

Workshop on Crisis regimes and emerging social movements in cities of Southern Europe (7-9 February 2013)

Notes for the presentation: "Crisis regime. Transformations and manifestations of the crisis in Spain"

Marc Martí-Costa (marc.marti@uab.cat)

Institut de Govern i Polítiques Públiques

Autonomous University of Barcelona

a. INTRO

I'll try to give some insights into the origins and the main characteristics of the economic boom and the crisis in Spain. I'm not going to talk a lot about the international scenario or social movements because we will have time for that during the next couple of days.

I'm going to talk about the following:

- Spanish Growth Machine
 - * Antecedents
 - * Characteristics
- Main Institutional Reforms
- Social and Political Crisis
- Urban consequences and changes in local governments

I've borrowed from Logan and Molotch the popular concept of "Urban Growth Machine". Although they originally applied this concept in the 70's to the American City, I think that it could be useful in the Spanish case because of the following similarities:

- 1) The development of policies towards urban development and the increase of real estate market prices
- 2) The creation of coalitions of agents and elites (like politicians, political parties, local institutions, banks, real estate agencies, developers) towards pro-growth strategies
- 3) The construction of an imaginary where the only way to achieve wealth and employment is by a growth strategy based on incessant urbanization

Other authors (like Emmanuel Rodriguez and Isidro Lopez) talk about "the long wave of hispanic capitalism" in more classic marxist terms. I think both perspectives are

compatible. In fact, if you want to understand the crisis of Spain you must read their book. Many of my explanations are based on their contributions.

b. ANTECEDENTS (1986 - 1995)

The roots of The Spanish Growth Machine can be seen in the transition from Industrialism to the “Spanish Urban Revolution”. In other words: the crisis of the Fordist economy was progressively replaced with an economy based on urban development, tourism and services associated with consumption. The antecedents of the last economic boom can be divided in three periods: a period of Fordist crisis (70-86), a period of growth (1986 to 1992) and the first real estate property crisis (1992-1994).

External and internal factors contributed to overcoming the Fordist crisis:

* The integration of **Spain in the European Union** (European Economic Community at that time) **in 1986** contributed decisively to overcoming the Spanish Fordist crisis through the first real estate boom from 1986 to 1992.

- The European Structural and Cohesion Funds permitted the expansion of infrastructures (like highways) and opened up vast quantities of land for development. In addition, capital from international markets came to Spain to be invested in tourism and in urban assets.

- The Integration of Spain into the European Economic Community fueled the closure of the less competitive manufacturers. It also changed the most competitive ones from national to international companies. Only the big companies of two economic sectors, which relied on the State, became stronger and remained in the hands of national elites: The Banks and Building Companies.

* Internally, **new rules in the field of housing and land use** were approved to liberalize the housing market (against renting) and the land market (Decreto Boyer, 1985; Ley del Suelo 1998).

The conversion of Spanish families to a “society of owners” as Rodriguez and Lopez put it, is the key process to understanding the subsequent bubble. It enabled Spanish families to make money through the housing market and gain access to private debt for personal consumption. Housing was a basic necessity to cover, but it was also a way of saving money, a way of investing money and a way of borrowing money.

c. BUBBLE (1995-2007)

The Spanish Growth Machine worked through a virtuous pro-growth cycle of interests between all of these agents. I'm only going to stop in a few of them:

* **Banks and Cajas de Ahorro** (Regional Savings Banks) had access to huge amounts of capital from the international market (basically from the core European economies such as France and Germany) which saw Spain as the perfect place to invest in again. Also, the banks and saving banks invested directly in real estate projects with the help of very low interest rates from the European Central Bank. [70% of credit from Regional Savings Banks was invested in the real estate sector]

* **Building companies, property owners, real estate agencies and developers**

* **Mass Media** helped in creating a social, pro-growth imaginary where investment in housing became a prerequisite for being part of the middle-class.

* In line with the agreements of The Maastricht Treaty, The **Central Government** reduced its public debt and improved its income (from labour and taxes on economic activity). It was also able to drastically reduce the level of unemployment and improve its position in the international Forums such as G-8, EU, etc. This was the moment when Zapatero said the "Spanish Government put Spain in the Champions League of world economies". In any case, one important difference from other countries like Italy, Greece or even France or Germany was the low rate of debt in relation to GDP

* **Local Governments.** In the last few decades Spanish local governments have assumed a lot of new responsibilities without appropriate funding, be it from local taxes or transfers from the central government. Currently, 30% of local government income comes from housing and real estate developments. Moreover, the boosterism and competition between cities to have the best opera, cultural center or conference palace increased the investment in these types of infrastructure and in their maintenance.

* Some **political parties** were beneficiaries of the Spanish Growth Machine through corrupt practices. For instance, they obtained money from building companies in exchange for access to favourable contracts.

Many commentators would include **individuals and families** on this list because of the increase in property value, high employment (albeit precarious) and the general increase of consumption. It's true that the increase in value of the property market created a "*wealth effect*", but it was just an illusion, because families' income from salaries went down all along this period.

This high level of consumption was only maintained at the expense of the tremendous rise in debt for both businesses and families.

d. CRISIS AND MAIN INSTITUTIONAL REFORMS

Don't stop the Machine!

After initially denying the existence of a crisis (at least in public) the government's first measures were to try and give more fuel to the building sector via traditional Keynesian measures. Just three examples:

* From 2009 to 2010 the government invested 13 billion euros in the Local Investment Fund to finance public works in municipalities.

* The Government Housing Plan 2009- 2012 invested 10 billion euros to help people buy houses and planned the construction of 20.000 new houses. The fiscal reduction for buying a house was not eliminated until 2013 as a requirement from the EU

* Only in the first three months of 2008 did the government commit 6 billion Euros to public works, 117% more than in 2007.

Save the Banks!

Although Zapatero declared that "*Spain has the most solid financial system in the International Community*", public aid was subsequently used to save several Banks from bankruptcy. They had accumulated a lot of devalued land and houses from promoters and real estate companies that had gone bankrupt.

With the help of public funds a huge process of bank restructuring began. The Restructuring Bank Fund (FROB) was created by the government. It is difficult to know the exact amount of money that the State has given to the banks, but official statistics talk about 100 billion in aid and public endorsements from 2008 to 2012. At the moment "only" 6 billion euros of this are considered as state losses.

Shock doctrine: deepening Neoliberal reforms from EU

In response to significant pressure from EU, the Socialist Party took on a more neoliberal agenda in 2010. Although a bailout of the banking sector was officially approved in June 2012, from 2010 Spain was in fact under the intervention of Troika. Within 1 week and with the agreement of the Popular Party they changed the Spanish Constitution to limit the deficit of public administrations. From that time legally is most important to pay the investors than the pensionist. Other initiatives included new labour laws, a reform of the public pension system (lengthening the age of retirement from 65 to 67), an increase in VAT and several cuts to public spending.

In the elections of 2012 the Popular Party (PP) won with an absolute majority and continued to follow the same policies. Some additional demands were made by the EU. After all the reforms external audits of the Spanish Banking System found a hole of 90 billion Euros related to “toxic real estate assets”. Most of these assets are going to be transferred to a “Bad Bank” which will manage around 85.000 housing units (though the unsold housing stock is around 800.000 units). This public-private society will be the biggest real estate agency of Spain.

- *First the investors!* Constitution reform (2011) and budget stability law (2012).
- *Make Labour force cheaper!* Labour regulation reform (2010 PSOE, 2012 PP).
- *Spent less in welfare!* Less benefits for baby borns, Pension reform (2010 and 2013?); Cuts and reforms in Dependency Law (2012), etc.
- *Reduce the State!*

f. SOCIAL AND POLITICAL CONSEQUENCES

After the real estate and financial sector bubble burst, the crisis polluted the whole Spanish economy.

The end of the continuous appreciation of real-state properties put an end to the “wealth effect”. Initially, those most affected were workers in the building sector, but the cuts in public spending, the decrease in consumption and the restriction of credit caused the destruction of many companies and business, whilst at the same time the **unemployment increased in both the public and private sector.**

After a several labour reforms, the latest data shows that 26% of the active population is unemployed, almost 6 million people (the highest of the European Union). The average tax is 10,6% in EU27). The most affected group is young people (55% of whom remain unemployed) The well- educated are leaving the country, around 270.000 last year), and people with basic education, foreigners (36,5% of whom are unemployed) and women.

The latest figures on unemployment also show that 1.8 million families (more than 10%) have no family members in work. **The middle classes** are experiencing a significant reduction in their income from salaries and from their real state properties and at the same time they are facing a very high rate of debt. Only financial assistance from family members or income gained by informal methods can explain why social tension has not gotten even worse.

During the economic boom the level of **poverty was not** reduced and has increased during the crisis. Currently, the amount of people below the poverty line is 21% (similar levels of Lithuania or Bulgaria) and higher than Greece, Italy or Portugal. At the same time, the index of **inequality in Spain**, measured by the difference between the highest and lowest income groups, is the highest of EU27 (after Lithuania) and is growing dramatically.

In the field of politics, the first consequence of the crisis and the implementation of the austerity measures was the **defeat of Socialist Party** in the 2012 elections. Minority and leftist parties won some seats, but the established bipartisan system gave the majority to the Popular Party.

The other important effect in this field is the growing **mistrust of politicians and political parties**. Firstly, for the policies that they started after the crisis that burdened the population ("*we are not a commodity in the hands of politicians and bankers*" was one of the most famous slogans of the 15M movement"), but more and more the politicians are being seen as a privileged and corrupt caste that only look out for themselves and their friends. Currently, more than 300 elected officials all over Spain have been impeached on anti-corruption charges¹. The last scandal is, as you already know, the implication that Mariano Rajoy, the current president of the Government, has taken part in illegal party funding. In this aspect, Portugal, Italy, Greece and Spain are in the Champion's League of political corruption².

g. URBAN CONSEQUENCES

Finally, I would like to add some words about the environmental, urban and local consequences of the crisis.

Firstly, I just want to stress a very obvious idea: the territorial **development** during the bubble was highly **unsustainable**. During these years the emissions of CO2 increased exponentially, much more than the Kyoto protocol permitted.

The construction of infrastructure and housing units required a vast extension of land. As a consequence many fertile fields were lost, biodiversity was reduced and cultural, historical landscapes were destroyed. From 1987 to 2010 the use of "artificial" land has

¹ See http://politica.elpais.com/politica/2013/01/01/actualidad/1357057502_853016.html

² See the last report of International Transparency

http://www.transparency.org/whatwedo/pub/money_politics_and_power_corruption_risks_in_europe

increased 44% while the population has only increased by 15%. This growth was concentrated in the big urban areas (especially Madrid) and on the Spanish coast. Moreover, most of this development has been urban sprawl. In a few words: the model of urbanization left behind a consumption of a huge amount of resources, a lot of infrastructures underused and thousands of vacant houses.

In spite of the amount of empty houses the “**housing crisis**” continues in Spain. Most people can't afford to buy a house because young people are unemployed (or have low salaries) and because credit is restricted. The private rental market is still expensive and small and the amount of state-subsidized housing for rent is small. As a result, the average age people leave the family home is 30. The European average is 21.

But accessibility to a home is getting worse: many people who left the family home are coming back. Every day there are more than 500 evictions of people that can't afford to pay the rent or mortgage. Recently, a series of people have committed suicide because they were going to be evicted from their homes. My colleague from the PAH will explain this situation in more detail.

Last but not least, **local governments** are getting into a new situation. The decrease of transfers from central government, the reduction of income from taxes related with the housing sector and an increase in expenses related to the boom period are driving local governments into significant economic difficulties. As a result, there have been cuts in local budgets and public land, assets and services are being sold or privatized, as we are going to explain in the case of Barcelona. For instance, local public water companies are being sold to building companies that see public sector services as a promising market niche. At the same time, the most important cities are continuing using the conventional strategies in order to attract international events such as the Olympic Games or by facilitating the building of a mega-casino, as Bea from Madrid will explain later.

To sum up, we can affirm that the Spanish political regime, built at the end of Franco's dictatorship, is in rapid decomposition. The growth machine is very difficult to fix, the Troika is ruling the main economic and social policies and the government has lost the trust of the people. The question that remains is what will the result of all this be... the emergence of new populisms, or a deep democratic revolution?