

The Rain in Spain

By Bob Hancké, LSE

[Here](#) is an interesting short piece on wages and labour force composition in Spain by Edward High on EconoMonitor. It goes through a few graphs, making several very important points. One, productivity went up because unskilled workers were laid off. With real wages at best stagnating, that means unit labour costs fell dramatically – since those who still have jobs now are more productive. Aggregate demand probably fell as a result of the sharp increase in unemployment, the fall in investment and the government's austerity policies over the last five years. The predictable effect: imports fell, while exports became more competitive. That led to a rebalancing of the current account, yes, but with – now – a very high probability of deflation.

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