Spain: More cuts in health care and education

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The IBEX (Spain's principal stock exchange) hit a new three-year low on Monday morning as trading opened, down by 35 points. At the same time, the cost of insuring Spanish debt rose to a record high.

Rabobank rate strategist Lyn Graham-Taylor was quoted as saying Europe was "back in full crisis mode", with Spain in the forefront. This is despite the European Central Bank injecting €1 trillion into the European financial system last December. This averted an immediate financial meltdown by providing banks with a lucrative source of ultra-cheap money, which was then used to buy Spanish debt.

Brussels has sent a delegation to Spain to "analyze" its accounts. They will present their results in late June to a summit of European Economic Ministers, which will decide if Spain is doing enough to tackle its public and private debts.

Market falls came after the government outlined details of spending cuts valued at €10 billion. These come on top of the €27.3 billion in cuts to the 2012 budget (equivalent to 2.5 percent of GDP), the €15 billion cuts announced in December and the €16.5 billion made by the previous Spanish Socialist Workers' Party (PSOE) government.

Even so, there is growing skepticism that Spain will be able to stick to targets agreed two years ago with the European Commission, the ECB and International Monetary Fund to cut the deficit from 9.2 percent of GDP in 2010 to 4.4 percent this year and 3 percent by 2013.

Prime Minister Mariano Rajoy had already said the country will not meet this year's target, after which it was amended by Brussels to 5.3 percent and 3 percent in 2013.

The latest cuts are aimed at pressuring the 17 regional governments to make significant reductions in spending. The regions account for four out of every 10 euros of Spain's public spending. They are responsible for the provision of health care and education, which account for 80 percent of their budgets.

Not one of the regions met the 1.3 percent target last year. Their combined deficit ended up over 2.9 percent of GDP, forcing the country to borrow some €17 billion more than expected.

Last December, Valencia failed to pay back a €1.8 billion loan and had to be bailed out by the central government. Now the focus is on the southern region of Andalusia.

Antonio Beteta, junior minister for the regions, complained "Andalusia is not being transparent…. There is a problem of both transparency and credibility." Finance Minister Cristóbal Montoro referred to the "black hole" in Andalusia's books.

This is one of the few regions that are not governed by the ruling Popular Party (PP). It is expected that a coalition government between the PSOE and the Stalinist-led United Left will be formed, leaving to them the task of imposing cuts in healthcare and education.

The remaining regions have said they are committed to the deficit target of 1.5 percent. According to a law passed last Thursday, the central government can take control of any region deemed to be failing.

A press release on the latest cuts outlined plans for privatisation, education and health care "reform" and "the elimination of duplication" of large public services.

Rajoy has persistently rejected talk that Spain will require a bailout similar to Greece. "Spain is not going to be rescued", he said. "It does not need to be. We don't want to create unjustified alarm. We ask for prudence."

But forecasts predict that the Spanish economic output will fall by 1.7 percent this year. Exports decreased 1.6 percent on the previous three months, and consumer spending declined by an annual rate of 1.1

percent.

The real estate sector, upon which Spain has depended heavily over the past decade, continues into slump. The fourth quarter of 2011 saw the price of an average new home fall 8.5 percent compared to the previous year, while the price of previously owned properties was down 13.7 percent.

Unemployment stands at 4.75 million, nearly 23 percent of the population, and among the young, over 50 percent are jobless.

Writing in the *Financial Times*, Wolfgang Münchau said “Spain has accepted mission impossible.” This year’s deficit reduction to 5.3 percent of GDP would require cuts of between €53 billion and €64 billion, he explained.

This “is physically impossible”, he continued, “so something else will have to give. Either Spain will miss the target, or the Spanish government will have to fire so many nurses and teachers that the result will be a political insurrection.”

Against this backdrop, all the recent polls show falling support for the official parties.

After 100 days in office, according to a Metroscopia survey for *El Pais*, the PP lost nearly eight points in March—down from 46.3 percent to 38.1 percent. Support for the PSOE continues to fall, down from 24.4 percent to 23 percent.

Polls indicate a slight increase in support for others parties, including the United Left, from 9.1 to 11.6 percent.

Under these conditions some are calling on the PP to form a national sovereignty government with the PSOE.

The right-wing Madrid premier Esperanza Aguirre said Rajoy should forge a “consensus of state” with the PSOE so as to “recentralize” Spain—i.e. dismantle the country’s regional system.

A PSOE spokesperson responded “If Rajoy telephones Alfredo Pérez Rubalcaba [the leader of the PSOE] to speak about this emergency situation, of course we are going to speak and listen.”

Behind these calls are fears of a social explosion. These were set out in an *El País* editorial.

“It is inconceivable that savings of 27 billion euros in the state budget and another 10 billion in health and education can be approved simply with mechanical voting afforded by the PP’s absolute majority in parliament”, *El Pais* opined.

“The question is whether the country is willing to take all of this on blind faith”, it continued. Criticizing Rajoy for leaving the announcement of cuts to other ministers, it went on, “At a time when a joint effort in major areas is called for, skirting the madding crowd is not the way to inspire confidence. You can hardly demand solidarity and consensus abroad if you don’t show it at home.”

Far from “consensus”, the political establishment is preparing measures that will criminalize opposition to its agenda.

Having already proposed that “street violence” will be met with up to 18 years in jail, Minister for the Interior Jorge Fernández Díaz announced that anyone using the Internet to organize “protests that are violent” will face charges of “membership in a criminal organization”.