

INTERNATIONAL
Herald Tribune

Once an ace in the hand, Spain's economy a problem for government in run-up to elections

The Associated Press

Friday, February 22, 2008

MADRID, Spain: Just months ago Spain's thriving economy looked like an ace in the hand for Prime Minister Jose Luis Rodriguez Zapatero as he geared up for a general election.

But with negative economic data spilling out daily, it's become a something of a stone around his neck as polls consistently show the now-slowing economy to be among Spaniards' chief worries in the March 9 vote, along with immigration and terrorism.

A Gallup poll last year showed 68 percent of Spaniards felt the economy was going well. Back then, the Socialists had an average four percentage point edge over the conservative Popular Party.

But most surveys now show the two parties neck and neck, with unemployment and economic problems occupying second and third place in people's concerns, after terrorism.

"It's surprising Zapatero did not call elections earlier," said Juan Carlos Martinez Lazaro, an economics professor at the Instituto de Empresa, a Madrid business school. "In electoral terms, he may have made a mistake because from now on the economic figures are not going to be good."

Spain has been one of the European Union's top economic success stories for more than a decade. But an international financial crisis triggered by the U.S. sub-prime mortgage crash coupled with a slowdown in Spain's overheated construction sector has set off alarm bells.

Job-wise, figures are getting gloomy. After a decade creating more than 600,000 jobs a year and dramatically reducing one of the EU's highest unemployment rates from 25 percent in 1994 to 8.6 percent, unemployment is on the rise. The January annual rate of 4.3 percent, up from 2.4 percent a year ago in January, 2007, was the biggest jump in at least a decade.

Inflation reached a 12-year annual high last month at 4.3 percent, more than double the EU average. A consumer confidence indicator tumbled in January for the ninth straight month.

Zapatero's Socialists say that while there are problems, Spain's economy is buoyant enough to weather the storm. "It's inevitable that people should be concerned but there is no need to take hasty measures," said Finance Minister Pedro Solbes.

The opposition Popular Party, citing high inflation and rising unemployment, accuses the government of ruining a healthy economy it inherited upon taking power in 2004.

"The profits from the past are finished and the question is 'What now?'" said its leader, Mariano Rajoy.

Most economists expect Spanish economic growth to slow but still produce healthy numbers this year and next.

"I don't see a recession. We will grow at a slower pace, that's all" said Xavier Vives of the IESE business School. "Compared to other European countries, Spain has a budget surplus and its public finances are in better shape."

Spaniards on the street are divided.

"Things are terrible. We haven't got a cent," said Loli Garcia, a 50-year-old office worker. "Everything's

going up and wages are going down all the time."

Under Spain's bonanza, housing prices rocketed by some 200 percent in the decade to 2007, placing them out of the reach of many Spanish workers. Once rock bottom interest rates have risen sharply, leaving many homeowners struggling to pay their adjustable rate mortgages.

Traditionally a low-wage country, an influx of some 4 million immigrants in recent years has helped keep wages down and given rise to a social class called 'mileuristas' people who earn 1,000 (US\$1,500) a month or less. In Madrid alone, nearly 50 percent of wage earners, or some 1.5 million are mileuristas, unions say.

"Personally I can't complain, I have a job and they pay me well," said computer technician Jose David Caceres, 30. "But there's too much of a difference between those who are well paid and those who can't make ends meet."

Spain boasts the EU's fifth largest economy, posting average yearly growth of 3.75 percent, double the European average, for the past 12 years. Some now predict it could slow to 2 percent this year, while Solbes maintains it will remain above 3 percent.

"There's a pervading sense of pessimism because of the bad statistics and everyone talking about crisis," said Martinez. "But this is not a crisis, it's just less growth. There have been worse situations before."

The Socialists insist Spain is actually better off than ever. For the first time per capita gross domestic product, a key measure of people's wealth, is above the EU average and ahead of Italy's.

Ironically, Zapatero's and Rajoy's electoral promises virtually mirror each other leading many to believe it will make no difference who wins.

The Socialists pledge a tax rebate of 400 (US\$600) to 13.5 million workers while Rajoy promises to exempt 7 million low-wage earners from paying income tax altogether. Both promise to create more than 2 million jobs.

"I've no intention of voting because it makes no difference to me who wins," said office worker Garcia. "It's the same dog with a different collar."

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