
The Valencian economy: bright and dark spots

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One of the common observations that arises when discussing the País Valencià (Region of Valencia, henceforth PV) is that it is a wealthy region. Nonetheless, the figures tell a different story; indeed, Valencians' standard of living, measured by the gross domestic product per inhabitant, is only 88 % of the Spanish average. Over the past 40 years, the distance from this average has grown, even though the gap has recently stopped increasing.

The explanation does not have to do with the unemployment rate, which is only half a percentage point above Spain's right now, even with a smaller portion of the population in the job market, because the employment rate is notably similar. But it is clearly related to the low relative job productivity level. The reasons for this cannot be reduced to a development model based on labour-intensive sectors which do not lend themselves easily to technological innovation. It is true that in addition to an intense tertiarization process in which retail and the hospitality industry play an important role, Valencia's manufacturing industry has traditionally been geared towards the production of consumer goods, which has seldom required qualified labour or been prone to major technological innovations. Nonetheless, we are witnessing a gradual trend towards the loss of importance of the traditional sectors, such as the footwear, textile and furniture industries, and an expansion of the automotive, chemical and food industries. Furthermore, in areas where the toy industry used to be predominant, there has been a spontaneous restructuring towards plastics meant for other uses in the wake of intense competition from Asian imports.

The shortcomings of Valencia's economy do not fundamentally reflect a problem of inadequate productive specialisation but instead are related to a series of aspects in which the PV is systematically ranked below the more advanced autonomous communities, including the lower educational level of its employed population, the small size of businesses, insufficient spending

on research and development, lower educational qualifications among businesspeople and insufficient company investment in intangible assets. With regard to this last factor, the situation is favourable in spending on advertising and retail brands and industrial design but not in training specifically targeted at the needs of companies' staff or R&D. These are cross-cutting limitations that affect the activity of most of the productive sectors, and systematic, long-term efforts are needed to rectify them.

The common clichés are not limited to Valencians' relative wealth: Valencia's agriculture is a prime example. Counter to the common thought that depicts it as a prosperous family-based agriculture that is a leader in the fruit and vegetable sector, reality shows that a very broad swath of the agrarian sector—primarily citrus fruits—is characterised by a part-time agricultural model that relies on smaller farms that survive by outsourcing a variety of tasks in an effort to overcome the impossibility of achieving economies of scale on each individual farm. Furthermore, the leadership in horticulture shifted south some time ago, especially towards Murcia, in the quest for more solid and appropriately sized productive structures.

The goal is not to deny the progress of Valencian society since the 1982 Statute of Autonomy was approved. Since then, the GDP has doubled and the GDP per inhabitant has risen 60 % at a constant pace, while the population has grown by 1.3 million people to its current figure of 5 million, which shows its ability to attract immigrants, a historical trend. Despite this, Valencians' average standard of living is now closer to that of Andalusians and further from that of Basques than it was in 1982. Progress has been made, but it is lagging behind that of Spain as a whole.

One core factor in Valencia's current economic issues is the under-financing from Spain's autonomous community financing system (abbreviated as SFA), which places the PV at the tail end of the autonomous communities (ACs) in terms of the financing received per inhabitant. The origins of this are an initial situation in which the territorial deployment of public services in the centralised state under the Franco regime was clearly uneven, to the detriment of the PV and other regions. The original mechanism used to calculate the financing to be received under the SFA, based on the cost of the transferred services, did not take this into account. Later, the momentum and mechanisms to defend the status quo among the ACs that benefited from the model have perpetuated this situation, despite several reforms of the SFA. The outcome is that the financing received per inhabitant in the PV currently accounts for just 94 % of the average received by the ACs of the common regime—the *foral* ACs (the Basque Country and Navarre) are another matter entirely—and only 76 % of the best-financed AC, Cantabria. All of this translates to aggregate under-financing which exceeds 18 billion euros for the entire period 2009–2019. The result is an ongoing shortage of resources, which has led to the PV leading the rankings in terms of debt in proportion to GDP, not because of excess spending compared to other ACs but rather because of an income deficit. Given this situation, the governments of the Generalitat Valenciana have tried to keep spending on education and health from veering too far under the average, and this is why they have had to accept a major gap in the spending budgeted for other public services, including those related to promoting economic development.

Debunking recurring stereotypes is not the same as being pessimistic. Valencia's society and economy also have positive prospects, bright spots in the dark. Unlike some regions in the northern half of the peninsula which have an edge over it in terms of income per inhabitant, the PV has avoided demographic flight except in certain inland counties, and it still has a considerable ability to attract immigrants for jobs, along with other foreign residents. The productive structure is fairly well balanced around the territory, with two major metropolitan areas—the city of Valencia, with 1.7 million inhabitants, and Alicante-Elche, with almost 750,000—and with specialised industrial districts in different counties. Its entrepreneurial capacity is evidenced by the high pace at which new companies are emerging, some of which are being created under the aegis of universities which are well-ranked in Spain. The imbalance between the efforts of the public and private sectors in research and development is gradually dropping as more companies are joining the culture of innovation. The region's position in the European Regional Innovation Scoreboard, with a moderate+ profile, is not bad for Spain, although it is still far behind European regions classed as strong or leaders in innovation. This balance is joined by several promising initiatives from the Generalitat, such as its bid to create the Institut Valencià de Finances, whose loans have backed the activity of companies during the COVID crisis and the war in Ukraine, and the role of the Agència Valenciana de la Innovació in transferring knowledge from scientists and technology experts to the business world. More qualitatively, the broad consensus among parties, unions and business organisations about the need to make efforts to correct the discriminatory treatment in AC financing has been successful, as has the decision to step up the construction of the Mediterranean Corridor railway infrastructures.

The job that Valencia's economic authorities are now facing is more complex than it was in the past. It is easier to develop an infrastructure-building programme than to introduce the culture of evaluating the administration's policies or promoting the shift towards a knowledge economy that generates, attracts and retains talent. This latter effort has to grapple with the nearby competition of large metropolitan areas, some of which, like Madrid, enjoy the added advantages that come with being a capital, given the radial layout of Spain's transport infrastructures and the concentration of major civil-service and business elites with broad decision-making power there.