Economic Recession in Spain: Exploring the Root Causes, Consequences and Recoveries for the Sustainable Economic Growth

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Abstract  Spain is currently facing its worst financial and economic crisis in the last fifty years. The Spanish economic recession began in 2008 during the world financial crisis of 2007-08. The main cause of Spain's crisis was the burst of the housing bubble. The recession has implied a strong increase of the unemployment rate in Spain that surpassed 25% in 2012, the highest rate in western economies in that year. Therefore, this research aims at exploring the root causes, consequences and recoveries of the economic recession for the sustainable economic growth in Spain. In this study we systematically examine previous research on these topics of economic recession. This study also provides a theoretical basis for further studies on economic recession existing in other developed countries.

Keywords: economic recession, causes of economic recession, consequences of economic recession, recovery of economic recession, housing bubble

JEL Codes: E0, O4


1. Introduction

Economic recession has become one of the most cited words in today’s World [30]. Economic recession is a significant decline in the economic activity spread across the country, lasting more than a few months, normally visible in real gross domestic product (GDP) growth, real personal income, employment (non-farm payrolls), industrial production, and wholesale-retail sales [42]. The Spain has experienced one of the deepest recessions among European countries affected by the economic crisis. The Spanish economic recession began in 2008 during the world financial crisis of 2007–08. As the fourth largest economy within the European Union (EU) it is considered ‘too big to fail’ as well as ‘too big to rescue’ [31].

The 2008 sharp correction of that boom in the context of the international financial crisis has led to a deep recession in Spain and a spectacular increase in unemployment, which has tripled in five years (from 8 % in 2007 to 25% in 2012). Youth unemployment (those aged 16 to 24) reached a staggering 51% in mid-2012. In turn, this has led to an enormous increase in unemployment benefit payments, which partly explains why Spain’s public debt has risen from 69 % of GDP in 2011 to an expected 89 % of GDP by the end of 2012 [10]. According to the report of Eurostat, Spain recorded a Government debt of 99.20% of the country's GDP in 2015. Government debt to GDP in Spain averaged 51.97% from 1980 until 2015, reaching an all-time high of 99.30 % in 2014 and a record low of 16.60 % in 1980 [55].

After a long period of economic expansion, which began in the mid-nineties, in 2006 the Spanish economy began to show the first signs of exhaustion. The international economic crisis, which began in 2007 and deepened in 2008, hastened the end of the expansive cycle and triggered a severe adjustment of the imbalances accumulated during the previous decade, whose correction continues to these days, four years later, pending its completion. To overcome this situation it is necessary to break the vicious circle of low economic growth, high unemployment and elevated debt. Sustainable economic growth is economic development that attempts to satisfy the needs of humans but in a manner that sustains natural resources and the environment for future generations. Meeting today’s needs without diminishing the capacity of future generations to meet their own is the main challenge of sustainable development which stands on three pillars: Economic, Social and Environmental [2].

On the basis of these arguments, the objective of this study is threefold. First, to explore the root causes of the economic recession that struck Spain beginning in 2008. Second, to explore the consequences of economic
recession in Spain. Third, to explore the recoveries of economic recession for ensuring the sustainable economic growth in Spain. The secondary data has been used throughout this research paper to meet these three objectives.

This research paper contributes to the literature on economic recession by exploring the root causes, consequences and recoveries for the sustainable economic growth in Spain. There are several papers which emphasize only one or two aspects of economic recession in Spain e.g. causes of economic recession or causes and consequences of economic recession or causes and reforms of economic recession but little has been done in terms of research to explore everything related to economic recession e.g. the actual causes, consequences and recoveries of economic recession in Spain. That’s why; this research will contribute to the three aspects of economic recession literature in Spain e.g. root causes, consequences and recoveries of economic recession for the sustainable economic growth in Spain. This research also contributes to the theoretical basis for further studies on economic recession existed in the other developed countries.

The rest of the research paper is organized as follows. Section 2 includes a review of the literature on economic recession. Section 3 describes the pros and cons of economic recession in Spain including e.g. a brief overview of economy in Spain and root causes, consequences as well as recoveries of economic recession in Spain. Section 4 includes a discussion of the overall findings. Section 5 presents some recommendations for the further recovery of economic recession in Spain. Finally, section 6 concludes the study by describing the implications and limitations of the study, and by suggesting future research directions.

2. Review of the Literature

2.1. Economic Recession

A recession is usually characterized by a state of negative economic growth spanning up to two consecutive financial quarters. The global financial crisis of 2008 is a major financial crisis the worst of its kind since the Great Depression of 1930 [47]. This crisis rapidly developed after the bankruptcy of the American investment bank Lehmann Brothers in 2008 and from there on it spread around the globe. Companies foreclosed, countries came close to bankruptcy, unemployment rates reached new highs, and poverty risks increased [28]. Between 2007 and 2013, almost 15 million people in the area of the Organization for Economic Co-operation and Development (OECD) lost their jobs [27]. The Great Depression is a formidable source of information on how societies and lives change in times of economic crisis. The Great Depression is the most severe economic crisis that hit the world in the 20th century. It started in 1929 and lasted until the mid-1930s, in some countries even until the 1940s [26]. Economic crises are not just a peculiarity of advanced economies. Indeed, developing countries have been highly vulnerable to a plethora of banking, external debt, currency, and inflation crises during recent decades [49].

2.2. Causes of Economic Recession throughout the World

Understanding the sources of recessions has been one of the enduring areas of research in economics. There are a variety of reasons that recessions take place. Some are associated with sharp changes in the prices of the inputs used in producing goods and services [7], economic recession doesn’t just occur; certain factors which include dollar collapse, oil price rise, inflation, housing bubble, loss of consumer confidence, excess buying and global economy are responsible. This current global financial meltdown which began with the US housing bubble in 2006 was aggravated by low interest rates and increased global liquidity [2]. Financial or banking crises were typically precipitated by the liberalization of financial markets and poor banking regulation, leading to growth in credit and creation of asset bubbles. An external shock subsequently pushed these economies over the precipice, resulting in capital outflows and currency devaluations, and subsequently, to bank closures, freezing of credit channels, and ultimately, deep recessions (at times depression) [61].

In the summer of 2007 the economies of the United States and Western Europe starting suffering bank liquidity and real estate problems, which were followed by a severe banking crisis, with a strong credit reduction and economic recession – that still last in Spain. This sequence of events was not unique: Banking crises are recurrent phenomena, often-triggering deep and long-lasting recessions [49,50]. The rise in unemployment and GDP contraction led to an observable decline in disposable income. Spanish consumption was believed to be fuelled by a real-estate bubble [17]. The burst of this bubble in 2008 made the recession even more painful [58]. The Spanish economy has followed the US lead with a housing bubble which started to burst at the beginning of 2008, entailing a collapse of the financial bubble and a vast balance of payments deficit, even if Spain's Central Bank kept repeating that there was nothing in common between the Spanish and the American housing situations [44]. As in other important banking crises in history, the boom and the bust in the housing market, and the associated credit cycle, seem the main drivers of the crises that hit USA, Ireland, UK and Spain, among other countries, in 2007-2008 [3].

2.3. Consequences of Economic Recession throughout the World

There is little doubt that the recession will have widespread negative impacts on the economic and social well-being of people around the world. The severity of impacts will depend on a range of factors. Government policies, sources of revenue, levels of debt and, for individuals, level of education will all play a part in who is affected and the degree of impact [36]. The most prominent social effect of economic crises is job loss [8]. Economic recession is also responsible for job market duality and this job market duality affects social welfare, leading to increased volatility of the labor market, which complicates the implementation of macroeconomic stabilization policies affecting labor productivity by the
fact that the people employed on short-term contracts did not benefit from training and specialization [1]. The effects of the volatile food prices and the financial and economic crisis can impact the most vulnerable in at least two ways; lowering or disrupting real wages and their major sources of income; and, reducing the funds committed by donors to development assistance for social protection and emergency food interventions [57]. Economic downturns raise population levels of unemployment, poverty and distress, and this in turn tends to increase suicide rates and the prevalence of psychiatric disorders [9].

The impact of the recession has been an increased perception of risk across the spectrum of trade and investment activities [51]. The economic crisis of 2008 is a global phenomenon with far-ranging impact. Its effects reach beyond the economic sphere, impacting the lives of individuals [34]. The recession has brought about increased crimes and violence to many communities, especially as theft increases across the board. Robberies in the form of home invasion, criminal trespass, and associated “necessity-based” criminal activities have been on the rise [38]. The countries in the problematic ‘PIGS’ group (Portugal, Ireland, Greece, Spain) have suffered greater uncertainty in their capacity to borrow on the international bond markets [14]. Unemployment rates across the Eurozone are especially worrying, touching a new high of 11.6% in September 2012 (10.6% among EU-27 countries) [10].

The recession has implied a strong increase of the unemployment rate in Spain that surpassed 25% in 2012, the highest rate in western economies in that year [4]. The economy turned sharply lower (-7.1% in 2009) when the financial crisis hit Romania in September 2008, the economy turned sharply lower (-7.1% in 2009 comparing with +8.6% in 2008), with major economic activity decrease and even higher negative fiscal balances. For dealing with the crisis, Romania initiated 3 IMF programs between 2009 and 2015[52].

2.4. Recovery of Economic Recession throughout the World

The current crisis has provided an opportunity to strengthen the weak original design of EMU (Economic and Monetary Union) to make it more sustainable by adding the necessary elements of fiscal, banking, economic and political union. Based on the Six-Pack, the ‘Two-Pack’ entered into force on 30 May 2013. It aims to ensure that excessive deficits in euro area member states are corrected, strengthening the SGP (Stability and Growth Pact); operationalizes the debt criterion and allows for financial sanctions on member states. The design of the single currency requires much stronger coordination across all elements of economic policy [48].

The solution to the debt crisis requires an attack on three fronts: First, less “inefficient” government, e.g. “value creation” investments rather than pure expenditure. Second, discipline in banks. Third, political leadership to discipline financial markets, instead of being disciplined by financial markets [51]. Spain, Greece and Portugal have followed the following steps to reduce the effects of the crisis: wage cuts, public social spending cuts, privatization of certain public transfers (pension system) or public services (health care) [1]. Many governments, including Italy and Spain, are weighing various adjustment strategies that include: (i) prioritizing fiscal balances over employment; (ii) elimination or reduction of subsidies; (iii) wage bill cuts/caps, including the salaries of education, health and other public sector workers; (iv) increasing consumption taxes, such as value added taxes (VATs), on basic products that are disproportionately consumed by poor households; (v) pension and healthcare reform; (vi) rationalizing and further targeting of safety nets; and (vii) labor flexibilization [41]. In May 2010, Romania decided a VAT increase from 19% to 24%, while cutting the public wages by 25% for the recovery of economic recession [52].

3. Pros and Cons of Economic Recession in Spain

3.1. Overview of the Economy of Spain

World Bank shows that Spanish economy is the 14th largest by nominal GDP and 16th largest by purchasing power parity in the world as well as the 5th largest in the European Union, 4th largest in the Eurozone, based on nominal GDP statistics in 2015. Spain is members of WTO (World Trade Organization) and OECD (Organization for Economic Co-operation and Development) that facilitate its international trade. From 2008 to the date, Spain has been going through financial crises when the world also started facing financial crisis during 2007–08 [53]. The Gross Domestic Product (GDP) in Spain was worth USD 1199.06 billion in 2015 and the GDP per capita in Spain was recorded at USD 30587.55 in 2015 [54]. In Spain, all age groups have been affected by unemployment, especially youth and women, and those with low educational level [6]. Still, Spain has the second highest unemployment rate in the EU after Greece. Unemployment Rate in Spain averaged 16.51% from 1976 until 2016, reaching an all-time high of 26.94% in the first quarter of 2013 and a record low of 4.41% in the third quarter of 1976 [56].

3.2. Root Causes of Economic Recession in Spain

The economic recession in Spain has been caused by both exogenous and endogenous factors. The most important exogenous causes are the price rise of raw materials (such as copper and oil) and the influence of the global financial crisis. The endogenous causes are also two: the real estate bubble that damaged the financial system because of the great exposure of the Spanish banks to mortgages and the limited capacity of Spain to respond to the crisis because of the low productivity of the Spanish workforce, the lack of flexibilty in the labor market, and a high level of indebtedness in both the public and the private sectors [60]. Further explanations for the causes of economic recession in Spain are given in the following paragraphs.
Burst of the housing bubble is one of the main reasons for the Spanish deep economic recession. While experiencing an economic boom since joining the Euro, Spain’s debt-to-GDP-ratio decreased from year to year. Spain could come up with an average GDP growth rate of 4% from 1999 to 2007 and regarding the current account balance it was even able to run surpluses from 2005 to 2007 [16]. But the burst of the housing bubble dragged the Spanish economy into recession [19]. The main fiscal problem in Spain was not the total amount of its public debt, but rather its total net foreign debt. Indeed, the debt ratio that really matters in determining a country’s solvency is not so much the ratio of net public debt to GDP, but total public and private external debt. In the case of Spain it reached 170% of GDP at the end of 2012. In Italy it reached ‘only’ 124% [40].

Eurozone crisis has seriously affected the Spanish economy, manifesting itself in particular by rising unemployment and low budget revenues [1]. Spanish economy was stricken by a very severe recession since the end of 2007. At the mid-2011, the rate of unemployment has reached more than 20% of the workforce, the government faces a difficult fiscal situation and the interest rate gap for treasury bonds with Germany is widening. The Spanish economy has built up 2 million of empty dwellings, and we will first examine the causes of the crisis. There are institutional and external factors such as the euro zone mechanisms, but there also Spanish internal causes [21].

The lack of price competitiveness prevents Spanish entrepreneurs to succeed in tradable goods industries. So the Spanish entrepreneurs preferred to develop non-tradable goods industries such as real estate, construction or tourism. But Spain belongs to the Euro zone, so its economy has to compete with other European countries under a fixed exchange rate regime. Spanish economy has suffered more inflation and less productivity gains than the other Euro zone countries such as Germany [21].

3.3. Consequences of Economic Recession in Spain

The impact of the economic crisis in Spain has been one of the most severe among the European countries [60]. Due to the economic crisis, government, financial institutions, households and also other corporations and non-financial institutions are highly indebted, unemployment has reached unsustainable heights and the public deficit skyrocketed [34]. Several consequences created by the Spain’s economic recession are discussed in the following paragraphs. The 2008 sharp correction of that boom in the context of the international financial crisis has led to a deep recession in Spain and a spectacular increase in unemployment, which has tripled in five years (from 8% in 2007 to 25% in 2012). The Spanish labor market has been severely affected by the current crisis, particularly as a result of the structural imbalances in the labor market, of the measures taken to reduce government expenditure, of wage rigidity, of job market duality, of low internal migration, of high immigration, of the much too generous social policies for the unemployed, of a sharp fall in economic activity and of low investment in education and continuous training [1].

The financial crisis started in 2008 became systemic, “affecting productive activity, the labor market, public revenues and household economies” [35]. Cunat [12] considers that the main problems facing the labor market in Spain related to job market duality, wage rigidity and conditions to conclude labor market contracts.

The effects of the global financial crisis become obvious in Spain beginning in 2008: GDP growth fell from 3% to below -3% between the first quarter of 2008 and the first quarter of 2009, while unemployment roughly doubled in the same period [11]. The reduction in transactions in the housing market and new house constructions began in 2007, although the effect on official prices (based on appraisals) was not clear until 2008 because of the particular dynamics of that type of prices [3]. The consequences of the economic crisis were felt swiftly and in a very intense way on the electricity generation due to the fall of electricity consumption [59]. Between 2008 and 2010, domestic demand in Spain fell 7.6%, whereas in the Eurozone it fell merely 1.6%. Investment in housing was the most affected component, which in these three years decreased by 41% [5]. Spain, Italy and the three rescued countries (Greece, Ireland, and Portugal) are facing financing problems as a result of the Eurozone institutional design’s problems [46]. The current financial crisis that started with the collapse of international credit markets in 2007 has caused deep effect on the Spanish economy whose dependence on foreign funds increased over the last decade offering as many possibilities as accumulated risks [59].

Spain underwent a high immigration period which came to an end in 2008 when the present global economic crisis, worsened in this country by the real estate bubble, burst. Then, a new period, in which foreign immigration significantly falls and migration begins to increase, starts and from 2010, Spain’s migration growth rate becomes negative [22]. The current economic recession is responsible for brain-drain in Spain. With an employment rate of 55%, Spain currently registers one of the lowest employment rates in Europe [18]. Youths face even lower employment rates than the rest of the population, and in the beginning of 2012, already every other Spanish citizen aged 16-25 years was without work. This tremendous extent of youth unemployment makes today’s Spanish youths an example par excellence for a ‘lost generation’. Researchers, policymakers and the media even came up with distinct names for this generation: ‘generation Ni-Ni’, which states that the youths are neither working nor in full-time education [24].

Children suffer the consequences of the economic crisis at home when their parents’ employment is affected: precarious employment, uncertainty and unemployment affect the physical and mental health of parents, leading to an increase in psychosocial disorders [37]. Given the rising prevalence of mental disorders we have observed among primary care attendees, there is a risk that retrenchments in social support and front-line health services could worsen the mental health risks experienced among vulnerable populations as a result of the financial crisis. Economic recession is also responsible for the higher mortality rate. The average number of deaths in women was 1744 deaths per month before the crisis and 1835 during the crisis. The average number of deaths per month was 1637 in men before the crisis and 1700 during the crisis [23].
3.4. Recovery of Economic Recession in Spain

The Spanish economy began to recover in 2010, with a slight growth in output in every quarter except in the third. The 2011 data show the weakness of the recovery, with growth rates of 0.3% and 0.2% in the first and second quarters, respectively [5]. A report prepared by the Bank of Spain claimed that the recovery of Spain will be slow and strongly dependent on the evolution of the broader European economy [60]. Some of the recovery measures that have already been taken by the Spanish government are discussed in the following paragraphs.

Firstly faster adjustment in the housing sector is emphasized by the Spanish government. So, average real price housing adjustment up to 2011 (Q1) was 27.6 % going from 20 % to 35 % in different regions and the stock of unoccupied housing is on average 2.7 % oscillating between less than 1% up to 5% in different regions. The average yearly demand for housing is around 350,000 units but the stock of finished and unsold houses doubles the yearly demand. The fall in real estate prices is reducing household leverage given that the home ownership rate in Spain is 84 % of total households one of the highest in the world. The same happens to real estate firms which were also highly leveraged because leverage has been mainly concentrated in real estate and construction [13].

Banking sector’s reform is also emphasized by the Spanish government. That’s why, in 2009, a new institution with a key role in the process of bank restructuring was created, the so called Fund for Orderly Bank Restructuring (FROB), whose principal aim is to strengthen the solvency of banks by providing funding to facilitate the processes of restructuring [5]. Financial stability reports (FSRs) can promote stability by providing information that allows the central bank, other regulatory authorities, and market participants to understand the risks and potential problems that threaten the smooth functioning of the financial system [64]. According to Memorandum of Understanding on financial-sector policy conditionality (MoU), the long-term viability of the bank can be ensured without continuing State aid [39].

The Spanish government has taken several initiatives for the labor market reform. The institutional structure of the Spanish labor market generates great intergenerational injustice, since older workers with higher skills enjoy an extraordinary level of protection and considerable wage increases at the expense of younger ones [5]. In November 2009, the Spanish Cabinet approved a draft Bill for the Law on Sustainable Economy (LES), the Government strategy to define the new growth model for the economy based on innovation, technology, internationalization of business, competition and efficient public administration [33]. In April 2011, the government submitted a new version of the Stability Programme, for the 2011-2014 periods. According to the set out objectives, public deficit will be reduced to 3% of the GDP by the end of 2013 and the public debt ratio will stabilize just below 70% of the GDP, in the 2012-2013 biennium. 65% of the adjustment in the 2009-2013 period is based on spending cuts, including a deep reduction of public consumption (35% of total) [5].

Restrictive and revenue increasing measures taken by Spanish government in 2010 were i) VAT: General rate increase from 16 to18 and preferential rate from 7 to 8 since July 2010 ii) Tax: From January 2011 no “baby-cheque” (2500 Euros at birth) iii) Infrastructure: State infrastructure expenditures decreased by 6 billion Euros until 2012 iv) Wages: 5% decrease in wages for public employees in 2010 and freeze for 2011. Wage cut for government members is 15% v) Pension: Indexation of pensions abolished for 2011. Raise of retirement age from 65 to 67 vi) Privatization: Speeding up partial privatization of Aena (airport managing company) and state lottery system. Privatizations are also playing an important role for the economic growth in Spain. For example, Madrid and Barcelona airports are given on concession to private operators. 49 % of the National Airport System is privatized (first quarter of 2012). In the year 2015, the tax reform entered into force and led to a modification of the main taxes with the purpose of boosting economic growth and generating employment [32]. Government announced a temporary VAT reduction for new housing purchases by four percentage points (from 8% to 4%) until the end of the year, in order to stimulate housing demand and accelerate the reduction of the accumulated stock [5].

4. Findings and Discussion

From the stated analysis, it is clear that the Spain has experienced one of the deepest recessions among European countries affected by the economic crisis. The key findings of the study are discussed in the following paragraphs.

Firstly the root causes of economic recession in Spain are identified. The study shows that the burst of the housing bubble is one of the main reasons for the Spanish deep economic recession. Spain could come up with an average GDP growth rate of 4 % from 1999 to 2007 and regarding the current account balance it was even able to run surpluses from 2005 to 2007 [16]. But the burst of the housing bubble dragged the Spanish economy into recession [19]. The huge private debt has also created crisis in the Spanish economy. Between 1997 and 2007, housing loans as a percentage of GDP increased from 28.4% to 102.9%. The widespread use of credit for housing exceptionally increased households’ private debt. This debt rose from 52.7% of disposable income in 1997 to a maximum of 132.1% in 2007 [5]. Eurozone crisis has seriously affected the Spanish economy, manifesting itself in particular by rising unemployment and low budget revenues [1]. Professor Vicente Navarro [62] considers that the main causes of the current crisis in Spain are related to the way in which Spain joined the Euro area. The lack of price competitiveness is also responsible for the Spanish economic crisis. The lack of price competitiveness prevents Spanish entrepreneurs to succeed in tradable goods industries. So the Spanish entrepreneurs preferred to develop non-tradable goods industries such as real estate, construction or tourism. But Spain belongs to the Euro zone, so its economy has to compete with other European countries under a fixed exchange rate regime. Spanish economy has suffered more
inflation and less productivity gains than the other Euro zone countries such as Germany [21].

Secondly there are several consequences are identified created by the economic recession in Spain. One of the most prominent consequences is the increasing of unemployment. The recession has led to a spectacular increase in unemployment, which has tripled in five years (from 8% in 2007 to 25% in 2012). Youth unemployment (those aged 16 to 24) reached a staggering 51% in mid-2012. In turn, this has led to an enormous increase in unemployment benefit payments, which partly explains why Spain’s public debt has risen from 69% of GDP in 2011 to an expected 89% of GDP by the end of 2012 [10]. The banking sector is also severely affected by the Spanish economic recession. In the summer of 2012, the Spanish government demanded the provision of a credit line from European institutions to recapitalize the weakest Spanish banks. The tensions in government bond markets have also contributed to the weakness of Spanish banks, traditionally major investors in Spanish government debt [43]. The Spanish labor market has been severely affected by the current crisis, particularly as a result of the structural imbalances in the labor market, of the measures taken to reduce government expenditure, of wage rigidity, of job market duality, of low internal migration, of high immigration, of the much too generous social policies for the unemployed, of a sharp fall in economic activity and of low investment in education and continuous training [1].

The recession made the GDP growth fell from 3% to below -3% between the first quarter of 2008 and the first quarter of 2009, while unemployment roughly doubled in the same period [11]. The consequences of the economic crisis were felt swiftly and in a very intense way on the electricity generation due to the fall of electricity consumption. In the period 2004-2010, primary energy intensity dropped by 14.2% [59].

Thirdly several recovery measures for the recession are identified that have already been taken by the Spanish government and some new recovery measures have been proposed in the recommendation section. One of the most important recovery measures taken by the govt. was the faster adjustment in the housing sector. So, average real price housing adjustment up to 2011 (Q1) was 27.6% going from 20% to 35% in different regions and the stock of unoccupied housing is on average 2.7% oscillating between less than 1% up to 5% in different regions [13]. Banking sector’s reform is also emphasized by the Spanish government. That’s why, in 2009, a new institution with a key role in the process of bank restructuring was created, the so-called Fund for Orderly Bank Restructuring (FROB), whose principal aim is to strengthen the solvency of banks by providing funding to facilitate the processes of restructuring [5]. The Spanish government has taken several steps for the labor market reform. Because the institutional structure of the Spanish labor market generates great intergenerational injustice, since older workers with higher skills enjoy an extraordinary level of protection and considerable wage increases at the expense of younger ones [5].

In April 2011, the government submitted a new version of the Stability Programme, for the 2011-2014 periods. According to the set out objectives, public deficit will be reduced to 3% of the GDP by the end of 2013 and the public debt ratio will stabilize just below 70% of the GDP, in the 2012-2013 biennium [5]. In the year 2015, the tax reform entered into force and led to a modification of the main taxes with the purpose of boosting economic growth and generating employment [32]. Government announced a temporary VAT reduction for new housing purchases by four percentage points (from 8% to 4%) until the end of the year, in order to stimulate housing demand and accelerate the reduction of the accumulated stock [5]. The concept of sustainable economy is also emphasized by the Spanish govt. In November 2009, the Spanish Cabinet approved a draft Bill for the Law on Sustainable Economy (LES), the Government strategy to define the new growth model for the economy based on innovation, technology, internationalization of business, competition and efficient public administration. There are three main areas to the LES, including efforts to: (i) improve the economic environment; (ii) promote competitiveness; and (iii) commit to environmental sustainability [33].

5. Recommendations

In spite of taking several recovery measures by the Spanish govt., the overall recovery of the economic recession is not satisfactory. In this regard, we highly appreciate and recommend the Spanish govt. to take the proposed initiatives that are discussed in the following paragraphs.

To overcome the current economic recession, it is necessary to break the vicious circle of low economic growth, high unemployment and elevated debt. It is essential to redefine the growth model. In this sense it is necessary to adopt measures that may enhance the services sector and some tradable sectors. The two key sectors in the extent of the crisis, real estate and banking, should stabilize. The economic recovery will be faster if the process of correcting imbalances in these sectors is intensified. For markets to regain confidence in the Spanish banking sector it is necessary to deepen the reforms already started, to consolidate the reorganization process, to accelerate the recognition of losses and to rapidly increase equity levels. The results of the reform of the labor market were also well short of the expectations initially created [20]. The changes did not lead to job creation or to the reduction of the large market segmentation. So labor market reform should be further emphasized by the govt. For example, steps can be taken for the internal flexibility within the firm because it is a crucial instrument in terms of reducing unemployment and increasing productivity in the Spanish economy, as stated in Law 35/2010 [25].

Workforce training should be enhanced in Spain. The rising youth unemployment at EU level is explained in the literature as a result of a weak correlation between workforce training and labor market requirements. If we look at the educational situation in Spain in 2011, we notice that Spain is on first places in European rankings (Eurostat) in terms of people who drop out of school early (26.5% in Spain compared to the EU-27 average of 13.5%) and people who completed only primary education (46.2% in Spain compared to 26.6% EU-27 average). This may explain the increase in youth unemployment in Spain,
because young people are not trained enough, therefore they cannot adapt to labor market requirements [18]. In order to overcome these problems, John Edmunds, Professor of Business at Babson College in Wesley, Massachusetts, considers that Spain needs to improve its tax base and invest in workforce education [1]. The government should ensure quality jobs for the educated persons to minimize the brain-drain in Spain. Many youths and university students decide to migrate for searching quality jobs. These students are particularly interesting, because they are part of the future intellectual elite of Spain, and their decision to migrate makes a significant contribution to the brain-drain of Spain. In a survey all students replied that the economic crisis is the main factor for their decision to leave Spain [34].

The Spanish debt crisis should be solved. The solution to the debt crisis requires an attack on three fronts: Less “inefficient” government (e.g. value creation), investments rather than pure expenditure and discipline in banks. We need to capitalize banks, but they need to lend money to small and medium sized businesses and customers. Political leadership to discipline financial markets, instead of being disciplined by financial markets. To solve the debt crisis it requires the elimination of the debt overhang and this is achieved by the application of structural adjustment policies [15]. In this regard, the external funding should also be considered by the Spanish government. Because the American economist believes that external funding could allow the development of new industries that would compensate for the gap left by the real estate bubble [1]. Price stability should be ensured in the Spanish market. Regarding the process of correcting Spanish economy imbalances, price stability will continue playing a key role. Despite the momentum of domestic demand, the growth pace for the private consumption deflator will remain below 2% during 2015 and 2016. The lack of price pressure will maintain its effect on competitiveness gains, improving the behavior of exports and positively influencing households’ real disposable income [32].

Removal of bureaucratic barriers should be ensured by the Spanish government. The existing bureaucratic barriers can be a great obstacle for establishing new business and creating employment. Removal of bureaucratic barriers to business creation and support for the creation of specific mechanisms of non-bank financing is vital for new businesses [43]. Knowing the exact internal and external demand is also very important for the Spanish economic development. If both internal and external demand could count on a more growth-oriented European context, it would be possible to reduce the vulnerability of the banking system and Spanish public finances would stabilize [43].

6. Implications, Limitations, Future Research and Conclusion

6.1. Implications for Research and Practice

This study contributes to the literature on economic recession by exploring the root causes, consequences and recoveries for the sustainable economic growth in Spain. At present many developed economies (e.g. Greece, Denmark, Italy and Portugal etc.) are facing severe economic crisis. That’s why; economic researchers have a special interest towards the various aspects of economic recession. We do believe that this research advances the study of economic recession that, in turn, will keep a significant contribution towards the theoretical basis for further studies on economic recession existing in the other developed countries.

This study also contributes to take some new initiatives for the recovery of economic recession in Spain. Here the root causes, consequences and various recovery strategies for economic recession are identified that can develop the economy and ensure sustainable economic growth in Spain. From the analysis of the current recovery measures, some new recovery measures are generated. The proposed recovery measures can ensure the faster adjustment in the housing sector, create job opportunities and reduce banking crisis greatly. We do believe that if the proposed initiatives are implemented, the Spanish economy will be developed significantly. From the practical point of view, the overall findings of the study may help the government to know the details of the economic recession in Spain that, in turn, can lead to generate some new steps for the sustainable economic development in Spain. The findings show the root causes, consequences and recovery measures of the recession in Spain. From this study, the Spanish govt. can know the effectiveness of their taken recovery measures that, in turn, will make some positive changes in their recovery plans. Finally we do believe that the overall findings of the study and the proposed recovery measures will keep a significant contribution to the reduction of economic recession in Spain.

6.2. Limitations and Future Research

Limitations of the study provide avenues for future research opportunities. This study has been conducted based on only secondary data and on a single country (Spain). The reason is that isolating the study to a single country facilitates the data collection and takes into account only the Spanish specific economic situation during the period. Future studies can be expanded to other countries suffering from economic crisis, allowing the generalization of the results. This study will provide a theoretical basis for further studies on economic recession existed in the other developed countries.

6.3. Conclusion

Spain is currently facing its worst crisis in the last fifty years. The crisis began as an extension of the international financial crisis, but the internal imbalances accumulated in the pre-crisis period aggravated the situation. This study tries to identify the root causes, consequences and recoveries to overcome the economic recession in Spain. The findings of the study may generate some new economic recovery strategies for the economic growth in Spain. But the Spanish economic recovery depends on specially two facts. First, at the national level, the reforms implemented over the past two years should be further pursued and structural reforms in other areas should be initiated [29]. Additionally, the process of bank restructuring
should be completed and the model of state organization should be redesigned [63]. Secondly, at the European level, solutions should be promoted to eliminate the fundamental problems of the Eurozone: the restrictions on the European Central Bank’s intervention and the lack of fiscal integration [45]. Finally this study urges to take some further steps to generate huge employment opportunities for the reduction of economic recession in Spain.

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