

Spain: Prime Minister pledges tough austerity measures “whatever the cost”

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Spain’s Socialist Party (PSOE) Prime Minister José Luis Zapatero has pledged to implement austerity measures “whatever the cost”.

In a recent interview with the *Financial Times*, Zapatero said that his government had “to issue a clear message to the markets and the message cannot contain any element of uncertainty or lack of clarity.” The message was not clear enough for the financial markets, however. On Wednesday Spain’s credit rating was cut from AA-plus to AA by credit agency Standard and Poor’s, which blamed high government borrowings and predicted a “protracted period of sluggish activity” in the economy.

In the *Financial Times* interview Zapatero declared that he had fought hard for Spain to have a surplus before the financial crisis erupted and that he was “now equally determined” to bring down the public deficit to 3 per cent by 2013 in accordance with the diktats of the European Union.

“We have a plan, a credible, quantified plan which we have already begun to implement, a plan to reduce the public deficit,” he added.

Measures already implemented include an increase in Value Added Tax of two percentage points, an increase in the age of retirement by two years from 65 to 67, and only replacing one-tenth of retiring civil servants. Plans are well advanced to cut the budgets of most government departments and increase taxes.

Zapatero denied that he was keeping the most difficult measures until a third term of office in 2012. He assured the *Financial Times* that the essential reforms will be completed by the end of the year adding, “when you’re on your second term, as is my case now, and you’ve gone through such a severe crisis, and you know that your country has serious problems your option is to adopt the measures even if they are not very nice and agreeable to all.”

Zapatero was asked if he thought he might have to carry out further austerity measures if Spain was forced to contribute to a Greek bail-out, the German economy failed to recover, and the spending of regional governments increased. He responded, “Let’s wait and see how we end

2010 and where we are on the budget and whether we are meeting our targets, and of course if we have to make more cuts or demand more austerity, then we will do so.”

“We will certainly do so whatever the cost,” he concluded.

In the past Zapatero has been portrayed by the financial markets and the right-wing opposition Popular Party (PP) as an optimist who ignored the crisis and hesitated over the introduction of austerity measures. The *Financial Times* repeated the standing joke in Spain in which Zapatero refused to say the word “crisis” for months in spite of the collapse of Spain’s housing market, deepening recession and the havoc in global financial markets. “Nowadays he has no such hesitation”, the *Times* adds approvingly: “Mr. Zapatero—reluctantly and belatedly, his critics say—now accepts that the crisis is the ‘deepest and most serious since the 1930s’.”

One of Spain’s senior bankers recently declared that the crisis in Greece had been “the best news” for the Spanish economy and the implementation of austerity measures. Of Zapatero he said, “I think he’s going to do it because he has no choice. I’m convinced he’s going to cut subsidies and cut spending.”

As the *Financial Times* commented recently, “A Greek default or exit from the currency shared by much of the Continent for the past decade, or a rescue by fellow eurozone members with the International Monetary Fund, would be traumatic. A similar outcome for Spain—with an economy four times the size of Greece’s—is almost unimaginable.”

Zapatero is well aware of the opposition that his austerity measures and labour market reforms will encounter in Spain. The PSOE came to power in 2004 as the undeserving beneficiary of opposition to the Aznar PP government’s economic policies and its involvement in the Iraq war, which people saw as the reason for the Madrid train bombing outrage.

Zapatero’s most important priority has been to prevent a revolt by proceeding cautiously in collaboration with the

trade unions and his government's Stalinist and pseudo-left apologists. Zapatero claimed that there were many "imaginative recipes" available to him to force through his measures and discussions were taking place with both employers and trade unions about how best to make the drastic changes to the labour market demanded by the financial institutions. Already job contracts and rights protecting workers against dismissal are to be overhauled. Redundancy compensation is to be cut from 45 days to 33 days per year worked, new jobs will have much reduced entitlement and people will have to work 25 years instead of the present 15 years in order to qualify for a pension.

Talks have taken place between the PSOE and the Stalinist led United Left (IU) at the PSOE headquarters in Madrid. Officially, the discussions have been about electoral reform and the pacts the two organizations have in regional governments and in hundreds of local councils but the PCE, no doubt, offered its services to rescue Spanish capitalism as it has done so many times in the past.

On April 20, Zapatero succeeded in getting the Spanish Parliament to agree to his anti-crisis Zurbano Pact although it only contained half of the 56 measures originally proposed. It went through with no votes against. The IU, the Initiative for Catalonia Greens (ICV), Galician Nationalist Bloc (BNG) and Navarra Yes (NB) who have five seats between them, abstained.

All the opposition parties complained afterwards that the measures approved, most of which are aimed at bailing out the banks, were not enough and of such a minor nature that the agreement could in no way be called the "Grand State Pact" the PSOE proclaimed.

PP economic policy coordinator Cristóbal Montoro declared that "there hasn't been a grand political consensus around the government's project". PP leader Mariano Rajoy said Zapatero lacked the "courage, intelligence and valour" to tackle the "four pillars" needed for economic recovery—"expenditure control, tax reduction, a new labour contract and the restructuring of the financial system." Rosa Díez, a prominent member of the PSOE who left to form the Union, Progress and Democracy (UPyD) in 2007 compared the Pact to "aspirins... being proposed to cure hip breaks".

Marga Ferrer, the IU's federal coordinator of Programmatic Proposals, who was one of the IU's two deputies to abstain on the Pact, declared afterwards, "When you want to achieve a Pact of State against the crisis you have to do three things: labour reform, pensions reform and fiscal reform. These are three measures that have remained outside the Zurbano Pact, since none of the 26 proposals has the purpose of creating employment which is the main problem in our country, with more than four million unemployed, a 20 percent black market and high fiscal

fraud."

Although the measures involving spending cuts, labour reforms and pension reforms were diluted down in the Pact, Zapatero has achieved a consensus which will serve as a precedent for dealing with the crisis on an all-party national basis. Reports suggest the PSOE was extremely pleased to get a consensus and particularly to have carried the PP with them, a party which was unceremoniously thrown out of office in 2004 and which is embroiled in an immense corruption case with top members appearing in court and facing possible imprisonment.

It is also apparent that the Zurbano Pact was a façade behind which other measures are being agreed in secret. After the parliamentary debate, Deputy Prime Minister María Teresa Fernández de la Vega was reported as saying that the council of ministers was about to approve "more than 20 (economic) new measures" against the crisis, "many of them agreed with the political groups" in scores of separate meetings. Parliament openly discussed the less controversial measures and the real attacks have been agreed behind the backs of the population.

To cut the deficit down to 3 percent in just over 3 years, as Zapatero proposes, will mean the closure or privatization of hundreds of schools, hospitals and universities. Benefits will be slashed, homes repossessed and inequality intensified in a situation where millions are already struggling with debt.

Zapatero's proposed austerity programme will produce unimaginable hardships for broad masses of the population. The unemployment rate has already reached 20 percent—the highest for two decades. So far it has been mainly workers in the most vulnerable and unprotected layers of the population who have lost their jobs—migrant workers, the young and those on short-term contracts.

Now this "pain" will be spread far and wide as ruling elite embarks on a programme of clawing back all those concessions granted during the "transition to democracy" in order to stave off a revolutionary reckoning with the Francoist dictatorship. Today, all the unresolved questions of the transition are coming to the fore in an explosive manner.



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