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Working Paper
WP-1141-E
June, 2016

SPAIN IN THE WAKE OF THE CRISIS: REFORMS OR ADJUSTMENT?

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SPAIN IN THE WAKE OF THE CRISIS: REFORMS OR ADJUSTMENT?[1]

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Abstract

This paper examines how a set of economic indicators have changed in Spain before and after the last round of reforms were passed. This analysis provides some stylized facts of the Spanish recovery. The current account balance and the main competitiveness indicators started to improve in 2009 before any major reform had been adopted. The robust growth of the Spanish economy depends, just as before the crisis, virtually on domestic demand alone. In the labour market, net jobs have been created after the reform but by substituting permanent for temporary contracts. Unemployment is increasingly becoming a longer, and more vulnerable condition. Innovation activity in firms is in free fall. Part of all this is not attributable to the reforms, but rather to deeper limitations of the Spanish economy. All in all, the case for a private sector-led, "automatic" adjustment after 2008 is stronger than the one to be made for recovery through reform.

JEL codes: D22, E01, E24, F14, H12, J08, L25

Keywords: Spain, structural reforms, competitiveness, recovery, adjustment

[1] An earlier version of this paper was presented in the Bruegel workshop "Structural Reforms: dynamic growth impact and policy challenges" (November 2015). The author thanks the participants for their helpful comments.

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1. Introduction

The aim of this paper is not to assess the impact of the round of economic policy reforms that have been adopted in Spain since 2012. The goal of this paper is, more modestly, to explore how a selected set of economic indicators have changed before and after those reforms were passed. We do not aim at establishing causality claims between policy actions and economic outcomes but rather to describe how some key variables have changed. We hope that by doing so, we set a useful context for subsequent and more detailed evaluations.

The main impediment to perform a rigorous impact analysis of structural reforms is the fact that there is not enough time perspective. By definition, policy changes that are really "structural", i.e. those that have an effect on the fundamentals of an economy (e.g. agents' incentives and preferences or institutions) typically develop their potential gradually and over the medium-long run. A very good survey of the effects of structural reforms is chapter 3 of the recent IMF World Economic Outlook (IMF 2016a).

In addition to the lack of time perspective, making a proper impact assessment of policy actions is difficult for numerous reasons. First, and technically speaking, one can only establish causality in statistical sense if data are available in adequate detail, for a sufficiently large period of time and for a sufficiently large number of individuals or cases. Ideally, to conclude causality one would like to test the impact of reform in one subject affected by the reforms against subjects of similar characteristics who have not been exposed to the change. To name just an example, the impact of a given labour market reform on a particular individual is likely to be very different depending on the individual's characteristics like age, gender, educational background, past employment record, etc. For this reason, the evaluation of the reform should, at least to some degree, capture the heterogeneity of the population that it is directed to.

Second, beyond the statistical complications, a satisfactory evaluation of any policy would require a theoretical model that explains how the policy change is transmitted to the economy. For some large-calibre reforms, like labour market reforms or product market reforms, there is extensive literature that offers such transmission channels which, in turn, allow the deriving of tractable and testable impulse or reaction functions. Even within a given model, the impact of a reform may be different in the short and in the medium-long run. For instance, labour and product market reforms appear to have a clear positive impact in the long run through improving productivity and investment (Bouis and Duval, 2011) but they might be contractionary in the short run in a setup where nominal interest rates are closer to 0 (Eggerstsson *et al.* 2014). However, for other reforms that could be in principle equally important, like streamlining general business regulations, reforming the fundamental laws governing the public administration, or improving the functioning and funding of the public R&D system, it is difficult to find models that generate testable empirical predictions.

Third, a proper evaluation of a reform, as of any policy change, requires comparing the actual outcome we observe after the change with a counterfactual, namely, the state of affairs should the reform had not taken place. This leaves the assessment of a given policy intervention contingent on what one believes would have happened in the no-change scenario.

As mentioned above, this paper abstracts from these obstacles. The goal is not to perform an impact assessment of the reforms but rather to point at particular data and to establish certain trends that might be relevant for a subsequent, more thorough study. The paper is focused on private, real sector variables and two policy areas are not covered: public finances and the financial system. See Lago-Peñas (2016) and Cuenca (2016); and Ocaña and Faibishenko (2016) and García-Montalvo (2016) respectively for up-to-date examinations the reforms in Spain and the challenges ahead.

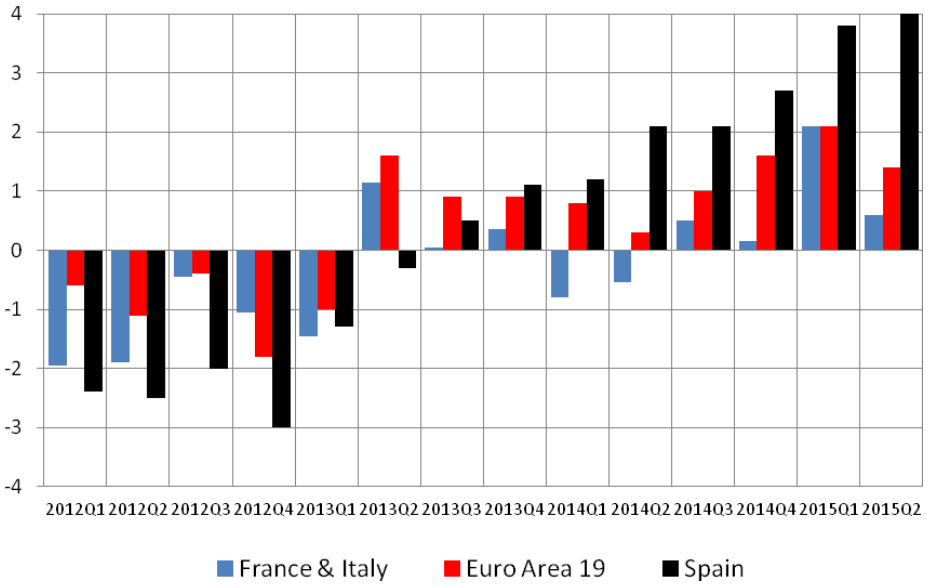
The paper is structured as follows. Section 2 reviews the evolution of the growth pattern, paying attention to sources of growth, domestic versus external demand, and to the composition of exports. Section 3 reviews the situation of the labour market. Section 4 examines the process of the internal devaluation in Spain and Section 5 reports evidence on two miscellaneous issues, the R&D investment and business dynamics. Section 6 concludes by providing the main stylized facts that characterize the economic recovery in Spain.

2. The growth pattern

2.1 The sources of growth

Spain is recovering from the 2008 crisis and it is doing so in a much stronger way than other large Euro Area countries and the Euro Area as a whole (Figure 1). Since the third quarter of 2013 and up to the second quarter of 2015, latest data available, the quarter-on-quarter growth of GDP in Spain is two times higher than the Euro Area (EA) and four times higher than the growth of Italy and France combined.

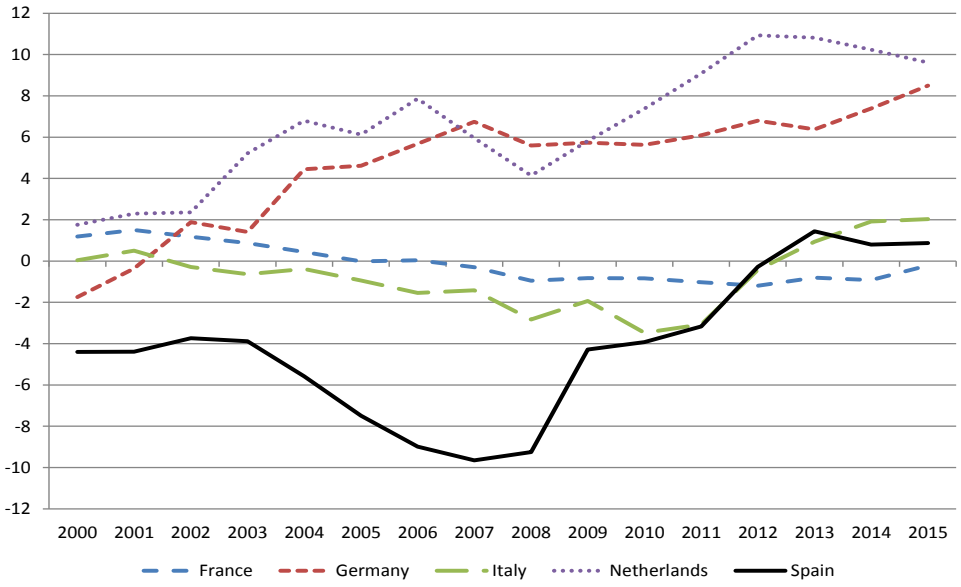
Figure 1. Real GDP growth. Quarter-on-quarter annualized percentage change. Seasonally adjusted data.



Source. Eurostat.

The current account balance, which reached a negative peak in 2007 with a deficit close to 10% of GDP, strongly and continuously improved since 2009 (Figure 2). In 2011, the Spanish current account was still in deficit but at a level comparable to Italy and in 2013 it muted into surplus. As a result of the rebalancing process, and according to the IMF estimates, the Spanish current account will be in a surplus of 0.9% of the GDP in 2016. This is still very far away from the main EU North economies, Germany (8.5% of the GDP) and the Netherlands (9.6%) but close to Italy's surplus (2%) and better than the result in France, whose deficit is worsening consistently since 2005.

Figure 2. Current Account balance. Percentage of GDP

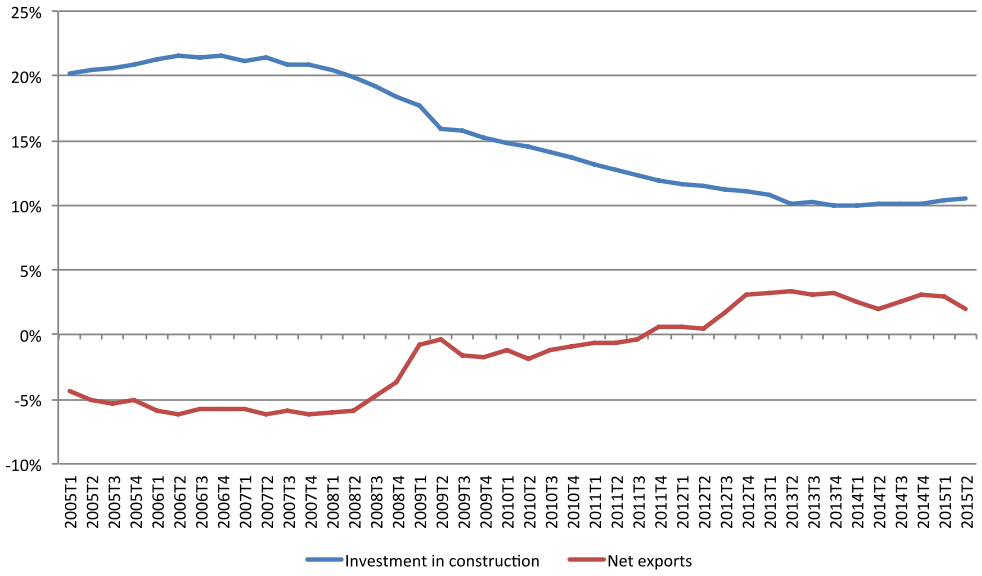


Source. IMF.

Looking at the growth pattern from the demand composition, there has been a significant rebalancing of the components of the GDP since the crisis began. The investment in construction has decreased its share in the GDP with net exports generating most of the value that has been lost (Figure 3).

The investment in construction consistently represented around 20% of the GDP up to the end of 2008. Then, as a result of the crisis and the burst of the real estate bubble, it started to decrease continuously and it has stabilized in a plateau corresponding to 10% of the GDP since mid-2013. The trajectory of the Spanish net exports is the contrary. Until 2008, imports were exceeding exports and a result net export were systematically subtracting 5 percentage points to the GDP. The average contribution of net exports to GDP since mid-2013 has been 2.5 percentage points of the GDP with a slightly downward trend in the latest figures. As shown in Table 1, this improvement of the net exports is largely due to the increase of exports (which explain 93% of the improvement) rather than to a decrease of imports (their reduction contributed only with 7%).

Figure 3. Investment (gross capital formation) in construction and net exports. Percentage of GDP.



Source. INE and author's elaboration. Note. Construction includes residential construction and all other types of construction

Table 1. Exports, imports and net exports in Spain. Percentage of GDP. and contribution to the variation.

	2008Q1	2015Q2	Variation	Contribution to variation
Net Exports	**-6.1%**	**2.0%**	**8.1%**	
Exports	25.5%	32.9%	7.5%	93%
Imports	-31.5%	-30.9%	0.6%	7%

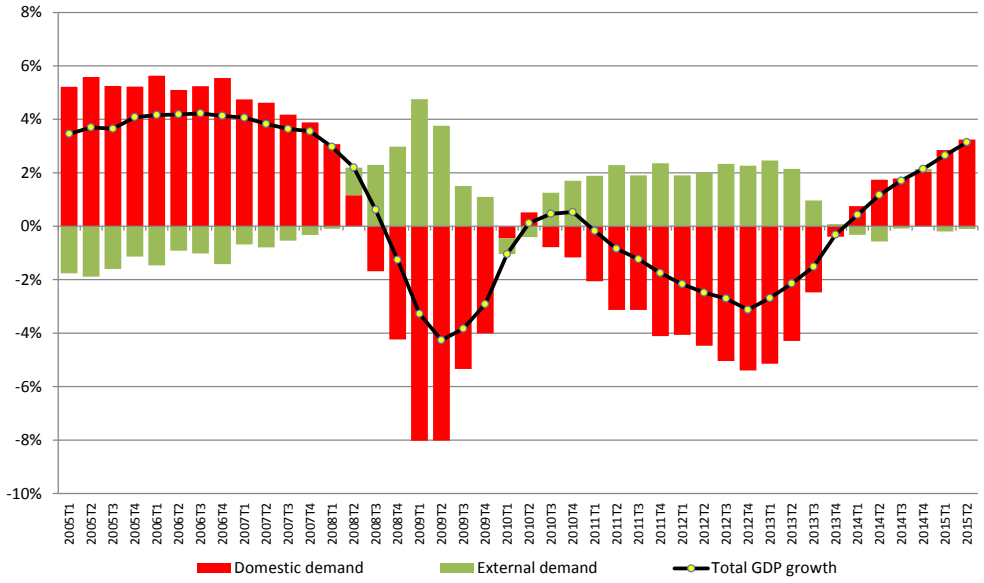
Source. INE and author's elaboration.

The Spanish economy has thus made an important correction of its GDP structure from 2008 to 2015: there has been an important downsize in the construction sector of 10 percentage points of the GDP, three quarters of this value lost have been recovered from the trade with the rest of the world, and the remaining fraction (roughly 2.5 percentage of points) has come as a result of increases in domestic consumption and other non-construction forms of investment.

Now, from a national accounts perspective and considering GDP growth rates rather than the composition, Figure 4 represents the year-on-year variation of quarterly GDP

at market prices measured in volume indexes and the domestic and external demand contributions.

Figure 4. Spanish GDP growth by source of growth from the demand side: domestic and external. Market prices, year-on-year change, seasonally adjusted data.



Source. INE and author's elaboration.

External demand contributed positively to Spanish GDP growth since mid-2008 to the end of 2013 by means of the large increase in exports, which responded to the weak domestic economic conditions. But since the beginning of 2014, GDP growth is almost entirely accounted for by domestic demand growth, just as before the crisis. The main difference with the pre-crisis scenario is that since 2014, external demand is neutral, rather than detrimental, to overall GDP growth.

2.2 Anatomy of exports

Given the important role that the external sector played in the Spanish recovery, we shall study the issue in more detail and from the perspective of the five largest Euro Area (EA) economies.

In aggregate terms, Spanish exports have grown between 2000 and 2014 at a rate comparable only with the leading EA exporters, Germany and the Netherlands. Measured in current euros, Spain's exports have almost doubled in value over this 15-year period. This refers both to exports of goods and services, which includes revenues from tourists, (Figure 5.A) and to the exports of goods alone (Figure 5.B).

Figure 5. Exports of goods and services of Spain

Figure 5.A Exports of goods and services. Current prices, index 2000 = 100.

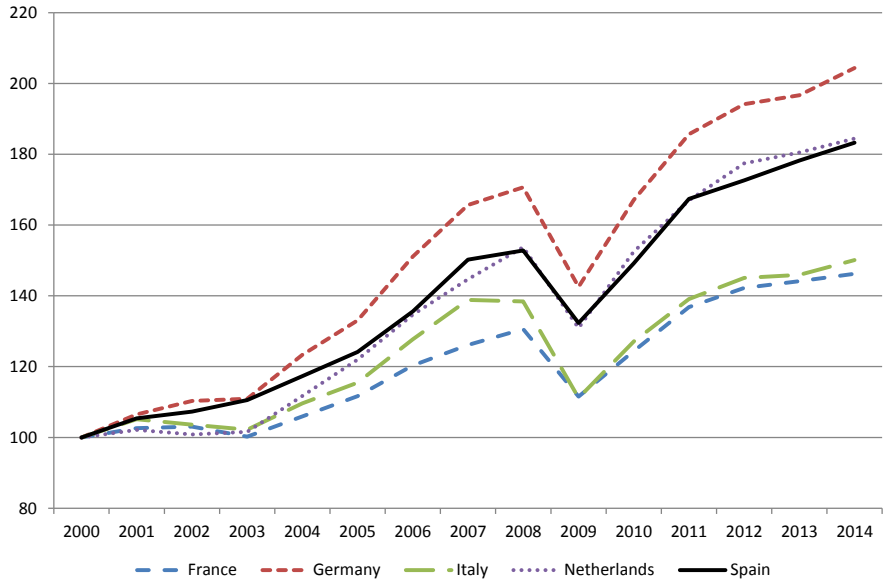
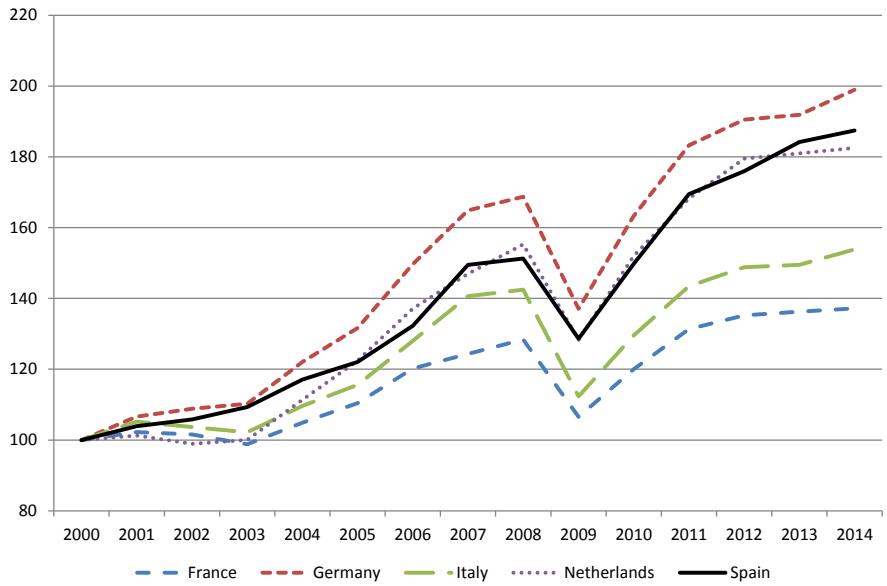


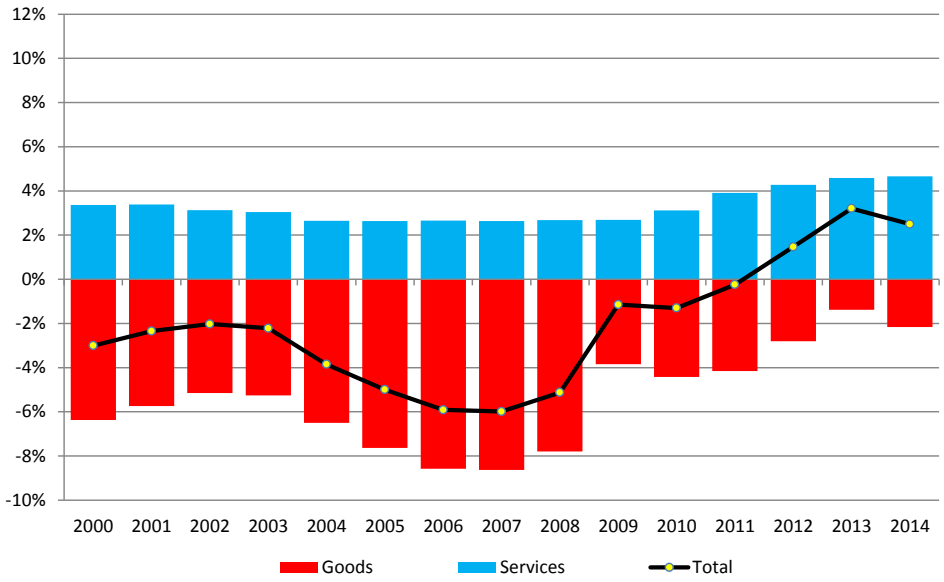
Figure 5.B Exports of goods. Current prices, index 2000 = 100.



Source. Eurostat and author's elaboration.

Looking at the net exports, and the contribution from goods and services, Figure 6 shows that although total exports have been growing strongly since 2000, the trade deficit increased from 2003 to 2007, moving from 2% to 6%.

Figure 6. Net Exports of Goods and Services of Spain. Percentage of GDP.



Source. Eurostat and author's elaboration.

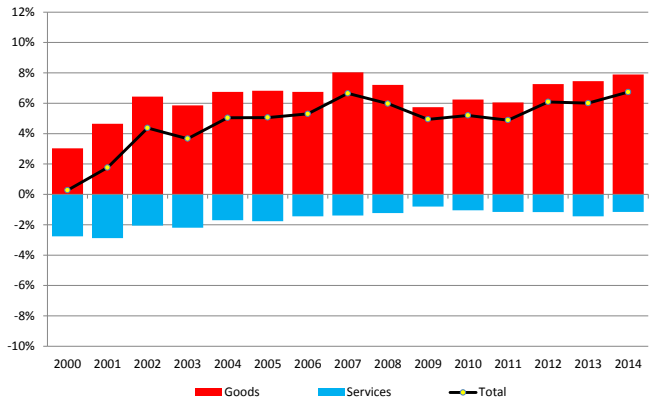
This increase in the trade deficit is entirely explained by the trade of goods which has remained in deficit for the entire period (2000 – 2014), although with a clear tendency for improving since 2009. This contrasts with the international trade pattern of Germany and the Netherlands. Both countries systematically run total trade surplus (6% in Germany and 10% in the Netherlands) which are entirely based on their trade-in-goods surplus as both economies run systematic and small trade-in-services deficits (figure 7.A and 7.B).

The other two large EA countries, France and Italy, display a continued worsening trend in the trade balance from 2000 to 2010 and, since then, Italy is clearly recovering while France stabilized its deficit around 2% of the GDP. For both countries, most of the changes are due to trade in goods.

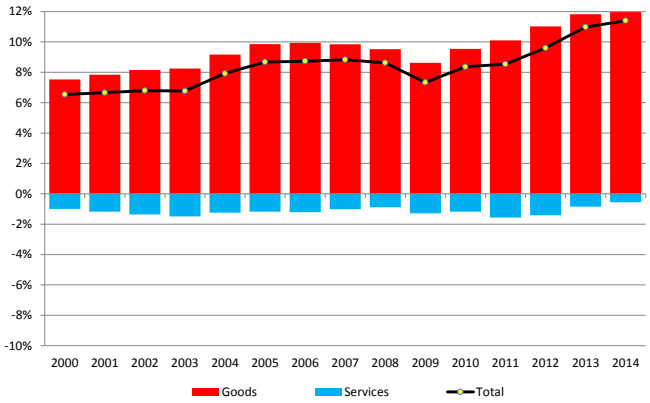
A deeper analysis of the trade in goods distinguishes two components: the trade of energy products (fuels, oils and related products) and the trade of non-energy products. The five largest EA economies run a deficit on energy products of approximately 3% of the GDP, with the exception of the Netherlands where this deficit is roughly half of this. This is a very specific component that reflects the dependency and efficiency in the use of oil and other sources of energy.

Figure 7. Net Exports of Goods and Services. Percentage of GDP.

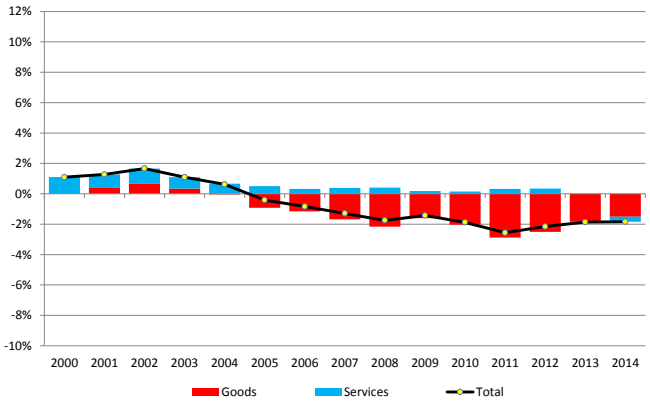
7.A. Germany



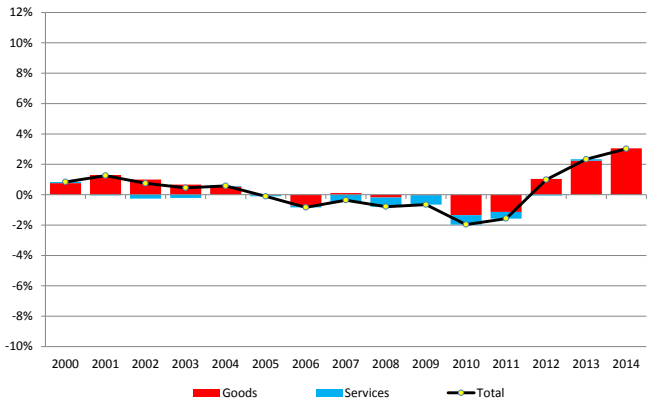
7.B. The Netherlands



7.C. France



7.D. Italy

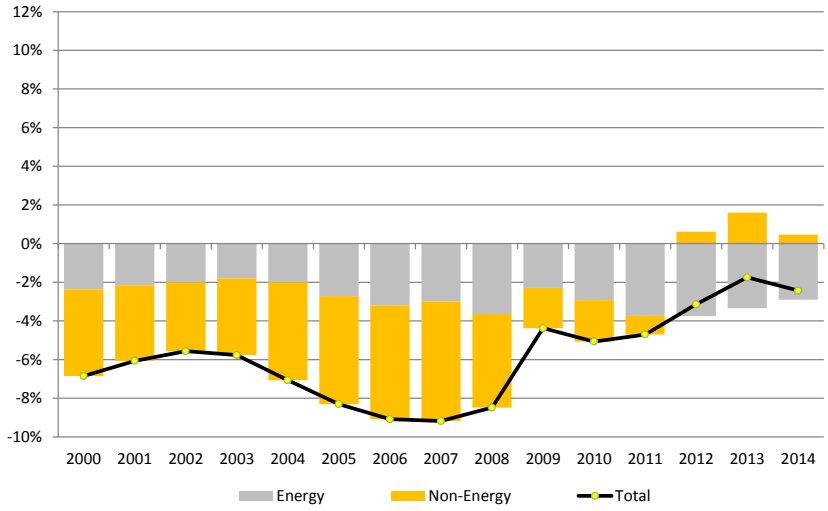


Source. Eurostat and author's elaboration.

Leaving this component aside, the core of the merchandise trade is represented by the balance of non-energy products. This balance has been negative in Spain until 2011, improved significantly in 2013, approaching a surplus of 2% of the GDP, but it worsened in 2014 resulting in a surplus of 0.5% of the GDP (Figure 8).

This small surplus of Spain in the non-energetic trade balance compares rather poorly with Germany and the Netherlands, above 10%, and even with Italy, 5% (Figures 9.A, 9.B, and 9.D.)

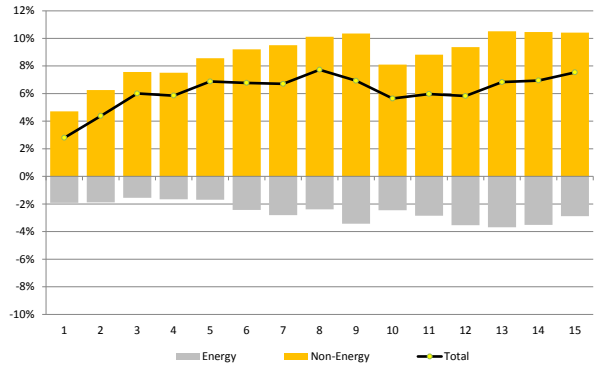
Figure 8. Net exports of goods by product type in Spain. Percentage of GDP.



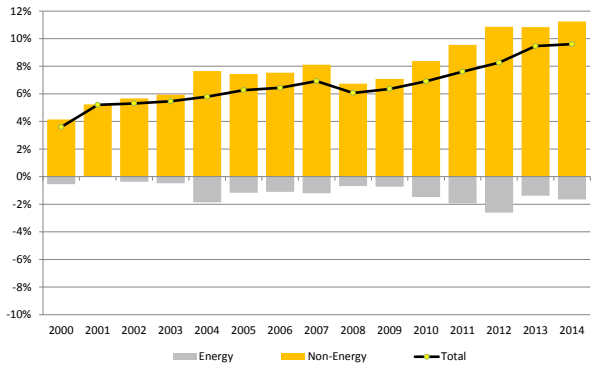
Source. Eurostat and author's elaboration. Note. Energy products correspond to the products under the SITC06 code in the SIT product classification.

Figure 9. Net exports of goods by product type as percentage of GDP.

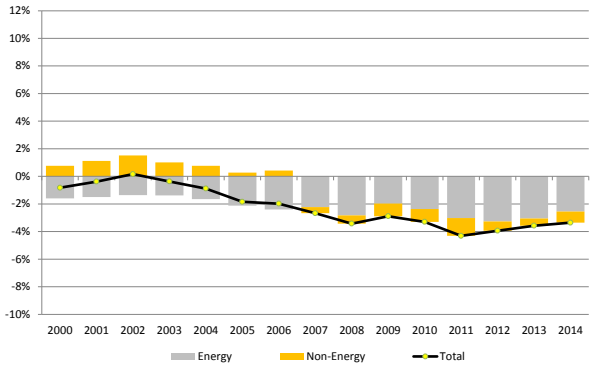
9.a. Germany



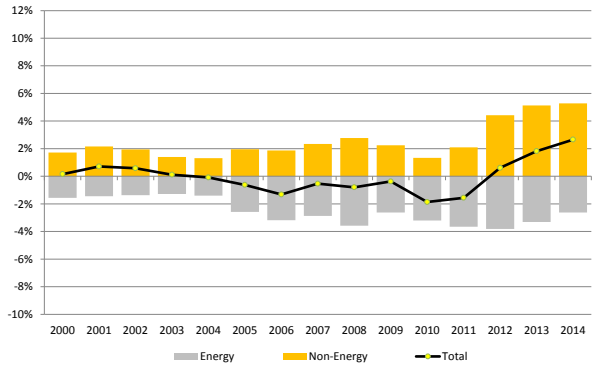
9.b. The Netherlands



9.c. France



9.d. Italy



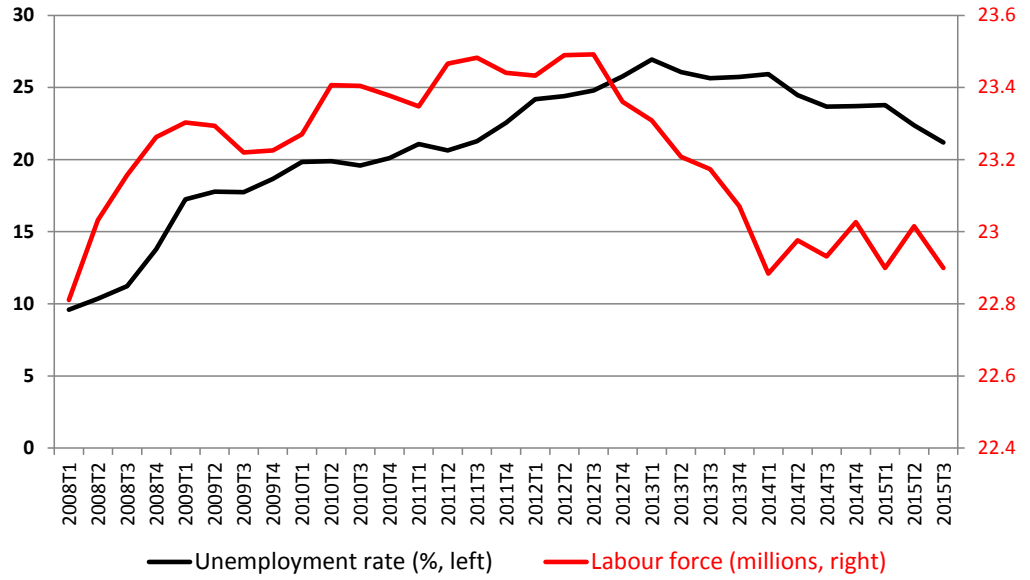
Source. Eurostat and author's elaboration. Note. Energy products correspond to the products under the SITC06 code in the SIT product classification.

3. The labour market

The 2012 Spanish labour market reform, one of the major structural reforms adopted recently, has been evaluated preliminarily by the OECD (OECD, 2013), the Bank of Spain (Banco de España, 2013), BBVA (BBVA, 2013) and more recently by García Pérez and Jansen (2015).

Figure 10 represents the unemployment rate as a percentage of the labour force and the labour force in millions with quarterly data.

Figure 10. Unemployment and labour force. Percentage of the labour force; millions.

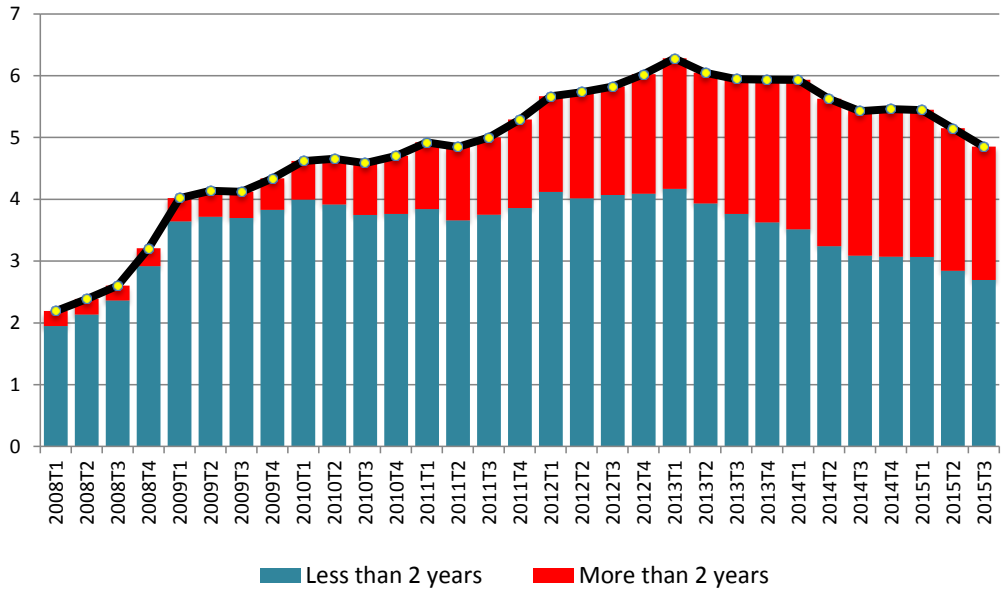


Source. INE and author's elaboration.

The unemployment rate grew continuously from the beginning of 2008 until the first term of 2013 when it peaked at 27%. Since then it has decreased and in the third term of 2015 it was 21%. The reduction of the unemployment rate, however, is preceded by a reduction of the labour force, which starts to shrink in the fourth quarter of 2012 and it has had a downward trend since then. The number of people in the labour force in the third term of 2015 corresponds approximately with that of the first term in 2008 with the difference that the unemployment rate is two times larger.

It is not only the case that the unemployment rate is higher in 2015 than in 2008 but it is also that it is increasingly difficult for the unemployed to find a job. Figure 11 represents the number of unemployed by the time of their job search, depending on whether it is more or less than two years.

Figure 11. Number of unemployed by length of the job search. Millions.



Source. INE and author's elaboration.

The first message that emerges from Figure 11 is a confirmation of the very important increase in the number of unemployed in Spain, from 2.2 million people in the first term of 2008 to 4.8 million in the third term of 2015. The second message is that within the unemployed, the proportion of those who have been unemployed for two or more years has increased dramatically. The long-term unemployment increased from the 11% in 2008 to the 44% in the third term of 2015. As it is well-known, the long-term unemployed are less likely to leave unemployment and can become demoralized and even stigmatized in the eyes of the employees (Jackman and Layard, 1991 and Machin and Manning, 1999).

Figure 12 represents the unemployment variation by three types of contract: employers and self-employed; employees with a permanent contract; and employees with a temporary contract.

The majority of employment losses between 2008 and 2010 corresponded to the self-employed and to employees with a temporary contract. The destruction of employment extended to permanent contracts in the period between 2010 and 2013, and since 2014 there has been some net positive gains in all classes. Table 2 summarizes these variations depending on the type of contract in the period 2008 – 2015 and for three subperiods.

Figure 12. Quarterly Variation on employment by type of contract. Thousands.

Source. INE and author's elaboration.

Table 2. Unemployment variation in Spain. Thousands.

	2008-Q2 2010-Q3	2010-Q3 2012-Q3	2012-Q3 2015-Q3	2008-Q2 2015-Q3
Total	**-1801.0**	**-1083.4**	**290.2**	**-2,571.3**
Employers and self-employed	-496.0	-24.4	61.7	-510.1
Employees w. permanent c.	-182.6	-672.9	-232.6	-867.5
Employees w. temporary c.	-1122.3	-386.1	461.2	-1,193.7

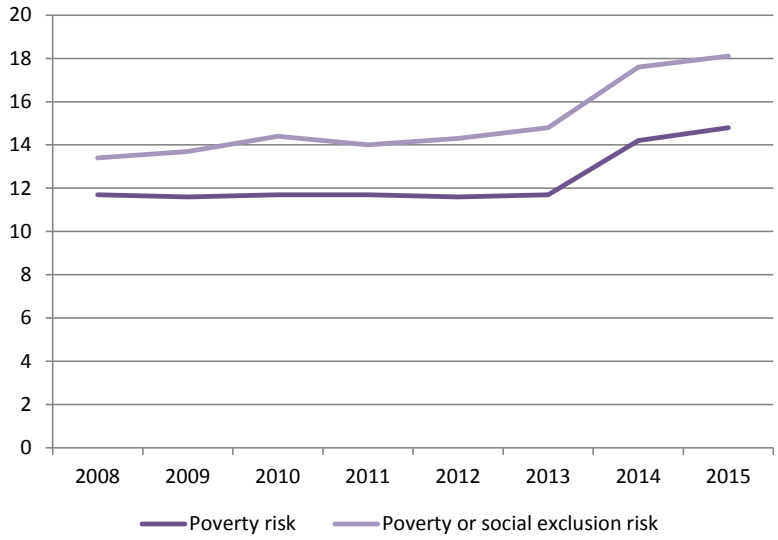
Source. INE.

There has been a loss of more than 2.5 million jobs between the second quarter of 2008 and the third quarter of 2015 (fourth column of Table 2). This loss is mostly concentrated in employees with a temporary contract, followed by employees with a permanent contract and finally by the self-employed. It is interesting to examine the evolution of the labour market between the third quarter of 2012 and 2015 (third column of Table 2) as this represent the post-labour market reform period. Table 2 shows that in this period there have been net gains in employment (290,000 jobs). These net gains, however, result from a substitution pattern: for every two new temporary contracts that were created, one permanent contract was removed. The total net gain in employment incorporates 60,000 new self-employed jobs.

Given that wages are the main source of income for the majority of households, conditions of persistent unemployment or underemployment in Spain (see IMF 2016b for details) are having important social consequences. Figure 13.A represents, for the

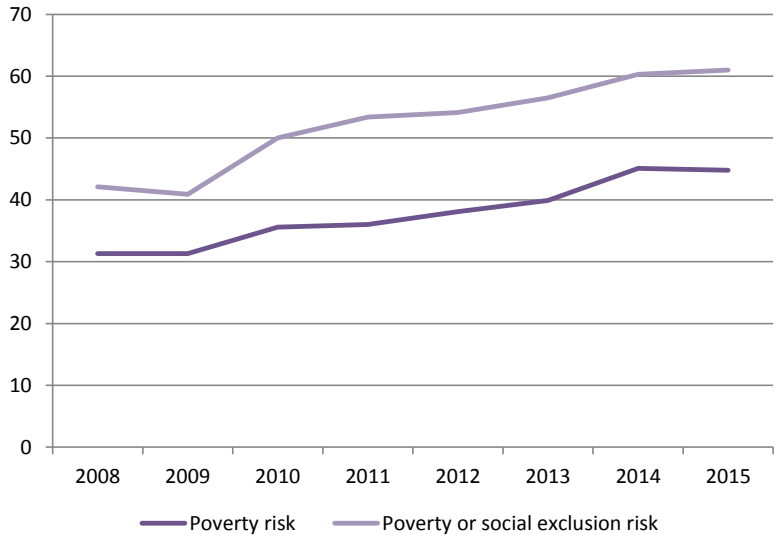
employed population, the risk of poverty (i.e. falling behind 60% of the median income) and the risk of poverty or social exclusion (AROPE definition of the Europe 2020 Strategy). Figure 13.B represents the same series for the unemployed population.

Figure 13.A. Employed at risk of poverty and at risk of poverty or social exclusion (AROPE, Europe 2020 Strategy). Percentage of people aged 16 and over.



Source. INE. Note. For each year, the statistic refers to the income of preceding year.

Figure 13.B Unemployed at risk of poverty and at risk of poverty or social exclusion (AROPE, Europe 2020 Strategy). Percentage of people aged 16 and over.



Source. INE. .Note. For each year, the statistic refers to the income of preceding year.

The likelihood that an unemployed adult is at risk of poverty or social exclusion has increased 20 percentage points between 2008 and 2014, moving from 40% to 60%. It is noteworthy that the risk of poverty and social exclusion has also increased among the employed population in 2 percentage points. The poverty rates, in the more restricted sense, have followed similar trends for both groups. These developments are seriously worrying and they point out at a mid-term scenario in Spain in which the middle class is downsized, poverty extends to children and the elderly, and poor people are increasingly the "new" poor (see Marí-Klose and Martínez Pérez, 2015, for a detailed study of the issue in Spain).

4. Internal devaluation

Recently there has been an intense debate about the potential benefits of "internal devaluation", i.e. reducing nominal wages, as a move to restore competitiveness in the Euro Area periphery. The theoretical argument supporting such a policy is that in countries where the exchange rate depreciation is not available to boost exports and reduce imports, moderation in nominal wages might be needed to restore competitiveness. Decressin *et al.* 2015 present the results of a multi-country review and, according to IMF model simulations, they find that the sign and size of wage moderation on output in the short run depends on a variety of factors.

In the case of Spain, a basic assessment on how the internal devaluation has helped to recover competitiveness comes from interpreting jointly Figures 14.A – 14.D.

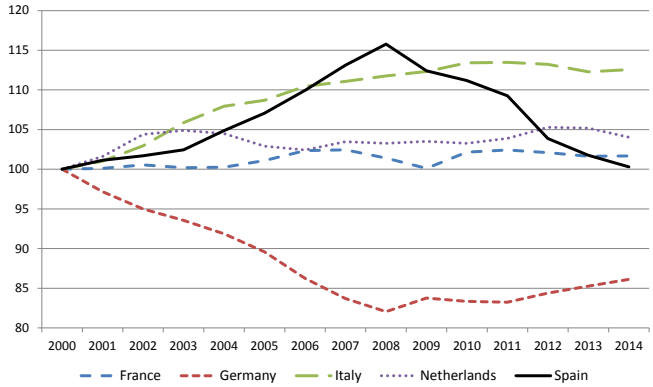
The main headline indicator of price-cost (or "internal") competitiveness, the real effective exchange rate (REER) deflated by the unit labour cost (ULC), has improved significantly in Spain between 2008 and 2014 (the latest available data). Figure 14.A and Figure 14.B represent this measure, for the total economy and for the manufacturing sector respectively, in the four largest Euro Area economies in relative terms to 2000. As it is well known, an increase in one country's REER implies that domestic products become more expensive in relative terms to other EA countries and, therefore, a loss of competitiveness.

The price-cost competitiveness conditions dramatically deteriorated in Spain and Italy between 2000 and 2008. In the manufacturing sector (Figure 14.B), both countries experienced an accumulated 25% competitiveness loss (i.e. REER appreciation) in this period due to lower productivity gains and higher wage and mark-up increases than the rest of the Euro Area. However, both countries have had opposite trajectories since then. While Italy kept losing competitiveness and reached a record-high REER appreciation of more than 30% in 2014, Spain had by then virtually recovered all the pre-2008 competitiveness loss, both in ULC for the total economy and the manufacturing sector. One reaches a similar conclusion when looking at the price deflator of the GDP (Figure 14.C). This suggests that there has been indeed an internal devaluation in Spain by which labour costs have grown less than productivity resulting in net productivity and competitiveness gains since 2008. This is confirmed by Figure 15 which represents the inflation rate in Spain and in the Euro Area in the period 2000 – 2014. In the years before 2008, the HICP inflation in Spain was on average one point higher than the inflation in the Euro Area (3.3% and 2.3% respectively). This sustained

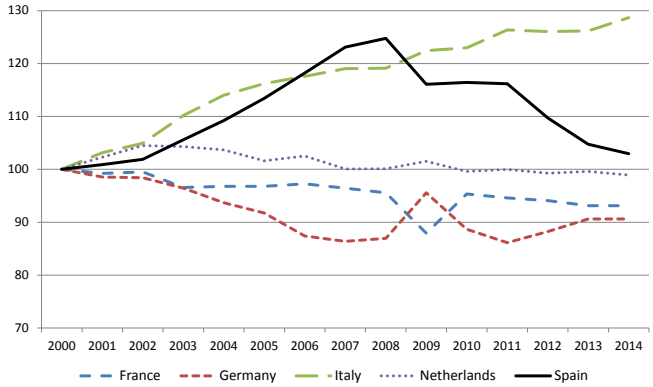
inflation differential vanished in 2009 and in the period 2009 – 2014, prices in Spain have grown at the same rate as in the Euro Area (1.4% on average).

Figure 14. Real Effective Exchange Rate (REER) vs EA19. Index 2000 = 100.

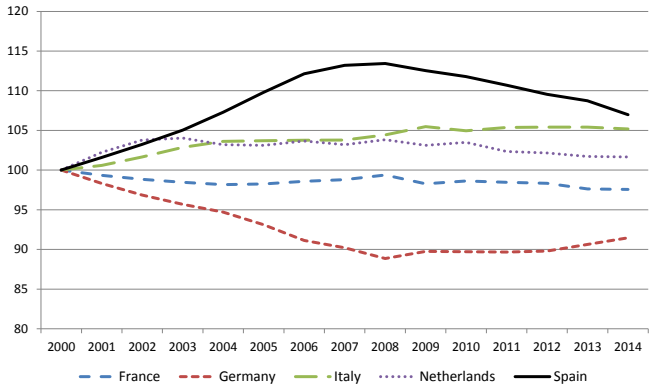
14.A. ULC, total economy



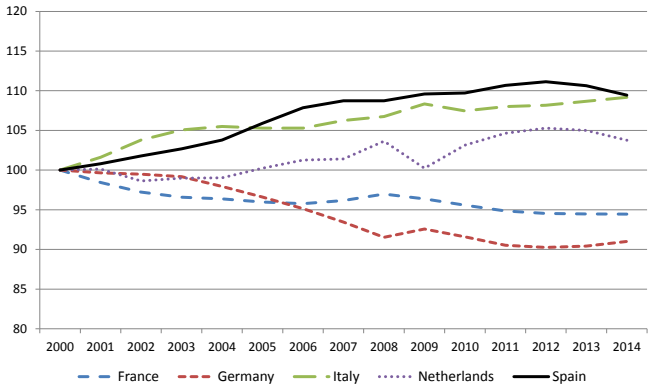
14.B. ULC, manufacturing



14.C. Price deflator, GDP



14.D Price deflator, exports



Source. European Commission (Price and cost competitiveness indicators) and author's elaboration.

Has this process of price and wage contraction contributed to recovering “external competitiveness”? In other words, is it because lower wages have generated cheaper products that Spanish exports have increased so significantly (Figure 5.B)? This is a complex question with no straightforward answer, but there is some evidence that this is *not* the case.

Figure 15. All-items HICP. Annual average rate of change.

Source. Eurostat.

Figure 14.D represents the REER deflated by the prices of exports for the four largest Euro Area economies and it can be interpreted as a super-aggregate relative price index. The series in Figure 14.D show a sustained increase in this relative price for the case of Spanish exports from 2000 to 2013. Comparing this figure with Figures 14.A – 14.C, a tentative conclusion is that the important internal cost compression that has taken place in Spain between 2008 and 2014 has not been transmitted to the goods and services sold in the foreign markets. Wages in the Spanish economy are declining over time since 2008 but the price of the products the country ships to the rest of the world are not, in relative terms to the rest of Euro Area countries. This is consistent with the very general observation that exporting firms tend to pay higher wages because, among other reasons, they are more productive (see Schank *et al.* 2007 for Germany and Gayà and Groizard, 2015, for Spain).

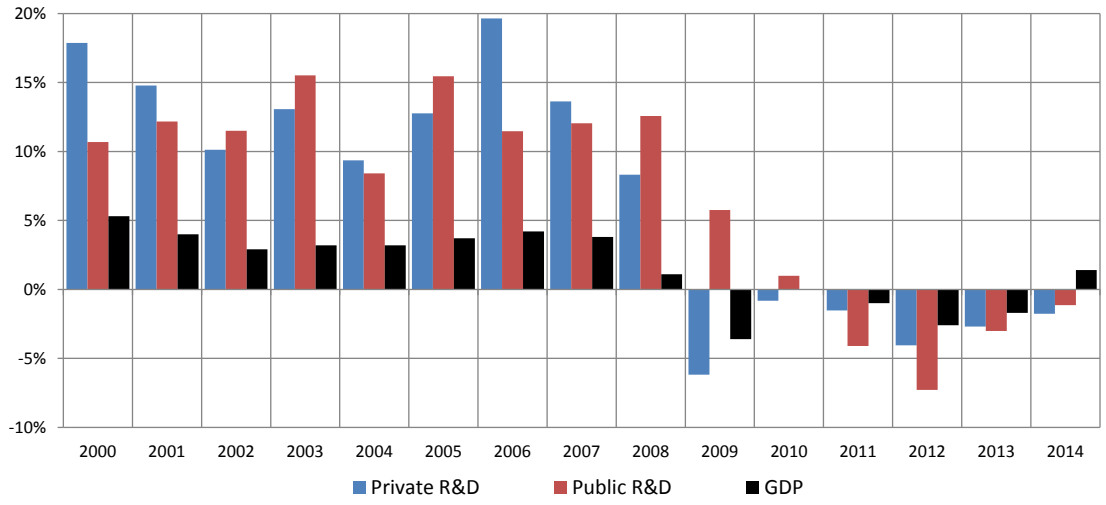
This, in turn, suggests that Spanish exports grow by other, “non-price” competitiveness factors different than low internal costs. A possible reason is that Spanish goods (and related services) are perceived to be offering a higher value added to foreign markets, by means of implementing several arguments of vertical differentiation: better product quality, innovative design, larger portfolio of varieties, more comprehensive post-sale service, etc.

5. Miscellaneous

5.1 R&D and innovation

It is well known that the crisis has led to reduce investments in Spain, both public and private. This is also the case of R&D expenditure. The first cut in aggregate private R&D expenditure in Spain was in 2009 and the first cut in public R&D was in 2011. In 2014 (the year with the latest available data), both types of R&D expenditure decreased, 1.1% in public and 1.8% in the private sector. Therefore there have been four years in a row of reductions in the public R&D expenditure and six years in the private one (Figure 16).

Figure 16. Variation in private R&D expenditure, public R&D expenditure and GDP. Percentage change.

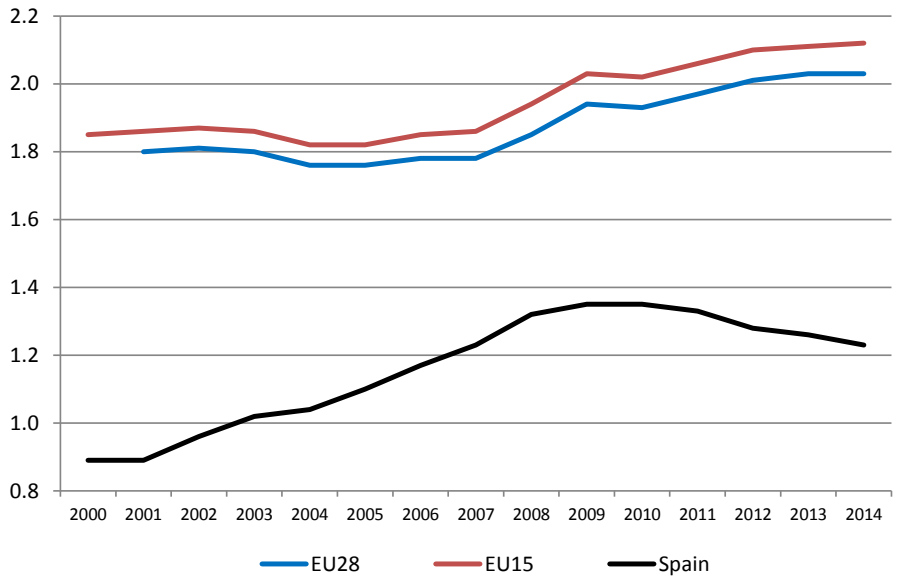


Source. INE and author's elaboration.

The cuts in 2014 are particularly worrying because it is well established, both theoretically and empirically, that R&D investment –and particularly the private component- is strongly procyclical, i.e. it grows when the GDP grows. This could indeed help explain the falls in R&D in the crisis years (Barlevy, 2007; Fabrizio and Tsolmon, 2014). But the fact that R&D expenditure reduced in 2014, the first year of the economic recovery, casts doubts about the role that R&D and the knowledge economy play in the growth pattern in Spain.

Measuring the R&D investment in relative terms to the GDP (what is known as the R&D intensity) allows for comparisons across countries. Figure 17 reports the R&D intensity for Spain, the EU28 and the Euro Area (EU15). While Spain has reduced the investment in R&D continuously since 2008, the EU28 as a whole has steadily increased it. This means that the convergence of Spain towards the EU28 in R&D intensity halted in 2008 and the gap is increasing since then.

Figure 17. R&D intensity in Spain, the EU15 and the EU28. Ratio R&D/GDP.



Source. Eurostat and author's elaboration.

As R&D investments are concentrated in a very few, high-tech manufacturing sectors, one could think that the problems in the R&D sector are not very relevant for the whole economy. Figure 18.A and 18.B represent the number of Spanish companies that perform technological and non-technological innovation activities respectively. Both series are in free fall since 2008 and this makes a stronger case against a knowledge-based recovery in Spain.

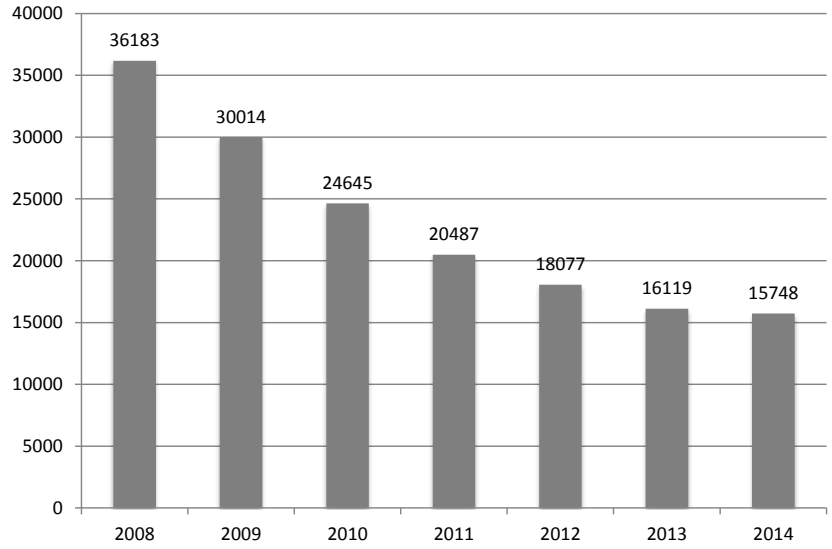
5.2 Business demography

The year 2008 was a turning point in the recent evolution of Spain's business demography. In the period prior to the outbreak of the economic crisis, new business formation, understood broadly to include sole proprietors as well as all types of companies (joint-stock companies, limited companies and other types of company) exceeded closures by a wide margin (Figure 19).

Between 1999 and 2008, an average of around 100,000 businesses a year were created in net terms. Growth was particularly strong in 2007, with the creation of over 160,000 businesses, and in 2004 - 2006 net new business registrations exceeded 120,000 a year. The dynamics of business creation began to change in Spain in 2009. Since that year and until 2014, there has been an average net contraction just under 60,000 businesses a year. The pattern changed again in 2015, the first year in which there were net positive business registrations (70,054) since the crisis. The recovery, however, was atypical in historical terms with regard to the types of businesses that were being created. Figure 20 shows the net business registration figures broken down

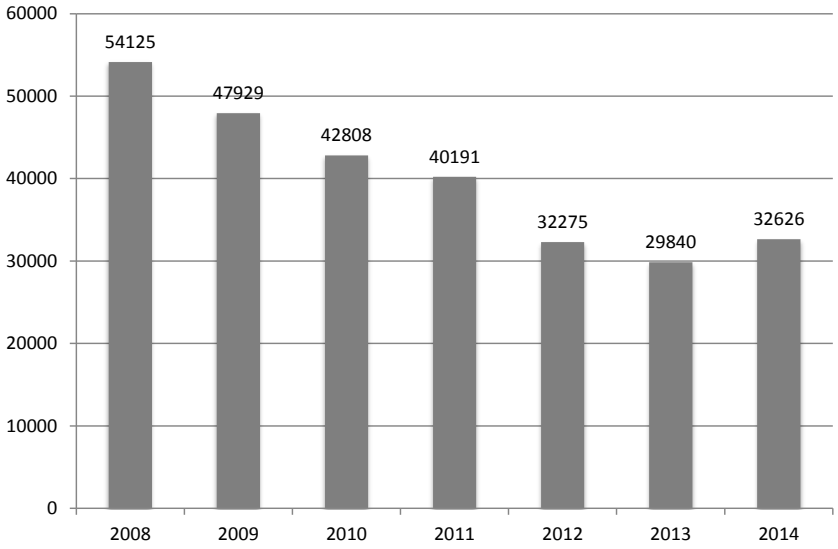
by legal nature. Most of the net business registrations in 2015 (75%) were self-employed persons.

Figure 18.A. Companies undertaking technological innovation activities in Spain



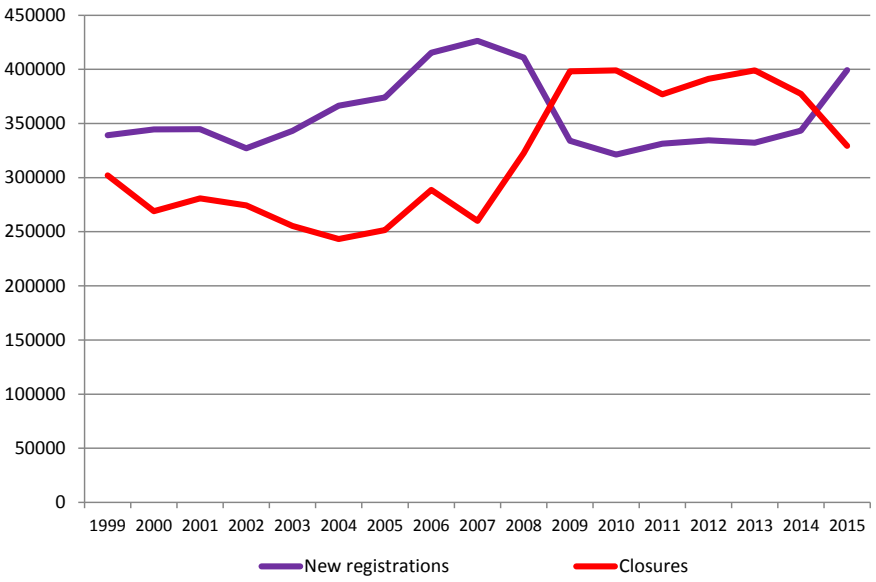
Source. INE.

Figure 18.B. Companies undertaking non-technological innovation activities in Spain



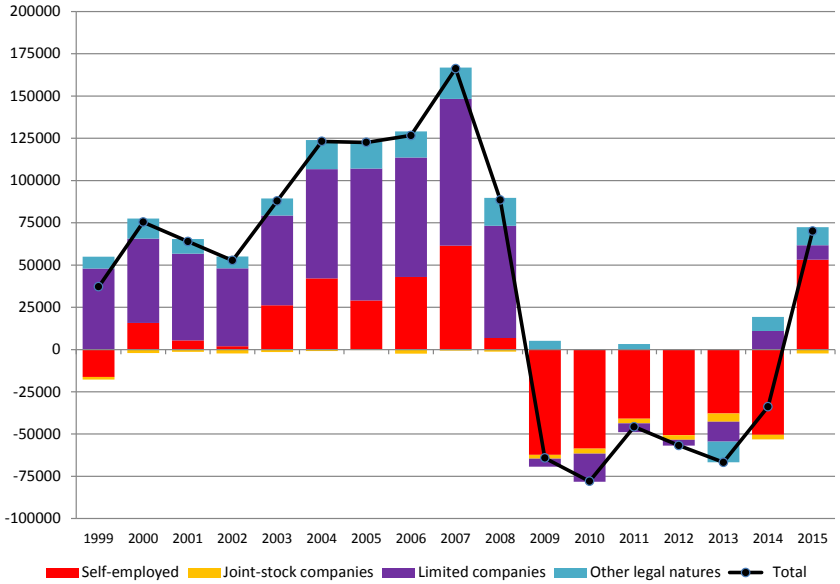
Source. INE.

Figure 19. New registrations and closures of businesses



Source. INE.

Figure 20. Net new registrations of business by legal nature



Source. INE and author's elaboration.

This represents a difference from the trend prior to 2008, when limited companies made up the largest share of new businesses. In the absence of more information and evidence, the data suggest that the business recovery could in part be sustained by a process of substitution of legal nature, in which self-employed persons replace legal persons (limited companies, in particular).

6. Conclusions

This paper has gathered together and analysed a number of economic indicators that are relevant for making a preliminary, partial assessment of the economic policy reforms recently adopted in Spain. The economic recovery that Spain is experiencing after the 2008 crisis appears to be characterized by some stylized facts.

1. The deteriorating trend in the Spanish current account changed in 2009, when no significant structural reform had yet been adopted, and the same applies to most price/cost competitiveness indicators (real exchange rates adjusted in a number of ways). It can be argued that the extraordinary recovery in Spain – which, according to the latest data, is growing twice as fast as the Euro Area and four times faster than France and Italy combined– has later on been supported by domestic reforms, the EU economic governance and the ECB's change in monetary policy. But it is beyond doubt that the initial "U-turns" were clearly not responding to any public policy action.

2. The Spanish economy has certainly corrected some of its more acute imbalances, not only external but also internal. The financial sector is definitely in better shape now than before the crisis and public debt has abandoned the explosive trajectory originated in 2009. The construction and real estate sectors downsized significantly and much of the loss in value added is being made up by exports. However, the core indicator of the internationalization of the economy -the net exports of non-energy products- represents only 0.5% of the Spanish GDP in 2014 (latest available data). This figure has been going up in the last years but it is still much lower than, not only the German and Dutch ones (both above 10% of the GDP) but also the Italian (5.3%). These gaps are a measure of the challenges ahead for the internationalization process of Spanish firms. This is also observed in the decomposition of GDP growth between domestic and external: as soon as the domestic conditions improve, virtually the whole of GDP growth comes from domestic demand growth.

3. It is in the labour market arena where domestic reformism has been more active, and controversial, with the 2012 labour market reform and its subsequent developments. In the reform aftermath, employment, but specially unemployment, appears to be with very different conditions in 2015 than in 2008. The proportion of the unemployed who are looking for a job for two years or more has increased by a factor of four during the period, reaching 44%, and the percentage of unemployed under poverty or social inclusion risk has moved from 40% to 60% in the period. There has been net job creation in the three years after that reform, but following a substitution pattern by which for every two new temporary contracts that are created, one existing permanent contract is lost.

4. There is recent evidence of some redefinition of firms' boundaries and the organization of labour in the Spanish economy. In 2015, for the first time since the crisis, there has been net creation of business, including individuals (sole proprietors) and all types of companies. However, and this is a historical novelty in Spain, it is the first time that the type of business which contribute most to the net growth of companies is the sole proprietors, while joint-stock companies continue in a long-standing decline and limited liability companies are increasing very slowly. It is too soon to consider this as the beginning of a trend and, on the top of this, the consequences of such a move is not at all clear. However, it is likely that the new pattern reflects a change in corporate strategy that now prefers smaller structures and to increasingly rely instead on outsourcing to individuals.

5. The number of Spanish companies that perform innovation, both technological and non-technological, is in free fall since 2008. This adds to the worrying behaviour of R&D spending, which in the public sector is decreasing for four years in a row and for six years in the private sector. Although it is true that the R&D is concentrated in very few, high-tech manufacturing industries, it is not easy to understand why Spain is, once again different. R&D in Spain did not grow in 2014, the first year of GDP growth after the crisis, while R&D in the rest of the EU28 has not ceased to grow.

Part of what we observe does not reflect the impact of the last reforms but the manifestation of deeper, more fundamental shortcomings of the Spanish economy and institutional setup. There are a good number of recent works that focus precisely in these base conditions of the economy and the structural bottlenecks that should be addressed to foster growth and prosperity in Spain (Andrés and Doménech, 2015; Martín Carretero, 2016; and Sebastián 2016).

In any case, the case for a private sector-led, "automatic" adjustment after 2008 is stronger than the one to be made for recovery through reform and it is now time to govern the recovery.

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