

Spain's Socialist Party prepares new austerity budget, boosts military spending

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Spain's minority Socialist Party (PSOE) government, installed in power last month with the help of the pseudo-left Podemos and regional nationalists, is preparing a new austerity budget for 2019. At the same time, it is carrying out a massive increase in defence spending.

The preparations for the 2019 budget come two weeks after the Spanish parliament passed the long-overdue 2018 budget, drafted by the previous right-wing Popular Party (PP) government. The 2018 austerity budget was adopted wholesale by the new PSOE government led by Pedro Sánchez, who just days before becoming prime minister had criticised it for “attacking the welfare state, not defending women, workers, the unemployed, nor the youth.”

Compared to eight years ago, the 2018 budget has 13 percent less spending for education, 8 percent less for health, 27 percent less for R&D, 35 percent less for culture and 58 percent less for infrastructure investments. The budget for the Spanish military, however, was increased by 10.5 percent over last year, the largest increase ever made by a Spanish government in the post-Franco era.

Demands for a new austerity budget in 2019 grew in late June, when a meeting of the Eurogroup of European Union (EU) finance ministers warned that Spain would miss its deficit target of 2.2 percent of GDP this year (it could be as high as 3 percent) and 1.3 percent next year.

In her first appearance before parliament, PSOE Minister of Economy Nadia Calviño declared, “Our commitment to budgetary stability is unmistakable,” adding that the Minister of Finance María Jesús Montoro was “working day and night” to tackle the deficit.

Last week, Calviño travelled to Brussels to submit

less onerous deficit reduction targets—to 2.7 percent of GDP this year instead of the 2.2 percent and 1.8 percent of GDP in 2019, compared to 1.3 percent. Calviño pleaded, “If we tried to maintain the targets set by our predecessors of 1.3 percent of GDP we would have to adopt large scale adjustment measures which would have been tremendously damaging to the economic recovery... between 4 and 5 tenths could be lost in real GDP growth, and job creation would also suffer.”

It is still to be seen if the European Commission accepts Calviño's revised targets. However, the Spanish media launched a frenzied campaign over the new targets and said that the government would have to impose drastic austerity cuts of around €6 billion, sooner rather than later.

This week, Rafael Doménech, head economist of Macroeconomic Analysis at BBVA, Spain's second biggest bank, warned that the relaxed targets have “economic implications that must be highlighted” including “an increase in the structural deficit of the Spanish economy.”

More importantly, Doménech insisted, the government should “take advantage of the moments of growth like the current one” to force through cuts in the budget deficit. “Sooner or later a crisis will come,” he declared, which could result from a rise in the price of oil, the “progressive disappearance of extraordinary measures of monetary policy” such as quantitative easing and low interest rates “and, above all, the protectionist upturn that can lead to a commercial war.”

The concerns of the PSOE government and its backers in suggesting spreading cuts over a longer period of time are conditioned by fear of a social rebellion by workers and youth impoverished by years of austerity and under conditions of a growing strike wave.

According to the Spanish Confederation of Employers' Organisations (CEOE), strikes in the first quarter of this year have caused the loss of over 8 million working hours, an increase of 51 percent compared to the same period last year. Amazon workers are striking again this week after similar action in March. In Spanish airports, industrial action amongst pilots, ground staff and air traffic controllers has reached historic levels, leading the media to dub it the "Airports hot summer."

It was Podemos, the chief architect and supporter of the new government, which advised Sánchez, a week before Calviño attended the Eurogroup meeting, to pursue a deficit target relaxation policy. In the words of Podemos interim spokesperson in parliament, Ione Belarra, "The deficit reduction has to be more gradual; we have to negotiate, not give up."

Belarra declared in an outburst of patriotic fervour that "Spain is not Greece. We are the fourth largest economy in the EU, we are a heavyweight, and that gives us room for negotiation in Brussels."

What the PSOE and its backers in Podemos propose to negotiate with Brussels, however, is only continued austerity, though perhaps at a slower pace. Previous PSOE and PP governments have complied with the demands of the EU and financial institutions, slashed social spending, imposed labour reforms and bailed out the banks. On this basis, the PSOE government of José Luis Zapatero received an extension to meet the deficit targets in 2009 and the PP government of Mariano Rajoy received three, in 2012, 2013 and 2016.

Besides continuing austerity, the government has also announced its commitment to increased defence spending. Last Thursday, following US President Donald Trump's demands at the NATO summit that member states increase spending to 2 percent of the GDP (and then to 4 percent), Sánchez said that he was "sympathetic" to Trump demands and that Spain would do so by 2024.

Sánchez's promise means a doubling in five years of defence expenditure from the official figure of 0.93 percent of Spain's GDP. Some of this will be accomplished by bringing onto the defence balance sheet expenditure that has been hidden by previous governments in order to circumvent the widespread anti-militarist, anti-NATO sentiment that exists in Spain. According to the Delàs Center for Peace Studies,

Spanish military spending really amounts to €18 billion, or 1.64 percent of GDP.

Last week, the PSOE government authorized €5 billion in spending on new weaponry this year to confront the "urgent needs" of the armed forces. Defence Minister Margarita Robles used the well-worn excuse that the additional spending would create jobs in "many areas affected by the economic crisis". The same logic, of course, has not been applied to health, education and culture.

Podemos staged a show of rhetorical opposition to Sánchez and Robles' announcements. Its parliamentary defence commission spokesperson, Juan Antonio Delgado, meekly protested, "If the priority is to spend on defence what we do not have, they [the government] should not count on us."

In his speech, however, Delgado not only accepted the principle of increased expenditure if money can be found, but made an open appeal to the army and police. He said the Defence Minister should change the previous government's policy of sacking soldiers older than 45, "which affects 60,000 soldiers," adding: "They have already sacked a thousand."

He concluded by insisting, "I'm not opposed to the modernization of the Armed Forces, but there are other priorities in our country... Spain, for example, needs 20,000 policemen and civil guards."



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