

Convergence

Diario Expansión (Spain)

Miguel Cardoso

02 Jul 2018

In a document that is now famous, the Nobel Laureate for Economics, Robert Lucas, marvelled at the different income levels between countries and the varied growth experiences. Observing the tremendous heterogeneity, he exclaimed: "I don't know how you can look at these figures without seeing them as possibilities." Lucas was specifically referring to the fact that such variety invites one to try to deduce the measures behind levels of welfare in a territory. Famously, this researcher stated that once you begin thinking about the consequences of policies that can be implemented to increase wealth, "it is very difficult to think of anything else." The same happens when looking at differences in income of people from different Autonomous Communities.

Generally speaking, a region's well-being is determined by the percentage of available inputs available and how productive they are. In the first case, some measures include the unemployment rate (what percentage of people who are willing to work do not have a job) or activity (how many of those of working age want to participate in the labour market). For example, current GDP per capita in Extremadura is around 50% of that of the Basque Country. If both the unemployment rate and the activity rate were equal to the levels in the Basque Country, the income per person in Extremadura would rise to 70% of that seen in the Basque Country. The remaining difference can be explained by the productivity gap between the workers of both communities.

How does one fix that? Part of the answer may require demand-side policies that promote an acceleration in the cyclical recovery of employment and encourage the return of certain people to the labour market they abandoned. In this regard, Governments have implemented measures aimed at helping people regardless of where they live. Recently, however, a group of researchers in the US suggested reconsidering this strategy. Austin, Glaeser and Summers argue in favour of spending initiatives that also take into account the location of workers. There are various reasons for this. First, because the probability of finding a job may differ geographically. Being unemployed is not the same in a community like the Basque Country, where unemployment is already almost 5 percentage points below average for the last 40 years, as it is in Castilla-La Mancha (4 percentage points above average). Secondly, because certain factors act to discourage geographic mobility. In the past, migratory flows worked to reduce inequality between regions. Today, however, the high percentage of owner-occupied households, along with the increases in rental prices, could be limiting relocation opportunities only to the most qualified workers. Finally, lower levels of productivity reflect significant differences in the balance of physical and human capital between autonomous communities. An adequate infrastructure construction programme, or a programme to promote education and training for the unemployed, would take into account this existing diversity.

In any case, we must remember that these types of policies require that communities with more income show some solidarity, and the key to justifying that solidarity would reside in the efficient use of such resources. For example, at BBVA Research, we have proposed linking unemployment benefits to the economy's cyclical situation (which could even be that of the autonomous community's economy), increasing (decreasing) the length of benefits during a crisis (Expansión). The goal would be to redistribute resources geographically and when and where they are most needed. However, this can only be politically

sustainable if, at the same time, measures are taken to, for example, rationalise eligibility criteria for such benefits or to broaden the definition of an adequate job offer. Likewise, it is essential that any initiative to increase public investment be preceded by an assessment making the economic and social costs and benefits clear to the population. Finally, in the long term, these palliative spending policies will not be able to substitute the necessary labour market or educational system reforms, which are necessary conditions to promote a recovery that doesn't create inequality.

This document has been prepared by BBVA Research Department, it is provided for information purposes only and expresses data, opinions or estimations regarding the date of issue of the report, prepared by BBVA or obtained from or based on sources we consider to be reliable, and have not been independently verified by BBVA. Therefore, BBVA offers no warranty, either express or implicit, regarding its accuracy, integrity or correctness.

Estimations this document may contain have been undertaken according to generally accepted methodologies and should be considered as forecasts or projections. Results obtained in the past, either positive or negative, are no guarantee of future performance. This document and its contents are subject to changes without prior notice depending on variables such as the economic context or market fluctuations. BBVA is not responsible for updating these contents or for giving notice of such changes.

BBVA accepts no liability for any loss, direct or indirect, that may result from the use of this document or its contents.

This document and its contents do not constitute an offer, invitation or solicitation to purchase, divest or enter into any interest in financial assets or instruments. Neither shall this document nor its contents form the basis of any contract, commitment or decision of any kind.

In regard to investment in financial assets related to economic variables this document may cover, readers should be aware that under no circumstances should they base their investment decisions in the information contained in this document. Those persons or entities offering investment products to these potential investors are legally required to provide the information needed for them to take an appropriate investment decision.

The content of this document is protected by intellectual property laws. It is forbidden its reproduction, transformation, distribution, public communication, making available, extraction, reuse, forwarding or use of any nature by any means or process, except in cases where it is legally permitted or expressly authorized by BBVA.