Portugal slashes corporate tax and government spending

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1 December 2003

The Portuguese parliament has approved the government's budget bill for 2004 that slashes corporate taxes amid growing economic instability.

On November 21, the budget blueprint was passed with the votes of 119 members of parliament from the ruling Social Democrats and their coalition partners in the Popular Party. The remaining 111 MPs, made up of the Socialists, Communists, Greens and the Left Bloc, voted against the bill.

The budget puts forward a reduction in the main corporate tax rate from 30 percent to 25 percent, with the intention to reduce this to 20 percent by 2006. The coalition is pushing through government spending cuts in order to keep the country's public deficit within the three-percent limit imposed with the adoption of the euro.

Prime Minister Jose Manuel Durao Barroso claims that the corporate tax cut is needed to boost competitiveness and fight rising unemployment. He argues that they will help the economy—which is expected to shrink up to one percent this year—boost competitiveness and spur job creation. The government predicts a growth in the economy of between 0.5 percent and 1.5 percent, claiming that a recovery in the global economy will lead to a rise in exports of Portuguese goods.

According to a report published by O Banco de Portugal, however, the deficit could easily be in excess of four percent of GDP this year due to a deeper than expected recession. Portugal was the first country to be criticised under the European Union Stability Pact, which sets guidelines to enforce fiscal policy to keep 12 countries in line. After posting a deficit of 4.2 percent of GDP in 2002, the government slashed investment and raised taxes to bring the deficit down to 2.7 per cent of GDP last year.

The pledge to keep to the pact's three-percent limit for this year while slashing corporate tax can only have a devastating impact on social services. With the Portuguese economy hit harder than expected, the central bank now says that an extra two percent of GDP will be needed to bring the deficit in line with EU rules. Part of this is expected to be raised through the privatisation of the state postal system, but there are already significant cuts being made in the public sector—notably in education.

Plans are under way to close 2,300 schools, mostly in rural areas by 2007. The 2004 budget includes a 4.6 percent cut in spending by the education ministry compared with the previous year. This is in a country that already has the highest high school drop out rate of the 15-member European Union and the highest level of illiteracy. According to education ministry figures, nearly one in two Portuguese high school students drop out before completing their secondary education.

"Employment in Europe 2003", a recent document published by the European Commission, paints a devastating picture of the Portuguese labour market. The country is praised for having achieved an overall employment rate of 68 percent, close to the 70 percent goal set forward for 2010. But the report points out that Portugal has the highest percentage of workers with low education, not only among the existing EU, but also the 25 countries that will make up the enlarged European Union including many former Stalinist regimes in Eastern Europe.

Fully 78 percent of the Portuguese population between the ages of 15 and 64 have a low education level, more than double the European average of 36.6 percent. Fourteen percent have a medium level of education, while only eight percent have a high level. Despite having a lower level of economic development

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than Portugal, the candidate countries have a higher level of education with a majority of workers classed as being of a medium level.

According to the report, Portugal also has the lowest wages among the 15 European Union countries. The medium gross monthly wage in Industry and Services was 950 euros for Portugal in 2000, against 3,000 in the United Kingdom and Denmark. The report says that presently wages and productivity stand at 62.6 percent of the European average.

Official unemployment passed 6.2 percent in the second quarter of 2003, according to the Institute of Statistics (INE), compared with 4.1 percent in 2001. The number of people enrolled at Job Centres is continuing to rise with a leap of 4.7 percent, up 19,777 for September this year. The increase was in part attributed to a rise in the number of unemployed teachers, 17,414 at the end of September.

As an early and enthusiastic adopter of the euro, Portugal provides graphic illustration of the political perspective being pursued by the representatives of the ruling elite through the mechanisms of the EU and its consequences for working people. The convergence policies accompanying the new currency are intended to eliminate all obstacles to industrial mobility, allowing corporations to invest wherever the labour and tax costs are lowest. Having seen its position as the cheapest labour force in Europe supplanted by the eastward expansion of the EU giving access to a more skilled, yet cheaper labour source, the Portuguese government is seeking to attract the representatives of big business through tax-breaks for the rich at the expense of working people.

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