

If Only the Left Had Guts ...

What Could Have Happened in Spain

by VICENTE NAVARRO

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There are some misconceptions that exist about Spain among large sectors of the progressive community in the United States. Partially this is a result of the very poor coverage that exists about Europe in general and about Spain in particular in the press in the U.S. Most economists in the US get the economic news about Spain from the Financial Times and to a lesser degree, from The Economist.

We have seen in the last few days several events that are indicators of that limited knowledge. There, for example, was President Obama congratulating Chancellor Angela Merkel for the leadership she is providing in Europe, applauding at the same time the policies of the new conservative government, presided over by Mr. Rajoy in Spain, for the reforms that government has introduced in Spain. Granted that to define Obama as a progressive requires a certain effort, and his ability to disappoint progressives is limitless, but someone should inform him that Chancellor Merkel has been one of the more reactionary leaders Europe has ever had in democratic times and is imposing extreme austerity in the most frontal attack the welfare state has been under in all the countries of the Eurozone.

The devastating effects of those policies are clearly seen in Greece, Ireland, Portugal and Spain. Regarding the government of Rajoy, his party is a successor of the nomenklatura of the fascist dictatorship. Its founder, Manuel Fraga, was a leading figure in that state and defender to the very last day of the repression carried out by the Franco dictatorship (120,000 people are still 'disappeared'). And that party has always been the political instrument of the more reactionary

forces in Spain, including banking and the large corporations. His current minister of economy was the Spanish director of Lehman Brothers at the time of its collapse. The reforms that President Obama celebrated have been the most frontal attack the working class has seen since democracy was born in Spain. These “reforms” are responsible for the dismantling of the already poorly funded Spanish welfare state.

More worrisome is the recent article by Paul Krugman in the March 7 edition of the New York Times in which he also applauds Mr. Rajoy’s statement that he cannot further reduce the deficit as his friend, Chancellor Merkel, has instructed. I consider Paul Krugman one of the clearer minds in the U.S., but he blew this one. Mr. Rajoy and his government have dramatically increased the cuts that were initiated by the previous Socialist government led by Mr. Zapatero. Mr. Rajoy has made things much worse and the situation among the young is devastating. The fact that Rajoy was willing to implement the cuts slower than Merkel does not make him deserving of any praise from any progressive voice. Needless to say, the right-wing media are now using Krugman’s statements as political support for the policies of the government. But another point that Krugman emphasizes is that there is nothing Spain can do short of getting out of the Euro. That alternative should indeed be considered, but his basic assumption is to be questioned. I now offer a modified version of an article published in *Social Europe Journal* that addressed that point. I would hope it could be widely distributed in the U.S.

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 decline ever 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 per cent 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 enduring intervention. It is logical, therefore, that people ask "why all these cuts?" a question more and more people are asking.

There are not 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 feature of the Congress. It is obvious that that party should face stronger self-criticism than has so far occurred. 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 else 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 that 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 are there to prove it. These data show there are alternatives.

Zapatero cut pensions in an attempt to save 1,200 million euros. But he 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 are there for all to see. And indeed the population saw. The popular classes (the working and middle classes), who used to vote for the socialists, asked why the 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 larger. Zapatero tried to save 6,000 million euros by reducing expenditures in 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 per cent of all business in Spain). If he had done so, 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 per cent of all 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, and Alberto Garzon, another economist, and myself have written a book that sold like hotcakes 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 people 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 would have preferred the second option rather than the first one. But 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 vote of all the socialist parties before it. 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 expressed in the philosophy that Zapatero and his colleagues soon articulated 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 (this in a country in the EU-15 that has low taxation and low 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 required 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 in the labor force, the Spanish state would be receiving 200,000 million

more euros 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.

These revenues would 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 have dampened consumption if the revenues obtained had been invested in job creation, particularly low and medium salary jobs.

This could have been done if the political will would have been there. The problem is that the Socialists did not dare enact the fiscal reforms, among others, that would have antagonized very powerful forces in Spain. That is, as it always is, the true issue.