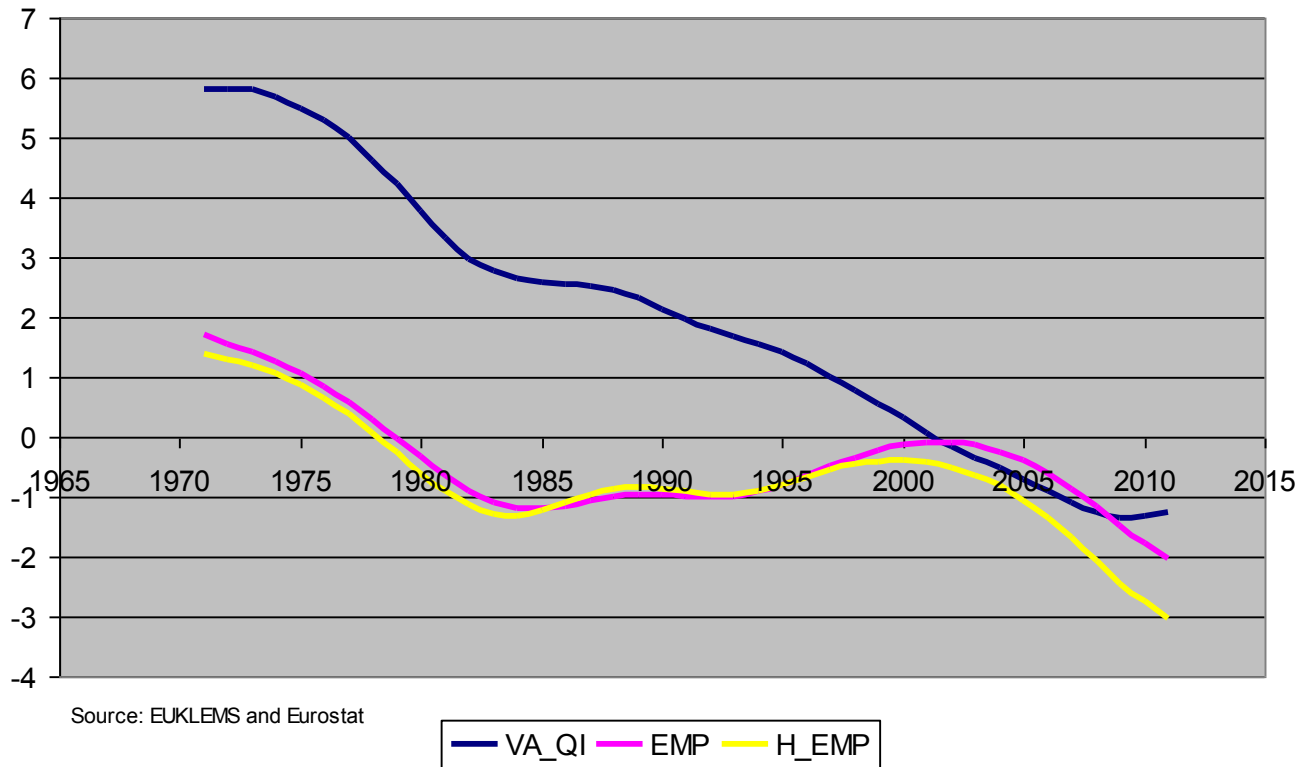


Source: EUKLEMS and Eurostat



and in Italy

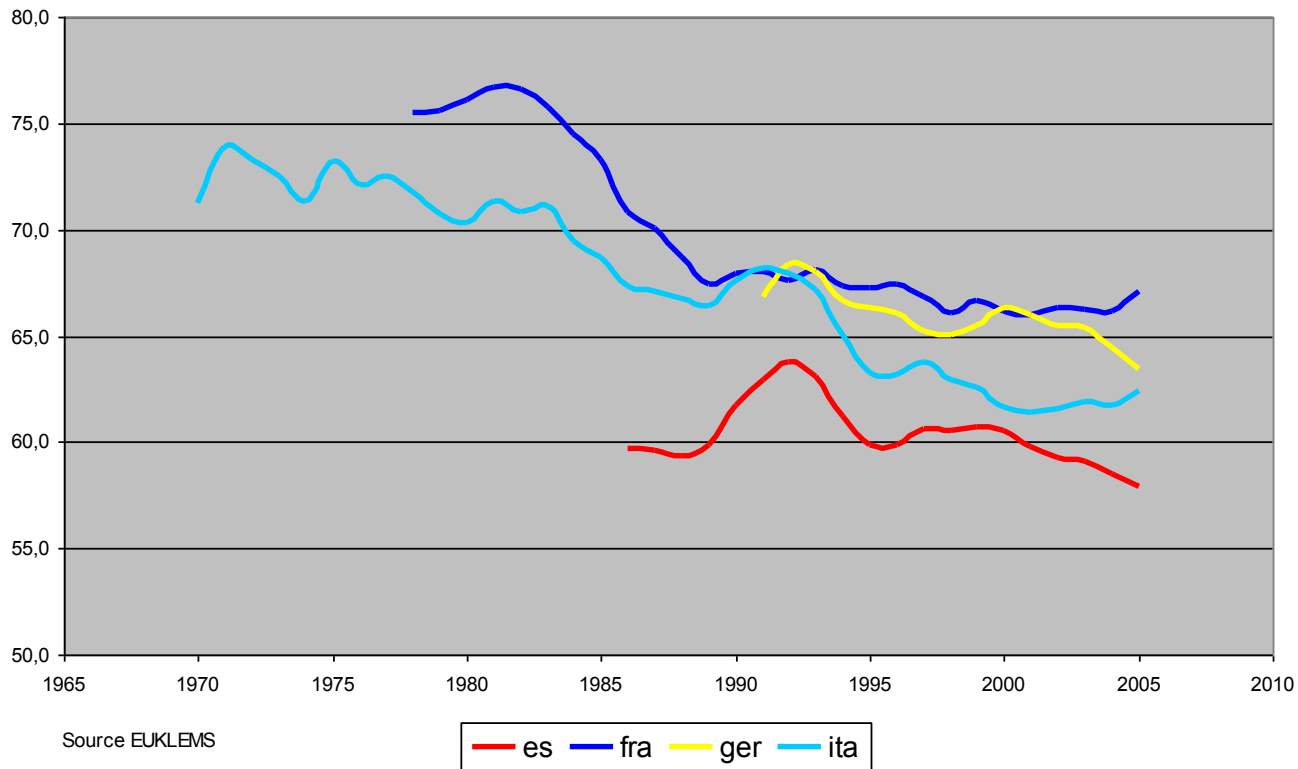
Italy
Trend growth - Manufacturing



- No other developed country shows such a marked divorce between the trends of real Gdp and employment, not even Japan during the “lost decade”
- Only Spain has a pattern similar to Italy, although real Gdp in Spain grew much faster than in Italy.

In spite of the dismal productivity record, in Italy the capital share has been increasing, in line with other countries

Share of labour on VA at current factor costs
adjusted for independent workers



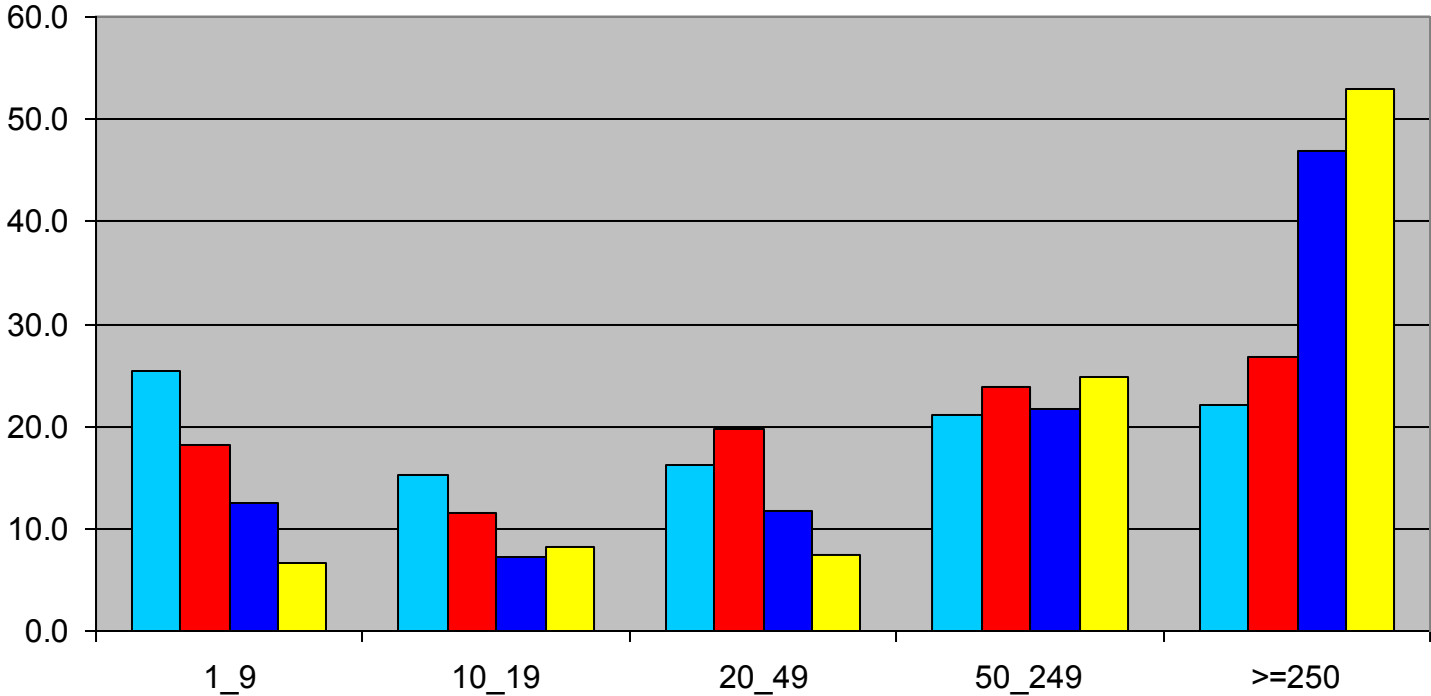
The quest for explanations

- How to explain the puzzle of plummeting real Gdp growth, steadily rising employment, at least up to 2007, and the upward shift in capital share in Italy (and in Spain)?

Economic growth and Small Firms

- With more than 4.5 million people employed in manufacturing Italy has been and remains the second industrial country of the EU.
- The widely known peculiarity of Italian industrial structure is the preponderance, and persistence through time, of the number and importance of SMEs.
- The following chart gives a quantitative account of this peculiarity

Share of employment by firm size Manufacturing - Year 2007



Source: Eurostat, Structural Business Statistics, 2011



The shocks of the Nineties

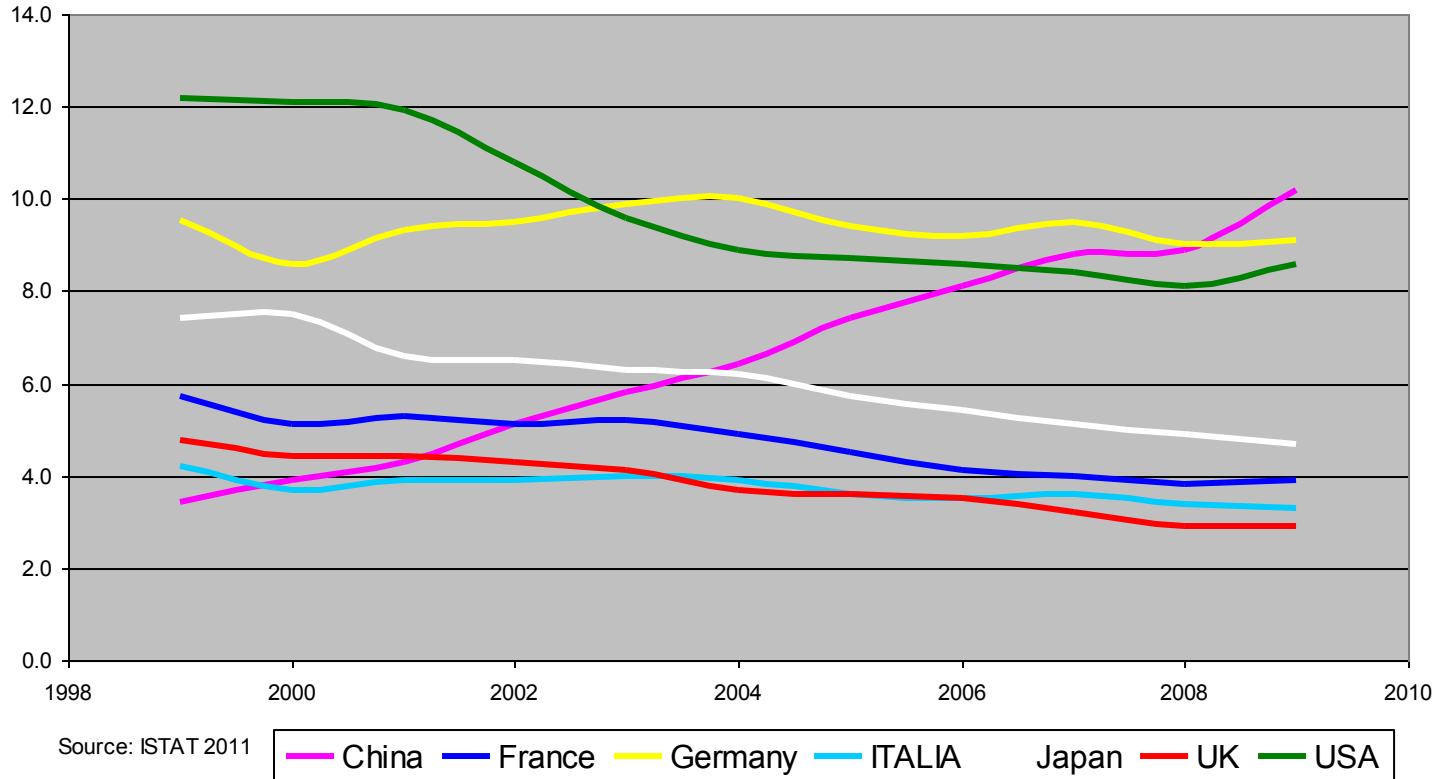
- **The ICT revolution** that revamped productivity growth in the US and in some northern European Countries, much less in Italy and other Southern European Countries
- **The emergence of new global competitors** (EEC, China and India), with incomparably lower costs of labour;
- **The restrictive monetary and fiscal policies** that preceded the adoption of the EMU

Italy's decline?

- From the mid 90' Italy's GDP growth lagged behind the other EU countries;
- The disappointing growth was accounted for by rising employment, favoured by labour market reforms and immigration;
- **As we have seen with practically no growth of productivity**

And the share of Italian exports fell, although no more than in other developed economies

Shares of Export in the World Market



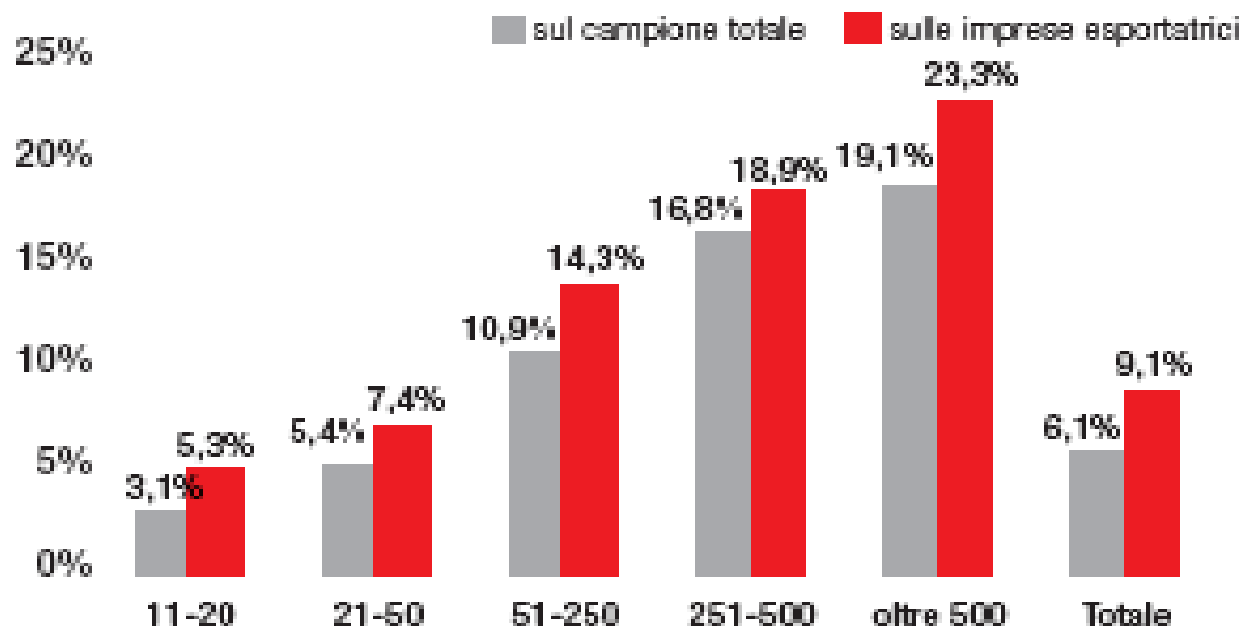
A re-emergence of the O-E limitation

In the new international economic environment that emerged in the '90 productivity and competitiveness came to rely increasingly upon:

- Innovation;
- Ability to decentralise production;
- Power to penetrate new distant markets.

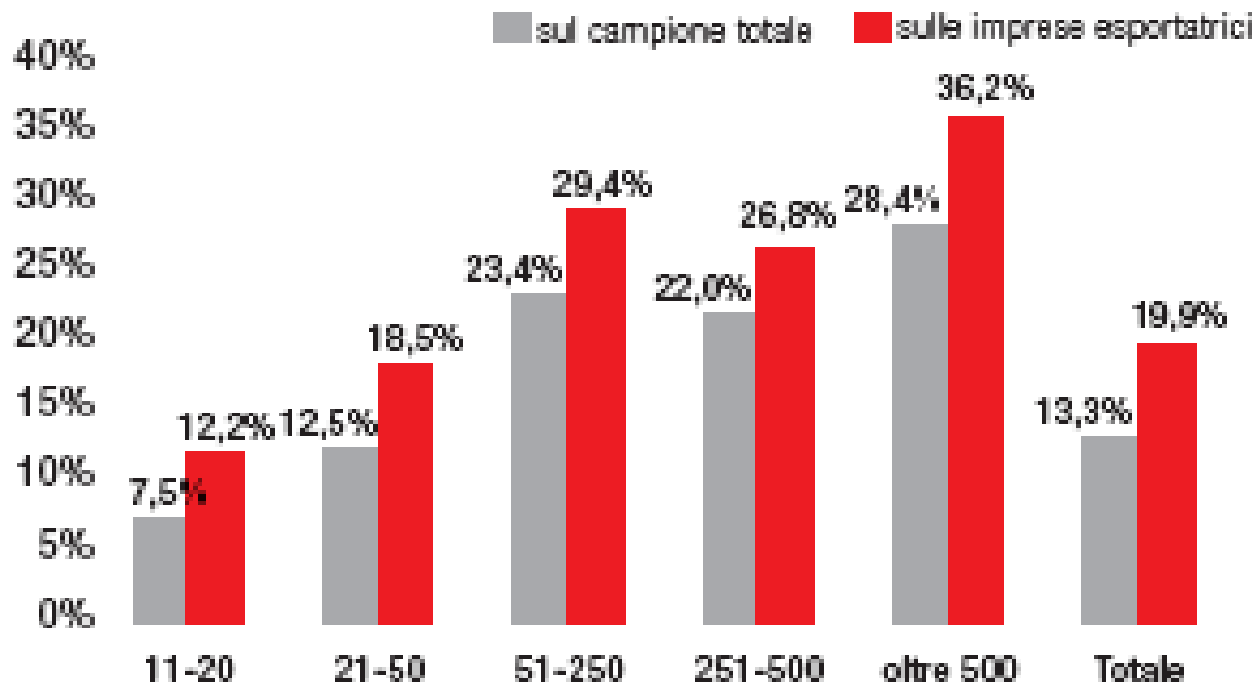
These factors tended to favour medium size firms

Percentage of firms that produce partly abroad



Source: Unicredit 2008

Percentage of firms that have put in place strategies of market penetration



Source: Unicredit 2008

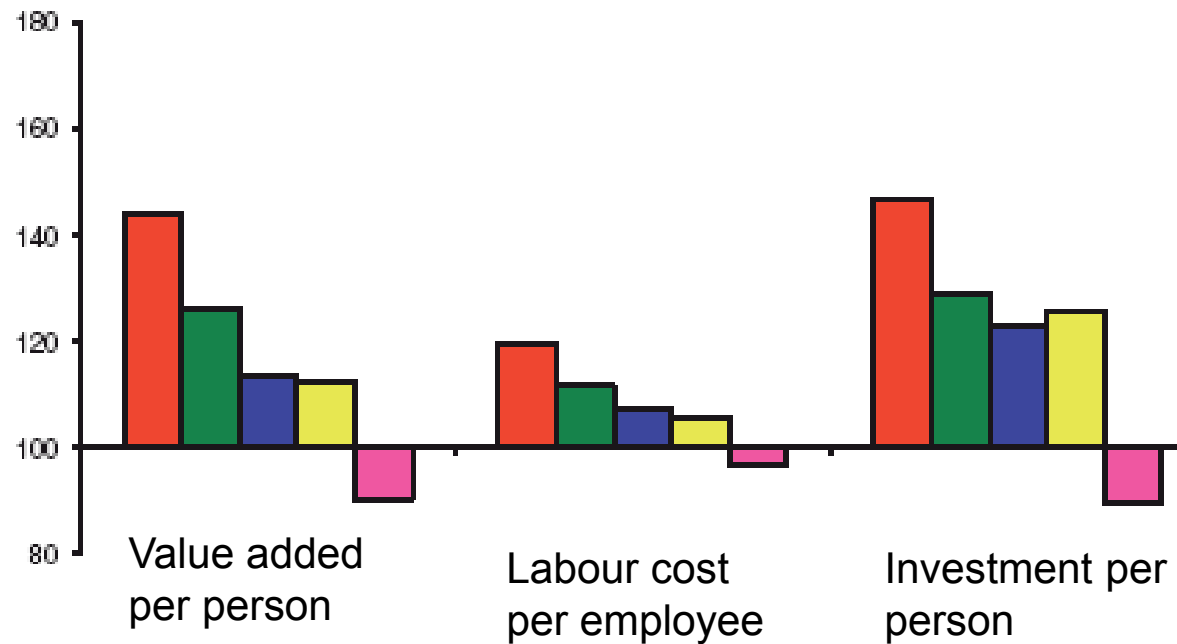
Internationalisation: a selection process

Firms that were able to internationalise (self selection) in turn obtained efficiency gains (learning by exporting). These firms:

- Are more productive than the average;
- Pay higher salaries (an index of more skilled workers);
- Invest more

Economic Indicators of firm performance 2007

Ratio between exporting and non exporting firms



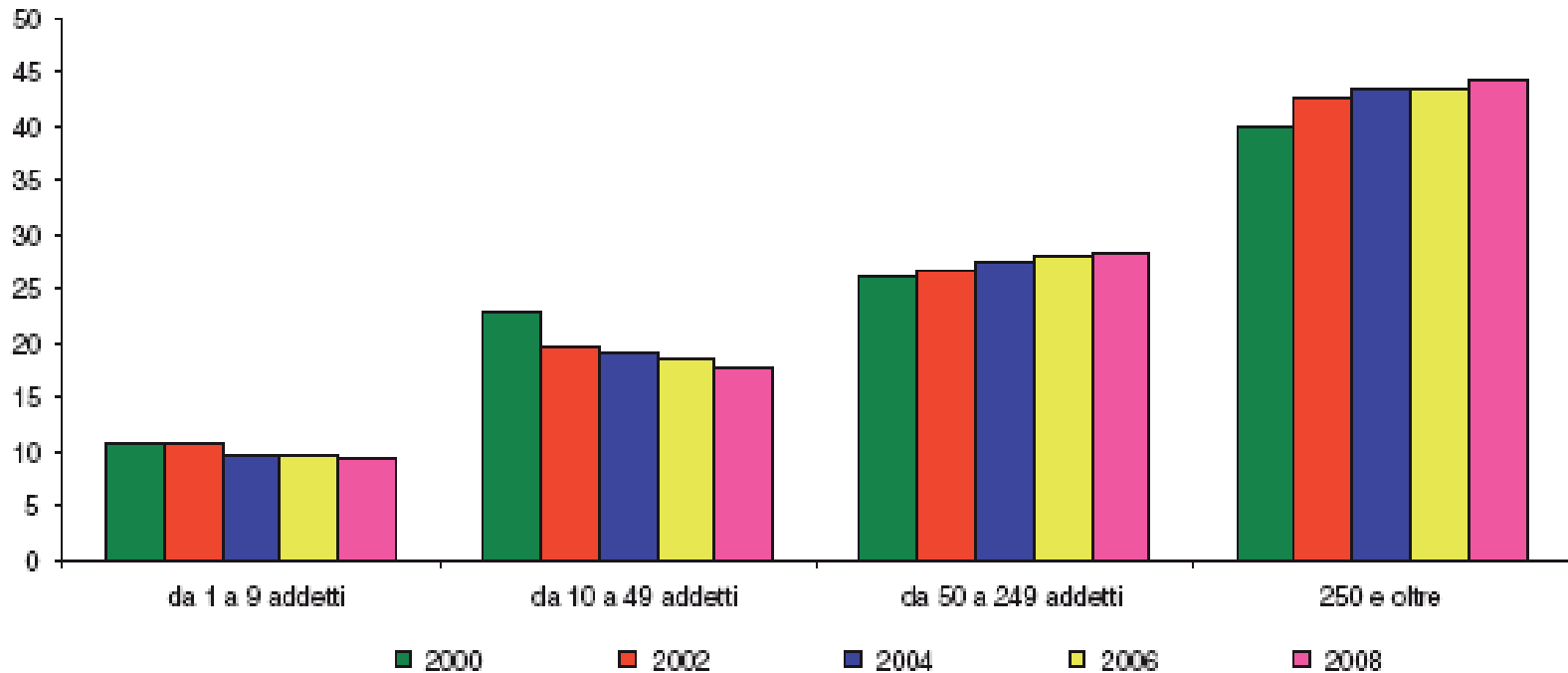
Source ICE-ISTAT 2009



- This new environment wasn't favourable to very small firms;
- Their traditional flexibility and ability to keep down costs were superseded by the cost advantages of decentralisation and their difficulty to establish themselves in the new emerging markets;
- And their share on Italian export tended to decline

Exports by size of exporting firms

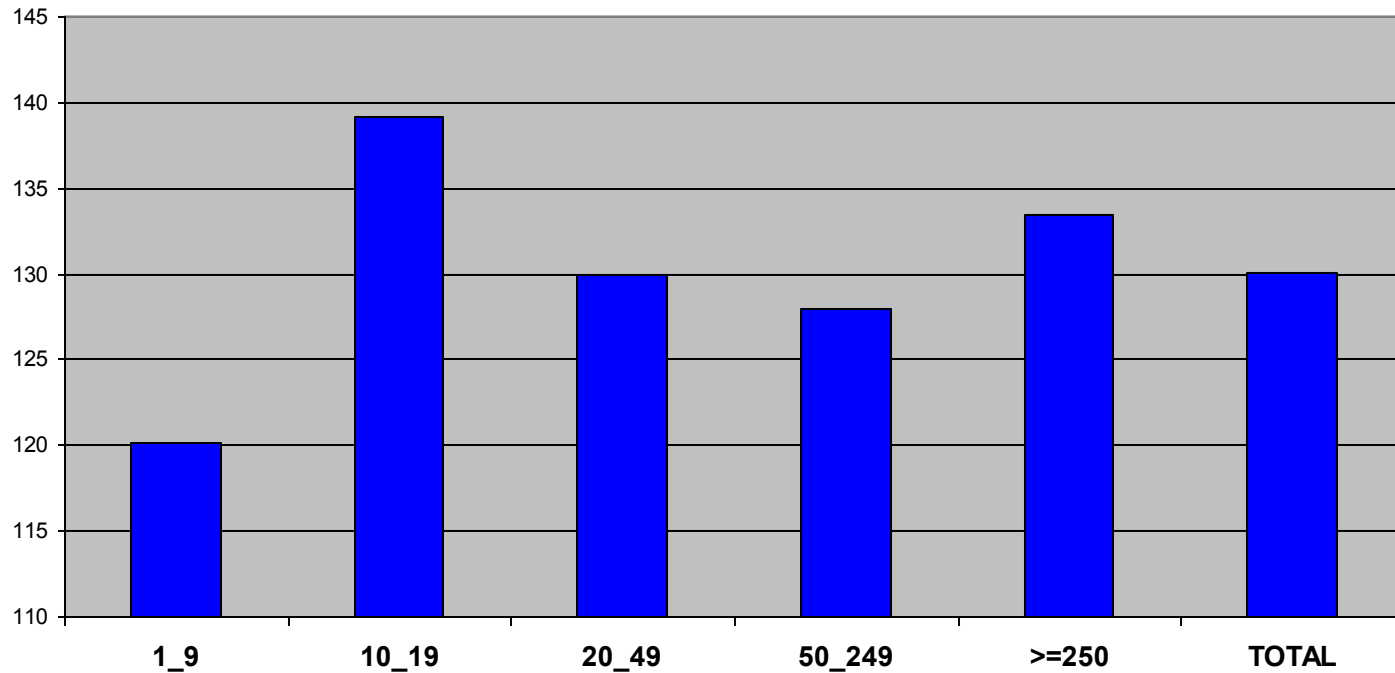
Total exports = 100



Source: ICE-ISTAT 2009

And their productivity increase lagged behind

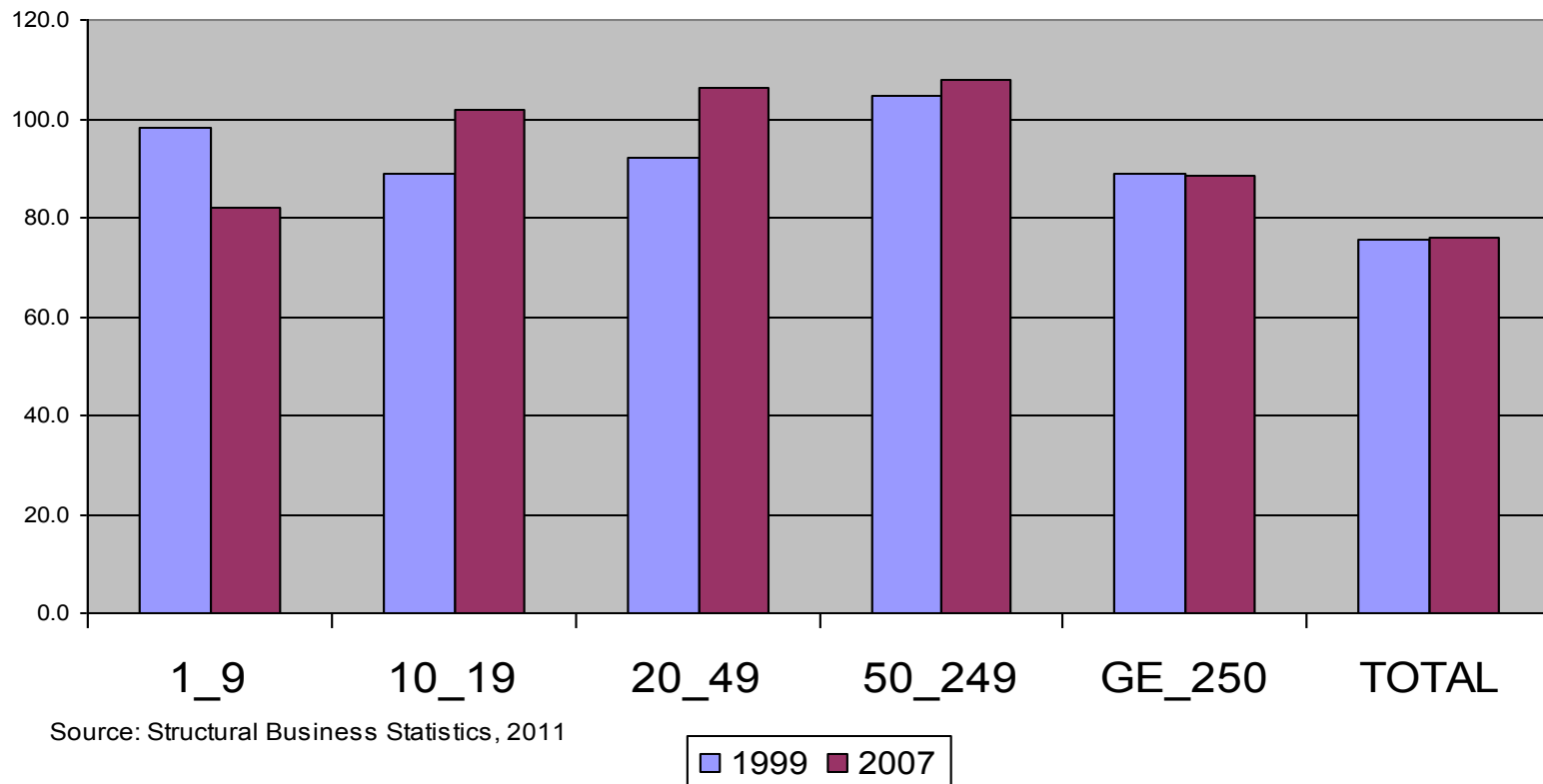
Labour Productivity in value
Manufacturing 2007
year 1999 = 100



Source: Eurostat, Structural
Business Statistics, 2011

While medium size firms have increased their competitive position, reaching Germany levels

Comparison of productivity per worker, Italy-Germany
Germany = 100



Conclusions

- The emergence of new global actors in the mid-nineties and the single currency profoundly changed the outlook of the Italian manufacturing sector;
- Medium and large firms, thanks to their managerial organization and financial strength, were able to decentralise production and reinforce, with more incisive commercial policies, their presence on traditional and new markets;

- In many sectors of the Made in Italy small and medium firms stepped up their operations, improving quality, developing brands and outsourcing the most labour intensive phases of production;
- This process somewhat disrupted the closely knitted fabric of the district network of firms interrelations;
- Firms that were too small or lacked the ability to improve their managerial organization found themselves in a difficult position.

- Faced with aggressive competition from the emerging economies, unable to assert themselves on the international markets and without the relief of periodical devaluation
- they tended to lose competitiveness and to lag behind in productivity growth.

- In many cases they were faced with the choice of either selling out or accept to become subcontractors of more organized firms:
- Prato, an old textile district, is nowadays mostly in the hands of Chinese entrepreneurs;
- In old shoe and leather districts brands like Prada or Tod's are subcontracting a large part of their production to local small firms pushing them down in the value chain;

- In devising policies for SME's a new emphasis should be put today in upgrading their entrepreneurial and managerial skills:
- Helping them to get easier access to information about markets and producing opportunities;
- Favouring aggregation;
- Providing them with new generations of young managers that have a truly international formation;
- In this universities have a key role.

Tabella 4 – Indicatori di performance del settore manifatturiero
(valori in migliaia di euro a prezzi correnti)

| | VALORE AGG. PER ADDETTO* | | | COSTO DEL LAVORO PER DIPENDENTE* | | | MARGINE OPERATIVO/V.A. | | |
|---|--------------------------|---------------|---------------|-------------------------------------|---------------|---------------|---------------------------|---------------|---------------|
| | 2000-2002 | 2003- 2005 | 2006- 2007 | 2000- 2002 | 2003- 2005 | 2006- 2007 | 2000- 2002 | 2003- 2005 | 2006- 2007 |
| Germania | 54,4 | 58,4 | 65,8 | 42,2 | 45,1 | 47,3 | 23,7 | 24,6 | 29,8 |
| Spagna | 39,8 | 45,5 | 52,3 | 25,7 | 28,7 | 31,9 | 39,5 | 40,4 | 42,4 |
| Francia | 51,5 | 54,5 | 60,4 | 37,8 | 41,1 | 44,8 | 28,4 | 26,2 | 27,4 |
| Italia | 42,3 | 44,0 | 49,3 | 29,2 | 32,0 | 35,0 | 42,7 | 39,3 | 40,4 |
| Area Euro 12 | 49,9 | 53,7 | 60,4 | 34,8 | 38,3 | 41,2 | 34,6 | 33,2 | 36,1 |
| Italia /Area Euro12 | 84,7 | 81,9 | 81,6 | 83,9 | 83,6 | 85,0 | 123,4 | 118,4 | 112,1 |
| Italia /(Area Euro12 senza Germania) | 88,5 | 85,5 | 85,3 | 94,5 | 91,9 | 92,1 | 105,0 | 103,8 | 102,2 |
| Italia/Germania | 77,7 | 75,3 | 74,9 | 69,1 | 71,0 | 73,9 | 180,3 | 159,9 | 135,7 |
| Italia/Francia | 82,0 | 80,8 | 81,6 | 77,3 | 77,9 | 78,0 | 150,5 | 150,4 | 147,7 |

* Fonte: Elaborazioni su dati Eurostat

Appendix

Tabella 5 – Indicatori di performance del settore manifatturiero
(Classe di addetti 1-9, valori a prezzi correnti in migliaia di euro)

| | VALORE AGG. PER ADDETTO | | | COSTO DEL LAVORO PER DIPENDENTE | | | MARGINE OPERATIVO/V.A. | | |
|---|-------------------------|-----------|-----------|---------------------------------|-----------|-----------|------------------------|-----------|-----------|
| | 2000-2002 | 2003-2005 | 2006-2007 | 2000-2002 | 2003-2005 | 2006-2007 | 2000-2002 | 2003-2005 | 2006-2007 |
| Germania | 28,3 | 29,0 | 32,8 | 23,4 | 22,2 | 23,9 | 31,4 | 42,2 | 46,9 |
| Spagna | 21,0 | 24,1 | 27,9 | 17,4 | 19,7 | 22,8 | 38,4 | 38,6 | 39,7 |
| Francia | 33,5 | 33,1 | 40,5 | 28,4 | 31,1 | 33,6 | 30,8 | 22,0 | 30,6 |
| Italia | 24,6 | 24,5 | 27,3 | 19,4 | 20,7 | 22,2 | 63,7 | 59,4 | 59,3 |
| Area Euro 12 | 26,4 | 26,6 | 30,5 | 21,1 | 22,3 | 23,7 | 47,0 | 45,6 | 49,1 |
| Italia /Area Euro12 | 93,5 | 92,1 | 89,4 | 92,0 | 92,8 | 93,3 | 135,5 | 130,4 | 120,8 |
| Italia /(Area Euro12 senza Germania) | 94,8 | 93,6 | 90,6 | 94,6 | 92,7 | 93,4 | 126,7 | 128,6 | 119,8 |
| Italia/Germania | 87,2 | 84,7 | 83,0 | 82,8 | 93,2 | 92,8 | 202,9 | 140,7 | 126,4 |
| Italia/Francia | 73,5 | 74,1 | 67,3 | 68,4 | 66,5 | 65,9 | 206,9 | 269,7 | 193,6 |

Fonte: Elaborazioni su dati Eurostat

Tabella 6 – Indicatori di performance del settore manifatturiero
(Classe di addetti 250 e oltre, valori a prezzi correnti in migliaia di euro)

| | VALORE AGG. PER ADDETTO | | | COSTO DEL LAVORO PER DIPENDENTE | | | MARGINE OPERATIVO/VA | | |
|---|-------------------------|-----------|-----------|---------------------------------|-----------|-----------|----------------------|-----------|-----------|
| | 2000-2002 | 2003-2005 | 2006-2007 | 2000-2002 | 2003-2005 | 2006-2007 | 2000-2002 | 2003-2005 | 2006-2007 |
| Germania | 64,7 | 71,0 | 80,4 | 50,1 | 54,9 | 57,9 | 22,5 | 22,6 | 28,0 |
| Spagna | 63,6 | 74,1 | 85,4 | 36,4 | 39,5 | 43,1 | 43,0 | 46,8 | 49,7 |
| Francia | 64,0 | 67,9 | 73,6 | 44,3 | 47,9 | 52,5 | 30,8 | 29,4 | 28,8 |
| Italia | 60,4 | 64,0 | 71,3 | 38,4 | 41,7 | 45,5 | 36,6 | 35,0 | 36,2 |
| Area Euro 12 | 67,1 | 73,9 | 83,0 | 44,5 | 49,4 | 53,2 | 33,9 | 33,2 | 36,0 |
| Italia /Area Euro12 | 89,9 | 86,6 | 85,9 | 86,3 | 84,3 | 85,7 | 107,9 | 105,4 | 100,6 |
| Italia /(Area Euro12 – Germania) | 87,4 | 84,0 | 83,8 | 96,2 | 92,3 | 92,3 | 86,2 | 85,6 | 86,1 |
| Italia/Germania | 93,3 | 90,1 | 88,7 | 76,5 | 75,9 | 78,7 | 162,2 | 154,5 | 129,4 |
| Italia/Francia | 94,2 | 94,2 | 96,8 | 86,6 | 87,0 | 86,8 | 118,6 | 118,9 | 125,8 |

Fonte: Elaborazioni su dati Eurostat

Tabella 7 – Indicatori di performance del settore manifatturiero
(Classe di addetti 10-249, valori a prezzi correnti in migliaia di euro)

| | VALORE AGG. PER ADDETTO | | | COSTO DEL LAVORO PER DIPENDENTE | | | MARGINE OPERATIVO/V.A. | | |
|---|-------------------------|-----------|-----------|---------------------------------|-----------|-----------|------------------------|-----------|-----------|
| | 2000-2002 | 2003-2005 | 2006-2007 | 2000-2002 | 2003-2005 | 2006-2007 | 2000-2002 | 2003-2005 | 2006-2007 |
| Germania | 44,2 | 46,6 | 51,9 | 33,6 | 34,7 | 36,1 | 25,1 | 26,8 | 31,7 |
| Spagna | 35,1 | 39,4 | 44,7 | 22,6 | 25,9 | 28,8 | 36,6 | 35,1 | 36,3 |
| Francia | 42,6 | 45,4 | 51,3 | 32,6 | 35,7 | 39,0 | 23,6 | 21,4 | 24,3 |
| Italia | 42,8 | 45,1 | 50,7 | 27,2 | 30,5 | 33,6 | 40,6 | 36,6 | 38,0 |
| Area Euro 12 | 41,8 | 45,1 | 50,7 | 28,6 | 31,9 | 34,3 | 33,3 | 31,0 | 33,8 |
| Italia /Area Euro12 | 102,5 | 99,8 | 100,0 | 95,2 | 95,7 | 97,8 | 121,8 | 118,1 | 112,2 |
| Italia /(Area Euro12 senza Germania) | 104,9 | 101,1 | 101,0 | 102,1 | 99,2 | 99,9 | 110,5 | 111,8 | 109,2 |
| Italia/Germania | 96,8 | 96,7 | 97,6 | 81,1 | 88,0 | 93,0 | 161,6 | 136,9 | 119,9 |
| Italia/Francia | 100,5 | 99,3 | 98,7 | 83,5 | 85,5 | 86,2 | 172,1 | 170,8 | 156,4 |

Fonte: Elaborazioni su dati Eurostat