

# Germany must share some of the blame for the persistence of the economic crisis in Spain.

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*Spain has been hit hard by the Eurozone crisis, with unemployment levels pushing towards 27 per cent.*

**Vicente Navarro** writes on the role that Germany, the most powerful EU state, has played in the Spanish crisis. He argues that German banks must also share some of the responsibility for perpetuating Spain's housing bubble, and that it is misleading to simply blame Spanish authorities for spending more than they could afford.



Reading what the major German newspapers write about Spain, including some with great international recognition, gives me the impression they do not fully understand Spain and its long relationship with Germany. The German establishment, and significantly the financial establishment, is the centre of financial and political power in the Eurozone. But, even before now, that establishment has had enormous influence in Spain.

Let's start with the present. Spain is in deep trouble. Its unemployment rate is extremely high: 27 per cent for the entire population and 52 per cent for the young. Suffering among the popular classes is enormous. The high number of suicides among people who are thrown out of their houses because they cannot pay their rent or mortgage is increasing exponentially. Meanwhile, the major characteristic of government policies is cutting public expenditures (including public medical care expenditures) and increasing deregulation of the labour markets, with the unspoken objective of lowering wages. The purpose of these "austerity" policies is to devalue domestically the value of Spanish commodities, including wage labour, to make the economy more competitive. Cuts of public social expenditures are destroying the underfunded Spanish welfare state (Spain, even before the cuts, had the lowest social expenditures per capita in the Eurozone). The government justifies these cuts as necessary to reduce the public deficit and the public debt (which was smaller than Germany's when the crisis started) in order to instil trust and confidence in the ever-present financial markets.



Mariano Rajoy and Angela Merkel, Credit: European People's Party (CC BY 2.0)

These policies are applied by the Spanish state, which is still under the enormous influence of conservative forces: successors of the ultraconservative ones that controlled the fascist dictatorship that ruled Spain from 1938 to 1978. In several books, I have documented the influence those forces still hold in the Spanish state, from the Monarchy (head of the armed forces) to the Constitutional and to the Supreme Courts. The governing party – the Popular Party or PP – is the instrument of those forces. Its president and founder, until this past year when he died, was the Minister of Home Affairs of the Franco regime, in charge of the highly repressive police, including the political police.

Application of these policies is achieving the goals the financial and corporate Spanish establishments always wanted. Finally, they are dismantling the welfare state, reducing social protection, weakening labor unions and collective bargaining agreements, and lowering wages. Their dream has finally come true. They are using Europe to get what they always wanted – all under the excuse that there are no alternatives if we want to be in the euro.

All this is done under the blessing, and under the pressure, of the Eurozone establishment heavily influenced by the German government. Chancellor Merkel has applied these policies, presenting them as exemplary for other peripheral countries referred to as PIGS (Portugal, Ireland Greece and Spain). The German establishment refers to these austerity policies as necessary for a country that has spent more than it could afford. According to this interpretation, the cuts are needed to pay those institutions – including, prominently, the German banks – that have loaned money to Spain, both to Spanish banks and to the state. The “less respectable press” and the more popular ones put it more bluntly: the Spanish workers are too protected and are not productive enough. They have had it too good for too long.

The facts, however, show the falsity of such arguments. When the crisis hit Spain, the state budget was in surplus, the debt was among the lowest in the Eurozone, and the productivity of labour, standardised by sector and by type of labour, was not too different from Germany. The lower productivity (as an average for the whole economy) did not have anything to do with labour productivity, but with the structure of the economy, which had relied on speculative activities managed by banking (with the active involvement of German banks) and real estate. The German banks were behind the Spanish housing bubble. Chancellor Merkel rightly criticised the Spanish activities for allowing the development of such a bubble. But she should have included German banks (and the European Central Bank that made it possible) in that criticism.

### **German responsibility in the genesis and persistence of the Spanish crisis**

Let's look now to the past, which helps us to understand why Spain is where it is. The German establishment played a key role in establishing the Franco dictatorship. Without Hitler's military help, the fascist coup against the elected republican government would not have succeeded. The evidence of this is clear. That coup was aimed at stopping much-needed reforms in the Spanish economy and in the Spanish state. That dictatorship, one of the most repressive regimes known at that time in Europe, imposed an economic autocratic system that kept Spain underdeveloped. When the fascist coup took place, Spain's GNP per capita was identical to the Italian one at that time. When the dictatorship ended in 1978, Spain's GNP per capita was only 62 per cent of Italy's. It is this enormous underdevelopment, and the influence the ultraconservative forces had during the transition, that shapes the characteristics, even today, of the Spanish state: poor, not very redistributive, and with few progressive fiscal policies, enormous tax fraud, and high corruption in the state. These are the consequences of the ultraconservative forces' control over the state.

And the German establishment of that time played a critical role in that development. One cannot understand the growing frustration of the Spanish population toward this Europe led by Germany, without knowing that piece of Spanish history. The leading role of Germany in Europe and the policies promoted by the German establishment are diluting and weakening very quickly the attraction that the European project had for the Spanish population.

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*Note: This article gives the views of the author, and not the position of EUROPP – European Politics and Policy, nor of the London School of Economics.*

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