THE TRUE COST OF AUSTERITY AND INEQUALITY

Spain Case Study

In Spain, the period from 1995 to 2007 has been called ‘the golden decade’. After years of high unemployment and struggling economic growth, this was a period of strong expansion. Spain's admittance to the Eurozone in 1999 brought low interest rates, enabling Spain to generate an economic surplus in the mid-2000s and enjoy almost total employment by 2006. 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 by 2007.

Most of this economic growth was concentrated in the construction sector, with rising house prices (tripling during the golden decade) driving investment in residential property and large infrastructure. This period also saw an increase in immigration, boosted by demand for labour in construction and domestic services, causing Spain's population to expand from 40 million in 2000 to 45 million in 2009.

Although Spain's economy grew considerably during this period, it was the richest in the country who acquired most of this wealth. This period of growth saw an increase in inequality and was marked by a failure to reduce levels of poverty. Social protection was not consolidated, and the proportion of GDP spent on social welfare did not increase.

The boom period resulted in an unsustainable financial bubble and extremely high levels of private debt, incurred mainly by banks linked to the real estate sector. Spain began 2007 with a budget surplus of one per cent.

The effects of the financial crisis on the Spanish economy first became apparent in 2008. The initial measures implemented that year and in 2009 in response to the crisis included a stimulus package, which comprised: additional assistance for unemployed people who had already used up their unemployment benefit or were not entitled to it; 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 subsidizing small-scale infrastructure projects. This initial stimulus had a temporary positive effect on employment in 2009.

However, in May 2010, in line with the requirements of the European Commission, the then Prime Minister José Luis Rodríguez Zapatero presented a package of austerity measures. These measures, which continued under the current government elected in November 2011, divided the recovery effort between public-spending cuts and boosting tax revenues through tax rises. Following these measures, unemployment skyrocketed, public services deteriorated, public salaries and pensions were slashed, and access to credit for individuals and small businesses was tightened. There has also been a focus on saving the banking system at the expense of increasing public debt. Spain ended 2012 with public debt at 84 per cent of GDP. This was fuelled by the European Commission’s rescue of its financial sector and the contributions to the European bailout funds. By June 2013, Spain’s public debt was equivalent to 88.2 per cent of GDP. One in three Euros of planned spending in the 2013 government budget will go to servicing the interest on that debt.

**Impact on the poorest**

The gap between the richest and poorest has widened sharply as a result of the crisis and the measures meant to tackle it, as has the difference in levels of inequality between Spain and other European countries. The gap between the country’s highest and lowest earners has greatly increased, placing Spain top among the 27 EU member states in terms of social inequality. Prior to the crisis, Spain’s richest 20 per cent earned 5.3 times as much as the poorest 20 per cent. By 2011, this figure had risen to 7.5 times (well above the EU average of 5.1). Recent national data show that inequality rose throughout 2010 and 2011. If this trend persists, by 2025, the richest 20 per cent of Spaniards could earn on average 18 times more than the poorest 20 per cent.

The Gini co-efficient in Spain reached 0.34 in 2011, its highest since records began. Out of the 30 European countries that provided Eurostat with data, only three scored higher than Spain.

Between 1994 and 2007, when resources were available, the problem of structural poverty was not tackled. As a result, by 2012, one in four Spaniards, equivalent to 12.7 million people, was at risk of poverty or social exclusion. This represents an increase of 2.1 million since 2008. If this trend continues, the number of poor people in the country could reach almost 20 million (42 per cent of the population) by 2025.

In 2010, social assistance provided by the Ministry of Health and Social Services reached more than eight million people, 19.5 per cent more than the previous year. Those in need of these services are often elderly, disabled or are families with children. More recent figures are not known, but at this rate of growth, and based on social workers’ own perceptions, the 2012 data will have surpassed this. However, in 2013, the government cut the budget for basic social services by 40 per cent.
These services also now help an increasing number of people who until recently had been able to live within their means.23

In April 2013, more than 6.2 million people were registered as unemployed in Spain, making the unemployment rate 27.16 per cent, the highest since Spanish records began. According to the 2012 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 received any support or benefits from the state.24 The number of households unable to afford mortgage repayments is rising exponentially, causing a genuine housing crisis that has already claimed lives.25

At 35 per cent, unemployment is even higher among the immigrant population. Immigrant communities are increasingly more vulnerable, and the precarious situation of many will be worsened by unemployment (for many, losing their job means losing their residence permit). In such circumstances, these people will also be left without health care cover as well.26 Evictions are having the biggest impact on the immigrant population. This further accentuates their vulnerability.

Across Spain, 350,000 eviction proceedings have been initiated since 2008, with 172,000 evictions actually enforced;27 other sources claim that more than 600,000 families have lost their homes over the same period.28 This means that, in 2012, there were 115 evictions taking place every working day.29

The lack of jobs is driving thousands of people to emigrate to countries such as the UK, Germany, Mexico, Chile and Brazil. Between January 2011 and October 2012, 927,890 people left Spain, of whom 117,523 were Spanish nationals.30 Emigration from Spain is most common among young, well-educated people. 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.

More than two million children have been affected by the crisis. There are now more poor children, they are poorer than before, and they will be poor for longer. Poverty intensity (the extent to which a person is below the poverty threshold) is also very high and rising among the child and adolescent population; worse still, it is becoming increasingly entrenched.31

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 revenue. This can be 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.

Increases have also been made to the personal income tax rate32 and in the rate applied to income from savings and capital (any investment that generates interest, dividends or returns from investment funds).33 This increase makes Spain's tax rates among the highest in Europe, above those of France, the UK, Germany and Norway, and behind only Finland and Sweden.34
In four years, ODA has been cut by 70 per cent, and is now at the level it was 20 years ago. In 2010, Spain’s official development assistance (ODA) totalled €4.5bn, one per cent lower than in 2009. In 2011, it fell to €3.1bn, 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 just €2bn for 2013.35

**Tax burden**

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 increased VAT, rising by five per cent in just three years, and the abolition of certain tax deductions. While ordinary citizens pay 21 per cent in tax on their capital income, those with large fortunes funnel their money through SICAVs, publicly limited companies,36 which allow them to contribute a mere 1 per cent. The tax burden of a single person with no children and an average annual income of €41,310 is 28 per cent; whereas, in practice, no company pays more than 25.2 per cent in corporation tax.37 Moreover, a person with two children and an average income of €16,524 is subject to a tax burden of around 15.6 per cent, a proportion similar to that applied to multinational companies that generate annual turnovers of more than €1bn.

In 2010, 85 per cent of companies listed in Spain’s IBEX 3538 had a presence in tax havens.39 This is the result of a rising trend which continued through both the economic boom and the crisis that followed. Figures on tax fraud in Spain are unsurprisingly elusive; but, it is estimated that tax evasion in Spain is worth more than €88bn;40 44bn of which is owed by large companies and those with substantial fortunes.41 However, this remains unchallenged due to a lack of political will to tackle the Spain’s ‘black economy’ and the rampant tax fraud.42

Some 3,000 wealthy Spaniards had accounts at the Swiss branch of the British bank HSBC, worth more than €6bn.43 Instead of being inspected and sanctioned, they were offered special treatment under a tax amnesty in order to legalize their situation and were sanctioned only in relation to their interest, not the entire amount they had hidden. The tax amnesty aimed to collect €2.5bn by bringing to light €25bn hidden in tax havens or in undeclared accounts. In the end it raised just €1.2bn, as even those who declared their wealth under the amnesty failed to pay the Treasury between €4.1bn and €7.5bn.44

Bringing this money back into the Treasury would have enabled Spain to avoid all social cuts.

**Conclusion**

Spain is not rectifying the abuses of its financial system or calling to account those who destroyed the savings and life plans of thousands of families. The political decisions taken in the upheaval of economic and social crisis are leading Spain towards dramatic structural changes. In the new balance of power, citizens’ participation in public policies is
rapidly being restricted and the government’s power is giving way to that of the markets. Social policies are the first to suffer the consequences of this fiscal-stability fundamentalism through budgetary cuts.

As the consequences of the austerity measures unfold, Spain is more likely to become 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.

NOTES

All URLs last accessed September 2013, unless otherwise stated

2 One in every three jobs created in the EU-15 countries between 2000 and 2007 was generated in Spain. Corsetti et al. 2011), op. cit. p.2
3 Ibid. p.3
4 Ibid. p.8
5 In 2007, the richest five per cent earned more than €78,000 per year, and the wealthiest 0.01 per cent (the super-rich) earned more than €1,800,000 per year on average. The evolution of incomes since 1980 shows how much more the different social groups were earning in 2008 compared with 1980. The most striking development is in the incomes of the super-rich, who earned 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.
6 Fiscal measures based on directing state spending during times of crisis towards boosting the economy by increasing demand.
8 A. Bolaños (2013) ‘La deuda sube al 88,2% y agota en tres meses la mitad del margen para todo 2013’ [The debt rises to 88.2% in three months and exhausted half the margin for all 2013]. El País, 14 June 2013, http://economia.elpais.com/economia/2013/06/14/actualidad/1371197757_495551.html
9 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 (2012) ‘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
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 in 2011. EUROPOL data, http://epp.eurostat.ec.europa.eu/portal/page/portal/statistics/themes

The Gini co-efficient measures a country’s income equality, with zero indicating perfect equality and one the highest degree of inequality possible.


Bulgaria, Latvia and Portugal, with Gini coefficients of 0.35, 0.35 and 0.34 respectively


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. ibid.


Barómetro social de España (2012) ‘Más de 600.000 hogares han perdido su vivienda desde 2008’ [More than 600,000 families have lost their homes since 2008], 6 October 2012, http://afectadosporlahipoteca.madrid.net (last accessed June 2013)

The health reforms that came into force on 1 September 2012 left more than 153,000 illegal immigrants without health cover. See: ‘Los inmigrantes sin papeles pierden este sábado su derecho a tener tarjeta sanitaria en España’ [From this Saturday, ‘paperless’ immigrants will lose their right to have a health card in Spain], Europa Press, http://www.europapress.es/salud/noticia-inmigrantes-papeles-pierden-sabado-derecho-tener-tarjeta-sanitaria-espana-20120831131510.html


There are records of one suicide due to an eviction in 2011, seven cases in 2012 and eleven cases between January and May 2013. Data from ‘Plataforma de afectados por la Hipoteca’ [Platform of People Affected by Mortgages], http://afectadosporlahipoteca.madrid.net

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.

Proportional increases in the rates of tax applied to savings income:
- increase of two percentage points in the rate applied to profits of up to €6,000 per year;
- increase of four percentage points in the rate applied to profits of up to €24,000 per year;

The crisis and austerity policies in Spain are punishing those who have the least, El País, 14 October 2012, http://sociedad.elpais.com/sociedad/2012/10/14/actualidad/1350244867_157447.html

ibid.

22 Editorial, ‘Desigualdad creciente. La crisis y las políticas de austeridad castigan en España más a los que menos tienen’ [Growing inequality. The crisis and austerity policies in Spain are punishing those who have the least], El País, 15 October 2012, http://elpais.com/elpais/2012/10/14/opinion/1350240394_542113.html

23 C. Morán (2012) op. cit.

24 A.R. Gavino (2012) ‘El número de familias con todos sus miembros en paro continúa al alza’ [The number of families in which all members are unemployed continues to rise], El País, 26 October 2012, http://economia.elpais.com/economia/2012/10/26/actualidad/1351237751_235894.html

25 There are records of one suicide due to an eviction in 2011, seven cases in 2012 and eleven cases between January and May 2013. Data from ‘Plataforma de afectados por la Hipoteca’ [Platform of People Affected by Mortgages], http://afectadosporlahipoteca.madrid.net (last accessed June 2013)

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30 According to the population estimates of the National Institute of Statistics (INE), cited in: EFE, ‘La crisis aumenta un 21,6% la emigración de españoles este año’ [Crisis boosts emigration from Spain by 21.6 per cent this year], Expansión, 15 October 2012, http://www.expansion.com/2012/10/15/economia/1350302574.html


32 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.

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33
- increase of six percentage points in the rate applied to profits of more than €24,000 per year.

34 According to a report by the Juan de Mariana Institute, cited in Europa Press (2012) '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

35 According to performance monitoring data, net ODA provided in 2011 amounted to 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).

36 Although SICAVs were designed for collective investment, in practice they are used exclusively for the management of large asset portfolios by bringing in 100 fictional investors. There are currently around 3,369 SICAVs in operation, with assets under management totalling more than €27bn.

37 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.

38 The benchmark stock market index of the Bolsa de Madrid, Spain's principal stock exchange


40 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


42 According to GESTHA data on the black economy and fraud, the state is losing out on revenues of €88bn each year (€59bn in taxes and €29bn in social-security contributions). GESTHA data (2012) ‘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, http://www.ioncomunicacion.es/noticia.php?id=%2012539


44 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, http://www.ioncomunicacion.es/noticia.php?id=%2013583
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