IMF calls for 10 percent wage cuts in Spain

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The latest report on Spain by the International Monetary Fund (IMF) calls on the trade unions and employers to agree to a social pact that would include cutting wages.

The report, issued August 2, praises the Popular Party's 2012 labour reform making it cheaper to lay off workers and to unilaterally change working hours and impose wage cuts. It described the reform as having had "some positive effects."

Since the introduction of the labour reform little more than a year ago, these "positive effects" have resulted in 633,500 layoffs, according to the trade union CC.OO.

But the IMF's report demands further attacks on working conditions, saying that the reform is not enough. It calls for wages and work arrangements to be made more flexible still.

"A social agreement should be explored to bring forward the employment gains from structural reforms," the report states. It recommends an accord that could include a deal between employers, who would commit themselves to "significant employment increases," and the unions, who would agree "to significant further wage moderation and some fiscal incentive."

It asserts that "The wage/price decline would result in a real depreciation of around five percent over three years, boosting exports and slowing imports. Importantly, a credible social agreement would also have a large positive impact on investment given the lower production costs and improved outlook."

The report shows a study of the effects of a 10 percent wage cut over a two-year period, accompanied by a reduction in social security contributions by one and two-thirds of a percent. It also examined increasing the value added tax (VAT) in two years, which would make most food products, health services, transport and housing more costly.

Both these measures would mean a further pauperization of the Spanish working class, already suffering 27 percent unemployment. Workers have already suffered a savage attack on their wages. According to the economist Jean Paul Fitussi, the decrease in average salaries has reached more than seven percent in Spain.

The report also calls on Madrid to end the "duality" in the labour market—that is, the difference between the temporary contracts linked with precarious and low-paid jobs and permanent work contracts, usually better paid.

The demand of the IMF is only the latest from within business circles, the media and among European Union officials for Spain to introduce a single work contract. Such a contract would mean the elimination of better paid permanent contracts, in a country that already has the highest rate of temporary workers within the European Union.

According to the National Statistics Institute's (INE) latest Active Population Survey (EPA), 16.4 percent of those employed are working part-time, an increase of more than 20 percent in five years since the financial meltdown of 2008. Mass unemployment has forced workers to accept any form of employment, including part-time. At the same time, employers are using the 2012 labour reform that allows part-time workers to work overtime. According to the INE, 2.2 million part-time labour contracts were awarded in the first six months this year, making 34 percent of total contracts.

The IMF report expects the unemployment rate to hit 27.2 percent this year, dipping to 27 percent in 2014, 26.9 percent in 2015, 26.6 percent in 2016, 26 percent in 2017 and 25.3 percent in 2018. It predicted a 1.6 percent economic contraction this year, zero growth in 2014 and growth of just 0.3 percent in 2015.

These figures give a different picture than that presented by Prime Minister Mariano Rajoy last week, who attempted to divert the debate on the illegal financing of his party, revealed in the Bárcenas case, by announcing that the latest unemployment figures show a drop of 63,500 people in July. On the same day, Economy Minister Luis de Guindos celebrated the drop in unemployment stating, “It took some 20 consecutive quarters—that is to say five years—so that the Spanish economy could create non-seasonal jobs.”

In reality, according to the EPA, the number of people working in the period April-June increased by 149,000, while the number of those who were unemployed fell by 225,200 to 5.9 million, after reaching a record 6.2 million in the previous three months. The jobless rate fell to 26.2 percent from 27.1 percent in the first quarter. When eliminating seasonal factors linked with tourism, the number of jobs created in the latest quarter was only 13,000.

The IMF report ends by warning, “The government has a large majority, no general elections until late 2015, and has faced only limited social unrest. But the economic context has reduced the popularity of the two main parties, which could make public support for new difficult reforms more challenging.”

European Union Commissioner for Economic and Monetary Affairs Olli Rehn has backed the IMF proposal that workers accept wage cuts in his personal blog. EC spokeswoman Chantal Hughes said the next day that Rehn’s views were personal, but that they were in line with those of the EC.

The IMF’s prescriptions during the last five years have led to the slashing of the budget deficit, privatisation and labour reforms and tax raises that have and will have devastating consequences for jobs, working conditions, pensions and basic social rights.

The type of social pact between unions and employers that the IMF is calling for has already been put into practice. The unions have directly collaborated with the passing and implementing of reforms and, where they have not, they have demobilised the working class and allowed the government to impose them by decree.

In the last three years, the unions have signed agreements with both the PP and previous Socialist Party (PSOE) government and the employers that have seen the pension age rise from 65 to 67, increases in the number of years required to obtain a full pension and labour reforms that ended collective bargaining, cheapened redundancy payments and made it easier to hire and fire workers. The unions have even used the latest labour reforms to sack their own staff.

Last May, the unions attempted a grand social pact with the PP government with the aim of “work[ing] out a common exit strategy” from the “social emergency” Spain finds itself in. The call was made to prop up the discredited PP government and gather all the political and social forces to impose further cuts and prevent any opposition within the working class.

The two main unions have formally opposed the IMF wage prescription on the basis that, as UGT official Toni Ferrer said, it has “no impact on unemployment” while having negative consequences for consumer spending and investment. He said the UGT has negotiated wage cuts in exchange for preserving jobs, but companies had failed to uphold their part of their agreement to rein in their profit margins in exchange for wage moderation, noting that corporate earnings increased by 2.2 percent last year, while salaries fell 5.4 percent.