

Massive inflation and unemployment in spain

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One major economic problem that the European country of Spain faces is massive inflation and unemployment. With a cumulation of these things, the country's GDP isn't growing. People can't find work and whatever money they have saved can be decimated by inflation and there really is no security of money. Spain's problems are pretty rare considering that they are a well developed nation and everyone has access to clean water. Furthermore, Spains average income is at 30, 110 U. S. dollars, which is fairly well according to the World Bank website. A country with a good standard of living, has a big unemployment rate and inflation. What caused this?

The problem was mainly caused by a property crash. People were unable to repay loans and banks began to fail. This crash in the property sector greatly damaged the financial sector all over the world and it all began with the deregulation of banks in various countries from America to Switzerland. According to BBC News, bank decided to give out more loans to risky investors and because borrowing money was fairly easy. This sparked dramatic inflation and soon people were unable to repay their loans.

The CIA factbook states that Spain is country based on agriculture and industry. It also says that the general workforce contains around 23 million people. After the crash, the unemployment of Spain is around 25% so over 5 million people don't have jobs. This greatly damaged Spain's economic prowess. As a result their productivity fell and the situation got to where it is today.

To try to solve this problem, the Spanish government has planned to give the banks a bailout of around 60 billions Euros. While other Eurozone Nations

have received full bailouts, the Spanish government has refused to get a full on bailout and instead receive a portion of the money. The money would be given to the banks to help them get out of their major debt. Furthermore, the central government has asked local governments to cut spending which politicians are trying to avoid because those actions are unpopular.

One solution to this problem, would be to pull out of the European Union and to just let the banks fail and start fresh. An independent currency would allow the government to regulate fiscal policy and the Spanish FED to manage monetary policy. The FED would then have the power to devalue the money to counteract inflation and it could have direct control over the money supply. Problems of neighboring nations would not have such a drastic effect on the Spanish economy. Furthermore, the government could let the entire banking system fail and insure only people who put their money into the bank, not the bank itself. Letting the banks fail would show that the government is willing to punish them for their insecure investing ways.

Starting a new currency would be a ton of work and withdrawing from the European union would mean Spanish currency would be pretty weak, because GDP of Spain is pretty low. Also, the worse will have to pass because when banks fail it will be hard to get loans. On the other hand, a new banking system would have learned from previous mistakes and new loans with medium interest rates will be given to reliable investors who can pay you back.