Spain's Scoreboard after the Global Economic Crisis: Finance Sector: 1; Social Rights: 0

Pablo José Martínez Osés
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The Spanish Government has submitted to neoliberal economics, announcing in 2010 a programme to reduce public spending, which basically affects civil servants, pensioners, social protection programmes and development aid. Most social and union organisations condemn this 'breakdown' in the Government discourse and propose a way out of the crisis based on people's rights.

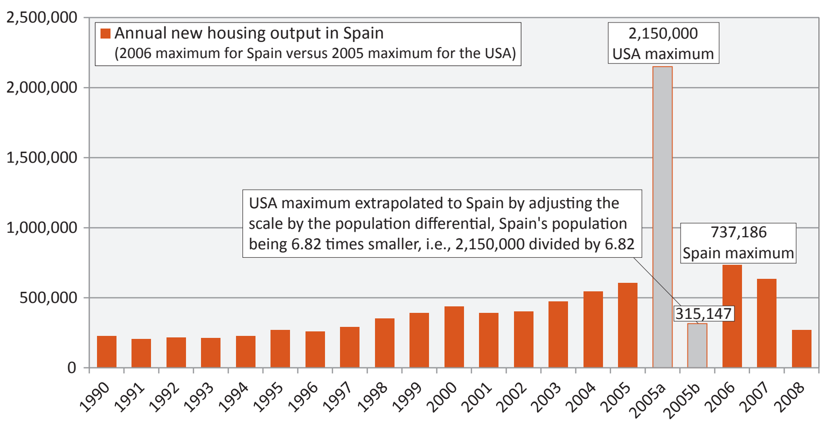
Spain's EU presidency: 'Hot' finances and structural adjustments

The Spanish Government took over the presidency of the European Union on 1 January 2010, soon after the entry into force of the Lisbon Treaty, which, among other things, weakens the powers and capacities of the rotating presidency system. The expectations raised by the Spanish Government with regard to its presidency were jeopardised, mainly due to its necessary coexistence with the new European Council President, Herman Van Rompuy, and the High Representative of the Union for Foreign Affairs, Catherine Ashton. Tensions between supra-nationalism and intergovernmentalism have detracted from the visibility that the Spanish Government wanted for its turn at the helm. The political crisis in the Belgian Government during Spain's presidency also undermined the work accomplished by the 'trio'.[1]

On the other hand, the European political agenda has been driven more by the fallout from the global economic crisis than by the development of the institutional changes stemming from the Lisbon Treaty. Since the first few months of 2010, the volatility of the euro in international currency markets has been consistently linked to the struggle of some of its members and, therefore, of the monetary union, to keep macroeconomic data within the limits set by the international institutions of the economic orthodoxy. The lack of confidence of investors (individual and corporate) in the sustainability of some countries' public debt and in the viability of government action to stabilise their economies has strengthened the position of those advocating for neoliberal economic solutions: cut public expenditure, raise taxes, deregulate key sectors, and privatise public enterprises and services to achieve budget stability. Spain has been particularly affected.

In 2009, most proposals for a way out of the economic crisis were domestic in scope and left the analyses and proposals for a global recovery to the successive G20 meetings. In contrast, in 2010, the European Central Bank and the Economic and Financial Affairs Council (ECOFIN)[2] took back the initiative, assessing and negotiating reforms of economic policies at the national level. The case that opened Pandora's Box was that of Greece, after the key macroeconomic data supplied by the country in recent years was found to be false. In such a situation, concerted action is required on the part of the Union to prevent one country's woes from spreading to the other Member States using the same currency. A very harsh structural adjustment was forced onto the Greek economy, based on steep cuts in public spending, deflation and deregulation. After the structural adjustments seen in recent decades, this was more of the same. The European Union agreed to create a financial stability fund with contributions from its Member States[3] and to allow the European Central Bank to invest in national public debt for the first time, thereby intervening in the volatility of the price of such debt on the stock markets.

Figure 1: Annual new housing output in Spain (2005)



Breakdown in the Spanish discourse on ways out of the crisis

The rating agencies started lowering the solvency ratings for Spain and Portugal's public accounts in 2010, causing fluctuations in financial markets. Spain's Prime Minister surprised the Parliament by announcing a programme to reduce public spending that basically affects civil servants, pensioners, social protection programmes, care for dependent persons, maternity benefits and development aid. This was only the first step, and with it came the announcement of a labour reform that will, in essence, make it cheaper to fire employees. For most social sectors in Spain, this is an about-turn in the Government's policy and a breakdown in the discourse that has placed welfare policies at the core of the present Government's six years in office. Once again, the agenda against social exclusion will have to wait for better days.

A crisis of the Spanish sort: Stagnation, unemployment and the role of real estate

It seems that nobody in Spain's Government was able to foresee the consequences that

1 As of 2007, the system of collaboration between six-month presidencies changed in favour of coordination among three consecutive presidencies in developing a common agenda. This was done for greater coherence and to extend the core elements of the presidential agenda to at least 18 months. Spain will be succeeded in its presidency by Belgium and Hungary.

2 Usually a monthly meeting of the economic and finance ministers of the EU Member States, typically preceded by an informal meeting of the Member States of the monetary union (known as the Eurogroup).

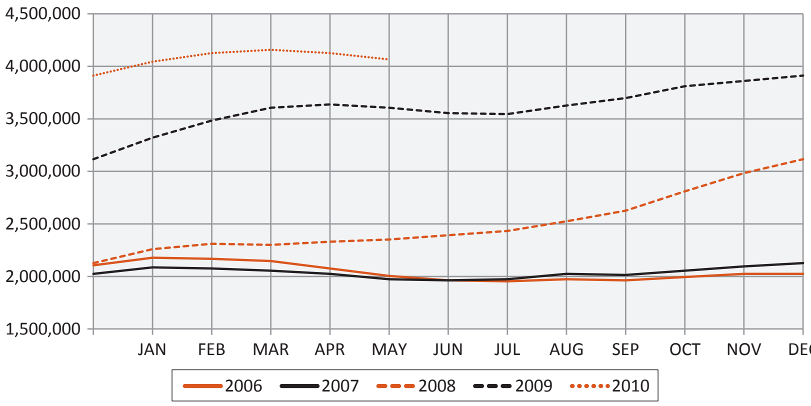
3 Just a few weeks later, the European Union announced that the successive rescue packages would receive funding from the European Commission, which would be the body granting loans to national economies at risk. The European banking sector made brisk business out of this plan by lending to clients who were not creditworthy to increase their debt at prices above those of the private banking sector.

the financial market crisis would have on the so-called 'real' economy[4]. The Government has focused on the global scope of the crisis, implying that the problem was 'foreign' and that the political management in Spain is not directly to blame. Nor has the opposition owned up to its part in the making of the crisis, whose devastating effects on the population have been used for electoral gain. The reality is rather different and takes us back to the economic growth and development model promoted in Spain in recent decades. Over the past 12 years, the country's economic growth has been linked to the construction sector and the so-called 'real estate bubble'. Growing land deregulation provided an incentive to fund municipal budgets through land revaluation. The gains made were passed on to investors and developers and ended up with their clients, thanks to the low interest rates offered by the European banking system. Nobody seemed concerned about the fraud surrounding the land revaluation or the spectacular surge in private and domestic debt. The banks were profiting, GDP was growing, and jobs and investments were far too closely tied to a market that was building more than twice the homes needed; this completed the picture of a supposedly booming economy. Calls for the regulation and structural reform of 'brick-based' growth seemed out of place while Spain was striving to be the eighth largest economy in the world.

In fact, from 1998 when Spain entered the Eurozone, interest rates (12-month treasury bills) dropped from 10.3% in 1995 to 4.5% in 1998 and kept falling until, with ups and downs, they reached 1% in 2005. As Figure 1 shows, before 1998 the growth in the number of new homes built hovered at around 220,000 homes annually. In 2005, the number of new homes built in Spain outstripped the maximum built in the United States by two to one in relation to population size.

Two of the main outcomes of this have been a rise in unemployment and difficulties experience by families in managing their household debt, in particular mortgages. The private debt of businesses and households in Spain amounts to 178% of GDP, more than three times the rate of government debt. In the context of the economic slowdown, the credit squeeze due to the new risk valuations on debt and the resulting rise in unemployment, the challenges facing the Spanish economy call for solutions to household debt before a reduction in government deficit and debt. Similarly, the difficulties of the *cajas de ahorros* (regional savings banks), which have lately been the focus of merger and concentration plans, are also rooted in their overexposure to the real estate sector. In the end, the Government announced a bill to privatise the *cajas*, thereby abandoning political intervention in the banking sector, which for decades had supported and promoted the distribution of profits and lending to the working classes. Their managers had also fallen into the real estate trap.

Figure 2: Unemployment in Spain (2006–2010)



Meanwhile, the unemployment rate has soared over the last three years, from close to 8.6% in 2007 to 20% in 2010. Bearing in mind the most recent data gathered over two months of job creation, in June 2010 the unemployment rate was 18.5% – which is the level last seen before the real estate boom of 1998. More than four million people are currently out of work, with the most vulnerable groups being particularly hard hit: immigrants, women and the youth (National Statistics Institute 2010). What makes Spain stand out from other European nations is the speed at which millions of jobs were wiped out, essentially due to overreliance on the building sector.

Persistent social exclusion in Spain, worsened by the economic turmoil

In terms of social exclusion, the figures that should be used for Spain are those pre-dating the worst fallout from the economic crisis. FOESSA's recent report on social exclusion in Spain prepared using 2007 data indicates that some 800,000 Spanish households have suffered severe exclusion while 1.8 million have suffered moderate exclusion (representing 5.3% and 11.9% of households, respectively) (FOESSA 2008a)[5]. According to the National Statistic Institute, interpreted by FOESSA in 2008, 19.6% of the Spanish population lives below the poverty line (FOESSA 2008b).[6] Even in times of sustained economic growth (1993–2006), the situation in Spain was never favourable for significant advances in social development. The key indicators in this sense are clear: between 1994 and 2008 the proportion of the population living below the poverty line remained virtually constant at around 19.5%. In 2007, Spain's social expenditure as a share of GDP was below the European average by five percentage points, at 22.7% versus 27.5% in the EU27.

The fallout from the economic crisis on this persistent reality has been swift. Organisations focusing on social assistance such as Caritas have reported that for the 18 months between 2007 and 2009 the number of requests for help doubled from 400,000 to nearly 800,000 (Caritas Spain 2009). The applications listed in the order of their importance were for food, housing, employment, legal assistance in matters relating to alien status, and psychological support. In short, with this crisis the most vulnerable sectors have seen their chance of access to adequate social protection and distribution policies disappear. The growth model is being entrenched at the expense of other more inclusive models.

Conclusion: Social mobilisation for a way out of the crisis based on people's rights

Most social and union organisations have condemned both the powerful effects of the crisis and the about-turn in the Spanish Government's discourse and policies. The distrust in the growth model that led to the crisis ensures that we are about to enter a phase of increased

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4 The real economy is all the economic activity, except for the financial sector. It is the side of the economy dealing with goods, services and resources, as opposed to the financial economy.

5 Moderate exclusion (or 'exclusión moderada o relativamente compensada' in Spanish) is defined as a score between 2 and 4 on the FOESSA social exlusion index, severe exclusion is defined as a score above 4.

6 For these data, the modified OECD scale is used for the poverty threshold: 60% of the median income in 2006.