Spanish government imposes new tax hikes and austerity measures

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Spanish workers, already suffering mass unemployment, high poverty rates, low and declining wages and burdened by taxes, face a new round of austerity measures.

The measures, part of the Popular Party (PP) government's Stability Plan presented to the European Union (EU) last April, include tax hikes on alcohol and tobacco of up to 10 percent. Electricity bills will rise by up to 7 percent this year, on top of the estimated 70 percent increase over the past six years, as a result of a new electricity tax and because power companies will seek to pass onto customers a €2.7 billion cut in tax breaks. There is a new tax on coolant gases used in refrigeration and air conditioning.

Finance Minister Cristóbal Montoro announced that €3.65 billion per year would be raised by limiting the tax breaks large companies can deduct for foreign operations or investment portfolios in line with EU demands. But this token measure cannot compare to the huge sums involved in tax avoidance, which cost the state some €16 billion a year. Large companies supposedly pay 30 percent corporate rate, but in reality few pay more than 10 percent leaving the brunt of taxation on the middle and working classes. In 2011, there were increases in personal income tax and property tax and a new tax on savings. Last year VAT on goods and services went up from 18 percent to 21 percent.

Since the global economic crisis erupted in 2008, state revenue has slumped by nearly €200 billion or 20 percent of the gross domestic product—mainly as a result of the collapse of the real estate market.

Because of this and the lack of economic growth it was claimed the austerity measures would stimulate, the government has passed 30 new tax reforms in only a year and a half to increase revenues, most of which have fallen on the working class. This is not the end. A new "committee of experts" has been created who have until March 2014 to make proposals for a new tax system.

Apart from the tax measures, the government has announced a €6.5 billion cut in public services including the merger and elimination of 57 public organisations and 90 other state and regional bodies. Some 15,000 state properties, including thousands of office buildings, will be sold off.

Deputy Prime Minister Soraya Sáenz de Santamaría claimed that there would no redundancies stating, "These reforms are not being taken to reduce the public payroll but instead to make government more efficient." Montoro stood reality on its head declaring, "What we want to do is to end the destruction of jobs and that is why we are introducing these measures." Since the PP came to power in November 2011, over 375,000 civil servants have been laid off.

Prime Minister Mariano Rajoy declared that the measures imposed by his government meant that Spain is heading out of crisis saying, "We cannot say, as in other times, that Spain is doing well, but Spain is getting better and the course set is the correct one."

The Spanish economy "has turned the hourglass over" and is already "on the countdown towards recovery," he added.

Rajoy's optimism contradicts all the economic indicators. The country is locked in its second recession in four years. Since September 2011, industrial production has dropped every month with the output of durable consumer goods (cars, washing machines, etc.) worst affected, slumping by 14.3 percent.

Unemployment shows no sign of reducing affecting 27 percent of the working population and 57 percent of the youth under 25. Inflation continues to rise—from 1.7

percent in May to 2.1 in June—three times the 0.7 percent average increase in wages negotiated in collective agreements.

Even though banks have had improved access to the private funding markets, lending remains tight. Loans to the domestic sector in the four months to April declined by 8 percent from a year earlier, while lending to companies was down 19.5 percent.

The government has repeatedly stated that a recovery will occur at the end of 2014, but the European Commission in its recent third report on Spain's compliance with the terms of the €100 billion bailout package is saying the economy will not recover until 2015.

Jeroen Dijsselbloem, president of the Eurogroup of eurozone finance ministers, said that he does not rule out Spain having to ask for more of the money available in the bailout package. "Spain has not asked for an extension, the program will [otherwise] end in January," he warned. "The main risk in Europe is not the economy, it is political instability," he added.

In an unusually candid moment, he declared that "honestly, we don't know how the European banks really are."

Dijsselbloem's statement is linked to the warning made in the Commission report of a further leap in the vicious downward spiral caused by banks tightening their lending even further to provide "life support" to their assets. Even though most of the "toxic" assets, including vastly overvalued real estate and unpayable mortgages, were supposed to have been transferred to the specially created "bad bank" Sareb, in many cases the banks do not know or are not telling the real value of their remaining assets. If these assets also turn out to be toxic, then more state bailouts are inevitable. "A prolongation of the negative trend for unemployment, disposable income and the solvency of companies raises the risks, especially for weaker banks," the report said.