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THE SPANISH MODEL

Prior to the debacle of 2008, Spain's economy had been an object of particular admiration for Western commentators. [1] To reproduce the colourful metaphors of the financial press, in the 1990s and early 2000s the Spanish bull performed much better than the moping lions of 'Old Europe'. In the decade following 1995, 7 million jobs were created and the economy grew at a rate of nearly 4 per cent; between 1995 and 2007, the nominal wealth of households increased threefold. Spain's historic specialization in sectors such as tourism and property development seemed perfectly suited to the age of globalization, which in turn seemed to smile on the country. Construction boomed as house prices soared, rising by 220 per cent between 1997 and 2007, while the housing stock expanded by 30 per cent, or 7 million units. All feeling of being merely the biggest country of the continent's periphery was dispelled by a new image of modernity, which did not just catch up with but in some ways surpassed standard European expectations—at least when Spain's dynamism was compared to the 'rigidities' of the Eurozone's core. Add to this the 2004 return to power of the Socialist Party, under a youthful José Luis Rodríguez Zapatero, and the effect of such quintessentially 'modernizing' laws as those on same-sex marriage, and the mixture acquired the bouquet of a young red wine: extremely robust on the palate.

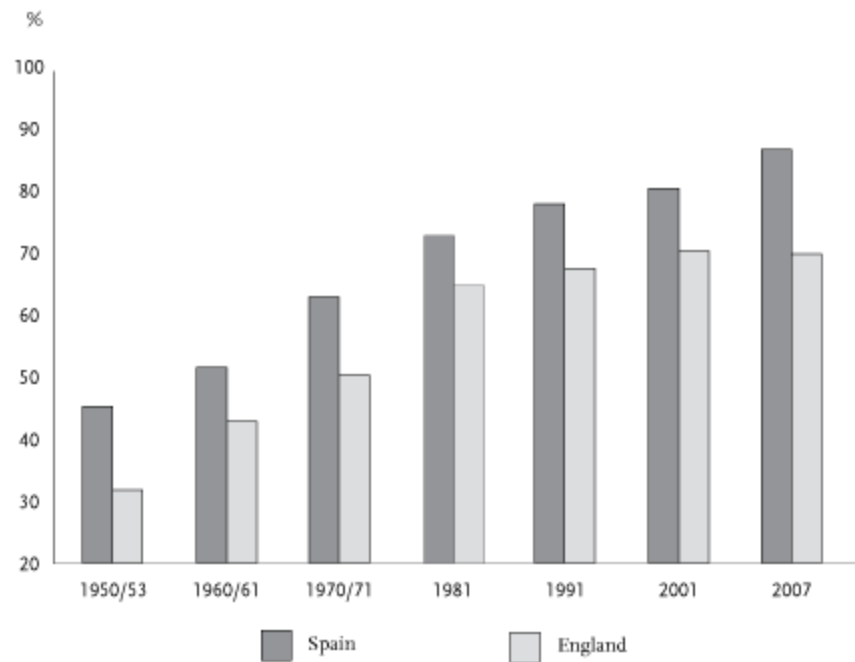
In stark contrast, the financial crisis has given the country a completely different image of itself, with effects on Europe that remain to be calculated. Over the past year, Spain has on several occasions hovered on the brink of classification as a case for Eurozone bail-out, following Greece, Ireland and Portugal. Its construction industry, which in 2007 contributed nearly a tenth of the country's gdp, has suffered a massive blow-out, leaving an over-build of unsold housing worse than Ireland's, and the semi-public savings-and-loans sector waterlogged with debt. The effects of the housing-market collapse have reverberated throughout the economy: unemployment is running at over 20 per cent, and more than double that rate among the under-25s. A deep recession has been compounded by draconian austerity measures, supposedly aimed at reducing a deficit currently standing at over 10 per cent of gdp to 3 per cent by 2013. The political fall-out of the crisis is putting additional strain on Spain's decentralized governmental structures, in which the seventeen Autonomous Communities administer a large proportion of public spending; in Catalonia and elsewhere, the ac budgets are also running deficits. The Spanish bull's prostration also carries implications for the Eurozone as a whole. At over 45 million, the population of Spain is almost twice as large as those of Greece, Ireland and Portugal put together; its economy is the fourth largest in the Eurozone, with a gdp of \$1,409bn, compared to \$305bn for Greece, \$204bn for Ireland and \$229bn for Portugal. The scale of a Spanish bail-out, were Madrid to run into difficulty in financing its debts, would be likely to capsize the Eurozone's current tactics for dealing with its indebted periphery—heavily conditional imf–ecb loans, so far made available to Greece, Ireland and Portugal with the aim of 'tiding them over', while safeguarding the exposed positions of big German, French and British banks. So far, the wager has been that, after a dose of austerity and labour-market reform, Spain's pre-crisis economic model can be resuscitated in leaner, fitter form. Is this a viable proposition?

Phalangist architects

The genealogy of the Spanish macro-economic model has been complex; one might even say, ironic. Its origins lie in the modernization programme of the Franco dictatorship from the late 1950s, premised on the development of mass-market tourism from northern Europe and the radical expansion of private home-ownership. This 'solution' to Spanish industry's eternal competitive weakness was a notable anomaly in the context of the manufacturing growth that marked the post-war boom elsewhere in Europe. But as Franco's Minister for Housing, the Phalangist José Luis Arrese, put it in 1957: *Queremos un país de propietarios, no de proletarios*—'we want a country of proprietors, not proletarians'. This Thatcherism *avant la lettre*

transformed the Spanish housing market: during the 1950s, rented accommodation was still the norm; by 1970, private ownership accounted for over 60 per cent of housing, 10 points above the uk level (see Figure 1).

FIGURE I. *Private home-ownership rates, Spain and England, 1960–2007*



Source: INE (National Institute of Statistics) and Ministerio de Fomento (Ministry of Infrastructures); and UK National Statistics.

The legacy of the Franco dictatorship and the enormous shortcoming of the country's industrial structure did not augur well in a scenario characterized by increasing competition in international markets. The recessionary crisis beginning in 1973 was more severe in Spain than in most European countries, overlapping with the political transition that followed Franco's death in 1975. But the advent of parliamentary democracy brought no change in macro-economic policy. The Partido Socialista Obrero Español (psoe), in power continuously under Felipe González from 1982–96, had no alternative model to propose. Indeed, the strategy for relaunching the economy in the 1980s was based on deepening Spain's existing 'specializations' in tourism, property development and construction, as 'competitive advantages' neatly adapted to the new approaches of the emerging global economy, i.e. high capital mobility and growing competition to capture financial incomes.

This approach was effectively sanctioned by the other European powers in the negotiations that preceded Spain's accession to the eec. In these pacts, which effectively constituted a strategic agenda for the country, the González government accepted its partial de-industrialization in exchange for extremely generous subsidies, which would account for an annual average of 1 per cent of Spain's gdp between 1986 and 2004. As we shall see, these funds would play a key role in building the infrastructure—transport, energy, etc.—underlying the later construction boom, which consumed more than half the total subsidies. The run-up to integration into the European Community on 1 January 1986 saw a frenzy of investment, as European capital recognized the market opportunity opened up by the Iberian countries' entry into the eec. German, French and Italian multinationals took up key positions within Spain's production structure, buying up most of the big food-industry companies and the public-sector firms that were being privatized, taking over much of the supermarket sector and acquiring what remained of the major industrial companies. Only the banks, construction firms and the state-owned electricity and telecommunications monopolies remained immune to the buying frenzy for Spanish assets.

The upshot of this wave of investment—which brought the first period of sustained growth since 1973—was a rapid

overheating of the markets. The Madrid Stock Exchange saw increases of 200 per cent between 1986 and 1989, while the capital's property market became one of the most profitable on the planet. In parallel with Reaganism in the us and Thatcherism in Britain, the economic cycle in Spain under González from 1985 to 1991 was the first attempt in continental Europe at growth by means of a financial and property asset-price bubble that would have a positive knock-on effect on domestic consumption and demand without any significant support from industrial expansion. [2] The euphoria did not last long, however; the growing external deficit and the lack of a solid foundation for growth ended up unleashing speculative attacks against the Spanish peseta, whose value the government was pledged to maintain at any cost. A massive publicity campaign around the pomp and ceremony of the Barcelona Olympic Games and the Seville Universal Exhibition in 1992 proved unable to prevent the crash of the markets—followed, eventually, by a series of aggressive currency devaluations. By the early 1990s, the Spanish economy was once again faced with the problem of finding a path to growth.

Euro-boost

Henceforward, however, Spanish macro-economic policy would be increasingly determined at European level, structured within the framework of the convergence criteria set for monetary union and the neoliberal doxa consolidated in the Maastricht Treaty and its successors, to which both psoe and pp governments gave their full support. The reduction of public spending, inflation-targeting and the deregulation of labour markets laid down by Maastricht enabled a recovery of financial profits, but generated new problems of stimulating demand in Europe's rather slack economies. The pace of the Spanish economy's post-95 recovery—accelerating from 1997 onwards to grow by an average 5 per cent per year between 1998 and 2000—cannot be explained, therefore, by the local implementation of neoliberal prescriptions. It lay rather in the capacity of the new rounds of property development and financial engineering to resolve, if only temporarily, a number of contradictions inherent in the chaotic articulation of the neoliberal recipes themselves.

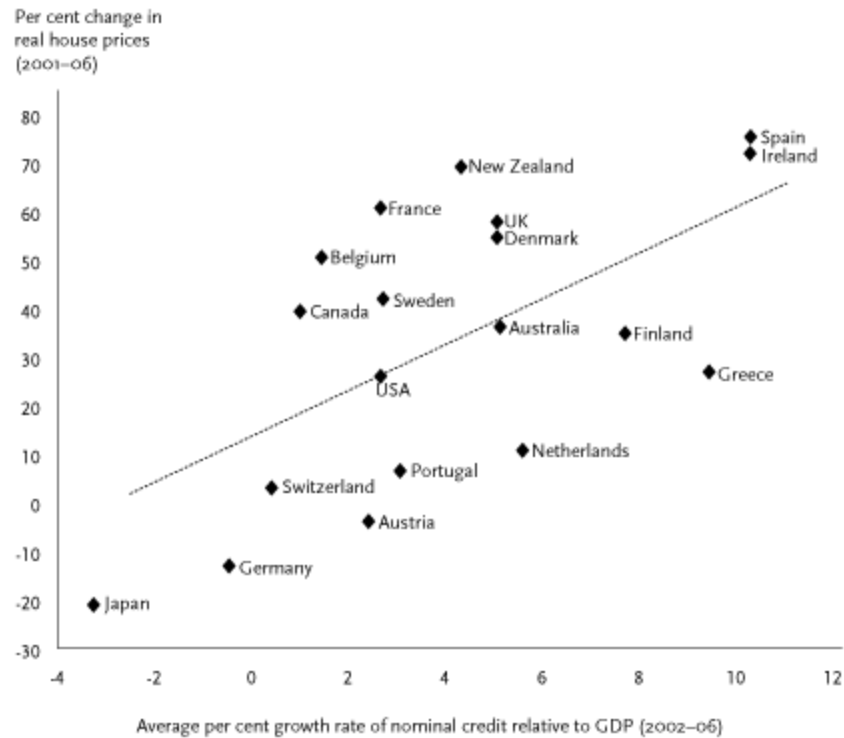
Four factors proved decisive here. First, low interest rates, as Maastricht and the control of public deficits—as well as the demands of the big financial companies, more interested in touting their new products (such as pension and investment funds) than in strengthening the positions of the typical creditors of the 1980s—led to a continual fall in the price of credit. Spain thus began a long journey that would take it from a position of boasting the highest interest rates in Europe to becoming the country with the highest levels of internal indebtedness on the Continent. Second, monetary union and definitive incorporation into the Eurozone in 1999–2002 guaranteed the Spanish economy an international umbrella, endowing it with strong purchasing capacity abroad and marginalizing the importance of its external deficit in the context of the European Union's relative surplus. Third, the eu liberalization policy set the seal on the privatization of publicly owned companies in strategic sectors such as electricity and telecommunications. Lastly, the privatization of the equivalent public-sector companies in Latin America, often imposed on those countries by the imf's adjustment plans, opened up significant opportunities for the internationalization of leading Spanish firms. With the aid of the Euro's purchasing power, Spain's *grande bourgeoisie* went global, recolonizing the Latin American markets stricken by the 1998–2001 crisis and snapping up local companies at bargain prices. The two major Spanish banks, bbva and Banco Santander, became the biggest in Ibero-America, just as Telefónica and the Madrid-based electricity companies became the biggest in their sectors in that region. In other words, the framework established by Maastricht and the Euro opened the door to the financial repositioning of the Spanish economy within the international division of labour and also to what was to become its central element: the property-development cycle.

From an analytical viewpoint, the mechanisms that enabled the property bubble to become the domestic motor of economic expansion in that period, obviating the problems of demand formation in a context governed by neoliberal austerity policies, lie beyond the grasp of orthodox economics. 'Asset-price Keynesianism', to borrow a suggestive concept from Robert Brenner's analysis of the American economy between 1995 and 2006, offers a more fruitful perspective. [3] Indeed, asset-price Keynesianism, together with the mechanisms linking increased value of private assets to the growth of internal private consumption, enables us to explain the relative success of the Spanish economy during this period. Its motor lay precisely in the so-called 'wealth effects' generated by growth in the value of households' financial and property assets. So long as this continued to increase, it could sustain a double 'virtuous circle' of rising aggregate demand and financial profits, without raising wages or public spending.

In this respect, the Spanish case can be regarded as an international laboratory. Unlike the early trials of the financialization of household economies elsewhere, the novelty of the Spanish experiment was the scale of its model, which was based from the outset on the very extensive nature of home-ownership. By 2007, the figure for private home-ownership stood at 87 per cent. By contrast, in the us and uk the proportion of home-ownership never rose above 70 per cent. In addition, some 7 million

Spanish households—the 35 per cent that comprise the ‘real’ middle class—owned two homes or more. The sustained appreciation of house prices, rising at an average of 12 per cent per year throughout the 1997–2007 ‘boom’ decade, and a record-breaking expansion of credit, supported a historic increase in household consumption among the property-owning strata which, in Spain’s case, constituted the vast majority (see Figure 2). [4]

FIGURE 2. *Real house prices & growth rate of nominal credit relative to GDP*



Source: Prakash Kannan et al., ‘Macroeconomic Patterns and Monetary Policy in the Run-Up to Asset Price Busts’, IMF Working Paper, November 2009, p. 31.

To put it synthetically, deficit spending in the years 1997–2007 was decisively transferred from the Spanish state to private households, which, in the final years of the cycle, became net demanders of financing. (This position of negative savings, coupled with high investment in housing and infrastructure, again strains the interpretative framework of orthodox economics.) Parallel to this, nominal wealth in the hands of private households grew more than threefold on the back of the spectacular rise in house prices, the expansion of credit and the rapid growth of the housing stock. [5] According to the IMF, the Spanish ‘wealth effect’ translated into an annual average increase of 7 per cent in private consumption between 2000 and 2007, compared to 4.9 per cent in the UK, 4 per cent in France, 3.5 per cent in Italy and 1.8 per cent in Germany. Meanwhile employment, driven by both construction and consumption, recorded an accumulated growth rate of 36 per cent, higher than in any other historical period and well above the rates of other EU countries. And all this against the backdrop of a 10 per cent fall in average real wages, such that the entry of 7 million new workers into the labour market produced an increase of only 30 per cent in the total wage bill.

The Spanish economy appeared to be adapting itself advantageously to the new context of international financial deregulation. The relative stagnation of productivity throughout the whole 1997–2007 decade and the eternal lack of international competitiveness of its industry were no obstacles to growth. On the contrary, in so far as the lion’s share of economic development took place in sectors whose goods are non-transferable, such as property-development products and personal services, productivity and competitiveness became practically irrelevant variables. It might be said that Spain’s

success was founded on a practical reversal of the classical Schumpeterian strategy of income from innovation. At the same time, the formula 'growth of profits without investment' [6]—which some have used to summarize the financialization of the central economies—is less applicable to the Spanish model, in which what David Harvey calls secondary-circuit accumulation played a key role. [7] Indeed, the Spanish 'miracle' can only be understood as a combination of a restoration of profit—and also of demand—through financial avenues, with the generous involvement of accumulation mechanisms operating through the built environment and residential production.

Within the Eurozone, meanwhile, Spain's role during the bubble years was to provide record returns for northern European capital, above all from Germany, France and Britain. Between 2001–06, foreign capitals invested an average of €7 billion a year in Spanish property assets, or the equivalent of nearly 1 per cent of Spain's gdp, much of it in second homes or investments for British and German nationals. High levels of domestic demand, boosted by asset-price Keynesianism, also offered important markets for German exports. Along with Italy, Greece, Portugal and Ireland, Spain experienced a growing balance of payments deficit, reaching over 9 per cent of gdp between 2006 and 2008, most of it due to European imports. [8] Hence the paradoxical effects of the overvaluation of the Euro from 2003, which—while it undermined the Eurozone's capacity to export beyond its borders—actually ensured the internal purchasing power of its peripheral and southern countries, not least Spain. According to Eurostat, reckoned in terms of purchasing power parity, Spain's per capita income was higher than Italy's, almost the same as France's and just 10 points lower than those of Germany and Britain. On a scale minuscule compared to the monetary circulation between China and the United States, a symbiosis was established within the Eurozone between surplus and deficit poles of European capitalism. In this case, imports by the southern countries, mainly from Germany, were partially financed by northern purchases of property and financial assets in those countries, particularly Spain. In this context, it is not surprising that the general perception in Spain was of having left peripheral status behind, once and for all. For the young generations, it was enough to travel around Europe to realize that the differences had become marginal and that prosperity and modernity, if they existed at all, were to be found as much on the Spanish side of the Pyrenees as beyond.

State backing

State intervention played a crucial role in lubricating the different parts of the property circuit to maintain a permanently increasing housing supply. The 1998 Land Act, more commonly known as the 'build anywhere' law, enormously speeded up the procedures for obtaining building permits and made available a huge amount of land for construction. Similarly, policies of reducing the public-housing stock, marginalizing renting and providing tax relief for home-buying had become the central planks of government housing policy during the previous 25 years. Successive reforms of the mortgage market and the legal framework also facilitated the expansion of securitization, a field in which Spain is second in Europe only to the uk. The huge investment in transport infrastructure, which has given Spain proportionately more miles of motorways and high-speed railway networks than any country in Europe, has played an important role in opening up large areas of urbanizable land that were previously lacking in real market value. If to this is added a lax environmental policy, little inclined to put obstacles in the way of urbanization, and subsidies for squandering energy and water on inefficient property developments, the circle is closed, with the state guaranteeing and regulating the smooth running of the financial-property development circuit.

The dependence of economic growth on the property asset-price bubble has had a major effect on the country's social-geographical divisions (see Figure 3). In the context of Spain's highly decentralized administrative structure, in which the regional Autonomous Communities and municipal governments have wide-ranging powers over urban development, the environment and transport, local units have typically operated as growth machines in competition with each other. Indeed, local governments have become boosters of their localities, the main advertisers of the miraculous benefits, for both the populations and the entire class of investors, flowing from often disproportionate or poorly planned growth. In illustration of the numerous cases that have combined irrational inflation of investment with unrealistic future projections, suffice it to mention the plans (still going ahead) to build a casino megacomplex, after the manner of Las Vegas, in an arid inland area of the Ebro valley; or the development of eight super-ports, with their respective logistical centres, on a coastline that has at most room for two facilities of this type.

FIGURE 3. Spanish Regional GDP per capita and Newly Built Homes



KEY

GDP per capita, 2009



Newly built homes, 2000-07



Source: INE (National Institute of Statistics) and Ministerio de Fomento (Ministry of Infrastructures).

The environmental costs of this growth model are incalculable. The effects of mass housing construction in the traditional tourist regions—the coasts and the two archipelagos: Canaries and Balearics—have generated strips of continuous urban fabric along the coastline, between two and five kilometres wide, and stretching uninterruptedly for 100 kilometres or more along the Costa del Sol and the Alicante coast. Even in relatively marginal areas, the construction of second homes and green-tourism complexes has ravaged areas of great ecological value, such as the foothills of the Pyrenees and the inland mountain ranges. In terms of land consumption, so-called artificial surfaces expanded by 60 per cent between 1986 and 2006. [9]

Politics of the bubble

The boom years also served to exacerbate long-standing territorial fractures and imbalances within the always-difficult Spanish jigsaw-puzzle. One feature of the property bubble has been a renewed population drain to the coasts and the big cities, while nearly 75 per cent of the inland territory continued to lose inhabitants. Existing urban hierarchies have been strengthened: Madrid, the city most favoured by the growth years, is now the centre of a metropolitan region with more than 6 million inhabitants and has become the third largest European city in demographic and economic terms. In addition to Madrid's central position in the 'secondary circuit' of Spanish financial accumulation, it is home to the headquarters of most of the big Spanish multinationals operating in Latin America and Europe, an emerging 'global city'. By contrast, most of the other big cities in Spain have been relegated to secondary positions, putting their energies into different strategies of 'urban entrepreneurialism', aimed at capturing locational rents from international tourism. [10] Barcelona has become a global example of this strategy: its policies before and after the 1992 Olympics have been 'exported' to Latin America, in particular, as the great model of urban regeneration, and reduplicated, with contradictory results, in Medellín and Valparaíso; but Barcelona's relative success on this front is still a Pyrrhic victory when set alongside its long-term decline as Spain's leading industrial centre. [11]

Politically, too, the effect has been to exacerbate territorial rivalries and inflame the particularist claims of peripheral nationalisms over questions such as taxes, transport, regional configuration and water, in short supply across two-thirds of the country. At the same time, a complete consensus prevailed across the mainstream parties on the merits of the country's economic model. The Spanish political class has historically exhibited an extraordinary complacency on this question; encouraging the rise in property values was considered a matter of state, pursued by both psOE governments (1982–96; 2004 to the present) and the pp under Aznar (1996–2004). At regional level, the Socialist-run Autonomous Community of Andalusia was just as deeply implicated in handing out loans and construction permits to property developers as were the hard-line pp administrations in Murcia and Valencia, or the big-business Catalan nationalists of the Convergence and Union party in Catalonia. When the CiU was replaced, from 2003–10, by a coalition of the Catalan Socialists and two smaller parties, the Republican Left and the environmentalist Initiative for Catalonia–Greens, property-development practices continued unchanged.

The main mortgage lenders were the country's 45 *cajas de ahorros*, semi-public savings-and-loans banks administered by depositors, employees and local political representatives. Regional and district councils could earn important revenues by re-zoning green-field sites for urban development and selling the land to a property developer, who would pay for it with a loan from a *caja* run by the same councillors or their friends. With house prices rising at an average 12 per cent per year, it seemed a good deal all round. The bi-partisan nature of the process was illustrated in Valencia, where the pp administration deployed extremely aggressive legislation to expropriate small landowners, in order to put together the large packages of land that a big developer required. The legislation had been drafted by the psOE federal government and was used in several other Autonomous Communities under psOE control. Corruption and nepotism were given full rein: friends and family of the pp in Valencia and of the psOE in Andalusia were among the most notorious beneficiaries. [12]

But if both the major parties, the psOE and the pp, are implicated in Spain's asset-price Keynesian model, it is the *talante* (approach, way of going about things) of José Luis Rodríguez Zapatero that has especially marked first the high boom years and then the crash. Spain is the only European country in which mass mobilizations against the 2003 us–uk–Spanish invasion of Iraq had—belatedly—an impact at government level. For the following year, Aznar's attempt to blame the 11 March Islamist bomb attacks, which killed 192 people in Madrid's central train station, on the Basque group eta provoked a huge social mobilization, directly linked to those of the previous year against Spain's participation in the Iraq war and the Aznar government's narcissistic authoritarianism. The effect was to reverse the two parties' standings in the opinion polls and sweep Zapatero into power. The mobilization expressed the rise of professional sectors that had grown thanks to the country's accelerated modernization and, especially, of a younger generation, affected to a greater or lesser degree by job insecurity, generally more educated and secular than its parents.

The *progre* image [13] of Zapatero's Spain was fostered by policies such as 'dialogue' with the trade unions, a token wage for carers, a same-sex marriage law and initial gestures towards a truce with eta. Abroad, Zapatero carried through his pledge to pull Spanish troops out of Iraq, but compensated by sending them to Afghanistan. He fell foul of the powerful *prisa* media group, however—*El País*, Digital+, *Cadena ser*—which had hitherto always backed the Socialists, and depended instead on support from a new paper, *Público*, and the tv channel La Sexta. From the first, Zapatero's success had a lot to do with the conscious use of political marketing strategies; the new government's *talante* was essentially cosmetic. Social expenditure was

very slightly increased, but not so as to jeopardize financial profits, or the income of the super-salaried executives of the multinationals based in Spain. No alternative was developed to the federal-state model, hobbled by tensions between peripheral nationalisms and a centralizing Spanish nationalism, in an interplay that was becoming increasingly fraught yet still functioned as far as local property-development machines were concerned. Nor was there any attempt to control the increasingly over-heated housing market—let alone to construct an alternative model. In the 2008 election psOE slightly increased its share of the vote, winning 43.6 per cent, compared to 42.6 per cent in 2004—though this may have come mainly from the leftist Izquierda Unida, whose vote fell from 5 per cent in 2004 to 3.8 per cent in 2008, while the pp vote rose from 37.7 per cent in 2004 to 40.1 per cent in 2008.

Insecurities

As long as credit flowed and house prices continued to be borne up by the bubble, it seemed little matter that social expenditure was extremely low, that wages had stagnated or even fallen, or that the Spanish labour market had one of the highest rates of temporary contracts in Europe. (Spain's chronically high unemployment rates—between 8 and 12 per cent for most of the early 2000s—in fact reflect high rates of temporary work, affecting more than a third of the labour force, and the high participation in seasonal sectors, such as tourism; in other words, fast rotation through insecure employment, rather than structural unemployment as such.) Rising property values came to supplement an under-funded pension system as a guarantee of income in old age. Young people, often forced to delay leaving their parents' home, might nevertheless hope to benefit from the increasing value of family assets, either by way of inheritance, family investment or parental help in getting a mortgage.

The problem of providing care, in the absence of decent social provision, was eased by the arrival in Spain of a gigantic army, several million strong, of transnational domestic workers. These women, mostly without residence permits, took over looking after children, the elderly and the disabled, and did the domestic chores in several million middle-class homes. By 2010 there were nearly 6 million foreigners in Spain, the country's population increasing in just ten years from 39.5 million to almost 47 million, a jump of more than 18 per cent. Of the incomers, 2.67 million were EU citizens, in large part from new member states: nearly 800,000 from Romania alone; 2 million from Latin America, principally Ecuador, Colombia and Bolivia; a million from Africa and the Maghreb, including 650,000 Moroccans. What better token of the fact that Spain had left behind its traditional peripheral status than the arrival of its first wave of mass immigration? As expected, the migrants largely occupied low-paid jobs in construction, agriculture, domestic work and also sexual services. A complex system of residency permits, job quotas, European and internal borders skilfully subordinated these workers to the needs of an expanding economy, creating long, sometimes lifelong, periods of exclusion from citizenship that left them defenceless in the labour market. [14]

Nevertheless, as they gradually established themselves and their families from the early 2000s, the migrants too were invited to join in the property bonanza. Together with the young people born in the 1970s—the post-Franco baby boomers—they stimulated and sustained the final years of the cycle: Spanish 'subprimes' consisted in granting at least a million mortgages to vulnerable segments of society between 2003 and 2007. Naturally, a widespread increase in indebtedness was one of the side-effects of Spain's assets euphoria—the ratio of indebtedness to available income rising, by 2007, to the highest level of any OECD country—though the risks were heavily concentrated in households with lower incomes and fewer assets. As in the United States, the magic of refinancing through the sustained increase in housing prices was regarded as sufficient security for the risks in credit. Unlike the United States, however, Spanish law does not consider the asset underlying the mortgage—i.e., the dwelling—to be sufficient guarantee in the event of default by the borrower. This means that the guarantees securing loans might include the homes of the mortgagees' relatives and friends. This would result in alarming chain reactions of repossessions after the property bubble burst.

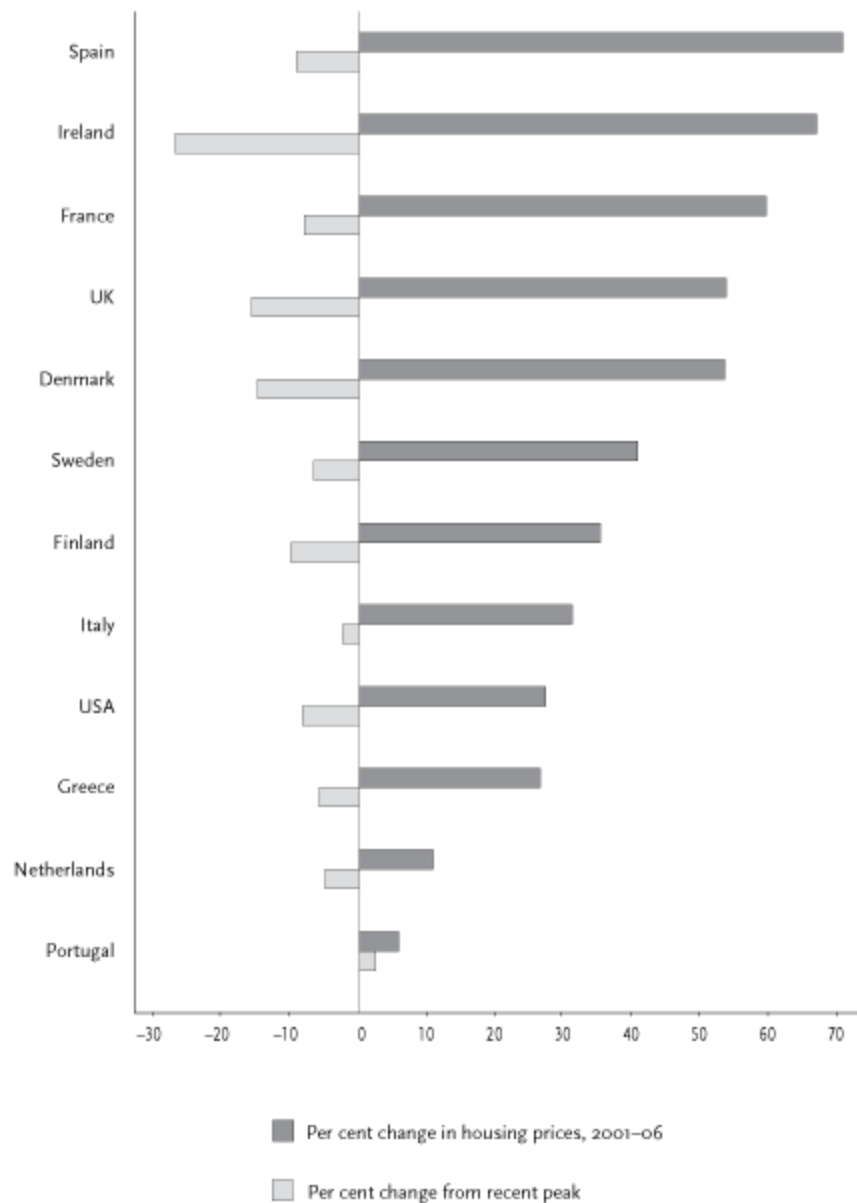
The crash

The first to notice that the bubble was coming to an end were the property developers. After nearly 900,000 housing starts in 2006—exceeding those of France, Germany and Italy put together—sales began to fall away. Mediterranean coastal developments were especially hard hit by the bursting of the UK housing bubble in mid-2007, leading to problems for British second-home owners. Re-zoned land awaiting development, bought at the height of the bubble with loans from the *cajas*, started to be seen as a bad investment. By the end of 2008 there were a million unsold homes on the market, while Spanish household indebtedness had risen to 84 per cent of GDP. Collapsing property developers began landing the *cajas* with massive bad loans: in July 2008 the Martinsa-Fadesa construction company filed for bankruptcy with debts of over €5bn.

The Zapatero government's initial response was to try to pass the crisis off as a global phenomenon, only marginally affecting Spain, in comparison to the—far larger—debacle of the subprime-related market in the United States. At most, Madrid acknowledged that it would be necessary to give some help to the *cajas*—the possibility of a €50bn bail-out fund was floated in October 2008—and to expand short-term deficit spending, in tandem with the rest of the g20. However, these predictions were quickly shown to be hopelessly optimistic as unemployment doubled, pushing the jobless rate up to nearly 20 per cent by the end of 2009. The destruction of jobs was not confined to construction, but also affected the consumer-goods industry and market services. The virtuous circle of asset-price Keynesianism had gone into reverse, generating a severe 'poverty effect' which, together with the contraction of credit, drastically reduced private consumption. Owing to the high proportion of employees on short-term and temporary contracts, businesses were able to reduce their workforces quickly and at very little cost in response to falling demand, which was then in turn further depressed by rising unemployment, reaching over 40 per cent among under-25s. Government revenues plummeted, as gdp contracted by 7.7 points, peak to trough, and the 2006 fiscal surplus of 2 per cent of gdp turned into a 2009 deficit of over 11 per cent.

Like its European counterparts, the Zapatero government focused on a policy of socializing the losses of the country's oligarchic blocs. This very much included the major Spanish construction companies, some of them—acs, fcc and Ferrovial—now global players, having been generously fattened up by more than 25 years of expansive infrastructure budgets, and who now demanded that their public-works contracts be maintained, whatever the cost. The large private banks—Santander and bbva are the biggest—appeared to be better provisioned than some of their British and us competitors, having captured the deposits of the middle classes of Latin America. In fact they now went on a spending spree, Santander in particular adding British building societies and American savings banks to its already extensive Latin American and Asian interests, creating a behemoth too big to fail—and perhaps too big to save.

For their part, the *cajas* remain saturated with debt. Estimates of their total capital shortfall vary from €15bn (the Bank of Spain's figure) to around €100bn, which would be approaching 10 per cent of gdp; in March 2009 the Caja Castilla-La Mancha alone was bailed out to the tune of €9bn. [15] In June 2009, Zapatero announced plans for a €99bn rescue fund, the frob, and a merger programme that would reduce the 45 *cajas* to 17; they were also instructed to raise their core-capital levels to 10 per cent by September 2011, which would require an extra €20bn–50bn in cash. Sidestepping this, the *cajas* have also been encouraged, through the Bank of Spain, to swap property developers' debts for real estate, land and houses, valued somewhat fictitiously at 10 per cent below their peak price, in order to flatter their balance-sheets and avoid technical bankruptcy. As in Ireland, however, losses have tended to exceed initial estimates: in March 2011 revelations of bigger-than-anticipated problems at the Alicante-based Caja de Ahorros Mediterráneo, Spain's fourth-largest *caja*, scotched the merger plan in which it was involved. After their record-breaking rise, Spanish house prices have so far fallen back by little more than 10 per cent (see Figure 4).

FIGURE 4. *House-price rises, 2001–06, and subsequent falls*

Source: Prakash Kannan et al., 'Macroeconomic Patterns and Monetary Policy in the Run-Up to Asset Price Busts', IMF Working Paper, November 2009, p. 29.

By mid-2009, the pressure at eu and, more specifically, Eurozone level swiftly shifted from bank-rescue packages—the total pledged may have come to €2.5 trillion from the eu as a whole—to the austerity measures necessitated by the transfer of finance capital's losses onto the nation-states' books. From early 2010, budget cuts, wage freezes and the dismantling of social programmes were introduced in one country after another. The crisis was explicitly seen as an opportunity for state-by-state 'structural adjustments' according to the well-known prescriptions. The role of the eu's summit institutions in the crisis could not have been more closely linked to financial interests. In this sequence of events, the sovereign-debt crises,

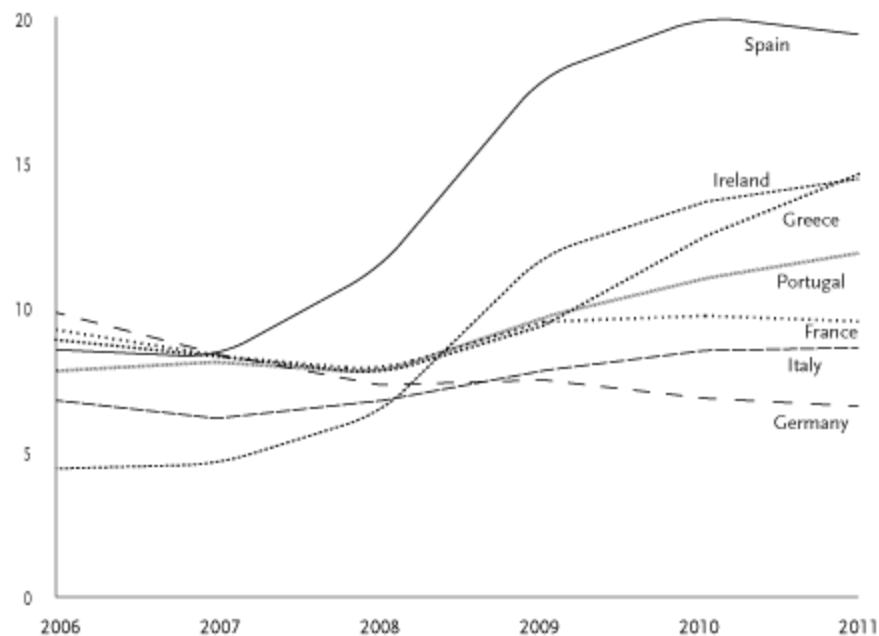
especially the episodes involving Greece and Ireland, must be seen as providing an enormous business opportunity for the big European—German, French and British—banks, the main holders of the European countries' sovereign bonds. Aided by the rating agencies, the announcements of the insolvency or financial fragility of the Eurozone's deficit members—Greece, Portugal, Ireland, Spain and Italy—enabled them to amass enormous profits based on debt-bond interest rates, artificially blown up at a time when it was impossible for financial profits in the private and household sectors to return to their pre-crisis levels.

Zapatero's volte-face

In April 2010, as the Greek debt crisis unfolded, Zapatero came under increasing pressure from Berlin, Brussels and the ecb to impose austerity measures and labour-market restructuring—effectively launching an offensive against the state-sector employees who still had long-term contracts and wage-bargaining rights. Unwilling to assault key sections of his base, yet incapable of mobilizing it towards any alternative solution, Zapatero procrastinated. Finally on 12 May, apparently after further arm-twisting from the Obama White House, he announced a drastic austerity programme: public-sector wages slashed by 5 per cent, benefits and pensions cut, investment projects cancelled, the retirement age raised, wage bargaining restricted, sackings made simpler. The result was an immediate plunge in the polls: from level-pegging with the pp, the psOE dropped to 7 points behind, then carried on falling. Trade-union leaders were trapped between the pressure from their rank and file and their anxieties about precipitating the fall of the psOE government. A general strike on 29 September 2010 was the main focus for social opposition to the Zapatero measures, but the leadership prevented some of the best-organized sectors, such as transport workers, from coming out, and failed to mobilize the huge mass of short-contract workers in services and retail. The union leadership then promptly signed an agreement on cutbacks in pension provision and a rise in the retirement age.

The mask of a modern progressive republicanism has fallen as the Socialist Party government lined up unambiguously with the hegemonic financial bloc. Following the script that has characterized the current phase of the crisis, the extra burdens on Spanish public-debt issue have led to measures in line with the most orthodox structural adjustment policies. In the final analysis, this means that public expenditure is subject to the political oversight of the financial agents. The result has been the desertion of a large part of the psOE electorate, the Party now at an all-time low in the polls. On 2 April 2011, with unemployment soaring (see Figure 5) and the Socialists trailing by 16 points, Zapatero announced that he would not be running as the psOE leader in the March 2012 general election. The main pressures for him to resign came from within the party, particularly from Socialist candidates in the May 2011 regional elections who wanted to distance themselves from his political legacy. The front-runner to succeed him is Alfredo Pérez Rubalcaba, a veteran of the psOE right whose political career began under Felipe González. Rubalcaba has been at the Interior Ministry since 2006 and is notorious for having formulated an even tougher, 'war on terror' response to the Basque separatist movement *ETA* than the pp. As a result of this strong-man stance, he was rewarded with two other high positions in the Zapatero government: vice-president and spokesman of the government. As a man of the *felipista* old guard, Rubalcaba is favoured by the mighty *Prisa* group and its chief mouthpiece, *El País*. The leading candidate of the psOE's *zapaterista* wing and the *Mediapro* group, Defence Minister Carme Chacón, withdrew when she saw which way the wind was blowing.

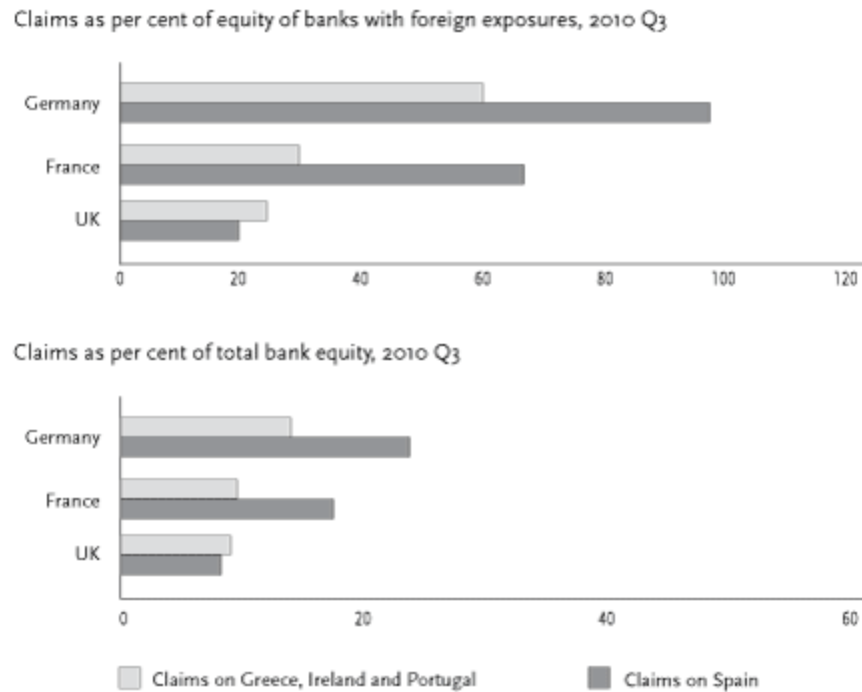
FIGURE 5. Selected Eurozone unemployment rates, 2006–11 (%)



Source: World Economic Outlook Database, April 2011.

The crisis has brought Spain face to face with the fragility of the economic structures underpinning its long decade of prosperity, and the *psoe* with the *aporias* that were the foundation of its politics. Financial engineering perpetuated the fiction that an expanded home-owning middle-class majority had achieved permanent levels of prosperity. The collapse of the property bubble has torn the veil from a highly polarized social order, with a large proportion of the population deep in debt, many out of work and dependent on public services doubly hit by spending cuts and privatization. If to this we add that the worst hit are the young—facing starkly diminished prospects compared to their elders—and foreign-born workers, then the lines projecting the cost of the crisis onto the most vulnerable groups become clear. Spain has long been the most Europhiliac of eu member states; Europeanism was deeply associated in people’s imaginations with the post-Franco democratization and modernization of the country, and the Spanish electorate has historically been almost completely uncritical of the eu. Such complacency has now disappeared.

On 15 May, in the run up to the 22 May regional elections—and exactly a year after Zapatero had announced his swingeing cuts—a huge wave of social protest swept across the country. Tens of thousands of young demonstrators took to the streets, then set up camp in the central squares of a score of Spanish cities, including Plaza Catalunya in Barcelona and Puerta del Sol in Madrid: students, workers, employed and unemployed, staking a claim to public space, with a salute to the young Arab demonstrators of Pearl Roundabout and Tahrir Square (see page 29). In Puerta del Sol the occupation established a permanent popular assembly, voting daily on all decisions. Among the slogans of the 15M movement: ‘For a transition to democracy!’—‘We are not commodities in the hands of politicians and bankers’—‘*ppsoe*: *psoe* and *pp*, both the same crap’—‘Real democracy now!’ The 20 May Manifesto approved by the Sol’s popular assembly assailed political corruption, the closed-list electoral system (in which only the names of the party and its leader appear on the ballot paper), the power of the *ecb-imf* and the injustice of the ruling-class response to the crisis. At the time of writing, the ‘campers’ have been holding the squares for nearly two weeks—during which period the *psoe* has had the worst drubbing in its history, losing control of Barcelona, Seville and four *acs*, as well as town halls across its stronghold of Andalusia. [16] But if Mariano Rajoy’s *pp* takes power in the general election, due in less than a year, it will confront the forces of the 15M movement, the *indignados* and ‘youth without a future’: ‘No house, no job, no pension—no fear!’

FIGURE 6. *Claims to Eurozone periphery domestic banks and public sector*

Source: IMF, *Regional Economic Outlook: Europe*, May 2011, p. 13.

The outlook for economic recovery in Spain remains bleak. The scale of the housing bubble; the centrality of asset-price Keynesianism to growth since the 1990s; the depth of the post-bust recession, exacerbated by truly draconian austerity measures; the strength of the Euro (thanks in part to quantitative easing from the us Federal Reserve), which hits non-Eurozone tourism; and a tightening of credit by the ecb—all this suggests that any return to growth in Spain is a very long way off indeed. The immediate prospect is almost certain to be further retrenchment and therefore an increase in Spain's deficit. This poses severe dilemmas for the Eurozone's attempts to pretend that the crisis is just a temporary liquidity problem which can be managed by funnelling ecb-imf bridging loans to the countries in question during the time it takes to grow their way out of debt. In fact, the crisis is that of the major German, French and British banks, hugely exposed by the bursting of the periphery's property bubbles (see Figure 6). Rather than face the trauma of a full-blown banking crisis at home, Berlin, Paris and London have been running what one central banker has described as a public-sector Ponzi scheme, 'only sustainable as long as additional amounts of money are available to continue the pretence':

Some of the original bondholders are being paid with the official loans that also finance the remaining primary deficits. When it turns out that countries cannot meet the austerity and structural conditions imposed on them, and therefore cannot return to the voluntary market, these loans will eventually be rolled over and enhanced by Eurozone members and international organizations . . . European governments are finding it more convenient to postpone the day of reckoning and continue throwing money into the peripheral countries, rather than face domestic financial disruption. [17]

The collapse of the Spanish model threatens this pyramid scheme from several directions: first, German and French banks' exposure is far greater in Spain than in Greece and Ireland; second, the scale of the *cajas'* problems has yet to be fathomed; third, the social problem—a population that has grown by 18 per cent in the past decade, largely by immigration; nearly one in two of the younger generation unemployed—is potentially more explosive, as social and welfare spending shrinks still further, from levels already low compared to those in central Europe. A Spanish debt crisis could finally capsize the eu3's attempt to make the peripheral populations bail out the stricken banks, which are reaping usurious, artificially inflated rates

on government bonds to compensate for the lack of financial profits in the private sector. For that reason, every effort will no doubt be made to avoid one.

FROM PUERTA DEL SOL

'Yes, We Question this Democracy'

Response from an indignada in Puerta del Sol to a TV presenter who told protesters 'not to question democracy':

YES, WE QUESTION this democracy. We question this democracy because it fails to support popular sovereignty: the markets impose decisions for their own benefit and the parties in Parliament are not standing up to this global fact. Neither in our country nor in the European Parliament are they fighting to put an end to financial speculation, whether in currency or in sovereign debt.

We question this democracy because the parties in power do not look out for the collective good, but for the good of the rich. Because they understand growth as the growth of businessmen's profits, not the growth of social justice, redistribution, public services, access to housing and other necessities. Because the parties in power are concerned only for their own continuation in office, making deals to stay in power and leaving their electoral programme unfulfilled. Because no politician has to live with what they legislate for their 'subjects': insecurity, mortgage debt and uncertainty. We question this democracy because it colludes in corruption, allowing politicians to hold a private post at the same time as public office, to profit from privileged information, to step into jobs as business advisors after leaving office, making it very profitable to be a politician.

We question this democracy because it consists in an absolute delegation of decision-making into the hands of politicians that are nominated in closed lists and to whom we have no access of any kind. Nor is there any proportionality between votes and seats. We question this democracy because it is absurd that the only way to 'punish' a party is to vote for another one with which one does not agree. We question this democracy because the parties in power do not even comply with the social provisions of the Constitution: justice is not applied equally, there are no decent jobs nor housing for all, foreign-born workers are not treated as citizens. Excuses are not good enough for us. We do not want to choose between really existing democracy and the dictatorships of the past. We want a different life. Real democracy now!

—*Beatriz García*

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- [1] This article summarizes the main findings of the research and activist group, Madrid Metropolitan Observatory, published as *Fin de ciclo. Financiarización, territorio y sociedad de propietarios en la onda larga del capitalismo hispano (1959–2010)*, Madrid 2010. The authors would like to thank Brian Anglo for his translation.
- [2] See José Manuel Naredo, *La burbuja inmobiliario-financiera en la coyuntura económica reciente (1985–1995)*, Madrid 1996.
- [3] Robert Brenner, *The Economics of Global Turbulence*, London 2006, pp. 293–4, 315–23.
- [4] Between 2003 and 2006, house prices in Spain rose by an astonishing annual average of 30 per cent. Source: ine (National Statistics Institute).
- [5] Property assets, which play a central role in highly financialized economies, are still not considered a priority for statistics in most oecd countries' national accounts. In the case of Spain, use has to be made of the estimates by independent researchers such as José Manuel Naredo, Óscar Carpintero and Carmen Marcos, *Patrimonio inmobiliario y balance nacional de la economía española 1995–2007*, Madrid 2008.
- [6] The formula is used by Michel Husson, *Un pur capitalisme*, Lausanne 2008.
- [7] According to Harvey, when problems of over-accumulation appear in the accumulation process, capitals switch from the 'primary accumulation circuit'—the production of surplus value in expanded reproduction schemes—to the 'secondary accumulation circuit': the circulation of capital in the built environment. The territorial forms this shift can take range from major public works to house building. David Harvey, *The Limits to Capital*, London 1999, pp. 235–8.
- [8] The one Eurozone country whose balance of payments swung conclusively in the other direction was, of course, Germany, which went from a moderate deficit in the late 1990s to a surplus equivalent to over 7 per cent of gdp by 2007.
- [9] Data from corine (Coordination of Information on the Environment) Land Cover programme, available from the European Environment Agency website.
- [10] See David Harvey, 'From Managerialism to Entrepreneurialism', *Geografiska Annaler, Series B, Human Geography*, vol. 71, no. 1, 1989, pp. 3–17.
- [11] So insistent has this type of propaganda become that a leading satirical periodical in Buenos Aires has dubbed itself *Barcelona. Una solución europea a los problemas de los argentinos*—'Barcelona: a European solution for Argentinians' problems'.
- [12] The construction craze did not go unopposed. In some of the worst-affected areas, environmentalist groups, denouncing both the disproportionate despoliation of the landscape and the corruption of local officials involved, succeeded in bringing down local governments and even Autonomous Community administrations (Aragon in 2003; the Balearic Islands in 2007). Between 2005 and 2007, the main Spanish cities were shaken by an imaginative cycle of protests against rising house prices, mobilizing around slogans such as *V de Vivienda*, on the model of 'V for Vendetta' ('vivienda' being the Spanish word for housing) and mounting demonstrations of tens of thousands of people.
- [13] *Progre* is a half-pleasant, half-sardonic diminutive of *progresista*, or progressive. It denotes the communication style and rhetoric of the middle-class, institutional centre left, based on an essentially uncritical, do-gooder social liberalism.
- [14] The years 2000–01 and 2004–05 saw a series of mobilizations by undocumented migrants, including sit-ins in churches and official buildings, as well as strikes by migrant workers in the agro-industrial districts of the south-east.
- [15] The *Economist* has proposed a 'doomsday scenario' figure of €270bn which, it points out, would be smaller than the Irish banks' shortfall, relative to gdp: 'Under siege', 13 January 2011.
- [16] The psoe won only 28 per cent of the vote in the 22 May regional elections, a 7 point drop; but the pp was only 2 points up, at 38 per cent. Meanwhile Izquierda Unida polled 6.3 per cent, up from 5.5 in 2007, but—punished in part for local coalitions with psoe—taking only 210,000 of the 1.5m votes the Socialists had lost.
- [17] Mario Blejer, 'Europe is running a giant Ponzi scheme', *ft*, 5 May 2011.