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Academic Foresights

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Spain's Political Economy

How do you analyze the present situation of Spain?

In order to understand the present conjuncture, we have to say a word about the Spanish economic bonanza between the mid-1990s and the credit crunch of 2008. A couple of striking features stand out. First, and after the economic slowdown of the early 1990s which resulted inter alia in an unemployment rate of more than 20%, Spain experienced above-average annual growth rates in the eurozone. As a result, unemployment fell well below 10% and fiscal deficits turned into surpluses in the years before 2008. It is generally believed that economic boom was first and foremost property and real estate development based. The spectacular expansion of Spain's construction sector during the same period of time is a case in point. In addition, and although the boom started well before the launch of the euro in 2002, the availability of cheap credit after the euro introduction further fuelled economic growth.

Put together, deficit spending created the proverbial bubble that had to burst sooner or later. Seen from the perspective of economic power, those sectors that escaped from foreign acquisition in the past – like private banks, construction firms, utilities and telecom companies – profited most from this virtuous growth circle of deficit spending. (1) And indeed were among the sectors that were hit most as a result of the banking and euro crises. Second, the booming years generated more pull than push factors in terms of migration flows. Labour migration from Spain substantially declined and eventually turned into a reverse flow of pensioners and, most strikingly, workers. Despite continuously high unemployment rates, booming sectors like construction and agriculture were forced to seek contract workers from countries like Morocco, Poland and Romania. In addition, many people from Latin American countries migrated to Spain to find a job in the Spanish service sector (notably in the hotel and catering industry and the care sector). As a result, since 2000 the Spanish population increased with 18% to 46 million people. These migrant workers, who entered the country under extremely flexible labour market conditions, were the first to be sacked after the breakout of the current crisis. Third, and finally, in sectors ranging from banking to the hotel industry, Spanish business has found its way into other European economies through foreign acquisitions and (cross) shareholdings, and through productive investments and trade. This foreign (cross) shareholdings, and through productive investments and trade. This foreign expansion of Spanish capital is even more spectacular if we include foreign direct investment (FDI) flows towards Latin America. What has come to be referred to as the Spanish reconquista (indicating that at least some part of the Latin American populations have mixed feelings about the re-entrance of Spanish capital) is nothing short of a massive take-over of strategic sectors like banking, telecommunications and oil. (2) In recent years, Spanish capital has moved to other regions in the world economy too. Today's stock of Spanish outward investment amounts to US$660.1 billion; as a percentage of GDP it soared from 3% in 1990 to 46.9% in 2010 (which is higher than Germany and much higher than Italy in GDP terms). (3)

The first signs of the end of Spain's bonanza could be witnessed during the final quarter of 2007, i.e. well before the breakout of the credit crunch almost one year later. Economic growth stagnated and unemployment increased with 240.000 people. The construction sector had reached the limits of its expansion. Soon, however, stagnation turned into virtual collapse due to the 2008-09 banking crisis. Particularly the Spanish savings banks were hit hard. Initially, the Spanish government responded to the crisis by stimulating the economy, inter alia through promoting infrastructural projects. This in turn resulted in skyrocketing fiscal deficits and unemployment rates and a massive speculation of international financial markets against Spanish government bonds. This downward spiral culminated in an unprecedented austerity package introduced by the 'socialist' Zapatero government in 2010.

In your opinion, how will the situation likely evolve over the next five years?

After two mandates, Zapatero's popularity, and that of his ruling PSOE, was at a lowest point ever and it came as no surprise that the right-wing Partido Popular (PP) of Mariano Rajoy won the parliamentary elections of 20 November 2011. A landslide victory indeed: PP obtained 186 seats (an absolute majority in a Cortes of 350 seats) and the PSOE lost 59 of its 169 seats. The electoral campaign was perhaps the most boring one since the (re)turn to democracy in 1975. Everyone anticipated the change of power and this allowed Rajoy to centre his political platform around the notion of 'austeridad' (austerity) without explicating the what, how and when issues.

Nevertheless it is not difficult to discern the main lines of action. Macro-economic and monetary austerity implies first and foremost the reduction of the fiscal deficit from the projected 6% in 2011 to 4.4% of GDP this year, in order to meet the Stability and Growth Pact criterion of 'below 3%' next year. It goes without saying that this ambition will have negative consequences for growth (rather than stability) and for social cohesion. The present situation on the Spanish labour market suffices to illustrate this point. According to the most recent statistics, the national unemployment rate is 21.5% but almost 45% for people under the age of 25; in regional terms, Andalusia is among the worst performing regions with an unemployment rate of 30.9%; finally, the total number of households of which every member is unemployed increased to more than 1.4 million! (4)

In this context it is worthwhile to recall that the sovereign debt crisis in countries like Spain has been frequently explained by referring to the so-called competitiveness gap within the eurozone. Structural reforms should be implemented in these deficit countries in order to balance trade flows and hence put an end to the German beggar-thy-neighbour policy. Among the structural reforms most often suggested, labour market flexibility and fiscal austerity figure prominently. And this is exactly what the new Spanish government headed by Rajoy intends to do. In the process, this austerity policy is further legitimised by global rating agencies like Standard & Poor's. Its recent downgrading of Spain was legitimised by referring to the extremely high unemployment levels. "The lowering of Spain's long-term rating reflects", according to S&P "(...) the incomplete state of labour market reform, which we believe contributes to structurally high unemployment and which will likely remain a drag on economic recovery". (5)

In the meantime, people are leaving Spain again. According to recent prognostics, Spain will move back from immigration to emigration country in 2011. This trend of net emigration will continue during the next ten years. (6)

What are the structural long-term perspectives?

Contrary to the short-term and interest-driven recipes of rating agencies, international organisations like IMF and indeed the European Commission, the most productive way out of the structural eurozone crisis seems to be technological innovation. This should be one of the central pillars in a more comprehensive attempt to increase competitiveness. For this to happen, public and private investments have to be increased and redirected, which at least partially runs counter to the present fiscal austerity programme and the outward orientation of Spanish private capital. The dilemma's involved are difficult to solve, particularly because of the macroeconomic and monetary discipline imposed from above (i.e. through the mechanisms of asymmetrical regulation of the EU (7)) but certainly not insurmountable. There seems to be a growing awareness in Spain, among policy-makers and businessmen, about the necessity of concentrating on innovation albeit combined with technology diffusion at the European level. In a recent report of the Fundación COTEC para la Innovación Technólogica a number of proposals were launched to increase Spain's innovative capacity. (8) But again, this requires massive public and private investments. The former is going austere, the latter abroad ... not a very bright perspective indeed.

Notes:

(1) See Isidro López and Emmanuel Rodríquez, 'The Spanish Model', *New Left Review*, 69, May-June 2011, pp 5-29.

(2) See Mauro F. Guillén, *The Rise of Spanish Multinationals. European Business in the Global Economy* (Cambridge: Cambridge University Press, 2005), and Juan Jos Durán, *Multinacionales Españolas en Iberoamérica* (Madrid: Ediciones Pirámide, 1999).

(3) William Chislett, *Spain's Multinationals: the Dynamic Part of an Ailing Economy* (Madrid: Real Instituto Elcano Working Paper, 17/2011), p. 8.

(4) Instituto Nacional de Estadística, 'Encuesta de población activa. Tercer trimestre de 2011', *Notas de Prensa*, Madrid, 28 oktober 2011.

(5) Standard & Poor's, *RatingsDirect on the Global Credit Portal*, London, 13 October 2011, p. 2.

(6) Instituto Nacional de Estadística, 'Proyección de la población de España a corto plazo, 2011-2021', *Notas de Prensa*, Madrid, 7 oktober 2011; and La Caixa, *Anuario Económico de España 2011*, Barcelona 2011, blz. 8.

(7) Otto Holman, 'Asymmetrical regulation and multidimensional governance in the European Union, *Review of International Political Economy*, 11(4), 714-35.

(8) Fundación COTEC, *Technología e innovación en España. Informe COTEC 2010*, Madrid, June 2010.

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