

# REVERSE THE TREND

*Posted on 20/06/2010 by Naider*



One of the most prestigious Basque economists, my partner Iñaki Barredo, swimming against the current, gave us some very interesting reflections on the opportunity to increase the public deficit and favor expansive public spending policies that would encourage demand and therefore accelerate the growth of the Spanish and European economies. Just the opposite of what all the international economic institutions (European Central Bank, International Monetary Fund) and also the European political institutions (European Commission, the governments of the central states of Europe) proclaim.

Nothing is further from my intention than to try to agree with the guardians of the international economic order or take it away from my friend Iñaki. I am also an economist but one of the "bad guys" so I will limit myself to introducing into the debate a few more elements that, being within the reach of any analyst, seem not to be sufficiently taken into account.

In my particular opinion, Spain is an economically unstructured country, with very weak and volatile sectors. This is the drama of Spain. It wants to compare itself and live with the most advanced countries in the world and it has one of the least dynamic economies of Western countries. Discounting the growth in the real estate and financial bubble sectors, this lack of dynamism has been the general trend even in the boom and expansion years. An attempt has been made to convey the idea that Spain was advancing economically, but the reality was quite different. It grew in terms of GDP but nothing else. In the boom years, Spain gained weight but did not generate muscle. Just fat. With the crisis, Spain has lost its main food channel and is now going through a process of galloping anorexia that has half the world worried and its European brothers on the verge of a nervous breakdown in the face of such a precarious situation.

There are very powerful business environments in Madrid, in the Basque Country, in Catalonia (and, more specifically, in other cities) that bring together thousands of companies that work in sectors with a certain added value that, being competitive, mean that the impact of the crisis, in terms of unemployment, is being quite lower than in other places. The rest of the territory is practically an industrial wasteland (with some oases in the form of technology parks or design business parks here and there) and their local economies are based on sectors linked to brick (now in clear decline), tourism (fundamentally still, of "sun and sand") or to the para-public network (so expensive to maintain once the juicy structural funds that came from Brussels have disappeared). Spain has advanced in the construction of highways, high-speed lines, business parks, and telecommunications, but these actions have had little impact on the generation of solvent business fabrics.

Public action during the years of economic boom and huge public revenues has not been oriented towards facilitating the emergence of a culture of entrepreneurship that is different from the culture of speculative opportunism or investment in conventional businesses in the sectors that have grown so much in recent years. What is more worrisome, the solid foundations have not been laid to build a high-value economy that would complete the one pushed by the real estate bubble and public works.

- Except in the poles mentioned, there are no networks of vocational training centers linked to the business sector that contribute to providing companies with professionals and society with entrepreneurs.

- The scientific-technological system is completely insufficient, in the era of knowledge in which we live. Its contribution to economic development is limited to the technological solutions provided by some technology centers to the companies in their environment and to the anecdotal exploitation in the form of a company of some research result. As a whole, they have barely driven the

generation of new sectors of business activity based on new products and businesses of greater value. An untenable situation in these times.

- The university, considered in the countries where we look, the main institution of society, is, as a whole, absolutely underestimated and under-endowed with means, resources and path. Its results in the form of publications or patents are very insignificant.
- The rates of school dropout and functional illiteracy in large sections of Spanish society call into question the educational system on which this country is built, which, we repeat, claims to want to be among the world leaders at so many levels.

It is in all this that you have to invest. The economic crisis in Spain is not a demand crisis. It is a structural crisis. Spain is not a competitive country simply because it has a very small number of competitive companies for its size and the bases to generate high-value sectors today (education, professional training, universities, research and technological development centers). They are very flimsy and totally insufficient. When demand finally picks up on a global scale, it is very likely that Spain will find it difficult to benefit from it because it will have very little to offer the world market. Tourism will improve, the real estate market will pick up a bit and the few competitive companies will recover their turnover. But little more.

I don't know if the Spanish public treasury can get more into debt, but it is clear that what it needs is to invest in another way. In fact, what you need in the first place is precisely to reverse the trend and "spend" in the future. Do not invest more in cement but in knowledge. A future that will take you a few years to achieve even if you get to it immediately but on which you urgently have to lay the foundations. And the bases are those that we have indicated. Not others. If you do not have enough courage to face them, it is almost better to do nothing.

In addition, in the Spanish public system there is still a lot of money to direct it along these lines without the need to borrow much more (reducing large sterile expenses or reordering the Spanish institutional system). To invest, you do have to borrow. To spend like so far, almost better not.

(Image: Fontana)

**There are no comments yet.**