



Demonstration against the cuts in Barcelona, placard reads "Occupy the Street", 15th March 2012 © Pablo Tosco / Intermón Oxfam

CRISIS, INEQUALITY AND POVERTY

What Spain can learn from social crisis in the developing world

The responses adopted to deal with crises are political choices. Those that do not prioritise social justice generate more inequality and more poverty. That is the lesson that Intermón Oxfam has learned from three decades of experience of crises in Latin America and South-East Asia. Spain is currently facing a turning point at which it must either change its course of action or risk losing three generations of achievement in welfare, social rights and democracy, thereby turning into a two-tier society of rich and poor.

SUMMARY

We have lived through this already. The International Monetary Fund imposed a process on us that they called adjustment, which they now call austerity. We had to cut back all spending, including both current and capital expenditure. That way they ensured that we would achieve a high level of efficiency, salaries would fall and taxes would adjust. That model resulted in the bankruptcy of almost all of Latin America in the 1980s.

Dilma Rousseff, President of Brazil¹

Like other countries shaken by the greed of the financial markets, Spain is falling into a dangerous spiral of ever-worsening crises, poverty and inequality. Austerity measures and speculation about its debt are taking their toll. Spain's experience echoes that in Latin America and South-East Asia in the last decades of the 20th century, due to structural adjustment.

Spain started from a different position from the countries of Latin America and South-East Asia when they faced their crises (in terms of both Spain's wealth and the strength of its institutions). But the measures adopted in Latin America and South-East Asia were essentially similar to those being implemented to tackle this crisis and the foreseeable impacts of these measures are heading in the same direction. The management of those crises shows that the austerity model - focused on deficit reduction and shoring up the banking system by injecting public funds financed by exorbitant levels of debt-, does not generate growth. The tax rises and the cuts to spending on public policies and social welfare to finance this debt have a terrible cost to society. That cost is particularly felt by the most vulnerable groups, resulting in rising unemployment, poverty and inequality.

The countries of Latin America and South-East Asia took between 15 and 25 years to bring poverty back to pre-crisis levels. Their experience indicates that, if the policies currently being applied are not changed, it could take two to three decades for Spain to return to the levels of social welfare it enjoyed just before the crisis in 2008. Meanwhile, poverty and social exclusion could increase dramatically. Within a decade (by 2022), the number of people in poverty in Spain could reach 18 million (38 per cent of the population). The richest 20 per cent of Spain's population could be earning on average 15 times more than the poorest 20 per cent.

Although Spain's economy grew considerably during the decade prior to the crisis (known as the 'golden decade'), it was the richest people in the country who mostly acquired this wealth. Not only did this increase inequality, it also failed to reduce poverty levels: social protection was not consolidated, and the proportion of GDP spent on social welfare did not increase. The bonanza resulted in an unsustainable bubble and an extremely high level of private debt, incurred mainly by banks linked to the real state sector.

Unlike Iceland, Spain is not rectifying the abuses of its financial system or calling for those who destroyed the savings and life plans of thousands of families to be held accountable. This means that Spain is heading down the worst possible path. The political decisions taken in the upheaval of economic and social crisis are leading Spain towards structural changes that will culminate in the definition of a new 'social contract' between the authorities and ordinary citizens. In the new balance of power, citizens' participation in public policies is rapidly being restricted and the government's power is giving way to the markets. Social policies are the first to suffer the consequences of this fiscal-stability fundamentalism through budgetary adjustments.

Spain's public debt is currently equivalent to 90 per cent of GDP. One in three euros of planned spending under the 2013 government budget will be spent on paying interest charges on that debt.² One in four Spaniards is at risk of poverty or social exclusion,³ there are 1.7 million households in which all members are unemployed,⁴ and more than 500 evictions take place every day.⁵ In this context, the only response has been to cut public services, raise taxes on the middle and lower classes, and rescue the banking sector at the cost of more public debt. This allocation of resources and the way in which efforts are distributed reflect the priorities of the government and the social model it is defending.

As the chosen anti-crisis measures unfold, Spain moves closer to becoming a poorer, more unequal country with fewer social rights and a weakened democracy. This forecast will come true if financial arguments continue to take precedence over social and political ones, enabling wealth to continue accumulating out of the reach of the middle classes, who will lose their jobs and purchasing power. Meanwhile, more people will swell the ranks of the vulnerable and those in poverty, and the country's poorest inhabitants will be abandoned to their fate.

Four fundamental lessons can be learned from the experiences of the crises and recovery in Latin America and South-East Asia: a country can emerge from a crisis like this one while protecting its most vulnerable residents; inequality is a drag on development, even once economic growth recovers; political commitment to general welfare through social policies is crucial for recovery; and citizens' participation validates and consolidates change.

Recommendations:

1. Tax fairly

- A fair tax system based on the principles of equality and progressiveness.
- Put an end to tax evasion and avoidance: stop the impunity of tax havens, improve transparency of multinational companies' financial data, strengthen fiscal cooperation between different countries based on multilateralism, and improve companies' fiscal responsibility.
- Introduce a tax on international financial transactions and use the revenues it raises to fight domestic and global poverty, and safeguard the free and universal nature of social services.

2. Safeguard social rights

- Guarantee the universal right to high-quality public education and health services; a minimum-income-guarantee system; the right to protection and assistance; the right to decent housing; and the right to employment.
- Honour the commitments made in the fight against poverty worldwide through a strong and well-financed cooperation policy.
- Ensure that policies comply with these principles and allocate spending priorities accordingly.

3. Strengthen democracy

- Guarantee access to and quality of information for citizens through a specific information-access law that acknowledges this right to be informed as a fundamental right.
- Foster a participatory democracy in which it is usual practice to consult citizens about important decisions that affect their economic and social rights.
- Guarantee the independence and proper functioning of state supervisory and regulatory bodies.
- Guarantee the full exercise of citizens' freedoms.
- Restore the Congress of Deputies and other representative institutions as a space for dialogue and accountability before citizens.
- Promote a transparent financial sector that meets the social purpose of giving citizens access to credit (a bank that serves society).
- Be firmer in fighting corruption and prevent impunity for crimes that result in serious damage to social rights.

Intermón Oxfam considers the brutal economic adjustments that Spain is experiencing to be unfair, regressive and wrong. At Intermón Oxfam, we are focusing our efforts on what is most relevant to us in terms of our mission and identity: denouncing the failure to protect the most vulnerable people in the world -in Spain and in the developing countries-. We base our position on experience acquired from other crises in other parts of the world.

The converse is also true. What is happening in Spain right now helps Intermón Oxfam explain what has happened and is still happening in many developing countries, in a way that is more relevant to our audiences. The causes and consequences of global injustice affect poverty and inequality in all parts of the world, leaving the most vulnerable people unprotected.

INTRODUCTION

Today's dire situation is neither temporary nor purely economic in nature. The very foundations of the social advances achieved in Europe over the last few decades, which have contributed to social cohesion, are now in question. These advances include the policies of solidarity and cooperation on development which, based on the universal nature of rights, serve to fight against extreme poverty in the world. The current trend is to implement fiscal-austerity policies, without acknowledging that the fiscal-deficit problem has its origin principally in financial speculation, and not only in government spending. A definite retreat is being made away from the public sector towards the markets, and away from social rights towards private profits. There appears meanwhile to be little strategy for growth.

There are very clear parallels between the situation in Spain today and the economic adjustments and anti-social policies of Latin America and South-East Asia during the 1980s and 1990s. Although the starting points are different, the consequences look set to be equally disastrous.

The measures adopted in Spain are unfair. It is doubly unfair that the Spanish government continues to cut back social policies when there are alternatives (such as a tax on international financial transactions, cracking down on tax evasion, questioning the bank bailout and the salaries of the rescued banks' managers, promoting responsible conduct from companies on fiscal and labour matters, and making cuts in other areas, such as subsidies for motorways, industrial and farming oligopolies, and the arms industry responsible for military spending). These alternatives could prevent a great deal of suffering for the most underprivileged.

Intermón Oxfam has a clear mission to fight with and for underprivileged populations as part of a broad global movement, with the aim of eradicating injustice and poverty, and helping all human beings to fully exercise their rights and enjoy a decent life. We consider the brutal economic adjustments that Spain is experiencing to be unfair, regressive and wrong. We are focusing our efforts on what is most relevant to us: denouncing the failure to protect the most vulnerable people in the world. We base our position on experience acquired from crises in other parts of the world. Similarly, what is happening now in Spain helps us to explain what has happened and is still happening in developing countries in a way that is more relevant to our audiences.

Intermón Oxfam has more than 50 years' experience of working alongside the most underprivileged people in dozens of countries. We have first-hand knowledge of the impact of measures like those currently being implemented in Spain. Because of this, we wish to use this report to draw attention to the growing inequality and poverty caused by the crisis and subsequent austerity measures, both in Spain and elsewhere.

This report suggests a number of changes in the development model that are necessary to guarantee people's fundamental rights. It also aims to show that there are global factors that affect the rise in poverty and inequality, which must be tackled without resorting to the unfair dilemma of setting people living in poverty in Spain against those in other countries.

The report is divided into four chapters:

- Chapter 1 gives an overview of the situation worldwide. Before the crisis, the world economy was growing, advances were being made in the fight against poverty but inequality was rising. The global economic crisis has caused severe stagnation. On a worldwide scale, leaders have wasted the opportunity to crack down on tax evasion, although some progress has been made on introducing a tax on international financial transactions. Citizens around the world have played a key role in this context by expressing their dissatisfaction at their political leaders' failure to be representative, thus provoking considerable changes in many countries.
- Chapter 2 sets out the lessons that can be learned from similar crises in Latin America with the so-called 'lost decade', and in South-East Asia. In both cases, the structural adjustment measures did not translate into economic growth, but instead resulted in enormous social costs and increased inequality and poverty. Experience shows that the burden of inequality persists, even after the economy has recovered.
- Chapter 3 focuses on the crisis in Spain, from how the real state bubble was managed during the 'golden decade' to the onset of the crisis, the measures that have been taken to combat it and the impact that these measures are having on Spanish society.
- Finally, Chapter 4 describes how, if its policies do not change course, Spain will become a polarised country. It will be poorer and more unequal, with fewer social rights for the majority of the population and with a severely eroded democracy. The report concludes with a series of proposals on how the country can change direction, based on three pillars: the need to establish a fairer tax system; to safeguard social rights both within and outside our country; and to strengthen democracy.

1 GLOBAL OVERVIEW OF THE CRISIS

Before the crisis: growth in the world economy, advances in the fight against poverty, but rising inequality

In the last two decades, the world economy has expanded almost threefold (it grew from \$24 trillion in 1992 to \$70 trillion in 2011),⁶ and this growth has benefited millions of people in many ways. Considerable advances were made in the fight against poverty during this period, but the multiple crises of the last four years threaten to reverse these achievements.

Box 1. Progress in the achievement of the Millennium Development Goals

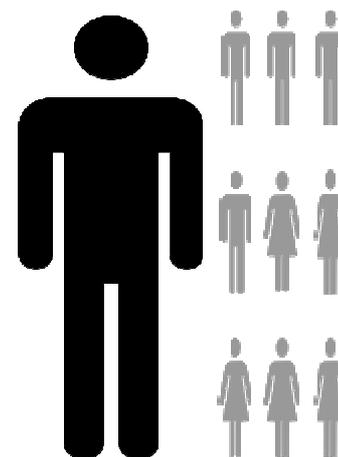
In 2000, all the countries represented at the United Nations agreed that poverty was one of the biggest problems of the 21st century. They therefore agreed on an agenda of goals to be achieved by 2015.

In recent years, considerable progress has been made in reducing poverty, providing access to basic services and improving institutions, thereby helping to relieve the suffering of millions of people. The global goal of reducing extreme poverty to half its 1990 level has been achieved, and extreme poverty has in fact diminished in all regions.⁷ The number of people without access to drinking water has also been halved, and enormous strides have been made towards ensuring universal primary education, with many girls and boys now receiving the same primary teaching. There has also been significant progress in the area of health, with improvements in child survival rates and access to treatment for people with HIV, and fewer people suffering from tuberculosis and malaria.

These genuinely encouraging facts reflect the commitment of many governments to improving the living conditions of those among their inhabitants who demand change. They also demonstrate the positive impact that cooperation and development policies can have when they are oriented in the right direction and are properly resourced.

However, these advances have taken place in a context in which a large part of the growth in the world economy has been concentrated among a minority of the population – the world's richest people. This has resulted in rising inequality. The proportion of income that goes to the highest earners has increased dramatically in recent years⁸ (the richest 10 per cent control approximately half of the world's income).⁹ There is an increased divergence between the richest people in the world and the very poorest, despite the broad convergence of average incomes.¹⁰

The current global economic crisis does not seem to be slowing the accumulation of wealth among the richest, and is actually further accentuating inequality. **In 2011, the richest 1 per cent of the world's population (61 million people) earned the same amount as the 3.5 billion poorest people (56 per cent of the population).**¹¹ In the same year, the salaries, benefits and bonuses of the managers of the 100 biggest companies on the London stock market increased by an average of 49 per cent, despite the feeble growth of their companies.¹² In the United States, the figures are shocking: during the economic crisis of 2007 to 2009, the wealth of the richest 1 per cent of the country's population grew;¹³ and during the last two years, the average salary on Wall Street rose by 17 per cent to reach €281,000, at the same time as jobs were being cut.¹⁴



Inequality is also an economic variable: the greater the inequality, the harder it is for economic growth to result in a generalised improvement for the population and therefore be sustainable. The most important task we are faced with in the 21st century is without doubt to reduce inequalities, end poverty and guarantee the sustainability of our planet. In 2010, the G20 leaders expressed their commitment to this task in the Seoul Development Consensus for Shared Growth, in which they stated that 'for prosperity to be sustained it must be shared'. Now is the time for them to act on that statement.

The crisis is causing the world economy to stagnate, increasing debt and reversing social gains

Since the onset of the financial crisis with the collapse of Lehman Brothers in September 2008, **the economies of the Western world have been suffering a period of stagnation** the outcome of which is as yet unknown. The first global slowdown occurred in 2009, when the growth of emerging and developing economies fell to less than 1 per cent and that of advanced economies declined by around four percentage points. Emerging and developing economies recovered quickly, reaching a growth rate of 6 per cent in 2010, compared with an average of 2.3 per cent in developed countries.¹⁵ The beginning of 2012 saw a decline in the growth of the world economy, placing it on the verge of a profound crisis.

According to the International Labour Organization, 27 million jobs have been lost worldwide since the crisis began, with unemployment at 197 million at the beginning of 2012.¹⁶ **Increasing unemployment in developed countries** restricts demand, making recovery difficult in the short term and hindering growth prospects, which are in turn affected by the gradual loss of skills and qualifications of inactive workers.¹⁷

The United Nations warns in its *World Economic Situation and Prospects 2012* report that **the fiscal-austerity measures adopted further weaken growth and employment prospects, making fiscal adjustment and restoring the balance sheets of the financial sector even harder.**¹⁸

**Half
of global
income is
controlled by
10%
of the world's
population**

These measures, imposed as a result of an obsession with the deficit, **threaten to reverse between one and three decades of advances in the purchasing power of the majority of citizens and in social policy.** The impact of this reversal is once again hitting the people with fewest resources. This includes those who were already poor and vulnerable, and those who have since swelled the ranks of these groups after losing their jobs and purchasing power and seeing their savings or emergency resources eroded. Inequality has increased in many European countries over the last five years, not only in those most affected by the crisis.¹⁹ The reforms demanded by the European Union (EU) of the countries most affected by the crisis have not considered a fairer distribution of resources through fiscal policy. Moreover, the EU's mechanisms have proven to be insufficient and too antiquated to meet the needs of a crisis like this one, both in terms of monetary and fiscal policy and with regard to redistribution of wealth and support for the most vulnerable.

The rapid cooling of developed economies has been both a cause and an effect of the sovereign-debt crisis in the eurozone and of the fiscal problems in most developed countries. However, the increase in the fiscal deficit in several European countries is a symptom, rather than the cause, of the problems in the eurozone, where the corrective tool of exchange rates is not available.²⁰ **The public-debt problems in several European countries worsened in 2011 and have accentuated weaknesses in the banking sector.**

The United States has managed to a certain extent to overcome the slowing of its economy, despite having a deficit greater than that of many European countries. The EU however, is unable to impose a strong political leadership or vision of the European project, and old hostilities seem to be reappearing. The lack of a common perspective is seen in the difficulty of reaching agreements and making important decisions. This generates growing tension between the member states and opens up deep divisions between them. Initially, the troika made up of the European Commission (led by Germany and France), the International Monetary Fund (IMF) and the European Central Bank unanimously imposed austerity doctrines in an attempt to control the deficit in Greece and Ireland, at the cost of an increase in the sovereign debt of member states well beyond sustainable levels. Germany maintains implacable rigidity with regard to the adjustments necessary to achieve a balanced budget, while countries such as Finland and the Netherlands have joined the hard core demanding austerity. On the other hand, the new government of France is attempting to encourage a somewhat more moderate stance, opting for less drastic adjustment plans accompanied by measures to reignite the economy. For its part, the IMF, at its annual meeting in Tokyo in October 2012, acknowledged that estimates of the effect that the austerity measures would have on growth were incorrect,²¹ and appealed to the EU to tone down its demands on austerity.

Wasted opportunities to end international tax evasion

One of the biggest frustrations arising from the current crisis is the fact that we have wasted the opportunity and lost the political will to reform the international financial system and to introduce new bank control regulations. 'The era of banking secrecy is over' was the message announced by then French President Nicolas Sarkozy at the G20 summit in London in March 2009, during which members acknowledged the need to provide a global response to the global crisis.

It is estimated that **every year, \$3.1 trillion (5.1 per cent of the world economy) escapes the world's treasuries and ends up instead in tax havens**, largely as a result of tax evasion and avoidance by major multinational companies. Of that figure, \$1 trillion comes from developing countries.²² For developing countries, this sum is equivalent to 10 times the funds received in official development assistance (ODA). Development organizations like Oxfam have been denouncing this fact for decades.

It was assumed that the statements made at the G20 meeting in 2009 would put an end to tax havens. The G20 therefore commissioned the Organisation for Economic Co-operation and Development (OECD) to create a system for classifying tax havens into black and grey lists, according to the level of tax information exchanged between different jurisdictions.²³ Under this system, a country merely had to sign a dozen information exchange agreements to be removed from the black list, regardless of who it signed the agreements with or of whether it actually used the information exchange mechanisms in practice. The result is that today, the black list is empty, and the grey list now contains only one country (the Republic of Nauru, a small island in Micronesia). In light of the obvious failure of this initiative, the OECD has implemented a peer review process in order to see how tax administrations are working in practice and has set out recommendations for improvement. This process, scheduled for completion in 2014, is a tiresome one. Reviews have yet to be completed of countries such as the United Kingdom (where the City of London is a global hub for financial transactions), which should prove whether the recommendations are mere diplomacy or are actually taking effect. Another problem is that each country has its own list of tax havens, which it uses for internal controls.²⁴

Since the exchange of information is one of the fundamental problems of the global economy, the OECD proposed a 'multilateral convention' for the automatic and multilateral exchange of operations. This was signed by all the countries that attended the G20 meeting in Cannes in November 2011. The G20 summit held in Mexico in 2012 saw proposals to extend the convention to all countries, which would mean extending it to include tax havens, but at the moment progress is slow and it remains to be seen whether the OECD has the ability to apply pressure to achieve this. The same G20 meeting agreed on a recommendation to fight abuses by multinational companies that artificially divert profits to jurisdictions where they pay little or no tax.²⁵ The G20 leaders also recommended, if somewhat timidly, that major companies should make a bigger

The era of banking secrecy is, unfortunately, **not** over.

\$3.1
trillion

escapes the world's treasuries each year through tax heavens.

commitment to meeting their fiscal obligations responsibly. This, however, requires a political will that has not yet become apparent.

A first step towards a financial transaction tax (FTT)

On 28 September 2011, the European Commission presented a proposal to introduce a tax on international financial transactions for the 27 EU member states, which would come into force in January 2014.²⁶ The tax would apply to financial-instrument transactions between financial institutions in which at least one of the parties to the transaction is a member of the EU. Equity and bond transactions would incur a rate of 0.1 per cent and derivative contracts a rate of 0.01 per cent, generating €57bn a year in the 27 countries, including €5bn in Spain. However, the proposal was not agreed by all EU members.²⁷

Because of this, 11²⁸ eurozone finance ministers – including Spain's – approved on 9 October 2012 the proposal under a new form of 'enhanced cooperation'. This would not require participation by all 27 EU member states, but could go ahead with nine or more countries. This is an important step, since it should help to rein in financial speculation, bring stability to the markets and ensure that banks assume part of the costs of the financial crisis. It should also help to generate funds to be used to reverse the effects of the crisis and combat poverty and inequality. However, the criteria for determining what the funds raised should be used for have not yet been established, even though under this system each country will collect the revenues for their respective treasuries and decide what to invest them in. There are fears that the funds will be used once again to shore up the accounts of the banking sector, rather than being spent on social policies.

If the proceeds of the tax go into a fund to rescue financial entities in the event of future financial crises, it would amount to creating a sort of prize that would encourage speculation and destabilisation of the market. Such behaviour has already been proven to cause suffering and is precisely what the tax is intended to restrict. To ensure that the financial sector makes a fairer contribution to public funds and assumes its share of the costs of the crisis it created, the tax should be invested in tackling domestic and international poverty and safeguarding the free and universal nature of social services in order to halt the rise of inequality.

Around €3.3 trillion is subject to financial speculation each year, equivalent to 70 times the global GDP.²⁹ But on an international level, insufficient progress has been made to introduce a global tax on international financial transactions. The initiative led by the 11 EU countries could be the beginning of a movement that will be joined by others who do not want to end up on the wrong side of history. Some have even pressed ahead, such as France and Italy, which have already announced the immediate implementation of the tax. Other countries have committed to spend part of the proceeds on social policies and international cooperation. In Spain, however, the budgets presented for 2013 do not account for the revenues generated by the application of the

tax (or the expenditure of these revenues), and the government has not said what it plans to use the proceeds for.

THE CRISIS IS FOSTERING GLOBAL CITIZENSHIP

We, the unemployed, the poorly paid, the subcontracted workers, the precarious, the young ... we want change and a decent future. We're fed up with anti-social reforms, of being unemployed, of the banks that caused the crisis raising our mortgage rates or taking away our houses, and of laws that limit our freedom so as to benefit the powerful. We hold the political and economic powers responsible for our precarious situation and demand a change of direction.

*15-M–Real Democracy NOW! demonstration (17/05/2011)*³⁰

This crisis is the first of this scale in the globalized era, which means it has different characteristics from previous crises. **Citizens must play a key role** in demanding respect for social rights and denouncing growing inequality and poverty. We must actively participate, draw up proposals and use the mechanisms available to make decisions about the issues that affect us. In short, citizens must have a voice and influence. Citizens can more easily get involved and put pressure on political leaders to listen to them, thanks to the role played by new technologies in facilitating communication and spreading information. Politicians have conflicts of interests and have failed to defend social justice. It is therefore essential that citizens make their voice heard by the political and economic powers and participate in measures that will affect the development and outcome of the crisis.

The level of welfare achieved during the 1990s created a sense of lethargy among citizens in Europe, the United States and other countries. Initial demonstrations were not widespread, but a few took place in Iceland in 2009 (see box 13, Chapter 4). These resulted in a turnaround in the management of that country's crisis, which was shamefully hushed up in Spain.

Rising food prices in 2011 – like those in 2007 – prompted a number of social revolts in Tunisia, Egypt and Algeria. This has since been identified as the spark that ignited the uprisings against totalitarianism in Maghreb countries during the so-called Arab Spring.³¹ On 14 January 2011, President Zine El Abidine Ben Ali of Tunisia, in power since 1987, fled the country under pressure from protests that began only a month earlier. Several days later, on 25 January, the 'day of anger' protests began in Egypt, turning Cairo's Tahrir Square into a symbol of the fight for freedom. On 11 February, Egyptian President Hosni Mubarak, in power for almost three decades, resigned after losing support from his great protector and financial backer, the United States government. Mubarak later appeared before the courts alongside members of his family.

From then on, momentum gradually grew in other Arab countries in the Maghreb and the Persian Gulf (Libya, Algeria, Bahrain, Jordan, Morocco,

Oman, Yemen, Djibouti, Western Sahara and Syria), as well as in non-Arab countries such as Iran and, later, even Israel. Though the initial reaction was one of violent repression, a number of leaders in these countries were subsequently forced to undertake reforms. Only time will tell whether these reforms respond adequately to the demands for greater freedom and democracy.

At almost the same time, and certainly as a result of contagion from the revolutionary tumult in the Arab world, the Indignants or 15-M movement began to form in Spain.³² Under the slogan 'Real Democracy NOW!', the 15-M movement used peaceful protests to channel disenchantment with a political and economic system that was clearly prioritising the corporate interests of business people, the economic system, politicians and private banking ahead of the interests of ordinary citizens. The authors of the 15-M–Real Democracy NOW! Manifesto declared themselves to be concerned and indignant about the political, economic and social situation in Spain, which was marked by the corruption of its politicians, bankers and leading business people. The movement claimed that **by uniting civil society we can build a better system.**

The 15-M movement was quickly replicated in a number of cities in Europe (Paris, Berlin, Lisbon, Budapest)³³ and the rest of the world.³⁴ In the United States and Canada, the demonstrations developed into the Occupy Wall Street movement, in protest chiefly against the influence wielded by those in positions of economic and financial power in the political and social spheres.³⁵

These civic movements, which can be described as democratic and economic regeneration movements, have several characteristics in common. Firstly, all these movements have been led by **well-educated, urban citizens** (mostly, but not only, young people). In many cases the **participation of women** in places where their voice is stifled has been particularly significant, and there has been a clear **desire to denounce the lack of representativeness within the political system.** Secondly, what has brought people onto the streets, from Cairo to Madrid and even Washington, has been the **realisation that those in positions of economic, political and financial power have for their own benefit snatched a certain space away from ordinary citizens** and from democratic mechanisms and institutions. Thirdly, we must **highlight the role played by information technology and social networks.** These networks have created the ability to describe what is happening in another part of the world and communicate it in real time around the planet. They have also facilitated the means to anonymously assemble people unknown to one another but united by a common cause. These are key features of the new role played by citizens in achieving future economic, political and social changes.

These movements, which are local yet global in scope, are changing the traditional power and influence held by citizens, who are positioning themselves as an important actor: They consider themselves as a single group with a voice, a sense of responsibility and a standing in society, and they want to be heard. In the context of the current global crisis, this has meant:

1. The usual media has provided a new account of the situation with regard to the most controversial topics, with new, younger voices.
2. The generation of more democratic debates and greater access (particularly online access) for the vast majority of people and at low cost, accentuated by the media. People are demanding more transparency and more and better access to information, resulting in an increase in information leaks (through such websites as WikiLeaks).
3. The acknowledgement that we are experiencing global problems and a global crisis with similar origins, regardless of national borders, which has enabled and stimulated the creation of online social-action platforms (such as Change) and cross-border online activism movements (such as Avaaz).
4. A break with the formal channels of political life and its institutions, since they fail to connect with citizens or communicate effectively what their purpose is.

2 LESSONS FROM OTHER CRISES: THE PRICE OF AUSTERITY

The starting point of Spain and other European countries facing the crisis is obviously different to that of countries of Latin America in the 1980s and of South-East Asia in the 1990s. But what we know for certain is that the measures imposed then with a view to ending those crises were very similar to those experienced today: public-spending cuts, the nationalisation of private debt, falling salaries, and a debt management model in which repayments to the creditors of commercial banks are more important than social and economic recovery.³⁶ We can therefore predict that, as we are already seeing, the effects of these measures in Spain will be similar, if not in intensity, at least in the direction they take.

This chapter will focus on understanding the crisis in Latin America and the cost that the structural-adjustment measures had in that region, since it is more familiar to the context of Spain. We will also look at the effects of adjustment policies in South-East Asia, whose crisis, like Spain's, began as a result of a real state bubble. This will demonstrate that, although the two regions had different starting points, the impact of applying the same measures was equally dramatic. While Spain's membership of the EU prevents it from making use of monetary-policy tools like other countries did in their day, it can learn lessons from them and adopt alternative measures. This examination of the impacts that structural-adjustment measures in other regions had at the time should illustrate why the draconian measures imposed in Spain and other European countries are on the wrong track.

LATIN AMERICA'S LOST DECADE

The 1960s and 1970s were a period of sustained economic growth in Latin America and Asia. At that time, many Latin American countries (particularly Brazil, Argentina and Mexico) were able to easily take out loans for large sums of money from international creditors to finance their industrialisation plans via the development of infrastructure. This meant that their foreign debt quadrupled between 1975 and 1983.

The rise in oil prices from 1973 hampered growth in many countries, prompting a precarious spiral of over-indebtedness that culminated in the great debt crisis of the 1980s. Foreign debt increased faster than the purchasing power of the countries in question, which, finding themselves unable to meet their commitments, saw their revenues plummet, their economies stagnate, unemployment rates rise and inflation reduce the middle class's purchasing power. Most countries abandoned the

processes of industrialising their economies³⁷ and diversifying production, and instead adopted an export-based growth strategy promoted by the IMF.³⁸ With international interest rates at 18 per cent, governments nationalised private foreign debt and countries had to 'adjust' by reducing imports in order to generate a trade surplus with which to service (at least partially) their debt. Despite a sharp fall in salaries, unemployment rose considerably and the population battled extremely high inflation, eroding their purchasing power.³⁹

These countries resorted to financing from the IMF and the World Bank to tackle the effects of that crisis and, in exchange, had to adopt the neoliberal policies defined in the Washington Consensus as a condition of that financing.

Box 2. The Washington Consensus

In 1989, the Washington Consensus established a list of economic policies which were considered during the 1990s by Washington D.C.-based international financial and economic centres to be the best economic programme for developing countries in order to drive growth. These policies include:

1. Budgetary discipline (deficits must be below 3 per cent or, ideally, zero).
2. Reorganization of public-spending priorities: elimination of subsidies, investment in sectors that promote growth and the provision of services (education, health and infrastructure) for the poor.
3. Tax reform (broad tax bases and moderate marginal rates).
4. Financial liberalisation, particularly with regard to interest rates, and elimination of any capital control mechanisms.
5. Competitive exchange rates.
6. Liberalisation of international trade (reduction of customs and tariff barriers).
7. Elimination of barriers to and establishment of favourable conditions for foreign direct investment.
8. Privatisation (sale of public companies and state monopolies).
9. Deregulation of markets.
10. Protection of private property.

These policies were combined into structural-adjustment and austerity programmes in the 1980s and 1990s, accompanied by reforms to facilitate a new development model. They were demanded by the IMF as a condition for receiving financial support, without taking into account the fact that the context of crisis was not a suitable one in which to adopt many of these reforms, and without planning the best order in which to adopt the measures.⁴⁰ To a certain extent, the IMF took advantage of the political conditions caused by the crisis to impose widespread adoption of these measures.⁴¹ As part of this 'shock' strategy, it was acknowledged that there would be costs, but people assumed that these would be not only temporary, but brief: the structural reforms would not take long to give rise to a considerable increase in investment and growth and, consequently, employment and pay. People were told that there would be

social costs, but it was not explicitly stated whether these would or should fall on society as a whole or affect a specific group, the most vulnerable.⁴²

The impacts of this structural adjustment - some of which are listed in the following section - resulted in Latin America's 'lost decade'. **The measures took a heavy toll on living standards and caused poverty levels to rise: by the mid 1990s, most countries had seen their income per person fall back to the level recorded 15 years earlier. In some countries the figure fell to levels recorded 25 years earlier.** As we will see below, in almost all the countries, markets were liberalised, poverty and unemployment rose, labour rights were affected, inequality shot up, and financial and economic instability increased.⁴³

LESSONS FROM LATIN AMERICA

Latin American societies were already highly unequal prior to the debt crisis. The structural-adjustment and austerity measures made a marked contribution to widening the gap between the richest and the very poorest, thereby consolidating the countries' two-tier societies.

The economic results: the structural-adjustment measures failed to translate into dynamic and sustained economic growth.

Although during the 1990s **growth**⁴⁴ was higher than in the 1980s and the region **managed to considerably reduce its inflation rate**,⁴⁵ these indicators were much worse than those recorded in the region between 1950 and 1980, and were due largely to the **effects of the recovery** rather than to stable growth.⁴⁶

In general terms, the region saw **a recovery in imports** of various kinds, including capital goods. This recovery broadened the base for collecting taxes, insofar as the fall in inflation reduced the losses caused by inflation during the tax collection process, thereby contributing to the **increase in tax revenues**.⁴⁷ However, we must point out that the recovery was partially based on measures that were the exact opposite of those promoted by the IMF through its structural-adjustment programme.

Box 3. Latin America's economic recovery: a favourable context and measures that ran counter to structural adjustment

The economic recovery in Latin America took place in a context of improving external conditions, particularly a rise in international prices of basic products and a reduction in the burden of debt service. Moreover, in order to escape the crisis, a number of countries ended up adopting measures contrary to the neoliberal programme imposed by the IMF via structural adjustment at that time. The IMF itself has recently changed course with regard to this policy.⁴⁸

Thus, since 2002, a number of countries rich in natural resources have improved their economies' incomes by increasing tax revenues, applying **well-directed, progressive fiscal and industrial policies**, which helped to

During the 'lost decade', income per person fell back to levels recorded 15 or even 25 years earlier.

In order to escape the crisis, Latin American countries adopted measures that went against the IMF's recommendations.

create high-quality jobs in the public sector, the services sector and the manufacturing industry. Many countries also **increased social spending**. Several countries adopted **managed exchange rate systems** and **capital control measures** to halt speculative capital inflows and prevent an excessive revaluation of their currencies. **Argentina, Brazil and Costa Rica** are among the countries that have recently implemented capital control regulations, thereby consolidating their financial stability and preventing unwanted appreciation of their currencies. As a result, their monetary policy is stronger, enabling them to promote broader development objectives such as job creation and reducing poverty. **Chile**, for its part, kept the management of copper production and exports largely in the hands of the public sector,⁴⁹ which was key to boosting revenues.

Since the financial crisis of 2001, which dragged half of its population into poverty, **Argentina** has implemented a series of **regulations on capital inflows and outflows**. In 2005, a policy was introduced that requires 30 per cent of all short-term foreign investments to be deposited with the Central Bank for a year. This regulation has been effective in **dampening the inflow of capital in periods of growth, reducing exchange rate volatility and increasing the scope of the country's monetary policy**. Despite regulations on capital outflows, they remain at a high level. Generally speaking, the set of tools used contributed to a process of rapid economic growth and significant social progress.

In 2009, **Brazil** introduced **taxes on foreign investment in local equity and bond markets**. The objective of these taxes was to prevent speculative inflows from causing the currency to appreciate. Since 2008, the country had been inundated with short-term investments that artificially inflated the value of the real, threatening the competitiveness of Brazilian industrial exports. The taxes introduced have proven to be effective in reducing the acceleration of inflows and the appreciation of the currency. Thus, the tax helps to protect jobs.

Source: Based on data from UNCTAD (2012) and Latindad (2011).

In the production sector, a number of businesses enjoyed an **increase in productivity**, which was generally associated with privatisation or the purchase of companies in which foreign investors held a share. In the case of Mexico and the countries of the Mercosur trade bloc, these changes were also influenced by agreements on trade and economic integration, and the process of opening up to the global economy affected almost all countries.⁵⁰ However, these general data fail to adequately acknowledge the **major sectoral differences**. In Mexico, Central America and the Caribbean, **factory work and tourism** developed. For many people these sectors represented their only opportunity for work, despite their precarious nature and a general deterioration of labour conditions. In South America, the sectors that modernised and invested the most were those related to **the exploitation and primary processing of natural resources**, as well as certain factories dedicated simultaneously to both the domestic market and intra-regional trade. But the dynamism of these sectors was not sufficient, given their scale and characteristics, to drive the whole economy or to generate enough jobs, which is why **Latin America's structural heterogeneity increased**.

The social costs: the structural-adjustment measures increased inequality and poverty.

i) More unemployment and more poor-quality jobs

With the structural-adjustment measures in Latin America came **a rise in unemployment rates, a fall in salaries and an increase in informal and precarious work.** Traditional forms of trade union organization and collective bargaining came under threat.

Urban unemployment grew during the 1990s, rising from 5.8 per cent in the region as a whole in 1990-91 to 8.7 per cent in 2001. Argentina, Brazil, Colombia, Ecuador, Peru, Uruguay and Venezuela saw increases of three percentage points or more.⁵¹ **Real wages in many countries have not yet managed to recover from the decline they suffered in the 1980s.** That fall was particularly sharp for the minimum wage and the agricultural wage, which fell by 33 and 28 percentage points respectively between 1985 and 1995.⁵²

The structure of the labour market changed, with a reduction in employment in the public sector and in large private companies and an expansion of the informal sector, made up of small companies, non-professional self-employed workers and domestic service. This trend considerably worsened the quality of employment: 81 of every 100 new jobs generated between 1990 and 1994 were concentrated in the informal sector; that figure rose to 84 in 1995 and then to 85 in 1996, when the informal sector was consolidated as the biggest source of job creation in the region.⁵³

ii) More inequality in income distribution⁵⁴

The recovery of growth and the fall in inflation that took place in the 1990s **did not result in an improvement in the distribution of income, and the number of people affected by poverty in 1994 was still higher than in 1980.** Inequality increased in the 1980s and 1990s in almost all countries in the region,⁵⁵ and in 2000 it reached an all-time high. Although it has decreased slightly since then in some countries, in general it continues to be higher than before the 1980s.

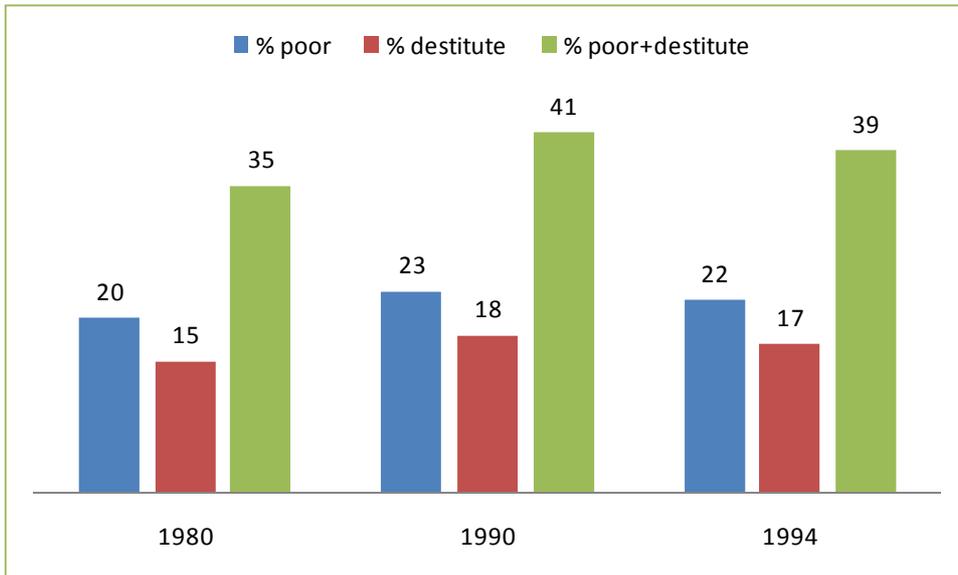
In fact, in all the countries (except Uruguay), **the richest 10 per cent of people increased their share of the national income during those two decades, whereas the share of the poorest 40 per cent either stagnated or decreased.** It is estimated that half of the increase in income-based poverty during this period was due to redistribution in favour of the richest.⁵⁶ This difference was particularly significant in some countries, such as Argentina, Mexico, Panama and Venezuela.

The widening of the inequality gap can be explained on the one hand by the increase in the profitability of financial transactions and the concentration of assets which benefited those with the largest incomes; and on the other hand by the fall in real wages, the rise in unemployment, the loss of jobs in industry and the public sector (sectors that were dominated by formal jobs and unionised labour), and a reduction in social

The countries of Latin America took **more than 25 years** to bring poverty back to pre-crisis levels.

spending, which had a direct impact on the very poorest. In other words, there is no point in combating inflation if at the same time you are destroying well-paid, high-quality jobs.

Graph 1: Poverty trends 1980–1994



Data: CEPAL (1997)⁵⁷

The lack of equality in Latin America acted as a catalyst for poverty.⁵⁸ Moreover, inequality of income distribution is associated with inequality of access to health services and other important social services, as explained below.

iii) Negative impact on education⁵⁹

Education is a base for growth, since it improves qualification levels, productivity and adaptability. Differences in access to education and in the likelihood of completing educational courses contribute decisively to inequality of opportunities.

At the end of the 1990s in Latin America, the difference between the average years of study (usually equivalent to the seventh decile in terms of income) and the years of study of the poorest income decile was almost two years, whereas the richest decile had four more years of study than the average.

Thus, in the late 1990s in Latin America, **the difference that existed in terms of average years of study was reproduced in the characteristics of job creation**: well-paid jobs for a minority of professionals and specialists, and poorly paid jobs for a majority, who turned to the informal sector or to low-productivity tertiary jobs, thus consolidating inequality.

iv) Negative impact on health⁶⁰

A healthier population can be more productive. Several authors⁶¹ have shown **the correlation between public spending and the principal health indicators** (life expectancy and infant mortality).

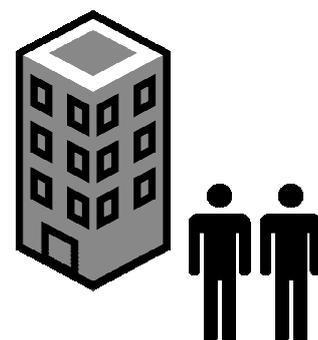
Between 1980 and 2000, Latin America's public spending was among the world's lowest, at around 20 per cent of its GDP. This explains why, during that period, it saw the greatest slowdown in life expectancy growth and in infant mortality reduction of any region when compared with other groups of developing countries.⁶² This proves that **in just one decade of adjustment, macroeconomic policies can have measurable effects on social indicators.**

v) Increase in poverty⁶³

The proportion of people affected by poverty in Latin America increased from 40.5 per cent in 1980 to 48.3 per cent in 1990. In other words, the affected population rose from 136 million people in 1980 to 200 million in 1990, an increase of 64 million people. In absolute numbers, in 1997, the number of people living in poverty was still above 200 million, despite the fact that per capita growth had recovered to more than 2 per cent per year.⁶⁴

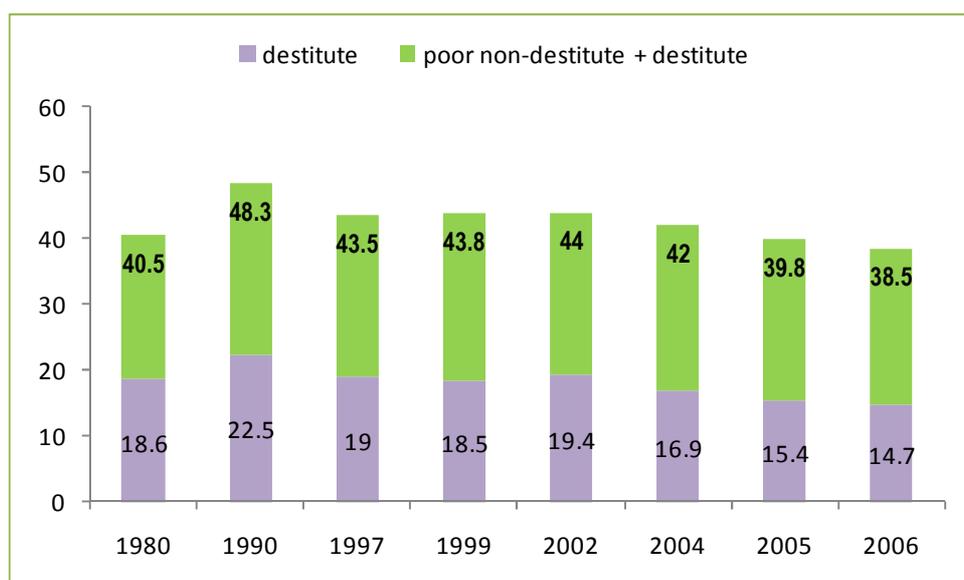
The percentage of people in poverty has gradually been decreasing since 1997, but until 2005 that proportion continued to be higher than in 1980. In other words, **it took more than 25 years to bring poverty back to pre-crisis levels.**

The farming sector failed to absorb the workforce, which is why the emigration of the rural population to the cities in search of better living conditions has been a permanent trend since the 1980s. The urban economy meanwhile also failed to offer decent opportunities to overcome poverty and destitution, even for the resident urban population. As a result, **the number of urban people in poverty more than doubled between 1980 and 1997. This was a decisive factor in the new social panorama of Latin America.**⁶⁵



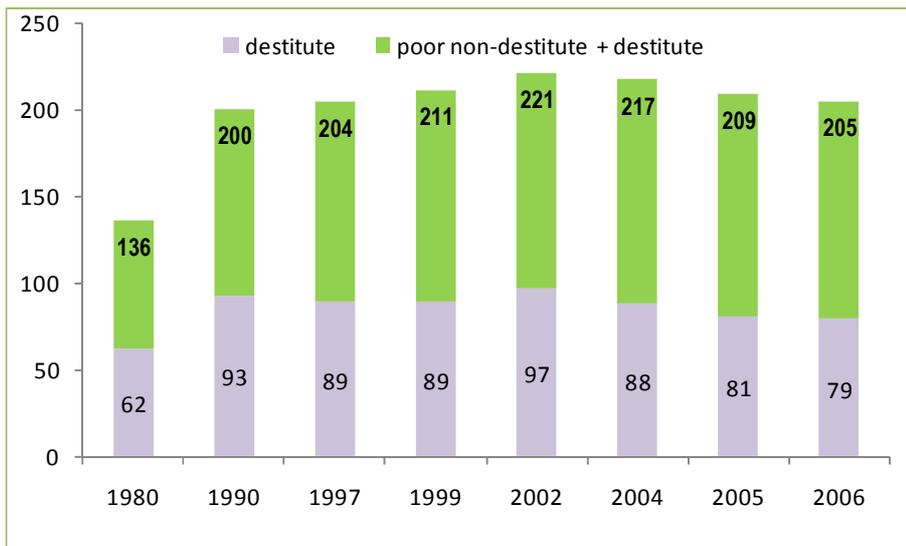
The decade of austerity in Latin America doubled the number of **urban poor.**

Graph 2: Evolution of poverty and destitution in Latin America between 1980 and 2005 (in percentages)



Source: CEPAL (2011)⁶⁶

Graph 3: Evolution of poverty and destitution in Latin America between 1980 and 2005 (in millions of people)



Source: CEPAL (2011)⁶⁷

Box 4. Settling foreign debt: from Latin America to Europe

The hardest part of the debt crisis was resolved through market mechanisms and political negotiations that were either held openly or covered up with a view to cancelling the debt. One of these was a massive operation: the Brady plan, which converted bank debt (money borrowed from banks) into bonds, which were issued onto the market to be traded and were soon selling at 10 per cent of their face value. Large-scale debt buyback operations (like those currently planned for Greece) were carried out: for example, a debt of 1,000 was valued on the market and subsequently bought by market operators at its 'real value' of 200. The next step was for the debtor country to pay off that debt to the market operators that had acquired it, with a small margin, paying 210. *Et voilà*: a debt of 1,000 had been cancelled in exchange for one of 210, and the markets had not howled with rage. Other debt cancellations were more controversial, such as that agreed between Argentina and its bondholders in 2001. This resulted in an agreement with the majority of the country's creditors to write off 80 per cent of its debts, since it was impossible for Argentina to generate the income needed to pay off enormous debts at rising costs.

It is also worth mentioning another example that is much more significant today, given the countries involved: the London Debt Agreement of 1953. Under this, Germany benefited from the actions of the international community and avoided having to pay exorbitant amounts to service its debt. The annual debt payments to be made by Germany were capped at 10 per cent of its wealth, and all payments were conditional on the occurrence of economic growth in the financial year in question (in other words, if there was no growth, then the creditors would get nothing). This was another covered-up debt cancellation intended to aid the German recovery after the Second World War, borne of the experience of the enormous debts incurred by Germany after the First World War, which depressed its economy and produced the conditions that enabled the Nazis to rise to power.

Thus, debt crises have been resolved in different countries and at different

periods of history using write-off and cancellation mechanisms that were more or less covered up. Adjustment meanwhile depressed the economies of Latin America for at least 10 years and gave rise to a decade of massive volatility and instability in the 1990s. This cycle was only broken when debt reached sustainable levels and austerity measures were exchanged for policies intended to strengthen public institutions (which, among other things, must monitor the correct functioning of the markets) and to invest in the economy and society.

It could be said that these two decades (1980-2000) were needed chiefly in order to learn that debt repayment cannot be a country's religion and that extreme austerity is destructive and does not create opportunities for the future. However, the cost for hundreds of millions of people in the region was extraordinarily high, and it took 20 long years to return to the starting point: **two lost generations**. In the case of Germany in 1953, the most obvious lesson to learn is that in order to support growth and efforts to end the crisis, we need to set out exceptional measures, which may include the temporary suspension of debt repayments and the establishment of limits to those payments.

In summer 2011, Spain did something unusual and extremely serious: it enshrined in its constitution the repayment of debt as a priority over any other domestic need, as pushed by the two main parties in order to satisfy the markets. In doing so, political leaders paved the way for the possibility of debt engulfing all social policies, and ignored historical experience. Have we learned anything? Will Europe be capable of taking lessons from history and giving priority to progress and citizenship over the interests of creditors?

Source: Written by Jaime Atienza (Campaign and Studies Director, Intermón Oxfam)

LESSONS FROM SOUTH-EAST ASIA⁶⁸

The South-East Asian crisis, or the Asian Tiger Crisis, exploded in 1997 with the devaluation of the Thai currency and concluded with the suspension of payments by Russia in the 'black August' of 1998. Its origins lay partially in the appreciation of the US dollar against the yen, the consequent fall in demand for products exported from South-East Asia due to a loss of competitiveness, and massive foreign investment, even to high-risk borrowers, which in some countries generated a real state bubble and an increase in speculation on the stock markets.⁶⁹ In 1997, *The Economist*⁷⁰ claimed that **'South-East Asia's problems began when the banks started recklessly giving loans to the real state sector and excessive construction projects'**.⁷¹

Unlike Latin America in the 1980s, the Asian crisis shook a region that had achieved both high and fair levels of economic growth.⁷² It had enjoyed an unprecedented reduction in poverty levels based on public investment in basic health and education and fair participation in the benefits of economic growth.

The IMF reacted to the South-East Asian crisis in the same way as it had to that of Latin America in the 1980s. **It demanded deflation, through public-spending cuts and by financing the deficit with public debt at**

'South-East Asia's problems began when the banks started recklessly giving loans to the real state sector and excessive construction projects.'

The Economist,
15 November 1997

high interest rates. The most concerning thing is that the IMF's recommendations failed to take into account the fact that the circumstances of the region at the onset of the crisis were nothing like those of Latin America 15 years earlier. South-East Asia had a high level of savings, low inflation and more or less balanced budgets, as well as still worrying pockets of poverty. These measures **quickly had a negative impact in several countries, such as a rise in regional inequalities in Indonesia and an increase in unemployment in Thailand.** In Indonesia, it took 10 years for poverty to return to pre-crisis levels (in 2008 poverty returned to its 1997 level, just before the crisis).⁷³

Another problem related to the IMF's management of the South-East Asian crisis was caused by its **favourable stance towards creditors.** All claims from international creditors in the region were accepted as legitimate, despite the fact that some creditors had carried out high-risk operations, as the crisis demonstrated.

In response to the economic crisis in South-East Asia, countries such as South Korea, Indonesia, Thailand and China made joint efforts to prevent a recurrence. This included strengthening regional institutions and boosting their reserves. Faced with the current crisis, these countries have maintained growth as well as investments in education and in programmes aimed at the young unemployed, unlike in Europe.

We can learn four lessons from the South-East Asian crisis that are useful for Spain:

1. There was a **very similar origin of crisis**, marked by a high level of foreign investment that caused excess liquidity, which was directed at the real state sector and caused a bubble.
2. Action by the IMF involved recommending the **same structural-adjustment measures** that had already been applied in Latin America – the same ones that Spain and other European countries are being required to implement – **without calling to account the creditors** responsible for the real state bubble (as in Spain).
3. Despite the fact that the Asian countries were starting from a situation in which economic, social and institutional development conditions were much more favourable than those of Latin America at the beginning of the crisis, **the effects of the structural-adjustment measures were equally negative** (as is happening in Spain).
4. Many countries **escaped the crisis by applying measures contrary to the demands of the Washington Consensus, as recommended by the IMF.** They promoted a bigger role for the state in the economy, established more specific regulation, and introduced different capital control mechanisms.

Box 5. A brief look at structural adjustment in sub-Saharan Africa

The countries of sub-Saharan Africa also underwent an adjustment programme supervised by the World Bank, with similar characteristics to those of Latin America and South-East Asia, and with equally disastrous consequences.

Indonesia took

10 years

to recover its development levels following the austerity policies.

Social spending was reduced by almost 1 per cent of GNP, and the proportion of the national budget dedicated to the social sector fell from 25 per cent to 22 per cent. In some cases, the cuts to social spending per capita were particularly high:

- In Zimbabwe, spending per head on primary health care and primary education was reduced by a third between 1990 and 1995 under an adjustment programme recommended by the IMF and the World Bank.
- In Zambia, health care spending was halved between 1990 and 1994. Spending on children of primary-education age was lower in 1999 than in the mid-1980s.
- In Tanzania, spending per head on health and education was a third lower in 1999 than in the mid-1980s.

Inevitably, public-spending cuts on that scale undermined the quality of public services. Moreover, these measures were accompanied by a process of privatising public services. The consequences had the biggest impact on the poor, who were unable to afford the luxury of paying for these services in the private sector.

Source: based on Watkins (1999)⁷⁴

COMBATING INEQUALITY

The experiences of Latin America, South-East Asia and other regions of the world indicate that high levels of inequality constitute a burden that remains even after economic growth has recovered. This affects the potential to convert growth into poverty reduction and slows the pace of economic growth. When the distribution of income is very unbalanced, it limits poorer people's potential to save and invest, which is damaging to production and employment. That is why **combating inequality should be a top priority**.

Box 6. The power of economic growth to reduce poverty depends on inequality levels

The experience of Brazil, South Korea and a number of low- and middle-income countries shows that reducing inequalities is in the hands of political leaders. There is no shortage of mechanisms, but there is a lack of political will. There are three economic arguments in favour of policies that promote equality:

- The positive effects of growth on poverty reduction are limited by inequality.
- Reducing inequality offers a two-pronged advantage: reducing poverty directly and making future growth more favourable for people in poverty.
- Inequality is an obstacle to growth.

Inequality hinders productive investments, limits the economy's productive and consumptive capacity, and weakens institutions.

Inequality helps to erode social cohesion. It is linked to a broad range of social ills, such as delinquency and lack of confidence, and contributes to weak institutions and poor public management, which in turn are a drag on economic growth. Several studies highlight the importance to growth of being able to rely on strong institutions and the damaging effects of

inequality on such institutions.⁷⁵ The way in which inequality limits people's capacity to participate in government and development is a major contributing factor to lack of growth.

Inequality is key to explaining how the same growth rate can lead to different rates of poverty reduction. In some cases, growth is accompanied by a substantial reduction in the number and percentage of people living in poverty. For example, Brazil's average growth rate between 1990 and 2009 was 2.5 per cent per year, and this was accompanied by a slight decrease in inequality (although inequality is still very high). During this period, the percentage of Brazilian men and women living in poverty was reduced by half. However, in other cases, considerable growth has taken place without poverty indicators improving. In Peru, in the decade from 1997, the proportion of the population living in poverty increased, despite the fact that the country achieved an impressive growth rate of 3.9 per cent per year.

Moreover, inequality is not only relevant in terms of income distribution. Inequalities of power and wealth and gender differences are extremely relevant to development. No country can say that it is truly developed if it has not tackled these fundamental forms of inequality.

Source: based on Oxfam (2012) 'Left Behind by the G20?'⁷⁶

Three fundamental lessons can be learned from the experiences of the crises and subsequent recoveries in Latin America and South-East Asia in the 1980s and 1990s:

Box 7. Fundamental lessons from other crises

- 1. A country can escape from a crisis like this one** while protecting the most vulnerable. Not only are the two not incompatible, but focusing on the most vulnerable is actually the strongest way to end a crisis.
- 2. Inequality is a drag** on the progress of any society, even once economic growth has recovered.
3. Political leaders and citizens must **review and renew consensus on fiscal and social policies** and commit themselves to accountability.

3 THE CRISIS IN SPAIN

In order to understand how the current crisis in Spain began, we need to trace its roots. The bonanza of the decade prior to the crisis – the so-called 'golden decade' – was nothing more than an illusion based largely on the abundance of bank liquidity. This generated a real state bubble very similar to that experienced in South-East Asia before its crisis.

In this chapter, we will cover the period from the golden decade to the onset of the crisis. We will review the main economic-adjustment measures adopted, which, as previously stated, are basically the same ones that were applied to previous crises. The impact of these austerity measures looks set to create a poorer, more unequal Spain. If the country does not change course in time, this will produce the kind of downward spiral that is typical of the austerity model.

SPAIN'S GOLDEN DECADE

In Spain, the period from 1995 to 2007, prior to the onset of the crisis, has been called 'the golden decade'.⁷⁷ After years of high unemployment and inability to generate economic growth, the golden decade was a period of strong expansion. The resolution of the crisis of the early 1990s – when unemployment was in the region of 20 per cent and the budget deficit was high (6 per cent in 1995) – was followed by monetary convergence in Europe and Spain's admittance to the eurozone in 1999. This brought with it **low interest rates**, which enabled Spain to generate an economic **surplus** in the mid-2000s and **almost total employment** in 2006 (one in every three jobs created in the EU-15 countries between 2000 and 2007 was generated in Spain).⁷⁸ **Inflation** remained high, however, and above the European average, throughout the period. The **average income per head in Spain increased** from around 80 per cent of the EU-15 average in the mid-1990s to more than 90 per cent in 2007.⁷⁹

Most of this economic growth was concentrated in the **construction sector**, with rising house prices (which tripled during the golden decade) driving investment in residential property and large infrastructure. This period also saw an **increase in immigration**, boosted by demand for unskilled labour in construction and domestic service (including jobs looking after the elderly and children), which caused Spain's population to expand from 40 million to 45 million in less than 10 years.⁸⁰

There was an abundance of foreign investment in Spain's banks, which, given this unusual amount of liquidity, had no qualms about offering and granting loans above the appropriate level of risk based on forecasts of an indefinite rise in house prices. This, combined with a system of greedy political, economic and corporate interests that benefited disproportionately and individually from this abundance, meant that much of Spanish society believed that growth and welfare were guaranteed.

Box 8. Key indicators of the 'golden decade'

- A smaller difference between the salaries of the best and worst-paid workers. The difference between the highest 10 per cent of salaries and the lowest 10 per cent fell by 20 per cent in Spain between 1994 and 2008. During the same period, this difference increased in practically all other OECD countries.
- A higher employment rate than in other OECD countries between the mid-1990s and 2008. The increase in employment in the 15 years prior to the current economic recession accounted for around 70 per cent of the reduction in income inequality.
- Above all, a higher rate of female employment. The increase in the number of working women in Spain resulted in higher total household earnings. In the two decades prior to the current global recession, the female-employment rate rose by 30 per cent, one of the biggest increases in the OECD.
- An increase in working hours for less well-paid workers compared with the better-paid. From the mid-1990s onwards, the lowest-paid 20 per cent of workers increased their number of hours worked per year (from 1,040 to 1,180), whereas the highest-paid 20 per cent saw their number of working hours fall slightly (from 2,180 to 2,170). In most OECD countries, the opposite happened: workers with lower incomes worked fewer hours, while those who earned more worked more.
- Stability of the proportion of income corresponding to the richest 1 per cent. The proportion of income going to the people with the highest 1 per cent of incomes increased only moderately between 1990 and 2005, from 8.4 per cent to 8.8 per cent. In Anglo-Saxon countries, the share going to the richest 1 per cent doubled.
- More redistribution due to services. Public services in Spain helped to reduce income inequalities by around 20 per cent, as in most OECD countries. This redistributive effect, which remained at a constant level in most OECD countries during the 2000s, increased in Spain.
- But less redistribution due to social transfers. In Spain, social security transfers reduce inequality to a lesser extent than the OECD average. Moreover, this impact has been diminishing in recent years, meaning the country has failed to take advantage of a bonanza period that could have improved fairness and reduced domestic poverty.

Source: based on OECD, <http://www.oecd.org/spain/49177772.pdf>

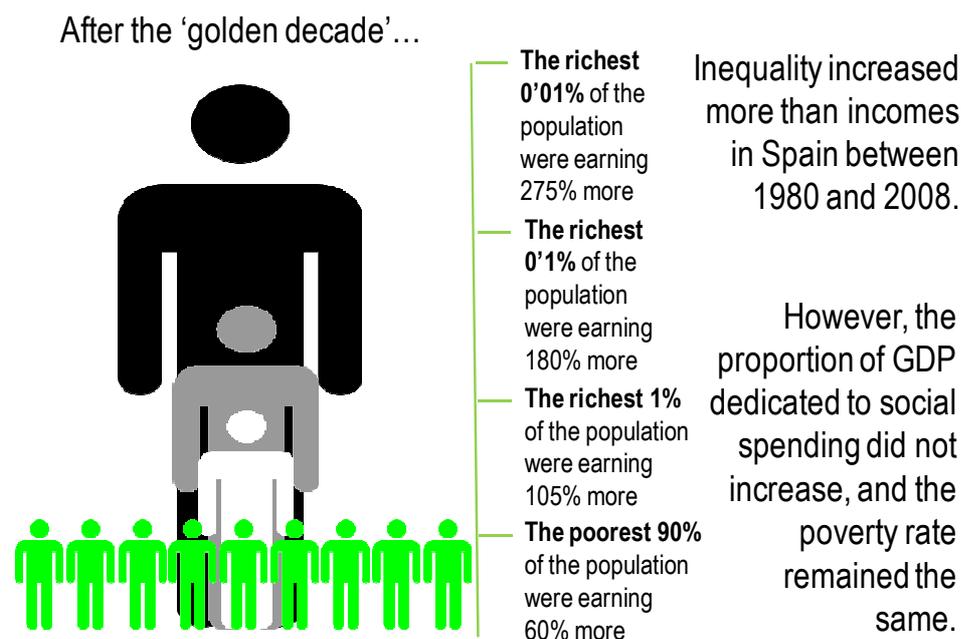
OECD indicators show a **general improvement in workers' salaries** in the 'golden decade' period. In 2008, the average income of the poorest 90 per cent of people in Spain was €13,741 per year (this figure conceals a very heterogeneous whole: there were much higher and much lower wages within that chunk of the population), and the average income of the richest 10 per cent was €61,500 per year.

However, that growth and improvements in conditions for workers in general during the golden decade, conceal two devastating trends:

- 1) An **accumulation of wealth in the hands of the country's richest people**, due to capital income, with a consequent **rise in inequality**, particularly in recent years. Thus, in 2007, the richest 5 per cent were earning more than €78,000 per year, and the wealthiest 0.01 per cent

(the super-rich) were earning more than €1,800,000 per year on average.⁸¹

The evolution of incomes since 1980 shows how much more the different social groups were earning in 2008 compared with 1980. The poorest 90 per cent of the population were earning 60 per cent more in 2008 than in 1980. However, the most striking development is the evolution of the incomes of the super-rich, who were earning 74 times more per year than the poorest 90 per cent of the population in 1980, but 173 times more in 2008, having increased their annual incomes by 275 per cent over that period.⁸²



- 2) The **persistence of structural poverty**, as proven by **poverty indicators that remained stable and did not fall at all between 1994 and 2007**. In other words, during the golden decade, **when resources were available, the problem of structural poverty was not tackled**: social protection was not consolidated and the proportion of GDP invested in social spending did not increase.⁸³

Box 9. The first symptoms of a structural crisis

The 6th FOESSA report revealed in 2008, as in previous years (1994–2007), that a euphoric climate had been created based on macroeconomic indicators. During that time, **Spain's GDP and job creation rate were above the European average**. These indicators were reinforced by impressive urban development and easy access to money through mortgage loans. All of this encouraged people to pursue unlimited consumption, which seemed to translate into a better quality of life (the 'more is better' theory).

In actual fact, behind these data lay a reality of poverty, deprivation and vulnerability that revealed certain risks for a high percentage of the population. Moreover, throughout this period, the decline in the poverty rate

(which had been ongoing for the last few decades) had slowed. There had been a **reduction in employment income, whereas capital income was increasing; and our social-spending levels drifted away from the European average.** In other words, in a scenario that was seemingly favourable to the development of social-cohesion policies and the prevention of future risks, high levels of vulnerability were allowed to rise. **Behind the macro indicators, this vulnerability concealed the risk assumed by a large number of families.** That risk could quickly turn into real dangers if there were a change in the global economic cycle.

In late 2008, the first effects of the crisis began to show. These can be seen in: the current unemployment figures (unemployment stands at 25.02 per cent, and more than half of those unemployed have been looking for work for at least a year) and the nature of the country's unemployment situation (more than 19 per cent of households' main breadwinners are unemployed); the existence of almost 1,700,000 households in which all economically active members are unemployed; the consolidation of poverty and social exclusion (more than 26.8 per cent of people were considered to be at risk of poverty or social exclusion (ARPOE) in 2012); the serious problems of material deprivation (40.1 per cent of people are unable to afford unforeseen expenses); and the increase in inequality above the European average.

Beyond these concrete statistics, the fundamental issue is the structural nature of this crisis, which is transforming Spain as a society. This transformation is taking place through the weakening of social-protection mechanisms (via a progressive increase in the number of unemployed, who are using up social-protection resources and joining the ranks of the unemployed with no income, and via organizations such as Cáritas, which has seen the number of people it takes care of through its reception and assistance services increase from 350,000 in 2007 to more than 1,000,000 in 2011). It is also occurring through the stiffening of prerequisites and the disappearance of aid measures; through the erosion of family relations (since people find themselves obligated to support other family members who have been affected by the crisis); and through the particularly harsh impact the crisis is having on young households and households with children.

We are at a crucial moment in time. Irreparable damage could be caused if this period of crisis persists without the implementation of measures clearly aimed at helping people, regarding the following:

- **A minimum-income-guarantee system:** the implementation of a nationwide minimum-income-guarantee system would be an effective measure against poverty in general, and particularly against child and family poverty. Alongside this initiative, policies should be implemented that aim to reduce household costs (tax exemptions and/or allowances for low-income families and on municipal services aimed at children and young people, and subsidies for school meals, books, schools and children's play centres).
- **Housing:** a pact is urgently needed to amend mortgage regulations in relation to the possibility of facilitating tools to avoid personal liability when buying a house (non-recourse debt). In addition to these measures, others are needed to facilitate the development of personal and family life (**guaranteeing access to housing** through measures such as rented social housing).
- **Education** is one of the most important and effective ways of preventing poverty from being passed down from one generation to the next. We therefore urgently need to **redouble our efforts in terms of education**, by promoting professional training and education for young people who

leave school without a qualification and guaranteeing a proper education for all.

- Social support as the preferred tool for tackling problems and weaknesses resulting from existing vulnerability and social exclusion. This should undoubtedly take place by strengthening **public social services** by giving a considerable boost to the budget of the *Plan Concertado* (an official plan for the development of public social services) and by bolstering the work carried out by organizations in the social-action sector.

In short, we are talking about a current crisis that could also be an opportunity – **an opportunity to do what we were not able to do when the macroeconomic indicators said we were a rich country**. This is an opportunity not to lose rights that could be lost forever. An opportunity to tackle as a society – not as isolated individuals – the suffering of many people. An opportunity, in short, to ensure that at the heart of our model of society and of all our decisions is the one who really should be there: the human.

Source: Written by Francisco Lorenzo (Coordinator of the Sociological Studies team at Cáritas Española and Fundación FOESSA)

Several factors indicated that **the 'golden decade' was unsustainable**: high inflation compared with the rest of the eurozone, which was hindering competitiveness; the fact that house prices were rising quicker than economic growth, which indicated the presence of a bubble (as in the United States at the same time, and like the bubble that gave rise to the South-East Asian crisis); high house prices together with high consumption, variables that had a direct impact on household savings; and a lack of competitiveness coupled with strong domestic demand, which generated a trade deficit due to an increase in imports.⁸⁴

THE RESPONSE TO THE CRISIS: CUTS AND DEBT

A timid initial stimulus

Spain began the year 2007 with a surplus of 1 per cent. The crisis became visible in 2008, despite the government's determination to deny its impact on Spain until after the general elections of March 2008.

The first measures implemented in response to the crisis introduced a Keynesian stimulus package⁸⁵ in 2008–2009. This included additional assistance for unemployed people who had already used up their entitlement to unemployment benefit and for unemployed people who were not entitled to unemployment benefit; a €400 tax rebate for workers, pensioners and those who earned income from economic activities; a mortgage moratorium for the unemployed under which homeowners could extend their mortgage term for two years at no cost; and the so-called *Plan E*, intended to stimulate the economy and employment by subsidising small-scale infrastructure projects.

The initial stimulus in response to the crisis temporarily had a positive effect on employment in 2009. But the government deficit shot up due to an increase in public spending and a sharp reduction in tax revenues due to the fall in economic activity, particularly because the high unemployment rate meant that less tax was coming in.

And a torrent of cuts

After the initial stimulus, the government budget for 2010 introduced cuts. But it was in May 2010 that the Spanish government publicly yielded to pressure from the financial markets and the governments of Germany, France and the United States in light of the growing budget deficit, announcing an aggressive package of austerity measures that marked the beginning of the end of Prime Minister Jose Zapatero's government. The government elected in November 2011 threw itself still further into the austerity measures and cuts aimed at reducing the deficit. Its measures have included cutting the budgets and proportion of funding dedicated to health, education and dependant care; extending the co-payment scheme for medical prescriptions; dramatically reducing university grants and subsidies for school materials and school meals; and cutting official support for development and cooperation like never before.

The budget cuts have been accompanied by other social measures with no, or at least doubtful, impact on the national accounts. As a whole, these measures threaten to reverse many of the social achievements of the last few decades. They are not a response to a current situation, but are part of a wider, more serious change in the country's social model, since they undermine the fight against poverty and inequality.⁸⁶

Under this policy, all the adjustments are intended to have distributive effects. However, the effect on investors who are hit by taxes on their capital income is not the same as that on people who cease to receive benefits and services provided by the state. In Spain's case, the cuts have affected the neediest people in the form of a reduction in aid and subsidies, an increase in the cost of basic social services, cuts to health, education and cooperation budgets, and the restriction of gender and dependant care policies.

One of the lessons from the crises of Latin America and South-East Asia, which does not appear to have been learned, is the importance of not applying the 'one size fits all' response that we mentioned earlier, but instead adapting – in terms of both method and timetable of adoption – the reforms to the specific conditions of each country. The first step should be a proper diagnosis of the country's problems and needs, a good political definition of the direction in which the country wants to be heading, and a suitable plan based on these points. None of the governments that has fought against the crisis has carried out this essential exercise. All of them have overlooked the fact that, rather than a public-debt problem, the crisis started from an alarmingly high level of private debt – not debt incurred by ordinary citizens, but above all that accrued by real state companies and banks.

The adjustment measures that have been adopted are split between public-spending cuts and an attempt to improve tax revenues through tax rises and a tax amnesty. Moreover, there has been a focus on efforts to save the banking system at the expense of public debt.

i) **Measures to cut public spending**

The majority of the measures adopted are focused on **cuts to public spending at almost all levels of government**. These measures are listed in box 10, below.

Box 10. Main cuts to public spending⁸⁷

Public-sector pay cuts: The salaries of public-sector staff (civil servants, police officers, firefighters, health care staff and all employees of the state and autonomous-community governments) were reduced by 5 per cent on average in 2010 (distributed in proportion to income) and frozen for 2011. Estimated saving: €2.4bn in 2010, and some €4bn across all governments between 2010 and 2011.

Pension freezes: The suspension of pension increases for 2011, which did not apply to non-contributory and minimum pensions, was intended to save €1.1bn. For 2013, pensions will not be adjusted in line with the CPI, meaning the current government will have broken its most important promise on welfare matters and pensioners' purchasing power will be reduced.

Retirement: The conditions for partial retirement approved in 2007 have come into force. Workers must be at least 61 years old, reduce their working day by a maximum of 75 per cent, and have at least six years' seniority at the company or at least 30 contributory years, among other prerequisites.

Health: Health services are being cut back with a view to saving €7bn. The measures include the extension of the co-payment scheme for medical prescriptions, the axing of free health care for illegal immigrants, and the elimination of other services labelled as 'non-priority'.

Education: In addition to the €3.4bn of cuts implemented in 2010 and 2011, Spain's autonomous communities are being asked to make cuts worth a further €3bn in 2012.

Government investment: Government investment was reduced by €6bn in 2010 and 2011, on top of the €5bn of cuts for 2010 already included in the Austerity Plan.

Autonomous communities and municipal authorities: Autonomous-community governments and local authorities, which have control over 36 per cent of state spending, had to make a total saving of €11.2bn. These cuts had an extremely negative impact on the primary care given to society's most vulnerable, since they involved a drastic reduction in social-support and integration programmes run by these governments.

Official development assistance: In 2010, Spain's official development assistance (ODA) totalled €4.5bn, 1 per cent lower than in 2009. In 2011, it fell to €3.1bn (equivalent to 0.29 per cent of GNI), down 37 per cent on the previous year. The budget cuts implemented by Prime Minister Mariano Rajoy's government have brought ODA down to €2.4bn for 2012 and only €2bn for 2013 (0.2 per cent of GNI).⁸⁸ In other words, **in three years, this figure has been more than halved, and is now at the level it was at 20 years ago.**

Sources: from various sources, essentially:
http://elpais.com/elpais/2010/05/12/actualidad/1273652221_850215.html

ii) Measures to boost income

According to data on tax contributions in Spain in 2010, revenues from personal income tax (IRPF) and VAT, taxes that all citizens pay, accounted for 87 per cent of total tax takings. This compared with 9.7 per cent for corporation tax and 1.7 per cent for the taxes paid by international companies on the profits from their overseas operations. **The biggest tax burden in Spain is borne by ordinary citizens such as workers and consumers.** In 2012, this burden increased as a result of the new increase in VAT and the elimination of certain tax deductions.

Box 11. Tax rises

Increase in VAT: In just over three years, VAT has risen by more than five percentage points. Firstly, in June 2010, VAT rose from 16 per cent to 18 per cent for the general rate and from 6 per cent to 8 per cent for the reduced rate. On 1 September 2012 the next VAT rise came into force,⁸⁹ involving an increase from 18 per cent to 21 per cent for the general rate and from 8 per cent to 10 per cent for the reduced rate for transport, food, health care products and hotel stays. The super-reduced rate was kept at 4 per cent for newspapers, unprocessed food and medicines (but the reduced rate ceased to apply to a number of products, meaning their VAT rate rose straight from 8 per cent to 21 per cent).

Increase in the personal income tax rate⁹⁰ and in the rate applied to income from savings and capital (any investment that generates interest, dividends or returns from investment funds):⁹¹ This reform was approved by the last meeting of the Council of Ministers in 2011, on 30 December, and will take effect in 2013 when income from 2012 is declared, initially as a temporary measure for two years. This increase, which is expected to raise €5.3n in 2012 (€4.1bn will correspond to income from work, and €1.2bn to income from savings), **places Spain's tax rates among the highest in Europe**, above those of countries such as France, the United Kingdom, Germany and Norway, and behind only Finland and Sweden.⁹²

Source: based on various sources

Of all the countries in the OECD, Spain's fiscal reforms have done most to increase pressure on families. The tax rises have coincided with wage cuts and the elimination of various forms of support, such as the €400 rebate on income tax. According to a 2012 survey by the CIS (Sociological Research Centre), 48 per cent of Spaniards believe taxes are necessary for the government to be able to provide public services. However, the vast majority think they are receiving less than they pay for and have little confidence in the state's management of taxes. Moreover, 88 per cent think taxes are not applied fairly and that a lot of tax fraud takes place, particularly among political parties, companies and the rich, adding that the administration makes little or very little effort to combat fraud.

The tax rises contrast with the unchanged tax regime for the SICAV investment scheme,⁹³ which further exaggerates the disproportionate nature of the fiscal adjustments being made. **While ordinary citizens pay 21 per cent in tax on their capital income, those with large fortunes contribute a mere 1 per cent via SICAVs.**⁹⁴ Although SICAVs were designed for collective investment, in practice they are used exclusively for the individual management of large asset portfolios by bringing in 100 fictional investors (known colloquially as '*mariachis*', or front men). In addition to this, with the highly controversial advantage of paying taxes of 1 per cent on management fees and of 0 per cent on capital and profits, the formation of SICAVs is an opaque process. **There are currently around 3,369 SICAVs in operation, with assets under management totalling more than €27bn.**⁹⁵ In November 2010, the regulations on SICAVs were amended to eliminate the tax advantage that enabled them to reduce their capital without having to pay any tax. This reform was implemented retrospectively from 24 September 2010, thereby preventing investors from simply withdrawing their money in order to invest it in a different kind of financial instrument.⁹⁶ Apart from this minor adjustment, however, **the tax regime applicable to SICAVs has emerged unscathed from the crisis response measures.**

Fiscal inequality in Spain:

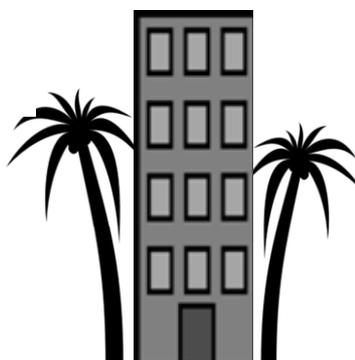


The average single-parent family contributes as much as multinationals with a turnover of more than €1bn:

15'6% of its income

And SICAVs? **1%**

Spain's 3.369 SICAVs manage assets worth more than 27bn



Families, on the other hand, are subject to an average tax burden of 19 per cent, which is proportionally much higher. The tax burden of a single person with no children and average annual income of €41,310 is more than 27.9 per cent; by contrast, no company pays more than 25.2

per cent in corporation tax in practice. Moreover, a person with two children and average income of €16,524 is subject to a tax burden of around 15.6 per cent of their income, a proportion similar to that applied to multinationals that generate annual turnover of more than €1bn.⁹⁷

Graph 4: Tax payment in Spain



Source: based on GESTHA data⁹⁸

As regards the taxation of (non-SICAV) companies, corporation tax in Spain is 30 per cent for large companies and 20 per cent for SMEs, but the actual rate they pay is much lower than the nominal rate. **Large companies paid 9 per cent on average in 2011 thanks to the application of exemptions and fiscal-planning mechanisms, compared with around 16 per cent for SMEs.**

Financial transactions in Spain are exempt from VAT, meaning the state misses out on revenues of €2.5bn each year (this figure is €30bn for the EU as a whole).⁹⁹

iii) A tax amnesty to increase revenues?

Spain has a serious problem with tax fraud, and its governments have a serious problem with tolerating it. In Spain, **85 per cent of IBEX 35 companies have a presence in tax havens.**¹⁰¹ During both the economic boom of the golden decade and the crisis, this trend has only increased.¹⁰² Figures on tax fraud in Spain are elusive due to its opaque nature. It is estimated, however, that **tax evasion in Spain is worth more than €88bn** due to a lack of political will to tackle the black economy and tax fraud.¹⁰³

The *New York Times* recently exposed the fact that tax fraud in Spain is very common among powerful families, big companies and big banks, which together account for 74 per cent of tax fraud, or a total of €44bn that the state (including the central government and those of the autonomous communities) is missing out on.¹⁰⁴ Some of the names of people involved in major cases of embezzlement – specifically those of 569 Spaniards, many of them renowned in the worlds of politics and business – came to

Nine out of 10 Spaniards believe there is a lot or quite a lot of tax fraud in Spain.¹⁰⁰

Tax evasion is worth more than

€88bn

light when a former employee of the bank HSBC leaked information on 130,000 bank accounts that were hiding large-scale tax fraud from a number of national treasury departments, of which 18,000 were held by private and corporate clients from France, Italy and Spain.

Box 12. The cost of tax fraud

If Spain were to collect its evaded taxes (estimated at €88bn), this would enable the government to cover 92 per cent of the country's health bill, which stands at €126.6bn, equivalent to 9 per cent of GDP.

Tax fraud by big companies and those with large fortunes is worth €44bn per year, more than half Spanish development aid throughout history. This money would enable Spain to avoid all social cuts.

The UN has recommended that Spain contribute €40m towards ending the famine in the Sahel region of Africa, an amount equivalent to just one thousandth of the revenues lost each year due to tax fraud.

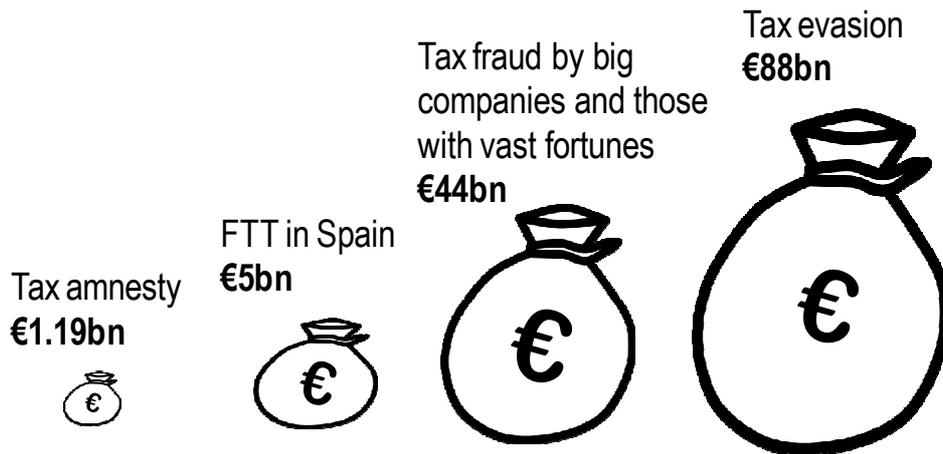
Some 3,000 Spanish holders of large fortunes had accounts at the Swiss branch of the British bank HSBC, worth more than €6bn. Instead of being inspected and sanctioned, they were offered special treatment in order to legalise their situation and were sanctioned only in relation to their interest, not the entire amount they had hidden. The government chose not to collect around €1.5bn.

The fight against tax evasion can be a fruitful one. This should be one of the main focuses of policies intended to combat the debt crisis. It would be much more effective than resorting exclusively to cuts or applying regressive tax measures.

According to the OECD, in the last year Italy has collected an additional €1.7bn thanks to a programme to investigate and identify aggressive fiscal-planning models used by Italian companies, in cooperation with other countries. If similar measures were to be applied in Spain, the amount collected would be greater than the revenues from the government's tax amnesty.

In this context, instead of inspecting and sanctioning this hidden wealth, **in April 2012 the government approved a tax amnesty, which it claimed would raise €2.5bn** by bringing to light €25bn hidden in tax havens or in undeclared accounts. Of this money, the proportion corresponding to years that have not become statute-barred would be taxed at just 10 per cent, with other taxes and fines for fraud being waived. In practice, this meant that fraudsters who declared their assets would pay only around 1 per cent, being sanctioned only for interest, rather than for their entire hidden wealth.

The estimate of the revenues that could be raised through this measure was unrealistic by any reckoning. Now that the amnesty period has finished, only €1.191bn has been raised, less than half the forecast amount, with a total of around €12bn of hidden assets having been declared.¹⁰⁵ This means that **those who declared their wealth under the amnesty have failed to pay the Treasury between €4.1bn and €7.5bn.**¹⁰⁶ Worse still, this legalisation of assets did not reduce the black economy, as was the case in the three previous tax amnesties carried out, in 1977, 1984 and 1991.



Similar measures at other times and in other European countries have also raised few funds, proving that the initiative is not a very effective one. But above all, it is a particularly negative measure in that it favours fraudsters and 'validates' their practices, in contrast to the efforts repeatedly requested of the middle classes and the most vulnerable. It is a measure that generates a deep sense of social discontent and sets a precedent by validating irresponsible or even fraudulent practices. In the end, it is not an option that is likely to prove efficient in terms of raising tax revenues.

Meanwhile, the person who leaked the information on the tax evaders – Hervé Falciani – has been incarcerated in Madrid's Valdemoro prison since 1 July 2012. This is pending a High Court ruling on an extradition petition filed by the Swiss government, which accuses him of violating the country's sacrosanct banking secrecy laws, which is not considered a crime under the Spanish Criminal Code.

Irresponsible banks...

One of the lessons from the South-East Asian crisis is that, by protecting foreign investors who embarked on high-risk transactions in the region, the IMF encouraged other investors to carry out similar operations. These prospective investors assumed that if matters became complicated, they too would receive the same cover for their risk.¹⁰⁷ This posed a threat to the global financial system in the 1980s in Latin America, again in the 1990s in South-East Asia, and most recently in the 2000s in the United States and Europe.

In light of this, **rescuing private banks that have carried out abusive and irresponsible operations with public money, at the cost of running up debts with astronomical interest rates, is a more than questionable practice.** It is even more questionable considering that this debt has not been generated by excessive public spending, as the culprits are attempting to claim to protect their own interests. It has been caused by the interest of the banks that invested in Spain during the golden decade in order to profit from deals in real estate and infrastructure sectors

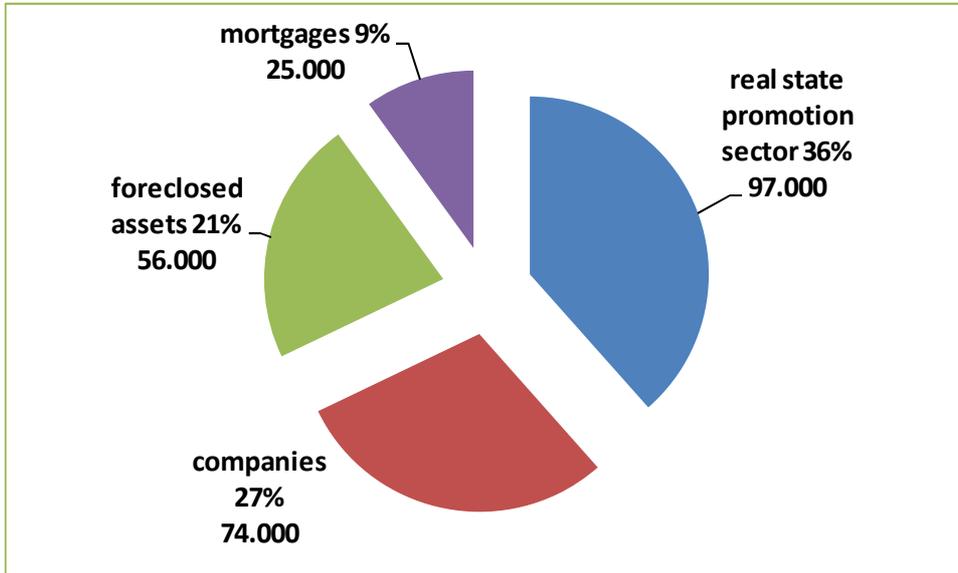
Who has been living beyond their means?



of bank losses are related to mortgages.

– not exactly research and development projects. The Economy Ministry, under Luis de Guindos, acknowledged to the Congress of Deputies that only 9 per cent of the banking deficit is due to household mortgages (which are resulting in evictions); the rest comes from loans to companies and real state developers.¹⁰⁸

Graph 5: Financial-sector losses in millions of euros broken down by debtor



Source: based on data from the Journal of Sessions of the Congress of Deputies¹⁰⁹

Moreover, the injection of public money into irresponsible banks **has not restored credit for citizens and small businesses. Nor has it provided support for the thousands of families currently unable to cope with deceptive mortgages**, who are forced to abandon their homes without being released from the debt they took on. The financial rescue is giving more help to the banks and the high earners who are their biggest shareholders. An alternative to rescuing irresponsible banks would be to set up public banks or subsidise lending cooperatives that guarantee credit.¹¹⁰ Non-recourse debt for people who cannot afford a mortgage is also a minimum requirement, but another fundamental step is to guarantee an independent property valuation system with more transparent criteria.¹¹¹

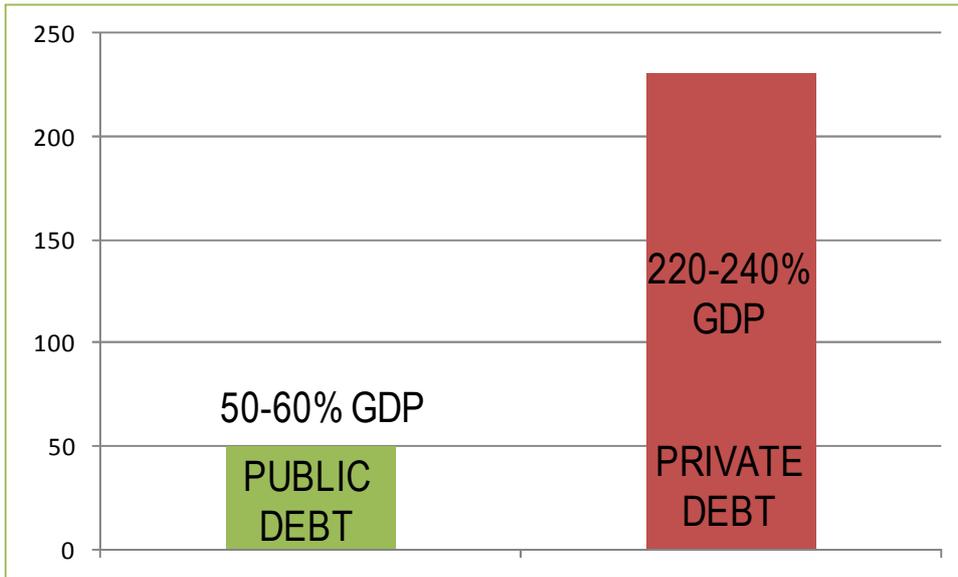
In addition to consolidating the unbreakable link between banking risk and sovereign risk, the measures adopted have created a so-called bad bank. This is intended to clean up the balance sheets of irresponsible banks, which we are restoring at an enormous social cost, by means of a society financed by state-guaranteed debt.

... saved at the expense of public debt

Until 2008, Spain's public debt fluctuated between around 50 per cent and 60 per cent of GDP, which is considered normal. However, private debt stood at around 220 percent to 240 per cent of GDP.¹¹² In other words, **the original debt problem was clearly one of private debt, related**

mainly to the debt of banks with links to real state activities. This recalls the way in which the South-East Asian crisis started.

Graph 6: Spanish debt in 2008 as a percentage of GDP



Source: 2012 government budget¹¹³

In 2008, the government guaranteed €100bn of Spanish bank debt, with a view to easing liquidity tensions, restoring confidence among banks and boosting the issue of credit to consumers and businesses.¹¹⁴ Since then, the Bank of Spain has rescued three *cajas* (savings banks) and two banks; and has nationalised three banks at a value of €4.751bn with the assistance of the Fund for Orderly Bank Restructuring (*Fondo de reestructuración ordenada bancaria*, or FROB).^{115 116} In other words, the state has used public money to guarantee and rescue the debts and deficits caused by investments by private banks. But the liquidity provided has not benefited the productive economy.

The state's commitment to paying off this debt was enshrined via the express amendment of article 135 of the Spanish constitution, agreed between the PSOE (Spanish Socialist Workers' Party) and the PP (People's Party, or Partido Popular) in August 2011, without holding a referendum or any other form of consultation. In order to win greater confidence from the international financial markets (the same ones that are to a large extent behind the global financial crisis), this amendment made the state – i.e. the public – the guarantor of the debt incurred to clean up the excesses of private banks (and of the *cajas*, which, although they were not officially private, mismanaged themselves as if they were). Non-payments of debt became unconstitutional.

While the PSOE government denied the crisis time and time again, the PP government was set on defending Spain's solvency until hours before the need to inject €100bn to rescue the country's banking sector was publicly announced on 9 June 2012. (Just days earlier, the rescue had been valued initially at €40bn and then at €60bn). The injection of €42.5bn of public money to bail out Bankia (which initially admitted a deficit of 'only' €4.465bn), and the willingness to give €1.2m to its manager – who

received a salary of €2.34m in 2011 – in compensation for his dismissal, illustrates how ridiculous the management of this crisis has become. As the new owner of these banks, the FROB must ensure that those responsible for the bad management of the banks be held accountable.

On 9 June 2012 the economy minister Luis de Guindos announced that Spain had requested and obtained a rescue package of up to €100bn from the EU, which the government would use to shore up the country's financial system via the FROB. The final guarantor of the funds granted to Spain is the state, rather than the banks (because the regulations on European bailout funds have not changed, as the German finance minister was quick to point out: 'Spain will guarantee the loan and will have to pay it back').¹¹⁷ Despite this, Luis de Guindos refused to call it a bailout: 'It is a loan at very favourable conditions, better than market conditions,' he stated.¹¹⁸ The Eurogroup has just approved the payment of €39.5bn of this bank bailout, of which €37bn will go towards recapitalising nationalised entities Bankia, CatalunyaCaixa, Novagalicia Banco and Banco de Valencia.¹¹⁹

At the moment, the 2013 government budget provides for a public deficit of €11bn relating to loans granted to banks between 2010 and 2011, which the banks will not repay to the FROB.¹²⁰ One in three euros of the government budget will go towards paying interest on debt. In other words, while a bank like Bankia, which is receiving public money, is preparing to cut 6,000 jobs and its chairman has announced that in 2015 it will make profits of €1.2bn, the citizens of Spain will have to bear the cost of the rescue of this and other banks for two or three decades to come. Contrary to what the prime minister promised, this bailout does involve costs to the public, who are paying a high price in the form of cuts to social policies. It has also reduced the purchasing power of pensioners and other citizens.

The public money used to rescue Banco de Valencia exceeded all Official Development Assistance granted in 2010 (€4.5bn against €4.49bn). The compensation negotiated with its Managing Director (€14m) exceeds the amount of aid provided by Spain for the food crisis in the Sahel.

In 2013 we will lose
at least **€11bn**
due to public loans
that the banks will not
repay.

Box 13. Iceland's experience: listen to the people, don't give the banks public money, hold those responsible accountable, and you will see a glimmer of recovery.

Iceland is a small country, with a population of little over 300,000. Until 2007, it enjoyed a high level of social welfare. In 2001, its four banks were deregulated, which enabled them to privatise their resources and facilitated banking speculation. The banks' investments in the real state market caused a boom that saw unlimited credit granted.

The crisis began in 2008, when Iceland's three biggest banks announced that they were unable to refinance their debts. The government, which had praised the banks' activities for more than 10 years, was forced to nationalise the lenders. It asked the IMF for a loan in exchange for a commitment to reduce spending and pay back the money (€3.5bn) to foreign investors via a massive tax rise for Icelanders.

This prompted a series of popular protests, until then unheard of in Iceland, which forced the government to hold an early election. The newly elected government proposed a plan to pay back the debt incurred. But the protests became widespread, demanding that the government hold a referendum to ratify the proposal. In January 2010, popular pressure forced the President Ólafur Ragnar Grímsson to hold a plebiscite. In March of that year, 93 per

cent of Icelanders voted NO to the government's proposal, and NO to the proposal that the people (rather than the country's bankers and leaders) should pay back the debt.

Finally, Iceland asked the IMF for an international rescue package worth €1.6bn, which forced it to make significant economic adjustments. The Icelandic government did not spend a single króna of taxpayers' money on the banks, however: it let them fail. In October 2008, **Iceland let three major banks collapse, renegotiated their debt with their creditors and allowed them to take control of the new entities.**

The country's courts ruled whether Geir Haarde, the former prime minister, was one of those responsible for the financial crisis. These were the only legal proceedings in the world launched against a politician for presumed involvement in an economic crisis. Geir Haarde was acquitted of three of the four charges against him, but **was found guilty of breaking the law on the responsibility of ministers. Members of the senior management of one of the banks in question have also faced charges in court.** The bank's chairman and chief executive officer, among others, were accused of fraud and manipulation as part of investigations carried out by Iceland's special prosecutor into the collapse of the country's banks in 2008.

One of the key aspects of Iceland's recovery has been its ability to devalue its currency, thereby promoting exports. But it has also **forgiven the mortgage debts held by a quarter of the population.** In spite of all this, **in 2011 its GDP grew by 3.1 per cent** compared with the previous year. In 2010, it contracted by 6.8 per cent, having shrunk by 4 per cent in 2009; inflation was 4.2 per cent, compared with 16.3 per cent in 2009; and its government owes €10.139bn, 98.8 per cent of GDP.

Source: based on data from Intermón Oxfam's *Global Express*,¹²¹ *Wikipedia*, *ABC*¹²² and *El Mundo*¹²³

Spain has taken a very different course to Iceland. Far from making decisions aimed at correcting the systemic flaws that caused the crisis and demanding that those responsible be held to account, the measures adopted in Spain push much of the population towards poverty and marginalization, and require most of the effort to be made by the middle and lower classes – while the fraudsters are pardoned.

Spain's public debt is currently equivalent to 90 per cent of GDP. **One in three euros of planned spending under the 2013 government budget will be go to pay interest charges on that debt.**¹²⁴ Once again, the experience of Latin America in the 1980s, and that of Argentina in 2001, should illustrate the burden on a country's accounts and current budget posed by servicing exorbitant and unjustified levels of debt.

In the meantime, **Spain is neither rectifying the abuses of its financial system nor calling for those who destroyed the savings and life plans of thousands of families to be held accountable.** Even the way in which some decisions were made indicates where the government's priorities lie: the VAT rises were agreed in an office at the Moncloa Palace (prime minister's house), without consulting anybody, and the Spanish constitution was amended overnight without consulting the country's citizens. By contrast, deciding to support the financial transaction tax within the EU required negotiations with four ministers, the problem of evictions was not tackled until human tragedies had occurred (and even

The 2013 government budget plans to spend **only 2 in 3 euros** on public policies, while the rest will be spent on paying off interest accrued on debt.



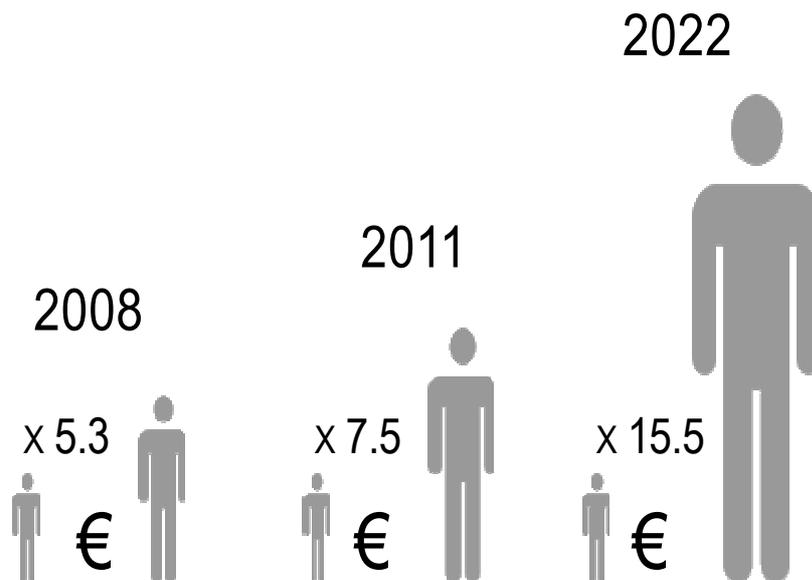
now the process is going slowly), and the parliamentary investigations into the banks' activities are paralysed.

THE IMPACT OF THE CRISIS AND THE AUSTERITY MEASURES

Social differences are widening

As a result of the crisis, social differences are widening sharply and the difference in inequality levels between Spain and other European countries has shot up. The gap between the country's highest and lowest earners has increased, placing **Spain top among the 27 EU member states in terms of social inequality**. Prior to the crisis, Spain's richest people earned 5.3 times as much as the poorest. In 2011, this figure rose to 7.5 times (whereas the EU average is 5.7).¹²⁵ Recent national data show that inequality rose still further in 2010 and 2011.¹²⁶ If this trend persists, **within a decade (by 2022), the richest 20 per cent of Spaniards could earn on average 15 times more than the poorest 20 per cent.**¹²⁷

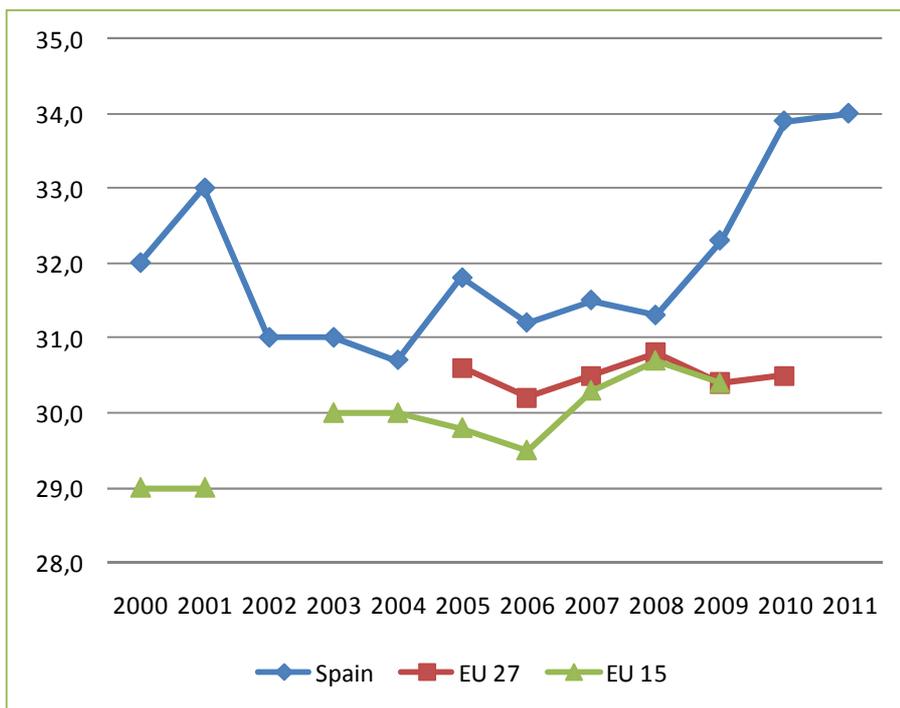
Spain is the EU's most unequal society.



By 2022, Spain's richest people could be earning 15 times more than the country's poorest.

The Gini coefficient (which measures a country's income equality, with zero indicating perfect equality and 100 the highest degree of inequality possible) in Spain reached 34 in 2011, its highest level since records began. To date, only 16 European countries have provided Eurostat¹²⁸ with data for the 2011 Gini statistics, but of those that have, only one scored higher than Spain: Latvia, with a coefficient of 35.2. Germany, where income inequality has decreased in recent years, continued to perform better than Spain, with a coefficient of 29, while Norway scored 22.5.

Graph 7: Increase in inequality in Spain between 2000 and 2011



Source: Eurostat¹²⁹

In addition to causing the economy to contract, the combination of fiscal austerity, wage containment and greater flexibility in labour markets has further accentuated inequality.¹³⁰ Rising unemployment, cuts to universal social services and the increase in indirect taxes, which has the biggest impact on those who have the least, only aggravate this trend.¹³¹ The experience of Latin America shows how inequality hinders opportunities to reduce poverty and generate growth, and above all has dramatic social costs that are extremely difficult to overcome.

Rising unemployment, migration and heightened vulnerability for the immigrant population

In October, more than 4.8 million people were registered as unemployed in Spain, giving the country an **unemployment rate of more than 25 per cent for the first time in its history**. According to the latest Economically Active Population Survey, there are more than 1.7 million Spanish households in which all members are unemployed. Only 67 per cent of those registered at job centres receive any support or benefits from the state.¹³²

Unemployment is higher among the immigrant population, for whom the rate is 35 per cent. In this context, immigrants are becoming ever more vulnerable, since the precarious situation of many of them will be worsened by unemployment, and will in many cases lead to their situation becoming irregular. In such circumstances, these people will also be left without any health cover.¹³³

1.7

million homes
have no income
due to
unemployment.

Box 14. Crisis and immigration

It is a well-known fact that the current crisis is having a particularly acute impact on the countries of southern Europe. However, that should not cause us to forget the global dimension of a systemic crisis nor the fact that it affects different groups of people in different ways. The situation of many migrants can help us to link these two aspects.

The crisis beyond our borders

More than 20,000 people have died attempting to reach Spain's coasts since 1988, including almost 200 in 2011. Autumn 2012 brought more immigrant boats to the shores of Andalusia and fresh attempts to jump the fence into Melilla; in short, more suffering and more deaths.

The cries heard around the fence in Melilla and from those adrift in the militarily patrolled sea speak of anguish and longing, of the desperation and efforts of countless people who feel incapable of living in decent conditions in their home countries. They simply see a potential new horizon in Spain, despite the many risks and difficulties they must face. There continue to be new and varied factors that drive people out of their home countries, often tragic ones. Wealth continues to be an attractive pull-factor, even in the midst of the crisis. What is more, borders cannot control the wealth gap between rich Europe (where income per head is almost €25,000 in Spain) and sub-Saharan Africa (where for example, Mali's income per head is less than €540).

The crisis on this side of the border

In Spain, the crisis is having a particularly dramatic effect on vulnerable people, including many immigrants.

Almost 40 per cent of Spain's foreign population are unemployed, and more than a quarter of foreign nationals who are employed are not covered by the social-protection system. The poverty rate among immigrant households currently stands at 31 per cent, 12 percentage points higher than the rate for the native population under 65. The crisis has caused an increase in extreme poverty, which now affects 11 per cent of the migrant population.¹³⁴

It is a fact that migrants are generally enterprising, brave and willing to fight. They have had to fight to get here and won't allow themselves to be easily defeated. It is also true, however, that their situation is a particularly tough one. There are at least two reasons behind this. Firstly, their family support network is more limited and more fragile, and therefore in many cases was exhausted some time ago with the first throes of the crisis. Secondly, they are more likely to suffer from discrimination, job losses and poorer quality work (jobs that are more precarious and more unstable, with fewer hours and a lower salary).

If we add to this the widespread cuts, the saturation of social resources and the difficulty of accessing these resources, the structural discrimination suffered by migrants and, more generally, competition for scarce resources, the panorama becomes extremely worrying. In this context, Spanish public opinion towards immigration is hardening, increasing rejectionist stances (43 per cent of the population are in favour of deporting immigrants who are unemployed for too long). There is a clear risk of social fracture and deterioration in the climate of coexistence.

Overcoming borders to overcome the crisis

We need to strengthen social cohesion. Just as immigrants were key to the economic boom of the previous decade (remember their contribution to

construction and to the incorporation of Spanish women into the labour market), they should also be central to the management of the current crisis. We need to overcome all the barriers that create walls of discrimination and social fracture. These barriers can be judicial, legal, economic, cultural and mental. It is essential that we overcome borders in order to overcome the crisis, with solidarity as our foundation.

Source: written by Daniel Izuzquiza S.J. (Director of Pueblos Unidos)

On the other hand, the lack of jobs is causing **thousands of people to emigrate** to other countries, such as England, Germany, Mexico, Chile and Brazil. Between January 2011 and October 2012, **927,890 people left Spain, of whom 117,523 were Spanish nationals.**¹³⁶ Emigration from Spain is most common among young, well-educated people who cannot find work in the country. But it is increasingly widespread among middle-aged professionals who do not see a future in Spain due to the collapse of businesses, the slowdown in recruitment and the freezing of positions in the public sector. In other words, thanks to the crisis, Spain is losing a significant part of the human capital that should form a professional middle class to help the country embark on the road to economic, social and political recovery. This section of society should help Spain alleviate the growing social inequality between the rich who remain in the country and the poor, who become ever poorer without the option to leave.

Although many foreign nationals are returning to their countries of origin (120,000 are believed to have left between January and October 2012), this figure still represents just 2 per cent of Spain's immigrant population. The fact that foreign nationals are generally not returning to their home countries in this context is not just a sign of the clear failure of the policy to promote their return. It is also a consequence of an immigration policy that is both unintelligent and immoral: immigrants are not leaving because they know that once the situation improves, they will not be able to come back to Spain.

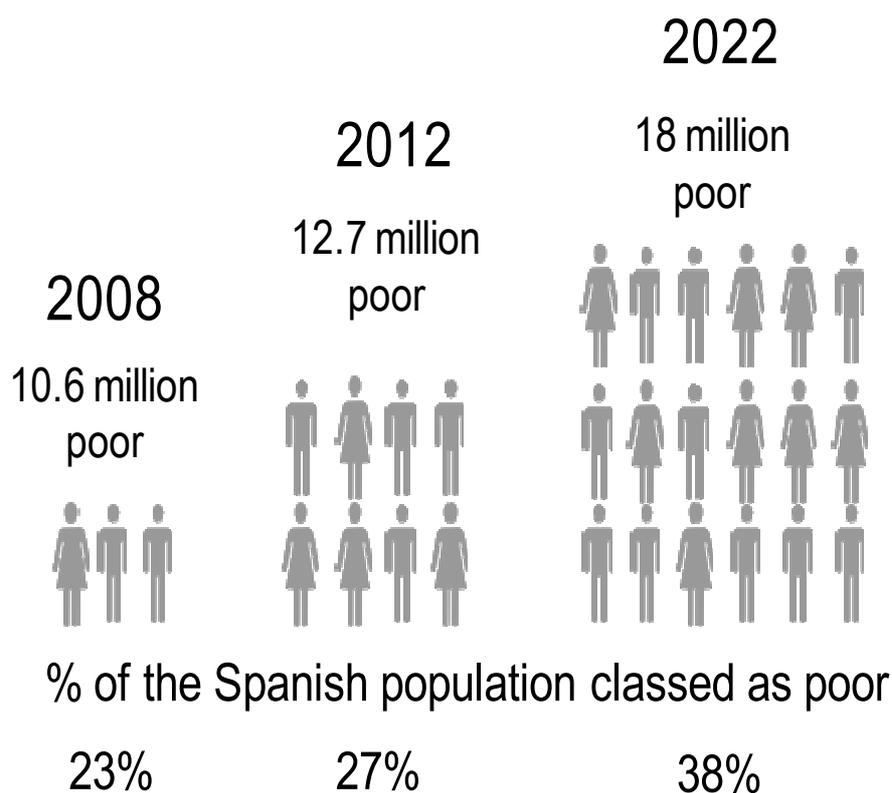
Poverty is rising and the demand for social support is soaring

Around 12.7 million people in Spain are living in poverty and social exclusion, equivalent to 27 per cent of the population, which represents an increase of 2.1 million since 2008.¹³⁷ If this trend continues, **the number of poor people in the country could reach almost 18 million (38 per cent of the population) within a decade.**¹³⁸

‘Young people are emigrating because of their spirit of adventure.’

Marina del Corral,
Secretary General of
Immigration and
Emigration

(30 November 2012)¹³⁵



The deepest cuts have been made to social spending when it was needed most: there will be a 40 per cent cut in 2013 to basic social services, including funds intended for municipal authorities for emergency aid, among other things.¹³⁹ In 2010, the social services provided by the ministry of health and social services catered for more than 8 million people, 19.5 per cent more than in the previous year. More recent figures are not known, but at this rate of growth, and based on social workers' own perceptions, the 2012 data will easily surpass those of 2010. The people who approach these services in search of help are usually elderly (one in three), disabled (10 per cent) and families with children (26 per cent).¹⁴⁰ The services also cater for an increasing number of people who until recently lived modestly.¹⁴¹

The number of **people taken care of through the reception and assistance services provided by Cáritas Spain** rose from 370,251 in 2007 to 1,015,276 in 2011. This is **an increase of 174.2 per cent in four years**, with the current figure standing at 3.5 times the number recorded 10 years ago. This increase has taken place in spite of the fact that Cáritas Española has been forced to slow its pace of care provision due to both a surge in demand and its decision to focus on the quality, rather than the quantity, of care, giving priority to the most serious situations.¹⁴²

Box 15. Poverty: more widespread, intense and chronic

The accumulation of disadvantages among more than a quarter of the

Spanish population is heightening the **risk of a lack of social cohesion**, which was noticeable even before the crisis. This risk is based on:

- the increase in inequality and poverty in Spain: income per person is decreasing and poverty is being concentrated among households with young breadwinners and households with children;
- the increase in unemployment (to 24.63 per cent), the increasingly precarious nature of employment and the high percentage of poor workers;
- the gradual decline of social-protection systems, even before the crisis;
- the erosion of family protection mechanisms;
- regional differences;
- the tax revenue crisis: the black economy and tax fraud.

i) Poverty is more widespread:

- the number of people living below the poverty threshold is rising;
- the number of households in which all economically active members are unemployed is rising;
- the unemployment rate is rising;
- the number of foreclosures trebled between 2001 and 2011;
- the number of people receiving minimum income doubled between 2007 and 2010.

ii) Poverty is more acute:

- the poverty threshold is falling, meaning not only that there are more poor people, but also that they are relatively poorer (poverty has become more acute);
- disposable income is falling in real terms;
- unemployment among households' main breadwinners trebled between 2007 and 2011;
- the number of households struggling to make it to the end of the month is rising;
- the number of households with no income is rising.

iii) Poverty is becoming more chronic:

- 44 per cent of people received by Cáritas have been requesting assistance for three years or more;
- in 2011, 50 per cent of unemployed people were 'long-term unemployed' (meaning they had been looking for work for more than a year), compared with 22.7 per cent in 2007.

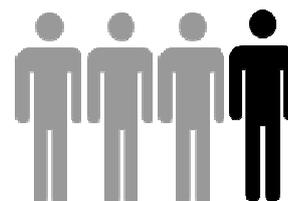
The three main **causes** of this deteriorating situation are:

1. **Unemployment**, together with the increasingly precarious nature of labour conditions;
2. Household **debt**, particularly mortgage debts;
3. **Insufficient public social-protection systems**.

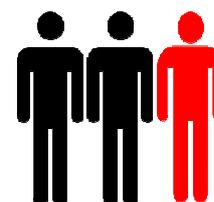
Moreover, there is a lack of relational and personal (psychological) support among families. Other specific aspects, such as the irregular administrative situation of immigrants, a low level of training and/or lack of social skills, and additional health problems among the vulnerable and people in poverty, are also contributing to a gradual social deterioration in Spain.

Source: based on Cáritas Spain, 7th Report of the Social Reality Observatory, September 2012¹⁴³

1 in 4
people is
unemployed



1 in 3 unemployed
does not receive
any unemployment
benefit



The drama of evictions

Because of unemployment, the number of households unable to afford mortgage costs is rising exponentially. This is causing a genuine **housing crisis** that has already claimed lives.

Since the start of the crisis in 2008, there have been 350,000 eviction proceedings initiated, with 172,000 evictions actually being enforced;¹⁴⁴ other sources claim that more than 600,000 families have lost their homes since 2008.¹⁴⁵ The statistics do not enable us to determine how many of the evictions were from primary residences and how many relate to second homes, garages, commercial premises or industrial units.¹⁴⁶ However, we can assume that a large proportion concerned primary residences, given the fact that most of the properties in question were owned by unemployed people.

To put these figures in context, this means that in the first quarter of 2012, 46,559 evictions were carried out in Spain. This figure increased by 3.8 per cent in the second quarter, when a new record was set in terms of the number of evictions from houses and premises ordered by Spain's courts, totalling 47,943. These figures translated into an **average of 526 forced evictions per day** between 1 April and 30 June (almost 16,000 per month), according to official data published by the General Council of the Judiciary.¹⁴⁷ The worst is yet to come, since the evictions currently taking place correspond to cases initiated three years ago, at the beginning of the crisis.¹⁴⁸

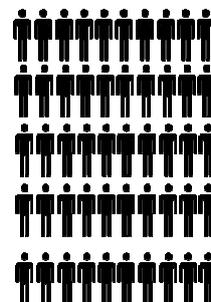
Once again, this drama is having the biggest impact on the immigrant population (over 5 per cent of mortgages to immigrants are bad loans, compared with 3 per cent for the population as a whole). This further accentuates their vulnerability, just when employment and social services – fundamental pillars of integration and social cohesion – are crumbling.

No government has had the courage to implement a solution and amend the laws that currently leave people who took out mortgages from the banks completely unprotected. The recent two-year moratorium on paying off the debt approved as a last resort by the government following several related suicides, is of no use: all it does is paralyse the process, without cancelling the interest generated by the deferral.¹⁴⁹

Other impacts

The **increase in indirect taxes** has meant that fiscal adjustments are falling mostly on middle- and low-income individuals, at a time when social benefits are also being reduced. Moreover, the increase in taxes is not reflected in proportional tax revenues, since the decrease in families' spending power is inhibiting consumption (and therefore tax revenues), thereby cancelling out the stimulus that the measure was intended to give to the economy.

For its part, financial instability has prompted **massive capital flight** from Spain, with the amount of capital being taken out of the country multiplying



x10=

526

families lose
their home
every day in
Spain

by 620 in the first eight months of 2012 compared with the same period in the previous year.¹⁵⁰

Box 16. The crisis and children: the age group hit the hardest

In its first report on the situation of children in Spain, presented in 2010,¹⁵¹ UNICEF Spain warned of a very worrying figure: 24 per cent of under-18s were living in families whose income was below the poverty threshold. The data – from the National Institute of Statistics (INE) – corresponded to the year 2008. This meant the data could not be explained by the anticipated impact of the crisis, but were the result of a structural situation that social policies had failed to resolve.

A year and a half later, in May 2012, the data were updated in a second report in the series, this time corresponding to **2010**.¹⁵² The proportion of children living below the poverty threshold was more than 26 per cent, or around 2,200,000 children in absolute figures. These figures revealed a considerable increase in two years, which was also accompanied by an even more worrying statistic: **children were now, for the first time, the poorest age group in Spain, having overtaken the over-65s**.¹⁵³

The updated 2011 figures have only confirmed this rapidly progressing trend. About **2,267,000 children, or 27.2 per cent of the total child population are affected**. To give you an idea of what this involves, for a family of two adults with two children under 14, living below the poverty threshold means an annual income of €15,820 (equivalent to 60 per cent of the national average income). Put more simply: **there are now more poor children, they are poorer than before, and they are poor for longer**. Poverty intensity (the extent to which a person is below the threshold) is also very high and growing among the child and adolescent population; worse still, it is becoming increasingly persistent.

Young families with small children are certainly 'in the line of fire' of the crisis, or at least suffer its consequences to a greater extent than the rest of the population, due to a sort of boomerang effect. Firstly, through unemployment (the number of households in which all adults are unemployed grew by 120 per cent between 2007 and 2010 for families with children, compared with a general figure of 62 per cent); and secondly, through the side effects of some of the measures taken by public and private organizations in order to tackle the crisis, such as **wage cuts, the increase in indirect taxes (which have more of an effect on families with children because more of their income is spent on consumption), and the withdrawal or reduction of assistance and subsidies**.

The good news is that the fight against child poverty is (albeit partly) not only a question of funds. Firstly, the social and political commitment to tackling the matter is much more important than money. Based on that, measures can and must be taken. This will require resources, but it will also take coordination and efficiency. Even when budgets are similar, there can be significant variations in results in terms of poverty reduction.

Child poverty is not an inevitable consequence of the crisis, and we cannot wait until the crisis is over to tackle it. On the contrary: the international experience of UNICEF shows that countries that have opted to give anti-crisis measures 'a human face' have emerged from their crises in a better condition. Because these 27 per cent of children have rights today, but also



2.267.000
boys and girls

in Spain are
now living
below the
poverty
threshold

because they represent more than a quarter of the adult society of tomorrow, we cannot make them wait.

Source: written by Marta Arias (Director for Awareness and Child Policies at UNICEF)

An analysis of the impact of the austerity measures in Spain reveals parallels with the experiences of Latin America and South-East Asia in managing the crises of the 1980s and 1990s. The causes of the crisis are similar (an increase in liquidity that degenerated into irresponsible loans and speculative bubbles); the measures adopted are similar (public-spending cuts, an increase in the tax burden on the middle and lower classes, and the impunity of irresponsible executives); and, lamentably, the consequences of these factors are heading in the same direction – towards more poverty and more inequality.

4 WHERE IS SPAIN HEADING TO?

Due to austerity measures and increased debt, Spain – like other countries shaken by the greed of the financial markets – is falling into a **highly dangerous spiral of crisis, poverty and inequality** similar to that experienced in Latin America and South-East Asia in the last decades of the 20th century as a result of structural adjustment. As was the case then, **the current austerity measures are failing to generate economic growth and are having terrible costs on society.**

The economic crisis has highlighted **the flaws of the financial system** (both international and Spanish), such as inadequate regulation, minimal taxes, its excessive size, and its capacity to influence political power, all of which have resulted in the current economic turbulence. For the crisis to lead to a positive change, we need brave public intervention that deals with the real causes of the crisis, guided by the need to achieve a fairer, more equal world.¹⁵⁴

In order to do this, **firstly we need to strip away political rhetoric.** Political leaders have transmitted the idea that there is only one way out of the crisis: that there is no choice but accept the swingeing cuts to social and labour rights in order to stabilise the economic situation and re-establish growth and job creation. In order to transmit this conceptual framework, which subsequently envelops all debate about concrete measures, the idea is incorporated into all statements made by political leaders. Most of the media depict powerful images of chaos, poverty and austerity models abroad, and support is mobilised from the business community and elsewhere. In short, a strategy of fear has been activated as a way of containing society and holding it together, which is what usually happens in times of systemic crisis, in both authoritarian regimes and democracies.

At Intermón Oxfam, thanks to our experience of other financial crises, we know that the effects of the social cuts and debt are dramatic for the population and that there are other ways of tackling a crisis. We are therefore proposing a series of political and public actions that will modify the response to the crisis, so that we can progress towards a growth model based on a fairer society. **Political commitment** to general welfare is a prerequisite for successfully integrating social and economic measures aimed at reducing poverty and increasing fairness. **Participation by citizens** who are well informed and engaged in political and social activity is key.

If anything positive can be taken from the current crisis, it is that we can take the opportunity to change some of the guidelines of the model of economic growth imposed during the golden decade in Spain. The breakneck pace of spending, which is more Las Vegas than

Mediterranean, has to cease. We've had enough of massive infrastructure projects with no users. Now that the boom-time dream has ended, we must rebuild **a new model that is more austere (in its literal sense: without ostentatiousness) in material terms, more responsible, fairer and more equal**, and which is also respectful and sustainable with regard to the environment.

TOWARDS A TWO-TIER SPAIN

The current austerity drive is pushing Spain towards becoming a two-tier society, of rich and poor. On the one hand, budget cuts are reducing social spending and impacting directly on the most vulnerable groups of people; on the other hand, measures aimed at boosting tax revenues are having a scandalously disproportionate effect on the middle and lower classes. Meanwhile, the tolerance of tax fraud means that huge quantities of money continue to go undeclared, and there is no political will to embark upon a tax reform that would genuinely place the lion's share of the burden on those who have the most capacity – and the most responsibility – to deal with the crisis.

If the anti-crisis measures do not change course, Spain will become a poorer, more unequal country with fewer social rights and a weakened democracy. This context will be fertile ground for political and social conflict. It will remain that way as long as financial arguments continue to prevail over social and political ones. Financial capital, which is highly volatile, continues to snatch power away from productive capital, which is much more stable; wealth continues to accumulate out of the reach of the middle classes and the poor; and some go on accumulating money in the midst of the crisis while others are losing their jobs and their spending power.¹⁵⁵

A poorer, more unequal Spain

According to OECD estimates, the number of unemployed in Spain will exceed 6 million by 2014. More unemployment in the current climate would mean more inequality and more poverty.

There are proven links between inequality and the **disintegration of the social fabric**, including an increase in crime, a widespread distrust of the establishment and deteriorating health.¹⁵⁶ The inequality and injustice that are inextricably linked to poverty provoke **tensions** like those already seen in Greece and those beginning to emerge in Spain. These tensions frequently trigger more violent political and social conflict. Indeed, the political instability of Latin America's past was due partly to social inequality. In the current crisis, 'while wealth is growing and becoming concentrated disproportionately, the middle classes and the underprivileged are reaching new levels of poverty. This is a dangerous and immoral decline, in which Spain in particular stands out. The economic situation and, above all, the prevailing policies are wiping out Spanish democracy's most significant achievements, which enabled Spain to rank among the best countries in the world according to the Human

Development Index,¹⁵⁷ which takes into account the population's general access to wealth, education and health care.¹⁵⁸

Economic inequality has always translated into political and social inequality. The concentration of income among the wealthiest segments of society also means that these will have greater political influence,¹⁵⁹ resulting in a vicious circle. In Latin America, the United Nations Development Programme (UNDP) has linked inequality to undesirable aspects of the political system, including 'the limited regulatory capacity of the state, which facilitates the presence of monopolies or oligopolies, murky rules and an inadequate response to citizens' needs'.¹⁶⁰

A Spain with fewer social rights

Health, education and other social services are being severely impacted by the crisis, particularly in terms of the quality that can be offered with the limited resources available.

The policy of cuts to education, as proposed under the new Education Law, will have a direct negative impact on **teaching quality** in Spain and on **equal opportunities**. But it will also impact on **the creation of a society that is critical, active and capable** of monitoring any abuses committed by governments and markets against the most underprivileged people in Spain and in the wider world.¹⁶¹

The education cuts entail a longer teaching day (the time spent actually giving classes) for teachers at both schools and universities, so that staff numbers can be reduced; changes to the procedure for assigning substitute teaching staff; an increase in the maximum number of students per classroom; and a rise of €540 per year in university tuition fees (the average cost is currently €1,000 per year). A reform of secondary education is also planned, under which the education system will expel students with the most difficulties, instead of boosting the means to help them. As the experience in Latin America has shown, the failure to complete a school education has an impact on job opportunities as an adult.

Box 17. Education for global citizenship: an essential strategy for social justice

As well as abolishing the subject of 'education for citizenship' in schools, the Organic Law on Education will also undergo reforms as part of the Law for the Improvement of Education Quality. The draft bill for this was approved in September 2012 and presented in December 2012.¹⁶²

By abolishing 'education for citizenship' as a subject, Spain is opting for a traditional, reactionary model, which is far from the dominant educational trend in advanced Europe. **With a single stroke, the country is wiping from the curriculum all content relating to such issues as poverty and inequality in the world, the 'feminisation' of these phenomena, lack of access to education as a source of poverty, feelings and emotions, relations between men and women, and social, racial, xenophobic, homophobic and sexist prejudices.** These measures have been adopted

without the creation of any space for dialogue and consensus with educators.

Secondly, as pointed out by various trade unions, political parties and parents' associations,¹⁶³ the new Law for the Improvement of Education Quality implies a return to an elitist, segregationist educational model. Under the law, students' academic results are the sole indicator of educational quality, while other criteria relating to equality of opportunity and a more inclusive educational model are overlooked.¹⁶⁴

The excessive emphasis on core subjects will be to the detriment of social and citizenship-related content and skills, and that of the entire value system that is intended to prepare future citizens to be active, competent individuals at the social and political levels.

In light of this, 'the changes introduced into the Spanish education system are overlooking the objective of education, which should be to produce free, critical citizens who are capable of facing the future from a position of seeking the common good, rather than simply pursuing their own specific interests'.¹⁶⁵

Lastly, the cuts, which had already begun prior to the approval of the bill and were 'ratified' through this approval, have a direct impact on student-to-teacher ratios and the number of teachers available. The result of this is an excessive burden of responsibilities and a reduction in available resources for teaching staff. This makes it difficult to implement a high-quality educational model that will ensure the all-round development of students, since these factors reduce teachers' capacity to adequately respond to challenges such as attention to diversity, socio-emotional education, and the strengthening of ties with family, organizations and the environment.

Source: Written by Alejandra Boni (Polytechnic University of Valencia) and Raquel León (Intermón Oxfam)

The reform of the national health system in Spain has meant the **end of universal health care**, and the cuts – together with the privatisation imposed by the autonomous communities – are seriously threatening its **quality**. Once again, a glance at experiences elsewhere shows that a less physically healthy society is a less productive one.

Box 18. Health reform: reversing social rights by decree

One of the most eye-catching cuts in the Spanish government's 2013 budget concerns the ministry of health. It will be carried out by forcing those who have the least to pay more. In addition to other savings that must be made primarily at the expense of the most vulnerable, some migrants will now be excluded from health care services.

On 20 April 2012, the ministry of health issued a Royal Decree-Law concerning 'insurance', the basic common portfolio of services and the co-payment scheme:

- The first of these aspects redefines access to the Spanish health care system in terms of insurance (i.e. in terms of people who pay social-security contributions and their beneficiaries) and puts an end to universal health coverage. As of 1 September, illegal immigrants (the so-called *sin papeles*, since they do not have the correct legal documentation) are no longer eligible for a health card. The ministry also considered excluding other groups, such as over-26s who do not pay

social-security contributions, but backtracked in the face of severe protests.

- The second aspect, the basic common portfolio of services, is intended to harmonise the portfolio of services offered by the various health care providers in the different autonomous communities by imposing a portfolio of minimum services, to which the communities will then add a supplementary portfolio. This measure opens the door to lowering the limits on which services fall under those publicly offered and which do not.
- The third aspect, the co-payment scheme, imposes a quota to be paid by the patient on medicines, equipment and non-urgent transportation. In practice, the measure is introducing a 'tax on ill health'.

At Médicos del Mundo, we work to guarantee the right to health care in poor countries and in what has become known as the 'fourth world' – areas in which people are excluded within our northern-hemisphere countries. Three of the eight Millennium Development Goals are related to health. As we approach the target year of 2015, a new consensus on the international agenda is taking shape within the health care sector, focusing on the model of universal coverage. This is defined as a situation in which the entire population has access to health care services without the risk of falling into poverty. This model highlights the state's obligation to provide a high-quality health care system that is financed based on progressive contributions and the inclusion of the most vulnerable groups of people. Universal coverage could guarantee everybody the right to good health and, consequently, reduce poverty. In this context, the 2010 report by the World Health Organization (WHO) sets out a course to follow in order to gradually progress towards social rights in the area of health, by broadening health care coverage in three dimensions: (1) ensure that a larger proportion of the population has access to the public health care system; (2) increase the number of cases (illnesses) covered by the system; and (3) provide greater protection against the financial risks of illness, thanks to financing mechanisms based on pre-payment and pooling. At Médicos del Mundo, this framework usually guides us when it comes to supporting social movements in countries of the South that advocate the creation of inclusive health care systems.

We never imagined that we would need to apply the same framework in Spain, where universal coverage has already been achieved, at least in official terms. Spain has a priceless health service, with a relatively low cost. Public health care in Spain costs around €1,500 per capita, equivalent to 6.25 per cent of GDP, whereas in countries such as Germany and France the cost is much higher (€2,553, or 8.5 per cent of GDP, in France, and €2,393, or 7.9 per cent of GDP, in Germany). The key to the Spanish health care system's effectiveness is largely down to its human resources – health care professionals – who are motivated not by maximising profits, but by serving the population, with excellent results. (In international comparisons, Spain stands out among countries with similar incomes per head in terms of its mortality and sickness rates.) In other words, the health care system is one of the jewels in Spain's crown. And yet the health reform, together with the cuts, is going to dismantle it.

The proposed health reform will involve a reversal with regard to each of the WHO dimensions. The introduction of a form of 'insurance', the effective exclusion of illegal immigrants, will leave 2 per cent of the population without coverage, when the level of coverage had already reached 100 per cent. The co-payment scheme will impose a greater financial burden on sick people, while the basic common portfolio of services threatens to reduce the

number of cases covered by social security.

The health care reform is possibly the most prominent example of the reversal of social rights produced by the Spanish government's austerity measures. Knowing how difficult it is to establish the foundations of a health care system in poor countries to protect people's right to good health, it makes me despair to witness the dismantling of a universal system and to see how the most vulnerable in society are being punished with the burden and costs of their illnesses.

Source: written by Stefan Meyer (Assistant Director, Médicos del Mundo)

The social services that support the most vulnerable are essential for ensuring the integration of thousands of people, in order to provide the necessary support and guidance to those who do not receive them anywhere else. These are the services that give our society dignity. Reducing them or getting rid of them altogether means abandoning the very weakest to their fate and excluding them from society.

Box 19. Support on the streets

I'm writing these lines from the Bellvitge-Gornal district in the city of L'Hospitalet de Llobregat, where I work at a small social-action organization linked to parish communities in the region. Our work is aimed at families most in need of support. It takes various forms, including support for children and young people, food distribution, support and training for adults, and activities for the elderly.

We have been working in districts like this one for years, with the aim of transforming difficult personal and family situations. In terms of numbers, we can say that poverty here has increased (the number of families to whom we distribute food rose from 498 in 2010 to 712 between January and November 2012). But the most serious problem is that the people and families who have been poor for some time are now becoming ever poorer, without even knowing it. Here, providing support for children, adolescents and young adults is key, because this group is particularly vulnerable.

In our environment, children with learning difficulties are increasingly heading towards failure. This does not just mean educational failure, but also failure in the way they mature and in the way they will conduct their adult lives. Child poverty in Catalonia has increased: 23.7 per cent of children live below the poverty threshold.¹⁶⁶ But the real drama behind this statistic is that it causes these children, who lack resources and alternatives in their immediate environment, to become chronic users of the activities and programmes offered by social organizations and the support provided by social services, which are increasingly being scaled back.

This reality is more visible in the case of adolescents and young adults, since they are not in school all day. We have heard and read in the media that the number of '*ni-nis*' ('neither-nors') is rising; studies claim that around 22 per cent of young people in Catalonia are currently neither studying nor working.¹⁶⁷ Living and working in a district like this, you learn to read the statistics in a different way. The '*ni-nis*' are not just a percentage; they are adolescents and young adults with a name, and when you enter into their world you gain a better understanding of why they lack motivation. In light of this, one of my colleagues has renamed them the '*no-nos*', after their refrain of '*no quiero estudiar, no quiero trabajar*' ('I don't want to study, I don't want to work'). We are condemning these young people to chronic dependency on

the benefit system. Here and now, the problem is all the more serious in that cuts have reduced and are continuing to reduce educational and pre-work projects that these young people could participate in. However, even accessing these projects could be complicated for some of them, since they need to work on more basic aspects, such as their habits and self-esteem.

These people need personalised care. They need close, high-quality support, tailored to each individual, to empower them from the most basic level: their self-esteem and habits. This support will involve an investment in the transition of these young people into adult life, an investment that will be higher than that needed for other youths. This care will have a professional cost (the people who voluntarily, and/or in exchange for payment, dedicate their time to this task). In short, it is a matter of offering these people the kind of support that they cannot find anywhere else.

Nowadays, support can be provided by local organizations like ours, through values that generate confidence, and by informal socio-educational programmes. But to make this possible, we need two things: donors and politicians must interpret poverty figures in a different light, and the number of agents dedicated to social change must increase.

Finally, in order to find a solution, each district and each community must develop a genuine concern for 'its own' (children, adolescents and young adults with a first name, a surname, a face, a history and, above all, a future), and not just a concern for the figures.

Source: written by Roger Torres i Aguiló S.J. (pastoral worker at the Centre de Estudis Joan XXIII and Fundació La Vinya)

A less democratic Spain

What we are experiencing in part of Europe and in Spain in particular, is a **rupture between political decisions and the public-policy commitments made to citizens**. A new phase of capitalism is taking hold, known as the 'post-democratic' phase,¹⁶⁸ in which the institutions of the state have been hijacked by the elite and by those in positions of economic power. It marginalizes citizens from political decision-making and erodes the democratic system until it becomes a sham participatory process that serves only to cover up a gradual concentration of power.

Part of this rupture began prior to the crisis. It was caused by the incursion of politics into spheres it should not interfere with, such as the Constitutional Court, the General Council of the Judiciary, the Bank of Spain, the CNMV (Spain's stock market regulator), the regulators of the energy and telecommunications sectors, and the Competition Commission. The effect was to severely undermine these institutions (which are tasked with enforcing the law, meaning it is essential that they remain independent) and caused a profound deterioration of the political system.¹⁶⁹

The crisis has accelerated the **deterioration in the quality of our democracy**. The failure of Spanish governments to engage in dialogue with citizens (e.g., when it was agreed to amend the constitution without holding a referendum) and with other political representatives (when the PP government refused to appear before Congress to explain the cuts, avoided the 'state of the nation' debate and even cancelled open-door

days at Congress) has been seen as a snub to the very citizens who give the governments their legitimacy. This is even more the case when governments fail to offer explanations in order to hide extremely harsh measures that impact directly on citizens, such as labour reform, tax rises and cuts to health and education. In doing so, those in power are denying the value of parliament as a space for accountability.

Amartya Sen, winner of the Nobel Prize in Economics, claims that, in addition to political representation and respect for majority rule, democracy implies the **protection of individuals' rights and freedoms, access to social services and the right to access information and to actively participate in public decision-making.** 'In these times, citizens realise that we are facing markets that do not function, because they are neither efficient nor transparent; that the political system cannot correct the flaws of the market, the greatest of which is the extremely high level of unemployment; and that the hope that those who caused the crisis will be held accountable, abuses will be corrected and the most underprivileged will be protected has vanished.'¹⁷⁰ This acknowledgement has increased mistrust of the market economy and the traditional mechanisms of democracy.

Spain was until recently the only country in Europe with more than a million inhabitants with no law on access to information.¹⁷¹ The bill approved by the Council of Ministers on 27 July 2012 still falls short of international standards on the issue. The Council of Europe Convention on Access to Official Documents sets out the minimum standards for laws on access to information, which this bill fails to meet.¹⁷²

Disaffection with democracy is clear and growing, and is becoming dangerous. This disillusion ranges from the political sphere – where there is a keen sense of weariness of 'party politics' (*partitocracia*)– to other state institutions, and even to official institutions and organizations in general. This contributes to their loss of credibility and poses the risk of **future socio-political conflicts.**¹⁷³

PROPOSALS FOR CHANGING COURSE

In order to avoid the inequality and poverty that Latin America and South-East Asia suffered as a result of their structural-adjustment measures, Spain needs to change the direction of its policies. It needs to place people and their rights at the heart of these policies.

The OECD clearly indicates that the reform of fiscal policies and social benefits is the most direct way of increasing redistribution.¹⁷⁴ In Spain's case, the strength of its democracy is also at stake. At Intermón Oxfam we believe policy change should be structured around three basic strategies:

1. Tax fairly
2. Safeguard social rights
3. Strengthen democracy.

1. Tax fairly

Given the rise in VAT, excise taxes and income tax, article 31 of the constitution should come into effect. This article states that everybody shall contribute to the maintenance of public spending according to their economic capacity, through **a fair tax system based on the principles of equality and progressiveness**.¹⁷⁵

According to GESTHA (the trade union of the Treasury department), there are certain measures (see box 20) that would facilitate such a system and enable the government to collect up to €63.8bn of additional revenue per year.¹⁷⁶ This amount would be sufficient to reduce the deficit from the 8.9 per cent recorded last year to below the 3 per cent that Europe is currently demanding for 2013 and which, according to the government, justifies the cuts implemented.

Box 20. GESTHA's proposals

- Step up the **fight against tax fraud**: simply by reducing the size of the black economy by 10 per cent, to bring it in line with the European average, the government could generate an extra €38.5bn a year, almost four times more than the amount raised through a two-point rise in the VAT rate.
- A **new corporate-tax rate of 35 per cent for profits of more than €1m turnover**, which are declared mainly by big companies with a turnover of over €45m. This measure alone would generate an extra €13.9bn over the next year, as well as improve the fairness of the tax system by reducing the differences between the lowest rate paid by big corporations and the highest paid by microbusinesses and SMEs. It would thereby bring the tax burden on companies closer to that of Spanish families.
- A **wealth tax** that would rectify the defects of the tax on assets that was partly collected for 2011 and 2012 and end the possibility of avoiding the tax, which could treble the revenues to €3.4bn.
- A **ban on shorting government debt**: €1.4bn.
- **Restrictions on the special tax system for small incorporated businesses (*sistema de módulos*), SICAVs, savings income rates and speculative capital gains**: €1.49bn.
- **Financial transaction tax (FTT)**: €5bn¹⁷⁷
- **TOTAL: €63.8bn**

Source: based on GESTHA data¹⁷⁸

The ever-increasing proportion of income received by the highest earners indicates that these people now have a greater capacity to pay tax. It is time that governments revive the redistributive function of taxes, as enshrined in the constitution, in order to ensure that the richest people in the country bear their fair share of the tax burden. For this to happen, we need to commit to certain steps.

Put an end to tax evasion and avoidance

Combating tax evasion is one of the options with the greatest revenue-raising potential. It would also have a direct impact on reducing

inequalities and forging political coherence in the current context. In order for it to be genuinely effective, we need to implement the following measures aimed at **combating the impunity and opacity of tax havens**, through:

- **Transparency regarding the financial information of multinationals:** In order to discourage tax evasion and avoidance, companies should, in each country where they operate, provide public and accessible information, for instance on the type of activity they carry out, their tax contributions, payments made to governments, and the number of employees they have in each country where they are present. If put into practice, this would prevent companies from registering in tax havens, where they generate a high turnover but pay no tax and do not have even a single employee.
- **Strengthening multilateral cooperation on tax between different countries:** It is essential to create an efficient, multilateral mechanism for exchanging information between different tax administrations. Currently, most agreements are bilateral, with considerable asymmetry in smaller countries' negotiating capacity, including in the case of Spain. However, it is even more difficult to apply these agreements effectively because of the existence of a number of front companies and because the exchange mechanism is 'subject to request'. In practice, when a tax administration (for example, Spain's AEAT) detects funds hidden in another jurisdiction (Switzerland, for example), it has to file a request for information with Switzerland and provide reasonable proof of its suspicions, and it remains at the discretion of that country's willingness to help. The result is that large companies with aggressive tax structures divert profits to countries where they are subject to little or no tax under the framework of sophisticated corporate structures. This reduces their tax contribution and enables them to avoid paying tax in the countries where they are actually carrying out their operations and where they could be putting something back into those societies.
- **Greater tax responsibility for companies:** Even international bodies such as the G20 and the OECD insist that this is necessary. In today's society, the tax contribution paid by many large business groups is well below the nominal rate (set according to a country's tax law). The result is that companies such as Google pay just 2.9 per cent in corporation tax on profits generated outside the United States. In Spain, the average contribution made by major corporations is around 9 per cent, compared with the 30 per cent set down in law. To a large extent, this is achieved by taking advantage of the loopholes available under the various legislations, using artificial transfer prices (the price at which the value of a product is fixed in transactions between companies in the same group), diverting activities to tax havens, or overvaluing certain services (which can range from trademark registration to financial services). The main aim for big corporations cannot be solely to maximise profits for their shareholders; they must also make a fair contribution to the country's taxes.

Adopt a financial transaction tax (FTT)

A small tax on international financial transactions would mean that the financial sector – which is undertaxed, does not pay VAT on its transactions¹⁷⁹ and was to a large extent responsible for the crisis – would contribute to alleviating the consequences for those who are suffering the most. France introduced such a tax on 1 August 2012, and other countries have similar taxes.

Applying the tax to a wide range of financial products (shares, derivatives, foreign currency, etc.) would generate €13.7m per day in Spain alone, and would shift the burden to those who caused and are benefiting from the crisis. The money raised in a day could be used to take care of more than 240,000 people suffering from hunger in the Sahel region or rebuilding their lives in Haiti. That money, €5bn per year, would enable the government to reverse the cuts applied to health or education in Spain.

Under the more restrictive model proposed by the European Commission (applying the tax only to shares and derivatives), this tax would raise an estimated €2bn per year in Spain. This should be used to fund public and social policies that provide protection for the most vulnerable and to fight against poverty by means of international cooperation.

2. Safeguard social rights

Social policies, including Official Development Assistance, are not a luxury, but an investment in the future. Preventing maternal death and child malnutrition, and guaranteeing education are vital development strategies for all parts of the world.¹⁸⁰

Social rights that are constitutionally protected in Spain are nonetheless undermined legally by the lack of a minimum limit for social spending and of a regulatory stipulation of guaranteed basic services. In the current context, the absence of such guarantees may contribute to the eventual dismantling of the welfare state.¹⁸¹ Social spending intended to maintain and improve the public education network, the health system and other social services, is the best investment that the public authorities can and must make in order to promote social and economic development.¹⁸²

A recovery with a 'human face' must be inclusive, increase employment opportunities, maintain education and health services, and provide social protection for the most vulnerable, wherever they are.

We need to safeguard social rights to guarantee dignity, human development and equality of opportunities for all people, regardless of who is in government, the economic situation and the obligations imposed in terms of repaying foreign debt.¹⁸³ If we want to preserve a state based on the rule of law, we must prompt a change of direction. This would safeguard:¹⁸⁴

- **The right to a public, universal and high-quality education:** This means enforcing at all times article 27 of the constitution, which states that all people have the right to education, and that the public authorities guarantee this right by means of a general programme of

The revenues
generated by the

FTT in **1** day

would exceed the
entire amount of
humanitarian aid
budgeted for 2013

teaching, with the effective participation of all sectors affected and the creation of teaching centres. Teaching supported by public funds can guarantee equality of opportunities, social cohesion, the means to overcome inequalities of origin, the structuring of all of society towards a common objective, and the individual progress of all boys and girls, not just a few.

- **The right to public, universal and high-quality health care:** Article 41 of the constitution states that the public authorities shall maintain a public regime of Social Security for all citizens which guarantees sufficient support and social benefits in times of need, particularly in the event of unemployment. Article 43 recognises the right to the protection of health and gives the public authorities the duty of organizing and protecting public health care through preventive measures and the necessary benefits and services.
- **A minimum-income-guarantee system:** The implementation of a nationwide minimum-income-guarantee system would be an effective measure against poverty in general, and particularly against child and family poverty. Alongside this initiative, policies should be implemented that aim to reduce household costs (tax exemptions and/or allowances for low-income families and on municipal services aimed at children and young people, and subsidies for school meals, books, schools and children's play centres).
- **The right to protection and support:** The large and persistent economic losses suffered by low-income groups following recessions underline the importance of government transfers and well-conceived income-support policies. The state should guarantee the protection of the elderly (article 50 of the constitution states that 'the public authorities shall guarantee economic sufficiency to senior citizens through adequate, periodically updated pensions), the disabled and dependants (by implementing the Dependant Care Law).
- **The right to decent housing:** This means access to a secure home and community in which people can live in peace, with dignity and good physical and mental health. This right is recognised by article 47 of the constitution: 'All Spaniards have the right to enjoy decent and adequate housing. The public authorities shall promote the necessary conditions and establish appropriate standards in order to make this right effective, regulating land use in accordance with the general interest in order to prevent speculation. The community shall have a share in the benefits accruing from the town-planning policies of public bodies.' We urgently need to amend mortgage legislation to include the protection of individuals, as well as non-recourse debt and other measures (such as providing social housing for people who have been evicted or not evicting anyone from a property if there is not a new tenant to occupy it).
- **The right to employment:** In light of the high unemployment rate and the lack of active employment policies, citizens want to enforce article 35 of the constitution, which states that all Spaniards have the

duty to work and the right to work, as well as the right to sufficient remuneration to meet their needs and those of their family.

- The states should ensure that **policies comply with these principles** and allocate spending priorities accordingly.

Honour the commitments made in the fight against poverty throughout the world

In our globalized world, the causes of injustice are global (abuses carried out to enrich a few at the cost of the majority, financial speculation, lack of transparency, corruption, etc.). The solutions must therefore be global. We are all in the same boat. Everybody is aware that the most devastating crisis is taking place in developing countries, where around 1 billion people, mostly women and children, go hungry every day. Combating poverty is part of the solution to the crisis, not part of the problem.

Spain's development cooperation is being dismantled however, falling from 0.5 per cent of GDP at the beginning of the crisis to a paltry 0.2 per cent in 2012, relegating it to a marginal foreign-policy measure. We must remember that the current economic crisis is having a disproportionate effect on the poorest countries. On top of their already difficult situation, they are suffering a reduction of aid from donor countries, which is seriously compromising their governments' ability to guarantee basic social services and implement development policies.

In 2007, all Spanish political parties signed the State Pact against Poverty, under which they committed to use all means necessary to increase ODA to 0.7 per cent. The fulfilment of this commitment is proportionally linked to the wealth of the country: it concerns not a fixed sum, but a proportional amount of our wealth, meaning it is possible to fulfil the promise even in times of economic crisis.

At Intermón Oxfam, we believe there are four reasons to maintain development cooperation at the moment:

1. Ethics and principles. Spain is in the midst of a serious crisis, but is still one of the most developed countries in the world. Spain's income is 50 times that of a Sahel country. If we are called to build a better country, based on values beyond mere individuality, we cannot abandon human solidarity.

2. Spanish cooperation has a long history of success: 32 years of experience. The organizations and institutions working in development in Spain have built up skills and developed knowledge. There is a group of well trained, experienced professionals in development. It would be a tragedy to dismantle that capacity, squander that experience, renege on the commitment and abandon millions of families to their fates.

3. Foreign relations should be based on value, not limited to short-term economic and commercial interests. Cooperation will mean different things in different places, but should always be present in foreign relations. That is what other countries expect, and is how a country's stature and weight within a region is measured.

4. There are international commitments that Spain cannot ignore.

Climate change, migration, responding to humanitarian crises, the effect of volatile food prices, financial speculation and tax evasion are all challenges currently on the global agenda. It is imperative that Spain be involved in tackling that agenda.

It is unfair for the government to continue making cuts to social policies when we know there are alternatives. Civil society, through the NGO movement and thanks to the efforts of many people, was the driving force behind the demands of the '0.7 per cent' campaign. This was a series of protests that managed to convince the public authorities to dedicate resources to public policies that focused on the most underprivileged populations. In a context like the current one, the historic demand for strong, high-quality development cooperation means more than ever.

Box 21. Development assistance: four lessons from a sad story

The cumulative cuts to Spanish cooperation during the last three budgets (the final budget of the Zapatero government and the two presented by the PP) could have fatally damaged a policy built with enormous effort and social consensus over three decades. While the Spanish Cooperation Agency is condemned to irrelevance (with a budget of €270m, a fall of 70 per cent in two years), hundreds of thousands of human beings who used to receive the protection of Spanish aid are facing more difficult and anxious lives. These people are families hit by rising food prices in Latin America, peasants whose harvests have been devastated by the drought in Mali, and children suffering from AIDS or malaria all over the world. The Spanish government had made a commitment to all of them that was as firm as the commitments it makes to its own voters.

The way in which Spanish cooperation is being deconstructed offers four important lessons. Firstly, and contrary to the government's justifications, **it is clear that political choices, rather than the crisis, that have led to this situation.** With the exception of the cuts to infrastructure, the relative decline in international solidarity is the biggest cut suffered by any item of public spending. It is well above the average cut and is disproportionately higher than those made to defence spending: the same leaders who are reducing humanitarian aid by 90 per cent (from €127m to €12m, according to Intermón Oxfam's calculations) have approved a €1.7bn loan with which to buy war planes.

Secondly, **by making these decisions, the government is ignoring the lessons of the past.** Just as the resources will not return to previous levels when the economic cycle changes, the institutional framework of Spanish cooperation cannot simply be 'paused' as in a film, with no major consequences. As a number of authors have pointed out, experience of similar cuts in other countries suggests that it can take up to a decade for aid budget levels to recover, precisely because it is hard for such items of spending to be considered a priority during a period of fiscal recovery.¹⁸⁵ Meanwhile, Spain will have lost knowledge, skills and experience, making the reconstruction of aid programmes longer and more costly.

Thirdly, **the decrease in aid will weaken Spain's image and strategic interests in regions like the Sahel, where it has had to make considerable efforts to establish a presence.** With this kind of foreign-policy model, Spain is shooting itself in the foot and throwing away the capital it has spent years accumulating. On the other hand, the message

being sent to national governments that are working to fight poverty is clear: it doesn't matter what efforts you make or what commitments we have made; when the circumstances make it necessary, we will withdraw our support. With this concept of 'legal security', incidents like the expropriation of Repsol in Argentina can be considered a perfect *quid pro quo*.

Finally, **in order to boost both the public perception of aid and the funds dedicated to it, the following systemic flaws need to be corrected:** the weakness of public leadership in this area (demonstrated by the disproportionate cuts to the budget of the ministry of foreign affairs and, within the ministry, to the Spanish Agency for International Development Cooperation); the difficulties encountered by the NGO sector in connecting with society, successfully arguing the case for aid and breaking away from high levels of dependency on public resources; and the inability of cooperation programmes to offer tangible results, in order to clearly explain the consequences of the budget cut to the public.

On a recent trip to Mauritania, where I visited a number of Spanish-backed nutrition programmes, a mother summed up the project's success with the following sentence: 'My son doesn't have to eat sand any more'. I believe our challenge is to prevent a reversal of these achievements the next year and in the years after. It's not too late and it's not impossible to turn this situation around.

Source: written by Gonzalo Fanjul (author of the blog "3.500 Millones" in *El País*)

3. Strengthen democracy

Intermón Oxfam is committed to promoting global citizenship, with citizens who are aware that they belong both to their local community and to the global village, and are actively committed to building a fairer world within and beyond our borders. If we are to improve the quality of democracy in Spain, it is essential that such citizens actively participate by putting forward proposals with a view to influencing those in positions of public and private power.

Box 22. Reclaiming politics to defend democracy

'The crisis [...] has highlighted the inability of politics to place limits on out-of-control economic powers, which do not even keep up appearances, converting bankruptcies and speculative destruction in a country's economy into sources of business for their owners and managers. And we have set ourselves on a path of slow but unstoppable deterioration of democracy, with power being concentrated in ever fewer hands and citizens being reduced to the role of figureheads.

'Reclaiming politics is the only weapon citizens have with which to rebalance society, and therefore [it is necessary] to defend democracy before it is too late, and it is reduced to a mirage against the backdrop of the totalitarianism of indifference.

[...] It is also said that a time of crisis is like a fork in the road. With austerity having been converted into a form of ideology for social control and the demagogic discourse of unity in order to escape the crisis shielding those who caused it, we are being led down a very certain path: a new phase of capitalism, freed of the burden of the social achievements of the last century,

more brutal and heartless, and therefore more unequal, and inevitably reinforced by a post-democratic state tasked with controlling the noise and making sure social discontent is contained.'

Source: extract from J. Ramoneda (2012), *La izquierda necesaria. Contra el autoritarismo postdemocrático* [The necessary left. Against post-democratic authoritarianism] ¹⁸⁶

The strengthening of democracy should occur through the following steps:

- **Guarantee the independence and proper functioning of state supervisory and regulatory bodies** such as the Bank of Spain, the CNMV (Spain's stock market regulator), the regulators of the energy and telecommunications sectors, and the Competition Commission.
- Restore **the Congress of Deputies as a space for dialogue and accountability of elected representatives before citizens**. We need to break the trend of accountability solely within and between parties in order to open up parliament to a dialogue with society.
- **Guarantee access to and quality of information for citizens**. The right to access information is every individual's right to request and receive information from public bodies. This right also requires public bodies to proactively publish information about their functions and expenditure. In a true democracy, genuine citizen participation is possible only if citizens can access, under equal conditions, all kinds of information held by any public authority or any private entity that carries out public functions. Failure to recognise this as a fundamental right relegates transparency to an administrative matter. The best tool with which to guarantee full recognition and exercise of this right is the existence of **a specific access-to-information law that recognises this right to be informed as a fundamental right**. We must also promote a culture of transparency, on which the media can have an influence. The bill currently being discussed in the Congress of Deputies is oriented more towards continuing to protect sensitive areas from the public gaze than towards completely opening up access to information for the public.
- **Foster a participatory democracy**: establish effective mechanisms for guaranteeing citizen participation; hold compulsory and binding referenda on issues of considerable social importance; promote budget planning using participatory methods; promote self-management and co-operativism as forms of social economy; create 'multi-actor' or open monitoring and assessment committees.
- **Guarantee civil freedoms**: these include freedom of expression and protest, freedom of information and investigative journalism, and the promotion of culture as a tool for social transformation.
- **Promote a transparent financial sector that meets the social purpose of giving citizens access to credit**: banks should fulfil their social responsibilities and respect ethical principles in their investments. In order to do this, we need strict and effective regulations, an independent bank supervisor, and a strong, independent central bank that can monitor the application of rules on capital requirements, asset taxation and disclosing information on debt.

- **Combat corruption unwaveringly and put an end to impunity.**
We urgently need to carry out a relentless fight against fraud and tax evasion,¹⁸⁷ influence peddling and the impunity of those who have damaged public funds and citizens through inefficient or irresponsible management.

This is a crisis that has victims and culprits. To date, however, governments have clearly decided to protect the culprits and let the least responsible suffer the costs, practically leaving intact the advantages of those who have benefited from the system that caused the crisis. Citizens need to engage in order to change the course we are on, which is leading us towards a dramatic decline. A new social model is needed that is much more austere (in its literal sense, i.e. with no ostentatiousness) in terms of material consumption, but is much richer in social terms and, above all, is fairer and more equal.

NOTES

- ¹ J.L. Cebrián (2012) interview with the President of Brazil Dilma Rousseff, 'Las recetas que se están aplicando en Europa llevarán a una recesión brutal' [The measures being adopted in Europe will lead to a brutal recession], *El País*, 18 November 2012, http://internacional.elpais.com/internacional/2012/11/17/actualidad/1353171822_999141.html
- ² The exact figure set aside for interest payments in the 2013 government budget is €38.59bn. Total expenditure for 2013 is forecast at €169.775bn, of which €134.461bn corresponds to the government budget (i.e. excluding the autonomous communities). J.S. González, 'España gastará lo mismo en los intereses de la deuda que en todos sus ministerios' [Spain will spend the same amount on debt interest as on all its ministries], *El País*, 29 September 2012. http://economia.elpais.com/economia/2012/09/27/agencias/1348710121_531116.html
- ³ The poverty threshold is currently €651.50 per month (€3,864 per year). In Spain, real disposable income per inhabitant was €1,262 per month (€15,149 per year) in 2010, four times more. Cáritas Española (2012) 'De la coyuntura a la estructura: los efectos permanentes de la crisis' [From current to structural: the permanent effects of the crisis], 7th Report of the Social Reality Observatory, September 2012. p.14 http://www.eapn.es/ARCHIVO/documentos/recursos/4/VII_Informe_ORO_-_De_la_coyuntura_a_la_estructura_2011_MCS.PDF
- ⁴ According to data from the Economically Active Population Survey from the third quarter of 2012, published by *Público, Agencias*, 'En 1,7 millones de familias todos están en paro' [1.7 million households with all members unemployed], *Público*, 26 October 2012. <http://www.publico.es/444478/en-1-7-millones-de-familias-todos-estan-en-el-paro>
- ⁵ Data gathered in several newspapers, including in an article in *ABC*. EFE, 'Se disparan los desahucios en España y alcanzan los 517 diarios' [Evictions in Spain shoot up to 517 per day], *ABC*, 23 July 2012. <http://www.abc.es/20120723/economia/abci-desahucios-espaa-201207231723.html>
- ⁶ According to World Bank data, adjusted net national income rose from \$10.53bn (constant \$2000) in 1970 to \$34.67bn (constant \$2000) in 2010. The world economy has grown tenfold since 1950. See: <http://databank.worldbank.org/ddp/home.do?Step=3&id=4> (last visit 16 October 2012)
- ⁷ The proportion of people living on less than \$1.25 a day fell from 47 per cent in 1990 to 24 per cent in 2008, meaning the number of people in this situation fell from more than 2 billion to under 1.4 billion, S. Zukang (2012) 'Millennium Development Goals, 2012 report'. United Nations, New York, 2012. http://www.un.org/spanish/millenniumgoals/pdf/mdg_2012_foreword_overview.pdf
- ⁸ In the United States, the richest 1 per cent practically trebled their share of income over the last three decades, and this share currently represents around 20 per cent of total national income. F. Alvaredo, T. Atkinson, T. Piketty and E. Saez (2012) 'The world top incomes database', June 2012. Cited by K. Dervis, 'Convergencia, interdependencia y divergencia' [Convergence, interdependence and divergence], *Finance and Development*, September 2012. <http://www.imf.org/external/Pubs/FT/fandd/spa/2012/09/pdfs/dervis.pdf>
- ⁹ Oxfam (2012) 'Left Behind by the G20? How inequality and environmental degradation threaten to exclude poor people from the benefits of economic growth', Report 157, Oxford: Oxfam International, 19 January 2012.
- ¹⁰ Considering the distribution of income among all people in the world, without taking into account country of residence.
- ¹¹ Richard Joly *et al.* (2012) 'Be outraged: There are alternatives', Oxford: Oxfam GB.
- ¹² *Ibid.*
- ¹³ *Ibid.*
- ¹⁴ G. Cañas (2012) 'Los ricos, aún más ricos' [The rich, richer still], *El País*, 14 October 2012. http://sociedad.elpais.com/sociedad/2012/10/14/actualidad/1350245239_192913.html
- ¹⁵ K. Dervis, 'Convergencia, interdependencia y divergencia' [Convergence, interdependence and divergence], *Finance and Development*, September 2012. <http://www.imf.org/external/Pubs/FT/fandd/spa/2012/09/pdfs/dervis.pdf>
- ¹⁶ ILO (2012) 'Global employment trends 2012', Geneva: International Labour Organization: <http://www.ilo.org/public/spanish/region/eurpro/madrid/download/tendenciasmundiales2012.pdf>
- ¹⁷ UN (2012) 'World Economic Situation and Prospects 2012', New York: United Nations. <http://www.un.org/en/development/desa/policy/wesp/index.shtml>
- ¹⁸ *Ibid.*
- ¹⁹ The Gini coefficient increased between 2007 and 2010–2011 (according to available data) in Belgium, Denmark, Ireland, Greece, Spain, France, Hungary, Austria and the United Kingdom. Eurostat: <http://epp.eurostat.ec.europa.eu/tgm/table.do?tab=table&plugin=1&language=en&pcode=tessi190> (last visit 18 October 2012).
- ²⁰ The vast divergence between long-term interest rates in the Economic and Monetary Union (EMU) is due to the considerable differences in salaries and prices and the resulting accumulation of regional trade imbalances between the member states. These imbalances began to grow at the exact time when the most important tool available to correct them, changes in exchange rates, ceased to exist. As fiscal policy is subject to ideological blockages in several key countries and the monetary-policy tools available are by all accounts inadequate, the time has come to resort to unconventional measures. UNCTAD (2012) 'Trade and Development Report', Geneva: United Nations Conference on Trade and Development. http://unctad.org/es/PublicationsLibrary/tdr2012overview_sp.pdf
- ²¹ Gaspar Sebag (2012) 'Negative effects of austerity on growth underestimated', *Europolitics*, 9 October 2012. <http://www.europolitics.info/economy-monetary-affairs/negative-effects-of-austerity-on-growth-underestimated->

[art343844-29.html](#)

- ²² According to the Tax Justice Network (2011), only a small proportion of lost tax (30 per cent) is due to corruption and 3 per cent to criminal activities. Tax Justice Network (2011) 'The cost of tax abuse. The cost of tax evasion worldwide', Briefing paper, November 2011. http://www.tackletaxhavens.com/Cost_of_Tax_Abuse_TJN_Research_23rd_Nov_2011.pdf
- ²³ The black list comprised jurisdictions that did not express any interest (or will), whereas the grey list was for countries that had not yet signed the 12 agreements but had expressed an intention to do so.
- ²⁴ For example, Brazil has a list of 50 countries, with various classifications, and Spain falls into one of them because of its ETVEs (holdings that pay little or no tax). There have been a number of reports in Argentina of Argentinian companies moving their holding companies to Spain in the legal form of an ETVE with the aim of not paying tax in either Spain or Argentina.
- ²⁵ 'In the tax area, we reiterate our commitment to strengthen transparency and comprehensive exchange of information. We commend the progress made as reported by the Global Forum and urge all countries to fully comply with the standard and implement the recommendations identified in the course of the reviews, in particular the 13 jurisdictions whose framework does not allow them to qualify to phase 2 at this stage. We expect the Global Forum to quickly start examining the effectiveness of information exchange practices and to report to us and our finance ministers. We welcome the OECD report on the practice of automatic information exchange, where we will continue to lead by example in implementing this practice. We call on countries to join this growing practice as appropriate and strongly encourage all jurisdictions to sign the Multilateral Convention on Mutual Administrative Assistance. We also welcome the efforts to enhance interagency cooperation to tackle illicit flows including the outcomes of the Rome meeting of the Oslo Dialogue. We reiterate the need to prevent base erosion and profit shifting and we will follow with attention the ongoing work of the OECD in this area.' G20 Summit, Los Cabos, 18-19 June 2012. Leaders' Declaration, 19 June 2012, paragraph 48. http://www.presidencia.gob.mx/documentos/g20/G20_Leaders_Declaration_2012.pdf
- ²⁶ Press release IP/11/1085, 'Financial Transaction Tax: Making the financial sector pay its fair share', European Commission, 28 September 2011. http://europa.eu/rapid/press-release_IP-11-1085_es.htm
- ²⁷ Some countries, such as the United Kingdom, opposed the proposal.
- ²⁸ The 11 countries that supported the tax are Germany, Austria, Belgium, Slovakia, Slovenia, Spain, Estonia, France, Greece, Italy and Portugal. Other EU countries are expected to join the process shortly.
- ²⁹ GESTHA data, 'España recaudaría 5.000 millones con una tasa a las operaciones financieras' [Spain would raise €5bn from a tax on financial transactions], ION Comunicación. GESTHA (trade union of the Treasury Department). 19 June 2012. <http://www.ioncomunicacion.es/noticia.php?id=%2012539>
- ³⁰ 15-M movement—Real Democracy NOW! demonstration <http://movimiento15m.org/manifiesto-movimiento-15m-%C2%A1democracia-real-ya/>
- ³¹ Intermón Oxfam (2012) 'Descripción de hechos durante la Primavera Árabe' [Description of events during the Arab Spring], 'La rebelión de las Plazas' [Rebellion in the squares], *Global Express No. 18*, January 2012.
- ³² The name 15-M refers to the sit-ins and demonstrations held in several Spanish cities on 15 May 2011, the day before elections for the country's autonomous regions were due to be held.
- ³³ EFE, 'El apoyo al movimiento 15-M se expande a varios países de todo el mundo' [Support for the 15-M movement spreads to several countries worldwide], *El País*, 20 May 2011. <http://www.elpais.com.co/elpais/internacional/apoyo-movimiento-15-m-expande-varios-paises-todo-mundo>
- ³⁴ Extensions of the 15-M movement in other countries, 15-M Brussels. <http://15mbruselas.com/grupos-en-otros-paises/extensiones-de-15m-es-en-otros-paises/> (last visit 28 October 2012)
- ³⁵ The Occupy Wall Street movement set out to make protests against corporate greed and the perception of social inequality visible and clear. Its central demand was for President Barack Obama to 'order a presidential commission tasked with putting an end to the influence of money over our representatives in Washington'. The protest represented a variety of demands, with a common declaration on governmental corruption, the privilege enjoyed by big companies and the fact that the richest 1 per cent of people in the United States are the ones who formulate the country's policies.
- ³⁶ K. Watkins (1999) 'Crecimiento económico con equidad: lecciones del Este Asiático' [Economic growth with fairness: lessons from South-East Asia], Colección Libros de Encuentro, Intermón 1999. p.38-40
- ³⁷ Industrialisation in order to replace imports.
- ³⁸ There were exceptions, however, such as Chile and Costa Rica, which adopted reformist strategies.
- ³⁹ A.F. Calcagno (2001) 'Ajuste estructural, costo social y modalidades de desarrollo en América Latina' [Structural adjustment, social cost and development models in Latin America], in E. Sader (March 2001) 'El ajuste estructural en América Latina. Costos sociales y alternativas' [Structural adjustment in Latin America. Social costs and alternatives], Buenos Aires: CLACSO (Consejo Latinoamericano de Ciencias Sociales [Latin American Social Sciences Board]). <http://biblioteca.clacso.edu.ar/ar/libros/sader/sader.html>
- ⁴⁰ The best order, according to Chiski and Papageorgiu (1986), would have been: 1) achieve fiscal discipline; 2) deregulate the labour market; 3) liberalise trade of goods, including international trade; 4) liberalise the financial market; and 5) liberalise external capital. *Ibid.* p. 98
- ⁴¹ In the words of the managing director of the IMF, Michel Camdessus, 'We intervene more decisively, naturally, when a country is suffering an acute crisis in its balance of payments and asks us for help in tackling this situation. We then try to take advantage of this crisis to achieve a lasting improvement, attempting to reach the root of the problems' (Camdessus, 1991: p.12). *Ibid.* p. 98
- ⁴² *Ibid.* p.75-76

- ⁴³ Joly *et al.* 2012, *op. cit.* p.14
- ⁴⁴ Growth in Latin America during the 1990s was lower than 3 per cent.
- ⁴⁵ The creation of a favourable context for the stabilisation of inflationary processes was possible once the devaluation of national currencies could be halted, which in turn improved the fiscal accounts of several governments with high levels of foreign debt.
- ⁴⁶ Investment rates did not return to their levels of the early 1980s, and the recovery took place in a context of large inflows of foreign funds (\$20bn a year on average between 1991 and 1998), meaning it is not clear to what extent the improvement was due to the virtues of the structural reforms and to what extent it was due to the sudden change in the transfer of funds. Calcagno 2001, *op. cit.* p.77-81
- ⁴⁷ *Ibid.* p.77-81
- ⁴⁸ The IMF published a report on 3 December 2012 in which it altered its policy on capital control and set out criteria for justifying the adoption of measures to control countries' capital inflows and outflows. This was a radical U-turn from the policies the IMF had imposed in the past. IMF (2012) 'The Liberalization and Management of Capital Flows: An Institutional View', Washington: International Monetary Fund (IMF), November 2012. <http://www.imf.org/external/np/pp/eng/2012/111412.pdf>
- ⁴⁹ CODELCO (the national copper corporation) held 87.4 per cent of exploitation rights in 1980, and still had a 75.3 per cent share in 1990. P. Meller (2003) 'El cobre chileno y la política minera' [Chilean copper and mining policy], *Serie Estudios Socioeconómicos* [Socioeconomic study series] no. 14, CEPLAN, January 2003. http://www.politicaspUBLICAS.udp.cl/media/publicaciones/archivos/57/capitulo_1.pdf
- ⁵⁰ Calcagno 2001, *op. cit.* p.77-81
- ⁵¹ CEPAL data (1999), *ibid.*
- ⁵² According to Abramo, industrial and civil-construction wages fell by 13 and 14 points respectively during the same period. L. Abramo (1997) 'Mercados laborales, encadenamientos productivos y políticas de empleo en América Latina y el Caribe' [Labour markets, production chains and employment policies in Latin America and the Caribbean], Santiago: ILPES. <http://200.62.227.8/spanish/260ameri/oitreg/activid/proyectos/actrav/edob/material/cadenas/pdf/cp5.pdf>
- ⁵³ Calcagno 2001, *op. cit.* p.81
- ⁵⁴ *Ibid.* p.81-87
- ⁵⁵ UNCTAD 2012 *op. cit.* p.12 reports an increase in inequality in 14 of the 18 countries for which relevant data are available.
- ⁵⁶ Watkins 1999, *op. cit.* p.75
- ⁵⁷ CEPAL (1997) 'The equity gap: Latin America, the Caribbean and the social Summit', *Libros de la CEPAL series 44*, Santiago de Chile: LC/G.1954/Rev.1-P
- ⁵⁸ Watkins 1999, *op. cit.* p.84
- ⁵⁹ CEPAL (1998) 'Panorama social de América Latina 1997' [Social panorama of Latin America 1997], Santiago de Chile: Social Development Department, CEPAL, LC/G.1982-P. <http://www.cepal.org/cgi-bin/getProd.asp?xml=/publicaciones/xml/9/4649/P4649.xml&xsl=/dds/tpl/p9f.xsl&base=/dds/tpl/top-bottom.xsl>
- ⁶⁰ A. Franco-Giraldo (National Public Health Faculty, University of Antioquia, Medellín, Colombia), M. Palma (Autonomous University of Yucatán, Mérida, Mexico) and C. Álvarez-Dardet (University of Alicante, Alicante, Spain), (2006) 'Efecto del ajuste estructural sobre la situación de salud en América Latina y el Caribe, 1980-2000' [Impact of structural adjustment on the health situation in Latin America and the Caribbean, 1980-2000], in: *Revista e Salud* 2(7) (2006). <http://www.revistaesalud.com/index.php/revistaesalud/article/view/109/308>
- ⁶¹ K. Judge (1995) 'Income distribution and life expectancy: a critical appraisal', *BMJ* 1995 (311):1282-5 (7015). A. Sen (1992) 'Inequality explained' Cambridge (Massachusetts): Harvard University Press 1992; S. Sen (1998) 'Mortality and distribution and income', *BMJ* 1998 (316):1611-2.
- ⁶² In the following decade, when the structural-adjustment measures were extended to other developing countries, changes in health indicators were also negatively affected in Africa, South-East Asia and countries with transition economies.
- ⁶³ The definition of poverty and destitution, as well as the method used to estimate them, can be found in: CEPAL (1999) 'Balance preliminar de las economías de América Latina y el Caribe' [Preliminary assessment of the economies of Latin America and the Caribbean], Santiago de Chile: LC/G.2088-P, p.51
- ⁶⁴ CEPAL 1997, *op. cit.*
- ⁶⁵ Calcagno 2001, *op. cit.* p.86
- ⁶⁶ CEPAL (2011) 'Panorama Social de América Latina. Eslabones claves de las brechas de exclusión social' [Social panorama of Latin America. Key links in social exclusion gaps], Santiago de Chile: CEPAL, p.5. http://www.eclac.cl/noticias/paginas/8/33638/panorama_social_versionfinal.pdf
- ⁶⁷ *Ibid.*
- ⁶⁸ Section written based on Watkins 1999, *op. cit.* p.223-52
- ⁶⁹ J. Estefanía, prologue, *ibid.*
- ⁷⁰ 'Asia's Economic crisis: how far is down?', *The Economist* (345), 15 November 1997
- ⁷¹ Watkins 1999, *op. cit.* p.239
- ⁷² South-East Asia is the only developing region that constantly increased its share of global trade during the last three

decades of the 20th century. *Ibid.* p. 223

⁷³ P. McCawley (2009) 'Mass poverty in Asia: the impact of global financial crisis', Policy Brief, Sydney: Lowy Institute for International Policy, June 2009.

⁷⁴ Watkins 1999, *op. cit.* p.140

⁷⁵ D. Rodrik, A. Subramanian, and F. Trebbi (2002) 'Institutions Rule: the Primacy of Institutions over Geography and Integration in Economic Development', Cambridge (Massachusetts): NBER Working Paper No. 9305; D. Rodrik (2003) 'Institutions for High Quality Growth: What they are and how to acquire them', Cambridge (Massachusetts): NBER Working Paper No. 7540.

⁷⁶ Oxfam 2012, *op. cit.*

⁷⁷ Some economists have called it that, including: G. Corsetti, Michael P. Devereux, John Hassler, Gilles Saint-Paul, Hans-Werner Sinn, Jan-Egbert Sturm, Xavier Vives. G. Corsetti, M.P. Devereux, J. Hassler, G. Saint-Paul, H.W. Sinn, J.E. Sturm, X. Vives (2011) 'España' [Spain], Occasional Paper, OP-193. University of Navarra, IESE Business School, August 2011, p.2

⁷⁸ Corsetti *et al.* 2011), *op. cit.* p.2

⁷⁹ *Ibid.* p.3

⁸⁰ *Ibid.* p.8

⁸¹ Not including capital income. F. Alvaredo *et al.* 2012, *op. cit.* <http://topincomes.g-mond.parisschoolofeconomics.eu/#Database> (last visit November 2012).

⁸² A. Garzón, '¿Se han hecho los ricos más ricos? Análisis de España entre 1980-2008' [Have the rich got richer? Analysis of Spain between 1980 and 2008], *Pijus Economicus*, Blog by Alberto Garzón, 30 March 2012: <http://www.agarzon.net/se-han-hecho-los-ricos-mas-ricos-analisis-de-espana-entre-1980-2008/>. With data from The World Income Database (2012)

⁸³ Cáritas Española 2012, *op. cit.* p.10

⁸⁴ Corsetti *et al.* 2011, *op. cit.* p.13

⁸⁵ Fiscal measures based on directing state spending during times of crisis towards boosting the economy by increasing demand.

⁸⁶ Speech by Carlos Susías, president of the European Anti Poverty Network, during the debate held in Madrid on 17 October 2012 by the New Economy Forum. 'Susías advierte que los recortes no son coyunturales, sino un cambio de modelo social' [Susías warns that cuts represent not a current phenomenon, but a change in the social model], New Economy Forum, 17 October 2012. <http://www.nuevaeconomiaforum.org/es/act/noticias/object.aspx?o=37112>

⁸⁷ Other cuts that had a social impact:

- The 'baby cheque': €1.5bn. The €2,500 paid for every newborn child, known as the 'baby cheque', was eliminated as of 1 January 2011.
- Medicines: with a view to further reducing spending on pharmaceuticals, it was proposed to adjust the number of units in a packet in line with the duration of the treatment, and it was made easier to dispense medicines in unit doses by breaking up packets so that the patient can buy the exact quantity he/she needs. Medicine costs were cut by promoting generic drugs.
- Dependant care: changes were made to the Dependant Care Law so that benefits would no longer be backdated to the date on which they were requested. Moreover, pre-existing applications for backdated payments may not be honoured for up to five years.

⁸⁸ According to performance monitoring data, net ODA provided in 2011 totalled just €3bn (28.96 per cent less than the figure set out in the 2011 Annual International Cooperation Plan (PACI) and 33 per cent lower than that provided in 2010).

⁸⁹ Approved by the Royal Decree-Law of 13 July.

⁹⁰ The progressive nature of the increase in personal income tax was the only gesture to society, in that the increases were applied in seven different brackets, ranging from an increase of 0.75 percentage points for incomes of up to €17,707 per year to an increase of 7 percentage points for incomes of over €300,000 per year. These increases were applied to the existing rates, meaning the personal income tax rates applied following the increases are as follows:

- for incomes of up to €17,707, the rate is 24.75 per cent;
- for incomes of up to €33,007, the rate is 30 per cent;
- for incomes of up to €53,407, the rate is 40 per cent;
- for incomes of up to €120,000, the rate is 47 per cent;
- for incomes of up to €175,000, the rate is 49 per cent;
- for incomes of up to €300,000, the rate is 51 per cent;
- for incomes of €300,000 and over, the rate is 52 per cent. This last bracket did not exist prior to the tax increases.

⁹¹ Proportional increases in the rates of tax applied to savings income:

- increase of 2 percentage points in the rate applied to profits of up to €6,000 per year;
- increase of 4 percentage points in the rate applied to profits of up to €24,000 per year;
- increase of 6 percentage points in the rate applied to profits of more than €24,000 per year.

⁹² According to a report by the Juan de Mariana Institute, cited in: Europa Press, 'El IRPF español, entre los más altos de Europa tras la última reforma fiscal' [Spanish income tax among the highest in Europe following the latest tax reform], *Finanzas.com*, 23 January 2012. http://www.finanzas.com/noticias/fiscalidad/2012-01-23/642165_irpf-espanol-entre-altos-europa.html

⁹³ SICAVs are a form of collective-investment scheme created in 1983. A SICAV is a financial instrument that enables investors to invest money and defer annual tax payments (in the same way as for investment funds), but in this case

via the creation of a *sociedad anónima* (public limited company) whose purpose is to invest in financial assets. Through this instrument, SICAV shareholders pay tax on capital gains once these gains materialise, through the distribution of dividends or the sale of SICAV shares with capital gains, at the rate applicable to capital income in Spain. SICAVs are often seen as a legal way for those with large fortunes to avoid paying taxes by assembling the 100 people needed thanks to individuals who merely give their name to the company (known as '*socios de paja*' (straw men) or '*marichis*'). These people are often closely linked to the investor providing most of the capital (through employment or family ties etc.). From this point of view, SICAVs have ceased to function as a collective instrument and have instead become a type of individual wealth management scheme. This criticism is supported by a number of tax inspectors. See: http://es.wikipedia.org/wiki/Sociedad_de_inversi%C3%B3n_de_capital_variable

⁹⁴ The 1 per cent tax rate applied to SICAVs refers not to the profits made by the assets managed under SICAVs, but to the commission earned by SICAV managers. The assets managed do not even pay tax of 1 per cent until capital gains are realised.

⁹⁵ F. De la Torre Díaz, 'SICAV: una reforma necesaria' [SICAVs: a necessary reform], ATTAC Madrid <http://www.attacmadrid.org/d/11/090902191900.php>

⁹⁶ Since 2010, restrictions have been in place so that money cannot be withdrawn from SICAVs without paying taxes, which could be done until September 2010 by disguising withdrawals of liquidity as capital reductions or the distribution of an issue premium. S.R. Arenas 'Las sicav dejan atrás el glamour al perder dinero' [SICAVs not so glamorous now they are losing money], *Público*, 3 January 2012. <http://www.publico.es/dinero/415078/las-sicav-dejan-atras-el-glamour-al-perder-dinero>

⁹⁷ GESTHA data, 'Un nuevo tramo en Sociedades recaudaría el doble que una alza del IVA' [A new tax bracket for companies would generate double the revenues of a VAT rise], ION Comunicación. GESTHA (trade union of the Treasury Department), 23 May 2012. <http://www.ioncomunicacion.es/noticia.php?id=%2012330>

⁹⁸ *Ibid.*

⁹⁹ GESTHA data, 'España recaudaría 5.000 millones con una tasa a las operaciones financieras' [Spain would raise €5bn from a tax on financial transactions], ION Comunicación. GESTHA (trade union of the Treasury Department), 19 June 2012. <http://www.ioncomunicacion.es/noticia.php?id=%2012539>

¹⁰⁰ Europa Press, 'Nueve de cada diez españoles considera que en España hay mucho o bastante fraude fiscal, según el CIS' [Nine out of 10 Spaniards believe there is a lot or quite a lot of tax fraud in Spain, according to the CIS], Europa Press, 23 October 2012. <http://www.europapress.es/economia/fiscal-00347/noticia-economia-fiscal-nueve-cada-diez-espanoles-considera-espana-hay-mucho-bastante-fraude-fiscal-cis-20121023131144.html>

¹⁰¹ Corporate Social Responsibility Observatory, 'La Responsabilidad Social Corporativa en las memorias anuales de las empresas del IBEX 35. Análisis del Ejercicio 2010' [Corporate social responsibility in the annual reports of IBEX 35 companies. Analysis of the 2010 financial year], Eighth Edition. http://www.observatoriorisc.org/images/documentos/publicaciones/informes_estudios/ibex35_vf_2010.pdf

¹⁰² Spain has a list of tax havens, as defined pursuant to a royal decree of 1998. However, countries can be removed from the list by signing information exchange treaties. Thus, one of these treaties was signed with Panama in 2011, probably as a result of pressure from the Spanish companies that are going to form contracts to expand the Panama Canal. However, nobody reports how many requests for information are actually made to other jurisdictions or how many replies are received. The General Tax Department, at the Spanish Treasury, is responsible for the list.

¹⁰³ According to GESTHA data on the black economy and fraud, the state is missing out on revenues of €88bn each year (€59bn in taxes and €29bn in social-security contributions). GESTHA data, 'España recaudaría 5.000 millones con una tasa a las operaciones financieras' [Spain would raise €5bn from a tax on financial transactions], ION Comunicación. GESTHA, 19 June 2012. <http://www.ioncomunicacion.es/noticia.php?id=%2012539>

¹⁰⁴ See the series of articles published by the *New York Times* on the political and media power of Emilio Botín and his family:

L. Thomas Jr. and R. Minder, 'A banker's secret wealth', *The New York Times*, 20 September 2011. <http://www.nytimes.com/2011/09/21/business/global/spain-examines-emilio-botins-hidden-swiss-account.html?pagewanted=all&r=0>

V. Navarro, 'La banca, el fraude fiscal y el New York Times' [Banking, tax fraud and the *New York Times*], blog by Francisco Margallo, 23 October 2012. <http://blogs.periodistadigital.com/franciscomargallo.php/2012/10/26/fraude-fiscal-en-espana>

¹⁰⁵ A. Bolaños, 'Hacienda recauda 1.200 millones gracias a la amnistía fiscal, la mitad del objetivo' [Treasury collects €1.2bn through the tax amnesty, half its target], *El País*, 3 December 2012. http://economia.elpais.com/economia/2012/12/03/actualidad/1354545669_643372.html

¹⁰⁶ GESTHA data, 'AEAT ingresaría 8.700 millones al investigar el dinero de la amnistía' [Tax office would raise €8.7bn by investigating amnesty money], ION Comunicación. GESTHA 4 December 2012. <http://www.ioncomunicacion.es/noticia.php?id=%2013583>

¹⁰⁷ Watkins 1999, *op. cit.* p. 235

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¹¹⁰ V. Navarro, 'La gran estafa: el presupuesto de 2013' [The big con: the 2013 budget], *Dominio Público, opinión a fondo, Público*, 30 September 2012. <http://blogs.publico.es/dominiopublico/5883/la-gran-estafa-el-presupuesto-de-2013/>

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¹¹⁷ C. Pérez and L. Doncel, 'España pide un rescate de hasta 100.000 millones para la banca' [Spain requests a bailout of up to €100bn for its banks], *El País*, 10 June 2012. http://economia.elpais.com/economia/2012/06/09/actualidad/1339230670_176850.html

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¹²⁰ Congress of Deputies, Official Journal of the Spanish Parliament, Amendments, Bill on the 2013 Government Budget (121/000027). Series A: bills no. 27-6, 23 October 2012. http://www.congreso.es/public_oficiales/L10/CONG/BOCG/A/BOCG-10-A-27-6.PDF

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¹²⁶ OECD (2011) 'Divided We Stand: Why Inequality Keeps Rising. Country note: Spain', Paris: OECD <http://www.oecd.org/els/socialpoliciesanddata/4917772.pdf>

¹²⁷ The average income of the richest 20 per cent of people in Spain has risen from 5.3 times the income of the poorest 20 per cent in 2008 to 7.5 times more in 2011. In other words, this figure increased by 2.2 in three years. EUROSTAT data, at <http://epp.eurostat.ec.europa.eu/portal/page/portal/statistics/themes> (last view 3 December 2012)

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¹⁸⁷ In Spain, there is one tax department employee for every 1,928 inhabitants, whereas the OECD average is one for every 900. The biggest pockets of fraud are to be found in relation to vast fortunes and big companies, and yet the resources dedicated to monitoring and inspecting these groups account for less than 20 per cent of the total number of officers. GESTHA, in A. Requena Aguilar, 'España compite con otros países que se consideran paraísos fiscales' [Spain is competing with other countries that consider themselves tax havens], *El Diario*, 27 November 2012. http://www.eldiario.es/economia/voluntad-politica-ingeneria-financiera-permite_0_73493162.html

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This paper was written by Teresa Cavero. Intermon Oxfam would like to thank the collaboration of Marta Arias (Director of Childhood Policies and Sensibilisation in UNICEF Spain), Gonzalo Fanjul (autor of the blog 3.500 Millones in El País), Daniel Izuzquiza S.J. (Director of Pueblos Unidos), Francisco Lorenzo (Coordinator of Sociologic Studies in Cáritas Spain and Fundación FOESSA), Stefan Meyer (Director Adjunto Médicos del Mundo) y Roger Torres i Aguiló (Director of Pastoral del Centre de Estudis Joan XXIII and Subdirector of Fundació La Vinya) in its production. The author would like to thank the inputs from Cristina Álvarez, Jaime Atienza, Belén de la Banda, Anna Duch, Verónica Hernández, Déborah Itriago, Consuelo López-Zuriaga, Ricardo Magán, Susana Ruiz, Emilia Sánchez-Pantoja and José María Vera. It is part of a series of papers written to inform public debate on development and humanitarian policy issues.

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