

1994-2007: The end of a cycle of speculative expansion and social regression

The *Social Barometer of Spain* has just incorporated in its *on line* edition the data corresponding to 2007. That year closes a cycle, some of whose characteristics are described as follows thus demonstrating the advantages of using the Barometer. The new electronic version includes, as a novelty, an index of Graphs by subjects with their data and sources.

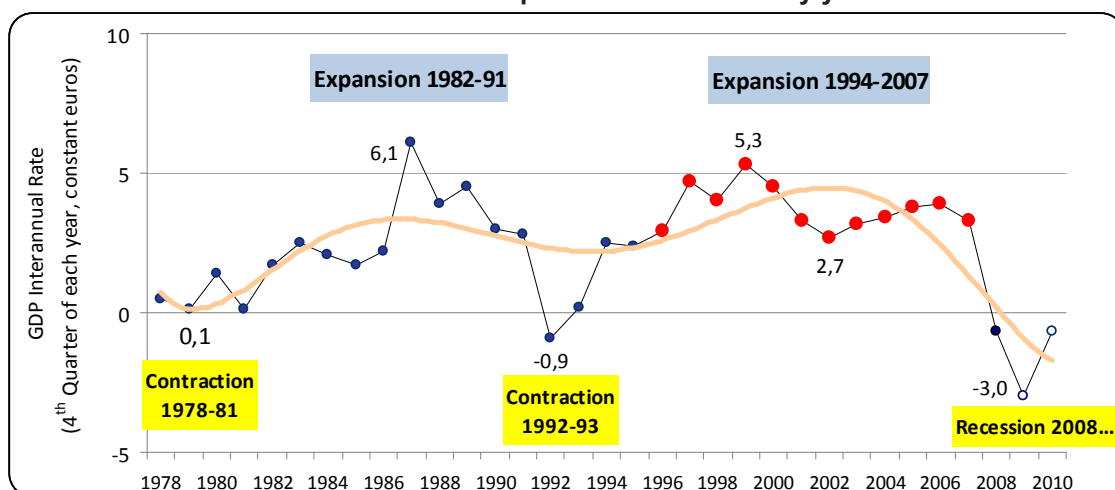
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- 1. Economic Growth in the 1994-2007 cycle had a strong speculative component: Real estate and financial assets revalued to a much higher degree than the productive economy (GDP).**

Over these years, Spain had a positive situation in macroeconomic terms, with an increment of the Gross Domestic Product of 70% which corresponds to an interannual rate of 4%. If we only consider the income available in households, the growth has been 56%. In the perspective of the last thirty years, there have been two expansive cycles, one of 10 years, between 1982 and 1991 and the other of 14, between 1994 and 2007, separated by the short recession of 1992-93 (Graph 1). In 2008 occurred the biggest drop of GDP for the whole period, coinciding with the start of a crisis in the international financial system with unforeseeable consequences.

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



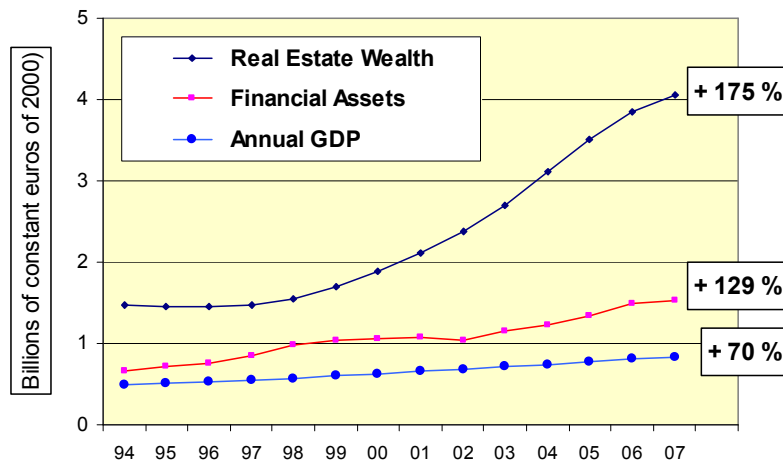
Sources: *Contabilidad Nacional de España* (National Accounting for Spain) for the period 1978-2008 and estimates of the *International Monetary Fund* for 2009 & 2010 (made in April 2009).

It is often asserted that Spain's recent economic expansion has been exceptional but this is not true in comparative terms with respect to other countries. According to the World Bank, which collects homogeneous data – based on equal purchasing power – from 173 countries, the growth per person of GDP between 1994 and 1997 (39%) was very close to the world average (37%) and five points above the average of the 27 EU countries (34%). In the growth ranking by countries, Spain occupies a modest position of 79 and in the 27 EEC countries, position 16.

The indicators which have grown to an extraordinary degree are real estate and financial assets, which have revalued more than twice GDP, as a result of speculative processes (Graph 2). Specifically, real estate profits linked to the increasing cost of housing have enriched the owners of land and housing promoters at the cost of increasing the debts of house purchasers. By the end of the cycle, the latter needed twice the number of salaries than at the start to pay for a flat and the main result of their payments was not to cover the cost of the dwelling but to maintain the housing bubble which has finally burst.

The outstanding debts of households, which represented 66% of annual income in 1994, has come to represent 150% of this income in 2007, fuelling a volume of business to the financial system of almost a billion euros. On the other hand, savings have fallen continuously, to the point that in 2007 the debt level of families was 14 times higher than their savings level.

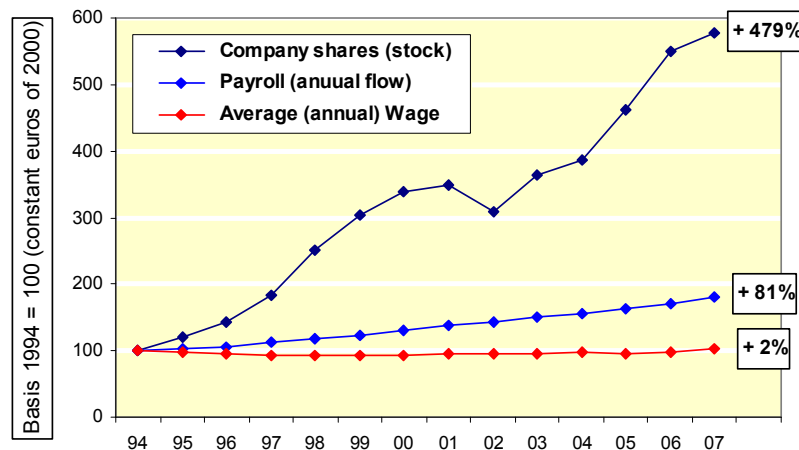
Graph 2
Evolution of real estate wealth and financial assets for households with respect to GDP (1994-2007)



Sources: *Contabilidad Nacional de España* para el PIB (National Accounting of Spain for GDP), *Banco de España* (Bank of Spain) for the financial assets of households and an estimation by NAREDO, CARPINTERO & MARCOS for real estate wealth. Indicators 9 & 10 for Income and real estate wealth, www.barometrosocial.es.

Another exponent of the financialisation of the Spanish Economy throughout the cycle has been the increment of monetary or accounting value of company shares whose interannual stock has grown six times more than the payroll for each year and 252 times more than the average annual wage (Graph 3). If at the beginning of the cycle, the accounting value of company shares (quoted and not quoted) was double the payroll for each year, by the end of the cycle it had grown to be six times greater. Shareholders have benefited doubly from their income from profits and from the revaluation of share prices which have risen through the roof throughout the cycle, except in the year 2002, due to the crisis of technological shares, thus increasing the weight of capital with respect to wages.

Graph 3
Evolution of company share values compared with the payroll and the average wage for each year (1994-2007)



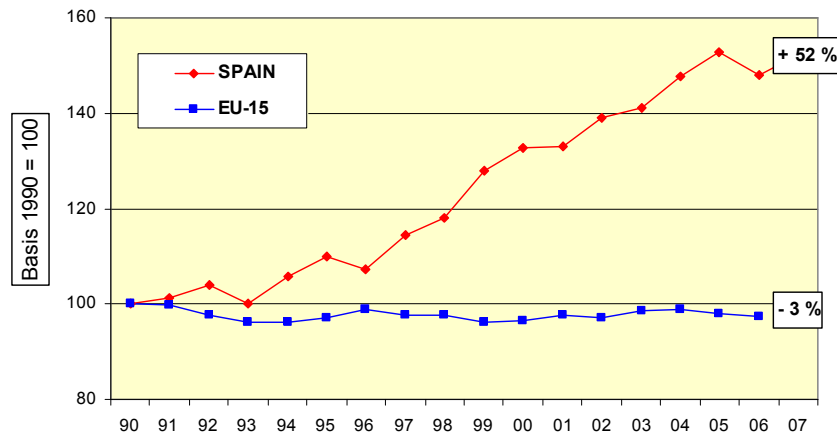
Source: *Banco de España* (Bank of Spain) for shares and other company participations & *Agencia Estatal de Administración Tributaria* (Inland Revenue) for wages.

2. The model of production and consumption throughout the cycle has been wasteful of energy and increasingly contaminating.

Energy consumption increased by 50%, at double the rate of the European average. As a result, Spain's energy dependence has passed from 70% to 80%, in spite of the expansion of renewable energy systems which have grown at a lower rate than the total energy consumption.

The lack of an effective environmental policy has given rise to an intense deterioration of the quality of the land, water and air. Non ecological agriculture which covers 98% of the cultivated area, has increased the use of pesticides by 60%, with the corresponding contamination effects. CO₂ emissions have grown three times more than the pledge made in the Kyoto Protocol (Graph 4). The rate of growth of emissions has been similar to China and India and much greater than the European average (only Slovenia has increased their emissions more) and that of the remaining industrialized countries (United States, Russia, Japan, Canada....).

Graph 4
Evolution of greenhouse gases in Spain and the EU-15 (1990-2007)



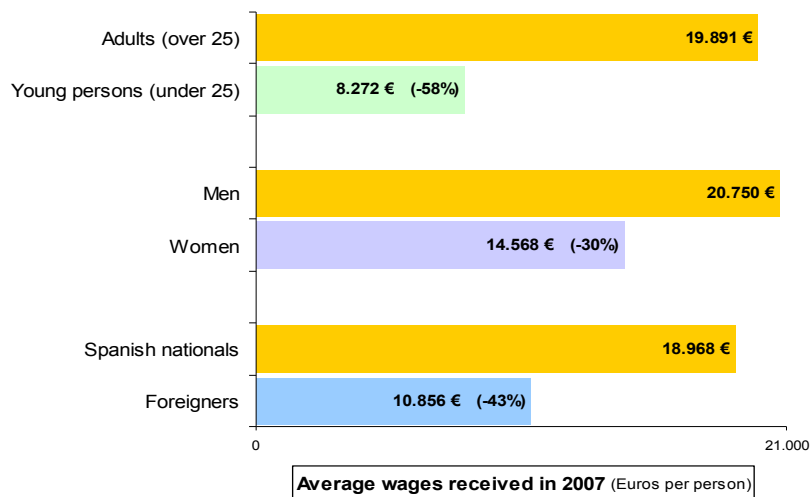
Source: *Worldwatch 2007* for Spain; *Eurostat* for the EU15. Indicator 2 for the Environment, www.barometrosocial.es.

3. **Employment has increased by 67% throughout the cycle but working conditions have not improved and social spending has been constrained in relation to GDP. The result has been the entrenchment of an unequal society which is qualified as “unjust” by the majority of the population.**

Access to employment improved dramatically up to 2007, before the start of the current crisis and a positive evolution of all the indicators used took place: Rates of activity and occupation, reduction of juvenile or longterm unemployment, the reduction of households where all the active persons were unemployed....But, on the other hand, living and working conditions for salaried persons hardly improved at all due to the following interrelated facts:

- **Wage freeze:** The average wage, in constant euros, has hardly increased 2% between 1994 and 2007, with very high differences between wage and salary recipients maintained throughout the period. According to the Inland Revenue, which takes note of all wage levels of the formal economy, 5.2 million persons received in 2007 annual incomes below the Salario Mínimo Interprofesional (SMI) (Minimum Interprofessional Wage). This segment of the working population combines periods of unemployment and temporary employment and can survive due to the cohesion of the family group where wages, pensions and other subsidies are shared.
- **Discrimination due to age, sex and nationality:** Wage discriminations for youth and women were maintained with hardly any variations throughout the whole period. In 2007 the Inland Revenue published for the first time the differences by nationality showing that wage recipients for the immigrant population were 43% lower than for persons with Spanish nationality (Graph 5).

Graph 5
Wage differences according to age, sex and nationality (2007)

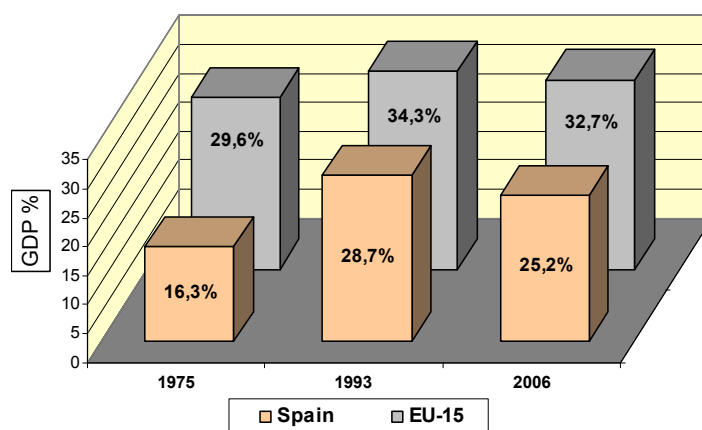


Source: *Agencia Estatal de Administración Tributaria*, (Inland Revenue) Indicators 10 for income and wealth, 8 for employment and 5 for gender equality www.barometrosocial.es.

- **Temporary employment:** The rate of temporary employment of above 30%, maintained for the whole period, is three times higher than the EEC average. Initially, this was concentrated in the juvenile period but it was extended to the segment of 30 to 50 years (27,4% in this age section in 2007). The rates of temporary employment are particularly high in Andalusia, Extremadura and Murcia.

- **A brake on social expenditure:** Public spending on social policies, which experienced a high growth between 1975 and 1993 (+12,4 points of GDP), receded 3,5 points from 1994, distancing itself from the european average (Graph 6). Simultaneously, the privatisation of health, education, pensions or housing offers has grown, reinforcing the dualization of these services, in detriment to the social sectors with less resources.

Graph 6
Evolution of expenditure in social policies related to GDP in Spain & the EU-15
(1975, 1993 y 2006)



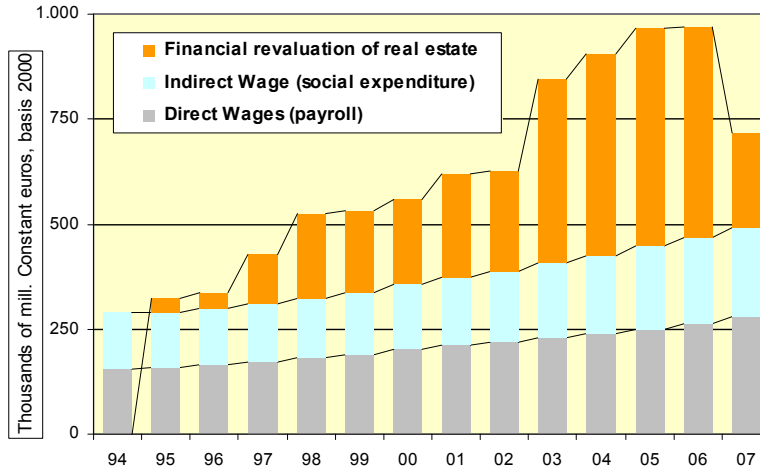
Source: Developed by us from the Eurostat (*Sistema SEEPROS*) & V. NAVARRO *La situación social de España II*, Biblioteca Nueva, Madrid, 2007) (The Social Situation of Spain), for expenditure in social protection (Health, Invalids, Pensions, Survival, Unemployment, Family-Children, Housing and Social Exclusion); and from the *Ministerio de Educación, Cultura y Deporte* (Ministry of Education, Culture & Sport), & *OECD*, for expenditure in Education.

- **A Saturated Public Health System:** Spain leads the European Union in life expectancy and the majority of the population highly values the National Health System, although there are dissenting voices in some regional communities (the two archipelagos and Madrid). The most critical point is the increase of morbidity due both to increasing life expectancy and also the persistence or increase of unhealthy living and working conditions, especially amongst women. The synthetic index on “Morbidity and healthy habits”, based on 11 indicators, consistently reflects this negative tendency that contributes to aggravate the already chronic problems of the emergency services, waiting lists and pharmaceutical expenditure.
- **Education:** The level of education of the adult population has improved throughout the cycle, especially amongst women. However, the index of “school results”, which takes into account the pupils who repeat school years, early school leavers and the rate of graduation in secondary education, has worsened continuously since the year 2000, in line with the mediocre results of the international evaluation of OECD students.

Graph 7 shows the evolution of the three components of household income described here: **Direct wages**, which represent 34% of the income received in the 14 years of the cycle (2,9 billion euros of 2000); **Indirect wages** or public social expenditure (26%, 2,3 billion); and the wealth revaluation of **real estate** and **financial assets** (40%, 3,4 billion). This last item has been the most important and the most fluctuating factor, with negative balances at the beginning and an intense deceleration in 2007 which announced the profound crisis which became generalized from 2008.

Graph 7

Aggregate composition of household income in Spain (1994-2007)

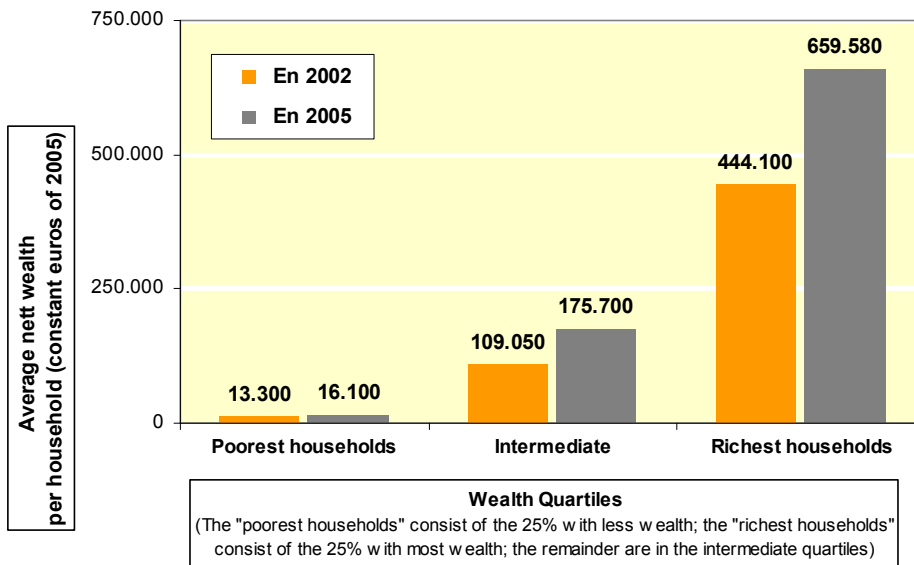


Source: Agencia Estatal de Administración Tributaria State Agency (Inland Revenue), for wages; EUROSTAT (SEEPROS Method) & Ministerio de Educación y Ciencia (Ministry of Education & Science) for indirect wages; (nco de España) Bank of Spain for the financial assets of households; and the estimation by NAREDO, CARPINTERO & MARCOS, for real estate wealth. Indicator 14 of Income and wealth, www.barometrosocial.es.

The aggregate values of income and wealth of households hides the real distribution of these resources, which in the case of Spain is very unequal. The best source to study this distribution is the Financial Questionnaire for Families (*Encuesta financiera de las familias*), made by the Bank of Spain in 2002 and 2005, precisely the period of major expansion of the income from real estate and financial capital. In 2002, the quartile of the richest Spanish households had a real estate and financial average wealth 33 times higher than the poorest quartile; this difference increased to 41 times in 2005. In this way, in the years of major speculative growth, the wealth inequality between rich and poor increased by 23% (Graph 8).

Graph 8

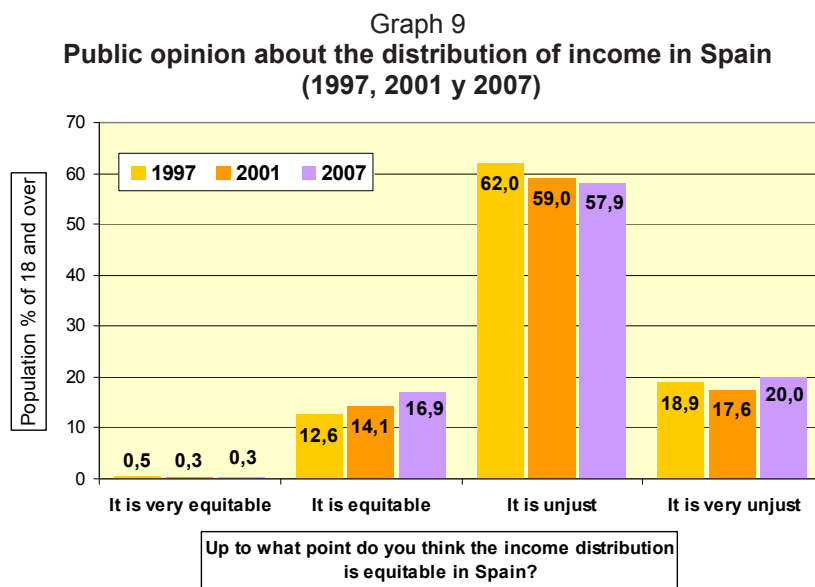
Differences and evolution of wealth or patrimony of families in Spain (2002-2005)



Source: Bank of Spain, Indicator 9 for Income and Wealth, www.barometrosocial.es.

The inequality in the distribution of **patrimony or wealth** of households is five times greater than the inequality in the allocation of **income produced each year**, which is due – as the Bank of Spain highlights – to the fact that wealth is the result of the accumulation of streams of savings and inheritances, whilst the poorest households have to spend all their income and sometimes assume debts above their possibilities in order to survive. Wealth is concentrated in the (company and real estate) property-owning bourgeoisie and in the middle class of qualified professionals, with high income; poverty, in the less qualified wage earners with temporary employment and low wages.

CIS (Sociological Research Centre) questionnaires made in 1997, 2001 and 2007 point out that public opinion considers Spain to be an unjust society, due to the existing inequality in the income distribution; an opinion shared by four fifths of the population and which has remained constant throughout the cycle analysed, regardless of the orientation of the government of the day (Graph 9).



Source: CIS, studies Number 2,270 (1997), 2,417 (2001) and 2,741 (2007).
Indicator 1 of Income and Wealth, www.barometrosocial.es.

4. The direct participation of the population in public affairs has been relegated to electing the representatives of the institutions of government who have monopolised the political hegemony in collusion with the major corporations and media groups.

The majority of the population positively values in the polls the democratic system established in Spain and shows itself ready to exercise its right to participate in public affairs. However, only about 40% have exercised the right of *direct participation* once, whilst less than 25% indicates having participated personally over the last twelve months. 16% of adults cooperate in citizen organizations of whatever type, dedicating to this activity much less time than the countries of our area, according to the *Questionnaire on the usage of time* coordinated by Eurostat. On the institutional plane, the *direct* participation of the population in public affairs (by means of referendums, popular legislative initiatives, participative budgets, discussion forums, promoting citizen organizations...) has been relegated politically and has not counted with effective paths of intervention.

The *indirect participation*, however, in elections, has been striking, converting the political parties in the chief role models of public life. Their hierarchical structure, especially in the case of the major parties, their rigid operation and strong discipline, has converted them into organizations that monopolise power and political influence, often in collusion with the major economic and media power groups. In all the CIS polls, the majority of the population distrusts the parties more than any other institution of the country and considers that the major companies, the banks and the media groups have more power than the parliament or the trade unions. On the same basis, surveys conducted in different years persist in the opinion that the action of government is more influenced by these power groups and by the corporative interests of the parties themselves than by the needs and expectations of the population that has voted them.

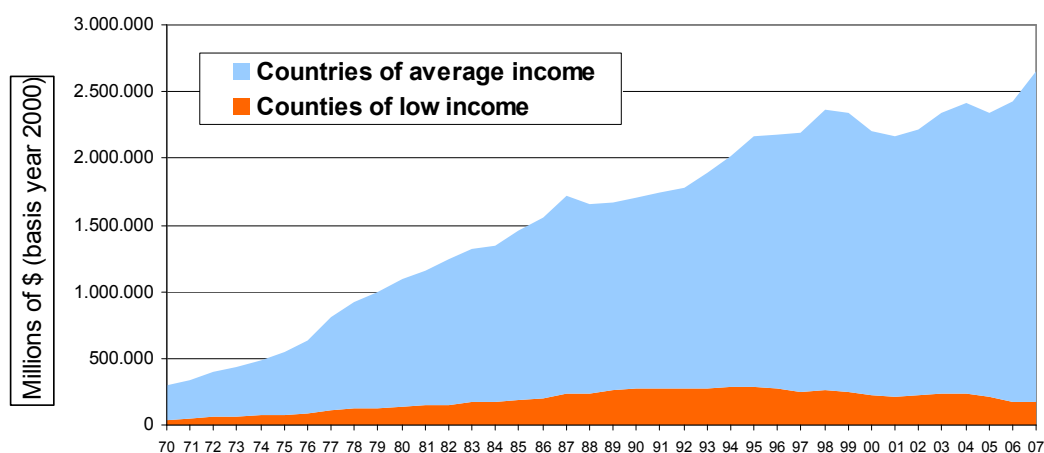
5. Spain has become consolidated as a country of the North, within the European Unión, in an international context where major economic and ecological imbalances are maintained.

The international indicators of inequality (economic and ecological gaps) and transnational economic flows (external debt, official aid to development, remittances from migrants) have varied little in the studied cycle. The expansion of a capitalist world economy has been accompanied by an architecture of mutually hierarchized political and economic blocs:

- **Economic gap:** The income per person of the 40 richest countries remains thirty times higher than that of the 40 poorest countries. In the world incomes ranking, Spain has passed from position 12 to 11 (passing Mexico); and in the income per person, it remains in position 28 (it has overtaken Italy but it has been overtaken by Equatorial Guinea, a former Spanish colony which has experienced the highest relative growth in the world thanks to its oil wealth).
- **Ecological gap:** CO₂ emissions per person in the 40 most contaminating countries was 71 times higher in 1994 than in the 40 least contaminating countries; this ratio has passed to 80 times greater in the latest statistics supplied by the World Bank. It is important to underline that the negative effects of the climatic change have equal or greater repercussions in the areas of the world with less emissions. In the international ranking of the most contaminating countries, Spain has advanced four positions (from 21 to 17) and in the emissions per person twelve positions (from 56 to 44).
- **External debt:** The volume of debt of the average and low income countries has hardly varied in absolute numbers (Graph 10) but it has reduced in relative terms going from 17 to 12% of GDP of these countries. However, the weight of the annual debt service has increased (from 1,6 to 1,8% of GDP of those same countries); due to this fact, they now pay every year 15% of the outstanding debt, when this rate was 10% in 1994. In other words, every 6.6 years they pay an amount equivalent to the whole of the initial debt, but the debt remains as a combined effect of the high interest rates, the renegotiation of the payment terms and new investments. Spain has become, by means of its multinationals, one of the main investors and generators of debt at a world level. According to the *Official Register of foreign investments*, between 2001 and 2007 Spain duplicated its investments abroad (298.000 millions) compared with the previous seven years (131.000 millions). Latin America was the main destination up to the year 2000 (61% of investments) to be directed afterwards

in the majority of cases to other European countries (74% of investments between 2001 and 2007).

Graph 10
Foreign Debt of the countries of average and low income (1970-2007)



Source: World Bank, Indicator 4 for international relations, www.barometrosocial.es.

- **Official development aid:** was situated at the start and end of the period at 0.32% of the GDP of the donor countries, although it dropped to 0.20% in 2001, at all times a long way from the 0.7% proposed by the United Nations 30 years ago. In this point, Spain has experienced a positive evolution in doubling its share to development, which has passed from 0.22% of GDP in 1994 to 0.40% in 2007.
- **Remittances:** The remittances of international migrants to countries of average and low income has doubled on a world level. In 2007 they corresponded to approximately twice the whole of the official Aid to development, but less than half of what those countries pay annually to service their external debt. Spain has been one of the developed countries where immigration has grown, which explains that it is located in the fifth place on a worldwide basis and first place in the European Union for the volume of remittances to abroad.

Madrid, May 2009