Spain: Youth unemployment tops 40 percent

Marcus Morgan
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In Spain's worst recession for more than 50 years, official figures for the end of 2009 show nearly 4 million people out of work. The official unemployment figure of 19.4 percent marks an increase of nearly 25 percent in a year. The recession has hit young workers hardest, with the unemployment rate increasing from 17.5 percent three years ago to over 40 percent today. An OECD economist estimates that 85 percent of the jobs lost were temporary contracts, affecting some of the lowest-paid and most vulnerable sections of workers.

Roughly 800,000 people lost their jobs in 2009, on top of nearly a million in 2008. According to the latest estimates, the Spanish economy shrank by 3.6 percent in the same period. The provinces of Valencia, Castilla-La Mancha and the Canary Islands are the worst affected.

The labour ministry reported that the numbers seeking jobless benefits increased by 55,000 in December and applications for unemployment insurance rose to the highest levels since 1997. The International Monetary Fund has forecast that the overall jobless rate will top 20 percent by the end of 2010.

The Socialist Party (PSOE) government has claimed that the worst is over, but such assurances will do little to allay fears that the country hovers on the brink of a depression-level abyss. A recent poll has put worries over unemployment as the chief concern among Spaniards, ranking far higher than terrorism or immigration.

In just over two years the nation's jobless rate has soared to nearly double the average in the 16-country eurozone. Some 15.7 million people are out of work across the eurozone, which has now seen its average unemployment rate top 10 percent.

This barely hints at the levels of unemployment being reached. Spain has the second-worst unemployment rate in the region, behind Latvia's 22.3 percent. All countries in the eurozone have seen unemployment rise in the last year, with Estonia, Latvia and Lithuania seeing unemployment levels more than double in that time. Unemployment of the under-25s stands at 43.8 percent in Spain. This is the worst in the region, and more than double the eurozone average.

The prospects for Spain in 2010 are, if anything, worse than for last year. Much of Spain's recent growth prior to the recession—celebrated until recently as an example for the so-called emerging economies in eastern Europe—relied on cheap credit and the highly speculative property boom. The highest rise in unemployment has been in the construction industry, which has slumped in the last period, with many housing projects left unfinished. At least 1 million homes remain unsold, with prices still falling at a record rate. Economists predict that the property market could be up to 55 percent overvalued.

Many construction jobs were temporary and low paid. They attracted mostly younger workers and immigrants, the so-called *mileuristas*, employed on salaries of around €1,000 a month. The Spanish government has toughened its stance on immigration, cutting the number of working visas by over 90 percent as well as offering financial incentives to encourage jobless immigrants to return to their countries of origin. With earnings in this group typically low, and the supply of credit cut off by reluctant lenders, empty homes are unlikely to find buyers in the near future.

The collapse of the construction sector by itself cannot explain such a high jobless rate. The service and industrial sectors are not far behind, and they account for a considerable part of the overall workforce. The problem is compounded by a strong euro and high energy prices, which have made exports of manufactured goods less competitive.

The economist Andrew Harker commented, "The

December PMI [Production and Manufacturing Index] data completes a dreadful year for the Spanish manufacturing sector. Output decreased in each month apart from a marginal rise in July, with demand showing very little sign of recovery. The weakness of demand, amplified by dire labour market conditions in Spain, means that while input costs are rising, firms are forced to continue to offer discounts, further harming margins."

Other economic indicators point in the same direction. According to the latest Bank of Spain data, external debt has risen to €955 billion, around 90 percent of GDP. Government borrowing has also increased to about 13 percent of GDP. Taking all these reports into account, Spain is teetering on the brink of a depression.

There is a danger of a deflationary spiral, where prices and wages fall together, leading to sustained contraction that could take years for recovery. This threatening prospect is being exacerbated by the banks' unwillingness to lend in order to revive struggling small businesses after the financial crisis last year.

The PSOE government of José Luis Rodriguez Zapatero, mindful of its falling popularity and with a general election not far away, has announced that it is putting "job creation" at the centre of its economic strategy. The right-wing Popular Party (PP) has focused on the PSOE's failures in tackling the problem.

Employment Secretary General Maravillas Rojo assured the public that "the government's main worry and objective is to bring down unemployment throughout 2010." Struggling for something more positive, he added, "Job destruction continues to become milder."

In spite of these hollow claims, attempts at revitalising jobs through fiscal stimulus measures over the last year have had little effect in stemming the tide. An investment of €8 billion for public infrastructure work has already been slashed in half and will now more than likely never materialise. These measures, aimed at creating 400,000 low-skilled jobs by the end of last year, were a complete failure.

A more ambitious plan, involving large-scale investments in affordable housing, education and new industries—a Keynesian stimulus package being demanded by some economists—has been rejected by the entire political establishment. This is the case not just in Spain, but across the euro region. There is political consensus that the further impoverishment of the majority of the population is required to restore profitability for Spanish capitalism. The rhetoric of "recovery" conceals the reality of greater hardships for the majority of Spanish and European workers in 2010.

The PSOE government is facing the crisis, just as Zapatero takes over the EU presidency. His first action has been to call for a raft of measures to cut public debt across Europe. The so-called "2020 strategy" will seek to modify the existing Lisbon Treaty. Currently Spain's budget deficit is running at 11 percent, but the treaty set a maximum deficit of 3 percent.

Last month Standard & Poor's downgraded Spain's credit rating by one notch from AAA to AA-plus, expressing concern over the state of public finances. This followed a similar downgrading of Greece's rating, amidst warnings of similar measures against Ireland and Portugal.