Title: article
Subtitle:
Author:

Eurointelligence wishes to thank Collegio Carlo Alberto for their support to help us provide a free public service

04.03.2010

Greek Competitiveness Is Not the Issue, Fiscal Discipline Is

By: Erik Jones

With all due respect to my colleagues in the economics profession, they have jumped the gun on Greek competitiveness within the eurozone. The simple fact of the matter is that Greece is having a fiscal crisis. It would have had that crisis whether or not it was in the eurozone. Greece is not having a crisis of competitiveness. Hence joining the eurozone was not the problem; leaving it is not the solution.

Let's start with some data - all of which is taken from the Annual Macroeconomic Database of the European Commission and is freely available on-line. The most damning data against Greece is the movement in real compensation per employee. If we set the year 2000 equal to 100, then by 2009 Greece was at 122 while Germany was at 102. This would suggest that Greek real wages have risen by 20 percent more than Germany - and they have - but that tells us very little about competitiveness.

What matters in terms of a head-to-head competition is how Greece and Germany compare in the cost of labor per unit of output and not the real compensation of employees. Moreover, we should look at their performance across the European marketplace as a whole. By that measure, if we set the year 2000 equal to 100, then by 2009 Greece was at 98 while Germany was at 95. Germany is still doing better than Greece, but only by a little and both have improved against the rest of Europe.

Then again, these labor cost data reflect the whole of the economy. If we look at just manufacturing data, the story might be different - and it is. Using national accounts data for relative real unit labor costs in manufacturing, Greece goes from 100 in the year 2000 to 87 in 2008. Over the same period, Germany goes from 100 to 90. It is hard to see how Germany comes off better in the comparison.

Greek manufacturing has been able to hold onto the same share of total employment and total value added throughout its participation in the Euro. It has held onto its share of the total eurozone export market as well. Other countries have lost market share and manufacturing employment in significant volumes - the UK chief among them - but tiny Greece has not.

Even if Greece is not suffering in terms of manufacturing, the high real incomes that Greek employers are doling out must surely be hitting the bottom line in the service sector, shouldn't they? Again, that's hard to see in the data. Total compensation per employee was 53.8 percent in Greece and 57 per cent in Germany. In all this data, there is nothing to suggest that a devaluation would improve Greece's situation. A devaluation might provide some relief for Greece's massive current account deficit, but only by crushing the incomes (and therefore expenditure on imports) of the Greek population as a whole.

The problem with Greece is fiscal. The Greek government took advantage of its increased creditworthiness as a member of the eurozone to get heavily into debt. By the same token, large institutional investors in the eurozone took advantage of the higher interest rates that the Greek government was willing to pay for its debt to increase their returns on sovereign investments without diversifying away from their home currency.

The Greek government satisfied its expanding need for liquidity; the institutional investors their hunt for yield. Any attempt to push Greece out of the eurozone now would make both parties go 'cold turkey'. For both sides of the transaction, it would be a horrible shock.

Ironically, this is not a situation that most of my professional colleagues anticipated correctly. Very few paid attention to the growing diversity of current account positions when the single currency was launched and most worried that the stability and growth pact would constrain fiscal autonomy more than they recognized how much the risk of fiscal profligacy had been enhanced. Despite having looked in the opposite direction, their prescriptions sound hauntingly familiar. Europe needs common fiscal institutions and more political union, they argue. Perhaps we should check in with California to see how well that is working out.

What Europe really needs is for Greece to gets its fiscal house in

order - full stop. Once that happens, it might also be a good idea for some of the eurozone's larger economies to stop trying to run massive current account surpluses that leave their financial institutions saddled with too much savings that they will have to invest abroad and that they would prefer to keep in euros at high yields. In drug policy, Europeans like to pride themselves on being tougher on the dealer than on the user; they should recognize that for politicians, not just in Greece but everywhere, liquidity is a drug. Finally, if there is a lesson to be drawn from the debate that has erupted around Greece it is that no country wants to bail out another. 'Competitiveness' is just an excuse for this lack of solidarity; it's a way of saying that the poor or debt-laden should work harder.

The author is Professor of European Studies at SAIS Bologna Center, Johns Hopkins University

---

<- Back to: article

Go back to the regular design...