

# Portugal: Public sector workers protest pay freeze

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Last Friday, tens of thousands of Portugal's public sector workers demonstrated in Lisbon against a planned wage freeze. The protest was called by the Common Front union.

"There has to be a pay rise," said Nuno Amaral, a computer engineer from Lisbon. "The country already has huge inequalities, youngsters have precarious work conditions, unemployment is rising. It's just unacceptable."

Another demonstrator said, "We want to know whether José Sócrates [prime minister of the Socialist Party government] can govern on a wage of 500 euro a month. Why doesn't he cut his salary and that of his ministers so they can give us a raise?"

The protest was the first organized expression of mounting popular opposition to the draft budget for 2010 announced last week by Prime Minister Sócrates, who sees the wage freeze as key to reducing the country's huge budget deficit by two-thirds over the next four years. State pay increases will be held to a maximum of 0.8 percent in 2010, the same level as the forecast for inflation. The government is also planning to cut the number of public sector workers from the 675,000 currently employed by 7.5 percent to 10 percent over the next four years.

Portugal has a public debt estimated at 85 percent of gross domestic product (GDP). The government budget deficit has risen from 2.7 percent of GDP in 2008 to 9.3 percent last year, a record high and well above original estimates.

Indicating the position of the international banks that much tougher austerity measures will have to be imposed, Brian Coulton, head of global economics with Fitch Ratings, said, "The budget does not target a huge adjustment this year, but it does contain some serious consolidation measures including a public sector wage

freeze."

Portuguese Finance Minister Fernando Teixeira dos Santos said the government wanted to cut the deficit by 1 percent of GDP this year and to below 3 percent of GDP by 2013. Although the Socialist Party is in a minority government, the budget is almost certain to be approved when it is put to a vote in parliament on March 12, as the conservative opposition has said it will abstain.

Other budget measures include taxing bankers' bonuses above €27,500 (\$38,700) at 50 percent in 2010 and at 35 percent thereafter—a token measure aimed at placating public anger—and a car "scrappage" scheme offering discounts to drivers who exchange their old vehicles for electric cars. Aeroportos de Portugal, the country's state-owned airport operator, is to be privatised.

The government is also trying to block a bill increasing regional finance to Madeira and the Azores, with Finance Minister dos Santos saying it sent "a bad signal" to the financial markets.

In another move to contain public opposition, benefits are to be increased for jobless families and the poorest workers will receive longer periods of unemployment pay. The International Monetary Fund forecasts unemployment in Portugal will reach 11 percent this year.

The budget measures are a response to pressure on Portugal from the International Monetary Fund and credit rating agencies to cut the deficit. According to political scientist Antonio Costa Pinto, "Clearly the government is choosing a compromise with centre-right policies, with deficit reductions and spending cuts aimed to send a positive signal to investors and ratings agencies."

IMF Managing Director Dominique Strauss-Kahn in

a speech last week included Portugal among the list of countries that he said had to take drastic measures. Concerns over the deficit in Portugal and other Eurozone countries such as Spain, Ireland and Greece caused stock markets to tumble on Thursday and Friday, and the euro currency to plummet.

Dos Santos insisted that his country had “nothing to do with Greece” and attacked investors targeting his country as “prey.” He complained that “investors have an animal spirit,” adding, “There is something irrational in the way they behave.”

Prime Minister Sócrates said it was “unjust, nonsensical and unsustainable” to indict Portugal. He said the budget deficit and public debt in Portugal were in line with average levels in the European Union and lower than in several other countries such as Spain, Ireland and the UK. He declared that the budget was for “the good of the economy” and not designed to satisfy the IMF or credit ratings agencies.

Despite such claims, the ratings agencies have warned that Portugal faces a downgrading of its debt if it fails to control the deficit. Fitch Associate Director Douglas Renwick said “ambitious measures” were necessary to prevent Portugal’s ratings, which currently range from AA2 at Moody’s to A+ at Standard & Poor’s, from being cut.

The government is relying on the trade unions to defuse opposition to the budget measures and ensure that the working class pays for the economic crisis. The Socialist Party came to power in 2005 as a result of opposition to the austerity measures of the right-wing Social Democratic and Popular Party (SDP-PP) coalition government of Pedro Santana Lopes and its support for the US-led occupation of Iraq.

The unions provided critical assistance in enabling the Socialist Party government to slash thousands of public sector jobs between 2005 and 2007 and bring the deficit down from 6.1 percent to 2.6 percent of GDP. Prime Minister Sócrates recently boasted, “I have cut the deficit before. I know what the risks are and I know how to do it again.”

That the government has gone some way in its austerity programme is indicated by Finance Minister dos Santos’s declaration, “We have already implemented important structural reforms in social security, in public administration—a lot of important changes; modernising the country, improving

competitiveness, improving qualification of human resources.”



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