



Independent views in freedom

Indispensable reforms: playing Cassandra (part II)

26 JANUARY 2017

As I wrote in my previous article, when the Transition to democracy took place in Spain in 1975, the unemployment rate was 5% and the standard of living had grown by a factor of four in a single generation as a result of the country's huge (though fragile) economic growth between 1950 and 1974 (a 6% annual real growth in per capita GDP). Since then, Spain's economy has seen an average annual per capita GDP growth of no more than 1.6% (real PPP) and an average jaw-dropping 17% unemployment rate in spite of having increased the public sector payroll by 2 million people. At the peak of the 2007 boom, two of every three jobs created since the Transition belonged to the State or to the construction sector. Even more alarming is the fact that these mediocre economic indicators themselves would not have been achieved without the support of significant tailwinds which are absolutely once-in-a-lifetime events, such as the enormous increase in public and private debt, the EU structural and cohesion funds received by Spain, access to a big free-trade area such as the EU, and the savings in interest expenses resulting from joining the euro and from current ECB policies. If having had access to such enormous subsidies, we have been unable to bring down unemployment rates below 17% (on average), what will happen now that these subsidies are gone? Matters are further complicated by the current international situation featuring lower growth as a result of a drop in productivity and the West's massive debt levels. Given the above, we must take on a national political-economic re-foundation, because otherwise the generational impoverishment Spain will face may well ultimately lead to social unrest in a population lulled by the constant adulation of demagogues and seduced by the false promise of "security" natural to Welfare States.

Firstly, we must understand that the shallow brainchild known as the "State of Autonomies" (Spain's extremely decentralized regional structure), created ex novo by the political class of the Transition period, has proved to be a failure: seventeen fiefdoms running amok, useful only in forcing taxpayers to maintain an additional two million public employees (with scarce productivity) while enduring a regulatory maelstrom composed of thousands of pages per year which, de facto, shatters market unity. The Autonomous Regions have also promoted the squandering of public funds through a perverse system which relies on fiscal irresponsibility, a system in which those who rein in expenditures and perform efficiently are punished, while profligate demagogues are rewarded, and have made the two independence-prone regions' cognitive disorder worse because their beloved "differential trait" became diluted in the generalization of decentralization (and to be fair, also because their redneck nationalism has had the unintended cost of fleeing businesses and emptied coffers). Finally, in just 35 years the Autonomous Regions' system has bankrupted, with enormous cost to the taxpayer, the Cajas (savings banks controlled by the regional governments), who had been in place for two hundred years since its establishment at the outset of the 19th century. The



Independent views in freedom

Autonomous Regions' structure, created by and for political parties, has benefitted only them and has indeed become a cancer. As the great philosopher Julián Marías wrote, "It is unclear whether the political parties were created for the State or whether the State was created for the parties".

Second, we must substantially and simultaneously reduce taxes and public expenditures while lowering the alarming level of public debt. The margin available to reduce the overwhelming squandering of public monies is huge, but the will to take action is nonexistent. The margin available to lower taxes is equally enormous; the will to do so is equally nonexistent. Even if we initially retained the 5% GDP deficit which has become chronic due to the fiscal incompetence we have suffered for years, should that deficit result from fiscal revenues of 30% and fiscal outlays of 35% of GDP (for example) instead of the current 40% and 45% (please accept the rounding) it would increase productivity, provide an incentive for personal responsibility, enhance economic growth, and bring about a virtuous circle of job creation.

Third, Spain must cease to be an unfriendly, hostile jurisdiction for business and become instead a true magnet for businesses, both domestic and foreign. This would require only three factors: low tax rates, rule of law (implying stability and simplicity of regulations and a fast and efficient system of Justice), and labor flexibility. Concerning taxes, why not imitate those countries that have enjoyed much greater growth than we have? A corporate income tax rate of 15% stable in the long run would attract a huge number of companies that in turn would create jobs and wealth. In terms of labor flexibility, our politicians forget that it is only the private sector that creates useful employment, and that it is entrepreneurs who always take the initiative in hiring. Is it that difficult to understand that making layoffs difficult makes hiring more difficult? Who will hire new workers if he is unable to lay them off should business go south? In this regard the responsibility of trade unions and shortsighted politicians in the impoverishment of Spain is awesome. While the timid labor mini-reform implemented by this Administration was a step in the right direction, it fell far short of reaching its target. Finally, regarding the rule of law, it is imperative to create a Ministry of Deregulation and Legal Certainty with a two-fold purpose: to simplify regulations by drastically reducing their number and to avoid constant changes therein. This would require doing away with the Autonomous Region model, now running out of control.

Fourth, we must launch a reform of the pensions system to include private savings plans. The bankruptcy of the State-sponsored pay-as-you-go pension system is inevitable and indeed is taking place before our eyes, deceitfully disguised as a slow-motion purchasing power loss of the pensions.

Finally, we must make a major educational effort in modifying certain cultural elements present in our country which may contribute to dragging us back to the poverty we have needed centuries to overcome, starting with the education of children and youth in schools and universities (and re-educating our educators, if you allow me a tongue-



Independent views in freedom

twister). For decades the iron fist of the State in the education programs has indoctrinated our future generations in a misleading socialist ideology which, denying the evidence, believes that a gigantic State is indispensable, beneficent and infallible, a deified State on whose behalf we must disown our responsibility and on whose altar we must sacrifice our freedom in exchange for a counterfeit promise of security.

Spain's great potential is suffocated, stifled and weighed down by a State that has become a browbeating Leviathan, by mistaken policies which pathologically persecute and punish wealth creation, by a damaging educational system and by a self-harming political-territorial system. We have the capacity and the historical responsibility to adapt to new times learning from our mistakes so as to provide future generations the opportunities we enjoyed. The wake-up call is now becoming urgent, and you surely understand my exasperation as I observe the narcissism and shortsightedness of our political class. At this crossroads we require statesmen, but they are nowhere to be found.

Greek mythology tells us that prophetess Cassandra, daughter of Priam, King of Troy, was cursed by Apollo: she would retain her gift of prophecy but no one would believe her prophecies. She thus warned the Trojans in vain, tragically and desperately, of the imminent and tragic fall of their city. Dear reader: it is scarcely rewarding to take on Cassandra's role in a country such as ours, so uninclined to quantify results, so ostrich-like, and so full of régime's propaganda and sycophants. But I bear in mind that Troy did indeed fall and that silence, sometimes, is guilty.

Fernando del Pino Calvo-Sotelo