# SPAIN

# Not tackling the basic issues

The shortcomings in the Spanish economy, adjustments to which were too long delayed, have been laid bare. Faced with spiralling unemployment and the collapse of credit, the Government stands as guarantor but fails to tackle basic issues such as job insecurity, access to housing and the extension of social rights. Similarly with international aid: while Spain consolidates its role as a sympathetic country, essential issues such as global warming and agricultural subsidies are not given the attention they deserve.

**Plataforma 2015 y más**
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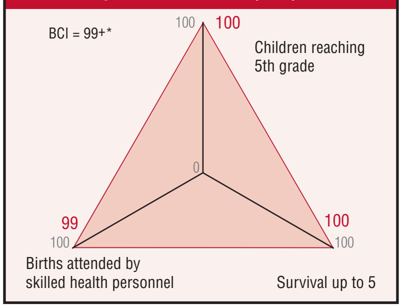
The crisis in Spain has its own distinct aspects, suggesting that "failures" of the international financial system or bad practices are not its only causes. Just as major US financial companies were collapsing, President José Luis Rodríguez Zapatero was in New York at the September 2008 UN General Assembly meeting, declaring his confidence in the robustness of the Spanish financial system. Nevertheless, the Government rushed to grant a Treasury guarantee of EUR 30 billion to cover its risks. This figure represents over EUR 650 per person, while the country spends EUR 30 per person on development aid. Weathering the storm takes precedence over seeking opportunities in the crisis.

## Job destruction

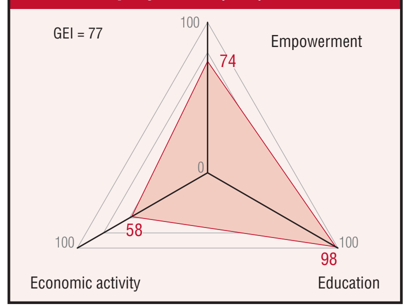
Current figures for job losses are staggering. Between January 2008 and January 2009 unemployment rose by more than a million to over 3.5 million people – 14% of the economically active population and almost double the European average. According to data published by the Social Security office, more than 840,000 jobs disappeared in 2008 and the trend shows no signs of diminishing.

The Government has sought to mitigate the drop in purchasing power through tax reductions for workers and simplified procedures for creating new economic activities. It has also instigated reductions in default interest rates for non- or late payment in order to help save companies from financial asphyxiation. These measures are intended, at most, to enable workers to hold out for a while, in the hope that economic activity and confidence in the markets will recover. It is worth noting that the Government has so far resisted the usual opportunistic bids by employers to demand greater job insecurity through flexibilization and cheaper redundancies as a prerequisite for creating more jobs.

**Basic Capabilities Index (BCI)**




**Gender Equity Index (GEI)**




## The collapse of credit

Despite the EU base interest rate (Euribor) having already fallen to a historic low, financial bodies seem unwilling to take on new risks and the availability of credit remains scarce. Clearly the EUR 30 billion approved by the Government and other public guarantees have so far failed to get the financial sector to provide credit and, with it, the money supply that is indispensable for reviving economic activity. Furthermore, in December 2008, according to data from the Bank of Spain, the family credits portfolio fell for the first time in eight years, in contrast to the growth shown by the portfolio of credits approved for general government. This apparent paradox is explained by financial entities' predilection for public guarantees when selecting risks and by the enormous funding difficulties faced by local government bodies.

The Government has therefore prioritized acting as public guarantor in order to maintain confidence in the balance and stability of the financial system, on which so many citizens' savings and deposits depend. But the issue demands much more. While financial bodies continue submitting quarterly results showing spectacular profits, the unstoppable devaluation of financial and mortgage assets has meant that the general public has so far not been able to enjoy the benefits of this stability. Social movements, as well as academic and political sectors, are beginning to voice the need for public financial bodies that would prioritize public service functions rather than profit margins.

## Delay in adjustment

The alacrity with which the Government has responded to the needs of the banking and finance sector is in sharp contrast to the tardy and limited attention paid to problems of the real economy, which is now seeing an abrupt process of adjustment which had been long overdue when the crisis broke.

The three main problems, frequently cited in analyses during the previous growth cycle, were: the sheer magnitude of the "property bubble" and the relative importance of the construction industry to GDP and employment growth; excessive borrowing by individuals and businesses; and low rates of national competitiveness and savings. In the previous period, little was done to address needed adjustment processes, due perhaps to a reluctance to bear the social and political costs. The global financial crisis has brought together and accelerated these processes, severely affecting employment levels and the viability of businesses with high short-term credit needs.

In response, the Government has adopted a twin approach. It remains firm in resisting lobbying by conservative sectors and employers in favour of tax rebates for large revenues, lower company taxes and more flexible dismissal requirements, while at the same time approving social measures aimed primarily at the unemployed and low-income and high-risk groups. However, this dual reaction – aimed at avoiding any damage to the system of social guarantees (so that it can act as a shock absorber in the crisis) – does nothing to reverse the trends and enable the recovery of credit, employment or the price index.

It would appear that the Government is relying on being able to contain the pressures until confidence in international financial markets has recovered and a new growth cycle is underway. However, it is not just a question of knowing when recovery will occur or how large a shortfall can be tolerated in the public accounts used to fund the measures (these have already used up the surplus accumulated over

* "Births attended…" estimated following procedure "1" in p. 209.

1 Intermon Oxfam's contribution to this report has been undertaken by its research team, led by Deborah Itriago, and is limited to the last two sections.

previous years, and the EU has issued its first warnings). It is also a case of dealing with basic problems that beset the Spanish economy, related mainly to job insecurity, access to housing and the extension of basic social rights to a large section of the population.

## Spain abroad

The year 2009 is one of continued discussion of development cooperation, including questions on what form cooperation in the struggle against poverty should take. During 2007 and 2008 Spain was a supportive country not only in terms of management of the global crisis affecting developing countries in particular, but also more generally in its commitments to levels of Official Development Assistance (ODA).

*ODA:* Between 2004 and 2007 Spanish ODA increased by more than 20% (in current values). Despite keeping its international cooperation budget for 2009 at the same level as in 2008 (EUR 5 billion), Spain is still one of the most generous donor countries. In December 2007, the State Pact against Poverty was signed, under which all Spanish political parties undertake to comply with the international commitment to channel 0.7% of GDP into ODA from 2012.

*Humanitarian action:* 2008 saw the culmination of a series of processes that will help consolidate Spain as a global actor in humanitarian efforts. An Office for Humanitarian Action became operational within the Spanish Agency for International Development Cooperation (AECID), strengthening institutional management capacity in dealing with humanitarian crises, and enabling the country to ignore media pressure in deciding whether to become involved with specific humanitarian crises.

*Food crisis:* At the FAO summit in June 2008, Spain made a commitment to contribute EUR 500 million in response to this crisis. In January 2009 Spain and the UN jointly organized the High Level Meeting on Food Security for All (RANSA) in Madrid, designed to strengthen coordination among the various institutions involved in this area (FAO, World Food Programme, International Fund for Agricultural Development, World Bank, IMF) and advancing the Global Partnership for Agriculture and Food Safety (GPAFS) initiative. At this meeting President Rodríguez Zapatero committed a further EUR 1 billion to this end, to be paid over five years. The EUR 1.5 billion total does not represent any additional resources but rather a commitment to assign part of the previous ODA budget. What is remarkable is that the negative impact of EU agricultural policies on world food security is not questioned as part of this initiative, putting its chances of success seriously at risk.

Within the framework of the G20 and in line with the foregoing, as part of the package of measures it has proposed in order to manage the financial crisis, Spain supports the idea that multilateral development banks increase their net flows towards low- and average-income countries in times of low growth.

## Solidarity is not enough

Although all these initiatives demonstrate solidarity, they contrast with Spain's position on aspects that are crucial to developing countries, such as trade, agriculture, international migration and climate change.

*Trade:* One of the greatest risks in the international response to the current financial crisis is that countries unilaterally adopt commercial protectionism as a way out. Unlike other EU countries, Spain has always sided with those less inclined to be flexible in their position and include development as a core element of trade negotiations. At the meeting of the G20 in late 2008, countries were called on to refrain from increasing applied tariffs for at least a year, while nothing was said about the use of state subsidies and rescue plans. This meant calling into question the only means of protection most developing countries can afford while allowing those that are out of their reach (and that, additionally, can be devastating for their agriculture).

*Agriculture*: Of equal concern is the inconsistency between the global initiatives supported by Spain and the one the Department of Rural Affairs aspires to lead, pushing for a European platform to block the necessary Common Agricultural Policy (CAP) reforms. This initiative has been presented as one that should remain at the forefront during the Spanish presidency of the EU, ignoring the fact that the distorting impact of rich countries' agricultural policies is one of the causes of the erosion of agriculture in poor countries and of the crisis in food prices.

*Immigration:* The international economic crisis has hit millions of migrants hard as they are immediately threatened by unemployment (particularly in the construction and hotel industries), reducing the remittances these workers send to their families.[2] The Government's reaction has been disappointing: one measure involves repatriation incentives, which has met with limited success because migrants who have overcome the many barriers to obtaining Spanish residency will not happily give up this right.[3] In addition, regular immigration quotas have been drastically cut and efforts intensified to detect, detain and deport illegal workers. The Government passed the new Law of Asylum and Refuge in December 2008. Following a European Directive approved along similar lines in July 2008, this "will reinforce the worrying advance of unsympathetic – even xenophobic – policies in Europe, which is more concerned about the interests of the States than about the right to asylum", according to the Spanish Commission for Refugee Assistance.

*Climate change*: At the end of 2009 a global agreement on climate must be reached to succeed the current Kyoto Protocol. This requires consensus on the sharing of efforts to reduce emissions and the funding of adaptations in developing countries. Spain contributes to existing international funds, although – as with the rest of the international community – this falls far short of the estimated USD 50 billion a year that is needed.[4] In addition, Spain is reluctant to make new financial commitments for mitigation and adaptation in developing countries. Within the framework of the EU, the financial crisis is used as an excuse to dilute the already limited funding programmes. No agreement has been reached on innovative mechanisms for raising the necessary funds, such as auctioning emissions rights, nor on commitments countries are willing to make in the context of a global agreement. ■

2 In Ecuador and Mexico, for example, the fall in 2008 is estimated to be around 20%.

3 The scheme offers returning migrants the possibility of advance payment of cumulative unemployment benefits in their country of origin with support to any business initiatives they might undertake. In February 2009 only some 2,000 migrants (of a total of around 200,000 unemployed non-community foreigners) had signed up.

4 Oxfam. "Credibility Crunch: Food, Poverty, and Climate Change: An Agenda for Rich-Country Leaders". *Oxfam Briefing Paper 113*. June 2008. Available from: <www.oxfam.org.uk/resources/policy/debt_aid/downloads/bp113_credibility_crunch.pdf>.