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The pain in Spain [1]

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Yes, yes, I know that this Keynesian explanation for everything is all the rage at present. If only we artificially pumped up demand then everything would be just tootsie and fruit loops once again. However, hard as it may be for some to understand there really are structural problems in economies as well. For example, Scott Sumner tells us about Spain [3]:

> Note that during the depression of the early 1990s (when Spain still had its own currency) their unemployment rate rose from 16% to 24%. I don?t recall if they devalued during that cycle, but they certainly had the ability to devalue. And of course what?s striking about that period is not so much that Spain?s unemployment rate rose by 8 percentage points, but rather that it only fell to 16% at the peak of the previous boom! To say Spain has structural problems with its labor market would be an understatement.

We can see the evidence right there: even in boom times the Spanish unemployment rate was uncomfortably high.

And it isn't just Spain either: most of Southern Europe (which, in this formulation, includes France) is suffering from the same problem and we see a little bit of it here in hte UK. Simply the ever increasing regulation and thus rigidity of the economy means that the "natural" rate of unemployment keeps rising. Ratchet by ratchet with each turn of the business cycle wheel.

This isn't a problem that can be solved by Keynesian means: this is one that calls for reform of the supply side of the economy. All of which is really just a prelude to one of my favourite points about said economy and its structure. Yes, there are most certainly cycles in it and it could well be that certain actions will help smooth out the swings in such cycles. But that isn't the end of the job at all: it's also necessary to look hard at the underlying structure and to see whether there are, perhaps as a result of our smoothing exercises, structural problems that also need resolution.

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