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**JOÃO LOPES**

UECE, ISEG/University of Lisbon, Portugal

## **THE EURO AREA NORTH-SOUTH STRUCTURAL ECONOMIC DIVIDE: AN INPUT-OUTPUT APPROACH**

### **Abstract:**

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 several facets of this phenomenon, namely the connection between current account (trade) imbalances and domestic final demand levels, as well as the sectoral specialization of tradable goods and services production. In the uncompetitive (current account deficit) economies of southern euro area, domestic final demand levels are in excess of its equilibrium values and the opposite occurs in the strong, competitive economies of the north. These external imbalances are parallel to, and in good measure explained by, a different geographic pattern of specialization favourable to the northern euro-area countries (sectors with higher value added and more intensive technological activities). The external dependency and value added generation capacity of the productive sectors of these economies are also quantified, with 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. The empirical results of the paper are based on input-output tables for several years: 1995, 2000, 2005 and 2008, available in the World Input Output Database. The northern euro-area group is formed by Germany, Netherlands, Finland and Ireland. The southern is the so-called GIPS group (Greece, Italy, Portugal and Spain).

### **Keywords:**

Input-output linkages, external dependency, structural change, Euro Area countries

**JEL Classification:** C67, D57