

Inside Spain Nr 152

18 June - 25 July 2018

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Summary

Spain joins EU military intervention force.
Sánchez begins talks with Catalan pro-independence premier.
Popular Party moves to the right with new leader.
Supreme Court orders Spain to take in more refugees.
Government softens this year's budget deficit target, plans tax rises.

Foreign Policy

Spain joins EU military intervention force

Nine EU countries including Spain agreed to form a rapid-deployment military force to be used in times of crisis, an initiative spearheaded by France.

Defence Ministers from France, Germany, Belgium, the UK, Denmark, the Netherlands, Estonia, Spain and Portugal signed a letter of intent. Britain will be allowed to participate after Brexit.

The move was welcomed by NATO's Secretary General, Jens Stoltenberg, for complementing the body's work and strengthening the readiness of forces.

Spain's defence spending of 0.9% of GDP is the second lowest of NATO members, and well below the 2% commitment (see Figure 1).

Figure 1. Defence expenditure of NATO countries (% of GDP), 2017

	% of GDP		% of GDP
US	3.6	Canada	1.3
Greece	2.4	Germany	1.2
Poland	2.0	Italy	1.1
UK	2.1	Hungary	1.1
France	1.8	Spain	0.9
Turkey	1.5	Belgium	0.9
Portugal	1.3	Luxembourg	0.5

Source: NATO.

Prime Minister Pedro Sánchez was among EU leaders who received a letter from President Donald Trump urging him to raise Spain's military spending.

In a separate development related to defence, it was revealed that Spain's new submarine is too big to fit into its dock. As a result, its base at Cartagena will have to be enlarged in order to accommodate it. Each of the four new submarines will reportedly end up costing almost €1 billion, nearly double the initial budget.

Domestic scene

Sánchez begins talks with Catalan pro-independence Premier

Prime Minister Pedro Sánchez moved to try to ease the stand-off with Catalonia by meeting Quim Torra, the region's hard-line pro-independence Premier, but there was little common ground.

The meeting came after the government transferred six jailed Catalan separatist politicians pending trial from Madrid to prisons in Catalonia in a goodwill gesture and three days before a German court delivered a blow to Spain's central government by rejecting the extradition of Carles Puigdemont, the former Catalan Premier, on charges of rebellion and sedition.

The court, however, said Puigdemont, who fled Spain last October following an illegal referendum on independence for Catalonia and a unilateral declaration of secession, could be returned to Spain on the lesser charge of misuse of public funds. Under European law and if extradited he could not then be tried for rebellion. The court rejected the argument that the Spanish charge of 'rebellion' (which carries a sentence of up to 30 years) should be equated with the German penal code's crime of 'high treason' as there was no evidence of sufficient violence to pose a direct threat to the government.

The news was greeted as a victory in the pro-independence camp. Spain's Supreme Court judge Pablo Llarena rejected the extradition conditions and withdrew the European arrest warrant under which Puigdemont had been detained in Germany, and also rescinded it for five of his aides in self-imposed exile in other countries. This means they have freedom of movement outside Spain but should they set foot in the country they would be arrested and the judiciary could put them on trial.

Llarena said the German court showed a 'lack of engagement' with the case and violated the arrest-warrant rules. He accused it of undermining the Spanish Supreme Court's powers.

Sánchez agreed to revive a commission, which has not met since 2011, to examine granting Catalonia more autonomy. He also offered to unblock public investments in the region and find ways to resolve conflicts on various issues between the Catalan government and the Constitutional Court.

'A political crisis requires a political solution', said Sánchez clearly marking a distance with the previous conservative Popular Party (PP) government, that he managed to oust in June following a vote of no confidence in parliament over a court ruling in a corruption case involving the PP. The PP's stance towards Catalonia was one of stonewalling and leaving the problem to the courts.

The meeting produced a thaw in the bitter relations between the two sides, but Torra is only interested in holding a Scottish-style binding referendum on independence, a red line that the government, backed by the PP and the liberal Ciudadanos, is not prepared to cross. As it is, these two parties already accuse Sánchez of going too far.

The Catalan government shows no sign of relenting: the Constitutional Court blocked a motion approved by the region's parliament to resume steps to declare independence.

The more emollient Sánchez told parliament that the conflict should be resolved with a new autonomy statute for Catalonia agreed among the political parties, which would be approved first by the Catalan parliament, then by the national parliament and followed by a referendum in Catalonia. A recent poll by *El Periódico* found that 62% of Catalans preferred to negotiate for greater autonomy, while 22% want an independent Catalan republic.

Torra visited Scotland and met Nicola Sturgeon, the pro-independence First Minister and leader of the Scottish National Party (SNP), who has been careful not to explicitly support the Catalan cause.

Catalonia and Scotland share some similarities but also major differences, most notably that Scotland's referendum in 2014 was agreed with British government, in sharp contrast with the dominant unilateralism in Catalonia and the more flexible attitude in London. The Scottish government abided by the UK's rule of law while the Catalan cause

flouted legality. According to the Spanish constitution, national sovereignty lies in the Spanish people as a whole.¹

In another development, Torra, Puigdemont and Jordi Sánchez, the jailed head of the Catalan National Assembly, launched yet another new political group to further their cause, known as *Crida Nacional per la República* (National Call for the Republic) and described as a 'transversal' organisation that will become a political party drawing on support from other pro-independence parties.

Popular Party moves to the right with new leader

The conservative Popular Party (PP), removed from office in June in a parliamentary no-confidence vote by a cross-party coalition engineered by the Socialists, elected a new leader in a sharp shift to the right.

Pablo Casado, a 37-year-old MP and the PP's former spokesman, won 57.2% of the votes in a ballot of lawmakers and other senior PP members, easily beating Soraya Sáenz de Santamaría, the former Deputy Prime Minister, who received 42%. This was the first time the PP had held a primary election to choose a new leader, called after the 63-year-old Mariano Rajoy stepped down after more than six years as Prime Minister and returned to his old job as a property registrar.

While the two candidates did not go head to head in a debate, something which Casado called for but which the PP's hierarchy was terrified would accentuate the divisions within the party, they staked out their differences on the campaign trail. Sáenz de Santamaría pitched herself as moderate and pragmatic, continuing Rajoy's policies. 'We have the opportunity to enlarge the centre-right and elections are won there', she said. 'Our party shouldn't go to any corner'. Those with the right to vote, a mere 2,951, disagreed.

Casado painted himself as a traditionalist and more ideologically rooted: he called for the reform that makes it easier for women to have an abortion to be scrapped (a 2010 Socialist measure that Rajoy backed away in 2013 from changing after street protests) and opposes the Socialists' plan to legalise euthanasia.

Casado also took a tough line against Catalan secessionism and said all pro-independence parties should be outlawed. He said he would not spend a euro removing the tomb of General Francisco Franco, the victor of Spain's Civil War and dictator between 1939 and 1975, from the colossal Valley of Fallen monument, as the Socialists plan to do, despite his maternal Republican grandfather having been imprisoned after the conflict.² He will also challenge the Socialist government's softening of the PP's budget deficit target for this year (see the following section).

¹ For a fuller explanation of the similarities and differences between Catalonia and Scotland see my post on John Elliott's new book, *Scots and Catalans: Union and Disunion* at <https://blog.realinstitutoelcano.org/en/catalonia-is-not-scotland-despite-appearances/>.

² See my post on Franco at <https://blog.realinstitutoelcano.org/en/should-franco-tomb-be-removed-from-his-basilica/>.

The PP, the largest party in parliament, with 137 of 350 seats, will now be more belligerent against the Socialists of Pedro Sánchez, who only have 84 seats and depend on the far-left Unidos Podemos (71) and Catalan and Basque nationalist parties for support. These were the same parties that ousted the PP.

Casado will also strive to win back PP supporters who deserted the party in droves, when it became tainted by corruption, for the liberal Ciudadanos (Cs), a party that supported Rajoy's minority government but did not vote in favour of its removal.

By moving rightwards, there is an opportunity for Cs to move more forcefully into the centre, although it has been beating the Spain drum over the conflict in Catalonia even more vociferously than the PP. Cs began life in Barcelona in 2006 to combat Catalan nationalism.

Cs at one point led the polls but since forming a government six weeks ago the Socialists have begun to regain ground and would win the election if held today (see Figure 2). No party, however, is anywhere near obtaining an absolute majority.

Figure 2. Voter intention (% of votes)

	June 2016 election	March 2018	July 2018
Popular Party	33.0	23.3	22.3
Socialists	22.7	19.7	26.3
Unidos Podemos	21.1	18.4	16.1
Ciudadanos	13.1	26.7	24.2

Source: Sigma Dos.

As a result of Casado's entry into the political arena, all four leaders of the main parties are 'post-Franco', as they were either not born when Franco died in 1975 (the case of Casado, the Podemos leader Pablo Iglesias and Cs' Albert Rivera) or just three years old in the case of Sánchez.

Casado has hanging over him a personal issue regarding the veracity of his qualifications. Earlier this year it emerged that he had a master's degree in public law from the King Juan Carlos University in Madrid, which has close ties to the PP, without attending classes or sitting exams. An investigation is ongoing.

The same university was involved in allegations that Cristina Cifuentes, the former Premier of the Madrid region, faked her master's degree. She quite her post in April after video footage emerged of her apparently being caught shop-lifting two tubs of face cream seven years ago.

Supreme Court orders Spain to take in more refugees

The Supreme Court said the government had failed to honour its 2015 commitment with the EU to take in 19,449 asylum-seekers from Italy and Greece and ordered it to accept more.

Spain is not alone in not meeting its pledge, but its government is the first to be taken to task by a national court.

At the height of the migration crisis, European leaders agreed to share out between September 2015 and September 2017 the 160,000 refugees who had arrived in Italy and Greece. Spain took in around 2,500 (13% of its quota).

Madrid's record in this matter was in stark contrast to the way it came to the rescue last month of 630 migrants whose boat was turned away from Italy and Malta and provided it with a safe harbour.

Spain has also become this year the main new entry point for asylum-seekers fleeing through North Africa to the EU across the Mediterranean. According to the International Organisation for Migration, around 19,000 asylum-seekers arrived by sea in Spain in the first five months of the year, almost as many as arrived in all of 2017 and more than the number that reached Italy. In June alone, over 7,000 arrived on the Andalusian coast, more than to Italy, Greece and Malta combined.

Net immigration to Spain for the second year running

Net immigration (the difference between the number of immigrants and the number of emigrants) in 2017 was 164,604, the highest figure since 2008 (310,642) at the height of the economic boom and almost double that in 2016. This was the second year running that immigrants outnumbered emigrants.

Immigrants numbered 532,482, the highest figure since 2008, and emigrants 367,878, the highest since 2014, according to INE (see Figure 3). In 2013, when Spain began to come out of a long recession, 94,976 more people emigrated than immigrated.

Figure 3. Migration, 2008-17

	2008	2013	2014	2015	2016	2017
Immigration	599,074	280,772	305,454	342,114	414,746	532,482
Emigration	288,432	532,303	400,430	343,875	327,325	367,878
Balance	310,642	-251,531	-94,976	-1,761	+87,422	+164,804

Source: INE.

The number of Spaniards who emigrated last year (87,685) continued to be higher than those immigrating (78,058), but the net emigration figure was around a third less at 9,627 than in 2016 (see Figure 4). More than half of the 78,058 were not born in Spain.

Figure 4. Migration of Spaniards, 2008-17

	2008	2013	2014	2015	2016	2017
Immigration	31,701	32,422	40,968	52,109	62,573	78,058
Emigration	33,505	73,329	80,441	94,645	89,825	87,685
Balance	-1,804	-40,908	-39,472	-42,536	-27,252	-9,627

Source: INE.

The higher total net immigration figure and the lower net emigration figure for Spain reflected the upswing in the economy. Another factor influencing the return of Spaniards was Brexit (5,810 came from the UK). The largest number of Spanish immigrants was from Venezuela (15,537) where the economic situation is dire and the government authoritarian.

The main country whose citizens emigrated to Spain was Morocco (39,847), followed by Colombia (34,210) and the main countries for emigration were Romania (56,635 including those with Spanish nationality) and the UK (49,003, also including those with Spanish nationality). Brexit was again a factor for Brits returning home. Brits with Spanish nationality can keep their UK passports, although strictly speaking they are not supposed to under Spanish but not British law

The largest number of foreigners resident in Spain at the beginning of the year were Moroccans, although there were 89,000 fewer than in 2012 (see Figure 5).

Figure 5. Foreign residents by nationality

	1 January 2018 (1)	1 January 2012	Difference
Morocco	682,515	771,632	-89,117
Romania	675,086	798,970	-123,884
UK	285,698	312,959	-27,261
Italy	221,781	178,225	+43,556
China	183,387	170,839	+12,548
Colombia	160,111	245,835	-85,724
Ecuador	140,032	309,777	-169,745
Germany	139,096	153,568	-14,472
Bulgaria	125,244	15,475	+109,769
France	106,508	101,119	+5,389
Total of all countries	4,572,055	5,236,030	-663,975

(1) Provisional figures.
Source: INE.

Few Brits in Spain acquire Spanish nationality, despite large community

Spain has 286,000 resident UK citizens, the largest expat British community in the EU, and yet only 48 of them obtained Spanish nationality last year.

Their new nationality will guarantee the rights to continue to travel, live and work throughout the EU after Brexit comes into force.

The total number of UK citizens acquiring the nationality of another EU country surged from 5,025 in 2016 to 12,994 in 2017, according to data obtained by the BBC for 17 member states. Germany was by far the most popular nationality, rising from 2,702 to 7,493 (see Figure 6).

Figure 6. UK citizens becoming citizens of EU countries, 2014-17

	2014	2015	2016	2017
Belgium	110	127	506	1,381
France	279	320	439	1,518
Germany	496	594	2,702	7,493
Ireland	51	54	98	529
Spain	67	28	44	48
Total	1,594	1,800	5,025	12,994

Source: BBC.

A significant proportion of Britons in Spain are retired and would only qualify for Spanish nationality, a lengthy process that can last two years, if they can prove they have lived in the country for 10 years continuously and meet other criteria. They also have to take Spanish language and culture exams.

Deaths outstripped births in 2017 for third year running

The number of deaths in 2017 was the largest since records began in 1941, two years after the end of the Civil War, and for the third year running outpaced the number of births, casting a spotlight on Spain's very low birth rate and ageing population.

Deaths were 31,713 higher at 423,643. Up until 2015, births outstripped deaths. Births began to decline as of 1976, dropping from 677,456 to 418,846 in 2002, but their number was always higher than deaths. Births picked up during Spain's economic boom, peaking at 519,779 in 2008, when the economy began to slow down and births declined inexorably to 391,930 last year.

Spain's total birth rate of 1.31 is one of the lowest in the world and but for the large number of immigrants it would be even lower. The latter's birth rate is 1.70 compared

with 1.25 for Spanish women. Women overall have their first child at the age of 32 (foreigners at 29 years and seven months and Spaniards at 32 and six months).

Average life expectancy is 83 years, the third highest in the world after Japan and Switzerland. In 2050 Spain will have 77 retired people per 100 people working compared with 30 at the moment and just 19 in 1975, according to UN projections.

Spain set to legalise euthanasia

Parliament is to debate a draft law giving citizens the right to die which would be made available through the public healthcare system. Euthanasia could be legal next year as the bill is supported by a majority of MPs.

Only the conservative Popular Party (PP), ousted from government last month following a vote of no-confidence and replaced by the Socialists, opposes the move.

The draft law would allow a person to choose to die if they have a serious and terminal illness, or a chronic, severe disability.

According to a Metroscopia poll last year, 84% of Spaniards support euthanasia.

The Economy

Government softens this year's budget deficit target, plans tax rises

The new minority Socialist government has concluded that lowering the budget deficit from 3.1% of GDP in 2017 to 2.2% this year, as planned by the previous Popular Party administration, ousted from office in June, is too much of a wrench and has agreed a new target of 2.7% with the European Commission.

Prime Minister Pedro Sánchez, laying out the government's two-year economic plan, plans to raise tax on companies and increase public spending. He said loopholes in corporate tax would be changed so that the effective tax rate could not be less than 15%, and tax amnesties would be banned. The government also plans to levy a new tax on banks and technology firms.

The budget figures for the first five months suggested it would be hard to reach the PP's target for the year, particularly as they did not take into account the rise in pension payments as of July following the PP's decision to restore inflation indexation to them. This was agreed in May with other parties in order to get this year's budget law finally approved.

Spain is the only EU country still under the European Commission's excessive-deficit procedure, for having a deficit above 3% (see Figure 7). Economy Minister Nadia Calviño, the former Director General of the European Commission's budget department, secured Brussels's approval for the new target.

Figure 7. EU countries' general government balance (% of GDP), 2017

	% of GDP
Spain	-3.1
France	-2.6
Italy	-2.3
UK	-1.9
EU-28	-1.0
Germany	+1.3

Source: Eurostat.

Lowering the deficit to below 3% will have taken 11 years (see Figure 8). Targets agreed with Brussels have either been missed or only met when revised upward.

Figure 8. Spain's budget balance, 2007-18 (% of GDP) (1)

2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
+1.92	-4.42	- 11.02	-9.45	-9.31	-6.79	-6.67	-5.84	-5.23	-4.29	-3.07	2.70

(1) Target for 2018.

Source: Eurostat.

As well as pension increases, the government has promised a pay increase for civil servants and more spending by Spain's 17 regions.

Social security contributors finally return to level of 2008

The number of social security contributors exceeded 19 million in June for the first time since September 2008 when the investment bank Lehman Brothers filed for bankruptcy, sending shock waves across the global financial markets.

Spain's Great Recession lowered the number of contributors to 16.1 million in January 2014 and since then it has slowly recovered. But the peak of 19.5 million in July 2007 at the height of Spain's debt-fuelled property boom has yet to be reached.

The unemployment rate of 16%, however, is still double the level of 2008 but considerably down on the peak of 27% in the first quarter of 2013.

Public administrations 'squandered' more than €81 billion on infrastructure projects

Spain wasted more than €81 billion on 'unnecessary, abandoned, under-used or poorly planned infrastructure' between 1995 and 2016, according to a report published by the Association of Spanish Geographers and written by experts from nine universities.

One-third of this amount (€26.2 billion) was squandered on the high-speed rail network. There were ‘too many multi-million-euro train stations, closed lines, stretches that were dropped halfway through construction, unnecessary lines, and cost overruns’, the report said. ‘It was done without a proper cost/benefit analysis, and often on the basis of estimates of future users or earnings supported by a scenario of economic euphoria that was as evident as it was fleeting’.

Nearly €5 billion was sunk into nearly deserted toll roads outside Madrid, which had to be bailed out by the state. Money was also wasted on vanity museums, defunct desalination plants and cultural centres.

Valencia’s City of Arts and Sciences ended up costing €1.1 billion, nearly four times the original price tag, and several white elephant airports were built, notably at Castellón and Ciudad Real. The latter, opened in 2008, has the longest runway in Spain and was built to handle 2.5 million passengers a year. It was closed in 2012 and sold in 2016 for €56.2 million, a fraction of the original cost of around €1 billion.

Corruption was largely to blame for the wasteful investment, say the authors.

Spain’s per capita GDP below Italy’s not above

Spain’s per capita GDP on a purchasing power parity basis (used to compare income levels in different countries) did not overtake Italy’s in 2017, as the IMF had calculated, according to figures subsequently released by Eurostat, the EU’s statistics office.

The IMF has Spain’s per capita income a tad above Italy’s last year at US\$38,285 (see Figure 9), while Eurostat has it at 92% of the EU average compared with Italy’s 96%.

Figure 9. Per capita GDP, 1980-2023 (at current purchasing power parity, US\$)

	1980	1990	2000	2010	2017(e)	2023(e)
France	10,763	19,661	28,514	37,284	43,760	53,205
Germany	11,273	20,725	29,839	40,850	50,425	62,510
Italy	10,543	20,016	28,601	34,767	38,140	45,440
Spain	7,883	15,293	24,053	32,251	38,285	48,768
UK	8,878	17,538	26,669	36,038	44,117	52,902

(e) Estimates for Italy and UK in 2017 and all countries in 2023.

Source: IMF.

The IMF and Eurostat methodologies are not the same and their calculations are not done in the same currency (US dollars and euros, respectively).

Number of millionaires rises 11%

There were more millionaires in Spain in 2017 for the sixth year running, according to the World Wealth Report of Capgemini which tracks high net-worth individuals.

The number of Spaniards with net assets of at least US\$1 million (€865,726), excluding their primary residence and consumables, rose 10.9% to 224,200 (see Figure 10).

Figure 10. Number of rich Spaniards, 2007-17

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Number	161,000	127,000	143,000	140,000	137,300	145,000	161,000	178,000	192,500	202,100	224,200

Source: Capgemini, 2018 World Wealth Report.

The number dropped in 2008, 2010 and 2011 following the bursting of a massive property bubble and a recession which did not end until 2013.

Unofficial economy deprives Spain of 23% of taxes

Spain loses the equivalent of 6% of GDP as a result of an unofficial economy that continues to flourish despite efforts to combat it, according to a report by Funcas.

The lost revenue would, for example, help to resolve the state pensions crisis. The reserve fund created in 2000 and built up during the years of the economic boom to help pay future pensions, which peaked at €66.8 billion in 2011, has been depleted, and the government is having to borrow to make up the shortfall.

The social security system has been in the red since 2011: last year's deficit was the highest ever at €18.8 billion (1.5% of GDP).

The government is considering a controversial bank tax in order to plug the pension hole.

The authors of the report said tax fraud in the unofficial economy amounted to €70 billion a year (23% of the revenue collected). They put income tax fraud at 20% and VAT at 35%.³

Spain's shadow economy is estimated at close to 17% of official GDP, in line with the EU average but much higher than Germany and France, according to Friedrich Schneider, who for years has monitored this problem throughout the EU (see Figure 11).

³ The report is available in Spanish at <http://www.funcas.es/publicaciones/Sumario.aspx?IdRef=7-05768>.

Figure 11. Size of the shadow economy of the largest EU countries, 2003-18 (% of official GDP)

	2003	2005	2007	2009	2011	2013	2015	2017	2018
France	14.7	13.8	11.8	11.6	11.0	9.9	12.3	12.8	12.5
Germany	16.7	15.0	13.9	14.3	12.7	12.1	11.2	10.4	9.7
Italy	26.1	24.4	22.3	22.0	21.2	21.1	20.6	19.8	19.5
Spain	22.2	21.3	19.3	19.5	19.2	18.6	18.2	17.2	16.6
UK	12.2	12.0	10.6	10.9	10.5	9.7	9.4	9.4	9.8
EU-28	22.6	21.8	20.3	20.1	19.6	18.8	18.3	17.3	16.8

The values for some countries in 2016 and 2017 are projections on the basis of preliminary values. Those for Germany have been adjusted due to a change in the country's official GDP statistics.

Source: calculations by Professor Dr Friedrich Schneider, 2018, University of Linz, Austria.