

Capping Prices, Taxing Profits

An analysis of the Spanish government's response to the cost-of-living crisis

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Just as the worst of the COVID-19 pandemic finally seemed to be behind us, the war in Ukraine that began in February 2022 sent the world economy into another tailspin. With Russian gas now tainted by Putin's invasion, Europe acted quickly to abandon what had until then been its most important source of cheap fuel — with skyrocketing prices as the result.

Since then, European consumers have found themselves paying energy bills that are two, three, or even four times higher than one year before, while gas, oil, and energy companies around the world report record-breaking profits. Once again, working people are forced to pay for the crisis, while it's business as usual for the 1 percent.

What fiscal measures are being promoted across Europe in response? What differences or similarities can we find with respect to previous crises? Who is paying for the crisis? And

have governments supported by left-wing parties been able to address inflation in a meaningfully different way?

Debates around taxation are being reopened across Europe in response to the obscene profits being accumulated by large multinationals. In these debates, some voices continue to bank on the old formulas of the past, such as interest rates hikes, more deregulation, and the like. Others call for the European institutions to adopt joint measures. While some point to the fiscal restrictions imposed by the European Union and claim that nothing can be done, others look to Europe as an example to be followed.

This study commissioned by the Rosa Luxemburg Foundation puts forward an analysis of Spain's pathway out of the cost-of-living crisis and the fiscal measures implemented there: the tax on windfall profits in the energy sector, the tax on large fortunes, the cap on gas prices, and the plan to reduce the cost of public transport.

Both Spain and Portugal, the so-called "Iberian exception", have implemented gas price caps. The European Commission has submitted a proposal for the energy sector drawing on various initiatives by these countries and other member states that have introduced excess profit taxes or are considering them, such as Italy, Greece, Romania, and Hungary. At the same time, the German government has sought to block initiatives towards gas or energy price caps or a windfall profits tax at the European level, while large energy companies continue to reap enormous surplus profits.

The effects of the measures implemented in Spain are broken down in these pages, together with an analysis of the role played by left-wing party Unidas Podemos in the governing coalition. Much has been written about the European Left's participation as a junior partner in coalition governments led by social democrats: have they succeeded in improving the material conditions of people's lives?

Before jumping to hasty conclusions, we should first look closer at the various fiscal measures — along with their implications for the majority of society — implemented by governments led by social democrats, depending on their support from or alliances with parties of the Left, the Greens, or liberal forces.

Are we witnessing a process of European reconfiguration and closure from above, i.e. a further retrenchment of elites and stratification of the economy? Or, on the contrary, can Europe-wide responses designed to ensure that this crisis is not paid for by the usual people — those at the bottom — help to further the construction of a political subject that challenges the neoliberal system?

This analysis demonstrates that left-wing participation in government can make a difference when it comes to addressing the crisis in a solidarity-based way. The reality is that the Spanish coalition government has promoted measures that will serve as a model for the rest of Europe. Given the dominance of right-wing ideas on the continent today, this fact is by no means trivial.

Backed up by data, sources, and research, this detailed analysis serves as a reflection for the diverse forces of the Left and lays out some key points for socialists in other parts of the continent about what is possible when the political will is there.

About the author

Yago Álvarez is a journalist and economics editor at the online newspaper El Salto. He has a degree in Business Administration and Management and is active in social movements.

