Spain: Major attack on living standards will follow November election

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Spanish Prime Minister José Luis Rodríguez Zapatero has announced a snap general election for November 20, four months earlier than scheduled.

"It's better if the newly elected government is in place on January 1 to confront economic challenges and the country's responsibilities," he declared.

Zapatero's announcement came just two weeks after he said he would never contemplate an early election because it would generate "political and economic instability". But support for Zapatero's Socialist Workers Party (PSOE), which does not have a majority in Congress, has collapsed. In May the PSOE received its worst result in history in regional and local elections. The latest opinion poll gives the opposition right-wing Popular Party (PP) 44.8 percent of the likely vote in November against 30.8 percent for the PSOE.

The PSOE's collapse is due to its imposition of austerity measures, wage and social welfare cuts that have resulted in widespread hardship. Unemployment is around 21 percent, with half of all under 25-year-olds without work. Anger at the worsening social conditions has been at the core of the May 15 movement, which saw tens of thousands of *indignados* (indignant ones) occupy central squares in cities and towns throughout Spain. One of the main aims of calling early elections is to an attempt to divert, intimidate and suppress the upsurge of opposition to austerity measures.

No matter who wins the election, financial institutions and the money markets are demanding a huge attack on the living standards of the working class. All the main political parties have indicated that they will carry out whatever measures are required.

Zapatero's announcement came as the danger of a debt crisis in Spain intensified. Speculation about a possible bailout has increased. Credit rating agency Moody's threatened to downgrade Spain, making government borrowing more expensive for the second time this year, from Aa2 to Aa3. Brown Brothers Harriman analysts declared, "Moody's review of Spain for possible downgrade is long overdue. … Spain is overrated [and] should be cut."

Moody's downgraded six regions (Catalonia, Andalucia, Castilla-La-Mancha, Murcia, Valencia, and Castilla y Leon) and placed on review for a downgrade the ratings of Madrid, the Basque Country, Galicia and Extremadura. The debt ratings of five of the country's biggest banks (Santander, Caixabank, BBVA, La Caixa and CECA) were also placed on review.

On Wednesday the interest rate for 10-year bonds peaked at 6.43 percent, close to the 7 percent that triggered the emergency rescues of Greece, Ireland and Portugal. The Madrid stock exchange also fell 2.17 percent after a week of decline. Zapatero has had to cancel his summer holiday and call a crisis meeting with Economics Minister Elena Salgado.

Yesterday, on the day Spain planned to sell up to €3.5 billion (US$5 billion) of government bonds after crisis talks with the European Union, world stock markets fell yet again.

European Commission President José Manuel Barroso warned that the crisis of the euro was threatening to spread beyond the "peripheral countries" such as Greece and could swiftly engulf Spain and Italy.

"We are no longer managing a crisis just in the euro-area periphery", Barroso said. "Euro-area financial stability must be safeguarded", he said.

The spread of the crisis will mean that the austerity measures announced so far will pale into insignificance compared to that to be demanded by the global financial elite.

Inversis Banco manager Fernando Hernández declared, "It is expected that a Popular [Party] government understands better the way investors think, and also [will

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implement] more reforms along the line undertaken over the past two years or even harsher in the labour area.”

On the same day that Zapatero announced the early election, the International Monetary Fund (IMF) published its latest report on Spain. IMF Mission Chief to Spain James Daniel told reporters that Zapatero should be congratulated for his “so far strong and wide ranging” economic policy, but there must be “no let-up in the reform momentum”.

The IMF report described how under the PSOE government real wages had been “moderated” and unit labour costs “improved”. It praised the “reforms” accomplished so far (all agreed by the social partners—big business and the trade unions) of collective bargaining, the labour market and pensions and the bailout of highly indebted savings banks.

But the report concluded that “downside risks still dominate” and advocated “continued and decisive policy action”. It called on the new government “to persevere with reforms” including more decentralized wage bargaining, less indexation of pay to inflation, further lowering severance payments, further pension reforms and slashing health care spending.

The *Financial Times* said that Zapatero was “running out of steam” and a new government was necessary to help soothe investors’ fears about the “sovereign debt whirlpool” into which Spain is heading: “[T]he nation needs a strong government capable of implementing whatever hard measures are required over the next four years.”

Spanish banks had to show they are not hiding more real estate losses (requiring further bailouts), companies needed “more flexibility to set wages” and the regions had to cut spending further. Spain’s 17 regions and 8,000 municipalities control more than a third of the country’s spending, including education and health, and provide half of public sector jobs.

Pressure for an early election also came from the main business organisation, the Spanish Confederation of Employers’ Organisations (CEOE), which has repeatedly stated that the series of measures imposed by the PSOE with the collaboration of the unions are not enough.

PP leader Mariano Rajoy cynically promised, “I have absolutely no intention of implementing social cuts”.

However, the strategy the PP will follow, should it win, will be to “suddenly” discover that the public finances are not in a “good state”, as previously claimed, and state the need for cuts. PP economics spokesman Alvaro Nadal was more open than Rajoy, declaring, “Post-electoral periods are a good time to implement deep changes.”

The PP would reform the labour market further and the energy sector as well as bring the regional administrations under control. “Achieving Spain’s fiscal consolidation will require a huge effort of coordination between Spain’s regions and profound economic reforms which have hardly yet been started”, he said.

Earlier this year, after Zapatero announced that he would not seek a third term as PSOE candidate, then deputy prime minister, interior minister and government spokesman Alfredo Pérez Rubalcaba was selected. Rubalcaba is a veteran member of two governments—the first under Felipe González from 1982 to 1996, famous for defending a government corroded by corruption and embroiled in a dirty war against the Basque separatist ETA using the GAL, a state-funded terrorist organization dedicated to assassinations.

Last December Rubalcaba demonstrated his ruthlessness to the ruling elite by sending in the military against striking air traffic controllers. The Spanish daily *El País* noted at the time that the “response of the government had never been of such dimensions under times of democratic rule.” Rubalcaba pledged to make further economic overhauls his priority if he is elected.

The government is not idly waiting until November, but is planning to force through austerity measures on August 19 in a meeting of the Council of Ministers using law decrees (decretos ley)—an anti-democratic emergency mechanism used to steamroller legislation through Congress within a 30-day period. The PSOE has increasingly resorted to emergency decrees in the last couple of years to rush through reforms and to impose the state of alert on the air traffic controllers, forcing them back to work last December.

The government has also been able to pass the debt ceiling—the first step towards the annual General State Budget—after the nationalist parties of the Convergence and Union, Basque Nationalist Party and the Canarian Coalition abstained, allowing it to cut social spending by 3.8 percent.

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