



Flash Economics

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Are we sure that Spain, Portugal and Greece will now have solid economies?

After an austerity cure in the early 2010s, Spain, Portugal and Greece returned to apparent economic health (growth, low fiscal deficits, etc.) in 2014 (Spain), 2016 (Portugal) and 2018 (Greece).

But these countries have cut spending on healthcare (all three countries), education (especially in Portugal), R&D (Portugal, Spain) and investment (all three countries).

Is it possible for them to return to a strong economy by cutting back on this spending on the future? In these three countries, we look at:

- The performance of the education system;
- Productivity gains;
- The nature of productive specialisation.

We conclude that these countries have suffered from the decline in public spending on education, R&D, healthcare and investment, as we have seen since 2010:

- A decline in the efficiency of the education system;
- Specialisation in unsophisticated business sectors (agricultural and food industries, services, tourism);
- Stagnant or declining productivity.



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On the face of it, Spain, Portugal and Greece have returned to a solid economic footing

Spain, Portugal and Greece conducted an austerity policy in the early 2010s: public spending cuts (**Chart 1**), leading to a decline in activity and employment (**Charts 2A and B**).

Chart 1
Real public spending
(deflated by GDP deflator, 2002 = 100)

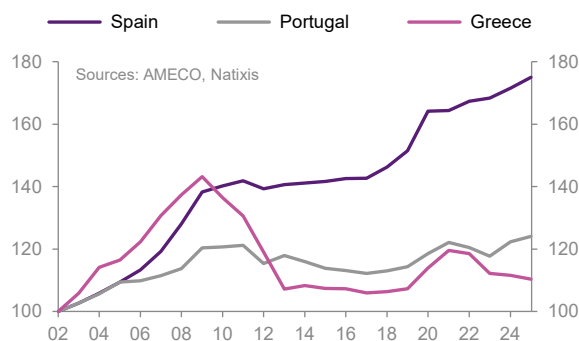


Chart 2A
Real GDP (2002:1 = 100)

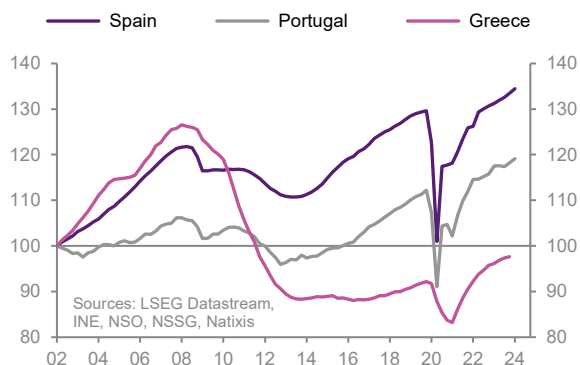
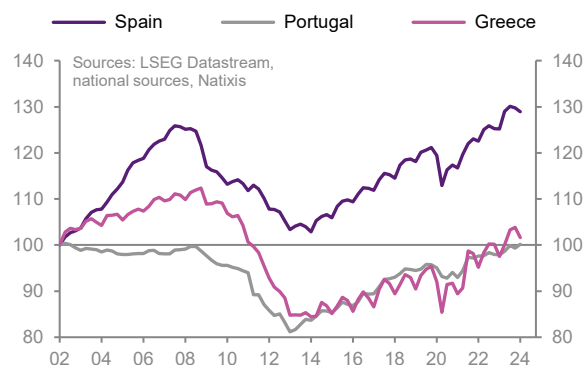


Chart 2B
Employment (2002:1 = 100)



On the face of it, since 2014 (Spain), 2016 (Portugal) or 2018 (Greece), these countries have returned to good economic health: growth (**Chart 3**), falling unemployment (**Chart 4**), reduced fiscal deficits (**Charts 5A and B**).

Chart 3
Real GDP (Y/Y as %)

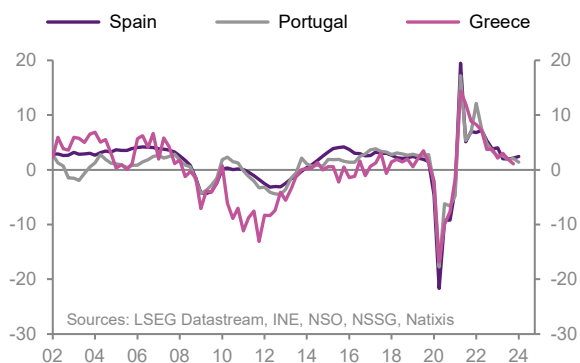


Chart 4
Unemployment rate (as %)

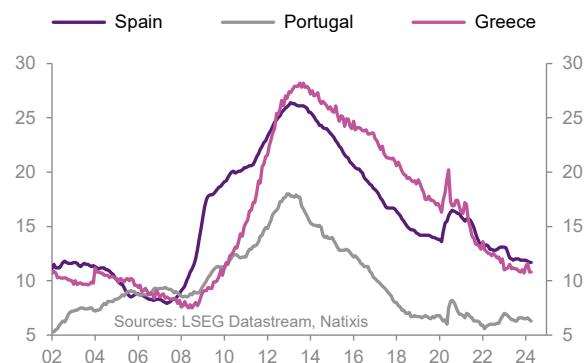


Chart 5A
Fiscal surplus or deficit
(as % of nominal GDP)

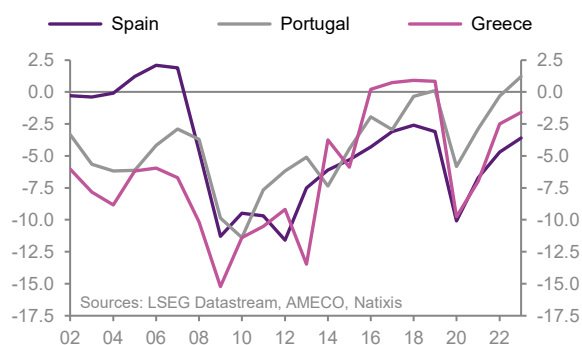
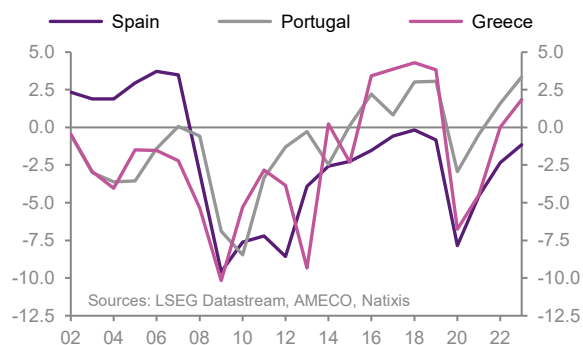


Chart 5B
Primary fiscal surplus or deficit
(as % of nominal GDP)

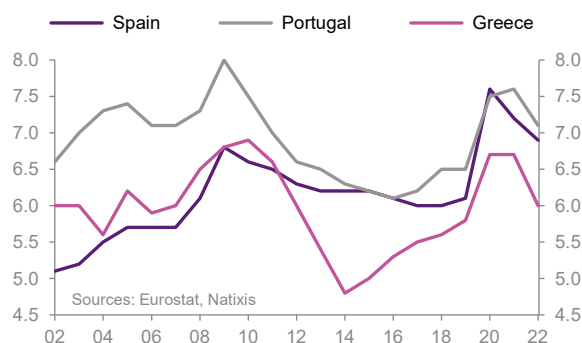


But is it possible that the austerity cure has left no negative traces?

The decline in public spending is particularly worrying in:

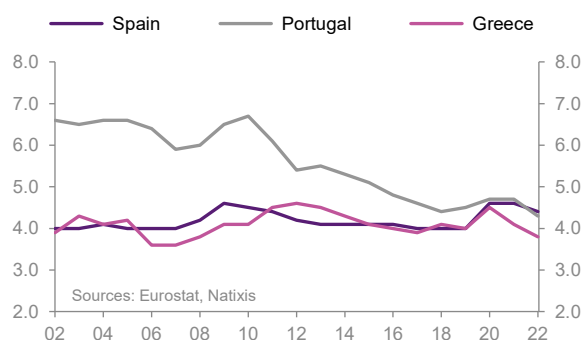
- Healthcare (Chart 6);

Chart 6
Public spending on healthcare
(as % of nominal GDP)

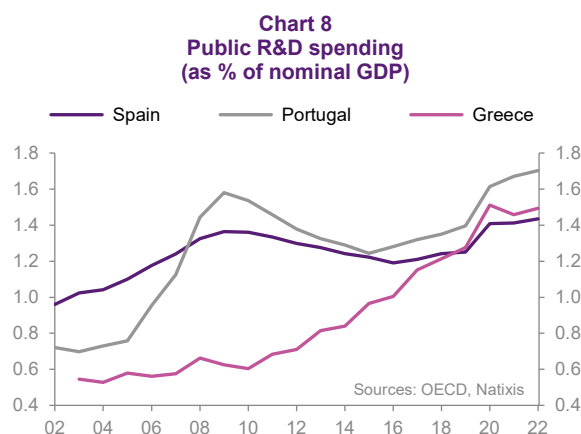


- Education, especially in Portugal (Chart 7);

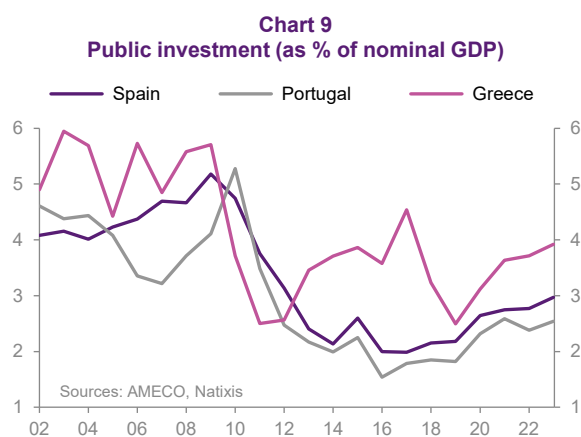
Chart 7
Public spending on education
(as % of nominal GDP)



- **Research and development** (Portugal, Spain, **Chart 8**);



- **Investment** (for the three countries, **Chart 9**).



The decline in all of this spending on the future may have undermined the quality of the education system and the nature of productive specialisation, and may have reduced productivity.

Lasting negative effects of cuts in spending on the future?

Public spending on healthcare, education, R&D and investment has been cut.

We seek to determine whether these cuts in spending on the future have caused a structural deterioration in the economies.

1. Performance of the education system

Table 1 shows the results of the PISA surveys in Spain, Portugal and Greece. We can see that, **since 2009, the performance of the education system has fallen in all countries, and especially in Greece.**

Table 1: OECD PISA survey (overall score)

Country	2003	2006	2009	2012	2015	2018	2022
Spain	484	476	484	490	491	482	477
Portugal	470	471	490	488	497	492	478
Greece	466	464	473	466	458	453	436

Sources: OECD, Natixis

2. Nature of productive specialisation

Charts 10A to E and 11A to D show a **productive specialisation since 2010**:

- In Spain, to the agricultural and food industry, household services and business services;
- In Portugal, to tourism, household and business services;
- In Greece, to consumer goods and tourism.

Chart 10A
Manufacturing production (2002:1 = 100)

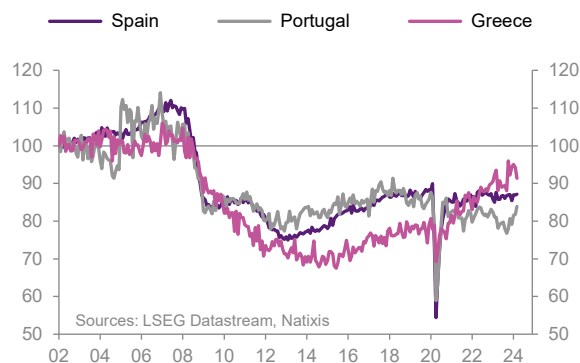


Chart 10B
Industrial production in agri-food (2005:1 = 100)

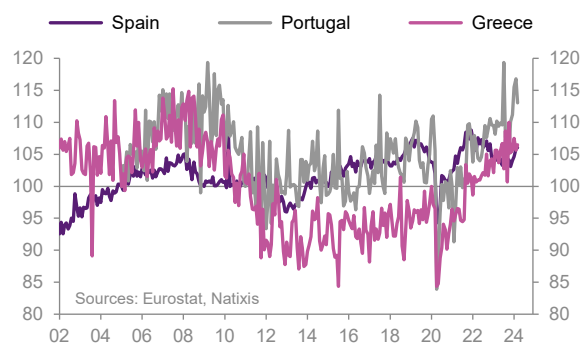


Chart 10C
Industrial production in consumer goods (2002:1 = 100)

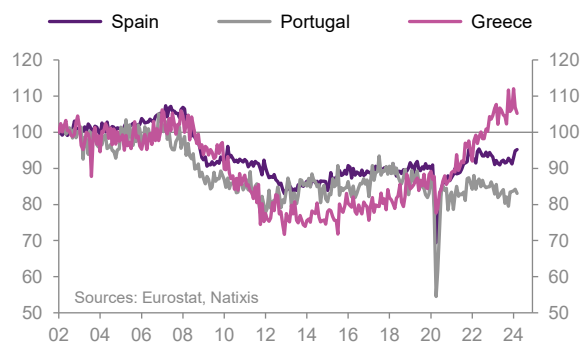


Chart 10D
Industrial production in intermediate goods (2002:1 = 100)

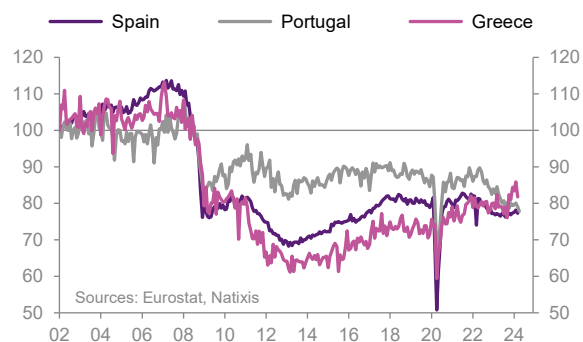


Chart 10E
Industrial production in machinery and equipment (2002:1 = 100)

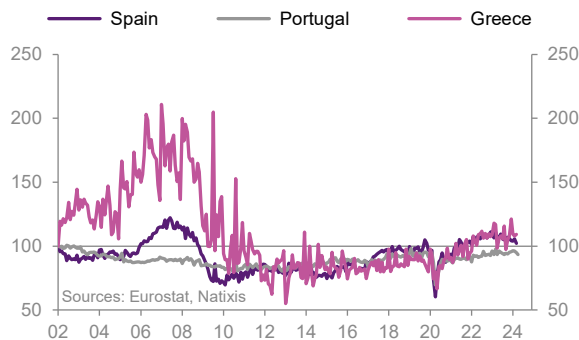


Chart 11A
Value added in construction
(as % of real GDP)

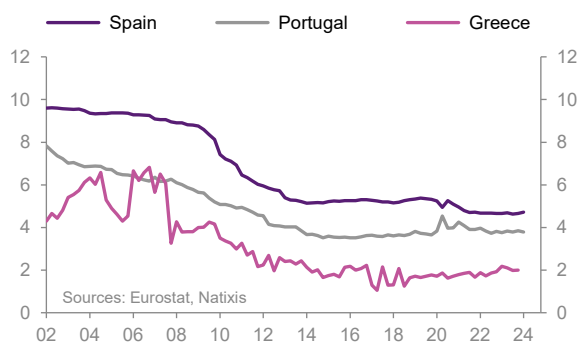


Chart 11B
Trade balance in tourism
(as % of nominal GDP)

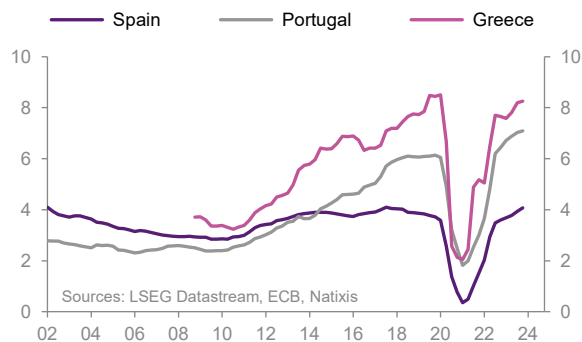


Chart 11C
Value added in household services
(as % of real GDP)

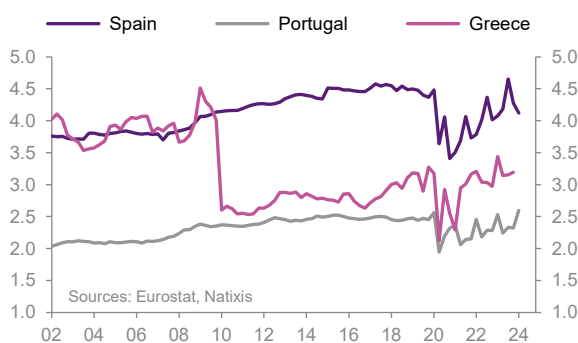
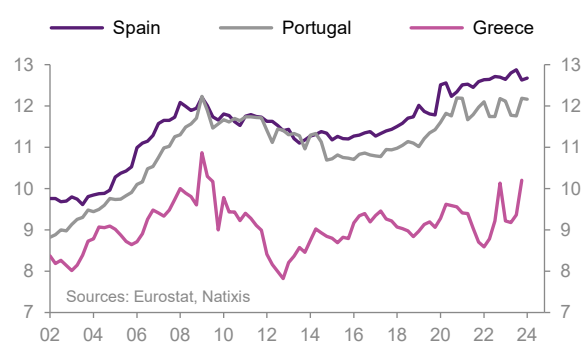


Chart 11D
Value added in business and financial services
(as % of real GDP)



3. Productivity gains

Charts 12A and B show labour productivity in Spain, Portugal and Greece.

Chart 12A
Per capita productivity (2002:1 = 100)

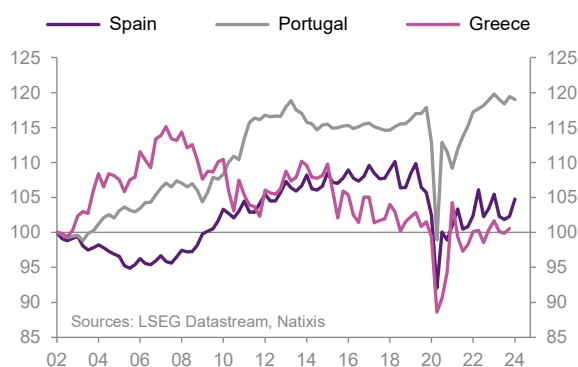
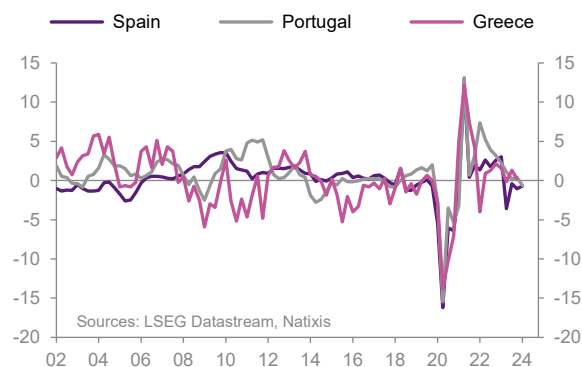


Chart 12B
Per capita productivity (Y/Y as %)



Productivity has been stagnating (Spain, Portugal) or falling (Greece).

Conclusion: Apparent turnaround or real turnaround?

Spain, Portugal and Greece have been enjoying an apparent economic recovery (growth, falling unemployment, falling fiscal deficits) since 2014 (Spain), 2016 (Portugal) or 2018 (Greece).

But these countries have had to cut back on spending on the future (education, healthcare, R&D, public investment), which may have led to lasting structural weaknesses.

We have examined the **performance of the education system, the nature of productive specialisation and productivity gains**.

After 2010, we have seen:

- A deterioration in the performance of the education system;
- Specialisation in unsophisticated business sectors;
- Stagnant or declining productivity.

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