

## Navigating the impossible?

*Spain, once Europe's economic growth engine, has recently found itself in the same boat as Greece as international investors have grown wary of big budget deficits and rising debt levels. Prime Minister José Luis Rodríguez Zapatero is facing the makings of a perfect political and economic storm.*

By [Guy Hedgecoe](#)

For someone who sets such great store by being photographed alongside the right people, January 28 was a fairly awful day for the Spanish prime minister. At the Davos World Economic Forum, José Luis Rodríguez Zapatero was pictured sitting between Greece's Giorgos Papandreou and Latvia's Valdis Zatlers. The inference was clear: Spain was in the same boat as Greece, which the EU has now agreed to help resolve its enormous public financing problems, and Latvia, which has Europe's highest unemployment rate at nearly 23 percent.

Much was made of the gaff by Zapatero's handlers, who failed to put him in more reassuring company. But it was only the beginning of a perfect economic and political storm for Spain's leader. At Davos he was hoping to calm concerns about his country's recovery and huge deficit and impress the industrialised world with an [austerity plan that would save around €50 billion by 2013](#), allied to ambitious pension and labour reforms.

But the day before the conference in Switzerland, the IMF released a report that included an unflattering analysis of Spain's continued recession, drawing particular attention to an unemployment rate of almost 20 percent. Moreover, Zapatero's austerity plan failed to cut much ice among international observers and the [pensions reform was clumsily presented](#). Very soon, one of the hot topics at Davos was whether the likes of Spain and Portugal were heading for a Greek-style debt financing disaster. EU Economic and Monetary Affairs Commissioner Joaquín Almunia, a Spaniard and, like Zapatero, a Socialist, stunned the prime minister by appearing to equate Greece's problems with those of the Iberian nations. Nobel economist Paul Krugman went so far as to note that "the problem isn't Greece, it's Spain."

The markets responded by punishing Spain: the country's bond prices plunged and the Ibx 35 stock index tumbled 6 percent on February 4, its biggest single-day drop since November 2008.

Back home, meanwhile, the controversial pensions plan had a predictable effect. The El Mundo newspaper released a poll showing Mariano Rajoy, the lacklustre leader of the opposition Popular Party (PP), to be more popular than Zapatero for the first time, while an El País survey showed the PP to have opened up a six-point lead in the polls. The media even started to whisper about early elections.

It didn't help, of course, that around the same time, Barack Obama decided not to attend an EU-US summit scheduled to be held in Madrid in May, delivering a personal blow to Zapatero, the holder of the bloc's rotating presidency.

With Zapatero's international credibility hanging in the balance (despite Finance Minister Elena Salgado's emergency tour of London and Paris to reassure investors and newspaper editors), and his domestic support crumbling, is this Socialist government starting to unravel? Could Davos be for this administration the equivalent of the Prestige oil tanker disaster for the PP in 2002 – the moment when domestic and international confidence leaks away, like heavy crude into the Atlantic?

## Papandreou don't preach

Not long ago, Zapatero seemed utterly convinced that he could combine his Socialist principles with the demands of the global economy. As recently as July 2009 he was evangelising a visionary gospel.

“My government’s ambition is to make this an innovative, creative, entrepreneurial country while upholding the social welfare state,” he told *The New York Times*. “Twenty-first-century democratic Spain is not a country that is going to take a single step back in terms of rights that we have conquered.”

Back then, he was insisting that the recovery was nigh, in the same spirit that he had played down – and even flatly denied – the economic crisis from the start. But now, the reality of attempting to maintain fiscal discipline while satisfying an electorate that is heavily reliant on the welfare state is in danger of overwhelming him.

Talk of bringing the 2012 general elections forward is unsettling for Zapatero, but probably unrealistic. Parties are hardly falling over themselves to back the prime minister at the moment, but Rajoy would not be able to muster the majority needed to trigger the vote.

“Zapatero’s biggest problem is not the possibility of early elections, which the PP wouldn’t be able to bring about anyway,” [Víctor Sampedro](#), a political analyst and editor of *13-M. Multitudes online*, told Iberosphere. “The really big problem for him would be a national strike.”

With the unions carefully watching the government’s every move as it seeks to implement changes to labour laws as well as the pension reform, social cohesion (what Spaniards call “la paz social”) is on thin ice.

Zapatero is all too aware that national strikes against labour reforms presented by the Socialist Felipe González and the PP’s José María Aznar hurt both those governments. And as he looks across the Mediterranean, he sees the unrest that fellow Socialist Papandreou’s own tough measures are unleashing.

In that light, he understandably doesn’t want to introduce reforms as drastic as those of his Greek counterpart.

With the economy under such strain, there is now talk of the need for a bi-party accord to pull through the crisis, a proposal openly backed by King Juan Carlos. However, it seems that the tribal nature of relations between the Socialists and the PP makes that an unlikely prospect and the pact issue could simply become a chance to score political points.

“An accord is what Spaniards want but it will be difficult because of the relationship between the two main parties,” columnist and broadcaster Josep Ramoneda told Iberosphere. “The party that comes across as the most willing to form the pact will benefit the most.”

Having failed to take sufficient action when the recession first started to bite, Zapatero must now navigate extremely carefully, reassuring his European partners that he is acting stridently, while attempting to prevent the wrath of the unions and general public from boiling over and leaving him limping towards an electoral disaster.