“Improving competitiveness of the Greek industry. Truth and illusions”

Ioanna Kastelli and Stavros Zografakis[1]

One of the main dimensions of the Greek crisis being the weak competitiveness, the focus of measures during the last six years and especially after 2012 has been an important reduction in wages. In addition, many measures for the liberalisation of the labour market have been put in place. The main cause of the competitiveness crisis has been considered to be the excessive wage increases during the period prior to the crisis.

The rationale behind these measures is that improvement of cost competitiveness will improve export performance and attract FDI and consequently will improve the country’s capability to serve its debt.

However, although we may observe that competitiveness in terms of unit labour cost and wage cost in manufacturing has decreased sharply after 2008 reaching the levels of 1994, prices have resisted and export prices have increased. Besides all interventions for improvement of cost competitiveness, exports and export performance have not displayed any important improvement on average and dropped to a lower level than 2008.

In this paper we attempt to give an answer to two interrelated questions:

a) why exports have not increased although competitiveness in terms of unit labour cost in manufacturing has improved significantly and

b) what factors have determined the resistance of export prices downwards although labour cost in manufacturing has fallen sharply?

We focus on tradable goods and try to investigate what happened in the manufacturing sector during the period of crisis in terms of its financial and efficiency characteristics, but also what factors in terms of technological and learning capabilities have determined the dynamics of the country’s international competitiveness.

We monitor the evolution of competitiveness in the Greek manufacturing sector in comparison to other Southern European countries, namely Spain, Italy and Portugal, based on statistical data from Eurostat and OECD. Additionally, based on data provided by the Annual Greek Industry Surveys, we examine the Greek industry through the major sectoral economic indicators and seek an explanation to why consolidation measures and especially reduction in wages and labour market liberalisation have not improved export performance.

We argue that due to structural characteristics and to the adverse impact of the crisis, wage cuts have not resulted to any significant improvement of export performance.

Based on the results of our empirical investigation, we address the industrial policy implications and make some suggestions on effective policy initiatives.

Industrial policy should address the issue of upgrading industrial activities not only in the sense of reaching higher production efficiency in terms of cost reductions through e.g.

[1] Ioanna Kastelli is Laboratory Teaching Staff and Researcher at the Laboratory of Industrial and Energy Economics of the National Technical University of Athens and Stavros Zografakis is Associate Professor at the Department of Agricultural Economics & Rural Development of the Agricultural University of Athens.

squeezing wages, but especially climbing up the value chain and/or deepening the capabilities within the same functions or in additional functions along the value chain, fostering innovation, learning and technological capabilities. On one hand anti-crisis policies are calling for fiscal consolidation but on the other hand technology policy and the agenda for an integrated industrial policy in globalisation era are calling for investment in human resources, research and innovation and capability building. These contrasting issues constitute the challenge of an effective industrial policy which will overturn the vicious circle of the structural disadvantages and the destructive crisis effects in terms of productive capability and investment.