SPANISH FLU: PEDRO SANCHEZ'S MALIGNANT ECONOMIC POLICY THREATENS SPAIN'S RECOVERY

Josh Moss // 16 August 2018

Having recovered from the recession that was brought about by the financial crisis, Spain's economy is improving, but vulnerable. With the advent of Pedro Sanchez's interventionist policies, it is likely that economic growth will take a siesta.

Following a vote of no confidence in June, the presidency of the centre-right Mariano Rajoy came to an end, with Pedro Sanchez from the centre-left PSOE party replacing him. Since then, a rupture in Spain's economic policy is becoming increasingly observable.

Although Spain's GDP has shown impressive growth since 2013, Javier Santacruz, head of research at the Spanish think tank Civismo, warns that the tailwinds which enabled Spain's recovery have disappeared. These for him include low oil prices, low exchange rates (relative to the dollar), larger influxes of tourists, and greater growth in Spain's export markets.

In the light of these factors, Spain needs policies which will create an open, flexible, and debt-free economy, fully capable of confronting future crises. Unfortunately, Sanchez intends to do the exact opposite.

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Since the beginning of his presidency, he has been slow in encouraging market competition and has pledged to increase public spending. He also intends to reverse Spain's labour reforms that were made following the financial crisis, making them more rigid.

Sanchez has confirmed that his expansive policy will cause the budget deficit to reach 2.7% of gross domestic product this year, as opposed to the previous government's estimate of 2.2 percent. This is worrying, given that the debt-to-GDP ratio is already 98 percent higher than the EU average.

Santacruz argues that this will prevent his government from achieving budgetary stability, as it fails to prevent the level of non-financial consolidated expenditure from exceeding Spain's economic growth potential. For him, such fiscal irresponsibility could in turn lead to Spain having to carry out more economic reforms enforced by the EU. If not fulfilled on time, the government would risk having to pay fines, which could prove costly for them. This is a very reasonable concern, given that Spain has already accumulated more fines than any other EU country for not fulfilling EU directives — typically ones that involve market-liberalising policies.

When it comes to competition, it appears that Sánchez has been kowtowing to the demands of pressure groups. Santacruz uses the taxi industry as one of the most recent examples: they have gone on strike due to the threat of competition, which they deem "unfair" from companies such as Uber or Cabify. This could have been an opportunity for the new government to assert itself by revoking the licenses that give the taxis monopoly power over the areas in which they operate. However, instead they are currently trying to negotiate and compromise with the taxi unions, as opposed to serving the interests of Spanish consumers.

According to Santacruz, Sánchez also threatens the labour market with his intentions to undermine reforms that made it more flexible, creating over 500,000 jobs. Although the president announced that he will not specifically repeal these reforms, his party still intends to enforce equal pay between outsourced workers and employed workers, which could in turn make the labour market less flexible.

This is exactly what Spain does not want: it still has one of the highest unemployment rates in the EU, which will only be exacerbated by higher labour costs.

So far, Spain has been experiencing a consistent recovery since its recession. Their National Statistical Institute (INE) forecasts increases in domestic demand, private consumption and export growth. However, this can all be reversed by Sanchez: his virulent economic policies would leave Spain once again vulnerable to recession.

A much better alternative would be to boost consumer-led growth by opening up the market to competition. The first step that he could take would be to rescind the licences which grant certain companies or organisations, such as the taxis, varying degrees of monopoly power over certain sectors. This would lower prices and benefit all consumers as opposed to serving the narrow interests of trade unions, incentivising higher levels of consumption and foreign investment.

This article was inspired by one previously written by Civismo.