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Future of Spain, Future of Europe: A Dream or a Nightmare?

Introduction: What Spain is Today and what it is Not...

The name of Spain – apart from *fiesta*, culture or football¹ – was associated with a story of prolonged political and economic success, for many years. The Spanish transition from authoritarian past and the subsequent consolidation of a Europeanized and semi-federal advanced democracy have inspired other democratization processes. Its economy even outshined Germany's during the second half of the 1990s and the 2000s. However, at the end of 2008, that happy story started to change.

For the last couple of years, Spain's economic and political situation has been in the headlines. With high public deficits, a troubled banking sector, enormous borrowing costs for both the government and the private companies, and the worst figures in Western Europe regarding unemployment, the country is under big pressure. And, as direct political consequences of this difficult economic situation, the social cohesion erodes, the legitimacy of the institutions is suffering and peripheral nationalism (particularly in Catalonia) has increased, questioning the existence itself of the Spanish constitutional regime. Spain has now become synonymous of economic and political crises and started to be named as one of the weakest members of the European Union (EU). The scenarios of intervention and bail-out have been going around for a while. The famous weekly magazine *The Economist* brought the issue into its cover in July as S(pain), the letter S was falling off above a bull leading to the word 'pain', which was quoted by national and international press or analysts² so many times. Today rescuing Spain from the deep economic deadlock is piece of a bigger puzzle, a puzzle also including saving the single currency, euro. But is it really so bad?

Even now, analysing Spain –including its relationship with the EU integration process and its role in the world– goes beyond to just look to the economic situation. Admittedly, it is quite certain that crisis is the biggest reality surrounding the country. Not only the official indicators but also everyday demonstrations are big proofs of this reality. However, Spain also retains a number of strengths –in the political and, even, in the economic domains– that are too often overlooked. The country requires some structural changes but it continues to be a key piece and a constructive member of the EU, which also needs radical reform. This paper aims to cover both the economic and political situation of the country and the position of the public and its vision towards Europe.

¹ The attractiveness of the Spanish way of life and the strength of its cultural heritage are supported by evidence. Spain is a favourite holiday or retirement destination for millions of people around the world - who look for relatively high living standards and facilities, enjoyment or a benign climate- and it has the second highest number of UNESCO Sites in the world. The Spanish (or Castilian) language is the second most natively spoken language, after Mandarin Chinese and the second most studied foreign language, after English. Spain is also worldwide famous for its classical or modern literature, arts and cuisine. Regarding football, its national team is currently ranked number 1 by the FIFA and is the reigning world and European champions as well, while Real Madrid and Barcelona are two of the most successful football clubs in the world.

² *The Economist*, 28 July 2012: www.economist.com/printedition/2012-07-28. See also Powell (2012) or Powell and Steinberg (2012).

Spanish Economy: An Overview

Spain is the fifth largest economy in the European Union and the fourth in eurozone. An average Spaniard earns 23,541 dollars per year, slightly higher than the OECD average of 22,387 dollars. However, the current economic indicators of Spain are not promising a shiny exit from the crisis for the coming year. According to the Organisation for Economic Co-operation and Development (OECD), the recession is projected to intensify: the real GDP is expected to fall by 1.5 per cent in 2012 and then by a further 0.8 per cent in 2013, while growth is projected to return only in 2014.

Significant public spending cuts, increasing taxes, weaker demand from trading partners and difficult financial conditions will take their toll. Notwithstanding ongoing austerity measures, the fiscal deficit will fall only gradually owing to weak economic growth: the budget deficit was projected to fall from 8.5 per cent of GDP in 2011 to 3.3 per cent in 2013³; however, most recent and accurate calculations speak now of 6.3 in 2013 and 5.9 in 2014, far from the EU target.

Jobs will continue to be shed and the unemployment rate, perhaps the biggest problem of the country today, could rise to over per cent. Eurostat – the European Commission's statistical database– is also drawing a similar portrait of the Spanish unemployment rate, while the EU27 average is 10 per cent⁴. If we continue with further data, over 59 per cent of the people aged between 15 and 64 have a paid job, below the OECD employment average of 66 per cent. Some 66 per cent of men are in paid work, compared with 53 per cent of women. The youth unemployment, a bigger problem even, creates many reactions in the country. Almost in every protest, people are blaming the government for stealing their children's future. Not only is half of the young population unemployed but also the conditions for those who work are getting worse all the time. Also, there is an increase of university fees while the number of scholarships for higher academic studies decreases.

The combination of recession, public austerity and labour market reform (to reduce trade unions influence during the wage bargaining) is creating a serious income inequality. This income inequality also fosters protests among Spanish society while the economic crisis gets deeper every day.

Meanwhile, saving banks restructuring is a complex process which requires public support and, actually, the activation of a European rescue package last June for reconstruction of the banking sector and providing them capital. Even if the government portrayed the approximately 100 billion euros as a cash injection and not as a bailout, the truth is that Spain alone could not afford those funds –which were available only at the end of the year– with its existing resources and considering the extremely high costs of public sector borrowing on the markets. The Ministry of Economy has been talking since then about very limited conditionality, for claiming Spain will not be interfered in its internal affairs like Greece, for example. However, in his public talk Prime Minister Rajoy honestly admitted that this much money will bring some responsibilities. The discussions about the consequences of being indebted to the EU are still ongoing. Unfortunately these €100bn are not going to

³ OECD, Spain Economic Forecast Summary, November 2012. For further information, see: www.oecd.org/eo/economicoutlookanalysisandforecasts/spaineconomicforecastsummary.htm

⁴ For more information: <http://epp.eurostat.ec.europa.eu/tgm/table.do?tab=table&language=en&pcode=teilm020&tableSelectio n=1&plugin=1>

neither solve the unemployment problem nor increase the quality of life for most Spanish citizens.

Because of the poor economic outlook concerns continue and there is an ongoing public discussion on whether Spain at some point should ask for a second bailout in order to save the State itself. To some extent, this rescue programme is seen as the key to obtain financial stability in the country. Still, a new aid package would probably stigmatise Spain in the international markets and would be accompanied by a supervision programme, with new measures oriented on reducing the budget deficit that may push the country towards a more unstable environment, both economically and socially.

While all this was happening, European Commission, European Central Bank (ECB) and International Monetary Fund (IMF) officials agreed on the supportive attitude of the Spanish government. They kept on claiming that the government had been fulfilling its requirements for facing the crisis and that they had full confidence it would keep on doing so. Many international analysts have encouraged the country to ask for being rescued. However, it looks like the German government –facing elections in 2013– has its own doubts about how convenient a new bailout in the eurozone may be and the Spanish government itself still needs time to convince the Spaniards. According to a study conducted by the Madrid-based think tank *Real Instituto Elcano*⁵, before the EU bailed out the Spanish banking sector, 52 per cent of Spaniards did not think Spain would need to be bailed out, although almost 40 per cent thought it would. According to the same study, 42 per cent of the participants think that the bail-out of Spain's banks was better than the other bail-outs, while 77 per cent of the participants believe that it was just a step in a long process. The opinions of Spaniards change, so does the attitude of the government. It is still a huge discussion if a rescue package is a good thing, how will be the repayment period and how much the tax burden is going to be for an ordinary citizen.

What Else About Spain?

Before the economic crisis dominated all the discussions about Spain in Europe, the country used to be counted among the best examples for democratisation and EU membership. A quarter of a century has passed since Spain joined the process of European integration and this period has undoubtedly been the most politically stable, socially dynamic and economically successful in Spain's contemporary history⁶. After the long years of Francisco Franco's dictatorship, Europe became an important positive factor in Spain's political transition and economic modernisation. There is no question as to how important European Union membership has been and remains to Spain. After a troubled past, accession signified that Spaniards were finally able to achieve the longed-for link with the heart of the old continent as a means of achieving political and economic modernity. Such a longing for homologation was vividly summarised by the

After long years of dictatorship on Spanish territory, Europe became an important positive factor in its political transition and economic modernisation.

⁵ Barometer of Elcano Royal Institute (June 2012). For more information please see: http://www.realinstitutoelcano.org/wps/portal/riecano_eng/Content?WCM_GLOBAL_CONTEXT=/elcano/elcano_in/barometer/barometer30

⁶ See Molina (2010).

philosopher José Ortega y Gasset, who, in 1910, said that 'Spain is the problem and Europe is the solution' to the extent that 'regeneration is inseparable from Europeanisation'.

The reinforcing effect that EU membership has had on democratisation, the definition of a welfare capitalism and Spanish insertion into globalisation is also clear: on the one hand, the democratic requirement, which it was necessary to fulfil in order to join the European Community served as a stimulus for the transition between 1976 and 1985, and, thereafter, as a decisive anchor for liberal democracy. On the other hand, the Internal Market liberalisation programme itself, the launch of the euro and the receipt of abundant EU structural funds has helped to fundamentally modernise Spain's productive structure, stabilise its macro economy and make progress in internal social cohesion between its territories and people. Finally, Europeanisation has become a specific pathway to catalyse the phenomenon of globalisation in Spain by increasing flows in trade, services, people, capital and knowledge, and to show the need to go beyond the nation state to respond to environmental challenges and security.

The benefits of EU membership has represented one of the fundamental points of agreement in the Spanish political system, which cannot precisely be featured as a consensual democracy but, rather, a majoritarian confrontational two-party system. However, regarding Europe, both the Spanish Socialist Party (PSOE) and the conservative Popular Party (PP), which remain divided on most public policy issues, implicitly agree on the benefits of European integration. From the transition to democracy, the connection between Europe and political or economic improvement was evident. On the one hand, for the social-democratic left, the Europeanisation of Spain signified the arrival of democracy, freedoms and the welfare state. On the other hand, for the moderate right, the link with Europe signified guaranteeing a market economy and Western alignment. In both cases, as proposed by Ortega y Gasset, Europe, above all, signified the modernity and normalisation that Spain longed for. The result was a profound and sustained pro-European consensus in Spanish society and the political class that still exists today, although somewhat weakened by the crisis and the management of the crisis mainly led by Germany so far.

Eurobarometers conducted periodically in all Member States demonstrate that there is a stable majority of Spanish people who believe that EU membership is positive. Unlike other European countries, over the last 25 years, no populist or xenophobic parties, which are most likely to foment anti-European sentiment, have been successful. Some degree of criticism towards the EU does exist in some small national or sub-national leftist parties (such as United Left, IU), not as a result of staunch Euros-scepticism, but to defend a model of European integration which is closest to their ideology. Participation in European Parliament elections also exceeds the average of other countries and, as demonstrated in the referendum held in 2005 to ratify the European Constitution, Spaniards showed that they still had faith in the EU despite a general climate of Euro-scepticism.

In short, Spain has always been and still continues to be a pro-European country, but Spaniards are also naturally capable of weighing up the specific benefits and the disadvantages that certain European policies may imply. A general positive attitude dominates, which mainly focuses on the broad political benefits such as consolidation of democracy or a higher public self-confidence, which overcomes fatalism on the success of the Spanish political project. However, as many Spaniards start to doubt the ability of the EU to provide more capacity to the Spanish state, better access to financial resources, or more effectiveness in the provision of public services, this consensus may be at risk.

The last elections, held in November 2011, meant a change of government⁷ and the arrival to office of the conservative Prime Minister Mariano Rajoy, who is desperately trying not to lose popularity, while some polls show that he already started to lose. And, even though the Spanish citizens made their choices through democratic elections only one year ago, going through elections did not stop one of the biggest social movements of the last decades in Europe.

Birth and internal dynamics of ‘los indignados’

The 15M Movement (as it is called because the biggest organised demonstration was held on 15th of May 2011), also known as the movement of ‘los indignados’, is a social movement that started in Spain and spread out all over Europe and even over the ocean as ‘Occupy Wall Street’. The movement is not only against the government or its policies, but also the system itself, and it is trying to reflect the wishes of citizens with a horizontal organisation scheme. Like similar organisations would do, they do not elect leaders; they try to give the word to all participants. They organise local assemblies for creating a common position on important topics and combine ideas from all parts of Spain. Using mainly the online communication methods, they have been organising many demonstrations all over the country. They ‘invaded’ the famous *Puerta del Sol* for a month, by making meetings, demonstrations and also by living and sleeping there. With all the tax raises and increases in the prices of health and education services, they kept on organising many more protests, also during the last months. Today the movement continues to be one of the biggest social movements of Europe.⁸

The situation in Spain created one of the biggest social movements of the last decades: los indignados

Not only Spain is in crisis, so is the Euro, so is Europe

As Jose Manuel Barroso said, “this is a financial and economic crisis, a social crisis, but also a political crisis, a crisis of confidence”⁹. This way of thinking mainly explains the vision of the European Commission (EC) today. According to the same speech, securing the stability of the Euro area is the most urgent challenge and the reasons behind the crisis should be understood and defeated with necessary mechanisms. Even if the head of the EC confesses this, there is still so much doubt on how the crisis will be defeated and necessary mechanisms will be established.

There are many ideas on the main reasons for the euro crisis we are facing today. First of all, there is a certain consensus on some essential mechanisms and prerequisites of Monetary Union are not working for some Member States (MSs). Areilza and Torreblanca (2012) argue that the origins of the crisis lie in the “defective design of a monetary union born in haste

⁷ The PP took 44.6 per cent of the votes while the Socialists gained only 28.7 per cent.

⁸ In its 2012 report, the Global Democracy Association, which aims to compare the quality of democracy worldwide, ranked Spain in 16th place, ahead of France (17th), Portugal (18th), Italy (29th) and Greece (32nd). Germany is placed in 8th position, United Kingdom in 13th and the United States in 15th, only one position ahead of Spain. See *Global Democracy Ranking 2012*, www.democracyranking.org/downloads/2012/Scores_of_the_Democracy-Ranking-2012.htm

⁹ Jose Manuel Barroso, Speech/12/596, 12 September 2012. For more information please see: <http://europa.eu/rapid/pressReleasesAction.do?reference=SPEECH/12/596>

without the proper political, monetary or fiscal institutions to support it"¹⁰. This brings up the question if this is a crisis which can be solved with some adjustments or if it is a deeper existential crisis of the single currency and its institutions. As we also mentioned before, certain adjustments are required immediately; however, nobody knows how some parties can be convinced to participate and give more money, give up more sovereignty etc., in times of crises.

Another question is what can make Monetary Union something beyond a simple system of fixed exchange rates. In our opinion, it requires further commitment both in the institutions of the Union as well as in Member States. We totally are aware of the difficulty of asking more when there are many problems and some MS are clearly in better condition than others and they will need to finance the others. Nevertheless the economic inequality between MS cannot be an excuse to develop further cooperation inside the Union. According to us, the 2012 Nobel Peace Prize is just given to remind us that Europe is something more than economic crises.

Spain's position on Europe – any change after the crisis?

It is quite understandable that the economic crisis in Spain prompted questions about the Economic and Monetary Union. However, the official Spanish position still favours further economic and political integration, claiming it as the only way for overcoming the crisis. The Spanish government openly encourages EU officials to find a way which can create a re-engagement of citizens into the European project.

Spain does not only remain pro-EU, it even wants to become a key actor in some issues. It thinks that its ties with Latin America can help the EU to develop its place as a global actor, by linking it to emerging markets. Finally, Spain openly supports Turkish EU accession; and their common initiative within the United Nations, the Alliance of Civilizations¹¹.

Conclusion: what is next in Europe?

In our opinion, and in our wishes, the European project is irreversible. The euro, which is a really important part of the project, will need further adjustments. We are aware of the necessity that Europe needs to be united in Europe if it wants to be a global power. The balance in the world is changing every day. China is rising, so is India. There is an Arab Spring and a new Middle East which we totally depend on regarding energy. The developments in the Middle East recently showed that Europe has a long way ahead for becoming a normative power. It needs to resolve its existential problems first, before claiming to be a global actor; and Europe needs social cohesion for solving its inequality problem.

We accept that asking for more in times of crisis is not the best strategy. Some Member States are facing referendum demands for leaving the Union. Public opinions are confused; some nations try to get away from the crisis in an easy manner. And also other Member States in trouble that are suffering because of the implementation of the reforms are looking for the back door. However, we need to keep in mind that Europe faced many problems

¹⁰ ECFR, Reinvention of Europe, The euro crises: A Spanish perspective (2012). For more information please see: http://ecfr.eu/content/entry/the_euro_crisis_a_spanish_perspective

¹¹ For further information please see: <http://www.unaoc.org/>

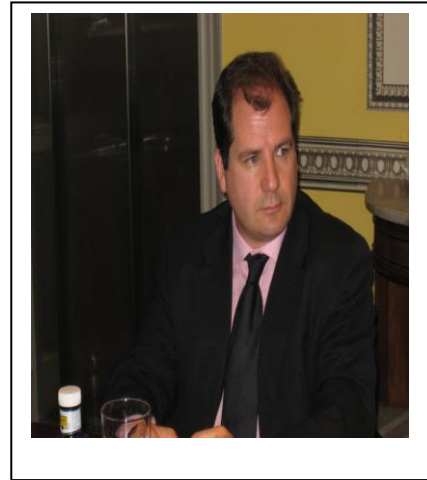
throughout the whole integration process. Nothing has ever been easy. Nowadays it is even tougher because the welfare of ordinary citizens is at stake more than ever.

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