Spain's public debt reaches record levels

Alejandro López
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Spain's public debt rose to a record €1.1 trillion last week. As a percentage of gross domestic product (GDP), the debt comes in at 100.9 percent, which is equivalent to the total value of the goods and services produced in a year.

The figure has trebled since 2007, before the onset of the global financial crisis, when it was 35.5 percent of GDP (€384 billion). In the space of a year, Spain has added €50 billion to its debt.

Just to pay the interest on the debt, the caretaker Popular Party (PP) government has set aside €33.5 billion in this year's budget, nearly twice as much as that given to social subsidies and unemployment payments.

Spain, which has been unable to form a new government since the general election in December 2015 (followed by another in June), now faces a third election before the end of the year. There is great pressure to prevent this happening and reach an agreement to steer through €10 billion in austerity measures before October 15, as promised by Madrid to the European Union (EU) after overshooting its deficit targets.

Following the announcement of the debt figures, the Economy Ministry published a statement disputing the information and claiming it remained on track to meet year-end targets. "There are big seasonal variations that have to be taken into account," the ministry insisted, stating that the increase in public debt has been slowing since 2013 and adding, "We will comply with the agreed objective in the stability programme" with the EU.

The false optimism of the PP was in marked contrast to the view of the European Commission, which stated that Spain would not be able to reduce its debt this year. The media also took issue, declaring, "The PP government should not boast about economic growth. If it were not for external assistance from the European Central Bank and falling interest rates, the economic situation of our country would soon become unsustainable."

El País stated that the size of the debt "was one of the longest and most durable consequences of the crisis… Instead of allocating public resources to more productive spending such as education, research or health, for generations we will determine the causes of economic growth and welfare on the basis of debt, even if the deficit is reduced significantly in the coming years."

This situation is not exclusive to Spain. Greece's debt-to-GDP ratio is around 176 percent, Italy's 130 percent, Portugal's 128 percent, Cyprus's 108 percent, Belgium's 105 percent.

The record level of debt confirms the fallacy of the claims that austerity measures imposed since 2009 by the troika--the International Monetary Fund, the European Commission and the European Central Bank (ECB)—will clean up the finances of Europe's economies. The slashing of jobs and cuts in wages and social services, resulting in unemployment and poverty for tens of millions across Europe, is part of a deliberate policy by the ruling class to fundamentally reorganise class relations.

Vast amounts of wealth have been transferred to the financial elites, worsening the social conditions of the working class and widening social inequality, while at the same time creating the conditions for another financial meltdown.

The ability to service Spain's debt is dependent on record low borrowing costs, resulting from the virtually free credit provided by the ECB. Since 2000, the yield on 10-year Spanish sovereign bonds—the interest the government pays on its borrowing--has fluctuated by around 4 percentage points, reaching nearly 7 percent in 2012, shortly before a €100 billion bank bailout package was agreed. Today the yield is around 1 percent.

As an *El País* editorial recognised, "The worst part of the situation will take place when the ECB reduces the protection it exerts today on the cost of public debt… This guarantees high bond prices and exceptionally low interest rates." It added that this was "not the result of action or inaction of the Spanish government," but a benefit of Spain's membership of the single currency.

Spain's widely cited economic growth, on track to hit around 3 percent this year, is related to conjectural factors. These include the global drop in oil prices, negative interest rates that have lowered mortgage rates, and low wages resulting from three labour reforms, which have produced a vast increase in temporary and part-time contracts. Record numbers of tourists have taken their holidays in Spain as a result of the instability in the Middle East and the refugee crisis in countries like Turkey and Greece.

Whilst economic growth has risen and bank profits are once again soaring, the social conditions in Spain continue to deteriorate. The country still has 20 percent of its working population unemployed--45 percent of its youth--and a declining population due to mass emigration. A third of children live in poverty.

Eight months after the December elections, Spain remains without a proper government. After two elections that have produced two hung parliaments, the political deadlock is comparable to the Second Republic during the 1930s, which ended with a three-year civil war and was followed by a 40-year dictatorship under General Francisco Franco.

Last week, the PP signed an agreement with the right-wing, pro-business Citizens party ahead of an investiture vote in Congress, but it is not sufficient to gain the necessary 176 votes for acting Prime Minister Mariano Rajoy to be reelected.

Despite growing political, media and big business pressure on the Socialist Party (PSOE) to abstain in the investiture debate and allow a PP-led minority government to be formed, party leader Pedro Sánchez is claiming his deputies will vote "no." To be seen supporting the PP could prove disastrous to the PSOE in regional elections in Galicia and the Basque Country on September 25.

If Rajoy fails to win today's vote of confidence, the Spanish Constitution stipulates that a second debate and vote must take place 48 hours after the first. In that vote, scheduled for Friday, an overall majority is not required. If Rajoy is still not able to win the backing of other parties, he cannot be re-appointed prime minister. If no agreement is reached within two months of the confidence vote, the king must issue a decree dissolving parliament and fixing an election date 54 days later. This would result in the poll being conducted on Christmas Day.

Whatever agreements emerge out of the investiture negotiations or whether a third election is called, the final outcome will be more austerity. All the major parties--Popular Party, Socialist Party, Citizens and the pseudo-left Podemos--are committed to upholding the payment of the debt.

Podemos, which once called for a "restructuring of the debt," that is, negotiating with Brussels to get better terms for Spain, has since junked this demand to prove its malleability to the ruling elites. In its programme for the June 26 elections, Podemos explicitly committed the party to the EU budget stability pact and the repayment of the debt.

Such was the impact of its defence of the ruling class that a million people who voted for it and the United Left (IU) in December failed to recast their votes for the Podemos-IU alliance, Unidos Podemos, in June.