



## The Tragic Decline of Gibraltar's Spanish Neighbor

John Mauldin | July 9, 2012

I was on the ground in Spain a few weeks back, and then I ran into this piece in *Spiegel Online* about a small, struggling town on the Spanish border with (British) Gibraltar. This essay resonates in some of the same ways as the Michael Lewis piece on Greece. This is just one town, and Spain has many regions, some more prosperous than others; but in a country where there is 23% unemployment and 50% among youth, there is plenty of suffering everywhere. The general story is one of deep problems, especially with regard to inefficient labor laws.

The author asks a big question: “Can the demise of a single city serve as an example that reflects the crisis in the entire country, isolated like a bacterium under the microscope? A crisis that is so severe that it threatens the continued existence of the euro, if not the European Union as a whole?” The answer: probably not, but the plight of La Línea illustrates the problems and the difficult choices faced by the periphery.

Meanwhile, at the other end of the European economic teeter-totter (but just as peripheral, in its own way), we find the City, London’s version of Wall St.; and while the residents of La Línea seem to be rather adept at smuggling, they can’t hold a candle to the traders of Barclays (and, it would appear, other eminent financial institutions) when it comes to criminality. (There is never just one cockroach.) We have seen some egregious antics by the too-big-to-fail boys the past several years, but Liborgate really takes the cake and eats it too.

It will be hard to contain the outrage when hundreds of trillions of dollars of financial instruments are priced on this figure. A few basis points means tens of millions to the average guys. Heads should roll. And don’t think for a minute that the damage – and the blame – are going to be confined to that side of the pond, either. In a deeply probing [commentary](#) yesterday on the Libor fiasco, David Kotok takes the Federal Reserve to task over the abandonment of its formal surveillance and oversight role with respect to its primary dealers (which include Barclays Capital, Inc.).

And so the global economic teeter-tottering grows more extreme and destabilizing. What will it take to restore the dynamic balance we need for continued growth? It’s a big old system we’re all part of, and it’s not going to fly right as long as we’re more interested in gaming it than growing it.

It was interesting to be at the table tonight with David Zervos of Jefferies, who invited a few

local fund managers and your humble analyst to meet with a former voting member of the ECB and Greek citizen (a US-trained economist, too). I want to think more about what I learned, but I imagine my thinking will spill over into future letters. Dear God, we have dug a deep hole for ourselves. I hope at some point we can stop digging.

And finally, as an antidote to the rather somber take on Spain in today's OTB, take a few minutes and watch and listen to this flash mob in Barcelona. How can you be pessimistic for very long about a country that can do this?

[http://www.youtube.com/watch\\_popup?v=GBaHPND2QJg&feature=youtu.be](http://www.youtube.com/watch_popup?v=GBaHPND2QJg&feature=youtu.be)

Your wanting to stand on solid ground again analyst,

John Mauldin, Editor  
Outside the Box

---

## **The Tragic Decline of Gibraltar's Spanish Neighbor**

### ***Between a Rock and a Hard Place***

By Walter Mayr in La Línea, Spain  
*Spiegel Online*, 6/27/2012

*Many places in Spain are suffering as a result of the euro crisis, but few have been hit as hard as La Línea, a Spanish town which neighbors the prosperous British overseas territory of Gibraltar. With the city on the verge of bankruptcy, many residents have turned to smuggling to earn money.*

The residents of La Línea de la Concepción are leaving, like rats deserting a sinking ship.

They've been crossing the border by the thousands since early morning, first the cleaning women, nannies and construction workers, and then the smugglers. They all want to get out of Spain, if only for a few hours. There is work across the border, in the British overseas territory of Gibraltar, and work spells hope for a better life.

By around 11 a.m. on what promises to be a hot early summer's day, the traffic jam on the Spanish side already stretches from the border, across the coastal road and back to the town hall, where Mayor Gemma Araujo is holding down the fort in her office on the second floor, which has a view of the caravan of commuters. Araujo is 33, a Socialist and the first woman in her position. It's not exactly the most rewarding job in Spain. A "crisis tsunami" has reached La Línea, says Araujo, and the situation is more serious than ever before. "Our city isn't bankrupt, but it's close."

The city hasn't been able to pay its employees eight of their last nine monthly salaries. On this

morning, the mayor found a sign posted opposite her office door with an unmistakable demand: "Pay or resign." Her house was pelted with eggs and besieged by protesters, and the mob set fire to her secretary's car.

### **Lawless City**

La Línea already made headlines under Araujo's Socialist predecessors in the 1980s and 1990s, when it was dubbed a "ciudad sin ley," or lawless city. At the time, drug dealers, smugglers and other criminals made their living in the Andalusian border town. Conservatives came into power in 1995, including members of the populist Grupo Independiente Liberal (GIL), but mostly politicians with the center-right People's Party. Calm returned to the city for a period of time.

But the unsettled accounts from those days, says Araujo, slowly became a problem. The number of people employed in the city administration had been doubled during conservative rule. Dozens of police officers, 24 attorneys and eight psychologists, as well as expensive consultants and loyal friends, were all given jobs. According to certain records, some city employees were making up to €90,000 (\$112,000) a year in second jobs. Within 15 years, the city had increased its debt by more than a hundredfold.

A city was looted in broad daylight, and now no one is willing to accept responsibility.

Shortly before she came into office in the early summer of 2011, "truckloads of documents were burned," says the mayor. "We photographed it." Araujo lists the debts that were accumulated at the time, almost with relish, given that her party was in the opposition at the time. There was "€120 million in debts to private companies, €45 million in unpaid court fines and €39 million in debts to the social security system for unpaid employee contributions." The latter debt, says Araujo, is the reason why the national government is now refusing to pay the city an annual €15 million tax refund and the city administration in La Línea is no longer able to pay salaries. La Línea, a city of 65,000 people, now has a per-capita debt of close to €3,000 – the highest in Spain, after Madrid.

Unemployment in La Línea is around 40 percent. By comparison, the official unemployment figure in Germany is 6.7 percent, while the average rate for all of Europe, which includes so-called problem children like Romania and Bulgaria, is currently 10.3 percent. Spain, however, is reporting 24.4 percent unemployment nationwide, with the autonomous community of Andalusia leading the pack. The worst province within Andalusia is Cadiz, which includes La Línea.

### **The Hangover after the Party**

Can the demise of a single city serve as an example that reflects the crisis in the entire country, isolated like a bacterium under the microscope? A crisis that is so severe that it threatens the continued existence of the euro, if not the European Union as a whole?

In Spain, unlike Greece or Italy, the debt-to-GDP ratio is relatively low. Private debt, however, is substantial, which explains the current troubles of Spanish banks. The conservative Prime Minister Mariano Rajoy, in office since December, is now being urgently advised to take advantage of a European bailout under preferred conditions, so that he can spend more money on what is truly important: fighting unemployment and getting the economy back on track.

But what if the true roots of Spain's plight are not even on the global financial experts' radar? What if it is not just the high borrowing costs in the capital markets that make a rapid improvement difficult, but also structural and historical reasons? A walk through La Línea reveals the faces of a country that still seems to be reeling from a period of excessive intoxication.

The multimillionaire developer from La Línea who hung himself, leaving behind half-built developments in top locations, is emblematic of the Spanish crisis. The buildings are silent reminders of a time when cheap credit fueled the illusion that everyone in Spain could own property. "But it isn't just that we bought houses and apartment on credit," says author Elisabeth Iborra, with a touch of bitter derision. "People also had to have the right furniture."

The picture of the crisis also includes the deep-seated rivalry between the "two Spains," the political camps of the left and the right. Their largely irreconcilable attitudes to each another makes it difficult to achieve the kinds of compromises that are needed to combat a crisis. If the left is in power in the city (La Línea) and the region (Andalusia), but not in the province (Cadiz) and not in Madrid, politics comes to resemble a funnel that is clogged twice, with nothing coming out of the bottom at all anymore.

### **Like the Wild West without Gold**

Finally, the picture of the crisis includes the prosperity gap. In Spain, the north carries a cross for the south. In the case of La Línea, the reasons for this include the following: 85 percent of unemployed young people either have no professional training or none worth mentioning; more than one in three unemployed people has no high-school diploma; and the largest employer, the city administration, isn't paying its salaries. The fact that many people "prefer to make €200 a day smuggling cigarettes than €400 a month as an unskilled worker in a supermarket," as a Guardia Civil officer at the border puts it, doesn't make things easier.

But Mayor Araujo, sticking to her party line, doesn't pin the blame on individuals. In March, during a ceremony in the provincial capital Cádiz, she approached King Juan Carlos and gave him a letter. In it, she wrote about the "social drama" in La Línea and the "real tragedies" faced by the families of city employees with no income, and appealed for help.

The monarch passed on the letter to his underlings and went elephant hunting in Botswana, where he famously **fractured his hip**. In La Línea, they haven't heard anything from him since, and everything there has stayed the same.

Some parts of the city look like a Wild West town after the gold prospectors left. When five police cars, sirens screaming, show up in broad daylight for a raid in the La Atunara harbor district, a favorite haunt of tobacco smugglers and drug dealers, locals line the street and silently greet the police in a hostile phalanx. And when paramedics at the courthouse pull a half-dead homeless woman from the confiscated Audi she calls home, it isn't because passersby have alerted the emergency services. It's because charity workers who were distributing roast chickens to the needy in the deserted downtown area late at night managed to call an ambulance in the nick of time.

### **'The Ass of Europe'**

La Línea is livelier in the morning. Or at least it is in front of the bar where the *matuteras* are preparing to cross the border. The *matuteras* are female smugglers who bring in cheap cigarettes from the British overseas territory a few hundred meters away. Overweight women are especially prevalent among the smugglers, because being overweight makes it easier to hide a few more packs of cigarettes in various parts of the body without being noticed.

The women set out across the border. The more experienced ones wear their ID cards on a chain around their necks, so that they don't have to search for it every time they cross the border. One carton of cigarettes per person and crossing is allowed. Those who do not get checked and registered put on different clothes on the Spanish side and set out for Gibraltar again.

This helps to explain why there is such a long line in front of the "Parody" kiosk, an unassuming shack under a barbed-wire fence on the British side of the border. A total of €25.90 is paid for a carton of Marlboros, and then the smugglers go back across the border again, passing the Spanish customs agents, who are not exactly highly motivated. The border crossers make a profit of €4 per carton. The operators of the kiosks on the Spanish side, who will sell the cigarettes later, collect another €6. The actual retail price is another €9 higher. But the retail price is no longer important in La Línea, where five of the several regular tobacco shops have gone out of business.

What else is there to do but smuggle? La Línea has no factories, no sights for tourists and no luxury hotels on sandy beaches. "We are the ass of Europe," says one local.

But the shadow economy is still an attraction. Entire Andalusian extended families make weekend excursions to La Línea, says a lieutenant with the Guardia Civil. "They come from Seville or Jerez in the morning, fill up their tanks with cheap gasoline in Gibraltar and eat their meals from Tupperware containers they've brought along. Then they walk across the border in groups of five and bring back cigarettes, until they've made €300 in profits. That's enough to live on for another week at home."

### **'We Have Been on the Wrong Track'**

Local residents are familiar with other sources of food. For example, they pay visits to the

courtyard of the San Pío X church as often as they can. There, Padre Rafael Pinto runs the Caritas charity's food aid program for La Línea. On this morning, there is a delivery van in the courtyard loaded with white beans and UHT milk. The program also keeps fruit and rice, toys, shoes and clothing in a storage room.

Caritas already provides regular assistance to 500 families in La Línea, and the numbers are still growing. They also include city employees. In some cases, Caritas even pays for rent and electricity bills. Generally speaking, every setback and every challenge is also an opportunity, says Padre Rafael. "Perhaps this crisis will help us realize that we have been on the wrong track in the last few years, and that it's time to turn around. In Spain, it was all about having things, and not about being. Christian values gave way to consumerism."

Affected citizens and volunteers in La Línea say that things are going rapidly downhill. First people lose their jobs, or they keep their jobs but lose their pay, as in the case of the city employees. Then their cars are seized, their mobile phones disconnected and their electricity shut off. For most people, mortgage payments are their downfall. If families hadn't stepped in to help, more people would have lost their homes long ago.

At the Hogar Betania hostel, which is also run by Caritas, all 14 beds are constantly taken. People who are down on their luck are taken in there, treated and fed. They're expected to be back on their feet after one year. "The crisis has greatly accelerated social decline," says Begoña Arana, the director of the facility. "In 2011, we already had 575 homeless men and 105 women in La Línea. Nevertheless, we'll have to close this hostel at the end of June, unless there is a miracle. The new Socialist government of Andalusia isn't sending us any money anymore."

### **'They Don't Lift a Finger after Two in the Afternoon'**

Diagonally across the street, at the local branch of the Spanish Labor Ministry, men and women are standing in line to obtain documents certifying that they are destitute and therefore entitled to receive aid. White-collar workers are also among those standing in line. A clerk who came to La Línea from central Spain years ago can hardly conceal her consternation over conditions in the south. "We are living in a country in which civil servants can't be laid off, and yet they no longer have to be paid, either."

This is true to a certain extent. Most civil servants, or "funcionarios," are still employed, but because their core working period is only a few hours a day, they are not very popular among ordinary people. For example, the people from the La Línea social security office who are cheerfully lunching and drinking at the "Hermanos Tomilleros" seafood restaurant at 3 p.m. get nothing but an angry snort from the waiter, who says: "They don't lift a finger after two in the afternoon. That's Spain."

Something else that is typical of Spain is the fact that it was only with difficulty that the traditional



magnificent processions could be conducted during Easter week this year. Of the 111 police officers in La Línea, first 32 and then, by the beginning of the Easter week, 52 were on sick leave – almost half of the entire police force.

From his air-conditioned office, José Luis Landero Mateos keeps an eye on those in La Línea who are in significantly worse shape than the civil servants. Surveillance cameras send live images from the overfilled waiting rooms at the job centers on Saragossa Street directly to his computer screen.

Landero Mateos is the director of the agency. If he isn't having a late breakfast or out of the office for important meetings, he is willing to talk about the situation in his city, provided the questions have previously been submitted to him in writing. "We had 10,820 unemployed people last month," the director says gloomily. "That's an historic record. Many here are so desperate that they are thankful to have someone listening to them."

### **A Good Neighbor**

Was it cynics who decided to put two metallic sculptures of Don Quixote and Sancho Panza, the literary figures who famously fought windmills in Cervantes' novel, in the lobby of the La Línea town hall? Mayor Araujo, at any rate, is forced to walk past the two sad-looking figures every day.

On this day, her driver takes her across the border to Gibraltar in the last remaining official car. A visit to Gibraltar, says Araujo, "is a visit to a good neighbor." It's also a brief excursion into a different world, although she doesn't say this. It's a world with 6 percent growth rates and one of the world's highest rates of value creation per capita.

Winston Churchill Avenue cuts straight across the runway at Gibraltar Airport, where flights from London and Manchester land, and then into downtown Gibraltar, passing dozens of facades displaying flags with portraits of Queen Elizabeth II. More than 10,000 Spaniards, less than half of them with regular working papers, take this route on weekdays – one way in the morning and the other way in the evening. It's the street they traverse to make a living.

One of them, an officer with the Guardia Civil, has a second job as a gardener for a doctor in Gibraltar. Others work as domestic servants, at the base of the massive Rock of Gibraltar, for those who have established luxury residences in the area surrounding the Queensway Quay Marina: the multi-millionaires in the online gaming industry.

Before they pay their occasional visits to their company headquarters in Gibraltar, flying in from London or Tel Aviv, the floors are waxed and the refrigerators stocked in the apartments and villas – by servants who have come across the border from La Línea to make sure everything is in order. The workers are paid hourly wages of about €8, but they have no income when the owners of the luxury residences are away.

## Helping Stray Animals

Not even in New York, between Central Park and the Bronx, are the rich and the poor closer together than they are in Gibraltar. Ruth Parasol, currently the richest woman in Gibraltar, worked her way up through the telephone sex and Internet pornography industry to become the founder of Party Gaming Plc. Together with her husband, Parasol now controls a fortune estimated at 700 million pounds (€875 million).

Parasol devotes a small amount of her money to the ailing euro zone or, to be more precise, to the neighboring city of La Línea. Her charity, Bonita, is currently paying for the construction of a new playground across the border, in Reina Sofia Park, where some of the homeless sleep at night. The charity also provides funding for the care of stray animals in La Línea.

Gibraltar's Chief Minister Fabian Picardo sits in his office under the Union Jack. "Even if everything is falling apart around us," he says, the Gibraltar model, "an open labor market, and the peaceful coexistence of peoples and religions," will survive. He does have serious concerns, however, about the well-being of neighboring Spain.

"If Spain were ejected from the EU, which I hope won't happen," says the chief minister, "the consequences would be dramatic – not just for us here in Gibraltar, but for Europe as a whole."

*Translated from the German by Christopher Sultan*

Copyright 2012 John Mauldin. All Rights Reserved.

### Share Your Thoughts on This Article

Post a Comment

---

Like *Outside the Box*? Then we think you'll love John's premium product, *Over My Shoulder*. Each week John Mauldin sends his *Over My Shoulder* subscribers the most interesting items that he personally cherry picks from the dozens of books, reports, and articles he reads each week as part of his research. [Learn more about Over My Shoulder](#)

---

*Outside the Box* is a free weekly economic e-letter by best-selling author and renowned financial expert, John Mauldin. You can learn more and get your free subscription by visiting <http://www.mauldineconomics.com>.

Please write to [subscribers@mauldineconomics.com](mailto:subscribers@mauldineconomics.com) to inform us of any reproductions, including when and where

*Outside the Box* is a free weekly economic e-letter by best-selling author and renowned financial expert, John Mauldin. You can learn more and get your free subscription by visiting [www.JohnMauldin.com](http://www.JohnMauldin.com)



copy will be reproduced. You must keep the letter intact, from introduction to disclaimers. If you would like to quote brief portions only, please reference <http://www.mauldineconomics.com>.

To subscribe to John Mauldin's e-letter, please click here: <http://www.mauldineconomics.com/subscribe/>

To change your email address, please click here: <http://www.mauldineconomics.com/change-address>

If you would ALSO like changes applied to the Mauldin Circle e-letter, please include your old and new email address along with a note requesting the change for both e-letters and send your request to [compliance@2000wave.com](mailto:compliance@2000wave.com).

To unsubscribe, please refer to the bottom of the email.

*Outside the Box* and JohnMauldin.com is not an offering for any investment. It represents only the opinions of John Mauldin and those that he interviews. Any views expressed are provided for information purposes only and should not be construed in any way as an offer, an endorsement, or inducement to invest and is not in any way a testimony of, or associated with, Mauldin's other firms. John Mauldin is the Chairman of Mauldin Economics, LLC. He also is the President of Millennium Wave Advisors, LLC (MWA) which is an investment advisory firm registered with multiple states, President and registered representative of Millennium Wave Securities, LLC, (MWS) member FINRA, SIPC. MWS is also a Commodity Pool Operator (CPO) and a Commodity Trading Advisor (CTA) registered with the CFTC, as well as an Introducing Broker (IB) and NFA Member. Millennium Wave Investments is a dba of MWA LLC and MWS LLC. This message may contain information that is confidential or privileged and is intended only for the individual or entity named above and does not constitute an offer for or advice about any alternative investment product. Such advice can only be made when accompanied by a prospectus or similar offering document. Past performance is not indicative of future performance. Please make sure to review important disclosures at the end of each article. Mauldin companies may have a marketing relationship with products and services mentioned in this letter for a fee.

Note: Joining the Mauldin Circle is not an offering for any investment. It represents only the opinions of John Mauldin and Millennium Wave Investments. It is intended solely for investors who have registered with Millennium Wave Investments and its partners at [www.MauldinCircle.com](http://www.MauldinCircle.com) or directly related websites. The Mauldin Circle may send out material that is provided on a confidential basis, and subscribers to the Mauldin Circle are not to send this letter to anyone other than their professional investment counselors. Investors should discuss any investment with their personal investment counsel. John Mauldin is the President of Millennium Wave Advisors, LLC (MWA), which is an investment advisory firm registered with multiple states. John Mauldin is a registered representative of Millennium Wave Securities, LLC, (MWS), an FINRA registered broker-dealer. MWS is also a Commodity Pool Operator (CPO) and a Commodity Trading Advisor (CTA) registered with the CFTC, as well as an Introducing Broker (IB). Millennium Wave Investments is a dba of MWA LLC and MWS LLC. Millennium Wave Investments cooperates in the consulting on and marketing of private and non-private investment offerings with other independent firms such as Altegris Investments; Capital Management Group; Absolute Return Partners, LLP; Fynn Capital; Nicola Wealth Management; and Plexus Asset Management. Investment offerings recommended by Mauldin may pay a portion of their fees to these independent firms, who will share 1/3 of those fees with MWS and thus with Mauldin. Any views expressed herein are provided for information purposes only and should not be construed in any way as an offer, an endorsement, or inducement to invest with any CTA, fund, or program mentioned here or elsewhere. Before seeking any advisor's services or making an investment in a fund, investors must read and examine thoroughly the respective disclosure document or offering memorandum. Since these firms and Mauldin receive fees from the funds they recommend/market, they only recommend/market products with which they have been able to negotiate fee arrangements.

PAST RESULTS ARE NOT INDICATIVE OF FUTURE RESULTS. THERE IS RISK OF LOSS AS WELL AS THE OPPORTUNITY FOR GAIN WHEN INVESTING IN MANAGED FUNDS. WHEN CONSIDERING ALTERNATIVE INVESTMENTS, INCLUDING HEDGE FUNDS, YOU SHOULD CONSIDER VARIOUS RISKS INCLUDING THE FACT THAT SOME PRODUCTS: OFTEN ENGAGE IN LEVERAGING AND OTHER SPECULATIVE INVESTMENT PRACTICES THAT MAY INCREASE THE RISK OF INVESTMENT LOSS, CAN BE ILLIQUID, ARE NOT REQUIRED TO PROVIDE PERIODIC PRICING OR VALUATION INFORMATION TO INVESTORS, MAY INVOLVE COMPLEX

*Outside the Box* is a free weekly economic e-letter by best-selling author and renowned financial expert, John Mauldin. You can learn more and get your free subscription by visiting [www.JohnMauldin.com](http://www.JohnMauldin.com)

TAX STRUCTURES AND DELAYS IN DISTRIBUTING IMPORTANT TAX INFORMATION, ARE NOT SUBJECT TO THE SAME REGULATORY REQUIREMENTS AS MUTUAL FUNDS, OFTEN CHARGE HIGH FEES, AND IN MANY CASES THE UNDERLYING INVESTMENTS ARE NOT TRANSPARENT AND ARE KNOWN ONLY TO THE INVESTMENT MANAGER. Alternative investment performance can be volatile. An investor could lose all or a substantial amount of his or her investment. Often, alternative investment fund and account managers have total trading authority over their funds or accounts; the use of a single advisor applying generally similar trading programs could mean lack of diversification and, consequently, higher risk. There is often no secondary market for an investor's interest in alternative investments, and none is expected to develop.

All material presented herein is believed to be reliable but we cannot attest to its accuracy. Opinions expressed in these reports may change without prior notice. John Mauldin and/or the staffs may or may not have investments in any funds cited above as well as economic interest. John Mauldin can be reached at 800-829-7273.