

# Towards a Basque State



territory and socioeconomics



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# The Basque State and Socioeconomics

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## Introduction

### ***Txomin Lorca Alcalá, Member of the LAB trade union***

Without a doubt, the area of economics and labour relations is fundamental in the building of a state. From this perspective it needs to be borne in mind that the economy cannot be understood without comprehending the relations of power that are created in the organisation of collective production. Also, it is essential to understand the consequences of those power relations in the area of production and in the political-institutional area that gives support to that area.

Thus when we talk about what is produced, who produces it and how, we are not just talking about economics but rather economic policy. The only people who attempt to distinguish between economy and policy are those with special interests lurking behind the economy. They try to present economics to us as if it were an objective science, without any mention of the conflicts resulting from the ownership of the means of production.

Economic policy determines both the organisation and the perpetuation of a country's economic system. Hence the organisation of any economic system requires an ability to make decisions to organise it; it therefore also requires that institutional instruments be acquired that make it possible to influence economic planning effectively. The highest expression of viability of a self-governing socioeconomic project is the building of one's own state.

The authors of the chapters that follow develop this viewpoint by discussing the construction of a Basque state from a socioeconomic perspective.

They also take into account the present context of economic crisis in their discussion; this crisis is creating ever greater contradictions and tensions between the production of surplus value and the ownership and management of that surplus, and at the same time also between the concentration of political power and the management of social needs. Thus the study aims to place the possibility of Euskal Herria getting its own state in the *here and now*: that is, in the context of the construction of Europe (the *here*) and of the present economic crisis (the *now*).

When talking about the present economic crisis there is a generally shared opinion that this crisis is no ordinary crisis, because it transcends economic bounds and directly impacts on politics, the economy and society. We are confronted with a crisis with a systemic character, one which without any doubt is shaking the very pillars of the present developmental model.

As Nekane Jurado says, this crisis has been surrounded by a fuzzy thing called "the market", whose real purpose is to conceal the interests at play behind it all while providing a perfect excuse for institutions to sidestep their responsibility to manage the crisis adequately.

It would not be difficult to show today that a measure of the crisis facing the Spanish state is the drastic, unfortunate way in which it is forcing its effects on the Basque economy, precisely on account of our subordination to Spanish economic policy; for it is clear that our businesses, our production and social networks and our institutions are being hurt by the world standing of the Spanish economy, and by decisions forced upon us in matters of economy and employment by the Spanish and French states.

However, it is not our intention to make of the "failed state" argument our main grounds as a facile disqualification to justify the need for a Basque state — i.e. that Spain is a state that has "failed" because it was based on the negation of the national identity of its component peoples. As Xabier Isasi says, with or without the economic crisis, Euskal Herria could, without any difficulty, be a member state of the EU given that it is both as developed and as competitive economically as any other state of a similar size. No: the impediments to Euskal Herria becoming the 28th state of the EU are historical and, above all, political.

The argument appealing to the out-of-date nature of present-day states in the international context — for they present themselves as political structures of a kind that is already outmoded, and the argument based on the economical viability of countries that wish to be European states today, are arguments hurled at us out of self-interest, in the manner of grenades, by states which have a stake of their own in stopping other oppressed national groups from achieving statehood.

In this regard Iñaki Gil de San Vicente says that it is a strategic error for the Left to accept, with hardly any theoretical resistance, the thesis that states have stopped being necessary for peoples and that cosmopolitan ideas about "world citizenship" should be preferred, presenting world democratic "governance" as an alternative; such a supposed alternative translates, in fact, into global imposition of the economic superpowers. Also interesting is Francisco Letamendia's study of post-Fordism, which suggests that the present situation presents an opportunity to open up a social "nation building" process growing out of a hegemonic alliance on equal terms of popular classes, workers, trade unions, social movements and left-wing parties.

### ***THE VIABILITY OF A BASQUE STATE, IN FIGURES***

Xabier Isasi looks at the characteristics of other European states and points out that there are sixteen states in the EU with either smaller territories or smaller populations than ours.

The per capita GDP of Euskal Herria is higher than that of states such as France, Spain or Italy, and its total GDP ranks 36 out of Europe's 266 regions. We also rate better than many other regions and states in Europe in productivity, training etc.

According to data on economic flow provided in this volume by Nekane Jurado:

The southern Basque Country's trade balance between exports and imports is positive, with an increasingly large trade surplus: in 2010 the surplus was €5,227.8m. Two-thirds of our exports are to the EU.

As regards the inter-institutional financial flow with the Spanish state, according to Jurado in the period 2004-2009 more than €11,700m were transferred from the southern Basque Country to Madrid in cash, whereas the Spanish state's investments in the southern Basque Country in the same period amounted to €3,520m, and were mainly in areas of undeveloped powers such as the seaports of Adif, Bilbao and Pasaia, the airports (AENA), etc.

In the period 2000-2009 a net amount of €12,438.27m was transferred to the state coffers for Social Security.

To all this must be added costs generated by the interests on the sovereign debt of the Spanish state, plus the debts run up by the autonomous communities that are run by the

Spanish political parties, PP and PSOE, which have a negative effect on the state's contribution.

Apart from all this, as Anton Borja points out, between 1993 and 2008 Basque capital invested €51,000m abroad, while the sum of foreign investments in Euskal Herria was €12,000m. As Jurado says, the problem is not the availability of capital for productive investments but the fact that this capital is exported at the expense of the development of our own productive fabric.

Hence the southern Basque Country's problem is not its competitiveness to attract foreign investors, but rather persuading capital already here to stay put.

## **BEYOND THE FIGURES: STRENGTHS AND WEAKNESSES IN BASQUE STATE BUILDING**

The following chapters also make a useful contribution to identifying the existing strengths and weaknesses in Basque state building, which can be summed up as follows:

### ***Our weaknesses***

#### *Competences and the autonomy strategy*

The system of powers or competences for southern Euskal Herria established in 1978 was not the fruit of a pact between equals, as Nekane Jurado points out. The present system establishes limits, classifying powers into the categories of exclusive competences of the Spanish state, shared competences, and exclusive competences of the autonomous communities — meaning, in our case, the Basque Autonomous Community and the Autonomous Community of Navarre, as defined by basic state legislation. There are no competences recognised for the area of the northern Basque Country [under French jurisdiction].

The Basque economic situation is being levelled with that of Spain by the duration of the economic crisis, the use that is being made by the Spanish state of basic legislation and the "autonomist" subordination strategy of Basque institutions; furthermore, this is largely responsible for an increase in the Basque contribution to the state's coffers, denying us the ability for political and economic manoeuvre, and stopping us from finding our own rational, democratic way out of this crisis.

#### *De-structuring of the territory of Euskal Herria*

One of the main consequences of the lack of competences is the legal and political impossibility of drawing up a nationwide Basque political and socioeconomic project. Such an option is out of the question. Our territory is divided into two autonomous communities on the Spanish side, while the north of Euskal Herria has no institutions of its own; as a result, we cannot conduct coordinated policies to address economic planning, which amounts to a great weakness at the present time.

#### *Management of the present economic crisis*

The fact that we lack powers to manage our own resources has many negative implications for our economy and social structure, as Anton Borja points out, quite apart from the money lost through taxation and funds transferred to the Spanish state: the Basque agricultural sector is collapsing, industrial production is at a standstill, many small retail outlets are closing down, and the policy of cutbacks is bringing the economy to a halt and fuelling unemployment and social alienation, thus reducing domestic demand.

### *Social cohesion*

Acceptance of and subordination to Spanish legislation on fiscal and employment issues, together with the public policies adopted by the autonomous governments, has brought with it a concentration of wealth which is leading to an impoverishment of Basque autonomy, creating an imbalance in the distribution of wealth (with rising unemployment and social alienation) and a loss of potential for research and innovation (our investment rate is much lower than that of countries with comparable per capita incomes based on GDP), all of which has a negative effect on our stability and economic development.

As Nekane Jurado observes, the problem of the economy in the southern Basque Country at present is not low productivity, for this is much higher than the European average; rather, it is that its productivity is being channelled into company profits at the expense of employees' wage packets.

### *A voice of our own for dialogue and negotiation in Europe*

As Ekai Center's study says, the danger of a rupture in Europe's monetary union would place Euskal Herria in the euro's weakest link, thanks to the Spanish state. The structural and institutional shortcomings of our economy would increase the duality between central and peripheral countries; yet those shortcomings might change if our country is able to make its own decisions in fundamental areas such as bank policy, monetary policy, tax rules and the policies needed to fix our social and institutional problems.

Within Europe, the ability to represent ourselves and make decisions is fundamental for our ability to decide on our own project, not only in the political and institutional arena but also in social and economic issues.

## **Our strengths**

### *A proactive social and union majority*

Our economic and social fabric is broad and our associative network is strong, we have our own identity and it is an integrating one, and we also have the critical mass needed to build a national project of sovereignty.

We therefore have the necessary foundations to generate a collective drive, and we have a home-built model of development for economic progress, to harness citizens, territory and state in an economically viable project of a state of our own, as Anton Borja's and Ekai Center's reports both demonstrate.

Within that framework, both Gil de San Vicente and Letamendia place emphasis on the need for a strategic activation of the Basque unionised majority, and linked to this, the involvement in the process of other state-level trade unions which it should be possible to incorporate by promoting this strategy.

In a stateless nation, Letamendia says, a "counter-power" makes no sense as a mere tool of a single union, but united action that is restricted to the unions also makes no sense, unless the object is to destroy the alliances that are needed for a national struggle for self-government. It is pointless and useless to re-create the pillar of a union-party in the old style. What remains to be seen is whether such a pillar might be adapted to a new style.

### *Cooperatives*

One example of that ability to create associations is provided by the Basque cooperatives, as discussed by Antxon Mendizabal in this volume. The Basque cooperatives account for 4.3% of Euskal Herria's GDP and 10% of its industrial GDP. The cooperatives may prove very important assets for the building of a Basque state, on account of both

their economic weight and their organisational characteristics and history, provided the internationalisation process is not allowed to stand in the way of the survival of their cooperative principles and the cooperatives are not integrated into a system which imposes technocratic control in a way that rules out the possibility of any community or social project.

*The reality of our productive fabric*

As Ekai Center says, we have demonstrated a capability to adapt our industry and develop small and medium-sized businesses into an active, dynamic fabric, maintaining a more balanced pattern of consumption and investment than in Spain, avoiding excessive debts; the power of our industry has endured in the area of exports, but we have long-lasting structural issues in the area of innovation.

Unfortunately, our political leaders have let thirty years go by while flattering themselves that we are in a better situation than other autonomous communities in the Spanish state, without taking into account the innovations, social spending and level of training achieved by European regions with a comparable income per capita or attempting to keep up with these.

*The autonomous dimension of the class struggle*

As Gil de San Vicente observes, a national consciousness about the need for a state is acquired in a distinct material and symbolic, linguistic and cultural, political and socioeconomic area that is qualitatively different from that of the oppressing state. On that basis, a fundamental ideological concept crystallises: the *autonomous dimension of the class struggle*, a basic component of active Basque society with regard to the building of a national state.

It is true that, in a way, the virtuality of the concept of the autonomous dimension of class struggle goes beyond the dimension of labour relations and social protection; but as Aitor Bengoetxea observes, that is the basic core of power in present-day European states. The basic model of labour relations is fundamental for building a model of development and, within that model, the redistribution of wealth. As Bengoetxea says, the current regulations of labour relations and social protection for the territories of Euskal Herria are completely controlled by state-level decisions, for which reason they do not take the reality of Basque social and production networks into consideration, and are furthermore detrimental to our socioeconomic development. It is particularly significant that the majority in Euskal Herria are affiliated to unions and are committed to the importance of having autonomy in labour relations and social protection, as distinct from those of the state. This is an asset that needs to be nurtured and promoted.

Finally, and to conclude, I think the ideas brought together in this book are an interesting and necessary contribution which demonstrates the real opportunities for Euskal Herria to build its own state, on the basis of socioeconomic policy, within the European Union; they also demonstrate that Euskal Herria is able to participate in the building of Europe from the perspective of its own interests, independently of the obstacles created by the lack of will in the present-day Spanish and French states. Furthermore, the building of a Basque state emerges as an integrating project, given that in addition to a political and identity-linked choice it is also objectively in the interest of all the people who live and work in Euskal Herria.

## 1. Euskal Herria: a standard southwestern EU nation.

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Asier Otxoa de Retana Simon, GAINDEGIA***

Euskal Herria, or the Basque Country, is a southwestern nation comprising 685 municipal units in seven provinces situated within the Spanish and French states. The fact that it is located on one of two natural routes linking the Iberian Peninsula to the rest of Europe is one factor that has influenced this territory's economic and social development. In general terms of macro-economic magnitude, Euskal Herria is at least comparable to the most highly developed of the European Union's level NUTS2 (Nomenclature des Unités Territoriales Statistiques). With three million inhabitants and nearly 20,000 sq km, Euskal Herria could easily be a state of the European Union, economically developed and as competitive as other similar-sized member states. It is being held back from becoming the 28th state of the European Union by historical and, above all, political reasons. If Euskal Herria could overcome the centralist aspirations of Spain and France, it would have no trouble becoming an economically balanced, socially advanced state.



## INTRODUCTION

The state is, above all else, a political concept. It is a social institution for regulating the life of society and imposing its rules through force. In the last resort the state is the institution of power that regulates the existence of a nation in a specific territory; and that institution is, furthermore, an institution recognised by the international community. Independence, territory and authority are the key characteristic of any state. While other characteristics such as religion, language and culture may also be distinctive features of a nation's existence, they are not necessary conditions for the articulation of a state. There are confessional, one-religion states in the world, and there are secular states separated from religion, and there are states made up of several religions; likewise there are a few states, though not many, with a single language, and other states, the majority, with a number of languages. Today, most states may be considered multicultural and multiracial entities. Thus culture, race, language and religion are not primary conditions for being a state or not being one.

*Per se*, Euskal Herria might have been an independent state. The geographical, demographic, economic and other characteristics of Euskal Herria are similar to those of any other state or region of the European Union. Indeed, there are plenty of states that are smaller than Euskal Herria, such as Monaco, Slovenia, Montenegro, Luxembourg, Andorre, Malta, Liechtenstein and San Marino. And there are states with fewer inhabitants than Euskal Herria, such as Greenland, Liechtenstein, the Faroe Islands Luxembourg, Malta, Cyprus, Slovenia and Latvia.

Geographic, demographic, economic and other characteristics of a social nature are not obstacles making it impossible for Euskal Herria to be a state. The *viability* of states is not determined by those characteristics. Whether something is a state or not is usually decided on for political, historical and military reasons. For example, states that have failed socially, economically and politically are referred to as *failed states*; however, these have not ceased to be states, and they are attributed similar duties and obligations as other states by the international community.

The formation of a state is not a legal issue. The international community has no special laws governing the formation, or disbanding, of states; it is the states themselves which typically proclaim and regulate their own integrity and statehood. The key characteristics of any state are the following:

- The state is acknowledged and recognised internationally; it has the recognition of other states.
- A state has the capacity to institutionalise authority; it can organise an army, a police force, a school system and a system of justice.
- A state has the capacity to organise society and create social services, e.g. through a system of taxation, a treasury, a health service, services for the management of social customs and so on.
- A state is capable of constructing a collective identity, with its symbols, national anthem, language and other distinguishing and identifying characteristics.

These characteristics and powers alone do not make a state, however. There may be territories or regions with these characteristics which, for one reason or another, are not states.

However, the main reason for a country, nation or territory not being a state is nearly always the imposition of another state. That is the situation in Euskal Herria: France and Spain have determined that, by their rules, the territories of Euskal Herria, its north and its south, belong to them; they have drawn up the way their territories are organised, and

decided whether or not they will grant it a certain level of self-government, as if there were only one state, and have established, explicitly in the case of Spain and implicitly in that of France, that the most important rule of the state is that of its unity.

There is no point in discussing the social or economic viability of a state. To quote an old saying, it would be like arguing about what sex the angels are: the real issue is not whether or not angels have a sex, but whether angels themselves exist. All states that exist have come into being at some time, somehow; and for states that already exist, their existence as states is always crucial to their survival. So it is a tautology. There are 193 states in the United Nations, and another ten states in the world that are not in the UN but are considered *de facto* states according to the 1933 Montevideo Convention: they are Abkhazia, Kosovo, Nagorno-Karabakh, Palestine, the Sahrawi Arab Democratic Republic, Somaliland, South Ossetia, Taiwan, Transnistria and the Turkish Republic of Northern Cyprus. The interesting point is that there is so much diversity among these 203 states that it is impossible to pin down one set of common characteristics that they all share.

If, on the other hand, nations that have not achieved the status of states wish to survive, they will seek statehood because this is the most stable form of long-term international recognition. If Euskal Herria becomes a state this will not ensure either a better or a worse way of life, for statehood guarantees neither a more balanced social system nor lesser class differences; the only thing that being a state would mean for sure is that Euskal Herria "exists" and is recognised internationally. States today are the only institutions that guarantee the survival of nations. At the same time, paradoxically, states are mostly responsible for the disappearance of nations.

Mikel Buesa Blanco, a professor of Applied Economics at the University of Madrid, has calculated the cost of independence for the Basque Autonomous Community in a worst-case scenario. He has worked out how much it could cost for Araba, Bizkaia and Gipuzkoa, together, to set themselves up as an independent state outside the European Union if Spain were to impose on it a war economy. The study was published in 2004, before the 2008 economic downturn. This economist assumed an almost 20% loss of production by a self-sufficient, independent state; an unemployment rate ascending to somewhere between 19% and 29%; a need for the citizens of the present Basque Autonomous Community to pay 9% more in taxes and a rise in employees' social security payments of between 3% and 7.6%.

Buesa's study indicates the most that independence might cost. It is useful as a point of reference. The author tells us himself what is the key to not having such a costly independence: "the crucial factor," he says, "is to remain within the institutional framework of the European Union... so that independence... does not lead to a fall in Basques' levels of development and welfare."

Yet the apocalyptic projection for independence of the BAC by this scholar actually doesn't sound so terrible once we consider the negative effects that have since come upon us due to the current economic crisis! Ardent defenders of the sacred, unbreakable unity of Spain have threatened to wage an economic war against supporters of Basque independence. And yet the 2008 crash has clearly shown that the BAC and Navarre are already paying dearly for their dependence on Spain. We are already coming dangerously close to the economic and social disaster portrayed by Buesa for an *independent* BAC — without seeing even one inch of that independence.

In any case, we agree with him that as an independent state, provided it was integrated into the European Union, Euskal Herria would keep the same level of development and well-being as it has now, and might very well be even better off. Euskal Herria, that is; not just the BAC.

Another thing made clear in Mikel Buesa's study is that Basque independence and sovereignty is a political rather than an economic issue. What is at issue is whether the states of Spain and France are prepared to recognise the right of Euskal Herria to decide its own future, and to respect its decision. That, and nothing else, is the central question.

Of course there is nothing wrong with carrying out economic and social studies that help acquaint us with the realities of the situation. But in the present context this analysis may support independence because the economic and social climate is favourable, just as much as, in the next period that comes along, it could represent a valid argument against independence because there is a new economic and social situation.

Where economy and social development are concerned, having a state gives you more, greater power. Not having a state means being subjected to someone else's power, which we think is not in our interest; but whatever we might think, that is what it means.

At the present time, organising Euskal Herria as a state within the European Union is beneficial for citizens, businesses, the economy and society. According to the parameters and statistics that we have analysed, Euskal Herria is on the same level as the most advanced regions of the European Union, though its position has admittedly slipped a little in recent years. By that measure, nobody can doubt that Euskal Herria *could* be a state that is compatible with membership in the European Union.

## **1. THE GEO-STRATEGIC DESCRIPTION OF EUSKAL HERRIA AND THE MAIN MACRO-ECONOMIC INDICATORS IN THE DOMAIN OF THE EUROPEAN UNION**

Euskal Herria is a nation in the southwestern part of the European Union, bordering on the Bay of Biscay, the Landes region and Bearn to the north, Rioja and Zaragoza to the south, Bearn, Huesca and Zaragoza to the east, and Cantabria, Burgos and Rioja to the west. It has an area of approximately 20,947.2 sq. km.

Between this simple description and reality, however, mediate a host of qualifications and nuances. The definition is right, but it is insufficient. To get from this definition to the *real* Euskal Herria, we have to discuss many more things, some of which we already know and some we do not yet know.

Our nation is a territory of approximately 20,947.2 sq km.

From the point of view of territorial organisation, Euskal Herria is like an unfinished jigsaw puzzle. To live, it needs its own specific territorial regime. We need a basic map and territorial division of Euskal Herria. Gaindegia, the observatory of the economic and social development of Euskal Herria, needed to decide on a map and territorial division of the lands of Euskal Herria in order to implement its project and do some statistics. In assembling this map it incorporated historical, political, administrative, sociological and linguistic criteria. From a methodological viewpoint the most important criterion was to come up with a common, compatible unit of territorial division for the whole of Euskal Herria. The municipality is one such unit. Building upwards from the municipality, the division of the territories of Euskal Herria used by Gaindegia consists of districts, regions (provinces) and the nation.

Regions	Districts	Municipalities
Araba	7	53
Bizkaia	7	113
Gipuzkoa	7	88
Lapuri	6	42
Low Navarre	5	74
High Navarre	7	272
Zuberoa	3	43
		685

Table 1. Territorial division of Euskal Herria into regions, districts and municipalities

This division of the territory covers the whole of Euskal Herria. Although very basic, it can be used to map out data for the whole country. Figures for numbers of inhabitants, population trends, births and deaths, age pyramids of the population, migratory movements, economic sectors, housing and countless other statistics can be mapped on it to give a picture of the state of affairs in Euskal Herria. This is the map and the divisions that we use to provide such information.

### 1.1. Basic socio-demographic characteristics of Euskal Herria

Euskal Herria is a small (with around three million inhabitants), ancient, and currently aging nation of Europe. Its area is small (20,924.8 sq km), its population density is high (148 inhabitants per sq km) and the population is irregularly distributed over the territory (over half of the population being concentrated in municipalities with over 25,000 inhabitants).

Demographically the Basque population is old and getting older. It is one of the highest aged populations of any European region, yet the growth rate of the oldest portion of the population, people over 65, is close to the European average.

Population by broad age groups (%), by region. Euskal Herria, 2011			
	0-14	15-64	65 and older
Araba	13.8	68.5	17.7
Gipuzkoa	14.3	66.3	19.4
High Navarre	15.4	66.9	17.6
Bizkaia	12.9	67.0	20.1
Lapuri	15.1	64.2	20.7
Low Navarre	16.8	62.0	21.2
Zuberoa	14.0	61.3	24.7
<b>Euskal Herria</b>	<b>14.0</b>	<b>66.7</b>	<b>19.3</b>

Note: Figures for the northern regions are for 2008.

Table 2. Distribution of the population of Euskal Herria by age groups (Gaindegia)

Today, three out of ten inhabitants were born outside Euskal Herria. Euskal Herria is mostly made up of town and city dwellers, i.e. it is a predominantly urban population: most of the population, 54%, live in municipalities with over 25,000 inhabitants. The growth rate of the smallest municipalities (those with a thousand or fewer inhabitants) is getting progressively lower.

Population by size of municipality. Euskal Herria, 2011		
Size of municipality	ABS.	%
1-1.000 inhabitants	143.325,0	4,6
1.001-5.000 inh.	394.548	12,68
5.001-10.000 inh.	317.904	10,22
10.001-25.000 inh.	573.130	18,42
25.001-50.000 inh.	464.974	14,94
50.001 + inh.	1.217.535	39,13
<b>Total</b>	<b>3.111.416</b>	<b>100,0</b>

Source: INE and INSEE (Population Légale)

Table 3. Inhabitants by size of municipality (Gaindegia)

## Living conditions and welfare

Living conditions in Euskal Herria are, overall, above the European mean; the average level of welfare may thus be considered adequate. The educational level of the Basque population is high. The educational level of women, namely the proportion of women with higher education qualifications, has risen substantially in recent years.

Thus over half of all employed women (51%) have completed a higher degree; the proportion among males, on the other hand, is lower than half (43%). The improvement in the overall situation of women reflects Euskal Herria's level of development in recent years. Nonetheless, we are now feeling the effects of the severe economic crisis: the unemployment rate has risen, especially so for young people.

Although the average income of citizens (the active population) is fairly high, it is not distributed uniformly across the different regions or between different people.

Disposable income per active inhabitant (in euros)								
	2001	2002	2003	2004	2005	2006	2007	2008
<b>BAC</b>	<b>27.297</b>	<b>28.344</b>	<b>29.485</b>	<b>30.969</b>	<b>32.778</b>	<b>34.527</b>	<b>36.795</b>	<b>39.051</b>
Araba	27.026	28.063	29.193	30.662	32.453	34.185	36.431	38.664
Gipuzkoa	27.495	28.549	29.699	31.193	33.016	34.778	37.062	39.334
Bizkaia	27.250	28.295	29.434	30.915	32.721	34.467	36.732	38.983
H. Navarre	27.856	28.991	30.040	31.441	32.022	33.180	35.436	36.935
North	33.848	34.803	35.186	36.326	37.552	39.528	41.584	42.989
<b>Euskal Herria</b>	<b>27.977</b>	<b>29.035</b>	<b>30.087</b>	<b>31.525</b>	<b>33.038</b>	<b>34.682</b>	<b>36.924</b>	<b>38.944</b>

Source: Eurostat, Eustat, INSEE.

Cannot be updated until summer (+-)

Table 4. Income levels by region (Gaindegia)

The income of the active population of Euskal Herria has grown considerably in the last ten years, by an average of 5.6% per year. The regions of Araba, Bizkaia and Gipuzkoa have had higher growth rates than this. The north has had the lowest growth rate, yet the highest incomes are found there. In the case of High Navarre, the growth rate over the last ten years has been lower than the average.

In Euskal Herria, as is usual for rich countries, the occupation rate of family homes has been around 80%. Of the remaining homes a fifth are empty or are employed as second homes.

As regards health services, there are in Euskal Herria 420 doctors, 972 nurses and 444 hospital beds per 100,000 inhabitants; these are reasonably good figures.

Not everything is good though. In 2009 there were 246,854 people in Euskal Herria living in poverty or in danger of falling into poverty, living below the median of wealth in the territory. Spending on social protection, another parameter of welfare, is not very high, especially in southern Euskal Herria. Over 55% of the population of Euskal Herria use the internet often; however, in 2010 the rapid growth of use slowed down significantly.

All in all, we can say that Euskal Herria has a profile quite similar to the rich countries of Europe to judge from the statistics and parameters that we have looked at.

### 1.2. Euskal Herria in the context of the European Union

The political and social construction of Europe has been a process full of rivalries and tensions, and it may be expected to continue to be so in the future. Regions subordinated to states, including Euskal Herria, are seeing their hopes of development hanging in the balance. However, states are under the influence of the strongest regions vying to defend

themselves. Cohesion within and links between European regions can undermine the strength of states.

In 1989, thirty-one regions in the Atlantic area, including Aquitaine, High Navarre and the Basque Autonomous Community, came together to form the Atlantic Arc Commission. These regions' development priorities were specified in the Commission. The objectives set by the Commission include strengthening the regions of the arc and promoting their development.

To quote:

At the level of the continent a polycentric European structure should be promoted. The aim is to evaluate urban conglomerations with sufficient demographic and economic power. Thus these urban conglomerations, through mutual influence, will have strength in world and European power centres, and thereby also influence broad areas of (European) places.

The functionality of multiple centres pursues complementarity between European urban conglomerations, always based on balance between territories. The functionality of multiple centres, then, may be a very useful concept on many levels to integrate activities and functions as well as is possible.

In 1999 a meeting in Postdam of ministers of spatial planning produced a report titled *Towards Balanced and Sustainable Development of the Territory of the European Union* which outlines a system of peripheral urban conglomerations: a territory with at least 500,000 inhabitants where over 150,000 inhabitants live in one city or town, linked to each other by a transportation system over a distance of 130 km; the urban cluster should have at least a million inhabitants.

The characteristics of Euskal Herria fully qualify it according to this definition. Moreover, its geo-strategic location is an advantage, at least for this purpose. About three million inhabitants, 20,947 sq km, 148.6 inhabitants per sq km, a strategically situated European transportation node: Euskal Herria is all this. Indeed, it is much more: a population centre of great sociocultural cohesion, with its own language and culture, i.e. with a specific identity. And that, as has been demonstrated, is an important factor favouring economic and social development.

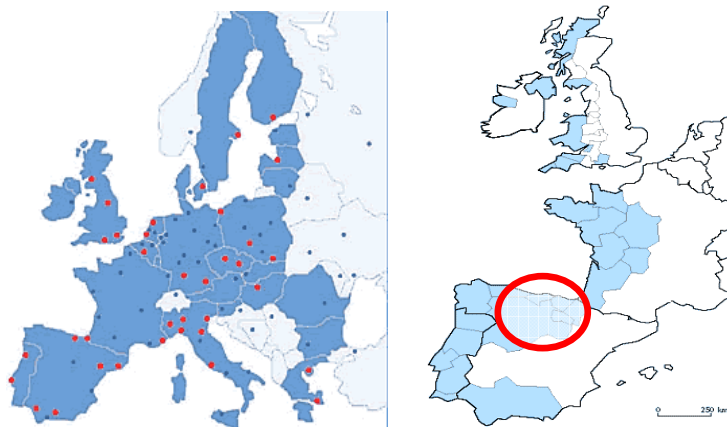


Figure 1. European metropolises. Euskal Herria in the Atlantic Arc

Thus Euskal Herria is an urban conglomeration of the EU's periphery. Its appearance as a system has many advantages for insertion in the European Union, and also for conserving its own identity. In the report mentioned, four main aspects are mentioned:

- Systems' competitiveness.
- Cooperation and connectivity between urban systems, especially by air and rail.
- Functional relations between urban systems, for increased effectiveness of basic synergies between the periphery and the centre.
- Articulation between urban systems facilitates integration in the main European and world economic centres and hence into the world dynamic.

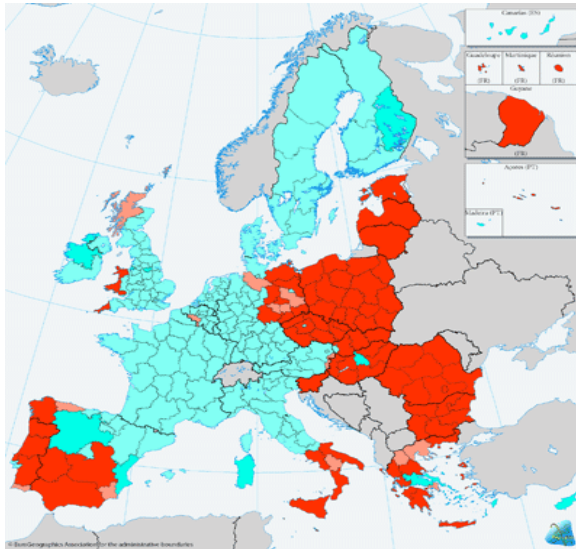


Figure 2. Second-level NUTS [Nomenclature of Territorial Units for Statistics] of the European Union ([http://ec.europa.eu/regional\\_policy/atlas2007/index\\_es.htm](http://ec.europa.eu/regional_policy/atlas2007/index_es.htm)).

Euskal Herria must be an urban conglomeration on the periphery of the European Union. We have already seen that it has the conditions needed for that even if it hasn't come about yet. We don't yet know all about Euskal Herria on the economic and social levels, since we are living with our backs to each other even though we share a language, culture and many common interests.

Even though the process of structuring the European Union responds to the interests of its member states, there will be new opportunities for regions to carry out initiatives on economic and social levels. The European Union will bring new opportunities to Euskal Herria. New opportunities, that is, if Euskal Herria demonstrates the ability to act as a nation. For it is clear that Euskal Herria does not have a state-type structure on the basis of which to act.

We have situated Euskal Herria on the map and described the European Union's model of territorial organisation in an economic perspective. The conclusion we draw from this simple study is that, de facto, Euskal Herria is capable of being a special region for economic and social development, a unit at the NUTS-2 level, since it meets the required conditions. We will now proceed to look at some of Gaindegia's data.

### 1.2.1. Gross Domestic Product (GDP) per capita

Although open to objections, Gross Domestic Product is the standard way to measure the degree of wealth of Euskal Herria. Before Euskal Herria began to feel the detrimental effects of the 2008 economic crisis, its income per capita was above that of the European Union's average. However, it has fallen a few points in the last few years. Nonetheless, the level of wealth of Euskal Herria may still be considered on a par with that of the richest regions of Europe.

EUSKAL HERRIA AMONG THE NATIONS. The economic dimension: GDP per capita EH has a higher GDP per capita than many European regions Growth of GDP (in PPP) and GDP per capita (in PPP). Europe. 1999-2008						
	1999-2004	2005	2006	2007	2008	2008
<b>Euskal Herria</b>	<b>5,7</b>	<b>6,0</b>	<b>8,6</b>	<b>7,2</b>	<b>0,5</b>	<b>32.881</b>
Badem-Württemberg	2,8	3,2	6,6	5,5	-0,6	32.400
Zeeland	5,2	3,1	4,6	11,3	0,7	30.800
Catalonia	5,0	3,4	7,7	5,1	-1,3	30.300
Scotland	5,6	3,6	5,0	2,2	0,0	28.000
Rhone-Alpes	3,2	3,7	4,8	3,8	-1,5	26.800
European Union (27 countries)	4,4	3,7	5,3	5,5	0,4	25.100
Brittany	4,1	4,8	3,6	3,1	-0,9	23.300
Poitou-Charentes	3,8	3,5	2,4	5,2	-1,8	22.000
Walloon Region	3,8	2,6	3,6	3,0	1,4	21.000
Brandenburg	3,8	4,5	5,4	4,6	0,5	20.500
Mecklenburg-Vorpommern	3,5	5,2	3,8	6,9	1,0	20.400

Sources: Eurostat, INSEE, NEI and Eustat.

Table 5. Euskal Herria's gross domestic product (regions of Europe)

The GDP has its defects, and does not measure a country's standard of living accurately. However, it does serve as a rough indicator of the level of material wealth in countries.

Concealed behind the GDP are the differences between inhabitants' incomes. Today, in Euskal Herria as in other advanced countries, there are significant foci of poverty. There are many people who earn between €12,000 and €16,000 per year or even less, and a few people who earn €50,000 and €60,000 per year or more.

The financial and economic crisis has hit all sectors of the economy hard. Euskal Herria's industrial production, for example, has suffered severely from the crisis in Spain, and to make up for the lack of business resulting therefrom, once the Spanish market ran out of steam, it has been necessary to increase exports to other countries. This is a case where dependence on Spain has made the crisis worse for Basques.

GDP in terms of Purchasing Power Parity: growth and per capita. Euskal Herria and internationally, 2002-2009						
	Growth of GDP (in PPP)				€ per capita	
	2002/2006	2007	2008	2009	2009	
Norway	7,4	4,5	7,1	-13,0	41.200	
Ireland	7,6	9,1	-8,1	-9,5	30.000	
<b>Euskal Herria</b>	<b>6,1</b>	<b>7,3</b>	<b>-0,3</b>	<b>-5,8</b>	<b>29.977</b>	
Baden-Württemberg	3,6	6,1	-0,6	-8,9	29.500	
Catalonia	6,5	7,6	-0,8	-5,8	28.200	
Iceland	3,6	5,8	5,0	-10,4	27.700	
Germany	3,6	5,6	0,4	-6,6	27.200	
Finland	3,8	9,3	1,9	-9,2	26.900	
Rhône-Alpes	3,4	6,1	-0,3	-4,9	25.500	
France	3,0	5,8	-0,2	-4,3	25.400	
Scotland	4,5	2,7	-2,1	-5,4	25.200	
Italy	1,8	5,9	1,0	-5,8	24.400	
Spain	6,7	7,6	0,6	-5,8	24.200	
European Union (27)	4,1	6,0	0,6	-5,7	23.500	
Brittany	3,8	1,2	0,0	-4,9	21.200	
Poitou-Charentes	3,2	2,2	-0,2	-4,3	20.300	
Walloon region	3,2	3,8	2,4	-3,8	20.200	
Brandenburg	3,8	4,8	0,9	-3,9	20.000	
Eastern Finland	3,7	8,8	1,9	-11,2	20.000	
Mecklenburg-Vorpommern	3,2	6,3	1,3	-4,8	19.800	

Sources: Eurostat, Eustat, INE and INSEE.

Table 6. GDP; Purchasing Power Parity



### 1.2.2. Gross value added (GVA) per capita

Gross Value Added, or GVA, is a measure in macro-economics of the wealth created by producers in a given area of the economy. GVA incorporates the values added to goods and services in the production process. It is closely linked to the gross domestic product (GDP).

According to the 2009 GVA, Euskal Herria appears in general to be in a very good situation. As with the GDP, we must remember that GVA does not measure citizens' standards of living.

However, these measurements have a relative value for ranking Euskal Herria among European regions and states. Overall, growth rates for sectors of the Basque economy are comparable to those of the richest regions in the European Union: farming, livestock, forestry and fishing have a meagre presence, while industrial and building sectors are significant (around 25% of the total) and the services sector predominates.

EUSKAL HERRIA AMONG THE NATIONS. The economic dimension: GDP per capita EH among the regions and countries with high GVA per capita aside from France or the UK						
	1999-2004	2005	2006	2007	2008	2009
Norway	7,7	16,8	9,6	4,2	-	53.626
Sweden	3,8	1,6	6,3	5,5	-2,1	31.823
Austria	3,2	3,8	5,3	5,5	3,8	30.839
Baden-Württemberg	1,7	0,4	5,5	4,2	2,1	30.469
Zeeland	5,9	1,9	3,8	10,4	3,3	29.252
<b>Euskal Herria</b>	<b>10,3</b>	<b>6,7</b>	<b>7,1</b>	<b>7,0</b>	<b>5,1</b>	<b>28.451</b>
Rhône-Alpes	3,5	2,6	4,6	3,6	2,2	27.479
France	3,6	3,1	3,5	4,5	2,5	27.349
United Kingdom	4,8	2,9	5,7	4,7	-11,5	26.590
Catalonia	6,6	4,6	5,5	5,4	2,7	25.633
Scotland	4,9	3,6	6,5	5,7	-11,3	25.214
Brittany	4,4	3,6	3,4	2,6	2,8	23.834
Italy	4,5	1,6	2,6	3,7	-	23.387
Poitou-Charentes	4,1	2,0	3,0	4,3	1,6	22.472
Spain	7,1	5,8	6,0	6,0	3,5	21.995
Walloon region	3,8	3,8	4,7	3,9	4,2	21.066
Brandenburg	2,4	2,0	4,4	3,3	3,2	19.237
Mecklenburg-Vorpommern	2,3	1,8	3,2	5,4	3,6	19.067

Sources: Eurostat and INSEE.

Table 7. Euskal Herria's gross value added (regions of Europe)

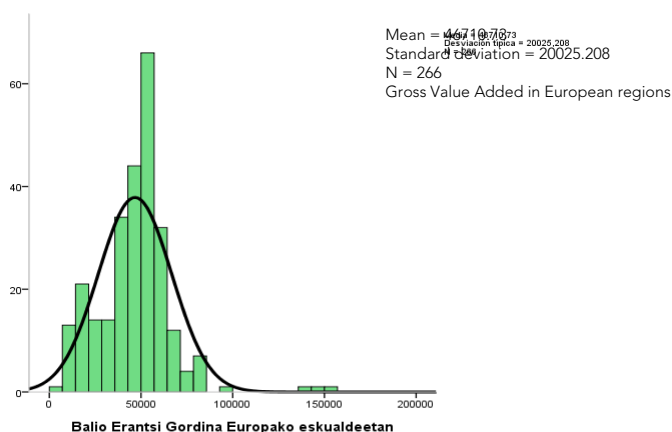


Diagram 1. Distribution of gross value added by regions

GVA per employed person. Euskal Herria and NUTS-2, 2009		
GVA PER EMPLOYED PERSON (€)		
1	Latvia	155.645
2	Brussels-Capital Region	142.923
3	Inner London	138.913
4	Île-de-France	96.235
5	Hamburg	85.365
6	Bremen	83.986
7	Southern and Eastern (Ireland)	81.981
8	Vienna	81.542
9	Capital Region of Denmark	79.780
10	Åland	79.154
11	Groningen	78.663
12	Antwerp Province	76.390
13	Stockholm	75.287
14	Corsica	73.947
15	Darmstadt	73.318
16	Oberbayern	70.297
17	Walloon Brabant	69.986
18	Autonomous Province Bolzano/Bozen (NUTS 2006)	68.645
19	Flemish Brabant	68.149
20	Lazio (NUTS 2006)	67.087
21	Utrecht	67.079
22	Düsseldorf	67.069
23	Lombardy	66.745
24	Southern Finland Province	66.480
25	Salzburg	65.962
26	Aosta Valley/Val d'Aosta	65.888
27	North Holland	65.438
28	Region of Southern Denmark	63.958
29	Rhône-Alpes	63.926
30	Central Denmark Region	63.710
31	North Jutland/North Denmark Region	63.550
32	Povence-Alpes-Côte d'Azur	63.084
33	Vorarlberg	62.558
34	Autonomous Province of Trento (NUTS 2006)	62.414
35	Emilia-Romagna (NUTS 2006)	62.330
<b>36</b>	<b>Euskal Herria</b>	<b>61.838</b>
37	Friuli-Venezia Giulia (NUTS 2006)	61.693
38	West Flanders	61.556
39	Liguria	61.059
40	Karlsruhe	60.998
41	Veneto (NUTS 2006)	60.997
42	Austria	60.891
43	Tirol	60.708
44	Community of Madrid	60.239
45	South Holland	59.630
46	Languedoc-Roussillon	59.616
47	Toscana (NUTS 2006)	59.324
48	Stuttgart	59.320
49	Guadeloupe (FR)	59.220
50	Middle Franconia	59.201
51	Upper Austria	58.994
52	Nord-Pas-de-Calais	58.977
53	North Brabant	58.885
54	Melilla (SP)	58.481
55	Piedmont	58.273
56	Attica	58.051
57	Aquitaine	58.027
58	Réunion (FR)	57.555
59	Cologne	57.406
60	Alsasce	57.122
61	Zeeland	56.975
62	Berkshire, Buckinghamshire and Oxfordshire	56.950
63	East Flanders	56.774
64	Pays de la Loire	56.747
65	Western Finland	56.670
66	Upper Normandy	56.621
67	Midi-Pyrénées	
68	Hannover	56.520
		56.472

69	Catalonia	56.347
70	Kassel	56.171
71	South Aegean	56.081
72	Liège Province	56.043
73	Saarland	56.020
74	Middle Norrland	55.734
75	Martinique (FR)	55.502
76	Marche (NUTS 2006)	55.329
77	Northern Finland	55.137
78	Border, Midland and Western (Ireland)	55.077
79	Champagne-Ardenne	54.982
80	Bourgogne	54.888
81	Arnsberg	54.373
82	Upper Palatinate	54.155
83	Tübingen	53.822
84	Braunschweig	53.718
85	Swabia	53.651
86	Detmold	53.620
87	Limburg (NL)	53.577
88	Aragon	53.549
89	Carinthia	53.520
90	Centre Region (FR)	53.481
91	Molise	53.478
92	Brittany	53.443
93	Styria	53.380
94	West Sweden	53.365
95	Campania	53.321
96	Hainaut	53.132
97	French Guiana	53.111
98	Lower Franconia	52.980
99	Lorraine	52.867
100	Berlin	52.787
101	Ceuta (ES)	52.758
102	Rioja	52.656
103	Upper Franconia	52.615
104	Upper Norrland	52.530
105	Poitou-Charentes	52.350
106	Eastern Finland (NUTS 2006)	52.268
107	Limbourg (BE)	52.063
108	Overijssel	51.874
109	Franche-Comté	51.860
110	Auvergne	51.805
111	Sicily	51.761
112	Zealand	51.742
113	Umbria (NUTS 2006)	51.699
114	Lower Bavaria	51.534
115	Gelderland	51.310
116	Giessen	51.301
117	Abruzzo	51.281
118	Namur Province	51.094
119	Calabria	51.073
120	Basilicata	51.042
121	Picardy	50.980
122	North Middle Sweden	50.740
123	Lower Austria	50.531
124	Balearic Islands	50.488
125	Castile and León	50.080
126	Apulia	49.996
127	Friesland (NL)	49.982
128	Rheinhessen-Pfalz	49.880
129	South Sweden	49.849
130	Weser-Ems	49.783
131	Sardinia	49.674
132	Lower Normandy	49.616
133	Asturias	49.525
134	East Middle Sweden	49.502
135	Schleswig-Holstein	49.470
136	Fribourg	49.215
137	Münster	49.145
138	Prague	48.863

139	Surrey, East and West Sussex	48.751
140	Småland and the islands	48.643
141	Bedfordshire and Hertfordshire	48.557
142	Limousin	48.557
143	Bratislava Region	48.277
144	Cantabria	47.912
145	Drenthe	47.862
146	Cheshire (NUTS 2006)	47.774
147	West Midlands	47.767
148	Eastern Scotland	47.349
149	Gloucestershire, Wiltshire and Bristol/Bath area	47.261
150	Southwest Scotland	47.241
151	Luxembourg Province	47.220
152	Canary Islands (ES)	47.048
153	Koblenz	46.686
154	Valencia	46.489
155	Hampshire and Isle of Wight	45.601
156	Andalusia	45.429
157	Galicia	45.238
158	West Macedonia	45.183
159	Murcia	44.717
160	Greater Manchester	44.198
161	Leicestershire, Rutland and Northamptonshire	44.125
162	Leipzig (NUTS 2006)	44.106
163	Central Greece	44.061
164	Castile-La Mancha	43.974
165	Dresden	43.845
166	East Wales	43.752
167	Lisbon	43.185
168	Trier	42.939
169	West Yorkshire	42.934
170	Outer London	42.620
171	Flevoland	42.422
172	Burgenland (AT)	42.139
173	East Anglia	41.672
174	Saxony-Anhalt	41.655
175	Dorset and Somerset	41.601
176	Brandenburg-Southwest (NUTS 2006)	41.387
177	Extremadura	41.361
178	Chemnitz (NUTS 2006)	41.304
179	North Aegean	41.021
180	Mecklenburg-Vorpommern	40.667
181	South Yorkshire	40.660
182	Northern Ireland (UK)	40.575
183	Lüneburg	40.569
184	Derbyshire and Nottinghamshire	40.477
185	Northumberland and Tyne and Wear	40.475
186	Thüringen	39.835
187	Cyprus	39.720
188	Crete	39.572
189	Kent	39.448
190	North Yorkshire	39.366
191	Essex	39.147
192	Ionian Islands	38.897
193	Herefordshire, Worcestershire and Warwickshire	38.805
194	Devon	38.649
195	Central Macedonia	38.621
196	Madeira (PT)	38.211
197	Merseyside (NUTS 2006)	38.091
198	Lancashire	37.678
199	East Yorkshire and Northern Lincolnshire	37.556
200	Western Slovenia	37.325
201	Cumbria	37.242
202	Tees Valley and Durham	37.037
203	Brandenburg - Nordost (NUTS 2006)	36.861
204	East Macedonia and Thrace	35.452
205	Thessalia	35.014
206	Shropshire and Staffordshire	34.892
207	Peloponnese Region	
208	Lincolnshire	34.774
		34.036

209	West Wales and the Valleys	33.803
210	West Greece	33.618
211	Epirus	32.969
212	Algarve	31.952
213	Cornwall and Isles of Scilly	31.635
214	Malta	30.996
215	Central Hungary	30.679
216	Alentejo	28.973
217	Azores (PT)	28.712
218	Northwest Croatia	26.557
219	Eastern Slovenia	26.069
220	Adriatic Croatia	25.535
221	Bucharest-Ilfov	25.323
222	Mazovia Province	24.344
223	Jihovýchod	23.825
224	Norte Region (PT)	23.754
225	Central Bohemian Region	22.427
226	Moravia-Silesia	22.411
227	Severozápad	22.182
228	Centro Region (PT)	22.052
229	Western Slovakia	21.775
230	Jihozápad	21.772
231	Severovýchod	21.554
232	Central Moravia	21.418
233	Stredné Slovensko	20.427
234	Wielkopolska Province	20.172
235	Estonia	20.052
236	Pomerania Province	19.846
237	Lower Silesia Province	19.824
238	Silesia Province	19.393
239	Central and Eastern (Pannonian) Croatia	18.198
240	West Pomerania Province	18.003
241	Východné Slovensko	17.952
242	Western Transdanubia	17.546
243	Republic of Macedonia	16.968
244	Lithuania	16.935
245	Central Transdanubia	16.219
246	Opole Province	15.808
247	Małopolska Province	15.759
248	Lubuskie Province	15.323
249	Northern Great Plain	15.314
250	Kujawy-Pomerania Province	15.282
251	Southern Transdanubia	14.950
252	Northern Hungary	14.442
253	Southern Great Plain	14.183
254	Warmia-Masuria Province	13.529
255	Łódź	13.168
256	Podlasie Province	12.801
257	Vest (Romania)	12.799
258	Świętokrzyskie Province	12.235
259	Centru (Romania)	12.146
260	Podkarpacie Province	11.729
261	Nord-Vest (Romania)	11.153
262	Lublin Province	10.683
263	Sud-Est (Romania)	9.769
264	Sud-Muntenia (Romania)	9.593
265	Sud-Vest Oltenia (Romania)	8.233
266	Nord-Est (Romania)	6.919

Source: Eurostat, INE and INSEE.

Table 8. Gross value added per working person (NUTS 2)

### 1.2.3. Employment

In the above sections the situation of Euskal Herria has been described in terms of GDP and GVA. Taken together with what we know about the distribution of the sectors of the economy of Euskal Herria, it can be concluded that Euskal Herria is at a similar level to the most highly developed nations of the European Union. To understand the situation of Euskal Herria in its

entirety, however, it is necessary to take into consideration some further indicators. Here we shall look at some statistics provided by Asier Otxoa de Retana for Gaindegia.

Like Catalonia, Euskal Herria is one of the parts of southern Europe with the best employment levels in comparison to other nations, comparable to the EU average or slightly lower. In the first years of the new century (2000-2005), Euskal Herria's employment grew significantly and substantially relative to that of other European regions.

Owing to the crisis, negative growth in employment arrived in 2009, and according to recent data this negative trend has unfortunately not seen any respite.

Employment growth and employment rates. Euskal Herria and the European Union, 2002-2010						
	2002-2006*	2007	2008	2009	2010	2010
Iceland	-0,5	0,6	-1,8	-6,3	-0,1	78,2
Zeeland	1,0	0,3	0,7	2,3	-3,0	74,7
Baden-Württemberg	0,5	2,8	1,8	-0,9	-0,5	74,0
Brandenburg	1,5	4,4	3,2	1,4	1,1	73,0
Sweden	-0,2	1,5	0,1	-2,8	0,7	72,7
Germany	0,6	2,8	1,9	0,3	0,3	71,1
Mecklenburg-Vorpommern	1,3	3,0	4,6	1,5	1,6	70,6
Scotland	0,5	1,7	-0,8	-2,5	-2,1	69,4
Finland	0,4	1,4	1,1	-3,4	-0,9	68,1
Poitou-Charentes	-0,1	0,9	2,8	-1,7	-0,5	65,2
Brittany	0,6	-0,6	1,4	0,9	-3,0	64,5
<b>Euskal Herria_Eustat</b>	<b>2,0</b>	<b>1,8</b>	<b>-0,1</b>	<b>-4,0</b>	<b>-0,2</b>	<b>64,2</b>
European Union (27)	1,9	-6,2	0,8	-1,8	-0,8	64,1
<b>Euskal Herria_INE</b>	<b>2,1</b>	<b>1,0</b>	<b>-0,4</b>	<b>-5,7</b>	<b>0,5</b>	<b>63,8</b>
France	0,3	1,3	0,8	-1,1	-0,3	63,5
Eastern Finland	1,1	-1,0	2,4	-3,1	2,4	63,3
Spain	2,3	1,2	-2,0	-7,0	-2,0	58,6
Walloon region	0,3	1,6	0,4	-1,7	0,9	56,7

\* Average yearly growth in the period indicated.

Sources: Eurostat, Eustat, INE and INSEE.

Note: Taking into consideration the population aged between 16 and 64.

Table 9. Employment in Euskal Herria and the European Union (Gaindegia)

Like the employment rate, the *activity rate* in Euskal Herria [i.e. the proportion of people of working age in the population who form the active labour force, i.e. are participating workers - Translator's Note], which was 71.8% in 2009, was slightly above that of the 27 states of the European Union. The figures for this index indicate that the situation of the active population of Europe varies greatly from region to region.

However, for the youngest age group, from 15 to 24, Euskal Herria has one of the lowest employment rates (27.1% in 2009), well below the average for the 27 states of the European Union. In the intermediate age groups (25-34 and 35-44), the employment rate in Euskal Herria is comparable to that for the European Union as a whole (75.9% and 80.7% respectively). Finally, for the oldest age groups considered (45-54 and 55-64), the employment rates in the European Union (77.5% and 46.0%) are higher than those found in Euskal Herria in 2009.

#### 1.2.4. Unemployment

The general unemployment rate in Euskal Herria was 1.9 percentage points higher than that of the European Union in 2009. But in the last few years the unemployment rate has risen more sharply in Euskal Herria than in Europe, widening the gap.

Trend in unemployment. Euskal Herria and European Union, 2008-2010					
	Trend in unemployment			Number of unemployed	Unemployment rate
	2008	2009	2010	2010	2010
Spain	41,3	60,2	11,6	4.632.400	20,1
Mecklenburg-Vorpommern	-16,4	-6,1	-11,8	110.300	12,4
Walloon region	-3,6	11,8	4,3	170.700	11,4
<b>Euskal Herria</b>	<b>11,2</b>	<b>61,7</b>	<b>-1,1</b>	<b>163.188</b>	<b>11,0</b>
Eastern Finland	-11,2	11,4	-4,5	8.400	10,1
Brandenburg	-17,4	-1,5	-13	136.100	10,0
France	-6,1	23	3	2.831.400	9,7
European Union	-1,1	27,8	7,7	23.080.800	9,6
Finland	-0,4	23,7	-2,3	67.800	8,4
Sweden	2,4	34,3	1,8	417.200	8,4
Scotland	-1,7	48,6	18,8	219.000	8,2
Poitou-Charentes	9,1	18,3	-8,1	62.300	8,1
Iceland	35	139	5,4	13.600	7,6
Brittany	-16,7	7,2	21,1	99.200	7,2
Germany	-12,8	2,7	-8,7	2.945.500	7,1
Baden-Württemberg	-13,7	20,9	-6,3	268.300	4,8
Zeeland	32,5	-22,6	26,8	5.200	2,7

Sources: Eurostat and INSEE.

Table 10. Unemployment rates in Euskal Herria and Europe (Gaindegia)

The growth of the unemployment rate has escalated constantly in the past few years and it looks like it will not be easy to halt the loss of jobs. As we have already seen, the lowest employment rate is found among young people, so of course this is where the highest unemployment rate is found: it is 30.3%. A sharp rise in unemployment the level high of the European Union. Young people and women, in that order, are the worst hit by the crisis. In Euskal Herria, the unemployment rate among women over fifteen is a little higher than that of the whole population. Among adult males in particular, the unemployment rate is lower.

### 1.2.5. Level of education

Euskal Herria is the country in which the highest proportion of people have a university degree in the European Union of 27 states.

Educational level of the population between 25 and 64 (%). Euskal Herria and the European Union, 2010				Educational level of women between 25 and 64 (%). Euskal Herria and the European Union, 2010			
	> secondary education	< secondary education	Higher education		> secondary education	< secondary education	Higher education
<b>Euskal Herria</b>	<b>33,8</b>	<b>24,5</b>	<b>41,7</b>	<b>Finland</b>	14,8	41,3	44,0
Finland	17,0	44,8	38,1	<b>Euskal Herria</b>	<b>33,9</b>	<b>24,0</b>	<b>42,1</b>
Scotland	22,5	40,1	37,3	Norway	19,5	39,5	41,0
Norway	19,1	44,0	36,9	Eastern Finland	15,4	44,5	40,2
Denmark	23,5	42,3	34,2	Scotland	25,9	34,5	39,6
Sweden	18,4	47,4	34,2	Iceland	18,5	42,1	39,4
Walloon region	32,8	34,6	32,7	Denmark	33,9	28,2	37,8
Iceland	33,5	34,0	32,5	Walloon region	24,9	37,9	37,1
Eastern Finland	18,2	49,9	31,9	Spain	32,3	32,8	34,9
Spain	47,4	22,0	30,7	Brandenburg	46,3	21,7	32,0
Brandenburg	6,3	63,4	30,3	France	6,3	62,0	31,7
Baden-Württemberg	15,5	55,4	29,1	Brittany	30,4	38,9	30,7
France	29,2	41,8	29,0	Rhône-Alpes	25,1	44,3	30,6
Rhône-Alpes	27,9	43,4	28,6	Zeeland	29,1	41,2	29,7
Brittany	23,2	48,8	28,0	Poitou-Charentes	31,9	39,9	28,2
Germany	14,2	59,2	26,6	European Union(27)	30,4	42,0	27,5
Zeeland	29,9	43,7	26,4	Germany	28,3	45,1	26,7
European Union(27)	27,3	46,8	25,9	Baden-Württemberg	16,7	59,9	23,4
Poitou-Charentes	29,3	48,0	22,7	Finland	18,8	58,2	23,0

Sources: INE eta INSEE.

Table 11. Level of education in Euskal Herria and Europe (Gaindegia)

If the changes that have taken place in Basque society have had one notable aspect, it has been in the level of education. Although there are still some imbalances, the growth in educational level is striking. It has been most particularly significant for women; according to the data available, education levels between the sexes in Euskal Herria is one of the most balanced in Europe.

This fact is highly significant because the situation of women is one of the best indicators of a country's state of development. By this it is meant that the better the situation of women, the higher the whole society's quality of life. When women's situation is unsatisfactory, the situation of the whole country tends to be worse.

#### 1.2.6. Social protection and risk of poverty

This is an indicator, expressed as a percentage, of the population's risk of poverty and social exclusion. It includes people who live in or belong to families in danger of falling into poverty, severe material shortage or with little employment. There is more than one way to measure risk of poverty, and we have had to harmonise the statistics used by Eurostat, Eustat INE and INSEE.

Another way to express the well-being of a country is to calculate the fraction of its gross domestic product that is spent on social welfare. Social protection is, in short, the amount of help given by public and private organisations in the areas necessary to ensure that there is coverage of issues such as health, sickness, disability, old age, housing and so on, to allow people to live with dignity.

Spending on social protection (%of GDP). Euskal Herria and European Union, 2001-2008									
	Growth								% of
	2001	2002	2003	2004	2005	2006	2007	2008	2008
France	0,12	0,85	0,57	0,33	0,14	-0,65	-0,25	0,38	31,01
Denmark	0,36	0,47	1,19	-0,17	-0,48	-1,00	-0,48	0,88	29,64
Sweden	0,56	0,83	0,97	-0,66	-0,43	-0,77	-1,15	0,30	29,52
Netherlands	0,11	1,08	0,69	0,08	-0,48	0,95	-0,50	0,18	28,48
Austria	0,30	0,38	0,45	-0,33	-0,37	-0,48	-0,47	0,65	28,42
Belgium	0,87	0,35	0,73	0,02	-0,08	-0,26	-0,28	1,36	28,14
Germany	0,07	0,65	0,42	-0,65	-0,06	-1,12	-1,11	0,18	27,97
Italy	0,24	0,36	0,50	0,18	0,39	0,26	0,09	1,08	27,81
European Union (27)	-	-	-	-	-	-0,45	-0,90	0,97	26,70
United Kingdom	0,42	-1,13	0,03	0,14	0,38	-0,24	-2,75	3,01	26,28
Greece	0,82	-0,31	-0,52	0,15	1,23	-0,13	0,09	1,47	26,27
Finland	-0,07	0,69	0,91	0,05	0,04	-0,28	-1,06	0,80	26,16
Norway	1,04	0,53	1,25	-1,33	-2,04	-1,24	0,28	-0,39	22,49
Spain	-0,30	0,33	0,26	0,05	0,24	-0,06	0,16	1,44	22,12
Ireland	0,95	2,31	0,63	0,22	0,06	0,30	0,51	3,28	22,04
Iceland	0,20	1,82	1,73	-0,35	-0,95	-0,45	0,20	0,55	21,97
<b>Euskal Herria</b>	<b>0,21</b>	<b>0,23</b>	<b>0,21</b>	<b>0,00</b>	-	-	<b>0,18</b>	<b>1,28</b>	<b>21,42</b>
Estonia	-0,86	-0,34	-0,12	0,46	-0,44	-0,43	-0,02	2,76	14,87

Sources: Eurostat, Eustat, INE and INSEE.

Table 12. Spending on social protection, as a percentage of GDP (Gaindegia)

As we see, Euskal Herria is not the best case in Europe. It is seven percentage points below the average for the European Union (27). The Basque index is far from that of France and also below Spain's. In the field of social protection, the difference between the northern and southern parts of Euskal Herria is very significant. It is in this area that one of the most striking differences between the societies on the two sides of the state border is to be found. Many inhabitants of the northern side opt for the French system because it provides greater protection. They are right! In most European systems of statistics including the Basque ones (Eustat, INE and INSEE), people who are short of many material things are among those classified as being persons or families at risk of exclusion: this includes, among other things, not being able to afford to pay rent, heat one's home or feed oneself enough protein on a regular basis.



<b>EUSKAL HERRIA AMONG THE NATIONS.</b>						
The socio-demographic dimension: risk of poverty. The risk of poverty is small in the methodology of the European Union						
<b>Increase of the risk of falling into poverty and number of people (%). Europe, 2005-2009</b>						
	2005	2006	2007	2008	2009	2009
Spain	-1,0	1,0	-1,0	-0,5	-0,5	19,5
Italy	-1,0	3,7	1,5	-6,0	-1,6	18,4
United Kingdom		0,0	-0,5	-1,1	-7,5	17,3
European Union (27)		0,6	1,2	-1,8	-0,6	16,3
Germany		2,5	21,6	0,0	2,0	15,5
Ireland	-5,7	-6,1	-7,0	-9,9	-2,6	15,1
Switzerland					-6,8	15,1
Belgium	3,5	-0,7	3,4	-3,3	-0,7	14,8
Finland	6,4	7,7	3,2	4,6	1,5	13,8
Sweden	-15,9	29,5	-14,6	16,2	9,0	13,3
Denmark	8,3	-0,8	0,0	0,9	11,0	13,1
France	-3,7	1,5	-0,8	-3,1	1,6	12,9
Norway	5,6	-0,9	9,7	-8,1	2,6	11,7
Netherlands		-8,3	5,2	2,9	5,7	11,1
Iceland	-3,0	-1,0	5,2	0,0	1,0	10,2
<b>Euskal Herria</b>	<b>-</b>	<b>2,9</b>	<b>5,8</b>	<b>-</b>	<b>24,6</b>	<b>9,3</b>

Source: Eurostat, INE and INSEE.

Table 13. Risk of poverty in Euskal Herria in a European context (Gaindegia)

The risk of poverty in Euskal Herria may overall be considered small. In this case, the small size of the country with only three million inhabitants, probably helps. In any case, of late, owing to the crisis, new groups of poor are appearing among the citizens of Euskal Herria, especially among immigrants and women.

<b>Risk of falling into poverty. Euskal Herria and the European Union, 2005-2010</b>							
	<b>Growth</b>						<b>Rate</b>
	2005	2006	2007	2008	2009	2010	2010
Czech Republic	-	-0,5	-0,3	-0,6	-0,4	0,4	9
Iceland	-0,3	-0,1	0,5	0	0,1	-0,4	9,8
Netherlands	-	-1	0,5	0,3	0,6	-0,8	10,3
<b>Euskal Herria</b>	<b>-1,9</b>	<b>0,3</b>	<b>0,6</b>	<b>-3,2</b>	<b>1,9</b>	<b>1,6</b>	<b>10,9</b>
Norway	0,6	0,9	-0,4	-0,5	0,3	-0,5	11,2
Slovakia	-	-1,7	-1	0,3	0,1	1	12
Austria	-0,5	0,3	-0,6	0,4	-0,4	0,1	12,1
Hungary	-	2,4	-3,6	0,1	0	-0,1	12,3
Slovenia	-	-0,6	-0,1	0,8	-1	1,4	12,7
Sweden	-1,8	2,8	-1,8	1,7	1,1	-0,4	12,9
Finland	0,7	0,9	0,4	0,6	0,2	-0,7	13,1
Denmark	0,9	-0,1	0	0,1	1,3	0,2	13,3
France	-0,5	0,2	-0,1	-0,4	0,2	0,6	13,5
Luxembourg	1	0,4	-0,6	-0,1	1,5	-0,4	14,5
Belgium	0,5	-0,1	0,5	-0,5	-0,1	0	14,6
Switzerland	-	-	-	-	-1,1	-0,1	15
Malta	-	0,1	0,8	0,2	0,3	0,2	15,5
Germany	-	0,3	2,7	0	0,3	0,1	15,6
Estonia	-1,9	0	1,1	0,1	0,2	-3,9	15,8
Ireland	-1,2	-1,2	-1,3	-1,7	-0,5	1,1	16,1
European Union (15)	-1,3	0,2	0,1	0,2	-0,1	0,1	16,2
European Union (27)	-	0,1	0	-0,1	-0,1	0,1	16,4
Cyprus	-	-0,5	-0,1	0,7	0	0,8	17
United Kingdom	-	0	-0,4	0,1	-1,4	-0,2	17,1
Poland	-	-1,4	-1,8	-0,4	0,2	0,5	17,6
Portugal	-1	-0,9	-0,4	0,4	-0,6	0	17,9
Italy	-0,2	0,7	0,3	-1,2	-0,3	-0,2	18,2
Greece	-0,3	0,9	-0,2	-0,2	-0,4	0,4	20,1
Lithuania	-	-0,5	-0,9	0,9	0,6	-0,4	20,2
Croatia	0	-1	1	-0,7	0,6	2,6	20,5
Bulgaria	-1	4,4	3,6	-0,6	0,4	-1,1	20,7
Spain	-0,2	0,2	-0,2	-0,1	-0,1	1,2	20,7
Romania	-	-	-	-1,4	-1	-1,3	21,1
Latvia	-	3,9	-1,9	4,4	0,1	-4,4	21,3

Table 14. Risk of poverty in the European Union (Gaindegia)

## **2. INDICATORS OF ECONOMIC AND SOCIAL DEVELOPMENT: NATIONAL COHESION INDICATORS**

Indicators of economic and social development, or socio-economic indicators, provide very useful information about the situation of a given society. When they are state indicators, they can tell us how the state ranks among others and show what kind of economy and social policies each state has.

Indicators of economic and social development can also reveal differences between geographical areas within a state and give an indication of what the criteria of territorial organisation in each state are.

In the case of stateless nations such as Euskal Herria, it is very important indeed to have indicators of economic and social development if we wish to know how much cohesion there is between different territories. We can assume that the greater the difference between parts of the nation in this respect, the lower the degree of national cohesion there will be. For example, young people in the northern Basque Country know that in the south they will get less social protection, as a result of which there are not many of them who will take an interest in the job market in the south. The existence of administrative borders of different kinds can lead to different levels of economic and social development.

Stateless nations in the European Union can find some resources in European and state administrations to improve and harmonise the level of development of their economies and societies. However, they will never achieve the same amount of powers and resources as states will. Subordination to a state and administrative fragmentation of a nation's territory are factors that undermine a nation's cohesion.

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## 2. The Basque state and socioeconomics.

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Globalization theory and its invisible arm — the markets — limit the relevance of politics and its area of influence: governments are seen as captives of international economic forces, since these forces configure the space which determines what it is possible for each state to do. A different kind of Euskal Herria could be constructed outside that which has been designed by “the markets”.

Our initial premise, in developing a strategic approach to attaining economic independence so that a new model may be implemented that is fairer and more humane than the one to which we are currently subjected, is that the socioeconomic feasibility of our project ensues from the characteristics of the Basque Country: small size, an excellent geographical location, and the sufficiency of its human, economic and financial resources. This chapter examines all these issues as well as looking at the principal economic flows between Euskal Herria and Spain.

## 1. THE MAIN INDICATORS OF ECONOMIC FLOWS

### 1.1. Commercial and capital flows

#### Are markets an economic reality or a paralysing concept?<sup>11</sup>

The most powerful present-day concept in both politics and economics is that of *markets*, even more so than *economic globalisation* which reigned supreme for the past twenty years. It is attributed so much authority that it is blamed for nations' diminished role in shaping their own destiny. *The markets* are given permission to dictate to national and regional governments what political and economic direction they should take, limiting the options open to such governments to a degree with no historical precedent.

In this way, globalisation theory and its invisible hands, the markets, reduce the importance and even the space that belongs to the political: governments play the roles of institutions trapped by world economic forces that configure the framework of the *possible* within each state. This discourse, which has turned into an unquestionable dogma of faith (with no division of powers!), is invoked to diagnose the situation, decide on the cure and prescribe the dosage required of all public policy, while all along there is a dismantling of all forms of social and worker protection. Surgical operations! And since this is not covered by law, there is an attempt to give it a constitutional rubber stamp.

In Euskal Herria the political response to globalisation has been a long series of steps to cut labour, fiscal and social protection costs in pursuit of competitiveness so as to (as the politicians put it) respond to market demands. In the study referred to in footnote 1, it was shown how deceitful the premises are that are cited in globalisation theory, no matter how much they have been sanctified as if they were a new law carved in stone. To quote J. Hagland in a Washington Post article in 1995:

The financial markets and central banks that set interest rates are now the generals in a war that has been going on for twenty years and is theoretically justified as necessary to control inflation but in practice leaves governments bereft of their power and democracy impoverished. Too scared to raise taxes and afraid of upsetting the bond and security markets, the politicians have surrendered to the financiers in the battle over budgetary and fiscal policies.<sup>12</sup>

Globalisation and its markets are spoken of as a global concept (pardon the redundancy), but in reality refers to a number of quite different things: there is globalisation of trade, globalisation of productive capital and globalisation of financial capital.

#### a. Globalisation of trade in South Euskal Herria

South Euskal Herria (henceforth SEH) has not only displayed a historical tendency to trade with the countries of the OCDE and above all with the European Union, but appears to have consolidated these trade flows, maintained by the weight of trade relations within them, between the multinational matrix and subsidiaries in SEH such as Mercedes-Benz, Volkswagen and so on.

<sup>11</sup> Jurado N. (1999) "Ejes económicos para una construcción nacional"- Formazio Koadernoak N° 26, published by IPES. I carried out a similar exercise twelve years ago, and except for the figures which need to be updated, the study is fully up to date, so I shall base the present work on the same ideas again.

<sup>12</sup> Hagland, J. *Washington Post*, 10 Dec. 1995. [Translator's Note: This text is retranslated from a Spanish translation since the English original could not be recovered.]

It should be noted that the publicly available figures do not show the full volume of trade between SEH and the Spanish state, for which reason a complete analysis of SEH external trade is not possible.

	2006			2008			2010		
	A-B-G*	Navarre	SEH*	A-B-G*	Navarre	SEH*	A-B-G*	Navarre	SEH*
<b>Total exports</b>	<b>16.647,40</b>	<b>5.495,70</b>	<b>22.143,10</b>	<b>20.279,40</b>	<b>6.378,90</b>	<b>26.658,30</b>	<b>17.545,90</b>	<b>7.407,30</b>	<b>24.953,20</b>
OCDE	13.939,90	4.810,10	<b>18.750,00</b>	16.044,20	5.158,10	<b>21.202,30</b>	12.902,30	6.128,90	<b>19.031,20</b>
European Union	11.653,60	4.184,00	<b>15.837,60</b>	13.541,50	4.272,70	<b>17.814,20</b>	10.837,50	5.803,90	<b>16.641,40</b>
France	3.068,90	1.241,60	<b>4.310,50</b>	3.524,70	1.210,80	<b>4.735,50</b>	3.020,40	1.343,30	<b>4.363,70</b>
Non-OCDE	2.707,50	685,60	<b>3.393,10</b>	4.235,20	1.220,80	<b>5.456,00</b>	4.643,60	1.278,40	<b>5.922,00</b>
<b>Total imports</b>	<b>17.478,10</b>	<b>5.250,60</b>	<b>22.728,7</b>	<b>20.118,00</b>	<b>4.908,60</b>	<b>25.026,60</b>	<b>15.257,20</b>	<b>4.468,20</b>	<b>19.725,40</b>
OCDE	10.056,60	4.489,90	<b>14.546,50</b>	11.016,60	3913,25	<b>14.929,85</b>	8.788,50	3.664,90	<b>12.453,40</b>
European Union	8.878,00	4.390,70	<b>13.268,70</b>	9.747,40	3.762,00	<b>13.509,40</b>	7.394,40	3.622,80	<b>11.017,20</b>
France	1.779,00	624,5	<b>2.403,50</b>	1.989,00	506,3	<b>2.495,30</b>	1.560,90	542,1	<b>2.103,00</b>
Non-OCDE	7.421,50	760,70	<b>8.182,20</b>	9.101,40	995,35	<b>10.096,75</b>	6.468,70	803,30	<b>7.272,00</b>
<b>Trade balance</b>	<b>-830,70</b>	<b>245,10</b>	<b>-585,60</b>	<b>161,40</b>	<b>1.470,30</b>	<b>1.631,70</b>	<b>2.288,70</b>	<b>2.939,10</b>	<b>5.227,80</b>

A-B-G = The three provinces of Araba, Bizkaia and Gipuzkoa. SEH = South Euskal Herria.

Sources: Eustat's foreign trade statistics. Customs registry, Government of Navarre: foreign trade statistics.

Table 1. External trade of the Southern Basque Country (2006-2010), in €m

Let us note that SEH's trade balance (its exports and imports) is positive, with a growing surplus which was around €5,227.8m in 2010.

The historical trend peaked, for external trade, in 2008, the first year of the crisis; from then on, the recovery of imports is much slower than that of exports, owing to the continued weakness of domestic demand due to a combination of sharp cuts in public spending, an overall drop in earnings from wages and the reduction of domestic investment, not because of the lack of capital (this is analysed in the next section) but because Basque capital is investing abroad, turning its back on its own economic heartland.

In 2010 two-thirds (66.69%) of exports went to the European Union<sup>13</sup>, with France, the top commercial trading partner, absorbing 27.2% of total EU sales. In imports, 55.85% were with the EU, and again France was SEH's number one supplier, with 19% of its purchases from the EU.

<sup>13</sup> The integration of Navarre with the EU is much higher than that of Araba, Bizkaia and Gipuzkoa; in 2010 Navarrese exports to the EU were 78.35% of the total and its imports were 81%.

## b. Globalisation of productive capital

Analysing the flow of foreign investment in SEH, we note that in Euskal Herria there is no shortage of capital. Quite the contrary: in Araba, Bizkaia and Gipuzkoa what is going on is a massive outflow of capital being sent abroad at the expense of the stagnation of internal productive investment. I call it a massive outflow because the qualitative significance of the drain of capital is much greater than that of any other economic indicator. According to the records of Spain's Ministry of Industry, Tourism and Commerce, in 2008 and 2009 investment in these three provinces represented a little more than 11% of the total foreign investment of the Spanish state.

	2008			2009			2010		
	A-B-G*	Navarre	SHE*	A-B-G*	Navarre	SHE*	A-B-G*	Navarre	SHE*
Foreign investment in SEH	429,4	123,9	<b>553,3</b>	770,3	27,8	<b>798,1</b>	252,2	109,4	<b>361,6</b>
Invested abroad by SEH	5.341,60	72	<b>5413,6</b>	2.507,40	34,2	<b>2541,6</b>	2.111,20	5,3	<b>2116,5</b>
<b>Balance of capital</b>	<b>-4.912,20</b>	<b>51,90</b>	<b>-4.860,30</b>	<b>-1.737,10</b>	<b>-6,40</b>	<b>-1.743,50</b>	<b>-1.859,00</b>	<b>104,10</b>	<b>-1.754,90</b>

A-B-G = The three provinces of Araba, Bizkaia and Gipuzkoa. SEH = South Euskal Herria.

Sources: Foreign investments: Ministry of Industry, Tourism and Trade. Gross investment. Includes ETVE (foreign stock holding entities).

Table 2. Foreign investment in Southern Euskal Herria (2008-2010), in €m

Hence the challenge for SEH is not to compete for foreign investment but to provide incentives for domestic capital to stay home.

## c. Globalisation of financial capital

Financial capital is the heart and soul of "the markets", and its instability and economic knuckle are responsible for the economic and social problems wrongly attributed to globalisation of trade and productive capital.

Twelve years ago, in my 1999 study (see footnote 1), I said something that no one else wanted to admit: "It is widespread financial instability and speculation that are leading to less productive investment which results in less growth of the real economy, which is the main cause, in turn, of the growth of the public deficit. This process is the opposite of what is preached by neoliberal ideology, which considers the public deficit the culprit, rather than the consequence, of the economic slowdown."

This capital is opaque to statistics and registers, particularly when hidden away in tax havens. But there are many telltale signs of it in SEH, such as deposits worth over 30% of the entire GDP in mutuals and pension funds, annual fiscal fraud worth over 15% of the GDP and the highest concentration of income in the EU, which mean that the sum of speculative financial capital in Basque hands is much greater than the average for countries of Euskal Herria's geographical size.

## 1.2 Insitutional economic flows

In the preceding session we lacked data for the northern Basque Country with which to analyse the total for Euskal Herria as a whole — this is a constant problem when studying

the flow of institutional money — and the analysis in the present section is also limited to SEH given the specific nature of the economic agreements whereby the Basque Country is required to pay an annual sum to Madrid independently of what Madrid gives back to SEH. The clearest way to analyse the economic subjection of SEH to the Spanish state is through a study of the net economic flow between the two.

To perform a breakdown of the institutional flow between the Basque Country and the Spanish state, it is necessary to know the total that the SEH "pays in" through different routes (which include the Basque economic agreement, social security payments by workers and employees, other taxes, lottery takings, public deficit financing and so on, and what it receives from the state (in the forms of pensions and unemployment benefits provided by the national health service and the Public Institute of Employment, lottery prizes, real spending and investment in SEH by the state in areas not covered by the above, funds from the European Union, and so forth).

Given the complexity of these calculations, there are no comprehensive studies on the matter. In 2003 the net annual flow in SEH was estimated at around €3,600m.<sup>14</sup>

### **Some figures:**

#### **a. The Basque Economic Agreement**

The fiscal and financial relations between each of the southern Basque provinces and the Spanish state are laid out in legal documents establishing economic agreements between each of the parts. The northern Basque provinces, on the other hand, are regulated entirely by French fiscal law.

The economic agreement represents one of the chief short-term threats to the financial sustainability of the Basque public administration given the fact that it represents a unilateral risk for SEH.

The Spanish state does not take part in tax collection in these provinces, so it doesn't cover the public costs of the transferred powers either. SEH contributes 7.84% of the operating costs of the state for undeveloped powers through the Economic Agreement,<sup>15</sup> (6.24% from Araba, Bizkaia and Gipuzkoa taken together, plus 1.6% from Navarre).

Thus the amount of money implied by the agreement depends on several externally determined variables: the state's expenditure on powers that have not been devolved (referred to below as "undeveloped competences" or UDCs) without taking into consideration either the amount collected in SEH or its own costs. As a consequence of these circumstances, the results of the economic cycle, as determined by how much is collected through taxation and how high public spending is, are covered exclusively by SEH.

Given the difficulty of calculating the gross quota (known as the *Cupo*), at the beginning of each five-year period a fixed amount is established taking the current year as

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<sup>14</sup> Analysing only the flows of the Social Security and the Department of Employment (INEM) in Araba, Bizkaia and Gipuzkoa, an economic report showed that between 1998 and 2003 Madrid was paid 3,482.7 million euros. ("El sometimiento de Hego Euskal Herria a Madrid" (2004) N. Jurado. Editado en la red por Red Vasca Roja).

<sup>15</sup> In the general budget of the state, undeveloped competences (UDCs) account for over 60% of expenditure. And it is precisely the spending on UDCs that are growing much faster than average spending. The cost of the public debt, the bank bailout, the principal contributions to NATO both financially and in human resources, infrastructure, unemployment payments, early retirement costs and so on are all UDCs, 7.84% of which will have to be paid by SEH when that part of the quota is calculated (this part of the payments of each budget year is paid according to the estimate of the provisional quota). This greater commitment coincides with a drastic drop in agreed tax collection which has fallen by 25%, and the financial problem that arises from this quota mechanism is leading the autonomous administrations towards bankruptcy: the first effects of this are already being felt in Basque town councils, since they are at the bottom of the list when it comes to sharing out what has been collected. This may be compared to having a loan during an economic crisis: even though the family's income diminishes, its payment has the highest priority even if the family is unable to cover its most basic needs.



the basis, and in successive years a provisional amount is calculated which is subsequently modified when "squaring up".

The adjustments that are carried out afterwards taking into account the state's public deficit or surplus and income collected by the state in the form of customs, lottery, subsidies received and so on, give rise to an operation popularly referred to as the *cupo* and which is budgeted in a legal document under the heading of "liquid quota", without any mention of the amount of the gross quota. In 2010, according to the budgets, SEH was to pay Madrid €1,783.68m as a provisional liquid quota: €1,241.98m in the Basque Autonomous Community and €651.7m in Navarre.

The Joint Committee on the Economic Agreement (*Comisión Mixta del Concierto Económico*) approved a procedure on the 30th of July, 2007, in Madrid, for specifying the quota for Araba, Bizkaia and Gipuzkoa for the five-year period 2007-2011, making 2007 the base year for this five-year period. It was determined that there would be a gross quota of €5,350.96m<sup>16</sup> and that the liquid quota to pay that year would be €1,565.23m. The corresponding figures for Navarre that year were 1,372.04 million and 596 million, respectively.

We should also mention that undeveloped competences represent more than half of the spending in the Spanish government's yearly budget. And it is precisely the UDCs that are growing much faster than the average for spending as a whole. At this very time when there is a crisis everywhere, the state is increasing its spending on UDCs. The cost of the public debt, the bank bailout, the principal contributions to NATO both financially and in human resources, infrastructure, unemployment payments, early retirement costs and so on are all UDCs, 7.84% of which will have to be paid by SEH when that part of the quota is calculated (this part of the payments of each budget year is paid according to the estimate of the provisional quota). This greater commitment coincides with a drastic drop in agreed tax collection which has fallen by 25%, and the financial problem that arises from this quota mechanism is leading the autonomous administrations towards bankruptcy: the first effects of this are already being felt in Basque town councils, since they come last in the pecking order when it comes to sharing out what has been collected.<sup>17</sup> This may be compared to having a loan during an economic crisis: even though the family's income diminishes, paying it off has the highest priority even if the family is unable to cover its most basic needs.

		2004	2005	2006	2007	2008	2009
<b>Espainiar Estatuaren inbertsioak</b>	A-B-G*	328,81	374,73	411,36	477,69	520,17	565,47
	Nafarroa	143,37	79,15	116,58	140,51	152,8	209,09
	<b>SEH*</b>	<b>472,18</b>	<b>453,88</b>	<b>527,94</b>	<b>618,2</b>	<b>672,97</b>	<b>774,56</b>
<b>Kupo Likidoa</b>	A-B-G*		1.339,60	1452,75	1.572,77	1.565,23	1.556,41
	Nafarroa		464,20	487,70	580,99	596,00	532,00
	<b>SEH*</b>	<b>1.555,00</b>	<b>1.803,80</b>	<b>1.940,45</b>	<b>2.153,76</b>	<b>2.161,23</b>	<b>2.088,41</b>

\* A-B-G = The three provinces of Araba, Bizkaia and Gipuzkoa. SEH = South Euskal Herria.

Sources: Ministry of Territorial Administration and Public Administration. General Budget of the BAC and Navarre.

Table 3. SEH's contribution to the liquid quota and the Spanish state's investments, in €m

<sup>16</sup> This corresponds to 6.24% of the state's total spending on undeveloped competences, which at the time was estimated to have a value of 85,752.62 million euros. Navarre pays 1.6% of undeveloped competences through the *Concierto Económico*.

<sup>17</sup> The provincial governments collect their taxes, and first of all the quota is paid. In the BAC, 70% of the rest goes to the Basque Government and the provincial governments must pay their expenses and those of the town councils out of the remaining 30%. In Navarre, after paying the quota, the Government of Navarre pays its own budget and whatever is left over is distributed among the town councils.

Between 2004 and 2009, Madrid was paid more than €11,700m as liquid quota, while investment by the Spanish state in SEH over the same period adds up to €3,520m.

The quota is one manifestation of the situation of dependency in the Basque Country's financial relationship with the Spanish state, but of course it is not the only dependency relationship; another important channel where money is funneled to Madrid is that of the Basque Country's net payments to the Spanish social security system. The bottom line is that the situation of dependence entailed by the agreements between the Basque provinces and the Spanish state (i.e. the *Convenio Económico*, the *Concierto Económico*, the "Amejoramiento" and the Statute of Autonomy) shows up in an analysis of economic flow between SEH and Madrid.

## b. Investment by the Spanish state

### *Direct investment*

The state invests in the undeveloped areas of competence. In 2009 direct investment by the Madrid government in South Euskal Herria amounted to 2.98% of the total amount invested by the Spanish state in the same spending areas; this percentage comes nowhere near the Basque proportion of the state's GDP, the size of the Basque population, or any other indicator one might think of using, and the contribution of the SEH to the state in the same period was 7.84%.

It should be said that much of this investment goes into infrastructure on Basque territory whose desirability is questioned socially. Thus, 65% of the investment mentioned is on ADIF (responsible for the high-speed rail project to connect Spain to France), the state-owned ports of Bilbao and Pasaia, the airport authority AENA and SETTSA.

	2008			2009		
	A-B-G*	Navarre	SEH*	A-B-G*	Navarre	SEH*
Administrative public services	95,6	28,52	<b>124,12</b>	77,14	33,72	<b>110,86</b>
Public services to businesses and foundations	424,57	124,28	<b>548,85</b>	488,33	175,37	<b>663,70</b>
<b>TOTAL</b>	<b>520,17</b>	<b>152,8</b>	<b>672,97</b>	<b>565,47</b>	<b>209,09</b>	<b>774,56</b>

\* A-B-G = The three provinces of Araba, Bizkaia and Gipuzkoa. SEH = South Euskal Herria.  
Source: Ministry of Territorial Administration and Public Administration. February 2011

Table 4. Investment by the Spanish state in SEH 2008-2009, in €m

### *European funds*

SEH provides 7.84% of the Spanish state's entire contribution to the EU. Out of the total amount approved in regional community aid for the period from 2007 to 2013, SEH has been assigned €763.11m, which is only 1.91% of the money given to the Spanish state during that time.

	A-B-G*	Navarre	SEH*
Total (ERDF)	271,34	57,65	<b>328,99</b>
Total (ESF)	152,4	34,1	<b>186,5</b>
EAFRD	78,14	112,3	<b>190,44</b>
FEP	56,38	0,8	<b>57,18</b>
<b>TOTAL</b>	<b>558,26</b>	<b>204,85</b>	<b>763,11</b>

\* A-B-G = The three provinces of Araba, Bizkaia and Gipuzkoa. SEH = South Euskal Herria.  
Source: Ministry of Territorial Administration and Public Administration. February 2011

Table 5. Overview of community investments, in 2007-2013, in millions of euros

### c. Social Security

Social Security (SS) flows are complex; here we shall consider the biggest component thereof (covering more than 95% of the total) consisting of SS payments including SS coverage of accidents in the workplace and occupational diseases as well as unemployment benefits, occupational training and the wage guarantee fund (FOGASA) and the fund for pension and unemployment services and those received from FOGASA and derived from restructuring processes (early retirement).

Historically<sup>18</sup> the net balance of Social Security flow (i.e. everything paid in minus the total of services provided) has tended to be in Madrid's favour: in the period between 2000 and 2009, a net amount of €12,438.27m was paid into Social Security's Single Fund (*Caja Única*). 2010 was a year of negative flow according to the provisional figures, on account of the crisis which has resulted in less money being collected and skyrocketing unemployment rates. In Navarre the first ever negative SS balance of -€56.4m occurred in 2009, and the balance was negative throughout SEH in 2010 too.

		2000	2002	2004	2006	2008	2009	2010*
<b>Paid in to SS</b>	A-B-G	4.106,31	4.608,75	5.166,65	5.744,72	6.447,71	6.495,11	6.514,40
<b>Paid in (Unemployment, Training programmes, FOGASA)</b>	A-B-G	800,73	898,71	1.007,51	1.120,22	1.257,31	1.266,55	1.270,65
	Navarre**	1.263,73	1.348,10	1.693,06	1.942,86	2.223,92	1.996,25	
<b>TOTAL PAID IN</b>	<b>SEH</b>	<b>6.170,77</b>	<b>6.855,56</b>	<b>7.867,22</b>	<b>8.807,80</b>	<b>9.928,94</b>	<b>9.757,91</b>	<b>7.785,05</b>
<b>SS services</b>	A-B-G	3.499,44	3.951,09	4592,22	5327,93	6132,83	6.398,82	6.792,94
<b>Business restructuring processes</b>	A-B-G	8,06	5,79	6,67	10,51	11,14	10,33	6,51
<b>Unemployment benefits</b>	A-B-G	419,07	465,68	542,51	598,63	692,46	1.188,79	1.224,69
<b>FOGASA</b>	A-B-G	15,37	11,93	25,97	20,08	39,92	89,25	108,02
	Navarre**	913,33	1.060,09	1.232,58	1.482,27	1.788,92	2.052,64	6,51
<b>TOTAL PAID OUT</b>	<b>SEH</b>	<b>4.855,27</b>	<b>5.494,58</b>	<b>6.399,95</b>	<b>7.439,42</b>	<b>8.665,27</b>	<b>9.739,83</b>	<b>8.138,67</b>
<b>NET FLOW</b>	<b>SEH</b>	<b>1.315,50</b>	<b>1.360,98</b>	<b>1.467,27</b>	<b>1.368,38</b>	<b>1.263,67</b>	<b>18,08</b>	<b>-353,62</b>

\* Provisional figures. Since they only include Araba, Bizkaia and Gipuzkoa, the net flow only refers to these three provinces.

\*\* The figures given for Navarre include total amounts paid in and services provided by SS, unemployment, professional training and FOGASA. Sources: Spanish government offices in the BAC; Statistic Yearbook of Work and Social Affairs of the Spanish Ministry of Work and Immigration (data for various years)

Table 6. Main cash flow of Social Security, in millions of euros

This negative social security balance does not imply in the least that the Spanish state is financing Euskal Herria in this respect. Rather, the negative flow should be read in the

<sup>18</sup> Throughout the eighties the financial effect of the arrangement for Social Security was that the three provinces alone of Araba, Bizkaia and Gipuzkoa paid out almost 2,700 million euros (i.e. in the currency of the time, 447,000 million pesetas). But between 1992 and 1997, owing to the crisis of 1993 which was aggravated in SEH by the second phase of industrial reconversion, the financial balance of Social Security was slightly on the negative side for Araba, Bizkaia and Gipuzkoa, to return out of the red from 1998 onwards: in 1998 and 1999 there were net payments to Madrid of 455 and 509 million euros respectively.

context of the way the Spanish social security's accounting system works; it has had a negative balance everywhere throughout Spanish territory that has had to be made up for using the social security's reserve fund, and if the present situation of the job market continues unchanged that will continue to be the case.

The negative balance between services and contributions is mainly explained as follows:

- The substantial increase in the number of pensioners though early retirements owing to the crisis was absorbed by the social security funds. Thus the cost was transferred to the workers' accumulated saving fund held by SS instead of being paid out of the pockets of the companies concerned or the Spanish ministry of industry as a cost of the "labour adjustments to maintain levels of business profits".
- The increase in the average cost of the new pensions owing to the fact that what are being destroyed are high-quality, long-term jobs, from which money has been paid in to the social security system over long periods of time on the basis of better salaries than those now being offered under exploitative junk contracts.

While the demand for services is increased by these two factors, contributions are simultaneously being undermined by two other things:

- Reduction of the number of people paying in owing to wide-scale loss of jobs.
- Reduction of monthly contributions given that there is a real reduction of wages, not just through real pay cuts to salaries for regular jobs (as in the case of civil servants) but also because new work contracts offer lower salaries.

Given this trend, Social Security's so-called "piggy bank" has begun to shrink. SEH owes its negative balance to the fact that the difference that we have spoken of has come out of the piggy bank. The curious thing is that the Spanish state has had to take a larger part out of the piggy bank to make up for its own negative balance, and while the Spanish state takes out a proportionally larger part than SEH takes, there is still a net contribution by SEH to Madrid by allowing it a larger part of the "piggy bank" that had previously been filled with money from SEH.<sup>19</sup>

## **2. THE IMPORTANCE OF THE BASQUE PUBLIC SECTOR FOR THE BASQUE ECONOMY AND SOCIETY**

### **2.1. The configuration of the public sector in SEH**

The public sector is made up of public bodies that act in the territorial area. They are the following, listed by administrative division and powers:

**The state public sector** (general administration and autonomous community bodies that have not been devolved in SEH). The most important of these in terms of their impact

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<sup>19</sup> Given its conceptual difficulty, let us attempt to explain what had just been said. Suppose SEH has contributed 10% of the Spanish Social Security's reserve fund (or "piggy bank"), and the state has put in the other 90%. If at a give time, because of negative money flows (more paid out in services provided than paid in by wage earners), SEH takes 6% of the piggy bank and the state takes the other 94%, we see that even in this period of negative flows SEH is still financing Madrid by allowing Madrid to use a larger part of the resources than corresponds to what it has generated.

on social cohesion are Social Security and INEM (the department of employment); the list of undeveloped competences is long; in fact, more than half of the Spanish government's budget is spent on undeveloped competences.

This sector is also ultimately in charge of implementation of the European Union's regional policies.

**Governments of the Basque Autonomous Community and the Autonomous Community of Navarre** (general administration and autonomous community bodies which manage spending for most of the powers devolved by Madrid). This management takes place in the framework of the legislation of the devolution system itself, in which all laws, in no matter what area, derive from Madrid; this supreme authority of Madrid over all legislation is the source of constant conflicts in those areas which are supposedly the areas of devolved competence of the autonomous community.

**Provincial (or *foral*, i.e. *fuero*-based) governments** of Araba, Bizkaia and Gipuzkoa. The Law of Historical Territories lays down the legal framework that mediates between the provincial governments and the government of the Basque Autonomous Community. This legislation and the laws that ensue have progressively emptied the competences of the provincial governments of real meaning, limiting them to what are called minor competences of a more social nature. The true problem underlying this legislation is none other than the actual distribution of power (made effective through control over funding) between the Basque Government and the provincial governments.<sup>20</sup> In theory the "*foral* governments" have the historical right to exclusive control of tax collection on their territories, but in practice the exercise of that power is not only supervised, but directed, by the Basque Government itself.

**Town councils.** These institutions, as well as the financial limitation discussed in the preceding section (given that their principal sources of income are the provincial governments), are limited by the state through the Law of Local Revenues (*Ley de las Haciendas Locales*) which establishes a legal framework concerning regulation and the powers of the state. Not only does it set limits on the ability of town councils to collect revenue, but also to pass laws. Town councils are allowed to join up in larger groupings for various economic or social purposes, giving rise to inter-district organisms.<sup>21</sup>

Each of these institutional entities has its own history and background: in a minority of cases the relationships were the fruits of voluntary pacts; more often they emerged historically as a result of relations of forced allegiance.

This is the basic legislation within the legal framework of the Spanish constitution which regulates both the maximum degree of power of the administrative bodies in question in terms of expenditure and revenue and also normative articulation, and the configuration of

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<sup>20</sup> It is now public knowledge that the main disagreements within the Basque Nationalist Party under Garaikoetxea's mandate were about this distribution of power, and the first law signed by his successor Ardanza was Law of Historical Territories in 1985.

<sup>21</sup> In addition to this institutional structure, in Araba there are also historical institutions called *Consejos* with their own revenue collection, but their power is becoming more and more diluted within the municipalities; this may lead to the complete loss of a traditional form of territorial, social and economic organisation and of institutions that have survived from the Middle Ages, and which were abolished elsewhere in the nineteenth century.

the "Basque public sector" itself, the limitations of which have been made clear repeatedly in recent years.

With this clarified, we shall now see how the autonomous community administrations of Araba, Bizkaia and Gipuzkoa on the one hand, and Navarre on the other, make their presence felt in economy and society in South Euskal Herria.

## **2.2. The Basque public sector in big numbers: less money coming in**

The Basque public sector provided 12% of all jobs in SEH in 2009 and according to the 2012 budget will account for 17% of its GDP. The portion of the GDP corresponding to the Basque public sector has fallen by 7.4 percentage points since 2007, reflecting the calamitous contraction of public spending thereafter, using the crisis as a pretext.

The most notable thing in the crisis is the drastic drop in tax collection, which is much sharper than the decrease in economic activity. Tax collection in SEH has fallen in terms of current prices by 14.46% from 2008 to 2012 (bearing in mind the effect of inflation, the real fall, at constant prices, would be 21.51%), while the GDP at current prices fell by 1.45% in the same period (8.5% at constant prices).

A careful analysis of this fall in tax collection yields a worrying conclusion indeed: the crisis has been taken advantage of to increase tax fraud.

This increase in tax fraud correlates directly with the fall in the tax burden in South Euskal Herria (understood as the quotient of taxes collected divided by the GDP), situated according to budgetary figures at 17.88% in 2012 as compared to 20.6% in 2007.

The GDP in SEH has fallen by 1.45% in the crisis, and if tax collection were maintained at the same level of burden it would have fallen by the same proportion, instead of which it has fallen by 14.46%. So if in 2007 taxes collected represented 20.6% of the wealth that was generated, in 2012 only 17.8% of the wealth generated will have been paid for, on average, despite the fact that there have been sharp rises in VAT and taxes on fuels, tobacco, electricity and so on over this period.

An ever larger part of the GDP is escaping taxation through tax havens or simply through a greater degree of outright fraud. According to a report published by professor Ignacio Zubiri, tax fraud in the BAC in 2010 was worth more than €10,000m.

The 2010 report of the Observatorio de Responsabilidad Social Corporativa indicated that 69% of companies in IBEX-35 do business in tax havens, pointing specifically to Iberdrola, Iberdrola Renovables and BBVA (the last-mentioned has €12,628m deposited in the Cayman Islands).

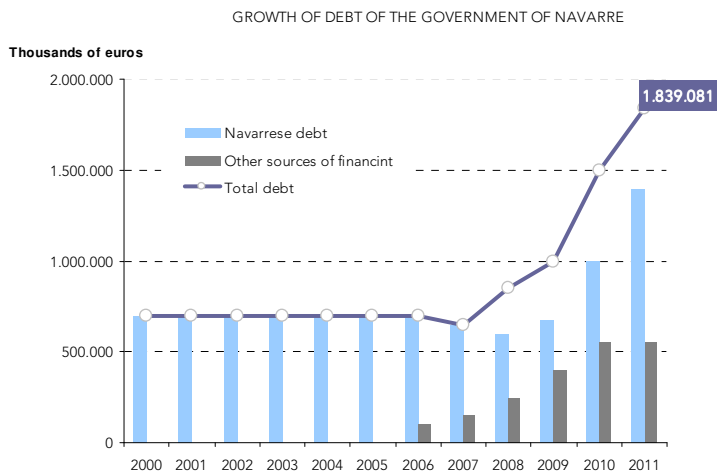
AMOUNTS IN €m	NAVARRE	NAVARRE	Variat. %	BAC	BAC	Variat. %	SEH	SEH	Variat. %
	2008	2012	2008-12	2008	2012	2008-12	2008	2012	2008-12
<b>DIRECT TAXATION</b>	<b>1.791,24</b>	<b>1.434,62</b>	<b>-19,91</b>	<b>6.794,79</b>	<b>5.746,03</b>	<b>-15,43</b>	<b>8.586,03</b>	<b>7.180,65</b>	<b>-16,37</b>
Income tax	1.112,00	1.118,31	0,57	4.402,08	4.448,09	1,05	5.514,08	5.566,40	0,95
Corporation tax	567,07	236,79	-58,24	2.024,73	1.139,72	-43,71	2.591,80	1.376,51	-46,89
Non-resident income tax	9,31	9,08	-2,47	119,7	76,75	-35,88	129,01	85,83	-33,47
Inheritance and donation tax	37,01	40,43	9,23	80,75	81,27	0,64	117,77	121,7	3,34
Wealth tax	65,85	30	-54,44	167,52	0,2	-99,88	233,37	30,2	-87,06
<b>INDIRECT TAXATION</b>	<b>1.540,76</b>	<b>1.763,84</b>	<b>14,48</b>	<b>6.167,40</b>	<b>5.160,51</b>	<b>-16,33</b>	<b>7.708,15</b>	<b>6.924,35</b>	<b>-10,17</b>
Self-managed VAT	931,22	1.076,67	15,62	3.861,23	3.387,48	-12,27	4.792,45	4.464,15	-6,85
Fuel	235,02	271,91	15,7	1.084,00	1.039,80	-4,08	1.319,02	1.311,71	-0,55
Wealth transfer	84,45	42,95	-49,14	409,74	109,7	-73,23	494,19	152,65	-69,11
Documented legal acts	57,92	19,98	-65,51	139,71	59,37	-57,51	197,64	79,35	-59,85
Insurance premiums	21,9	20,37	-6,99	81,68	79,72	-2,39	103,58	100,09	-3,37
Means of transport	22,64	6,96	-69,25	80,78	24,58	-69,57	103,42	31,54	-69,5
Tobacco	148,72	135,58	-8,84	355,37	341	-4,04	504,09	476,58	-5,46
Electricity	20,73	23,81	14,89	76,6	94,9	23,89	97,33	118,71	21,97
Other indirect taxes	18,16	61,8	240,23	68,29	23,95	-64,93	86,46	85,75	-0,82
<b>DUTIES AND VARIOUS</b>	<b>14,75</b>	<b>104</b>		<b>122,22</b>	<b>114,39</b>		<b>136,97</b>	<b>218,39</b>	
<b>VAT adjustment</b>	<b>302,29</b>	<b>103,81</b>		<b>1.279,15</b>	<b>1.206,50</b>		<b>1.581,44</b>	<b>1.310,31</b>	
<b>Special tax adjustment</b>				<b>(-81,19)</b>	<b>(-110,72)</b>				
<b>TOTAL TAXES AGREED</b>	<b>3.649,04</b>	<b>3.221,90</b>	<b>-11,71</b>	<b>14.282,36</b>	<b>12.116,71</b>	<b>-15,16</b>	<b>17.931,40</b>	<b>15.338,61</b>	<b>-14,46</b>
GDP	19.106,97	18.850,56	-1,34	67.924,49	66.918,96	-1,48	87.031,46	85.769,52	-1,45
<b>Tax burden</b>	<b>19,09</b>	<b>17,09</b>		<b>21,02</b>	<b>18,1</b>		<b>20,60</b>	<b>17,88</b>	

Source: Compiled from information in the budgets of Navarre and the BAC for 2008 and 2012

Table 7. Comparative table of tax collection and tax burden in 2008 and 2012 (in €m)

### 2.3. Resorting to massive debt: "social mortgage"

Navarre was set to accumulate a public debt of €1,839.1m (representing 9.8% of its GDP) by the end of 2011. The outstanding current debt has increased threefold since the beginning of the crisis: at the end of 2007 it was €628.4m (8.1% of the GDP). Private debt had reached €23,920m by the end of 2010 (we lack data for 2011). The sum total of debt in Navarre, combining public and private, amounts to more than 137% of the GDP.



Source: Department of Economy and Finance

In the general administration for Araba, Bizkaia and Gipuzkoa (not including the provincial administration or local councils<sup>22</sup>), the public debt has shot up in the last four years, the budgets indicate for the end of 2011 an outstanding debt of €5,394.62m and a net debt increase for 2012 of €1,207.8m, out of a total of €6,432.93m. The financial burden for 2012, according to the estimation of the budget, will be €401.32m of which €169.48m corresponds to paying back capital and €231.84m is interest.

	December 2007	December 2011
Navarre	628,4	1.839,10
BAC	642,0	5.394,62
<b>South Euskal Herria</b>	<b>1.270,4</b>	<b>7.233,72</b>

Source: BAC and Navarrese budgets; Eustat.

Table 8: Public debt of governments of autonomous communities (in €m)

## 2.4. Spending on social protection<sup>23</sup>

South Euskal Herria entered its so-called democratic era with the lowest level of public social spending anywhere in Europe, as a consequence of forty years of dictatorship characterised by terrible repression and great social indifference. In 1975, the year the dictator died, Spain (for Euskal Herria had no powers of its own) had a level of public social

<sup>22</sup> According to the latest figure available (October 2011) in the 2009 Annual Report of Basque Internal Revenue, the debt of the foral governments of Araba, Bizkaia and Gipuzkoa at the end of 2008 was €724,967m, and that of their town councils at the end of 2007 was €644,472m. But these numbers may have become three times as large by now.

<sup>23</sup> Social protection is defined by the European System of Integrated Social Protection Statistics as "all interventions from public or private bodies intended to relieve households and individuals of the burden of a defined set of risks or needs". This spending leads to the intervention of a third party, be it a public entity or a private not-for-profit body or institution (in all cases occurring as collective spending, for which reason private spending for personal consumption is not included), without a simultaneous and equivalent payment by the beneficiary.



spending of 14% of its GDP, a percentage far lower than the western European average of 22%. During the eighties and the early nineties, public social spending increased substantially as a result of decentralisation and the development of public services which had previously been very minimal, and reached their highest level in 1993 when spending on social protection (which includes pensions and other payments, and public services such as health care and family services such as nurseries, home help for the elderly and disabled, old age homes and others, subsidised housing and services for the prevention of social exclusion) rose to 24% of the GDP, which is the percentage of public spending on social protection ever attained which comes closest to the EU average of 28.8%.

Since the Treaty of Maastricht, however, the deterioration of spending on social protection has been much faster in SEH than the EU average: between 1993 and 2007 social spending in SEH plummeted from 24% of the GDP to 18.8% in Araba, Bizkaia and Gipuzkoa, and 16.7% in Navarre, while in the EU as a whole it decreased from 28.8% to 26.2% over the same period.

	EU-27 average	A-B-G	Navarre	North EH	Spain
Spending on social protection as % of GDP	26.2	18.8	16.7	33.62	21.0

Sources: INE, Eustat, Government of Navarre. For North EH, INSEE, provided by Gaindegia.

Table 9. Spending on social protection in Euskal Herria (2007)

There is a huge difference between social spending in SEH and North Euskal Herria (NEH): while the South averages less than 18%, the figure in the North is over 33%, and this creates a major problem which we shall discuss in the last section.

### **3. STRENGTHS AND WEAKNESSES OF THE PRESENT FRAMEWORK OF COMPETENCES AND INSTITUTIONS**

#### **3.1 Limitations of the present legal framework in the area of economics**

The present legal and political framework limits Euskal Herria's economic capacity. In the system of autonomous communities set up by the Spanish constitution, no allowance is made for the development of an economic and social policy differentiated from that of the state, and in the monolithic French state even less freedom exists. The established system is clearcut: in the South there is a single state (Spain) composed of autonomous communities with a certain degree of political devolution (a limited legislative capacity subordinated to the sovereignty of the state); in the North, a single monolithic state (France) with just an occasional hint of administrative devolution.

In the present period of crisis and change, the economy is becoming increasingly structureless owing to the centralism of the states to which it is tied; Euskal Herria's economic structure is becoming progressively weaker, dependent and disperse, while social inequality grows apace.

The Spanish and French states are the only entities controlling budgetary policy. And it is they who decide, in part, how foreign investment and European funds are to be distributed. In the important area of foreign trade, the situation is similar, and it affects the Basque economy because this is so active in that sector. In South Euskal Herria no progress has been made in Social Security, employment policy or the Institute of Finance. The states play a key role in determining the future of Euskal Herria since they retain control of such basic infrastructure as shipyards, ports, airports, railways and the postal service.

The Spanish constitution of 1978 made no bones about the question of who makes important decisions on the economy. Subsequent developments and high court rulings, unambiguously taking the state's side, show that we are looking at a type of state that imposes a system of hierarchical, top-down relations on the administrations of the autonomous communities.

Article 2 of the Spanish constitution declares the "indissoluble unity of the Spanish nation". All rights, including that of property, are subordinated to the common interest. In the French constitution, Article 1 establishes that France is an indivisible republic, and Article 3 vests national sovereignty in the people (i.e. the *French* people). Hence power over budgetary and economic issues rests unreservedly with the French state.

The economic sovereignty of any people rests on several basic pillars discussed below; only full control of all of them can guarantee this sovereignty.

#### **a. Full power to regulate the territory**

A basic economic infrastructure is built on a country's territory and territorial infrastructure; this determines citizens' standard of living. The first limit placed on this economic infrastructure is the territory itself; the second is the ability to make decisions affecting basic infrastructure in the area in question on matters of fundamental importance such as transport, environment, energy and so on.

The division of Euskal Herria between two states, Spain and France, and between four autonomous communities within the Spanish state (the BAC, Navarre, Castile-León and Cantabria), stands in the way of any attempt to implement an economic policy that responds to its needs based on the concept of a Basque nation. This circumstance reinforces the peripheral character of Euskal Herria vis-à-vis the Spanish and French states and the strongly centralist nature of the states, based on their constitutions.

The exclusive powers of the Spanish state which have not been devolved to any autonomous community include the control of strategic infrastructures; those that affect Basque territory are the main roads (the N-1 and others that might be declared *carreteras nacionales* by Spain), motorways, broad gauge railways (RENFE and TAV), the airports of Loiu (serving Bilbao), Foronda (Gasteiz), Hondarribia (Donostia) and Noain (Iruñea), and the major sea ports of Pasaia and Bilbao.

#### **b. Power to regulate the economy**

There exists a wide range of possible economic models; those assuming state control range from neoliberal capitalism, with maximum market deregulation and social protection, to state socialism, with maximum regulation and market intervention. There are also other models that fall outside of any higher power structure, such as libertarian anarchism or the commune.

Choice of one or another model is an attribute of economic sovereignty. Looking at the models of public intervention which, in one form or another, have developed in Europe over the past fifty years, the following may be mentioned:

- **Market economy and the subsidiarity principle.** The state does not interfere directly in the economic planning of companies, although it does so indirectly through legislation on employment, taxes and so on, and by facilitating adequate infrastructure to support the company's activities. Ownership of the means of production is private, as are the profits therefrom, but part of the production costs (infrastructure, environment, social protection etc.) is socialised. The market is given absolute priority over the public sector which only covers things not provided by the market and deemed necessary for it (this is the subsidiarity principle). This is what is referred to as the capitalist economy.
- **Centrally run economy.** The development of both the productive process and consumption is the result of an Economic Plan established by the state. Ownership of the means of production is public, and the market is relegated because it is considered a waster of resources. This is what is referred to as a socialist economy, such as was developed in the USSR.
- **Mixed economy.** A mix of the above in which private initiative and the market are allowed to coexist, with planning in the public sector and public means of production in state enterprises, focusing mainly on the basic sectors of production such as energy, finance, health care, education, transport and housing. Depending on which predominates, the public or the private sector, the economy will lean towards a more socialising model (which reached its peak in the nineteen-sixties with the welfare state) or a neoliberal one (as at present).

Venezuela is developing a state based on Bolivarian socialism, basically a mixed model with a strong emphasis on public property in strategic sectors.

- **Social economy.** This is the name given to a system in which the means of production belong to the workers, who are free to regulate them as they see fit, and consumption is free. The main exponents of social economy are found in Scandinavian countries.

Although in the official Basque discourse social economy is treated as synonymous with the cooperative approach, there is a big difference between a socialist cooperative movement and neoliberal cooperativism.

Along with many positive aspects over past years, we are witnessing many elements in the Mondragon Cooperative Corporation that are a cause for great concern. There has been a worrying trend towards the weakening of the sovereign organs and organs of government in the movement, and a move towards a more technocratic approach. There is also an increasing risk of diluting the movement's commitment to Basque society. There is an alarming lack of analysis of the social consequences of internationalisation and the movement's role in the territorial articulation of Euskal Herria. It also needs to be said that there has been a progressive weakening of the ideological component in cooperative training and an increase in the number of people hired on self-employment contracts, entailing the exploitation of workers and denial of job security by the very same means used by non-cooperative businesses, a drop in the participation of the various internal organs and a relative disconnect between the Mondragon Cooperative Corporation and the social forces that are working actively in Euskal Herria.

- **Identity socialism.** What has been called *socialismo identitario* ("identity socialism") is an attempt to adapt economic policy to the place where it is implemented, with special emphasis on endogenous development, i.e. development based on the local territory and human, natural, economic and cultural resources, promoting synergies between these in an integrated and maximally harmonious way based on consensus through active social participation, giving priority to the social dimension: redistribution of wealth, social protection, and reorganisation and distribution of salaried and non-salaried work. Ownership of the means of production will be both public and private, adapting the market to the collective welfare. Identity socialism also envisages public planning that is binding for the public sector so as to make it "strong, effective and honest" and offers the private sector non-binding guidelines; the principle of inverse subsidiarity which gives priority to the public over the private sector; and promotion of the social economy and self-management.

The Spanish and French states both have exclusive power over economic planning throughout their territories. Euskal Herria has no power whatsoever to choose the kind of economic order that suits it best. The constitutions of Spain and France establish the priority of the market and private property, with legislation favouring neoliberal interests, as we have seen.

### c. Public-sector direct planning and intervention in the economy

Through economic planning and some degree of intervention, the public sector determines the economic model. The key question in the economy is *in whose favour* this intervention occurs: in that of a privileged minority or the majority of the people? Here again, Euskal Herria lacks the powers necessary to decide that for itself.

Article 149.13 of the Spanish constitution states in black and white that economic planning is the exclusive competence of the state. In Section VII on Economy and Finance, Article 131.1 empowers the state to plan general economic activity. This competence is covered by Article 10.25 of the Statute of the BAC and in Article 56.1.a of the equivalent Navarrese document. Both of these provisions subordinated to the constitution: in the case of the BAC, to the "general planning of the economy", and in the case of Navarre to "bases and planning of economic activity", which in either case refers to the state. Article 138.2 of the constitution states that no statute of autonomy may assign social or economic privileges. Article 139.1 insists that "all Spaniards have the same rights and obligations in any part of the state's territory." Article 139.2 ensures "freedom of movement and settlement of persons and free movement of goods throughout the Spanish territory." Article 149.2 establishes that "the State shall have exclusive competence over... customs and tariff regulations [and] foreign trade."

The monolithic French state subordinates the northern Basque provinces of Lapurdi, Low Navarre and Zuberoa to French economic planning even more thoroughly.

### d. Fiscal sovereignty<sup>24</sup>

Fiscal sovereignty allows planning of what economic resources will be obtained and where from. The fiscal and financial relations between Navarre and the Spanish state, and between Araba, Bizkia and Gipuzkoa and the state, are determined by agreements between these areas and Spain. North Euskal Herria is regulated entirely by French fiscal law.

The outcome of the financial and fiscal relations which South Euskal Herria is forced to maintain with the Spanish state is summed up in the following points:

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<sup>24</sup> For a detailed analysis of the SEH fiscal system and the scope of the *Concierto* and the *Convenio* agreements with the state in terms of economic subjection, not only of the fiscal and legal model but also economic contribution to the *cupo* or quota, see Jurado's (2004) study "El sometimiento económico de HEH a Madrid", published online by Red Vasca Roja.

- Notwithstanding the Basque Nationalist Party (PNV)'s claims to the contrary, it is not a system based on a pact between two sovereign bodies. The *fuero* regime was modified as a consequence of a series of military defeats in the course of the nineteenth century; this process emerged out of a loss of sovereignty through force, with the direct intervention of the Spanish army, with the express purpose of integrating South Euskal Herria into the Spanish system.

The present legal situation is that established by the Spanish constitution, which contains no consideration of rights of the Basque people and in the subsequent development of which it is made perfectly clear, where the *fueros* receive any mention at all, that their real function is to maintain them in appearance while keeping them on a short leash so that their practical content differs little in substance from the Spanish arrangement. This state of affairs bears no resemblance to an agreement between two sovereign bodies, and all talk of laws based on a pact is stuff and nonsense.

- **Powers of regulation and taxation.** The defenders of this system insist that "*as well as the state*, the authorities of the Historical Territories have the power to regulate matters relating to taxation, and can develop and configure their own system of taxes".

The answer to this statement is to point out that a tax system is a coherent system of taxes in accordance with a certain set of economic, budgetary and income policies answering to particular principles and objectives; a set of taxes alone does not constitute a *system of taxation*. Underlying the creation of a tax system is a whole socioeconomic theory going beyond the mere objective of collecting taxes, and the system revolves around certain predetermined goals.

From this point of view, the taxes over which, by prior agreement, Araba, Bizkaia, Gipuzkoa and Navarre possess certain rights of regulation and collection do not constitute a tax system, since Article 3 of the *Concierto Económico* and Article 2 of the *Convenio* themselves incorporate a set of general principles which dictate defining aspects of the Spanish system of taxation:

- Respect for "solidarity" in the terms laid out in the Spanish constitution and the statute of autonomy.
- Accommodation of the general tax structure of the state.
- Coordination, tax "harmony" and collaboration with the state.
- The system is to be subject to any international treaties and pacts that the Spanish state has signed, ratified or joined.
- The clauses of the agreement shall be interpreted according to the dictates of the General Law of Taxation.

According to the general law of taxation, the same tax deductions on income tax and corporation tax are to be applied; the same rules as in the state are applicable to bank operations and money markets; no fiscal measures to promote investment may be adopted that differ from those of the state; when establishing rules of taxation, the institutions of the historical territories must accord with the principles of the Spanish state's overall economic policy, and on and on it goes.

In these agreements there is a general tendency to uphold the overriding principle of *unity of the market*, hence there can be no tax exemptions, no tax-related privileges, and rules of taxation of a special or exceptional character that are established by the state must be applied. There are also provisions requiring that the overall effective tax burden be equivalent to that of the state, and to make sure

nothing is left hanging, the devolution of the management of tax collection is to be organised in accordance with a principle of cooperation which demands the exchange of information and joint inspection plans.

The state reserves to itself exclusive powers such as, for instance, those involving taxes not forming part of the agreement or inspection of the implementation of these agreements.

SEH is not allowed to create new taxes (such as a Tobin tax or currency conversion tax); it must comply with the state taxation system — a system where it has no regulatory capacity over more than half of the taxes concerned — and it is obliged to follow the state's general fiscal policy.

In short, then, the "broad fiscal autonomy" of the Basque Country is constrained or blocked by requirements in the Spanish constitution, the statute of autonomy of Navarre or the BAC depending on the case, and the legal stipulations in the economic agreements themselves. Not to mention that given that the latter were approved by the *Cortes Generales* in Madrid, it is Madrid that has jurisdiction over any modifications thereunto.

- **Unilateral risk of the quota.** As explained earlier in the discussion of economic flow, the quota is subject to exogenous variables, that is, it depends on the spending of the state on undeveloped competences while allowing no consideration for either how much tax was collected in SEH or its own spending.

A system of taxation is a coherent set of taxes; their coherence derives from certain overall principles and criteria and the endeavour to achieve certain objectives which go beyond the mere intention to collect taxes. A Basque system of taxation ought to rest on a foundation consisting of criteria and objectives of national construction based on the decisions of the inhabitants of Euskal Herria.

- **Coordination of tax policies.** Both agreements contain a clause stating that "the competent institutions of the Historic Territories shall adopt the relevant agreements, with the object of applying within their respective territories whatever exceptional or provisional tax rules the State may decide to enforce in the ordinary territory. Such rules shall remain in force for the same length of time as in the ordinary territory" and stipulate that the overall effective tax burden may not be less than that in the rest of the state.

Despite its triumphalist claims in the media, the PNV has never denied that the agreement has great limitations and cannot be presented as a fine example of fiscal sovereignty within a system of subordination to a state. Thus we read in a document from the president's office titled "Economic reasons for a new institutional framework" (*Razones económicas de un nuevo marco institucional*, April 2004):

The restoration of the *Concierto* by Bizkaia and Gipuzkoa represents the return of an institution lost during the period of loss of liberty, but is certainly not an example of what is known in English as a "devolution" process. Bearing in mind that the First Additional Provision of the constitution "protects and respects historic rights", and that the Repeal rescinds the laws of 25 October, 1839 and 21 July, 1876 which abolished the *fueros*, "devolution" would imply the restoration of the *Concierto* and other forms of self-government through their incorporation into the text of the Statute ("in the framework of the Constitution and the Statutes of Autonomy") without there being any question of limiting it to the distribution of the powers of

Article VIII of the Carta Magna which would have meant that the *Concierto Económico* itself was impossible.

Rather than admitting the farguing, logical implications of this "constitutionalization of historical rights", the attempt has been made to stop its scope from extending beyond the restoration of an Institution which Araba and Navarre already conserved under the Franco regime, and so to set going a process of deterioration of competences acknowledged in the Statute of Autonomy, even those that come closest to the intangible core concept of the *fueros*, as is shown by the rulings of the Constitutional Court in numerous cases.<sup>25</sup>

- **Monetary policy.** Article 149.11 of the Spanish constitution declares that the state has exclusive competence over the monetary system, including foreign currency, exchange and convertibility, and bases for regulations concerning credit, banking (including the savings banks) and insurance. The exclusivity of those powers is reiterated explicitly in Articles 10.26 and 11.2.a of the Statute of Autonomy which regulates the BAC and in Article 51.1.e and f of the "Amejoramiento del Fuero", which is the corresponding document for the Navarrese Autonomous Community.

On account of EU monetary and economic policies, certain powers that were held by the Spanish and French states have been transferred to the European Central Bank and the European System of Central Banks (see Article 108 of the Maastricht Treaty). This relinquishment or delegation of powers, let us remember, is entirely voluntary on the states' part (hence only thirteen of the countries in the EU have the euro, the UK for example having chosen to remain outside the system and maintain its monetary sovereignty), having come about through a free pact, an option unavailable to Euskal Herria which is bound by whatever pacts the Spanish and French states choose to make.

- **Labour relations.** Article 149.7 of the Spanish constitution attributes exclusive competence to the Spanish state over labour legislation. The state also retains the exclusive right to regulate social security, establish the minimum wage and any matters relating to workers' basic rights. In other words: all laws and official regulations concerning employment and rights relating to employment are controlled exclusively by the state. The only competence left to South Euskal Herria to perform is to fulfil the laws of the state with regard to those services which have been devolved to it. The demand for a Basque framework of labour relations is a response to the need to ensure recognition for a domain of Basque decision-making in this area of concern.

Not only is there a vacuum in legislative capacity on social and labour issues: there is also a lack of independent administrative entities operating in the area of active employment policy and intermediary roles for employment, passive employment

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<sup>25</sup> Ruling 76/1988 of the Constitutional Court (CC) was explicit about the present framework's scope. A summary puts it this way: "The constitution is not the result of a pact between historical territorial bodies that conserve rights prior to the constitution and taking precedence over it, but a constitutive regulation of power which imposes by general binding force in its domain, without exclusion of prior "historical" situations. In this sense, the action of historical rights clearly implies the suppression and non-acknowledgment of those which contradict constitutional principles. Hence historical rights derive, or keep their current validity, from the first additional provision of the Spanish constitution, not from their historical legitimacy.

The CC makes it clear that it does not recognise any kind of historical rights which might be interpreted as a projection of a certain sovereignty. The CC later defines the scope of the *foral regime* in the framework of the constitution: "What is guaranteed is the existence of a *foral regime*, that is, a special regime for each historical territory of territorial self-government, i.e. its "forality", but not that of each and every right which historically may have characterised it. The institutional guarantee implies that the content of forality should preserve, in both its organisational features and its own domain of power, the identifiable image of that traditional *foral regime*. It is this identifiable core that is assured, the terms of our ruling 32/1981 of the 28th of July being applicable to this when it stated that, by definition, the institutional guarantee does not assure a specific content or area of competence determined and fixed once and for all, but the preservation of an institution in recognisable terms for the image that the social conscience has thereof in each time and place."

policy (unemployment benefits) and social protection, health at work, further training for employees, and work inspection which take into account Euskal Herria's economic, labour and social particularities and diversity.

- **International relations.** International relations are specifically regulated by Articles 93 to 96 of the Spanish constitution. It is stated in Article 149.1.3 that these relations are the exclusive domain of the state. Neither the Statute of Autonomy for the BAC nor the *Amejoramiento del Fuero* document for Navarre make the least mention of any participation whatsoever by these communities in international relations. The only possible reference to be noted here is Article 20.5 of the Statute of Autonomy which says: "The Basque Government shall be informed of the concluding of treaties and agreements and of projected customs legislation, in so far as they affect matters of particular interest to the Basque Country." In the *Navarrese* document, on the contrary, there is no such clause and in its place only the following, in Article 58.2: "It is also the task of the Foral Community to implement within its territory the international treaties and agreements which affect matters coming under Navarre's competence."

Needless to say, Spain's entry into the European Union in 1986 had far-reaching consequences for South Euskal Herria, and there was no consultation whatsoever, nor was any option given to take part in the work leading up to the treaty of accession, the repetition of this procedure for the Treaty of Maastricht, or the strategic Lisbon Agreement, nor for the treaty establishing a European constitution, which establishes unambiguously that only states may have international representation. For the autonomous communities this entails the progressive loss of their already limited competences, and the area in which this is seen most clearly of all is in agriculture.

North Euskal Herria entered the European Union in 1958 through the 1957 Treaty of Rome, one of the founding members of which was the French state.

**So to sum up:** Euskal Herria's economic subordination to the French and Spanish states (i.e. economic non-sovereignty) entails a set of consequences which leave a clear mark on EH's economic development and social system.

It is clear that in order to respond to the political aspirations and conquer the democratic rights and political and economic power to which we are entitled as a people and distinct nation, it is necessary to set out on a different route from the present one, a route which can only amount to achieving a new legal and political framework. However, this new framework ought not be an end unto itself, but the necessary tool that will lead us towards a new, fairer type of society.

### **3.2. Strong points favouring the creation a Basque state**

#### **Euskal Herria has resources to face the challenges of independence**

Our starting point for developing our strategic approach to achieving the economic independence needed to set going a new, juster, more humane model of society than the one to which we are now subjected, is the concept that the social and economic viability of our project is the result of the small size of Euskal Herria, its excellent geographical location, and the sufficiency of its human, economic and financial resources.



a. Any such project will require, as an initial point of departure, to go back and achieve a **new consensus** on the need to build in earnest a stronger democracy in politics and the economy.

Comparative law shows that Euskal Herria is economically viable: approximately one-fourth of the member states of the United Nations are smaller and have fewer resources than it. Its area of 20,924.9 sq km and its population of 3,102,884 inhabitants make it the right size for a national project of human proportions.

b. The territory and population are more than an economic framework: they are an **economic resource** in themselves. In this sense it is the territory's specificity which makes it possible to bring together technology and a given culture to yield a unique product based on one's own cultural contribution, permitting the social identification of its inhabitants with an economic process over which there is a consensus and in which the inhabitants see themselves as participants.

In this framework, research and development acquires special value since, in combination with a high proportion of well-qualified workers, it implies great advantages for innovation in a territory characterised by a strong enterprising spirit. Spending on R&D in Euskal Herria is 1.83% of the GDP, slightly lower than the average for the EU-27 and France, but well above the average for the Spanish state.

c. With its 200 km coastline, adequate water resources and ample options for obtaining natural energy, Euskal Herria is a **viable, self-contained, natural economic community**. It presents an integrated socioeconomic space where each of its current administrative areas — the BAC, Navarre and the North — complement each other economically. In Euskal Herria the GDP per capita measured in terms of equivalent purchasing power is €31,065 for 2009<sup>26</sup> as compared to €23,600 for the EU-27.

d. Euskal Herria possesses underused **human capital**. Basque human capital has a respectable standing in EU terms. 71.33% of the population aged between 25 and 64 have a secondary school education or higher (data are for 2007: 24.58% had studied as far as secondary school, and 46.75% had completed higher education), as compared to an EU average of 70.77% (47.24% secondary, 23.53% higher), thus doubling the EU average for higher education. There is a stark contrast between these good figures for education and the 30.3% unemployment rate and 57.2% of temporary work contracts for young adults.

Given the overall unemployment rate of close to 13%, and 23% temporary contracts, we can see that the distribution of decent jobs is the chief structural problem and most basic issue here that needs to be addressed in order to mobilise and take advantage of our underused human resources.

If we assume a larger number of people with jobs including people under 25 (the age group in the whole life cycle with the greatest creativity potential), taken together with the high level of education of the Basque population, there is no good reason for thinking that an improvement in the distribution of employment would lead to any loss of productivity; the injection of the "human intangible" factor is not being taken into account by the "monetarist economists".

e. With regard to **taxation** through direct and indirect taxes and social deductions, Euskal Herria is well below the European Union average, with a tax burden (i.e. taxation to

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<sup>26</sup> The present problem in Euskal Herria is not the per capita income level but its uneven distribution and the excessive concentration of wealth. See N. Jurado "La Euskal Herria ¿de quién?" IPES (2008).

GDP ratio) that is 9.3 points lower: compare the EU average of 40.5% to the figures of 31.6% for Araba, Bizkaia and Gipuzkoa, and 29.8% for Navarre, in 2008).

In the 2011 budget, the total tax collection target in South Euskal Herria through the tax agreement was €15,802.3m (€12,501.0m in Araba, Bizkaia and Gipuzkoa, €3,301.3m in Navarre). If the tax burden in SEH were at the same level as the average for the EU, this would result in the collection of €5,005m more in taxes, and if it were at the level of North Euskal Herria, 44.6%, there would be €5,512m more.

If we add to this the money that is not collected owing to "tax holidays" and "fiscal spending", which was budgeted at €7,892.9m in 2011 (€6,306.1m in Araba, Bizkaia and Gipuzkoa, and €1,586.8m in Navarre), plus tax fraud which is estimated to be worth over €10,000m<sup>27</sup>, or more than 63% of the taxes that are collected, the conclusion we reach is that collecting more taxes is not necessarily a question of raising the tax rate, but has more to do with fighting fraud and striving for fairness, defending the principle of *equal taxation for equal income*.

Real accorded tax collection	15,802.3
Uncollected	17,892.9
Tax fraud (est. minimum)	10,000.0
Tax holidays or fiscal spending	7,892.9
<b>Potential total collection</b>	<b>33,695.2</b>

Sources: 2011 general budgets for Araba, Bizkaia, Gipuzkoa and Navarre

Table 10. Real tax collection and potential collection in South Euskal Herria. 2011 (in millions of euros)

f. Besides important fiscal resources that could be mobilised to undertake a new socioeconomic model, there are also Euskal Herria's physical capital and financial and natural resources to be considered.

**Physical capital.** In SEH, more fixed assets per employed person are used<sup>28</sup> than the EU average, with a continuous accumulation over the years since the nineteen-sixties.

	2000	2001	2002	2003	2004
<b>A-B-G</b>	11.0	11.4	11.9	12.3	13.4
<b>Navarre</b>	13.3	14.3	14.9	15.8	16.2
<b>EU-27</b>	9.4	9.5	9.5	9.6	10.0

Sources: Ministerio de Cooperación Territorial y Administraciones Públicas.  
Economic-financial profile of the Autonomous Communities, 2009 (published Feb. 2011).

Table 11. Gross formation of fixed capital per employed person (in thousands of euros per employee)

<sup>27</sup> Professor Ignacio Zubiri of the University of the Basque Country estimated that in 2010 €10,000m were lost in tax fraud in Araba, Bizkaia and Gipuzkoa; thus this figure does not include Navarre.

In 1997 N. Jurado wrote a report (under the direction of I. Zubiri) on tax fraud in SEH which was published by I.A., where it was established that on average another 70% of the yearly amount collected in taxes was fraudulently withheld, which is to say that if fraud were to be stopped the real amount collected would be approximately 170% of what is actually collected.

<sup>28</sup> "El Stock y los Servicios de Capital en España y su distribución Territorial (1964-2005)", Fundación BBVA (2007).

There are more than €75,000m in private deposits in banks and credit co-ops, not including funds deposited in insurance companies and collective investment funds which fall outside the scope of certified banking entities. The funds in Voluntary Mutual Benefit Organisations alone amount to more than 25% of the GDP. A different economic system could incorporate these public savings in a constructive way, mobilising it productively rather than speculatively, through socially controlled public finance bodies.

**g.** Lastly, as we saw in the section on institutional economic flow, year in, year out an important proportion of public economic resources goes to Madrid because of a contract that amounts to economic submission, or the sub-contracting of SEH, entailed by the *Convenio* and *Concierto Económico*. The annual net outflow to Madrid (income minus payments) exceeds €5000m. No wonder Euskal Herria is considered so important to *the unity of Spain!*

To sum up, the physical infrastructure of Euskal Herria and its important human, fiscal and financial resources, properly channelled, would suffice to make a Basque state viable.

### **3.3. The main threat: the weakness of social cohesion**

An indigenous-hearted woman asked me: Why do you economists consider my people to be undeveloped, when in my community we share what life provides to us each day, and nobody — neither children nor the elderly — is left out in the cold or is alone in their soul? And when I thought about it I realised that I needed to tell her about Gross Domestic Product (GDP) and social cohesion.

The GDP is a monetary indicator which ultimately reflects the entire doings that go on in the market. The more insecure a developed society, the more it spends on defence, protection of the homeland, and this causes the GDP to go up; or the more illness there is, the more pharmaceutical products it consumes, which raises the GDP. There is no reason why quality of life, happiness, should move in the same direction as the GDP, and the truth of the matter is that they rarely do.

In 1968 Robert Kennedy said that GDP may be a measure of the degree of destruction. Our gross national product, he said, "counts air pollution and cigarette advertising, and ambulances to clear our highways of carnage. It counts special locks for our doors and the jails for those who break them. It counts the destruction of our redwoods and the loss of our natural wonder in chaotic sprawl. It counts napalm and the cost of a nuclear warhead, and armored cars for police who fight riots in our streets."

So we should remember that there are many factors that are leading to the ongoing degradation of the quality of life in Euskal Herria, despite our high GDP, life expectancy and level of education, all of which are presently used as indicators for the Human Development Index.

A new concept of development, then, should challenge the present models of economic growth at all costs with its inevitable aftermath of environmental impact such as degradation of the ecosystem and the exhaustion of resources, and social consequences such as unemployment, exclusion and wars. For this it is essential to "bring about a change in the present processes of development, and above all, in the concept held until now of the

economy, establishing new forms of action on the international level and a new model of development which, overcoming inequalities between the north and the south, make possible a world that is ecologically feasible and socially just" (Conference of Rio, 1991).

The concept of "human development" responds in part to this idea, given that it includes a new model for measuring development and puts the emphasis on the development of capacities such as a better state of health and knowledge, but omits key indicators such as the distribution of wealth or access to and quality of employment, environmental quality, cultural integration, coverage of housing needs or psycho-affective needs.

But that is not all there is to human development: other opportunities range from political, economic and social freedom to the possibility to be creative and productive while enjoying the guarantee of human rights.

Making human development possible in Euskal Herria implies an improvement in the exercise of true democracy and, thereby, pursuing and achieving an economic model that assigns priority to the rational, harmonious use of one's own existing human and natural resources to satisfy the individual and collective needs of all members of society, without compromising the ability of future generations to attend to their needs.

For a society to be really sustainable, it must be so both physically (through sustainable use of resources) and socially (overcoming social and territorial inequalities). There can be no sustainability without justice for all.

A truly sustainable society gives priority to development over growth, to the qualitative (quality of life) over the quantitative (standard of living), solidarity over competitiveness. Possibly economic democracy that produces sufficiency, justice and fairness for the whole community is the greatest and fullest social value of them all, and it is not measured by GDP, nor by the current Human Development Index which was created to correct it.

The crisis is not only an economic crisis, it is an ecological crisis, a crisis of food sovereignty, a health crisis, a crisis of gender relations and of values; a crisis of the paradigm of civilisation developed by capitalism, and of the ideological system on which it is based.

This crisis of values has changed the rules in such a way as to turn Euskal Herria today into a society where many live in uncertainty. The public sector has played a big part in this trend towards precarious conditions which affects most of the population, since it has an impact on immigrants, women, young people and the elderly: this has come about through laws that have been passed deregulating the job market and leaving people exposed. However, all this is covered up and concealed by statistics that are done up to sound triumphalistic, but don't talk about the extremes, or inequalities, so we need to look at what is really behind the numbers and glossed over by Euskal Herria's structural indicators.

**a. Territory and population in Euskal Herria: growing density.** In 2010 Euskal Herria had a population of 3,102,884 in its 20,947 sq km, giving a density of 148.2 inh/km<sup>2</sup>, well above the EU average of 116 inh/km<sup>2</sup>. But this is a mere average resulting from levelling

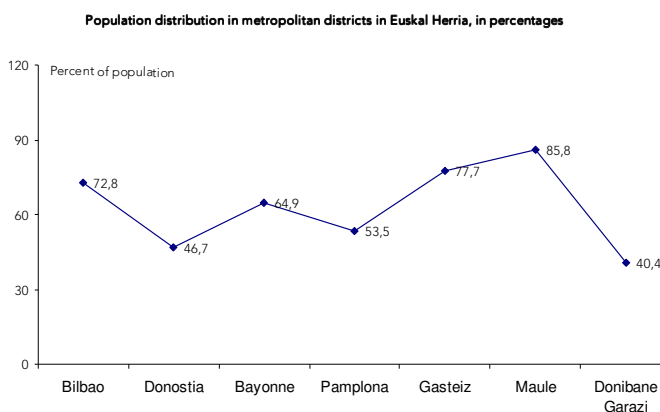
out between extremes: the population density of Zuberoa is 18.7 inh/km<sup>2</sup>, while that of Bizkaia is 518 inh/km<sup>2</sup>; all of North Euskal Herria is below the EU average. 90.8% of the population of the Basque Country live in the South, only 9.2% in the North (of which 8.8% in Lapurdi, 1% in Low Navarre and 0.5% in Zuberoa).

	Area	Inhabitants	Density
<b>Araba</b>	3,311.0	319,326	96.44
<b>Bizkaia</b>	2,236.8	1,154,099	515.96
<b>Gipuzkoa</b>	1,980.4	707,263	357.13
<b>High Navarre</b>	10,390.4	636,924	61.30
<b>Low Navarre</b>	1,325.0	30,357	22.91
<b>Lapurdi</b>	863.3	239,635	277.58
<b>Zuberoa</b>	818.0	15,280	18.68

Sources: For SEH, INE (2010), for NEH, INSEE (2009). Data provided by Gaindegia.

Table 12. Population distribution in Euskal Herria in 2010

Within each province there also exists a strong polarisation between rural and urban areas. The progressive destruction of the agricultural sector, industrial conversion and concentration on the development of services located in the districts closest to the main cities have resulted in the concentration of 62.6%<sup>29</sup> of the population of the whole of Euskal Herria in those districts: thus as many as 72.8% and 77.5% of their respective provinces reside in the Great Bilbao and Vitoria-Gasteiz urban districts.



In addition to territorial imbalance, another pressing issue is the aging of the population, 19% of which is over 65 years old, 1.5 points above the EU average. Aging of the population (especially in the North, and above all in Zuberoa where the figure reaches 25.6%) is important for many reasons, but here we shall single out the fact that it is the elderly who are most deeply affected by the design of the *Euskal Herria*, the Basque City, because they are the people who remain in localities that are being excluded from that design and are consequently the victims of *spatial exclusion*, which entails exclusion from access to most services.

<sup>29</sup> The corresponding figure in the 2001 census was 70%; over the past decade there has been a return to native villages motivated above all by the high prices of housing in the metropolitan areas.

The great territorial imbalance brought about by the imposition of the Euskal Hiria project on an already quasi-utopian Euskal Herria is made worse still by the grand plans for infrastructure such as the high-speed railway, which is set to create further territorial chaos by supporting a still more centralised and polarised system. This is perhaps the most tremendous example ever of focusing investments in a way that leads to ever greater centralisation of economic activity around metropolitan areas. The Spanish government's Strategic Plan for Infrastructure and Transport (PEIT) has the gall to say *explicitly* that "these high-standard infrastructures are less accessible for the territory as a whole: they limit access to a small number of nodes whereby they create a dual configuration of the territory" and admits that "on the whole, centralisation of the system has been made greater, increasing the disparity between territories... and facilitating the concentration and centralisation of economic activity in a small number of large centres [while] weakening less powerful centres to the benefit of the dominant areas."

The kind of lifestyle promoted by the high-speed rail project not only preys on the territory and energy resources but distorts local life as a domain of relations to such a degree that it results in creating distances between nearby things as much as it brings things that are remote more and more into touch. Ways of life and cultures linked to the land are vanishing before our eyes, pushed out by the proliferation of traffic space and so-called *non-places* as opposed to the anthropological concept of a *place* which simultaneously invokes for those who inhabit it a sense of belonging, identity, relationship and history.

The very low **birth rate** had recovered a percentage point between 2004 and 2008, coming back up from 9.2 births per thousand inhabitants to 10.2. This increase was mainly due to the statistical contribution of immigrants. But as of 2008, the rate is shrinking once again, on account of the crisis. Under-14s constitute 13.8% of the population, about two percentage points lower than the EU average.

The **death rate** has remained stable throughout the decade; in 2009 it was 9.03 per thousand inhabitants. Once again there are consistent differences between the north and the south, with the rate reaching 13.92 in Low Navarre (a northern region). Given that in the North the death rate is greater than the birth rate and the rate of immigration taken together, the population there declined year by year between 2000 and 2010.

**b. Income distribution.** Economic indicators acquire special relevance in times of crisis, not so much for their magnitude as for their distribution among different parts of the population. In 2009, Euskal Herria had a per capita GDP of €31,065, which is 30% higher than the EU average. Looking at the differences between the north's GDP per capita of €23,824 and that of the south (€30,808 in Navarre and over €33,000 in the BAC), one might be led to believe that ordinary people in the south have a better standard of living, but that assumption is not borne out in the least by the minimum wage, the average pension of €12,180, or the earnings of the majority of young people, women and immigrants with incomes below €1000 per month. In fact, the difference in the distribution of wealth, which is alarming in the BAC and especially in Bizkaia, and between income policies and social protection which translate into much higher salaries and services in the north, is so great that today this is the chief obstacle to greater mobility of employment and residence between the north and the south. Lurking behind the averages is the concentration of wealth in a few hands in Euskal Herria, to a much greater extent than in any EU country, as

a result of which 34.4% of young people between the ages of 18 and 44 cannot leave their parents' home because they lack sufficient economic resources.<sup>30</sup>

In 2008<sup>31</sup>, 1.67% of the population of Araba, Bizkaia and Gipuzkoa (we lack comparable data for Navarre) controlled 44.78% of the wealth, while 8% survive on an income of less than €500 per month and 36.33% are below the poverty threshold of 37.5% of the country's per capita GDP. The highest incomes rose by 114.52% between 2002-2008 (126.53% in Bizkaia, the region with the highest level of concentration of wealth), while salaries and pensions lost purchasing power over the same period (that is, the real consumer price index rose more each year than salaries did).

In Bizkaia, where more than 50% of the population of Euskal Herria lives, 205,570 people declared annual incomes of under €13,200 on their income tax declarations<sup>32</sup>, while 8,708 taxpayers declared incomes greater than €90,000 per annum.<sup>33</sup>

These figures are merely the tip of the iceberg since they are based on incomes registered with Internal Revenue, which do not include the €10,000m per year of tax fraud, mostly carried out by this super-rich group.

According to Eurostat<sup>34</sup>, inequality between quintiles in the eurozone in 2008 was 4.8, while in France it was 4.1, and in Spain 5.8. What this means is that the income of the 20% of the population that earns most increased by the percentage indicated relative to the 20% that earns least. The index for the BAC was much higher than that of the whole Spanish state.

The concentration of incomes is directly proportional to the occurrence of low wage policies, reduced social services and a limited tax burden (in other words, low taxes and a great deal of fraud).

The **minimum wage**, which is a reference point for many entities and social services, was €641.40 in South Euskal Herria in 2012; in the north it was €1,398.37, which is more than double.<sup>35</sup>

The **disposable income** (i.e. personal income minus taxes and deductions) per employed person is also higher in the north, as shown in the 2008 statistics; in the current crisis, this difference has widened on account of the fall in salaries in the south.

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<sup>30</sup> 2008 report on poverty and social inequality published by the Basque Government in March, 2009. This figure is provided once every four years, and indicates very sharp growth from 8.4% in 1996, 15.2% in 2000 and 21.7% in 2004.

<sup>31</sup> "Informe Anual Integrado de la Hacienda Vasca 2008", published in October, 2010. This is the latest available figure because the corresponding report for 2009, published in October 2011, does not include this analysis.

<sup>32</sup> There is no obligation to declare an income of less than €21,000 except in certain circumstances, so the number of people with low incomes is certainly more than double the number given, including half-pensioners, widows, unemployed, seasonal workers and so on, who generally have low incomes and are therefore not required to declare what they earn.

<sup>33</sup> This is again a partial figure because it is this income group which commits more tax fraud than anyone else through sophisticated bookkeeping techniques.

<sup>34</sup> Eurostat. Statistical Yearbook 2011.

<sup>35</sup> In relation to purchasing power, the minimum wage in SEH is about 40% lower than the average minimum wage in the eurozone. We stand at the top of the statistical list of "poor workers" who are those that are active in the labour market but whose yearly incomes are not above the poverty threshold.

Araba	38,664
Bizkaia	39,334
Gipuzkoa	38,983
Navarre	36,935
North	42,989
Euskal Herria	38,944

Sources: Eustat, INE, INSEE. Data provided by Gaindegia.

Table 13. Annual disposable income per employed person (2008)

The average<sup>36</sup> retirement pension is €915.72 in Navarre and €1000.53 across Araba, Bizkaia and Gipuzkoa (normally two people have to live on this, as the widows' pension is around €670). Translated, this means that most pensioners find it hard to make ends meet. In 2007 the *total* per capita yearly spending on old-age pensioners (including their pension, residence, home assistance and so forth) was in the BAC<sup>37</sup> €13,585 and in Navarre €10,665, lower than the EU average of €14,607, while in the French state, adjusting for purchasing power, the corresponding figure is €18,585 which is 27 percentage points *above* the EU average. There is a significant difference between these regions across the board in social spending: in health care, the amount spent per capita that year was €1894 in Navarre, €1956 in the BAC as against €2349 in the French state.

Given these figures, **poverty rates** are also relevant. As measured by Eurostat, which sets the poverty threshold at 60% of the mean, the poverty index in the BAC in 2008 was 14.8% and the figure for Navarre was similar, whereas in the north it was a little below 8%. Despite this difference, once more the numbers do not give the whole picture because the poverty threshold is distorted by uneven income distribution,<sup>38</sup> so it is important to take into account where the threshold is in each country. In 2008, for instance, for equal purchasing power, people earning less than €10,800 p.a. were considered poor (giving the poverty threshold for the NEH) whereas in the BAC one had to earn less than €7,290 a year to be considered poor (this was the poverty threshold for the BAC<sup>39</sup>).

To sum up: in 2007, the last year for which we dispose of fully comparable figures, spending on social protection in proportion to the gross domestic product was 33.62% in North Euskal Herria, 18.8% in the BAC and 16.7% in Navarre. The upshot is that whatever social indicator we take, whether it be minimum wages, minimum pensions, education, health, housing or family benefits, the residents of the northern Basque Country are much better protected than those in the south, and in consequence, it will be necessary for a future Basque state to base its social protection on that of the French state as a minimum so as not to entail a fall in living standards for the inhabitants of North Euskal Herria.

<sup>36</sup> Source: INSS, December 2011.

<sup>37</sup> Sources: Social Protection Account, Eustat and the Navarre statistics institute. For North Euskal Herria see INSEE.

<sup>38</sup> The more unevenly incomes are distributed, the lower the poverty threshold will be, so fewer people will be placed below it as a result, which means that less poverty is claimed to exist. So, people who earn (in terms of purchasing power) between €7290 and €10,800 are not considered poor in SEH yet they are in NEH. Therefore, when comparing poverty rates between different countries we need to say where the poverty threshold (in terms of purchasing power) is set in each of the countries. See Nekane Jurado's methodological study in the Gaindegia Yearbook, 2010.

<sup>39</sup> The poverty threshold recognised by the EU is 60% of the *median* of per capita income. This statistical indicator was established by the Lisbon Strategy (2000), replacing the earlier measure which took 50% of the *mean*, which gave higher thresholds and so placed more people below the threshold, or in other words, counted more poor people. A large part of the European social movement, including Elkartzten considers the poverty threshold to be 37.5% of the GDP per capita, according to which the threshold for Euskal Herria would be €11,649 per annum (that is, 37.5% of the GDP per capita which is €31,065).



**d. Unequal profits: higher worker exploitation rates in the south.** In economics, surplus value refers to what the company obtains from each worker as a function of his or her productivity and the cost attributable to the worker in question.

Productivity is the quotient obtained by dividing the value of what is produced by the size of the staff employed. At the macroeconomic level, used for comparisons between countries: productivity = GDP / number of workers.

In South Euskal Herria, productivity in 2008 was almost 30% higher than the EU average, whereas labour costs were lower than the average for the European Union, which means capital achieved a higher rate of profit, or to put it another way, labour was over-exploited.

Araba	78,111
Bizkaia	74,235
Gipuzkoa	72,035
Navarre	67,406
North	60,346
Euskal Herria	74,219

Sources: Eustat, INE, INSEE. Data provided by Gaindegia.

Table 14. Productivity per employed person in 2008  
(2009 for NEH and Navarre)

If we look at productivity per employed person together with the total disposable income per employed person, what is striking is that North Euskal Herria, with a productivity level of €60,346, has a disposable income per person of €42,982<sup>40</sup>, whereas Araba, with a productivity of €78,111, has a disposable income of €38,664.

The problem at present with the economy in SEH is not low productivity but the distribution of productivity, which is concentrated in favour of business profits to the detriment of salaries. Low wages lead to shrinking consumption and that, precisely, is the problem: it leads to a fall in demand and low consumption, and the measures needed to address this are not freezing salaries and taking away jobs but the opposite: redistributing productivity to favour salaries and creating new jobs to incentivize responsible consumption.

The cohesion indicators, whether we look at social protection or income policy, show greater imbalance in SEH than in NEH, and as a result inhabitants of the north do not view the job market in the south as a way to bring the country closer together and move towards national unity; instead, they migrate in the opposite direction, being attracted by the French state. A future Basque state needs to be based on an economic model that puts the distribution of the wealth it generates first (distribution of productivity) and places much more emphasis on the public sector, focusing on social production (public spending in proportion to the GDP), so that at the very least socioeconomic protection is comparable throughout the whole of Euskal Herria and equals that of North Euskal Herria, the highest standard existing today.

<sup>40</sup> Our figures for productivity are for 2009 and those for income are for 2008, so the productivity given really corresponds to a higher income level because it grew from 2008 to 2009. In the BAC both figures are for 2008.

### 3. Towards a Basque state: weaknesses, strengths and the consequences of the economic crisis for the Basque economic fabric.

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This chapter examines the Basque Country's strengths, weaknesses and other aspects in agriculture, industry and services, focusing special attention on the financial sector. Central features of the Spanish and French economic crisis and its impact upon the Basque economy are considered. These subjects are studied here with a view to evaluating the feasibility of a Basque state as a more efficient way of addressing present and future economic and social challenges. Some thoughts and proposals are also presented in anticipation of the foreseeable needs of the next few years.

## INTRODUCTION

In the following pages we will examine aspects of agriculture, industry and services. We shall take note of basic features of the Spanish and French economic crisis and their effects on the Basque economy. The study is written from the perspective of assessing the option of a Basque state as the most effective strategy for dealing with the economic and social challenges that we face at present. There is also a discussion of certain thoughts and proposals about how to make progress in coming years.

## 1. STRUCTURAL FEATURES OF THE BASQUE ECONOMY

### 1.1. The agricultural sector

Farming, cattle-raising and forestry have little weight within the economies of Bizkaia, Gipuzkoa and Araba today, where they represent under 3% of the GDP, and Navarre, where they make up for less than 5%. However, the agricultural balance is more favourable in Navarre and the north than in the Basque Autonomous Community as a whole.

AGRICULTURE	
⇒	Little economic weight in Bizkaia and Gipuzkoa.
⇒	Uneven food balance.
⇒	More weight in Navarre.
⇒	Relatively better food balance.
⇒	More important in North.

In the north agriculture provides 5,707 jobs, 4.8% of the total, and activity and production are being maintained. 92% of farms provide no salaried jobs, according to 2006 data.

If we look at the foreign balance of commercial food production for the BAC and Navarre we shall find that it improved in 2009 relative to 2008, with a 8.9% reduction of the deficit in the BAC and a 21.7% increase of the surplus in Navarre.

There was a gradual decrease in the number of jobs: south Euskal Herria had 31,400 agricultural jobs in 2001 and only 24,100 by 2009. The downward trend has continued. Let us look at some aspects of the agricultural, cattle-raising and forestry subsectors of the economy of South Euskal Herria.

<i>Foreign trade in products of the food industry, South Euskal Herria</i>		<i>(€ million)</i>			
Type of duty	Area	Exports		Imports	
		2008	2009	2008	2009
Livestock and animal products	BAC	204,8	204,7	371,9	331,7
	Navarre	70,0	64,2	97,5	80,6
	S. Euskal Herria	274,8	268,9	469,4	412,3
Vegetable products, fats and oils	BAC	87,1	24,4	203,2	165,9
	Navarre	144,2	171,5	125,9	120,5
	S. Euskal Herria	231,3	195,9	329,1	286,4
Food industry products	BAC	355,8	336,6	319,6	293,1
	Navarre	323,6	301,3	174,0	146,6
	S. Euskal Herria	679,4	637,9	493,6	439,7
Food industry sector	BAC	647,7	565,7	894,7	790,7
	Navarre	537,8	537,0	397,4	347,7
	S. Euskal Herria	1.185,5	1.102,7	1.292,1	1.138,4
Food industry sector as % of all exports and imports	BAC	3,3	3,9	4,5	3,9
	Navarre	8,4	9,8	8,0	6,4
	S. Euskal Herria	4,5	5,5	5,2	4,8

Source: Boletín de Coyuntura y Estadística del País Vasco. Basque Chambers of Commerce. Instituto de Estadística de Navarra, for data from the General Department of Customs

## Agriculture

There is currently a negative trend in the agricultural subsector in both the BAC and Navarre, though less marked in Navarre. The next table shows the volume of cereal production for two crops, wheat and barley, and production of alfalfa, tomatoes and wine. Production of wheat and wine has decreased, while tomato production has risen with a smaller growing area.

Chief agricultural crops (m t)					
CROP	2008	2009	%A 09/08	% BAC/Spain 2009	
<b>CEREALS</b>					
· Wheat	419,8	324,3	-22,7	6,8	
· Barley	422,2	430,4	1,9	5,8	
· Oats	113,1	100,0	-11,6	11,0	
· Maize	137,7	128,5	-6,7	3,7	
<b>FODDER</b>					
· Maize	167,5	160,0	-4,5	4,3	
· Alfalfa	357,4	370,0	3,5	3,3	
<b>VEGETABLES</b>					
· Cabbage	6,0	6,0	-3,2	3,0	
· Asparagus	4,8	5,4	12,5	11,1	
· Lettuce	23,1	23,4	1,3	2,7	
· Tomatoes	150,3	190,1	26,5	4,1	
· Peppers	22,7	25,4	11,9	2,6	
· Artichoke	13,8	12,9	-6,5	6,5	
· Cauliflower	79,2	69,0	-12,9	16,0	
· Onion	20,4	17,6	-13,7	1,4	
· Runner beans	9,9	9,6	-3,0	5,1	
· Peas	7,1	8,3	16,9	10,0	
<b>ORCHARDS</b>					
· Cider apples	8,5	6,4	-24,7	6,9	
· Eating apples	17,9	18,1	1,1	3,6	
· Pears	16,5	15,9	-3,6	3,7	
· Peaches	17,9	19,8	10,6	2,5	
· Almonds	1,9	2,0	5,3	0,7	
<b>WINE / GRAPE JUICE (m HI)</b>	1.490,2	1.346,6	-9,6	3,3	
<b>POTATOES</b>	73,4	90,7	23,6	3,7	
<b>SUGAR BEETS</b>	187,8	193,1	2,8	4,6	

\* Estimates

Sources: Boletín Mensual del Ministerio de Medio Ambiente y Medio Rural y Marino. Boletí de Coyuntura Agraria de Navarra.

## Livestock

The livestock count has decreased in recent years. The distribution between different kinds of animals varies between the BAC and Navarre.

Livestock census (December of each year)						(head)
Area	Year	Cattle	Sheep	Goats	Pigs	
BAC	2005	168.124	354.445	26.694	31.991	
	2006	159.548	354.484	28.987	33.712	
	2007	158.255	344.288	28.453	31.836	
	2008	155.443	333.090	28.641	32.357	
	2009	151.801	333.255	27.270	31.166	
Navarre	2005	117.316	814.602	10.840	545.863	
	2006	121.895	786.298	11.890	557.470	
	2007	113.069	744.119	12.180	508.589	
	2008	111.919	705.332	11.920	547.542	
	2009	107.486	625.238	10.417	547.256	
South Euskal Herria	2005	285.440	1.169.047	37.534	577.854	
	2006	281.443	1.140.782	40.877	591.182	
	2007	271.324	1.088.407	40.633	540.425	
	2008	267.362	1.038.422	40.561	579.899	
	2009	259.287	958.493	39.190	578.422	

Sources: Basque Government, Government of Navarre.

Milk production has stabilized in recent years, reaching 398 million litres. In meat production, bovine, ovine, goat and pork meats have fallen to the following levels: bovine 28,855 metric tonnes, ovine 4,568 t, goat and pork 50,123 t; while fowl production has increased to 89,002 t. In combined total, the amount slaughtered in South Euskal Herria has reached 177,746 t.

### **Forestry**

A significant volume of wood has been cut in the BAC. In 2007, 1,086 million m<sup>3</sup> was cut, of which 90% was conifer wood. In 2009 the volume of wood cut had fallen by 57% to 411,941 m<sup>3</sup>. One factor to account for the decrease was the building slump, given that the building trade was supplied from this wood production and related areas of business such as furniture.

### **Agriculture: in synthesis**

There are differences and distinct rhythms in the agricultural sector depending on which part of the country we look at, the Basque Autonomous Community, Navarre or North Euskal Herria. Industrialisation of farming, livestock raising and forestry, although prevalent, has limits given the increasing demand for sustainable development in western developed societies. This problem also affects Euskal Herria. Another aspect is the negative trade balance of the agricultural sector both in the rest of the Spanish state and abroad. The Basque population's demand for quality in food products favours the development of quality labels and ecological farming.

Mention should also be made of the prices of agricultural products which are always too low from the growers' point of view, and the growing subordination of small farmers to the big multinational companies. Further issues are the aging of the sector and the harsh living conditions associated with it.

## **1.2. The industrial sector**

### *1.2.1. Bizkaia, Gipuzkoa and Araba*

The driving force in the Basque economy, to a lesser or greater extent and exception made for the north, is its industry.

An analysis shows that industrial activities accounted for 29.4% of the total wealth of Bizkaia, Gipuzkoa and Araba in 2007 and provided 25.5% of its jobs, that is, 257,297 jobs in all. But in 2010 industry only represented 24.4% of the area's wealth, providing 224,327 job; this clearly shows the impact of the economic crisis.

Breaking this down according to branches of industry, pride of place still goes to metallurgy and metal work, machinery and transport equipment in terms of production volume and number of jobs within the Basque economy.

The first category, *metallurgy and metal work*, encompasses iron and steel, other metals, foundries and steelworks, metallic construction, forging and stamping, mechanical engineering and metal articles; this group of concerns account by themselves for 26.9% of Gross Value Added (GVA, a measure of industrial wealth), 34.9% of jobs, 21% of investments and 25.6% of net sales.

*Machinery* covers machine tools, household appliances and other machinery; this area makes up a further 9.2% of the industrial GVA, 9.9% of jobs, 8.2% of investment and 7.8% of net sales.

As for *transport equipment*, by this we mean cars and car parts, ship building and other transportation equipment; this represents 8.7% of the industrial GVA, 8.1% of jobs, 45.7% of investment and 9.6% of net sales.

According to the OECD's classification (which is followed by Eustat) of industries in terms of the level of technology they contain, the high R&D intensity or **high tech** industries include aircraft and spacecraft manufacturing, pharmaceuticals, office and computing machinery, electronic equipment, and medical and precision instruments.

At the **mid-high level** of technology we encounter electrical machinery and equipment, motor vehicles, chemicals apart from pharmaceuticals, other transportation equipment, and mechanical machinery and equipment; while the **mid-low level** includes ships, rubber and plastics, oil refining products, iron and other metals, metal products and non-metallic mineral products.

Industry with **low-level** technology takes in miscellaneous manufactures and recycling, wood pulp and paper products, food, drink and tobacco products, textile production, the garment industry, leather products and footwear.

As the next figure shows, according to Eustat data, 2009 saw a new step backwards, relative to 2008, in the branches of industry involving high and mid-high level technology, with drops in the number of people employed, value added and sales. It is significant that the amount of wealth generated by high and mid-high tech activity was less in 2009 than in both 2000 and 2005. And the same may be said of the number of jobs at these technological levels.

So the branches of industry that use high level and mid-high level technologies are the ones where the most jobs are being lost, less value added is being generated and the volume of business is falling fastest.

**Technological rating of Basque industry (2009)**

	Jobs %	GVA (wealth) %
High	3,8	3,3
Mid-high	25,4	25,0
Mid-low	48,3	40,4
Low	18,6	15,2
Unclassified	3,9	16,1
<b>TOTAL</b>	<b>225,337</b>	<b>€14,074.8m</b>

**Technology in the industry of the Basque Autonomous Community**

	2008	2009	Weight in 2008	Weight in 2009	Change 2008-2009
<i>JOBS (number)</i>					
<b>Total</b>	<b>249.230</b>	<b>225.337</b>			<b>-9,6</b>
<b>High and mid-high tech</b>	71.388	65.825	28,6	29,2	-7,8
High tech	9.245	8.592	3,7		-7,1
Mid-high tech	62.143	57.523	24,9		-7,9
<b>Mid-low and low tech</b>	168.852	150.677	67,7		-10,8
Mid-low tech	123.204	108.867	49,4		-11,6
Low tech	45.648	41.810	18,3		-8,4
Unclassified	8.990	8.835	3,6		-1,7
GVA (x €1000)					
<b>Total</b>	<b>17.658.352</b>	<b>14.074.809</b>			<b>-20,3</b>
<b>High and mid-high tech</b>	4.771.339	3.976.385	27,0		-16,7
High tech	565.986	462.130	3,2		-18,3
Mid-high tech	4.205.353	3.514.255	23,8		-16,4
<b>Mid-low and low tech</b>	10.458.145	7.826.355	59,2		-25,2
Mid-low tech	8.058.523	5.689.769	45,6		-29,4
Low tech	2.399.622	2.136.586	13,6		-11,0
Unclassified	2.428.868	2.272.069	13,8		-6,5
SALES (x €1000)					
<b>Total</b>	<b>65.654.476</b>	<b>49.226.282</b>			<b>-25,0</b>
<b>High and mid-high tech</b>	17.320.816	13.369.518	26,4	27,2	-22,8
High tech	1.734.645	1.439.103	2,6	2,9	-17,0
Mid-high tech	15.586.171	11.930.415	23,7	24,2	-23,5
<b>Mid-low and low tech</b>	41.255.235	29.373.668	62,8	59,7	-28,8
Mid-low tech	33.261.434	22.195.462	50,7	45,1	-33,3
Low tech	7.993.801	7.178.206	12,2	14,6	-10,2
Unclassified	7.078.425	6.483.096	10,8	13,2	-8,4
<i>PRODUCTIVITY</i>					
<b>Total</b>	<b>nd</b>	<b>-11,8</b>			

Sources: Eustat, Industrial statistics.

In 2009 the wealth generated by the high and mid-high tech sectors of industry represented 29% of Baque industrial wealth, while the sectors classed as mid-low or low tech made up 55.6%.

There are parts of our industry of considerable economic importance, such as the iron and steel sector, which while belonging to the mid-low technological level are intensive energy consumers. The fact that over half of Basque industry is characterised by intensive energy consumption adds a further factor of vulnerability, which is being exacerbated by the rising price of oil.

Another source of worry is the trend in business investments. Between 1993 and 2008, a period of economic prosperity, Basque capital invested €51,000m abroad while the total of foreign investment in Euskal Herria only amounted to €12,000m. Basically, Basque capital has no interest in investment in the Basque territory. Figures for 2010 and 2011 confirm this trend. This is also a factor contributing to our vulnerability. It is true that many companies have internationalised and need to invest in their subsidiaries, but it is after all Basque capital that is being used to set up companies abroad because they are more profitable.

The Lisbon strategy proposed that EU states should spend 3% of their GDP on R&D in 2010.

In the BAC, in 2004 spending on R&D amounted to 1.43% of the GDP, and in 2010 this had risen to 1.85% (with industry constituting 29.4% of the economy), which is close to the European Union average of 1.9% but a long shot from that of developed economies such as Germany, France or Sweden.

It is more useful to compare the trends in similar European regions. The BAC ranks in 55th place on a list of 203 European regions in terms of innovation (2006 data).

The proportion of innovating companies is small in comparison to the EU-27 average. For innovations in processes and products, according to the Spanish institute of statistics INE only 19.8% of Basque companies innovated in 2007-9. This is a far cry from the figures for Germany, Ireland or Austria.

There is a similar state of affairs for patents: the index based on the number of patents per million inhabitants is a long way, in South Euskal Herria, from that of other European regions with a similar profile.

### ***The European Innovation Index***

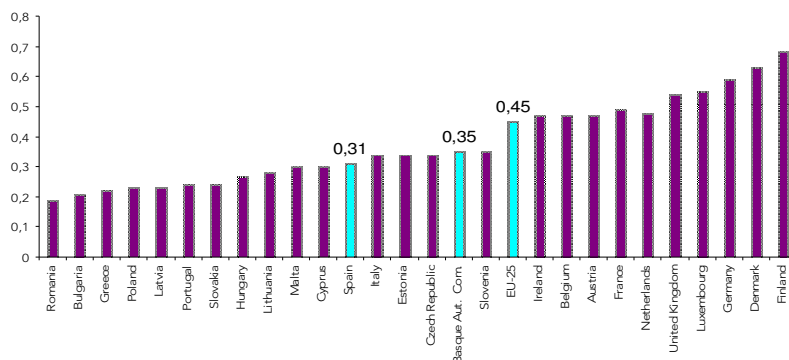
The European Innovation Index (or SII) is a measure of the extent to which the economy of a country is capable of and carries out innovative activities.

It uses of 25 indicators to produce a compound index reflecting the importance of different dimensions. According to Eustat figures, the BAC occupies the thirteenth place in an EU ranking. The low ranking of the BAC in comparison to the European average is striking given that the BAC is an industrialised European region with an income level above that of the European average, and if compared to other European regions with similar characteristics the BAC comes out worse for the comparison.

In the years following the SII ranking presented here, the position of the BAC has not improved. An analysis of the BAC's SII standing for 2009 yields a value of 0.51, below that of countries like Ireland, Belgium, Austria and Denmark.



### EUROPEAN INNOVATION INDEX (SII): BAC and EU-27



Source: Eustat

Furthermore, the economic crisis has been undermining our industrial production since 2008. In 2009 the crisis hit BAC industry hard and the industrial GDP fell by 9.5%.

The Industrial Production Index (IPI) fell by 25.3% for the intermediate goods sector, 25.1% for equipment and 12.2% for consumer goods.

Exports also contracted to the tune of 28% that year. Although there has been a certain degree of relative improvement in exports, they had stagnated economically by 2012 and this is expected to continue in 2013.

Some analysts (M. Navarro et al., 2008) have developed a classification of seven groups of innovation system in European regions. The BAC is in group G3, the group of "regions with moderate economic and technological results" which contains 45 regions including some parts of Italy, Austria and Ireland; the reference point is G4, "advanced regions with some industrial specialisation", which contains 33 regions belonging to Germany, the United Kingdom, Italy and Holland, among other countries.

It is advisable for the G3 regions, hence also the BAC, to "increase their capacity to absorb and create knowledge" and "constitute the regional system of innovation in a harmonious manner and increase the quality and quantity of relations between its agents"; the example of the German region of Baden-Württemberg is held up as an example, in the G4 group, which has a similar sectorial specialisation to the BAC but a much higher level of technological development, productivity and per capita income.

Earlier analyses raise questions about the convergence strategies developed in the BAC government's Competitiveness Plan and its Science, Technology and Innovation Plan (PCTI 2010) given that there is no qualitative or quantitative improvement in the conditions, resources and personnel in our innovation system and its repercussions on industrial activity.

Clearly the experience of 2010 and 2011 has been unsatisfactory. 9,900 industrial jobs were lost in the last quarter of 2011 in the BAC; business representatives in Araba say more than half of the companies will have less productive activity in 2012 than they had in 2011 and there will be more layoffs.

### 1.2.2. Navarre

In Navarre industry accounts for 31% of the industrial wealth and 28% of overall employment. In 2010 Navarrese industry provided 62,760 jobs (a loss of 6,500 jobs since 2007), and in 2009 was worth €3,707.9m. Over 90% of Navarrese businesses are small or medium size. There are also some medium or large businesses, twenty of which have foreign majority shareholders and constitute 25% of real industrial jobs. In all, there is foreign investment in about a hundred companies, most of which belong to the branches of transportation equipment or food production, but there are also foreign companies in rubber and plastics, metallurgy, machinery and chemicals. Foreign investment in 2010 amounted to 41.7 million euros.

There are significant amounts of manufacturing in the metal industry, food and transportation equipment. Low and medium tech industries, and those of moderate demand, predominate.

The policy situation on innovation is shown by the fact that resources invested in research, development and innovation in 2010 represented 1.97% of Navarre's GDP, a percentage very close to that of the BAC, and Navarre does better than the BAC in the number of patents per million inhabitants.

The economic crisis is hitting Navarre hard: during 2011 company closures and layoffs gave rise to an unemployment rate of around 12%, which is higher than in the BAC, while youth unemployment is as high as 44%. In 2012 things just got worse, with an unemployment rate of 16%, higher than the BAC figure of 15%.

### 1.2.3. North Euskal Herria

The 12,673 jobs in industry make up 10.6% of the total in the north of Euskal Herria. In 79% of these companies there are fewer than ten employees. There are 37 firms employing over fifty people, which together account for 6,425 jobs. Four of these firms have more than 250 employees. The building trade employs 9,624 people, 8.1% of the total. There is a steady demand in this sector both for first and second homes.

Industrial companies fall into two large blocks. One is made of businesses in the aeronautics, metal and mechanical equipment sectors, where 35% of industrial jobs are to be found; the other block is the food industry which makes up 21%.

In the first block, the aeronautical subcontracting companies, which include Dassault, the biggest employer in the north with 991 jobs, are staying afloat despite some falling off since 2004. A substantial proportion of subcontractors are companies that manufacture mechanical items and tools (50%). There is the "Aerospace Valley" aeronautical cluster which forms part of the Bordeaux-Toulouse corridor, which includes Dassault as well as thirteen other business groups and a bunch of small and medium-sized industrial companies, with partnership relations among them.

The mechanical specialisation of this subsector in North Euskal Herria is not matched up with specialist suppliers of high technology, and this stands in the way of these companies achieving a higher level of specialisation in cooperation with technicians from the big user companies. This situation makes it more difficult to adapt to change and diversify production.

The privatisation of France Telecom has led to further vulnerability for the businesses that supply this sector, some of which are local. It is therefore true to say that innovation and technological change is limited to large companies, both in the aeronautical and related sector and in the food industry. There is also innovation in certain subsectors such as defence electronics, medicine and computing.

In recent times there has been growth in the development of companies in the surf and sportswear business, which numbered 400 in 2008, with joint sales of €1.2m.

But industrial development in the north is weak and faces a difficult future. Research takes place either in bodies affiliated to the University or state-run research entities. 57% of the companies have staffs of under five employees and cannot contemplate innovation on any level. Despite this and the limited resources available for research and development, there are 219 people doing R&D work in a variety of organisations.

### 1.3. The service sector

Within the services macro-sector, a distinction should be made between market services (which are private) and non-market services (which are public) such as education, national health and so on. It is also necessary to distinguish between subsectors such as sales and repairs, transport and communication, financial services, commercial distribution, company services and tourism.

<b>SERVICES</b>	
⇒	Includes public and private, commercial and non-commercial services.
⇒	Education, health.
⇒	Commercial distribution and repairs.
⇒	Transport and communication.
⇒	Tourism.
⇒	Financial services.

The Basque financial sector is particularly important, especially the banks. The former Caja Navarra had around €10,000m in deposits, while deposits in the former BBK, Kutxa and Caja Vital had a sum value of €34,816m in 2010. The Basque savings banks held a larger amount in deposits than the other banks operating on Basque territory.

In the BAC, services account for 60.2% of the overall wealth, with a value of €39.608m and 645,464 jobs in 2010. The main subsectors are company services (which make up 27.2% of the total), sales and repairs (17.5%), transportation and communication (10.8%), banks and insurance companies (10.3%), health and social services (8.7%) and public administration (8.1%).

In Navarre the service sector accounts for 56% of the wealth generated and provides 62% of all jobs. Over recent years there has been growth in the areas of company services, public services, commerce, and hotels and catering.

In North Euskal Herria, there was still a flourishing commercial sector in 2007 with 4,582 businesses providing 19,368 jobs, 16.2% of the total. Services are also strong, with 15,212 businesses and 64,269 jobs, 53.8% of the total. This category includes personal services, company services, education, health, social action, finance, public administration and transport.

## **2. FEATURES OF THE SPANISH AND FRENCH ECONOMIC CRISIS**

The Spanish economy already had a deficit going years back in its trade balance (between exports and imports) and current account balance (including not just goods but services, incomes and transfers). The crisis has weakened productive activity, and particularly imports, as a result of which the trade deficit became lower than in previous years, reaching €50,000m in 2010.

Various effects have derived from the Spanish building slump and bank crisis. One is an increase in the Spanish unemployment rate to 24% in 2012; another, the increase of private debt (including family accounts and company debts) to over 2.1 billion euros in 2011. Public debt also rose to over 8% of the Spanish GDP, at more than €80,000m, by the end of 2011.

These figures suffice to indicate that the Spanish economy is in trouble and heading towards solvency issues. Other factors that will not help to develop economic potential, such as the public sector's relatively small size at 46% of the GDP (compare France, at 56%, and Italy and the UK, at 51%), lapsed debt payable between 2012 and 2015 at interest rates that will not fall and average 3%, mean that any possible change for the better will be delayed at least a further five years.

The crisis has also affected the French economy, but less drastically than in the case of Spain. The unemployment rate between 2010 and 2012 was close to 9.9%. The internal market is weak and the foreign trade balance is not looking good, but its statistics are still much better than the Spanish ones. The current account balance was 2.5% in the red in 2010 on account of weak domestic demand given that the private sector, families and companies are working their way out of debt. Requisites for obtaining credit are strict because of uncertainty in the banks, and company profits fell from 7.5% of the GDP in 2010 to 6.7% in 2011.

The sluggishness in production in the Basque economy is being translated into a certain degree of deindustrialisation, with a contraction in manufacturing jobs in recent years and less value added and wealth generated in 2010-11; there is no growth of productive capacity.

## **3. EFFECT OF THE CRISIS ON THE BASQUE SOCIOECONOMIC FABRIC**

The crisis in Europe, France and Spain obviously has negative repercussions for Euskal Herria. Some vulnerable parts of the Basque economy have already been singled out. Add to this the prevailing neoliberal approach taken in Brussels, Madrid, Paris and the autonomous governments of Gasteiz and Pamplona, and the worst consequences for the Basque productive fabric can be summed up as follows:

- A permanently weak Basque agricultural sector, especially in the BAC but also in Navarre and the North. Europe's Common Agricultural Policy does not favour Basque agricultural development. The fishing industry is also at a disadvantage.
- Stagnation of Basque industrial production. Scant private and public investment in the Basque industrial fabric in both the north and the south of Euskal Herria. The

economy looks to exports as a way out of the crisis, yet without significantly changing the productive model based on low and mid-low tech production systems that seek to compete through low prices (by attempting to lower wages) without developing the Basque domestic market, given the limited consumption. It is not by chance that the slight rallying of Basque exports in 2011 coincided with an increase in layoffs and wage freezes. It is also significant that Basque business owners and political leaders stated unambiguously that there would be fewer jobs in industry in 2012, followed by a standstill in industry in 2013.

- In the building industry, building of housing has come to a standstill but there are still jobs in public works thanks to projects such as high speed rail.
- In the service sector, a great many retail businesses have closed down while the large supermarket chains and hypermarkets have come out on top. In the financial subsector, banks operating within the Basque area have been consolidated, savings entities have turned into financial banks and sought financial growth.
- A policy of cuts in public spending, especially in social areas, has been pursued by the autonomous governments of Gasteiz and Pamplona.

The present crisis may last for another five or six years (in addition to the four so far), so the weakening of our productive fabric is likely to continue. Per capita income is going to fall and the distance between ourselves and similar European industrial regions will widen.

The challenge is to change our productive model, reduce social differences and maintain the existing standard of living.

### ***The Basque strategy: Economic and political sovereignty***

We need economic and political sovereignty in order to be able to develop a different economic policy and a different, better integrated economy of the community. We have seen some of the negative effects on different sectors, but there is also a further negative effect of a structural kind that comes from the institutional establishment.

The structural deficits have to do with a model of powers that stands in the way of real economic planning in the broadest sense and the creation of a regulatorily sound labour and social policy, and a territorial division which makes it very difficult indeed for there to be any integrated planning of the territory and Basque economy as a whole, or for the favourable synergies of all the territories of Euskal Herria to be exploited.

In this sense the set of measures adopted by the different governments of Spain and France represents an obstacle to our progress towards sovereignty and our ability to decide on our own policies to deal with this situation. This is amply demonstrated by the cutbacks in powers within the present system through constitutional reforms or modifications of basic legislation.

In the area of socioeconomics we would do well to develop proposals addressing both the model of economic development and measures for adoption in the middle or short term within the perspective of the building of a Basque state.

#### **4. A SUSTAINABLE, ENDOGENOUS MODEL OF DEVELOPMENT. MEASURES TO BE TAKEN**

##### ***Sustainable endogenous development***

Sustainable endogenous development is a development model which seeks to maximise the intrinsic potential of a territory and its population on the basis of creating a fabric (through independent chains) of production and consumption. It aims to increase social production, eliminate inequality and achieve ecological sustainability.

Endogenous development goes hand in hand with institutional development and a political ability to make sovereign decisions and have an international presence. In the case of Euskal Herria, given that it has an open economy, it is very important to develop its potential and capacity for production in a framework of coherent and balanced economic development.

Citizens, territory and the state are linked to sustainable endogenous development in several different ways:

- In terms of production, based on the creation of goods and services.
- In terms of innovation and education, based on the actual work of generating knowledge and transmitting know-how.
- In social terms, which involve the relations between members of society.
- In institutional terms, based on the need to systematise relations between society members.
- In political terms: the exercise of sovereignty.

Endogenous development thus entails economic, institutional, cultural, political and social implications. From this perspective we must bear in mind that the citizens should be made to take part in the community and building society. We need to consider and link up the need for social participation and the need for bottom-up planning in endogenous development.

To achieve political control of the economic situation, we need our own institutional means of ensuring that the decisions made address our real needs, and not the interests of others. National sovereignty would give solid strength to the development of our economy with a voice of our own in European decision-making and an ability to build a Basque society of a kind that is focused on and apt for our needs.

Some considerations about Euskal Herria from this perspective follow.

##### **4.1. The agricultural sector**

A sovereign Basque agriculture should be built on the principle of sustainable development and pursue the following objectives:

- To produce agricultural food products in sufficient quantities to supply the population's food needs. Improve the food balance.
- To maintain an equilibrium with the environment and conserve the natural environment. Proper management of the territory.
- To sustain farmers and cattle breeders in the countryside with incomes and living conditions comparable to those enjoyed by inhabitants of urban areas.

We should promote models of agricultural food processing based on small, diversified industries and service companies spread over the territory, controlled by producers and giving priority to short commercial circuits so as to keep the largest amount possible of value added in the hands of the producers.

We should support a model of sustainable agriculture linked to domestic farming and partnered or cooperative exploitation, developing agricultural policies that favour small and medium size farmers, acknowledging social rights and putting them on the same level as those of other citizens. For it to be possible to maintain agriculture long-term, farmers need to have access to and learn about methods that protect nature and the environment.

The principle of the free market must take second place to the principle of sustainable development. Europe's Common Agricultural Policy must be made compatible with the principles of food sovereignty and sustainable development. Technological research and development in agriculture should favour types of farming that are socially and environmentally sustainable.

## **4.2. The industrial sector**

### ***Organising the industrial fabric of Euskal Herria***

The aim should be to promote "networking" between different parts of Basque industry, to increase structural cohesion and the density of production flows, while also increasing productive relations of a more "cooperative" kind. This involves the action of other bodies too, such as town councils, provincial governments, and the government departments in Gasteiz and Pamplona; social forces such as the trade unions; and other entities, e.g. universities, technology centres and training programmes.

This would be good for the development and modernisation of many small and medium sized businesses, including "mature" industries such as subsectors of the metal industry which could adapt to new scientific and technological advances.

There are also parts of industry such as machine tools, tool making and so on to underpin sustained economic development. A good number of businesses are kept going by these subsectors through their knock-on effect, giving rise to a portion of the market in which exports play a significant part, creating many jobs and moving money.

But there are also other factors to be considered:

- For the most part the technology of the Basque productive fabric is at the low or mid-low level, in consequence of which companies in this area are forced to compete exclusively through their pricing, particularly with production originating in countries with cheap labour.
- Basque industry is intensive in energy consumption; at least 50% of Basque industrial production is highly energy-intensive.
- Some subsectors, such as metal, paper, cement among others, remain highly polluting, which is very bad for the kind of development we are seeking.

In view of this, it is necessary to increase diversification in production, meaning not only taking a second look at some manufacturing subsectors but also pushing forward with new activities outside of classical manufacturing, whether it be in nanotechnology, biotechnology and related areas, or in the group of activities subsumed under "advanced services for businesses" such as engineering, consulting and so on.

### ***Developing an active industrial policy***

There is a need for strategic public intervention in certain industrial sectors and a range of complementary measures to reinforce it. Public and private capital should be used in such a way as to ensure that private and public business strategies complement each other.

This affects traditional sectors of industry such as iron, steel and shipbuilding, but we should also keep in sight emerging high-tech sectors with growing markets such as aeronautics, biomedicine, nanotechnology and so on. There needs to be public investment, which can and should adopt different forms ranging from majority shareholdings to significant holdings of at least 30% of companies, which will influence private business strategies in a way that is beneficial for long-term industrial development along the lines of internationalisation pursued by Basque companies such as the Mondragon Corporation.

Therefore it is necessary to develop public industrial enterprises in areas of biotechnology (genetic engineering, biomedical research), renewable energy and urban engineering (treatment equipment and distribution of public utilities such as water, gas, electricity, schools and hospitals).

### ***Structural fund***

From this point of view it would be a good thing to create a structural fund to facilitate the transition towards a new model of Basque productivity.

It would have to be a fund jointly managed by institutions, economic forces and trade unions. It should be completely open to evaluation and its activities and leadership should be made transparent through a procedure of public, social planning of economic policy.

This fund would serve to optimise public Research, Development and Innovation resources, promote public investment in productivity in Euskal Herria, improve professional qualifications, guarantee access to the job market for groups tending to be excluded from it, and improvements in training for the unemployed. This public fund should therefore coordinate different programmes offered by different institutions.

The economic resources of this fund would come from various sources of financing:

- Our own management of funds for innovation currently managed on our behalf by the Spanish state.
- Direct management of European funds earmarked for economic promotion, innovation and job creation.



- Contributions from companies and employees for the purpose of carrying out active and passive job creation policies (such as Fogasa).
- Contributions from various institutions that currently invest in research, development and innovation in order to rationalise the present dispersal of these resources.
- The involvement of Kutxabank which would contribute through socialisation of credit for Basque economic and social development, and by making available for this some of its social fund.
- Private participation would be considered, following certain criteria.

Scientific and technological development of Basque businesses should be promoted. Spending on Basque R&D should be close to 2.3-2.5% of our GDP. Similar considerations should apply to an attempt to improve our standing according to the indicator of patents per million inhabitants.

### ***Challenges for the Basque innovation system***

There are four areas in which there is work to be done on Basque innovation. The first of these is the area of administration: there is a need for a publicly financed permanent observatory, to be developed in order to make it possible to carry out diagnostic analyses concerning innovation; more public money should be spent on research, development and innovation, and it should be distributed better among research bodies, including technology centres, universities etc.

The second area comprises the entities that disseminate knowledge. There is an urgent need to change the orientation of centres of technology both to provide better support for traditional small and medium-sized businesses and to address newly emerging areas such as biotechnology and the use of nano-products in various industrial subsectors. There needs to be more cooperation between technology centres and universities given the growing importance of science in industry.

The third area is the system of using knowledge: there should be more financial support for recognised projects in research, development and innovation in private enterprise; financial support for investment in fixed assets when there are "technological leaps" or alternatively a search for commercial partners; support is needed for technological consulting and technological alert centres and anticipatory intelligence across South Euskal Herria (in the manner of Zaintek in Bizkaia), and continuous training should be reviewed from the strategic innovation perspective.

The fourth area is interface: financial support is needed for action to promote communication between the bodies that are involved in innovation, like Innobasque, which seek synergy and systemic efficiency.

Coordinated action along these four lines may make it easier to overcome the present dualism between traditional, low or mid tech industries on the one hand (mostly small and medium sized companies) and a number of larger companies and small subsectors with mid-high or high technology, together with emerging new sectors.

### 4.3. The service sector and infrastructure

#### *The financial sector*

Kutxabank and other Basque financial bodies should promote channelling their resources towards strengthening the Basque productive fabric, especially that of small and medium-size enterprises. In any case it is desirable to defend the function of the savings banks (*kutxak, cajas*) from the point of view of endogenous development, which supports Basque social and productive wealth.

A Basque public bank which can manage its own cash ratio appears to be out of reach at present; in its favour it can be said that, although such a bank would not be able to create its own interest rate structure independently of the market, it would be in a position to represent the Basques before public opinion, and before investors and financial entities in particular.

In the quest for sources of financing, especially for innovative and newly-emerging projects and activities, it should be borne in mind that the European Investment Bank makes loans to European regional governments for particular projects in areas such as renewable energy and the "green economy".

#### **Commerce**

Hypermarkets are the new trend, but we should bear in mind how important small retail outlets are in our towns and cities, both to cover the needs of inhabitants adequately and in terms of the jobs and wealth that they generate locally. Apart from anything else, they lead to important savings in social and environmental costs, mainly by reducing unnecessary use of cars.

From this perspective, here are some guidelines:

- Local commerce should be integrated into our towns and cities.
- Town markets should be encouraged.
- People should be able to participate in the development of commercial policies.
- Municipal or district consulting services should be set up to help people endeavouring to open new businesses.
- Business owners should be encouraged to work together.
- Basque produce should be promoted, and a "Made in Euskal Herria" label created.

External trade:

Given the open nature of the Basque economy, generally with a positive trade balance, steps towards improvement should be taken.

- Public, selective assistance should be provided to small and medium-sized businesses on financial issues, customs, promotion and other matters, and market information should be facilitated.
- A Basque institute of foreign trade should be created.
- Companies' own distribution channels should be consolidated abroad, and more consortia created.

#### **Services connected to industry should be supported.**

Computer services should be supported both for large business concerns and for small and medium-sized businesses, as well as consulting, marketing and engineering companies of a size appropriate to the challenges presented by the European and international context.

## **Infrastructure**

There is a direct connection between endogenous development and the networks that relate a territory to the international domain, and also the type of energy infrastructure used.

## **Transport and territorial regulation**

The territorial structure of South Euskal Herria requires a combined transport system with road and rail networks. The present high-speed train project will make the existing territorial imbalance worse, favouring large metropolitan conglomerations and damaging the environment. The high cost and long-term debt that will be incurred will mean, in the present situation of enduring crisis, holding to ransom Basque budgets for the foreseeable future and turning our back on other important activities and social needs.

A proposal for infrastructure improvement should include the following:

- Structuring the territory in a way that links up the provincial capitals and also other important towns.
- Taking maximum advantage of existing networks.
- Minimising environmental impact.
  - Access to major lines of communication both within the state and with the rest of Europe.
  - Economic rationality of investments.
  - Promotion of intermodality.

## **Energy**

Our energy model is based on intensive consumption of energy, especially in the case of industry and transport (only 3% of goods transport is by rail).

Renewable energy should be promoted using public capital, as should saving and greater energy efficiency, aiming for minimum gas consumption and use of petroleum derivatives. We should refuse to use gas obtained from fracking, which is defended and supported by the political leaders in the BAC, because this process involves the hydraulic rupture of underground layers of slate covering up gas and oil resources, which results in pollution (in the case of aquifers), and in any case the result is of poor quality for the energy value needed (i.e. the energy we obtain is barely higher than that necessary to make it worth extracting).

## **Public sector involvement**

The public sector should get involved through a comprehensive strategy in order gradually to create a new productive model that addresses present-day challenges, improves productive efficiency and improves employees' working conditions. Some relevant areas of action are listed in the following table:

<b>Public sector involvement</b>	
⇒	Economic planning by the state. <ul style="list-style-type: none"> <li>- Action by a public bank.</li> <li>- A strategic industrial policy.</li> </ul>
⇒	Fiscal sovereignty: <ul style="list-style-type: none"> <li>- The economic agreements of BAC and Navarre with the Spanish state.</li> <li>- Subordination to the Spanish system of taxation: the effective overall tax burden must be equivalent to that of the state.</li> <li>- The "quota".</li> <li>- A tax system that favours capital. ¿Who pays taxes?               <ul style="list-style-type: none"> <li>○ Reduction of tax collection.</li> <li>○ Debt.</li> </ul> </li> </ul>

Developing measures in time, contributing to synergy, will make it possible for a model of socially productive development to unfold that is endogenous and sustainable, and more balanced and fairer than the present system.

In the perspective of building the Basque state it is necessary to consolidate a social hegemony of large majorities that make sovereignty feasible and lend it credibility. The following table sums up the main lines of action, which must be developed in detail for each part of the territory and planned out over time, with specification of short, medium and long term priorities.

<b>The fight for economic sovereignty</b>	
⇒	Social hegemony for sovereignty.
⇒	Building the Basque socioeconomic domain. <ul style="list-style-type: none"> <li>- Construct the Basque productive fabric.</li> <li>- Progressive taxation; fight tax fraud.</li> <li>- Basque domain of labour relations.</li> <li>- Basque system of social protection.</li> </ul>
⇒	Social hegemony for sovereignty. <ul style="list-style-type: none"> <li>- Fight social insecurity and defend social rights.</li> <li>- Creation and distribution of jobs.</li> <li>- Right to housing for everybody.</li> <li>- Defend Mother Earth: sustainable development.</li> </ul>

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## 4. The Basque economy at the crossroads

***Ekai Center, research centre for the promotion of  
and dissemination of information about the study of public policy***

The Basque economy is moving towards a change of context, as a result of the obsolescence of the present economic model and the challenges ensuing from the financial crisis in the Eurozone. We are at a real crossroads: the future outlook for the Basque economy depends on whether or not the right decisions will be made now. It is crucial that budgetary policies ensure a solid financial system, deal with the challenges posed by the monetary system, strengthen industry, and above all, achieve a qualitative leap both in the technical equipment of industry and the effectiveness of our public institutions.

## **1. THE FINANCIAL CRISIS AND THE CRISIS OF THE EUROPEAN PROJECT**

We are standing on the peak of a financial crisis that, latent for decades, finally erupted in July 2007, although some economic and political circles didn't fully react to the situation until 2009.

This is a structural, economic and political crisis of bigger proportions than any we have seen to date which, on account of western governments' all-round political impotence, threatens to trigger off the final downfall of Europe and the United States in the face of the emerging countries.

It needs to be said that this decline of the West is not the result of a natural process of fatigue in the course of development but a direct consequence of public policies that may be called self-destructive, most notably from the seventies onwards. Therefore, it is also a reversible process if Europe and the US are capable of reorienting their economic policies fast, and probably their political structures too.

The financial crisis erupted in 2007 as a consequence of an accumulation of unsustainable debts all across the West. Some of our government leaders may claim that they were unaware of what was going on at the time. That the figures on the growth of GDP for the previous few decades were grossly distorted with respect to the growth of debt. That very serious trends of deindustrialisation and an effective drop in productive capacity were being systematically concealed by financial expansion. That our trade policies, which can also be described as self-destructive, only made sense in a context of twisted political conduct by a political class incapable of defending general European and American interests over and above private agendas set by particular pressure groups.

In this context of the West's loss of economic and political hegemony, the Basque Country's economic structure is specially affected by the way the situation is developing in the European Union. European monetary union — the euro — is in freefall. And with it, the foundation on the basis of which we have been taking positions on economic policy for decades.

Indeed, our country's economic and political strategies were set in the framework known until now as the process of "European integration" for much of the twentieth century.

Specifically, our industry has taken its bearings from the initial framework of incorporation into the common market, followed by the single market and, finally, monetary union.

Our politicians, whichever their colour, have situated themselves within the context of progressive European political integration, which without a doubt has done much to temper the radicality of the Baque political conflict, at least as far as the domain of economic decision-making was concerned.

But this crisis, which is financial in its outbreak but political in its origin and economic in its consequences, is going to change many things, and Basque economic policy is one of them.

It is important that our social, economic and political leaders should interpret what is going on correctly. It is important, in this sense, to avoid the kind of self-deception that is becoming commonplace in Europe's different ideological currents on both the Left and the Right.

If during the years prior to the crisis certain economic variables evolved in the West in the way they did, it wasn't on account of mere conceptual miscalculations, or as some traditional economists naively argue, due to "the errors of neoliberal ideology" or "the ideology of globalisation". All these years, behind those policies which we have called self-destructive stood group interests. Interests that are usually not interests of some countries over other countries but the interests of particular interest groups which are clearly contrary to the general interests of Europe and the United States, which our politicians have failed to stand up to. This is also the reason why it is so difficult to correct misguided economic policies even in the face of drastic situations like this.

Indeed, this network of particular interests has constantly fuelled an academic, ideological and cultural current more and more detached from reality and a collective commitment to social, technological and economic progress. In the Basque Country we have not been untouched by this trend, which has left us with a progressive loss of industrial culture, which is precisely the culture of creativity and solidarity that feeds into advanced societies.

## **2. THE POSITION ADOPTED BY THE BASQUE ECONOMY**

The big question we should ask ourselves here is: Is it possible to do anything about this negative context that has grown up over decades and defend the real economy, productive development and the socioeconomic fabric in the middle and long term?

The answer is yes, with reservations. That essentially different economic policies are possible is demonstrated by the present situation. We only need to look around us.

There are western countries, and economic policies, which, up to a point, have managed to ward off trouble. Countries that have defended their industry. Countries that have defended their productive capacity. That have defended their financial fabric against capitalist speculation. That have not allowed themselves to get carried away by the cycle of escalating debt that has brought other countries to economic ruin. Basically, these are the core countries of the European Union.

Other economic structures, on the contrary, have proved incapable of defending themselves. There are countries that have let their productive capacity slide downhill, borrowing their way into debt in self-deception. Countries which, independently of whether their positions are supposedly right-wing or left, have allowed their economic policy to depend increasingly on strategies dictated by financial pressure groups. These countries have even gone so far as to permit large financial entities to acquire influence to an unwonted degree over their political life, over their media, over their large companies, and increasingly over their financial system. All this has been happening, to varying degrees, in the English-speaking countries and the countries of the so-called European periphery.



Where does this leave us now? Four years on from the beginning of the crisis, the outlook is bleak. Exceptions aside, official western policies have refused to address the basic problems, and find themselves ensnared in a permanent strategy to "gain time", putting off the real issues of European and US economies and even making them worse.

Within this scenario, what position is Euskal Herria in? It has to be said, first of all, that the country has done remarkably well at defending its industry and productive capacity in a very tough situation, made tougher by the decline of its traditional big industry which has forced our businesses to readapt constantly, and rather successfully too. But just as much difficulty was posed by the prevalent way of thinking in the past few decades which did nothing but beckon away from industry and farming. By and large we have lost the battle for agriculture, but have done a better job at defending industry. Despite the predominant neoliberal view, according to which only services, financial figures and unrestrained consumption seem to matter, we have upheld the notions of industrial policy and economic policy, actively intervening when necessary, supporting industrial conversion and repositioning of our industry while encouraging the development of an active, dynamic fabric of small and medium sized enterprises.

Euskal Herria has maintained a sobre level of consumption and investment without entering the spiral of overspending and overborrowing of which the English-speaking world and the European periphery have been guilty. It has also avoided for the most part the trap of property or financial speculation.

Our industrial capacity remains intact thanks to exports, which make up an increasing proportion of our industrial sales.

But we also suffer from some palpable structural flaws: the low technological level of our products, the clearly insufficient capacity to innovate, education, health, and in general the institutional dimension of our socioeconomic fabric.

To a large extent, these shortcomings were inherited from a political and institutional setting that predated the achievement of Basque self-government which we have not succeeded in adapting to the competitive development of our industry.

As a consequence of the quantitative development-at-any-cost policy of the Franco era, which only made sense under a dictatorship, our country emerged from that regime in a clearly debilitated state and poorly equipped to take on the long-term challenge of productive development.

Euskal Herria had a productive fabric based on an outdated industry developed with cheap labour and insufficient investment, with our country ranking considerably lower, in relative terms, than it had before the dictatorship began. Euskal Herria had of course "grown", but the relative value of its per capita income in comparison to Europe or the whole of the Spanish state was much lower than it had been in the nineteen-thirties when Franco came to power. True, great fortunes were made in this period, but at the price of a relative deterioration of the average standard of living, and the virtual disappearance of the farming sector, and an overall degradation of the environment in much of the country; and at the cost of a cultural, sociological and political crisis of unheard-of proportions for Europe, a third-world-style public administration and health and educational services that were absolutely inefficient.

Over the last three decades our industry has nonetheless managed to work its way into the European market, and following Europe's monetary unification, take on first-class international competition. Unfortunately the same cannot be said of our social and institutional track record. The ecological disasters brought about by the dictatorship have only been partially set right. Our administration and our system of schools and universities still rank near the bottom in Europe.

Unfortunately our political leaders have lacked initiative to compare the state of our administrative and educational structures with the top European standards, and having done so, to act on what they would have found. For thirty years they have adopted a complacent strategy aiming simply to do better than Spain's other autonomous communities. As soon as European-level comparative analyses began to become known it was realised that the relative position of our official bodies, schools and universities in matters of ecological balance is lamentable.

Our companies have no choice but to compete with world-class companies. That is only possible if our social and institutional apparatus is able to bring us up to their standard, which certainly is not the case at present. We are lagging behind on both counts, and that, in addition to the lack of a resolution of our political conflict and the historical demands regarding our territorial configuration as a country, which are still unfinished business, is probably the biggest hurdle in the way of achieving satisfactory productive development in the mid or long term.

What future awaits Euskal Herria in such circumstances? The aim of this chapter is to make the point that the Basque Country stands at a crossroads in this respect. Why? Because the open-ended variables in the present situation regarding the economy and economic policy may develop in a number of different directions depending, in part, on how things turn out. But the important thing to grasp is that this will also depend on how able we are to make a stand as a country and orient our political, economic and social decisions in one general direction or another.

The essential points to bear in mind at this crossroads for the Basque economy are the following:

- a) The high risk that the present economic crisis may continue or worsen, with a dangerous threat that the Spanish economy in particular may take a turn for the worse.
- b) The high risk of a breakup of the European monetary union, and in particular, the risk of such a split-up occurring along the divide of the Pyrenees.
- c) The even more likely scenario that the European Union may divide up into two socioeconomic sections with increasingly different profiles and policies: the countries of the centre and the countries of the periphery.
- d) Doubts about the political future of the European Union itself which, depending on how the financial crisis develops, might move in the short term in the direction of a federal state, or may, on the contrary, disintegrate, setting out towards the status of an association of clearly established national states along traditional lines.

- e) Clear structural deficits which still remain despite the success of the Basque strategy of defence of the industrial model. Our community will need to make good decisions about those structural deficits which aim either to address them or to continue to accept the risk of falling into a tendency towards progressive economic decadence because the issues were not addressed resolutely when they should have been.
- f) In particular, the need to address the challenge to make a qualitative leap:
- in our industry's capacity for technological innovation;
  - in the efficiency of our institutional apparatus and the way our businesses work.

Despite the alarming situation of the crisis and the worrying breakdown of Europe's peripheral states among which we find ourselves, we face a crossroads because nothing is carved in stone and there are various options open to us which can decide our economic future in the middle and long term.

Finally, it is also true, as we shall see, that our chances of occupying one position or another as we come to this crossroads may vary significantly depending on what power and authority we have and, in particular, whether or not our country has a capacity to make crucial decisions on things that will come up (and at the present time that boils down to what powers the Spanish and French state devolve to us), such as:

- Banking policy.
- Monetary policy, regarding the availability of options in the event of a breakup of the euro.
- Tax regulation, in order to ensure maintenance of the present "theoretical" power to regulate in this area.
- Policies needed to resolve our social and institutional deficit (regulation of employment; employment, university and social security policy).

### **3. A SENSIBLE BUDGETARY POLICY**

For economically and politically strategic purposes, one of the main goals of budgetary policy in the coming years is going to have to be to limit debt. Given that we managed to avoid structural deficits in the years of economic expansion, now it should be easier for us to balance our budgets through judicious adjustments, tightening our belts as necessity dictates while applying taxation adequately. Avoiding debt is a prerequisite for ensuring true autonomy in our public policies which are not dependent on short-term external conditions.

In this sense it is imperative that we steer clear of outmoded thinking; we must forget about both the Keynesian and the neoliberal clichés, discard concepts which view borrowing as the sacred solution for all problems while also enthroning austerity as a sort of sacred prescription to cure all economic ills. We must be aware, now more than ever, of the scarcity of public resources and above all, the need to set clear spending priorities. Nor, of course, should we ignore the fact that a point may be reached after which belt-tightening and austerity, instead of strengthening the economy, produce the opposite effect, especially when they start to eat away at social cohesion, social or economic infrastructure, educational policy or technological equipment.

Above all, it is important to avoid dogmatism and remain alert to what the next few months and years may bring. Nobody knows for sure how far this crisis is going to continue or how far public revenue may fall.

In a nutshell, then, the main objectives of Basque budgetary policy should be:

- a) To avoid debt.
- b) To protect the real economy.
- c) To protect social cohesion.
- d) Beyond these requirements, control public spending.
- e) Adjust tax revenues as necessary to achieve a balanced budget.

In budgetary policy it is also essential not to allow ourselves to be carried away by trends in other socioeconomic settings. As we have said, there are "adjustments" that are necessary and which affect the economy positively, but there comes a point where such adjustments may interfere with the balance between supply and demand, threaten social cohesion or affect our socioeconomic, educational or innovative capacity.

Our economy has not over-borrowed to such a great extent as the countries of the European periphery. Therefore, social adjustments that make sense in those countries may not be warranted and could be destructive for Basque society.

#### **4. KEEPING THE FINANCIAL SYSTEM "ROOTED"**

One of the main pillars for countries aspiring to a model of endogenous development is to possess a financial system that is sufficiently committed to the productive development of the country. That is why the countries which have respected their commitment to the real economy, those in the European centre, have defended tooth and nail the maintenance of a majority share in the banking sector of entities with proper roots in the country such as credit cooperatives and savings banks (*kutxak, cajas*).

This has been a constant feature of the Basque economy thanks to the structural weight of savings banks and credit cooperatives in the Basque banking system.

In this sense, the process begun in 2011 of turning the savings banks into financial banks has raised alarm. It is indeed worrying that such a strategically risky operation for our economic structure should have been set going with such a flimsy justification.

The loss of control of the Caja de Ahorros de Navarra is probably irreversible, and the Navarrese social fabric will have to recover from this little by little. Such a fate appears to have been avoided, or warded off for now, in the case of the fusion of the three provincial savings banks of the Basque Autonomous Community.

Several aspects of this process cause concern and must put us on our guard against certain obvious dangers (which have already become realities in the Navarrese case) which would entail a big step backwards or even the collapse of our financial system, not just caused by the stumbling blocks of the financial crisis but by the total irresponsibility of our political class in this area.

We think that the measures it is necessary to pursue from the point of view of economic policy are:

- a) Make sure that shareholders other than the various savings banks are not admitted into Kutxabank.
- b) Safeguard the Basque financial system through strategies radically limiting the extent of borrowing and concentrating investment in the Basque socioeconomic fabric, reducing the risks taken by the savings banks in non-domestic areas.
- c) Ensure the commitment of the savings banks to their own geographical area, the self-employed and small and medium-sized business, and to recovery from the present crisis in the short and middle term. Probably this means some sort of institutional link will have to be created between these banks and small and medium-sized businesses.
- d) Involve the whole of the Basque political class in these strategies through a pact between institutions laying down that the purpose of the savings banks is to constitute the foundation of our financial system and to support the socioeconomic fabric of our society, avoiding external growth strategies difficult to justify in entities of this character which may put the foundations of our whole productive system at risk.

It is important, indeed urgent, that throughout our financial system there should be a change of mentality among the executives running these institutions. This applies, basically, to two areas: the current overestimation, even idealization, of the advantages of dimensional growth in the financial sector, and the underestimation of the importance of linking financial activity to the real economy.

The political leaders of this country should therefore adopt a new function which hardly seemed necessary until recently: to supervise, and if necessary, intervene in the Basque financial system to make sure that it remains rooted and stays linked to the real economy and the Basque socioeconomic fabric.

This also implies ensuring that savings banks and credit cooperatives continue to be majority shareholders in the Basque financial system, in line with the habitual criteria of the countries of the European centre.

Needless to say, the entities that make up the Basque financial system must be strong and solvent. Basically what this entails is:

- a) Proper management, which requires technically qualified personnel and includes the necessity for bank executives to become imbued with the attitude of commitment to the productive economy.
- b) Most especially at the present time, avoiding unnecessary risks that arise from borrowing, investment in speculative markets or in non-domestic areas.

The rooting of the financial system is an essential requirement not just to ensure the efficiency of financial activity itself but also to be able to maintain financial, industrial and

even political autonomy in countries or regions which generate the savings that drive these entities. Rooting the financial fabric is also essential in order to keep going the fabric of small businesses and the dynamic operation of production and industry.

Ensuring the rooting of the core of the financial system is absolutely essential if we wish to maintain our financial autonomy; this will permit:

- \* greater autonomy in the management of our institutions, basically the municipal councils;
- \* greater independence for our businesses vis-à-vis extraneous interests from beyond our territory, whether they be Spanish or international;
- \* greater availability of financial resources for productive development, innovation and creating social and economic fabric;
- \* capping the funnelling off of resources towards speculative projects;
- \* the focusing of the savings of Basque families on investment in the area immediately surrounding us, in our own social and productive fabric, which is typically less of a risk than investments further afield;
- \* greater independence of our companies, institutions and political class from a financial sector with interests that are unrelated to our socioeconomic structure.

## **5. THE MONETARY POLICY CROSSROADS**

The unusual circumstances the European monetary system is now in are playing a decisive part in the present state of the economy. The euro's future is hanging in the balance in terms of how it is regulated and where the euro is used. Given this situation it seems to be essential to position ourselves regarding both the risks and the opportunities for the Basque economy posed by a possible breakup of the euro.

It is true that monetary policy is an area of administration that is virtually unknown in our country for well-known historical and political reasons. Those reasons have everything to do with the regional character of our economic domain, which are therefore outside the bounds of monetary policy which is directly linked to sovereign states and, in the euro's case, the European Union.

However, at this time there is an obvious need for Basque economic policy to at least think about the possible scenarios that may lie ahead of us on account of the euro's present structural crisis.

Briefly, the basic theoretical options on the table with respect to the euro's future are:

- i. For things to stay the same.
- ii. To keep the present monetary structure but with stronger economic government.
- iii. For some countries to leave the euro.
- iv. A division into two areas with different monetary statuses.
- v. The end of the euro.

Although it is possible to imagine theoretical ways to configure European monetary policies that would be more efficient than the single currency, their implementation and, particularly, political costs would be so immense that we may write them off as improbable in practice. European political leaders are working all-out to avoid such scenarios, which, it seems, would only be contemplated in the event of some sort of economic or political catastrophe. But that said, it is also true that the sense of an impending "catastrophe" of some sort is being felt more and more, at the very least where Greece is concerned.

Clearly we are looking at two quite different scenarios, on account of the distinct geographical and geopolitical scope of the risks, in the case of a challenge to the present monetary union in terms of a given *peripheral* country's hypothetical exit from the euro or, on the other hand, a challenge deriving from the exit of one of the *central* states.

Although the scenarios are different from a political perspective, in macroeconomic terms we might classify the possible resulting scenarios regarding the future monetary position of Euskal Herria as follows:

- The present geographical scope of the euro is maintained.
- Euskal Herria remains within a euro from which some of the weaker economies have departed.
- Euskal Herria ends up in a monetary union together with the weaker economies.
- Euskal Herria ends up in an intermediate position in between the strongest and the weakest economies.

The first effect for the Basque Country of being part of the eurozone has been to offer the advantage of having more capital available to it than would probably have been the case in a monetary system based on other, weaker economies. All in all, our country has not significantly abused of this availability of resources. Up until the start of the 2007 crash, our public entities had hardly got themselves into debt. Our financial entities had easy access to foreign financing, as a result of which some bad investments were made, but basically in foreign markets. On the whole, though, ample capital has been available to stimulate consumption and investment.

Theoretically speaking, in the event of a reconfiguration of the European monetary union, placing Euskal Herria in an intermediate monetary "zone" would probably be the most appropriate thing given the present state of our economy.

Placement in a weaker monetary zone than that, which is foreseeably what would actually happen, would result in a greater shortage of capital for productive investments and would stunt our growth, given the increased monetary instability, even though having a weaker currency might represent a significant advantage in the short term by making it easier to export and harder to import competing products.

All told, then, taking into account the fiscal and budgetary discipline demonstrated by our country over the last few decades, the structural capacity for saving and so on, it seems fair to say that although in the short term it might be tempting to have a weaker currency to facilitate improvement of our trade balance, in a longer perspective our economy would definitely be better off by being part of a stronger monetary system.

Having its own currency gives a region or nation some important advantages, the most basic of which is obviously the ability to adapt monetary policy to the economic development of one's own country or area.

There are several reasons why it can make sense to give up that autonomy and join broader monetary unions. They range from lower costs for trade transactions to greater ease in getting access to capital by belonging to a stronger, more stable economic bloc; but there are also arguments to the contrary, including the greater ease in achieving a favourable trade balance by belonging to a weaker monetary area.

One key factor when assessing different scenarios is the present setup of economic agreements with the state. It is true that, in terms of regulation, the real tax autonomy granted by the present economic agreements is limited. However, the self-discipline in the management of fiscal revenue which these agreements imply is more typical of independent states, and this is something that should not be lost sight of in a comprehensive analysis of economic policy strategies in general and monetary policy in particular. In this case, it also entails to a large extent giving up one of the main buffers for so-called "asymmetrical shocks" in the midst of a monetary union. Given that a fiscal adjustment for these shocks does not come about automatically, the drawbacks of belonging to a broader monetary union are more evident in a situation with fiscal sovereignty such as the Basque Country has.

Theoretically, in the hypothetical case of having its own currency, Euskal Herria would:

- a) Have to pay more currency exchange costs.
- b) The benefits of deciding on its own monetary policy in accordance with the state of its economy and an intermediate position between the strong and weak currencies of Europe, which would probably be closer to its own economic reality.

However, the question of how feasible it would be to have its own currency depends less on momentary factors or the country's economic or industrial development than on how capable it is to sustain its currency at a stable level and keep its own bookkeeping in order.

It is true that until now being part of the euro has meant that the Basque Country could benefit from the advantages of having a strong currency without having to worry about any of its down sides until the crisis began. But considering what has been going on for the past four years since the crash it is quite possible that this option of enjoying the benefits without paying much of a price of a strong currency has come to an end. Everything seems to suggest that developing political realities will either force us to choose, or leave us with no choice, and we will find ourselves either within a strong currency or within a weaker one.

In the Basque case, for reasons already given, in the hypothetical scenario of a breakup of the European monetary union it is even possible that a situation with our own currency would serve us better than being part of a weak monetary zone. Provided, that is, we prove capable of maintaining the same general level of fiscal and budgetary discipline as we have demonstrated until now.



## 6. RE-COMMITTING TO ENDOGENOUS DEVELOPMENT

We have reached a strategic turning point and it is now that we need to decide what kind of approach we are going to take henceforth to economic development in this country:

- a) we can opt to *continue* with endogenous productive development (except that in Navarre there has been a lot of exogenous development, posing a risk for the future); this is an approach which has worked well for us so far, giving us an industry that is more and more productive and innovative, and a financial system with sufficient autonomy;
- b) alternatively, we can allow ourselves to be blown in the direction of the countries of the periphery in the midst of which we are located, giving way to a progressively weakened productive model and increasingly dependent financial systems.

As we have already said, there is nothing carved in stone. With growing doubts about how France is going to fare from here out, we are situated at a geographical point in between the countries making up the "centre" of Europe and those of its periphery. Our social, employment, educational and institutional systems can also, to some degree or other, be described as at a midpoint. If, as everything seems to indicate, the gap between the two is getting wider, the need to decide which way we are going may become more and more pressing, with little time to spare.

In effect, by action or inaction we have already been making decisions for months, or even years, with long-range effects which will force us to opt for one or another of the two socioeconomic models. Some seem to be pulling us towards a socioeconomic model that looks like it will be that of the countries of the periphery, with debt dependency, dependent financial sectors, weak productive sectors, deep class divisions, poor social and institutional provisions, big social differences and little social cohesion.

The alternative option demands that we commit ourselves resolutely in society, economy and politics to a future as a country that is open, caring for its people, with internal cohesion, a participating civil society, a strong work ethic, and a strong collective will to pull through, with a capacity to produce and innovate in technology, with balanced books, limited dependence on borrowing, a reasonably autonomous financial sector and advanced social and institutional provisions. We need to arm ourselves with political and social valour to make the necessary decisions to make this happen.

If we renew our commitment to endogenous economic development, this also raises the need for us to set down and implement clear policies affecting the size and ownership of our industry. The type of company ownership and whether our industrial fabric is composed for the most part of small companies or large ones may be decisive factors, in the medium to long term, determining how capable we are of sustaining our model of development.

## 7. SAFEGUARDING INDUSTRY

Given the ongoing structural issues in the financial sector, the crisis continues and shows no sign of abating in the short term. Given that the real economy of families, businesses and government is already substantially weakened by now, its capacity to withstand further pressures is diminished in comparison to its position in 2008.

Current analyses in a European framework of regional industrial policy are spotlighting significant progress, mainly from the perspective of sectorial policy and policy on specialisation and innovation.

However, the basic challenges for Basque industry in recent times, and which it will most likely need to go on addressing, have little to do with regional industrial policy. They involve two chief factors:

- The decrease of international demand.
- The unavailability of credit in the financial sector.

The challenge for basic policy, then, resides in the fact that the most crucial issues for Basque industry in the short and medium term cannot be addressed solely from the point of view of industrial policy per se but must be taken up on a higher level, affecting banking and monetary policy and regional, state and global macroeconomic policies.

And as we know, decisions on banking and monetary policy as a whole are not within the province of Basque public bodies. Neither are the basic instruments that are directly or indirectly relevant to global demand.

The big question, which requires an urgent answer, is: What can our political leaders do about it, then?

First of all, as we have noted repeatedly, Basque political leaders may do the following by means of regional industrial policies:

- a) Make our industry more competitive to improve its ranking so that, despite the global fall in demand and foreseeable further reductions in the future, it can retain a larger portion of the market than other regions.
- b) Help strengthen the internal finances of our companies, thereby giving them more capacity to resist new collapses or upsets in the financial sector.

But the million-euro question is, what else can the regional governments do, apart from create industrial policy, to address the structural problems of diminishing demand and the drying up of credit.

It seems obvious enough that the specific measures to be taken should be different in the Basque Country from those that might be considered for other regional political units. For one thing, there are clear differences between the regions, in terms of their size, economic structure, openness to foreign markets, saving capacity, and so on. For another thing, there are essential differences between different regions with regard to their ability to act on matters of political management affecting global demand, or in the credit market and monetary policy.

There is not much that the Basque Country's "regional" policy can do at present to protect it from the risk of upheavals in monetary policy which may well depend on both overall trends in the euro's stability and the standing of each region in the hypothetical event of a breakup of the eurozone.

To address these risks of instability of the global demand, Basque industrial policy should obviously take as its starting point the geographical location of industrial demand at the time when it is developing regional policies of one kind or another.

In particular, fiscal policies or spending aimed at increasing demand should take into account the proportion of consumption or investment that is allotted to products made within the geographical area of Euskal Herria itself.

Further, it is essential to work out what proportion of foreign demand for our products is located in stable geographical regions or, on the contrary, in areas that are at greater risk of suffering a fall in demand. This will give us a point of departure when thinking of a good way to approach a reorientation of export strategies.

The options for the Basque Country to protect itself against the risks of a contracting credit market may be limited, but they should not be ignored.

We have already referred to the possibility of developing industrial policies to promote self-finance, limiting somewhat companies' dependence on credit, although the short term effectiveness of such policies in the present situation may be dubious.

Within the range of conventional policies, the public policies of the Basque institutions should maintain strategies of driving forward and reinforcing structures for giving financial coverage to small and medium sized companies, especially through reciprocal guarantee associations and venture capital companies, including a strategic consideration of a qualitative leap in the latter's activities.

Apart from the usual instruments, the essential basis for dealing with risks of stagnation or collapse of the credit market is surely an analysis of the relationship between saving and investment on the macroeconomic level in the Basque Country.

In regions where the balance is negative and the territory needs a supplement of foreign capital to cover the deficit, regional policies can be oriented to controlling or reducing the capital deficit. This can be done in a variety of ways:

- By limiting any speculative investments or unnecessary public investments which may be being financed through credits or borrowing.
- By finding alternative financing or adjustment strategies for public investment or spending which may be being financed through credits or borrowing in anticipation of possible contractions of the credit market.
- By finding ways to supplement private savings, if necessary, with public saving channelled towards industry by various routes.

However, in the case of countries like the Basque Country were, in theory, there exists adequate saving capacity to finance investment, the strategic objective of public policy in this area should be to stop the financial sector from freezing up or channelling too large a part of internal saving, thereby provoking artificial financing deficits in industrial companies.

In the middle and long term, such policies may become established in the promotion of the activity of financial bodies with links to the territory, such as credit cooperatives, savings banks and regional commercial banks, inasmuch as these limit the inter-territorial flow of capital.

In the short to middle term, policies that aim to affect the level of wholesale borrowing of credit organisations may be a good strategy for the occasion. In areas with an adequate level of saving such as Euskal Herria, it seems to make sense to get entities with territorial links to limit their access to foreign borrowing and their investment outside the territory.

If it is difficult to access the wholesale market now, it would become harder still if there were a further slump in the credit market. The less we depend on foreign loans, the better the chances of the regional banking sector maintaining a flow of capital between savers and investors.

Likewise, apart for short-term liquid investment, investments outside Basque territory, even if based on current "regional" capital overflows, are unlikely to be recoverable for our territory in the event of a major collapse of the credit market.

So it probably is possible to develop strategies for safeguarding industry against the risk of a collapse of the credit market in a place like the Basque Country with adequate levels of saving. It may turn out to require specific regulatory tools over which Euskal Herria already exercises power, but it would also be possible to develop public incentive strategies, information campaigns and public relations exercises aimed at influencing the strategies adopted by financial entities. That influence could be direct (through private social sectors or public bodies that are represented in credit cooperatives or local or regional savings and other banks) or indirect, through just such strategies hinging on image, and relations with financial entities in which, together with the public institutions of the autonomous communities, there is also involvement of local entities, chambers of commerce, business associations and so on.

## **8. A LEAP FORWARD IN TECHNOLOGY**

Notwithstanding the impressive, and effective, efforts by our country of recent decades to defend its industrial fabric, we still have some significant catching up to do, and probably the chief structural challenge we face is to move forward in our technology.

It seems clear that certain structural issues make it particularly difficult to advance in this direction, one of which stands out in particular: the great weight of the "mature" sectors, as they are sometimes called, in our industrial fabric. But it is our opinion that a lot more probably could have been done than was, especially bearing in mind that, to a very large extent, institutional factors have been responsible for impeding more resolute progress in raising our technological standards.

What this tells us is that a faster or slower rhythm of progress depends largely on adopting adequate policies and implementing them effectively.

Therefore, we might say that we have two basic options regarding preparation for technological innovation:

- a) We can renovate our technological structures to carry out a qualitative leap forward in our ability to innovate in industry, opting in particular for the reinforcement of our basic capacity for technological innovation supported by the experience and ability to develop of our existing network of centres of technology and a better use of the public resources that are available for the purpose.
- b) Or, we can carry on with our traditional lack of commitment in this area, which derives from a failure to identify and address the serious institutional problems that present great obstacles to our technological progress.

Making a bid for an industrial policy committed to technological advancement entails, most particularly, the implementation of a great social pact to back the horse of innovation. Not to underestimate the value of the effort that has been made in this respect by the Innobasque project, we consider that this great social pact should rest upon different premises, such as the following:

- We need to free ourselves of restraints deriving from the dominant conceptual framework in the West in recent decades, and not waste our time confusing spaces of technological innovation with social innovation. There is nothing wrong with social innovation, a notion which is fundamental to the aims of EKAI Center, but public policy on innovation in the social field should obey principles and criteria that are clearly differentiated from technological and productive innovation. The great social pact that we advocate should thus be clearly centred on technological innovation.
- While continuing to defend and support initiatives already embarked upon to promote applied research, this great social pact should be focused primarily on the promotion of directed-basic research.
- Considerably more money must be specifically earmarked for directed-basic research than at present, and there must be a fundamental rewriting of priorities.
- There should be a specification of the strategies needed for implementation of this social pact jointly with active entities, basically with companies and research.
- We should free ourselves of the traditional institutional restraints which basically tie down the political and higher education domains, putting our money on a new way of managing directed-basic research through public or private structures with enough autonomy to make resources available to the most capable research teams for each project, focused on promoting our country's research teams but with the capacity and the will to hire other information and research services from other places too. The money should basically be public, but it should be for projects of clear long-term interest from a business perspective.

## 5. The Mondragon cooperative group and the prospect of a Basque state.

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This chapter presents a broad structural overview of the Mondragon Corporation cooperative group, focusing on its strategic approach for the new millennium, which covers the second model of corporate management, corporate values, Mondragon University, internationalisation, the Garaia project and the innovation system. This qualitative survey, which discusses some good points and limitations in relation to the building of a Basque state from the perspective of the cooperative movement, considers structural features, some potential contributions and the particular consequences of the socialization of property.

## **INTRODUCTION**

Everything today suggests that the creation of a Basque state, or the building of a kind of statehood suiting our interests as a distinct community, is not something that is on the books in the short term. The possible and the necessary do not appear to be walking hand in hand. From the perspective of necessity, the need for a state is a basic and pressing one, a matter of life or death for our day-to-day survival and peaceful coexistence. From the viewpoint of possibility, the idea is surrounded by unclear issues and hurdles of consideration.

And yet the direction is clear. The democracies forced upon our everyday life by the Spanish state and by the French state stand in the way of our development, and tie down our freedom in chains. The water that springs from them is unable to quench our thirst. In consequence, we can only advance along the path of our own political self-organisation, management of our own affairs and self-sufficiency.

We are in Europe, and it is not difficult to realise that the monetarist, liberal, neoliberal and state-oriented design of the Europe currently being built presents serious obstacles for a modern recovery of our Navarrese state. Statehood would be easier for us to achieve in a context of a European peoples' and working class struggle to build a democratic, socialist, anti-imperialist Europe. A socialist Europe at the service of the working classes and a peoples' Europe where all the cultures and nations had the same possibilities of development.

The subject of this chapter will be placed in this context when we talk about the "general potential contributions" and the "potential contribution of Basque cooperativism to the process of the socialisation of property". It is also necessary to consider the points under "some limitations and anomalies detected in the process".

### **1. THE QUANTITATIVE AND QUALITATIVE DIMENSION OF THE MONDRAGON GROUP**

The Mondragon Cooperative Corporation, denominated since 2008 by the new logotype as Mondragon Humanity at Work, is a unique experience in the world of development through the cooperativisation of work.

#### **1.1. Economic particularities of the process**

Comparing this cooperative movement with the cooperative experience in other countries, we can isolate a number of special characteristics of the former:

- First, these cooperatives have been based since they started on the industrial sector and the basis and matrix of the experience have been the production cooperatives, unlike cooperatives in other countries that are primarily or exclusively oriented to consumption (consumer cooperatives) or credit (credit cooperatives).
- Secondly, production cooperatives in other countries are built on technologically backwards sectors and products, and its production processes are typically work-intensive. In Euskal Herria, we have Mondragon Group cooperatives based on

technologically advanced products and sectors, and its production processes are typically capital-intensive.

- Thirdly, production cooperatives typically face, in the course of their development, a serious financing problem inasmuch as their members' financial resources are insufficient to meet the needs resulting from the development of the business, so they have to look to third parties and generally fall into a dependence on banking entities. The Mondragon Group's historic solution to this serious problem was to create its own cooperative bank (Caja Laboral Popular) and articulate and structure it around this. Thus the Mondragon Group has found a way to function as an industrial group first and as a global group later, maintaining the autonomy of each cooperative business.

## **1.2. The present-day reality of the Mondragon Corporation (Mondragon Humanity at Work)**

The Mondragon Corporation started out in 1956 in the Baque town of Arrasate [called *Mondragón* in Spanish] as a small factory making household appliances; by the end of 2010 it provided 84,000 jobs and it is the business leader in Euskal Herria today, ranks seventh among Spanish business enterprises, is one of the 150 largest companies in Europe and is the largest cooperative group in the whole world. Nearly half (44%) of its jobs are located in the four provinces of South Euskal Herria, and another 19% around the world, while the remaining 37% are located in other parts of the Spanish state.

In organisational terms, it consists of three basic social and guiding organs:

- The Cooperative Congress, made up of 650 delegates from the cooperatives, which lays down the strategic guidelines for the administration of the corporation through planning and coordination of the business units.
- The Permanent Committee, delegated by the Cooperative Congress, whose task it is to make sure the policies which the Congress adopts are implemented and supervise their implementation.
- The General Counsel, which coordinates the policies of different divisions and cooperatives and is in charge of the creation and implementation of corporate strategies and objectives.

In recent years we have also seen organisational changes geared to the new area of knowledge. The constitution of this new area founded on training and innovation brings together research and R&D training centres, including notably the University of Mondragon with 8,500 students. Hence the 256 member companies and bodies are integrated into a structure with four areas, the three traditional ones of finance, industry and distribution, and the area of knowledge.

The four areas into which Mondragon Corporation is articulated are thus:

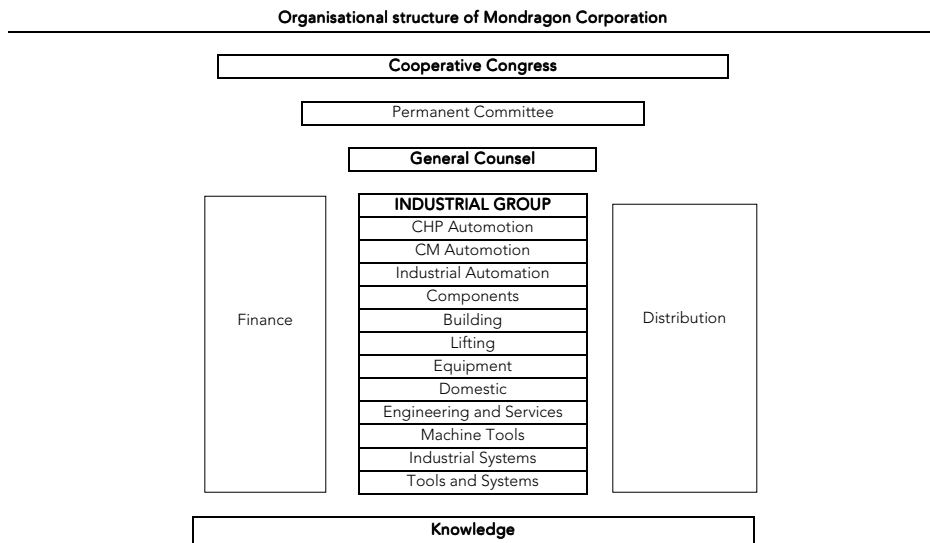
- The Area of Finance, made up of the Caja Laboral Popular savings bank and the Lagun Aro insurance company; these cover banking, insurance and social services.
- The Area of Industry, the group's matrix, which encompasses different subsectors for consumer goods, equipment, industrial components, building and business services.



- The Area of Distribution, which since it includes the Eroski supermarket group is one of the major distribution groups of the Spanish state, with over 2600 outlets plus a chain in the south of the French state. It also includes the Erkop business grouping for cattle raising, vegetable farming and food services.
- The Area of Knowledge, which covers training centres and a number of research centres.

### 1.3. The Corporation's structure

The components and functions of the different parts of Mondragon Corporation are summed up in the following diagram:



Source: Mondragon Corporation. 2010 Profile

### 1.4. Strategic plans for the new millennium

The general lines of strategy for the nineties underwent an overhaul in the new millennium. New elements also emerged. We shall sum up some that may be considered of particular importance to fill out the picture and give a fuller story of the present-day Mondragon Humanity at Work.

#### 1.4.1. Second model of corporative management

When the initial model of corporate management of the cooperative movement was updated, critics pointed out that the knowledge and participation models implemented in the cooperatives were the same ones that had been developed by the transnational companies. It was suggested that the time had come to develop an endogenous system of participation and management based on a cooperative culture. The upshot was the creation in 2007 of a model of participation and management founded on cooperative principles. The new model has three chief goals: to improve employee involvement, to standardise the system of management in participating affiliated companies, and to

achieve business excellence. Thus it was hoped that a company of the highest standards<sup>41</sup> would be built achieving social and business results adapted to the social setting.

#### 1.4.2. Corporate values

The most fundamental new step was the creation of a widely accepted charter of values. This process was based on the experience acquired in the creation of charters of values by the affiliated cooperatives.<sup>42</sup> Thus a charter of values was established that was internalised and on which a broad consensus existed among all involved, which became the new central reference point for the corporation. The corporate values of the Mondragon Cooperative Corporation talk about customer satisfaction, the value of people, the optimisation of products and services, cooperation, continual improvement and social commitment. At the end of the first decade of the new millennium, the company's philosophy is summed up in four great values: cooperation (owners and protagonists), participation (commitment in management), social responsibility (fair distribution of wealth and commitment to one's area) and innovation (perpetual renewal).

#### 1.4.3. Development of the University of Mondragon

The original educational structure built in to the University of Mondragon was transformed into departments of engineering, humanities and education, and business studies. Also of note was the creation of an institute of cooperative studies (called Lanki) which acts in lieu of a social science department for the cooperative enterprise. Fresh lines of development being explored by the new cooperative university include reengineering of education, bilingual education, more focus on research<sup>43</sup>, and outreach of the university campus to other districts.<sup>44,45</sup>

#### 1.4.4. The internationalisation process

The internationalisation process, projected in the late nineties, has turned into a shining reality. By the end of 2009 the Mondragon Cooperative Corporation had 75 production centres and nine regional headquarters scattered across seventeen countries and four continents. Forty-five of its subsidiaries are in Europe, fourteen in the Americas, fifteen in Asia and one in Africa. Contrary to the widely held belief that the aim of relocations is to go after cheap production costs, the Mondragon Corporation has twenty-two factories in developed countries such as the United States, Germany, the United Kingdom, France and Italy.<sup>46</sup> Regional headquarters are found both in the big markets and in development centres in the US, Mexico, Brazil, Chile, India, Russia, China, Taiwan and Vietnam.

By late 2010, overseas factories had a staff of 15,930, a third of the total number of jobs in the industrial cooperative group. The new companies are Limited Societies. Thus,

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<sup>41</sup> The list of acknowledgments, certificates and awards for quality and excellence in business received by the end of 2008 included being a finalist for the European EFQM, a European environment award, eight "golden Q's" and 18 "silver Q's" (quality awards given out by the Basque government), four EMAS awards, 108 ISO 9000 certificates, 54 ISO 14001 environmental certificates, 16 OHSAS certificates for prevention of work accidents and one SA 8000 certificate for social responsibility (Yearly Report, 2009, p. 4).

<sup>42</sup> Following an internal debate, the cooperatives jointly adopted a set of values such as confidence in one's work colleagues, giving priority to customer satisfaction, participatory management and so on.

<sup>43</sup> During the 2008-9 academic year, Mondragon University hosted sixteen conferences on different fields of knowledge.

<sup>44</sup> There are at present over four thousand students in university studies at the university's Arrasate, Oñati, Eskoriatza, Markina, Goierri, Irun and Donostia campuses.

<sup>45</sup> Altuna Larraitz, *La Experiencia Cooperativa de Mondragón*, p. 168.

<sup>46</sup> Corporate profile. Mondragon, 2010.

contrary to the customary pattern, a cooperative centre is being developed with a growing, dynamic capitalist periphery giving regular employment. Besides this new social structure, around 20% of the total staff are hired as self-employed workers.

#### *1.4.5. The Garaia Project*

The objective of the Garaia Project is to strengthen the productive structure of the territory where most of the cooperatives are concentrated through a network linking companies, research centres and the university. This supports innovation in products and processes and the creation of new companies. Such a process is essential for most medium-sized cooperatives whose small dimensions make endogenous development difficult, making it necessary to develop shared cooperation strategies. The idea of this cooperative network for research is to link up the company and the university and technology centres, creating a "circle of knowledge" for the circulation of ideas and people. Thus the Garaia Project is a focus for innovation sharing space, infrastructure and people, becoming an essential part of cooperatives' development. Indeed, it has turned into a key transforming force promoting long-term research, stimulating the creation of skilled jobs, monitoring of new companies and reinforcing the economic fabric.

#### *1.4.6. The innovation system*

Following this logic, MCC has built a system covering innovation that is structured into four components:

- The Mondragon University Strategic Plan, which has set up knowledge groups for sixteen strategic challenges, designed a new research model and consolidated the circle of companies, technology centres, research teams and the university.
- The Garaia innovation project, built as a science park incorporating the university and research centres, taking the "district" as a local development unit.
- The technology centres and company R&D units, which comprised twelve different centres in 2009, providing 750 jobs for researchers.
- The Corporate Science and Technology Plan, which encompasses the development of new technological projects, with 22 strategic R&D lines in which 37 cooperatives are working, plus all the technology centres of the group and Mondragon University. This covers issues related to new materials and manufacturing systems, information and communication technology, energy and sustainability technologies, health technology, company management technology and research on values and participatory management.

## **2. LIMITATIONS AND CONTRIBUTIONS TO THE PROCESS OF BUILDING THE BASQUE STATE FROM THE PERSPECTIVE OF THE COOPERATIVE MOVEMENT**

### ***2.1. Some limitations and anomalies observed in the process***

The cooperatives are integrated into a society with a capitalist system. They function through mechanisms based on competition and their objective is for the company to make

a profit. Given these facts, important consequences derive from the fact that the enterprise has historically obeyed,<sup>47</sup> and still obeys today, the logic of the accumulation of capital.

The model of development is a key question. The Mondragon cooperative initiative was always an integral part of the prevalent model of capitalist development in Euskal Herria. A representative example of this development model is seen in the valley of Leintz, particularly in its central point, the town of Arrasate [the Spanish name for which is Mondragón]. The characteristics of the development model in this town are quite explicit: unfettered urban growth, ecological destruction including pollution and a drastic loss of biodiversity, overpriced housing at levels comparable to Donostia [the main town in the province], a large Eroski shopping mall which has done away with small businesses and drained the blood out of the life of the town, which until recently lacked even public transportation both within the town and between Arrasate and other towns, the wiping out of traditional farming (and to a considerable extent, the physical elimination of the farmhouses left standing), destruction of the town's urban heritage, and the cultural annihilation of our prehistoric ecosystems.

Corporatism is another fundamental limitation of the development model. One sign of this is the fact that the jobs created by the cooperatives are not for the community at large but for the sons and daughters of their members. So in places where jobs in the cooperatives constitute a substantial proportion of the total employment in a given area, adoption of a capitalist business principle giving preference to children of members when applying for jobs in the cooperatives amounts to discrimination against people who do not belong to so-called "cooperative families".<sup>48</sup> This has had important repercussions in places where the cooperatives represent a significant part, or even the majority, of the working population.

Likewise, it should be recognised that the community investment funds which the cooperative companies are obliged to put at the service of the community in exchange for paying lower taxes have always been invested in things that favour the reproduction of the cooperative group's own economic, technological and social conditions, displaying no qualitative difference from the practice of multinational companies which likewise invest in their own education centres and technology centres for their own development. The cooperatives should be doing more than this. Besides, logically decisions on the use of those funds should be jointly managed by community representatives.

The same corporatist logic applies to the lack of sensitiveness with which the corporation's internationalisation has been pursued, with a cooperative centre and a capitalist periphery. The use of a capitalist periphery based on the development of productive delocalisations farmed out to first and third world peripheral countries produces a snapshot summing up the Mondragon cooperative group in which a cooperative centre

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<sup>47</sup> In the Franco era and following the stabilisation measures of 1959, the objective was to create jobs, since that was required by the Franco-era development model. This had nothing to do with the needs of Basque society at the time but rather with the needs of Basque capital to expand. This drive for development was so strong that it resulted in work years of more than 2000 hours, and amounted to an important cultural aggression against their own culture with measures such as the attempt to abolish local holidays.

<sup>48</sup> In other words, if Eroski opens in Arrasate, the families not inside the cooperative do not get access to the jobs, whereas if it is [a normal capitalist company such as] Corte Inglés that opens a store, the opportunity for people to apply for jobs in it is much more democratic and less discriminatory of all the young people living in the town.

utilises and exploits part of its working population, hired as an unintegrated work force which, taken as a whole, accounts for the majority of the jobs.

The employment of a large number of provisional workers who make up as much as 20% of a company's entire workforce in many places, together with the indefinite extension of many trial periods with no specified end-date, boils down to the planned utilisation of an army of reserve workers who are exploited, used and discarded when no longer needed, all in the name of cooperative business efficiency.

"Non-convergence" with the people's movement, on account of the domination of technostucture in these companies,<sup>49</sup> limit further the political options for emancipation of the community as a whole, by dividing the worker and people's movements and nurturing individualists who only fight for their own capacity to consume, go on holidays, and pursue their particular material interests within *the system*.

It can therefore be argued that the notion of the neutrality of the cooperatives is false, since it results from the existing lines drawn in its interior. It may be neoliberal or self-managing, anti-imperialist or pro-imperialist, but never neutral. Cooperativism ought to offer Basque society a democratic project of material development committed to the worker and people's movement, favouring self-management and internationalist.

In short, it is fair to say that, given its capacity of association, territorial extension, capacity for social development and ability to take on the economic challenges of globalisation, the experience of the Mondragon cooperatives offers a great deal of potential for nation-building. However, it is impossible to ignore that this experience also has the potential to stand in the way of the social building of Euskal Herria (as Andoni Etxepare warned in his day), creating a corporatist model, a society integrated into *the system* and an individualist, uncaring middle class with no concern for the community and the social project.

## **2.2. Lines of endogenous recovery**

The concern of the Permanent Committee and the 2003 Plenary Session of the Cooperative Congress, which discussed "the existence of a move away from the essence of cooperativism", developed into a debate over the issue in which around two thousand people participated. The discussion culminated in a paper titled "thoughts on the meaning of the Mondragon cooperative experience", published in December, 2006, which lays out the blueprint for an endogenous recovery aiming to revitalise the cooperative concept. This document outlines three areas for action.

The first area is cooperative education. This is formulated clearly as one of MCC's basic principles. Mondragon's cooperative experience indicates that in order to promote the implementation of the aforementioned principles it is necessary to dedicate adequate human or economic resources to different aspects of education:

- Cooperative education, for all members, but especially those appointed for social work.

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<sup>49</sup> The lack of competence in social counsels is perhaps one of technocracy's most effective weapons for the reproduction of its privileged class interests and domination of the work force.

- Professional education, especially for members chosen for management work.
- General education, for youth, nurturing cooperative men and women who are capable of consolidating and developing the Experience in the future.

The second is participation and cooperation, which is broken down into the development of two basic principles of the cooperative experience:

- The sovereignty of work, which considers work as the principal factor for transforming nature, society and the human being, and therefore:
  - Rejects systematic hiring of salaried workers.
  - Attributes full sovereignty to work in the organisation of the cooperative enterprise.
  - Considers work the essential creditor in the distribution of produced wealth.
  - Declares its will to extend the opportunity for work to all members of society.
- Participation in management, establishing that the democratic character of the cooperative is not limited to the company side but involves progressive development of self-management and hence the participation of members in the domain of company management, which in turn entails:
  - Development of suitable mechanisms and channels for participation.
  - Informative transparency about the development of basic factors of management of the cooperative.
  - Practising methods of consultation and negotiation with working members and their social representatives in economic, organisational and work decisions that concern or affect them.
  - Systematic application of schemes for members' social and professional training.
  - Establishment of internal promotion as a basic route for covering positions of greater professional responsibility.

The third concerns "social transformation". The Mondragon cooperative experience's position on social transformation figures in the eighth principle, which expresses its desire for transformation in solidarity with other peoples through action in the framework of Euskal Herria in a process of expansion in cooperation with its economic and social reconstruction and the building of a freer, fairer, more caring Basque society through:

- Reinvestment of most of the net surplus obtained, allotting a substantial amount to community funds making it possible to create new jobs under the cooperative system.
- Support of community development initiatives, through the application of educational funds and cooperative promotion.
- A social security policy that is in accord with the cooperative system, based on solidarity and responsibility.
- Cooperation with other Basque economic and social institutions, especially those supported by the Basque working class.
- Support for the revitalisation of Basque as the national language and, in general, the characterising elements of Basque culture.

To this it should be added that social transformation forms part of the MCC's mission document which says: "to generate wealth in society by means of business development and the creation of jobs which should preferably be cooperative ones."

### **2.3. The potential contribution of Basque cooperativism to the process of the socialisation of property**

Another great challenge for Basque cooperativism is its potential contribution to the process of the socialisation of property, creating a new structure of types of property in the community that comes closer to satisfying social needs. This question, which is always relevant, acquires special strategic importance in the scenario of building Basque statehood in a pro-socialist Europe led by the working class. Here we invoke Marxism, specifically the law of gradual change of economic-social formations,<sup>50</sup> which posits that property relations express cleavage points in historical development. It is evident that the general form of evolution of humanity through distinct socio-economic formations has not corresponded exactly to all its particular forms.<sup>51</sup>

This poses two dilemmas. The first has to do with the need to advance in socialisation through social structure itself. In other words, how can the present be improved to generate the future? The second is about the need to develop systems of socialisation that serve others as models and ensure the possibility and historical legitimacy of these new, more socialised structures.

In this manner, the cooperative model has a function of constituting a more socialised system that answers to ordinary people's interests both in barely industrialised or semi-industrialised rural communities and in industrialised ones where modern technology has found its place. In the latter case, which applies to Euskal Herria, it also acts as a model for other approaches. This question is central in countries building socialism and opens a door to the visualisation of social property in which, together with the empowerment or "social appropriation"<sup>52</sup> of public services, the confederation of cooperative companies can represent a central core.

It is evident that here is the crux of the matter. The economic and social limitations of state property (the state company) in productive processes will only be overcome through a conceptual and empirical development of the notion of social ownership. This really concerns self-managing ownership, understood as that form of property which prioritizes social interests and seeks to make them compatible with local and particular ones.

This form of social-community ownership would be identified with a very de-centralised form of public and/or state property, such that rights of ownership would be distributed among different social protagonists. It would also be identified with a form of cooperative property that recognises and articulates the existence of a right of community ownership. In other words, it would be identified with a form of cooperative ownership over which the community also decides, because it has the right to own that cooperative, and the right to decide on its systems of business organisation and the use of its surplus value.

By developing social ownership, cooperative ownership would free up the productive forces, and so become economically and socially more competitive and serve as a model and social reference for other forms of ownership.

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<sup>50</sup> Luis Marcelo Yera, (2003): "El Quinto Tipo de Propiedad Empresarial en la Transición Socialista". *Marx Ahora*, **16**. Cuba.

<sup>51</sup> Thus for example the Germanic and Slavic peoples and those subjected to African and Asian tributary systems, and the many nomadic people that have existed, have not experienced the development of slavery, generally passing directly from a stage of primitive and/or tribal community to a feudal society.

<sup>52</sup> Here the notion of "social appropriation" appears which considers both the character of state ownership of public property and the appropriation by workers of the means of production.

## 2.4. Structural contributions

The process has structural contributions to consider which are certainly significant for the process of consolidation of a hypothetical Basque state.

These are:

Capacity of association: this is shown by the evident vitality of the Mondragon Group to implement processes of bringing together businesses in groups — business federations, district-level groups, sectorial groups, etc. — and create services and umbrella bodies permitting the development of economies of scale and rationalisation initiatives in areas such as planning, management, R&D, innovation, specialisation, diversification, commercialisation, financing, defence of common interests and so on, whereby it is possible to overcome the limited options available to each individual business unit on its own.

Territoriality: this is a consequence of the high degree of dispersal of share ownership in cooperative companies of this type, making it unpractical or very awkward to pursue a policy of territorial transfer of entire productive units, which in the case of private capital has become such a common practice, for economic and political reasons. The employees and executives of these businesses, and obviously those of the Mondragon Group, are by and large men and women with roots in the region and in many cases they are also people with a commitment to the development of their country, which is where they wish to live.

The development of social aspects is envisaged here on the basis of instruments of the Mondragon group that are inherent to the social economy in its totality, such as the fact that the assembly of member-employees is the highest ruling body; the incorporation into the business world of a representative democracy in which every person has a vote; the existence of greater remunerative democracy; the social demand for information and transparency in management; and the strategic importance attributed in these companies to training for member-employees. This implies the incorporation of democratic concepts into the structure of economic development.

The historical capitalisation process: it is a known fact that self-financing of companies with a social economy is insufficient on its own to cover the financing needs of the business cycle. Thus the European history of new cooperative initiatives has gone hand in hand with processes whereby such companies, unable to pay back the loans they have taken, gradually fall under the control of the banks. The Mondragon cooperative movement has addressed this difficulty through a special capitalisation process based fundamentally on salary austerity, the requirement of an entry payment, a required minimum contribution from new members entering the cooperative, and in particular, systematic capitalisation of business surpluses. The last-named measure makes way for a self-financing policy which re-invests surplus in the cooperative instead of using it for consumption by employees.<sup>53</sup>

Its own financial entity: capital accumulation by itself does not suffice to cover needed investments. When a certain level of development is reached, the cooperative company needs loans and it is easy for it to become dependent on the banks. The search for solutions

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<sup>53</sup> In the Mondragon Group there is a whole system of different "reserve funds" laid out in the statutes, and it is a rule that money payment of "returns" is only allowed when certain economic and financial conditions are met.



led to the creation of a financial entity, the Caja Laboral Popular, a savings bank which would collect the community's savings in order to reinvest them in cooperative jobs. This was an original solution which has brought about the relative neutralisation of the financial problem of these cooperatives. This initiative is also at the heart of its great strategic expansion.

The development of coverage cooperatives: this was a process begun, basically, in the sixties and which started to take hold with the creation of bodies such as the Caja Laboral Popular, the Business Division, the Mondragon Polytechnic, Ikerlan and so on. These coverage cooperatives guarantee financial support, technical assistance, assessment, promotion, and in general the operativization of all the activities necessary for the cohesion and proper working of everything.

Inter-cooperation: the constitution of the Caja Laboral Popular also establishes the blueprint for a gradual associative process which was to progress at a healthy rate towards a situation where the various cooperatives work together as a "business group", while maintaining the autonomy of each individual cooperative. This is how the principle of inter-cooperation got started. This came to the fore with the crisis in the seventies. The cooperatives had to deal with a situation characterised by widespread job losses and closures; they met the challenge with a variety of measures, among which the creation of Cooperative Groups is of particular note.<sup>54</sup> Thus the new district groups now institutionalised<sup>55</sup> cooperation between industrial cooperatives, with the object of adopting shared, effective responses to the crisis,<sup>56</sup> addressing social difficulties as a group and implementing common strategies. Subsequently the sectorial groups were created; these operate within a single sector of industry. Their creation was based on criteria of technological convergence and commercial convergence.

A new structure for financing: the creation of the Fund System consisted of the conversion of profits, the central inter-cooperation fund, the fund for education and inter-cooperative promotion, MCC, investments, the MCC Foundation, MCC Development, the job assistance fund and so on, which consolidated the capacity for self-financing, setting up a financing structure based on the group's own rules and regulations.

The model of corporate management: the main thing here is the attempt to develop an endogenous system of participation and management based on cooperative culture. Thus the creation of a model of participation and management in 2007 based on cooperative principles and centred around "teamwork" has three fundamental goals: to improve worker involvement, homogenize the management system in participating subsidiaries, and achieve business excellence. In its most powerful form, it opens the door to a model that places ownership, results and strategic decisions in the workers' hands.

Mondragon University: this provides an educational structure consisting of an engineering department, a humanities and education department and a business science department, with the fundamental objective of bringing about teaching and research to meet the needs of reproduction of the social and business experience of the cooperative group.

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<sup>54</sup> Actually there had already been some tangible experience with the cooperative group since 1964, with shared services and intercooperative arrangements. This was the Ularco Cooperative Industrial Complex, which grouped together industrial cooperatives in one district and served as a point of reference when the Cooperative Groups were set up.

<sup>55</sup> In the late seventies and the beginning of the eighties, around fourteen district groups were set up each located in a different valley.

<sup>56</sup> Their main contributions were the relocation of surplus workers and new rules for the redistribution of profits.

The Garaia Project: This recently created project aims to strengthen the productive structure of the territory where the cooperatives are concentrated through the linking into a network of companies, research centres and the university. This process is essential for most of the medium-sized cooperatives whose small dimensions make it difficult for them to pursue their own development and requires them to develop common strategies through cooperation.

Innovation system: structured through the joint participation of Mondragon University's Strategic Plan, the Garaia innovation centre, the companies' technology centres and R&D units and the Corporate Science and Technology Plan. Taken together, the idea of this system is to provide coverage for innovation ensuring the ability of the Cooperative Group to adapt to new challenges arising from new advances in technology and the globalisation process.

The multi-sectorial structure of the Mondragon Group and its interrelationship with the world of education and research represents, as a whole, an enormous potentiality for "a different development" in Euskal Herria.

## **2.5. Potential contributions**

Several "potential" contributions to the process of building a more democratic and social Basque state are worth pointing out.

First, an attempt should be made to make sure that the cooperative movement and the social economy generally are really an instrument of promotion of the working class, which thus becomes the protagonist in the economic area (production, distribution, services and education), basing this protagonism on the workers, both in technological and productive processes and in business.

In this sense, the workers' project of the self-managing Cooperative Group is not limited to the struggle for control of its different areas, but extends to the design of society and civilisation which is built interrelatedly with other productive units. This requires the articulation of companies of the cooperative group in a network capable of being integrated into the socio-political project of the people's movement.

Within this integrating model, the cooperative economy appears as a collection of companies and alternative projects which set out to articulate the relationship between the struggle for participation and self-management within the productive units and the struggle for democratic and participatory management in society as a whole.

A potential contribution of considerable significance is that which refers to community development. This is generated here out of a policy which makes use of a part of the surplus value produced in order to finance a complete industrial, educational, assistential and research development (among other things) controlled by the membership, which makes it possible to make an impact on the specific community in the form of economic growth, development of self-management, democratisation of community structures and material, social, political and cultural promotion.

Another great potential contribution concerns participation, without which there can be no real democracy. To put this another way, it is important to generate a dynamic which

will transform formal ownership into real ownership. This requires us to address such essential issues as social relations and production techniques, the subject of transparency in power, the subject of authority and submission, the subject of knowledge and decisions and the subject of control by the membership and dimension. Based on these democratic and self-managing coordinates, it is also necessary to fight for a world that gives back to the Basque community ownership and control over our nation.

It is also well known that with the introduction of new technologies and globalisation, the management of knowledge becomes a central part of survival and development of productive processes. It is necessary to involve intelligence and human experience in productive processes, for which a sense of ownership is vital. Now unlike ordinary businesses, in cooperative companies this sense of ownership is based on the new relationship between member and worker that is characteristic of these companies. Thus, the workers/entrepreneurs of the Cooperative Group acquire this sense of ownership as a matter of course, and in consequence have a considerable advantage in this respect.

Another basic potential contribution in the present context concerns building a "different internationalisation process" that accords better with the cooperative character of the Mondragon Group and differentiates it from other companies by neutralising the logic of the present-day internationalisation process and demanding that the social and worker demands of the International Labour Organization are met; challenges the trend to decapitalise and financially exploit third countries; gives workers in those countries access to ownership of the companies; and questions the distribution of knowledge within internationalisation processes.

Thus the different nature of the cooperative economy has the potential to intervene in important aspects of industrial policy with regard to the choice of new productive activities, in order to adapt them to social necessities; the use of technology in such a way that in addition to ensuring social and productive efficiency, it also makes it possible to improve the humanisation of people; the promotion of training, giving it a more all-round, interactive and self-managing content; and favouring a more active, social and innovative technological option which allows the development of new forms of synergy between social innovations and technical innovations.

In conclusion, it is possible to consider that in the process of building the Basque state, the cooperative experience of Mondragon can offer Basque society a project of material development based on technical and scientific, democratic, *Basque* advances that is committed to the worker and people's movement, self-management and even internationalism.

## 6. The need for a Basque state in a labour relations and social protection perspective

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The Basque state is the legitimate aspiration of an ancient country, both in the modern world and historically. It is also a necessity from the viewpoint of labour relations and social protection. This chapter claims that the present setup, subject to the Spanish and French states, is one that denies to Basques the opportunity to develop their own model responding to their culture and their particular socioeconomic circumstances.

The chapter opens with a snapshot of the current legal powers of the European Union, France and Spain as member states, and the Basque Country, and of the policy of labour relations and social protection that ensues from those powers.

The rest of the chapter discusses options for the development of a specifically Basque model of development that would be available to an independent Basque state.

## INTRODUCTION

Does it make any sense at all to talk about building a new Basque state in the twenty-first century? A lot of people believe that in the present era of globalisation it is necessary to seek integration, and that the creation of a new state would be contrary to the direction of history.

But it is a very curious thing that those same people who say that the state is an obsolete idea never think of renouncing their own state. Within the European Union the pace of integration is very slow, and now and again there are quarrels and expressions of state nationalism, especially on the part of those states with a strong collective conscience of political or economic power or imperial nostalgia of some kind, such as Germany, the United Kingdom, France or Spain. The president of Spain, for example, does not tire of stating that "we are a great nation" when rallying his citizens in speeches.

So what about Euskal Herria? As a country in the twenty-first century with its own national identity and national consciousness which has been passed from generation to generation over millennia on both sides of the Pyrenees, with its Basque language, its own culture, customs, economy and laws, why shouldn't it have its own state? Does not every nation have a right to its own state, first as an infrastructure (the body) and secondly as a superstructure (the clothing)?

The Spanish state has often moved to disqualify Basque aspirations to self-government, accusing the Basques of economic selfishness. The political point is concealed: a people's legitimate present and historical demand for a political identity is dismissed as nothing more than the egotism and lack of solidarity of a group of people who are simply Spaniards at the end of the day. The grain of truth in this is that various socioeconomic indicators do show, as will be seen in the course of this chapter, that South Euskal Herria is in some ways a leader for Spain, with more favourable poverty rates, Gini wealth-distribution ratings, unemployment figures and so on. To bely the accusation it may be argued that the hunger for independence in Euskal Herria predates these economic variables and exists (and always existed) over and above them.

This chapter examines the need for a Basque state from a particular standpoint: that of labour relations and social protection. Although we talk about the whole of Euskal Herria and are aware of the full picture, there will be few references to North Euskal Herria, among other reasons because it has had very scanty development of its own in the matters here considered.

We shall begin by attempting to delimit the object of study: what do we mean when we talk about labour relations and social protection?

Next we shall examine the state of affairs in this area as of today, looking at the powers pertaining to the European Union and to France and Spain as two of its member states, and the policies they follow in the application of those powers in the fields of labour relations and social protection.

Lastly we shall discuss the options for a hypothetical Basque state regarding developing its own model in social affairs.

### 1. LABOUR RELATIONS AND SOCIAL PROTECTION

These days, *labour relations and social protection* are mentioned as an area of demands. In order to define these concepts, we shall distinguish three parts: employment policies, labour relations and social protection.

### **1.1. Employment policies**

When labour relations and social protection are mentioned, employment policy deserves a place of its own among them. To define the object well, it is better to make a distinction between employment and labour relations. We may think of getting a job and losing one's job as the moments which bring about the beginning and end of labour relations.

Within employment policy it is usual to make a distinction between active employment policy and passive employment policy. Basically, active policies aim to create and/or preserve jobs, while passive policies directly address the protection of the unemployed.

Employment policies consist of a range of measures. Since its objective is the job market, some measures focus on putting the two components of that market in touch with each other and finding people jobs. The basic point is to facilitate contact between the unemployed person seeking a job and the company offering employment, acting as an intermediary through a data base that records the characteristics of companies and job-seekers.

Another part of employment policy is addressed to unemployed people or, in order to maintain jobs, employed people. Basically the unemployed must be given information and guidance about the situation of the job market and people's options, creating an individualized roadmap to finding a job. There should be an evaluation of whether people need work training as a way to make them more employable: work training for unemployed people and further training for those who have a job.

In addition to a policy for employees, an active employment policy also needs to address the case of self-employed workers. This in turn divides into two areas: self-employed individuals who work alone, and collective self-employment through social and economic options such as the cooperatives and work associations.

Another part of employment policy consists of measures addressed to the company owners who hire workers. Here, for one thing there are different kinds of work contracts; the law determines what kinds of work contract can be used and their characteristics: permanent or provisional, temporary, full-time or part-time, and so on. In some cases public grants are applicable for hiring a certain kind of worker or aimed at encouraging certain kinds of work contract (e.g. permanent contracts). The system of termination of employment is concerned, not with the creation of contracts, but with the way in which they come to an end, and this again concerns the company owner: free dismissal or for a reason, severance pay and so on.

A passive employment policy, on the contrary, aims to protect the unemployed. It focuses on providing the jobless with economic means to ensure an income, in combination with passive employment policy measures, such as information, guidance and training, to help them to return to work as soon as possible. The concept of "jobless" implies a desire to work, an ability (i.e. skills) to do so and the lack of a job. Thus, through a combination of passive and active employment policies, the idea is to assist the jobless person economically but with the intention of returning to work as soon as possible.

### **1.2. Labour relations**

Technically, the concept of labour relations is clear. When somebody voluntarily works for a firm from which they take orders in exchange for wages, there is a labour-relationship between the worker and the company and work legislation is applicable to that relationship between them.

Thus an individual labour relation is that between a company and an employee, and the legal category of the relationship between them is determined by a work contract. From that point onwards, work conditions are developed out of the work contract, including salary, working hours, holidays, functional mobility (changes of function), geographical mobility (changing the place of work), interruption of the contract (suspension, redundancy, leave) and so on.

Apart from this there is the subject of collective labour relations. Employees have collective representatives to defend their rights, whence the trade unions, workers' delegates, company committees and assemblies. In collective labour relations one side is represented by these workers' representatives and the other by the company management. These relations take shape chiefly through collective negotiation, strikes and collective action.

### **1.3. Social protection**

Social protection covers a large area. A basic classification might divide it into three parts: social assistance, social security and additional social protection.

Social assistance is the fundamental level, the purpose of which is to provide help to people who have no other source of support and find themselves in difficult economic circumstances. It is financed by money from public funds, and aims chiefly to provide economic assistance to people who are in a situation of social exclusion or who risk falling into such a situation.

Social security, on the other hand, is a compulsory public insurance system to which people are obliged to contribute. This form of social protection is financed from legally obligatory contributions by companies and employees through social security payments and attends to the economic needs of working people in accordance with the law, covering such things as retirement, illness, disability, maternity, accidents and so on.

Finally we have the additional forms of social protection. This level is voluntary, and pertains to the field of private insurance<sup>57</sup>, such as pension plans and pension funds, collective insurance contracts, and mutual funds for social assistance. Since it is voluntary, this level of assistance is additional to that provided by public, compulsory social security.

## **2. THE PRESENT SITUATION**

Let us see what the present situation looks like in Euskal Herria in matters of labour relations and social protection. We shall look at the legal division of powers in the European Union, Spain and France, and what each of these is basically doing.

The main objective of the European Union is undoubtedly economic: a single European market. Therefore, European "hard law" which overrides the power of the states is concerned with ensuring the free circulation of the elements of the single market: workers and capital (the factors of production), together with wealth and services (the things produced).

The subjects of labour relations and social protection belong to a lower level of legislation in the European Union, so-called *soft law*, which leaves the matter largely in the

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<sup>57</sup> A level that is voluntary, additional and public is very uncommon but not impossible.

hands of the individual states. In this area the European Union moves within a form of legal power based on subsidiarity or delegation of authority.

In the case of the French state, things are quite straightforward. The main point is that employment policy, labour relations and social protection are controlled by state legislation, given that Article 34 of the French constitution charges the legal system with establishing the basic rules of labour law and social security, and in France the legal system pertains exclusively to the state.

North Euskal Herria has no public legal status of its own at the present time, but forms part of the department of Pyrénées-Atlantiques which also includes Bearn, within the larger Aquitaine region. In any case, departments and regions have no say in labour relations and social protection, so North Euskal Herria has no chance of a say of its own in the matter. In what follows we shall concentrate on South Euskal Herria.

### 2.1. Employment policy

In the area of employment policy, the European Union's system is based on a coordinated employment strategy.<sup>58</sup> The basic idea here is that the EU gives general guidelines on employment policy for the member states to design and implement their own employment policies. EU guidelines are not binding, and if a member state fails to follow them there may be political consequences may not legal ones.<sup>59</sup>

The European Union employs a key concept in employment policy that it asks the member states to implement, called *flexicurity*.<sup>60</sup> By combining flexibility for employers with security for employees, the flexicurity formula is meant to be a win-win approach for all concerned. There are two kinds of flexicurity: *internal* and *external*. In the internal kind, the company has flexibility to change working conditions (salary, hours, functions etc.), in exchange for which the employee has job security (i.e. a permanent job; temporary contracts are only allowed when there is a reason, and there is no dismissal without compensation). Comparative law accepts this system as normal. In the external variety, employment is itself flexible (contracts may be temporary and employees may be dismissed at will), and there is no job security, but there is security in the job market. That means that although it is easy to lose one's job, workers will soon return to work through active employment policies (thanks to guidance, work training and so on), and in the meantime they will have enough money to get by thanks to passive policies (through economic assistance in lieu of a salary).

This external flexicurity approach has been particularly successful in Denmark. but we should bear in mind that Denmark's employment setup is rather unusual, with generous funds spent on active and passive employment policies, a strong work culture and good relations between trade unions and management. Extending this formula throughout Europe could be a risky business, because in the Spanish state (among other places) job security is not guaranteed in exchange for the high level of flexibility, periods of unemployment can be very long, active policies are few, and the existing unemployment safety net is inadequate.

Thus employment policy is primarily the state's legal responsibility. In the case of the Spanish state, powers in the area of employment are not included in the constitution.

<sup>58</sup> Treaty on the Functioning of the European Union, Article 9.

<sup>59</sup> At present the core of the employment policy of the European Union may be found in the Europe 2020 strategy and the 2010-2014 guidelines for states' employment policy. Developing these, the French and Spanish states have created their national reform programs.

<sup>60</sup> The main document on flexicurity is European Commission, COM(2007) 359 of the 27th of June. Thereafter the European Union has systematically insisted on the idea of flexicurity: see Europe 2020, states' employment policy guidelines (2010-14) etc.



However, indirectly it is clear that the constitution attributes powers over employment policy to the state. The state has the function of setting the objectives of economic policy (in Art. 149.1.13 of the Spanish Constitution), which includes employment policy; the state has exclusive power to pass labour laws which affect the hiring of employees (Art. 149.1.7); and in the matter of passive employment policy, unemployment payments come within the social security system and basic legislation and social security is an exclusive power of the state, as is its economic regulation (Art. 149.1.13).

All that the autonomous communities of South Euskal Herria are able to do in matters of employment policy is to work within the area where the state has decided to let them. Namely, in the area of active employment policy, as long as it stays within the limits of the state's economic policy<sup>61</sup> and the labour legislation of the state.<sup>62</sup> In the area of social security which is the passive part of employment policy, on the other hand, apart from economic regulations,<sup>63</sup> the autonomous communities must enforce basic state legislation.

According to the distribution of powers under Spain's Law of Employment, the execution of active employment policy is the job of the autonomous communities, through the autonomous public employment services, namely Lanbide in the BAC and the Navarrese Employment Service in Navarre.<sup>64</sup> The state has retained for itself power over passive employment policy, which is where the public employment service (formerly INEM) is situated.

According to this distribution of powers, the Spanish state develops its own employment policy, following European guidelines. At the present time, the so-called Spanish Employment Strategy is in operation<sup>65</sup> as a development of Europe 2020.

The Spanish state has by far the worst unemployment index in the Europe of the 27. The EU average is 10%; the Spanish state has 23.2%, while France has 9.9% and Euskal Herria has 11.38<sup>66</sup>. It is to be noted that the BAC and (High) Navarre have the two lowest indices within the Spanish state.<sup>67</sup>

Given this extremely high unemployment rate, the Spanish state has made an effort recently to improve its active employment policy,<sup>68</sup> but the public employment services leave a great deal to be desired, and the cuts on account of the crisis, far from helping to furnish such services with good professionals and suitable material, have the very opposite effect.

In passive employment policy, there are three levels of unemployment payment: unemployment payments on the level of contributions, assistance-level "dole" money, and active income for getting a job. In addition, in order to cope with the growing wave of unemployment on account of the crisis that began in 2008, there is temporary supplementary assistance for the great many people who, because of prolonged unemployment, have exhausted their regular assistance and have no income whatsoever.<sup>69</sup>

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<sup>61</sup> See Art. 10.25 of the Statute of the Basque Autonomous Community (henceforth SBAC) and Art. 56.1.a of the Statute of the Autonomous Community of Navarre (SACN).

<sup>62</sup> SBAC Art. 12.2 and SACN Art. 58.1.b.

<sup>63</sup> SBAC Art. 18.2 a); SACN Art. 54.

<sup>64</sup> However, an attempt to create a different model in the realm of ongoing professional training that developed through the HOBETUZ foundation was not allowed, thereby showing where the real limits are where executive power is concerned.

<sup>65</sup> EAO, 2011-11-19.

<sup>66</sup> According to 2011 data (Eurostat; Gaindegia 2011).

<sup>67</sup> Followed by Cantabria 15.9%, Aragon 16.8% and Castilla y León 17.1%. At the other extreme is the south of Spain, with Andalucía 31.2%, Canary Islands 30.9% and Ceuta 29.1%. (Active Population Survey, EPA, last quarter of 2011).

<sup>68</sup> That is the purpose of Royal Decree-Law 3/2011, Feb. 18.

<sup>69</sup> The most recent of these which was in force until the 15th of February, 2013, Royal Decree-Law 23/2012 of the 24th of August, gave unemployed people without any unemployment payment 400 euros per month for a maximum of six months.

When work contracts are drawn up, formally an ordinary contract is of indefinite duration, and limited-time contracts can only be entered into when there is a justifying reason. The principle of permanent employment was an important achievement of the workers' movement at the end of World War II, based on the simple logic that the (indefinite) duration of any work contract ought to coincide with the lifetime of the hiring company or business. If in the course of time a justifying reason should emerge (for example, that the business is in trouble, or that the employee is not fulfilling his or her obligations as set out in the contract), the employee may be dismissed.

In reality a great deal of cheating goes on, especially in the use of contracts for jobs or services and accumulative work contracts. Many companies prefer temporary contracts in order to practise fraud, because the labour relation will end automatically when the period of the contract is over without having to sack the worker, thereby reducing the company's costs. A recent figure is eloquent in this regard: on paper, 92.1% of new contracts are temporary contracts,<sup>70</sup> which of course does not correspond to reality at all, that is to say, that there should be a reason for issuing such contracts: to be sure the economic situation is unpredictable, but not *that* unpredictable. The figures for the BAC (93.7%) and the Autonomous Community of Navarre (93.3%) are very similar.

But if instead of looking at new contracts in the past month we consider the overall job market in the Spanish state, the proportion changes strikingly: 25.3% of all contracts currently in force are temporary, so the other 74.7% are permanent contracts. This contrasts with the French state where 15.2% of contracts are temporary,<sup>71</sup> and also with the BAC with 20.2% and High Navarre with 26.2%.<sup>72</sup>

What this seems to show is that as time passes, employees eventually manage to get permanent contracts, and that the highest rate of temporary contracts is that of young people starting out.

In Spanish legislation it is becoming progressively easier and cheaper to sack employees. The most recent chapter in this story is the 2012 law of labour reform.<sup>73</sup>

Before, in mass redundancies a redundancy plan used to have to be presented to the appropriate administration and approved by it. Now, the only thing the law requires of company owners is negotiation with workers' representatives to agree on the measures to be taken to cope with the crisis. If the negotiations do not lead to an agreement, the company may decide unilaterally to proceed with a mass redundancy, without administrative permission. Moreover, now with the 2012 changes, in cases of an unjustified dismissal the damages due to workers have come down from the equivalent of 45 days' wages per year of employment to 33 days.

In the Basque Autonomous Community the autonomous government adopted the Basque Employment Strategy 2011-2014 as its active employment policy as a part of the Europe 2020 strategy. The Navarrese government, the federation of Navarrese businesses and the trade unions UGT and Comisiones Obreras adopted the Navarre Employment Plan 2009-2012 which contains the main elements of High Navarre's employment policy.

The employment services Lanbide, in the BAC, and the Navarrese Employment Service, in Navarre, through their active employment policies, offer mediation, information, guidance, training courses, money grants to companies for hiring and to working people for undertaking self-employment initiatives, among other things.<sup>74</sup>

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<sup>70</sup> For September, 2012 ([www.sepe.es](http://www.sepe.es)).

<sup>71</sup> In 2011 statistics, the average for the EU is 14.1%. Only Poland has a worse index than Spain, with a 26.9% rate for temporary contracts (Eurostat).

<sup>72</sup> In South Euskal Herria, according to 2011 figures from Eustat and the Navarre Statistics Institute.

<sup>73</sup> Law 3/2012 of the 6th of July.

<sup>74</sup> <[www.lanbide.net](http://www.lanbide.net)> and <[www.navarra.es](http://www.navarra.es)>.

In the BAC, the Basque government, the business federation Confebask and the main trade unions (ELA, Comisiones Obreras, LAB and UGT) jointly signed a trilateral agreement on continuous training in 1995, and out of that agreement came the Hobetuz foundation. In Navarre, this area is the responsibility of the Institute for Training, Recycling and Employment,<sup>75</sup> jointly with the Navarre Employment Service. The Institute was founded through an agreement between the federation of Navarrese businessmen CEN and the trade unions UGT and Comisiones Obreras in 2001.

## 2.2. Labour relations

Strictly speaking, the European Union leaves labour legislation concerning labour relations up to the member states, while encouraging cooperation and coordination between states through the nudging, non-binding technique of *soft law* (exchange of best practices, etc.).<sup>76</sup> The European Union expressly refrains from entering into the main issues, such as salaries, trade unions, strikes or lockouts.

There are some rules to back up basic principles: in particular, there must be equality and non-discrimination<sup>77</sup> and employees must have freedom of circulation.<sup>78</sup> Beyond that, states establish the minimum objectives to be achieved in different areas such as employees' right to be informed and consulted,<sup>79</sup> working hours,<sup>80</sup> part-time contracts,<sup>81</sup> health and safety at work,<sup>82</sup> protection of employees in cases of layoffs<sup>83</sup> or companies' lack of solvency,<sup>84</sup> and temporary businesses.<sup>85</sup>

Thus in South Euskal Herria it is the Spanish state which has the power to create labour laws (Constitution, Article 149.1.7), while the BAC or Navarre may only enforce the laws and regulations established by the state (Statute of the BAC Art. 12.2, Statute of Navarrese Autonomy Art. 58.1.b).

So, the state determines both the terms (salary, working hours, the system of occupational categories, rules of functional mobility and so on) of individual labour relations and the legal rules regarding collective labour relations (covering unions, collective bargaining or strikes).

It falls to the autonomous communities to implement and enforce the labour legislation that the state has created, covering the registry of collective agreements, minimum services in cases of strike, settlement of disputes over employment regulations and so on.

However, subjects' collective regulatory autonomy in collective labour relations should be emphasised. In the whole area of South Euskal Herria (or in any territorial unit within South Euskal Herria), companies' representatives and trade unions have combined power to create rules on labour issues (collective agreements).

<sup>75</sup> Instituto Navarro para la Formación, el Reciclaje y el Empleo (INAFRE).

<sup>76</sup> See Article X of the *Treaty on the Functioning of the European Union* on social policy.

<sup>77</sup> 2006/54, Directive of the European Parliament and Council, 5<sup>th</sup> of July, on gender; 2000/43, Directive of the European Parliament and Council, 29<sup>th</sup> of June on racism; 2000/78, Directive of the European Parliament and Council, 27<sup>th</sup> of November, on reasons for opposing discrimination such as religion or beliefs, disability, age or sexual orientation.

<sup>78</sup> 492/2011, Regulation of the European Parliament and Council, 5<sup>th</sup> of April.

<sup>79</sup> 2009/38, Directive of the European Parliament and Council, 6<sup>th</sup> of May.

<sup>80</sup> 2003/88, Directive of the European Parliament and Council, 4<sup>th</sup> of November.

<sup>81</sup> 97/81, Directive of the European Parliament and Council, 15<sup>th</sup> of December.

<sup>82</sup> Note in particular 2009/104, Directive of the European Parliament and Council, 16<sup>th</sup> of September, on minimum safety and health measures for the use of equipment at work. However, there are many directives about different areas of health and safety.

<sup>83</sup> 98/59, Council Directive, 20<sup>th</sup> of July.

<sup>84</sup> 2008/94, Directive of the European Parliament and Council, 22<sup>nd</sup> of November.

<sup>85</sup> 2000/104, Directive of the European Parliament and Council, 19<sup>th</sup> of November.

This is a particularly powerful tool whereby, within the limits established by the regulations of the European Union and the Spanish state, companies and employees of South Euskal Herria are able to define the work conditions of Basque workers, such as wages, working hours, functional mobility and so on, through collective agreements.

This is of great socioeconomic importance, and the figures show that thanks to collective agreements we in South Euskal Herria have, by and large, the best indices of the whole of the Spanish state in salaries and working conditions (special mention might be made here of the collective agreement in the metal sector of Gipuzkoa).

It is therefore particularly worrying that there have recently been changes in the Workers' Statute in Spain (Workers' Statute, Article 84 — a new article) to introduce individualisation and centralisation.

Individualisation, because legal priority is given to a company agreement over and above the sectorial agreement, thus overriding the priority of collective autonomy in major issues such as salaries, working hours and so on. This will notably undermine the position of employees in small businesses by removing protection for the sector-level agreement.

And centralisation, because prior to the latest change any sector's collective agreement (especially in provinces with a long tradition) took precedence over another agreement covering a larger territorial unit (such as that of the state). Now, on the contrary, the only way to take precedence over the state-level agreement is to have an agreement on the level of the autonomous community.

In the autonomous units of South Euskal Herria, a variety of regional labour-relations organisations have sprung up. In collective conflicts, there is the BAC's autonomous-community-level Interprofessional Agreement on Voluntary Procedures to Resolve Labour Conflicts, or PRECO. The objective of this agreement is to encourage a peaceful solution when collective conflicts arise over labour relations without resorting to a strike, through the use of good will and friendly arbitration.<sup>86</sup> In Navarre, the Navarre Labour Tribunal foundation was created in 1996 for the same purpose.<sup>87</sup>

For work health and safety the BAC has the autonomous-community-level organisation Osalan.<sup>88</sup> Its main objective is promote health and safety in the work place, ensuring application of the pertinent legislation. In Navarre, the same purpose is served by the Navarrese Institute for Work Health, within the Navarrese government.<sup>89</sup>

We should also mention that according to the BAC's powers of self-government (see Art. 148.1.1 of the Spanish Constitution and Art. 10.2 of the Statute of the Basque Autonomous Community), two public bodies have been created: The Council of Labour Relations (CRL)<sup>90</sup> and the Committee for Economic and Social Affairs (CES).<sup>91</sup> In Navarre another Committee for Economic and Social Affairs (CES) has been created.<sup>92</sup>

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<sup>86</sup> This is a three-way agreement between the Basque government, the business community represented by Confebask and the main trade unions ELA, Comisiones Obreras, LAB and UGT.

<sup>87</sup> Subscribed to by the federation of Navarrese company owners CEN and the trade unions UGT and Comisiones Obreras. Its complete name is Navarrese Tribunal for the Resolution of Labour Conflicts ([www.tnavarra.es](http://www.tnavarra.es)).

<sup>88</sup> Law 7/1993 of the 21<sup>st</sup> of December.

<sup>89</sup> Foral Decree 16/2006 of the 10<sup>th</sup> of April.

<sup>90</sup> The council of labour relations is an equivalent organ made up of representatives of the company owners of the BAC (in Confebask) and union representatives (among whom the unions ELA, LAB, Comisiones Obreras and UGT have a right to be represented). This organ has two main functions: to act as a forum for ongoing discussion between the unions and owners, and to act as an organ for consultation of the Basque parliament and government on social and labour-related matters (as established by the Law of the Labour Relations Council, 4/2012, of the 23rd of February).

### 2.3. Social protection

In the area of social protection there are three sections to be differentiated, as we have already said: social assistance, social security and supplementary social protection.

In social assistance, addressing the need for assistance for those in a situation of need who are not covered by the social security system, the European Union leaves the matter up to the states, and only appears in a supporting role, promoting cooperation and coordination between states.<sup>93</sup> In the case of the Spanish state, social assistance is a competence that may be taken over by the autonomous communities (see the Spanish constitution, Art. 148.1.20). On that basis, the BAC and High Navarre have taken this route accepting exclusive responsibility for the administration of social assistance in their respective territories.<sup>94</sup>

In South Euskal Herria, the BAC and Navarrese governments have developed their own social policy for social assistance. In the BAC different services are provided to ensure monetary income and in the so-called Basque socialization programme.<sup>95</sup> A range of services are likewise provided by the Navarrese government.<sup>96</sup>

But within the Spanish state's social security, apart from the contributing level there is also the non-contributing level (particularly retirement and permanent disability pensions). The nature of this is that of social assistance (not of an insurance, because there is no need to pay beforehand), but since it is part of the social security system it is a competence of the state.

Within the area of social security, the European Union promotes coordination between states.<sup>97</sup> On this matter the main concern is that social security should not constitute an obstacle to the free circulation of labour because of a risk of losing the provisions of one's original state. To avoid that risk, services that are due are guaranteed no matter where the state's social security needs to send them to, and in the case of services that are in the process of becoming due the contributions made in different states are added up and then states will pay out these "international" services proportionally.

In the case of the Spanish state, Article 149.1.17 of the Spanish constitution mentions basic economic legislation and regulations on social security within the list of exclusive powers of the Spanish state, without excluding the execution of services by the autonomous communities.

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<sup>91</sup> The Committee for Economic and Social Affairs (CES) is an institution constituted by a variety of representatives, not only of trade unions and owners but also of the chambers of commerce, industry and shipping, banks and financial institutions, cooperatives, limited companies, guilds of fishermen and farmers, consumer organisations and organisations of the third sector of social action. The main function of this committee is to act as a consulting organ of the Basque parliament and government in socioeconomic matters (by Law 8/2012 of the 17th of May on the Committee for Economic and Social Affairs).

<sup>92</sup> Its members are representatives of the following organisations and associations: the Government of Navarre and the Federation of Navarrese Municipalities and Councils (7 members), the trade unions (UGT, Comiones Obreras, ELA and LAB (7 members altogether), the confederation of Navarrese company owners (7 members), representatives of the social economy (cooperatives and work organisations), Navarrese farmers and cattle raisers (2 members), ecologist groups, the Public University of Navarre, consumers and users. Its main function is to act as a consulting organ for the Navarrese parliament and government in matters in the socioeconomic area. In particular, it must be consulted about the preliminary project of law of the general budget of Navarre.

<sup>93</sup> Within Article X of the Treaty on the Functioning of the European Union.

<sup>94</sup> Article 10.12 of the Statute of the BAC and 44.17 of the Navarrese statute.

<sup>95</sup> Law 18/2008 of the 23rd of December. Two kinds of help are distinguished within the income-ensuring provisions: one is the Basic Income for Socialization and Social Protection (for those who have no income derived from work) and the Supplementary Income to Supplement Work Revenue (for those who earn only a little). There is also a Supplementary Provision for Housing Expenses and Assistance for Social Emergencies.

<sup>96</sup> Foral Decree 69/2008 of the 17th of June. Note in particular the Basic Income (income to socialise the excluded), Assistance for Family Integration and Socialisation (accommodation and maintenance for people suffering acute social exclusion), and Protected Social Employment Assistance (to encourage the hiring of people suffering social exclusion).

<sup>97</sup> Article X of the Treaty on the Functioning of the European Union and Regulation 883/2004 of the European Parliament and Council of the 29th of April.

For social security the biggest financial issue is the aging population. Since the financing system is distributive in both North and South Euskal Herria, the amount collected each year from contributions is used to pay for that year's services. The trouble is that there are more and more retired people receiving pensions and fewer and fewer younger people who are working and contributing to the pension fund. What is more, the amount of contributions is dwindling owing to unemployment and poor-quality jobs. Given this situation, the Spanish state recently raised the retirement age from 65 to 67, as of the 1st of January 2013.

The legislative development and enforcement of the state's basic laws by the BAC and Navarre are based on Article 149.1.17 of the Spanish constitution, except for the rules of economic regulation,<sup>98</sup> as is administration of the economic regulations of social security.<sup>99</sup> This is connected to the "single till" issue, where all social security funds must be placed in a single state organ which is to be in charge of its administration. At the present time that organ is the General Treasury of the Social Security or TGSS.<sup>100</sup>

In this respect the constitutional court has ruled that Article 149.1.17 of the Spanish constitution cannot be understood as restricting to the state the regulatory capacity in the economic regulation of social security alone. The court said that the unity of social security is in question and that to ensure that unity the single till (the General Treasury of the Social Security) is an essential instrument. In the same ruling, it is emphasised that the owner of the money of the social security is the state, in order to ensure unity. Thus the constitution aims to avoid allowing the autonomous communities to develop different regional social security policies. So the administration of the economic regulations is an exclusive competence of the state, through the TGSS, in order to preserve the single fund of the social security (Constitutional Court Ruling 124/1989, 7th of July).<sup>101</sup>

The issue of administration of social security cannot be considered wrapped up by Constitutional Court Ruling 124/1989. In the way Constitutional Court Ruling 124/1989 is expressed in particular votes, the unity of the social security system is guaranteed by the state's regulatory capacity, and administration by the autonomous communities does not put that unity in doubt. Therefore it can be argued that the autonomous communities, in cases where their statutes allow it (as in the cases of the BAC and Navarre statutes), may perform the administration of the economic regulations, which basically means collection of contributions and payment of services.

Article 149.1.17 of the Spanish constitution says that the autonomous communities may take charge of the *execution of services* of social security. Neither the statute of the BAC nor that of Navarre makes any specific mention of the execution of services.

Today, in practice the only service that is executed by the autonomous communities in the area of social security is the declaration and payment of pensions that are not for retirement or disability. In the case of the BAC, the provincial governments perform that service. There is no doubt that these pensions pertain to social security, and the state transfers money to the Autonomous Community of Navarre and the provincial governments of Gipuzka, Bizkaia and Araba, so that the payments are made by the state because the pensions are part of the state's competence.

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<sup>98</sup> Statute of the BAC, Art. 18.2 a); Navarrese statute, Art. 54.

<sup>99</sup> Statute of the BAC, Art. 18.2 b); Navarrese statute, Art. 54.

<sup>100</sup> *Tesorería General de la Seguridad Social*.

<sup>101</sup> The Constitutional Court has ruled that the state (i.e. the GSDN) has the following powers: inscription of companies; affiliation of employees; sick leaves and reincorporations; collection of contributions; extension of deadlines in the collection of contributions and payment instalments; and ordering for the payment of services.

In the case of supplementary social protection, we are in the area of private insurance, so given the principle of freedom of services, the European Union is competent in this matter.<sup>102</sup>

In the case of the Spanish state, in the distribution of competences in the area of private insurance, the basic powers for organising insurance are within the exclusive competence of the state (by Article 149.1.11 of the Spanish constitution). Therefore the state has produced basic legislation applicable to three formulae for social protection.<sup>103</sup> But the statutes of the BAC and Navarre take social welfare mutual funds as an exclusive competence of these autonomous communities in accordance with the general commercial legislation.<sup>104</sup>

On the matter of social welfare mutuality funds, in the BAC there is Law 5/2012 of the 23rd of February on Voluntary Social Welfare Entities. This law establishes the legal rules over mutual funds in the BAC.

The policy that is being developed by the authorities is obvious, encouraging contributions to the Voluntary Social Welfare Entities through tax deductions on VAT by the provincial governments of the BAC, the government of Navarre and the Spanish government too.

### **3. THE BASQUE STATE: A CHANCE TO DEVELOP OUR OWN MODEL OF LABOUR RELATIONS AND SOCIAL PROTECTION**

Let's imagine an independent, sovereign Euskal Herria of the seven provinces with its own state which is a member of the European Union. There would be a distribution of powers between the European Union and the states, hence between the EU and Euskal Herria.

#### **3.1. Employment policy**

In employment policy the European Union would provide general guidelines<sup>105</sup> and Euskal Herria's employment policy would have to be developed within those coordinates.

Now the EU guidelines are quite vague on employment policy. For example, the current guideline 7 concerns "increasing labour market participation of women and men, reducing structural unemployment and promoting job quality". But different approaches may be taken to achieve this goal, and Euskal Herria would be able to develop its own employment policy. Where the EU encourages *flexicurity*, a Basque employment ministry, with its own policy, would be able to promote agreement between trade unions and employers (rather than the present-day situation of strained relations in social dialogue) and develop its own policy.

Internal flexicurity would be developed (that is, job security in exchange for flexible working conditions). External flexicurity is more difficult to achieve because it does not

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<sup>102</sup> Article IV, chapter 3 of the Treaty on the Functioning of the European Union, and Directive 2009/138 of the European Parliament and Council of the 25th of November.

<sup>103</sup> 1/2002 EDL for pension plans and pension funds; 6/2004 EDL and 1588/1999 ED for collective insurance; 6/2004 EDL for mutual funds.

<sup>104</sup> Article 10.23 of the BAC Statute and Article 44.27 of the Navarre Statute. In an attempt to clarify the distribution of powers between the state and the autonomous communities, the constitutional court has ruled the organisation of mutual funds and the regulation of their functions to be the exclusive competence of the autonomous communities, but that in the performance of the mutual funds as insurance bodies it is compulsory to observe the state's basic legislation on insurance (Ruling of the Constitutional Court 86/1989).

<sup>105</sup> Currently, the Europe 2020 strategy and 2010-2014 guidelines for states' employment strategy.

guarantee employment. However, if a Basque government were to create an effective active employment policy as in Denmark (involving enough people and material resources) and passive policies guaranteeing economic security, there would perhaps be a different playing field. What other issues would be covered by our own employment policy? For example: the development of a mediation system for the labour market (through public and private agencies and on-line job portals), the field and legal rules of temporary job companies, types of work contract (with temporary contracts only where justified, or with some sort of permission), grants to incentivize work contracts (the present system is coming under increasing criticism for cheapening contracts that are decided ahead of time and even without grants, while not encouraging hiring), the layoff system (whether there can be dismissal without compensation, reasons for dismissal, redundancy compensation and so on), how to provide employees with information and guidance (through government and private agencies and on line), and a particular model of employment services (pursuing synergies between the school system, the ministry of employment, trade unions, company owners' federations, the public sector and the private sector).

In addition to promoting jobs and self-employment, we also need to talk about the home-grown option of developing cooperatives which have quite a history in Euskal Herria. The area known as social economy, which is that of the cooperative movement, could be promoted (with companies in the form of work associations partly owned by the employees, societies, foundations, special companies for people with disabilities, employment initiatives, mutual insurance groups and so on).

Employment policy is only one part of the picture of joblessness, not the whole story. As Professor Juan Antonio Sagardoy puts it metaphorically, if the economy were water and employment were a sailing boat, employment legislation would be the sails. Thus the main thing is economic activity because it leads to employment as the water holds up the boat.

That is why, applying the same set of laws, unemployment rates may vary greatly depending on the underlying economic reality. Within the Spanish state, the average for South Euskal Herria is nearly half of that for the Spanish state (as we saw above, 22.8% in the Spanish state; 13.2% in South Euskal Herria (the average of the rates of the Basque Autonomous Community and the Autonomous Community of Navarre). The explanation is economic activity: the law does not so much create employment as channel it, through types of contract, the system of layoffs and so on.

The influence of the law is more noticeable in rates of job insecurity or temporary contracts, according to the legal rules of contracting. Therefore, as we saw above, there is not a great deal of difference between the state average (24.9%) and the figure for South Euskal Herria (20.2% in the BAC and 26.2% in High Navarre). In France the rate is 15%.

This proves that legal rules have a big impact in this area, and that by developing a legal policy that is stricter about the use of temporary contracts Euskal Herria could come closer to the EU figure of 14%.

### **3.2. Labour relations**

There is no power to design a legal framework of labour relations in the seven provinces of Euskal Herria at this time. Since the European Union has very little say in this matter — basically a few guidelines establishing minimum objectives — if Euskal Herria had its own state that would leave the door wide open for developing its own model of labour relations.

With regard to individual labour relations, Euskal Herria would have power over some questions of great importance: setting the minimum wage, maximum working hours, the system for relating work activities to those of one's personal life, occupational categories,



functional and geographical mobility, suspension of contracts and many other things which are currently regulated. The European Union leaves these things up to the individual states, so Euskal Herria would have the legal ability to design and develop its own model.

With regard to collective labour relations, the centralisation process that we discussed earlier is very worrying right now, and furthermore the Basque nationalist trade unions' relations with the public authorities are all but broken off because they are completely critical of the socioeconomic policy of the governments of the BAC and Navarre.

If Euskal Herria were a state we would have to see what kind of social and economic policy the government had, and what relations would be like between Basque company owners and the trade unions in consequence. Anything would be possible, from good relations and cooperation to distrust, confrontation or refusal to talk to each other.

In a state of Euskal Herria, it would make sense for company owners across Euskal Herria to form a single association. The nationalist trade unions are already on their way to doing the same; other unions would have some catching up to do. The government of Euskal Herria could reach a legislative pact with both sides which would lead to a new model and a way of working that seems all but impossible to us today.

In the area of collective labour relations, the law would have to decide on the system of collective bargaining, the area and status of collective agreements, ways to settle collective conflict, strikes, lockouts and so on.

### **3.3. Social protection**

In the area of social protection, it is again a good idea to distinguish between social assistance, social security and supplementary social protection.

Social assistance is going through a hard time at the moment given the policy of cuts being implemented by the states around us. The problem here is that public money is used to help the people who are in dire straits economically.

A Basque state can develop its own model of social assistance; the European Union will not stand in the way, provided the state does not overstep the macroeconomic indices established by Europe on inflation and public debt. Without surpassing those limits there are a variety of options ranging from a restrictive to an expansive policy of social assistance.

In the last resort, of course, overall revenues and spending in the public accounts have to be balanced. Behind those accounts there are big decisions about economic policy, and that is where it has to be decided how much money to spend on social assistance, as a political decision, given that all forms of revenue and spending are variable.

Apart from the overall amount of money, a Basque state would work out its own model when designing a system of social assistance regarding who receives assistance, maximum income, how long they have been resident in the area, requirements for immigrants, the amount of aid given, how long for, and so on.

The only way the European Union would directly affect the question of social security would be on the level of coordination, that is, once emigrants from Euskal Herria obtained the right to receive a service in the place where they are located, how this would be sent, and payment to those who receive the service on the basis of their contributions in different EU states of the part for which they contributed in Euskal Herria.

Beyond that, the most delicate matter would be that of retirement pensions. Given the aging of the population (which is very considerable in Euskal Herria), looking ahead, the ratio between contributors and pensioners is predictably going to grow worse. Again, the key is to balance up the revenue (contributions) and spending (pensions) through a thoroughgoing overhaul of the pension system.

There are many ways to achieve that balance, analysing different financial sources, raising contributions, pushing back the retirement age and so on. The Basque state would have to choose without outside interference.

It doesn't look as though there are plans underway in these parts to privatise the compulsory public pension systems, as has happened in many South American countries (with Chile leading the way). Putting the public pension system in the hands of private financial institutions, putting legally obligatory contributions in the hands of the banks, can hardly be seen as compatible with a system that defends "social security", because after that money from contributions is invested by the banks its varying returns cannot offer security for the pensions of the future.

However, the law requires the state to pay the legally established amounts in legally established conditions, and in that case we can speak of security, because a state is unlikely to go bankrupt.

Apart from financial questions, the Basque state should have complete freedom to decide what events would be covered by Basque social security and under what conditions, such as temporary disability, permanent disability, maternity, paternity, risk during pregnancy, family assistance for having children, retirement, unemployment, health care covered by social security, or having an autonomous system (as in the case today of Osakidetza, the BAC health service, or Osasaunbide, the Navarrese system).

In the case of supplementary social protection, the law of the European Union ensures the freedom to provide services throughout the EU. Therefore the government of Euskal Herria would have to guarantee that any EU company in Euskal Herria had a chance to provide private insurance in the area of supplementary social protection, such as private retirement plans, life insurance and so on.

Beyond that, the law of the Basque state would be able to choose among different formulae when regulating supplementary social protection. Besides the public level of compulsory social security, there may be an additional, supplementary, private level managed by private banks and financial bodies (the present system in South Euskal Herria) or jointly by the trade union and the company. The supplementary level may also be public and managed by the public administration. Or it may be individual (decided voluntary by oneself) or collective (created through a collective agreement with contributions from companies and workers).

From the perspective of socioeconomic policy, the Basque state would also have to decide whether it supports supplementary social protection through tax deductions, and to what extent; or whether it prefers not to support it, prioritising instead the use of tax deductions to support spending for other kinds of protection of public interest, such as having children, housing and so on.

## 4. CONCLUSIONS

### ***Independent legal powers***

As we have seen, according to the present-day legal structure, in the areas of employment policy, labour relations and social protection, it is the state that runs the show. The European Union is playing a strong hand in the establishment of economic conditions to ensure a single market (with free circulation of workers, capital, goods and services), but in matters of labour relations and social protection it is left to the different states to determine their own legal frameworks. As a result, the Spanish and French states now hold the key to establishing the framework in social issues for Euskal Herria.

Thus, as we have seen, a Basque state would acquire the many powers now held by the Spanish and French states over employment policy within the broad guidelines coming from the European Union, with regard to the mediation system in the job market, types of contract, grants for hiring, rules for dismissals, the provision of information and guidance for the unemployed, worker training and so forth.

In the case of labour relations, the Basque state would also have a free hand to design and develop its own model of labour relations within the objectives laid out by Europe's general guidelines, with participation of all parts of society (especially the trade unions and company owners). Therefore, the Basque state would make its own decisions about the minimum wage (currently set at €1,425.67 in North Euskal Herria and under half that, €641.40, in the south). The state would also decide on its entire legislation over working conditions, establishing a model of its own, taking into account the lessons to be learnt in comparative law on matters such as salaries, working hours, functional mobility and so on.

We would also have an opportunity to have our own model in collective labour relations, in the collective bargaining system, in the legislation on strikes, company lockouts and other matters.

In all forms of social protection, there would also be a chance to set up our own system. For social assistance, this would mean an opportunity to create a system of assistance towards social integration for citizens in a situation of dire necessity, to fight economic poverty and social exclusion, addressing unemployment, housing, education and health issues.

In the area of social security, there exist today a variety of options for choosing our own system of compulsory public insurance for social protection. A choice would have to be made in social security between a social perspective or a predominantly economic one in the retirement system (involving age, contribution requirements, amount of the pension and so on); and furthermore, what should go into social security and the legal framework: inability to work (temporary and permanent), maternity, paternity, risk during pregnancy, unemployment, family assistance, widowhood pensions and so on.

We could set up our own framework of voluntary supplementary systems for supplementary social protection choosing among many variables: whether to encourage contributions through tax deductions or not to provide any such incentives, getting rid of the current fiscal incentives, public or private management of funds, limits on contributions, regulation of services and so on.

### ***The law and socioeconomic reality***

Although the laws in South Euskal Herria are the same as for the whole of the Spanish state, its socioeconomic indicators are markedly better than the Spanish averages.

Consider the unemployment rate: compared to the European Union average of 9%, there is 11% unemployment in Euskal Herria, 9% in the French state, while in the Spanish state the unemployment rate is at 22%, double the Basque rate. The poverty index for South Euskal Herria is the lowest of anywhere in the state. The Basque Country does much better than the Spanish state in the index for distribution of wealth; the Basque Autonomous Community stands among the places with the fairest wealth distribution in the whole world according to the Gini index.<sup>106</sup>

These are very important points on account of which, by applying the same legal provisions everywhere, the socioeconomic reality implied is very different. This gives some food for thought. Euskal Herria has its own characteristics in economic structure, social relations, culture, worker movement and so on, and consequently although the same legal system is applied that holds throughout the Spanish state, the socioeconomic indicators paint a very different picture.

If we were to apply a legal framework different from the present one to our own real situation by having a sovereign Basque state, it is fair to say that very different socioeconomic indices would emerge as a result.

From the legal point of view, given that the main responsibility belongs to the public authorities, especially in matters of labour relations and social protection, it is essential that there should be a good "connection" between social bodies. Today, the communication channels between the Basque nationalist unions, the business federations and the public administrations are broken. With our own state we could break this impasse, and broaden the dialogue to include many other social entities (the cooperative movement and representatives of the social economy in general, farming and fishing interests, consumer associations and so on), and would have a chance to build and develop our own model of labour relations and social protection with complete independence, in a way that is fully adapted to our characteristics and wishes. We need a garment fitted to our own measurements. We need a Basque state.

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<sup>106</sup> The Gini index indicates the distribution of income in a society on a scale from 0 (completely equal distribution) to 100 (completely unequal distribution). The BAC gets a score of 25 points (comparable to Denmark and Japan, which are between 23 and 25); Spain gets 31.2. At the other extreme there are countries like Brazil, Namibia and the Central African Republic which have scores between 58 and 70 points. In the Third Integration Plan for Basque Society (2011-2015) emphasis is placed on poverty rates and the Gini index.

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## 7. Building a (Basque) nation from the world of work.

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With the so-called “markets” closing the door on the nation as a nexus between different social groups within states that are subjected to market logic, the possibility arises of constructing a social nation of stateless peoples.

In the Basque Country the actors in this scenario are the Basque trade unions and non-mainstream agrarian organisations, together with social movements and political forces seeking self-government and socialism. The interactions between these forces comprise a mixture of cooperation and conflict in equal measure.

Such construction must be non-sectarian, and be articulated by territories, bottom-up starting at the level of the local district, these being the socioeconomic units of the confederation of valleys that will make up Euskal Herria. This will lead the way towards a form of state of a more permeable type, open to different alliances, and quite distinct from the older model.

## 1. FORDISM, STATE AND NATION

The aim of Fordism, a capitalist theory in vogue for three decades following World War II, was to attenuate the superproduction crisis that had brought the world to its knees in the thirties and early forties by means of a Keynesian welfare state. How? By increasing the purchasing power of workers and people generally, generating a strong demand for goods and services, and encouraging a three-way understanding between union leaders (forced to moderate their demands), business leaders and the rulers of the state. The result was a type of centralised state — nations without a state counted for nothing — that backed reform, consumerism and a certain "nation" of the state, a community of interests shared by capital and labour.

This system entered a period of crisis in the mid-seventies when the markets began to be global and the economy became a world economy, giving rise to the Post-Fordist era. Yet although its mystifying discourse exalts the self-organised, creative worker of quality circles, the reality of Post-Fordism boiled down to a brutal dualisation of the work force. The pyramid of workers now consisted of a small elite at the top consisting of stable, versatile, male, native, middle-aged employees sitting on a large base of groups lacking security including women, young people and workers from outside the EU. The unions were no longer needed, and were only tolerated if they transformed themselves into elite worker agencies.

The Keynesian state beat a retreat, unconditionally taking the side of the businesses to help them achieve rises in productivity and niches of excellence in the world market. And virtually all the political parties across the board, from right to so-called left, played along with this.

This welfare crisis, however, had an indirect consequence: the potential to open up a window of opportunity for oppressed nations. The state had ceased to be the chief agent regulating the capitalist system, its powers being progressively absorbed upwards (by the European Union and entities managing global neoliberalism), but also downwards. If the regions were gradually turning into increasingly relevant agents of regulation, why not stateless nations too? Thus Post-Fordist capitalism began to open up, unintentionally, a route for the latter to create their own state, a model of state very different from the ones that had existed previously, more permeable and open to alliances with progressive movements on other scales, but when all is said and done, still a state.

Since 2007 and 2008, however, Post-Fordism has turned even more predatory, through the absolute domination of financial capital over manufacturing capitalism. The disciplinary action to which states are subjected by the bank trusts at the expense of their citizens makes parliaments and governments superfluous, making a mockery of democracy.

Capital has driven states into debt by demanding that they provide subsidies and cheap labour without paying taxes, sucking them dry and pushing them towards bankruptcy. In Europe, the debt of the so-called PIGS countries (sometimes used by economists to refer to Portugal, Ireland, Greece and Spain) has risen dramatically in the last few years, producing huge economic gains for the financial trusts which are referred to euphemistically as "the markets". When they are doubtful of the economic solvency of governments, they charge them high risk premiums which result in an unsustainable burden which may drive governments into bankruptcy or make it necessary for them to be bailed out by Europe using public funds. The cuts and austerity measures implemented by the pale-faced ghosts into which almost all present-day states have been transformed, reducing people's purchasing power to the bare minimum, far from solving the problem or even attenuating it, escalate the superproduction crisis to an even more desperate level.

This phase of Post-Fordism has taken the weakening of the national element in the nation-states to the extreme. From the start Post-Fordism did away with the link between capital and labour by dynamiting the compact labour force of the former days of Fordism through an entire repertory of varying kinds of insecure working arrangements, and by provoking an exclusion

crisis in the form of a great mass of casualties, people who were isolated and permanently barred from the nation.

The latter is in reality vanishing in the various kinds of Post-Fordist state. The neoliberal states, which are nodes in the worldwide globalisation network, are being overrun by social conflicts which they have no wish to manage but only to suppress or keep under control. In the (ex)-social-democratic states, agreement has been drowned out by the fireworks of a micro-agreement between partnered institutions and companies in which what is conspicuous about organised labour is its systematic absence.

The social nation does not exist in either, if by this we understand the nexus between different classes; there are two "nations", that of the rich and that of the poor. The opposition to the "other" turns into the only cement gluing together the citizens on this phantom plane around a common national cause: hence the anti-immigrant, anti-minority, anti-Islamic, antiterrorist states.

In the gap that has been opened by the legitimacy crisis of the big families of Western parties, there is an opportunity for the xenophobic right-wing extremist parties and the green parties to grow strong; but also for the regional and nationalist parties of the stateless peoples.

## **2. OPPORTUNITIES FOR THE STATELESS NATIONS**

Does Post-Fordism, by its inherent tendency to weaken the nation-state, open up new opportunities for the stateless nations to conquer statehood? In theory yes, but we need to distinguish between different nation-building processes that can be lined up along a left-to-right continuum.

At one extreme there is "market nation-building", the fruit of an alliance between local economic groups wishing to get into global markets and territorial institutions that think the same way. The Post-Fordist nation is conceived of as a node in the world network of decision centres of the global economy, which would make it possible to escape state control. The public-private partnership would not extend to organised labour; nor will it take the form of becoming a state.

The weaknesses of this approach are self-evident. The participants in alliances on the global level are generally neoliberals and this makes for a fragile nation-building and a weakened self-government. The multinationals, having been courted to get them to set up in the national space, practise delocalisation if it is in their interest; and both they and the financial centres and global neoliberal bodies stay away from political turmoil, preferring the stability of the nation-states "that really exist", at least as far as the Atlantic region is concerned.

At the opposite extreme is the left-wing model of nation-building: building the social nation. This would be the fruit of a hegemonic alliance between popular sectors and workers through trade unions, alternative social movements, critical communication media and left-wing parties, with a progressive and emancipatory orientation, with the objective of putting an end to job insecurity and exclusion. Consensual agreements would be made between economic and social actors with everybody's participation and from the bottom up, with strict controls of international groups and large companies through an explicitly anti-neoliberal policy.

## **3. THE TERRITORY OF THE SOCIAL NATION IN POST-FORDISM**

Each capitalist regime has a specific geography; the transition from one regime to another is accompanied by a round of creative destruction and reconstruction of this space. This is evident in the transition from the Fordist to the Post-Fordist regime, with its corollary, well



known in our country, of the vertical disintegration of companies and the emergence of diverse industrial districts.

Fordist industries massed together in certain areas of North America and Western Europe (including the Basque Atlantic seaboard) generating accelerated urban development. In consequence of "international division of labour", certain third-world countries, especially in southeast Asia, developed their own neo-Tayloristic development programmes which contributed to the weakening of Fordism. In the west, the new Asian competition led to relocations and closures of factories, particularly in industrial areas specialising in traditional activities such as mining, shipbuilding and steelworks. The old industrial regions began to disintegrate, and its geography pertains to the Fordist crisis.

In a parallel development, there was a process of industrial reterritorialisation. Some saw a possible way out from the world crisis in the paradigm of "flexible" industrial districts, supposedly made up of communities of small and medium-sized companies interconnected in relations of cooperation and conflict. Over the past quarter of a century certain regions of Europe and the US, rich in technology, infrastructure and "flexible" economic activity, have replaced the old industrial areas. New centres of production have thus arisen that are very different from the former ones: intensive handcrafting industries in clothing design, furniture, precision metal working, machine tools in the Third Italy and the south of Germany; high-tech areas near large American cities such as Orange County and Silicon Valley.

Some writers have taken their inspiration from these processes to construct a model of regional development, according to which the objective of regional cooperation is to provide companies with "input" that they cannot obtain alone in the market: skilled workers, cheap financing, commercial information and so on; to share costs of research and development, marketing and investment that would be beyond the reach of the companies if they had to go it alone.

According to this line of thinking, flexible specialisation emphasises the need to build regional autonomy in order to promote cooperation between industry, organised labour and local public bodies. A regional economic policy is advocated which does not limit itself to manufacturing but also includes health, education and appropriate employment policies.

In this view, the present world is a global mosaic of regional economies. Can "national" be substituted for "regional" in this formulation, with the projection of a process of national construction for stateless peoples based on territory and work, which uses for its purposes certain "virtuous" characteristics of Post-Fordism in order to attain statehood?

The answer is unclear, because Post-Fordism combines reterritorialisation with delocalisation. Communication technology and computers have freed the economy from localisation; in theory a virtual company could work in the Himalayas thanks to computer technology. All the capital equipment that would be needed would be a few telephone lines and a couple of PC terminals forming a local network with the modems necessary for communication.

Moreover, the providers or consumers of these services constitute nodes in a communication network in which only the global centres have a substantial stock of hardware, which is absent in the lower nodes. The quest for agglomeration economies leads to a concentration of administrative and strategic services related to high-level management and central governance, which requires face-to-face interaction. The importance of these contacts is the necessity of keeping up to date with new developments which results in concentration in a few global urban centres such as Frankfurt, London, Tokyo, Paris, New York, Shanghai or São Paulo.

#### 4. THE RELEVANCE OF THE DISTRICT

In any case, it is clear that under Post-Fordism the district has come to the fore as a unit, in both economics and for union purposes. Occupying an intermediate position on the geographic scale between the narrow local unit of the town and the region, districts have become the preferred arena for collective *in situ* bargaining and trade union action, whether responding to the consequences of industrial conversion in a particular area, or forging local alliances with social movements, be they ecologists or pacifists, feminists or alter-globalists.

The Employment Zone, a concept recognised by Eurostat since 1992, refers to a particular space and territory with its own economic and industrial organisation. The Employment Zone is a neutral concept, and each such zone has its own characteristics regarding such things as activity and employment rates, inclusion of women in the work market, job security or the proportion of industrial jobs.

The number of employment zones in the Basque Autonomous Community varies between fifteen and twenty depending on which official body's classification we use. Pradales analysed the characteristics of three such areas in 2005 whose status is indisputable: the Left Bank of the Estuary of Bilbao, the Deba Garaia (High Deba) district which includes Bergara and Arrasate (Mondragón), and the Plain of Araba (i.e. Vitoria-Gasteiz). The Left Bank, an erstwhile major hub of industry, finance and employment for the entire country, is going through its worst period ever with regard to availability of jobs on account of the crisis in the traditional industries: steel, capital goods and shipbuilding. Improvements in job and activity ratios in the Plain of Araba have turned this into one of the main centres of Basque development today. Deba Garaia is in a rather unique position because of the cooperative movement and the specially high proportion of industrial jobs.

These three examples taken together are suggestive of how the Basque Country is configured, within its own national space (the more so when we think of Euskal Herria as a whole), as a mosaic of contrasting regions.

#### 5. PLAYERS IN THE BASQUE SOCIAL NATION (1): THE UNIONS

The best place to start an overview of the main players in Basque nation building from work and territory is with the trade unions.

##### 5.1. South Euskal Herria

In the south of the Basque Country the Franco regime persecuted equally both the Basque workers' union ELA (Basque Workers' Solidarity) and UGT (the General Workers' Union), the union arm of the Spanish socialist party. Between 1960 and 1975 ELA broke free of both its Christian links and the historical Basque Nationalist Party. Within the Basque nationalist Left LAB (Nationalist Workers' Committees) emerged in 1975 in the heat of the worker counsel movement of the late Franco period; its initial objective was to create assembly-based workers' committees of Basque workers who were meant to be the Basque answer to Comisiones Obreras, the union organisation that was close to the Spanish communist party.

Thus on the eve of the change of regimes after Franco died in 1975, there were four trade unions in Euskal Herria. The Basque unions stood at loggerheads, though for different reasons, both to the strategy of social accords initiated by Madrid's Moncloa Pacts and to the centralised structure of collective bargaining aimed at by the Workers' Statute that was written between 1979 and 1980.

Industrial conversion had a traumatic effect on the country's metal, shipbuilding and capital goods industries, which resulted in an all-round shut-down and desertion of industry from the Bilbao estuary and other parts of the country. Contrasting approaches from the Basque unions and those identified with the Spanish state led to a dramatic change in the power balance which translated into electoral figures in the results in the 1995 polls: ELA 40.0%, LAB 15.5%, Comisiones Obreras 17.5%, UGT 15.9%.

The joint percentage of delegates from nationalist unions in the Basque Autonomous Community rose from just 33% in 1980 to 57% in 1995; the proportion of non-nationalist delegates fell from 36.8% in 1980 to 34.4% in 1995. This pattern has remained stable, with hardly any variation, until the present, as witnessed by the 2009 union elections where ELA got 40.2%, LAB 16.7%, Comisiones Obreras 20.2%, UGT 13.1%.

In Navarre the power balance is the mirror image of this. In 1995 the results were ELA 20.7%, LAB 11.3%, Comisiones Obreras 20.5%, UGT 31.9%. The results of the 2009 trade union elections were: ELA 21.37%, LAB 12.33%, Comisiones Obreras 25%, UGT 30.89%. The joint totals for the two blocks has also remained stable between 1995 and 2009, when the nationalist vote was 33.70% of the total, and the non-nationalist vote 55.89%.

Following the three-way union split between ELA, UGT and Comisiones Obreras which lasted between the general strike of 1988 until 1993, ELA moved away from a Fordist pacting and "autonomy of the parts" strategy towards an "anti-establishment" (*kontra-boterea, contrapoder*) one, defining as such the conjunction of union power with social power from a national perspective, which included united action with LAB and the fight for self-government. This strategy lasted from 1993 to 1999. In the spring of 1995, a joint declaration by ELA and LAB for Aberri Eguna, the Basque national day, proclaimed the Basque people's right to self-determination, uniting national and social construction.

ELA and LAB were active members of the Lizarra-Garazi Agreement in September, 1998 which preceded the ETA ceasefire. The agreement's breakdown at the end of 1999 weakened their unity of action, and a series of breakups and makeups ensued; they are still going on today.

Meanwhile, the Spain-supporting block made up of UGT and Comisiones Obreras, which opposes the trade union majority in Euskal Herria, was consolidated in 1995. Their opposition revolves around several issues. The 1992 National Agreement on Continuous Training, at the level of the Spanish state, put large amounts of money into the hands of the Spanish unions, UGT and Comisiones Obreras, and of the Spanish business association CEOE; the Basque nationalist unions were concerned over the likelihood of these funds being channelled towards internal financing of the recipient unions. The new Basque agreement on continuous training signed by the four unions and Confebask in 1995 did not heal the wounds: ELA and LAB's opposition to the Spanish agreement was cited as a reason for excluding Navarre from the institutional arrangement.

With the arrival in power of the Spanish conservatives of Partido Popular (PP) in 1997, centralisation of labour relations was reinforced. In 2000 Comisiones Obreras and UGT approved the agreement between PP and PSOE, the two main Spanish political parties, "for freedom and against terrorism", which sought to cast over the entirety of Basque nationalism a shadow of suspicion of complicity with ETA violence.

Points of agreement between the Basque nationalist unions and successive Basque governments have been few and far between. ELA and LAB have accused one BAC government after another, whether controlled by Basque nationalists or not, of implementing neoliberal policies in questions of income redistribution and employment policy, also condemning the policies of the Navarrese governments for conceding exclusive patronage to the Spanish trade unions.

Following the start of the major world economic crisis that began in 2007 and 2008, the neoliberal direction taken by the Spanish socialist party and its policy of welfare cuts brought to a head new clashes between the two big blocks of unions in the Basque Country. In 2009 and 2010, ELA and LAB called for general strikes to protest against the neoliberal economic policies and wage cuts. On the 27th of January, 2011, the same day on which Comisiones and UGT signed a social pact with the Spanish government, ELA and LAB, in conjunction with the Basque sectorial unions STEE-EILAS, HIRU and the farming union EHNE, called for a general strike to protest over pension cuts.

The return to power in Madrid of the right-wing Partido Popular at the end of 2011 led the way to a labour reform in March, 2012, which carries the tyranny of the markets to hitherto unseen extremes, making layoffs easier and cheaper, undermining the right to collective bargaining, increasing job flexibility and insecurity, while at the same time introducing austerity in budgets through radical welfare and social service cuts. The general strike of the 29th of March, 2012, announced by the majority unions, brought the country to a standstill and was seconded by the non-nationalist unions, not only here but all over the Spanish state.

## **5.2. North Euskal Herria**

The French unions operating in North Euskal Herria, CGT, CFDT, CFTC and CGT-Force Ouvrière (there is also an alternative union movement, the Union Syndicale Solidaires, which includes SUD), all have a republican structure based on the French department (*département*) not conducive to autonomous union action in North Euskal Herria, which in this setup figures as the Basque half of the department of Pyrénées Atlantiques. The relative exception to this is the CFDT whose Aquitaine Interprofessional Regional Union is split up into six districts one of which is the Basque district.

Comisiones Obreras is the union corresponding to the CGT, and UGT to the CFDT. But the local "Basque" CFDT is more pro-Basque than the Basque UGT, and acted as an observer of the Lizarra-Garazi process.

It is impossible to know the results of elections of staff delegates and company committees in the Basque Country. What we do know is the results of elections to the Conseil de Prud'hommes, which in December, 2002 were as follows: CFDT 32.61% (with 11 counsellors), CGT 27.43% (7 counsellors), FO 16.92% (5 counsellors), LAB 8.53% (1 counsellor in the Commerce section). In the 2008 elections CGT got 6,308 votes (which is 28%), CFDT 5,292 (24%), LAB 2,763 (13.50%).

Created in April, 2000, LAB is the only representative of Basque nationalist trade unionism. The relationship with the French unions was not easy at first. The Spanish Comisiones Obreras and UGT initially proposed to CFDT, CGT, FO and UNAS that they should sign a declaration including the unions in the Spanish "anti-terrorist pact". Point 4 of this declaration condemned "cooperation with unions and political and social organisations within the ambit of ETA" (an obvious reference to LAB). This caused internal conflicts: Basque leaders of the CGT warned of "the risk of mixing up our condemnation of terrorism with the demands for their own identity and culture of men and women of the Basque Country on either side of the border".

However, LAB's participation in workers' and citizens' mobilisations and the sharp rise of its membership have led to normalisation of the relations between LAB and the French union federations.

## 6. PLAYERS IN THE BASQUE SOCIAL NATION (2): FARMING UNIONS

Post-Fordism has opened up a profound gap between the organisations that farm for large-scale production and those that organise small farmers who run communal or family farms anywhere in the world, both in the North and the South. For the last few decades it has been the North that has exported heavily subsidised food products to the countries of the South at prices below the cost of production, bringing about hunger and misery for the masses of peasants all over the world. The winners are the big cereal-producing businesses and food-producing multinationals which patent and trade in seeds and genetically-modified crops. Both receive support from the managing bodies of the neoliberal world and the European Union's Common Agricultural Policy (CAP).

Meanwhile this community policy, focused on exports, has led to the closure in Europe of roughly 200,000 small farms each year, bringing production under the control of just a few.

The Coordination Paysanne Européenne (CPE), created in 1987, and the worldwide *Vía Campesina*, created in 1993, which brings together twenty-two critical farming organisations in Europe, including two Basque ones, share a set of ideas about food sovereignty. This concept defends the right of peoples to set their own farming policies, to give priority to their home markets, to have access to natural resources such as water, land, seeds, and the loans needed to acquire them, and to decide what to eat, who produces it, how, in a way compatible with the specific cultural conditions of each country.

This agenda is also shared by the two Basque farming associations mentioned: the Union of Basque Farmers (*Euskal Herriko Laborarien Batasuna*, ELB) in North Euskal Herria, and the Basque Farmers' Association (*Euskal Herriko Nekazarien Elkartasuna*, EHNE) in South Euskal Herria.

### 6.1. *Euskal Herriko Laborarien Batasuna, ELB*

ELB, the Basque farmers' movement in the North, learnt the ropes of unionism as part of FNSEA (the French National Federation of Agricultural Holders' Unions), organised by departments, which adopted the principles of the European Community on concentration and productivism in the sixties and seventies. Founded in 1982, ELB defined the characteristics of its members in 1984 as farmers in the Basque Country and members of the international community.

The core issue for the ELB is farming, and this has resulted in an increase in membership which rose from 29% in 1993 to 51.5% in the 2001 elections to the Chamber of Agriculture.

### 6.2. *Euskal Herriko Nekazarien Elkartasuna, EHNE*

EHNE, the Basque Farmers' Association (or Basque Farmers' Solidarity) was set up in 1980 with four branches in its first decade, for the provinces of Gipuzkoa, Bizkaia and Araba, and from 1985 on also in Navarre. Unlike ELB, in South Euskal Herria EHNE is virtually the only farming union. It currently has about 6,500 members.

Although partly modelled on ELB, the issues faced by EHNE are different. There are two historical tensions, the territorial issue and a social tension with regard to the farming model: since it is the only union, not all its members agree about rejecting the productivist model.

### 6.3. *The Basque Chamber of Agriculture: an alternative model in a Basque frame of reference*

The *Chambres d'Agriculture* are public bodies that play an important role in French rural politics. Run by an Assembly of professionals elected through universal suffrage, they control important public resources. But the Chamber of Agriculture of the department of Pyrénées

Atlantiques supports productivist community policies; furthermore, the decisions made in Pau affecting Basque rural life are "remote" in three ways: geographically, politically and culturally.

Thus arose the demand, in 1995, for a Chamber of Agriculture specifically for the Basque Country. It met great resistance in France; but the ELB demonstrated great skill in the way it went about garnering support. In 2001 it started a campaign all across the country, and 70% of Basque mayors (113 of them) and over half of the general and regional counsellors backed a motion in its favour. A coalition of old and new social movements also stood behind the move: from professional unions, socioeconomic entities or cultural organisations to consumer and environmentalist groups.

At first the public bodies who opposed the idea stuck to their guns, but finally, in January 2005, the Basque chamber of agriculture came into being, not as a state institution because the way was blocked, but as a civil association. Its name is Euskal Herriko Laborantza Ganbara, with no French translation. Despite pressures from the Prefect, mayors of all political leanings voted to grant subsidies to the association. A variety of reasons account for the support it has received: farmers had their professional reasons, the ecologists recognised in it a model of greater respect for nature, while for the nationalists this is the first step towards institutional recognition of Euskal Herria.

## **7. ALLIANCES AND STRATEGIES IN THE CONSTRUCTION OF A BASQUE SOCIAL NATION**

The construction of the Basque social nation puts on the agenda the question of alliances for the organisations described above. The theory of pillars explains that the unions have not worked alone, historically. To stand up against the hostility of the state and the bosses and overcome ideological rivalries, they formed pillars: social networks in which there was interdependence among cooperatives, work pools, mass organisations and political parties. The power balance between parties and unions was subject to fluctuation.

The diversity of pillars was a response to the plurality of party and ideological divisions. Between 1920 and 1970 there crystallised four sets of party/union pillars: the labour pillar, the social-democratic one, the communist one and the Christian one. The pillar could be complex: in South Euskal Herria, for instance, corresponding to the PSOE-UGT socialist pillar there arose Solidaridad de Obreros Vascos, the future ELA, with a double Basque-nationalist and Catholic orientation.

A variety of factors in western Europe removed the pillars from the unions starting in the nineteen-seventies: factors such as the lack of job security, an identity shift away from the collective level towards the individual, the Church's loss of influence and the ideological weaknesses of the historical left-wing parties. The unions UGT and Comisiones Obreras lost their respective pillar-links to the Spanish socialist and communist parties (the PSOE and the PCE) during the eighties. ELA had already gone through this process in the sixties and seventies, breaking off its ties to the Basque nationalist party (PNV) and the Catholic Church.

The breakdown of the pillars has moved the unions, now without problems, to the new social movements: feminism, youth movements, the movement of movements against neoliberal economic globalisation. Unlike the situation at the height of the pillar era, now there are no stable links, only a multitude of changing nexuses. But it is a fragile process and it is in its beginnings.

And there are exceptions to the rule. What happens in societies where there are notable national-type identity processes underway, as has been the case in the Basque Country, Galicia or Corsica, for example? In the seventies a new strong pillar emerged in the form of the Basque

nationalist Left, which was part of the new union LAB until the nineties. For a number of years united action by ELA and LAB and the strong identity component in Basque national and social resistance to the system made it possible for Basque labour activism to free itself of the restraints on Spain's state-level union movement.

The end of armed activity by ETA has opened a new window of opportunity for building the Basque social nation from the world of work, and means that we can return with renewed vigour to the spirit of the nineties, retaining the things that worked, changing the things that were problematic back then and taking on new challenges that had not yet been thought of.

These challenges force us to rethink certain things, such as anti-establishment politics and unity of action, which most in the unions had been taking for granted because any differences that had emerged in that respect had not been subjected to serious analysis.

In the nineties the view was that anti-establishment politics consisted of the combination of union power with social power from a national perspective, which called for unity of action between ELA and LAB in the perspective of the fight for self-government. But this approach had been born out of an imbalance between labour and political viewpoints: the two nationalist trade unions made up the majority in their area of action but the left-wing nationalist political forces were a minority in theirs.

The situation is changing in the Basque political scene and greater change yet seems to be coming. Left-wing political nationalism is a force to be incorporated into the anti-establishment movement insofar as it is fighting for self-government. Given its necessarily inter-class character, one of the objectives of the majority in the trade and farming unions must be to give it critical leadership, in accordance with its objectives.

For being anti-establishment in a stateless nation makes no sense as the instrument of a single union, but makes none as a unit of action exclusive to the unions either, unless the aim is to lose needed alliances in the national fight for self-government.

It is both absurd and useless to try to bring back the party-union pillar in the old style, not just because there exist several unions in the country and a range of political parties. Yet we can think about a return to a pillar arrangement in a new way, in accordance with the model of a world without a centre, of pluralistic inspiration. This would be the result of a clustering of unions, farming organisations, social movements, and naturally also the political forces that defend self-government and socialism, with a complex set of interactions that are a balanced mix of both cooperation and conflict, where what is coordinatable is coordinated, and what is criticisable is criticised.

In South Euskal Herria there is already a sufficient critical mass for this social conjunction to work; now it is time for the unions to put aside the attitudes of purists who are reluctant to become contaminated with non-worker elements.

But this broad network of different actors should be permeable and thought of more as a means to *national* construction than *nationalist* construction; and this also leads us to revise our existing idea of unity of action. We should welcome (provided it is consistent) a rapprochement of the Basque sections of the Spanish unions to the Basque majority unions, notwithstanding the criticism that has been fired at them historically, and for good reason, accusing them of practising collaboration. Today, when the infernal logic of the markets is gutting the nations of the states, only leaving them to confront and fight the nations without a state, there is nothing to be lost and much to be gained from such a rapprochement.

The Basque unions should win over to their positions (not necessarily to their structures) the great majority of Basque workers, whatever their national orientation. Besides, this is only

common sense. Although the density of Basque unionisation doubles the Spanish average, it still falls short of 30% of the working population, which is well below the level in many European countries. Notwithstanding its proven capacity to mobilise, this fact ought to lead the main unions to adopt attitudes of tact and common sense. Unity of action, certainly; but for that very reason, open to all who wish to join in, as long as it is in a spirit of mutual respect.

Perhaps the time has also come to venture into an area where the Basque union movement has until now refused to tread, out of a fear of getting trapped in the nets of the class enemy. I am thinking of proposals for relaunching the economy in and from the territory that the "virtuous" characteristics of Post-Fordism would make possible, and which the present anti-production position of the markets makes quasi-obligatory.

Euskal Herria is, to a large extent, a federation of valleys which coincide with historical districts. To make specific proposals for development focusing on each of these amounts to developing open participatory fora where such initiatives will be debated, worked out and implemented. This is a task pending for the trade unions — the farming unions have made more headway in this area — to be done in conjunction with the town councils which act as bridges linking the national to the social — of which there are fortunately many now — and with a rainbow alliance of social movements, grassroots organisations, the critical press and others. But those who really speak for such proposals and hence the potential members who will have to put them in practice are, and can only be, the small and medium-sized companies in each district, the local R&D centres and the capital risk entities.

There can be no concessions on this ground. Worker and farmer involvement in matters of development cannot happen without demanding quality jobs with stable employment, job security and equitable wages. Such demands make conflict inevitable given opposed class interests which can only be resolved if cooperation produces a positive sum in which everyone wins, and most particularly the community of the area. Here local institutions would come into their own as the suppliers of input that businesses and farms cannot obtain by themselves, such as R&D, market knowledge or modern technology. By providing professional training and industrial land, they would at last become true managers of local welfare linked to the territory, extending this to services such as transport, health and education.

But here there is no room for naivety; there is no such thing, and certainly not in Euskal Herria, as an area where there are only purely industrial districts made up exclusively of autonomous small and medium-sized companies. Unions, farming organisations and other social entities should carry out in-depth research to find out which are the real small and medium-sized businesses and which are companies at the end of a command chain, run through remote control by larger groups, and whether the latter are of Basque, Spanish or global origin. This is necessary in order to be prepared for possible delocalisation manoeuvres when those groups hit hard times or see new localisation opportunities that interest them.

Of course Basque nation building is much, much more than the sum of economic and social development of its individual districts; not to mention the significance of acquiring the form of a state. But although I have not discussed this matter directly, since it is covered by other chapters in this book, the construction of one of the two elements of the nation-state, the (social) nation, is undoubtedly an important way of contributing to the task. Therefore this approach, hitherto unrehearsed in Euskal Herria, may form part of the drive towards that larger objective. It is a job full of risks, highly complex and problematic — but what job isn't?



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## 8. Class interests in the building of a Basque state.

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Imperialism developed three strategies in the twentieth century for adapting the form of the state to its needs for expansion, the third of these being the Washington Consensus. This has reached the point where even formally free countries which have internationally recognised states may be, and indeed are being, dominated and administered from without. Oppressed nations such as ours, which lacks its own state, need to understand that the achievement of one will entail, first of all, a knowledge of the goals and means of imperialism, in order to overcome them; secondly, taking our history and strengths as a starting point, that is, our distinctive framework of class struggle; thirdly, anticipating our own model of a state already in the present, as far as possible; and fourthly, at the same time defining the collective subject that will bring this aspiration to fruition: the working people.

## **1. MORE MARKET, LESS STATE**

One of the great defeats that humanity has recently suffered has been its acceptance, almost without theoretical resistance, of the thesis that states are no longer necessary for peoples. We were made to believe that capitalism had undergone such change over the second half of the twentieth century that the "old states" were not only becoming obsolete but had turned into an obstacle to the rapid expansion of the civilising benefits of the so-called "world market". We were told that anything that slowed down that expansion would stand in the way of so-called world democratic "governance", a new form of administration based on "permanent dialogue" between international institutions, between the "great agencies" and, to cut a long story short, between the "democratic forces of world civil society".

In the nineties, the idea of "going beyond the state" was reinforced by the politicalised media industry through the cosmopolitan mindset and the "citizen of the world" cliché which was swallowed by part of the anti-globalisation movement. The USRR had imploded, the People's Republic of China was turning to capitalism, the "war of civilisations" made it urgent to "unite the West", cradle and guardian of the democratic values threatened by "Islamic terrorism", while "humanitarian interventions" with the UN's seal of approval in defence of "human rights" in other countries were a further argument in support of the thesis that the states had run out of steam and it was urgent to establish world "governance" once and for all.

A part of the Left never fully believed this explanation but accepted it in part, in the belief that a "democratic European Union" would serve as a counterbalance to the US's "excesses" and develop a policy that respected human rights. Thus the myth was spread about of a "supra-state" that would assimilate the best traditions of the old ones and develop new ones capable of controlling the risks of "financial globalisation" and enhancing its benefits. Many reformist organisations of the weaker European states and even of nationally oppressed peoples found here both a justification of their silent or public surrender of a growing portion of their economic and political sovereignty, accepting a reduction of their state's formal independence; and, in the case of stateless nations, the surrender of the right to independence and to their own state since, or so it was said, "European integration" meant having a mini-state forming part of a larger state that respected minorities.

The real problem is qualitatively more brutal, namely, the chaotic velocity of the laws of equalisation payments, centralisation and concentration of capital within a world context characterised by a crisis of excess superproduction and a fall in the average rate of profits, especially in the primary sector or production of the means of production because the world purchasing capacity was able to absorb less and less manufactured goods on a massive scale. Under the pressure of this inherent contradiction of the capitalist system, the huge amounts of surplus excess capital, much of it from petrodollars, from debts paid by impoverished countries, from the growing submerged economy, from narco-capitalism, not to mention capital no longer willing to invest in traditional industry and its corresponding services; this immense and growing mass of money took up once more its traditional route, throwing itself into a frenzy of financial speculation in the quest for quick profits.

## **2. TEN GOLDEN RULES OF IMPERIALISM**

The imperialist states played a key role in facilitating this traditional route. We can sum it up as the imposition of the ten points of the Washington Consensus developed at the end of 1989 and re-adapted in 1993. For these ten golden rules to work perfectly, it was essential that small and medium-sized states should admit to their inability to surf the world market and also for the big states to carry out fargoing internal reforms:

1) No more deficits in public spending, with the state refraining from attempting to run the economy beyond the absolutely necessary, giving preference to private profit. 2) No more deficits in spending on basic social services, which should be privatised. 3) Revert progressive changes in the tax system, to benefit the bourgeoisie. 4) No state control over interest rates to give complete freedom to financial interests. 5) Establish exchange rates that favour freedom of the markets. 6) Less state protection of trade, by eliminating customs controls. 7) Liberalization of foreign investment. 8) Privatization of state monopolies and public enterprises. 9) Deregulation of markets. 10) Protection of bourgeois property.

The ten golden rules imply the de facto subordination of weak, impoverished states to the imperialist ones, with medium-sized states surrendering control of their portion of political and economic sovereignty to the big ones. They also entail fargoing changes in four classical areas of the form of state that was predominant up until the late twentieth century, and these changes explain the fact that the thesis of de facto subordination, drawn from the Marxist critique of the bourgeois economy, is applicable to the effect of imperialism on impoverished and weakened states which choose not to stand up to the big states because their ruling classes are not interested in getting involved in anti-imperialist wars of resistance. These are:

2) No more public services paid for by the state — services which ensure the reproduction of the work force in accordance with the needs of the "national bourgeoisie" and some degree of control over and integration of the exploited classes to mollify their exploitation. 2) No more financial and budgetary sovereignty, which was one of the strategic demands of every bourgeois revolution and one of the decisive gains upon which their military independence depended. 3) No more economic sovereignty based on a state-level scope for production and accumulation, now to be done away with by free entry, exit and plundering by foreign capital. 4) No more specific independence of the state as such, which is forced to privatise its own resources which underpin its viability, such as state monopolies and public enterprises.

This four-pronged destruction of the classical form of the state affects the latter's two historically defining elements. One of these consists of the economic borders which stake out the state's accumulation space and the national currency issued by the state which expresses, both materially and symbolically, the fusion of capital and territory in the concept of bourgeois nationalism entertained by the ruling class and the block of society which supports it. With the virtual disappearance of economic borders except for a few aspects of secondary importance comes the demise of one of the historical foundations of this form of state. The other is territorial military independence, which evaporates once the "national armed forces" have been subordinated to other forces of higher rank — NATO — and a drastic watering down of the state's independent industrial and military capability, given the privatization of its monopolies in the industrial-military complex. These two concessions do away with the traditional economic and military kernel of national independence and bring about integration of the old states into a new and stronger higher form of state which swallows them whole, turning them into its subordinate parts.

### **3. STRENGTHENING THE BOURGEOIS STATE**

The Washington Consensus represented a watershed, not just in the viability of impoverished, dependent states but in the so-called "national problem" itself. Never before had western imperialism expressed its approach to this in such a straightforward way, with a policy aimed at consolidating its long-term world domination, like that

espoused at Bretton Wood at the end of WW2, and still earlier in Woodrow Wilson's *Fourteen Points* in 1918.

Thus a crucial question remains with regard to imperialism's strengthening of the attributes of the state, with all its shortcomings. This is the last of the ten golden rules: the protection of private property, i.e. an increase of state violence in all its forms, not just physical force but also psychological, cultural or pre-emptive forms, among others. The effectiveness of the imperialist strategy summed up in these ten points depends in the last resort on thorough application of this tenth point.

Since the summer of 2007 if not earlier, this point has become the single basis of imperialist policy to protect its property at the expense of the weakest parts of the states' bourgeoisies, those which have been most debilitated, and basically of all working people, with special forfeits for oppressed peoples, those of us who lack a state of our own with which to defend ourselves by means of a different kind of socioeconomic policy.

But the very gravity of the crisis is provoking some secondary state bourgeoisies to resort to forms of protectionism that come into partial conflict with the Washington Consensus, and there is a gradual increase of alternative international relations that are different from those which have existed since 1944-46 when the US set going the Bretton Wood strategy. One of the contradictions that is being exacerbated more than any other is the one that is coming to a head between the imperialist insistence on weakening the states and trying to stop new states from coming into being other than *instrumental states*, and the growing trend of the peoples in the double sense of strengthening their states by reducing the power of their ruling classes and the trend of oppressed nations to create their own states at long last.

*Instrumental states* are those that are supported by imperialism using the old precapitalist tactic of creating buffer states, allied states or something of that sort which serve as military bases in order to be prepared for possible wars. These were, and are, dependent, colonised states, with no prospect for the future unless a force emerges from within them which advances towards independence, overthrowing imperialism and its "inside people". The instrumental states have no axe to grind with the Washington Consensus, for which they are useful as regional reinforcements for the protection of bourgeois property. This is not the first time in history that the hegemonic powers manipulate and twist peoples' complex, subjective universes so as to force the creation of artificial states in order to sidetrack, paralyse and/or annihilate demands that are unacceptable to the ruling blocks. Anthropology is a "social science" that lends itself particularly well to the justification of these and other devious manoeuvres.

We the working nations who are denied our state need to be aware of the wide range and versatility of the tactics of imperialism to strengthen its power, even going so far as to create *puppet states* if need be. But in the Basque state, this option would meet with head-on resistance from the Spanish and French states, and this would generate anti-imperialist contradictions the discussion of which would lie outside our scope here. Moreover, we cannot sit around with our arms folded hoping that that will be the solution to our problems, repeating the collaborationist passivity of the Basque bourgeoisie under Franco.

#### **4. AUTONOMOUS FRAMEWORK OF CLASS STRUGGLE**

Capitalist globalisation has gradually generated more and more national resistance, often leading to failures, yet weak states and peoples have had no option but to adapt to the demands for concentration and centralisation of capital or to resist, affirming their

sovereignty or their struggle for independence. With the increased pressure on national rights, the response tended to adopt more radical forms of expression, progressing from the defence of rights to a fight for independence which is no longer led by a part of the propertied classes but comes to be supported by a large proportion of the whole population, perhaps including the peasants at first and later the broad masses within which the working class comes to play an ever greater role.

In the qualitative transformation from a mobilisation for a general, democratic right into a struggle for satisfaction of a need for independence through the achievement of a state of one's own, this dialectic of right and need is a response to increased imperialist pressure and the abandonment of consistent defence of the nation by part of the propertied classes who end up entering into some kind of collaboration with imperialism. Operating at the bottom of this qualitative transformation of right into need is the people's attainment of an awareness that its struggle takes place within something that is defined as an *autonomous framework of class struggle*, that is, in a different historical context, in content and form, to that of the state which oppresses it as a nation.

The attainment of national awareness and a clear theoretical vision of the need for one's own state is also crystallised in the discovery that this struggle takes place within a different context from others, in a material and symbolic, linguistic and cultural, political and socioeconomic framework which displays qualitative differences from that of the dominant state. It is referred to as the *autonomous framework of class struggle* which is differentiated from others by the following contents and forms:

1) National oppression and the non-existence of one's own state of the local bourgeoisie which exploits the working people in that autonomous framework, which means that it must depend on the occupying state. The lack of a state in tune with a national consciousness that has been proven as an objective force creates a reality that stands in full view of anybody studying that people.

2) The historical practice not only of national resistance to outside attacks but also its capacity to organise itself to resist them in the harshest of conditions, particularly and most importantly its ability to create from scratch truly operative working states which have enjoyed majority popular support and have only disappeared after a foreign military invasion. The contrast between a remote past in which there existed some form of state and the present in which that right is forbidden by force is proof of the existence of a differentiated historical reality.

3) The existence, proven by the struggle of generations, that this people has different rhythms, forms and contents of self-organisation and resistance from those that exist in the occupying state. Those contents, forms and rhythms derive from a collective memory of self-organisation formed over generations, which has penetrated folk culture and is manifested in a myriad ways in a people's collective life, in its holidays, in its markets, in the way people work and the way they defend their rights.

4) The long-demonstrated ability to bring together different social sectors and forces around basic common demands related to a feeling of nationhood, such as language and culture, amnesty for political prisoners or democratic rights, feminism, ecology, sports etc., that is, the so-called "grassroots movements". That is to say, there exists a fundamental popular identity which takes on certain elementary demands independently of social, cultural and political differences which make sense in any capitalist society.

5) The existence of a broad workers' and trade union movement which takes on the defence of national rights as something inseparable from union action and class struggle. The existence of a self-awareness of the working people in which national identity is a

defining component is a decisive factor in the material foundation of the autonomous framework of the class struggle. The mere existence of a self-awareness of the working class per se does not prove this because it does not necessarily imply the decisive *subjective factor*, i.e. the sociopolitical and national awareness which sustains in theory and practice the need for independence.

6) The existence of international recognition that this oppressed people is different from others, with plainly visible marks of identity and a clearly-defined consciousness that has been demonstrated through decades, nay centuries, of self-affirmation. The international community, and especially its educated, progressive and left-wing elements, acknowledge the existence of a people with self-awareness when they learn of its history and its present.

This is not a complete list and the order in which the items are listed need not be assigned a strict significance, because each specific people requires its own analysis, but I think it gives a general idea with at least some validity. The fusion of the six points takes place in the collective practice of the oppressed nation and in each period of its life some of them take on more importance than the others, depending on the situation. But a glance at history shows that there are two basic things: the key importance of a people's self-awareness, and the bearing of such an awareness, always, on a belief in the need for its own national power, the most coherent expression of which is an independent state.

The need for a Basque state is explained by a double but internally integrated argument: for one thing, as the right and need to survive as a people in the present phase of capitalism; and for another, as the real outcome of the internal logic of the autonomous framework of class struggle. This is a single argument divided into two complementary reasons because both converge on the same target of a Basque state, coming from two different spheres of the same character of an oppressed people. The right and need that Euskal Herria possesses and is subject to as a nation is a general, abstract need of all oppressed peoples regardless of whether they wish to exercise it or not. Furthermore, the socioeconomic, political and cultural (etc.) realization of that general right and need in Basque conditions is the historically demonstrated fact that Euskal Herria is a specific context of national liberation struggle, an autonomous framework of class struggle.

The general right to self-determination pertains to a certain level of abstraction, but without socioeconomic or political content, which can only be produced by the need felt by a working people for it to build its state itself. If we limit our response to the first part of the argument, the general and abstract part, we will be unable to fill out the pro-independence project with content by cancelling it out as a specific, reasoned, viable argument capable of convincing broad sectors and bringing together the democratic and progressive forces necessary to make the leap from need to freedom. But if we limit ourselves to the second, we shall not activate the mobilising and legitimising potential that it has as such, the right of any people to self-determination and national independence if it freely decides that it wishes it.

## **5. REVOLUTION AND/OR REFORM**

Any oppressed nation needing to achieve independent statehood to survive in a world of global capitalism is immediately confronted by a unified strategy which, although facing increasing resistance, is not getting any weaker, but on the contrary becomes stronger and tougher as time goes by, as is evidenced by the intense process of centralisation and the concentration of economic and political power that is taking place in the European Union

with the excuse of the crisis of the euro, where the imperialist ten golden rules are being applied in the way that suits the hegemonic powers.

Situated where we are in our immediate context and situation, primarily Spain's and Europe's economic crisis, we must affirm that there cannot be a Basque state without fiscal independence and without safeguarding its rights and the control of its economy. I have dwelt on the Washington Consensus strategy as much as I have because it tells us what we should not accept, it pins down the imperialist premises that we must not bow down to because if we do, we will be a controlled state without sufficient resources of our own to develop progressive policies in all aspects, basically those aimed at strengthening the hegemony of the working people.

Once we know what we must not under any pretext give in on, the next step is to know how to get started right now building a pre-statehood strategy, in present-day conditions, fully conscious that the socioeconomic crisis is going to get worse; the decadence of the Spanish state within the imperialist pecking order is going to carry on and its oppressive nationalism will grow in virulence to try to compensate for its loss of ground; the French state, while not hit by such a serious crisis as Spain, has its own internal problems, on account of which both states are going to mobilise their resources of all kinds in Euskal Herria.

What we are looking at here is the need to move forward in practical and theoretical conquests, trying things out and anticipating in the present what our life could be like if we get a Basque state. We must make it clear from the very start that such advances are always going to be full of uncertainties and vulnerable to attack, subjected to growing opposition and aggression by the Spanish state and enemies at home. I insist that the survival of these conquests will depend on a struggle that will have to go on escalating in breadth and intensity, without respite, with no wavering, never halting in its progress, and if we ever start to believe the promises of the Spanish state then we will be done for.

At this point we need to keep in mind the dialectic between revolution and reform, and the antagonism between reform or revolution. The former explains that we always advance and look towards revolution, towards socialism, and that the steps we take in the small reforms that we conquer are shaky advances the only purpose of which is to broaden the emancipating forces, their legitimacy and roots, teaching by example, through the material and moral improvement obtained by means of that particular conquest. The dialectic between revolution and reform shows that the most important thing is to encompass radical reforms in the experience of socialism, of revolution. By radical reform I mean reform which, in its specific area, whatever that may be, makes it possible to get to the root cause of the oppression to which we are subjected and from which we suffer in that particular area, whether it is a business, a university, a town or whatever it may be, where it is possible to increase the emancipating force by knowing how to turn the legal space that has been conquered against the powers that be, opening up new expectations and aspirations, new advances, but always through struggle and oriented to the final victory.

On the other hand, the antagonism between reform or revolution refers to the idea that the gains made are achieved with the intention of stopping there rather than allowing them to become a springboard towards new conquests, that they should not be *radical* reforms that challenge the system but *normalising* ones which serve to demonstrate that the existing system can be reformed from within, through its laws, given patience. Thus in practice reform becomes the end of the struggle, the end of the process of raising consciousness, which cannot advance any further because once its objective is achieved the fight ends and the mobilisation comes to a halt, content merely to defend the ground that has been taken, and to do so only by means of the laws allowed by the power of the exploiting party.



## 6. PREFIGURING THE BASQUE STATE

Anticipation of the nature of the future state must begin at the present time when radical conquests are being made through at least four major areas: recovery of rights and freedoms, Basque culture and identity, the socioeconomic field, and media of communication and awareness building. There is a synergy and interaction between all four which cannot be analysed here.

Regarding national and democratic rights and freedoms, the spaces of power conquered should promote and demand the return to Euskal Herria of people who have been forced into exile by repression, the final step in the resolution of violent conflict and all-round demilitarisation, including the municipal police forces which should be civil entities in every sense of the word. For the sake of democratic "hygiene", the so-called "private security" business should also be outlawed. Torture and mistreatment of people in custody, police "abuse" and corruption must be forbidden and strictly penalised. We also need to think about the court system and the prisons, and how to create a justice system subject to being revoked by the people in a democratic manner. This overall policy must clearly anticipate the future policy of democratic rights to be guaranteed and practised by the future Basque state.

At the same time, we must demand the reinstatement of all the rights and freedoms that have been curtailed by the ruling power, and organise debates and mobilisations about the need to move forward towards socialist democracy in Euskal Herria, with emphasis on the relationship between democracy and state, between people's direct action and socialist law, between popular, trade union and social movements, as a power of the masses ensuring from the outside that the state fulfils and defends the popular will, and most importantly, doesn't start to cut itself off, becoming isolated, separated and bureaucratic. It is urgent to table the issue of the state being "like glass": transparent and cheap in every aspect except for the essential tasks of Basque national security, guaranteed by a people armed. And without a doubt in these collective contemplations the question that comes first and last must always be present, the question of the nature of property as given by the answer to the question: Who does Euskal Herria belong to, to the working people or to Franco-Spanish imperialism?

As regards the cultural and language policy that prefigures the future, the conquered spaces of power must advance in a Basque, pro-Basque-language "cultural revolution" insofar as that is possible in the present circumstances, consisting of understanding that popular culture is the production and administration of material and symbolic values freely produced by the people; regarding their gradual demercantilisation and depatriarcalisation; regarding the step-by-step reunification of intellectual and manual work; regarding the importance of historical and military memory in the progressive components of popular culture; regarding the living traditions in popular culture of everything connected with "common property" and pre-bougeois democratic practices, community work, the assembly, the commune, the council, mutual aid, cooperation, the *elizate*, and the adaptation of these traditions to present conditions.

The present (re)construction of a progressive, popular Basque national identity is inseparable from the prefiguration of the state for one indisputable reason: history shows that each national identity is different, each (re)constructs itself or dies out by playing out the people's internal contradictions and the external pressures and attacks to which it is subjected; and history also shows that in this permanent creative or destructive tension it is vital for the people to dispose of some form of state which either supports or obstructs such (re)construction of the collective identity, divided as long as there exists internal social exploitation and always threatened by external invasions as long as there exists some form of imperialism. For a people without a centralised and centralising power — without a state

— it is very difficult to enrich its identity and above all to resist the pressures of those who do have such support from their own state apparatuses.

The limitations of all kinds that this "cultural revolution" will have to overcome little by little in the present context will not only originate from the French and Spanish states and the Basque reactionary and conservative forces, but from irrational resistances in the population and also from a large part of the pro-independence, socialist militants. Likewise, the "authoritarian chains" that tie us to the past will also stand in the way of much of the (re)construction of identity based on updating the progressive components of our popular culture. The reactionary, chauvinist, sexist or religious (inter alia) components and resistance of different kinds to the "cultural revolution" can only be overcome through the so-called "pleasure of subversion" which consists of the vital gratification that is obtained day by day when one senses how life tends to get better through every kind of praxis and conquests within a context that remains exploitative and unjust.

The constant awareness that today's achievements are a small but valid basis for our future independence as a state, our socialism to come; this presence of our tomorrow in our today multiplies the "pleasure of subversion", most particularly when, starting from the conquered powers, one practises a pedagogical task of "politicisation of privacy". We must keep up the progress in overcoming "invisible" oppressions and exploitations in the patriarchal, bourgeois family, in sentimental, affective and/or sexual relations, in labour relations, making available to whoever desires them the means for beginning to change the way we live, encouraging spaces of coexistence, communes or other family relations than the patriarchal and bourgeois, other sexualities, encouraging artistic and intellectual creation within urban design in order to facilitate collective and interpersonal communication if wished, getting rid of selfish, repressed and repressive individualism. The "politicisation of privacy" is one of the best ways to prefigure a non-bourgeois state.

With respect to socioeconomic prefiguration one must begin by demanding that those economically and politically responsible for the present crisis should be investigated, tried and imprisoned. With this massively supported demand, we are giving an idea, in the here and now, of what laws in the future Basque state should be like. This example allows us to move on to other matters directly related to the crisis and its effects such as, for example, laws for democratic control of the banks and financial engineering, laws on worker control of companies, laws on control of the flight of capital and submerged and criminal economies, and so on, so that those engaged in bourgeois piracy begin to realise that their impunity is nearing its end.

But these and other examples should be based on real conquests which accelerate radical reforms such as encouragement through public funds of alternative forms of production, producer and consumer cooperatives, social and public work pools, reduction of working hours so that everyone can work, sabbaticals and voluntary rotation of jobs, swap marts and fair markets, time banks and land banks, or promotion of other publicly backed forms of currency. The goal is a rapid reduction of the unemployment rate, job insecurity and work exploitation time in order to increase free time which can be used for political and cultural action.

It is also necessary to promote the recovery of company premises and of homes that stand abandoned or closed to create a public pool of publicly backed low-rent homes and premises, and expropriation policies for buildings and living units whose owners refuse to put them to public use, as part of a necessary strategy of socialisation of the land, doing away with private land ownership. To push forward with these and other measures, progressive, direct fiscal reforms must be implemented to expand public services and companies with official funding, laws that strengthen social and union rights and diminish those of the bourgeoisie, investment in research and development, subsidies for the petit-

bourgeoisie to assist innovation and hiring, promotion of endogenous development and the green economy, a search for alternative international markets, international relations based on reciprocity and disconnection, and many other things besides.

Finally, communication policy must be characterised, based on the thesis of prefiguration of the state that we need, by acknowledgment of a qualitative difference from the bourgeois idea of communication which claims to be neutral and impartial, objective and unbiased, when it is everything but that. For national liberation in an autonomous framework of class struggle communication must incorporate critical training, contextualised information and means of popular response and interactivity so that people can contribute their own decisive, enriching experiences. To do this, the conquered spaces of power, the radical reforms, must create information, training and discussion networks that are horizontal and open.

One of the features of this system should be that it allows free access to the real state of public accounts, the bank system and companies, the state apparatus and all the institutions connected with production, public spending, subsidies and aid, the financial system, politics etc.; these institutions will have an obligation to be transparent. What we are seeking is for the people to have access to knowledge, free of bureaucratic limitations or tricks, about the real state of public affairs, the *res publica*. Defending the popular right and need for transparency and knowledge and prohibiting the bourgeois right to practice fraud, double or triple accounting and bureaucratic secret, is a decisive step towards a state that will be open to the people.

## **7. ALL-ROUND SOCIAL SELF-MANAGEMENT**

I must point out that these and other practices are not socialist in and of themselves but they do prefigure some of the basic characteristics of a socialist state, although the decisive question of the nature of property — capitalist or socialist — will remain unresolved because we have not advanced qualitatively in the revolutionary process. It should be borne in mind that the conquests referred to above should be made while still within the framework of bourgeois, French/Spanish domination. For this reason they will be conquests that are still subject to more or less desperate counter-offensives by the Basque ruling class and the states by which it is protected.

Thus we are talking about the class struggle's tendency towards radicalisation within Euskal Herria and the liberation struggle against the two states, that is, the increasing importance of the autonomous framework of class struggle as we have seen above, hence the growing popularity of the demand for a Basque state. To the extent that the working people see and feel that they can improve their daily life by increasing their spaces of counter-power, double power and people's power, to that extent the people will wonder why it is not advancing further in that direction, why those conquests are not extended to the whole of Basque society. The experience acquired will progressively sharpen the awareness of the right to and need for a state, especially if the Basque national Left acts within the people as an organised force facilitating the rapid passage from awareness-in-oneself to awareness-for-oneself.

Here three debates emerge that are vitally connected to the prefiguration of the state: the definition of the revolutionary subject, in our case the working people; their relationship to the nationalist Left as a vanguard organisation; and hence, the popular hegemony necessary to include the petit-bourgeoisie and other sectors in the building of the Basque state. A triple debate which has been going on since the first half of the nineteenth century and which, in Euskal Herria, is insoluble when separated from the theory of the

autonomous framework of class struggle. All attempts to solve it by applying bookish dogmatism mechanically imported from foreign processes, with no critical adaptation to the Basque situation, have met with failure. The Basque nationalist Left updated the concept of the working people to our conditions, maintaining its valid essence and adapting its form to Basque capitalism and our liberation struggle.

The concept of the working people is what is defined as a "flexible concept" at the basic centre of which the working class appears just as it exists in present-day capitalism; with a clear tendency towards growing class national feeling and its awareness-for-itself. Next, in a second, intermediate sphere, the exploited masses act: those aware of the insecurity in their lives, the fringes of society and the so-called impoverished middle classes, with various degrees of class national consciousness, with pro-independence, pro-sovereignty and democratic feelings, with a tendency to be radicalized by the effect of the crisis. Lastly, in the outer sphere, are the broad sectors of the people, self-exploited, members of the liberal professions and the petit-bourgeoisie on the brink of proletarianisation who, even though they exploit a small number of employees, have an inter-class national consciousness, not a reactionary one.

They, and no one else, are the *subject* of the liberation struggle, who gradually learn the basic methods of all-round social planning and management, without whose contribution it is impossible to create a non-bourgeois, workers', people's state. And within this self-aware collective subject the pro-independence socialist Basque Left, which was born of and lives within them, plays an essential internal part. This is also where those who deny the autonomous framework of class struggle get it hopelessly wrong, as do those who formally accept it but interpret it in terms of their dogmatic thesis outside the realm of Basque reality.

The concept of "hegemony" admits different interpretations depending on one's political strategy. Hegemony is a process of agglutination of democratic, progressive and pro-sovereignty forces that come to understand, on the basis of events, in the course of their struggle, that the independence movement of the working people and their model of state are the only alternative for Euskal Herria and that it is therefore necessary to carry further and develop more fully a convergence of forces aimed towards this end. Under the devastating crisis, the petit-bourgeoisie, the liberal professions, the "middle classes" and so on are being subjected to socioeconomic aggression by the measures of the big bourgeoisie. The hegemony of the working people must offer them alternatives permitting local, regional and national integration, depending on the state of progress of the liberation process, but always within a democratically planned system that is essential for socialism.

While this is important, the real key point of these experiences of progress towards a state is collectively learning about social self-management of the working people, learning in practice how to plan socioeconomically, politically, culturally, in ways ranging from small and medium-size radical reforms oriented to the creation of the state and progress towards socialist independence. All-round social self-management will come with socialism and it will be the practice of the masses that knows how to administer the state in an affordable, effective, anti-bureaucratic, horizontal way, preparing for their ultimate conscious self-extinction. Self-management must be learnt in practice, there is no alternative, and the methods and the conquests proposed are the only existing learning method, in conjunction, always, with that of the extension of democracy and the radical reduction of exploited, waged working time.

Has the right time come for the creation of a Basque state? If so, why; what would the state of Euskal Herria be like; how would it be constituted; and what do we need to know and understand to be able to address these questions? Towards a Basque state brings together articles by specialists in a wide range of disciplines aiming to help us understand these issues from different vantage points. Together, they speak to many theoretical and practical points, offer keys to a deeper comprehension of the ideological debate, equip us with relevant information and analyses, and go a long way towards transforming the question of Basque sovereignty from an abstract demand into a real, tangible idea, mapped out and given real content. These pages contain arguments which suggest not just that Euskal Herria today possesses the necessary conditions and has the potential to become a successful state ready to take up its place among the nations of Europe, but equally importantly, that this is a development from which every individual who lives and works in the Basque Country stands to benefit.

