Portuguese government launches emergency austerity measures

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Portugal's Socialist Party (PS) government, which came into power in February, has launched a three-year plan of emergency austerity measures. These include a gradual increase in the retirement age for Portugal's 700,000 civil servants from 60 to 65, freezing public sector promotions and reducing sick-leave payments, a 2 percent increase in Value-Added Tax (VAT) to 21 percent, a rise in tobacco and fuel taxes and the creation of a new income tax band of 42 percent on incomes greater than €60,000 ($US74,000).

Portugal is already one of Europe's poorest countries and has the widest wealth gap in the European Union. The country's workers, who earn an average monthly wage of €750, have been a source of cheap unskilled labour, particularly in textile and footwear manufacturing. However, in recent years, Portugal has faced increased competition for investments and subsidies due to the eastward expansion of the EU and the challenge from China. Exports of Chinese-produced footwear to the EU, for example, increased 700 percent in the first four months of 2005. In addition, EU subsidies for Portuguese agriculture have been diverted to the new member states in eastern Europe.

In 2004, Portugal was the only country in the euro-zone where the economy declined. In March 2005, unemployment rose to an eight-year high of 7.5 percent and is predicted to rise further. During the previous right-wing Social Democratic and Popular Party (SDP-PP) coalition government's three-year rule, 150,000 jobs were lost, mainly in industry and agriculture.

Finance Minister Luis Campos e Cunha said the government's austerity plan would reduce public spending by €4 billion ($5 billion) and bring the deficit below the 3 percent of gross domestic product (GDP) set by the euro-zone Stability and Growth Pact by 2008. Other government officials warned that further "deficit-fighting policies" could be implemented in the future. Teodora Cardosa, head economist at the Portuguese bank BPI, told the business weekly *Semanario Economico* that the "untamable" deficit was caused by a refusal of governments to carry out "serious reforms" to confront Portugal's fiscal problems. "For a few years now, politicians have felt that placing blame and masking deficits is preferable to correcting them," Cardosa said.

Prime Minister Jose Socrates said his government is committed to Portugal's promise to the European Commission to be "fiscally responsible" and to solve the country's fundamental structural problems that had been obscured by one-off measures such as omitting state pension funds from budget calculations and selling public assets. He justified the austerity measures by saying there had been "a serious change in circumstances," which had been identified in a report published in May by a commission he set up shortly after assuming power to investigate the "true state" of Portugal's finances.

Headed by the governor of the Bank of Portugal, Vitor Constancio, the commission said Portugal's projected deficit for 2005 will be 6.8 percent—way above the figure of 2.9 percent posted by the previous SDP-PP government and the largest-ever breach of the 3 percent euro-zone limit. Estimates for economic growth in 2005 were also cut from 2.4 percent to 0.8 percent.

Rumours had circulated throughout 2004 that the budget deficit was higher than figures published by the SDP-PP government and that the EU was investigating them. Recent revelations in *Diario Noticias* seem to confirm this. It reported that in August 2004, the former finance minister, Bagao Felix, estimated the deficit at 6.4 percent, but the cabinet kept to the previous figure

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of 2.9 percent, fearing that an attack on the "most problematic" budgets of the Health and Social Security departments would provoke even greater opposition to its rule.

Socrates' government has sent the austerity plan to the European Commission in the hope that it will head off the threat of fines and loss of EU aid that would further intensify the country's economic crisis. European Commission President and former Portuguese Prime Minister Jose Manuel Durao Barroso said the plan "will have to be a significant effort, an effort which will demand much determination" to enable Portugal to control its budget deficit. The commission will publish its verdict on June 22.

The government also hopes the austerity measures will meet the March 2004 demands of the International Monetary Fund for structural reforms, including cuts in the public sector wage bill, "reining in aging-related spending" and concentrating on the "central role of wage restraint."

It was the attempt of the previous SDP-PP coalition government to implement European Union and International Monetary Fund demands (as well as opposition to its support for the US-led war on Iraq) that led to its humiliating defeat in the February 2005 elections. It froze civil servants' salaries, ended tax breaks for first-time home buyers and raised VAT from 17 percent to 19 percent. It also faced a series of crises, including the month-long delay in the start of the school year, a public dispute over tax-cut proposals, the lowering of Portugal's international credit rating and attempts to discipline the private television station TV1 for airing anti-government views.

In the elections, the SDP-PP coalition vote slumped to 36 percent, from 49 percent in 2002, and the PS was elected with an outright parliamentary majority, increasing its vote from 38 to 45 percent. The Left Bloc polled 365,000 votes, rising from 2.8 percent in 2002 to 6.4 percent, and the United Democratic Coalition, comprising the Portuguese Communist Party and the Ecology Party, increased its vote from 7.0 percent to 7.6 percent.

The new PS administration benefited from a surge of popular anger against the SDP-PP amongst a majority of the Portuguese people, who were demanding a shift in economic, social and foreign policy to the left. But it has made clear that it will not reverse the SDP-PP attacks on working people.

In response to the austerity plan, Portugal's largest trade union confederation, the 800,000-member General Confederation of Portuguese Workers (CGTP), has called a national day of protest for June 17. The CGTP says that whilst it "does not deny the economic difficulties...the cost of the sacrifices fall again on the workers and most vulnerable parts of the population and weakens the values of the cohesion and solidarity."

The union calls for the government to tackle the issue of temporary jobs, the illegal economy and tax evasion, which is estimated at 11.4 billion euros. The Left Bloc has issued similar demands. However, Socrates explained after a meeting of the Standing Council for Social Dialogue, comprising trade union and big business leaders, that the unions "understand the urgency" of the austerity measures and that he was confident he would get the consensus of the country's "social partners."

Portuguese President (and Socialist Party leader) Jorge Sampaio called on workers to accept the measures as a sign of their "patriotism," saying he knew of no more patriotic act "than that of someone who earns little but continues to have hope."

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