

Social implications of economic crisis in Spain

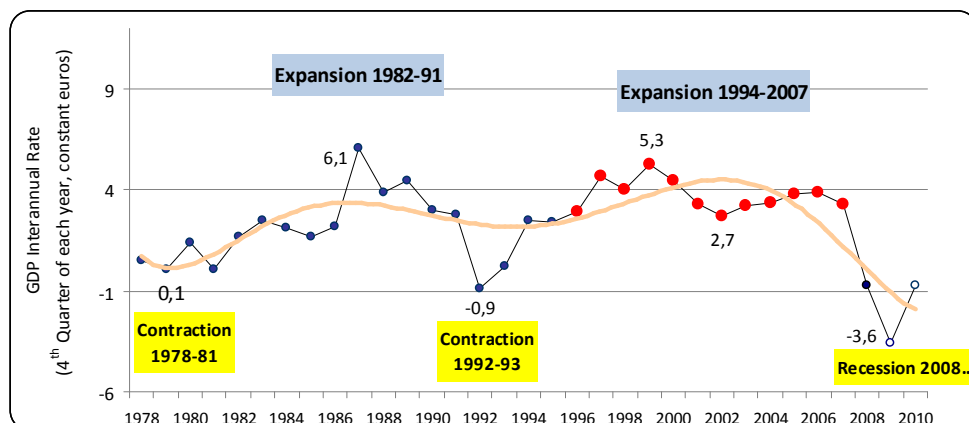
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Last year I presented here the Social Barometer of Spain, developed by Colectivo Ioé and supported by the private foundation Peace Research Center (CIP-Ecosocial). With 180 indicators and 45 synthetic indexes we aim to offer work tools to think over and debate about the social issues in Spain¹. Now I'll try to provide you an assessment of the social implications of the economic crisis based on some indicators of the "Barometer".

The long period of economic expansion that preceded the crisis (red points in the Figure 1) expanded the existing gap between capital and salaried class. The financial and real estate capital increased a lot and the average level of the salaried class barely managed to maintain the purchasing power. The production model of this period displays the energy consumption and dependency of Spain, which resulted in a growth of CO₂ three times more than committed in the Kyoto Protocol. These processes happened due to an increasing inequality in society and the more and more resulting negative/harmful effects of the environment to human health, biodiversity and/or the climate balance. However, to create eight million jobs between 1994 and 2007 and an increase in public spending on social policies –especially beginning from 2001- allowed concealing the negative effects.

Figure 1
Evolution of GDP in Spain over the last thirty years



Sources: *Contabilidad Nacional de España* (National Accounting for Spain) for the period 1978-2008 and estimates of the International Monetary Fund for 2009 & 2010 (made in April 2009).

¹ The database compiled is updated on a yearly basis in the site www.barometrosocial.es

At the outbreak of the crisis in the second half of the year 2007 has been a reduction in production, employment and consumption, including paradoxical effects from the social point of view. El stitch of the financial and real estate bubble has favoured a reduction of the distance between these indicators and the productive economy. The decline of the economy, including a reduction in household consumption around 5% has succeeded casually and unintentionally to reduce the energy consumption and the CO₂ emissions as never before. In particular, the emission from road transport has decreased by 4.2% in 2008, in the sector of electricity by 16.2% and regarding methane and nitrous oxide by 4.5%. In just one year the convergence in relation to the Kyoto commitment has earned 10 points.

All economic groups have been affected by the crisis, but in different ways. The capital is the one how comes off better, while the salaried class, again, has been the hardest hit. Anyway for the State, the combined effect, of reduction in tax revenue and increasing costs addressed to the crisis, has been exhausted the resources. However, the applied measures have been basically orientated to rehabilitate the same institutions and *modus operandi* that led to the increasing financial pressure; to the unequal distribution of income, to the environmental unsustainable model and, ultimately, to the crisis.

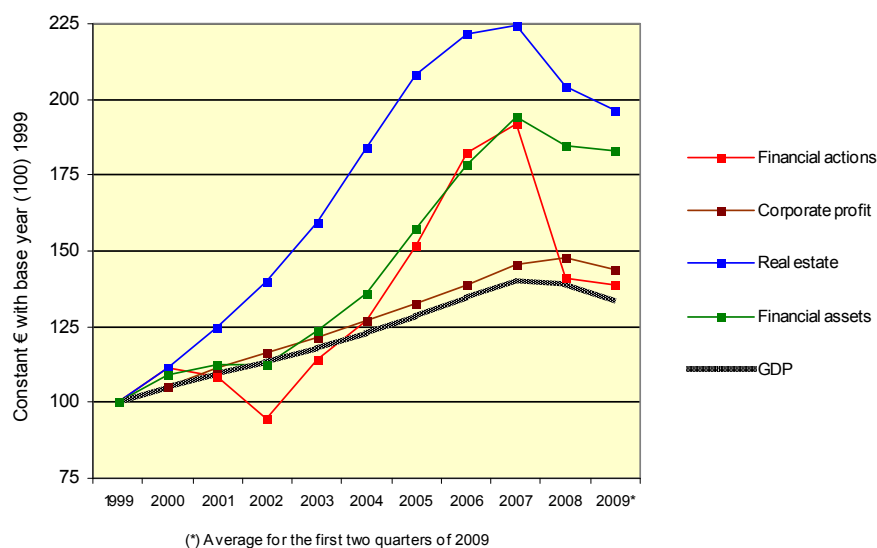
1. Capital comes out of the crisis best and more concentrated

Out of the accounts of the financial capital can be distinguished three main indicators: the *profit margin*, that companies obtain each year from economic activities, according to the data of the National Accounting of Spain (*Contabilidad Nacional de España*); the net worth of *corporate actions*, including unquoted IPO (initial public offering), which are prepared quarterly by the Bank of Spain (*Banco de España*); and the *financial assets* of the entire economy, from the same source. For the real estate capital is used the estimated data, elaborated by Naredo, Carpintero and Marcos².

Figure 2 shows the evolution of these indicators in the past decade: The corporate earnings are increasing steadily, slightly growing above the GDP (gross domestic product); the value of corporate actions experience large fluctuations due to speculative logic and financial assets of all economy expand at a rate more than double the GDP; it represents the financialization of the economy. As for real estate, is revalued to 2006, to slow down in 2007 and thereafter.

² These authors have elaborated a series of real estate capital in Spain based on the official data from the Ministerio de Vivienda and the Índice Inmobiliario (Properties Index) of the Agencia Fotocasa, in "Patrimonio en vivienda y ahorro de los hogares en el final del ciclo inmobiliario", *Cuadernos de Información económica*, N° 215, 2009.

Figure 2
Evolution of financial and real estate capital of the Spanish economy, actions and corporate profits, in relation to GDP (1999-2009)



Source: Banco de España regarding actions; Contabilidad Nacional de España, regarding corporate profit and GDP; and NAREDO, CARPINTERO and MARCOS regarding real estate.

The *corporate profit* rose 1.5% in the year 2008, reaching a total of 468,000 million Euro. This is a moderate growth in relation to earnings in previous years but it is clearly favorable with respect to the two major groups of income earners (wages and taxes) in an economic crisis where the GDP fell 0.6 points. This trend has continued in the first half of 2009 in which the capital income have regained 0.7 points in the distribution of the GDP.

The *financial actions* of the companies experienced in 2008 a significant drop of 26% which however, in historical terms can be noticed as a minor setback considering that in the last four years these actions had appreciated by 93%. Moreover, the decline seems to be cyclical, during the crisis of the productive economy. In 2009 (decrease of 3.6% of GDP) is been entered a new phase of expansion. Indeed, according to the Bank of Spain (*Banco de España*) the financial actions continued to fall in the first quarter of 2009, but experienced a rebound of 7.4% in the second quarter. Several indicators suggest that the crisis is driving a new concentration of capital that favours large corporations at the expense of small ones: The Ibex-35, the largest group in the country, has appreciated 30% in 2009, while in this year is been estimated to have closed some 200,000 small businesses. Added up to the 240,000 of the year 2008 account them for 15% of the Spanish census of self-employed and small businesses.

The *financial assets* of the entire economy of Spain grew more than 80% in the last decade, reaching a maximum of 8.9 billion Euros in the fourth quarter of 2007. In the year 2008 the loss was 4.8% of the value, in constant Euros, and only 1% in the first half of 2009, which could herald an early end to the losses. Importantly, the sector of financial assets, that has grown, has been for banks and savings banks, especially the kind of assets like mortgages loans. These assets are mainly oriented to construction and purchase of housings, which have grown at a pace three times higher than the

GDP and exceeded two billion Euros in the year 2009. These assets have continued to grow within the last two years of the crisis, although slower as before.

The *real estate capital*, meanwhile, experienced in 2008 a decrease of 9%, which represents a minor decrease after has been revalue more than 100% in the previous years. In this case, however, advances in information for 2009 indicate that housing prices will continue falling and therefore the value of property. (-7.7% as estimated by Naredo, Carpintero and Marcos)

Ultimately, the various indicators of capital have registered negative results regarding the arrival of the crisis but the famous stitch of the financial and real estate bubble has not prevented them to keep most of the profit and gains accumulated in previous years. In particular, after the significant drop in its stock price in 2008 the financial actions of the large companies of the Ibex-35 have been again revalued at a rate even higher in 2009. This occurs just in the year with the great fall in the GDP but exactly when the measures taken by the Spanish government and international agencies have clearly decided for strengthening the political and economic model that preceded the financial crisis and provided so many benefits.

2. The wage earners are the hardest hit

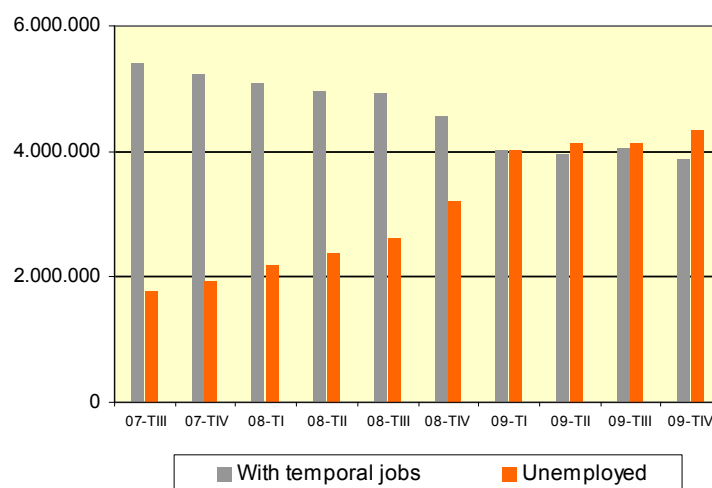
After a decade of expansion in labour market, an annual balance of around 700,000 jobs has been produced in period 2008-2009 a sharp loss of 1.8 million jobs. The job losses have affected much more those with temporary contracts leading to the paradoxical effect that the contingency rate could be reduced, for the first time, to 25%. This positive development is obviously misleading due to the fact that the temporal workers are not given long term contracts but rather went to unemployment. These new forms of temporal contracts, which were justified in the eighties of the last century as the best instrument to combat unemployment, show now that they also lead to contrary. Spain, which is the country in the EU with the highest rate of temporary employment, is the one where has raised most of all the unemployment reaching the crisis. According to EUROSTAT, between March 2008 and March 2009, Spain took over 68% of destroyed jobs in the Euro area.

Continuing the dynamic of previous years, in 2008 has been reduced the long-term unemployment (more than two years without work), which leads to the conclusion that the crisis forced the working model of the *intermittent worker*; alternating periods of unemployment and short-term jobs. In the last two years, the group of people in this situation (unemployed + temporary jobs) has increased from 7.1 to 8.2 million, which affects 41% of the active workforce. Up to 73% raises the number of "intermittent" workers with foreign nationality and among women up to 43%, concerning that the female part-time employees are four times higher than among men. (Main dedication of domestic work and nursing service)

In 2008, the labour force continued growing mainly due to the incorporation of women and immigrants, which led to a destruction of jobs and to an increase of unemployment up to 37%; the highest rate in the 15 years recorded in the Barometer.

All the remaining years the unemployment rate declined, except in 2002 when it grew by 9%. The Figure 3 shows the progress of unemployment and temporary work quarterly since the crisis began. It can be observed that most critical period is at the hinge between 2008 and 2009.

Figure 3
Development of unemployment and temporal work during the crisis (2007-2009)



Source: Labour Force Survey (Encuesta de Población Activa).

The increase of unemployment in 2008 was three times higher among men (58%) than women (20%), mainly due to the fact that the most affected labour sector was the construction sector; prevailing male workforce. The number of households where all persons (workforces) are unemployed increased by 52% up to 1.1 million households.

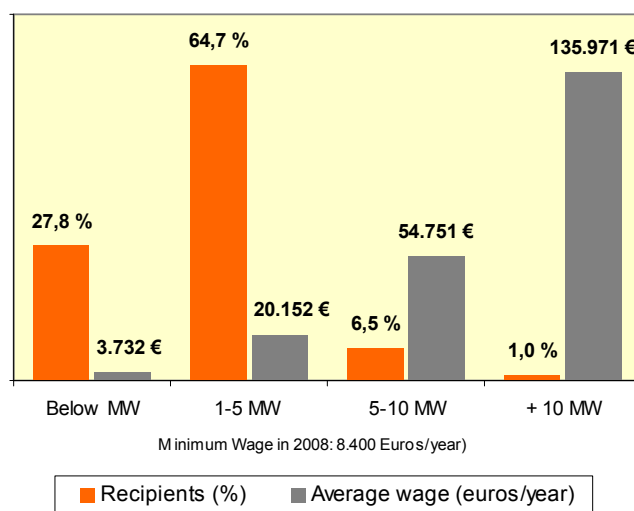
The coverage rate of contributed services in case of unemployment remained at the same level, in 2008 as in 2007 (42% in relation to unemployment), after ten years of continuous growth (in 1998 the rate was 15%). Furthermore, it was significantly decreased (from 61% to 48%) the coverage rate of unemployment assistance services to unemployed persons without any protection tax. Overall, the proportion of unemployed people without coverage increased from 23% to 30%. That means that in the early 2009 there were 1.2 million people without any coverage neither contributory nor assistance services.

The average wage rose nearly one point in 2008 (+0.9%) after the highest increase in 2007 of 4.4%. This increase resulted partly due to the destruction of low paid jobs. However, the wage rate increased at slowest in the whole period covered by the Barometer depending on reduction of jobs. The average rate had grown over the past decade to 10.9% in constant Euros, at a much slower rate than other economic indicators such as GDP (39.3%), financial actions of companies (47.6%), corporate profits (41.1%) and/or real estate (104.5%). In contrast, between 2007 and 2008, except corporate profits (increased by 1.5%), the average wage was the best developing factor compared to the other indicators. Adding income of wages and unemployment

payments is obtained the *revenue per active person*: this number fell by 1.2% in 2008 (this signifies the second drop in the last fifteen years; in 2001 decreased by 1.4%).

So far the crisis keeps the gap in payments of previous years with 5.4 million recipients with incomes below the minimum wage (MW:SMI-Salario Mínimo Interprofesional) and 1.5 million with five times more than the minimum wage (SMI), calculated annually. Particular attention is focuses to the 1% recipients who earn more the ten times than the minimum wage (MW) whose total income exceeds 27% of the recipients who are below the minimum wage (MW). (See Figure 3). According to the survey of INE (*Encuesta de Estructura Salarial*), the gap between the wage of managers and the employees increased by 45% between 1995 and 2006. In the first half of 2008 compared to the first half of 2007, the top management of the in the stock market listed companies increased their salaries by 54%, according to the Comisión Nacional del Mercado de Valores.

Figure 3
Wage inequality in 2008



Source: Wage Statistics of the National Tax Administration Agency
(*Estadística de Salarios de la Agencia Estatal de Administración Tributaria*).

These indicators, based on the opinion of the population reflect with greater sensitivity social effects of the economic crisis. According to the survey concerning living conditions in 2008 (*Encuesta de Condiciones de Vida*), a quarter of the households noted a significant decrease in their income and almost one of three reached only with difficulties the end of the month. (+10% compared to 2007; maximum annual increase since the survey has been realised). The index for economic prospect of Social Research Centre (*CIS - Centro de Investigaciones Sociológicas*) measured the level of public confidence regarding the economy for the proximate year; in 2008 has been recorded the most negative result of the last fifteen years. This pessimism, combined with the lowest income of the households explains that the investments and the corresponding household debt have declined (3.4% less than last year) and savings have increased (+26.8%). However, the debts of the households kept ten times higher in 2008 (almost one billion Euros) compared to their savings (93.000 millions).

The biggest problems seems to be for those households who have been reduced their income because of the crises and are now not able to pay the outstanding mortgage of their homes. In 2008, banks and saving banks promoted almost 60,000 repossessions, more than twice than in the previous year. Furthermore has intensified evictions from rented housings, where despite the economic crisis prices have been continued to rise slightly. The discomfort of the Spanish population is also reflected in the mistrust in public institutions, especially in political parties: 72% did not trust them in 2008 (the highest rate in the past 15 years, except the 76% in 2004). According to the monthly barometer of the Social Research Centre (CIS) in 2009 has been named this as the third “principal national problem” after unemployment and economic difficulties. Despite growing distrust in the judicial system, which reaches its peak in 2008 (two out of three people do not trust the judges) is set the focus on that the courts were used to resolve over 9 million individual disputes (also the maximum in the last fifteen years) which has caused a saturation of the courts (higher rates of dependence and judicial congestion). Although the crime rate went downwards since 2003, the number of people in prison is the highest, 73,558 in this period at the end of 2008 (the fourth part is waiting in prevail detention). The distrust in judicial and security institutions does not include less use of the mentioned institutions to solve individual conflicts; it furthermore shows the lack of other options –more collective and independent- to citizen participation.

Ultimately, the crisis has especially hit hard the most vulnerable segments of the working class; those who have not received adequate redistributive mechanisms to deal with it (job sharing, rebalanced wage levels, contributed unemployment payments, etc.). Probably this development can be reflected in the growth of the poverty rate in the years 2008 and 2009; this data, which is still not published, is revealed in several reports achieved by shelters, food banks and other emergency services that warn about the level of saturation.

3. A financial strain on the State wich socializes losses

The set of public social policies whose main chapters include pensions, education and health is called the “indirect wage” of workers. Between 2001 and 2007 public social spending remained slightly positive, according EUROSTAT, after the drop of 4 points of GDP in the nineties of the last century. The main reason of this slight improvement in social spending was the increase in tax revenue from the income distribution; according to the National Accounting of Spain (*Contabilidad Nacional de España*) rose this from 9.6% to 10.4% of GDP. Taking account of GDP growth in this period resulted this in an increase of 38% of State tax revenue –in constant Euros- from income distribution. (Well above the GDP, which was 28% between those years).

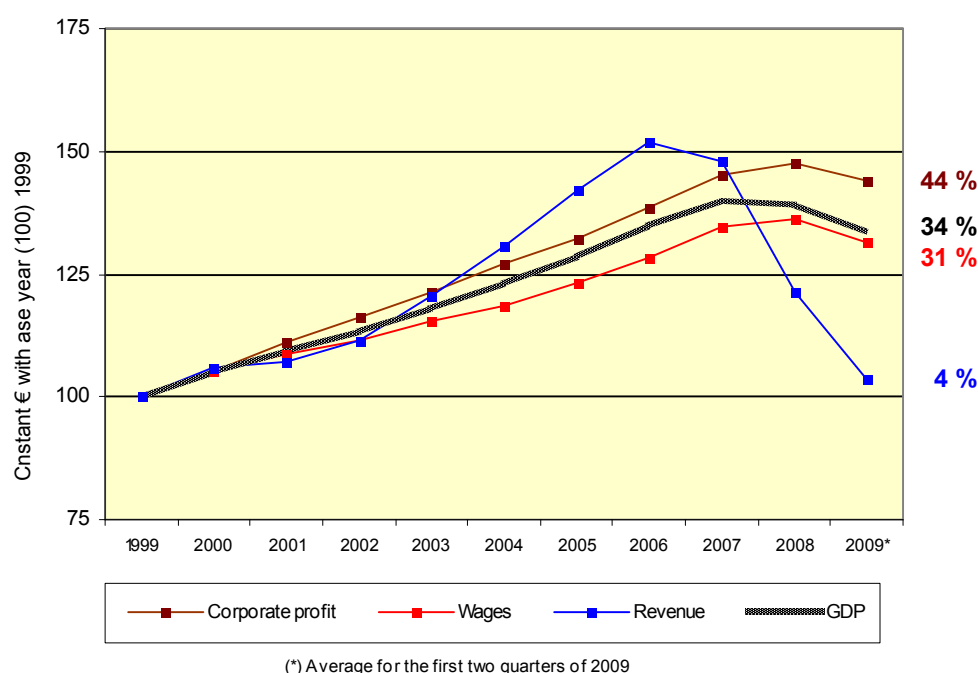
Although not yet is sufficient data available to asset how the crisis has affected all social policies³, indicators and indexes available for health, education and social

³ The information prepared by Eurostat concerning the evolution of spending on social policies in the countries of the European Union was published delayed. Therefore the last actualization of the Barometer includes the data of 2007, published in december 2009.

protection in 2008 present a continuous line with the previous years. However, the significant decrease of benefits into public funds and increasing costs caused by the crisis could jeopardize the financing of public services and justify an extension of privatization processes, which have been already initiated in all these areas.

The main loser in the distribution of income in the last two years has been the public sector, whose tax revenues decreased to 1.8 points of GDP in 2008 (twenty thousand million euro less). In the first half of 2009 (last data published) it has continued to decline until 7.3% of GDP. As shown in Figure 5, the State has greatly decreased its share in GDP.

Figure 5
Distribution of GDP in the last decade concerning all economic groups (wages, corporate profits and taxes)



Source: INE, National Accounting of Spain (Contabilidad Nacional de España).

On the expenditure side, considering the growing number of unemployed persons, the government has increased the budget to maintain the same coverage rate of contributory payments than in the previous year (42%). In comparison, as shown in this report, is reduced notable the coverage rate for assistance services, which forced the government to implement, beginning in the mid 2009, a monthly grant of 420 Euros for unemployed who had exhausted all benefits received after 1 January 2009. Furthermore most anti-crisis measures have been designed to support the activities of big companies by providing public money and favouring tax conditions (extension of credits ICO, Plan E by the municipalities, Plan Renewal (Plan Renove), privileges of taxes for big fortunes, etc.). Especially mentioned should be the ratification of the parliament in October 2008 to expand the funds of the Treasury from 30,000 million to 50,000 million Euros as a precaution to prevent insolvency of banks and saving banks. The entities that are supposed to be the major cause of the crisis, providing mortgages without sufficient support, obtained a public shield for their risky private operations.

The accounting results of these processes (less revenue and higher spending) have been had an extraordinary increase in public deficits, which passed from a surplus of 2.2% of the GDP in 2007 to an estimated deficit of 11.4% in 2009. The new tax measures, adopted in September 2009, will have a little effect to solve the deficit. Furthermore are their impacts more strongly on most of consumer-working population than on the capital gains.

To conclude with a more comprehensive assessment, can be said that the anti-crisis measures that have been adopted in Spain, coinciding with the G20 and other international agencies have been directed primarily to reactivate the structures of finance, production and consumption as before the crisis. However, it still remains an open public debate about structural causes, how to detain the development of a speculative and environmentally destructive economy and rather reach a more socially fair and international wide solidarity model.