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(A Espanha da o exemplo)

Spain as an Example

Instituto Millenium

The model for reform that lifted the stagnant Spanish economy can serve as an example for Brazil. This is at the heart of "Spain as an Example" in the February 14, 2007 issue of Exame magazine. For the simple fact of serving as a model for consistency – unlike the outrageous growth figures of China and India – the uninterrupted Spanish growth of the last 30 years is a model of growth that merits Brazilian attention. The greatest merit of this growth, according to Rodrigo Mesquita, is its perseverance. Spain followed a model of consistency that targeted issues one by one, with successive generations of reform. According to Guillermo de la Dehesa, president of the Center for Economic Policy Research of London, there are two paths for a country to gain the confidence of international investors: provide stable politics or membership into a credible club; both were utilized by Spain. The article explains in detail how the process occurred and the measures that were adopted over the long-run – among them, the flexibilization (?) of costs for manual labor and the rigorous adjustment of public accounts – as well as factors that may slow down the Spanish growth in the near future.

Full article
http://portalexame.abril.com.br/revista/exame/edicoes/0886/economia/m0122180.html

Reforms, reforms, reforms. These are the lessons - for Brazil – that can be learned from the model that lifted the Spanish economy.

At the end of January, the Spanish government announced its best unemployment figures in 36 years. The unemployment figure rests at 8.3% and in some regions, such as Aragon and Navarra, ideal employment situations already exist. In a meeting with business owners, prime-minister Jose Luis Rodriguez Zapatero celebrated by saying that the country had just finished its "best year in terms of economic performance in the democratic era." The president of the Spanish Central Bank, Miguel Angel Fernandez Ordonez, announced that the GNP grew 3.8% in 2006 and that the fiscal surplus reached 1.5% of GNP. This performance, states Ordonez, lifted the Spanish economy to eighth place in world ranking, behind the US, Japan, Germany, China, UK, France and Italy. The Spanish GNP is nearing 1.2 trillion dollars. If its economy maintains the current pace (the estimated growth for 2007 is 3.5%), the Spaniards will pass the Italians by December and will fast approaching the Germans by 2010.

At the heart of the matter is one of the most impressive cases of sustained growth in the world. Spain grew uninterrupted for 40 years. Since 1994, the GNP has grown at an average rate of 3.4 % per year. It is relatively small when compared to the astronomical growth figures of China and India; however, it is an excellent performance for a

European nation. For that same reason – the Spanish growth model deserves greater attention from Brazil than the Indian and Chinese one. When Dictator Francisco Franco died in 1975, it was a running joke to say that Africa began at the Pyrenees. At that time, Brazil and Spain were in similar positions: nations with underdeveloped economies and large state involvement, regional disparity and an infernal bureaucracy. Since then, the Brazilian scene has changed slowly with many hiccups – some wins, such as the stability, are counterweighed by losses in other areas, such as much larger State. This is while the Spaniards were able to multiply their production five-fold. “We had a vision: we wanted to reach our European neighbors’ level of development”, states Carlos Solchaga, ex Spanish minister of industry, and later on of Economics, in the 1980s.

So what allowed Spain to make such a substantial leap? Perseverance is the name of the game. The Spanish plan was the consistent implementation of a long-run strategy to attack its deficiencies one by one, with successive generations of reform. “Miraculous models don’t exist in economics”, states Guillermo de la Dhasa, president of the Centre for Economic Policy Research of London, and secretary of political economy from 1982 to 1986. According to him, there are two paths for a country to gain the confidence of international investors: achieve stability in politics or acquire membership in a credible club. Both were utilized by Spain. Even before takeoff, more specifically in 1977, political forces began a series of accords, known as the Pact of Moncloa that set the stage for greater fiscal and monetary discipline. Along the years, regardless of the administration, those principles and the systematic investment in education, health and infrastructure formed the pillars of the political economy. In 1986, with its entrance into the European Union, Spain solidified its position as a secure country for the foreign investment it had gained in prior years. In its most recent issue, Standard and Poor’s once again gave Spain its highest grade, one equal to the grades attributed to the US, Germany and Switzerland. “The grades reflect Spain’s strong fiscal standing and the robust economic growth”, states Trevor Cullinan, analyst for Standard and Poor’s in London.

The Spanish are ahead

Brazil and Spain are similar economies. However, the indicators show that Spain is currently in a stage of greater economic development.

	Spain	Brazil
GNP	\$1.2 trillion	\$967 billion
GNP per capita	\$27,320	\$5,177
Economic Growth	3.8%	2.7%
Liquid Government Debt	27% of GNP	50% of GNP
Annual Inflation	2.7%	3.1%
Private Sector Credit	156% of GNP	34% of GNP

Sources (2006): Standard & Poor’s, Spanish Central Bank and Brazilian Central Bank

The years prior to EU membership were crucial for the development of Spain. The macroeconomic stability had already been amplifying the influx of foreign investment and that trend continued. Beginning in 1985, 33% of new jobs were created by foreign capital. The initial stage of economic reforms was set to begin. The first significant structural adjustment was initiated in 1983, with the implementation of a modernization program in the industrial sector. The government utilized the fire power of the *Sociedad Estatal de Participaciones* – a holding that consolidates State held stock in diverse businesses – to promote the reorganization of economic sectors that were symbolic of the Francoist regime including: steelworks, mining and the naval industry. Thousands of jobs were eliminated, factories were closed down and sectors were consolidated under new holdings. The government also promoted the restructuring of the financial system, which was dealing with a serious crisis due to the poverty of the industrial sector. As it was done in Brazil with Proer, the Spanish Central Bank intervened, liquidated entities, reorganized publicly held banks and created an environment that was favorable to the surge in global giants, such as Santander Central Hispano and Bilbao Vizcaya Argentaria.

Santander is the best example of these transformations. Until recently, a provincial bank, it came out into the market with voracity in the 1980s. It sprang forth with innovative products and the acquisition of competitors. In the 1990s, it was already among the national leaders in banking. In 1994, in its most ambitious move, it purchased Banco Espanhol de Credito (Banesto) via auction. Banesto had been the largest bank in Spain during the Franco regime and had been under control of the Central Bank. Today, Santander is the 7th largest banking institution in the world, with a market capitalization of 90 billion euros and deposits of 798 billion.

Consistent trajectory

In the last 30 years, Spain has made successive changes to consolidate democracy and invigorate the economy.

1975
Dictator Francisco Franco dies. He had ruled Spain for 36 years. The country begins its transition to democracy.

1977
The political parties agree to the Pact of Moncloa, a series of accords that include provisions for fiscal and economic discipline.

1983
A modernization plan for the steelworks and ship building industry begins.

1986
Spain is granted membership into the European Union. This marks the beginning of a rise in foreign investment coming into Spain.

1999
So that Spain can be recognized as a founding member of the European Monetary Union, the Spanish government brings public spending under control.

2002
The *euro* substitutes the peseta as inflation and interest rates decline.

The economic reforms also brought social change. The country under general Franco was known for its rampant inequality. Conversely, the democratic government that followed placed greater emphasis on the public good, stressing areas of health, education and employment. "The reinforcement of the social cohesion was fundamental at a stage when the country was faced with unemployment figures nearing 20%", states Solchaga. The environment for growth and greater security created a new category of consumers. People became exposed to new things from abroad as the economy opened up and their purchasing power rose. Furthermore, this promoted the expansion of businesses that were able to interpret the new markets, as they produced modern products at competitive prices. For example, the Inditex group, owner of retailer Zara, and third largest textile conglomerate in the world. The group founded by Amancio Ortega, the richest man in Spain today, began in a shed where he worked with his family during the transition to a democracy producing and selling what "new Spaniards" wanted: "designer" clothing at reasonable prices.

To participate in the rich kids club also helped. Along the way Spain received 165 billion euros from the European Union from funds destined for new members. These funds in addition to having helped with social politics also served to assist with the financing of renovations on infra-structure including: a high speed train, the extension of the network of roadways, and the modernization of airports. The effort has not yet ended, but it is now Spain that is paying for these upgrades. In the 2007 budget, the government expects to invest 17 billion euros on ports, airports, roads, railways and the environment – more than three times the investment made by the Brazilian state last year.

Perhaps the biggest victory of the governments proceeding Franco was the reform of the labor market. The flexibilization of the labor market was vital to the competitiveness of the Spanish work force. Ironically, the start of this reform can be attributed to a socialist government in 1986. The government of Felipe Gonzalez broke past a leftist taboo by cutting the cost of firing and implementing the temporary work contract. Consequently, employment that had been as high as 24.5% in 1994 has consistently declined since. Presently, out of every 10 new work posts created, three are temporary.

The 1990s were marked by what many consider the second phase of reforms. So that the country could become one of the founding members of the European Monetary Union, the Spanish government rigorously promoted adjustments to the public accounts. Consequently, the prize came in the form of a reduction of interest rates from 15% to 4%

and a new investment cycle. "People began to acquire greater debt and the credit markets developed quickly", states De la Dehesa. The growth of consumption and the availability of cheap money further propelled the economy. The exuberance of the international financial markets in the second half of the decade facilitated, in its own way, the dismantling of state monopolies. In 1995, Jose Maria Aznar initiated the privatization of Telefonica, which along with the petrol monopoly of Repsol, proved to be the most successful examples of "destatization". In a little over ten years, Telefonica has evolved from a local business to third place worldwide in terms of client numbers. Ten years later, the government has separated the activities that gave rise to another giant, Gas Natural, from where Repsol had originally laid claim to the hidracarbon industry. In 1997, the remaining 10% stake still owned by the state was sold, and two years later the business concluded the purchase of argentina YPF. Currently, Repsol YPF is in the top 10 of its sector, with a market capitalization of 31 billion euros.

Will the Spanish economy be able to keep its current pace? Health indicators, such as the investment rate currently at 30% of GNP (Brazil is at 20%) provide reason for optimism. On the other hand, at a recent summit, the OECD stressed the loss of competitiveness and the increasing degree of debt accrued by the population as two major obstacles. The total Spanish debt by the end of 2006 totaled 717 billion euros. These are the same warnings that the European Central Bank has mentioned along with the possibility of future interest rate hikes. This scenario could weaken the prime driving force of the Spanish economy during the last several years: civil engineering, which has been responsible for 70% of all investments in the country. There exists a housing bubble in Spain. Spain already has 23 million homes, one for every two residents. Moreover, the OECD estimates that real estate prices in Spain are currently overvalued by as much as 30%. The housing boom of recent years has spurred on the second major driving force in Spain: immigration. In the last six years, 4.5 million immigrants came into Spain and took up jobs rejected by an aging population with a low fertility rate.

The declining competitiveness is another major issue. On average, the Spanish worker produces 13% less than a European and 27% less than an American. Meanwhile, some economists would argue that this is not a deficit in productivity but instead a latent opportunity for growth. This is what recent Nobel Prize winning economist Edmund Phelps argues. "Growth from a solid foundation is possible if there is room of productivity growth", states Phelps. This is what happened in Japan in the 1950s, with Korea in the 70s, and with Germany, France and Italy between the 50s and 70s. The third Achilles tendon is the deficit in external accounts. At the end of 2006, Spain finished the year with a commercial deficit of 18% of GNP (the second largest in the world behind the US) and 8% of current accounts. Meanwhile, Phelps doesn't see larger problems on the horizon. "The external deficits are a symptom of rapid growth due to an increase in investments", states the Phelps. "I don't believe Spain will have a serious issue regarding this matter. When a child is growing and his foot size remains the same, we don't attempt to stop the child's growth. What we do is buy larger shoes."