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Summary

US force for Africa at Morón air base to become permanent.
Brussels proposes mandatory quota of 4,300 asylum seekers for Spain.
Anti-establishment parties make big gains in Spain's municipal and regional elections.
IMF and OECD confirm accelerating upturn.

Foreign Policy

US force for Africa at Morón air base to become permanent

The government approved a permanent and strengthened US military presence at the Morón air base near Seville as a centre for a rapid reaction force to deal with crises in Africa and elsewhere.

The deal allows the US to increase the number of troops from the current 850 to a maximum of 3,500 in the event of a crisis. The number of aircraft deployed can be increased from 14 to 40.

The US Secretary of State, John Kerry, was due to visit Madrid earlier this month to sign the agreement but had to cancel the trip because of an injury.

Morón was one of three US 'Cold War' bases set up under an agreement in 1953 between Washington and the Franco regime. The post-Franco Socialist government of Felipe González re-negotiated the defence accord and in April 2013 a rapid reaction force was stationed at Morón following a deadly attack on the US consulate in Benghazi.

Brussels proposes mandatory quota of 4,300 asylum seekers for Spain

The European Commission proposed that Spain take 4,300 of the 40,000 Syrian and Eritrean asylum seekers who land in Italy and Greece over the next two years. Spain, Germany and France would take almost half the number (see Figure 1).

Figure 1. Main asylum seekers quotas for EU countries (number and % of total)

	Number and % in brackets
Germany	8,763 (21.9)
France	6,752 (16.8)
Spain	4,288 (10.7)
Poland	2,659 (6.6)
Netherlands	2,047 (5.1)
Rumania	1,705 (4.2)
Portugal	1,701 (4.2)

Source: European Commission.

The binding quotas for countries follow several high-profile catastrophes. More than 1,700 migrants lost their lives in the Mediterranean in the first four months of this year compared with 96 in the same period of 2014. The quotas are small: over 100,000 have crossed the Mediterranean so far this year

Germany and France said there was an insufficient balance in the quotas and asked Brussels to study the measures again. A final decision will be taken by EU governments later this year after votes by MEPs.

EU member states would be required to accept asylum seekers in proportion to the size of their economy, unemployment rate and population. The proposed key is based on a distribution index that gives population size a weight of 40%, with 40% based on economic growth, 10% on unemployment and 10% on previous engagements with asylum seekers.

In 2014, 202,815 people applied for asylum in Germany compared with 5,615 in Spain, according to Eurostat (see Figure 2). That figure, however, only represented 2,513 applicants per 1 million of population compared with 8,365 for Sweden (see Figure 3).

Figure 2. Asylum and new asylum applicants, 2014

Country	Number
Germany	202,815
Sweden	81,325
Italy	64,625
France	64,310
Hungary	42,775
Spain	5,615

Source: Eurostat.

Figure 3. Asylum and new asylum applicants per 1 million population, 2014

Country	Number
Sweden	8,365
Hungary	4,337
Austria	3,282
Malta	3,168
Germany	2,513
Spain	121

Source: Eurostat.

The scheme would apply only to migrants who have arrived in Italy and Greece since April, who have a chance of obtaining asylum and are of a nationality with at least a 75% success rate in asylum claims. This would mean probably only Syrians and Eritreans.

Venezuela denies González access to defend jailed opposition politicians

The Venezuelan government barred Felipe González, Spain's former prime minister (1982-96), from meeting three imprisoned opposition politicians in order to help with their legal defence.

One of them, opposition leader Leopoldo López, was on hunger strike in a military jail for 20 days. The other two are Daniel Ceballos, a former mayor, and Antonio Ledezma.

The Venezuelan Congress has classified González, a lawyer, as a *persona non grata*.

On his return to Madrid, González said President Nicolas Maduro had betrayed democracy and was destroying Venezuela.

Spain proposes gradual approach for strengthening European Monetary Union...

The government presented in Brussels its [proposals](#) for reforming governance of the European Monetary Union which it said should be gradually implemented with a clear and predictable roadmap, similar to the Maastricht convergence process.

Five elements were needed to complete a sound and mature monetary union:

- Eliminate real and nominal rigidities that hamper swift adjustment to economic shocks.
- Reach sufficient levels of labour mobility.
- Achieve a sound fiscal union to complete and reinforce the monetary union. Such a fiscal union should encompass three elements: (1) transfer of

- sovereignty to the Union on national revenue and expenditure policies; (2) a common Eurozone budget; and (3) common debt instruments.
- Complete the internal market. In particular, financial market fragmentation has to be tackled by ensuring adequate integration in the retail banking sector.
 - These advances will entail sovereignty transfers to the central level of the EMU, and thus need to be accompanied by enhanced democratic legitimacy and accountability.

The government said the single monetary-policy stance proved to be inadequate for certain countries and generated asymmetric effects. 'In some countries, monetary policy resulted excessively loose, leading to negative real interest rates. Such financial conditions distorted rational behaviour of economic agents and promoted excessive indebtedness and the accumulation of imbalances. These developments also fostered significant competitiveness losses in certain member states'.

Without saying so, this was very much the case of Spain.

... Support for the euro rises

Spaniards' support for the euro increased the most over the last three years among the bloc's four-largest economies and is now on a par with that in Germany, according to the Pew Research Centre (see Figure 4).

Figure 4. 'Should keep the euro rather than return to a national currency'

	2012 (%)	2015 (%)	Change (pp)
Spain	60	71	+11
Germany	66	72	+6
Italy	52	56	+4
France	69	72	+3

Source: Pew Research Centre.

The EU is also viewed more favourably (see Figure 5) and greater economic integration of Europe is more widely seen as strengthening the economy (see Figure 6). Spain signed its treaty of accession to the European Community 30 years ago this month.¹

¹ See Charles Powell (2015), *The Long Road to Europe: Spain and the European Community, 1957-86*, Working Paper nr 9/2015, Elcano Royal Institute, 11/VI/2015, http://www.realinstitutoelcano.org/wps/portal/web/rielcano_en/contenido?WCM_GLOBAL_CO NTEXT=/elcano/elcano_in/zonas_in/dt9-2015-powell-long-road-europe-spain-european-community-1957-1986#.VX_jaFl_25Z.

Figure 5. Very/somewhat favourable opinion of the EU

	2013 (%)	2014 (%)	2015 (%)	13/15 change	14/15 change
Italy	58	46	64	+6	+18
Spain	46	50	63	+17	+13
France	41	54	55	+14	+1
UK	43	52	51	+8	-1
Germany	60	66	58	-2	-8

Source: Pew Research Centre.

Figure 6. 'The economic integration of Europe has strengthened our country's economy'

	2013 (%)	2014 (%)	2015 (%)	13/15 change	14/15 change
UK	26	41	49	+23	+8
Spain	37	38	43	+6	+5
France	22	26	31	+9	+5
Italy	11	9	11	0	+2
Germany	54	63	59	+5	-4

Source: Pew Research Centre.

Domestic Scene

Anti-establishment parties make big gains in Spain's municipal and regional elections

The leftist anti-austerity Podemos and the centrist market-friendly Ciudadanos made big gains in the municipal and regional elections held on 22 May, breaking the mould of Spanish politics, dominated by the Socialists and the Popular Party (PP) since 1982, and ushering in a new era of four parties and uncertainty.

The PP gained 27% of the votes in the municipal elections, down from 37.5% in 2011, and the Socialists won 25% (27.8% in 2011). Between them they captured 52% of the vote, compared with 65.3% in the 2011 municipal elections and 73.4% in the general election that year.

The PP drew a crumb of comfort from still being the most voted party, but not by very much. The party did not reap any political dividends from the economic recovery. It won 2.4 million fewer votes than in the 2011 municipal election compared to the Socialists' loss of 670,000 (see Figure 7).

Prime Minister Mariano Rajoy put a brave face on the poor results and blamed them on the party's many corruption scandals and the 'constant pounding by television channels'.

Figure 7. Results of municipal elections

	Popular Party	Socialists (PSOE)	Ciudadanos	United Left (IU)
Votes	6,057,767	5,603,823	1,467,663	1,057,612
% of total	27.1	25.0	6.6	4.7
Swing (pp)	-10.4	-2.8	+6.4	-1.7
Councillors (1)	22,750 (-3,757)	20,823 (-943)	1,527 (+1,520)	2,217 (-32)

(1) Loss or gain over 2011 in brackets.

Note: Podemos's votes cannot be calculated as the party joined coalitions.

Source: Interior Ministry.

The PP lost its absolute majorities in eight of the 13 regions that held elections (all except Andalusia, Galicia, Catalonia and the Basque Country) including Madrid and Valencia, its two fiefdoms, where it has been badly damaged by a spate of corruption scandals.

The PP also failed to secure another absolute majority in Madrid's municipal elections and lost control of the town hall after 24 years. The 71-year-old Manuela Carmena, a retired Supreme Court judge and former communist, who stood for Ahora Madrid, a coalition of radical groups including Podemos, became the new mayor with the support of the Socialists. The PP continues to run the Madrid region thanks to the support of Ciudadanos.

Another coalition, Barcelona en Comú, led by the anti-eviction activist Ada Colau, was the most voted party in the Catalan capital. Colau became mayor with the support of the Catalan Socialists (PSC) and Republican Left of Catalonia (ERC), the main driving force behind independence for the region. Carmena and Colau are the most visible symbols of the political change that is sweeping Spain.

Five of Spain's 10 largest cities are now run by these coalitions, two by the PP, two by the Socialists and one (Bilbao) by the Basque Nationalist Party (PNV). The Socialists were again the most voted party in Andalusia –whose elections were held on 22 March– but it took almost three months of horse-trading with Ciudadanos before Susana Díaz could become the region's PM at the fourth investiture vote.

Whereas the 2011 municipal and regional elections saw landslide victories by the PP in cities and heralded its routing of the Socialists in that year's general elections, this time round the elections suggest a fragmented parliament when the next general election is held by the end of the year.

The two-party system began to crumble as of the May 2014 European election (see Figure 8) when Podemos, born out of the grassroots movement of *los indignados* (the 'indignant ones') four years ago, won 1.2 million votes (8% of the total) and five seats. Since then Podemos's leader, the 36-year-old pony-tailed Pablo Iglesias, has become a national figure.

Figure 8. The rise and fall of Spain's two-party system in municipal, general and European elections (1)

	1986	1987	2003	2007	2008	2011	2014	2015
Municipal	–	54.5	69.1	70.5	–	65.3	–	52.0
General	70.1	–	–	–	83.8	73.4	–	–
European	–	63.8	–	–	–	–	49.1	–

(1) Percentage of votes won by the Popular Party (Popular Alliance –AQP– until 1989) and the Socialists.
Source: Interior Ministry.

Podemos' supporters are particularly grim about the country (see Figure 9).

Figure 9. Views of Spain and Europe among those who feel closest to...

	Podemos	Socialists	Ciudadanos	PopularParty
Those who say...				
Economy is bad (%)	95	87	82	55
Children will be worse off financially than their parents (%)	69	58	64	47
Keep the euro (%)	57	73	77	73
Favourable view of EU (%)	42	68	70	76
Economy strengthened by economic integration (%)	30	43	55	55

Source: Pew Research Centre.

Podemos's emergence opened up a national space in the centre for the older Ciudadanos, founded in 2006 in Catalonia, which until this year, when it ran in March's election in Andalusia as did Podemos, had not competed outside its home region.

Ciudadanos's 35-year-old leader Albert Rivera summed up the differences between his party and Podemos by saying that whereas his party wants justice, Podemos wants revenge. If one believes that, then the elections would appear to show that revenge has won out over justice as Podemos, part of several winning coalitions as well as victories on its own, did better than Ciudadanos.

Having seen off United Left (IU), the revamped communist party, which Podemos includes as part of *la casta* (the 'caste', ie, the establishment), the term it uses to describe Spain's privileged and ossified elites, the party's strategy will be keep on taking votes away from the Socialists in its bid become the main left-wing alternative by the time of the general election. Iglesias recently set out his thinking in a recent [article](#) in the *New Left Review*.

According to the sociologist Narciso Michavila, 52% of Podemos's voters were university graduates, 22% of them were unemployed and 20% of them were students, compared with 34%, 7% and 6%, respectively, for the PP (see Figure 10). The PP's regional barons called on Rajoy to rejuvenate the party.

Figure 10. Profile of voters of the main parties

	Popular Party	Socialists	Podemos	Ciudadanos
Male (%)	46	46	58	55
Female (%)	54	54	42	45
Average age	55	52	44	43
Graduates (%)	34	24	52	48
Students	6	5	20	18
Pensioners (%)	38	30	21	17
Unemployed (%)	7	22	22	13

Source: GAD3.

Spaniards see the rise of Podemos as a good thing, more so than the view in other European countries of anti-establishment parties (see Figure 11).

Figure 11. Non-traditional parties viewed positively (1)

	Good thing (%)	Bad thing (%)	Don't know (%)
Spain (Podemos)	70	25	5
UK (UKIP)	66	24	10
Italy (Five Star Movement)	58	28	14
Germany (Alternative for Germany)	50	41	9
France (National Front)	36	63	1

(1) Based on the following question: 'do you think that the rise of non-traditional political parties such as (country-specific party) is a good thing because these parties raise important issues that are ignored by the traditional parties or a bad thing because these parties are too extreme?'.
Source: Pew Research Centre.

King Felipe strips sister of her duchy

King Felipe VI, who ascended the throne a year ago after his father abdicated, stripped his sister, the Infanta Cristina, of her title of Duchess of Palma de Mallorca, ahead of her trial on tax-evasion charges.

Cristina's husband, Iñaki Urdangarín, faces a wider array of charges after allegedly creaming off €6 million of public funds from a charitable foundation he established. Both of them have been excluded from the royal family's official functions.

The couple's multimillion-euro mansion in Barcelona has been impounded by the courts.

The King's move is part of a strategy to improve the monarchy's image, to prevent it being tarnished by scandals.

Spain 24th in rule-of-law ranking

Spain remained in 24th position (out of 102 countries) in the latest [WJP](#) Rule of Law Index based on eight categories (see Figure 12). Its highest ranking was 19th in fundamental rights, though down five places from 2014 when 99 countries were classified (see Figure 13).

Figure 12. WJP Rule of Law Index 2015, overall global rank (1)

Country ranking	Score
1. Denmark	0.87
8. Germany	0.81
12. UK	0.78
18. France	0.74
19. US	0.73
24. Spain	0.68
30. Italy	0.64

(1) Scores range from 0 to 1 (with 1 indicating strongest adherence to the rule of law).
Source: World Justice Project (WJP).

Figure 13. Spain in WJP Rule of Law Index: global rankings by category (1)

	CoGP	AoC	OG	FR	OS	RE	CJ	CrJ
Spain	26 (28)	25 (25)	26 (28)	19 (14)	33 (34)	26 (25)	24 (24)	26 (25)

(1) Out of 102 countries. 2014 position in brackets. CoGP, Constraints on government powers; AoC, absence of corruption; OG, open government; FR, fundamental rights; OS, order and security; RE, regulatory enforcement; CJ, civil justice; CrJ, criminal justice.
Source: World Justice Project (WJP).

Population at risk of poverty or social exclusion continues to rise

The share of the population at risk of poverty or social exclusion reached 29.2% in 2014 (26.1% in 2010), according to the latest survey by the National Statistics Office (INE), and with a wide regional divide (see Figure 14).²

This means that 13.6 million people were at least in one of the following conditions: at-risk-of-poverty after social transfers (income poverty), severely materially deprived or living in households with very low work intensity.

² The at-risk-of-poverty rate is the share of people with an equivalised disposable income (after social transfers) below the at-risk-of-poverty threshold, which is set at 60% of the national median equivalised disposable income after social transfers. This indicator does not measure wealth or poverty, but low income in comparison to other residents in that country, which does not necessarily imply a low standard of living.

Figure 14. At risk of poverty or social exclusion by regions (%)

Region	%	Region	%
Andalusia	42.3	Catalonia	21.8
Aragón	20.7	Extremadura	39.8
Asturias	23.4	Galicia	23.8
Balearic Islands	23.8	La Rioja	20.1
Basque Country	15.3	Madrid	19.2
Canary Islands	37.0	Murcia	44.9
Cantabria	27.4	Navarra	14.5
Castile-La Mancha	36.9	Valencia	34.7
Castile-León	26.1	Spain	29.2

Source: INE.

The survey was conducted in the spring of 2014 and based on 2013 figures. The average household income dropped from €29,634 in 2009, when the economy went into recession following the bursting of the massive property bubble, to €26,154 in 2013.

Per capita income varied between a high of €30,700 in Madrid and a low of €15,500 in Extremadura (see Figure 15).

Figure 15. Per capita income by regions (€) and as % of EU average (EU-28 = 100) (1)

Region	€ and %	Region	€ and %
Andalusia	18,700 (70)	Catalonia	29,400 (111)
Aragón	27,400 (103)	Extremadura	17,200 (65)
Asturias	22,300 (84)	Galicia	22,100 (83)
Balearic Islands	26,200 (99)	La Rioja	27,100 (102)
Basque Country	32,500 (122)	Madrid	34,000 (128)
Canary Islands	21,400 (81)	Murcia	20,400 (77)
Cantabria	22,900 (86)	Navarra	30,900 (116)
Castile-La Mancha	20,300 (76)	Valencia	21,900 (82)
Castile-León	23,800 (89)	Spain	25,000 (94)

(1) Both expressed in purchasing power standards.

Source: Eurostat.

Income inequality in Spain has become more skewed (see Figure 16).

Figure 16. Income inequality: ratio of the average income of the richest 10% to the poorest 10% (2013 or latest)

	Ratio
Mexico	30.5
Chile	26.5
US	18.8
Greece	12.3
Spain	11.7
Italy	11.4
France	7.4
Germany	6.6

Source: OECD.

Spain's interns 'too many and badly paid'

Spain has the EU's second-highest percentage of graduate trainees and the lowest share of those who can make ends meet with the pay they receive, according to reports by the OECD and the European Commission (see Figures 17 and 18).

Figure 17. Graduate trainees: % of people who have been interns in companies after graduating

Country	%
Slovenia	68
Spain	67
Italy	42
Germany	38
EU-28	33
UK	28
France	19

Source: OECD and European Commission.

Figure 18. Graduate trainee remuneration: % of interns who receive remuneration that enables them to meet their basic needs

Country	%
Ireland	75
UK	68
Italy	53
EU-28	46
France	42
Germany	39
Spain	29

Source: OECD and European Commission.

The use of interns is so widespread that it has led to accusations that the system is being abused by employers in order to reduce their wage bill. Many Spaniards become interns in the hope of being offered a job at the end of their contract. There is, however, a high turnover of trainees and only around one-third are kept on.

The Economy

IMF and OECD confirm accelerating upturn

Having been very slow to recognise Spain's recovery, the IMF is now ahead of the pack of international institutions confirming the upturn. In its latest [analysis](#), the IMF upgraded its GDP growth forecast for Spain this year to 3.1% (2.5% in April), higher than the government's own projection of 2.9% and well above the European average.

'Significant external tailwinds are now helping the rebound, including from lower oil prices, the depreciation of the euro, and the European Central Bank's very supportive monetary policy', the IMF said.

The new figure came hard on the heels of the OECD, the Paris-based think-tank, which predicted expansion of 2.9%. While the OECD urged the government to use the extra growth to begin to reduce public debt, the IMF called on Spain to keep up the momentum of reforms.

'There is still significant scope for measures that will foster job creation', it said. The IMF called for further flexibility in setting wages and work conditions at factory level, and for better policies aimed at getting the long-term unemployed back to work.

Spain's non-wage costs in 2014 were €36 per €100 of gross earnings, the 10th highest in the EU and well above Germany's €28, according to Germany's Federal Office of Statistics (see Figure 19). The main component of non-wage

costs is the employers' social security contributions, expenditure on employee pension schemes and spending on continued pay in case of sickness.

Figure 19. Non-wage costs in the EU, 2014

	In € per €100 of gross earnings
France	47
Sweden	46
Italy	39
Spain	36
EU average	31
Germany	28
UK	19
Denmark	15

Source: Federal Office of Statistics.

Economic sentiment has improved over the last year but is still way below the buoyant mood in 2007 at the height of the boom (see Figure 20).

Figure 20. Economic mood recovering: current economic situation as very/somewhat good (%)

	2007	2013	2014	2015	07/15 cha.	14/15 cha.
Spain	65	4	8	18	-47	+10
UK	69	15	43	52	-17	+9
Italy	25	3	3	12	-13	+9
France	30	9	12	14	-16	+2
Germany	63	75	85	75	+12	-10

Source: Pew Research Centre.

Prime Minister Mariano Rajoy drew comfort from the IMF's latest upgrade as he believes the quickening recovery is the best card he has to play at the next general election. The latest poll by Metroscopia gives the PP 24.5% of the vote, up from 20.8% in May and ahead of the Socialists (23%).

The number of unemployed registered in government offices fell by 117,895 in May to 4.21 million, the best reduction that month since the series started. The bulk (91%) of new contracts signed were temporary ones, however. One quarter of the contracts in the first four months of this year were for a week or less.

The number of people registered as jobless is more than 1 million below the stated jobless figure based on a quarterly labour force survey. The difference between the two figures reflects those who may have exhausted their right to unemployment benefits, are not on state training programmes, are working in

the shadow economy or have given up seeking a job.

Corporate Scene

ACS in consortium that wins €4 billion Canadian light-rail project

A consortium of companies including Spain's ACS won a €4 billion contract to design, build, finance and maintain the track and railway systems for the Eglinton Crosstown light rail project in Toronto.

Duro Felguera gains €800m Brazil electricity contract

A consortium comprising Spain's Duro Felguera and General Electric is to build two gas-fired thermoelectric plants in Brazil. The turnkey contract with Brazil's Grupo Bolognesi calls for the construction of two 1.5GW power plants by 2018.

Inditex profits surge 28%

Inditex, owner of fashion stores including Zara, posted net profits of €521 million in its first quarter, 28% more than in February-April of last year. Sales were up 17% at €4.37 billion. The total number of its stores worldwide rose by 63 to 6,746.