European Union demands more austerity in Spain

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Last week, in a televised speech to a meeting of the National Management Board of the ruling Popular Party (PP) government, Prime Minister Mariano Rajoy tried to paint a rosy future for Spain.

"This year will still be hard, particularly in the first half, [but] in 2014 the Spanish economy will be clearly growing, and we will start to create jobs," he claimed. This week, European Union commissioner for economic and monetary affairs Olli Rehn presented a report on Spain's economic situation far less upbeat and emphasising the continuing "imbalances" in order to demand more austerity measures.

Rajoy said his government's principal objective was generating employment. "That is the aim, the most important one, and nobody should forget it," he said. The principle of budget stability, he continued, has worked well, and the situation will improve provided the public deficit is reined in.

Finance Minister Luis de Guindos echoed Rajoy, saying the economy would improve slightly at the end of this year. The minister revealed that the fall in GDP in the first quarter was "less bad" than the end of 2012 and predicted that figures will show the economy had contracted between 0.5 percent and 0.6 percent between January and March. "Something better" will happen in the second quarter (April-June), "so that in the third quarter growth rate is close to zero, and the fourth is slightly positive".

These statements are wishful thinking. All economic forecasts and indicators show the opposite. Unemployment currently stands at 26 percent, and the latest report of the Bank of Spain predicts it will reach 27 percent by the end of this year. The report stated that Spain's GDP will contract 1.5 percent this year. Figures released by the National Statistics Institute (INE) show that households saved just 8.2 percent of their disposable income last year, the lowest rate since the INE began compiling the series in 2000. Wealth has dropped 31 percent since the end of 2007.

Another indicator demonstrating the deteriorating state of the economy is the flight of capital from the country. The latest report of the Bank of Spain shows that nearly €250 billion left Spain in the first eight months of 2012.

Rehn's report was more pessimistic. Public debt will reach 100 percent of GDP in 2015, credit will continue to fall and that the "tangible threat" is the vicious circle that generates "a prolonged recession, debt reduction and volatile financial conditions." Spain's main problem, the report says, lies in the difficulties faced by the private sector, particularly households, in reducing their debt, which has narrowed only 15 percentage points from a high of 227 percent of GDP marked just before the crisis broke in 2008. The report said, "Very high domestic and external debt levels continue to pose risks for growth and financial stability".

"Rigidities in product and labour markets contribute to high and rising unemployment, and more generally hinder the adjustment of the economy," Rehn asserts. Although "steps have been taken, the reform agenda is incomplete, and even the adopted reforms have not shown all its effects because of its delay," he concludes.

The political message is clear: more austerity. The report demands the further liberalisation of goods and services markets, the end of the tariff deficit in the energy sector, a new increase in taxes, and another pension "reform".

The most savage proposals concern workers' wages and conditions. The report calls for measures to "cheapen unfair dismissal"—that is, make it easier to sack workers, reducing wages by breaking the link with inflation—and for an end to the duality in the labour market between permanent and temporary workers. This means an introduction of a single contract that would destroy the relatively better conditions of workers on permanent contracts.

This proposal is in line with what Maria Damanaki, a Greek European Commissioner, told *To Vima FM* radio: "The strategy of the European Commission over the past year and a half or two has been to reduce the labour costs in all European countries in order to improve the competitiveness of European companies over the rivals from Eastern Europe and Asia."

In the space of two years, both the PP government and its Socialist Workers Party (PSOE) predecessor imposed three labour reforms—the results of which can aptly be called a class war. As a result, labour costs, expressed as cost-per-hour-worked, fell 3.1 percent in 2012. This is a massive reduction in one year. According to the INE, it took 12 years (since 2000) for wages to decline 8.5 percent—a combined fall of 11.6 percent.

The attack on wages and conditions has allowed Spain's exports to reach a record €223 billion in 2012, slashing the trade deficit from January to October 2012 by 28.3 percent over the same period in 2011.

A report of the Bank of Spain echoed Rehn's demands, saying, "The adoption of additional measures," or "more determined action in the broader area of structural reforms [that] could create more favourable conditions for economic growth."

It described the latest labour reform as a "crucial ingredient" to exit the crisis and called for employers to exploit it fully to freeze or cut salaries. Labour costs, the bank estimates, will reduce a further 1.5 percent.

Francisco González, the chairman of the second largest bank in Spain, BBVA, praised the labour reform as "exemplary" and argued that Spain "is the country in Europe with the best conditions in which to grow and create wealth."

No sooner had Rehn released his report than Rajoy announced the government would unveil a second round of austerity measures on April 26. The prime minister stated, in Orwellian language, "We have to continue with reformist policies."

Rajoy is waiting to see whether the European Commission will relax the current public deficit target of 4.5 percent of GDP, which depends on the results of an investigation into the "excessive" imbalances in Spain's economy identified in Rehn's report. Brussels has already relaxed the target once, allowing Spain another year, until 2014, to lower its public deficit to the 3 percent ceiling. In addition, the Spanish government still has to impose 41 of the 72 measures that Rajoy promised the troika last September in exchange for the €100 billion bailout needed to recapitalise Spain's troubled banks. If Spain does not reduce its deficit, it could face a fine of up to 0.1 percent of its GDP, or about €1 billion.

The austerity measures already imposed have devastated Spanish workers' livelihoods. Nongovernmental organisation Intermon Oxfam published a report, "Crisis, inequality and poverty", indicating that there are around 12.7 million poor. The same reports warns that austerity measures and welfare cuts will result in an estimated 18 million poor in 2022—equivalent to an unprecedented 38 percent of the population. According to the Catholic Church-run charity Cáritas, those living in extreme poverty now make up 6.4 percent of the population, some 3 million people.