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RPT-FEATURE-Spain rearranges furniture as economy sinks

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- * Spain's Keynesian stimuli create work, not value
- * Structural economic problems remain unaddressed
- * Opposition, promising austerity, gains in some polls
- * Pressure mounts on Socialist PM for labour reform

By Paul Day

MADRID, May 27 (Reuters) - Moving a 17-metre high monument to Christopher Columbus 100 metres down the road is how the Spanish government is interpreting the advice of John Maynard Keynes.

The economist once argued it would be preferable to pay workers to dig holes in the ground, and fill them in again, rather than allowing them to stand idle and deprive the economy of the multiplier effect of their wages.

So Spain's government is paying for the return of the concrete-based monument, topped by a three-metre marble statue of the Italian explorer, to a roundabout in the middle of Madrid's Plaza Colon -- exactly where it had stood for almost 100 years until 1973.

Plan E (Spanish Plan for Economic Stimulus and Employment) is part of Spain's equivalent to the "New Deal" U.S. President Franklin D. Roosevelt devised in response to The Great Depression, a plan partly drawn up by Keynes himself.

Moving the Columbus monument will take 65 workers until the end of the year. For them, the project gives Spain a little time to find a longer-term solution to unemployment that is rising faster than in any other European Union country.

"What will they do once the monument has been moved?" said one worker, surveying the chaos in the central Madrid plaza amid preparations for the move and another Plan E project, construction of a new underground car park.

"Well, I guess they'll have to hope for a Plan F, then a Plan G," he said, on condition of anonymity as he was not authorised to speak to the media.

The Socialist government has been enthusiastically Keynesian in its response to the steep downturn: many of Madrid's major streets are now a labyrinth of roadworks, negotiated only with difficulty by pedestrians and traffic.

But the scheme shows taxpayers and lenders subsidising a job creation plan in the absence of a deeper overhaul of an outdated jobs market, as unions threaten a general strike if workers' rights are tampered with.

The stop-gap public works plan highlights Spain's need to find new sources of jobs and growth after the global crisis snuffed out its decade-long residential construction boom.

WASTED OPPORTUNITY?

The government says stimulus spending has begun to contain jobless numbers, which rose by more than 39,000 people in April after monthly increases above 100,000 since late 2008.

The European Commission says unemployment is heading for 20.5 percent in 2010 after the end of the construction spree. At its 2007 peak, that saw Spain build and finance more homes than Germany, Italy and the United Kingdom combined.

Spain's 8 billion euro (\$10.91 billion) public works scheme will give around 400,000 people work, albeit temporarily, and kick-start the economy with 30,000 projects from shuffling the street furniture in Madrid to laying bicycle paths in Galicia.

The company charged with the Columbus work is blue-chip constructor OHL, which declined to comment on the project, but the site worker said the company had won the contract on condition it employ out-of-work builders.

"Half our team has been taken from the unemployment office," he said.

G-20 nations -- which account for over 80 percent of global gross national product -- are spending an estimated \$700 billion in 2009 to ward off the deepest slump since Roosevelt's day.

"The question is how to balance the short term 'hole digging' approach with investments which may not provide so much bang for the buck in the short term, but are good for long-term productivity," said Eswar Prasad, Senior Professor of Trade Policy at Cornell University. "Everyone, from China to the United States is grappling for that balance."

Plan E does not address Spain's structural problems, but may defer confrontation over them. Even during the economic boom, when Spain was growing far faster than its European peers, unemployment stood at over 8 percent.

"The crisis is highlighting how badly the labour market runs," said Jose Luis Escriva, head economist at BBVA. "The Plan E must not overlook these problems."

Prime Minister Jose Luis Rodriguez Zapatero sees a future of "more computers and fewer bricks" with technology-driven, green growth from sectors like wind power, which at present provides only 0.35 percent of gross domestic product.

Before that can happen, economists say Spain needs to follow the route Germany took with structural economic reforms to raise competitiveness and compete globally.

For example, costs of making a long-term employee redundant in Spain are among the highest in the world, according to the OECD: a disincentive to make permanent hires during the crisis.

One third of workers are on temporary, low-protection contracts, the highest rate in the European Union: their jobs are often low-skilled and disposable during economic downturns.

"At the edge of the abyss there are two reactions," said Prasad. "Use this as a time for dramatic change or do whatever it takes ... to get out of the hole and deal with the big problems later.

"It does seem that many economies are taking the latter route," Prasad said.

Spain's stimulus plan is worth nearly 5 percent of its gross domestic product and includes popular measures such as a 400-euro tax rebate for all taxpayers and the 'Baby Cheque' -- 2,500 euros for each newborn.

They have cost Spain 16.5 billion euros, but few economists believe they

have done much to stoke demand.

"These measures burned through the Spanish public accounts surplus ... and 400 euros doesn't buy you a car, nor pay your mortgage," said Robert Tornabell, Professor of Finance at Barcelona business school ESADE.

VULNERABLE

The short-term infrastructure and tax spending have helped turn a 2.2 percent public accounts surplus in 2007 to an expected 9.8 percent deficit by the end of 2010, according to the European Commission: the second-biggest fiscal deterioration of any euro zone country after Ireland.

Rising public finance pressures led ratings agency Moodys in February to add Spain to its list of "vulnerable" nations with triple-A sovereign debt ratings and Standard and Poor's downgraded Spain to "AA+" in January.

Besides the higher cost of borrowing to fund the stimulus, there are concerns about the size of the plan and its slow implementation: "This plan is too little, too late. In the time they've taken to implement it, the economy's destroyed more jobs than the plan hopes to create," said Tornabell.

Zapatero has insisted any labour reforms must be reached through talks between business lobby groups and unions.

He faces pressure to lead, rather than administer talks, after unemployment almost doubled to 4 million in the first quarter from a year earlier and the opposition Popular Party -- which has drawn ahead of the government in some opinion polls -- calls for spending cuts, tax breaks and reforms.

"If a system can't bring unemployment down below 8 percent during strong economic growth, there must be a problem with the system," head of Spain's Chamber of Commerce Javier Gomez Navarro told a news conference this month.

Columbus has a whole new Spain to discover. (Additional reporting by Andrew Hay; Editing by Sara Ledwith)

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