Portugal’s Socialist Party government imposes new round of austerity

Paul Mitchell
18 May 2010

Portugal’s Socialist Party (PS) government has reached an agreement with the opposition Social Democrats (PSD) on further austerity measures to cut the deficit in half—from 9.4 percent of GDP to 4.6 percent by next year.

The new measures include a one percent increase on VAT, including basic necessities, an additional one percent tax on wages and two percent more on company taxes. A five percent cut in the salaries of top public officials was also announced, as a prelude to an assault on wages across the board.

This comes on top of the four year “Stability and Growth Programme” adopted earlier this year, after pressure from the European Union, the European Central Bank and the International Monetary Fund. That programme froze public sector wages—equivalent to a real reduction of over five percent by 2013—ended universal social benefits, reduced unemployment benefits and forced the unemployed to accept jobs that pay below the national minimum wage—a paltry €475 a month. A huge privatisation plan for remaining state assets was also announced.

The latest package came after Standard & Poor’s cut Portugal’s credit rating early last week and the EU insisted that austerity measures be speeded up in the wake of its adoption of a €750 billion emergency plan to defend the euro. Prime Minister José Sócrates declared, “These measures are necessary to obtain what’s essential, the financing of the Portuguese economy, but also to defend the euro.”

Asked why he had broken a promise not to increase taxes, Sócrates added, “The world has changed, and how, in the past two weeks.”

Finance Minister Fernando Texeira dos Santos said he expected “violent episodes” comparable to those in Greece, but insisted that the government had no other option.

Despite these new measures, Portugal’s stock market continues to fall, and the cost of government borrowing has increased to over six percent on a 10-year bond —exceeding the level that led Greece to request an EU-IMF bail-out.

Financial analysts have made clear that more ruthless measures are needed to tackle Portugal’s low productivity, slash employment protection, and decrease its dependence on a small number of industries such as tourism. Portugal’s total debt, most of it due to the private sector, is 331 percent of GDP, compared to 224 percent for Greece.

Jornal de Notícias editor Eva Gaspar said, “The Portuguese economy resembles the Greek one in that we have constantly lost productivity and competitivity since the introduction of the euro.”

“What most scares the Portuguese is the fact that unemployment is at record levels [10.4 percent] and the feeling that the situation is not going to improve any time soon,” Gaspar added.

Workers and youth in Portugal have shown their readiness to fight back against the attempt to reverse the social gains won over decades of struggle. When the SGP was first announced, over 500,000 public sector workers went on strike. Last week transport workers held a three-day strike and workers in the postal services and parliament were involved in industrial action.

However, the trade unions have done their utmost to divide and exhaust resistance by restricting workers to fruitless protests and preventing any political challenge to the Sócrates government and its big business backers. They are working closely with the government behind the scenes.

Following the announcement of the new measures

Manuel Carvalho da Silva, secretary general of the Portuguese Communist Party (PCP)-led General Confederation of Portuguese Workers (CGTP) said, “Either we come up with a very strong reaction or we will be reduced to bread and water.”

But the CGTP’s “very strong reaction” amounted to a statement for, “a big national demonstration, on May 29 in Lisbon, as a high point of opposition to these unjust and violent policies.”

The purpose of the demonstration will be to promote the CGTP’s fraudulent claim that the PS can be pressured to boost manufacturing, increase wages and pensions, end unemployment, provide universal access to public services and improve workers’ skills. Equally false is the claim that the crisis will be resolved by cutting “waste and unnecessary spending”, combating fraud and tax evasion, closing down offshore tax havens and “seriously” regulating the financial system.

PCP general secretary Jerónimo de Sousa declared, “This is the road to disaster. We need to respond with protest and struggle”.

But a May 4 statement of the PCP’s Political Committee makes clear the rampant nationalism behind de Sousa’s demagogy. It condemns “the attitude of national betrayal of the dominant classes to big power interests” and calls for “a patriotic affirmation of national sovereignty and the demand of the defense of national interests.”

The May 29 demonstration has also been supported by the Left Bloc (BE), a coalition of Maoists and pseudo-left Pabloite groups, which has been a beneficiary of mounting hostility to the PS.

A resolution of the Left Bloc National Council published on April 17 reiterated support for the BE’s previously published “15 concrete measures for a decent economy”—policies designed to “stimulate” the economy that are virtually indistinguishable from those proposed by the PCP and the CGTP. These include an “effective audit of state spending”, a review of military contracts, tackling offshore tax havens and taxing capital gains and executive bonuses.

The resolution called for a “convergence of forces on the left” and support for Manuel Alegre, candidate for the presidential elections next year. It “flatly rejects the charge that dialogues [with the likes of Alegre] serve the interests of liberal politics”.

Alegre joined the PCP in 1957, but left to join the PS in 1974 after the Salazar dictatorship was overthrown. In the following year he became a deputy in parliament where he remained for the next 34 years, holding several high-ranking positions in the PS. In 2004 he challenged Sócrates for PS general secretary, and in 2005 stood as an independent candidate for Portuguese president against Mario Soares, then the official PS candidate.

The BE resolution says that Alegre’s recent criticism of the SGP is evidence that he is “the protagonist of left convergence”. It quotes without comment Alegre saying the SGP is “unevenly distributed” and “should have been accompanied with sacrifices from the financial sector... and the more privileged social groups”, and that the privatisation of essential public services is wrong because it will “undermine the strategic role of the state” and “can put in question key aspects of Portuguese foreign policy.”

Alegre has called the new measures “tough, unpleasant and painful, but inevitable” and advised Sócrates to “speak clearly and with truth,” so that “people can understand.”

Alegre, who recognizes the danger facing capitalism, argues that “there should be initiatives to bring together government, employers, unions and political parties to an economic and social crisis and to face up to promote the country’s economic growth without jeopardising the welfare state.”

The BE has signaled its intentions to be part of this initiative, whose aim is to prevent the emergence of an industrial and political struggle of the working class against the capitalist profit system and its political representatives.