Spain’s PSOE-Sumar government renews austerity

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5 January 2024

In line with its austerity commitments to the European Union (EU), Spain’s new Socialist Party (PSOE)-Sumar government has started to rollback the social concessions it was forced to make to the working class during the COVID-19 pandemic and amid spiraling inflation provoked by NATO’s against Russia in the Ukraine.

In early 2020, as the pandemic swept across Europe, the European bourgeoisie confronted the worst economic crisis since the 1930s. As workers shut down major industries to stop the spread of the virus and forced governments to implement initial lockdowns, European officials designed the €800 billion Next Generation EU bailout fund. Madrid was allocated €140 billion, equivalent of 11 percent of the country’s gross national product (GDP) in 2019, and made Spain the second biggest recipient after Italy.

While the fund consisted mainly of handouts to corporations, measures to boost the stock market, and shore up the wealth of the super-rich, the ruling class was forced to make certain concessions to workers in the form of wage subsidies, electricity and housing benefits, and tax cuts to avoid a social rebellion.

In Spain, the PSOE-Podemos government (2019-2023), the predecessor of the PSOE-Sumar government, covered wages through the furlough scheme for 3 million workers—over one sixth of Spain’s workforce.

Subsequently, as a response to NATO's war against Russia in the Ukraine and terrified about the inability of its affiliated trade unions—Podemos-linked Workers Commissions (CCOO), social-democratic General Union of Workers (UGT)—to suppress mounting strikes and protests, the PSOE-Podemos coalition implemented a series of measures to address the mounting inflation that reached a peak of 8.3 percent in 2022.

These included the implementation of a price ceiling in the electricity market, an extension of rent controls initially introduced during the COVID-19 pandemic, reductions in public transport costs, the temporary imposition of a wealth tax, and the imposition of windfall taxes on the profits of banking and energy conglomerates.

At the same time, the government made long-term attacks on living standards including the approval of a pension reform which led to the consolidation of the retirement age at 67 and a labour law slashing workers’ legal protections in the workplace. It also worked with the trade union bureaucracy to impose salary increases below inflation.

The PSOE-Sumar government is now preparing to roll back all the previous concessions and impose billions of euros in austerity measures.

In December, EU economy ministers agreed to reactivate the Stability and Growth Pact. Under the current rules, countries are required to maintain government deficits below 3 percent of gross domestic product (GDP) and public debt below 60 percent of GDP. These rules were temporarily suspended during the pandemic.

The new agreement put forward by Spain as the rotating presidency of the EU and sealed by Germany and France allows countries with debt ratios exceeding 90 percent to reduce debt by one percentage point annually. For member states with debt ratios between 60 percent and 90 percent, the required reduction will be 0.5 percent per year.

To ensure the EU’s imperialist powers continue their path to militarization, the new rules will also grant member states leeway on military spending. If they invest in defence industries, the period during which a country has to balance its public accounts will be extended to seven years from four.

Spain’s Economy Minister Nadia Calvino celebrated the deal stating, “The rules are more realistic, they respond to the post-pandemic reality, and they incorporate also the lessons learned from the great financial crisis”.

The truth is, far from turning a page to the austerity measures imposed across Europe after the 2008 global capitalist crisis, the deal means savage austerity to be achieved through tax hikes and spending cuts in healthcare, education and infrastructure.

For Spain, with a current debt of 109.9 percent of gross domestic product (€1.5 trillion), a reduction of 1 percent is equivalent to €15 billion this year. Cuts are expected to continue into 2025, so on as long as the debt exceeds 90 percent of GDP and the fiscal deficit exceeds 1.5 percent annually.

Following the meeting, Spain started to roll back some of the temporary concessions it was forced to implement since the pandemic. It announced it will revert the value-added tax (VAT) on gas from its current 5 percent to 21 percent in April 2024. VAT on electricity will jump from 5 percent to 10 percent, and the Regulated Tariff (TUR) on gas will rise to an average of 8.19 percent.

The government extended some subsidies, including public transport subsidies for minors and young people and axed VAT on staple foods (such as bread, flour, milk, cheese and eggs), and on oil and pasta from 10 percent to 5 percent. But press reports indicate that these will terminate in June. Spain's AIReF fiscal authority has already warned that Spain will only comply with the deficit limit in 2024 if the bulk of these subsidies are totally withdrawn.

The withdrawal of food tax cuts will impoverish the population, which has already confronted a 15.7 percent rise in food prices over the past year. Olive oil has increased by 55.6 percent, sugar by 50.2 percent, flour 37.6 percent, butter 37.5 percent, milk by 30.9 percent. Other staple foods have also become more expensive: eggs are 27.1 percent more expensive; yogurt, 25.6 percent; potatoes, 20.5 percent; cheese, 20.3 percent; and chicken, 16.6 percent.

The government also announced that energy companies will be allowed to offset the windfall tax if they invest in renewable energy projects. Under conditions where energy companies must invest in this area anyway to compete in the global markets, this basically means a tax reduction for some of Spain's largest corporations.

Introduced after energy corporations, Ibedrola, Endesa, Naturgy and Repsol, reaped record profits of €12.5 billion ($13.8 billion) in 2022, 41 percent more than the year before, the windfall tax sought to address mounting anger of the population which had to pay 88 percent more in energy prices in the same period.

Madrid has also announced the beginning of major labor reforms as part of its commitment to the EU. The latest changes affect subsidies for long term unemployed who have exhausted or are not entitled to unemployment benefits. There are around 759,900 workers, of which nearly half, 361,600, are over 50 years old.

So far, they have received €480 ($523) a month for a maximum of 30 months. Now unemployed workers below 45 years of age will be able to access this subsidy and for those below 52 it will see their benefit increase to €570 ($622) for the first six months and €540 ($590) for the next six. After 12 months, it will be back to €480 ($523). However, the major aspect of this reform affects those long term unemployed above 52—the largest number of recipients of the subsidy. They will remain at €480 and have their contributions to the pension system reduced by up to 25 percent. In effect, it will mean that the pensions of hundreds of thousands of workers will be slashed.

These attacks are just the beginning. The text of the recent reform states, "Within six months, the Government will develop, within the framework of social dialogue [between businesses and the trade union bureaucracy] a Global Strategy for the employment of long-term unemployed workers […] with the aim of promoting their reintegration into the labor market or their maintenance in it."

The billions of euros in austerity measures this year will throw fuel on the flames of working class opposition that is already starting to develop. Over the past month, tens of thousands of workers in over 30 different sectors have been on strike against low wages and global cost-of-living crisis, including nurses, air service handling workers, Amazon workers, and hospitality workers.

It will exacerbate deteriorating social conditions and bring more workers into direct conflict with the state and the PSOE-Sumar government. Recent reports show that Spain has 12.3 million people at risk of poverty and exclusion, 26 percent of its population. Almost 9 percent of the population, some 4.2 million people, live in severe poverty living on less than €560 per month, less than the widely promoted increase in long term unemployment benefit for those below 52. Almost half of Spanish citizens have difficulties making ends meet, while a third can't afford one week of vacation time per year. Meanwhile, 35 major corporations trading on Spain's Ibex35 stock exchange saw their profits surge by 22 percent last year, its best figure since 2009.