

## Labour Costs and External Competitiveness of the Andalusian Economy (2007-2014)

**Manuel Alejandro Cardenete**

*Universidad Loyola Andalucía; Universidad Autónoma de Chile (Chile)*

*macardenete@uloyola.es*

**M. Carmen Delgado**

*Universidad Loyola Andalucía*

*mcdelgado@uloyola.es*

**Ricardo Molero-Simarro**

*Universidad Loyola Andalucía*

*rmolero@uloyola.es*

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The **topic** of this paper is to do a research about the evolution of the external competitiveness of the Andalusian economy. The **goal** of this study is the particular competitive limits that the Andalusian economy has, and the recognition of the strengths and weaknesses of the external insertion of this economy. To do it, the paper focuses on two main scopes of analysis: First, we analyse the evolution of unit labour costs and their relationship with the Andalusian export performance at aggregate level. Secondly, a set of indicators of both corporate and public sector performance are examined in the determining areas of the regional competitive situation at the microeconomic level. Analysis of the progression followed by the variables in our economy is done in comparison with diverse economies and regions surrounding. Although both analysis are performed separately, the outcomes obtained must be interpreted in a linked way, taking into account the macro and microeconomic elements as the two dimensions of the same competitive strategy.

The second part of the article presents an **analysis framework**. The debate on the external competitiveness of economies has generally focused on the need to incorporate labour costs as a measure of reducing export prices and consequently improving the external trade balance. After all, this relationship between labour costs, export prices and global export quota is far from being attained. As various authors suggest, in competitiveness diverse types of factors determine the conditions of the inputs, with the business sector and the strategies of the firms themselves, with the economic policy implemented, with demand conditions and, finally, with sociocultural factors. In fact, even if productivity gains occur primarily at the level of individual companies, governments also have an essential role to play in helping those processes. Moreover, to ensure sustainable competitiveness gains, trade policies have to be linked to other economic policy procedure, such as education and innovation policies.



The third section enumerates the indicators analysed, as well as the **methodology** employed. At macroeconomic level, we analyse the evolution of unit labour costs, both nominal (relation between the average compensation per worker and their productivity measured in real terms), and real (the ratio between the average compensation per worker and their productivity measured at current prices), and its repercussion on the export quota and the trade balance of the Andalusian economy. By comparing the evolution of nominal unit labour costs and actual unit labour costs (which is a measure equivalent to the share of wages in national income) it is possible to define what proportion of the increase in nominal labour costs is made by that wage incomes have captured more proportion of national income and which is due to an increment in prices produced by factors further than labour costs, such as the cost of inputs, financial expenses or corporate margins.

At microeconomic level, the research is based on the methodology of analysis of competitiveness indicators settled by Orkestra, the Basque Institute of Competitiveness. Among them there are outcome indicators (which measure different reference to the level of citizen welfare), intermediate performance (mainly related to employment, innovation and export capacity of the regional economy) and determinants of this competitiveness (divided, in turn, into three main dimensions: business environment, productive specialization and business behaviour). In order to perform a reliable analysis, it is possible to compare the position of Andalusia in these indicators with those economies with which it shares similar basic characteristics in socio-demographic terms, of productive or business specializations. Specifically, the regional benchmarking tool, co-operatively developed by Orkestra and the European Commission's Smart Specialization Platform (S3), has been used to identify which regions share similar important features with Andalusian.

The analysis carried out has associated Andalusia with regions that are concentrated in three large areas: the whole of Italy, the south of France, and the north of the United Kingdom. The regions sited in these areas are besides joined by two Portugueses and one Greek. Not surprisingly, there is no Central European region and, and unpredictably, no one belonging to Eastern Europe, with which some of the characteristics of our sectorial and technological specialization can be shared, but they show a framework of values, institutional features and even, not the same sociodemographic context.

In the fourth section, we expose the **results** of our analysis on the competitive position of the Andalusian economy in the two dimensions detailed above: first, in terms of labour costs, export share and external trade balance; and secondly, according to the indicators of the main determining factors of competitiveness in the dimensions of sectoral specialization of the economy, environment and business behaviour.



Results obtained illustrate that labour costs in the Andalusian economy have followed a manifest downward trend, which is principally striking when compared to what happened in diverse European economies of reference. This trend is due, on the one hand, to the extending of the wage gap, as a result of the relative stagnation of average real compensation. On the other hand, the fall in unit costs has also backed the reduction of the productivity gap. For this reason, at the same time that the difference concerning the gross labour cost of the Andalusian economy and the European average has enlarged, the productivity gap has merely been reduced.

This one has allowed a development of the external sector thanks to the increase of exports, propitiated by the lower costs, and thanks to the regulation of imports, caused by the retrenchment of the consumption demand. However, the preservation of the trade deficit indicates that the strategy of internal devaluation is weakened, something consistent with the scientific literature that enquires the univocal relation between labour costs, export prices and external trade balance. In 2012, the share of wages was lower than the share of profit, for the first time in history. However, the fall in this salary did not introduce to a similar reduction of nominal unit labour costs, which suggests the existence of other cost factors, such as the evolution of input prices or financial costs, mainly of Small, Medium size Enterprises, which would have launched production prices upwards.

Regarding the results of the comparative analysis of the competitiveness indicators in their different dimensions, the data analysed indicate that the crisis has not become an opportunity to substantively improve the positioning of the Andalusian economy, having arisen a loss of positions in the performance indicators and intermediate performance. In most of the outcome indicators, Andalusia had suffered a downturn in its position in 2012 in relation to all the regions of the EU and to the reference ones within it, maintaining the lag already given in 2008 within the whole of the economy Spanish. Meanwhile, in the intermediate performance indicators the differences have widened according to the European regions as a whole, they have remained in relation to the Spanish autonomous communities and have been abridged compared to the structurally similar regions.

If we take into account the specific analysis of the competitiveness indicators, it is necessary to emphasise that the dimension in which our region is better situated is in business sector, although there are still some gaps of importance, such as the lag in training variables of human capital at the levels of secondary and job training, or the lower general level of human resources in the field of science and technology and the lesser percentage of total workers engaged in such activities. This is related to the lowest position of Andalusia in the indicators of productive specialization (such as employment in high- and medium-high technology manufactures or in knowledge-intensive services) and business behaviour (such as the effort in research and development private, which has been lower than the public).



The fifth and final section formulates the **conclusions**, showing our recommendations to make the improvement of external competitiveness become a lever for structural transformation of our economy. The main burden of the Andalusian economy is commercial specialization. Its alteration has become a repeated objective of the political and media agenda. However, the facility to influence it from a particular area, whether that of public policies or entrepreneurship, is restricted by elements of different categories. Therefore, any proposal that seeks to become a support to the expansion of our economy in this area should consider the actions to be settled from both the macroeconomic and microeconomic dimensions. In this sense, research can be advantageous to improve the orientation of economic policy on the road to measures that contribute to the reaching of structural gains of external competitiveness.

