

The great challenge of the Spanish economy: to improve productivity

Spain's economy is currently enjoying a dynamic growth rate, but such a rate will be difficult to sustain in the medium term. To a large extent, it is based on job growth. On the other hand, productivity growth is rather modest. If economic growth is to last and translate into an improvement in the well-being of all citizens, it is essential to turn this situation around. Ideally, economic growth should be fundamentally driven by improvements in what occurs during the working day: productivity.

This challenge is far from a new one. Since 1996, GDP has grown by an annual average of 2.0%. Job growth, meanwhile, has averaged 1.6% over the same period. On the other hand, the rate at which productivity has grown (measured as GDP in real terms per hour worked) has been 0.7% (the number of hours worked per worker decreased). The road ahead is long. Moreover, in recent years the economy has moved in the opposite direction to where we ought to be headed. Since 2014, GDP has continued to grow at an average rate of 2.0% per year. In contrast, employment has advanced by 1.8% and productivity, by 0.4%.

Not only has productivity growth decelerated, but it has also remained below that of the EU. Productivity growth in the European economy as a whole has been 0.8% on average since 2014. Thus, whereas in 2014 the Spanish economy had a similar level of productivity to that of the EU as a whole (in terms of GDP measured in purchasing power parity per hour worked), by 2023 it was more than 4% below. Recovering the lost ground is no easy task. If EU productivity continues to grow at the same rate and the Spanish economy manages to quadruple its rate of progress, it will catch up with the EU by around 2030.

Between 2010 and 2014, productivity in Spain grew by 1.6%, so the challenge is not unattainable, although this was the result of a very specific context. There is no magic recipe for boosting productivity growth in a lasting way, and the challenge must be addressed from multiple angles. I would highlight three areas where action must be taken. Firstly: investment, both in physical capital and in human capital, and in terms of both quantity and quality. There is plenty of scope for improvement when comparing the figures for Spain's economy with those of the major developed countries.

Secondly: the size of companies. In Spain, large corporations account for a smaller proportion of all companies compared to in the major advanced economies. Larger companies are generally more productive than smaller ones. This is partly because the most successful companies, which tend to be the most productive ones, grow the most. But larger companies also tend to be more productive because they have critical mass for certain investments and are in a better position to get the most out of them. Thus, their ability to innovate and invest in talent tends to be greater. In the current context, this is key.

Finally: the sectoral composition of the economy. Different sectors have different productivity levels and, moreover, productivity grows at different rates depending on the sector. In Spain, sectors with lower productivity represent a larger proportion of the economy than in the benchmark countries, and their relative weight has even increased in recent years. However, Spain's economy also has sectors which are both highly productive and are enjoying steady productivity growth, such as manufacturing, professional, scientific and technical activities, and information and telecommunications services. Any measures that facilitate these sectors' development will lead to greater productivity growth across the Spanish economy as a whole.

The goal has been identified and diagnosed for some time, but it is difficult to achieve. It requires patience, because it takes time. It requires resources, both public and private, because transforming the productive fabric of the economy is both costly and risky, especially in times of disruptive technological changes. Furthermore, it requires determination and cooperation among the various institutions and agents involved, precisely because the challenge is so great. There are many requirements, all difficult to achieve. That is why increasing productivity is the great challenge of the Spanish economy.

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June 2024