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Valedictory dispatch: looking back on 20 years of Spain, and ahead

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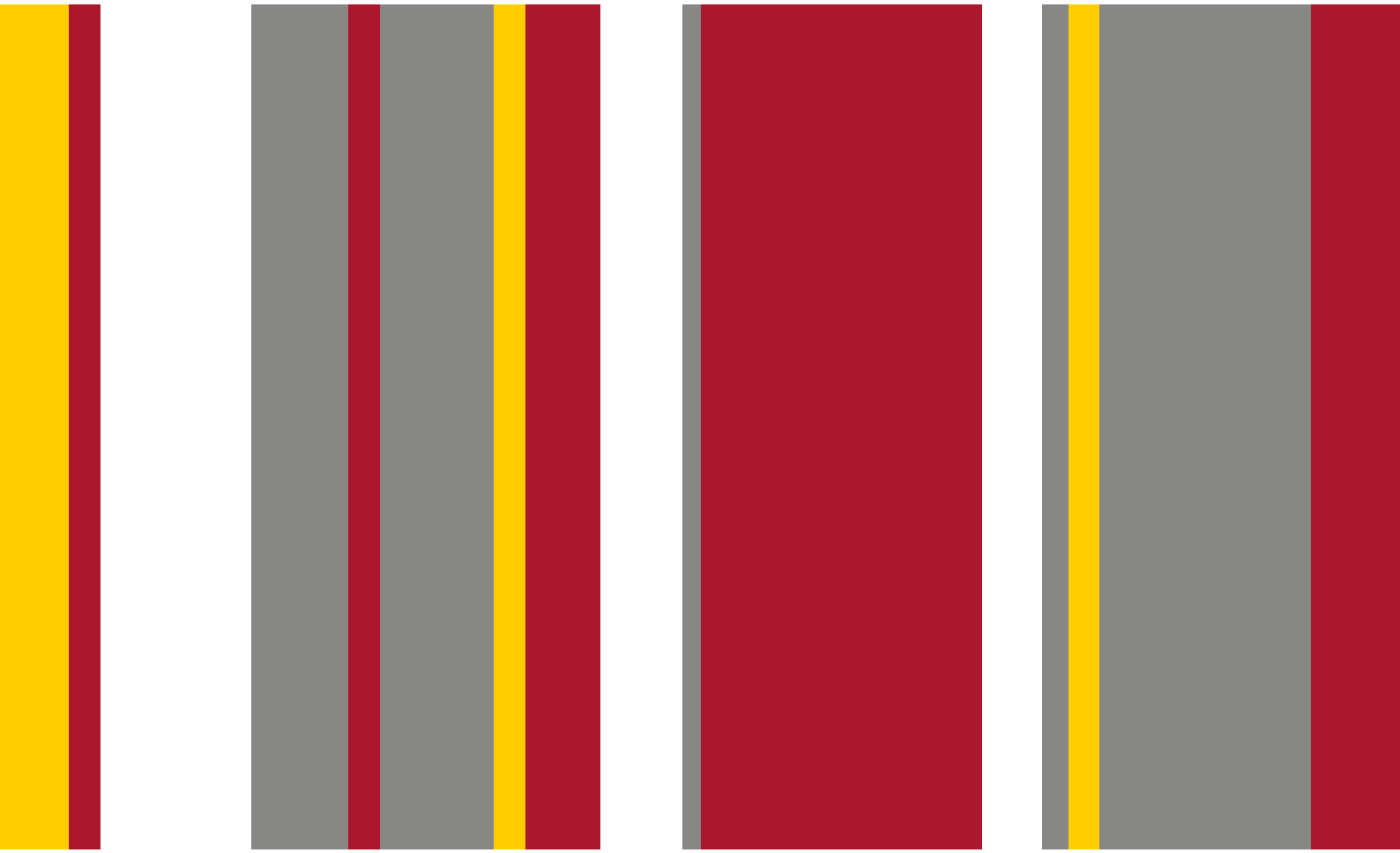

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Summary

Introduction

The author looks back on his almost 20 years covering Spain for the Elcano Royal Institute and ahead to the country's challenges, loosely using as a model the forthright valedictory dispatches that British ambassadors write when leaving their post to take up duties elsewhere or retire.[1]

The past 20 years have seen further and sometimes profound changes in Spain. The country has its first coalition government since the 1930s; the Basque terrorist group ETA laid down its arms; the resident foreign population rose sixfold to 5.4 million (excluding nationalised Spaniards); and the stock of investment abroad quadrupled to US$625 billion, higher than Italy. Unemployment, however, has remained high at around 15% (11% in 2000), double the EU average, and the early school-leaving rate was still stark at 16%, though down from 31%.

The political class has become much more fragmented and polarised, making the structural reforms that Spain needs in areas such as pensions and the labour market difficult to achieve and deepening the distance between the moderation of citizens and the radicalism and intolerance of politicians in general. With the notable exception of Catalonia, Spanish society has not radicalised in the way the political class has.

1 These dispatches remain out of the public domain for at least 25 years. Most famously, the dispatch of Sir Nicholas Henderson, the outgoing British Ambassador to France, in March 1979, largely focused on Britain's absolute decline relative to France and Germany and relative to the superpowers, was leaked to *The Economist*. Henderson predicted that if the UK's trends continued Spain would overtake the UK in GDP per head by the end of the 20th century. It did not happen. The UK's per capita GDP was $26,774 in 2000 (PPP) and Spain's $23,905. I thank all my current and former colleagues at the Elcano Royal Institute, particularly Charles Powell and Emilio Lamo de Espinosa, for their help and encouragement over two decades. I also thank Joaquín Almunia for commenting on this text. Available at https://www.economist.com/news/1979/06/02/britains-decline-its-causes-and-consequences.

1. The background

1.1. Twenty years ago

- The Popular Party (PP) had been in in power for five years (for one year with an absolute majority after winning re-election in 2000).
- The Basque terrorist group ETA, responsible for more than 800 deaths, was still active.
- Catalonia had been ruled for 21 years by the nationalist Convergència i Unió (CIU) under Jordi Pujol.
- The number of resident foreigners (excluding nationalised Spaniards) stood at 896,000 (2.2% of the 40.5 million population)
- Congress condemned the 1936 military coup of General Franco (27 years after the dictator's death), which sparked the three-year Civil War.
- The country was well into its credit-fuelled property boom, when a large part of the country lost touch with reality. This peaked at 725,000 housing starts in 2006 (more than Germany, France and the UK combined), not to mention the building of several 'ghost' airports, art centres and 11 new bullrings in the Madrid region.
- The early school-leaving rate reached 31% (EU average 17.6%).
- The stock of outward direct investment began to take off as Spanish multinationals spread their wings (US$143 billion in 2001).
- The economy grew by a brisk 3.9%.
- The unemployment rate was 10% (above the EU average of 7.6%).
- The fiscal deficit was 0.45% of GDP.
- Public debt stood at 51% of GDP.

1.2. Twenty years on

- The country is governed by its first coalition administration since the 1930s (and a minority one), led by the Socialists and with the hard left Unidas Podemos as its junior partner. Parliament is more diversified, as a result of the entry of the would-be centrist Ciudadanos and the hard-right VOX.
- ETA has laid down its arms (in 2017).
- Catalonia is ruled by the pro-independence Catalan Republican Left (ERC) and Junts per Catalunya (JxCat). Pujol and his seven children face trial for money laundering and tax crimes.
- The resident foreign population (excluding nationalised Spaniards) swelled to 5.4 million (11.3% of the 47.3 million population).

- The last public statue of Franco was removed (the dictator's remains were moved from the Valley of the Fallen mausoleum in 2019).
- The number of housing starts was down to 87,500 in 2020.
- The early school-leaving rate stood at 16% (EU average 9.9%).
- The stock of outward investment ballooned to US$625 billion, higher than Italy.
- The economy shrank 10.8% because of the impact of COVID-19.
- The fiscal deficit hit 11% of GDP.
- Public debt soared to 120% of GDP.
- The jobless rate stands at around 15% (double the EU average).

In short, Spain has changed significantly in the last 20 years (see Figure 1).

Figure 1. Spain statistical profile, 2000-20

	2000	2005	2010	2015	2019	2020
Gross domestic product						
GDP per capita (current prices US$, PPPs)	23,900	29,220	31,590	34,940	42,600	38,390
Government deficit & debt						
Fiscal balance (% GDP)	-1.0	+1.3	-9.4	-5.2	-2.9	-11.0
Public debt (Maastricht, % GDP)	66.5	50.7	66.8	99.3	95.5	120.0
Taxes						
Total tax revenue (% GDP)	34.2	35.7	31.7	33.8	34.8	NA
Trade						
Imports goods & services (% GDP)	31.5	29.8	27.0	30.6	31.9	29.1
Exports goods & services (% GDP)	28.6	25.0	28.0	33.6	34.9	30.6
Curr. acc. balance (% GDP)	-4.0	-7.3	-4.5	+2.0	+2.1	+0.7
Foreign direct investment						
Outward FDI stock (US$ bn)	129.2	305.4	653.2	512.9	626.3	624.8
Inward FDI stock (US$ bn)	156.3	384.5	628.3	561.7	763.2	853.2
Education						
Lower secondary education or less (25-64 years, %)	61.5	51.2	47.1	42.6	38.7	37.1
Upper secondary education (25-65 years, %)	15.8	20.2	21.9	22.4	22.7	23.2
Tertiary attainment (25-64 years, %)	22.7	28.5	31.0	35.1	38.6	39.7

	2000	2005	2010	2015	2019	2020
Early school-leaving rate (% of population 18-24)	30.9	31.0	28.2	20.0	17.2	16.0
Unemployment						
Jobless rate (%)	11.1	9.2	20.1	22.1	14.1	16.2
Youth unemployment (% of those aged 15-24)	25.2	19.7	41.5	48.3	32.6	36.9
Research & Development						
Expenditure (% of GDP)	0.9	1.1	1.3	1.2	1.2	NA
Population						
Total (million)	40.2	43.4	46.5	46.4	46.9	47.3
Fertility rate	1.2	1.3	1.4	1.3	1.24	1.18
Under 15 (% of total population)	14.7	14.5	15.0	15.1	14.6	14.6
Over 65 (% of total population)	16.8	16.7	17.0	18.6	19.6	20.0
International migration						
Foreign population (% of total) (1)	2.2	9.5	12.3	9.4	11.0	11.3
Health						
Life expectancy at birth (years)	79.4	80.3	82.2	82.9	83.6	82.3
Society						
International tourists (million)	48.2	55.6	52.5	68.2	83.5	18.9

(1) Excluding naturalised Spaniards.

Source: OECD, INE, Eurostat, WTO, UNCTAD.

2. A political class holding back reform

Long-standing structural problems remain, particularly high unemployment in a dysfunctional labour market, an unsustainable structural deficit in public pensions, an educational system that is not providing the skills that Spain needs, the politicization of the judiciary and the civil service, and asymmetric federalism. The economic ones have been clearly and endlessly identified by the Paris-based OECD think tank, the IMF and the European Commission, which have made numerous recommendations, but to little avail, largely because of political polarization that makes consensus and hence long-lasting multiannual commitments impossible.

The country suffers from short-termism: there have been major reforms over the past 20 years but governments have also too often overturned the reforms of their predecessor, particularly in the fields of education, labour market, pensions and urban planning. The Bank of Spain's reform strategy pinpoints what needs to be done (see Figure 2).

Figure 2. Comprehensive strategy of ambitious and lasting structural reforms

Reform	
Reduce labour market duality	Exploration of contractual mechanisms allowing for a more equitable distribution of employment protection for temporary and permanent employees
Strengthen active labour market policies	More tailor-made guidance and training for the unemployed. Review of the effectiveness and efficiency of hiring incentives
Boost the employability of older workers	Encouragement of lifelong learning. Promotion of more flexible working conditions for these workers
Bolster the sustainability of the public pension system	Rigorous debate on the desired level of benefits and the resources needed to fund them. Strengthen the link between the contributions made and benefits received, and greater transparency
Roll out policies that mitigate income inequality	Exhaustive review of the effectiveness of social transfers. Ongoing assessment of the impact of and eligibility criteria for the minimum income scheme
Promote a stable increase in the supply of rental housing	Combination of tax incentives and regulatory improvements to increase legal certainty for landlords. Greater public policy emphasis on the provision of public rental housing
Encourage business growth	Review of the regulatory framework and judicial system. Review of SME financing options
Increase human capital	Extensive overhaul of the Spanish educational system at all levels. Lifelong learning for workers
Increase technological capital	Review of R&D&I tax incentives. Strengthening of the role of venture capital firms in financing

Source: Bank of Spain.

Governments have also been painfully slow to put into force the EU's single market directives, taking almost 50% longer than the bloc's average to do so, and only 12% of the European Commission's country-specific recommendations issued every year under the Semester Framework between 2011 and 2019 were fully implemented (although 40% reported 'some progress', which is close to the EU average); while these are non-binding in nature, they carry important political weight.

Furthermore, during the previous EU budgetary period, less than 40% of the total funds available to Spain were executed, the lowest achievement rate in the EU and underscoring the major administrative bottlenecks. This does not bode well in view of the significant increase in the level of funds for the current EU budget and implementation of Spain's share of the EU's Next Generation pandemic recovery fund (€70 billion in grants and €70 billion in loans, the latter not yet requested). The grants over the next three years are conditional on meeting around 200 investment targets and implementing 102 reforms in 10 key policy areas, ranging from 'a fair and inclusive energy transition' and 'industry and SME modernisation and digitisation' to 'education and knowledge, lifelong learning and capacity building'. This is a Herculean task.

Reforms were, in theory, easier to approve before 2015 when the Popular Party (PP) and the Socialists alternated in power, often with absolute majorities. All but two of the governments until 2015 lasted the full four-year term. The would-be centrist Ciudadanos (Cs) and the hard-left Podemos broke the mould of political life in the December 2015 general election, winning, respectively, 42 and 40 of the 350 seats in Congress, compounded in April 2019 when the hard-right VOX entered parliament with 24 seats (later than other similar parties in the EU), and more than doubled that number in the November 2019 election. VOX animates and feeds off culture wars (LGBT rights, abortion, euthanasia, multiculturalism, bullfighting and other conflicts based on values, morality and lifestyle). With 17 autonomous regions and 19 parties represented in parliament, Spain has become an immensely complex country to govern.

Polarised and fragmented politics, just as in every other western European country, produced four inconclusive elections between 2015 and 2019 and forged a brutally abrasive political culture that is holding back the reforms needed to make the country better prepared for the challenges ahead (see Figure 3). Spain has a surplus of problems and a deficit of political agreements to manage them. It needs long-lasting reforms not vote-catching measures, such as those in the 2022 budget bill giving €400 to around half a million citizens turning 18 next year to spend on cultural activities excluding bullfighting.

Figure 3. Spain's general elections, 2000-19 (% of total votes cast)

	2000	2004	2008	2011	2015	2016	Apr 2019	Nov 2019
Socialists	34.7	42.6	43.6	28.7	22.0	22.7	28.7	28.0
Communists[1]	5.5	4.9	3.8	5.4	3.6	–	–	–
Podemos[2]	-	-	-	-	20.6	21.1	14.3	12.8
Popular Party	45.2	37.6	40.1	44.6	28.7	33.0	16.7	20.8
Ciudadanos	-	-	-	-	13.9	13.0	15.8	6.8
VOX	-	-	-	-	–	0.2	10.3	15.1
Catalan parties[3]	4.2	3.2	3.0	4.1	4.6	4.6	5.8	6.0
Basque parties[4]	1.5	1.6	1.2	1.3	2.0	2.0	2.5	2.7
Other	8.9	10.1	8.3	15.9	4.6	3.6	5.9	0.9

(1) Spanish Communist Party and United Left from 1986 to 2016 when United Left joined Podemos to form Unidos Podemos; (2) Unidos Podemos as of 2016 and Unidas Podemos as of 2019 and including in both cases regional allies; (3) Convergence and Union (CiU), Republican Left of Catalonia (ERC), Together for Catalonia (JxCat) and other parties; (4) Basque Nationalist Party (PNV), Eusko Alkartasuna, Herri Batasuna and EH Bildu, among others.

Source: Interior Ministry.

With no prospect that a fifth election would have made much if any difference, the Socialists, as the party with the most seats but far from an absolute majority, felt they had no option but to form a minority coalition government (the first since the 1930s) after the November 2019 election with the hard-left Unidas Podemos (UP). The best solution would have been a German-style grand coalition (*GroKo*) between the Socialists and the PP, the two largest parties, but the gulf between them is too deep and their positions too entrenched. More's the pity. The PP's rightward shift to fend off VOX makes such a prospect even more distant. The fury of Cs, VOX and PP at the formation of that government, intensified by the pro-independence Catalan Republican Left (ERC) and Bildu (the political heirs of the terrorist group ETA that fought for an independent Basque Country) supporting it in parliament, is understandable. This government, which appears at times to be one that is against the state because of UP's presence, is hard for the right to swallow, particularly as Sánchez said he would not form one with UP.

UP regards the transition to democracy after the death of General Franco in 1975 and the 1978 constitution as something of a sham and publicly calls for the monarchy to be replaced by a Republic. Yet if the hallmark of a mature democracy is the ability to carry out peaceful transfer of powers following elections offering diametrically opposed options, then Spain, unlike the US in January 2021 which failed spectacularly, passed the test.

An historic opportunity in terms of political stability and reforms was sadly spurned after the April 2019 election when the Socialists with 123 seats and Cs with 57 (up 25 from 2016 and only nine fewer than the PP) did not form a coalition government with an absolute majority (180 of the 350 seats). They could have resurrected the pact of reforms they had made for a minority government after the 2015 election, when they won between them 130 seats, but which did not prosper in the investiture vote because of opposition from the PP and Podemos. That government would probably have stymied the surge in support for VOX and not produced the humiliating collapse of Cs, which lost 47 of its 57 seats in the November 2019 election and faces extinction unless its fortunes revive.

The hubris of Cs' leader Albert Rivera, after almost doubling the party's seats, convinced him he could overtake the PP in the November 2019 election, so he shifted to the right rather than get into bed with the Socialists, while Sánchez did not want Unidas Podemos as the main opposition on the left to his government.

Cs lost 2.5 million votes in the November 2019 election: 800,000 to the PP and 700,000 to VOX, while one million previous Cs voters felt betrayed by the party's rightward shift and zigzagging policies and stayed at home. This wild electoral swing, and not the only one, would seem to suggest that Spaniards are fickle voters. Alternatively, it could show that Spaniards are more solidly attached to democratic principles than their politicians, punishing governments until they get it right. Will they?

For someone who covered Spain's successful but not defect-free transition to democracy between 1975 and 1978, as a correspondent for *The Times*, it has been sad to witness the deterioration of the political culture from one based on constructive consensus (as the transition demanded) to one based on destructive inertia and insult. Spain is far from being alone in the scourge of toxic partisanship that has hit many countries (amplified by social and news media that are generally little more than echo chambers),[2] but there is something particularly vitriolic about it, especially the political bellowing about 'reds' and 'fascists', reviving the language of the 1936-39 Civil War –82 years after it ended!–. References to the fratricidal conflict have been resuscitated by politicians for their own particular interests, not by the Spanish people. As King Felipe said (in 2015), recalling the transition: 'Decades ago, the Spanish people decided, once and for all time, to shake hands and to no longer turn their backs on each other'.

In the past 20 years the average ideological self-placement of voters has not dropped below 4.5, where 5 is the centre (0 is extreme left and 10 extreme right), according to the state-funded CIS. Currently it is 4.7. With the notable exception of Catalonia, Spanish society has not radicalised in the way the political class has. Spaniards, as opposed to their politicians, have become one of the most tolerant people in Europe in issues like sexual orientation (the third country to approve gay marriage in 2005),[3] gender identity, cultural diversity and religion.

2 Spain was ranked 28th out of 46 countries in the 2020 ranking of public trust in the press by the Reuters Institute.

3 Ninety-one per cent LGBT supportive, according to a YouGov poll in June 2021.

One in two respondents in CIS surveys since 2009 say one of Spain's principal problems are politicians, compared to fewer than one in 10 between 1985 and 2009. According to a Eurobarometer survey (March 2021 data), 90% of respondents in Spain mistrusted political parties, 76% the parliament and 74% the government.

Not even Spain's successful vaccination campaign –with a larger share of the population fully vaccinated by the end of July than any other European country of comparable size, despite a late start– or the creation of a reception centre at Torrejón air base to receive Afghan collaborators and European citizens evacuated from Kabul (praised by the European Commission) earned more than begrudging plaudits from the main opposition parties, who continued to dismiss out of hand everything the government does.

Once democracy was consolidated after the end of the Franco dictatorship –a common cause among all parties except the extremes at either end of the political spectrum– political life was bound to become fiercer, as parties pursued their own particular interests and fought for power. The words of Adolfo Suárez, the Prime Minister (1976-81) who oversaw the transition, that democracy requires 'civic uses and customs that are clearly democratic and which complement strictly political principles and rules' remain, however, as pertinent today as when he said them. A truly democratic culture, and not just changes to laws, has yet to be created.

Partitocracy, a problem facing many societies whereby political elites decide issues, particularly those that benefit themselves, is not serving Spain's best interests. The renewal of four key institutions that require cross-party agreement –the General Council for the Judiciary (CGPJ), the Constitutional Court, the Court of Auditors and the Ombudsman– was been held up for far too long because of political squabbling. As we went to press the PP and the Socialist reached a deal to renew the line-up of the Constitutional Court and top jobs at the Court of Auditors and the Ombudsman's office, but not the CGPJ.

The CGPJ, the constitutional body entrusted with the task of ensuring the independence of the Judiciary, by exercising key functions, such as appointments, promotions, inspection of the functioning of the courts and tribunals, has been operating *ad interim* since December 2018 when it should have been renewed, as required by the Constitution. Parliament is responsible for the appointment of all its members. The qualified majority needed to elect members of the CGPJ is three-fifths of each of the legislative Houses (Congress and Senate).

The stalemate in the negotiations between the PP and the Socialist-led government over the CGPJ's new members was a lamentable spectacle, causing the level of perceived judicial independence to decline among the general public and companies, and heightening politicisation of the judiciary. Overall, 38% of the population and 39% of companies perceived the level of independence of courts and judges to be 'fairly or very good' in 2021, down from 44% and 42%, respectively, in 2020, according to the latest EU Justice Scoreboard.

The blocking paralysed the filling of vacancies in various courts, particularly in the administrative litigation division of the Supreme Court, where the backlog of cases was monumental even before the expiry of the CGJP's mandate and the pandemic. The justice system also works at a snail's pace in politically sensitive cases, and not because of a backlog: the Constitutional Court took four years to rule on the PP's appeal against the 2006 Catalan Autonomy Statute and as of October 2021 it had still not ruled on the PP's appeal against the Socialists' 2010 abortion law.

The public's perception of individual CGJP members is coloured by knowing the party to whom they owe their appointment and hence their political allegiance. Judges are classified as 'progressives' and 'conservatives', perverting the image of the judiciary, which should be one of neutrality.

Spain should scrap the system of CGJP election and have some or most of the judges directly elected by their peers. This was the system until it was changed by the Socialist government of Felipe González after it won a landslide victory in the 1982 election following the failed coup in 1981 (the 1985 reform was upheld by the Constitutional Court, with some caveats). A large part of the judiciary at that time was tainted by Francoism. This is not the case now. The Council of Europe recommends that at least half of the CGJP's members should be judges elected by their peers from all levels of the judiciary.

The government said it was in favour of reverting to the previous system but first wanted the new CGJP members to be elected under the current system. The PP wanted the reform first, as it did not trust the government to hold to its promise.

Political affiliation also plays too much of a role in staffing the civil service, particularly among the legion of central government advisors to ministers (764 at the start of 2021, compared with 460 in 2002) and in regional administrations. Spain is the only OECD country along with Turkey where all or a high proportion of positions change systematically in the top two echelons of senior civil servants (D1 and D2 levels) after the election of a new government (see Figure 4).

Figure 4. Staff turnover with a change of government

	Advisors to the ministry's leadership	Senior management (Secretaries and Under Secretaries of State) (1)	Middle management (Director-General and Deputy Director-General) (2)
Canada	None	None	None
Germany	None	Some	None
US	All	None	None
UK	All	None	None
France	All	Many	None
Italy	All	Some	None
Spain	**All**	**All**	**Some**
Turkey	All	All	All

(1) Senior management: D1 and D2 levels.
(2) Middle management: D3.
Key: all (95%-100%); many (50%-94%); some (5%-49%); none (0%-5%).
Source: OECD Government at a Glance 2017.

Politically motivated turnover erodes trust in public institutions, undermines the professionalism of civil servants and tends to make them choose political sides in order to advance their careers. In 17 of the 38 OECD countries (Austria, Belgium, Canada, Denmark, Estonia, Finland, Iceland, Ireland, Japan, Luxembourg, the Netherlands, New Zealand, Norway, Portugal, Sweden, the UK and the US), there is no or very little turnover in any of the four levels of senior civil servants when there is a change of government.

Neither the Socialists nor the PP have shown any interest in political reform over the past 20 years. There have been reforms in pensions and the labour market, but nothing serious, for example, on the territorial question (turning the asymmetric, quasi federalism of the 17 autonomous regions into a German-style federal system), diluting the colonisation of constitutional bodies by political parties and creating a civil service based more on professional merit than on political appointees.

The body politic would benefit from replacing the closed-list system to elect MPs, but not members of the Senate, with the open system. Under closed lists people vote for the party, and not a particular candidate, and therefore the list as a whole. Candidates are elected in the order they appear on the list (as decided by the party's leadership) until all the seats are filled. Closed party lists give excessive power to a party's apparatus at the expense of accountability, stifle independent and minority opinion within the party's ranks and tend to make MPs sycophantic. As Alfonso Guerra, a former Socialist Deputy Prime Minister (1982-91) who kept an iron grip on the party, said: 'Move and you're out of the photograph'.[4]

4 This phrase was originally coined by the veteran Mexican labour leader Fidel Velázquez (1900-1997).

The Senate, defined in the 1978 Constitution as '… a chamber of territorial representation', is also due for a long overdue reform. Politicians have talked about it for years. The Senate consists of 265 members, 57 of whom are appointed by the regional parliaments and the rest by popular vote. It has almost no legislative powers and is essentially a rubber-stamp chamber which has become an 'elephants' graveyard' where the two main parties, the Popular Party and the Socialists, send leaders at the end of their political careers.

If the Senate was a fully-fledged chamber representing the regions, capable of defusing tensions between the centre and the periphery in a German-style federal country, the independence conflict in Catalonia (see below) might not have reached the proportions that it did, as that region's crisis would have been tackled in a multilateral body and not on a bilateral basis between central and Catalan governments at loggerheads.

The lack of transparency in Spain leaves a lot to be desired. It was not until December 2014 that Spain's first Transparency Law came into effect (39 years after the death of the dictator General Francisco Franco) and the country finally fell into line with the rest of the EU (long after the former communist Eastern European countries). Access to government information is still, however, difficult as a consequence of red tape, the rigid interpretation of exceptions and restrictions and a Transparency and Good Governance Council that is understaffed and underfunded. A welcome move was the adoption in October 2020 of a four-year Open Government Action Plan.[5]

In day-to-day political life, there is nothing remotely resembling the British system of televised grilling of ministers and senior civil servants by parliamentary committees. In Spain, it is done behind closed doors and then rarely.

With €70 billion in EU pandemic recovery grants beginning to arrive, there is a woeful lack of public oversight of these funds so far. Spain scored only 2 out of 6 in a report published in June on 22 countries by Access Info and the Open Procurement EU Coalition on oversight. The report said Spain has no plans to publish data on beneficiaries, audit reports or reports sent to the European Commission. Nor does it commit to make any information available in open data formats.[6]

To the bane of historians, in particular, Spain never declassifies official documents, even decades after the events to which they refer. There is nothing comparable to the UK's 30-year rule. Spain's Official Secrets Law dates back to 1968 during the Franco regime. Millions of documents recording the fate of generations of Spaniards during the Civil War and Franco's dictatorship remain hermetically sealed unless opened individually by judicial order. This democracy deficit, however, has not prevented Spain from maintaining its position in the EIU's Democracy Index (started in 2006) as a 'full democracy' (those countries with

5 See https://transparencia.gob.es/transparencia/en/transparencia_Home/index/Gobierno-abierto.html.

6 See the letter (in Spanish) sent to the Finance Ministry, https://www.access-info.org/wp-content/uploads/Carta-CPA-y-OGEU-sobre-fondos-NGEU.pdf.

a score of 8.01 to 10). Spain's score peaked at 8.48 in 2008 and stood at 8.12 last year when there were only 23 full democracies in the world (see Figures 5 and 6). Corruption, however, worsened: Spain's score in Transparency International's Corruption Perceptions Index dropped from 70 in 2000 to 62 in 2020 (the closer to 100 the cleaner the country).

Figure 5. EIU's democracy index, 2006-20

	2006	2008	2010	2012	2014	2016	2018	2019	2020
France	8.07	8.07	7.77	7.88	8.04	7.92	7.80	8.12	7.99
Germany	8.82	8.82	8.38	8.34	8.64	8.63	8.68	8.68	8.67
Italy	7.73	7.98	7.83	7.74	7.85	7.98	7.71	7.52	7.74
Spain	8.34	8.45	8.16	8.02	8.05	8.30	8.08	8.18	8.12
UK	8.08	8.15	8.16	8.21	8.31	8.36	8.53	8.52	8.54
US	8.22	8.22	8.18	8.11	8.11	7.98	7.96	8.24	7.92

Note: based on five categories: (1) electoral process and pluralism; (2) functioning of government; (3) political participation; (4) political culture; and (5) civil liberties. Based on their scores on a range of indicators within these categories, each country is then classified as one of four types of regime: full democracy; flawed democracy; hybrid regime; or authoritarian regime.
Source: The Economist Intelligence Unit.

Figure 6. The Economist Intelligence Unit's Democracy Index, 2020 (1)

	Rank (2)	Overall score	Electoral process & pluralism	Functioning of government	Political participation	Political culture	Civil liberties
Full democracies							
Norway	1	9.81	10.00	9.64	10.00	10.00	9.41
Iceland	2	9.37	10.00	8.57	8.89	10.00	9.41
Sweden	3	9.26	9.58	9.29	8.33	10.00	9.12
New Zealand	4	9.25	10.00	8.93	8.89	8.75	9.71
Canada	5	9.24	9.58	8.93	8.89	9.38	9.41
Finland	6	9.20	10.00	8.93	8.89	8.75	9.41
Denmark	7	9.15	10.00	8.93	8.33	9.38	9.12
Ireland	8	9.05	10.00	7.86	8.33	9.38	9.71
Australia	9=	8.96	10.00	8.57	7.78	8.75	9.71
Netherlands	9=	8.96	9.58	9.29	8.33	8.75	8.82
Taiwan	11	8.94	10.00	9.64	7.22	8.13	9.71

	Rank (2)	Overall score	Electoral process & pluralism	Functioning of government	Political participation	Political culture	Civil liberties
Full democracies							
Switzerland	12	8.83	9.58	8.57	7.78	9.38	8.82
Luxembourg	13	8.68	10.00	8.57	6.67	8.75	9.41
Germany	14	8.67	9.58	8.21	8.33	8.13	9.12
Uruguay	15	8.61	10.00	8.57	6.67	8.13	9.71
UK	16	8.54	10.00	7.50	8.89	7.50	8.82
Chile	17	8.28	9.58	8.21	6.67	8.13	8.82
Austria	18=	8.16	9.58	7.50	8.33	6.88	8.53
Costa Rica	18=	8.16	9.58	6.79	7.22	7.50	9.71
Mauritius	19	8.14	9.17	7.86	6.11	8.75	8.82
Japan	21	8.13	8.75	8.57	6.67	8.13	8.53
Spain	**22**	**8.12**	**9.58**	**7.14**	**7.22**	**8.13**	**8.53**
South Korea	23	8.01	9.17	8.21	7.22	7.50	7.94
Flawed democracies							
France	24	7.99	9.58	7.50	7.78	6.88	8.24
US	25	7.92	9.17	6.79	8.89	6.25	8.53
Portugal	26	7.90	9.58	7.50	6.11	7.50	8.82

(1) Overall score out of 10.
(2) Out of 167 countries and two territories.
Source: The Economist Intelligence Unit.

3. Quo vadis, Catalonia?

The Catalan and central governments finally started talks in September 2021 to try to resolve the stand-off over independence for the region (see Figure 7), but the entrenched positions and the divisions between the two pro-independence parties make a solution satisfactory to all sides well-nigh impossible.

Figure 7. Catalonia

Source: BBC.

The talks started four years after the unconstitutional referendum on secession and a unilateral declaration of breaking away from Spain, which the PP government met by sending in riot police (a public relations disaster), a temporary imposition of direct rule from Madrid and the pardoning in June 2021 of nine separatists after three-and-a-half years in jail.

The Socialist-led minority government's willingness to sit down and the pardoning, in the face of polls that showed a majority against this and the Supreme Court's opposition, has reduced tensions between Barcelona and Madrid. The sentences of between nine and 13 years for sedition (not the original charge of rebellion) were widely seen outside Spain as disproportionate. No one is in any doubt, however, that the road ahead will be long and bumpy (see Figure 8).

Figure 8. The long and winding road to talks between the central government and Catalan secessionists

Date	Events
2006 August	Catalan Parliament passes new autonomy statute, approved in a referendum in the region and ratified by the Congress and Senate in Madrid
2010 June	Constitutional Court rules there is no legal basis to recognise Catalonia as a nation and that the Catalan language should not take precedence over Castilian Spanish. This followed a challenge by the Popular Party, the ombudsman and five regional governments
2010 July	Massive demonstration in Catalonia against the Constitutional Court's ruling
2012 September	Catalan Premier Artur Mas meets Prime Minister Mariano Rajoy in a bid to obtain a fiscal pact. Fails and calls an early election in the region
2012 November	Artur Mas's CiU party wins the election but with 12 fewer seats in Parliament. He remains Premier thanks to the support of the openly pro-independence ERC, which captures 11 more seats
2014 November	Artur Mas defies the Constitutional Court and holds an informal, non-binding referendum on secession. More than 80% in favour but only 2 million out of an estimated 5.4 million eligible voters took part. The public prosecutor brings charges against Mas and two of his Ministers for holding the referendum
2015 September	Pro-independence alliance Junts pel Si headed by Artur Mas wins Catalan election and teams up with anti-capitalist CUP to form a government. But CUP refuses to retain Mas as Premier. Pro-independence parties win 48% of the vote (72 seats) and anti-independence parties 39% (52)
2015 November	Catalan Parliament approves declaration of sovereignty and the right to decide
2015 December	Constitutional Court annuls the declaration of sovereignty and right to decide
2016 January	Carles Puigdemont becomes new Catalan Premier with the goal of calling a legally binding referendum on independence
2016 August	Constitutional Court suspends independence roadmap approved by the Catalan Parliament
2016 September	Carles Puigdemont announces an independence referendum in September 2017 with or without Madrid's permission
2016 October	Public prosecutor brings charges of disobedience against Carme Forcadell, President of the Catalan Parliament, for allowing the pro-independence roadmap to be put to a vote in July

Date	Events
2016 December	Constitutional Court blocks plans to hold an independence referendum
2017 March	Artur Mas, former Premier of Catalonia, and three of his Ministers banned from public office over the 2014 non-binding informal vote
2017 September	Catalan Parliament fast-tracks a referendum law and the regional government formally calls a referendum on secession from Spain. Catalan government officials arrested over the unconstitutional referendum
2017 October	Catalan officials said that almost 2.3 million people voted in the referendum (40% of voters eligible for the plebiscite), with 2 million voting 'Yes', a similar turnout to the informal consultation in 2014. Carles Puigdemont declares independence and the central government imposes direct rule. Puigdemont flees Spain to avoid arrest on charges of rebellion and misappropriation of public funds
2017 December	Pro-independence parties win a slim majority in the Catalan election, called by the Spanish government. The anti-independence Ciudadanos is the largest single party in the regional parliament
2018 April	In a preliminary decision, a German court rules against extraditing Carles Puigdemont on rebellion charges
2018 May	Pro-independence parties change the law to enable fugitive Carles Puigdemont to be re-elected Premier, but it is struck down by the courts. The ultra-nationalist Quim Torra is elected new Catalan Premier thanks to the abstention of MPs from the anti-capitalist CUP
2018 June	Madrid ends direct rule after the new Catalan government is sworn in
2018 July	A German court decides that Puigdemont can be extradited on a charge of misuse of public funds for organising the illegal referendum but not for the much more serious charge of rebellion. Pedro Sánchez, Spain's new Prime Minister, meets the Catalan Premier Quim Torra for the first time
2019 February	Twelve Catalan independence leaders go on trial, nine of whom have been in prison for up to 15 months and face charges of rebellion which carries a sentence of up to 25 years in jail
2019 October	The Supreme Court finds all 12 guilty and sends nine to prison. Oriol Junqueras, the former Deputy Premier of Catalonia and leader of Republican Party of Catalonia, receives 13 years for sedition. All are acquitted of the most serious charge of rebellion
2019 December	The High Court of Catalonia bars Quim Torra, the Catalan Premier, from holding any elected office for disobeying the Central Electoral Commission
2021 February	Pro-independence parties are returned to power in the region's election
2021 June	The government pardons the nine imprisoned Catalan independence leaders
2021 July	Carles Puigdemont loses his appeal against being stripped of his European parliament immunity
2021 September	The central and Catalan governments begin talks on how to resolve the standoff. Carles Puigdemont is detained by Italian police when visiting the island of Sardinia and released, pending a court decision on whether he can be extradited to Spain

Source: the author.

The separatist coalition won power again in February, but this time the more pragmatic Republican Left of Catalonia (ERC), led by Pere Aragonès, is at the helm and not the maximalist centre-right Together for Catalonia (JxCat). ERC, which gives the central government support in parliament, unlike JxCat, has seemingly abandoned the idea that independence could be achieved unilaterally. Underscoring the divisions in the separatist camp, JxCat did not participate in the first round of talks. Aragonès stamped his authority by rejecting JxCat's nominees to the Catalan delegation as two of them were among the nine pardoned and not members of his government.

Aragonès wants a binding legal referendum on independence by 2030, when Barcelona hopes to host the Winter Olympics, and a full amnesty, which would include JxCat's Carles Puigdemont, the Catalan Premier at the time of the referendum. He is a fugitive and subject to trial if he returns to Spain from his self-imposed exile in Belgium.

Puigdemont was arrested by Italian police on 23 September when he visited the island of Sardinia, on a European arrest warrant issued by Spain's Supreme Court. A member of the European Parliament, he was stripped of his immunity in March and lost an appeal against it in July. He was released, pending a ruling by the European Court of Justice on Puigdemont's appeal to the lifting of his immunity confirmed by this same court and on the legitimacy of the Spanish judge to issue the arrest warrant. Extradition would disrupt the talks with the central government: ERC and JxCat are divided over the independence strategy but united in their support of Puigdemont.

The separatists' demands are red lines for the national government and even if they were not, are politically impossible because of the parliamentary arithmetic, which is unlikely to change significantly. A referendum on Catalan independence would require reforming the constitution and that would need the approval of two-thirds of the members of Congress and Senate, followed by elections, ratification by two-thirds of the new Congress and Senate and a national referendum on the reforms.

The PP, the hard-right VOX and the would-be centrist Ciudadanos opposed the pardons and are implacable enemies of any concessions to the separatists.

Madrid is focusing the talks on improving Catalonia's infrastructure, giving it more powers in education and culture and a new fiscal arrangement for transfers to the common pool. Catalan nationalists say the region transfers too much for the benefit of poorer regions. Such a package would make changes to Catalonia's statute of autonomy and go to a referendum in Catalonia, showing that independence is not the only way to satisfy the demands.

But a new fiscal deal for Catalonia viewed by other regions as more favourable would open up a Pandora's box of competing demands and trigger problems with those regions that say they get a poor financing deal, Valencia, Andalucia, Murcia and Madrid, the PP's bastion and the stronghold of Spanish nationalism. The regions in *la España vaciada* (the

'emptied-out Spain') –Castilla La Mancha, Castilla-León, Galicia, Extremadura and Galicia– would also not be happy. Their political representatives want the low population density and ageing of the rural population in hollowed-out villages to be taken more into account in a reformed financing system so that more funds could be provided for basic services near at hand.

Governments have been promising to review the regional financing system, a hot potato, for a decade but nothing has happened. A bold move would be to establish a fully-fledged federal system but this would run up against the Basque Country and Navarra, which, for historical reasons, have their own 'privileged' financial system and would oppose being put on a level playing field with the rest of regions.

Over the past 20 years, the nationalist share of the vote in Catalan regional elections has varied between a low of 25.4% in 2006 and a high of 37.4% in 2017, and the non-nationalist including blank and invalid votes between 29.6% in 2010, when the abstention rate was a whopping 41.2%, and 41.6% in 2017 (see Figure 9).

Figure 9. Catalan elections, 1999-2021, votes of nationalist and non-nationalist parties (%)

	Nationalist	Non-nationalist including blank and invalid votes	Abstention rate
1999	27.4	31.8	40.8
2003	29.5	33.0	37.5
2006	25.4	30.6	44.0
2010	29.2	29.6	41.2
2012	33.0	34.8	32.2
2015	35.7	39.3	25.0
2017	37.4	41.6	20.9
2021	27.1	26.5	46.4

Catalan government, prepared by Adolf Tobeña, author of *Fragmented Catalonia* (Policy Network).

Apart from the tripartite government between 2003 and 2010, led by the Socialists, Catalonia has been ruled by nationalist governments over the past 41 years and since 2015 by openly pro-independence ones (a non-binding referendum on secession was held in 2014 under the government of Artur Mas).

It took the two separatist parties three months to form the current government, following the region's election in February 2021. They very narrowly missed having to call another election. Secessionist parties won just over half the vote at that election (51%, up from

47.5% in 2017) but on turnout of only 53.6%, a record low reflecting voter fatigue with the independence saga. Those votes translated into 74 seats in the 135-seat parliament, because of the way the electoral system works, but that hardly gives the pro-independence parties a mandate to speak for the whole of Catalonia, roughly half of which, according to polls, does not want independence.

Four years after the illegal referendum, 75% of respondents in a Metroscopia survey said the independence bid had failed. The divisions along party lines remained deep (44% of JxCat respondents and 33% of ERC ones said secession was 'probable' compared to 5% of PP, Cs and VOX supporters).

The separatists will not achieve independence, either through a referendum on secession agreed with the national government or unilaterally, which would involve going down a dangerous path, but they have the capacity to continue to create a serious problem for Spain.

4. Living with high unemployment

Over the last 20 years the unemployment rate has only been below 10% in three of them (2005-07) and then during the debt-fuelled property and construction boom that crashed spectacularly with the 2008 global financial crisis (see Figure 10). Today, the jobless rate stands at around 14%, compared with under 4% in Germany, under 8% in France, just over 9% in Italy and a euro zone average of 7.6%. Spain's youth unemployment (those aged between 15 and 24) is even more dire at over 35%, double the euro zone average.

Figure 10. Unemployment rates in the four largest euro zone countries, 2000-21 (%)

	2000	2005	2010	2015	2019	2020	2021 (1)
France	9.7	8.9	9.3	10.4	8.4	8.0	7.9
Germany	7.9	11.2	7.0	4.6	3.1	3.8	3.7
Italy	10.6	7.7	8.4	11.9	10.0	9.2	9.4
Spain	**14.0**	**9.2**	**20.0**	**22.1**	**14.1**	**15.5**	**14.3**

(1) July.
Source: Eurostat.

The country has long got used to living with high unemployment, at a terrible social and economic cost. The millennial generation (those born between 1981 and 1996) is the first one in many decades whose quality of life is worse than the generation before. Their plight, in part, is captured in the nostalgic, rural memoir Feria, a runaway success in 2020, by Ana Iris Simón (born in 1991), which begins arrestingly: 'I envy the life my parents had at my age'. Spain has coped, thanks to the still strong family network of support, particularly the growing role of grandparents. But it cannot be assumed that this will last forever.

The rates of unemployment and temporary employment (on precarious contracts) since 2000 have stood, on average, at 16% and 28%, respectively, far above the percentages for the eurozone as a whole (9.4% and 15.3%). Only 600,000 more people were employed on average in 2019 (19.8 million) before the pandemic than in 2005, an increase of 3%, compared to a rise of 9% in jobholders in the EU as a whole over that same period 'This extraordinary distinct behaviour, which persists in both economic upswings and downturns and which cannot be totally explained by the particular sectoral composition of the Spanish economy, has far-reaching negative implications', the Bank of Spain warned in its 2020 annual report.

Spain's economic model, based more than most countries on tourism (a particularly seasonal sector in Spain where travel and leisure is concentrated in the summer period) and construction (a cyclical industry; there is a limit to how many homes can be built as the bursting of the property bubble in 2008 painfully demonstrated) does not make for low unemployment rates.

Workers on temporary contracts (a system widely abused), who have a significantly lower level of employment protection than those on permanent contracts, have borne the brunt of job destruction, and predominant among them are young people and those with a low level of education. Spain needs to reduce the high duality between temporary and permanent workers and boost active labour market policies in order to avoid a permanent impairment of human capital and adapt it to new demands, against a backdrop of a gradually ageing workforce.

Some of the unemployment reflects the failures of the education system (see the separate section below). There is a high negative correlation between youth unemployment and a low take-up of intermediate vocational training (compared to the massification of higher education, a vital area that needs to be much strengthened, after leaving school at 16 when compulsory education ends.

The early school-leaving rate among 18 to 24 year-olds has declined significantly from 30% in 2006 (when jobs in construction were easy to obtain) but at 16% in 2020 it was still far too high (with an EU average of 9.9%). Even worse, the percentage of that age group not in education, employment or training (NEETs) was 22% in 2020, the highest after Greece and reversing a decline since 2016.

Early school-leavers are qualified for only the most basic jobs, and this in a country where the share of jobs requiring only primary education is higher (25%) than in any other OECD country and supply exceeds demand. Twenty-eight per cent of 25 to 34 year-olds have below upper-secondary attainment, the third highest level among OECD countries (which have an average of 15%).

The human capital shortfall, in contrast to the often world class physical infrastructure, such as the high-speed train network, the largest after China, is one factor behind Spain's very low productivity growth (0.2% on average per year over the last two decades, compared to 0.8% in Germany and 0.9% in the US), and across almost all industries. Another factor is the very high relative weight of smaller-sized companies in the productive system.

At the other end of the labour force, Spain faces high over-qualification and field-of-study mismatch among university graduates, the brightest of whom seek to emigrate if they cannot fill their aspirations in Spain.

Endless tinkering around with labour-market laws (Spain apparently has the world record for the most reforms in the last 40 years) has achieved little as far as reducing unemployment is concerned. The last major package of reforms was in 2012 when, among other things, companies were allowed to opt out of collective pay-setting agreements within industries and make their own deals with workers. Companies were also given greater discretionary powers to adopt internal measures to limit job destruction. These measures helped save jobs. It makes little sense to do away with them as the government is proposing because firms need the flexibility to be able to adapt to different economic conditions.

Severance payments in the case of unfair dismissal for those on permanent contracts were reduced from 45 days per year-worked with a maximum of 42 months to 33 days per year with a maximum of 24 months, but this is still well above the EU average of around 20 days.

5. Education: a lot of reforms but few meaningful results

Politicians' attitudes towards education are pithily summed up by a character in *Los vencejos*, the 2021 novel by the bestselling author Fernando Aramburu: 'Education in Spain is like a rugby ball. Whoever has hold of the ball runs with it to their area of interests, pursued by their adversaries'.

The eighth education law in 40 years was approved at the end of 2020 and yet again without political consensus. Whether the latest reforms make much if any difference to the still very high rates of early school-leaving and grade repetition and the quality of education remains to be seen. Education has been devolved to the 17 regions, run by governments of varying political colours which influences their thinking on the matter. Political debate has too often concentrated on marginal issues such as increasing the importance (Popular Party and the Roman Catholic Church) or not (Socialists) of religion classes toward a student's grades.

The rate of early leavers has almost halved over the last 20 years to 16%, but it is still well above the EU average of 10% and contributes to lower basic skills, especially for those from disadvantaged socio-economic backgrounds (see Figure 11). The substantial reduction was largely due to the massive rise in unemployment following the bursting of Spain's property bubble and the global financial crisis in 2008, which meant that students, particularly boys, were no longer able to easily abandon education for a job, and parental pressure rather than to any particular government measure.

Figure 11. Early leavers from education and training (% of population aged 18-24)

	2000	2005	2010	2015	2020
France	13.3	12.5	12.7	9.2	8.0
Germany	14.6	13.5	11.8	10.1	10.1
Italy	25.1	22.1	18.6	14.7	13.1
Poland	7.4	5.3	5.4	5.3	5.4
Portugal	43.6	38.3	28.2	13.7	8.9
Spain	**29.1**	**31.0**	**28.2**	**20.0**	**16.0**

Source: Eurostat.

Around 30% of 15-year-olds repeat an academic year compared with less than 20% in Germany and 2% in the UK (see Figure 12). The latest reforms make it easier to go through to the following academic year, by reducing the number of exam passes needed and giving teachers more leeway in deciding. But if struggling students allowed to move to the next academic year are not given the extra support they probably need, they become demotivated and run the risk of falling even further behind until they drop out of school altogether at 16 (18 in Germany and the UK). This is what tends to happen.

Figure 12. Percentage of students by ages who have repeated an academic year at least once, 2010-18

	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
8 years	6.5	6.2	6.4	6.3	6.3	6.0	6.4	6.3
12 years	16.3	16.1	15.6	15.1	14.7	13.9	14.3	13.5
15 years	38.8	38.3	37.5	36.4	34.2	32.5	31.4	30.6

Source: Consejo Escolar de Estado, Education Ministry.

Spain would do well take a leaf out of Portugal's book in order to bring down the early leavers rate to below 10% (the EU target for 2020). Portugal's rate reached a horrific 43% in 2000, dropped to 28% in 2010, the same level as Spain, and ended 2020 at 8.9% as a result of the policies put in place between 2006 and 2015. The curriculum was made more demanding, measures were implemented to improve students who trailed behind and, at the same time, to allow more advanced students to flourish by pursuing their specific interests. Portugal's success shows that a more ambitious curriculum and more assessment was not to the detriment of less academically able students. Legislation in 2012 made support to students with academic difficulties compulsory[7]:

- For elementary schooling (1st to 6th grades), student-study help and special extra help at scheduled times.
- Temporary grouping of students with difficulties for special extra help, while maintaining them in their original class.
- Incentives to schools for using teachers' school hours for helping teachers and students in different grades. Incentives were mainly tied to school improvements and not to monetary rewards.

7 I would like to thank Nuno Crato, Portugal's Education Minister (2011-15) for sending his article explaining the educational reforms. Available at https://link.springer.com/chapter/10.1007/978-3-030-41882-3_8.

The third measure was particularly successful, as elementary teachers used help from middle- and high-school teachers to teach and help teach subjects such as mathematics and reading at arranged times.

In a long overdue and welcome move, the latest education package aims to reform the curriculum, focusing on fewer materials but in greater depth, and base teaching more on critical thinking and less on the excessive rote learning that characterises the Spanish system. This may sound easy but will involve a wrench for teachers. 'Memorising names and dates in History does not help you', said Andreas Schleicher, the director of education at the Paris-based OECD think tank and the architect of the PISA international tests.[8] 'Education in Spain is preparing people for a world that does not exist'.

The December 2020 law also states than a plan for teacher recruitment and training has to be prepared within a year. Too many teachers in Spain have insecure jobs: one-third of secondary school teachers are on fixed-term contracts, much higher than the OECD averages of 18%, and 27% of them have contracts of one year or less. This makes it difficult to build stable teams in schools.

Teacher training and conditions need to be improved. Only 48% of teachers reported they were trained in all three core elements (content, pedagogy and classroom practice of subjects they teach) in their initial training, well below the 79% average in OECD countries, and 38% said ICT was included in their formal training (56% in the OECD), according to an OECD report in 2019. One quarter of teachers work in schools in which teachers are never appraised (7% in the OECD), monitoring is rare and the links between feedback and changes in teaching practices and career advancement are low. Spain does not have a formal national teacher appraisal system.

Spain's results for science, mathematics and reading in the PISA tests held every three years were worse in 2018 than in 2000 when the OECD's Programme for International Student Assessment was launched. Portugal's were better than Spain's in all three areas (see Figure 13).

8 Interview in *El País*, 18/VI/2021. https://elpais.com/educacion/2021-06-18/el-creador-del-informe-pisa-la-educacion-espanola-prepara-a-los-alumnos-para-un-mundo-que-ya-no-existe.html.

Figure 13. PISA mean scores for science, mathematics and reading literacy, 2018 and 2000 (in brackets)

	Science	Mathematics	Reading
Finland	522 (538)	507 (536)	520 (546)
Poland	511 (483)	516 (470)	512 (479)
UK	505 (532)	502 (529)	504 (523)
Germany	503 (487)	500 (490)	498 (484)
US	502 (499)	478 (493)	505 (504)
France	493 (500)	495 (517)	493 (505)
Portugal	492 (459)	492 (454)	492 (470)
Spain	**483 (491)**	**481 (476)**	**477 (493)**
Italy	468 (478)	487 (457)	476 (487)
OECD average	489 (500)	489 (500)	487 (500)

Source: OECD PISA reports 2018 and 2000.

Results in other international tests such as TIMMS, held every four years since 1995 for 9 to 10-year-olds, have fared better (see Figure 14).

Figure 14. International science and mathematics achievements, fourth grade (9-10 years), average scale scores, 2019 and 2011 (in brackets) (1)

	Science	Mathematics
Singapore	595 (583)	625 (606)
Finland	555 (570)	532 (545)
US	539 (544)	535 (541)
England	537 (529)	556 (542)
Poland	531 (505)	520 (481)
Germany	518 (528)	521 (528)
Italy	515 (524)	515 (508)
Portugal	504 (522)	525 (532)
Spain	**511 (505)**	**502 (482)**
France (2)	488	485

(1) Spain did not participate until 2011.
(2) Did not participate in 2011.
Source: TIMSS & PIRLS.

Vocational training (VT), long discredited as only for those not bright enough to go to university (which are generally massified), needs to be extended and given a higher status in order to enhance the employment prospects of the least academic or give greater choices to those who can go to university but for whom a degree is not going to improve their job prospects very much. This is beginning to happen. The number of students enrolled in VT schemes increased from 615,079 in 2012 to 837,199 in 2019.

The level of English has improved over the last 20 years, but still leaves a lot to be desired as it is a factor that discourages some foreign investors when deciding whether to invest in Spain (see Figure 15). The bilingual Spanish-English schools introduced as of 1996 have not met expectations, perhaps because they were false as the stated goal was for students to become fluent but not perfect English speakers, as parent had hoped for. Around 90 of these schools have ceased to be bilingual, viewing it as ineffective. One problem is that some regions ask teachers for a B2 level, which indicates fluency but not proficiency as defined by the Common European Framework of Reference for Languages (CEFRL). Another is the lack of adequate teacher training, particularly in the methodology used for English, which is based on critical thinking and not memorising and repeating concepts in a system called Content and Language Integrated Learning (CLIL).

Figure 15. EF English Proficiency Index, 2020

Ranking out of 100 countries	Score	Level
1. Netherlands	652	Very high
7. Portugal	611	Very high
8. Germany	616	Very high
14. Hungary	598	High
16. Poland	596	High
28. France	559	High
30. Italy	547	Moderate
34. Spain	**537**	**Moderate**

Source: Education First.

6. Demographic challenges: ageing and low fertility rate

Spain's demographics have undergone intense change. Average life expectancy has risen 10 years since 1978 to 82.3 (it dropped from 83.6 in 2020 because of COVID-19 deaths), one of the highest in the world, while the fertility rate has dropped to 1.31 children per woman, one of the world's lowest and below the population replacement rate. Deaths in Spain have outstripped births every year since 2015.

The ageing is pushing up the dependency ratio, which measures the ratio of the population over the age of 65 to that aged between 15 and 64 (the working population). Eurostat forecasts Spain's rate will increase by more than 25 percentage points over the next 25 years to 56% in 2045.

Such a rise is already having implications for public finances, as it means more spending on healthcare, long-term care and pensions (see the section below). It also has a bearing on the level of tax revenue (at 34.6% of GDP in 2019, above the OECD average but well below France, Germany and Italy), on economic growth capacity through its impact on the labour market and worker productivity. The percentage of civil servants over the age of 55 rose from 35% to 46% between 2015 and 2020, according to the OECD's latest Government at a Glance.

Ageing is also affecting the hollowing out of rural Spain. A total of 3,403 municipalities at risk of depopulation (42% of the total) have been identified, much higher proportionately than the eurozone as a whole. Hundreds of villages have become virtually abandoned. The deserted rural interior is becoming a political issue. The inhabitants of Teruel felt so abandoned by successive governments that they founded a movement in 1999, Teruel Existe ('Teruel Exists'), which was the most voted party in the province in the November 2019 election and won one seat in Congress and two in the Senate.

Meanwhile there has been a very noticeable change in the face of Spain. The number of foreigners living in the country increased almost sixfold over the last 20 years to 5.3 million (excluding nationalised Spaniards). When I first came to Spain in 1974, I was one of 165,000 resident foreigners. The resident foreign population's share of the total rose from 3.4% in 2000 to 11.3% in 2020. Moroccans are still the largest foreign community, at 776,000, but their share of the total has dropped from 22.3% to 14.4% with the arrival of migrants from other countries, particularly Rumania (659,000) whose number was so insignificant 20 years ago that it was not among the top 10 (see Figures 16 and 17). Today, Rumania has the second-largest community in Spain after Morocco.

Figure 16. Resident foreign population by the 10 main countries, end of 2000

	2000	% of total
Morocco	199,782	22.3
UK	73,983	8.3
Germany	60,575	6.8
France	42,316	4.7
Portugal	41,997	4.7
Ecuador	30,878	3.4
Italy	30,862	3.4
China	28,693	3.2
Peru	27,888	3.1
Dominican Republic	26,481	3.0
Subtotal	563,455	62.9
Other countries	332,265	37.1
Total	895,720	100.0

(1) Excludes nationalised Spaniards.

Source: INE.

Figure 17. Resident foreign population by the 10 main countries, end of 2020 (1)

	2020 (p)	% of total
Morocco	775,936	14.4
Rumania	658,773	12.2
UK	313,948	5.8
Colombia	297,934	5.5
Italy	280,152	5.2
Venezuela	209,223	3.9
China	197,704	3.7
Germany	139,811	2.6
Ecuador	127,344	2.4

	2020 (p)	% of total
Honduras	123,333	2.3
Subtotal	3,124,158	58.1
Other countries	2,251,459	41.9
Total	5,375,917	100.0

(1) Excludes nationalised Spaniards.
(p): provisional.

Source: INE.

With around one million Muslims, it is time to broaden the option on the annual tax declaration that allows taxpayers to donate 0.7% of their tax income to the Roman Catholic Church, without increasing their total tax bill, but to no other faith.[9]

Unless there is a significant change in Spain's demographics, which is unlikely, or Spaniards are more prepared to do the menial jobs done by immigrants, the country is going to need more migrant workers, be they documented or undocumented, in order to counter the ageing of the population.

Before the pandemic, some businesses, particularly in what is known as *la España vaciada* (the 'emptied out Spain'), in provinces such as Soria (with one of the lowest population densities in the EU), called on the government to make it easier to hire migrant workers. One proposal was to give undocumented workers legal status via work contracts. That would solve two problems: taking these people out of the shadows and solving the lack of workers. But the law forces undocumented migrants to live without residency or work permits for a minimum of three years before they can be awarded legal status, even if they are offered a job. In some parts of Spain, workers are required not only for menial jobs but also for professional jobs such as doctors.

Spain has successfully integrated a large wave of migrants, sharply reversing the previous trend of net emigration, without major social conflicts or the emergence of xenophobic movements or a hard-right party until VOX entered parliament in April 2019, later than similar parties in most of the rest of the EU. It is still, however, a long way from those countries such as the UK and Germany where first-generation immigrants and their offspring have secured prominent jobs in public life.

9 This stems from Article 16:3 of the 1978 Constitution that states that: 'the public authorities shall take the religious beliefs of Spanish society into account and shall in consequence maintain appropriate cooperation with the Catholic Church and the other confessions'. No other religious group is mentioned by name.

7. Pensions: kicking the can down the road

Population ageing (a Spaniard's average life expectancy has risen 10 years since 1978 to more than 83 years, one of the world's highest) and relatively generous pay-outs have brought the ailing pay-as-you-go state pension system to a critical point. The system is also under strain from the upcoming retirement (as of 2025) of the baby-boom generation (those born between the late 1950s and the mid-1960s), which in Spain arrived 12 years later than in many other EU countries. Between 1958 and 1977 close to 14 million babies were born, 2.5 million more than in the previous 20 years and 4.5 million more than in the following 20 years.

Spain's net pension replacement rate –the individual net pension entitlement divided by net pre-retirement earnings– is one of the highest in the OECD at more than 80% (see Figure 18).

Figure 18. Net pension replacement rates (%) (1)

	% of pre-retirement earnings
Turkey	93.8
Italy	91.8
Spain	**83.4**
France	73.6
OECD	58.6
Germany	51.9
UK	28.4

(1) 2018 or latest available.

Source: OECD.

The United Nations forecasts there will be 78 people in Spain over the age of 65 per 100 people aged 20 to 64 (the working population) in 2050 against 33 currently. That might seem many years away, but changes to pension systems take a long time to have an impact. Today's 65-year-olds can expect to live three years longer than those who were 65 in 1991, and five years less than those who will be 65 in 2050.

The accumulated pensions deficit (the difference between payments and revenue) was €101 billion between 2011 and 2018, the period when the imbalance was created, according to BBVA. The pensions deficit since 2011 (2.6% of GDP in 2020) is a significant part of the social security deficit and hence of the high structural deficit of Spanish public finances, reducing which has proved to be very difficult. This is something that can only be achieved gradually and under a multi-year fiscal consolidation programme. The odd proposal to shift some spending items from Social Security to the state and transferring to Social Security part of the social security contributions earmarked for the National Public Employment Service would enable part of the social security deficit to be reduced, but only at the expense of increasing the general government deficit, making the change meaningless.

Public finances were strained by suspending some of the measures implemented as of 2014 to make the system more sustainable. Contributory pension benefits were increased in line with inflation at 1.6% in 2018 and 2019 instead of by 0.25% had the Index for Pension Revaluation been applied under the 2013 reform. In 2020 average inflation was 0.3% negative, but pensions rose that year by 0.9%, in line with the inflation observed in the last months of 2019, thus giving the 8.8 million pensioners a gain in real terms. While the average monthly salary cost has risen 5.8% since 2010, the average monthly pension on retirement has increased 32% (see Figure 19).

Figure 19. Average monthly salary cost and average monthly pension on retirement, 2010-21 (€)

	2010	2012	2014	2016	2018	2020	2021 (1)
Salary	1,802	1,841	1,805	1,832	1,844	1,889	1,907
Pension	892	955	1,008	1,050	1,107	1,170	1,185

(1) End of March.

Source: Social Security and INE.

Moreover, the sustainability factor, which was supposed to start being applied in January 2019 to adjust initial pensions –when retiring– based on life expectancy changes, was temporarily suspended until 2023 and will not be reinstated. Not applying the revaluation mechanism and the sustainability factor implies an increase in expected pension spending as a share of GDP from 11.9% to 15.1% (see Figure 20).

Figure 20. Pension expenditure: different scenarios

Pension spending, % of GDP, 2019	Pension spending, % of GDP in 2050
Baseline projections	14.2
Keeping the 2013 reform that benefits are indexed to the Index for Pension Revaluation, set at 0.25%	11.9
Suspending the sustainability factor (adjustment of the initial pension level to changes in life expectancy)	15.1
Delay effective retirement age to 66	13.4
Delay effective retirement age to 67	12.6
Increase calculation period for pensions to 35 years	13.6
Potential structural effects of COVID-19: lower potential growth and productivity convergence	14.9
Lower migration	16.1
Higher unemployment and lower activity rates	15.4

Note: the baseline projections assume that pensions are linked to inflation, while the sustainability factor is maintained. It incorporates the parameters of the 2011 reform and calculation period for pensions to 25 years and a central scenario of macroeconomic and migration projections by the AIReF.

Source: AIReF, 2020.

The pension agreement in 2021 between the government, unions and employers (expected to be law by the end of the year) has three main measures:

- Pensions will rise in 2022 in line with average inflation in 2021.
- Early retirement correction coefficients and incentives for late retirement have been changed in order to increase the effective retirement age.
- The sustainability factor, which required greater spending to be accompanied by the funds to pay for it, will be replaced by an intergenerational equity factor in the future, about which nothing is known.

The average labour market exit age in 2018 was 61.7, below that of 64.6 in the OECD. In the best-case scenario, experts say the increase in the effective retirement age would produce very marginal savings of a few tenths of a point of GDP. The incentives so far to increase the effective retirement age have achieved little, even though in the 10 years since 2011 the legal retirement age has risen by a year to 66.

If the sustainability of the pension system is to be preserved, measures offsetting the rise in pension costs will be needed to provide the equivalent savings. Eight out of every 10 euros of the increase in social spending in 2022 will go on pensions. The European Commission, with the wounds of the euro zone sovereign debt crisis not yet healed, is keeping a close eye on the situation. It would look unkindly on Spain fudging the issue and resolving the pension's sustainability problem by issuing more debt. The government has until the end of 2022 to have other measures in place, one of the conditions for receiving the fourth tranche (€11.4 billion) of pandemic recovery funds.

The choices are politically difficult. On the one hand, making a large part of changes fall on the retired population would entail disproportionately reducing their levels of income, as these people made their decisions on the basis of certain expectations of benefits and have a limited capacity for adjustment. On the other, making the whole weight of reforms fall on future generations would also have a significant impact on their income. Whatever the outcome, painful decisions will have to be taken unless economic growth and employment levels rise.

8. Monarchy or republic?

The monarchy over a large part of the last 20 years has been subjected to intense scrutiny, following King Juan Carlos's unfortunate elephant-hunting trip in Botswana 2012, at the height of Spain's recession, with unemployment at 23%, when the monarch injured himself and had to be flown home. The king apologised, but to little avail.

Since then, the esteem in which he was held for successfully leading the country to democracy as of 1975 and for facing down an attempted military coup in 1981 has declined precipitously. In 2014 Juan Carlos abdicated in favour of his son Felipe and since June 2020 he has been under investigation for various alleged misdemeanours including tax evasion, prompting him to leave Spain for Abu Dhabi in August 2020 as he had become somewhat 'toxic'.

All of this has ignited a debate in some political quarters on whether Spain is best served by a monarchy or a republic. The Second Republic, that arrived in a vacuum of power in 1931 when Juan Carlos's grandfather Alfonso XIII went into exile without renouncing the Crown, was abolished in 1939 with Franco's victory in the Civil War.

The radical left seizes on the fact that Franco re-established the monarchy under Juan Carlos to succeed him, damaging in their eyes its legitimacy and preventing a complete break with the dictatorship. The 1977 Amnesty Law drew a line under the dictatorship by granting impunity for political crimes and those of bloodshed committed before that year. Even the Spanish Communist Party (PCE), at the forefront of the opposition to the regime, recognised that such a break would have provoked the military and triggered conflict, the last thing that the bulk of Spaniards wanted. But for Juan Carlos, as the PCE's leader Santiago Carrillo said, 'the shooting would already have begun'.

With the easy hindsight of today, holes can be picked in the transition process, which was not perfect (for example, the Francoist judiciary was not sufficiently reformed or cleansed), but those who criticise it tend to have been too young to have meaningfully experienced it or were born afterwards, and so do not really comprehend the dynamics of the move to democracy, which was not a given. How else could the dictatorship, which Franco boasted was 'tied up and well tied up', have been peacefully dismantled except from within?

Juan Carlos's failings, a particularly deep disappointment to his closest friends, are those of an individual and not of an institution, and in a country so sharply politically polarised the non-partisan monarchy serves the country better than a republic by standing above the fray and not being identified with any political party that an elected head of state would be. There is no reason why democracy in Spain would be deepened with an elected head

of state as opposed to one who inherits the position. The monarchy has presided over the country's longest period of stable democracy.[10]

Monarchies are accused of being anachronistic institutions in this day and age. Yet countries with parliamentary monarchies, including Spain, lead the democracy rankings, are among the most modern and progressive and have high living standards. Nor is cost a reason in itself for replacing a monarchy with a republic. The Spanish monarchy, for example, is far less expensive than the Presidency of the French Republic. A recent poll by the state-funded CIS showed that concern over the monarchy issue was very low.

Referendums can be dangerous, as the one on the UK's decision to leave the EU has overwhelmingly proved. The country is far more divided now than it was before Brexit and is paying an economic price for the 'sovereignty' proclaimed by Brexiters. All too often people vote in referendums for the wrong reasons and then regret the consequences of the way they voted.

Replacing Spain's monarchy with a republic would entail constitutional reform impossible to achieve in the polarised climate and the parliamentary arithmetic. The PP, VOX and Ciudadanos voters are very pro-monarchy; Unidas Podemos, the two Catalan secessionist parties and Basque parties want a republic; and the Socialists have no clear position, while historically pro-republic they do not want to rock the boat. A referendum would be an unnecessary leap in the dark, as Britons are discovering, with no light at the end of the Brexit tunnel.

King Felipe inherited a toxic situation from his father and has done his utmost to restore confidence in the institution. He has made the monarchy more transparent, including having the royal family's accounts audited by an external agency, in line with practices in the UK, the Netherlands and Nordic countries, and has barred members of the family from working in the private sector.

It is an absolute illusion to believe that Spain's fundamental problems would be resolved with a change in the form of state.

10 Between 1812 and 1935 Spain suffered 53 coups, seven constitutions and three Carlist civil wars. This was followed by the 1936-39 Civil War and Franco's dictatorship until 1975.

9. Conclusions

Spain's economic problems have been endlessly diagnosed: stubbornly high unemployment; low R&D spending; a high early school-leaving rate; a fast-ageing population exerting pressure on the healthcare and pensions systems; low productivity in an economy disproportionately based on tourism and construction; and a tax system that needs overhauling.

Resolving them requires a degree of political consensus that is woefully lacking. Agreement is something that the bulk of Spaniards want. With the notable exception of Catalonia, Spanish society has not radicalised and become intolerant in the way the political class has.

The government's Plan 2050 is bold attempt for a country not noted for long-term planning, except when circumstances left no alternative, particularly after the death of Franco in 1975 with the desire, overwhelmingly supported except by the extremes at each end of the political spectrum, to prepare for entry into the European Economic Community (in 1986) and be a 'normal' country. Such long-term goals, however, are rarely meaningful, but it could serve to focus minds (see Figure 21).

Figure 21. Targets of the 2050 Plan

	Now (1)	2030	2040	2050
Unemployment rate (%)	**18**	**12**	**10**	**7**
Workers on temporary contracts (% of total)	26	23	18	15
Tax revenue (% of GDP)	35	37	40	43
Per capita gap with the EU average (%)	-22	-18	-15	-10
R&D (% of GDP)	1.2	3.0	3.5	4.0
Early school-leaving rate (% of population aged 18-24 with lower secondary education or below that)	17	10	6	3
Grade repeaters of at least one course, 15-year-olds (%)	29	18	10	5
Health spending, excluding long-term care (% of GDP)	5.7	7.0	7.0	7.0
Greenhouse gas emissions (thousand tonnes of CO2)	330,640	223,000	126,000	29,000
Environmental tax revenue (% of GDP)	1.8	2.6	4.0	5.0

(1) Latest available or average of 2015-19.

Source: Office of the Prime Minister.

When Spain worked together, it achieved the seemingly impossible. That spirit is urgently needed again.

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