Spain unveils new raft of brutal austerity measures

Paul Mitchell
13 July 2012

Spanish Prime Minister Mariano Rajoy of the right-wing Popular Party announced a new €65 billion ($79 billion) package of cuts Wednesday, the fourth since his election last November.

The latest measures come on top of previous cuts, amounting to €48 billion, agreed between the central government and 17 autonomous regions. Those cuts had themselves been described as the most severe since the fascist dictatorship of Generalisimo Francisco Franco.

As Rajoy announced his new package of cuts, riot police brutally attacked a demonstration outside the Industry Ministry led by 200 miners who had taken part in a 17-day "Black March" from mining districts in Asturias, León and Aragón. Eight people were arrested and 76 injured as police carried out baton charges and fired plastic bullets.

Rajoy's speech indicated the depth of the crisis facing the Spanish bourgeoisie. He told the Spanish parliament that Spain was suffering "the second deepest recession in its history". He went on to declare that "we have to get out of this hole and we have to do it as soon as possible, and there is no room for fantasies or off-the-cuff improvisations because there is no choice."

The cuts are being made to meet the demands of the so-called "troika"—the European Union (EU), the International Monetary Fund (IMF) and the European Central Bank (ECB). These institutions act as enforcers for the global banks and speculators.

The new measures were announced the day after Spain's long-term borrowing costs breached the 7 percent level, regarded by the financial markets as unsustainable. By driving up Spain's borrowing costs, the international banks are in effect blackmailing the regime in Madrid to push ahead with ever more savage cuts in the face of mass popular opposition.

European Commission spokesman Simon O'Connor declared that the new cuts were "an important step to ensure that the fiscal targets for this year can be met."

Analysts pointed out that more pain was to come. Javier Morillas, an economics professor at San Pablo CEU University, said, "I don't think these are the last measures we'll see, and they certainly aren't the last cartridges Rajoy has left."

The measures include a three-point rise in the sales tax on products and services, from 18 to 21 percent, beginning August 1. This alone will inevitably plunge Spain deeper into recession. There will also be an additional €660 million in cuts in government programs, a pay freeze in the public sector plus targeted wage cuts, reductions in unemployment benefits, a speedup in the rise in the retirement age from 65 to 67, and a change to the way pensions are calculated so as to link benefits to life expectancy.

These attacks on working class living standards will be accompanied by further closures and/or privatisations of state-owned companies, including ports, airports and rail assets. There will also be a reduction in the number of town councillors by a third, further limitations on the economic powers of regional governments, and a 20 percent cut in state subsidies to political parties and trade unions.

At the same time, the European Union authorised the first tranche of the €100 billion ($123 billion) bailout of the country's banks, hastily agreed by euro zone finance ministers last month to avert a possible meltdown of the European banking system. The banks are holding untold billions in toxic loans and other worthless assets following the collapse of the real estate market. The scale of these bad debts is being deliberately concealed.

Under the terms of the draft memorandum of understanding, banks—particularly savings banks, or "*cajas*"—will be tested for their recapitalisation needs over the next two months. The first injection of capital into banks not already rescued by the state will start in October. The government will not have to review how much capital is needed to cover losses on real estate assets until the end of the year.

Both the troika and the Spanish government are desperate to prevent the debt and deficit load from pushing the country into a full-blown bailout. But the memorandum indicates that "subordinated and hybrid holders" of bank debt will receive the major "haircut". These are mainly the bank's small investors who stand to lose their life savings.

The EU also allowed the Spanish government to reduce the country's budget deficit from 8.5 percent to 6.3 percent of economic output this year, instead of the 5.3 percent previously agreed, and gave it an extra year to meet the 3 percent target (2014 instead of 2013).

When the rescue deal for Spanish banks was first announced last month, Rajoy declared that there were "no strings attached" and the agreement was a "victory for Spain". This was an attempt to dupe the Spanish public, which has taken to the streets in a series of mass demonstrations against the austerity measures that have driven Spanish unemployment to record levels.

The jobless rate in Spain is nearly 25 percent and the forecast is for the economy to shrink 1.7 percent this year and by a similar amount next year. Youth unemployment is above 50 percent and the country is mired in its second recession in three years.

Spain is now under the de facto dictatorship already exerted by the troika on Greece, Ireland and Portugal. Like Greece, it is in a vicious downward spiral, in which austerity cuts push the economy further into slump, increasing the country's indebtedness.

Some 8,000 miners have been on strike since the end of May, when the government announced a 64 percent cut in subsidies to the coal industry, threatening 50,000 jobs in mining and related occupations. The miners' march, however, was not a genuine show of opposition by the unions. They have done their best to collaborate in cuts to mining, just as they have suppressed broader opposition in the working class.

The two main unions, the CCOO (Comisiones Obreras—Workers' Commissions) and the UGT (Unión General de Trabajadores—General Union of Workers), agreed with the previous Socialist Party (PSOE) government to end the subsidies in 2018. But the PP's decision to bring the plans forward provoked a backlash amongst miners that the unions could not suppress.

Instead, they have sought to utilise the miners' action to conceal their refusal to mobilise a general movement to bring down the government, while preventing the miners' struggle from becoming a focal point for broader popular opposition to Rajoy.

There has been no attempt to mobilise wider sections of the working class either in support of the miners or in opposition to Rajoy's cuts. Instead, CCOO General Secretary Ignacio Fernández Toxo merely called for extending the deadline for Spain to achieve its "stability goals" declaring, "Europe has to give a break to Spain."

Toxo complained that the government "ruled by decree" and continued "to despise negotiation, consensus and social dialogue … a valuable tool to defend the welfare state and the balance of labour relations". This was a thinly veiled appeal for the regime to utilise the services of the trade union bureaucracy to suppress working class opposition and impose the cuts.

The only concrete proposal by the CCOO is for demonstrations to be held nationally on July 19 to prepare an undefined "strong and forceful" response sometime in the autumn.