Labour productivity in Spain: it is not a problem of the model of production

Production per hour of work (or apparent labour productivity)\(^1\) is substantially lower in Spain than in Germany and, moreover, the gap has not narrowed in the last few years. But before we look at the cause of this disparity we need to note some limitations to this indicator. Growth in apparent labour productivity is not necessarily attributable to greater efficiency of the labour factor but can also be due, for example, to higher growth in more capital-intensive sectors. However, this problem diminishes to some extent when the analysis is carried out at the level of sector as the relative intensity of use of the input factors (capital and labour) in each sector should be similar between countries.
The general opinion is that the economy's overall production per hour worked is lower in Spain because it tends to specialise in more labour-intensive sectors. For example, while the sectors of trade, transport and hotels and restaurants account for 24.5% of the gross value added (GVA) in Spain as a whole, in Germany this percentage is just 15.5%. However, if we break down this gap between Spain and Germany's apparent labour productivity into the difference between each sector's apparent productivity for the two countries and the difference in the share of various sectors in each country's overall employment we can see that former, and not the latter, is the main reason for this divergence.²

In Spain, apparent labour productivity was 31.3 euros of GVA per hour worked in 2015 Q3 compared with Germany's 46.1 euros, a difference of 14.8 euros per hour (see the graph). Spain's larger share of more labour-intensive sectors lies behind part of this difference (2.6 euros per hour, equivalent to 17.6% of the total) but its lower apparent productivity per sector is actually the determining factor (12.2 euros per hour). Although the kind of activities carried out in the same sector in each country might differ, since the degree of disaggregation (10 sectors) is limited, the significantly higher contribution of this second effect suggests that, certainly, lower apparent productivity per sector is a notable aspect.

Lastly, has this pattern altered recently? After the recession a change could be observed in the composition of the Spanish economy in sector terms: on average the relative weight of construction in Spain, a highly labour-intensive industry, fell from 10.3% in the period 2001-2007 to 5.5% in 2015 Q3 whereas in Germany the relative weight of different sectors has remained stable. Nevertheless the contribution of the difference between the relative weights of the different sectors to the total difference in apparent labour productivity has decreased little compared with the pre-crisis figure. Between 2001 and 2007, on average, the differing share of sectors was responsible for 3.7 euros of the 15.2 euros, 24.3% of the total (compared with 17.6% in 2015 Q3, as mentioned above). Therefore, although Spanish labour is gradually being reallocated towards less labour-intensive sectors, most of the country's difference with Germany is still the result of lower apparent labour productivity in its different sectors.
In summary, to increase labour productivity in Spain it is vital to insits on factors such as company size and internationalisation. We should learn a lesson from the German model.

1. In this Focus we analyse apparent labour productivity by sector, defined as the gross value added (GVA) of the sector per hour worked.

2. For the analysis, the production per hour and the relative share of employment for 10 sectors were calculated. These sectors are: Agriculture (A); Industry (B-E); Construction (F); Trade, transport and hotels and restaurants (G-I); Information and communication (J); Financial and insurance activities (K); Real estate activities (L); Professional, scientific, technical and administrative (M-N); Public administration, education and healthcare (O-Q); Artistic activities and other services (R-U). Based on these data, the difference in apparent productivity was broken down into two effects.

Tags
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