Spain: A decade of economic boom and stagnant wages

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By all accounts, Spain has experienced an economic boom over the last decade. It has “continued its prolonged economic expansion” (International Monetary Fund) and “weathered the international slowdown” (Organisation for Economic Co-operation and Development) making it “one of Europe’s best-performing economies” (*Economist* magazine).

Economic growth—between 3 and 4 percent a year and twice the European average—has made Spain the world’s eighth-largest economy, up from 16th place 10 years ago. Companies such as the fashion house Zara, phone operator Telefónica, construction giant Ferrovial and real estate developer Metrovacesa have become globally recognised names.

The IMF has “commended” both José María Aznar’s right-wing Popular Party government (1996-2004) and the current administration of José Luis Rodríguez Zapatero’s Socialist Party (PSOE) for implementing reforms “opening the economy, enhancing its flexibility, and establishing stability-oriented policy frameworks.”

When the reforms were first introduced, it was argued the release of “Spanish executives’ pent-up competitive spirit” would increase the country’s national wealth and result in a “trickle-down” to the less well-off. But what has been the result for the working class and large numbers of professional workers in Spain over the last decade?

According to a recent IESE-Adecco Labour Euroindex survey produced by the University of Navarre Business School, workers’ wages rose only 0.5 percent over the period and have actually declined in the last two years.

Spain’s workers earn an average of €1922 (US$2,480) per month before tax and social security payments. Nearly half of that income is spent on accommodation. But whilst wages have stagnated, the price of houses has doubled in price in real terms over the last decade, stimulated, in part, by extremely low interest rates and increased investment in real estate following the 2001 stock market crash.

As a result, workers have been sinking deeper into debt. Household indebtedness has risen to more than 110 percent of income and approaches US levels. The most recent data shows the amount of outstanding mortgage loans stands at a record €811 billion (US$1 trillion), a rise of 26 percent since last year. As 80 percent of Spain’s population own their own home, many workers are in a vulnerable position should interest rates rise sharply (most mortgages are variable rate) or Spain’s housing bubble burst. House prices, says a recent Goldman Sachs report, may be overvalued by up to 35 percent.

Ricardo Vergés, economist for the National Insitute of Statistics (INE), told *Time* magazine “we’re on a direct route to catastrophe. Our children will have to pay back amounts that will reach almost half of their incomes. It’s a kind of economic slavery and it can’t be sustained.”

Other economists claim there will be a “soft-landing” in the housing market, but this outcome seems unlikely given that 800,000 new house starts—almost as many as the rest of Europe put together—were still made in 2005 compared to a genuine demand estimated at 250,000 to 300,000 properties. “We are not on a good path,” Rafael Pampillón, the chief economist at the Instituto de Empresa business school, told the *Economist.* “It has to come to an end, because we cannot keep building homes at this rate.”

Workers not only face high accomodation costs. The cost of the basic necessities are also increasing. Spain has an inflation rate of 4 percent (compared to a European average of 2.5 percent), but the increase is higher for energy (a 6.8 percent rise), transport (5.8 percent), and food and drink (4.8 percent).

The international financial institutions have applauded the high rate of job creation in Spain. It has been responsible for some 60 percent of all the jobs created in the European Union. Unemployment has fallen over the last decade from 18 percent to less than 10 percent. However, this has only been possible because one in every three workers—more than 5 million—is employed on temporary “rubbish” contracts, more than double the EU average. The terrible exploitation experienced by the country’s youth and immigrant workers on these cheap labour contracts, particularly in construction and tourism (which together generate around 30 percent of GDP), has been a key factor in Spain's economic boom.

It is no wonder then that more than half of Spain's population report having terrible trouble meeting their monthly payments, according to the Bank of Spain.

In contrast, a narrow elite has seen its fortunes soar. Several appear in the Forbes list of the world's richest people, including the founder of Zara, Amancio Ortega, who came in 23rd and is worth an estimated €14.8 billion (US$19 billion). Ortega founded his firm in 1975, the year that the dictator General Francisco Franco died, but others have made their fortunes out of companies founded during the dictatorship. These include the family of Rafael del Pino, who established the construction company Ferrovial in 1952 and is worth $6.5 billion, and the Koplowitz sisters, Alicia and Esther, whose US$5 billion fortune originates in another construction company, Fomento de Construcciones y Contratas, which was founded by their father in 1944 and has since built most of Spain's motorways and bridges.

This year, for the first time, Spain has joined the top 10 countries possessing the most dollar millionaires (or some €800,000) in terms of liquid financial assets (cash, bank deposits, stocks and bonds). According to the World Wealth Report produced by the investment bank Merrill Lynch, there are now 148,600 Spanish millionaires—an increase of nearly 6 percent last year. Although the report found nearly 1,500 of these millionaires had financial assets worth more than €24 million, Spain's tax agency reports that only 65 people had declared they were worth more than €30 million for tax purposes.

Many of these new millionaires have made their fortunes from the construction and property boom, which accounts for some 40 percent of capital investment in Spain. But the events in Marbella, the jet-set resort on Spain's Costa del Sol coastline, shed some light on how others millions have been made.

The city became synonymous with corruption under right-wing mayor Jesús Gil y Gil, who died in 2004, shortly after the Supreme Court banned him from public office for 28 years. Earlier this year, the council was dissolved and some 43 people arrested, including two former ex-mayors, Marisol Yagüe and Julián Muñoz, and 19 city councillors, on charges relating to alleged planning violations with respect to construction projects. Aifos, one of the biggest real estate companies on the Costa del Sol, has been implicated. More than €2.4 billion in property, helicopters, cars, art and antiques has been seized.

One of those arrested in Marbella had €378,000 in high-denomination €500 notes. This led to revelations that such notes make up 60 percent of the €80 billion circulating in Spain. Spain now has a quarter of all the €500 notes in the EU compared to 3.5 percent in 2002. The notes are known in Spain as "bin Ladens" because everyone has heard of them but never seen them. Most are believed to circulate in the construction industry, where transactions are often carried out in cash and real estate companies undervalue properties when they are officially registered.

Down the coast from Marbella, the mayor of Manilva has been accused of participating in an alleged €250 million money-laundering ring, and a former mayor of Estepona was convicted on similar charges.

The tax agency is also investigating 18 companies that took money related to the Terra Mítica theme park, which was never constructed. The park, partly funded by the Popular Party government in Valencia, went bankrupt in 2004 with debts of €300 million.

International financial institutions are now warning the Spanish government that the country is losing its international competitiveness and productivity is declining. The current account deficit has widened to 7.5 percent of GDP, the second largest in the world. The European Commission forecasts it will increase to 9 percent in 2007, adding "these levels cannot be sustained forever."

Last year, the government introduced its National Reform Programme, saying it would address Spain's lacklustre productivity performance and competitiveness. It plans to reduce corporate tax on large companies and personal income tax, which predominantly favour the rich. At the same, the IMF says further labour reforms are necessary. Under the guise of reducing temporary contracts, it wants to reduce the dismissal costs and other conditions associated with permanent contracts. The organisation has also pushed for employers and trade unions to break up the national collective wage bargaining system, institute company-based wage agreements, and promote greater labour flexibility.

Spain's increasing inequality exposes as fraudulent the perennial claim that "economic recovery" benefits everyone, even if unequally. The latest statistics show that there has been an enormous transfer of wealth—from the working class to the wealthy elite—in Spain with the backing of both the PP and the PSOE, backed by the Stalinist-led United Left (IU) and Catalan nationalists.