

Spain Battles IMF Conditionalities

by Rodolfo Torres

The Spanish economy has begun to show signs of decline, which cannot be taken as an exclusively Spanish affair, but as reflecting the general collapse of the world's economy. Spain's inflation rate is rising, not only in energy-related prices, but in real estate and consumer goods as well; decreasing sales of new cars might trigger a depression in that sector; labor conditions are becoming as bad as those in the *maquiladoras*, the assembly plants on Mexico's border with the United States, where workers live in slums are paid a pittance; and on top of this, the International Monetary Fund (IMF) has made "suggestions" for reform which clearly will only worsen the situation in the physical economy.

Rising Inflation

As **Figure 1** shows, inflation is growing in real estate assets, with price increases of 15% in some regions.

The Society for Real Estate Valuations reports in its *Bulletin No. 19*, that the price of a square meter of new housing has increased by a national average of 6.5% in the first half of 2000. The inflation rate in some areas of Spain, such as in Vitoria in Euskadi (the Basque region) or in the Canary Islands, from December 1999 to June 2000, has been as high as 14.9%. The president of the Society for Real Estate Valuations, José de Pablo Méndez, expects to have a shift to a deflationary tendency, by the end of the year, due to decreased demand. De Pablo bases his analysis on the fact that the Bank of Spain has forced private banks, as well as the savings banks, to halt credit expansion. But, constriction of credits for housing construction will only make the housing market tighter, increasing the inflation rate. The IMF, on the other hand, says that more rental housing is needed, but its austerity conditionalities make that impossible.

After the statistical agency Eurostat released its analysis that, leaving aside oil prices, the inflation rate for the eleven "euro-zone" nations is only 1.9%, the Bank of Spain announced that rising oil prices was the cause of the inflation, which was 3.2% in the first six months of 2000, already surpassing the 2% limit for the whole year imposed by the European Central Bank. Not only are energy and real estate prices increasing, but consumer prices increased by 0.6% just in July (**Tables 1 and 2**), pushing inflation to the highest level since June 1996, and almost doubling official expectations for this year. This escalation of prices has provoked nervousness among leading institutions in Spain, but also has sparked discussion about whether to change the estimates, from 2% to a

more realistic 2.7% for this year.

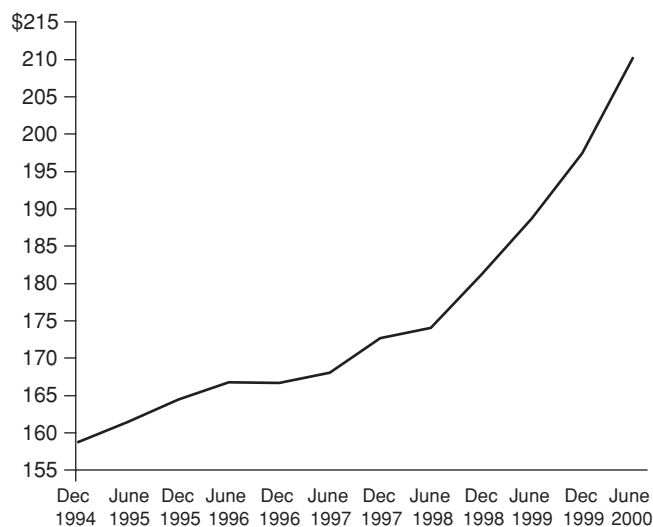
As the Bank of Spain and the European Central Bank have announced, increasing interest rates if inflationary pressures continue, would immediately affect mortgage interest rates (Mibor). The Mibor was officially reported in June 2000 to be 4.959%, up from 2.780% in June 1999, according to the Mortgage Association of Spain.

Economic Barometers

One of the barometers of any economy has always been auto production and sales, and car sales are in a downward trend. The Bank of Spain, in its economic bulletin for July-August 2000, expected a fall in sales, and this has been corroborated by the National Association of Auto Makers (Anfac), in its monthly review of new-car registrations. For July 2000, it reports a 6.59% decline in auto sales compared to June 1999, and an 18.49% decline in all-wheel-drive cars. The explanation offered is that there has been a drastic fall in purchases by private, non-rental companies. But for all-wheel-drive vehicles, Anfac is already acknowledging that the market is in a deep recession.

The labor sector seems to be an obvious barometer for domestic consumption. Conditions for labor are not getting better, even though some areas of Spain are reporting "technical" full employment (86% employment of the economically active population). Reality is quite different, when the quality and the kind of jobs generated are taken into account. In Spain, it is no longer common to find full-time jobs. Instead, many more temporary jobs are now being created, which are subject to certain conditions, such as a time limitation or the fulfill-

FIGURE 1
Price of New Housing in Spain Is Rising
(Thousands Pesetas per Square Meter)



Source: Society for Real Estate Valuations of Spain (www.st-tasacion.es).

TABLE 1

Consumer Price Index in Spain

(Percent)

Item	June 2000	January-June 2000	June 1999-June 2000
Food	0.6%	0.3%	2.4%
Clothing	0.0%	0.9%	2.1%
Housing	0.2%	2.5%	4.1%
House Furnishings	0.2%	2.1%	2.5%
Medicine	0.2%	2.5%	2.8%
Transport	0.2%	4.5%	6.0%
Culture	0.1%	1.0%	2.1%
Other expenses	2.2%	5.5%	5.0%

Source: National Statistics Institute.

ment of a specific task.

The General Workers Union (UGT) has complained to the government on three labor issues. The first, is the high rate of personnel turnover (involving more than a million jobs in June 2000 alone). The second, concerns the percentage of temporary jobs, which amount to 90% of all new jobs generated from 1997 to the present (Table 3). And finally, the greed among some businessmen, who have hiked prices and profits, while doing nothing to improve the salaries of the workforce. The UGT reported, in press releases on July 4 and 13, that the minimum wage has only grown 2.8% during this year.

The UGT denounces the precarious conditions generated as a result of the nearly 2 million jobs created in 1999 by temporary employment agencies, in which 85% of the contracts lasted less than a month, and more than half lasted less than five days. Such jobs have grown from 400,000 in 1995 to almost 2 million in 1999. The official figure for the first semester of 2000 is still at 91% of the total jobs created. This gives a 31.7% temporary job rate for Spain, making it number one in that area within the European Union.

IMF Conditionalities

On July 20, the IMF proposed several "reforms" to control Spain's "overheating" economy. These affect housing, labor, pensions, and health care, and are designed to control inflation and avoid medium- to long-term budgetary pressures.

The IMF has found a "paradoxical coexistence" of housing shortages and high rents. The proposed solution, is to increase the supply of rental housing, but the IMF does not specify how this will be achieved by building new houses, and how such a program would be financed.

The IMF proposals for the labor sector will only create the first steps to *maquiladora*, slave-labor conditions, killing any serious attempt to create permanent jobs, by maintaining the high number of temporary-job contracts, and taking advantage of the "booming" "New Economy" sector as a job-creation engine. However, the Spanish news agency EFE reported on Aug. 14, that 54.5% of the 150 existing Spanish companies listed on the stock exchange have been accumulat-

TABLE 2

July Price Increases and Their Effect on the Consumer Price Index

	July 2000 Price	CPI Increase
Potatoes	9.1%	.049
Lamb	4.5%	.028
Pork	3.4%	.027
Tourism	2.8%	.363
Poultry	1.9%	.018
Fresh Fish	1.5%	.030

Source: National Statistics Institute.

TABLE 3

Number of New Jobs Created per Year

	Total Jobs	Temporary	Permanent	Percent, Temporary/Total
1997	822,106	750,759	71,347	91.3%
1998	997,042	921,350	75,692	92.4%
1999	1,128,700	1,031,843	96,907	91.4%
2000*	1,198,705	1,101,759	96,946	91.9%

* January to July 2000

Sources: General Workers Union of Spain, July 4, 2000 press release; Economics Ministry, Economic Report, July 2000; National Statistics Institute.

ing losses since the beginning of the year.

Another IMF labor proposal is to discourage early retirement, and to keep workers in the labor force after age 65, to increase the role of private pensions and reduce the public payouts for retirement.

Another so-called anti-inflationary reform already in effect, is expanding the hours that the commercial sector will remain open, in order to increase competition among retail outlets. But, as the UGT pointed out in a June 16 press release, entitled "Commercial Opening Hours Must Be Regulated," this will only guarantee the survival of the powerful transnational companies, and will eliminate the small retailers.

On health care, so far, the IMF sees the aging population, rising incomes, as well as the development of increasingly sophisticated and expensive medical technologies, as putting pressure on the health-care budget in the medium term. The recent reforms have cut government expenditures for health care, but additional cuts will be applied, particularly for pharmaceuticals, which, in the IMF's opinion, absorb a disproportionate share of the health-care budget in Spain.

The IMF's suggestions will clearly inflate the cost of living. The only feasible solutions to the problems that Spain is facing today, are not the IMF's austerity proposals, but a global solution: the New Bretton Woods financial reorganization proposed by Lyndon LaRouche, and global infrastructure development projects, such as the Eurasian Land-Bridge and the Oasis Plan for the Middle East.