After the crisis

GDP growth has been positive this year; Spanish income per capita is increasing by 1% in real terms, and perspectives point towards steady growth: there is reason to believe that we are out of the crisis! We are in 2014, seven years after that fateful 9 August in which monetary authorities rang the alarm bells announcing the end of the real estate boom in the United States almost one decade after the first warnings. The crisis has been long.
A world in crisis

The beginning of the crisis was the worst time: spoiled by a decade of uninterrupted growth, misled by an official discourse stubbornly denying the evidence, we entered the crisis with that feeling of fear instilled by the unknown. As things were moving and the horizon did not clear, we focused our vision in order to find our way amidst the dark. Fear gave way to a more lucid view of things, neither optimistic nor pessimistic. And so we went our way till we got here.

The crisis forced us to correct some persistent imbalance we had been unable to tackle as long as circumstances were favourable: average debt of Spanish families, external imbalance and stagnation of the economy.

Figures give an idea of the size of adjustment: in 2007, almost 14% of the working population in Spain was employed in building. Seven years after, the figure has been left at slightly above the European 5.8% average: almost one million and a half jobs have disappeared from the industry this year. No such movement had been seen since the times of transition to democracy, between 1975 and 1985, when three million jobs were lost in agriculture. Compared with the eurozone average, our living standard declined from 95% to 80% within one decade, a gap comparable to 1990. Also, the crisis forced us to correct some persistent imbalance we had been unable to tackle as long as circumstances were favourable: average debt of Spanish families, which had reached 128% of the available income in 2007, is back to roughly 60%; external imbalance, measured by a current account deficit proportionately higher than that of the United States in 2007, has been reduced to less than a quarter; and stagnation of the economy, measured by the volume of bank liabilities as of GDP, went down from almost four to less than three times, a proportion comparable to the European average.

Each figure summarises a very costly adjustment process, hiding fear and suffering that was sometimes at the verge of tearing our social fabric apart, so it is indispensable to act in a way such processes do not become necessary ever again as they were this time. A good way of learning the lesson out of the crisis is to remind its most relevant features.

Recovery of the banking sector

Less than two years had passed since the outbreak of the crisis, when authorities decided to tackle the problem of credit restriction that was ravaging the whole economy. The problem was general, probably more in countries like the United States, the United Kingdom and Ireland than in Spain, but widespread enough to threaten growth in all big economies. The origin of the problem was well known: the balance sheets of banks were featuring assets almost impossible to assess, which set an end to the credit flow between banks; ongoing liquidity injections by European and American monetary authorities had served as safety reserves for banks, not as a basis to extend credit; and this lack of financing was being felt in companies, not only related to resources for new investment projects but even to fund their current operations. Recovery of the sector was necessary as its situation was becoming worse with time.

The core problem was assessment of dubious assets: a too high price meant a higher subsidy the more carelessly the bank had behaved, while a too low price could cause default of banks that would otherwise be solvent under normal market conditions. Thus purchasing price fixation determined to a large extent the configuration of the recovered finance sector.
Considering that the banking crisis of the 1990s had turned the Spanish banking system into one of the most efficient in its region and the US experience was not recommending excessive concentration in the branch, authorities decided to keep the existing structure by and large, with only some minor changes, both regulatory and in the shape of mergers, between smaller local banks.

At international level, Spanish authorities gave support to some EU initiatives aimed at limiting growth of banks. These initiatives were very controversial as they had not yielded concrete results even years after. Dubious assets were acquired by a public body specifically created for that purpose, in charge of managing them until market conditions would recommend their sale. Few years later, most of these assets had been sold, sometimes at a surplus, others at a slight loss.

The balance sheets of banks were featuring assets almost impossible to assess, which set an end to the credit flow between banks. Recovery of the sector was necessary.

Once the sector had been recovered, it was possible to establish the capitalisation needs of banks, partly covered with private investors, partly with public funds.

The cost of the crisis

The biggest cost of any crisis is always job destruction: unemployment is the variable featuring a negative development for the longest time – the average length of crises in advanced countries has been five years in the last half century – and this crisis has not been an exception to it: the unemployment rate increased by 60% in the first year, reaching 14% in late 2008. The facts proved official forecasts wrong, and unemployment continued growing till reaching four million jobless in late 2009 before arriving to a peak 19% (4.4 million unemployed) towards the end of the second half of 2010. However, the psychological effects of unemployment were especially felt in the third quarter of 2009, when a new year was about to begin without any perspective of improvement.

From that moment, several circumstances turned the situation more bearable: on the one hand, tax policy measures initiated by authorities yielded the first visible results, especially in the building branch in municipalities most affected by unemployment; secondly, normalisation of the credit flow allowed companies to take up their usual activity; the feeling of blatant pessimism that had been predominant until then faded away; and those unemployed started thinking that their situation could change soon. This change of mind was felt in private consumption, which had suffered a dramatic fall already in early 2008 and had not recovered in the following eighteen months.
The biggest cost of any crisis is always job destruction: unemployment is the variable featuring a negative development for the longest time.

Finally, reforms forced by the crisis managed to stimulate the creation of new jobs despite not halting the increase of unemployment: thus the labour market recovered its dynamism and it became apparent that as jobs were destroyed, others were created. Also, the government was extending unemployment benefits but subject, in the case of workers under 40, to registration for training courses and acceptance of job offers appropriate for their skills. The situation in the labour market had become so tough in autumn 2009 that employees and companies were forced to drive reform that would not have been possible under different circumstances.

Employers’ organisations and trade unions reached agreements aimed at adapting the situation of newly hired to long-standing employees, thus mitigating the extreme temporality rate of younger workers: the most common argument to convince older employees was that they simply could contribute to create better labour conditions for their children accepting a bit of flexibility for themselves. They also agreed on freezing salaries in exchange for commitment to employment stability. These agreements had to be ratified by each company and did not apply to the building industry. Generally speaking, it was left to the companies to agree the salary formula, working time and job stability they considered bearable, for in the second half of 2009, latent conflict was such that it was often preferable for the entrepreneur to go bankrupt than to tackle layoff, so there was no danger that a company would dare to think of big employment regulation.

The most notable change took place in the local area, in factories and workshops, in warehouses, offices and shops. Faced with unemployment without an immediate perspective of finding a new job, employees accepted salary cuts and working time increases; absenteeism went down to 20% of its value from good times like magic – this fall is to be attributed to a change in attitude of workers and unions. In some very localised cases, workers, especially elderly female employees, left their job voluntarily to younger people so they could acquire experience and not be left idle.

Entrepreneurs in their turn, given the perspective of worse labour conflict than in times of democratic transition, were readier to accept part-time work modes (it came them cheaper than creating kindergartens for their employees’ children); they committed to devote a part of savings achieved through improved productivity to training, improving its quality and scope; and they accepted a temporary charge on corporate tax to fund a part of the public debt increase resulting from extending unemployment benefit.

Employees and companies were forced to drive reform that would not have been possible under different circumstances.

If the efforts by all sides were aimed at preventing job destruction – except in the building industry – in the initial stage of the crisis, the problem shifted to finding new jobs for the unemployed as time was passing, which necessarily required training in other areas.

The results were different from expectations, with some surprise: even with some difference according to the nationality, migrants – fears about which were difficulty in finding jobs for them, thus becoming a potential source of conflict – found jobs easily for two reasons: they were relatively young and had often been overqualified for the tasks they
had been doing. It can be said that integration of most migrant communities has been a success. Further, groups of young natives that had often dropped off school and been lingering with occasional jobs in good times were now very difficult to hire and their retraining required efforts by many authorities.

**Migrants found jobs easily for two reasons: they were relatively young and had often been overqualified for the tasks they had been doing.**

Like all restructuring processes, one part of those unemployed due to the crisis lost their job for ever. Most of them were not in the building branch but in the industry, which underwent its own restructuring: credit freezing first, followed by a decline in both domestic and foreign demand was the cause of big layoffs, concentrated in the building supply industry, tourism and car making. During the first months of the crisis, when job destruction was more intense, it was even thought – and sometimes published – that the whole Spanish industry was doomed to disappear.

However, things had changed by mid-2010, partly thanks to credit being restored and because measures adopted by companies to tackle the crisis were starting to be successful. There were victims in all branches, but all branches also had their winners; as occurred with industrial restructuring in the 1980s, there is no doubt that the Spanish economy came out of this crisis with renewed strength.

**Some civil institutions had the capacity to funnel these fears and turn them into useful activity, moved by a very simple idea: convincing the population that the crisis mattered everybody.**

**Conclusion**

It is impossible to give an idea of how the crisis developed in such little space. Behind each change, each agreement, each figure there are efforts, confrontation, frustration, often dramatic stories. Toward mid-2009, fears of social breakdown authorities were absolutely unable to contain was perceivable. Fortunately, some civil institutions had the capacity to funnel these fears and turn them into useful activity, moved by a very simple idea: convincing the population that the crisis mattered everybody. On the one hand, the number of extremely poor people increased rapidly: accommodation centres were beyond their capacities one year after the crisis had broken out. On the other, those aware that the crisis was frustrating the hope of many expecting to escape from poverty and give a better future to their children knew that it was necessary to help them endure those bad years without depleting their skills nor personal, family and labour relations. This recent hidden poverty was more numerous than the visible one and had more destructive effects on the social fabric.

**Behind each change, each agreement, each figure there are efforts, confrontation, frustration, often dramatic stories.**

As the effects of the crisis were spreading, all sorts of initiatives proliferated: organisations to support families without resources, providing them with accommodation and food and allowing their children to continue attending school; there was an increase in donations by companies and especially individuals; groups caring for the poor and homeless sprouted, often assisted by young people and students who, feeling that what separated them from the worse-off was rather sheer luck than their own merit, were
concerned about people they perhaps had never before looked at. All institutions took part in this movement: chambers of commerce, universities and schools, religious and lay organisations, sports organisations. They all gave each other the feeling that everybody mattered and the barriers separating all different classes, communities, quarters and tribes making a society had disappeared for one moment. To some, this has been the most valuable memory of these years.

They all gave each other the feeling that everybody mattered and the barriers separating all different classes, communities, quarters and tribes making a society had disappeared for one moment.

If it is true, as we believe, that we are leaving the crisis behind, this is the time to draw a conclusion from it, to learn the lesson that perhaps may help us prevent another one. Of course, everybody will have drawn theirs. However, it is useful to point out three that can be of general interest.

The first, the simplest point relates to our economy: we need once for all to learn the lesson given by Keynes more than seventy years ago and stubbornly forgotten that a market economy like ours is potentially unstable. Such instability is due to the natural evolution of the financial system, which renders appropriate regulation indispensable. Besides, the recent crisis has told us that it is better to bear inefficiency of excess regulation than the cost of a crisis caused by a lack of it.

Keynes said more than seventy years ago that a market economy like ours is potentially unstable due to the natural evolution of the financial system.

The second stems from the way our companies, our employees and our society reacted against the crisis and adapted to survive. This episode has taught us to once again trust our forces, while it has reminded us that well done work is more than just a curse and one feels better living in a more integrated, even almost fraternal society.

The third point is perhaps the most important. In the years prior to the crisis we had seen our way of living together deteriorate. Also, improvement of human relations achieved during the crisis has been first and foremost the result of fear. And we need to admit that fear, like greed, cannot be a solid foundation of living together. As fear passes, we are at risk of getting back to the starting point unless we find a foundation on which to patiently create the social fabric.

Considering where we are coming from, we need to set altruism as a starting point for the task of reconstructing a modest but solid base. Being altruistic does not mean to despise money; it is to have the desire of doing things for the common interest.

Let us not feel tempted to put the cart before the horse by invoking those great virtues distance and lack of practice have turned an abstraction: we are a very diverse society where everybody believes they have a right to have a say, thus leaving the wish of imposing an idea futile, no matter how good this idea may be. Perhaps it is more realistic, considering where we are coming from, to set altruism as a starting point for the task of reconstructing a modest but solid base. Being altruistic does not mean to despise money; it is to have the desire of doing things for the common interest as an essential driving force. When this desire is predominant, there is order; otherwise disorder is created. Everybody has
had the occasion during this crisis of personally experiencing the beneficial influence of altruism and seeing its action in the others. Being altruistic is within everybody’s grasp; it does not contradict any belief or conviction. Let us start then here in order to make sure that the necessary calm feeds higher aspirations.

ALFRED PASTOR

PhD in Economic Sciences from the Autonomous University of Barcelona and PhD in Economics from the Massachusetts Institute of Technology.

Head of the Chair of Emerging Markets, Banc Sabadell, and full professor of Economic Theory.

A former senior economist at the World Bank, head of planning and general director of the Instituto Nacional de Industria, president of ENHER, director of the Instituto de la Empresa Familiar and Secretary of State of Economy. He has taught at Boston University and the Instituto de Estudios Superiores de la Empresa (IESE) and has been the dean of the China Europe International Business School (Shanghai).

He has also been a member of different boards and councils, among which the Bank of Spain, Cercle d’Economia, Scania Hispania, Sol-Melià, Miquel y Costas, Hidroeléctrica del Cantábrico, Copcisa and Abertis Telecom.

Notes

1. I will omit any mention to political change caused by the crisis as it is well known by everybody.
2. In practice, the first steps to standardise labour contracts based on a single open-ended contract were made, with agreed compensation according to years of service; portability of service years was also established to make mobility between jobs and companies more attractive.
3. The decline in the number and frequency of leaves due to depression was notorious.
4. A similar experiment had been done in a German industrial city in the 1990s.
5. As a collateral phenomenon, it was observed that the relations between the government and the Catholic church became less beligerent.