Academic experts advise Spanish government to escalate attacks on the working class

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Last Saturday, an estimated 1 million workers, unemployed, pensioners and youth demonstrated in the Spanish capital, Madrid, against austerity, unemployment, evictions and poverty. Angry protesters came from across the country, where the official unemployment rate is 26 percent and nearly half of all workers under 30—2 million people—are jobless.

Ignoring the mass social opposition, the Popular Party (PP) government is about to launch another fiscal reform based on recommendations made by a committee of experts appointed by PP finance minister Cristóbal Montoro in July 2013.

The committee consists of nine academics or former academics linked to universities, banks and the Treasury. It is headed by Manuel Lagares, an economy minister in the first post-Franco government after the transition to parliamentary democracy in 1977, who has participated in all the fiscal reforms since.

The nine have put forward 270 recommendations, including an increase in VAT on most goods from 10 to 21 percent, to offset a cut in Social Security contributions made by employers. Although VAT will remain at 4 percent for basic foodstuffs, increases in indirect taxes are the most regressive because all taxpayers pay equally regardless of income.

They also suggest reducing the number of income tax bands or brackets from seven to four. The lowest band of 24.75 percent would be cut by five percentage points while the highest, currently standing at 52 percent, would drop to below 50 percent—preferably to the 43.7 percent eurozone average.

The proposal aims at reducing the income tax on the richest by nearly 10 percent. Although much is made of the 5 percent reduction in income tax for the poorest, this will be more than swallowed up by increases in indirect taxes.

These new measures further undermine the claims frequently made by economists that income tax in Spain is progressive. According to statistician Joaquín Leguina in *El Economista*, "[I]n 2012 the revenue from income tax represented 42 percent of total revenue, while corporate tax represented 12.7 percent. What is revealing is that nearly 85 percent of the income tax comes from wage-earners while they receive 40 percent of the national income. In other words, each wage earner pays—through income tax—more than double what is contributed by a non-wage earner."

Other measures proposed by the experts that benefit the rich include a reduction of corporate tax rate from 30 percent to around 20 percent, the elimination of wealth tax that affects those with more €700,000 in assets and a reduction in inheritance and donations taxes to the bare minimum.

Another recommendation is for more favourable tax treatment for private pension funds. This is the experts' solution to last year's pension reform, which will lead to a shortfall of €32 billion in the period 2014-2024 in public pensions, because of the new method that was introduced to value them.

Private pensions are another measure aimed at satisfying the rich. Most workers will not be able to afford them because they are either unemployed, working in low-paid casual jobs or paying for previously free services in public health care and education.

The committee of experts claim these measures, if accepted by the government, would boost exports by lowering the cost of production and make imports more expensive because of the increase in VAT. This is a prescription for drastically reducing the consumption of millions of working class people.

Spanish exports have already increased over the last two or three years. According to Spain's Economy Ministry, they rose 2.9 percent last year to €234 billion, shrinking the trade gap to €16 billion. Deputy Economy Minister Fernando Jimenez Latorre is forecasting as much as 7 percent growth this year.

The increase in exports is a direct result of the slashing of labour costs in the six years since the eruption of the world capitalist crisis. The PP government and its Socialist Party (PSOE) predecessor (2008-2011) have imposed three labour reforms making it easier for firms to sack employees, worsen working conditions and increase even further the number of temporary and part-time contracts. Juan Jose Toribio, professor at the IESE business school in Madrid and a former head of finance policy at the Economy Ministry, told *Bloomberg*: "Spanish unit labour costs have fallen, increasing the country's competitiveness…. In a very short period of time, Spain has succeeded in turning a record deficit in its current account into a surplus."

This has meant an unprecedented fall in wages and further increases in unemployment. According to Vicente Navarro, economist at Pompeu Fabra University in Barcelona, the reforms have "led to a decline in wages of 10 percent in two years. No other EU-15 country (besides Greece) has seen such a dramatic reduction."

At the same time, the rich have seen an obscene increase in their wealth. In 2013, Madrid's IBEX-35 stock exchange grew by 21 percent, the number of millionaires grew by 13 percent to 402,000 compared to 2012, and the number of super-rich individuals (those with more than US$30 million) grew by 6.9 percent to 1,625.

The experts' report came days after Christine Lagarde, managing director of the International Monetary Fund, spoke at the Global Forum on Spain in Bilbao insisting that the "strong reform momentum must be maintained."

Lagarde rejected the PP government's claims, repeated by the media, that the recession is over and the country is on the road to recovery, declaring, "Thanks to the formidable actions over the past five years, Europe—and Spain—are now turning the corner. Yet the task is far from finished. Growth remains too low and unemployment too high for us to declare victory over the crisis."

Spain's economy officially came out of recession in the third quarter of last year, but the pace of the recovery has been slow. The country has a high level of debt, standing at €942.8 billion. This is equal to 92 percent of the country's entire economic output (GDP), which the government predicts will only grow around 1 percent this year (the European Commission says it will only be 0.5 percent). In any case, the growth will not be enough to solve the problem of 6 million jobless.

Lagarde's visit was no doubt intended to bolster the committee of experts, for she too called on the government to raise VAT. In addition, Lagarde called for another labour market reform that would cut salaries even further.

The cuts in public services, labour reforms and fiscal policies that have been imposed and the new ones that are being planned, aim not at creating employment, but at impoverishing workers through wage-cuts and tax increases. The ruling class's insistence that the already draconian measures are not enough shows they will stop at nothing to increase their wealth.