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Socy69 – Sociology of Globalization
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Spain and its International Policy

Introduction:

The beginning of the 1980s marked Spain's transition from the Franconian dictatorship to an era of democracy. Though the country's political future was full of hope and promise, the economy faced many obstacles to reform a thriving economy. Since that period, Spain has successfully implemented a number of policies that have made it one of the stronger economies in the European Union. Analyzing various macroeconomic indicators from the past two decades provides insight into Spain's global integration, State policy and socioeconomic performance during the post-Franco era.

Data:

The time-series data has been compiled from a collection of research databases: the IMF's International Financial Statistics and Direction of Trade Statistics databases, the World Bank Group's World Development Indicators database, the United Nations Common Database, and the ICRG's PRS Group Country data. The Economist Intelligence Unit's Country Profile for Spain supplements the numerical findings. Some economic indicators could not be found, however similar indicators have been substituted to account for their absence. Data for the number of international trade agreements signed per year was not available, so addition trade indicators (such as EU versus Rest of World imports) have been used to illustrate the presence of global integration. Extensive data on tax revenue could be obtained, however some qualitative data provides information on Spain's tax policy. Lastly, the GINI coefficient could only be procured for one year, therefore a country-to-country comparison of GDP per capita growth and income distribution have been included.

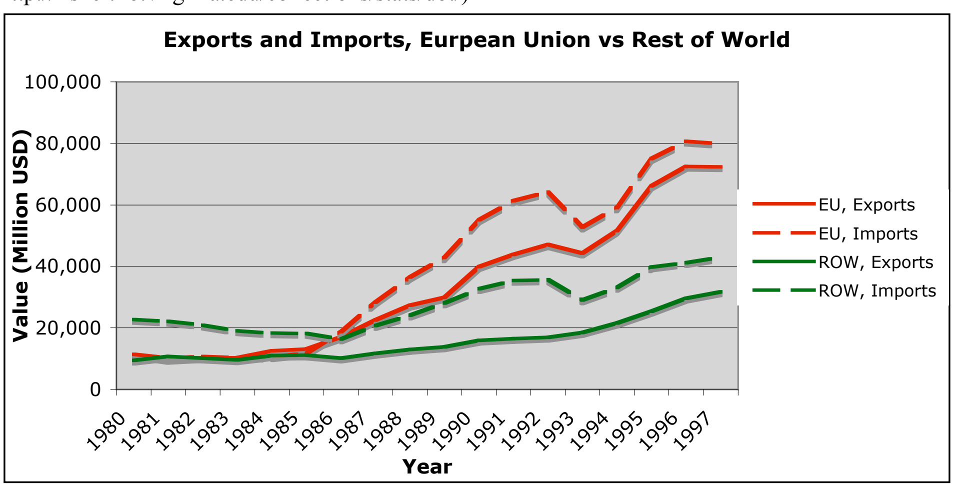
Global Integration:

Table A: Macroeconomic Indicators of Global Integration (Source: United Nations Common Database, http://unstats.un.org/unsd/databases.htm)

	1980	1985	1990	1995	2000	2005
Imports (% of GDP)	16.84%	9.52%	19.24%	20.91%	21.99%	30.92%
Exports (% of GDP)	14.66%	10.44%	16.00%	20.91%	19.85%	25.54%
Direct Investment Abroad (% of GDP)	0.85%	1.24%	2.98%	5.67%	19.75%	33.25%
Foreign Direct Investment, net inflows (% of GDP)	0.66%	1.12%	2.68%	1.35%	6.69%	2.03%
Foreign Direct Investment, net outflows (% of GDP)	0.14%	0.14%	0.68%	0.79%	9.89%	3.46%
Trade Balance (% GDP)	-5.2%	-1.3%	-5.6%	-2.9%	-4.4%	-7.6%

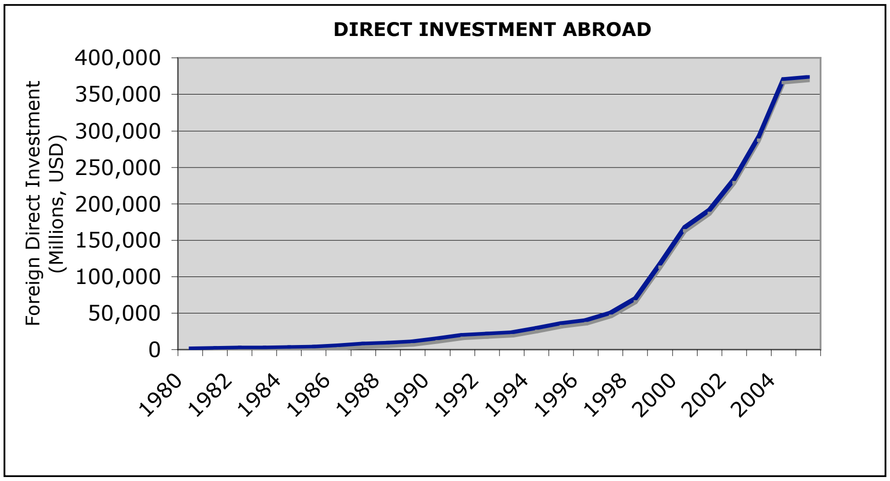
Since the mid-1980s, Spain has become increasingly integrated into the global economy, as evidenced through a significant increase in trade and capital flow. Spain predominately trades within the European Union, which is a byproduct of geographical proximity and EU Trade Agreements. As shown in Chart A, the accession to the European Community in 1986 greatly increased the country's intraregional trade. The transition to the Euro, which launched fully in the beginning of 2002, also boosted trade.

Chart A: Exports and Imports, European Union versus the Rest of the World (Source: IMF Direction of Trade Statistics, http://fisher.lib.virginia.edu/collections/stats/dot/)



Similarly, Spain has experience an increase in capital movement, with foreign direct investment peaking at the turn of the century, and direct investment abroad increasing extensively. The dramatic increase in direct investment abroad in 1999, as shown in Chart B, proves the importance of a unified European currency.

Chart B: Direct Investment Abroad (Source: IMF, International Financial Statistics, http://www.imfstatistics.org/imf/)



Spain is a member of three trade organizations: NATO, OECD and the European Union. Since the end of the Franco regime, the government sought out representation in the global economic community. They joined NATO in 1982 and the EU in 1986.[1] Spain was required to relinquish control of its monetary policy when joining the EU; therefore they implemented fiscal austerity policies in the mid-90s to conform to the economic criteria mandated by the Stability and Growth Pact. On January 1st 1999, the peseta's exchange was locked with ten other countries joining the EU. Spain's association with these trade organizations has not only promoted global integration, but has also lead to a number of economic improvements, such as drastically reduced inflation and unemployment rates.

State Policy:

Since the fall of Franco, the Spanish government has operated under social liberalism, with the Spanish Socialist Workers Party ruling from 1982 to the mid-90s and

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[1] Economist Intelligence Unit, "Spain: Country Profile 2007," 13.

the People's Party winning majority vote until 2004.[2] Due to the country's leftist political influence, the citizens' social wellbeing always implicates the country's economic policies. Despite this fact, evidence suggests that the Spanish government has implemented neo-liberal policies to an extent.

Table B: State Policy Macroeconomic Indicators (Sources: 1. IMF International Financial Statistics; 2. UN Common Data Base; 3. World Bank Group, World Development Indicators; 4. ICRG, PRS Group, Economic Indicators Database)

	1980	1985	1990	1995	2005
Tax Revenue (% GDP)[1]	n/a	n/a	n/a	15.86%	12.65%
Government Expenditure (% GDP)[2]	13.59%	15.17%	16.23%	18.08%	17.79%
Welfare Spending (% GDP)[2]	n/a	n/a	n/a	n/a	0.013
Compensation of employees (% of expenses)[3]	n/a	n/a	n/a	13.91%	9.33%
Socioeconomic Indicator[4]	n/a	8.0	8.0	6.0	8.0

Over the past decade, the Spanish government has received a decreasing share from tax revenues. From 1996 to 2004, a tax reform program reduced taxes on capital gains and personal income. However these tax reductions do not suggest a race-to-the-bottom, as government marginally lowered the standard corporate tax rate (from 35% to 32.5% in 2007) and reduced taxes on small companies by 5%.[3] One should note that, since the EMU dictates Spain's monetary policy, fiscal policy (especially tax policy) is the primary tool for economic stimulus. Conversely, government expenditure has increased slightly, thereby giving conflicting reports on State strength. In regard to business, we notice that compensation of employees as a percentage of expenses has decreased significantly within the past decade. Yet welfare spending and a socioeconomic indicator based on "the general public's satisfaction or dissatisfaction with the government's economic policies" have remained relatively constant.[4] The likely reasoning behind these conflicting findings is that the State has implemented neo-liberal policies that directly

[2] Economist Intelligence Unit, 22.
[3] Economist Intelligence Unit, 25.
[4] IRCG, PRS Group.

promote economic growth (e.g. tax cuts on goods and reducing wage floors), but they have not ventured rightward on social spending policies. Additionally, Spain has deregulated its formerly rigid labor market, which has resulted in positive effects on unemployment, and opened formerly monopolistic markets.[5]

Socioeconomic Performance:

Over the past twenty-five years, Spain has been able to able to perform relatively well despite the natural vicissitudes of the economy. Spain's accession to the European Community in 1986 reverted the country's industrial crisis, which had lagged for ten years prior. In 1992, Spain endured its most severe recession in 30 years, however they regained strong economic growth two years later. This prosperity continued until early 2001, when it experienced a slight recession until 2003.[6] Until recent forecasts of a downturn, Spain's economy has performed well the past few years. One of the primary reasons for Spain's economic robustness is its underlying socioeconomic policies.

Table C: Socioeconomic Performance Indicators (Sources: 1. UN Common Data Base; 2. IMF International Statistics; 3. Globalis - http://globalis.gvu.unu.edu)

	1980	1985	1990	1995	2000	2005
GDP Growth (%)[1]	2.20%	2.30%	3.80%	2.80%	5.00%	3.50%
Unemployment Rate (%)[1]	11.4%	21.6%	16.3%	22.9%	13.9%	9.2%
Inflation Rate (%)[2]	n/a	9.0%	6.7%	4.7%	3.2%	3.2%
GDP per capita (constant 2000 US$)[3]	8,826	9,207	11,346	12,056	14,422	15,623
Average Life Expectancy[1]	75.3	76.3	76.8	78.0	79.0	80.6
Current Account Net BOP ($Bn USD, current prices)[1]	-5,580	2,785	-18,009	-1,967	-23,185	-83,388
Trade Balance (% GDP)[2]	-5.2%	-1.3%	-5.6%	-2.9%	-4.4%	-7.6%
Current Account (% GDP)[2]	-2.5%	0.8%	-3.4%	-0.3%	-2.7%	-7.4%

Spain has experienced strong, robust GDP growth since 1995. As previously mentioned, the economy was marred by the political transition in the early 80s, however its transformation over the past twenty years has enabled Spain to consistently have strong output growth. In the late 1990s and early 200s the People's Party worked with Spain's

[5] Economic Intelligence Unit, 24.
[6] Economist Intelligence Unit, 27.

two dominant labor unions (Unión General de Trabajadores and Comisiones Oberaras) to liberalize the formerly rigid labor market, which greatly reduced the unemployment rate. Due to the monetary austerity conditions mandated under the EMU's Maastricht Treaty, the inflation rate has decreased dramatically from its 1980s level. However, the inflation rate has recently remained above the European Union average, and has increasingly become a concern for mid-term economic growth.

GDP per capita growth has been fairly strong and robust, shown by the relatively short and moderate drops in Chart C (barring the depression in the early 90s). In the past few years, output has strengthened once again, with GDP reaching 3.9% as of 2006.[7] Also, income disparities are in line with most European countries, with the wealthiest 20% of the population receiving a 42% share of national income.

Chart C: GDP per Capita Growth for Select EU Countries (Source: World Bank Group, WDI Online)

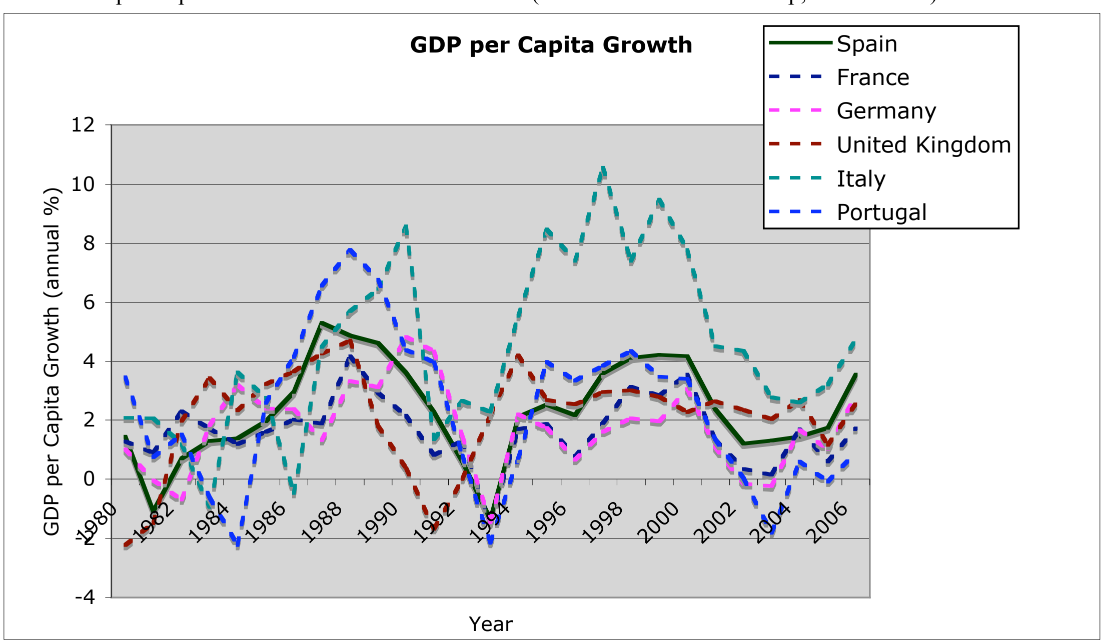
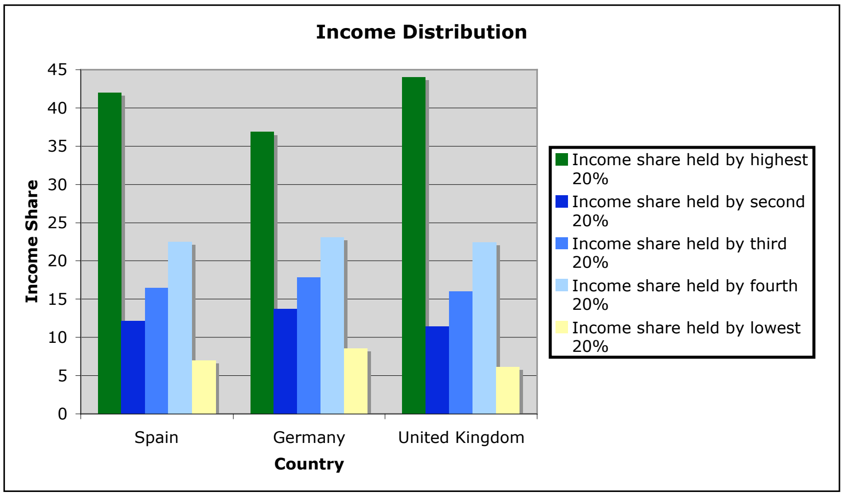


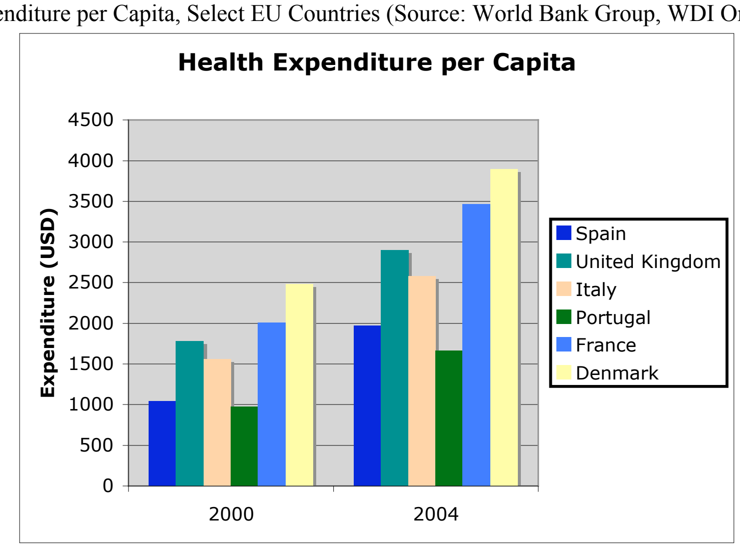
Chart D: Income Share by Quintile (Source: World Bank Group, WDI Online)

[7] Economist Intelligence Unit, 27.



Life expectancy in Spain is above the EU average, however the rate of increase is expected to slow, reflecting an increasing incidence of cancer, cardiovascular disease and HIV/AIDS.[8] Spain posts relatively strong health figures, especially when considering their per capita expenditure on health, which is well below the European average. Spain offers a free and universal healthcare system, with full medical subsidies for pensioners and 60% coverage for non-pensioners. Public expenditure accounted for 71% of Spain's total health spending in 2001, considerably less than most comparable countries.[9]

Chart E: Health Expenditure per Capita, Select EU Countries (Source: World Bank Group, WDI Online)



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[8] Economist Intelligence Unit, 17.
[9] Economist Intelligence Unit, 17.

Current account and trade balances have historically been a concern for the Spanish economy. Quotas set by the EU's Stability and Growth Pact prevent excessive BOP deficits, yet despite Spain's ability to generate a government budget surplus in 2006 the current account deficit remained over 7%.

Conclusion:

Both on paper and in legislation, Spain has experienced a great deal of economic change in the past twenty-five years. Its accession to the European Union and the accompanying policy changes have been Spain's landmark socioeconomic changes, however there have been many other changes in the country's economic environment. Since entering the European Community, Spain has significantly increased its regional integration, as imports not account for 30% of the country's GDP. Due to the strength of the EU trade union, it is unlikely that Spain's global trade (excluding Europe) will increase dramatically. The unified European currency has also positively affected capital flow, prompting substantial increases in the share of foreign investment entering and exiting the country. Spain has also reaped the benefits of the EMU's monetary austerity conditions, which have curtailed the economy's inflation rate from 9% in the mid-80s to its current level, circa 3%. State policy has also changed, most notably in regard to taxation and employment legislation. In the past decade, the State reduced income and other personal taxes significantly. However, there is no evidence of excessive political pressure from major corporations, as corporate taxes have only decreased moderately in the past decade. Further evidence of a strong State has been seen through the collaborative effort between government and major labor unions to liberalize the labor market. These labor liberalization policies resulted in a 13% fall in the unemployment rate from 1995 to 2005. Analyzing Spain's macroeconomic indicators in aggregate reveals that the government has entered trade agreements which greatly increased their intraregional economic integration, and has implemented neo-liberal policies that improve the countries' socioeconomic performance.