

Nine years after the 2008 crash, Spain seems to have finally recovered and consolidated the growth lost during the crisis. In 2016 the Spanish economy grew by 3.2%, outperforming all the predictions made by analysts, and the forecasts for 2017 are encouraging as well—a [predicted growth rate between 2.2% and 3.2%](#). The GDP recovery is based mostly on the export of goods and services, which have shot up from around 25% to 33% of GDP—compared to 2009, export of goods [grew by around €90 billion](#).

Today, when the wounds opened by the euro crisis are hardly closed, the Spanish economic recovery seems to be a breath of fresh air for Europe. This optimistic stage triggers an unavoidable question, namely is the Spanish case a successful story of tackling the crisis and achieving economic recovery?

Since Spain has been one of the most compliant states with the recommendations coming from Brussels, the Spanish experience also provides an interesting insight into the results of such measures. On the one hand, it is notable that there has been a pronounced economic recovery after a deep recession; on the other, the youth unemployment rate is [around 44.4%](#), and there has been a significant increase in poverty and inequality—which has been often associated with the implementation of the austerity agenda.

Spain's anti-crisis measures

Two main periods can be identified in Spain's efforts to tackle the crisis. The first one, which ran from 2009 to May 2010, was characterized by an expansion of expenditures, especially due to the rising needs related to unemployment ([the unemployment rate went up from 8.2% in 2007 to 19.9% in 2010](#)).

After May 2010, coinciding with the outbreak of the Greek public debt crisis, the emphasis was heavily put on reaching a drastic reduction of the public deficit, which peaked with the 2011 reform of Article 135 of the Constitution.

This period was unveiled by the Royal Decree-Law No. 8/2010 of 20 May, which introduced a series of actions aimed at controlling the public deficit. Among its goals, it established a salary reduction for public employees by an average of 5%. The period was characterized by an oversimplification of policymaking process, in general achieved through Royal Decree-Laws, most of them aiming to cut public outlays.

In September 2011, the government reformed article 135 of the constitution to promote

budgetary balance, thereby establishing that all public authorities would bring their actions in line with the principle of budgetary stability. Analysts agreed that this was a clear message from Spain to the markets and to the European authorities about its willingness to arrange its accounts according to the wishes of the markets. The speed and the degree of consensus between the centre-right Popular Party and the socialists of the PSOE about this reform illustrated the strong commitment of the Spanish rulers to responding to pressure from Europe.

By 2012, the housing-market bust had left Spain's banking sector hanging by a thread. Spain, therefore, was urged to request a bailout of €100 billion—although it eventually spent €41.3 billion—to recapitalize its banking system. The recently created European Stability Mechanism (ESM) provided both the financial aid and the expert recommendations within its assistance package. After a year, the program was considered a success. Nevertheless, the external creditors agreed that economic measures should be accompanied by government action to impose in-depth structural reforms relating to labour relations, social security and collective bargaining.

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The 2012 labour market reform was again anticipated by a Royal Decree Law on Urgent Measures to Reform Collective Bargaining. The objective of this reform was to introduce and promote “flexicurity” by applying measures aimed at stimulating internal and external flexibility, and to achieve a better balance in the use of open-ended and temporary contracts. In addition, the cost of dismissals was drastically reduced for workers with permanent full-time contracts. This reform also allowed employers to unilaterally modify employees' working conditions, so eroding the protective capacity of collective bargaining.

Summing up, most of the changes introduced by the reform undermined legal and political employment guarantees under the assumption that jobs can only be created or maintained by less rigorous regulations. In this regard, the reform was in turn accompanied by a

reduction of unemployment benefits, which together acted as an internal devaluation of labour costs.

Success or Failure?

Going back to the question above, is the Spanish experience a successful story of recovery? It is not easy to assess such a complex and recent process. On the one hand, the structural reforms carried out since 2010 have allowed an internal devaluation, which in turns fits very well with an export oriented strategy of economic recovery. This might be one of the pillars of recent Spanish growth; in other words, gaining competitiveness vis-à-vis other nations by lowering in unit labour costs (ULC). According to Eurostat, [Spanish nominal ULC decreased by 0.4% year-on-year in 2015, the sixth drop in the last seven years](#). As a result, [the number of regular exporters has risen by 29.7% in the period 2012-2016](#). That means that the latter growth patterns have been [driven by exporting sectors—capital goods account for 20.3% of total exports; vehicles, 17.7%; food, beverages and tobacco, 16.9%; and chemical products, 14.1%](#). In real terms, exports grew by 3.5% year-on-year, as export prices diminished by 1.7%. Spain has also gained in terms of price-based competitiveness due to its low inflation rate: -0.3% in 2017.

On the other hand, this has entailed a substantial deterioration of employment and living conditions. Despite the notable economic growth, the labour market reforms seems to have not been effective enough in reducing unemployment: the overall unemployment rate rose to 19.63%, affecting especially [young Spaniards \(44.45%\)](#). Although unemployment has fallen, this is partially explained by a contraction of the workforce (mostly by emigration and lower participation), and employment in turn has become more precarious and it is [dominated by temporary employment and involuntary part-time jobs](#).

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This situation has in turn increased the number of people—including children—living in low work intensity households ([27.9% of the population in Spain is at risk of slipping into poverty or social exclusion](#)). Spain, in addition, was ranked the sixth worst 2015 developed country for childhood income inequality, according to a “report card” by UNICEF—that means that [36% of children live at risk of poverty or social exclusion](#). The evidence also suggests that Spain has taken a huge step backwards in terms of the distribution of wealth, directly related to the situation of progressive unemployment, the reduction in social spending and the contraction of public services. Spain is currently the country among the Eurozone debtor states, that has displayed the highest rise in inequality from 2008 to 2015—[the Gini index has risen from 0.32 in 2007 to 0.34 in 2013](#).

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Naturally, this has not been a passive or peaceful process; massive demonstrations during the so called “Spanish revolution”—proclaimed by the *indignados* (outraged)—could barely illustrate the general dissatisfaction of Spaniards that has lasted until today. Both traditional political parties—the PSOE and the PP—have been systematically punished by voters given the unpopular nature of the measures they have carried out. As a result, Spain has ended up with an unstable political situation that has crushed 30 years of bipartisanship. The upsurge of two newcomers—the anti-austerity *Podemos* and the centre-right *Ciudadanos* party—has seriously challenged the mainstream parties’ equilibrium. In 2016, the unprecedented fragmentation of the parliament led to the second general election in six months due to the inability of achieving a consensus to appoint a president.

In light of this situation, another question comes up: is this economic recovery sustainable in the long run given the notable worsening of social conditions and Spaniards’ dissatisfaction? That is the challenge that not only Spain but Europe as a whole faces nowadays, and once again, the answer is far from clear.

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