

Spain: Big business demands savage attacks on working class following bank crash

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Big business leaders in Spain are stepping up their demands for labour reforms following the crash of regional savings bank Caja Castilla la Mancha, the first since 1993. After attempts to coordinate a buyout failed, the Spanish government was forced to inject €3 billion (\$4 billion) into the bank to plug a "hole" in its finances and provide €9 billion (\$12 billion) in loan guarantees.

The bailout has destroyed the myth that Spain's banking system was "immune" from the global financial crisis. According to economics professor Antoni Espasa at Madrid's Carlos III University, "The Spanish economy is in for a ferocious fall... It's going to suffer more than Europe and take longer to recover."

Dominic Bryant, Spain expert at BNP Paribas added, "The economy is in dire straits... The adjustment will be enormous."

When the economic crisis first broke José Luis Zapatero's Socialist Workers Party (PSOE) government boasted that the country's large budget surplus and tough regulations and controls on financial transactions would allow the country to resist the worst of the global crisis. This nationalist chimera has been burst. This month, the *Economist* warned, "Back in September Mr Zapatero had expressed his confidence that the downturn would bottom out fairly quickly, helped by 'perhaps the most robust financial system in the world'. The recent rush of policy action would suggest that the outlook is now not quite so rosy."

On March 23, Finance Minister Pedro Solbes announced that the government was preparing a plan for major bailouts using public funds, after admitting that the banking sector was not immune from the international crisis.

Within days news of CCM's demise was announced. Bank shares tumbled on the Madrid stock exchange, led by a seven percent fall in Banco Santander, the largest bank in the eurozone area. "There must have been no other way out," said Intermoney SA's chief economist José Carlos Díez, "This was not the preferred option."

CCM's problems followed the downgrading of a number

of Spanish banks earlier this month by investment bankers Goldman Sachs, who warned that there were likely to "suffer disproportionately" in the coming months. "With Spain facing a spike in unemployment and a burst real estate bubble, signs of severe credit deterioration abound," it added.

In Castilla-La Mancha, for example, nearly 70 percent of houses built over the last three years remain unsold and tourism, the second biggest business, saw a 15 percent fall in visitors this month after similar falls in preceding months. Goldman Sachs believes that Spanish banks have calculated their bad loans in "too narrow" a way, which "masks the true damage."

"The impact is likely to be greatest for the domestic operators but we see international banks as far from immune," Goldman Sachs said, referring to banks such as Santander.

The Bank for International Settlements has also drawn attention to the dangerous \$332 billion worth of exposure of Spanish banks in Latin America—far higher than US banks—and that some countries there may default on loans.

On top of this, Spain has become the first member of the eurozone to go into deflation following eight months of falling prices. Credit Suisse reported recently that the nine percent fall in house prices over the last year was insufficient and warned that they are still 50 percent overvalued. This will have catastrophic consequences in terms of negative equity for many families who are spending an average of 7.2 times income on mortgages.

When the problems with CCM emerged, Finance Minister Pedro Solbes admitted that a number of regional banks had been "exposed" by the collapse in the property and construction sectors and were being carefully monitored. He declared, "If we continue with the liquidity problems we've got at the moment, I don't think we can say that anybody is immune."

Bank of Spain Governor and European Central Bank member Miguel Ángel Fernández Ordóñez put the blame for the crisis on the working class, complaining that "The state

of the budget is deteriorating notably because of the pressure from the rise in social benefits" as a result of increasing unemployment. He called for the government to "undertake structural changes in the labour market with a "greater emphasis on productivity."

Spanish Confederation of Business Organizations chairman Gerardo Díaz Ferrán demanded the lifting of legal restraints on firing workers and severance pay cuts from 45 days per year of employment (up to a maximum of 42 years) to 20 days per year with a maximum of 12 payments—a demand supported by the Organisation for Economic Cooperation and Development

The International Monetary Fund has also claimed that "Labor market reform is the most important missing policy issue" for Spain and called on the social partners (government, big business and trade unions) to agree to stop the indexation of wages with inflation, extend opt-out clauses in collective bargaining (i.e., allow more job losses) and reduce dismissal costs "to boost hiring and mobility".

The PSOE's stimulus measures are a response to big business demands. These include further incentives to companies that hire workers on a part-time basis, which can only increase the number of workers already condemned to eke out an existence on "rubbish contracts"—currently one third of all jobs. The government has also extended the exemption on social security contributions granted to the auto industry to all businesses encountering financial difficulties for two or possibly three years. The social security contributions of companies hiring workers in the technology and renewable research sector will be paid by the state. This is a huge tax break for the rich at a time when millions are dependent on social security payments and state income is already facing a serious deficit through falling tax revenues—14 percent in 2008. As José Maria Mollinedo, head of Spanish tax inspectors union Gestha noted, "When there's a crisis, the first thing businesses stop paying is tax."

Since the beginning of this year one million workers have lost their jobs in Spain, bringing the number of those officially unemployed to nearly 3.5 million. The country's second-largest bank, BBVA, issued a study recently saying that unemployment will rise to 4.1 million by the end of this year and hit 4.5 million in 2010.

Spain's auto industry, which employs 350,000 is in a particularly desperate condition. Whereas Nissan's production world-wide fell by 54 percent "year-on-year," in Spain it dropped by a staggering 90 percent. The drive to cut costs and increase efficiencies in what one government minister described as the "export lungs" of the economy has relied almost entirely on the trade unions. At Nissan the trade unions have agreed to slash 1,680 jobs at its plants in Barcelona.

Last week, the Associated Press carried a report on the situation facing construction worker Antonio Montoya, who until recently "could afford two cars and a nice duplex for his family of six, with a sunny patio and pet canaries singing away. Spanish real estate was booming, jobs were abundant, and as Montoya would drive past the unemployment office, he felt like he was gazing at another planet. 'I would say to myself, I'd never be in that situation.'

Now Montoya has been forced to go to that same office, "catching a bus to save on gasoline, and joins the sullen, ever-growing line. He sniffs out job offers, signs for his 750-euro (\$970) monthly benefit and goes back home, often to meals of leftovers. In disgust Montoya states "Imagine now, here I am at age 54, without a job... I don't know how long I will be able to hold on."

The AFP global edition March 16 described the fate of La Lantejuela in the south west of the country where "dozens of warehouses where bricks, marble and other building materials were once produced lie idle since a decade-long economic boom came to an abrupt end last year. During the height of the country's credit-fuelled property boom the dozens of small and medium sized building firms which sprang up in La Lantejuela employed up to 80 percent of the town's workers as local residents abandoned farm work for more lucrative jobs in construction."

It continues "Today nearly 75 percent of the town's economically active population is jobless, one of the highest unemployment rates in Spain, which in turn is the nation with the highest jobless rate in the 27-nation European Union. Between the end of 2007 and the end of last year the number of unemployed in La Lantejuela jumped by 132 percent".



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