The Deepening Spanish Debt Crisis

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Seville

The early June performance by the Sevillian flamenco anti-bank protest group FLO6x8 was a direct hit. Days after the announcement of a $23 billion public bailout of Spain's third-biggest bank, Bankia, three cantaora singers strode into the city center office of the bank and began to bellow out the purest, full-lunged cante jondo, songs of grief, pain and protest of the Andalusian gypsies. Customers looked on, surprised, then impressed. Security guards fidgeted nervously. One singer, nicknamed Prima del Riesgo (Risk Premium, a term on every Spaniard's lips, as the spread on Spanish bonds rises to unsustainable heights), pushed open the door to the bank manager's office. "Goirigolzarri! Tell us!" she sang, gesturing with her hands as if money were flowing through her fingers. "Why did you retire? With all the money you've spent, we could feed the world." This was a reference to the new Bankia CEO José Ignacio Goirigolzarri, brought out of early retirement at 55 (on a pension of 3 million euros per year) to manage the biggest government bailout of a bank in Spanish history.

It was just one of a string of performces by FLO6x8 (6x8 is a common rhythm in Sevillian flamenco), all available on video. In mid-May, cantador Pincho de Leche sang a fandango to Goirigolzarri's predecessor at Bankia, former IMF managing director and former Partido Popular (PP) finance minister Rodrigo Rato, who is accused in a new lawsuit brought by the indignado protest movement of misleading savers—many of them Bankia customers—into buying shares in the bank only months before it went bust: "Rodrigo, you have six lungs; I have only gills [branquias] to breathe with," he sang with Lorquian enigma. A dozen young women waiting in a queue of Bankia customers suddenly revealed themselves to be FLO6x8 protest bailaoras and tap-danced across the marble floor. Other targets of the flamenco protest were Aurelio Izquierdo, a former executive at Bankia and adviser to the PP government in Valencia, who was due to be paid a 13.8 million euro pension by the bank, though this has since been reduced to 8 million; and Alfredo Saenz, CEO of the globalized Banco Santander, who earned 15.7 million euros last year.

I arrived in Seville the same June week the European powers forced Spain to accept a 100 billion euro bank rescue plan, while imposing more austerity and the privatization of Spanish public savings banks, or cajas. Demonstrators gathered near the thirteenth-century Torre del Oro to protest new spending cuts, as thirty-five local homeless families settled into an empty apartment building in the Macarena district, now called Corrala La Utopia, in reference to the communal living arrangements of the nineteenth-century Sevillian open tenement block. FLO6x8, meanwhile, was planning a new flamenco hit job at a city-center bank the following morning but had to cancel. "The police are on our trail, so we have to be intelligent," said Pepe, one of the group's coordinators, who asked me to refer to him as El Moody's, an ironic allusion to the hated credit rating agency. "We started this soon after Lehman Brothers [collapsed]; now we are finding new places to perform. ATMs are perfect for singers, bank waiting rooms for dancing. Because it's not just words—the body of a flamenco dancer is rebellion in itself."

All this may sound overly romantic. But as Spain's banking crisis deepens, threatening the very existence of the eurozone, Andalusia—with the highest unemployment rate in Europe (33 percent), burgeoning homelessness and a child poverty rate that has doubled in two years—is a focus of resistence. Only four months after Mariano Rajoy's resounding victory in national elections, the Andalusian regional elections in March stopped in its tracks the center-right PP's bid for total state power. The PP vote slumped by a third compared with the November polls, and a strong performance by the small but growing communist-led United Left coalition (Izquierda Unida, or IU), Spain's nearest equivalent to the Greek Syriza, has allowed the formation of a left coalition government in Andalusia with the Socialist Party. The IU has pledged to mitigate draconian austerity measures imposed from Madrid and Brussels by defending services for the poor, protecting public-sector employment and administering wage cuts progressively by ring-fencing those at the lowest wage scale (less than 1,000 euros per month). Meanwhile, Alberto Garzón, a 26-year-old economist from Málaga and a leading figure in the indignado protests, which drove millions to the streets in Spain last summer, has entered the Madrid Parliament on the IU ticket. Some liken him to Alexis Tsipras, Syriza's young leader, although since Garzón is a rookie MP and the IU still has only 7 percent electoral support at the national level, the comparison is premature, to say the least.

Both Garzón in the Madrid Parliament and the United Left in the Andalusian left coalition government are trying to channel Spain's diverse protest movement into the politics of power. "For the moment, the 15-M movement [indignados] is very heterogeneous, and it's difficult to know where it will end up, but I personally see people trying to work through the United Left. That's what I've done," Garzón explained. "What's happened in Greece is a big fillip for the transformative left here. We've seen how social democrats such as [the Greek party] Pasok are being punished for failing to defend their voters."

Garzón, who cites socialist economists such as as Karl Polanyi, David Harvey and David M. Kotz as his intellectual mentors, thinks Spain will follow in the Greek path to a complete bailout with strict conditionality imposed by the Troika (the European Union, European Central Bank and the International Monetary Fund). While public debt is still sustainable, at around 80 percent of GDP, many fear Spain is being forced down the same route as Ireland, which was lent billions of euros under the 2010 Troika rescue package to bail out its already insolvent banks. This turned a banking collapse into a sovereign debt crisis. The Spanish government, along with France and Italy, has implored Germany to agree to recapitalize the Spanish banks directly from the new European rescue funds, rather than burdening the Spanish government with more loans. This would be a first step toward a European banking union with collective deposit insurance and European-financed bailouts, now considered by a growing number of analysts as a prerequisite for the eurozone's survival. There was some progress at the late June Brussels summit, where Germany agreed in principle to collective bailouts from eurozone banks, though details are still scarce. Garzón remains skeptical. "The partial bank bailout is a sticking plaster; we are getting closer and closer to a full-blown rescue package," he said.

This would prove disastrous for Spain, which would likely be forced further down the twisted road of austerity, recession and impossible debt dynamics. But it could provide an opportunity for the IU, as the Troika program did for Syriza in Greece, and for anti-austerity Sinn Fein in Ireland, which has increased its support to an unprecedented 24 percent in recent polls. There is growing pressure on the centrist Socialist Party (PSOE) to join the PP government in Madrid, a pact of national unity that would show commitment to the austerity measures demanded by the creditor nations. Thrashed by the PP in the November polls, when the Socialist vote slumped to 29 percent from the 44 percent it had won four years earlier, Socialist leader Alfredo Rubalcaba supports a nonconfrontational stance.

This was exactly the route taken by Pasok in Greece, and has proved a path to electoral oblivion, with Pasok's vote share falling from 44 percent in 2009 to 12 percent now. A similar fate has befallen the moderate Irish Labour Party, whose support has halved, to 10 percent, since it joined a coalition government last year that has pursued a ruthless adjustment program under Troika supervision.

“There are concerns in some sections of the PSOE that the fate of Pasok may await,” said Antonio Avendaño, former Seville bureau chief of the daily newspaper Publico, which closed earlier in the year. “The United Left may see that as an opportunity,” he said.

Meanwhile, United Left—which was almost wiped from the electoral map during the boom years under former Socialist Prime Minster José Luis Rodrígez Zapatero—has steadily climbed in popularity, taking 7 percent of the vote in the general election last November and now touching 14 percent in the latest opinion polls. This is mainly thanks to a radicalizing youth vote fed by the indignado movement. It’s a long way from Syriza, whose vote has soared from 4 percent to nearly 30 percent in two years, as Greek youth turned en masse to the far left. But the Spanish crisis is still in its early stages; and while victory in the Euro cup soccer final gave momentary respite, many Spaniards fear they are following Greece into the abyss.

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Andalusia, the most populous region in Spain with almost 8.5 million inhabitants, is one of the black holes of the eurozone’s deepening malaise. It is an extreme case of the general plight of the euro periphery, where the “sudden stop” of capital flows from the north has exposed the weakness of an economy lulled into complacency by booms in real estate, retail and tourism, but with little of the productive industry whose exports could compensate for the collapse in local demand. Yet Andalusia’s rebellious response to the toxic policy mix of austerity for the vulnerable and subsidies for the banks makes it a key region for the future of the Spanish—and European—left.

Traditionally a socialist stronghold, the region has benefited greatly from fiscal transfers from wealtheir regions of Spain as well as from the EU. The high-speed AVE train, which covers the 472 kilometers from Madrid in two and a half hours and pulls into an impressive Modernist vaulted station, was the first bullet train in Spain when completed for the Seville Expo in 1992. It seemed to signal a promise from iconic Socialist Prime Minister Felipe González (a native of Seville) that Spain would never allow Andalusia to stagnate like the Italian Mezzogiorno. Yet twenty years later, the fear of a return to the endemic poverty and underdevelopment of the Franco years is palpable in Seville.

Nowhere more so than in Corrala la Utopia—a testament, despite its name, to the brutal reality of Spain’s post-bubble collapse. Ana, a 33-year-old unemployed hotel maid with two children, explains, half in embarrassment, half in rage, why she has moved with her parents and children into the empty, six-story apartment property of a Galician real estate outfit. She is embarrassed because she is now living incongruously in a tasteful, pine-floored apartment with a shiny new kitchen; enraged because the local utility has cut off the water and electrcity, threatening the health of her 80-year-old father, who is gravely ill with heart disease.

“We’ll pay rent, electricity, water, here or somewhere else,” she says as two Corrala supporters arrive with oxygen tanks for her father. “But I am paid only 426 euros a month for family support.” Ana helped her mother pay the mortgage that she had taken out on her apartment with Banco Popular but stopped paying when she lost her job. Both were evicted last year, though they are still legally obliged to pay the remaining mortgage debt.

There is no real tradition of squatting with cause in Spain. But as foreclosures and evictions multiply across the country, indignado groups are helping families like these to seek shelter in the million or so empty properties that litter Spain in the aftermath of the housing bubble. The new neighbors take part in indignado-style assemblies every evening to coordinate the running of the squat. Yet the residents insist they are here not for political reasons but because, under Section 47 of the Spanish Constitution, drawn up in 1978 after Franco’s death, they have the right to a roof over their heads.

“We are ocupas, but not with a K,” says one, in reference to the anarchist “oKupa” squats in Madrid and Barcelona.

In the Alamedo district near Seville’s town center, five other evicted families have moved into a dilapidated nineteenth-century townhouse owned by a local aristocrat that has been empty as long as they can remember. Maria José, who is sitting outside the boarded building playing with her daughter, says she bought an apartment with her husband, a construction worker, three years ago through a local real estate firm. When the real estate bubble burst, the husband lost his job and they struggled to make the 444-euro monthly mortgage payment. She hands me a letter from the Madrid office of German megabank DeutscheBank, which warns that legal measures will be taken to recover the property, due to payment arrears of 1,690 euros.

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La Corrala is the back page of the Spain story. On the front cover you will read the estimates by international financial consultants Oliver Wyman and Roland Berger that Spanish banks need up to 62 billion euros to cover their exposure to 400 billion euros’ worth of toxic real estate debt. With housing prices expected to fall another 25 percent after declining around 20 percent in the past year, foreclosures could double the estimated 184 billion euros of embargoed homes already on the banks’ books, most of them imposible to sell.

But these aren’t the only toxic assets in the Spanish bank balances. Fear of default on sovereign debt in Spain has led to a buyers’ strike in the international bond markets, making the Spanish banks the only source of demand for the 100 billion euros the Spanish state must raise during the rest of this year to finance its debt. Spain is now paying an unsustainable 7 percent on its debt, more than 5 percentage points higher than Germany. For the moment, the banks have enough liquidity to carry on buying Spanish debt, thanks to the European Central Bank’s LTRO program, which provides unlimited access to ECB credits at 1 percent interest rates for the next three years.

But stuffing bank balances with unwanted sovereign debt, where it sits alongside toxic real estate debt, simply heightens fears that Spain is now being strangled by a pernicious feedback loop between insolvent banks and a soon-to-be insolvent sovereign state. Many financial analysts in London’s City and on Wall Street agree with Alberto Garzón that a full-blown rescue is inevitable. Yet with a trillion euros of public debt, Spain appears too big to rescue—and that has frightening implications for the future of the European monetary union.

Theres is one consolation for the banks, said Charles Dallara, of the Institute for International Finance, the Washington-based international private bank lobby. In a May interview held in the Bank of Spain in Madrid, Dallara told me, “Nonpayment on mortgages is actually quite low in Spain compared with the United States; there’s a greater commitment to pay than in other countries.” The reason for this, he said, is that those who lose their homes—such as Ana and Maria José, now precariously housed in Corrala La Utopia—can never walk away from the loan.

Fighting this kind of injustice will be the acid test of the United Left’s ability to make something of the constrained left coalition government in Andalusia. “There is an avalanche of evictions at the moment, and it is intolerable,” said Elena Cortés, responsible for housing policy as one of two IU ministers in the new Andalusian government. “The law favors banks over low-income homeowners—even those like Bankia, which have been bailed out with public money. So we have to do something.”

But, at a time when economic sovereignty is being sucked northward, first to the PP government in Madrid and then to Brussels, Frankfurt and Berlin, what can she actually do? Andalusia’s coalition government has already been forced to implement 2.5 billion euros of cuts in the region's budget, equivalent to 1.5 percent of its GDP. This has infuriated parts of the coalitions's base, who are underwhelmed by the idea of austerity with a human face.

Cortés, who has committed to increasing the supply of subsidized rented homes in Seville, says she is working on legal measures to make thousands of empty properties—many owned by banks—available for rent. She also supports allowing US-style strategic default to enable foreclosed property owners to walk away, one of the key demands of the indignados. But for that to happen, the mortgage law would have to be amended in the Spanish national Parliament, an extremely unlikely event given the negative impact it would have on bank balances.

"Alberto [Garzón] and the IU won votes under the slogan "¡Rebélate!" [Rebel!], but they are now administering austerity," said Francisco Jurado, a legal adviser and activist in the indignado movement in Seville, as we gazed skeptically at the recently opened futuristic Metropol Parasol building in the Plaza de la Encarnación, designed by German architect Jürgen Myer Hermann at a cost of some 100 million euros. Jurado had traveled to Madrid the week before to present the indignado legal suit at the National Law Court against Rodrigo Rato and the rest of the former Bankia board. The indignados raised 20,000 euros through Internet crowd-financing to fund the suit. "There are far better ways to change things than going into government," he said.

Andy Robinson July 3, 2012

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* http://www.thenation.com/article/168716/deepening-spanish-debt-crisis?rel=emailNation#

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