Prospects for the Spanish Left

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Prospects for the Spanish Left

BY WILLIAM SAAS, JORGE AMAR, DAVID GLOTZER, AND SCOTT FERGUSON

They are beautiful sights, the public squares of Madrid—open spaces, lush gardens, and sparkling fountains, all surrounded by striking architecture dating from the city’s days as the seat of a global colonial empire. These ornate public spaces now serve as makeshift residences for a growing number of Spanish dispossessed. After nearly a decade of austerity, depression, chronic unemployment, and perpetual political submission to the dictates of the Troika (the International Monetary Fund, European Central Bank, and European Commission), thousands displaced from work and home are left with little choice but to seek refuge in the few parcels of public infrastructure that remain available to them.

Improvisation is the name of the game for members of the new Spanish precariat. At Madrid’s main square, the Plaza Mayor, newly homeless citizens (some highly educated) rise early for work busking or selling scrap metal. Throughout the country, members of the growing reserve army of ninis—or “neither nors,” the quarter of the young Spanish who are neither in school, nor employed, nor in training programs—forage for food to take home to their squatted apartments. Los irrecuperables (“unrecoverables”), the more than half of long-term unemployed Spanish over age 50, are meanwhile forced to figure out how to subsist on severely reduced pensions and the charity of their fellows.

The homeless, ninis, and irrecuperables are not alone in their plight. Indeed, stability and security elude even the employed afortunados (“lucky ones”) in austerian Spain. Changes in Spanish labor law, first passed by the center-left (and resolutely neoliberal) Spanish Socialist Workers’ Party (PSOE) and then expanded by the conservative People’s Party (PP), have eroded workers’ rights and enabled employers to seize an even larger share of national income. Wages and benefits are taking a beating, too. Total worker compensation fell from about €523 million in 2007 to less than €510 million in 2015. Even as unemployment has risen, total spending on unemployment benefits has fallen more than 25%. Temporary work is replacing traditional employment. The average length of a contract—formal contracts between employer and employee are legally required in Spain—fell from 77 days in 2008 to 57 by 2014, and part-time work constitutes one third of all labor contracts. Finally, the percentage of unpaid overtime rose from less than 40% in 2008 to over 55% in 2015—a sum equal to the lost income of approximately 87,000 full-time jobs.
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Nearly 30% of the Spanish population is currently classified by the Unión General de Trabajadores (General Union of Workers, or UGT) as “at risk” of poverty. Any among them may consider joining the estimated 700,000 Spaniards who have fled the country to find marginal employment elsewhere. Most will opt to stay, however, knowing full well that they are not welcome in other EU countries, and that their prospects would not improve by much in any of those countries, anyway.

What relief does the Spanish left have to offer a population so imperiled? The simple answer is: not much. On the one hand, the PSOE has consistently—if not exclusively—made things worse for Spain over the last decade. That the PSOE is presently in the throes of a slow and torturous death spiral is no consolation for the years of impoverishment and despair that resulted from the party’s servile deference to the Troika’s commands. On the other hand, the slick façade of the only-slightly-further-left Podemos makes poor cover for the purple party’s own orthodox underbelly. In the face of all evidence to the contrary, Podemos leadership appears convinced that “balanced budgets” are the best remedy for Spain’s economic ills. As recent elections have demonstrated, Spanish voters were less than inspired by Podemos’ master plan to squeeze more euros out of domestic businesses and middle-class families in order to facilitate increases in public spending. A similar plan—to transcend austerity through more efficient tax collection—has clearly not worked out well for Syriza and the Greeks. Spaniards simply want—and deserve—better.

The far left coalition, the United Left (UL), would give it to them, were it in a position to do so. While Podemos’ top economist Nacho Álvarez calls for better tax enforcement as the key to achieving a more symmetrical balance sheet, Eduardo Garzón, economic advisor to UL and researcher at the Fundación por la Europa de los Ciudadanos (Citizens’ Europe Foundation), argues that a municipal jobs guarantee program is the only viable path to renewed Spanish prosperity. For Álvarez, the vital first steps to recovery are to “reduce the deficit more slowly” and to “broaden the tax base.” For Garzón, deficits and taxes are secondary to the need for “construction of a new alternative economic model that puts the current economy at the service of the people.” The disparity of ambition between the proposals of Álvarez and Garzón—an archaic and conservative accounting target for the former, a progressive full-employment agenda for the latter—is stark. Of the two, only one bears any real chance of achieving meaningful relief for the Spanish working class. Unfortunately, the force of Garzón’s rejoinder to Álvarez’s plan for functional-in-name-only finance is

The Jobs Guarantee

A “jobs guarantee” program is the best political tool for breathing new life into the Spanish economy. A proposal of this kind was presented to the Spanish parliament in 2014. Designed by Eduardo Garzón and presented to parliament by his brother, Alberto Garzón, the jobs guarantee program would have put a large portion of the ninis, irrecuperables, and the homeless back to work. As opposed to the current system, under which the last to be fired is the first to be hired, the Spanish jobs guarantee program sought to put most idle labor to work immediately, involving Spain’s dispossessed in socially meaningful and adequately compensated communal projects. In accordance with Modern Monetary Theory (MMT), meanwhile, financing for Spain’s full employment economy would not be contingent upon tax revenues or government borrowing. Unlike the short-term and revenue-constrained New Deal programs deployed in the United States during the 1930s, the Spanish jobs guarantee program should be financed through direct government authorization and appear as a fixed charge on the federal balance sheet.

Garzón’s proposal suffered a resounding defeat in 2014. Deluded by the poor logic of the neoliberal consensus and the eurozone’s punishing “phantom gold standard,” opponents of the program ignored Garzón’s arguments and voted against the bill without comment (here the Spanish saying, “no hay mayor desprecio que no hacer aprecio,” or, there is no bigger contempt than not listening at all, is apt). It is also worth noting that, had the jobs guarantee been implemented under the aegis of the EU’s budget rules, the policy’s overall impact would have been severely limited by the fiscal straitjacket of the Maastricht Treaty.
presently attenuated by UL’s minority position in the Podemos-led Unidos Podemos (“United We Can”) coalition, where the spirit of “sound finance” otherwise prevails unabated. Moreover, the very public conflict between Podemos’ top officials—“number one” Pablo Iglesias and “number two” Íñigo Errejón—makes for splashier headlines than does news of disagreements within the coalition about how best to escape from austerity.

When one shifts focus from the public spectacle of political discord to the more vital behind-the-scenes debate over political economy, however, the prospects for the Spanish left look a lot more promising. Several major figures in Unidos Podemos, besides Garzón, do understand that the fiscal strictures forced upon Spain by the Troika institutions foreclose any hope for true economic recovery. Informed by the insights of Modern Monetary Theory (MMT), a select and well-placed few clearly see that monetary union without fiscal union is a tried-and-true recipe for endless austerity (see Alejandro Reuss, “European Social Democracy and the Roots of the Eurozone Crisis: Part 1—Monetary Union and Fiscal Disunion,” D&S, July/August 2016). They recognize that jobs and demand, not equilibrium and “confidence,” are the key ingredients of economic well-being. Most importantly, they understand that the last best hope for Spain is to again become sovereign in its own currency.

The impending collapse of PSOE will leave masses of Spanish voters alienated and in search of alternatives to the newly formed PP-led government. While some voters might prefer the familiar feel of PP’s austere embrace, it is a safe bet that many more will defect to the parties that make up the Unidos Podemos coalition. This is, we feel, a very promising development. But in order for a reinvigorated Unidos Podemos to follow through on its promise to deliver the Spanish working class from austerity, the coalition must finally disavow, without apology or regret, the utopian dream of a single-currency Europe.

**The Story So Far**

That the euro currency experiment has been an abject failure is a truism across the European left. Most non-centrist leftists recognize that what was sold as a means to achieve the dream of an open and unified Europe has in practice resulted in more deeply entrenched nationalism and still greater economic division. As Podemos leader Pablo Iglesias pithily summarized, “This Europe doesn’t work. This Europe is dying.”

It is one thing to notice that Europe is dysfunctional and dying. It is quite another to identify precisely what is killing Europe and, following from that diagnosis, to do what is necessary to restore individual European nations to good health. While Iglesias and his cohort on the European further-left seem to grasp the severity of the pathology, their prescriptions for ailing European nations have so far been shockingly modest in scope and frustratingly palliative in nature. What’s more, these prescriptions exhibit signs of contamination by the sorts of groupthink

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**MODERN MONETARY THEORY (MMT)**

Modern Monetary Theory (MMT) is a school of heterodox economic theory that describes how monetary systems operate in modern states. MMT’s critical insight is that states that are sovereign in their own currency cannot ever run out of money, and so can always afford to purchase anything that is priced in their own currency. This is true for any state that does not “peg” the value of its currency to a metallic standard (like the gold standard) or other government currencies (like a “dollar peg”), but instead issues its currency by “fiat” and allows its value to “float.” The only real spending constraints in such a system are 1) access to real resources and 2) concerns about inflation (though such concerns can be, and often are, overstated). Any additional constraints on domestic spending—e.g., a balanced budget rule—are artificial, political, and hence contestable.

Furthermore, MMT explains that taxation and public borrowing are both fiscal policy instruments designed to regulate the growth of the economy—not means for generating necessary revenue. This is because states that are sovereign in their own currency have no natural need to raise revenue. For this reason, MMT suggests that fiscal policy decisions ought always to be taken in service of the “public purpose.” Typically, the public purpose is best served by the full employment of national resources, including and especially labor. Toward that end, MMT advocates conclude that a government-supported jobs guarantee is the optimum policy for full employment of national resources in a state with a sovereign monetary system. Such a program, they argue further, will function as both a price floor and an economic stabilizer. MMT advocates have long objected to the euro currency project on the grounds that the monetary union deprives EU states of the fiscal authority necessary to adequately provide for the care and employment of their citizens.
Spain’s current case of chronic and intractable debt deflation—sky-high private debt levels and suppressed wages and pensions that make paying down private debts impossible—exemplifies neoliberalism’s dead-end political-economic wisdom. Between 1998 and 2007, rapid expansion of private credit precipitated the tripling of property prices in Spain. When the global credit bubble burst in 2008, property prices crashed but private debt levels remained high. The next part of the story mirrors events in the United States: millions of people lost their homes, their jobs, and their access to easy credit. What separates Spain’s experience from that of the United States, however, is that the Spanish government was not empowered to defend and stimulate its economy through proactive fiscal policy. Rather, because it is not sovereign in its own currency, Spain was forced to borrow €100 billion from the European Stability Mechanism to stop the collapse of its banks. The rules of the monetary union strictly prohibited the Spanish government from deficit spending to keep its citizens fed, housed, and employed. Meanwhile, the United States was able spend as needed by issuing Treasury bonds payable in its own currency (deficit spending).

The sustained annual deficits needed to get Spain out of its current depression likely exceed 9% of GDP—roughly three times the limit imposed by the EU. If Spain were to breach that limit, it could set in motion the EU’s Excessive Deficit Procedure (EDP), an arbitrary law that would drain up to 0.2% of Spain’s total economic output. The social and economic costs of a possible EDP fine are outstripped by the potential output currently being sacrificed in the name of budgetary balance, only underscored by the fickleness of the Troika’s rules and the misguidedness of obedience to them. To make matters worse, the Spanish government cannot control the interest rates on its national debt. This leaves the Spanish economy almost entirely subject to the whims of both the international bond market and the supranational European Central Bank.

To be sure, of all the proposals to address Spain’s debt deflation problem, Podemos’ has been among the least terrible. Much like the budget plans of so-called “deficit doves” in the United States, Podemos’ plan prescribes increased

How to Get There From Here

Several prominent members within the Unidos Podemos coalition understand the urgent need for a Left-exit (or “lexit”). Indeed, while his public actions have often been less than encouraging, Pablo Iglesias has himself subtly signaled that he knows Spain must exit the euro if the nation is to have any hope for meaningful economic recovery. What Iglesias needs to do now is publicly embrace what he knows privately to be true—and to act accordingly. His first act ought to be to discard the conciliatory politics and cloying branding strategies of Podemos’ peacemaker-in-chief, Íñigo Errejón. Placating peace-signs and Ikea-style adverts have already proven to be political dead-ends and will surely not do the trick when it comes to selling the Spanish lexit. Next, Iglesias should form a new cabinet of economic advisors made up of pro-lexit comrades like Juan Laborda, Miguel Urbán, Adoración Guamán, and Eduardo Garzón.

The pernicious nature of the EU system is not news to Juan Laborda, friend of Nacho Álvarez and economic advisor to Podemos. Indeed, Laborda’s recent embrace of MMT has enabled him to see clearly that the “consensus among the extractive European elites on austerity is not based on any logical understanding of the modern monetary system and deliberately ignores many of the actual options that are at the disposition of a fiat currency issuing government. …The objective is to continue maintaining behaviors and institutional structures that limit the spending capacity of the government.” Observing this to be the case, and recognizing also that there is little hope for creating different conditions within the confines of the euro, Laborda argued in the lead-up to last summer’s elections that “the best option for countries like Italy, Spain, Greece or Portugal is exiting unilaterally from the monetary union by restoring their own economic and political sovereignty.”
domestic spending in the near-term and balanced budgets over the long-term. To pursue the doves’ path within the strictures of the EU is difficult if not impossible. To hear Podemos’ Nacho Álvarez tell it, however, all that is needed for Spain to save its citizens and balance its budget is better and more consistent tax collection. Revenue gained through more effective tax collection could be used immediately to increase funding for vital social welfare programs. Over time, Álvarez argues, this process would have the salutary effect of bringing government revenues into balance with public expenditures.

This policy agenda has its heart in the right place, but it is irretrievably diluted by wrong-headed economic analysis. MMT’s “deficit owls” will immediately notice the sources of error. First of all, there is little reason to believe that Álvarez’s plan for more effective tax collection will work, so long as Spain remains in the euro currency union. This is because adequate tax collection in a free capital zone is nearly impossible without a supranational tax authority that is empowered to both enforce and collect. Otherwise it’s entirely too easy for private citizens and corporations to shuffle their euros between EU countries without notice.

More importantly, the idea that governments are naturally revenue-constrained and so always ought to strive to balance their budgets is a debilitating economic myth. Typically, governmental revenue constraints are artificial and self-imposed. That is, revenue constraints are first and foremost political constraints. In the eurozone, the balanced budget political constraint was formally codified with the Maastricht Treaty in 1992. Against the advice of numerous, ideologically diverse economists, the signatories of the Treaty entered into an economic system governed by what Scott Ferguson and Jorge Amar (two of the co-authors of this article) have recently called a “phantom gold standard.” Like the gold standard of old, the EU’s phantom standard functions to constrain the number of euros in circulation. Instead of precious metal, however, the Troika backs the euro with a capricious moralism. We will not allow your government to spend in excess of its current and anticipated revenues, the institutions protest, because to do so would be imprudent. It is unfortunate that millions must meanwhile starve and go without shelter, but such concerns are only incidental to the greater moral responsibility of the institutions to maintain euro-equilibrium.

An audacious proposal for lexit from Iglesias could expect further support from Miguel Urbán, EU MP and prominent member of the United Left. Urbán has long been both an outspoken critic of the euro and a dedicated advocate of restoring popular sovereignty to nations in the eurozone. Most importantly, Urbán understands that lexit ought to be the inaugural gesture for a left Spanish government. “The first thing that a progressive government should do, that wants to protect the people,” Urbán has said, “would be to disobey the EU’s treaties. … We have to break these rules in order to make clear that this political and economic framework is not workable.”

Iglesias would then do well to consult Adoración Guaman, director of the progressive Fundación por la Europa de los Ciudadanos think-tank, and Eduardo Garzón, chief economic advisor of UL, for a workable alternative to the EU’s austere economic framework. Like Laborda, Guaman and Garzón have leveraged the insights of MMT to argue that Spain must break loose from the fiscal straitjacket of the euro before it can have any hope of restoring prosperity to Spaniards. But Guaman and Garzón further recognize that a swift and remorseless lexit is only the first step toward recovery. Once out of the euro, the Spanish government will have to follow through on its pledge to provide for the health and welfare of its citizenry. It will have to put Spain back to work.

Of course, such a maneuver will require a level of coordination and agreement that is not readily found in the current configuration of Unidos Podemos. But the schematics for a new and more effectual configuration are easily sketched. Our proposal: Retain Pablo Iglesias as the political and ideological leader of Unidos Podemos. Assign Adoración Guaman and Eduardo Garzón to serve as Iglesias’ chief financial advisors. Invite Juan Laborda and Miguel Urbán to oversee the implementation of UP’s new plan to restore Spain to prosperity through lexit and the job guarantee. Íñigo Errejón and Nacho Álvarez will be left to decide whether they want to get on board with this revolution in Spanish political economy, or remain behind in futile pursuit of squeezing ever more euros out of the already destitute.
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**The Way Forward**

In order to escape its cycle of debt deflation, Spain must ultimately do what its counterparts on the European “periphery” have so far failed to do: exit the eurozone. To proceed otherwise—to continue to acquiesce to the destructive rules of the institutions—is to guarantee the continued immiseration of the Spanish working class.

It is time for leaders within Unidos Podemos to pledge, in no uncertain terms, to take the steps that are necessary to restore Spain to prosperity. The most controversial of these steps will be the Spanish Left-exit, or “lexit.” Path-breakers in a lexit-oriented Unidos Podemos must anticipate and account for popular reluctance to depart the euro. With the example of UKIP’s noxious campaign for Brexit fresh in their minds, some Spaniards will doubtless view Spanish lexit as an inherently reactionary proposal. In stark contrast with UKIP, however, a lexit-oriented Unidos Podemos will be able to supplement its proposal with a roadmap for a prosperous post-euro Spanish economy, as well as a leadership that is prepared to execute the requisite sharp left-turn. (See sidebar, “How to Get There From Here.”)

The economic prospects of Spain in 2016 remain as dour as they were in 2014. Unlike 2014, however, today there is a critical mass inside the Unidos Podemos coalition that is ready to support a fresh and genuine alternative agenda for Spain. With the specter of a PP-led government looming on the horizon, it is likely that Iglesias and Unidos Podemos will soon be faced with a stark choice: stay the course and hope for change, or change the course and make a better future.

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