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CRISIS IN THE IBERIAN PENINSULA

ECONOMIC AND INSTITUTIONAL REFORMS AND THE CALL FOR A POLITICAL SHIFT IN SPAIN AND PORTUGAL

Adriaan Kühn

Six years on from the current crisis, Spain and Portugal will continue to face the same challenges. Deficit reduction, slashing public debt, and shrinking public services stand at the forefront of the government agenda in both countries. The severe austerity programmes are accompanied by an unparalleled loss of institutional trust by citizens of the young southern European democracies.

Spain's economic situation remains serious – over five million unemployed, dramatic youth unemployment (one in two young people is unemployed), horrendous public debts, and lingering recession. The situation in their neighbouring country, Portugal, is progressing similarly in both the economic and political spheres. The important difference: Portugal is among those crisis-ridden countries depending on external assistance. In May 2011, a bailout package of over 78 billion euros kept the nation from bankruptcy. In return, Portugal made a pledge to the lenders – the tripartite committee comprising the European Commission, the European Central Bank, and the International Monetary Fund – in a memorandum of understanding to make comprehensive economic and institutional reforms. Although the Iberian nations are in the same boat, there are no discernible signs of solidarity. On the contrary, the Spanish prime minister continues to attempt to stress the differences to the Portuguese case.

SPAIN'S GOVERNMENT LACKS NEITHER THE WILL NOR THE POWER TO PUSH NECESSARY REFORMS

Spanish government bonds offer one of the few positive outlooks. Here, at least for the moment, the situation has improved. Incumbent Prime Minister Mariano Rajoy's administration's reform programme, which has been in place since December 2011, is proving effective. Meanwhile, the interest burden on Spanish debt securities has dropped to a bearable level. Should the risk premium for Spanish government bonds have remained at 649 points at the end of July 2012, the difference vis-à-vis the yield of ten-year German securities at the beginning of 2013 would only amount to half of this historic level.



Prime minister Mariano Rajoy in a parliamentary debate: The conservative government is open for in-depth reforms. | Source: Diego Crespo, La Moncloa Gobierno de España (CC BY-NC-ND).

The Spanish leader regards the friendlier financial market situation as an initial success, both domestically and internationally. At the beginning of his term, Rajoy had sent rather irritating signals to the European partners regarding Spain's intentions to possibly apply for ESFS assistance. At home, with a total of 30 billion euros disbursed to the Spanish Bank Rescue Fund Fondo de Reestructuración Ordenada Bancaria (FROB), intended to back the ailing credit institutes and liquidate them if necessary, Mariano Rajoy is triumphantly portrayed on the international stage – in doing so, Spain is affirming his political capacity. In reality the country would not have been able to fight

the liquidation of bankrupt small savings banks – legacies of the decaying property boom. The reform of the banking sector, devised with European assistance, compelled some banks to consolidate; others were nationalised.

Upon taking office, the Spanish government appeared to be immediately prepared to regulate public finances and to implement dramatic economic reforms. Rajoy's deputy and government spokesperson, Soraya Sáenz de Santamaría, announced drastic cuts in one of her first appearances. Nine billion euros had to be cut, above all in capital expenditures. In order to reduce the 2012 budget deficit from almost nine per cent of economic performance to the 5.3 per cent originally planned, observers assumed this would mean a reduction by approximately 36 billion euros. The next cost-cutting round followed in April 2012, with ten billion euros in cuts affecting healthcare and education. The largest austerity package to date was announced during the holiday month of July: spending cuts amounting to

65 billion euros until 2015. But over the past

Poor economic conditions have upset the government's ambitious plans. Spain's public debt is increasing.

year, poor economic conditions have upset the government's ambitious plans. Despite a spending reduction of more than 21 billion euros, the Spanish deficit exceeded the 6.3

per cent level re-negotiated with Brussels at nearly seven per cent.¹ Consequently, the public debt is increasing. In the third quarter of 2012, it amounted to 77.4 per cent of GDP according to Eurostat. Four years before, that number lay at 37 per cent of economic performance. However, achievements include Spanish local councils meanwhile having nearly balanced budgets, and the regional governments largely meeting their deficit goals. On the other hand, high unemployment is putting stress on social security. Compared with the previous year, their deficit doubled to one per cent of GDP.

The "harshest adjustments in the history of democracy", as Spanish newspapers call the latest austerity programme, stipulate cuts to care allowance and unemployment benefits, and raising the retirement age. All public sector

1 | According to information from the Spanish government, which does not take the bank rescue programmes into account. The European Commission expects a 2013 deficit of 6.7 per cent of GDP.

employees had their Christmas bonuses cancelled – thus nearly five billion euros were saved. Public employees had already been forced to accept salary losses, longer working days, the loss of paid annual leave, and a hiring freeze. In order to reduce new indebtedness for the current year to 4.5 per cent of GDP, the healthcare budget, along with the development aid budget, is falling by a quarter; the Ministry of Education and the Arts must make do with a fifth less money for cultural activities and a ten per cent cut in education spending; and support for community social spending is even being slashed by 40 per cent.



High unemployment and disenchantment with politics: Especially for young Spaniards the situation of their country is precarious. The frustration manifests itself in demonstrations. | Source: Popicinio, flickr (CC BY-NC-ND).

On the revenue side, a VAT increase to 21 per cent (three years ago, the rate was 16 per cent), raised income and business taxes, and higher student fees should relieve the strain on the national budget. Amnesty for tax evaders aims to entice Spanish economic exiles back into the country. There are fierce protests against the planned increase in school class sizes – the goal is to cut down on teachers –, and the introduction of a fee schedule for the justice system. So far, the labour market reforms adopted in February 2012 are having little impact. Despite liberalising Spanish labour standards, the number of unemployed is rising. Apparently companies are making use of lower

redundancy pay-outs accompanying contract termination rather than the option to offer flexible employment.

The national railway company is seeking private capital because they can only operate a fraction of their modern high-speed rail line profitably.

The privatisation of public enterprises is also stalling. The purchase of the lottery company contemplated by the previous socialist government is on hold for now because too little was offered for it. Whether or not the country's two largest airports, Madrid-Barajas and Barcelona-El Prat, will be opened separately for private investors alongside the (partial) privatisation of the airport operator AENA remains to be seen. The national railway company RENFE is also seeking private capital because they can only operate a fraction of their modern high-speed rail line profitably. Various local administrations are focusing on streamlining the none too transparent network of public companies.

The government is pursuing an ambitious plan for bureaucracy reduction on the regional level. The goal is to unravel the administrative entanglement between regions, provinces, and communities. In the future, goods and services should come from one source. The smallest communities must consolidate. Mayoral salaries in major cities are capped at 100,000 euros. The number of *asesores* (advisers), until now freely appointed by the communities, will now be regulated by a graduated system based on population, and will therefore be significantly reduced. Should a community not adhere to its budget constraints, the appropriate provincial administration may temporarily take over its responsibilities. The government estimates the savings possible from these measures to be over seven billion euros. Even before coming to a parliamentary debate, the socialist party has expressed strong resistance to the project.

Despite positive reports from the financial markets, it cannot be assumed the government is taking the bait to water down or even withdraw the drastic savings measures. Alongside the critical public financial situation, Rajoy's oft-repeated fear of losing Spanish budgetary authority, which would accompany a "rescue" of the fourth-largest euro national economy, is the main reason behind the executive's stability. They are clinging onto their reform agenda

in the face of growing resistance from trade unions, civil servants, and various trade associations. Spain is asking only for more time to fulfil the three per cent deficit criterion. On the international stage, Spanish EU diplomats are campaigning for an extension with reference to the successful austerity measures – instead of the January 2014 deadline, the national budget will have to satisfy the Euro Stability Pact guidelines twelve or 24 months later.

Spain's government lacks neither the will nor the power to push necessary reforms. In the national parliament, the Partido Popular (PP) possesses a secure absolute majority with 186 out of 350 seats. Within the faction, solidarity is high. Dissenters have so far not appeared. Furthermore, the PP rules the greater part of the Spanish *comunidades autónomas*: 12 of the country's 17 autonomic communities' heads of government are in the party. Never before have the conservatives dominated the political system so greatly. Therefore it cannot be said that party political reform bottlenecks ("blockade policy") exist in Spain. On the institutional level there are also no players whose veto could force the government to change course. And last but not least, the Constitutional Court (Tribunal Constitucional) plays a marginal role in political competition due to its protracted decision-making processes – at least it certainly does not play the role of "alternative legislature" as its German counterpart is sometimes portrayed. Spain's highest judicial authority, Consejo General del Poder Judicial (CGPJ), has been practically incapable of action for years because the two large parties could not agree with regard to filling the bench.

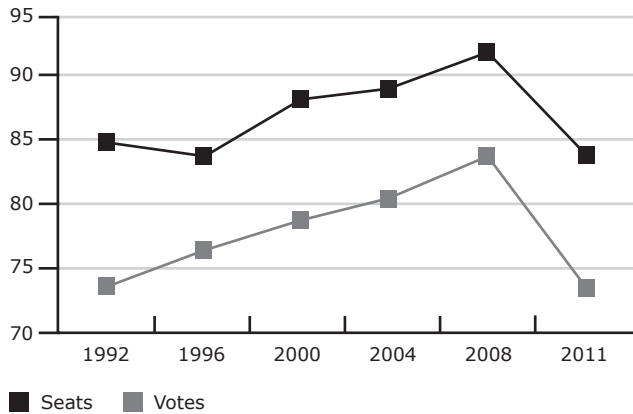
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Given the government's dominance, the two general strikes called by Spanish trade unions in March and November 2012 were a sign of doubt rather than a demonstration of power. Two strikes within one year – that was a first in the history of the parliamentary monarchy. Despite considerable participation from sectors with a high rate of unionisation (civil service, transport, auto industry, and mining), calls for a demand-driven change in the government's economic policy are falling on deaf ears.

Spain's problem does not lie in the political system's ability to problem solve – this ability is great under the given political and institutional circumstances – but rather in its lack of ability to achieve consensus. Prime Minister Rajoy had anticipated this challenge in his inaugural address. He said, "The majority is an excellent instrument for enforcing decisions, but it is not necessarily the best for devising them. [...] Spaniards themselves, and not the government, must be the drivers of change, champions of reform, and actors in the [economic] recovery."²

Fig. 1

Percentage of votes and seats allotted to PP and PSOE in the national parliament, 1993-2011, in per cent



Source: Own research according to data from the Spanish Ministry of the Interior.

Nevertheless, in the past, politics has failed to create a consensus. Since the turn of the century, polarisation and confrontation (*crispación*) have dominated the competition between parties.³ Spain's political culture at this stage is characterised by perpetual campaigning, deligitimisation of political opponents, and little to no existing willingness to

2 | Mariano Rajoy, "Discurso de Investidura del Presidente del PP", Madrid, 19 Dec 2011, http://pp.es/file_upload/noticias/pdf/5909-20111219132408.pdf (accessed 1 Apr 2013).

3 | Jaime Balaguer and Alberto Sanz, "La segunda ola de la crispación; competición y polarización en la VIII legislatura", in: *Elecciones Generales 2008*, José Ramón Montero and Ignacio Lago (eds.), Madrid, Centro de Investigaciones Sociológicas, 2010, 61-70; Walther L. Bernecker, "Politik zwischen Konsens und Konfrontation: Spanien im 21. Jahrhundert", in: *Spanien heute*, idem (ed.), Frankfurt am Main, Vervuert, 2008, 85-109.

make concessions. This strategy was extremely successful for the dominating factions in the party system as measured by the electoral results.⁴ As opposed to the European trend, the Spanish mainstream parties could consistently enlarge their percentage of votes and seats up to 2008 (Fig. 1). The price for such (at any rate forfeited) gains for both of the large parties would be high if they did not succeed in producing an agreement on the need for economic reforms shared by the majority.

POLITICS IN SPAIN REMAIN POLARISED – CITIZENS ARE DEMANDING SOLIDARITY

The trend towards consolidation within the party system has halted for now due to the November 2011 parliamentary elections, which were marked by the crisis. The competition between the parties remained the same, however – confrontation and polarisation dominated the election campaign. Anyone who had hoped the most severe economic crisis in the young democracy's history would nudge the political elite into a change of heart was disappointed. Spain's politics remain caught in a self-made trap of polarisation.

Anyone who had hoped the most severe economic crisis in the young democracy's history would nudge the political elite into a change of heart was disappointed. Spain's politics remain trapped in a self-made pit of polarisation.

The PSOE/PP dualism has been paradoxically re-enacted in many policy fields. Both the socialists and the conservatives making up the government have shown that European partners can rely on agreement from Madrid. Both factions profess budget consolidation as the goal. In summary proceedings in September 2011, the PP and PSOE agreed to a constitutional amendment to include a "debt ceiling" in the Spanish constitution. In economic policy one

4 | Sociologist and former minister for education José María Maravall declares party tactics in favour of polarisation and confrontation strategies with the need for mobilisation. Because a majority of Spanish citizens would ideologically range from centre to centre-left, the conservatives aimed to discourage the "urban and educated" classes, who tend to vote for the Left, from voting. While the PP could rely on a loyal group of core voters, one would face a mobilisation problem at the other end of the political spectrum: the potential PSOE constituency disproportionately consisted of undecided voters. José María Maravall, *La confrontación política*, Taurus, Madrid, 2008.

still has to search out differences between the socialist and conservative agendas with a magnifying glass.⁵

In spite of this extensive agreement on the economic questions, on the opposition benches both parties behave as if they are the defenders of the Spanish welfare state – without considering the obvious challenges presented when devising constructive reform recommendations.

Conservatives and socialists are blaming one another for having exploited the welfare state. This promoted disenchantment with politics.

Demographic changes⁶ and the compatibility of family and work, for example, are issues accentuated by the economic crisis on the one hand, and almost completely eliminated from public debate on the other.

Conservatives and socialists are blaming one another for having exploited the welfare state. Rajoy's criticism of his predecessor José Luis Rodríguez Zapatero's (belatedly) initiated cutback programmes perhaps caused some of his voters to believe the austerity would see an end under a PP government. The attacks by the socialists on the route the Prime Minister has chosen suffer from a lack of credibility. By the end of 2011, they, as a government party, had the opportunity to practically form "alternative paths out of the crisis". In spite of this, the political debate was carried out in black and white terms. This promoted disenchantment with politics.

Political proposals and societal demands have seldom been so disparate in Spain's young history. In the sixth year of the economic crisis, the overwhelming majority of citizens had one specific request of politicians: they should show

5 | Lothar Witte, "Hintergrundinformationen. Spanien hat gewählt", Friedrich-Ebert-Stiftung Madrid, <http://library.fes.de/pdf-files/bueros/madrid/05787.pdf> (accessed 1 Apr 2013). An empirical analysis of the election agendas of both populist parties reaches the same conclusions, cf. Antonia Jiménez, "Competición política y representación democrática: la oferta electoral de los partidos", in: *Elecciones Generales 2004*, José Ramón Montero, Ignacio Lago and Mariano Torcal (eds.), Centro de Investigaciones Sociológicas, Madrid, 2007, 65-102.

6 | In December 2012, the National Institute of Statistics showed that the population was decreasing and ageing. The population will sink by one-tenth in the next forty years; by then, more than a third of Spaniards will already be over 64 years of age, "Proyecciones de Población 2012. Las tendencias demográficas actuales llevarían a España a perder una décima parte de su población en 40 años", Instituto Nacional de Estadística, press release, 4 Dec 2012, <http://ine.es/prensa/np744.pdf> (accessed 1 Apr 2013).

solidarity. According to a study by polling institute Metroscopia, nine out of ten people surveyed agree with the statement that a “a large, national pact to combat the crisis made by the most important parties” is “fairly” or “very necessary”. A full 76 per cent of those polled are certain: this remains a pipe dream. They do not believe consensus-oriented policies will be made in Madrid in the future. In current polls, PP and PSOE are losing further ground. With almost half of those eligible to vote participating in the election (a loss of nearly 20 per cent compared to the 2011 parliamentary elections), nearly half of their voters abandoned to governing party, who would come out with 22.5 per cent of the vote. The largest opposition party is suffering with negative results, as with the last elections, again losing eight points, and came out with 20 per cent of the vote. The post-communist Izquierda Unida (IU) was able to double its 2011 performance; the Unión Progreso y Democracia (UPyD), led by former socialist member of parliament, Rosa Díez, even tripled its outcome – both factions came in at approximately 15 per cent each. The remaining fifth of the votes was distributed amongst regional parties.⁷

CORRUPTION SCANDALS UNDERCUT ACCEPTANCE OF AUSTERITY PROGRAMMES

Alongside little willingness within the political elite to institute far-reaching initiatives, various corruption scandals thwarted the calls for austerity, while at the same time undercutting societal acceptance of the austerity programmes. No faction was spared by these discoveries. A tribunal convicted Catalan government coalition *Convergència i Unió* (CiU) of illegal party financing in January 2013, and they were ordered to pay back some 300,000 euros. In the socialist stronghold of Andalusia, the man in charge of millions in aid money for job placement schemes paid the money out to party members, family members, and friends. A director of *Fundación Ideas*, the foundation aligned with PSOE, increased his own pay by submitting forged invoices. The Gürtel case, in which suits and ties were distributed to politicians in return for public sector contracts, cost the president of the *Generalitat Valenciana*, Francisco Camps (PP), his office.

7 | Study results: “Barómetro Metroscopia”, *El País*; 13 Jan 2013, election poll: “Metroscopia Barómetro electoral mayo 2013”, 13 May 2013.

Allegations raised regarding the publication of a ledger, supposedly managed by former PP Treasurer Luis Bárcenas, are even more serious for the PP. According to the allegation, various members of the party leadership, among them Mariano Rajoy, have received money over the past ten years from an illicit party coffer.

Corruption cases have become part of daily life during the course of the economic recovery, and have mostly been limited to local administrations due to their role in allocating land for building and construction licensing procedures.

An overwhelming majority believe that politicians systematically cover up corruption cases. Yet instead of completely clarifying, political players are either getting involved in activism or populist schemes.

Over the course of the economic crisis, the citizens' tolerance threshold has sunk rapidly in the face of such offences. The latest revelations are dealing a severe blow to trust in the party state. An overwhelming majority of Spaniards believe that politicians systematically cover up corruption cases. An increasing number of people see their representatives as one of the problems the country suffers from, and not as a solution to their problems.⁸ Yet instead of completely clarifying, players in the political system are either getting involved in activism (Prime Minister Rajoy and Opposition Leader Alfredo Pérez Rubalcaba released their income tax returns) or populist schemes (members of Castilla-La Mancha's regional parliament are having their daily expense allowances slashed; they now only receive participation pay). During the debate on the state of the nation at the end of February, Mariano Rajoy pitched an anti-corruption pact to all of the parliamentary factions. Such a pact would, among other things, reform the law on political parties so that Spanish factions could be criminally prosecuted for violations – rather than only coming up against civil law, as has been the case up until now.⁹ It remains unsettled whether such measures can suppress the siege mentality that has so far been reliably displayed when a scandal has been exposed.

8 | Centro de Investigaciones Sociológicas (CIS), "Barómetro febrero 2013".

9 | Furthermore, a strengthening of the Tribunal de Cuentas (Court of Accounts) is planned – to whom the foundations aligned to the parties should now also be accountable –, as are regulations regarding contracts allocated to third parties by political parties, a reporting requirement for the salaries of party employees, a limitation of their entitlement benefits, and a reduction of their redundancy payments.

THE ECONOMIC CRISIS EXPOSES A CRISIS IN THE POLITICAL SYSTEM

The last time Spanish politics was guided by consensus was nearly forty years ago. The national media conjures up the “spirit of transition” more and more frequently,¹⁰ which made the transition to democracy possible after the death of Francisco Franco in 1975. Some commentators point out that the challenges then were even greater than they are today (the transition occurred during a period of economic recession, and democracy was further threatened by a military willing to stage a coup). If the Spanish transition to democracy, long regarded as exemplary, were to be criticised in the long-term for glossing over the social repercussions of the civil war and the Franco dictatorship, only the dominant figures of the party elite during the *transición* would find themselves in the line of fire. This would have been subject to large sections of the administration and intermediate system under (party) political control, and thus would have prevented the development of a functioning civil society serving as a balance for the party state.

Anyone who today demands that the institutional arrangements of Spanish democracy be rearranged no longer holds a minority opinion. The economic crisis exposes a crisis in the political system that began long before the economic turbulence.

A CALL FOR A “SECOND TRANSITION”

The call for a “second transition” is ubiquitous in Spain as of the beginning of 2013. The majority of current medial reform proposals have since aimed at breaking the dominance of the factional two-party system (*bipartidismo*), at weakening party leadership at the expense of their base, and at limiting party political access to public institutions.

Demands for a new electoral law are regularly heard in the run-up to national parliamentary elections. The Spanish system of proportional representation for constituencies of varying size (the provinces) puts small parties of national scope, such as Izquierda Unida or UPyD, at a

10 | For example Josep Ramoneda, “Una nueva transición”, *El País*, 27 Jan 2013.

disadvantage.¹¹ A reformed electoral law combines the hope of a balanced (“fair”) distribution of seats with the hope of a moderate fragmentation of the party system as a result. In contrast, both of the mainstream parties, as well as the regionalists, profit from the disproportional effects, so electoral law reform seems unlikely despite long-standing discussions.

In addition to various transparency requirements the parties must meet in the future following their corruption scandals, experts and academics are demanding a greater degree of democracy within the parties, and an increased “competition for minds” within the factions. One thought is to legally force the parties to hold yearly conventions (as of now they take place only every four years). Spain’s normal co-optation of political leadership by the top echelons of the party should thus be made more difficult. Primary elections are being considered by the PSOE for appointing their top candidates at the regional and national level in the future.

Advocates of a checks-and-balances system have high hopes for judicial reform. Political influence in Supreme Court and public prosecutor appointments should be hindered or barred. The Spanish judiciary could then function as a political restraint. Thoughts of reducing the bloated and inefficient (political) bureaucracy are better developed.

The role of the Senate has even been debated since the constitution was adopted in 1978. It has a reputation among the population as a pension fund for political personnel.

However, socialist opposition to a reform of local constitutions is muddying the prospects of restructuring Spanish autonomous communities – and thus the prospects of a consequent reduction of full-time political personnel. It is effective to defend their position. To the foreign observer, the functions of the provincial *diputaciones* or the government delegates (*delegación del gobierno*) themselves, including infrastructure, rarely appear to develop in the autonomous regions. The role of the Senate has even been debated since the constitution was adopted in 1978. Because it does not function as a representative for the Spanish regions, it has a reputation among the population as a pension fund for political personnel.

11 | Dieter Nohlen, *Wahlrecht und Parteiensystem*, 6th edition, Barbera Budrich Publishers, Opladen/Farmington Hills, 2009, 357-361.

The passionately led debates about recalibrating Spanish democracy are taking place on television and in opinion pieces in newspapers, but not in the political arena. There, one has to come to grips with the next problem in the economic crisis: the separatism growing stronger in the peripheral regions of the country.

A CRUCIAL TEST ON THE PERIPHERY

In autumn 2012, an informal coalition between PSOE and the PP came to an end in the Basque country, which the office of the prime minister had provided for socialist Patxi López as the first representative of a national faction. López had opposed Rajoy's austerity plan. The radical left emerged from the election at the end of October 2012 as the victor, even though the conservative Nationalist Party was able to recapture the office of the *lehendakari*. The Basque Nationalists are intently following the developments in Catalonia.

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A separatist U-turn by the governing Christian democrats in the northern Spanish region caused a political crisis on the national level. After two years in office, President Artur Mas announced new elections were to be held at the end of November 2011. The intended aim: an absolute majority for his *Convergència i Unió* in order to be able to prevent a referendum on the future of Catalonia as a "new state in Europe". The experiment backfired and the coalition lost twelve seats. The Republican Lefts (*Esquerra Republicana de Catalunya*, ERC) made substantial gains. They support Mas' plans for independence but want no part in his austerity plan. In the current legislative session, *Esquerra* is in the luxurious position of being able to support their agreeable government initiatives without having to take on political responsibility for them. The ERC declined cabinet participation.

There is apparently a connection between the economic crisis and the movements at the Spanish periphery. In Catalonia, which is productive, yet dependent on the rescue fund for the Spanish regions (*Fondo de Liquidez Autonómica*, FLA), discrimination is felt due to the way funds are distributed by the central government. Generalitat President Mas

tried to obtain similar privileges for Catalonia from Mariano Rajoy enjoyed by the Basque country and Navarra by raising taxes, before his transition to the separatist movement. So far, linguistic and cultural conflicts above all else have been fervidly slugged out between the two largest cities in the country. Now Barcelona supports the notion that without Spain, the economic situation in Catalonia would be better. A partly comical dispute has followed, in which both sides have positioned notable economists for their own purposes – depicting either a flourishing “new state in Europe” or the next candidate for European aid. Irrespective of the question of a Catalan mini-state’s chances of economic survival is the restrained reaction to the Generalitat’s international publicity campaign, which has so far been the greatest disappointment for supporters of independence. Not being directly admitted to the European Union after defecting from Spain is still too great a political risk for most Catalans.

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The real cause of the Catalan Christian democrats’ collision course, however, is the political situation after the most recent parliamentary elections. The ruling PP does not depend on their votes in the national parliament, unlike the previous socialist government and that of José María Aznar did in their first term of office. CiU is losing the political ability to act against the central government – but Catalan voters are evaluating the party by precisely this. In Spain’s multi-level system, an absolute majority on the national level leads to a polarisation of regional actors’ positions.¹²

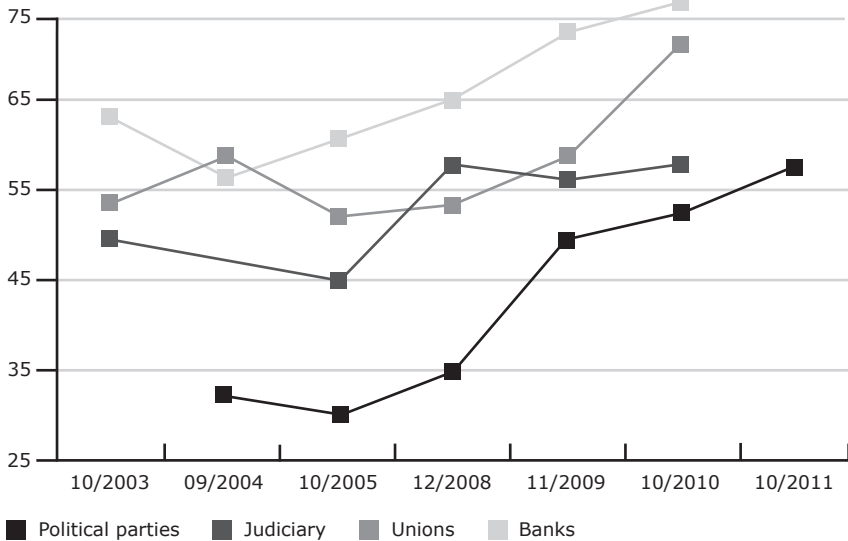
An updated conflict between the periphery and the centre does not only restrict power, which the government desperately requires to combat the economic plight. The socialists are even threatening to split over the Catalan question. The Catalan representatives broke with the socialist party line for the first time in Congress in a rather symbolic vote on “Catalonia’s right to decide”. The head of the PSOE had issued instructions to reject the proposal. It remains to be seen what consequences the Partit dels Socialistes de

12 | Former Basque president Juan José Ibarretxe’s similar plan was put forward during Aznar’s second term, when he commanded an absolute majority in parliament.

Catalunya's (PSC) solo effort will have alongside the fines imposed. A reorganisation of the relations between PSOE and its sister party is on the agenda. Opposition leader Rubalcaba's authority has certainly suffered. He could be tempted to opt for a tougher pace compared with that of the prime minister. The country would not be helped by this.

Fig. 2

Little or no trust in the following institutions and organisations survey results in per cent



Source: Own research according to data from the Centro de Investigaciones Sociológicas (CIS). Time series have been adjusted to political parties.

Spaniards' dwindling trust not only in politics, but also in organisations of the intermediary system and the media, does not appear to be alone in public opinion polls (see Fig. 2). In March 2012, Spanish youth first expressed their discontent through a week long occupation of the Puerta del Sol, one of the capital city's central squares, and demanded a "true democracy" (*democracia real ya*). All age groups gathered together around parliament in September of the same year. Images of massive demonstrations are a recent phenomenon in Spain. Citizens seemed to react in an almost resigned manner to the austerity requirements decreed by their government at ever decreasing

intervals. "Spaniards experienced the current economic crisis primarily like a kind of tsunami: unexpected, quick, and devastating."¹³

In the meantime, the protest had been established. Yet, unlike in Greece, the economic crisis is not driving Spanish citizens into the arms of extremist factions. There are not very many fringe parties or populists, and they do not benefit from social discontent. However, protest voters and those disappointed in the PSOE aided in the success of IU in the parliamentary elections. So far they have not been able to focus on any of their own issues.

LONGING FOR THE CARNATION REVOLUTION IN PORTUGAL

Like their neighbours, the Portuguese also disposed of their socialist government during the course of the economic crisis after early elections. Although Prime Minister José Sócrates refuted the seriousness of the economic situation for a long time, the Partido Socialista (PS) refrained from replacing its leader. In the June 2011 parliamentary elections, it lost eight per cent of the vote and 23 seats. Pedro Passos Coelho's conservative Partido Social Democrata (PSD) experienced gains of a similar size, and now makes up the strongest faction in Portuguese parliament with 108 representatives. PSD and the right-wing conservative party Centro Democrático e Social – Partido Popular (CDS-PP), led by Paulo Portas, make up the government. The coalition commands a stable majority with 132

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of the 230 seats in the Assembleia da República. The communist/green electoral alliance, Coligação Democrática Unitária (CDU), remained the same with eight per cent of the vote; the Left Bloc (Bloco de Esquerda) even lost half its seats and came out with only eight representatives. Voter participation was at an all-time low at 58 per cent. In the Bragança region and in the Azores, more than half of eligible voters stayed home.

13 | José Juan Toharia, "La sanidad pública, intocable", *El País*, 1 Dec 2012.

Portugal does not lack the will to launch structural reforms either – the tripartite committee is monitoring compliance with the measures laid down in the memorandum particularly closely. For 2012, the deficit was meant to be pushed down to 4.5 per cent of economic performance, and under three per cent for the current year. Education and social spending are being economised above all. Subsidies have been drastically reduced. VAT is now at 23 per cent, and reduced rates (for example in the catering industry) have been slashed further. Tax breaks have been eliminated for both businesses and private individuals. By 2014, the number of civil servants should be reduced by one per cent annually for the central government, and two per cent at the regional level. Various measures aim to increase efficiency (and therefore reduce costs) of public administration. There are plans to create a central tax authority, for example. Further government agencies must be consolidated. In addition, the number of local authorities should be markedly reduced from the 4,259 currently in place. Portugal has already fulfilled its responsibilities by privatising state-owned enterprises. The state holdings in the utility company EDP and in the electricity supplier REN were able to be sold to Chinese investors for nearly 3.3 billion euros. A French corporation paid a further three billion euros for the airport operator ANA. This allowed the threshold of over five billion euros set for privatisation revenue to be met.

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After seven visits so far, the tripartite committee ambassadors have only very little criticism for the Portuguese government. Prime Minister Passos Coelho displays a noticeable enthusiasm for reform. The austerity requirements have more than been met. The prime minister did not even flinch when two Catholic and two historical-political holidays were cancelled (Corpus Christi and Assumption Day, as well as Restoration of Independence Day and Republic Day, respectively). Trust is slowly returning to financial markets, and the plans for short-term government bonds are ready. The Constitutional Court decision at the beginning of April, which declares parts of the current budget plan unconstitutional, is certainly causing the conservative government coalition some headaches. Now nearly 1.3 billion euros must be cut from somewhere else.

Although the Portuguese curtailed their budget and faced the crisis on a national level in the most recent parliamentary elections, the government in particular and politics in general are under tremendous pressure. Falling wages will result in greater competitiveness for the country, but will also decrease the contentment of its citizens. For cabinet members, public appearances have turned into running the gauntlet. Most young demonstrators consistently resist any attempt at discourse or participation in discussions. In Portugal, as in Spain, the view is turning towards the past. In fact, posters calling for the military to stage a second Carnation Revolution are in the minority among the demonstrators. Yet the newfound popularity of a hit revolutionary song (Grândola, Vila Morena by José Afonso) demonstrates the current feelings of many Portuguese: a mix of nostalgia and an atmosphere of impending change.

As in Spain, social pressure is affecting the relationship between the government and the opposition. The Partido Socialista's new strongman, Secretary General José António Seguro, is distancing himself from the government's plans for reform. The Socialists had even abstained from the 2012 budgetary vote. One year later, the PS voted with the other opposition parties against the budget and the new cuts, amounting to four billion euros. Although his party is among the signatories of the memorandum, in an open letter to the institutions that make up the tripartite committee, Seguro demanded the agreement be revised. Portugal is "facing a social tragedy". The Portuguese would have made many sacrifices, but would not see the results expected. In fact, the country's macroeconomic figures continue to be in the red. The deficit fell markedly short of its goal last year, coming in at over six per cent of GDP, according to information from the National Statistical Institute. The unemployment rate is 17.5 per cent – and rising. Capital and migration flows between Portugal and its former colonies are reversing themselves during the course of the crisis. Most young and well-educated Portuguese are leaving the country for Angola, Brazil, and Mozambique. Foreign investments in Portugal are only increasing from south-west Africa. Since Angola's rise to become Africa's second-largest oil producer, the country has made large-scale investments in the Portuguese banking and energy sectors.

CONCLUSION

The political systems in the Iberian Peninsula are facing economic challenges that are second to none. After important economic reforms have been implemented, or at least initiated, to regain confidence in the financial markets, it is essential for those citizens of Spain and Portugal to regain confidence in their democracies. The outlook is not nearly as bleak as it is often made out to be. Extremists and anti-democrats are not finding success in spite of a difficult economic crisis in the Iberian Peninsula. The political decision-making process is still taking place in the parliaments of Madrid and Lisbon – not on the streets. This is a sign of stability for the young democracies. Until the structural reforms deliver economic results to both countries, political reforms are necessary to maintain this stability. The reform agenda is doomed to fail should the impression be arrived at by the citizens that the reform agenda is an elite project. However this is realised in practice, the political class may no longer ignore calls for greater dependability. Clientelism in politics and public administration must give way to a meritocracy, in which jobs are filled by virtue of qualification and motivation. This includes a comprehensive reduction of bureaucracy.

In order to implement such far-reaching projects, consensus between the large parties is indispensable. Therein lies what may be the greatest challenge for the time being, both in Spain and in Portugal. The political elite is being called on. There can be no continuation of the status quo.