



THERE IS AN ALTERNATIVE! HOW SPAIN COULD PURSUE EXPANSIONARY POLICIES

By Vicente Navarro

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A widely held belief in political circles of the left is that a country, like Spain, cannot follow expansionist policies on its own. It is said over and over again that unless the entire EU or, at least, the Eurozone expands, one country cannot do it alone. This was indeed the position of the Zapatero government during these three years of crisis. The only thing the government could do, according to Zapatero, was reduce the public deficit by cutting public expenditures, including public social expenditures, hoping these cuts would reassure the financial markets, convincing them the Spanish government was fully committed to fiscal responsibility, defining responsibility as “austerity”. His government continued cutting and cutting, leading the country into a recession.

His major claim when he left office a few weeks ago was that he had avoided direct intervention by the troika (European Central Bank, European Commission and the IMF) as Portugal had been forced to accept. Zapatero was defeated primarily because of the largest ever decline of the electoral base of the socialist party. In a very short period of time – four years – the socialist party has lost, besides the country’s central governance, the majority of regional governments

and the major cities of the country, which explains why the conservative party (PP) won big in the parliamentary elections even though its electoral support barely increased.

It was not a victory of the PP, but rather a spectacular defeat of the socialist party. The economic policies of the PP government continue to focus on austerity policies. As a consequence, the recession continues on its way to the Great Depression (48% of the young are unemployed) and Rajoy, the new President of the PP government, has indicated he will apply the same measures Portugal was forced to follow when the intervention in that county took place. It seems, after all, that the Zapatero austerity policies did not prevent Spain from being intervened. It is logical, therefore, that people ask "why all these cuts?" a question more and more people are asking.

There are no alternatives?

The data show there are alternatives, unfortunately not considered by the socialist party, even now after its recent Congress, where the absence of self-criticism was the major disappointing theme of the Congress. It is obvious that the party should face a stronger self-criticism than has occurred so far. It seems the only alternatives being considered are to make the cuts less rapidly and less intensely than the PP government is implementing. But nowhere is a 180 degree change calling for expansionist policies being considered, which leads to the starting point of my article.

The argument made by the leadership of the party is that unless there is some new Franklin Roosevelt on the European scene calling for a New Deal, Spain cannot do it alone. There is no question that a new Franklin Roosevelt would help a lot, but that does not mean that Spain could not follow expansionist policies if its government wished

to do so. And the data is there to prove it. This data shows there are alternatives.

Zapatero cut pensions in an attempt to save 1,200 million euros. Zapatero, however, could have realized even more revenues for the state (2,100 million euros) if he had reinstated the wealth taxes he eliminated in his first mandate (2004-2008) or by reversing all cuts in the inheritance tax he implemented during the same period thereby getting an additional 2,552 million euros. Or he could have reversed the tax cuts he granted to individuals making more than 120,000 euros per year, recovering 2,500 million euros. The data is there for all to see. And indeed the population saw it. The popular classes (the working and middle classes), who used to vote for the socialists, asked why pensions had to be reduced while maintaining tax cuts for the well-to-do. This is why they abandoned the socialist party in the recent election.

But the list of alternatives is much longer. Zapatero tried to save 6,000 million euros by reducing expenditures on the National Health Services (which already has the lowest public health expenditures per capita in the EU 15). He did it indirectly by pressuring the regional governments, which actually run the regional branches of the National Health Service, to reduce their expenditures. Meanwhile, Zapatero did not reverse the tax cuts he had granted to the large corporations which have more than 150 million euros a year in sales (which represents less than 0.1% of all business in Spain). If he had done it, the Spanish state would have had 5,300 million euros more.

Zapatero also tried to cut education and social services. These cuts plus the cuts in health should have led to savings of 25,000 million euros but he could have obtained even larger amounts (44,000 million euros) by correcting the fiscal fraud of large fortunes, large

corporations and the banks that, according to the Internal Revenue Service of the Spanish state, represents 70% of all the tax fraud.

Zapatero also tried to save 600 million euros by cutting the highly popular home care services, a federal program administered with the regional governments which he had introduced in his first mandate. Instead of cutting them, however, he could have obtained even larger revenues (800 million euros) by eliminating the public subsidies to the Catholic Church for religious teaching in public schools (which incidentally is unconstitutional in Spain). He could also have cut some of the new military equipment (Tiger helicopters and other machinery) from the defense budget. My colleagues, Juan Torres, Professor of Economics in Seville, Alberto Garzon, another economist, and myself have written a book that sold like hot cakes in Spanish bookstores called *There Are Alternatives*, a book the banking industry tried to suppress by pressuring the major publisher of Spain, Aguilar, to withdraw publication of the book (it was finally published by a smaller publisher).

What is outrageous in all these policies is that all the polls show that had the Spanish population been given a voice on whether they prefer the cuts in public and social expenditures or the reversal of the tax cuts that we show in our book, the overwhelming majority of Spanish people would have preferred the second option rather than the first one. And in spite of that, the policies carried out by the socialist government relied on the first, rather than the second alternative. It is therefore no surprise that the Zapatero government had the lowest share of the vote ever. People are not only angry (Spain currently has the largest number of days lost due to strikes in Europe after Greece) but profoundly disappointed with the socialist party because they do not accept the message that there are no alternatives. But there are.

The roots of the problem were already stated by the philosophy that Zapatero and his colleagues articulated soon after his election as President of the country in 2004. He indicated that cutting taxes was a left-wing policy and his economic advisor, Jordi Sevilla, had written a book on the *New Socialism* in which he discouraged raising taxes and expanding public expenditures. Zapaterismo was the Spanish version of the "Third Way". Unfortunately, it was not the only one in Europe. It has become the dominant form of social democracy in Europe which is why social democracy is in deep trouble. Unfortunately, I do not see the profound change that is needed in their mentality.

Are expansionist policies possible?

If Spain had adopted the same fiscal policies as Sweden and had invested in order to correct the enormous deficits in the social infrastructure of the country over the past 10 years, facilitating, among other things, the integration of women into the labor force, the Spanish state would be receiving 200,000 million euros more than it is today. With these 200,000 million euros, the Spanish state could have created 5 million jobs, which is the same number of people who are unemployed in Spain. The creation of those jobs would have eliminated unemployment and stimulated the economy.

If the underdeveloped welfare state of Spain had 1 adult person for every 4 working in the services of the welfare state, as in Sweden, rather than 1 out of every 10, Spain would create enough jobs to eliminate unemployment. The necessary revenues could be obtained by taxing all those groups that benefit most from the policies of tax cuts followed during the pre-crisis period. Those tax increases would not dampen consumption if the revenues obtained were invested in job creation, particularly low and medium salary jobs. This could be done if the political will was there. The problem is that the socialists

did not dare to enact such fiscal reforms, among others, that would have antagonized very powerful forces in Spain. That is, as it always is, the true issue.