

EFFECTS OF THE MEDITERRANEAN DIET

Jean-Luc Proutat

Low in fat, high in fibre, with a large proportion of fruit and vegetables: in terms of health, the virtues of the Mediterranean diet are well-established, but what about in economic terms? For the past decade, the countries of the Economic and Monetary Union (EMU) forming the Mediterranean 'arc' (France, Italy, Spain, Greece) have been following a similar diet, aiming to improve their competitiveness. We take a look at this in our chart of the week.

Greek transformation

In the early 2010s, the euro crisis exposed the weaknesses of the EMU. A pile-up of debts, mainly owed by southern countries to northern countries, threatened to collapse due to a lack of possible parity adjustments or budget transfers. As is often the case in troubled times, the difficulties were overcome by strengthening governance: creation of a European Stability Mechanism, large-scale securities purchases by the European Central Bank (quantitative easing), etc. As for correcting internal imbalances, it went beyond austerity measures imposed on Member States; it also involved a shift in "lagging" countries economic policy toward supply-side measures: labour market flexibility, cost control, administrative simplification and, support for innovation.

What are the results? Here, differences in price competitiveness are assessed in relation to the German benchmark and are tracked by unit labour costs, i.e. the ratio between hourly wages and costs (mainly employer social security contributions) and hourly productivity. The first observation, which also serves as confirmation, is that Greece has made a tremendous effort. The fall in its unit costs compared to those of Germany (see chart) has done more than just correct the excess of the past: it has put the Greek economy back in a favourable competitive position, the best it has been in since joining the EMU¹.

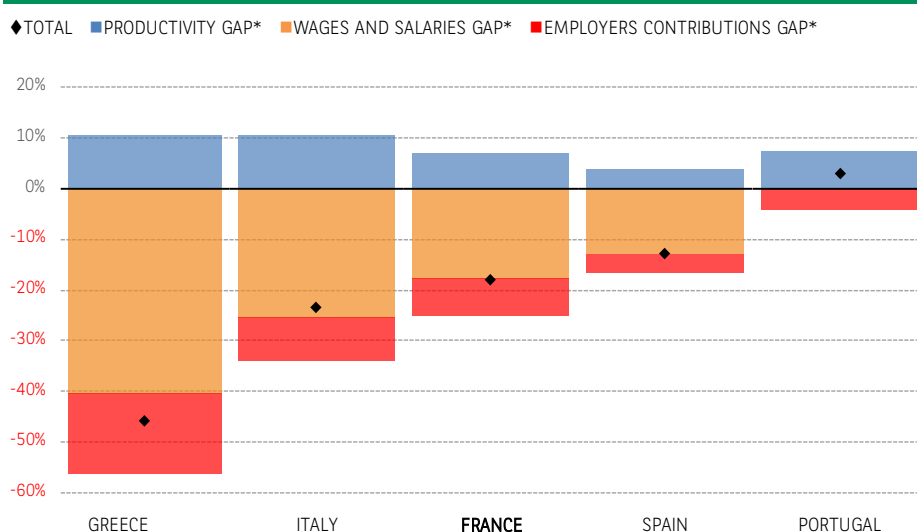
France improves its score

The severity of Greece's austerity measures can be gauged by the brake put on hourly wages and related costs, which have fallen by 18% in real terms since 2012. While no European country has gone as far in terms of wage moderation, many have improved their competitiveness in a similar way, with Germany maintaining or increasing its productivity advantage. It is therefore mainly through labour cost control that Italy, Spain, and to a lesser extent, Portugal, have made progress.

As for France, it has not been left out of the movement. At the end of 2012, the "Gallois" report warned of multiple signs of its decline: the burden of employment-related costs, accelerated loss of market share, recurring trade deficits and deindustrialisation. This was followed by a shift in government policy in favour of businesses, which has since continued. As a result, in terms of intra-European competitiveness, the French economy is among those that have significantly improved their score (the increase in its unit labour costs has been 18 percentage points lower than that of Germany since 2012). At a time when the state of public finances is being questioned and global trade conditions are tightening, this is a factor of resilience that should be highlighted.

¹ The ratio of Greece's unit labour costs (ULM) to those of Germany, based on 100 in 2000 (the eve of EMU entry) currently stands at 88. Since 2000, Greece has reduced its ULC with all of its main EUM partners.

CHANGES IN UNIT LABOUR COSTS RELATIVE TO GERMANY (2012-2024)



* ON A HOURLY BASIS, CONTRIBUTIONS

Reading of the chart: Between 2012 et 2024, the rise in unit labour costs in Italy shows a difference of -24 percentage points (pp) compared to that observed in Germany. Compensations contribute to the gap by -34 pp, productivity by + 10 pp.

SOURCE: EUROSTAT, ESTIMATES BNPP



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