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## AUSTERITY WARS

The Crisis of Financialization and the  
Struggle for Democracy

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Austerity politics constitute by no means an innovation. The neo-classical codes from which they draw inspiration have regulated the institutional architecture of the European Union for decades, creating an ideal framework for the rise of financial capitalism. Although often presented as a depoliticized set of ‘technical’ norms, they have contributed decisively to shaping the process of continental integration and redefining class relations across regions. In short, austerity has provided the normative scaffolding for the European division of labor under finance capital.

However, financialization has recently entered a prolonged crisis, with no avenues for growth looming in the horizon. In the current context, the deepening of austerity politics can only translate into an undisguised process of dispossession (similar to structural adjustment programs implemented in the Global South) and a challenge to the social contract that sustained the political and economic regime of the EU in previous decades. This is nowhere clearer than in the peripheral countries of Southern Europe, where millions of people have risen up over recent years to push history in a different direction. In this chapter, I turn to Spain in order to cast light on the class relations behind austerity politics and the broad democratic movement striving to transform them—from that extraordinary outburst called the 15-M Movement to the birth of the political party Podemos.

## **A Financial Regime of Accumulation (1977–2007)**

Austerity has become a buzzword as of late, but the kind of economic policies that characterize it began to take shape during the last great crisis 40 years ago. By the mid- 1970s, the system of international mechanisms that had supported capital accumulation in the preceding decades began to fall apart. The emergence of new actors in the world system increased competition and led to a problem of industrial overcapacity that has persisted up to the current era, as carefully demonstrated by Brenner (2006). However, the fundamental factor behind the acceleration of the crisis was the challenge posed by the labor movement, which was robustly organized around the factory system. Wages boomed comparatively faster than productivity, substantially reducing profit rates,<sup>1</sup> and capital owners reacted by increasing prices—a vicious zero-sum game that sent inflation levels through the roof. In sum, intense class conflict posed serious obstacles, not only to the continuity of Spain’s dictatorial regime, but also to capitalism itself (see Balfour 1994; López Hernández and Rodríguez López 2010). The resolution to that crisis can be easily characterized as a first exercise in austerity politics, granted by a class compromise between the institutional forces of the Francoist regime and the Left that crystallized in 1977. In the name of ‘competitiveness’, the government adopted a set of monetarist measures that tackled inflation and as a result pushed wages downward.<sup>2</sup> Salaries went from playing a central role in the overall economy (and a powerful source of social promotion) to becoming mere production costs. Supported by the now familiar rhetoric of ‘sacrifice’, the burden of the crisis was placed on the shoulders of the most vulnerable sectors. The horizon of full employment disappeared in favor of corporate surpluses, and the workers movement embarked on a slow process of decomposition.

This new brand of policymaking came hand in hand with the gradual transformation and repositioning of the Spanish economy in the new international order. Integration into the European Union was predicated on the shift from a Fordist regime of accumulation (articulated around manufacturing and economies of scale) to a financialized model (centered

on the capture of global financial rents and harnessed by real estate development). Tellingly, from the early 1980s, the European Economic Community (EEC) put an end to industrial subsidies. Instead, it lavishly funded huge infrastructural programs, which played a central role in feeding the financial and real estate bubbles of 1986–1992 and 1997–2007.<sup>3</sup> Financialization was also fundamental in offsetting the regional imbalances between the exporting Northern European countries and the importing Mediterranean regions. Trade surpluses amassed in the core were reinvested in the periphery in the form of debt bonds and mortgage-backed securities.<sup>4</sup>

Most importantly, the advance of austerity politics was predicated on a transfer of social entitlements (attained between the 1970s and 1980s) from the public to the private sphere. From the signing of the Maastricht Treaty up through the financial crises of 1997–2007, Spanish governments behaved as the best pupil of austerity proponents,<sup>5</sup> keeping public debt in check. However, they could do so only by shifting collective obligations to the private domain of the corporation and the household. The dogma of public debt reduction, with its limiting effects on social expenditures, came together with a vast liberalization of the financial sector. Guaranteeing one's own welfare through the mortgage market became the new thing for the average citizen. The capacity of households to access resources was less ensured by their real income, which was in decline, than by the financial revaluation of their properties and the ensuing capacity to access credit—wealth effects that were guaranteed as long as the bubble continued.<sup>6</sup> This was the magic that sustained aspirations of social mobility for a vast majority of the population. It was the ideological glue that held the middle-class dream together and supported the growth of oligarchies in the construction and banking sectors.

### **Zero-Sum Games (2008–2016)**

When the bubble burst in 2007, the financial dynamics that had hitherto sustained wealth effects triggered the opposite

trend. The value of properties in the hands of families plummeted. Homes became liabilities rather than assets, and debts were now hardly repayable.

The economic meltdown had an even worse impact on the balance sheets of banks, but the financial oligarchies embedded in the ‘troika’<sup>7</sup> managed to turn the systemic crisis into an opportunity for creating new areas of profit—in short, for their own reproduction. First, following the idea that banks were ‘too big to fail’, states poured public funds into the financial system and took up a colossal amount of toxic assets.<sup>8</sup> Second, in the name of budget deficit reduction, peripheral countries were forced to dismantle and privatize their welfare systems while financing their sovereign debt through derivative markets. In the process, a European problem of private debt was socialized, contained within the borders of the peripheral countries, and turned into a lucrative niche for financial institutions.<sup>9</sup>

The combination of austerity and financial expropriation<sup>10</sup> constitutes an inherent response to structural limitations in the traditional mechanisms of accumulation: industrial overcapacity, stagnant productivity, and falling rates of profit. Against this backdrop, the temporary ‘solution’ to the crisis can only take the form of a zero-sum game, whereby the gains of a class imply absolute losses for vast social groups. In Southern Europe, with the bulk of the population knee-deep in debt, the possibility of fueling new booms and extending household loans on a wide scale to compensate for low wages (and sustain living standards) cannot even be fathomed. Financial capitalism will survive only as long as it can resort to outright extractions of social wealth through mechanisms that have long been practiced in the Global South—that is, measures carried out by plutocratic governments that have little to do with the laws of the ‘free market’.<sup>11</sup>

In other words, the current crisis is not simply the end to just another cycle of growth, but a poignant revelation that promises of social reproduction cannot be kept anymore for wide segments of the population. Spain is as devastated as the many unfinished buildings and towns dotting its landscape: the unemployment rate is structurally located at 20 percent;<sup>12</sup> around 40 percent of the population scrape by

with wages that oscillate between 400 and 900 euros; almost one in three people live at risk of poverty; and hundreds of thousands have been evicted from their homes since 2007.<sup>13</sup> In spite of their resilience, dreams of progress and modernity linked to the European project are slowly collapsing, like a house of cards. Currently, very few (a meager 26 percent in 2016) believe in the much-touted ‘economic recovery’.<sup>14</sup>

## **A Democratic Revolution without a Revolutionary Subject**

We are living through turbulent times. In recent years, millions of people across Southern Europe have risen up against the tyranny of austerity around a unanimous call for ‘democracy’. The current cycle of struggles is indelibly marked by the eruption of the 15-M Movement in Spain, also known as the Indignados Movement and Take the Square. Beginning on 15 May 2011, a week before the local and regional elections scheduled for 22 May, these movements shook up the views of different generations of Spaniards in ways that are still difficult to measure today. “They do not represent us,” shouted the massive assemblies. “Join the #Spanishrevolution,” read tweets that helped boost the demonstrations. “It’s not a crisis: it’s the system,” chanted the millions who over a matter of weeks took over hundreds of public squares across the country. Without a doubt, the 15-M was much more than a merely defensive reaction against austerity measures. It amounted to no less than a massive indictment of the political-economic order and a call for a democratic radicalization of the state.

Of course, the struggle for democracy in Europe is not at all new. Its history goes back a long way and is sutured by several episodes of radicalization (Rodríguez 2013). It emerged as the central fight of the Left between the Revolutions of 1848 and the Paris Commune of 1871, always as a synonym for the eradication of exploitation. Later on, it was retrieved by the cycle of protests of 1968, as a critique of twentieth-century socialism and its

bureaucratic structures, and it has now resurfaced again. In ways that re-enact previous struggles, the 15-M by and large framed the democratic struggle as a radical distribution of power, which should necessarily lead to a distribution of wealth. While some of its militants came from existing leftist groups, one of the strategic successes of the 15-M was the rejection of party affiliations and traditional symbols of the Left as a way to reach out to a broad social majority (“This is neither left nor right—it’s the ones below against the ones above”). The support that its transformative program amassed (72 percent of the population) would have been unimaginable not long ago.<sup>15</sup> Moreover, by strengthening networks among bottom-up initiatives, in 2011–2013 the movement was capable of catalyzing a wave of protests not seen since the 1970s—actions of civil disobedience to reclaim social rights (homes, health, schools, culture, public services) and attempt to promote spaces of autonomy.

However, the state is currently not receptive to any internal reforms, as the indignados have exposed. Every new round of austerity measures confirmed that negotiation was not even a possibility, rendering the institutional system—from bipartisanship to the monarchy, from financial oligarchies to the main unions—more illegitimate. As suggested above, austerity measures go against any possible growth strategies due to structural limitations and the reproductive needs of finance capital. The rigidity encountered by the Take the Square movement reveals that, unlike previous eras, the current conjuncture does not even allow for ideological discussions about revolution and reform. Rather, it boils down to either revolution or absolute involution, which the rise of far-right politicians is already announcing. Like an army of scaremongers, the fascists of the world are engineering new forms of discrimination and fostering ‘wars’ among the poor. It has come to a point where the choice is between that or a radically progressive transformation.

In fact, if the crisis of representation and the surge of corruption (resulting from power struggles among the elites) have not resulted in the rise of a Spanish Le Pen or Trump, it is to a great extent because the 15-M not only rejected the established elites but also aspired to a new, egalitarian

social order. While it spurned the traditional revolutionary method—namely, military insurrection—it employed different forms of symbolic violence, like “Occupy Congress” in September 2012. By the end of the following year, the expression ‘regime crisis’ had become as familiar among activists as that of ‘constituent process’. In spite of the many perspectives, there was a growing sense that some kind of mass party movement would be required in order to replace Congress with a constituent assembly—one that could draft a popular constitution disarticulating, at least temporarily, the instituted powers of the financial oligarchies.<sup>16</sup>

Paradoxically, the greatest shortcoming of the so-called democratic revolution up to the present day is the lack of a revolutionary subject. This has to do with its peculiar class composition. In spite of its scope,<sup>17</sup> the current cycle has been symbolically represented and materially led by the emerging figure of the university precariat (34.6 per cent of the population).<sup>18</sup> After all, the 15-M was also an expression of the crisis of the middle class as an ideological project. Its mechanisms of reproduction have collapsed to the point that—for over 20 years—the regime has not even been able to integrate the most educated segments into its own structures (industrial cultures, academia, urban planning, etc.). Current organizers have had trouble generating the kind of alliances with subaltern groups that would amount to anything like a class formation process in the classic sense (Thompson 1963). Meanwhile, any remaining traces of the working-class subjectivity that crystallized in the 1970s have practically vanished.

The weak presence of proletarian and manual laborers in the movement—that huge 43.4 per cent of the Spanish population with lower secondary education attainment, according to INE (2015)—denotes a severe limitation in terms of democratic potential and of the political agenda that the movement can put forth. In fact, this ‘middle-classism’ is at the basis of an ongoing temptation—notorious in Podemos and other recent parties—to read the demands of the 15-M from a conservative angle, allegedly in the name of convincing the ‘moderate voter’. The keyword is ‘regeneration’: a renovation of the political elites, a timid return to Keynesian solutions, and a war on corruption.

Still, if the emergence of Podemos in 2014 carried great promise, it is especially because it had the potential to reverse the class bias. Although the party's purple platform was spawned by a group of highly trained—yet precarious—university activists, it showed the capacity to raise hopes precisely where the indignados had been almost non-existent: the old red belts and their hard-hit neighborhoods. Podemos burst onto the public arena with audacious appearances in prime time television shows and a down-to-earth rhetoric that managed to seduce the university graduate and the domestic worker alike. Its ambitious program, inspired by the demands of the indignados, called for a political and economic democracy, including debt restructuring, basic income, and the socialization of key economic sectors. After Podemos's formidable success in the European elections of May 2014, thousands of Spaniards who had never been politically involved—unemployed people, working poor, and ethnic minorities—flocked to its *círculos* (circles), the popular assemblies that mushroomed across the country. Working-class Spain had not seen anything like it in a long time.

However, the steps that the organization has taken since then have so far wasted its great possibilities. First, the prime movers of the project turned the primary election system into a plebiscite about their own team rather than a truly open process that could ensure the formation of plural candidacies. As a result, the movement quickly shifted into what the 15-M had wanted to fend off: a vertical party with a small apparatus concentrating most of the power, focused on defusing internal disagreement and on distributing positions of privilege. This dynamic was replicated in every region and municipality. The new 'citizen councils' were formed on the basis of loyalty ties to the apparatus rather than bottom-up processes of deliberation. Second, and most importantly, Podemos has so far disregarded its own circles—precisely those spaces that involve the chance of producing democracy (and building a political culture) where it is

more desperately needed. During the campaign, the party's grassroots amounted to little more than 'shock troops'. At most, they were perceived as entities expressing demands, never as decision-making bodies. Any actions and debates in neighborhoods and towns were disconnected from the organization or stifled by it. Instead, the leadership chose to concentrate all of its energies on building an 'electoral machine'. And what was its unifying thread? A populist premise — namely, that the formation of a common political subjectivity and hegemony, which Errejón calls 'building a people' (see Errejón and Mouffe 2015), would be achieved through a powerful narrative, charismatic leadership, and a fast seizure of state power. In fact, even among those closest to power, political debates were absent, replaced instead by boardroom intrigues and quarrels among 'families' over the distribution of power.

The outcome of this strategy is well known. In spite of Podemos's significant irruption in the Spanish Parliament after the general elections of December 2015, its results are clearly below its original expectations<sup>19</sup> and those of the 15-M. Meanwhile, the initial enthusiasm shared by the party's grassroots has somewhat faded. Unable to participate in the decision-making process and devoid of political orientation, they have either dissolved or survived thanks to their most persistent members.

But all hope is not lost. Podemos is a very young organization, and its current crisis opens up new possibilities, even if only small. On the one hand, different factions within the party are currently struggling—against many obstacles—to redefine Podemos's global strategy, pushing it to abandon the populist hypothesis and to retrieve the organizational culture of the 15-M. On the other hand, different grassroots organizations have lately been emerging and growing outside the realm of the party system, giving shape to new forms of counterpower that will be crucial in prolonging the current political cycle. With the gradual disintegration of the middle-class horizon

and the advance of precarity, new forms of unionism are emerging that involve all sorts of struggles—those of chambermaids, street vendors, musicians, and tenants, to name but a few. The capacity of civil society to self-organize and to exert critical pressure on the parties that have entered the institutional system will surely play a crucial role in extending the claims for real democracy in the years to come.

## Epilogue

Spain is only a province in the European Union, a highly integrated region governed by financial oligarchies. The struggle against austerity cannot prosper unless it is articulated on that scale. Pan-European experiments calling for a ‘democratic rebellion’, such as the Democracy in Europe Movement 2025 (DiEM25) or Plan B for Europe, point in the right direction, yet they face the same problem as Podemos. Without the backing of grassroots organizations that are powerful enough to strive for a true redistribution of wealth, they will be unable to confront the instituted powers and will end up participating in processes of elite replacement. This assumption is not arbitrary but based on fact: no democratic gains in the history of Europe have been obtained without forms of class struggle that made them inevitable. The extension of political and social rights has always derived from organized working-class movements, articulated through alliances that involved different segments of society, from the radical bourgeoisie to the proletariat.

The great obstacle is that while austerity politics have accelerated the crisis of the middle class as an ideological project, planting the seeds for a new era of conflict, the revolutionary subject capable of pushing it forward has yet to emerge. Certainly, most of our imagination is still captured by the memory of the post-war factory and the aura of the relatively homogeneous working-class subject who emerged with it. However, we might be able to find more answers

to our current predicament in the changing reality of the eighteenth and nineteenth centuries, a period that Thompson (1978) characterizes as one of 'class struggle without class'. The English historian describes a long process through which an infinite variety of kinds of work and subjective experiences came together through social organizations and movements. His political subject was formed out of a variety of alliances among different social positions rather than from a more or less common experience. The challenge today is perhaps greater than back then, given the national borders that divide the peoples of the continent. Yet it is a challenge that we cannot escape.

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## Notes

1. Between 1969 and 1979, the profit rate shrank from 30 percent to 12 percent of the social product (Nieto Ferrández 2007).
2. In October 1977, the main political forces, including the Communist Party and the Socialist Party, signed a treaty through which they defined the new political-economic framework, following the guidelines of the International Monetary Fund (IMF) and the Organisation for Economic Co-operation and Development (OECD) (Etxezarreta 1991). Arguably, the most important

element in this document was the decision to control inflation by adopting (1) a monetarist policy (monetarist restrictions) and (2) an income policy (wage restraint). It was agreed that, from then on, wage levels would be subordinated to expected inflation, thereby reversing the previous wage indexing system, whereby salaries were set in relation to past inflation levels.

3. For more details on these financial developments, see Etxezarreta (1991), Naredo (1996), and, in particular, the key work of López Hernández and Rodríguez López (2010).
4. This was a precarious but crucial mechanism after the establishment of the euro, which made it impossible for peripheral countries to rely on currency devaluation—a traditional way of making their exports more competitive vis-à-vis the core countries (Aglietta and Brand 2014; Lapavitsas 2012).
5. The rate of public debt as a proportion of GDP in Spain was consistently below 60 percent (as stipulated by the Maastricht Treaty) until 2008 and only began to increase with the financial crisis. This took place fundamentally as a result of the bailout program, which turned private debt into government debt in what constituted a classic socialization of corporate losses—from 40.17 percent in 2008 up to 98.64 percent in 2014, representing a level of growth of 146 percent. In 2015, the rate of public debt with respect to GDP rose again, by 5 percent.
6. Prior to the financial crisis, 87.1 percent of the housing stock was privately owned, and its price increased by more than 180 percent between 1998 and 2008 (EMF 2008; INE 2011). The figures are staggering. Compare, for instance, with another extremely financialized market such as the US, where real estate prices increased by 104 percent, according to Freddie Mac's Conventional Mortgage Home Price Index (CMHPI). See <http://www.freddiemac.com/research/indices/house-price-index.html>.
7. The term 'troika' ('group of three' in Russian) is used to describe the European Commission, the IMF, and the European Central Bank (ECB)—the three supra-national institutions in charge of dictating austerity measures in exchange for bailouts (or the promise of bailouts), especially for peripheral European states such as Ireland, Portugal, Spain, and Greece.
8. Sareb, the 'bad bank' that the Spanish government created in agreement with the troika, acquired bad loans

estimated at around 80 billion euros.

9. The normative impossibility of the ECB to act as a lender of last resort—as the Federal Reserve did in the US, guaranteeing the bonds issued by different states—has generated several panic waves in the financial markets in 2011–2014, making government debts an easy target for speculative attacks. The crisis was so deep in the summer of 2014 that the European Commission was forced to partly betray its austerity principles by lowering interest rates in the face of potential deflation and massively purchasing toxic asset-backed securities (Aglietta and Brand 2014).
10. To get a very superficial sense of what can be rightly called a ‘financial government’, one need only look at the size of global financial assets (typically between four and six times bigger than the world’s GDP), or compare the power of corporate groups versus nation-states in Europe. For instance, the total value of Santander Bank’s assets is above Spain’s GDP.
11. Public debt, among others, was in fact defined by Marx ([1867] 1990) as one of the characteristic forms of primitive accumulation through which European powers extracted wealth from their colonies.
12. In 2013, up to 6 million people (27 percent) registered as unemployed. The present reduction in the unemployment rate does not mean that more people are employed. Rather, fewer registered people are actively looking for a job. See Encuesta de población activa (EPA), Instituto Nacional de Estadística, at <http://www.ine.es>.
13. No accurate data exist on the actual number of evictions, but different groups—such as the grassroots organization Plataforma de Afectados por las Hipotecas (PAH, Platform for People Affected by Mortgages) and Amnesty International—estimate that the figure could be around 600,000 in 2007–2015.
14. See the Centro de Investigaciones Sociológicas (CIS) survey of January 2016, <http://www.cis.es/>.
15. According to a Metroscopia survey, in May 2014 (three years after the inception of 15-M), 72 percent of the population supported the 15-M’s main claims. See <http://metroscopia.org/>.
16. The idea of a constituent process was indirectly informed by the Latin American experiences (in Ecuador and Bolivia) in the wake of structural adjustment programs, although there was ample critique of the presidentialist turn they had ended up taking and discussions about the paradoxical need for a strong,

coercive state in order to defend social conquests from the attacks of oligarchic powers.

17. According to Metroscopia, between 1 and 6 million people claimed to have participated in the public squares.
18. Meanwhile, the participation of segments with low education (40 percent of Spaniards do not finish secondary education) was relatively absent.
19. Polls between November 2014 and February 2015 showed that Podemos was in a favorable position to win the elections, being predicted to outpoll the two main parties—the Socialist Party and the Popular Party.

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