The Euro Area north-south structural economic divide: an input-output perspective

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The great recession of 2008/2009 and the subsequent sovereign debt crises highlighted the existence of deep structural imbalances in the Euro Area: the large differences of competitiveness and growth potential between its northern and southern countries. In this paper, an input-output approach is used to study and quantify a facet of this phenomenon, namely the external dependency and value added generation capacity of the productive sectors of these economies, based on a new treatment of inter-industry output multipliers, which follows closely Amaral et al (2011). The (gross) output growth potential given by the column sums of the Leontief inverse matrix (backward linkage indicators) results from three terms: inter-industry flows, value added and imported inputs. After a convenient arrangement of these terms, the evolution of backward linkage indicators can be used to detect structural changes, particularly quantifying a (net) growth effect (more value-added generation) and an external dependency effect (more imported inputs), and to classify the productive sectors accordingly. A comparison is made for a northern (Germany, the Netherlands and Finland) and a southern group of countries (Spain, Portugal and Greece), using several national input-output tables over the period 1995-2011, available in the WIOD database.