A Growth Agenda for Spain

Lunchtalk at Bruegel
26 May, 2011

On the 26th of May 2011 Bruegel organised a seminar discussing the growth and job prospects of Spain based on the McKinsey-Fedea publication "A Growth Agenda for Spain". The speaker was Luís Garicano, Professor of Economics and Strategy at London School of Economics and Director of the Fedea-McKinsey Chair at Fedea, whose presentation was followed by comments from Massimo Suardi, Head of Unit for Spain, Denmark and Sweden at the Directorate General for Economic and Financial Affairs of the European Commission. The event was chaired by Zsolt Darvas, Research Fellow at Bruegel.

Prof. Garicano presented some of the main results of the McKinsey-Fedea publication "A Growth Agenda for Spain". He started his presentation by explaining that the long convergence cycle of Spain (vis-à-vis EU-15) has been mainly driven by an increase of labour utilization and not by an increase in productivity. He stated that lagging productivity is a common problem in Spain, and a main reason for this relates to the distribution of firms across firm sizes: while large Spanish firms are similarly productive to German firms, but the share of large firms is much lower in Spain than in Germany. Prof. Garicano also showed that the trade balance deficit has grown over the past decade (mainly due to a phenomenal import boom), which has resulted in high levels of indebtedness when compared to other economies (especially concerning private debt).

Prof. Garicano explained that in the report they have identified and analysed sectors with a significant growth potential and they have concluded that by means of the right policies and initiatives, up to 3 million jobs could be created. He provided illustrative evidence on the panorama of each of these sectors, as well as an explanation of the right actions that should be undertaken. Concerning tradable goods, Mr Garicano put forward the following priorities: (a) to increase export orientation towards high growth markets (especially Asia), (b) to advance Spanish industry in differentiated products/industries, (c) to increase cost competitiveness of key sectors, and (d) to promote the development of larger and stronger companies (Spanish SMEs are very efficient, but the problem is that they cannot compete with big foreign firms mainly because of their size). As regards tourism, Mr Garicano explained that the main priorities should be (a) to build on global leadership in order to develop less penetrated markets, and (b) to develop a new value proposition for a higher value customer.

On local services, Prof. Garicano talked about the need (a) to relax barriers for new entrants, (b) to increase flexibility of opening hours to European standards, and (c) to align labour to sector needs. Concerning business services, Mr Garicano focused on the importance of (a) regulating to enable competition and healthy dynamics, (b) catalysing the development of an efficient market, and (c) promoting a more entrepreneurial talent and mind-set. Mr Garicano also talked about Spanish infrastructure, for which he highlighted the following three priorities: (a) to address a reform in the electric sector, (b) to develop freight train transport, and (c) to promote Spain as a global hub and the orientation to exports of Spanish infrastructure companies. On construction, Mr Garicano prioritised the (a) need to promote productivity development to contribute to the sustainability of the new model, (b) to accelerate recycling of labour force and facilitate reduction of unemployment (facilitate the exit) and (c) to stimulate the absorption of over-investment effects to free capital which is necessary for growth (free up financial resources).

Prof Garicano finished his presentation by stressing the importance of establishing more specific and measurable targets in order to achieve a successful growth transformation.

In his comments Massimo Suardi agreed on the main points Mr Garicano had put forward. Mr Suardi pointed at the importance of the external dimension and argued that, given that endogenous forces to open the Spanish economy might be limited, action is needed. Mr Suardi also commented on the extraordinary developments of the housing sector and on the evolution towards a more services oriented economy. He then commented on the main proposed actions of the report in question. On the importance of reinforcing companies, Mr Suardi affirmed that larger companies are more productive and export oriented, and that the limitations for SMEs to grow is definitely an issue that has to be assessed. Concerning the idea of reinforcing competition and the business environment, he explained that the Law on a Sustainable Economy goes in the right direction, and that further simplification of business procedures would definitely help.

As regards the reinforcement of workers' skills, Mr Suardi pointed at the importance of promoting vocational training and matching training with companies' needs. Mr Suardi also commented on the reinforcement of flexibility by talking about some of the dysfunctions of the Spanish labour market. Finally, Mr Suardi finished his presentation by listing some other cross-cutting issues as (a) the interplay between central and regional/local levels, (b) the financial sector restructuring, (c) the considerable weight of the shadow economy, (d) the judicial system and bankruptcy law, and (e) the late payments by public authorities and how these negatively affect SMEs.

After Mr Suardi's presentation, Zsolt Darvas opened the floor and the audience took part in the discussion. The main issues that were discussed were (a) the focus on Asia versus the focus on Latin America, (b) the fact that the majority of Spanish households' wealth is on housing and the need for flexibility to change mortgages, (c) the weight of the Spanish opposition and the political limitations to implement reforms, (d) the role of Spanish leveraging, (e) the importance of innovation in differentiated products, (f) regulatory constraints and limitations to grow, (g) post-crisis loss recognition by Spanish banks, (g) the recent Spanish reforms, and (h) the crucial differences between the Irish banking sector and the Spanish one.