

It has been ten years since the special, 25th anniversary issue of *Ekonomiaz*. That issue, which appeared at the onset of the Great Recession, analysed the trend in the Basque economy over those 25 years from various, complementary perspectives. It examined the keys to the success of the country's first major transformation with a view to identifying current priorities and seeking to repeat that success in the future. The idea was that future success would not come from repeating the successful policies of the past but from detecting new keys and new paths.

Accordingly, the special issue presented an across-the-board picture of development, focusing on sustainable human development, in a collection of articles which examined the transformation of the fabric of production, standards of welfare, social cohesion and the physical environment.

Now, ten years later, we believe there is a need to conduct a diagnostic analysis of the proposals for public policies put forward at that time. Indeed, such an exercise is inescapable given the Great Recession that shook the world economy in 2008. The Basque economy was marked by that crisis for the next five years before it gradually returned to the path of growth. By 2016 GDP was back to 2008 levels, but with 20,000 fewer people in work. It was not until 2018 that the Basque Government's public sector budget returned to its 2008 figure, so those ten years since the 25th anniversary issue of *Ekonomiaz* can be seen as a lost decade.

In the time that it took the Basque Country and (somewhat more slowly) Spain as a whole fully to regain the activity levels recorded prior to the recession, GDP in the US grew by 13% (mainly because the USA did not suffer the double dip recession of 2012, which has therefore become known as the European Recession), in Germany by 8% and in Austria by 5%. This is because, among other reasons, their economies were able to maintain faster growth rates, sustained generally by strong exports and advantages in unit costs. The period was also characterised by a recovery in competitiveness as a result of falling wages and lower unit labour costs. Progress in employment and productivity has led the GDP per inhabitant in the Basque Country to grow by between 2% and 3%, compared to between 1% and 2% in the EU-15. The Basque economy has thus returned to the path of convergence that was lost due to its lower resilience in the Great Recession<sup>5</sup>. However, this recovery in

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<sup>5</sup> Official data published by Eustat and Eurostat reveal that the per capital GDP in the Basque Country measured at the PPP level for Spain is 12% higher than that of the EU-15 and over 20% higher than that of the EU-28 as a whole. However, if it is measured at the PPP for the EU-15 it is 3% lower than the fig-

GDP level has not enabled the Basque Country to maintain its place in the GDP ranking of European regions with Purchasing Power Parity (PPP): it has dropped from 43rd to 53rd out of a total of 281 regions. This drop has also been marked by a decrease in the share of income accounted for by wages, from 63% in 2009 to 60% in 2017. In 1980, at the commencement of the globalisation period that now seems to be coming to an end, the figure stood at 70%.

The European Commission has described this new scenario as one of modest growth in challenging times and the OECD has described it directly as a «low growth trap» in which the global economy is stuck due to falling investment and a contraction in international trade due to Brexit, trade wars, a loss of ground in globalisation, the slowdown of the Chinese economy and its shift to a growth model focused more on domestic demand, etc.

With this outlook, it was apparent that the work presented in the special 25th anniversary issue of *Ekonomiaz* needed to be updated to shed further light on the challenges facing the Basque Country as it looks towards 2030.

With this in mind, work to bring together the contributions presented here progressed steadily throughout 2019. But in March 2020 the health crisis sparked by the Covid-19 pandemic cut short the recovery after 13 consecutive quarters with positive growth rates and 11 with increases in employment. It also cut short plans to publish this special issue and marked the end of a 10 year period that began with the Great Recession and has ended with a pandemic on a historic scale. The story of those 10 years is one of a transition from financialised capitalism to a recovery of the real economy, with the value of the public sphere being recouped, in contrast with the «high» of the previous laissez-faire attitude. The lockdown measures introduced all over the world to contain the pandemic and prevent the collapse of health systems have led to an unprecedented economic crisis in which activity levels have plummeted at rates never before seen in peace time, with falls on both the supply and demand sides leaving economies barely ticking over.

It took the ECB four years to react to the Great Recession but this time, fortunately, it responded quickly with a strong programme of asset purchases which enabled the risk premia of the countries that needed the highest levels of borrowing to be contained.

Realising that it overplayed the austerity card in its efforts to exit the Great Recession, the EU also facilitated counter-cyclical fiscal policy to tackle the economic consequences of the pandemic. Indeed, seeking to apply urgent measures, the EU

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ure for that area. The Basque economy was hit harder by the Great Recession than the EU as a whole, but it has since recovered and climbed back to a level of 97 in 2018. The key to this return to convergence lies in the sustained growth rates of 2-3% mentioned above, which are markedly higher than the figures of 1-2% (1.4% in 2018) recorded for the EU-15 as a whole.

adopted a relative timescale which enabled Member States to make full use of the flexibility envisaged in the regulations on state aid to support their economies. It also applied for the first time the safeguard clause that permits EU countries to deviate from the targets for deficits and public sector debt set in the Stability and Growth Pact.

This pact was already under review in 2019, when an assessment report on tax rules in the EU by the European Fiscal Board proposed strengthening incentives for investment with a new variant of the Golden Rule to stimulate growth and make use of the low-interest-rate scenario.

Along with the rapid response of the ECB and the relaxing of spending rules on the part of the EU to enable Member States to implement counter-cyclical policies, the EU itself has led and promoted a second phase involving a recovery and resilience plan based on an unprecedented mutualisation of debt. That plan is intended to reactivate and re-launch Europe's economy, directing resources towards a transformation of the economy and its positions in regard to global challenges such as climate change, the energy transformation and the digital transformation. The aim is to recover not just activity levels but also prosperity. Indeed, the resilience pursued must entail a reevaluation of the public sphere, ranging from health to education and social cohesion policies, to mitigate social inequalities, which worsen with each new crisis. This calls for a policy of redistribution of income to provide a systemic stimulus for inclusive growth.

Within these key factors of recovery and resilience, investment is used to lever progress along paths of inclusive growth and prosperity and address the challenges of the environmental energy transformation and the digital transformation. Efforts are also needed to guarantee the resilience of the system and combat inequality. All these points represent an intensification of the sustainable human development model<sup>6</sup>, which was taken as a benchmark in choosing the topics for this new special issue of *Ekonomiaz*.

This special 35th anniversary issue of *Ekonomiaz* is laid out in five blocks to reflect the situation as it currently stands. The first block contains articles that provide a broad diagnostic analysis of the Basque economy and the behaviour of the financial sector after the Great Recession, and set out the challenges that it faced prior to the pandemic. The growth paths ongoing were cut short, and now need to be re-

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<sup>6</sup> Under the sustainable human development strategy, income generation and income distribution need to be seen as interdependent, but not as a linear process involving first generation then distribution. Both primary distribution (mainly from work-related earnings) and secondary distribution (financial provisions in the form of subsidies and aid and provisions in the form of services) condition the generation of wealth. These two factors create positive feedback which results in a virtuous circle in terms not just of social justice but also of economic growth, as acknowledged in numerous studies by international bodies such as the IMF, the OECD and the World Bank.

viewed under the new scenario that has emerged. The second block looks at governance on different scales in the public and private sector, in view of the need to adapt to new challenges. The remaining three blocks are thematic and focus directly on challenges for the 2030 time frame. The third block examines the policies intended to strengthen the resilience of the Basque economy and provide it with high-quality public services capable of meeting needs in the fields of health, education, employment and social welfare protection. The fourth block covers sectoral and thematic policies linked more specifically to the environmental energy transformation, which has been chosen to lever the economic recovery following the pandemic. The final block comprises a single article that describes the level of digitisation of the Basque economy and the trend in the sector, in line with the challenge posed by the digital transformation.

## THE ECONOMY

Block one opens with an article by **Alberto Alberdi** and **Arantza Olalde** which takes a broad look at the track record of the Basque economy since the onset of the Great Recession, covering macroeconomic issues, competitiveness, exports, the job market, the public sector and funding. The authors present a picture of macroeconomic and financial issues and public accounts and focus on the main impacts of the crisis (especially in GDP and employment), which were felt more strongly here than elsewhere in the EU. The historic gap in productivity with the EU-15 also still prevails, in spite of major efforts in recent years. Public sector debt and the deficit, which increased because of the crisis and the response to it, began to improve in 2014, and in 2017 a slight surplus was recorded. Debt rose from 3% to a peak level of 15% and then stabilised at around 12%. The picture painted is of a scenario which is hard to manage, and in which underlying structural factors such as demographic decline and ageing will be determinant in keeping the economy active and sustainable.

**Josu Ferreiro** and **Carmen Gómez** reveal that although the financial sector was one of the causes of the previous crisis, the financialisation of the economy still poses a latent risk. As yet there has been no de-financialisation, so the associated financial and macroeconomic risks remain. There could therefore be further systemic financial crises from which we would not be safe.

## GOVERNANCE

Block two examines governance on different scales in both the public sector (institutions, ethics, transparency, coexistence) and the private sector (a new concept of «business» and labour relations).

**Federico Steinberg** begins the block with an article which points out that global trade and its governance structures are changing rapidly. In setting up a country-wide strategy it is essential to analyse the external environment, especially at a time when the previous world order and the European model are being called into question and

there are major economic imbalances such as the conflict between globalisation and de-globalisation. In that context, the author describes a system of world trade which is less European, less cooperative and features increasing geo-economic rivalries (i.e. a more disorderly, disconcerting situation), in which the USA has ceased to act as a focal point in leading and guiding the rules and organisations involved in world trade and in which multilateral international organisations are increasingly powerless and called into question. The only course open to the EU is thus to increase its strategic autonomy, strengthen its powerful foreign economic policy tools and continue to build, to quote the Treaty of Rome, an «ever closer union».

Taking the connection between economics and morality as a starting point for examining the wounds inflicted on people in Europe by the Great Recession, **Joxer-ramon Bengoetxea** considers two values that will determine the future of the EU: sustainable human development and democratic governance. These two ideas represent values for learning, analysing, interpreting and taking action. Sustainable development and governance affect quality of life. In both cases, the author refers to the very minor role played by regions, and the Basque Country in particular, in EU institutions and expresses regret at the way in which the EU has regarded its regions to date, providing little room and few forums for regional representation. This is particularly regrettable in the case of the Basque Country, which holds practically exclusive authority in some matters.

For his part, **Ander Gurrutxaga** considers the specific forms taken by governance in the Basque Country. Those forms are manifested in public speeches, but when it comes to putting them into practice the territories involved change continually. Practical implementation therefore requires and uses «creative destruction». This means defining problems clearly, being aware of where and how they arise and learning their scale and what actors, agencies and situations characterise them. It also involves inventing resources (particularly at institutional level) with which to implement the new decisions made.

**Kevin Morgan, Mikel Navarro and Jesús Mari Valdaliso** take a positive view of the track record as regards economic governance in the Basque Country in the past few decades and at present. They highlight how good the results have been in comparison to the gloomy prospects for the Basque economy forecast by experts who pointed to its dependence on mature industries and its inability to attract foreign investment in the same way as other regions of Europe engaged in similar economic transition processes. That success is due largely to a collective ability to use the assets of the past to reinvent a viable economic future over time, with the right balance between continuity and novelty, profound respect for the cultural legacy of the past and firm commitment to science, technology and innovation.

The last article in this block is by **Tomás Arrieta**, who argues, albeit with all necessary nuances, that there is an increasing perception of reasonable consensus between social, economic, political and institutional actors as regards the need for

further cooperation at companies as a strategic factor for competitiveness and a necessary (but not in itself sufficient) condition for increasing the engagement of individuals in business projects. Even so, there is a need to continue encouraging such commitment on more specific levels. That calls for efforts not just to define a shared theoretical framework but at the same time to activate a broad process of dialogue so as to establish the basis for tackling negotiations and signing agreements to overcome the climate of confrontation without renouncing the legitimate rights and interests of each party.

### **RESILIENT, INCLUSIVE WELFARE**

Block three covers resilient, inclusive welfare, social cohesion and living conditions. It analyses the key points for ensuring conditions for inclusive growth and adequate living conditions for the population, taking as its references income distribution, health, education, employment and housing.

**Ricardo Iruarrizaga** and **José Angel Colinas** provide a broad analysis of inequalities in income distribution and conclude that the strong growth and falling unemployment in the past four years have not managed to completely reverse the increases in inequality caused by the crisis in the Basque Country. They point out that the ten years from 2008 to 2018 saw a widening of the income gap not only between the richest and poorest segments of the population but also between the richest and middle-income earners. This increasing polarisation of income is due not to improvements in the living standards of the wealthy but to the impoverishment of those who were already worst off. The underlying factor in inequality is the deterioration of the job market brought on by the crisis, with widespread wage devaluations.

In an article on the Basque health system, **Ricardo Nuño-Solinís** states that in general terms many of the health indicators for the population have either not worsened since the onset of the crisis or indeed continued to improve even at the height of the crisis, reflecting how highly the Basque Government has prioritised health policy. As a result the Great Recession has had only a limited impact on the health of the Basque population, at least as regards those effects that can be measured in the time that has elapsed. The limited extent of that impact can be put down to many factors, but the effect of the response of public institutions to the crisis should not be undervalued. That response was characterised by specific policies to offset the effects of central government policies, with special emphasis on organisational changes and technological innovation in response to the emerging challenges posed by changes in demographic, social and epidemiological profiles.

In their article **Javier Monzón** and **Francisco Luna** outline the good situation of education in the Basque Country thanks to decades of major efforts. School enrolment rates, the percentages of pupils progressing to successive stages and graduation rates paint a picture of an excellence-based education system. However, trends in

the system and the crossroads at which education stands all over the world mean that some strategic aspects need to be rethought (e.g. inclusive education).

**Javier Ramos** describes the quantitative and qualitative changes that have taken place in the job market in the past ten years. Among the former, he highlights the increase in the working-age population, with fewer jobs and higher unemployment. The Social Security system has not managed to recoup the number of affiliates that it enjoyed prior to the crisis. There has been an increase in the foreign-born population, a decrease in employment among them and an increase in the number unemployed and otherwise not working. Most of the qualitative changes pointed out are negative. Special mention must be made of the significant ageing of the population in work, which is accompanied by a substantial rise in long-term unemployment. There has also been an increase in rotational contracts and in job security, due to the lower proportion of indefinite contracts. Part-time working has increased and the purchasing power of wages has fallen. On the positive side, the skill level of the working-age population has increased in recent years, industrial disputes have decreased and occupational health and safety has improved. Finally, the author highlights the appearance of new forms of working which may transform the job market, and stresses the need to draw up a new regulatory and labour-relations framework accordingly.

**Mamen Garzo, Laura Gallo and Antonio Corral** describe changes in housing policy in the wake of the recession, as public-sector budgets have been severely cut back, limiting the ability to respond to the housing needs of the population. As a result there has been a shift from a policy to promote home ownership to one focused more closely on people and on social goals (disadvantaged groups), with the emphasis on renting and renovation and a programme to activate the use of empty homes. This is all set against the background of the new Housing Act which is currently being drawn up.

## ENVIRONMENTAL ENERGY TRANSFORMATION

Block four looks at issues of territory and sustainability, revealing that there is a need not just for inclusive growth as regards people but also for sustainable growth in terms of the physical environment. The articles here examine the role of territorial planning, sustainability problems in terms of the environment and the circular economy, the problem of climate change, the deployment of public infrastructures and sustainable mobility.

In an article that deals with territorial planning, **Pedro José Lozano** points out that the 13-year delay in reviewing territorial planning guidelines can only be regarded as negative, but the fact that the delay has given rise to highly fruitful discussions and brainstorming on those guidelines is a good thing. Public engagement and transparency need to be encouraged not just here but in all planning. Accordingly, the fact that the new territorial planning guidelines document engag-

es in an exercise of self-criticism concerning the weaknesses detected to date must be seen as positive, even though that self-criticism falls short in that it fails to detect other problems, omissions and repetitions that need to be addressed.

In an article about environmental sustainability, **Alberto Ansuategi** outlines the effects of the Great Recession on efforts in the Basque economy to keep moving towards a more competitive, low-carbon economy that uses resources more efficiently. He analyses various indicators and finds cause for moderate optimism. In the wake of the Great Recession of 2008, the Basque Country has kept its place among the leading countries in terms of environmental policies, and continues to shoulder joint responsibility for environmental problems arising from GHG emissions, resource depletion and waste production. The Basque Country also stands out for its good environmental performance and its high level of decoupling of GDP from environmental pressure indicators (emissions of GHGs, nitrous oxides and particles in suspension).

The last article in this block is by **José Moreno**, who addresses the current situation and trend as regards infrastructures. He points out that the recession has led in general to a fall in gross investment in all the assets considered in his study, but that fall has not resulted in a decrease in stocks of productive capital, aside from certain exceptions in areas of production that form part of the basis of the earlier industrial development in which the Basque Country specialises. Public and private-sector investments have behaved differently, with the latter being faster to respond and adjust to the effects of the recession. Specifically, the stock of capital in public education and public health grew substantially up to 2012 but then began to decline. Since the recession the Basque Country has shifted even more towards the incorporation of more technology-based infrastructures into its production processes, involving ICTs, innovation and the new, knowledge-based economy, though it has yet to attain the relative EU average level.

## **DIGITAL TRANSFORMATION**

**Agustín Zubillaga** and **Iker Pastor** report the results of an empirical research project into the extent to which the Basque economy has become digitised since the end of the crisis, and more specifically from 2013 to 2017. Digitisation is measured in terms of four areas/variables: digital production, digital consumption, digital sales and the number of specialists in ICTs. Those results indicate very different digitisation levels in different branches of the Basque economy, and also different development trends. Digital technology plays a substantial role in advanced manufacturing industries such as machinery, material and electrical equipment manufacturing, but there is a need to reinforce digitisation strategies in less digitised areas such as the primary sector, hospitality, transport, storage and the food industry.

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The closing message for this presentation is that in the next 10 years we need to address the challenge of establishing a sound basis and pathways to prosperity for the Basque economy for 50 years to come. The opportunity exists to do this here and now, but it entails great responsibility and needs the country's economic and social actors to come together. It means prioritising a collective viewpoint: ecosystem rather than «ego-system». It means working as advocates for the future and acting accordingly, on the basis of individual and collective responsibility. It means recovering investment and making the best possible use of the resources available in a way that is consistent with future challenges and can facilitate transformation and sustainable prosperity.

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