Spain: Unemployment could soar to one-in-four next year

Marcus Morgan
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In a series of recent gloomy economic forecasts by the European Commission, the European Central Bank, the Spanish Central Bank and government institutions, the Spanish unemployment rate could soar to a staggering 20 percent and possibly to one in four workers in 2010.

"The momentum is clearly there for something well above 20 percent, it's odds on really. My own forecast is that it gets to something around about 23 percent," said senior European economist Dominic Bryant of BNP Paribas.

Bryant continued, "Spain and Ireland together have accounted for 75 percent of the Eurozone's unemployment increase in the 12 months to February, even though they make up only 14 percent of gross domestic product."

The ruling Socialist Party (PSOE) government has been forced to concede its mistake in predicting that unemployment would peak at 4 million. "The data are bad, and worse than expected," admitted new Finance Minister Elena Salgado.

Earlier this year Bank of Spain Governor Miguel Ángel Fernández Ordóñez warned that, "The Spanish economy is immersed in a period of deep contraction, where the unemployment rate, unless measures are taken, will rise to a very worrying level."

The Secretary of State Octavion Granado conceded on national television that, "It is a terrible figure" adding, "We are in the epicenter of the crisis. We are in the eye of the perfect storm." Granado, parroting the same rhetoric as other European political leaders, made the hollow claim that 2009 would be the worst year, after which the economy will show signs of recovery. What these latest reports clearly show, however, is that these assurances are little more than either deceit or wishful thinking.

In the past year alone, two million people have lost their jobs, taking the total unemployed to just over four million. The Spanish unemployment rate currently stands at over 17 percent. That is double the European Union average. The recent member states of Eastern Europe trail not far behind. The average across the 27 EU countries now stands at over 8 percent, though the real figure is undoubtedly much higher.

More than 800,000 people joined the dole queues in the major cities of Madrid, Barcelona and Cádiz in the first quarter of this year, the biggest such increase since the country's National Statistics Institute started recording unemployment figures in 1976.

New data shows that the economy contracted in the first quarter of this year by its fastest rate in at least 40 years. The Bank of Spain is predicting that the public deficit will run at over 8 percent this year, which is well in excess of the Eurozone limit of 3 percent.

A new survey released by the European Central Bank last week paints a similar picture, suggesting EU economies will contract by twice as much in 2009 as previously predicted. The growth in GDP is now predicted to slow by over 3 percent this year. Again, the ECB highlights Spain as a particular problem.

According to a Eurostat report released this month, foreign investment from the EU 27 countries fell by 28 percent in 2008, whilst inflows of capital into the region decreased by 57 percent. Capital flows between EU states also contracted by 42 percent compared to 2007.

Summing up the general malaise, the economic institute Esade commented that, "All the economic analyses show Spain as the European country which has been hardest hit by the crisis and will take the longest time to recover."

With almost a third of the workforce on short-term contracts and with many jobs in low-wage and low-skilled sectors, it has been relatively easy for companies to shed jobs in response to the crisis. It also means that many of those remaining in work are in a very precarious condition. The social effect has been devastating, and this situation can only get worse in the coming period.

The charity Caritas, which provides support for those who are excluded from the flimsy welfare services, has already seen demand for help leap 75 percent in 2008. Soup kitchens across the country are suddenly inundated with the new poor.

Spain's period of moderate growth over the last 14 years was in many ways reminiscent of the Eastern European states. In both cases it was dubbed by many an "economic miracle." These economies have been thrown into reverse gear with the global contraction of finance capital that started last year.

Spain was especially vulnerable to the current global crisis because it was based above all on the growth of a colossal housing and construction bubble and a fledgling speculative finance industry, with a smaller manufacturing sector (especially cars) geared to attracting foreign capital to relatively low-wage labour.

All of these processes that drove the growth in the Spanish economy are in the process of disintegration. The collapse of the building and housing construction industry accounts for the largest slice of the current jobless rate with the Spanish housing market falling for 12 consecutive months. Building quickly came to a standstill at the end of last year after the banks stopped lending. Now the problem is compounded by companies defaulting on their payments to the banks.

The press is full of stories about the collapse. Typical is the example of a housing development near Madrid, labelled the "Manhattan of La Mancha," which was meant to house 40,000 but is now like a "cross between a ghost town and an abandoned building site." Across the country a million newly built properties remain unsold.

But other areas of the economy are far from immune. The important tourism, automotive and service industries are shedding jobs almost as quickly. Despite assurances from the government and financial institutions that Spain was protected from the international financial crisis by responsible lending practices and aversion to toxic assets, the relatively small fund management and private banking sectors are also in steep decline.

In the face of the collapse, the IMF has issued an ominous warning to the Spanish working class. They must "improve productivity and lower costs." In other words, the burden of the crisis is to be foisted on to the backs of workers by further attacks on wages and public spending.

Some of the most vulnerable to the class attacks now being prepared are the large immigrant population. Spain has attracted four million immigrants in the past decade, mostly from impoverished North African and Latin American countries. Police in Madrid have been given weekly quotas to deport "sin papeles" (without papers) immigrants.

The sudden onset of the crisis has revealed sharp political divisions within Spain's ruling elite how best to implement policies to protect its interests and privileges. Finance Minister Pedro Solbes was sacked by Prime Minister José Luis Zapatero in April over plans to toughen controls on immigrant labour, slash public spending by one billion euros and implement a 70 billion euro fiscal stimulus programme.

Solbes strongly disagreed with the prime minister's assurance that the economy would begin to recover by 2010, saying that the crisis would be far deeper and more protracted. His call for more drastic cuts in public expenditure was echoed by his close ally Economy Secretary David Vegara, who resigned just a few days later.

Solbes wanted to remove labour protection laws that prevent mass firings of full-time workers, but this was rejected after trade union leaders warned that such a frontal assault would lead to revolt and strikes.

Zapatero was similarly concerned about such an open class offensive so early in the recession and favours continued reliance on the unions to keep labour disputes under control, at least for the time being.

What has become increasingly clear is that the crisis that is engulfing the Spanish economy—as in the rest of Europe—cannot be solved in the interests of the ruling elite without an unprecedented destruction of industry, jobs and wage levels.