The Spanish Variant of the Dutch Disease

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Figures without attribution taken from: “Nada Es Gratis” (Destino 2011) by

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Juan Rubio (Duke)
Tano Santos (Columbia)

and from NadaEsGratis blog.
Dutch disease here: Asymmetric, one resource intensive sector growth.
basic story
Convergence
Real Per Capita GDP, 1= EU-15

Pre-crisis

Crisis

Source: FEDEA McKinsey Study, 2010; Data from The Conference Board, IMF
Eurozone: Persistent Inflation Divergence

12-Mo. Moving Average HCPI for Eurozone (1999=100)

Source: IMF, Stijn van Nieuwerburgh
Real Interest Rate
Cheap financing, directed to what?

Demand

- Spaniards traditionally have had their savings in real estate (second, third home “for the kids”) After wars, inflation and defaults, strong prior that bricks are the only safe assets

Supply

- Large pool of unskilled unemployed workers
- Institutional set up, with easy temp contracts, conducive to low skill segment
  - Like Acemoglu’s directed technological change

Financing channel

- Tiny margins (generally Euribor plus .25%) due to brutal competition from Cajas deregulated, growing out of their home territories
- Only willing to make loans with collateral … RRE and CRE which can securitize in large, liquid, well functioning covered bond markets (like MBs but with recourse)
Construction and CRE

CRE Credit as a share of all business credit

Mortgage credit as a share of all consumer credit
External financing gap

FUENTE: Banco de España
Private and Public debt as a percentage of GDP.
Exports held up well

Source: Antras and Segura
Long term consequences

(1) Competitiveness, productivity, growth: reverting skill biased tech change

(2) Deficit: tricky political economy

(3) Banks stuck with bad assets: Tano
1. Brick laying and bars bring little TFP growth

and lowers incentives for human capital investment
### Contribution to GDP

<table>
<thead>
<tr>
<th>REAL GDP</th>
<th>Labor</th>
<th>Capital</th>
<th>TFP</th>
</tr>
</thead>
<tbody>
<tr>
<td>3.1%</td>
<td>0.9%</td>
<td>1.5%</td>
<td>1.2%</td>
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<tr>
<td>2.2%</td>
<td>0.6%</td>
<td>1.2%</td>
<td>0.4%</td>
</tr>
<tr>
<td>3.6%</td>
<td>2.3%</td>
<td>1.9%</td>
<td>-0.7%</td>
</tr>
</tbody>
</table>

1 Para EU-15 los datos son del período 1995 – 2005 y sólo incluye países para los que el efecto multifactorial puede ser calculado: AUT, BEL, DNK, ESP, FIN, FRA, GER, ITA, NLD & UK

**FUENTE: EU KLEMS**
Human Capital Investments

- What is unusual of Spanish disease is distortion in human capital investment decisions
  - Bubble (sun and bricks) investments require very little human capital

- Wage signals encourage dropping out of school
  - Huge share of Ni-Nis (no job, no education)
  - Great difficulty in solving employment dilemma.
Wage Premia

Gráfico 1: Prima salarial a la educación

Varones

Muñeres

1.5
1.25
1
0.75
0.5
0.25
0.5
1
1.25
1.5

Año


Titolados universitarios/ESO o menos

Ocupaciones de alta cualificación/Ocupaciones baja cualificación


Source: NadaEsGratis: ¿Vale la pena estudiar? (VI) La inusual caída de la ganancia salarial resultante de la educación avanzada, Garicano, Felguero, Jiménez, 9/12/2010
### (A) Estimated Quantiles of Daily Earnings

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<td>All</td>
<td>25.5</td>
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<td>25.5</td>
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<td>Men</td>
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<td>27.2</td>
<td>30.1</td>
<td>29.8</td>
<td>1.24</td>
<td>7.32</td>
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<td>2.59</td>
<td>4.47</td>
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<td>Women</td>
<td>22.6</td>
<td>20.1</td>
<td>21.3</td>
<td>21.3</td>
<td>-10.74</td>
<td>3.39</td>
<td>0.19</td>
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<td>2.03</td>
<td>1.24</td>
<td>2.46</td>
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### (B) Ratios from Estimated Quantiles

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<td>4.34</td>
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<td>19.95</td>
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<td>Women</td>
<td>3.40</td>
<td>4.43</td>
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<td>30.44</td>
<td>0.63</td>
<td>5.16</td>
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**Note:** Unconditional quantiles estimated from Social Security data.

Source: Bonhome and Hospido March 2012, WP
Very unusual!!

Table 3. Changes in Overall Inequality Ratios (٪)

<table>
<thead>
<tr>
<th></th>
<th>United States*</th>
<th>Spain**</th>
<th>Germany***</th>
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<tbody>
<tr>
<td>90/10</td>
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<td>90/10</td>
<td>85/15</td>
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<td>Men</td>
<td>18.3</td>
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<td>25.7</td>
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<tr>
<td>Men</td>
<td>10.2</td>
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<td>50/10</td>
<td></td>
<td>50/10</td>
<td>50/15</td>
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<tr>
<td>Men</td>
<td>8.1</td>
<td>3.94</td>
<td>2.5</td>
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<tr>
<td>Women</td>
<td>14.4</td>
<td>14.31</td>
<td>5.6</td>
</tr>
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</table>

Large growth of labor prices and quantities in construction

Source: Bonhome and Hospido March 2012, WP
Temporary Employment Rates

Gráfico 2: Tasas de temporalidad
30-44 años (1987-2010)

Fuente: EPA, 2º trimestres de 1987-2010

Source: NadaEsGratis. ¿Vale la pena estudiar? (VI) La inusual caída de la ganancia salarial resultante de la educación avanzada, Garicano, Felguero, Jimenez, 9/12/2010
High School Dropouts

Gráfico 1: Abandono escolar temprano
(% de población de 18 a 24 años con un nivel educativo de secundaria obligatoria o menos, que no está estudiando o en proceso de formación, 2009)

Fuente: Eurostat

NadaEsGratis: Alerta Roja Generación Ni-Ni: 750,000 jóvenes ni estudian ni trabajan (Florentino Felgueroso y Luis Garicano) 30/09/2010
Evolution of dropout rate
2. Public deficit: hard to reverse collapse in revenue
With little/no public deficit to start with
Political Economy: Pensions first!
Gráfico de la Tasa de dependencia desde 2009 a 2049.
Regions account for large share of expenditure

- Seguridad Social: 29%
- Admón. Central: 22%
- CCAA: 36%
- CCLL: 13%
Total debt

Figure 3. Public debt measures, international comparison

%GDP

Source: Eurostat and European Central Bank
Long Term Consequences (3): Housing and land stock

Large unsold stock of housing

Large amount of real estate debt sitting in banks book: for Tano
Large housing inventory (upper bound*)

<table>
<thead>
<tr>
<th>(Thousands)</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
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<tbody>
<tr>
<td><strong>Finished Housing Units</strong></td>
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<tr>
<td></td>
<td>564</td>
<td>592</td>
<td>659</td>
<td>647</td>
<td>632</td>
<td>424</td>
<td>276</td>
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<tr>
<td><strong>Sales</strong></td>
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<td></td>
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<tr>
<td></td>
<td>295</td>
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<td>410</td>
<td>412</td>
<td>333</td>
<td>241</td>
<td>200</td>
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<tr>
<td><strong>Unsold</strong></td>
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<tr>
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<td>269</td>
<td>255</td>
<td>248</td>
<td>235</td>
<td>299</td>
<td>183</td>
<td>76</td>
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<tr>
<td><strong>Inventory</strong></td>
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<td>269</td>
<td>524</td>
<td>772</td>
<td>1007</td>
<td>1306</td>
<td>1489</td>
<td>1565</td>
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*Unaccounted sales are promotions for own use or in cooperatives

NadaEsGratis: El mercado inmobiliario: ¿de dónde saca el ministerio evidencia de mejoría? 
*by LUIS GARICANO on 19/05/2011*
Gigantic housing stock

US 12 months

Spain: 100 months?

CRE loans still to be digested

308 bn
Conclusion

- Spain needs inevitably help from the EU
  - A bad bank, worth 100bn euro
  - Some employment program. Maybe a new contract paid with European union funds that has 0 termination costs but a firing insurance (like the Austrian system) finance from Europe (Jacques Delpla’s proposal)

- This is peanuts compared to what is needed if things continue to spin out of control.