SOUTHERN EUROPE: COMMON PROBLEMS, DIFFERENT SOLUTIONS

by Carlo D'Ippoliti

In the historical, sociological and especially economic debates, "Southern Europe" and associated derogatory acronyms have often encompassed a negative connotation. However, the PIGS appear to share many crisis-related dynamics and problems, perhaps even more than common structural features.

This is likely to be a consequence of turbulence on euro-periphery financial markets as well as uniform policies imposed onto these countries. If these problems are common, though, it is likely that the way out may still involve several country-specific policies.

Nei dibattiti di natura storica, sociologica e soprattutto economica, "Europa meridionale" e i vari acronimi dispregiativi a essa correlati hanno spesso assunto una connotazione negativa. Tuttavia, i cosiddetti "PIGS" condividono molte dinamiche e problematiche legate alla crisi, forse perfino di più rispetto alle caratteristiche strutturali comuni.

Tutto ciò è verosimilmente la conseguenza di turbolenze sui mercati finanziari dell'europeriferia nonché di politiche uniformi imposte su tali Paesi. Sebbene questi problemi siano comuni, è verosimile che le soluzioni richiedano l'adozione di politiche specifiche per ciascun Paese.

The volume edited by Baumesteir and Sala (2016) takes issue with the concept of "Southern Europe" – often overlapping with various derogatory acronyms such as PIGS, GIPSIS, etc. – to investigate whether it still is (or ever was) a useful analytical category, and whether it tells us anything meaningful about the state and future of Europe. Thus, it seems fit to discuss the prospects of the European Union (EU)'s periphery and its relation to the EU's "core" starting from this volume.

The main takeaway of the book is that the concept of Southern Europe has varied substantially over the past few decades, in both the academic debate and political and media discourse. Consequently, the normative, political and ethical implications of this concept were not always negative (as they currently are) and changed with the variable fortunes of the countries comprised under the umbrella term.

Loosely speaking, after a long period of social and economic underdevelopment, Italy, Spain, Portugal and Greece each went through substantial, if brief, periods of growth and development, during which they were singled out or grouped together as "rising stars" of

Carlo D'Ippoliti, Sapienza University of Rome.

the Old Continent. (Indeed, it is a *topos* of journalistic practice to recall the identification of Germany as "the sick man of Europe" during the 1990s.) It goes without saying, since the crisis erupted they have been collectively placed back into the category of undisciplined and underdeveloped (even liar, in the case of Greece) minor brothers of the European family. In light of recent events, one only hopes this will not be the fate of other acronyms such as BRICS.

However, the edited volume deals much more with the long-run question of whether the concept of Southern Europe has ever had any meaning and usefulness for social research, than the short-run issue of whether these countries experienced similar trends leading to and/or since the recent crisis. Such focus on structural factors is one of the main aspects of originality of the work.

Alas, taking a long-period view implies again coming to terms with the equation according to which "Central European" equals good and developed, and "Southern European" stands for bad and underdeveloped. This is for a parallel, if perhaps disconnected thread across the social sciences.

As the editors note in their introduction, the concept of Southern Europe (or similar, connected ones) has been relatively absent in historical research. However, as noted by Martin Rhodes (2015) in his contribution to the volume, those historians who introduced the concept did frame Southern European countries' experiences as histories of underdevelopment. For example, Sapelli (1995) identifies some main common characteristics of the area: social continuity of interactions and relations typical of rural societies; a quick shift of employment from agriculture to the services sectors; a "divisive" welfare state, with few or no unifying mechanisms (i.e. universalistic measures); and weak democratic institutions. Similar arguments are put forward by Tortella (1994), who focuses on: a common past of long dictatorships; common histories of persistent budget deficits and associated financial turbulence; similar patterns of substantial inequality in land distribution; and very low literacy rates and educational attainments.

Similarly, in the social policy debate, as highlighted by Claude Martin (2015) in his contribution, the reference point has been Esping-Andersen's classification of welfare state models, often on the (implicit) presupposition that the social-democratic, or at times even the Anglo-Saxon, models may be regarded as more developed or effective welfare regimes. Thus, most authors' views on Southern European welfare models ranged from the theoretical need to introduce a new (backward) Southern welfare regime, to considering it just as a late (lack of) development of the continental regime. Either way, Martin summarises the welfare state model prevailing in Southern European countries as "clientelist" and exhibiting low levels of protection and redistribution, as well as being overly based on the role of the family (with respect to the market and the State), with the associated negative consequences e.g. in terms of gender equality.

Finally, considering the economic debate, in their contribution Annamaria Simonazzi and Andrea Ginzburg (2015) echo a growing literature (e.g. Simonazzi, Ginzburg, Nocella, 2013; Botta, 2014) underlining the mutual interdependence of the Northern and Southern European economies, framing the issue in terms of a center-periphery development model. In this context, backwardness in the South is framed as a delay in the industrialisation process of latecomer countries (Italy) and late-latecomers (Spain, Portugal and Greece). Furthermore, these industrialisation-induced growth episodes were relatively short-lived, due to structural impediments and, in the case of the recent crisis, a faulty institutional and macroeconomic European setup.

1. Is the concept of Southern Europe empirically sound?

In conclusion, the contributions recalled (and many others contained in the volume) argue that the concept of Southern Europe, perhaps in a less naïve and more nuanced way, can be helpful in understanding Spain's, Italy's, Greece's and Portugal's past, and maybe present and future too. By contrast, as is well known, critiques of this and similar concepts (such as the abovementioned "PIGS") claim that the aggregation of such heterogeneous countries hides more than it shows.

In many of its contributions, the volume edited by Baumesteir and Sala focuses on the discursive and heuristic value of the concept of Southern Europe. However, to some extent this may be regarded as an empirical issue too.

From such perspective, table 1 reports, separately for the PIGS countries (both including and excluding Cyprus) and for the other EU countries, the average values, as of 2014, of the Macroeconomic Imbalances Procedure (MIP) indicators. As it emerges, of the 41 indicators for which data are available for all countries, 14 indicators exhibit an average value for the PIGS countries featuring a statistically significant difference from the other EU countries' average, at the conventional thresholds. Including Cyprus among the PIGS raises the number to 17 indicators.

Thus, concerning these dimensions one could say that it is empirically meaningful to talk about "Southern Europe", implying a group of countries that exhibits some systematic characteristics, different from the other countries (or rather, more markedly different than the other countries among themselves).

Evidently, much could be said about the relevance and appropriateness of the MIP indicators, and a thorough examination of the issue would require much more depth than the present one. However, it is noteworthy that roughly one half of the indicators according to which the PIGS appear to be "different" from the rest, refer to rates of change of selected variables in the short or medium term (i.e. less than 10 years). Arguably, this is an indication that there are at least as much crisis-related dynamics as there are structural factors to characterise Southern Europe.

To some extent, it is possible that the initial launch of the common currency allowed, perhaps it even hid, the accumulation of unsustainable disequilibria that the financial markets suddenly took charge of uncovering (D'Ippoliti, Roncaglia, 2011). Thus, it would be mistaken to assume that all short-run variations are mere conjuncture: it may be e.g. that a structural issue, such as belonging to a dysfunctional and incomplete confederation (which is still much more than just a currency union) only became relevant all of a sudden, due to an exogenous shock (the US crisis).

However, to the extent that these short-term dynamics have been *at least partly* produced by a stronger imposition in the PIGS than in the rest of Europe of one-size-fits-all policy measures (e.g. labour costs reductions following labour market "structural reforms", or unemployment and youth unemployment as consequences of aggregate demand restraint policies), one could say that to a large extent the category of PIGS has been created by the uniform policies imposed onto these countries since the crisis. (The fact that these policies were predicated upon generalising stories, often ridden with stereotypes, may make the whole process look like a self-realising prophecy).

Table 1. Macroeconomic Imbalances Procedure indicators: PIGS (including and excluding Cyprus) and the rest of the EU (average values, 2014)

	PIGS	Other EU	F-test	PIGS+C	Other EU	F-test
Current account balance – % of GDP. 3 years average	–0.28	1.46	0.75	–1.2	1.73	2.75
Current account balance – % of GDP	0.35	1.95	0.62	–0.62	2.23	2.53
Net international investment position – % of GDP	*–89.85*	*–28.1*	*4.54***	*–99.8*	*–23.24*	*9.82***
Real effective exchange rate. 42 trading partners – 3 years % change	–2.05	–0.4	0.79	–1.92	–0.36	0.75
Real effective exchange rate. 42 trading partners – 1 year % change	–0.3	0.5	0.39	–0.34	0.54	0.58
Export market shares – 5 years % change	–11.9	–4.26	0.89	–14.85	–3.29	2.61
Export market shares – 1 year % change	2.3	2.06	0.02	1.42	2.24	0.25
Nominal unit labour cost index – 3 years % change	*–3.6*	*4.84*	*8.53***	*–4.42*	*5.38*	*17.28***
Nominal unit labour cost index – 1 year % change	*–0.78*	*0.74*	*2.51*	*–1.3*	*0.92*	*7.6***
House price index. Deflated – 1 year % change	–1.45	2.35	2.41	–1.1	2.44	2.52
Private sector credit flow. Consolidated – % of GDP	*–4.85*	*1.07*	*4.75***	*–5.58*	*1.49*	*9.3***
Private sector debt. Consolidated – % of GDP	151.3	149.85	0	190.7	141.22	1.8
General government sector debt – % of GDP	*135.1*	*63.39*	*21.85***	*129.72*	*61.44*	*25.58***
Total financial sector liabilities. Non-consolidated – 1 year % change	*–4.07*	*6.94*	*13.41***	*–3.12*	*7.21*	*14.54***
Unemployment rate – 3 years average	*19.63*	*9.35*	*24.28***	*18.62*	*9.11*	*25.42***
Unemployment rate – %	*19.45*	*8.98*	*25.21***	*18.78*	*8.67*	*31.76***
Real gross domestic product (GDP) – 1 year % change	0.65	1.98	2.29	0.02	2.17	8.93**
Gross fixed capital formation – % of GDP	*15.68*	*20.37*	*8.72***	*14.84*	*20.76*	*23.78***
Net Lending/Borrowing – % of GDP	1.22	2.78	0.66	0.24	3.06	2.81
Direct investment in the reporting economy (flows) – % of GDP	2.25	11.78	0.21	0.78	12.51	0.39
Direct investment in the reporting economy (stocks) – % of GDP	40.55	474.88	0.42	174.5	464.65	0.22
Net trade balance of energy products – % of GDP	–3.05	–3.83	0.25	–3.62	–3.74	0.01
Real effective exchange rate. Euro area trading partners – 3 years % change	–1.75	–0.55	0.39	–1.4	–0.58	0.22
Share of OECD export – 5 years % change	–5.91	2.26	0.9	3.3	–9.06	2.61
Terms of trade – 5 years % change	–2.63	–0.63	1.81	–2.02	–0.67	0.96
Export market share. Volumes – 1 year % change	1.7	0.87	0.24	0.62	1.07	0.09

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Table 1. (*continued from previous page*)

	PIGS	Other EU	F-test	PIGS+C	Other EU	F-test
Labour productivity – 1 year % change	–0.25	0.85	1.38	–0.14	0.91	2.49
Nominal unit labour cost index – 10 years % change	*11.98*	*31.22*	*2.98**	*31.73*	*13.44*	*3.26**
Unit labour cost performance relative to Euro area – 10 years % change	–3.6	11.34	2.53	–5.48	12.4	4.66**
Nominal house price index – 3 years % change	*–16.7*	*2.95*	*9.04***	*–15.1*	*3.46*	*9.89***
Private sector debt. Non-consolidated – % of GDP	160.85	168.8	0.03	198.64	160.93	0.84
Financial sector leverage (debt-to-equity) – %	*655.83*	*331.48*	*6.97***	*548.02*	*340.81*	*3**
Employment rate – 1 year % change	0.63	1.14	0.42	0.12	1.27	2.78
Activity rate (15-64 years) – % of the total population of the same age group	69.68	72.42	1.25	70.6	72.33	0.59
Activity rate (15-64 years) – % point change (t. t-3)	0.45	1.6	2.77	0.52	1.64	3.17*
Long-term unemployment rate – % of active population	*12.15*	*4.12*	*25.5***	*11.26*	*3.97*	*24.94***
Long-term unemployment rate – % of active population. % point change (t. t-3)	*5.1*	*–0.1*	*17.48***	*5.3*	*–0.37*	*34.81***
Youth unemployment rate – % of active population	*45.75*	*20.93*	*30.74***	*43.8*	*20.27*	*36.36***
Youth unemployment rate – % of active population. % point change (t. t-3)	*8.18*	*–0.71*	*8.26***	*9.26*	*–1.33*	*18.11***
Young people NEET – % of total population	*17.65*	*11.38*	*7.9***	*17.52*	*11.13*	*10.58***
Young people NEET – % of total population. % point change (t. t-3)	0.68	–0.14	0.76	1.02	–0.26	2.31

Note: italics denote difference in average values statistically significant at 10% (indicated by *) or 5% (**). Data for the 10 missing indicators are not available for all countries.
Source: elaboration on European Commission (2016).

2. The PIGS and the crisis

This small piece of evidence, of course, does not imply that there is nothing structural about the PIGS, or that the contributions collected in the volume are misleading. As Rhodes (2015) notes, to reject the concept of Southern Europe only because of heterogeneity among Southern European countries, amounts to attributing to these authors the claim that Spain, Greece, Italy and Portugal are all the same – a notion that obviously nobody does or could support. Moreover, as mentioned above several contributions in the volume concern longer-term historical dynamics that date considerably back in time.

However, the evidence of table 1 does suggest that: (*i*) often there is at least as much heterogeneity among the PIGS as between them and the rest of Europe (the usual suspect being Ireland, but one may add Belgium, France and others); (*ii*) the European economic policies in the face of the crisis (re)produce rather than reduce structural differences between Europe's macro-regions.

Thus, the issue is whether the current academic debate correctly identifies the main commonalities among the PIGS, and whether these are relevant for policy making. Concerning economic dynamics, Simonazzi, Ginzburg and Nocella (2013) argue that there is a consensus among heterodox economists that the euro-crisis is at its heart a balance-of-payments crisis, a thesis also supported by the mainstream, CEPR-sponsored "consensus narrative" (Baldwin *et al.*, 2015). If this was the case, the issue would then be to correctly understand whether the PIGS have a problem of price or non-price competitiveness (to use the terminology of Thirlwall, 2011), and the answer is likely to be different for the different countries (thus suggesting a low relevance of the PIGS concept).

By contrast, the abovementioned D'Ippoliti and Roncaglia (2011) or more recently Lavoie (2015) contend that many authors trace back the origins of the crisis to financialisation and flawed (European) monetary institutions. If that was the case, the PIGS – since they all belong to the euro-area periphery – are instead likely victims of a common trend, and risk suffering the same fate. But even then, it should be recalled that the sort of debt problem faced e.g. by Spain (or Ireland, for the matter), in large part produced by private sector leverage and heavy investment in non-tradable industries, is very different from a Greece – or Portugal – style public debt crisis.

In any case, given the mutual interrelations between monetary and real dynamics, a mix of the two explanations, of a balance of payments and a monetary/financial crisis, is a likely scenario. Thus, it would seem that both PIGS-specific and country-specific policies may be required to tackle the PIGS crisis.

So far, country-specific policies have rarely been proposed, even less attempted. For example, if one was to accept Simonazzi and Ginzburg's (2015) argument that non-price competitiveness is at the roots of Southern Europe's crisis, a set of industrial policies would appear warranted. Yet, for the case of Italy, Palma, Lucarelli and Romano (2013) show that given the technology content of our imports and export, policies aimed at boosting private investments may even deteriorate the country's current account. Thus, not the whole by now established Mazzucatian policy menu appears as currently feasible in Italy.

It appears that one may have to conclude that the contributions edited by Baumesteir and Sala, in light of the current economic debate, seem to suggest one of the most diffused commonplaces and most difficult to apply principles: that policy making is much closer to a tailored art than a uniform science. While the PIGS currently share several misfortunes, they may be unlikely to find relieve in the same policies.

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