

# EU budget debacle leaves Spain isolated

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Spain's Socialist Party (PSOE) government faces a grave foreign and domestic policy dilemma in the wake of the European Union's failure to agree on a 2007-2013 budget at its June 18 summit.

Since coming to power on the back of a mass movement against the previous Popular Party government's support for the US-led war against Iraq, the PSOE has tried to reorient Spain towards Europe, seeking a closer alliance with France and Germany. But at the summit, Prime Minister Jose Zapatero was left in the unfortunate position of appearing to side with British Prime Minister Tony Blair in preventing the ratification of the EU budget.

Zapatero was concerned about the implications of EU expansion for Spain, particularly its eventual loss of more than €8 billion in subsidies. But he believed that by throwing its weight behind the EU project, Spain would be in a better position to at least ensure that subsidies were withdrawn gradually—thus allowing economic adjustments to be made.

Spain became the first and only country to vote to endorse the European Constitution in a referendum. Zapatero and the PSOE threw their full weight behind the “yes” campaign, securing a majority of 76 percent in favour. It was hoped that the Spanish success would inspire voters in other countries to ratify the constitution. Instead it was overwhelmingly rejected by voters in France and the Netherlands—precipitating a crisis within the EU that resulted in the Brussels summit failing to agree a budget and indefinitely shelving the constitution ratification process.

Following heated negotiations in Brussels, Spain voted with Britain against a compromise proposal put forward by the outgoing EU Council president, Luxemburg Prime Minister Jean Claude Juncker. But this did not imply any agreement with Blair's stance in calling for a fundamental overhaul of the Common Agricultural Policy (CAP) as a precondition for ending

Britain's two-decades-old rebate on EU funding.

On the contrary, it was a determination to maintain Spain's subsidies, under the CAP and various development initiatives, which determined Zapatero's vote. He had argued before the summit for a five-year extension on the EU proposal to end Spanish subsidies by 2008 in order that funds could be diverted towards integrating the 10 new cash-strapped mainly East European member states.

Spain's subsidies are secured until 2006 but in doubt after that. That is why Spanish Vice President Maria Teresa Fernandez de la Vega stated that it was better to leave the summit without an agreement than to negotiate a bad compromise.

Zapatero also publicly opposed continuing the British budget rebate. Following the summit he told the Spanish parliament, “We defend a system of contributions fundamentally based on GNP, which is incompatible with retention of the British rebate.”

For Spain, the imminent loss of EU funding is disastrous. It has been the largest net recipient of European aid, receiving some €93 billion since 1975. According to an article in *Spiegel Online*, this money has been used to build four out of ten of Spain's highway kilometres, high-speed train lines, airports, sewage systems and to create 300,000 jobs each year.

Some regions already face a situation where they will no longer qualify for EU funding because of a rise in their productivity that has been largely the result of generous subsidies—a Catch 22 situation.

The Popular Party seized upon the EU crisis to advance their attacks upon the PSOE. PP leader Mariano Rajoy said that Zapatero had turned himself into a lackey of the “Axis of Losers” because he had not supported Blair's calls for reform. Former premier Jose Marie Aznar told the *Wall Street Journal* the idea of continuing with the process of ratification of the constitution—advanced by Zapatero—was “eccentric.”

However, the *International Herald Tribune* reports that regardless of Rajoy's sarcasm, he "gave little indication that he would have performed any better." The position of the PP is highly contradictory. Rajoy has threatened to make Zapatero responsible if he doesn't "defend Spain's interests as unbendingly as iron," but such a defence would bring Spain into sharp conflict with other European nations, as well as with Washington and the major global corporations.

Both Britain's hostility to subsidies in general and the demands of France and Germany that funds be redirected to Eastern Europe are detrimental to Spain, which cannot compete as a low-wage investment platform against the former Stalinist states.

And just as importantly, the Spanish bourgeoisie has maintained a large peasantry on the basis of European subsidies. This social layer has historically provided a base for the right wing going back to the time of Franco's dictatorship and before, serving as a counterweight to the working class. The removal of EU subsidies would create a social upheaval among these layers that would backfire on the PP.

Though supporting in principle the type of free-market policies championed by Blair, therefore, the PP cannot afford to endorse calls for the removal of subsidies on which it has built a base of support. For example, one of the regions that will no longer qualify for aid is Galicia and Castillia-La Mancha, which has received more than €1.3 billion in development funds since 2000. This has been a major factor in the rise of salaries in the region to the EU average. Ruled since 1990 by Manuel Fraga, a former member of the dictator General Franco's cabinet, Galicia is set to lose €2 billion. Fraga lost his majority by one seat in elections held June 19.

Nevertheless, the PP is trumpeting the position of big business that the ultimate answer to Spain's economic difficulties lies in a systematic attack on the social conditions and wages of the working class.

The right-wing newspaper *ABC* commented that in March 2000 London and Madrid had ensured that the European Council approved a programme of economic reforms that would enable Europe to equal the economic dynamism of the US. It continued, "Unfortunately for our country, the privileged relationship with London has evaporated since the change of government in 2004 and now there is no

chemistry between the two governments' leaders, despite their common theoretical adherence to the centre-left. If Blair succeeds in making a positive contribution to a Union, this should be the occasion to redefine our European policy, join the new consensus and limit our dependence on France."

Zapatero has tried to do what the major corporations demand. He is seeking to enact legislation making it easier for employers to fire workers on permanent contracts, dressing this up as an attempt to clamp down on the growing use of casual labour. But he is not able to simply meet every demand placed on him by big business as this entails confronting a combative working class that has stubbornly defended its social gains—many of which have their origins in the transition from Franco's dictatorship less than three decades ago. Previous attempts to reform labour laws have provoked countless general strikes.

Zapatero is acutely aware of the possible political consequences of the type of social attacks demanded. The PP had attempted far less during its term in office, when it still enjoyed the cushion of EU subsidies, but was still driven from office by the mass movement that developed in the wake of the March 11, 2004 Madrid train bombs.

Moreover, the scale of the economic transformation needed by the bourgeoisie is immense. Spain has a corporate tax rate of 35 percent, compared with an average across the 25 states of 25 percent. In the newly joined Eastern European states, the average is 18 percent. It also has a 48 percent top rate of income tax for those earning more than €67,400, compared to a 40 percent top rate in Britain. Germany's top rate is set to drop to 42 percent next year.



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