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**Working Paper**

## Shifting paths? The evolution of Southern European growth trajectories between the global financial crisis and the Covid pandemic

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MPIfG Discussion Paper 25/4

### **Shifting Paths?**

The Evolution of Southern European Growth Trajectories  
Between the Global Financial Crisis and the Covid Pandemic

Fabio Bulfone, Mischa Stratenwerth, and Arianna Tassinari



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## Abstract

This paper traces the growth trajectories of the Southern European economies (Greece, Italy, Portugal, and Spain) from the financial to the covid crisis. From a review of the comparative political economy literature focusing on Southern Europe, we derive three propositions regarding the growth profile, the development of high value-added services and manufacturing exports, and employment outcomes. To assess the accuracy of these propositions, we conduct growth decompositions based on import-adjusted demand components as well as on sectoral output and employment indicators. The data show that Southern European economies are similar in that export-led growth has not been sufficient to boost aggregate growth, stimulate high value-added services or manufacturing, reverse pro-cyclical employment declines, or create high-wage employment opportunities. But the Southern European economies also differ, both in terms of their sectoral growth profiles and their aggregate performance. In the second half of the decade, Portugal and Spain managed to combine domestic demand and exports to achieve stronger growth than Italy and Greece. Sectoral developments in Portugal and Spain (and to a lesser extent in Italy) tentatively suggest a potential “Iberian growth path” that is compatible with euro area constraints but ultimately peripheral. The paper concludes by considering the empirical and theoretical implications of these findings for the study of the Southern European model of capitalism.

**Keywords:** Comparative political economy, economic sectors, export growth, growth models, post-austerity, Southern Europe.

## Zusammenfassung

Dieser Beitrag zeichnet die Wachstumsverläufe südeuropäischer Volkswirtschaften (Griechenland, Italien, Portugal und Spanien) im Jahrzehnt zwischen Finanz- und Coronakrise nach. Aus der vergleichenden politökonomischen Literatur mit Südeuropa-Schwerpunkt werden drei Thesen zum Wachstumsmodell sowie speziell zur Entwicklung von wertschöpfungsintensiven Dienstleistungs- und Industrieexporten und damit verbundenen Arbeitsmarkteffekten abgeleitet. Deren Stichhaltigkeit wird anhand von Wachstumsdekompositionen auf Grundlage importbereinigter Nachfragekomponenten sowie sektoraler Produktions- und Beschäftigungsindikatoren überprüft. Die Ergebnisse zeigen, dass sich die südeuropäischen Volkswirtschaften insofern ähneln, als exportorientiertes Wachstum nicht ausgereicht hat, um die Gesamtwirtschaft mitzuziehen, hochwertige Dienstleistungen oder das verarbeitende Gewerbe zu stimulieren, den prozyklischen Beschäftigungsrückgang zu kompensieren oder hoch bezahlte Arbeitsplätze zu schaffen. Andererseits weisen die südeuropäischen Volkswirtschaften auch markante Unterschiede auf, sowohl in Bezug auf ihre sektoralen Wachstumsprofile als auch auf ihre gesamtwirtschaftlichen Resultate. In der zweiten Hälfte des letzten Jahrzehnts gelang es Portugal und Spanien beispielsweise, durch eine Kombination von Binnennachfrage und Exporten ein stärkeres Wachstum zu erzielen als Italien und Griechenland. Sektoriale Entwicklungen in Portugal und Spanien (sowie in geringerem Maße in Italien) deuten auf einen potenziellen (wenn auch letztlich peripheren) „iberischen Wachstumspfad“ hin, der mit den Beschränkungen des Euroraums vereinbar ist. Der Beitrag schließt mit einer Betrachtung der empirischen und theoretischen Implikationen dieser Ergebnisse für die wissenschaftliche Auseinandersetzung mit dem „südeuropäischen“ Kapitalismusmodell.

**Schlagwörter:** Exportwachstum, Post-Austerität, Südeuropa, Vergleichende Politische Ökonomie, Wachstumsmodelle, Wirtschaftssektoren.

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# Shifting Paths? The Evolution of Southern European Growth Trajectories Between the Global Financial Crisis and the Covid Pandemic

## 1 Introduction

The Southern European (SE) economies are crucial and yet understudied cases within the literature on comparative capitalism and the debate on the political economy of the Economic and Monetary Union (EMU) (for notable exceptions, see Burroni, Pavolini, and Regini 2021; Molina and Rhodes 2007). Gaining a better understanding of the growth trajectory of these countries is important both empirically and theoretically.

Empirically, a deeper understanding of these countries is necessary as the SE periphery was in the eye of the storm during the eurozone crisis and its economic performance was seen as crucial to the stability of the eurozone as a whole. In the years between 2009 and 2013, Greece, Italy, Portugal, and Spain were plunged into severe recessions that caused a dramatic increase in levels of unemployment. A rich body of literature explored the impact of the exogenously imposed wave of austerity on the legitimacy of the democratic process (Armingeon and Baccaro 2012), the changing relationship between political parties, voters, and interest groups (Bulfone and Tassinari 2021; Cioffi and Dublin 2016; Picot and Tassinari 2017), the overall capacity to create employment (Perez and Matsaganis 2019), and the different components of income inequality (Perez and Matsaganis 2018). Less attention has been paid so far to studying the impact of the eurozone crisis on the growth models of SE economies. This paper fills the gap by assessing the capacity of SE economies to *adjust* their growth model in the aftermath of the eurozone crisis. In doing so, we follow Peter Hall in approaching the problems faced by SE economies as “problems of adjustment” (Hall 2018, 18) made particularly challenging by the severe constraints arising from the EMU governance framework (Scharpf 2016). The political economy debate on peripheral adjustment has so far focused eminently on the FDI-dependent export-led strategy of Hungary and the Visegrad countries (Bohle 2018; Bohle and Regan 2021; Brazys and Regan 2017). Extending this analysis to the SE context allows us to gather important insights on the post-crisis readjustment of their growth models, which we expect to be more radical. In the case of the SE periphery, the crisis either led to the dismantling of the pre-crisis growth model based on domestic consumption and investment, as in Spain and Greece, or hit countries that were already struggling to grow, like Italy and Portugal, thereby making the issue of adjustment all the more urgent. As the Covid-19 pandemic marks another watershed moment that requires a different lens of analysis, we focus on an in-depth investigation of the adjustment process during 2010–2019.

Theoretically, tracing the growth trajectories of SE economies helps to advance the understanding of countries that have always posed a puzzle to comparative political economists. Famously, the hybrid institutional features of SE economies made them fit rather awkwardly into the CMEs and LMEs dyad of the varieties of capitalism (VoC) literature (Hall and Soskice 2001). Later works shed light on important features of SE economies, such as the prominent role traditionally played by the state as an intermediary between fragmented domestic interest groups (Molina and Rhodes 2007). More recently, the literature on the political economy of the EMU has shed light on the progressive peripheralization of Southern Europe compared to the core eurozone member states (Gambarotto and Solari 2015). This peripheralization is most evident in the limited capacity of all SE economies to create, retain, or attract high value-added manufacturing and service activities in their territory (Reurink and Garcia-Bernardo 2021). For its part, the literature on growth models has highlighted the tendency of all these economies to rely on domestic demand as their main growth driver, together with receipts from international tourism (Bürgisser and Di Carlo 2023), a feature that again sets the SE economies apart from core member states, which can rely in part or even predominantly on high value-added exports (Baccaro 2022). While these perspectives tend to highlight the *commonalities* in the characteristics of the SE economies and the *divergence* of their trajectories from the core eurozone member states, work focusing specifically on Southern Europe highlights important and growing *heterogeneity* among these countries. This is epitomized, for example, by the more pronounced deregulation of Spanish, Portuguese, and Greek labor markets compared to Italy's in the aftermath of the eurozone crisis (Afonso 2019; Perez and Matsaganis 2018); the larger job destruction in Spain and Greece than in Portugal and Italy (Perez and Matsaganis 2019); the growth underperformance of Italy relative to Spain since the EMU accession in the early 2000s (Baccaro and Bulfone 2022); the divergence in the post-crisis welfare trajectories between Italy, Portugal, and Spain (Afonso and Bulfone 2019; Branco, Miró, and Natili 2024); or the progressive peripheralization of Greece *relative to* Southern Europe.

In this paper, we systematize these important but sometimes contradictory theoretical claims into specific propositions about the trajectory of SE economies. We then assess their accuracy by combining data from OECD Input-Output Tables (IOT), the OECD Structural Analysis (STAN) and Trade in Value Added (TiVA) databases, and ILO employment data to provide in-depth analyses of SE growth trajectories that build on recent methodological advances in the measurement of aggregate demand decomposition. In doing so, we offer granular perspectives on the growth contributions of different sectors of the economy, particularly in the context of their forced reorientation towards exports. Our analysis advances the empirical and theoretical understanding of the trajectory of SE economies by addressing three main orders of questions. First, in the decade between the global financial crisis and Covid, how did the SE economies adjust their growth model, which previously relied mainly on domestic demand? What was the main component of their economic recovery? Was it the result of a rebound in domestic consumption or of a shift to exports? Second, in cases where the export performance of the SE countries improved, was this due to the strengthening of tradi-



tional (mostly low value-added) sectoral advantages or to the emergence of new (higher value-added) economic activities? Third, what has been the employment impact of this post-crisis recovery in terms of the number and quality of jobs created?

The data show growing divergence in the growth trajectory of SE economies. Portugal and Spain managed to achieve relatively solid growth performance after 2014 based on the combination of domestic demand and foreign exports. But this was not the case for Italy and, in particular, Greece due to the limited contribution of domestic demand. While there is divergence in the growth pattern, SE economies are all characterized by a limited capacity to develop high value-added exports of services and manufacturing, stable employment opportunities, and high-wage jobs. These weaknesses, in turn, point to a progressive peripheralization of Southern Europe within the EMU, a dynamic that, while not necessarily characterized by prolonged economic stagnation, could still shift the growth pattern of these economies away from that of the EMU core. Moving beyond the SE context, our study highlights the importance of the existing synergies and possible hybridity *within* the growth strategies pursued by countries where established legacies can overlap with the emergence of new growth drivers. This warns once more against the temptation to attach labels to countries according to the existence of a dominant growth model at one point in time, and it urges researchers to focus instead on studying the impact of a combination of different growth drivers.

The remainder of the paper is organized as follows. Section 2 reviews the comparative political economy literature on Southern Europe, the findings of which we use to define three propositions about the trajectory of these economies. Section 3 provides a detailed overview of the data sources used in our analysis. Sections 4 and 5 use descriptive data from different sources to assess the extent to which the growth trajectories of the SE economies are consistent with our theoretically driven propositions; section 4 analyzes changes in the general direction of SE growth models and their main growth components in the post-crisis period, while section 5 takes a sectoral perspective and examines the evolution of the export and employment contribution of different economic sectors. Section 6 discusses our findings and section 7 concludes with an overview of limitations and avenues for future research.

## **2 An elusive target: Southern Europe in the comparative political economy debate**

To trace the evolving growth trajectories of SE economies since the 2008 financial crisis, we first review the long-standing features of the SE model of capitalism, as outlined in the literature. While the hybrid nature of SE economies has made their classification difficult (Hall and Soskice 2001), the existing political economy literature can nevertheless help to identify some features that separate the development trajectory of Southern



Europe from that of other high-income economies. The first such feature is the pivotal role the state played in the economy (Schmidt 2002) to compensate for weaknesses deriving from delayed industrialization (Gambarotto and Solari 2015, 797). The state acted as owner of strategic companies, protector of sheltered economic interests, and mediator between the conflicting demands of fragmented, yet comparatively powerful, trade unions and employer organizations (Molina and Rhodes 2007). State activism was mainly geared at supporting domestic consumption by households and (predominantly small) companies, which soon emerged as the main engine of the SE growth model (Gambarotto and Solari 2015; Hassel and Palier 2021). While this domestic-demand-led growth strategy allowed SE economies to achieve solid growth rates throughout the 1980s and 1990s, the relative strength of trade unions coupled with the limited capacity for wage coordination meant that the SE model was more prone to inflation than the export-led model of core EU member states (Hall 2018, 13). Therefore, in order to restore external competitiveness, SE economies had to make frequent recourse to currency devaluations (Gambarotto and Solari 2015; Hall 2018; Johnston and Regan 2018). This inflationary model was underpinned by an unevenly developed welfare system, heavily skewed in favor of pension spending, and a dualized labor market (Bürgisser and Di Carlo 2023; Ferrera 1996; Gambarotto and Solari 2015).

While growth was not a concern per se, the SE model has been characterized by other weaknesses when compared to those of other high-income economies. Most notably, SE economies displayed a limited capacity to produce domestically high value-added exports, specializing instead in low value-added manufacturing sectors like textiles, household appliances, and food processing, and service activities like tourism. The tendency was further aggravated by the limited capacity of SE economies to *attract* FDI in high value-added economic activities (Reurink and Garcia-Bernardo 2021). While some authors link this limited upgrading capacity to supply-side factors such as lack of investment in research and development, lack of cross-sectoral wage coordination, and deficiencies in the skill formation system (Burroni, Pavolini, and Regini 2021; Gräbner et al. 2020; Hall 2018, 11–12), others contend that the uneven integration of SE economies in a common market dominated by more advanced export performers decisively reduced the scope for upgrading (Bieler, Jordan, and Morton 2019, 809). Nevertheless, it is worth noting that low value-added activities coexist with non-negligible pockets of high value-added competitiveness mainly located in the Italian manufacturing sector and, albeit to a more limited extent, in Spain. Drawing on Giovanni Arrighi's work, Solari and Gambarotto observe that the *heterogeneity* in the productive base of SE economies, reflected as well in large and growing regional disparities (on Italy, see also Di Carlo, Ciarini, and Villa 2024), is one of the most distinctive features of semi-peripheral developmental pathways (Gambarotto and Solari 2015, 797–98).

This limited upgrading capacity, coupled with growing competition from China in traditional industries like textiles and footwear, has led since the 1990s to a progressive erosion of the manufacturing base of SE economies (Bieler, Jordan, and Morton 2019, 812–13). The deindustrialization process accelerated further after the EU Eastern en-

largement and the consequent crowding out of manufacturing FDI from core economies. While all SE economies were affected by this dynamic (Stockhammer, Durand, and List 2016, 1815), for historical reasons Italy retains by far the largest manufacturing base (Giordano and Zollino 2021; Herrero and Rial 2023).

Lacking the productive base necessary to embark on an export-led growth strategy, and traditionally relying on domestic demand as their main growth engine, SE economies were well-positioned to take advantage of the EMU setup to develop a semi-peripheral variant of a financialized demand-led growth strategy. In this model, sustained credit growth financed household debt, construction, real estate development, and public sector wages. This growth strategy was enabled, among other factors, by the decline in interest rates that followed EMU adoption, and the contemporary process of financial deregulation favored by the Commission (Stockhammer, Durand, and List 2016). The literature is divided in how it assesses the repercussions of this debt-led growth model for development. Supply-side scholars highlight negative aspects like the crowding out of manufacturing investment (Gambarotto and Solari 2015; Rodrigues, C. Santos, and Teles 2016, 502), while post-Keynesian contributions highlight instead positive wage dynamics, declining unemployment, and growing welfare spending (Gräbner et al. 2020; Stockhammer, Durand, and List 2016). They agree, however, that debt-driven growth did little to address the long-standing weaknesses of the SE model, above all labor market dualization and limited upgrading capacity.

During the first EMU decade, the SE debt-driven demand-led model could coexist with the export-led model adopted by Northern member states, as the latter's excessive savings could be channeled towards the South, where they would feed private and public consumption in sheltered activities (Stockhammer, Durand, and List 2016). This balance was made precarious by the Southern member states' progressive loss of competitiveness vis-à-vis their Northern counterparts, which in turn led to the accumulation of growing current account deficits in Greece, Portugal, and Spain (Höpner and Lutter 2018).

The sudden stop to capital flows from the North to the South on the eve of the US subprime crisis brought to light the structural weaknesses of the EMU dual growth model (Fuller 2018). While Northern member states could swiftly recover from the crisis thanks to a combination of demand stimulus and strong export performance, the sudden demand meltdown plunged Southern member states into heavy recession. With interest rates on their public debt spiraling out of control, SE member states had to seek financial support from the ECB, and from the IMF in the case of Greece and Portugal. Backed by Germany and the other creditor countries, EU authorities conditioned their financial lifeline on the implementation of a series of measures aimed at achieving internal devaluation. The recipe for internal devaluation centered around massive public expenditure cuts, welfare downsizing, labor market deregulation, cuts to the statutory minimum wage, and collective bargaining flexibilization (Afonso 2019; Armingeon and Baccaro 2012; Bulfone and Tassinari 2021; Perez and Matsaganis 2019).

The idea behind internal devaluation was that the erosion of SE competitiveness was a direct consequence of excessive wage costs. From the perspective of European authorities and Northern member states, reducing unit labor costs (ULC) was expected to lower SE countries' inflation differentials vis-à-vis core eurozone member states (Perez and Matsaganis 2019; Scharpf 2016). The expected decrease in relative export prices would in turn restore the external competitiveness of SE economies, leading to an increase in net exports (Álvarez, Uxó, and Febrero 2019, 337–38). EU authorities argued that improved cost competitiveness was favorable to industrial upgrading, as employers could reinvest the extra profits resulting from lower wage costs to foster innovation (Cetrulo, Cirillo, and Guarascio 2019; Miró 2021) and the creation of good quality employment (Perez and Matsaganis 2019).

Leaving aside the dramatic social costs of internal devaluation in terms of reduced public spending and labor market deregulation, prominent contributors to the political economy debate seriously question the idea that these measures could succeed in bringing about an export reconversion of SE economies (Hall 2018). The export competitiveness of Northern economies, they argued, had never been premised solely on wage compression achieved via labor market deregulation and collective bargaining decentralization; it resulted instead from the combination of a centralized collective bargaining system, long-standing domestic institutions that promote industrial upgrading (Höpner and Lutter 2018; Nölke 2016), and high levels of private and public investment in education and innovation policies (Burroni, Pavolini, and Regini 2020). With its focus on austerity and labor market deregulation, the eurozone crisis response strategy for Southern Europe could be alternatively perceived as an attempt to move the SE model closer to the financialized domestic-demand-led strategy of the UK (Hall 2018). However, this convergence also seems unlikely since SE economies lack the general skill formation regime and the control over large financial centers that underpin the UK growth model. According to the literature, SE economies are equally ill-suited to follow the strategy of FDI-dependent export-led growth found in peripheral member states, as they lack the proximity to and institutional embeddedness with Germany of the Visegrad countries, the flexible labor market institutions, generous taxation, and strong emphasis on education of the Baltic states, and the ability to attract high value-added FDI of Ireland (Bohle 2018, 249–50). Consequently, CPE scholars observe a structural polarization in terms of technological capabilities (Gräbner et al. 2020) between the SE demand-led model and the Northern export-led model, which in turn leads to a “persistent, unsustainable divergence in trade and external lending” (Johnston and Regan 2016, 319) between the core and the Southern periphery. This divergence is likely to persist as the EMU, and the EU more generally, structurally favors the export-led economies of Northern member states or the FDI-dependent export models of the other peripheries, undermining the domestic-demand-led model (Johnston and Regan 2018; Nölke 2016, 146).

Given the lack of viable development pathways, many prominent contributors to the CPE debate argue that the attempt to force SE countries' convergence towards export-led growth is likely “to lead to electoral backlash in countries that cannot replicate a

(German) export growth model ideal” (Johnston and Regan 2018, 155), and thus question whether Northern and Southern member states could (and should) coexist as part of a common monetary union (Nölke 2016, 155–56; Scharpf 2016, 43–44).

Combining these insights from the literature on the long-standing features of SE capitalism with those from contributions focusing on the impact of the global financial crisis on the region, we develop three propositions that supposedly capture the main features of the SE trajectory according to the extant literature. In the empirical section, we will use granular descriptive statistics on the growth trajectory of SE economies to assess the extent to which these propositions are reflected in the data.

The first proposition pertains to the growth performance of SE economies within EMU in the aftermath of the eurozone crisis. Up until the crisis, these countries, with the exception of Italy, had achieved solid growth rates, reducing the income gap vis-à-vis Germany and other core economies by mainly relying on domestic demand. In this regard, there is agreement in the literature that prioritizing internal devaluation severely hampers the growth capacity of SE economies, contributing to deep recessions followed by a phase of economic decline, stagnation, or low growth (Armington and Baccaro 2012; Hall 2018; Johnston and Matthijs 2022, 121; Scharpf 2016, 25). The literature identifies three factors leading to this “competitive impoverishment” (Avlijas, Hassel, and Palier 2021, 406). ‘

First, the combination of fiscal consolidation, financial deleveraging, and wage restraint further depresses domestic demand, thereby depriving SE economies of their main growth factor (Avlijas, Hassel, and Palier 2021, 415–16; Hall 2018).

Second, internal devaluation is expected to further accelerate the ongoing process of deindustrialization (Nölke 2016). The consequent shrinking of the export base in turn further reduces the already limited scope to engineer an export-led recovery (Brazys and Regan 2017, 413; Scharpf 2016). Existing empirical studies corroborate this claim, finding the relationship between declining ULC and improved export performance to be tenuous at best, as the current account readjustment registered in SE economies was mainly due to a contraction in domestic demand and the resulting decline in imports (Herrero and Rial 2023; Kohler and Stockhammer 2022, 1323–24; Villanueva et al. 2020).

Third, the strategy of low-wage competition based on sectors like textile and clothing puts SE countries in direct competition with emerging economies like China and India, whose wage costs can hardly be matched (Burroni, Pavolini, and Regini 2020; Nölke 2016, 151).

Hence, political economists argue, SE economies are stuck in a bad eurozone equilibrium, having to operate as part of a macroeconomic system whose “narrow focus on austerity and cost competitiveness rules out a balanced growth path that allows for both export growth and wage-led growth (hence, balancing consumption and exports)” (Johnston and Regan 2018, 154). We summarize this in our first proposition, which can be (re-)

investigated now that the necessary data are available for an adjusted decomposition of aggregate demand for the inter-crisis decade (Baccaro and Hadziabdic 2024), as follows:

**Proposition 1:** The exhaustion of previously available domestic demand growth drivers and the (forced) turn to export-oriented growth leads to the emergence of unbalanced growth profiles and limits the growth performance of Southern European economies.

Our second proposition pertains to the capacity of SE economies to pursue upgrading and move towards a productive specialization in high value-added services and manufacturing activities since the eurozone crisis. According to the literature, the limited capacity to develop high value-added manufacturing and service activities is the most defining feature of the SE development trajectory (Amable 2003; Nölke 2016), and internal devaluation is likely to further aggravate this weakness for two reasons. First, austerity reduces the fiscal space for public investment in skill formation, higher education, and research and development (Hall 2018, 23–24). Second, labor market deregulation and collective bargaining decentralization reduce the incentives for productive investment by employers, therefore locking SE economies into a low-wage, low value-added export specialization in which tourism emerges as the employer of last resort (Bürgisser and Di Carlo 2023; Storm and Naastepad 2015, 971–73). In support of this view, Villanueva et al. (2020) find that internal devaluation did not improve export price competitiveness in Spain, but rather led to higher profit margins for employers<sup>1</sup> (Villanueva et al., 292). Similarly, Cetrulo, Cirillo, and Guarascio (2019) find that the diffusion of temporary employment has reduced the innovation capacity of manufacturing companies in France, Germany, the Netherlands, Italy, and Spain. This effect is particularly pronounced in Italy and Spain due to the larger diffusion of temporary contracts. Even if some increases in high value-added activities might occur because of internal devaluation, the literature argues, most of the productive structure of SE economies will be downgraded, thereby leading to further peripheralization (Gambarotto and Solari 2015, 806–7). The second proposition is hence:

**Proposition 2:** Southern European economies continue to be characterized by a limited capacity to produce high value-added service and manufacturing activities.

The third proposition concerns the quality of employment created in SE economies since the eurozone crisis. The literature notes that these economies have historically had a limited capacity to create employment, especially quality employment. According to prominent views in the political economy debate, the internal devaluation imposed after the crisis is likely to further aggravate these characteristics, because the austerity-driven downsizing of domestically oriented sectors (Scharpf 2016, 20), combined with

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1 This is in line with the view, shared by critical political economists, that internal devaluation should not be considered a project to trigger growth recovery, but rather a successful attempt to engineer a redistribution of income from labor to the owners of capital via a reduction of the wage share (Bieler, Jordan, and Morton 2019; Cioffi and Dubin 2016; Miró 2021).



the flexibilization of employment relations during an economic downturn, leads to net job destruction (Stockhammer 2016, 372), with limited scope for long-term employment recovery. Perez and Matsaganis (2019) find that internal devaluation has led to net job destruction across Southern Europe, even in countries that experienced an increase in the value of exports, such as Portugal and Spain. The authors argue that this may be because growing exports were generated in manufacturing sectors which are characterized by limited job creation potential. Perez and Matsaganis also observe a decline in the quality of employment, as job creation took place mainly in low value-added service sectors. While SE economies also experienced sustained employment growth in sectors such as information and communication and professional, scientific and technical services, the small size of these sectors limits their impact on economy-wide employment figures (Perez and Matsaganis 2019, 276–77). A study by Herrero, Cárdenas, and López Gallego (2020) uses regional Spanish employment data to show that labor market deregulation has not led to employment growth. Furthermore, the authors find that labor market deregulation and collective bargaining decentralization depress wage dynamics, creating a system in which there is high downward wage flexibility during recessions but limited wage growth during economic expansions (Herrero, Cárdenas, and López Gallego 2020, 25–26). These claims lead to our two-part third proposition:

**Proposition 3a:** Southern European economies continue to be characterized by a limited capacity to create employment, resulting in higher unemployment rates and fluctuations in employment levels.

**Proposition 3b:** Southern European economies continue to be characterized by a limited capacity for the creation of high-wage employment.

In this section, we have repeatedly emphasized the centrality of export-led, internal devaluation-driven growth strategies during the decade 2010–2019. Proponents in Brussels and other core eurozone capitals held it up as the only promising recovery strategy. Opponents were even more eager to demask and condemn it as futile. For this reason, when we evaluate our propositions in the remainder of the paper, we focus in particular on the role of export growth.

### 3 Data

We explore the evolution of SE growth models by discussing different types of growth decompositions for Spain, Greece, Italy, and Portugal. This approach is deliberately descriptive, as our main goal for this paper is to advance the theoretical and empirical debate on the political economy of SE growth by tracing the correspondence between granular data and theoretically derived propositions (see Table 1). The analysis is based on various data sources from the OECD and the ILO.

Table 1 Linking theoretical propositions and data indicators

	Proposition	Indicator(s)
1	The exhaustion of previously available domestic demand-led growth drivers and the (forced) turn to export-oriented growth leads to the emergence of unbalanced growth profiles and limits the growth performance of Southern European economies.	<ul style="list-style-type: none"> <li>– Import-adjusted growth contributions of final expenditure components.</li> <li>– Net exports conceived as difference between import-adjusted exports and the import content of domestic expenditures.</li> </ul>
2	Southern European economies continue to be characterized by a limited capacity to produce high value-added service and manufacturing activities.	<ul style="list-style-type: none"> <li>– Sectoral shares in value added and total hours worked.</li> <li>– Sectoral contributions (indirect &amp; direct) to growth in total exports (clustered by technology and knowledge intensity).</li> </ul>
3a	Southern European economies continue to be characterized by a limited capacity to create employment, resulting in higher unemployment rates and fluctuations in employment levels.	<ul style="list-style-type: none"> <li>– Export-related and non-export-related hours worked.</li> </ul>
3b	Southern European economies continue to be characterized by a limited capacity for the creation of high-wage employment.	<ul style="list-style-type: none"> <li>– Sectoral growth contributions to export-related working hours (clustered by technology and knowledge intensity).</li> <li>– Growth of export-related hours worked combined with average sectoral real hourly labor costs.</li> </ul>

First, we use the latest set of the OECD's harmonized national input-output tables (IOT). Conventional approaches to the decomposition of GDP growth overestimate the growth contributions of exports and underestimate those of domestic demand. IOT allow us to calculate import-adjusted components of final expenditure, which we use to discuss the demand-side composition of SE growth (see Appendix B).

We then move to a sectoral perspective to obtain a more nuanced view of the evolution of the growth trajectories of SE economies in relation to the propositions derived from the literature. The results should be a useful complement to existing work in the expanding growth model literature, which often emphasizes sectoral dynamics but has so far rarely relied on in-depth granular sectoral data of the kind discussed here. However, this was not the only reason for choosing an industry-based perspective. Alternative breakdowns such as categorizations of trade flows by product type are available, but one concern with these approaches is that they seem to limit the assessment of the role of services even more than the sectoral data sets we have chosen. Moreover, sectoral classifications are advantageous in that they allow us to easily integrate employment data and take advantage of ready-made input-output estimates that indicate the indirect linkages of sectors to trade. A remaining limitation of sectoral data, however, is that they are a perspective that inevitably misses intra-sectoral heterogeneity.

The OECD's TiVA database provides readily available information on the sectoral origin of global value added. We use this information to estimate a sectoral export indicator that accounts for both direct sectoral exports and indirect exports, i.e., the value added that is used as an input for the exports of another sector (see Appendix C). OECD STAN provides additional estimates of industry-level developments, including em-



ployee compensation. Finally, because STAN does not provide labor data for all the years and sectors we need, we also rely on ILO data for employment and hours worked. We merge ILO, STAN, and TiVA data to estimate sectoral indicators of export-related hours worked (see Appendix D). In combination, these data sources provide the basis for growth decompositions that allow us to discuss the sectoral patterns of export growth in terms of value added and hours worked. Finally, to further contextualize and assess the “quality” of export-related growth, we aggregate sectors to account for the knowledge intensity of services and the technology level of manufacturing. We also show changes in hours worked relative to sectoral labor compensation.

#### **4 The growth composition of Southern European economies since the Great Recession**

In this section, we present an initial analysis of the trajectories of the SE growth models. This first part of our analysis concerns macroeconomic growth patterns and addresses two questions related to the first proposition identified in our theoretical section: Has the forced turn to export-oriented growth led to the emergence of unbalanced growth profiles, thereby limiting the growth performance of SE economies? Are there cross-country differences in the dominant growth drivers of the SE economies?

Figure 1 shows GDP growth decompositions in SE economies for three different periods, along with data from four other European economies (for annual growth rates, see Appendix E). In line with Baccaro and Hadziabdic (2024), we base these decompositions on import-adjusted final expenditure components.<sup>2</sup>

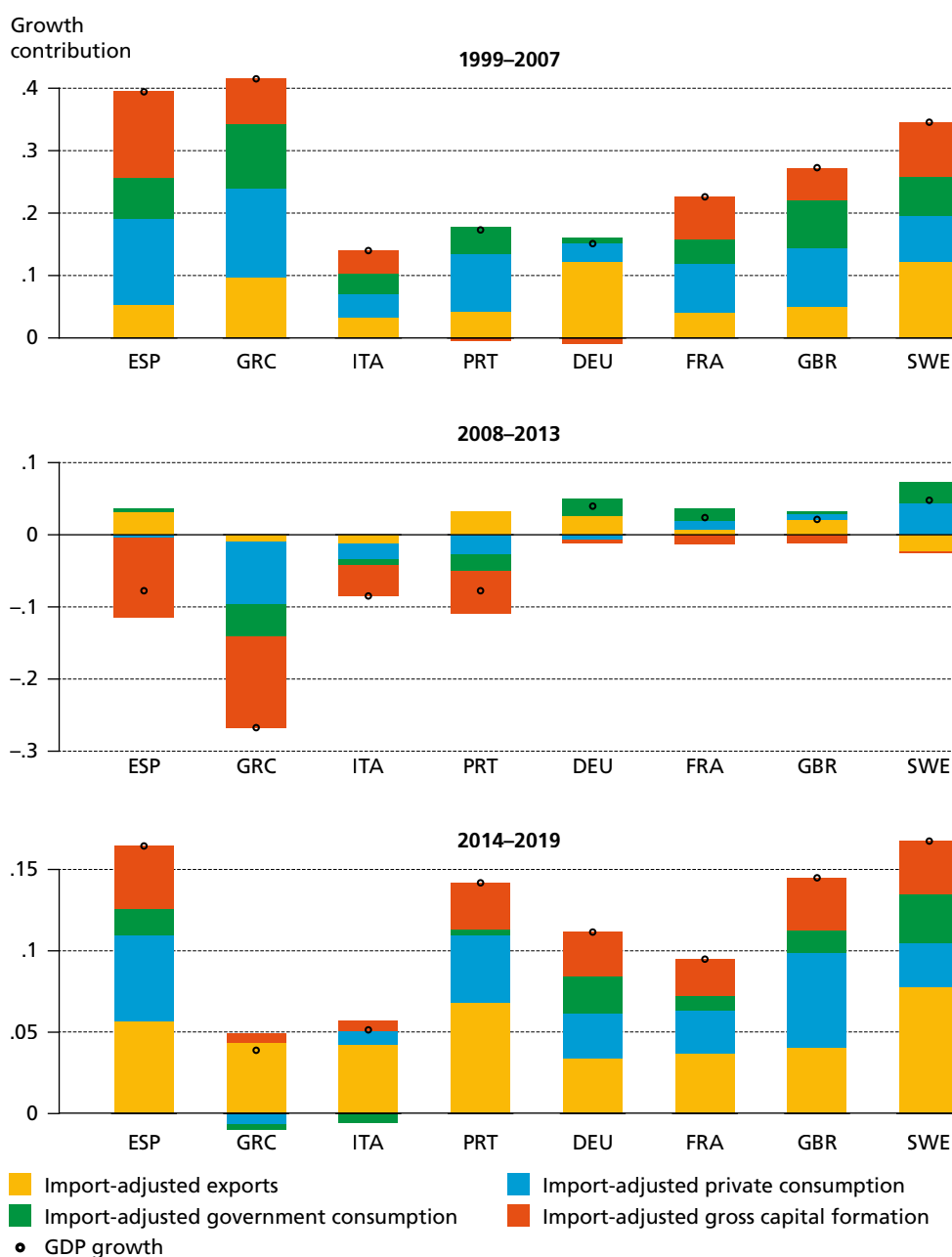
All four SE countries show a return to positive growth rates from 2014 onwards, although Greece contracted again in some years. But there are also clear signs of divergence between the SE economies. While overall growth rates remained weak in Italy and especially in Greece, GDP growth in Portugal and Spain was relatively strong in the second half of the 2010s. The latter two economies grew faster than Germany and France. However, this “positive” performance should not be read too optimistically. Given the depth of the previous recession, the recovery is insufficient to restore pre-crisis standards.

Across the four SE economies there is a visible reorientation towards import-adjusted exports as the main component of demand. During the financial crisis and the peak of the eurozone crisis (2008–2013), exports already accounted for marginal growth, while domestic demand collapsed. Thereafter, the contribution of exports to growth has been

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2 The conventional method, which uses net exports instead of adjusting all demand categories by their respective import content, systematically underestimates the weight of exports and overestimates the contributions of domestic components (see Appendix B for details).

Figure 1 Decomposition of GDP growth into final demand components, 1999–2019

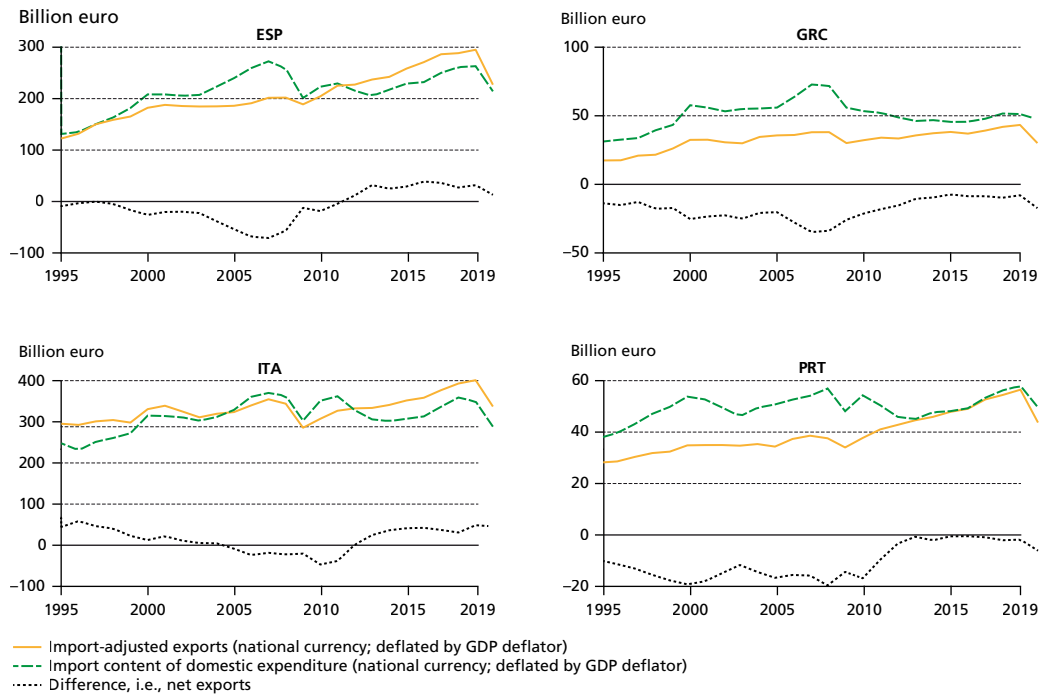


Source: Own calculations based on OECD (2023b; 2023c).

positive and substantial, exceeding the contribution of exports in Germany, France, and the United Kingdom.

Private household consumption started to pick up again after around 2014 – very modestly in Italy, more robustly in Portugal, and most strongly in Spain. Towards the end of the decade, investments returned as a notable growth factor in Spain and Portugal. Both

Figure 2 Import-adjusted exports and import content of domestic expenditures, in billion euros (2015)



Source: Own calculations based on OECD (2023b; 2023c).

trends point towards a pattern of rebalancing. All in all, turning to foreign demand seems to have worked best in Portugal and Spain, but ultimately it was the return of domestic demand as a contributor to growth that helped the two Iberian economies to clearly outperform Italy and Greece.

Baccaro and Hadziabdic (2024, 1337) classify the growth models of Spain, Portugal, and Italy as strongly export-led in 2009–2018. Greece contracted and was therefore not classified. Our data suggest that, based on the same thresholds, both Italy and Greece were strongly export-led in 2014–2019. Portugal was export-led, but not overwhelmingly so. Arguably, it was mainly the small growth contribution from government consumption that prevented it from being classified as a balanced model. Spain in fact had a balanced growth profile based on the selected criteria.

The patterns of adjustment are also evident from the evolution of net exports over time. Figure 2 plots net exports, calculated as the difference between import-adjusted exports and the import content of domestic expenditure. This presentation shows more clearly than the conventional presentation of exports and imports how the trade balance is affected by changes in imports for final domestic demand. Trade deficits shrank in all four countries. In Spain and Italy, net exports turned positive, and in Portugal they were close to balance in the late 2010s. In all four countries, but especially in Greece, the rebalancing was supported by a notable (temporary) decline in imports for domestic use

(Álvarez, Uxó, and Febrero 2019; Villanueva et al. 2020). In Spain, Italy, and Portugal, the growth of import-adjusted exports was also an important factor, allowing these countries to prevent a return to pre-crisis deficits even as imports regained momentum.

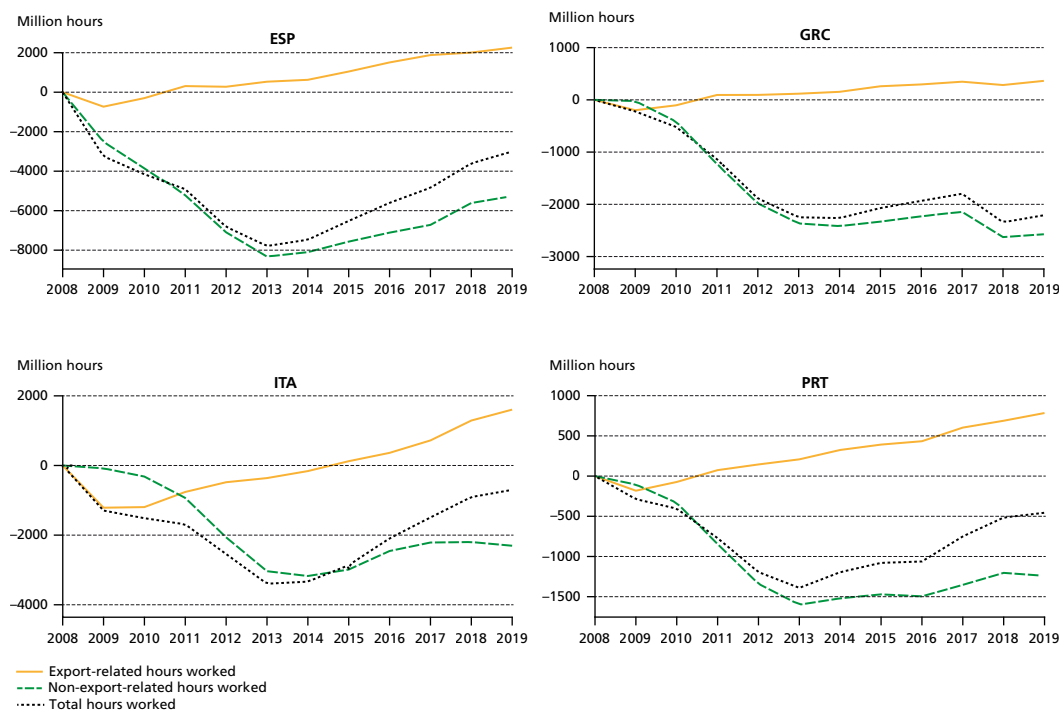
The final indicator we consider to assess the relevance of exports in driving recoveries is their impact on employment dynamics. This also relates to proposition 3a, according to which SE economies are characterized by a long-standing limited capacity to create employment, resulting in substantial unemployment rates and fluctuations in employment levels. Based on TiVA data, we calculate for each sector the share of value added that is exported directly or indirectly, i.e., as an input for exports of other sectors (Appendix C). We combine the results with ILO data on hours worked, assuming that if  $x$  percent of a sector's value added goes to exports, then  $x$  percent of the hours worked in that sector are export-related (Appendix D).<sup>3</sup> We do this at the most detailed available sector level and subsequently calculate broader aggregations, such as those displayed in Figure 3, based on subsector values. This means that the values take into account differences in sectoral labor intensity – as far as the available sectoral breakdown allows. It also means that changes in the number of hours related to foreign demand could occur either because a sector added total hours or because existing hours were reclassified as export-related due to increased export intensity.

Figure 3 shows the changes over time in the absolute number of hours worked to satisfy domestic and foreign demand. The sharp decline in hours producing for domestic demand is striking in all four countries and provides a clear illustration of the negative effects of a process of “forced structural convergence” (Scharpf 2021, 183–85). Both job destruction and a shift to involuntary part-time work are likely to have played a role in this development. Overall, the data support the findings of Perez and Matsaganis (2019). In all four countries, there was some export-related job “creation” in the immediate aftermath of the financial crisis, but it was nowhere near enough to compensate for the continuous loss of hours dependent on domestic demand. This distinguishes the SE cases from an economy such as Germany in 1995–2005, where the increase in export-related hours was almost sufficient to offset the decline in hours sustained by domestic demand (see Appendix E). In the Southern European countries, it was only after 2013, when domestic activity picked up, that the total number of hours worked started to rise again. In Greece, this upturn was rather limited and took another hit in 2018. But even in Spain, Italy, and Portugal, the balance of total hours worked was still negative at the end of the period. All in all, the reorientation towards exports thus seems to have contributed to some of the observed employment recoveries, but it could not make up

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3 The OECD Trade in Employment (TiM) database provides very similar indicators (<https://www.oecd.org/en/data/datasets/trade-in-employment.html>). Our first estimation attempts preceded the availability of the TiM 2021 edition and we decided to stick with our approach because the TiM database focuses on employment numbers rather than hours worked. We prefer the latter because total employment numbers do not account for part-time employment – a limitation we suspect to be of considerable effect particularly in SE economies.

Figure 3 Absolute growth of export-related and non-export-related hours worked since 2008



Source: Own calculations based on ILO (2023) and OECD (2023d; 2023e).

the ground lost during the crisis-induced recessions. This raises the crucial question in relation to proposition 3b of what kind of export-dependent jobs have been created. We return to this issue below.

Overall, this first part of our empirical analysis confirms the export reorientation of SE growth models in the crisis and post-crisis period. However, developments are heterogeneous across countries and point to emerging divergences within the SE cluster. Portugal and Spain show broadly similar developments. In both countries, the remarkable export growth of 2010–2013 was not enough to boost overall economic growth. In 2014–2019, they experienced decent overall growth rates, which were still much more dependent on external demand than in the pre-crisis years but also included significant shares from private consumption and investment (and very little government consumption, especially in Portugal). The somewhat more balanced later growth trajectories of Spain and, to some extent, Portugal are not fully in line with the expectations underlying the first proposition.

By contrast, the trajectories of Italy and Greece do meet the expectations of the literature. Their limited post-crisis recoveries have been almost entirely export-led. Italy's problems within the euro area thus seem to lie not in its export performance, which has been relatively good, as reflected also in the sizable labor productivity gains made in the manufacturing sector in the post-crisis period (Giordano and Zollino 2021, 754–55),

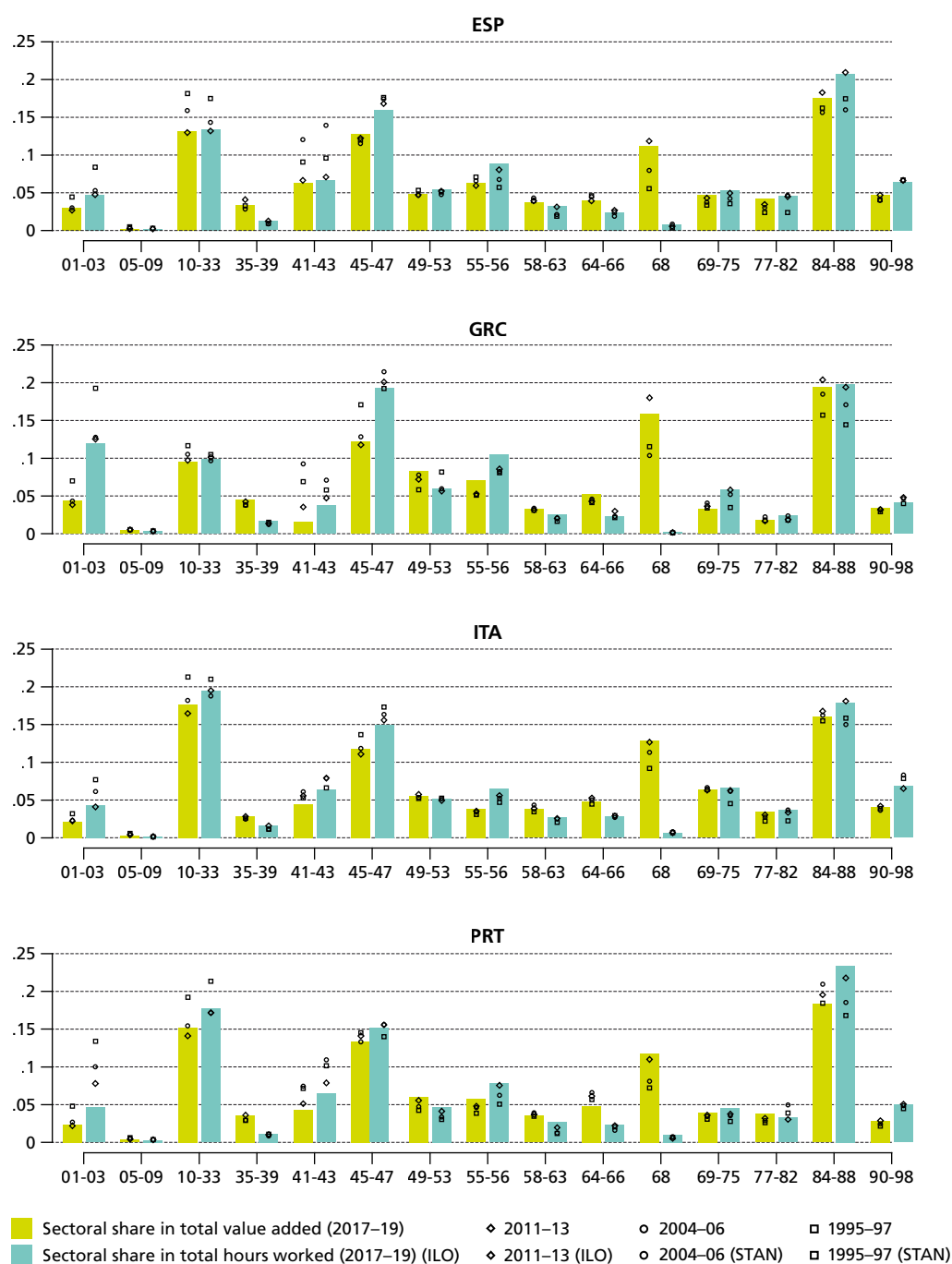
but in the failure of domestic demand, which was already relatively weak, to recover in the post-crisis period – a result of the combined and persistent effects of austerity and extreme wage moderation. This points to a potentially fatal flaw in the policy orthodoxy pursued by Italian and European policymakers alike in the post-crisis period, which focused on achieving “internal devaluation” and promoting external cost competitiveness. Greece, for its part, also stands out because the severity of the crisis years meant that the marginal, exclusively export-dependent post-crisis growth was insufficient to restore pre-crisis economic activity, as illustrated by the strikingly persistent loss of working hours. In terms of employment, all countries seem to conform to the expectations of proposition 3a, as they all showed a dynamic of pro-cyclical net job destruction and a very limited capacity to recover based on export-related employment. Confirming the pro-cyclical pattern of employment fluctuations, Spain, Italy, and Portugal showed a delayed but notable resurgence of domestically oriented working hours – even if they could not fully recover the crisis-related employment losses by 2019.

## **5 No land for high value-added activities? A sectoral perspective on export and employment dynamics in Southern Europe**

To better understand the growth trajectories of SE economies beyond headline figures, we move to a sectoral perspective, focusing on the sectoral make-up of exports and employment creation. Identifying key sectors – in this case industries contributing significantly to GDP growth and to export performance in particular – is central from the analytical standpoint of growth model theory (Baccaro and Pontusson 2023). Identifying changes and continuities in the sectoral composition of SE economies and their export profiles also helps to put their recovery (or stagnation) into historical perspective and to assess the extent to which the recovery is path-dependent or rather dependent on new emerging sectoral drivers. In this section, therefore, we address the question of which sectors have underpinned the “positive” performance of exports in the SE economies.

Figure 4 shows the overall sectoral composition of the four SE economies in 2017–2019 (bars), as well as in three earlier selected periods (markers). As this is mainly intended to provide background context, we offer only a few general remarks to facilitate interpretation: Manufacturing (10-33) remains a non-negligible sector in the region, especially in Italy, followed by Portugal. Greece’s manufacturing shares of both value added and hours worked are much lower. In contrast, the primary sector (01-03) remains much more important in Greece, especially in terms of hours worked. Portugal, Greece, and especially Spain experienced massive declines in their construction sectors. While the “public” sectors (84-88: public administration, defence; education and health) remains highly relevant and has been increasing its relative weight in SE economies, the most central private service sector in the region has arguably been wholesale and retail trade (45-47, including repair of motor vehicles). Real estate activities (68) also stand

Figure 4 Sectoral shares in total value added and total hours worked



01-03: Agriculture, hunting, forestry and fishing; 05-09: Mining and quarrying; 10-33: Total Manufacturing; 35-39: Electricity, gas, water supply, sewerage, waste and remediation activities; 41-43: Construction; 45-47: Wholesale and retail trade; repair of motor vehicles; 49-53: Transportation and storage; 55-56: Accommodation and food service activities; 58-63: Information and communication; 64-66: Financial and insurance activities; 68: Real estate activities; 69-75: Professional, scientific and technical activities; 77-82: Administrative and support services; 84-88: Public administration, defence; education and health; 90-98: Other social and personal services.

While the ILO and OECD STAN databases work with similar concepts of hours worked, comparison across datasets must proceed cautiously.

Source: Own calculations based on ILO (2023) and OECD (2023d).



Table 2 Sectoral contribution (indirect and direct) to growth in total exports (percentage points); Spain and Portugal

	Spain				Portugal			
	2004–06 to 2017–19	2011–13 to 2017–19	2004–06 to 2017–19	2011–13 to 2017–19	2004–06 to 2017–19	2011–13 to 2017–19	2004–06 to 2017–19	2011–13 to 2017–19
	Growth contr.	Net grw. contr.	Growth contr.	Net grw. contr.	Growth contr.	Net grw. contr.	Growth contr.	Net grw. contr.
Agriculture, hunting, forestry and fishing	2,71	0,28	1,44	0,31	1,00	-0,50	0,92	0,30
Mining and quarrying	0,31	-0,02	0,17	0,02	0,08	-0,59	0,00	-0,30
Food products, beverages and tobacco	2,50	1,06	0,55	-0,39	2,26	1,22	0,88	0,16
Textiles, textile products, leather and footwear	1,02	-0,17	0,38	-0,20	1,51	-2,15	1,12	-0,49
Wood and paper products and printing	0,12	-1,02	0,15	-0,28	0,04	-2,25	0,41	-0,46
Chemicals and non-metallic mineral products	2,42	-2,54	1,89	-0,02	2,73	-0,90	1,70	-0,02
Basic metals and fabricated metal products	1,62	-1,03	1,07	0,00	2,29	0,67	0,91	-0,06
Computer, electronic and electrical equipment	-0,12	-1,44	0,29	-0,11	-1,06	-3,04	0,32	-0,20
Machinery and equipment, n.e.c.	0,38	-0,68	0,23	-0,20	0,23	-0,55	0,24	-0,08
Transport equipment	0,23	-3,66	1,22	0,01	1,29	-1,74	1,33	0,11
Manuf. n.e.c.; repair & installation of machinery and equipment	0,85	0,04	0,31	-0,10	1,06	-0,05	0,70	0,17
Electr., gas, water supply, sewerage, waste & remediation act.	2,01	0,18	0,04	-1,08	2,48	1,13	0,75	-0,20
Construction	0,51	-0,70	1,10	0,81	-0,06	-0,83	0,08	-0,21
Wholesale and retail trade; repair of motor vehicles	11,99	2,88	3,75	-1,30	9,51	-0,14	2,46	-3,18
Transportation and storage;	4,83	-1,31	2,32	-0,44	8,59	3,14	3,62	0,32
Accommodation and food service activities	2,54	0,43	1,69	0,79	6,23	3,23	4,50	3,03
Publishing, audiovisual and broadcasting activities	0,29	-0,37	0,32	0,08	0,33	-0,05	0,17	-0,03
Telecommunications	0,02	-1,10	-0,11	-0,58	-0,25	-1,37	-0,10	-0,55
IT and other information services	3,01	2,05	1,37	0,72	2,66	2,33	1,52	1,19
Financial and insurance activities	1,09	-1,42	0,29	-0,82	0,10	-2,90	0,00	-1,31
Real estate activities	3,71	2,54	1,12	0,18	2,32	1,07	1,27	0,55
Professional, scientific and technical activities	3,64	0,41	2,05	0,58	3,06	0,93	1,44	0,22
Administrative and support services	5,48	3,15	2,68	1,33	4,88	2,99	2,33	1,04
Public admin, defence; education and health	3,29	2,02	1,09	0,20	1,28	0,07	0,55	-0,11
Other social and personal services	1,52	0,43	0,96	0,47	0,77	0,29	0,38	0,10
Total Manufacturing	9,03	-9,43	6,08	-1,28	10,35	-8,79	7,60	-0,87
Total Business Sector Services	36,61	7,24	15,48	0,54	37,43	9,21	17,21	1,29
Total	55,99	0,00	26,36	0,00	53,34	0,00	27,50	0,00

Source: Own calculations based on OECD (2023c; 2023d; 2023e).

out for their significant share in value added – at very low labor intensity. Accommodation and food service activities (55-56), on the other hand, are not as large as might be anticipated given the expectation that tourism is a prominent engine of growth in the region (Bürgisser and Di Carlo 2023). Nevertheless, the size of the hospitality sector is substantial by international standards, and the sector has become more important in terms of employment and value added in both Greece and Portugal.

Next, we consider the sectoral composition of exports and export growth. Tables 2 and 3 show the sectoral contributions (direct and indirect) to the growth of total exported value added over the period between the pre-crisis years 2004–06 and 2017–19 and the subperiod after 2011–13. The color scheme highlights the lowest (red) and highest (green) values in each column. The first column for each country-period combination shows the absolute growth contribution. For example, all manufacturing industries together contributed about 9 percentage points to the growth of total Spanish exports between 2004–06 and 2017–19. The second column shows what we call the net growth contribution, which is the contribution below or above what would have been expected based on a sector's export share in the base period. For example, total manufacturing contributed 9.4 percentage points less to the growth of total Spanish exports between 2004–06 and 2017–19 than would have been expected based on the sector's export share in 2004–06. In other words, manufacturing exports grew, but at a much lower rate than

Table 3 Sectoral contribution (indirect and direct) to growth in total exports (percentage points); Italy and Portugal

	Italy				Greece			
	2004–06 to 2017–19		2011–13 to 2017–19		2004–06 to 2017–19		2011–13 to 2017–19	
	Growth contr.	Net grw. contr.	Growth contr.	Net grw. contr.	Growth contr.	Net grw. contr.	Growth contr.	Net grw. contr.
Agriculture, hunting, forestry and fishing	0,25	-0,11	0,53	0,23	1,37	0,51	0,98	-0,16
Mining and quarrying	-0,16	-0,28	-0,18	-0,30	0,66	0,55	0,05	-0,21
Food products, beverages and tobacco	0,90	0,60	0,65	0,32	1,79	1,31	1,16	0,43
Textiles, textile products, leather and footwear	0,26	-0,54	0,72	0,04	-1,49	-1,92	-0,13	-0,37
Wood and paper products and printing	-0,13	-0,49	0,14	-0,16	-0,65	-0,90	0,08	-0,08
Chemicals and non-metallic mineral products	1,04	-0,40	1,64	0,36	1,95	1,14	0,35	-0,98
Basic metals and fabricated metal products	1,04	-0,18	1,22	0,07	-0,66	-1,44	0,66	-0,03
Computer, electronic and electrical equipment	0,07	-0,63	0,57	-0,02	-0,06	-0,25	0,14	-0,06
Machinery and equipment, n.e.c.	1,81	0,63	1,38	0,17	-0,14	-0,29	0,14	0,02
Transport equipment	0,98	0,28	1,42	0,82	-0,44	-0,58	-0,18	-0,30
Manuf. n.e.c.; repair & installation of machinery and equipment	0,79	0,39	0,59	0,18	0,43	0,32	0,15	-0,05
Electr., gas, water supply, sewerage, waste & remediation act.	0,76	0,31	-0,09	-0,67	0,73	0,19	0,32	-0,42
Construction	-0,32	-0,61	0,13	-0,07	-1,76	-2,15	-0,23	-0,37
Wholesale and retail trade; repair of motor vehicles	2,91	-0,35	2,15	-1,12	3,35	0,94	3,12	0,07
Transportation and storage;	2,00	0,38	0,45	-1,39	0,51	-3,86	5,37	1,00
Accommodation and food service activities	0,30	-0,29	0,82	0,34	2,94	1,71	3,82	2,46
Publishing, audiovisual and broadcasting activities	-0,16	-0,30	0,05	-0,05	-0,11	-0,23	0,05	-0,06
Telecommunications	-0,25	-0,58	0,09	-0,17	-0,43	-0,80	0,24	-0,07
IT and other information services	0,55	0,25	0,64	0,37	0,80	0,73	0,55	0,40
Financial and insurance activities	1,38	0,55	0,62	-0,31	1,84	1,04	0,92	-0,26
Real estate activities	0,96	0,25	0,47	-0,30	4,66	3,83	1,55	-0,14
Professional, scientific and technical activities	0,05	-1,50	1,12	-0,17	1,04	0,26	0,17	-0,98
Administrative and support services	1,49	0,84	1,13	0,44	-0,57	-1,16	0,23	-0,32
Public admin, defence; education and health	1,70	1,55	1,43	1,24	1,03	0,74	0,87	0,48
Other social and personal services	0,45	0,24	0,37	0,15	0,57	0,30	0,37	0,00
Total Manufacturing	6,77	-0,34	8,34	1,79	0,73	-2,60	2,36	-1,42
Total Business Sector Services	9,23	-0,76	7,55	-2,36	14,03	2,46	16,04	2,11
Total	18,68	0,00	18,07	0,00	17,35	0,00	20,77	0,00

Source: See Table 2.

average, and thus lost ground as a key export sector. This indicator can therefore be used to quickly identify sectors that are gaining in importance and those that are underperforming compared to the average.

Exports from Spain and Portugal grew much faster than those from Greece and Italy, especially over the period as a whole. The primary sector made a non-negligible contribution to export growth in Spain, Greece, and Portugal, which is consistent with the fact that food processing was often a relatively strong manufacturing sector (see below). The utilities sector (gas, water, etc.) was relevant in all four economies but does not seem to have been a net positive in the post-crisis subperiod. Contributions to growth from construction were insignificant in Italy and Portugal but markedly negative in Greece and markedly positive in Spain's post-crisis trajectory (perhaps a sign of unused expertise seeking international projects). The notable contributions to export growth from the "public" sectors and the real estate sector may seem somewhat unexpected. Partly it can be explained by the large relative size of these sectors and by our export indicator including indirect contributions to exports. However, both sectors also recorded non-negligible amounts of direct exports. In the case of real estate, this may be related to attractive investment opportunities and the sale and rental of vacation homes to foreigners.

Total manufacturing contributed positively to export growth in all cases. In Italy, it accounted for very substantial shares of growth in both periods. In Portugal and Spain, the sector's contributions were particularly important in the later subperiod, while Greek manufacturing exports grew modestly throughout. However, it is important to note that the only observation of positive net contributions was the latter period in Italy. Otherwise, manufacturing as a whole grew at a below-average rate and thus consistently lost ground as a major export driver.

In Spain, the largest export growth contributions within manufacturing came from "food products, beverages and tobacco," "chemicals and non-metallic mineral products," and "basic metals and fabricated metal products." Only the first industry, however, grew at an above-average rate over the whole timeframe. In the post-crisis period, "transport equipment" contributed most, in addition to the chemical industries and the metalworking sector. But the average post-crisis growth performance of the transport equipment industry was not nearly enough to alter the fact that it accounted for the worst net contribution across the full period. In Portugal, the chemical industry accounted for the largest export growth contributions, especially after the crisis, when it grew at a pace close to the economy-wide average. "Food products, beverages and tobacco" and "basic metals and fabricated metal products" were sizable and neutral to positive net contributors in both periods. "Textiles, textile products, leather and footwear," "wood and paper products and printing," and "computer, electronic and electrical equipment" stood out in terms of their negative net contributions. As in Spain, "transport equipment" performed decently post-crisis but remained a net laggard over the whole timeframe. In Italy, manufacturing was of largest relative importance. "Machinery and equipment, n.e.c." followed by "chemicals and non-metallic mineral products," "basic metals and fabricated metal products," "transport equipment," and "food products, beverages and tobacco" were leading sectors. The latter showed noteworthy positive net contributions in the later subperiod. In Greece, only the food and tobacco industry and the chemicals sector made a considerable positive contribution to growth. The latter nevertheless remained far below expectations in the post-crisis phase.

Turning to services, "wholesale and retail trade; repair of motor vehicles" was one of the main drivers of export growth in all countries, but especially in Spain. This slowed down somewhat in the post-crisis period, when net contributions were negative, with the exception of Greece. "Transportation and storage" was also a key export sector. While its importance declined in Spain and Italy after the crisis, it was a consistently important contributor in Portugal. In Greece, curiously, it seems to have grown well below average during the crisis but partially recovered thereafter. "Administrative and support services," which also tends to accumulate rather low-end services, played an important role in Spain and Portugal, showing well above-average growth. In Italy, the trend was less pronounced but positive, while in Greece the sector had a negative impact on export growth. Meanwhile, hotels and restaurants ("accommodation and food service activities") made a positive and dynamic contribution to growth, especially in Portugal and Greece. In these two countries, it was clearly a major export driver, in line

with the notion of tourism-based export-led growth. In Spain and post-crisis Italy, the sector developed positively but in absolute terms did not match the Greek and Portuguese contributions to growth.

Among sectors which tend to be classified as more high-end services, the contribution of IT-related services to exports grew at an above-average rate in all four countries, especially in Spain and Portugal. In the latter two economies, “professional, scientific, and technical activities” also had a significant positive impact, although it did not grow quite as fast. The opposite was the case in Italy and post-crisis Greece. “Financial and insurance activities” contributed moderately to export growth in Spain, Italy, and Greece but not in Portugal. In none of the countries did this category grow faster than the general rate.

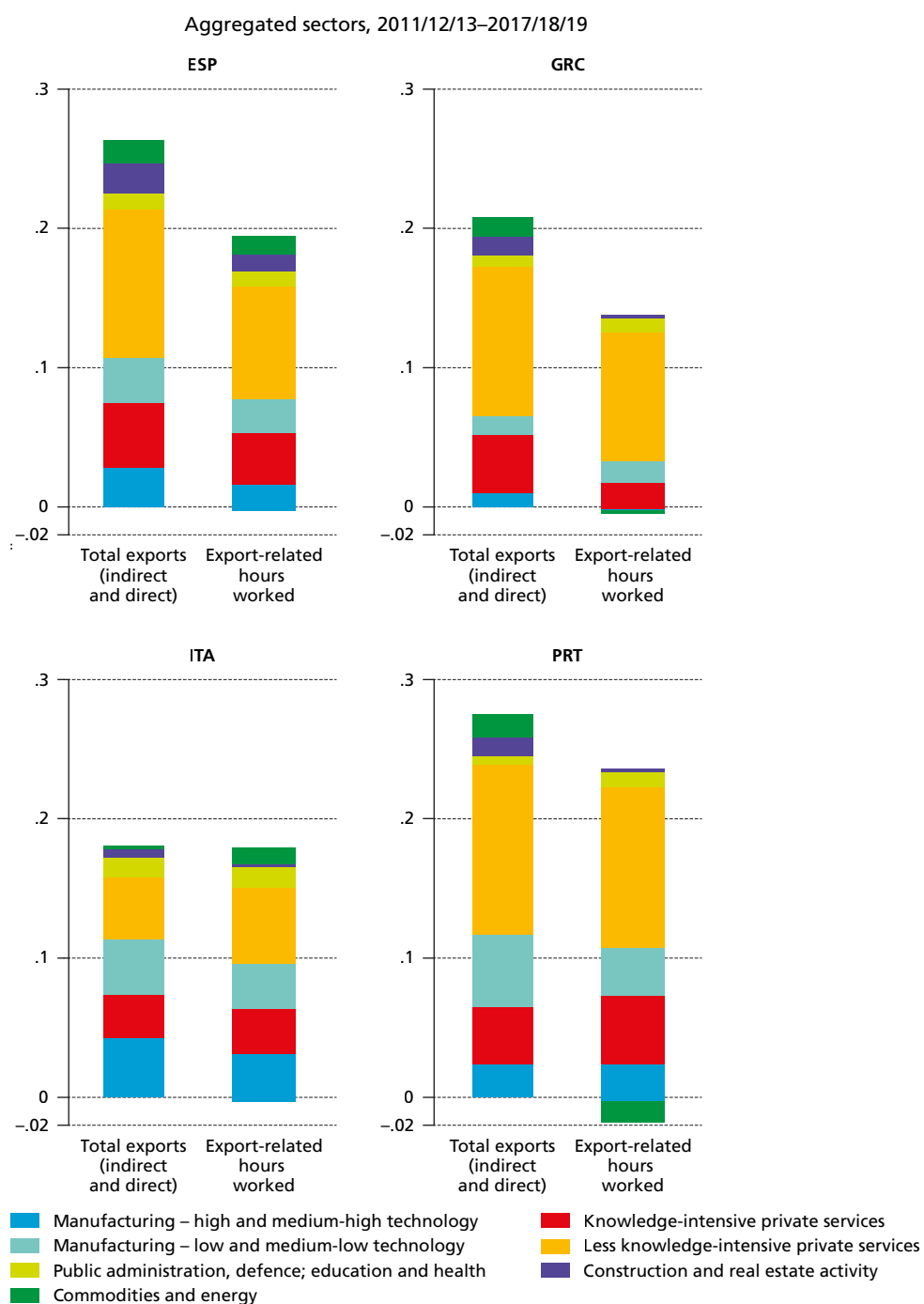
Taken together, the findings underscore the picture of *heterogeneity* in the export performance of these countries, as well as the cross-country divergence among the SE economies. On the one hand, we see Spain and Portugal following a broadly similar, cautious “Iberian path” towards a temporary export-led, mostly service-oriented recovery. The stabilization of industrial export growth at the economy-wide level meant that manufacturing also played a significant role in export growth in the post-crisis period. But we have not found convincing evidence that export-led strategies have led to significant reindustrialization in Spain and Portugal. Instead, services have largely driven export growth. Sectoral patterns suggest that this dynamic involved both low-end and high-end services. We explore this further below.

The trajectories of Italy and Greece point in different directions. In Italy, manufacturing continued to be of greater relative importance and in fact boosted export growth after the crisis. However, this must also be seen as a sign of conspicuously weak export impulses from the service sectors (including tourism), which do not seem to show the emergence of a service-based export dynamic as in Spain and Portugal. In this respect, export recovery in Italy seems to be driven by the redeployment of old export legacies rather than by the cultivation of new export niches. Finally, in Greece, manufacturing played a very limited role in export growth. The positive growth contributions from services seem to have come mainly in the later subperiod.

Interestingly, and partly in contrast to the findings of Bürgisser and Di Carlo (2023), we find that tourism-related activities such as food, accommodation, and transport services were prominent only in Portugal and Greece.

These sectoral breakdowns already relate to the propositions about Southern Europe’s limited capacity to compete in high value-added services and manufacturing activities (2) and to create related high-wage employment opportunities (3b) by embarking on export-oriented recovery paths. For ease of interpretation, we subsequently group industries into seven aggregate sector clusters. Based on Eurostat categorizations, manufacturing is divided into two groups according to technological level of production (high and medium-high vs. low and medium-low technological intensity); and private

Figure 5 Knowledge intensity and technological intensity: Sectoral contributions to growth in exported value added and hours worked



Source: Own calculations based on ILO (2023) and OECD (2023c; 2023d; 2023e).

service sectors are split into two clusters according to their associated knowledge intensity (knowledge-intensive vs. less knowledge-intensive). “Public administration, defence; education and health” is taken as a singular cluster indicative of the role of the public sector. Commodity- and energy-related sectors, such as agriculture, mining, or electricity and gas supply, are considered as the sixth cluster. Finally, real estate activities are grouped with construction rather than other services to form a proxy for the construction-housing nexus. For more details and sources, see Table 6 in Appendix A.

Figure 5 shows the clusters’ contributions to the growth of export-related value added and hours worked between 2011–13 and 2017–19 averages. Knowledge-intensive services (red) and high-tech manufacturing (dark blue) are grouped together to illustrate the cumulative weight of services and manufacturing activities that contribute to pursuing a “high road” to economic growth (cf. Burroni, Pavolini, and Regini 2020).

The values presented imply that the growth of SE exports was very strongly linked to the growth of less knowledge-intensive private services, confirming proposition 2. In Spain, Portugal, and Greece, this cluster accounted for the lion’s share of additional export value added and recorded the largest number of additional or reclassified export-related hours worked. The same cluster also took the lead in Italy, but by a much smaller margin. Knowledge-intensive services made noticeable contributions to export growth in all four economies but did not come close to the weight of less knowledge-intensive services.

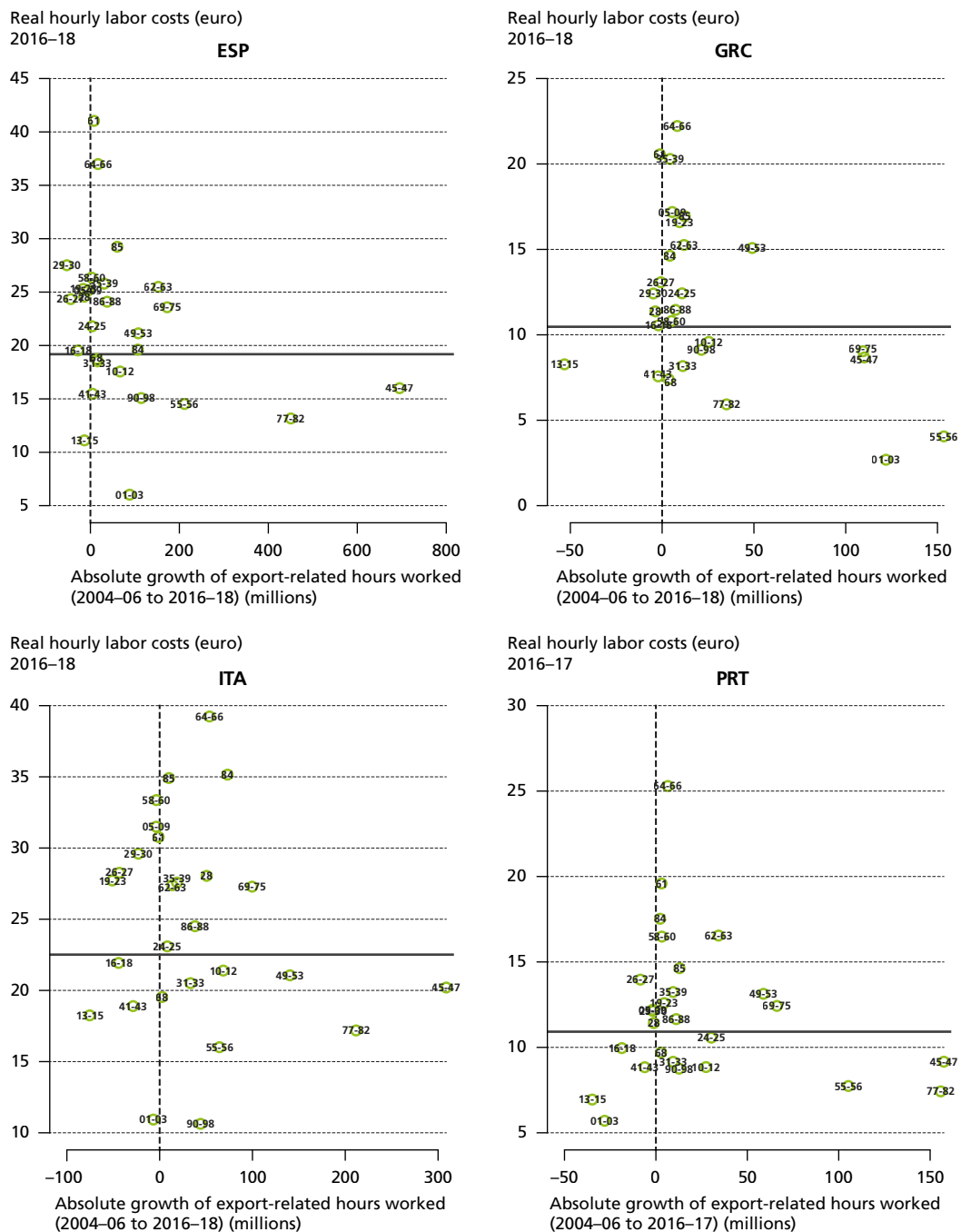
As expected, Greek manufacturing, especially the high and medium-high technology sectors, contributed very little to export growth. But Portuguese or Spanish export growth was clearly not driven by high-tech manufacturing either. Not only were the cluster contributions (much) lower than those of the private services clusters, but they were also overtaken by low to medium-low technology manufacturing. High-tech manufacturing contributed slightly more to export growth than low-tech manufacturing only in Italy. Combined with the comparatively sluggish growth of low-end services, the relative composition of export growth thus looked somewhat more promising than in the other three economies. As outlined above, Italy’s problem was rather the lack of other growth sources to complement these developments. The absolute size of the growth contributions from knowledge-intensive services also suggests a less dynamic development than in the other SE economies.

Finally, Figure 6 presents scatter plots through which we aim to illustrate the labor income opportunities associated with export growth, thus relating to proposition 3b (see Perez and Matsaganis 2019, 268–73). The absolute change in export-related hours relative to pre-crisis levels is plotted on the x-axis. The estimation procedure is equivalent to the one used in the previous section but in this case with OECD STAN data on hours worked.<sup>4</sup> A measure of employees’ average sectoral labor compensation per hour in

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4 In the previous section, ILO data were used to extend the presentation of the evolution of total export-related hours worked to 2019.

Figure 6 Absolute growth of export-related hours worked (2004–06 to 2016–18) over average sectoral real hourly labor costs in 2016–18



Labor costs in euros, CPI-deflated, base year: 2015. For a legend of sector codes see, Appendix A.  
The bold horizontal line marks the economy-wide average hourly labor costs.  
Source: Own calculations based on OECD (2023a; 2023d; 2023e).

2016–18 (2016–17 for Portugal) is plotted on the y-axis. This indicator is derived from OECD STAN by dividing labor compensation of employees (i.e., wages plus additional supplements paid by employers, such as social security contributions) by employees'



hours worked.<sup>5</sup> The solid horizontal lines in the graphs show the economy-wide average hourly labor costs. We suggest that an increase in working hours above the horizontal line (upper-right quadrant) indicates export-induced growth in high-wage employment, while markers in the lower-right quadrant indicate that catering to foreign demand promotes employment in relatively low-wage industries. The upper-left quadrant also appears to be undesirable, implying that exports have been less supportive of above-average wages than before the crisis. A concentration of observations in the latter two quadrants would thus support claims about the limited capacity of SE economies to create high-wage employment opportunities (proposition 3b).

Some sectors did indeed fall into the advantageous upper-right quadrant. Working hours in “transportation and storage” (49-53) increased significantly and attracted above-average pay in Greece and Portugal. “IT and other computer services” (62-63) and “professional, scientific and technical activities” (69-75) seem to have been positive outliers in Spain and Portugal. The latter sector also stood out in Italy, along with “machinery and equipment, n.e.c.” (28), “public administration and defence; compulsory social security” (84), and “financial intermediation” (64-66).

However, the charts also show that the largest increases in export-related hours occurred in low-paying industries. “Wholesale and retail trade; repair of motor vehicles,” “administrative and support services” (77-82), and “accommodation and food service activities” (55-56) were common examples. Greece also saw significant growth in “agriculture, hunting and forestry,” a notoriously low-income sector. Italy reported significant growth in “transport and storage” (49-53), which, however, was below the country’s average in terms of employee compensation.

As might be expected given the general trend towards deindustrialization and lower labor intensity of production, manufacturing sectors rarely experienced large increases in export-related hours. Instead, relatively high-wage sectors such as “computer, electronic and electrical equipment” (26-27) or “transport equipment” tended to reduce hours. The industries that experienced some expansion, such as “food products, beverages and tobacco” (10-12) and “manufacturing n.e.c.; repair and installation of machinery and equipment” (31-33), tended to offer below-average compensation. Italy’s activities in “machinery and equipment n.e.c.” (28) provided the strongest counterexample, but it also had a very noticeable loss of hours in other well-compensated manufacturing sectors.

Nevertheless, we are confident in the interpretation that export growth in the SE economies showed clear signs of predominantly “low-road” trajectories (cf. Burroni, Pavolini, and Regini 2020). Low-knowledge, low-technology, and low-compensation industries played a prominent role in the export developments under investigation. We take this

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5 We therefore do not include the earnings of the self-employed. While this is unfortunate and marks an important task for future improvement, we are confident that, for our purposes, the employee-based values presented provide a good first indication of sectoral wage structures.

as confirmation of the propositions regarding the limited capacity of SE economies to compete in high value-added manufacturing and service activities (proposition 2) and to create high-wage employment opportunities (proposition 3b).

But the data presented also suggest that there is non-negligible potential to pursue high-road pathways. There has been some growth in knowledge-intensive services and high-tech manufacturing (although very little in Greece). We take this as a cautious signal that combining selected high-end manufacturing niches with the targeted promotion of high-end services could be an achievable strategy, at least in Italy, Portugal, and Spain. The ICT sectors (62-63), for example, have already shown promising export-related developments in Spain and Portugal. However, even this positive outlook comes with a caveat: While information services are still among the higher-paying industries, real hourly compensation declined in this sector in both countries, but especially in Portugal, during the 2010s (see Appendix E) – which supports Reurink and Garcia-Bernardo's analysis showing how Portugal tends to attract FDI in relatively low value-added activities such as back-office centers (Reurink and Garcia-Bernardo 2021, 1297). This illustrates the importance not only of promoting (export) growth in supposedly high-value sectors but also of ensuring that it does not involve onshoring only the low value-added, low-skill activities within these sectors.

## 6 Discussion: Towards a Southern European growth pattern?

In this section, we link our descriptive analysis with the propositions derived from the literature to draw some conclusions about the pattern of growth of SE economies and about the features of their model of capitalism.

In terms of our propositions, the data back up the view that SE economies are characterized by a long-standing limited capacity to develop high value-added service and manufacturing activities (proposition 2). Despite this weakness, Portugal and Spain managed to achieve relatively solid growth performance after 2014 by combining domestic demand and exports. The trajectories of the two Iberian economies thus partially contradict proposition 1, according to which the exhaustion of previously available growth drivers and the forced turn to export-oriented growth in Southern Europe should have led to the emergence of an unbalanced growth profile, making a balanced and sustainable economic growth strategy unlikely. However, the proposition is consistent with the growth trajectories of Italy and, in particular, Greece, both of which have experienced slower growth performance, especially due to the limited contribution of domestic demand. The data further support proposition 3a on the limited capacity of the SE economies to generate stable employment, as the crisis saw a cyclical destruction of employment opportunities in the domestic-oriented sector, which was only partially offset by the increase in employment opportunities in export-related sectors. Finally,

proposition 3b on the limited capacity of the SE economies to create high-wage jobs is substantiated by the fact that large parts of export-related employment growth in the decade 2010–2019 occurred in sectors that pay below-average wages.

The forced export-biased growth strategy has therefore rendered SE economies *more embedded* in the EU market. At the same time, the subordinated role of high value-added sectors in this process also makes them *more peripheral* (for an analysis using different data but with similar results, see Del Río-Casasola 2021; Gräbner et al. 2020). In this regard, the Iberian trajectories suggest that there could be a SE pattern of sustainable growth within EMU constraints based on a combination of non-negligible export contributions in both lower (e.g., tourism) and higher (e.g., ICT) value-added services, coupled with a healthy resurgence of domestic demand. The hybrid features of this growth pattern seem to confirm the idea that the mere analytical distinction between growth models led by foreign or domestic demand is less fruitful for making sense of economies in the decade following the global financial crisis (Kohler and Stockhammer 2022, 1336). They also partially nuance Bürgisser and Di Carlo's (2023) claim that the lack of high value-added activities was offset by the emergence of a clear tourism-led growth strategy. While our data do not entirely contradict Bürgisser and Di Carlo's finding on the role of tourism in Southern Europe's export-led recovery, our results point to a considerable degree of cross-country heterogeneity, with tourism-related sectors emerging as important, though not necessarily dominant, growth drivers, particularly in Portugal and Greece – at least in the decade before the crisis.<sup>6</sup>

While chronic growth underperformance does not necessarily seem to be a feature of these economies – at least not of Portugal and Spain (Burroni, Pavolini, and Regini 2020, 83–85), whose growth performance relative to the EMU average further improved in the post-Covid period – the low value-added content of their exports certainly does (Baccaro 2022; Burroni, Pavolini, and Regini 2021). Hence, while our data point to the possibility of a relatively successful SE (or Iberian) growth path, it largely remains a *peripheral* one that limits opportunities for upgrading (for Spain, see Anzolin and Benassi 2024). This finding corroborates the views of scholars highlighting the progressive peripheralization of SE economies within the EMU (and the EU more generally). While Northern Italy appears to be a partial exception to this dynamic, given the importance of high value-added sectors in the Italian export mix (for a regional breakdown of the Italian growth model see Di Carlo, Ciarini, and Villa 2024), and some small islands of high value-added performance can be found in Portugal and Spain, Southern Europe is still characterized by a lackluster performance in high value-added sectors and is increasingly distant from the high value-added circuits of accumulation of the EMU core (for comparisons of Southern Europe and core economies, see Baccaro 2022; Reurink and Garcia-Bernardo 2021).

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6 The post-Covid trajectory of SE economies appears to be more consistent with the growing importance of a tourism-led growth pattern, as argued by Bürgisser and Di Carlo (2023), and opens up an interesting avenue for future research once data become available.

This pattern of peripheralization is also reflected in the persistently limited capacity to create stable and high-wage employment opportunities, which emerges as one of the main common features of the SE trajectory. In this respect, our data reflect quite closely the expectations from the literature (Perez and Matsaganis 2019). This seems to confirm the intuition that the integration of these economies into EMU and the consequent liberalization of labor markets, in an institutional context historically characterized by uneven protection of labor rights, inevitably leads to a redistributive pattern that is unfavorable to labor (Rangone and Solari 2012).

## 7 Conclusions

Three main sets of notable findings emerge from our empirical analysis. First, SE economies are not frozen landscapes. In the post-crisis period, all four have shifted towards a growth model in which the contribution of exports to growth has become positive and non-negligible, especially in Spain and Portugal. However, this “export engine” alone does not seem sufficient to boost economic growth more broadly in a context where domestic demand remains severely suppressed – as the cases of Italy and Greece show. Our findings thus cast doubt on the sustainability of an exclusively export-led growth strategy and underline the desirability of moving towards “balanced” growth models in which both exports and domestic demand play a substantial role. This is clearly incompatible with the continuation of internal devaluation strategies that suppress domestic demand.

Second, we partially nuance one-size-fits-all interpretations of the alleged inability of SE economies to adjust within EMU. Rather, our findings point to a degree of heterogeneity within the SE cluster in terms of capacities to adjust to the constrained macroeconomic EMU environment (see also Burroni, Pavolini, and Regini 2021). On the one hand, Portugal and Spain in particular stand out for their ability to seemingly chart a course towards an export-led recovery, combining non-dynamic “legacy” exports with a rapidly intensifying focus on services. Greece and Italy, on the other, continue to face greater adjustment challenges, albeit of different nature and magnitude. Italy in particular continues to stand out as the most manufacturing-oriented export economy in Southern Europe, whose main problem is not necessarily a poor export performance per se but rather the absence of dynamically developing high-end services and persistent depressed domestic demand. Greece shares these problems, but, in contrast to Italy, it additionally shows a strikingly weak export impetus from manufacturing. All in all, future research should pay attention to a more disaggregated consideration of these countries.

Third, we find a hybridity in the sectoral composition of the different pathways towards export-oriented recovery taken by different SE countries. According to our analysis, the Spanish and Portuguese export performance relied on a combination of different sectoral drivers: There was noteworthy growth in the export performance of services, where

old legacies (especially in tourism exports) are accompanied by the cautious emergence of new, higher value-added segments such as ICT and business services, where foreign direct investment, global value chains, and outsourcing play important roles. However, whether the Portuguese and Spanish “Iberian pathway” to exports represents a sustainable path to recovery is an open question. The pockets of dynamic export segments characterized by high value-added and above-average labor costs, such as the emerging ICT segment of exports, may point to a possible pathway to upgrading the Portuguese and Spanish economies. However, the bulk of export-dependent employment is still concentrated in low-wage, low value-added sectors. The key challenge ahead is therefore to foster growth in the pockets of higher value-added service exports and to move to less peripheral positions in the global value chains of the service sectors, so as to facilitate the creation of better paid jobs that can also sustain domestic consumption – while simultaneously seeking to maintain market shares in “old” manufacturing export niches. This is likely to require specific industrial policies and targeted efforts to attract FDI (however, see Rothstein 2024). In this respect, the main question to be explored in future research is to what extent the export reorientation of the SE economies in the post-crisis period, in particular the specific path of export-led recovery observed in Spain and Portugal, is underpinned and guided by deliberate state-led “growth strategies” (i.e., targeted interventions in terms of industrial policy, fiscal and tax policy, and FDI attraction) (Hassel and Pallier 2021); or to what extent it is rather the unintended outcome of other policy developments that took place during the crisis (i.e., internal devaluation, liberalization, and other parallel developments).

In conclusion, if we broaden our focus beyond Southern Europe to reflect on the wider growth models debate, the combination of growth decomposition analysis with granular sectoral data provided here could represent an important complement and innovation to the prevailing approach in the literature. For this reason, we hope to extend the geographical scope of our analysis beyond Southern Europe to other peripheral and core regions of the EU.

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