Financial markets increase pressure on Spain

Alejandro López
1 December 2010

Spain has become one of the central targets of the financial markets, following after Greece, Ireland, and Portugal. The pressure has also heightened speculation about the continuity of the common currency, the euro.

The stock market in Madrid has fallen sharply since the International Monetary Fund (IMF) and the European Central Bank (ECB) agreed to a €85 billion bailout of Ireland. On Tuesday, yields on Spanish debt surged once again, along with debt for Portugal, Belgium and Italy. Spanish debt was trading at a record 3.05 percentage points above Germany—the benchmark rate in the eurozone.

Bloomberg News quoted Andrea Williams of Royal London Asset Management declaring Tuesday, "There is a universal dumping of Spain going on. The fear is that Portugal, Spain and Italy are now in line after what happened in Ireland."

Economist Nouriel Roubini added at a conference on Monday, "The big elephant in the room is not Portugal but…Spain. There is not enough official money to bail out Spain if trouble occurs."

Markets have not been calmed by continual pledges from Spanish Prime Minister José Luis Zapatero that his Socialist Workers Party (PSOE) government will force through an extreme austerity plan, bringing deficits to 3 percent of GDP in 2013.

Last May, Zapatero pledged to implement a €15 billion package of cuts. It involves a 5 to 15 percent cut in civil service pay, a freeze on pensions, an increase in the retirement age from 65 to 67, the slashing of government capital spending programmes and an increase in the sales and goods tax (VAT).

In a recent interview on *Cadena Ser* radio, Zapatero declared, "In all places these measures have given a breathing space to the markets."

Zapatero said he regretted that his measures had caused "a fall of ten points in the popular support for the PSOE and the calling of a general strike by our friends in the trade unions".

Zapatero's comments could not be clearer. The "structural reforms" being enforced in order to satisfy the financial markets are aimed at impoverishing the broad masses of the population. The role of the Social Democrats and the trade unions is to do everything they can to implement the cuts over popular opposition. One-day general strikes have been called to let off steam (as on September 29), even as the cuts have been implemented by the government, employers and unions.

Zapatero sought to bolster his standing among investors in a meeting last Saturday with 37 top companies in Spain. He insisted that regional governments will have to comply with the cuts in order to reassure investors. Even Madrid was denied permission to refinance its €7 billion debt, which means all public works in the capital will be paralysed for a year.

Zapatero and his finance minister, Elena Salgado, continuously reference Spain's lower public debt-to-GDP ratio compared to Greece or Ireland. But their rhetoric hides the real picture. With 20 percent unemployment, falling growth, a budget deficit of 11 percent, huge private debts (210 percent compared to the EU average of 130 percent) and spiralling public borrowing after the bursting of the financial bubbles in the housing and construction sectors, most financial analysts think that a crisis in Spain is in the cards.

To deal with this crisis, investors are demanding that Spain carry out "far-reaching reforms" to its "inflexible labour market"—i.e., dismantle workers' protection and completely restructure the pension system. This is a prelude to the destruction of everything that remains of social welfare in Spain.

Another problem that the Spanish government faces is the financial state of the 45 saving banks, or *cajas de*

© World Socialist Web Site

ahorro. The PSOE government has tried to bail them out with a deposit guarantee fund and €14.4 billion for restructuring. Most of this capital is not being used to stimulate future investment, but to close branches throughout Spain and to reduce staff. Inevitably, the *cajas* will have to go back to the government for more capital.

The Spanish economy is much bigger than the combined total of Greece, Ireland and Portugal. Its GDP is the fifth largest in Europe, accounting for around 9 percent of European Union output. A rescue package for the country would need more than €500 billion. This exceeds what the existing bailout fund will be able to cover.

Saxo Bank analysts told *El Pais* newspaper, following the bail-out of Greece, Ireland and possibly Portugal, the funds available to other countries will be severely reduced: "We predict that Spain will ask for help in 2011. But the fund does not have the level of help needed, so Spain will need to sign bilateral credit agreements with Germany or France."

Capital senior European economist Jennifer McKeown said that there is €660 billion available from the EU and the IMF, of which Ireland was to get €80 billion. "If we knock off the similar amount that might be required to meet Portugal's needs, we are left with just €490 billion. That suggests that Spain's needs could barely be met by current arrangements."

The sovereign debt crisis has caused tensions within Europe to rise. Spanish politicians and markets are blaming Germany for suggesting that private bond investors should receive a "haircut" in any future bailout, saying this position could endanger the continuation of the common currency.

Finance Minister Salgado recently declared that German Chancellor Angela Merkel's proposal was "inconvenient" because it "scared capital away". Behind the increasingly tense divisions within Europe are conflicts over what country will be forced to pick up the larger part of the tab for the financial crisis, while all are in agreement that the working class throughout Europe must accept deep cuts.

Within Spain, tensions have also risen. Spokesperson for the right-wing Popular Party (PP) María Dolores de Cospedal said that Zapatero should "not only state that Spain is not Ireland but [he] should also demonstrate it" by pushing for even further cuts.

The governor of the Spanish Central Bank, Miguel Ángel Fernández Ordóñez, added, "The pension reform is essential and urgent to calm the markets." He said that it was a political mistake to not "cut the pensions when we have cut everything else."

Zapatero has reacted by accusing the PP of being "deplorable and embarrassing", while the pro-Zapatero media such as *El Pais* and *Publico* has repeatedly accused the right-wing Popular Party of not being patriotic enough.

Nationalist tensions are also rising within Spain, reflecting conflicts between different factions of the ruling class. On Sunday, regional elections in Catalonia saw the ruling Catalan Socialist Party (PSC), aligned to Zapatero's PSOE, suffer its worst defeat in its 32-year history.

Catalonia's likely new president, Artur Mas, of the right-wing nationalist Convergence and Union (CiU) party, declared, "We don't want the fiesta which has been enjoyed for so long in the rest of the country to be paid for any more with cash from the Catalans."

Joan Puigcercós, the leader of the Catalan Republican Left, a party supported by various middle-class left parties, added, "Not a soul in Andalucia pays tax." Catalonia is Spain's richest region and has an economy larger than Portugal's. With 14 percent of the population, it produces nearly 20 percent of Spain's GDP. In contrast, Andalucia has a similar population but contributes just 4 percent of GDP. Andalucia has been particularly badly hit by the collapse in the construction sector and the decline in tourism.

The differences within the political parties on how to implement the dictates of the IMF and the ECB are of a tactical nature. While the PP wants to implement an austerity package similar to that being pushed through by the Conservative-Liberal Democratic government in the UK, as the leader of the PP, Mariano Rajoy, stated recently, the PSOE prefers to work with the help of the trade unions in an effort to prevent a social upsurge.

To contact the WSWS and the Socialist Equality Party visit:

wsws.org/contact

© World Socialist Web Site