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The Undoing of Spain?

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MADRID, Spain.

Spain has been one of the great democratic and economic success stories of the last three decades. But there is now some reason to fear for its future. Here is why:

Spain was one of the first nation-states, having completed the reconquest of the Iberian Peninsula from the Islamic Moors in 1492 (the same year as the first Columbus voyage). Imperial Spain was Europe's leading power during the 16th and much of the 17th century. The Spanish empire included all of central America, most of South America, the Philippines, and parts of modern Germany, Belgium, Luxembourg, the Netherlands, and elsewhere.

Thereafter, Spain, besieged by enemies and internal misrule, went into long-term decline, culminating with the loss of most of its few remaining colonies during the Spanish-American war of 1898.

The Spanish had a vicious civil war from 1936 to 1939, with the forces of the left supported by the Soviet Union and Mexico, and the nationalists, led by Generalissimo Francisco Franco, supported by the Germans and Italians. Franco became dictator and kept Spain neutral during the World War II. After the war, Spain was politically and economically isolated until 1955 when it became a Cold War ally of the United States and Western Europe.

In the 1960s, the economy of Spain was revived, and the country grew rapidly, becoming a modern industrial state. In 1975, Generalissimo Franco died, and Prince Juan Carlos took over as king and head of state.

He immediately began transforming Spain into a democratic kingdom, which was accomplished in 1978 with the approval of the new Spanish constitution. Spain was able to accomplish a peaceful transition to a modern functioning democracy, with the central government swinging back and forth between the forces of the moderate left and right, because of an implicit agreement not to refight the battles of the past.

Spain has been a member of the European Union and adopted the euro as its currency at the beginning of 2002. Spaniards are now as rich on a per-capita

basis, as the average European. The country has a pleasant and sunny climate, which is reflected in the dispositions of most of its people. The Spaniards have moved in two generations from conservative church-going Catholics to some of the most socially liberal people on the planet (the Californians of Europe). Recent surveys have shown the Spaniards to be among the happiest people on Earth. In sum, Spain seems to have everything going for it, but there are problems in paradise.

Despite being citizens of one of the oldest nation-states, many Spanish identify more with their regions than the central state. Spain has four official languages — Castilian Spanish, Catalan, Galician and Basque, as well as several unofficial languages. The outside world has been well aware of the actions of the Basque separatists because of the ETA terrorists, who have just killed two Spanish police officials in the Basque area of France (which adjoins the Basque area of Spain).

Spain, unlike most countries, has become increasingly decentralized during the last few decades, with the central government shrinking relative to the regional governments. A small central government, with most government activities conducted at the regional and local level, can work just fine, as it has been the case in Switzerland for the last several hundred years, provided there is a national consensus as to how the power is to be shared. But this consensus has not yet occurred in Spain.

The new socialist government of Jose Luis Rodriguez Zapatero, which unexpectedly gained power after the Islamic terrorist Madrid train bombings in March 2004, has unnecessarily opened old wounds by proposing a Law of Historical Memory, which would rewrite the history of the Franco period and take away the recognition of many who suffered on both sides of the civil war. This is seen by many Spaniards as an attempt to undo the historical implicit contract of not retrying old battles, and is fueling an increase in political partisanship and tensions.

About 30 percent of Spaniards traditionally support the right-leaning party. Another 30 percent support the left-leaning party (which is now in power). Most of the rest of the vote is split among the various regional parties, which allows them to serve as power brokers. They have used this power to further decentralize the government and work for more separatist policies.

The Spanish economy did very well under the administration of Jose Maria Aznar (1996-2004), who undertook structural reforms and sound fiscal policies. Even so, Spain still has too much government interference in the economy, particularly with labor market rigidities (Spain ranks No. 27 on the Index of Economic Freedom). The Spanish economy is facing a loss of international competitiveness and low productivity growth, which does not bode well for its future.

The open questions for Spain are: Will it return to the high-growth policies of the Aznar years and increase economic freedom or adopt more statist and growth-killing policies? And will it move toward constructive decentralization with regional

and language tolerance, as it has been successfully done in Switzerland, or will the struggles over regional power (and language) paralyze the country as it is now happening in Belgium?

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