

# Spanish Prime Minister Aznar spearheads drive to deregulate Europe's economies

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Spanish Prime Minister José María Aznar and his British counterpart Tony Blair held discussions over the weekend in Madrid on pushing through measures to deregulate Europe's economies and open them to international investors.

The talks follow proposals put forward by the two leaders last summer to the European Council meeting in Lisbon. Although the 15 European Union member countries approved the proposals, Aznar and Blair feel they are being set in motion too slowly. In response the two leaders have drafted a statement setting out tougher targets for reforms, which the European Union is due to revise at a summit next spring in Stockholm.

In a letter to Romano Prodi, President of the European Commission—copied to all EU members—Aznar and Blair demanded the full liberalisation (i.e. privatisation) of EU gas and electricity by 2004 plus an EU-wide agreement on opening up member states' telecommunications sectors by June next year. The European Commission should also deliver liberalised European air traffic by 2004, the two leaders also stated, calling for political agreement on rules for trading in airport slots by the end of 2001 as well as further competition on rail freight.

Blair and Aznar argue that the EU success depends on advances made in these fields rather than on theoretical plans or debates about whether a federal or inter-governmental European project is preferable.

Their letter proposes that state aid to industry should be cut as a percentage of overall EU Gross Domestic Product, from 1.1 percent to 0.9 percent in 2003 and 0.7 percent by 2005. It calls for an open and efficient pan-European risk capital market by the end of 2002. To make sure that these measures are fulfilled, there should be a wider use of benchmarking to measure progress made by member states.

Their joint statement added that the United Kingdom and Spain will undertake full cooperation in achieving the Lisbon strategy and proposed a series of joint seminars on competition policy, state regulation, training and employment and information technology.

The alliance between Blair and Aznar is instructive. Blair is the most prominent social democratic leader within Europe, while Aznar considers himself the spokesman for European conservatism. But the formal political coloration of a government no longer has much content since the abandonment of reformist policies and embrace of free market policies by Europe's social democrats.

Blair's government has almost seamlessly built on the economic policies set down during the preceding 18 years of Conservative rule under Margaret Thatcher and John Major. For his part, Aznar is seeking to build on the example set by his own predecessors, the Socialist Party government of Felipe Gonzales.

The Spanish economy depends to a much greater extent than any other in Europe on inward foreign investment. Openness to foreign investment did not start until the 1980s and developed with a vengeance in the 1990s under Gonzales, when the phrase "Spain for sale" was coined. Net foreign investment in Spain increased from 413 billion pesetas in 1983 to 1,235 billion pesetas in 1992. Frequently such investment was made to secure markets and distribution channels through the acquisition of Spanish companies. In contrast there were relatively few Spanish multinationals.

Despite this, the Spanish ruling class increasingly felt constrained in its drive to fend off growing competition for investment from Asia and Eastern Europe. Hostility to the attacks on living standards by the Socialist Party government grew within the working class.

Unemployment reached 25 percent by 1994, with social discontent leading to several general strikes as well as large mobilisations of miners, workers in heavy industry, the public sector and farmers. By 1996 the ruling class regarded the Socialist Party government as a spent force, unable to defend their interests in the midst of fast developing internationalised market economy and fend off public opposition to its socially destructive policies.

Aznar's Popular Party was elected in 1996 as a minority government in coalition with the Catalan and Basque nationalists. He immediately set out to further deregulate and privatise the economy, and to make swift changes in the labour market. He went some way to achieving this with a 1997 Pact between the government, employers and the trade unions, which made the sacking of workers easier and allowed the greater use of flexible and temporary contracts. Aznar recently praised the union leaders actions as an example "enormous maturity", in which they had abandoned their "prejudices" for the sake of "consensus".

Faced with a thoroughly compromised "opposition", Aznar was reelected in March this year with an overall majority. In summer, he brought forward plans to open up Spain's electricity supply industry to competition to October and to bring forward the liberalisation of the gas industry from 2007 to 2003, with 80 percent of the market opened up a year earlier.

Aznar has set himself the task of achieving a balanced budget, new tax reductions, market liberalisation, privatisation of state-owned industries, reform of the pensions system and extensive reforms of the labour market.

At a gathering in Italy of representatives of Spanish and Italian corporations earlier this month, Aznar bluntly stated that if Europe wishes to close the gap with the USA over employment and competitiveness, "the modernisation of our system of social protection is unavoidable".

"There is no disagreements about this between the European governments", Aznar continued, "except whether we dare or dare not [and] whether maintaining an impossible status-quo matters to us. I am not prepared to allow Spain to ignore this reality".

Aznar considers the reduction of pension costs an essential precondition for achieving his aims. He took advantage of a meeting organised by the Ministry of

Labour to celebrate the first centenary of the Social Security system to spell out his main objectives. Reforming the pensions system means shifting the cost away from the government, by devising "flexible, gradual and voluntary formulas for lengthening the working life" beyond 65 years of age. He called for new measures to stop early retirement and to retrain the over 50s to adapt to the "new realities of life", thus breaking what he described as "the myth of age".

The second prong of his strategy is to achieve further reforms of the labour market. The 1997 deal has seen a massive growth in cheap wage and temporary jobs so that today, one-third of all Spanish workers are on temporary employment contracts. Aznar believes that this initial agreement has now exhausted itself. Fresh measures are required such as a new type of "indefinite contract" and reducing severance payments to 20 days pay for every year worked instead of 45, with a maximum of 12 months for redundancy pay outs.

To this end, Aznar is presently involved in talks with unions and employers for a renewal of the 1997 Pact to pave the way for implementing this strategy—a measure that the unions have already indicated they will comply with.



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