

Five priorities to stimulate the recovery

The lifting of the lockdown has brought about a widespread rebound in economic activity indicators. The important thing now is to stay on this path and to give strength and continuity to the recovery. The challenge that lies ahead is without doubt enormous – the shock of the nearly two months of strict lockdown has been tremendous and we will still have to live with the virus without a vaccine or effective treatment – but it is also true that there is a way to mitigate the effects of the crisis and to try to overcome it as soon as possible. This approach involves five interconnected priority areas: controlling the virus, stimulating short-term demand, improving the potential for economic growth, giving consideration to medium-term fiscal sustainability and moving ahead with the European project.

The number one priority remains the containment of the virus. Since we will have to live with it, we should try to do so as harmoniously as possible. Avoiding uncontrolled spreading, which would force us to go back into lockdown, and minimising the costs in terms of social and economic activity are two objectives that must go hand in hand. It is a shared responsibility. On an individual scale, we can all play our part by maintaining good hand hygiene, social distancing and using face masks. Companies can do so by ensuring a safe environment for their staff and customers. The health authorities, meanwhile, can help by detecting cases of infection early, tracking contacts and promoting the isolation or quarantine of those affected. Today, the best possible investment is in the ability to detect and contain potential outbreaks.

In the short term, stimulating demand is also an essential ingredient, not only to support economic activity but also to preserve social cohesion. The measures which, for now, are helping to sustain consumption and safeguard the productive fabric of our economies – such as subsidies for temporary workforce reductions, loan guarantees and moratoriums on debt repayments – must focus on the hardest hit groups and sectors, while incentives for investment and purchases of durable goods must take on a more prominent role. It makes sense, for instance, to support the renovation of the fleet of cars on the road or the acquisition or renovation of homes in order to take advantage of the knock-on effect that these sectors can have and to counteract the effect that uncertainty can have on such large spending decisions. It is also a good time to support business investment linked to the energy transition and the digital transformation. Let us take advantage of the need to stimulate the economy to promote necessary and profitable investments.

Such investments would not only stimulate activity in the short term but would also have the capacity to boost competitiveness and, therefore, the potential for economic growth in the medium term, which ties in with the third priority area mentioned above. In addition to investments, reforms are needed to boost productivity growth. Such reforms, for instance, could help to reduce the duality of the labour market, promote vocational training, improve public employment services, modernise the administration of justice or encourage business growth. This last point is worth emphasising: Spain needs its SMEs to aspire to become big corporations, and to this end, they cannot be penalised if they grow, as is the case now.

There is no doubt that the situation we are currently experiencing, and the fiscal stimulus policies we are witnessing, will trigger a surge in the public deficit and debt. This is the responsible action which we must now take. However, it is also true that these actions will need to be framed within a medium-term plan that ensures the sustainability of the public accounts. This is key for retaining the confidence of buyers of public debt and for recovering a fiscal margin that will be needed when a new crisis arrives. The tax system will need to be revised and made more efficient, especially by simplifying it. But there is also ample scope for reducing the shadow economy and curbing tax evasion, as well as for improving the efficiency of public spending. Although a temporary increase in certain taxes may be necessary, it would be preferable to wait until the recovery is well on track, perhaps mid-next year, before implementing it.

Finally, the situation we are currently experiencing requires a boost to the European project and, in particular, the fiscal stabilisation institutions needed to counter major shocks like the one we are now enduring. The recovery plan proposed by the European Commission is a major step in this direction, and hopefully it will be possible to finalise it during this month of July. To push it forward, it may be necessary to link the disbursements to certain conditions being met, something that no one should fear or stigmatise. After all, such conditions, if well defined, should serve to reduce the vulnerabilities of individual countries, enhance their capacity for growth and promote social cohesion, three principles that no one can renounce.

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