

Comments on Podemos' Economic Program

INET Seminar at Columbia University

Martin Guzman (Columbia University)

September 21, 2015

- Summary of main elements
- Issues of implementation
 - Flexibility against alternative scenarios
 - Instruments for transformation of structure of production
 - The frameworks for sovereign debt restructuring

- No more fiscal austerity when the public sector is deleveraging
- Social policies to deal with consequences of the crisis
- Fiscal reform
- Transformation of structure of production
- Debt restructuring (sovereign and household)

- Fiscal revenues are projected to increase from 400bn to 535bn euros from 2014 to 2018
 - An annual increase of 7.5%
 - Projected public spending annual increase 2014-2018 = 5%

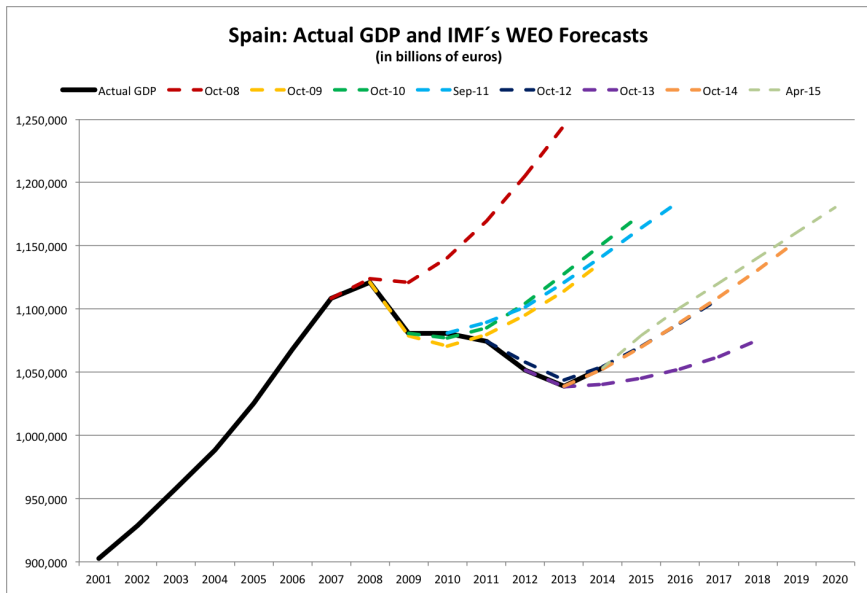
	2014		2018				Difference between "Podemos" and:			
			Stability Programme		"Podemos"		2014		Stability Programme	
	Billion€	%GDP	Billion€	%GDP	Billion€	%GDP	Billion€	%GDP	Billion€	%GDP
Revenues	399.7	37.8%	471.3	38.1%	534.8	40.8%	135.1	3.0%	63.5	2.7%
Expenditures	461.1	43.6%	475.0	38.4%	566.9	43.2%	105.8	-0.3%	91.9	4.8%
Balance	-61.4	-5.8%	-3.7	-0.3%	-32.1	-2.4%	29.3	3.4%	-28.3	-2.1%
Debt	1033.857	97.7%	1152.9	93.2%	1222.28	93.2%	188.4	-4.5%	69.4	0.0%
Unempl. Rate	24.4%		15.6%		10.7%		-13.7%		-4.9%	

- What if things don't go that well?
- Need for instruments that allow for reactions
 - In context of uncertainty, demand for flexibility
- Some commitments are non-negotiable
 - For instance, the right to satisfy minimum needs (nutrition, health, etc.)
- But some others may be negotiable, and may give space for reactions to alternative scenarios
 - For example, abolition of extra working hours from $t = 0$ (which is a desirable social outcome in equilibrium, but may harm the process if productivity does not increase as rapidly as expected), or turning all seasonal contracts into permanent contracts

- Diagnostic of current situation:
 - 1 No Macro consistency
 - 2 No dynamic structure of production
 - 3 High structural unemployment among low skilled workers

- The program must ensure macro consistency, promote technological change, and ensuring full inclusion of the working population in labor market
- Real exchange rate policy is not a possibility for Spain
- Can sectors with larger spillovers be identified? Will there be financing for promoting those sectors?
- Banking system reform plays in this direction
- But possible dependence on external financing
 - It's sensible to assume markets are not rational
 - The program must balance trade-offs
 - What will be the willingness to provide financing under this program?
- How are “spillovers” defined in the context of the Spanish economy? What are the dynamic spillovers of “Taylorist” activities that incorporate low-skilled workers?

- Must assume as most likely scenario that the institutional framework will be the status quo
- SDR is another reason not to be overoptimistic
- The larger the expected recovery, the lower the need for restructuring
- The IMF has repeatedly overestimated the speed of recovery in Spain



- Podemos' economic program is a refreshing proposition
- The program needs to work out the details to reduce the macroeconomic risks that alternative scenarios could entail
- It needs to include as the most likely scenario the assumption that the global institutional frameworks will be the status quo