Focus of euro crisis shifts to Spain

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Spain now faces the same fate that has befallen Greece. Under pressure from the European Union and the international financial markets, the country is sliding into a downward spiral of austerity and recession.

Since the beginning of the year, the conservative government of Mariano Rajoy has adopted budget cuts of €37 billion. They are designed to meet the requirements of the European Union and reduce the budget deficit from 8.5 percent of gross domestic product (GDP) last year to 3.0 percent next year. For the Spanish population, which is already suffering an unemployment rate of 23 percent and a youth unemployment rate of over 50 percent, this means unbearable hardship.

Despite these drastic austerity measures, the financial markets are stepping up their pressure on the country. On Monday, interest rates on ten-year government bonds climbed over 6 percent, the highest level in five months. This level is not sustainable. Greece, Ireland and Portugal asked for international assistance when interest rates on their government bonds hit similar levels.

The reason for the rise in interest rates is the deep recession caused by the government's austerity measures. The International Monetary Fund (IMF) forecasts an economic decline of 1.8 percent in the current year for Spain. For the euro zone as a whole, the IMF predicts a 0.3 percent contraction. As a result, despite the painful cuts, the targeted reduction of the budget deficit will not be achieved and the national debt will continue to rise.

The recession is also intensifying the crisis of the Spanish banks, which are sitting on a huge pile of unmarketable assets and toxic mortgages. Some 700,000 empty apartments are waiting for a buyer and mortgages amounting to €176 billion are outstanding—a consequence of the bursting of the real estate bubble of 2002-2008.

Overall, the total of private debt in Spain stands at €1.8 trillion. With the recession, the number of debtors who cannot repay their mortgages and loans is growing, and banks have to write off the unsold properties they hold as collateral.

Internationally recognized economists are warning against Spain and Europe being pushed deeper into recession as a result of austerity measures. US economist Joseph Stiglitz said on the sidelines of a conference in Berlin: "It can't be a solution for the continent that Spain saves itself to death". His colleague, Barry Eichengreen, said that without spending and growth there could be no solution to the problems in Europe.

Paul Krugman, like Stiglitz a Nobel laureate in economics, wrote in the *New York Times* that European statesmen were about to commit economic suicide for the entire continent. Spain's budget problems were a consequence of economic depression, not its cause, he argued.

The speculator George Soros expressed the fear that the austerity programmes in Europe could lead to a tragedy of historic proportions.

Even IMF chief Christine Lagarde warned the Spanish government not to rush into austerity too quickly and to leave room for "growth impulses", which, however, should not burden the budget.

Such suggestions go unheeded due to the resistance of Brussels, and Berlin in particular, which insist on an uncompromising policy of austerity. The German government is afraid of being asked to provide massive funding if Spain's austerity measures falter.

If the fourth-largest economy in the euro zone were to seek support from the European Stability Mechanism (ESM), which the European governments agreed to in March only after much wrangling, its capacity could quickly be overwhelmed. The ESM holds funds amounting to €800 billion, some of which is already allocated to Greece, Portugal and Ireland, while the Spanish public debt alone amounts to around €700 billion. Of this, €180 billion must be refinanced this year.

If Spain sought help from the rescue fund, it is likely Italy would become the next target of the financial markets. That country's public debt amounts to almost €2 trillion.

Lagarde, Soros, Krugman, etc. are not opposed to the cuts in social spending, wages and jobs that make up the core of the austerity measures. What they mean by "growth impulses" is the destruction of legal protections against dismissal and other social rights that are deemed impediments to corporate profits, together with generous monetary handouts to the banks, following the example set by the US and the British governments.

Under discussion are further injections of money by the European Central Bank. Last year, the ECB provided the banks with loans totaling €1 trillion at an interest rate of just one percent and a three-year duration. This was a windfall for the banks, which then lent the money at four or five times that rate to various European governments.

The Spanish banks in particular have taken advantage of the cheap credit from the ECB, using much of the cash to buy Spanish government bonds. This has only deepened the dependency of the banks on government debt and increased the determination of the financial markets to prop up their investments in state bonds by imposing even harsher austerity measures on the working class.

Brussels is now discussing using money from the ESM to save the banks. These funds would no longer flow, as is the case now, to the governments and, via the governments, to the banks, but would instead be injected directly into the banks, shielding them from the effects of the recession.

IMF chief Lagarde expressed concern about the state of the Spanish banks and demanded their recapitalization. She told the *Frankfurter Allgemeine Zeitung*: "What worries me most is that Spanish and European banking supervisors are concerned the Spanish banks are not adequately capitalized, do not have enough of a buffer…"

While governments and experts disagree on the details of fiscal policy, they agree on the fundamental question: using the crisis to roll back the standard of living and working conditions of the European working class to where they were decades ago. Recession and mass unemployment are being employed toward this end, with the critical assistance of the trade unions and "left" parties, which work to contain and dissipate popular opposition.

The crisis is developing its own dynamic. If Spain and Italy can no longer finance their debt, the euro and the European Union will hardly survive. Europe is heading into fierce political conflicts and class struggles. The working class must prepare for this by breaking with all of the organizations and parties that tie them to the capitalist system and the reactionary institutions of the European Union and taking up the fight for the United Socialist States of Europe.