The Limits to Capital in Spain:

The Roots of the 'New Normal'

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This article contributes to a Marxist understanding of the roots of the contemporary predicament for many societies in which future economic growth is likely to be low and accompanied by mass 'structural' unemployment, increased inequality, and further crises of social and political cohesion. It takes Spain as an exemplar of this 'new normal', and argues that the 'irrational rationality' of crisis in capitalism can be seen in successive cycles of crises in that have resulted in the present catastrophe in that country, and also – by means of European economic and monetary union – in the delimiting of political opportunities to restore growth on any other basis than through the subordination of social reproduction to the power of money and (increasingly authoritarian) law. The article therefore supports value-theoretical, diachronic analyses of capitalist development that trace the prefiguration of contemporary forms of crisis in the formation and 'resolution' of preceding cycles of overaccumluation and devaluation.

Keywords: crisis; 'new normal'; Spain; European Union;

> 'Crises, we may conclude, are the irrational rationalisers of an irrational system.'[1]

> 'We have a capitalism that is profitable with high unemployment. It's a unique combination of capitalist austerity that is working in terms of profits but is not restoring economic growth to any degree that would really resolve the jobless crisis … That is the new normal.'[2]

Introduction

In 2006, at the height of a boom that saw the Spanish economy grow faster than the European Union average while creating jobs at a rate that outstripped any other EU country, then President of Spain José Luis Rodríguez Zapatero celebrated the so-called 'Spanish Miracle': 'It is difficult', he surmised, 'to find in our modern history a period of political stability, economic growth and social welfare such as the one we have experienced since 1986'. 'There is no question', he added, 'that Spain is more modern, more prosperous and more united than the Spain that joined the European Communities twenty years ago'.[3] Yet just three years later, Spain was in deep recession – the deepest since its democratic transition in the late 1970s.

The onset of the global recession in 2007 exposed the contradictions of Spain's ten-year period of economic growth, built as it was upon the expansion of Eurozone-wide fictitious circuits of capital and upon debt. When the government could no longer finance a growing current account deficit (which went from a surplus of 1.9 per cent of GDP in 2007 to a deficit of 11.1 per cent by 2009), and banks could no longer raise sufficient funds, the '*milagro español*' ('Spanish miracle') came to a grinding halt. The crisis intensified in Spain when German and French banks, in

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[1] David Harvey, *The Enigma of Capital and the Crises of Capitalism* (London: Profile Books, 2010), p. 215.

[2] David McNally in Andrew Sernatinger and Tessa Echeverria, 'Global Slump and the New Normal: An Interview with David McNally', *New* Politics, 29 June 2014, at http://newpol.org/content/global-slump-new-normal, accessed 20 April 2015.

[3] In Elcano Royal Institute, *20 Years of Spain in the European Union* (Madrid: Real Instituto Elcano Real and European Parliament – Office for Spain, 2006), p. 9.

particular, began redirecting funds to their own national liabilities, exposing the Spanish banking system.[4]

In October 2014, the International Monetary Fund has announced that the worst was over for Spain, and forecasted an annual GDP growth rate better than that of the German economy in 2015. 'Growth in Spain has resumed', it confirmed, 'supported by external demand as well as higher domestic demand reflecting improved financial conditions and rising confidence'.[5] For his part, Mariano Rajoy – the President of Spain – put the 'recovery' down to the 'stupendous' resilience of the Spanish banking system,[6] into which the Spanish state had channelled billions upon billions of Euros to recapitalise and rescue from collapse since 2009.[7] This same

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[4] Marisol García 2010, 'The Breakdown of the Spanish Urban Growth Model: Social and Territorial Effects of the Global Crisis', *International Journal of Urban and Regional* Research, 34 (2010), p. 967. 'Capital flight' from Spain towards EU 'core' countries amounted to €296 billion between June 2011 and June 2012 (Diego López Garrido, 'Introduction: Twelve Months of Economic Despair', in Diego López Garrido et al. (eds) *The State of the European Union: The Failure of* Austerity (Madrid: Fundación Alternativas and Friedrich-Ebert-Stiftung, 2012), p. 16).

[5] International Monetary Fund, *World Economic Outlook, October 2014: Legacies, Clouds,* Uncertainties (Washington DC: International Monetary Fund, 2014), p. 9.

[6] Marisol Hernández, 'Rajoy celebra la Fortaleza del sistema financiero español', *El Mundo*, 26 October 2014, http://www.elmundo.es/espana/2014/10/26/544cd6dce2704ef95f8b4574.html, accessed 20 April 2015.

[7] By June 2009, the Spanish state had directed 2 per cent of GDP to shore up the exposed financial sector – the highest level of public investment of this kind among OECD countries (Isidro Lopéz and Emanuel Rodríguez, *Fin de ciclo: Financiarización, territorio y sociedad de propietarios en la onda larga del capitalismo hispano (1959-2010)* (Madrid: Traficantes de Sueños, 2010], p. 401). In May 2012, the state was forced to part-nationalise Bankia – Spain's fourth largest bank, which was exposed to the tune of €30 billion to abandoned construction projects and repossessions – in a €4.5 billion bailout. A month later, the government approached the EU for a €100 billion rescue package for its banking system. Sareb, or 'the bad bank', was established as part of the EU agreement. Banks were forced to transfer their 'toxic' real estate assets to Sareb at reduced prices. By March 2013, Sareb's portfolio consisted of 200,000 assets worth an estimated €50.45 billion, including 76,000 empty homes, 6,300 rented homes, 14,900 plots of land, and 84,300 loans – a portfolio it is charged with divesting over a 15-year period (Tobias Buck, 'Spain's "Bad Bank" Speeds Up Asset Sales', *Financial Times*, 21 March 2013, http://www.ft.com/cms/s/0/425e44f0-921d-11e2-851f-00144feabdc0.html#axzz2Xc8PMnyU, accessed 10 May 2013).

month, the *Wall Street Journal* has heaped praise on Spain as a guiding beacon for the rest of Europe: 'perhaps it would behove Spain's neighbours to attempt the same kinds of supply-side reforms … to good effect'.[8]

Yet, on the other hand, Spain remains mired in a crisis in which devaluations of capital and labour have had a devastating impact upon society and, in particular, the ability of the working class to guarantee the means of its reproduction. The impact on housing provision has been especially severe – unsurprisingly so, given that mortgage debt had been key to expanded consumption during the boom of the 2000s. In all, between 2008 and 2012, there were 172,000 evictions in Spain due to home mortgage defaults, with a further 178,000 still under judicial consideration.[9] Astonishingly, the daily average number of court-ordered evictions in 2013 was 184 per day.[10] But the dramatic rise in unemployment is perhaps the starkest indicator of the depth and human cost of the crisis. By April 2013, unemployment in Spain reached a record high: over 6.2 million people, or more than 27 per cent of the population of working age (rising to 57 per cent for under-25s).[11] As the crisis has developed, the profile of job destruction has broadened. The first jobs to go were those of younger workers on temporary employment contracts in or around the once booming construction and services sectors – many of them immigrant labourers. More recently, however, higher-qualified workers with fixed-term

[8] *Wall Street Journal*, 'Spain's Reform Example', 29 October 2014, http://online.wsj.com/articles/spains-reform-example-1414539336, accessed 29 October 2014. The same piece argued that the problem of long-term unemployment could only be addressed by further labour market reforms to limit judicial discretion to reinstate dismissed workers, as well as tax cuts for middle- and upper-income earners.

[9] Íñigo de Barrón, 'La codicia de la banca por crecer propició la concesión de hipotecas a insolventes', *El País*, 12 November 2012, p. 16.

[10] José Antonio Hernández, 'El Poder Judicial revela que en 2013 hubo un media de 184 desahucios al día', *El País*, 28 March 2014, http://politica.elpais.com/politica/2014/03/28/actualidad/1395997876_165402.html, accessed 28 October 2014.

[11] Instituto Nacional de Estadística, 'Encuesta de la Población Activa (EPA): Primer trimestre de 2013', Nota de prensa del 25 de abril de 2014. As of 20 April 2015, the website of the National Institute of Statistics (www.ine.es) reported a 23.7 per cent unemployment rate in Spain, with youth unemployment at 51.8 per cent.

contracts in hitherto 'protected' public sectors added to the rise. And even in the tourism sector, where numbers of tourists have continued to rise since 2008, the number of jobs in the sector has been declining annually.[12]

Between 2011 and 2012, the average wealth of Spanish households declined by 18.4 per cent,[13] and the real purchasing power of salaries fell by a further 2 per cent from 2012 to 2013.[14] By April 2013, 1.9 million households were un-waged,[15] and 300,000 households depended upon grandparents' pensions income.[16] At the same time, around 3.2 million unemployed workers were receiving no unemployment benefit, and 30 per cent of the active labour force had salaries below €1,000 a month.[17] In 2013, unemployment in Spain reached its highest rate since records began in the 1970s, and average household disposable income had dropped by 10 per cent since 2008.[18] In March 2014, the main two trade unions in Spain reported the Rajoy government to the International Labour Organisation for contravening Convention 131 on member states' minimum wage fixing. The Rajoy government's decision to freeze the minimum wage at 40.6 per cent of the average salary in 2014

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[12] Cristina Delgado, 'Más turistas, menos empleos', *El País*, 11 February 2013, http://economia.elpais.com/economia/2013/02/10/actualidad/1360531816_937892.html, accessed 19 February 2013.

[13] *El País* 'La riqueza de los hogares españoles baja un 18,4%', 11 October 2012, http://economia.elpais.com/economia/2012/10/10/actualidad/1349901592_959130.html, accessed 21 May 2013.

[14] Giles Tremlett, 'Pay Pain', *The Guardian*, 1 June 2013, p. 32.

[15] INE, op cit., p. 7.

[16] Partido Comunista de España, 'Manifiesto del PCE para el 1º de mayo frente a las políticas que están arruinando a la mayoría de nuestro país', 1 May 2013, http://www.pce.es/docpce/pl.php?id=5284, accessed 24 May 2013.

[17] Manuel V. Gómez 'La duración de la crisis y los recortes reducen la factura del paro', *El País*, 7 May 2013, http://economia.elpais.com/economia/2013/05/06/empleo/1367868680_677564.html, accessed 7 May 2013.

[18] Tremlett, op cit. The Rajoy government confirmed in February 2014 that the 2012 labour market reforms had resulted in an average 10 per cent lowering of salaries in Spain – mainly in firms of over 50 employees (*Público*, 'Los salarios bajaron un 10% de media desde el inicio de la reforma laboral', 3 Febuary 2014, http://www.publico.es/dinero/499617/los-salarios-bajaron-un-10-de-media-desde-el-inicio-de-la-reforma-laboral.html, accessed 11 March 2014).

came after a cumulative fall in its purchasing power of 5.8 per cent since 2010.[19] In such circumstances, Oxfam has warned that as much as 38 per cent of the population of the fourth largest economy in Europe could fall into poverty in the coming decade.[20] In October 2014, on the same day the *Wall Street Journal* lauded Rajoy's supply-side 'recovery', Fedea – an independent Spanish think tank – confirmed that the majority of jobs created in 2014 and 2015 would be 'precarious': 'of little quality, little duration and low pay'.[21]

Spain has come, therefore, to epitomise what commentators – such as David McNally in the quotation, above – term the 'new normal': economic growth than restores profitability to capital but without a corresponding improvement in rates of employment, and in the context of long-term social austerity and a decline in the living standards of the working class. In this article, we sketch a Marxian explanation of how and why Spain has become so 'normal' in this regard. The argument we advance is that the present crisis in Spain is not merely conjunctural, nor a product of contingent and historically unique circumstances. Notwithstanding certain empirical specificities, we view the Spanish case as a demonstration of the Marxian argument that crisis is a) *necessary to* and b) *a periodically recurring feature of* a capitalistically constituted form of social reproduction.[22] And further, we would argue that the Spanish experience shows how the 'resolution' of a given crisis of overaccumulation – in which various forms of capital and labour are devalued – conditions any subsequent period of 'recovery' and therefore is prefigurative of the

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[19] Europa Press, 'Los sindicatos denuncian al Gobierno por la congelación del salario mínimo', 6 March 2014, http://www.publico.es/dinero/506268/los-sindicatos-denuncian-al-gobierno-por-la-congelacion-del-salario-minimo, accessed 6 March 2014.

[20] Intermón Oxfam, 'Crisis, desigualdad y pobreza: Aprendizajes desde el mundo en desarrollo ante los recortes sociales en España', *Informe de Intermón Oxfam* (2012), p. 32.

[21] *El Economista* 'Fedea: "El empleo en España será de poca calidad, poca duración y salarios bajos', 29 October 2014, http://www.eleconomista.es/espana/noticias/6198650/10/14/Fedea-El-empleo-en-Espana-sera-de-poca-calidad-poca-duracion-y-salarios-bajos.html#.Kku8sCN0fZkIQip, accessed 29 October 2014.

[22] Following, for example, Simon Clarke, *Marx's Theory of Crisis* (London: Macmillan, 1994); and David Harvey, *The Limits to Capital* (Oxford: Blackwell, 1982).

dynamics and characteristics of ensuing periods of crisis formation.[23] Hence, in order to fully comprehend the significance of the present crisis, we need to look backwards in time while looking in the present moment for the early signs of the contradictions inherent to the form of 'recovery' and to the 'new normal'. It is the case, however, that we need a value-theoretical analysis of the crisis in countries like Spain that can satisfactorily account for the significant structural changes that differentiate national and regional spaces of accumulation – specifically within the EU – and which therefore can explain the particularities of crisis in Spain relative to the experiences of, say, the Britain or the United States.[24]

The Rational Irrationality of Crises in Capitalism

The basic thrust of our argument is that crisis is a *necessary* and *periodically recurring* feature of a capitalistically constituted form of social reproduction. In this form of social reproduction, the production and circulation of capital is the general fundamental process which gives unity to privately performed social labour. Capital is self-valorising value: 'it can only be grasped as a movement, and not as a static thing'.[25] The substance of value is human social labour, but, in value producing society, this social relation between people manifests in and through the fetishised form of a relationship between things. The unity of social labour therefore assumes the form of an impersonal and indirect relation between independent and private producers whom themselves are differentiated by capital into social classes.

In capitalism, therefore, social production and reproduction are subordinated to the anonymous rule of money – the most developed, independent form of value,

[23] See also David Harvey, *The Limits to* Capital, op cit., p. 326.

[24] This was the task we set ourselves in Greig Charnock, Thomas Purcell and Ramon Ribera-Fumaz, *The Limits to Capital in* Spain (Basingstoke: Palgrave Macmillan, 2014). Various accounts of the crisis in the latter countries, and which we would broadly endorse, exist; see, for example, Peter Burnham, 'Towards a Political Theory of Crisis: Policy and Resistance across Europe', *New Political Science*, 33 (2011), pp. 493-507; Brett Christophers, 'Revisiting the Urbanization of Capital', *Annals of the Association of American Geographers*, 101 (2011), pp. 1347-64; David Harvey, *The Enigma of Capital*, op cit.; and Chris Rogers, *Capitalism and its Alternatives* (London: Zed Books, 2014), chapter 2.

[25] Karl Marx, *Capital*, Volume 2 (Harmondsworth: Penguin, 1978), p. 185.

and that which confronts direct producers in the form of capital. The reproduction of capital requires that an increasing magnitude of surplus value be pumped out of living labour. The production of (relative) surplus value is therefore the immanent content that determines the transformations associated with the development of the forces of production; a process which is mediated by the competitive relations between different capitals, which, in turn, results in the uneven material development of the forces of production on a world scale, and its spatial corollary in uneven geographical development.

The production of relative surplus value and the reproduction of capital is an inherently global process, albeit one that is politically mediated by national states. That the accumulation process is one that is predicated upon antagonistic class relations means that the state must take an active role in processing these relations. As Simon Clarke elsewhere summarises:

> The class character of the state, embodied in its liberal form, requires it to secure the reproduction of capital. The national form of the state requires it to express, politically and ideologically, the national interest, against all particular interests. The reproduction of the state requires it to resolve this contradiction. The contradiction appears to the state in the form of the social and political aspirations of the working class, to which it has to respond within the limits of its form, confining the working class within the form of the wage and the constitutional form of the state. The admission of the working class to the constitution on a national basis increases the pressure on the state to secure the sustained accumulation of domestic productive capital. However this constraint introduces a further contradiction, between the national form of state and the global character of capital accumulation.[26]

Elsewhere, we present a detailed account of the development of capitalism in Spain, drawing upon these more general and abstract insights into the contradictions

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[26] Simon Clarke, *Keynesianism, Monetarism and the Crisis of the State* (Aldershot: Edward Elgar, 1988), pp. 18-19.

of the value form, capital accumulation and the state.[27] Our intention there and here is not to provide an historical account for its own sake, but to suggest that past crises of accumulation and the state in Spain have prefigured the bases for subsequent cycles of overaccumulation and crisis. The current crisis that began in 2008 and in which most of the world's advanced economies are still mired cannot simply be put down to contingent or exogenous shocks to an otherwise efficiently functioning market system, as much 'economic science' would have it. To attribute blame for the crisis by explaining it in terms of human frailty, poor regulatory design, institutional failure, the influence of particular ideas, the avarice of bankers and political elites, or certain national-cultural traits is one-sided at best; dogmatic and racist at worst. Make no mistake; this crisis is a crisis of the value relation, of the global overaccumluation of capital, and of the state as the political concentration of a capitalistically constituted society. In order to substantiate this assertion, we develop a materialist account of the Spanish state's successive and crisis-ridden attempts to confine social production and the reproduction of the working class within the limits of capital by subordinating these to the rule of money and law by various means; always in the midst of the production of uneven geographical development and the differentiated accumulation capacities of particular states and regions across Europe and on a world scale.

The Limits to Import Substitution Industrialisation

While in some respects arbitrary, an instructive moment at which to examine the development of the national form of capitalist production in Spain is the period immediately following the Civil War (1936-39). In the 1940s, capital accumulation in Spain was barely sustainable. Agriculture and industry were backward in world market terms, and much of what remained of the war weary Spanish population was reduced to surviving at subsistence levels. Politically isolated and with limited means of securing foreign aid and revenue in international markets, the fascist state had to take a proactive role in centralising and concentrating capital and thereby in securing a more viable means of social reproduction and its own survival. A key element of

[27] Greig Charnock, Thomas Purcell and Ramon Ribera-Fumaz, op cit.

the state's response was the establishment in 1941 of the Instituto Nacional de Industria (INI), which oversaw the establishment of new industrial capitals producing solely for the domestic market and under the protection of ad hoc policies associated with an extremely restrictive form of import substitution industrialisation (ISI). By the 1950s, the drive towards industrialisation was having a transformative effect on Spanish society. There were, however, limits to sustained accumulation on the basis of ISI.[28] Whereas in Latin American countries, where the capture of an extraordinary magnitude of ground-rent has periodically sustained accumulation through ISI (and still does to this day in countries such as Argentina), growth in Spain in the 1950s was sustained largely on the basis of wage repression – the payment of labour-power below its value.[29] Yet even this failed to deliver profits to Spanish capitals and therefore denied the state its own means of reproduction.[30]

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[28] As is recognised in most commentaries on the period: see, for example, Albert Carreras and Xavier Tafunell, 'Spanish Big Manufacturing Firms (1917-1990): Between State and Market', Economics Working Paper, 93, Universitat Pompeu Fabra, Barcelona (1994); Juergen Bernardo Donges, 'From an Autarchic Towards a Cautiously Outward-Looking Industrialization Policy: The Case of Spain', *Review of World Economics*, 107 (1971), pp. 33-75; Leandro Prados de la Escosura and Jorge C. Sanz 'Growth and Macroeconomic Performance in Spain, 1939-93', in Nicholas Crafts and Gianni Toniolo (eds), *Economic Growth in Europe since 1945* (Cambridge: Cambridge University Press, 1996).

[29] See the accounts in Carme Molinero and Pere Ysàs, 'El malestar popular por las condiciones de vida. ¿Un problema político para el régimen franquista?, *Ayer*, 52 (2003), pp. 255-80; Antonio Cazorla Sánchez, *Fear and Progress: Ordinary Lives in Franco's Spain, 1939-1975* (Oxford: Blackwell, 2010).

[30] Our argument is here informed by the value theoretical work of a collective of Argentine scholars connected with the Centre for Science as Practical Criticism and the work of Juan Iñigo Carrera, especially. They explain how the national form of capital accumulation in Latin American countries, in particular, has historically been determined by the production and appropriation of a significant magnitude of ground-rent (see Juan Iñigo Carrera, *La formación económica de la sociedad argentina. Volumen I: renta agraria, ganancia industrial y deuda externa, 1882-2004* (Buenos Aires: Imago Mundi, 2007); Juan Iñigo Carrera, *El capital: razón histórica, sujeto revolucionario y conciencia* (Buenos Aires: Imago Mundi, 2008); and Nicolas Grinberg and Guido Starosta, 'The Limits of Studies in Comparative Development of East Asia and Latin America: the Case of Land Reform and Agrarian Policies', *Third World Quarterly*, 30 (2009), pp. 761-77). A key insight is that this basis for the reproduction of capital in such countries retains its significance today – even taking into account the changes associated with liberalization and the 'transnationalisation' of production (see Greig Charnock and Guido Starosta (eds), *The New International Division of Labour: Global Transformations*

In 1959, the Spanish state was confronted with severe balance of payments problems and a credit crisis that expressed the limits to ISI. Yet, and fortunately for the fascist state, developments in Western Europe provided means of recovery and of averting a more assertive crisis of ISI. First, the take-off of the mass tourism industry permitted the state to capture an extraordinary flow of revenue.[31] Second, a marked rise in the emigration of Spanish workers to Western European labour markets led to a high volume of remittances – a portion of which was captured by the state.[32] These two sources of external revenue underpinned rising domestic demand and sustained the expanded reproduction of capital in Spain for most of the 1960s. In doing so, they effectively compensated for the systematic valorization of Spanish industrial capitals producing with backward technologies, low productivity and on a small scale. By the close of the decade, however, the state was confronted with rising inflation and further pressures on its balance of payments, as a result of the limits to ISI. The state was therefore forced by the late 1960s to relax restrictions on foreign capitals' involvement in production and to permit the inflow of FDI into

and Uneven National Development (Basingsoke: Palgrave Macmillan, forthcoming). We argue that this is what differentiates Latin American countries with a history of ISI-based accumulation from cases such as Spain, where the national form of capital accumulation is today determined by its particular role within the new international division of labour and the European Union, in particular.

[31] Venancio Bote Gómez, 'Turismo y desarrollo económico en España: del insuficiente reconocimiento a la revalorización de su función estratégica', *Papers de Turisme*, 6 (1994), pp. 117-30; Venancio Bote Gómez, 'Research in Spain on Tourism and Economic Development', *The Tourist Review*, 1 (1996), pp. 5-11; Sasha D. Pack, *Tourism and Dictatorship: Europe's Peaceful Invasion of Franco's Spain* (Basingstoke: Palgrave, 2006); Allen M. Williams 'Tourism as an Agent of Economic Transformation in Southern Europe', in Heather D. Gibson (ed.), *Economic Transformation, Democratization and Integration into the European Union: Southern Europe in Comparative Perspective* (Basingstoke: Macmillan, 2001), p. 131.

[32] Ana Fernández Asperilla, 'La emigración como exportación de mano de obra: el fenómeno migratorio a Europa durante el franquismo', *Historia Social*, 30 (1998), pp. 63-81; Manuel Román, *The Limits of Economic Growth in Spain* (New York: Praeger, 1971), p. 74; Manuel Román, *Growth and Stagnation of the Spanish Economy: The Long Wave, 1954-1993* (Aldershot: Avebury, 1997), p. 99.

key sectors of production – mainly in the form of patents and technologies that were already obsolete outside of Spain's protected domestic market.[33]

By 1974, tourism and remittance revenues fell sharply as Europe descended into recession, exposing the fragility of production by small industrial capitals whose activities were restricted to the scale of the domestic market. The Spanish state's response was both repressive and inflationary as it struggled to confine the aspirations of an increasingly militant working class.[34] In the years immediately following the 1974 crisis, the world market stagnated and fell into deeper recession. National states throughout the world were confronted with the need to re-confine production and social reproduction within the limits of the market. By 1978, the fascist form of state gave way to a liberal democratic form that was able to secure the cooperation of the main trade unions as it confronted further recession. After the election of the Spanish Socialist Workers' Party (PSOE) in 1982, the state pursued an aggressive deflationary strategy, assisted at first by trade unions' acceptance of wage restraint, and embarked upon a programme of state austerity and 'industrial reconversion' which resulted in mass unemployment and the wide-scale destruction of obsolete capital. This period marked the acceleration of a process that had begun with the relaxation of protectionism in some sectors and most emblematically with the establishment of the Ford Motor Company's manufacturing plant in Valencia in the mid-1970s: namely, Spain's full insertion into the new international division of labour. From the late 1960s, organisation and technological transformations in the system of machinofacture – towards what some have termed 'systemofacture' – together with developments in transport and communications systems meant that capital could relocate production around the world in order to benefit from cheaper production costs. By the 1980s, Spain had become a profitable source of cheap and readily exploitable labour that could be quickly adapted to new work processes, and

[33] The development of Spain's automotive industry from the late 1950s serves as a paradigmatic example of this: see the discussion of this and the development of other manufacturing sectors in Greig Charnock, Thomas Purcell and Ramon Ribera-Fumaz, op cit., pp. 50-55.

[34] Josep González i Calvet, 'Crisis, transición y estancamiento: la política económica española, 1973-82', in Miren Etxezarreta (ed.), *La reestructuración del capitalismo en España, 1970-1990* (Barcelona: Icaria, 1991).

which offered geographical proximity to what would soon be a single European market.

The Limits to European Integration

The economic 'recovery' that came to Spain in the late 1980s was marked by contradictions that have been fundamental in the subsequent course of national accumulation and crisis. Industrial restructuring and the arrival of foreign capitals into Spain in the late 1970s and early 80s encouraged the fragmentation of the working class: a sizable proportion of which was forced to find work in low-wage, 'flexible' production by an increasing mass of small industrial capitals; while relatively higher wage production in large assembly plants remained a domain for the manufacture of export commodities of low to intermediate technological content by world market standards. On this basis, rates of profit and employment recovered post-1985, but at the expense of rising inflation and growing tensions between the state and even the main trade unions that had taken a largely collaborationist stance during the transition from fascism. In response, the state sought to curb inflation and to moderate wage increases through entry into the European exchange rate mechanism (ERM) in 1989.[35] The strategy only encouraged capital to flow speculatively into more profitable 'non-tradable' sectors that were heavily dependent upon rising domestic demand, thereby bypassing other manufacturing sectors, further limiting the development of the productive forces therein and accelerating a process of overaccumulation that resulted in monetary crisis by 1992 (leading to three successive devaluations of the peseta by May 1993 and a fourth in 1995), and to the onset of the deepest recession in Spain since the early 1960s.

[35] Carlos Boix, 'Building a Social Democratic Strategy in Southern Europe: Economic Policy under the González Government (1982-93)', *Centro de Estudios Sociales Avanzados Fundación Juan March*, Working Paper 69, May (1995), p. 12; Sofia A. Pérez, 'From Decentralisation to Reorganisation: Explaining the Return to National Bargaining in Italy and Spain', *Comparative Politics*, 32 (2000), p. 448.

By 1999, another 'recovery' was well underway, and Spain qualified for EMU convergence under the terms of the Maastricht Treaty. By then, the economy was *en route* to a growth boom that lasted until 2008. During this period, certain 'national champions' that emerged as a result of the liberal democratic state's own highly proactive (and ultimately debt-financed) role in the concentration and centralisation of capital in the late 1980s were in a strong competitive position to secure a stable basis for their valorisation in foreign markets – particular in Latin America – and to 'internationalise'. [36] A select number of Spanish capitals became a globally competitive force in banking, telecommunications, energy production and fashion retail sectors. Yet, behind the boom, fundamental weaknesses in social production remained within Spain – a result of the uneven development of the productive forces as the more dynamic and internationally competitive normal capitals left behind a domestic manufacturing sector that still exhibited the traits of the late 1980s: low productivity and a dependency upon foreign capital that set limits to the organisation and technological development of the productive forces in all but a few sectors.[37] Entry into EMU therefore consolidated Spain's differentiated and relatively 'backward' position within the NIDL and further compounded the production uneven development both within the national economy as well as relative to other regions and countries within Europe.

As Werner Bonefeld argues, the 'institutional structure of EMU combines the supranational conduct of monetary policy with national state responsibility for competitive labour markets'.[38] The logic of subsidiarity at the heart of EMU is, in this

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[36] Sebastián Etchemendy, 'Revamping the Weak, Protecting the Strong, and Managing Privatization: Governing Globalization in the Spanish Takeoff', *Comparative Political Studies*, 37 (2004), 623-51; Keith Salmon, 'The Spanish Economy from Maastricht to the Millennium: Integration into Europe and Transition to an Open Market Economy', conference paper, University of Bath, 6 December (2002); Javier Santiso, 'The Emergence of Latin Multinationals', OECD Emerging Markets Network Working Paper, OECD Development Centre, Paris (2007).

[37] See Greig Charnock, Thomas Purcell and Ramon Ribera-Fumaz, op cit., pp. 69-79, for a detailed discussion of the differentiation of Spanish capitals across specific sectors from the 1980s to the present day.

[38] Werner Bonefeld, 'Neo-liberal Europe and the Transformation of Democracy: On the State of Money and Law', in Petros Nousios, Henk Overbeek and Andreas Tsolakis (eds), *Globalisation and*

view, one that seeks to guarantee that member states cannot resort to expansionary – and therefore inflationary – means of adjusting to competitive pressures; rather, the only possible means of adjustment will be to lower labour costs and to enhance the profitability of their own territorially segmented labour markets. EMU guarantees, by legal means, the eurozone-wide subordination of social reproduction to the reproduction of capital and the social power of money:

> The convergence criteria and the Stability Pact subordinate countries with relatively high labour costs to those with low labour costs … In addition, labour migration is expected to adjust the burden of unemployment on national budgets. In short, EMU inscribes in institutional form what capital and its national state(s) have sought in vain … National governments see EMU as an anchor for deregulating welfare regimes, intensifying market discipline, and for redistributing wealth from labour to capital.[39]

Yet the equalisation (or 'equilibrium') logic at the heart of EMU convergence was always bound (to paraphrase Neil Smith), to be 'frustrated by the differentiation of geographical space' and the tensions between 'fixity and motion' that characterise capitalist development across space and time – crucially, in the territorialised differentiation of what Harvey terms 'physical and social infrastructures', comprised of working classes bearing different histories with respect to industrial development.[40] As Costas Hadjimichalis contends as regards Southern European regions especially, little recognition was given by the architects of EMU to 'their pre-existing highly unequal regional production systems and specializations, to their structurally different regional labour markets and to their unequal accessibility to markets (economically, institutionally and spatially) vis-à-vis the "core" of the

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European Integration: Critical Approaches to Regional Order and International Relations (London: Routledge, 2012), p. 52.

[39] Werner Bonefeld, 'Class and EMU', *The Commoner*, 5 (2002), p. 5.

[40] Neil Smith, *Uneven Development: Nature, Capital, and the Production of Space* (Oxford: Blackwell, 1984), p. 202; David Harvey, *Limits to Capital*, op cit.

eurozone'.[41] And with the prospect of European enlargement, the regions of Southern Europe in particular stood to lose competitiveness relative to well educated, high productivity but low cost labour in Central and Eastern Europe.[42]

EMU was therefore always going to exacerbate the tendency towards overaccumulation and crisis in Spain as its productive capitals struggled to cope with intensified competition. Behind the boom of the mid-1990s to 2008 – in which private sector wages grew annually at compound rates of around 2 to 5.5 per cent – productivity grew at a meagre average of only 0.2 per cent per year (it fell in 2004 and 2005), prompting repeated calls for further labour reforms and more flexibility in labour markets.[43] Spain failed to develop competitive strengths in information communication technology and market services (despite growth of the latter in employment share) – sectors that have been the major sources of growth in faster growing economies.[44] Indeed from the mid-1990s there was a deceleration in the rate of technological investment in general, and especially in the manufacturing sector.[45] The expansion of capital accumulation in Spain in this period was limited to particular sectors, as we have seen, and was fed by large inflows of money capital that supported the internationalisation of select Spanish companies, as well as unprecedented levels of growth in the Spanish construction sector. In construction alone, the ratio of debt to gross operating profit was more than 50 per cent higher in

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[41] Costas Hadjimichalis, 'Uneven Geographical Development and Socio-Spatial Justice and Solidarity: European Regions after the 2009 Financial Crisis', *European Urban and Regional Studies*, 18 (2004), p. 259.

[42] Costas Hadjimichalis, 'The Fringes of Europe and EU Integration: A View from the South', *European Urban and Regional Studies*, 1 (2004), p. 26.

[43] *Economist*, 'So Hard to Bend: Rigidities in the Labour Market make Recovery Even Harder', 11 February 2010, http://www.economist.com/node/15503246, accessed 25 June 2013.

[44] See, for example, Ester Gomes da Silva, E. and Aurora A. C. Teixeira, 'In the Shadow of the Financial Crisis: Dismal Structural Change and Productivity in South-Western Europe over the Last Four Decades', conference paper, Workshop on European Governance and the Problems of Peripheral Countries, Austrian Institute of Economic Research, 13 July (2012); Matilde Mas and Javier Quesada, 'ICT and Economic Growth in Spain, 1985-2002', EUKLEMS Working Paper, 1, (2005).

[45] Ángel Estrada and David López-Salido, 'Understanding Spanish Dual Inflation', *Investigaciones económicas,* 28 (2004), pp. 123-40.

Spain than in a weighted average of eurozone economies.[46] The role of cheap credit in the 'internationalisation' of some Spanish capitals was reflected in the rising level of corporate debt on the Spanish stock market in the mid-2000s;[47] while, outside of the activities of Spain's new 'national champions', the private sector as a whole became increasingly credit dependent (increasing by 192.8 per cent between 1996 and 2010 to reach 227.2 per cent of GDP, according to Eurostat, 2012). In fact from 2004, 'the increase in the private sector's debt was five times higher than the eurozone average and credit growth rates to the private sector followed an upward trend until 2006, when the annual growth rate approached 30 per cent, remaining at levels higher than the nominal growth in GDP until the end of 2008'.[48] The debt of non-financial corporations nearly doubled relative to GDP during the boom, from 74 per cent of GDP in 2000 to 137 per cent in 2008; by 2011, non-financial private sector debt would reach 134 per cent of GDP, a rate second only to Ireland.[49]

The Limits to Urbanisation

Of crucial importance to understanding how expanded accumulation and rising levels of social consumption could be sustained on a scale well beyond the production of surplus-value by Spanish capitals in the 2000s was the confluence of material bases that made investment in Spanish construction and real estate markets particularly profitable spheres for the recycling of fictitious capital of largely foreign origin. Surplus capital from Germany, in particular, flowed into Spain via the latter's then highly competitive covered bond market to be subsequently channelled

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[46] Charles Roxburgh et al., 'Debt and Deleveraging: Uneven Progress on the Path to Growth', McKinsey Global Institute: Updated research, January (2012), p. 27.

[47] *Economist,* 'Briefing, Spanish Business: Conquistadors on the Beach', 5 May (2007), p. 77.

[48] Francisco Carballo-Cruz, 'Causes and Consequences of the Spanish Economic Crisis: Why the Recovery has Taken so Long?', *Panoeconomicus*, 3, (2011), p. 318.

[49] Charles Roxburgh et al., op cit., p. 27. By mid-2013, the average industrial company in Spain had a larger debt burden than anywhere else in Europe (Sarah Gordon, 'Spain Remains Shackled by Corporate Debt', *Financial* Times, 18 January, http://www.ft.com/cms/s/0/1fd11fa0-614b-11e2-9545-00144feab49a.html#axzz2SJZ240fz, accessed 2 May 2013).

by regional savings banks into the mortgage market.[50] A huge volume of Interest-bearing capital from the core flowed into speculative overproduction in the Spanish construction sector, incentivised by low interest rates, reforms to planning laws that removed barriers to the flow of speculative capital into new urbanisation projects, the availability of low cost, largely immigrant labour power in the labour-intensive construction industry, and rising demand for infrastructure, hotels and second homes associated with mass tourism.[51] Meanwhile, local development agencies and city councils across Spain embarked upon supply-side, 'entrepreneurial' strategies associated with inter-urban competition within the spatial division of consumption[52]. Local state initiatives to incentivise private sector participation in urban development projects in cities such as Barcelona and Valencia were highly speculative and premised upon future anticipated returns from the rapid construction of infrastructure, housing and office real estate.[53]

Prior to 2008, overaccumulation related to the secondary circuit of capital deepened as *cajas* and commercial banks competed to finance developers' production in construction and the ability of individuals to buy property with cheap credit and lengthy mortgage amortisation periods. The Spanish construction sector became a magnet for investment from 1998, sending house and land prices soaring and fuelling further national and international speculation. Demand for second homes as investment vehicles rose rapidly, while increased aggregate demand

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[50] European Union Commission *Current Account Surpluses in the EU* (Brussels: European Union, 2012), p. 49; Marisol García, op cit., p. 969-70; Gregorio Mayayo, 'The Spanish Mortgage Market and the American Subprime Crisis', December (2007), http://www.ahe.es/bocms/images/bfilecontent/2007/12/18/2146.pdf?version=4, accessed 7 July 2013.

[51] See Greig Charnock, Thomas Purcell and Ramon Ribera-Fumaz, op cit., pp. 92-98 for a detailed discussion of these bases for profitability in Spanish real estate during this period.

[52] For the original critique of this entrepreneurial turn, see David Harvey, 'From Managerialism to Entrepreneurialism: The Transformation in Urban Governance in Late Capitalism', *Geografiska Annaler*. *Series B, Human Geography*, 71 (1989), pp. 3-17.

[53] For further analysis of the Barcelona case, see Greig Charnock, Thomas Purcell and Ramon Ribera-Fumaz, 'City of Rents: The Limits to the Barcelona Model of Urban Competitiveness', *International Journal of Urban and Regional Research*, 38 (2014), pp. 198-217.

created by new employment, including from newly arriving migrant workers, compounded that of first time buyers.

The boom was unquestionably built on the expansion of credit, and, for many families in Spain, expanded consumption depended upon cashing in the equity from rising house prices. The ratio of resident household debt to GDP in Spain grew from under 55 per cent in 2000 to over 90 per cent in 2010,[54] while estimated net household debt as a percentage of disposable income grew from 85.97 per cent in 2000 to 144.32 per cent in 2006 – almost 40 per cent greater than the eurozone average.[55] As is widely acknowledged, the disproportionate expansion of the construction sector relative to other sectors during the boom raised the price of non-tradable goods and reduced the competitiveness of exports, fuelling inflation and exacerbating the need to fund social consumption through the further expansion of credit. Overproduction in the construction sector was endemic: between 2001 and 2011, there was a 24 per cent increase in the housing stock (to more than 26 million homes), relative to just a 5.8 per cent increase in the population (to approximately 47 million inhabitants.[56] Speculative leveraging in construction and the increase in household indebtedness that was by the state's admission 'significantly more than that of other peers',[57] therefore fuelled the process of the overaccumulation of capital in Spain.[58]

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[54] IMF data from 2011, at http://research.stlouisfed.org/fred2/series/HDTGPDESA163N, accessed 10 May 2013

[55] Organisation for Economic Cooperation and Development, *OECD Economic Surveys: Spain* (Paris: OECD, 2008), p. 25, Figure 1.3.

[56] Mark Stücklin 'Spanish housing stock increases 24pc in a decade', *Spanish Property Insight*, 12 April 2013, http://www.spanishpropertyinsight.com/2013/04/12/spanish-housing-stock-increases-24pc-in-a-decade/, accessed 15 May 2013; see also Marisol García, op cit.

[57] Ministerio de Economía y Hacienda 'Private Indebtedness: Some Highlights', Madrid, 20 December 2011, http://www.thespanisheconomy.com/SiteCollectionDocuments/en-gb/Financial%20Sector/111220_Private_debt.pdf, accessed 15 May 2013.

[58] 'If construction were to continue at the still relatively high rate of today, the process of absorption of the bubble would take more than 30 years': Cinzia Alcidi and Daniel Gros, 'The Spanish Hangover', *Centre for European Policy Studies (CEPS) Policy Brief*, 267 (2012) p. 3.

European Monetary Union and the Limits to Capital in the European South

A central theme that emerges in our analysis of crisis and revolt in Spain concerns the class character of European integration. EMU especially, is 'conceived as a disciplinary mechanism that encourages "competition" on the basis of disinflation and increased labour productivity' – an offensive device 'that seeks to make the European working class work harder in the face of deteriorating conditions'.[59] Our analysis of the development of capitalism in Spain before and after 2008 substantiates this claim. But it is equally as valid with reference to other countries across the European South.

Behind the rhetoric of 'convergence', 'integration' and 'union', EMU has exacerbated the uneven development of capitalism within Europe. The absolute reduction in trade costs due to open market access disproportionately benefitted the Northern member states.[60] After EMU, the European Central Bank's commitment to maintaining low price inflation also served to hamper export competitiveness in countries with relatively lower industrial productivity levels. This was expressed in growing trade and current account deficits across the European South.

In the years prior to EMU, a persistent current account deficit would threaten the quality of money circulating in a national economies, leading to money speculative pressures from international markets and to periodic devaluations by central banks confronting balance of payments crises. The 1992 ERM crisis was a vivid example of this in Europe. However, in the euro system national central banks 'had no need to accumulate stocks of foreign currencies to maintain their membership of the euro area and so the issue of current account imbalances largely disappeared from macroeconomic discussions'.[61] Meanwhile, between 2000 and 2007, unit labour costs increased sharply across the European South, and at a much faster rate than in

[59] Werner Bonefeld 'Politics of European Monetary Union: Class, Ideology and Critique', *Economic & Political Weekly*, 33 (1998), p. 55.

[60] Costas Hadjimichalis, 'Uneven Geographical Development …', op cit., p. 261.

[61] Karl Whelan 'Macroeconomic Imbalances in the Euro Area', Directorate General for Internal Policies, *European Parliament*, April 2012, p. 5.

'core' EU member states,[62] compounding losses in competitiveness. For many mainstream analysts, the current crisis has revealed the negligence of Southern states in controlling labour costs and reforming obstructive labour market legislation and institutions. However, the relatively high cost of production in the South was an expression of the inability of backward capitals in these national economies 'to increase productivity at levels bridging productivity discrepancy between them and their German or other core European rivals'.[63] In this scenario, economic growth and the expansion of social consumption across the European South was possible only through the expansion of corporate and household debt.[64] The cycle of post-EMU growth rested upon the accelerated inflow of fictitious capital into the European South, encouraged by low interest rates, expanding social consumption on the basis of debt, and the profitability of key non-tradable sectors in countries like Spain.[65]

As a result of EMU, then, the higher productivity eurozone 'core' generated huge trade surpluses. The eurozone as a whole has maintained a current account balance with the rest of the world since EMU. However, significant variations in the current accounts of eurozone member states have seen Austria, Belgium, Finland, the Netherlands and, especially, Germany run significant surpluses; while Greece, Ireland, Portugal and Spain ran deficits from the mid-2000s. In 2007, on the eve of the crisis, the Greek state reported a current account deficit of 13.6 per cent, in

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[62] Cambridge Econometrics, 'Study on the Cost Competitiveness of European Industry in the Globalisation Era: Empirical Evidence on the Basis of Relative Unit Labour Costs (ULC) at Sectoral Level', *ECORYS Framework Contract Sector Competitiveness Final Report*, Cambridge, 28 September 2011, p.10.

[63] Andriana Vlachou 'The Greek Economy in Turmoil', *Rethinking Marxism: A Journal of Economics, Culture & Society*, 24 (2012), p. 187.

[64] See Vassilis K. Fouskas and Constantine Dimoulas, 'The Greek Worship of Debt and the Failure of the European Project', *Journal of Balkan and Near Eastern Studies*, 14 (2012), pp. 1-31 for an illustrative discussion of Greece

[65] The relation between the German and Spanish economies epitomised the broader relation between the 'surplus' and 'deficit' countries prior to 2008. See Jorge Uxó, Jesus Paúl and Eladio Febrero, 'European Economic Policy and the Problem of Current Account Imbalances: The Case of Germany and Spain', in Jesper Jesperson and Mogens Ove Madsen (eds), *Keynes's General Theory for Today: Contemporary Perspectives* (Cheltenham: Edward Elgar, 2012).

Ireland 4.9 per cent, in Portugal 11.1, and in Spain 9.5 per cent, whereas the German state registered a surplus of 7.5 per cent of GDP.[66]

By Way of Conclusion

Today, the European South is undoubtedly bearing the brunt of a crisis of European 'integration' and of the fallout from a pronounced cycle of the global overaccumulation of capital. In this context, some would like to see current account 'imbalances' redressed by means of the 'surplus' countries taking a proactive role in stimulating domestic demand by ending wage moderation and relaxing their commitment to price stability. Others have tabled a more radical solution, and advocate withdrawal from the eurozone so that national currencies might be reintroduced and monetary devaluations undertaken. Yet the ability to depreciate 'national' money does not guarantee any national state an exit from the uneven development of the productive forces within and across national economies, from cycles of the global overaccumulation of capital, and therefore from the necessity of crisis.[67] And with respect to the European South, it will not guarantee a fundamental restructuring of the economy away from a longstanding dependency upon inflows of foreign capital in the form of tourism or debt, or towards high productivity and globally competitive manufacturing.

State austerity in the European South – and resistance to it – looks set to continue for some time yet. Simon Clarke assures us that 'the form of the state is such that if the political class struggle goes beyond the boundaries set by the expanded reproduction of capital, the result will not be the supersession of the capitalist mode of production but its breakdown, and with it the breakdown of the material reproduction of society'.[68] This is the very real problem that faces much of the

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[66] Eurostat, 'Macroeconomic Imbalances Procedure Scoreboard Headline Indicators, 1 November 2012 Statistical information', European Commission, Luxemburg, 1 November 2012.

[67] Within a capitalistically constituted form of social reproduction the 'critique of the euro cannot be a critique for the pound [or the drachma, the peseta, etc.]. The history of "national money" has always been a world market history' (Werner Bonefeld, 'Class and EMU', *op cit.,* pp. 6-7).

[68] Simon Clarke, 'State, Class Struggle, and the Reproduction of Capital', in Simon Clarke (ed.), *The State Debate* (Basingstoke: Palgrave, 1990), p. 195.

European South today as the state's efforts to impose austerity as a means of securing 'fiscal consolidation' confronts the struggle of the working class to resist 'internal devaluation' and to guarantee the means of its own reproduction. The transformation to a world society whose reproduction is no longer subordinated to the accumulation of capital remains an urgent necessity, and one that can only be born out of the fully conscious struggle of the international working class.