The breakdown of the Spanish urban growth model: social and territorial effects of the global crisis

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Although the current global economic crisis has revealed flaws in the capitalist system, some countries have to grapple in addition with problems of their own making: "Spain had allowed a massive housing bubble to develop and is now suffering from near-total collapse of its real estate market. In contrast to the United States, however, Spain's banking regulations have allowed its banks to withstand a much bigger trauma with better results - though, not surprisingly, its overall economy has been hit far worse" (Stiglitz, 2010, 21-22). This statement summarises a diagnosis of Spain's situation in the spring of 2010. But was there a specific design that gave rise to Spain's problems?

Whereas much has been written on the economic weakness of a model heavily based on the construction industry, little attention has been given to the internal regulations, policies, social and cultural factors in which the Spanish urban growth model was embedded. The question insufficiently addressed by current debates is therefore: to what extent is Spain's current crisis the result of its urban economic and social growth model?

David Harvey was the first to stress that "the power to organize space derives from a whole complex of forces mobilized by diverse social agents" (1989, p. 4). This applies to the issue addressed here: how was the massive expansion of the housing market engineered in Spain through the combined actions of international and national regulators, real estate brokers, financial sectors and local administrations as well as citizens and residents? In order to answer this question I propose to look at the articulation between: (a) the financing of the real estate market in combination with a structure of incentives, which has had serious consequences for housing ownership and the current housing crisis, and (b) path-dependent cultural practices, consumption patterns and demographic transformations as part of the explanation. A second question is: who are the loss bearers in this crisis? This question links the real estate crisis with its effects on unemployment in Spain.

In this paper I argue that the crisis in the Spanish urban growth model reveals a particular interaction of globalizing forces with national and local processes, characterised by specific structures of economic incentives as well as with path-dependent cultural traits. The combination of these factors goes some way towards an explanation of the housing bubble. The specific combination of factors, however, makes the outlook for the aftermath of the housing bubble in Spain different from that experienced in the United States. The major differences that exist between countries are partly the result of their histories, but are also due to different policy choices made by governments and institutional regulators. In Spain, the Central Bank's regulations prevented the banking system from developing "subprime mortgages",[1] but not from contributing through abundant credit to an overcapacity of the housing sector (close to a million units for sale in 2009)[2]. The bursting of the housing bubble contributed directly and indirectly to the 2.3 million job losses and a large private debt. However, since Spain is de facto a federal country, it is possible to observe some city (& regional) variations in the creation of and reactions to the crisis. Some examples will serve to illustrate this. The article first provides an introduction to the previous growth model with special emphasis on the housing market, then focuses on the actors involved in the housing bubble, and goes on to consider the sociological implications of the crisis and governmental policies in the aftermath.

Globalization factors in Spanish urban growth: the Europeanization factor

For almost a quarter of a century till 2007, Spanish growth was closely linked to Europeanization, and latterly also to globalization. The start of EU (EEC) membership in January 1986 saw the Spanish economy begin a process of convergence with other European economies; the country entered the Economic and Monetary Union (EMU) in 1994, with full membership of the European Union (EU) translating into financial support from that organisation's structural and cohesive funds[3]. Entering the European Union (the European Economic Community at the time) was indubitably positive for the Spanish economy. GDP per capita increased from 72.5% to 97.2% in the period 1985-2004[4] compared to the other EU15 members (100). Tourism and commercial benefits are good indicators of the positive implications of Europeanization: 87% of tourists, 74 % of exports and 66% of imports are of EU origin (Royo, 2006).

[1] Law 19/1992, of 7th July, which regulates the securitisation of mortgage loans and the new Law 41/2007, of 7th December, regulating the mortgage market. Further, unlike what happens in the USA, the Spanish mortgage market is client-based and not transaction-based.
[2] An internal document of the Ministry of Housing specified a total number of 997,562 housing units for sale, including those to be finished during the year. In Doncel, *EL PAIS*, 11/6/2009.
[3] These represented only a total of 1% of Spanish GDP (1.5 between 1994 and 1999).
[4] In 2004 the number of EU member states grew to 25 with the incorporation of 10 new countries; the denominated statistical effect changed the percentage for Spanish GDP in relation to the EU.

Europeanization and globalization contributed to an average yearly growth of 3.5% between 1994 and 2007. Globalization became highly visible in Spain from 2002 onwards, as large numbers of immigrants entered the county – 5.6 million between 1998 and 2009 (De la Dehesa, 2009, 443-444). Foreign migrants concentrated in the areas where the job market was expanding: basically, the capital region (Madrid), the Mediterranean coast and the islands[5]. But financial capital had preceded human capital. At the beginning of the 21st century the massive inward flow of direct foreign investment was well underway. With the introduction of the Euro, Spain gained international investors' confidence as an investment site and obtained a triple-A credit rating. As a result, in 2008 Spain ranked next to the United States in the league of countries with the largest net import of capital (IMF-World Economic Outlook, 2009). This private foreign investment fuelled the economy, especially the real estate sector. Direct foreign investment in real estate increased by 102% between 1998 and 2006 (Banco de España, 2007, 45). As the construction industry, and then the tourist industry, gained a larger share of the market (11-12%[6] and 11% respectively), economic growth and urban growth became practically synonymous.

Globalizing factors, such as the combination of large numbers of foreigners and foreign investment, permeated not only the two largest cities - Madrid and Barcelona -, but also the Mediterranean coast[7]. As the economy grew, cities flourished; Madrid was the city that benefited most from Spain's full membership of the EU, as governmental and commercial organisations chose to locate their offices in the capital (Leal, 2008) thereby bringing or encouraging direct foreign investment. Barcelona did not attract equivalent investments, but being an outstanding example of urban regeneration, attracted large numbers of tourists and visitors to economic fairs (Degen & García, 2008; Marshall, 2004). Bilbao followed a similar strategy with the "Guggenheim effect" and with the advantage of already having a background of solid local innovative industries (Plaza, 2006). In addition, the contribution of EU funds enabled the modernisation of large infrastructures all over Spain –including high speed trains -, which helped to reduce the historical development gap between rich and poor regions.

[5] In 2005, at the peak of the boom period, a total of 80% of foreigners lived in Madrid (21%), Catalonia (22%), the Valencian Community (15.5%) and Andalusia (11.3%) and the Canarias and Balearic islands (10%) in López de Lera, 2006, 245)
[6] Variations exist between different statistical sources.
[7] For example direct foreign investment in real estate demand increased 102% between 1998 and 2006 (Banco de España, 2007, 49)

In the Mediterranean, with the economic boom (1994-2007), cities like Valencia and Malaga gained prominence (Prytherch, 2006).

Investment in transport infrastructures helped the real estate market to take off by supporting suburbanization and an increase in inter urban mobility through boosting car culture at the same time. Urban sprawl consolidated around large cities with the construction of large housing blocks and housing complexes called "*urbanizaciones*" (estates of semi-detached houses). This model also started to characterise medium size cities along the Mediterranean coast, fuelled by tourism. Some urban centres experienced a remarkable urban expansion (Malaga, Murcia and Alicante), partly because they attracted foreign residents[8].

Ten years of economic growth lead to private debt growth

The long economic cycle of the Spanish economy's between the years 1997-2007 was accompanied by ever lower interest rates, with an average of 4.65% *Tasa Annual Equivalente* (Annual Equivalent Rate), less than two points above inflation. The decrease in nominal interest rates contributed to a large internal household demand for credit to invest in housing and consumer durables[9]. Although housing prices increased rapidly - the strongest growth (16%) took place between 2002 and 2005 - the good performance of the economy and employment encouraged further demand for housing. But the housing boom led to a huge increase in debt. For one thing, the number of instalments of mortgage payments increased, causing a prolonged period of household debt. Moreover, the average annual increase of credit to the housing buyer was 20%, which explains the current household debt (home debt amounts to 74% of total household debt)[10]. Also, the expansion of financial credit to real estate developers grew from 5% to 17%, *i.e.* 12% in ten years (1997-2007). Lastly, in order to meet demand from housing owners, construction industries and real estate developers, financial institutions (mainly banks and saving banks) borrowed from European and Asian financial markets.

[8] Between 2001 and 2008, Alicante increased its population by 401.212 inhabitants; Malaga in 261.021 and Murcia in 235.731. (INE, Población). In the same period the number of housing units increased by 265.081 in Alicante; 298.376 in Malaga and 183.496 (Ministerio de Vivienda).

[9] The short and long term nominal interests fell from 13.3 and 11.7 % to 3.0 and 4.7% respectively. This contributed to companies' investment in hiring workers and equipment goods costs.

[10] Consumer debt was 11% and other loans 15%. Spanish household debt has risen over 84% of the annual GDP in December 2009 according to the European Central Bank. See European Parliament, Directorate General for Internal Policies, 2010, 3-4.

The exceptional conditions of availability of financial credit caused a huge internal demand in the period which fuelled the housing bubble with the above-mentioned yearly rise in houses prices[11]. As is often the case with housing bubbles, there was a general perception of wealth increase felt by homeowners and real estate agents (Stiglitz, 2010; Rodriguez López & Fellinger Jusué, 2007). Home owners overestimated the value of their home, more so the middle and low income groups, while acknowledging that the price implied an overvaluation[12]. However, optimism combined with fear of future price increases encouraged housing acquisition. (García-Montalvo, 2006).

The Housing boom and home ownership: a structure of economic incentives and sociological factors

For over a decade the construction sector contributed to Spain's economic growth, 1 to 1.5 points higher than the European average (Gurria, 2009). Between 1998 and 2007, the housing stock increased by around 5.7 million units (29.6%) (Banco de España, 2007, 42). From the supply side, the housing construction industry was first boosted by increasingly available land on urban peripheries since 1990[13]. In the year 2007 the introduction of a new Land Act provided new criteria limiting the expansion of urbanised land, but only when the existing urban sprawl around large, medium and even small-size cities was already consolidated[14]. Irrespective of whether the cities were governed by conservatives, social democrats or even leftwing politicians, the dynamics of housing growth proved to be consistent and similar everywhere. What varied were the proportions in housing growth, checks on corruption practices and the accompanying measures taken by some regional governments (Autonomous Communities) to regenerate existing neighbourhoods.

[11] The Banco de España has estimated that the overvaluation in housing prices is between 24 and 35%. In García-Motalvo, 2006, 7.

[12] In a survey study conducted in five cities: Coruña,, Madrid y Barcelona, Murcia and Valencia 94.5% replied that housing was overestimated. In García-Motalvo, 2006, 33.

[13] Already the Land Act of 1990, with a Socialist government, gave local and regional administrations the faculty to promote and benefit from the urbanization process through real estate transactions and the capacity to buy land by administrations and change rural into urban land. Further, the Land Act of 1998, with a Conservative government, simplified land regulations, effectively liberalising land for development.

[14] For a comprehensive analysis of the Land Act see the XXIX issue Ciudad y Territorio, (2007)

Most of the housing production was intended for sale, as home ownership features strongly in the Spanish urban growth model. Spain's home ownership (over 80%) is one the highest in the world, behind Hungary and some regions of Poland. This contrasts with 70% in the UK, 55% in France and 43% in Germany. Differences exist in Spain between regions. For the 2001 census data the comparisons hold: the Basque Country (89%), the Valencia region (86.3 %), Madrid (81.9 %) and Catalonia (79.0%) (OECD, 2007). Home ownership is, however, a path-dependent practice in Spain. Already in 1981, long before the recent housing-ownership boom, as many as 73.1% of housing units were owner-occupied. The economic explanation for this factor is rooted in the 1970s, when inflation was very high and mortgage interests were fixed, encouraging families to locate their savings in housing ownership. Home ownership was accessible across all social classes, helped by the construction of large housing blocks on the peripheries of the largest cities, sold to workers at low prices. Moreover, from that time onwards middle class families started also to invest in second residences in the countryside around larger cities and on the Mediterranean coast.

When the economic boom started in 1994, real estate agents and developers seized the opportunity to enlarge the housing market, helped by financial and government officials, who created a system of incentives. In this context the majority of the population in Spain was happy to take advantage of the opportunity for home ownership with relatively easy and low-interests loans. Governments (both conservative and socialist) introduced fiscal incentives for the purchase of homes (first and second residences). There is, however, a more complex socio- institutional explanation.

In Spain, like in the other Southern European countries, people have traditionally relied on family provision for welfare (Andreotti, et al, 2001). Housing provision is often a family concern, with parents helping in the purchase of homes by newly formed couples within the family institution (Arbuci, 2007; Allen, et al, 2004). Thus family solidarity has become part of a cultural practice across all social classes. The following table provides indications of the extent to which family financial support is important in housing purchase. The data is based on a survey[15] conducted in 2005 in five Spanish cities.

[15] The sampling is base 1,509 interviews in five cities (361 in Barcelona; 360 in Madrid; 296 in Valencia; 246 in Murcia and 246 in Coruña). In García-Motalvo, 2006, 16.

Table 1. Proportion of buyers with financial support from their families

Cities		Years of acquisition		Socio-economic group	
Barcelona	23.2%	2000	14.7%	High	23.5%
Madrid	23.9%	2001	23.6%	Medium-high	21.5%
Murcia	19.1%	2002	18.0%	Medium	19.6%
Coruña	19.8%	2003	22.5%	Medium-low	9.5%
Valencia	13.0%	2004	16.0%		
Total	19.9%	2005	25.0%		

Source: García-Montalvo, 2006, 36.

The above table shows that about 20% of respondents received financial support from the family for housing acquisition. It also shows that the higher the income, the more generous the support. In Madrid and Barcelona, more generous support coincided with higher housing prices[16]. What is significant, however, is the relatively low support the medium-low income groups can count on from family members, making them more likely to become indebted and thus exposed when the housing bubble eventually burst.

To sum up: incentives towards ownership were very strong for Spanish citizens and residents, not only because financial institutions were lending money easily and at a low rate, but also because fiscal policies made housing ownership tax deductable and therefore advantageous. This structure of investments was reinforced by family solidarity across society, albeit less so in the medium-low income groups.

Who were the buyers?

Newly built houses were going to be owned and occupied by newly-formed couples, products of the baby boom of the 1970s, by new single parents –as the numbers of divorcees increased - and by the growing number of childless singles and couples – these two groups often opted for central neighbourhoods rather than the suburbs. The changing composition of households - with increasing numbers of singles and single parents - stimulated housing demand[17]. Demographic factors were altered by the notable

[16] Housing prices have systematically been higher in Barcelona and Madrid (*Sociedad de Tasación, 2009, 7*)

[17] The number of single-person and single-parent households, which rose from 366,000 in 1998 (24.6% of the total) to over 540,000 (36.3% of the total) in 2005. In *Encuesta Continua de Presupuestos Familiares* (Spanish Household Expenditure Survey), the latest available results for which are for 2005.

impact of immigrations. “High numbers of migrants from developing countries contributed to the exhaustion of the small rental market, putting more pressure on the housing market as a whole, thus leading to an increase in the construction of housing units in areas with a larger immigrant population” (Leal, 2008, 34-35). In support of Leal’s argument, it must be borne in mind that immigration to Spain reached 12% of the population by 2009 (from 1.6% in 1998)[18]. Apart from immigrant workers and their families, other groups of foreigners found their niche in Spain, from northern European pensioners (particularly British and German, but also other Europeans) to a more heterogeneous group of residents working or studying in cities, and last but not least, seasonal tourists who acquired or rented flats, also mainly along the Mediterranean coast (including the Balearic Islands).

The category that completes the picture of buyers is that of investors and speculators, who expected a good return on their investment in buying a flat as housing prices increased yearly. In a study already cited, it was found that 37.2% of the respondents acknowledge that either themselves or a family member or a friend has bought or sold a house as a commercial transaction (García-Montalvo, 2006, 39). Thus, the dream of improving one’s capital or savings spread like a virus. No doubt also “the black economy explains something about the propensity to invest in housing (…) as a form of savings available for investing black money” (Allen et al, 2004, 98). As owners opted for selling rather than renting to make quick profits, this generated a vicious circle, shrinking the rental housing stock. This is one of the explanations for the fact that even immigrants and young couples were induced to buy, the first group at high risk, the second with the financial support of parents.

Finally, a market developed for second homes, amounting to 16.0% of total housing. Second homes are mainly concentrated along the Mediterranean coast (41.4% of the total), but a considerable proportion of owners live in the larger cities. As many as 40.2% of households located in the provinces of the six larger cities in Spain (Madrid, Barcelona, Valencia, Zaragoza, Bilbao and Seville), owned 50% of the secondary residences in Spain, whether these were in their vicinity or on the coast (Leal, 2006, 468).

To sum up: the purchase of housing increased considerably in the boom period due to demographic factors (for first residences) and to consumption of and investment

[18] INE (2009). *Población*.

in housing (for secondary and other-use residences). In order to give an idea of the relevance of this last factor: the percentage of households with other properties in addition to their first residence went from 30.1 % to 34.5% in just the few years between 2002 and 2005 (De la Dehesa, 2009, 449).

A segmented housing market

The economic boom correlated with home ownership expansion, but in a housing market that reflected and generated strong social inequalities, as can be seen in the clear differences in accessibility for the population. Several deviations are worth mentioning: (1) Housing accessibility has been restricted for the young by the increase in housing prices. In combination with the low-paid and temporary jobs, this has postponed the age at which they leave the parental nest (the highest in Europe, along with Italy). Fault lines appeared between young couples whose parents' savings provided the entrance payment for purchase and those couples who could not count on family support. (2) High housing prices have forced immigrants to share residences (even to share the purchase of flats), resulting in households with more than one family or with several adults. Although spatial segregation has been relatively moderate in recent years of immigration, one may refer to social segregation in terms of quality of life or lack of it - to the point of social exclusion - in overcrowded flats in cities (Terrones, 2007). This factor has been exacerbated by the very small amount of protected and public housing, which went down proportionally during the 1990s and in the 2000s. (3) There is also a territorial imbalance, as the areas most affected by the current urban growth model have been the larger cities and the Mediterranean coast (Leal, 2008).

Before the current crisis there was visibility of a paradoxical housing structure in which accessibility restrictions and underuse of housing space (as much as 14.8% was empty according to the 2001 census) created a social and a spatial disequilibrium. Some open manifestations emerged in the form of urban protest in the larger cities. As pointed out before, young people have suffered, particularly, from restrictions in housing accessibility due to increasing housing prices. In 2006 expenditure on non-subsided housing for young households amounted to 39% of their income in Spain, but as much as 60% in Madrid, 50% in Catalonia and 56.8% in the Basque Country (*Observatorio Joven de Vivienda en España*, 2006 in Camargo, 2009). This was one of the main reasons for a cycle of urban protests organised by young people during 2006 and 2007 in Madrid, Barcelona and Bilbao. Although regional governments have responded in various ways to these mobilizations this has hardly improved the position of the young in the housing market[19].

The role of local and regional administrations

All this housing construction and the method of urbanization did not happen in an institutional vacuum. On the contrary, local and regional governments were actively involved in the process. What made the more progressive municipalities emulate the same practice of freeing up land for development? Historically, municipalities in Spain – including the largest cities - have suffered from a shortage of financial resources, even after the decentralisation to the regions (Autonomous Communities). As a result local administrations have found in urban development and city sprawl a way to increase their resources through land management and new housing taxes (*Impuesto de Bienes Inmuebles* - IBI) and are thus better equipped to face citizens' demands and expectations for the improvement of services. Thus, the transaction fees linked to urbanisation and liberalisation of land, coupled with local fiscal competences over housing construction, have provided local administrations (municipal and regional) with the resources needed to modernise cities.

However, the limits of what modernisation means have sometimes been blurred, to the extent that in some cases the housing boom became irrational and dysfunctional, such as in the south and south east of Spain, where urban developments and golf courses overburden limited water reserves. In most cases, protests mounted by civic organisations and ecological groups have been ignored. Part of the problem was the lack of spatial planning in urban development, as specific plans were either absent or ignored (Leal, 2008).

Coping with the housing crisis: Who is most affected? What has been done?

[19] The provision of subsidised housing is the responsibility of the city and regional administrations in Spain. In her thesis Camargo (2009) shows a tolerant and indifferent response by the Barcelona administration, a repressive response by the Madrid administration and a tolerant negotiating response by the Bilbao administrations.

The global financial crisis accelerated a downturn process in Spanish real estate that was already apparent in 2007. During that year residential investment underwent a slowdown, posting a rate of increase of just 3.1%, compared with 6.4% the previous year (Banco de España, 2007, 27). It was clear by then that the excessive weight of the real estate sector in the economy (productive resources and household wealth) could not be maintained.

The added problem for the Spanish economy was the high levels of debt acquired by families and businesses (especially by real estate and construction companies , and the fact that the Spanish banks and savings banks were financed by foreign savings. When the savings of German and French banks (among others) started to be redirected towards their own mortgage assets as a result of the global crisis of confidence, the Spanish banks became exposed. The Spanish Fund for Orderly Bank Restructuring (FROB)[20] was created in June 2009 to readjust mainly regional savings banks that had proliferated with the boom and were to a considerable extent financing the housing boom (De la Dehesa, 2009, 454). Since then a process of mergers of savings banks has been underway with the financial support of FROB and under the supervision of the Bank of Spain.

Without entering into a discussion of macro-economic indicators, it should be mentioned that the over expansion and subsequent downturn of the real estate industry have both involved double negative consequences: (a) the mismatch between supply and demand of housing units, leaving an over-supply for sale; this has caused a large absorption of bank credit which is not going to be paid back easily as thousands of housing assets remain for sale, but which has dried up credit for other companies and families; (b) their direct and indirect contribution to the dramatic rise in unemployment.

Housing oversupply

There is at present an over-supply of almost 1 million housing units for sale on the market, 613,000 of them newly constructed with 50% located on the Mediterranean coast[21]. As in other countries, the current housing crisis in Spain has had several effects. One is the shift of housing ownership to financial institutions, which are absorbing the

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[20] Created by the *Real Decreto Ley* (Royal Decree law) 9/2009, on credit institution restructuring processes and enhancement of their equity. See http://www.frob.es/general/gobierno_en.html

21 *Ministerio de Vivienda* www.vivienda.es. Overcapacity is uneven in Spanish regions. Some regional variations are: 9% of total housing stock in Murcia and 6% in Andalusia are for sale; 5.5% in Cataluña; 4.5% in Madrid and 2% in the Basque Country, BBVA (2010,25)

assets from construction industries that are defaulting[22]. The management of entire housing stocks from construction companies and developers has contributed to a lowering of housing prices and therefore a devaluation[23] of the real estate business and families' wealth. Once again there are variations among cities. In the larger cities and for the period 2007-2009 housing prices went down: 12% in Barcelona; 10.2% in Madrid; 17.1% in Valencia and 2.8 in Bilbao (Idealista.com).

As the housing market shrinks, especially along the Mediterranean coast, financial institutions have created parallel internal branches that act as real estate agents (there are 63 web portals set up by financial institutions selling homes). Although this strategy is portrayed as temporary and only geared towards selling the housing stock accumulated mainly as a consequence of the closure of construction companies, the question remains as to how long banks will keep this up. Some voices have been raised among real estate brokers complaining of unfair competition, with banks lowering housing prices[24] in part of their housing stock by as much as 30% or even 50% compared to 2007. These especial banks' promotions contrast with the overall decline in housing prices.

How are households affected? Given the scale of the potential social problem of foreclosures – and subsequent evictions - that could occur, interesting innovative measures have been introduced by savings banks, such as the renegotiation of mortgages in accordance with the current income of the mortgage holder. This measure was engineered particularly for unemployed home owners with a contracted mortgage. Another measure involves the option of an affordable rent charged by the bank in anticipation of a better economic situation and with the option for the lessee to buy or to recuperate ownership (for those who resume the mortgage contract).

These institutional innovations introduced by some financial institutions have had an impact on the banking sector. The Asociación Hipotecaría Española[25] (Spanish

[22] Between 2009 and June 2010 three of the largest real estate companies went bankrupt as banks refused to renegotiate credits.
[23] In 2008 the share value of the ten largest companies was reduced by 85% in relation to peak evaluation in 2006. (Pellicer, L. *Desplome sin paracaídas*, *El Pais-Negocios*, 8 March 2009, p:12)
[24] An interesting variant is the agreement signed by Spanish largest financial institution, Banco Santander, with the Association of Spanish Construction Promoters, covering 2,000 real estate intermediaries to sell their housing stock without an initial payment and a 20% price reduction. (Blazque, S. *Las entidades financieras venden ladrillos* in *ElPais*-Extra, 26 April, 2009, p: 16).
[25] An organisation made up of banks, savings banks, cooperatives and credit financial institutions which have a major presence on the mortgage market. The members of the Association hold approximately 80% of the mortgage loan market. http://www.ahe.es/bocms/sites/ingles/pages/Home.jsp?mID=61

Mortgage Association), which represents a large part of the banking sector, has been lobbying to influence policy choices concerning housing tenure practices, e.g. to promote better rental contracts for housing owners to encourage them to rent instead of sell. Although there are no quantitative data available for both measures (renegotiation and modifying tenure for a period), it can be argued that the innovative practices introduced are not only preventing foreclosures, but also homelessness and social unrest.

Finally, a collateral consequence of decreasing housing prices has been that these lower asset prices have affected credit and consumption. This is particularly damaging to small and medium size companies that relied on their assets to obtain credit, but also to families whose housing wealth represented up to 80% of their total wealth, prompting the fall in household consumption.

Unemployment

Job losses amount 2.3 million distributed among 1.3 million men and 700 women[26]. The most affected been workers in construction (30%) and industry (20%). As a result of the shrinking housing market, growth in employment in the construction industries has receded since 2008. This has affected workers, many with temporary contracts (55% of the total employed in the sector), and many being foreigners (43.9%)[27]. Unemployment more than doubled from 2007 to April 2010, when construction workers constituted 8.6% of the active labour force. Although more than a third of the unemployed seem to move to jobs in another economic sector, the rest find employment in the informal economy or live on fixed term unemployment benefits. Along with immigrants, young people are the group most affected by unemployment: 48.1% for the 16-24 age groups.

High unemployment levels have been recurrent in Spain. In the 1970s and early 1980s the country also registered high levels and in 1995 the rate reached 24.5% of the active labour force. The social groups who have contributed to employment growth for over a decade are mainly immigrants and young people, many of them working with

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[26] Women are better qualified and more represented in services.
[27] Between 1996 and 2007 the number of workers in the construction industries rose by 1.55 million, of whom 43.9% were foreigners (*Banco de España*, 2007, 48).

temporary renewable contracts[28]. Also, growth in the tourism, commercial and services sectors have absorbed women, whose participation in the labour market reached 63% in 2008 (17.8 points more than in 1994)[29]. These three large groups constitute the so called labour market “outsiders” because in comparison with full-time protected workers – male breadwinners - with permanent contracts and accumulated rights, these groups[30] find it difficult to stay in the labour market over a long period of time (Polavieja, 2006; Garcia and Karakatsanis, 2006). While the economy was expanding, these groups entered and exited the labour market (and even public administrations) almost without interruption, allowing them to acquire goods, travel and even purchase flats, thereby generating part of the housing demand. At present, they are seriously affected by the economic crisis.

As stated from the start of this contribution, there are still important geographical differences in the way the economic crisis is evolving in Spain. The four regions where the concentration of immigrants is most pronounced – Madrid, Andalusia, Catalonia and the Valencian Community - and where housing construction has developed to the greatest extent - are also losing the most employment. A marked contrast exists between unemployment in Andalusia, at 27.21%, and that in the Basque Country, where unemployment is 10. 91%. (INE, *Encuesta de Población Activa*, 2010).

Some Government policies

What has been done by the government? For many months since the start of the global financial crisis, the Spanish Prime Minister insisted that things were not as bad as they appeared. By spring 2010 the Spanish government was compelled to change its tune and to introduce hard measures. The first wave of measures were of a Keynesian nature. In November 2008 the government announced the *Fondo Estatal de Inversión Local*[31] (State Fund for Local Investment) with a budget of 8,000 million Euros, aimed at financing local public works managed by city councils for over a year, with the priority of creating jobs to be offered to unemployed workers (up to 400,000 direct jobs were expected to be created). However, this measure could only create temporary jobs. This programme complements the Strategic Plan for Infrastructures (2005-2020) which

[28] Up to 90.2% of immigrants’ labour contracts were temporary, with only 9.2% permanent contracts in 2003. in V. Porthé, M. Amable,J. Benacha, 2007, pp:36.
[29] Rojo, M (2008). Also Massarelli, N & F. Romans, (2008).
[30] The Spanish labour market has 30% of temporary contracts, but these groups are overrepresented.
31 Real Decreto-Ley 9/2008, de 28 de noviembre 2008. Royal Decree Law 9/2008.

promises more sustainable and productive works and employment and involved as much as 1.6% of GDP in 2008. Other measures involving fiscal reductions and moratoria on mortgage repayments have been introduced to help families. Finally, in order to boost credit to small and medium businesses, a New Credit Line was opened with 10,000 million Euros (50% to be provided by banks and 50% by the ICO (Official Credit Institute). (El Pais., 26 April, 2009, 6).

The Keynesian policies introduced in Spain (as in many other countries) were followed by a dramatic increase in public debt and a loss of confidence in the strength of the Spanish economy on the part of international financial market investors. In spring 2010 the government introduced severe cuts in public wages and social welfare, and more are in the pipeline. As one of the main problems is to regain confidence and profits for companies in order to generate employment, parliamentary debate in summer 2010 will concentrate on further reforms of the labour market after the recent measures already announced [32]. More flexibilization of the labour market is going to be introduced, along with the loss of workers' acquired rights.

Final notes

This article started with a reference to the housing bubble in the United Stated as a counterpoint with the Spanish case. The analysis on the Spanish case shows the combination of factors leading to the bubble, the specific characteristics of a large home ownership sector and the problems of household debt and unemployment. As in the United States the real estate sector, the financial sector and households embarked on a dream of wealth increase. However, in Spain the strong role the family institution and solidarity partly explains not only the high level of home ownership but also the relative cushioned landing during the crisis.

In his discussion on the vulnerability of low-middle-class home owners with the crisis in the United States Stiglitz (2010) stresses the distance of the banking sector from the communities as a factor explaining high levels of foreclosures. In Spain local savings banks were deeply involved in granting business loans to constructors and mortgages to consumers as owners of the mortgage assets. This is why they needed to engineer innovative practices for the renegotiation of mortgage contracts to homeowners. However, they have to deal with thousands of housing assets from

[32] The Spanish government has issued the Royal Decree of the urgent measures for the reform of the labour market in June 2010.

bankrupt constructors. This factor is causing considerable stress in these banks and has led to a restructuring of the sector under the supervision of the Bank of Spain and international supervisors.

An important characteristic of the Spanish urban growth model has been regional differences. There are clear differences between the overcapacity of housing on the Mediterranean coast (Cataluña, Valencia Community, Murcia and Andalusia), Madrid and the Basque Country. Whereas in the latter the crisis is less painful thanks to a more balanced growth model in Madrid and on the Mediterranean coast the negative consequences of the neo-liberal growth model is clearly shown in overcapacity of housing and high levels of unemployment.

Finally, unemployment is once again the scourge of Spain reinforcing family solidarity. Unemployment is affecting the working population in general. However, it is especially the vulnerable groups – young cohorts and immigrants - those with temporary contracts and those working in the construction sector (a good deal of overlap here) who are the losers. The young continue to be supported by their families; immigrants also rely on the family institution. Thus the current crisis is reinforcing the path-dependent cultural feature of familism in Spain. This will be compounded by further cuts in welfare over the coming years.

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