Spain's draft budget presages escalating social conflict

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When Economy Minister Pedro Solbes presented his draft budget proposals for next year to the Spanish Congress, he described them as "squaring the circle" through "creating more employment by being more productive." The resort to such rhetoric sums up the problem faced by the Spanish Socialist Workers Party (PSOE) government of Jose Luis Rodriguez Zapatero.

The PSOE was returned to power in March by a wave of popular revulsion at the policies of the right-wing Popular Party (PP) government of Jose Maria Aznar. Zapatero's incoming government was acutely aware of the need to distance itself from the PP's politics. Yet its actual differences with the PP are of a purely tactical character.

Solbes' budget proposals reflected the need to make sympathetic noises towards the Spanish people, whilst trying to reassure big business where their true loyalties lie. For example, Labour and Social Affairs Minister Jesus Caldera, defending the budget in the Senate, said that proposals such as an 11.5 percent increase in family benefits are aimed at ensuring citizens can combine their family lives with their work commitments.

Last week Congress unanimously voted through a bill to protect the victims of domestic violence. The PSOE faces rather more debate on its proposals to legalise gay marriage, but once again this is a measure which allows the government to establish its liberal credentials without incurring a cost to big business.

Unemployment remains among the highest in the European Union, with adult unemployment standing at 10.93 percent in the second quarter of this year. The unemployment rate for women is 15 percent. August saw the first rise in unemployment figures for six months. Additionally, nearly one third of all those in employment are employed on temporary contracts, the highest rate in Europe.

The Aznar government boasted of its record on economic growth. This was achieved at the expense of the mass of the Spanish population, the PP government had one of the worst records in Europe for social spending. In 2000 they spent 20.1 percent of gross domestic product (GDP) on social spending against a European average of 27.3 percent. Family and child assistance in the same year amounted to 2.7 percent of GDP, against a European average of 8.2 percent.

Throughout the Aznar government, Spain was a major recipient of European Union aid. But with the accession of ten eastern European countries this year, Spain moved away from the bottom of the EU's economic scale. Spain is poised to become a net contributor to the EU rather than a net beneficiary for the first time.

Economic growth was also based on a property boom that began late in 1996. House prices in Spain have doubled over the last five years, and the Bank of Spain is warning that the property market is overvalued by about 20 percent. Last year alone prices rose 18.5 percent for new houses and 16.7 percent for existing ones.

Property accounts for some 40 percent of capital investment in Spain. Nearly 90 percent of houses are owner-occupied, the highest in Europe. There are some three to four million properties empty, and an estimated similar number used as second homes. Property is beyond the reach of many young Spaniards. There are reports of workers turning down job offers that would involve moving house because of the lack of available accommodation.

This pushes up the levels of household debt, which has risen over 20 percent in the last year alone. The value of mortgage debt has risen by 23.6 percent over the last year, and according to the *Economist*, "nearly half of the average family's disposable income goes on servicing housing debt." The Bank of Spain is warning that there is a "high risk of exposure" to debt, and that an increase in interest rates could have drastic consequences for the economy. This follows similar concerns from the International Monetary Fund and the Organisation for Economic Cooperation and Development.

Solbes' proposals involve a 6.5 percent increase in expenditure over the next year. Just over half of the 234.91 billion euro budget is earmarked for social spending, reflecting the necessity to demonstrate a difference from the PP. Caldera told the Senate, for example, that the minimum state pension had been frozen by the PP between 2000 and 2004, and therefore that shortfall needed to be addressed.

The social spending also includes a 32.9 percent increase to the Housing Ministry. Before the budget, there was some talk of setting up a government-run rental agency to encourage the use of some of the empty buildings. That plan has now been shelved, although the ministry is extending the subsidies available for rented accommodation. Instead the government has announced legislation that would "regulate the use of land in accordance with the general interest, thus avoiding any speculation."

Such tightening of controls on land use amounts to a safeguarding of the rights of property developers. The Housing Ministry announced that it was planning an 87 percent increase in direct state aid to assist with down payments on house purchases. Aimed particularly at young couples, the scheme will disburse between 5 and 11 percent of the price of a property, depending on the income of the applicants. This is an attempt to resolve the housing crisis by tying those hardest hit to an unstable property market. Anticipating a slowdown in the Spanish market one real estate developer, Fadesa, has recently announced plans to start building work in Hungary.

Housing Minister Maria Antonia Trujillo also announced plans to use six million square metres of available land across the country for building social housing, although she gave no timetable for the project, nor any concrete details. The project is to be overseen by the Public Corporate Entity for Land (SEPES), which has hitherto been predominantly concerned with the industrial sector.

This reflects other concerns within Solbes' proposals. He is proposing a 25 percent increase in funding of research, development and innovation, as well as encouraging investment in equipment to begin moving away from construction as the mainspring of economic growth.

The provision that received the most attention, though, was Solbes' plans to increase employment by two percent over the next year, with the creation of 332,000 jobs. However, that target is predicated on growth in GDP of three percent and consumer inflation of two percent.

The predicted GDP growth, in particular, has been criticised by the Spanish bourgeoisie as being overly optimistic. The PP are critical of any concession to popular sentiment, and have attacked the ending of their "successful model" of the economy. In a poll of business leaders, nearly three quarters said they believed economic performance would worsen, while 85 percent of them believed the government would not balance the budget.

The PP have a particular agenda, but Solbes' model for growth is extremely unlikely. His three percent growth in GDP is based on crude oil at $34 per barrel, although some analysts project a growth of only 2.5 percent with oil at that price. In any case, at the time of the budget announcement crude was nearing $50 per barrel. Solbes argues that an expected upturn across Europe would compensate for oil remaining high, although he detailed how fluctuating prices would affect growth predictions. He told a meeting of the IMF that every three dollars above $34 per barrel would add one decimal point to Spanish inflation, and correspondingly bring down predicted economic growth.

The two percent inflation target (which Solbes has admitted may not be achievable) is a target set by the European Central Bank for the whole of the Euro-zone. Ultimately, whatever budget provisions are met will depend on the standing of the Spanish economy within an international context. As such this may well be the honeymoon period financially for the Spanish population with the PSOE government. When they run out of cheap reforms, or reforms which meet the requirements of big business, the PSOE will not hesitate to turn their full force on the Spanish population. In this respect it is worth noting that the budget also made provision for increasing police intelligence. The National Intelligence Centre is to see a budget increase of 17.1 percent next year to meet the "new risks and threats of this century".