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## Spain Is Getting Its Economic Vision From Peggy Lee and Frank Sinatra

- By IRWIN STELZER



Songbird Peggy Lee never offered herself as an economic forecaster, but her famous 1947 hit song, "Mañana," included such prophetic lines as "My pocket needs some money; once I had some money; my brother isn't working"—all to be attended to mañana.

Which seems to be the theme song of Spain's socialist prime minister, José Luis Rodríguez Zapatero. His nation's economy continues to decline: Spain has been in recession for seven quarters; its unemployment rate, at close to 20%, is twice that of the euro zone; its budget deficit is 11.4% of GDP; Moody's ranks Spain at the top of its "misery index," the total of the unemployment rate and the deficit. The central bank expects growth next year to be an anemic 0.8% and sees no significant drop in the unemployment rate this year or next. Standard & Poor's has already lowered Spain's credit rating and its outlook on the country's sovereign debt from "stable" to "negative."



Agence France-Presse/Getty Images

Spanish Prime Minister José Luis Rodríguez Zapatero

To which Mr. Zapatero has been responding with attacks on the Anglo-Saxon media and "the neoconservative model based on capitalism," industry minister Miguel Sebastián with insistence that the problems are "imported" (shades of Gordon Brown), and Labor Minister Celestino Corbacho with the charge that Spain's problems are due to "the neoconservative thinking preached by U.S. President George W. Bush, which has resulted in capitalism without borders."

Now, to the real world: one in which investors have made it clear that they know that the so-called Greek bailout trumpeted by euro-zone officials is no such thing so that Greece is paying twice as much (about 3.5 percentage points more) to borrow as solid Germany does.

Anyone who doubts that German Chancellor Angela Merkel will do all she can to prevent any of her voters' money from being used to bail out what she sees as spendthrift countries that didn't swallow the tough medicine Germans took to gain global competitiveness doesn't understand German politics and sensibilities.

Which bodes ill for Spain: even though its economy is five times as large as Greece's, Ms. Merkel is unlikely to have second thoughts about applying to it the same tough standards she applies to Greece - - meaning, no bailout.

Spain has \$1 trillion in sovereign debt outstanding, and, according to Desmond Lachman, a scholar at the American Enterprise Institute, a gross external debt burden of "a staggering 135% of GDP...". Worse still for Spain's prospects, "the Spanish economy has lost even more price and wage competitiveness than the Greek economy...."

Which raises the key question: Is the Zapatero government willing to impose the pain on Spain that will allow it to cut its fiscal deficit from 11.4% of GDP to 3% in 2013? Apparently not.

Yes, the retirement age will gradually be raised from 65 to 67, starting in 2013, and there will be a 87% cut in civil-service hiring. But Spain's deputy prime minister, María Teresa Fernández de la Vega, says that only 4.1 percentage points of the 8.4 percentage points of deficit reduction required by 2013 will come from reduced spending. The balance will come from tax increases and a crackdown on evasion (1.1 percentage points) and from economic growth, which the

government believes will increase tax revenues and allow it to cut back on stimulus spending.

The government is assuming that the economy will grow at a rate of 3% in 2012 and 2013. It is alone in that view. The nation's central bank expects growth to come to only half of what the government is counting on. And Angel Laborda, an economist at FUNCAS, a foundation that serves the nations' savings banks, says it is more realistic to assume that growth will not exceed 2% until 2014.

If that: Spain sends 70% of its exports to other EU countries, and growth in the EU area is at a virtual standstill, suggesting the Zapatero government will have to look to a resumption of domestic demand to achieve its growth targets. Not likely with unemployment high and consumer confidence low.

No matter to Mr. Zapatero. He continues to place a higher premium on social solidarity than fiscal prudence. Actually, that's rather a nice way to put it. More accurately, the president places a higher premium on appeasing his trade-union supporters than on implementing the needed reforms. Those go far beyond an effective austerity program.

The labor market is a mess—a combination of workers who can't be fired, and others with short-term, insecure tenure. Productivity is low. The savings banks known as *cajas de ahorros* remain burdened with bad loans to property developers, and resistant to meaningful restructuring. Mr. Lachman of the AEI finds it "difficult to see how Spain's banking system will be spared a major crisis down the road."

But that's for *mañana*, or as Frank Sinatra put it in a different language, "Domani, forget domani. Let's forget about tomorrow for tomorrow never comes."

—Irwin Stelzer is a business adviser and director of economic-policy studies at the Hudson Institute.