

EU demands more austerity after Spain and Portugal fail to cut deficits

Alejandro López and Paul Mitchell**19 July 2016**

For the first time in its history, the European Union (EU) is threatening fines and other sanctions on Spain and Portugal for failing to keep their budget deficits below the 3 percent of GDP target. Last year, Spain's deficit was 5.1 percent and Portugal's was 4.4 percent. This year, they are forecast to remain above the target.

The European Council of EU heads of state said the two countries, whose economies have been devastated by years of EU austerity, have until July 22 to come up with new proposed cuts.

According to Jeroen Dijsselbloem, president of the Eurogroup of euro zone finance ministers, "zero sanctions" are another possibility—that is, a symbolic penalty while more budget cuts are prepared. Paying billions of euros in fines to Brussels, instead, would only make it even harder to cut the deficit.

In pushing provocatively for deep fines against Spain and Portugal, the EU is making clear that it intends to respond to the existential crisis posed by the British vote to exit the EU by intensifying its hated austerity policies. Even as the Brexit crisis and the Italian banking crisis threaten to tear the entire EU apart, EU functionaries are insisting that the only way forward is to antidemocratically impose more attacks on the working class.

El País cited unnamed diplomatic sources who speculated that the EU's final decision on Spain would be a "benevolent fine" and the freezing of 1.1 billion from European funds. In exchange, Spain will get one year to cut its deficit to 2.5 percent in 2017, meaning around 10 billion in cuts and tax hikes. Moreover, Madrid's economic policy would be under EU tutelage, with Madrid forced to send a report on austerity measures every three months. Suspending the quarterly reviews would result in even higher fines and tighter controls from Brussels.

In response to threats of EU fines, Spanish Economy Minister Luis de Guindos announced on Tuesday a rise in corporate tax. It appears that, at this stage, announcing further cuts to public services and welfare would only undermine acting Prime Minister Mariano Rajoy's talks to form a coalition government with other parties following last month's general election.

Held six months after the previous election, it resulted once again in a hung parliament with no party securing a majority. Rajoy, whose Popular Party (PP) won 135 seats in the 350-seat Congress, is in talks with Citizens, the Socialist Party (PSOE) and various nationalist and regionalist forces. So far, none of them have promised him their support, however.

Further cuts are undoubtedly being prepared. According to the Independent Authority for Fiscal Responsibility (AIREF, an agency created as part of the 2012 bank bailout programme), Spain's 2016 deficit will be 4 percent, well above the 2.8 percent demanded by Brussels.

José Ignacio Conde-Ruiz, vice-director of the Foundation of Applied Economic Studies, goes even further claiming that the 2015 deficit will reach 5.3 percent; if confirmed, this would mean around 24 billion in cuts and tax increases this year.

Whichever coalition of parties is cobbled together to form a new government, it will be pledged to imposing even more savage attacks against the working class. All the parties have repeatedly expressed their commitment to imposing austerity and carrying out EU dictates.

This makes all the more criminal the role played by the pseudo-left Podemos, which is not only continuing to call for a government with the PSOE, but is now willing to support the PP's corporate tax manoeuvre. Spokesperson Iñigo Errejón said that Podemos would support the PP "As long as this tax increase pursues the

protection of social services or generates sufficient resources for a different economic policy.”

EU austerity demands will further slash Spanish workers’ living standards, which have been systematically attacked since 2008 by the PSOE government of José Zapatero and then Mariano Rajoy’s PP. Three labour reforms, two pension reforms, VAT (sales tax) increases, and billions of euros in cuts at national, regional and local level have produced a social disaster.

Recent EU figures found that more than one in three Spanish children (2.6 million) are at risk of poverty or social exclusion, the highest proportion in the euro zone outside Greece. The number of part-time workers has more than doubled since 2009.

EU sanction threats against Portugal are, if anything, even more severe. Socialist Party (PS) Prime Minister Antonio Costa complained, “To propose now that Portugal be punished because its previous government didn’t take the rights steps would diminish [German Finance Minister] Schaeuble’s credibility and would not strengthen the public’s trust in the running of the euro zone.”

At the end of June, the International Monetary Fund (IMF) issued a special report, “From Crisis to Convergence—Charting a Course for Portugal”. It catalogued a list of problems: falling economic growth, low competitiveness and household savings, unemployment “still higher than it should be”, and a deeply indebted corporate sector. This is the legacy of nearly a decade of EU and International Monetary Fund (IMF) austerity policies that have shattered the country’s economy.

The IMF praised the PS government’s 2016-2020 Stability Programme, which lays out “ambitious goals for medium-term fiscal adjustment”—i.e., more austerity—but declared these should be “underpinned by permanent savings measures, with a focus on rationalisation of public wages and pensions” and further structural reforms. It warned against any “change in the direction of reforms” or “unwinding of past policies”.

Financial analysts have also pointed to the continuing parlous state of Portugal’s banks. Marc Chandler, director at Brown Brothers Harriman, the oldest and largest US private bank, warned, “The UK referendum hit an already vulnerable banking system in the

eurozone. Italian banks are on the front burner, but the temperature is rising in Portugal.”

Recent reports suggest state-owned Caixa Geral de Depósitos may need a bailout of around €5 billion (\$5.5 billion); Portugal’s largest private bank, BCP, requires around €2.5 billion (\$2.8 billion). Problems also remain over the sale and assets of Novo Banco, which was created from the collapsed Espírito Santo bank in August 2014 and the pumping in of nearly €5 billion.

Mariana Mortágua, a deputy for the Left Bloc, which, with the Communist Party, works in the periphery of the PS, called on the government to reject the sanctions. “The most important thing is that the country unite to be able to counter and prevent such unjust and humiliating sanctions.”

Catarina Martins, the Left Bloc’s coordinator, called for a referendum on whether or not to accept the new demands. She complained that compared to Portugal, France “had the same failure, and sanctions are not even on the table”.

Like Syriza in Greece, the call for a referendum is a ploy by the pseudo-left Left Bloc to absolve itself of responsibility for its role in supporting the PS. At the recent 10th Convention of the Left Bloc, a motion to terminate the parliamentary agreement with the PS was rejected.



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