Draconian austerity measures a condition of Portuguese bailout

Paul Mitchell
6 May 2011

Caretaker Prime Minister José Sócrates (Socialist Party-PS) went on television alongside Finance Minister Fernando Teixeira dos Santos Tuesday to announce an €87 billion rescue package agreed with the International Monetary Fund (IMF) and the European Union (EU). Some €12 billion of the total will be used directly to prop up Portuguese banks.

Sócrates declared that the bailout was "a good deal that defends Portugal," adding, "The international institutions have acknowledged … that Portugal's circumstances are very different from those of other countries and very different from the picture that some people here would like to paint."

However, an EU official dismissed this attempt to portray Portugal as being in better shape than Greece or Ireland. Sócrates had "sold his highlights of the agreement," he said, adding, "You have to take into account that they are in an election campaign."

Other EU officials were quick to point out that the bailout terms were "severe" and similar to the conditions imposed on Greece and Ireland last year. German Finance Ministry spokesman Martin Kreienbaum declared that "as always, it is important for the [German] government … that firm and strict conditions be formulated."

Sócrates' claims that the bailout was a "good deal" largely revolved around the fact that Portugal has been given an extra year to cut its budget deficit to the EU limit of 3 percent of gross domestic product (GDP). But this was only because the IMF discovered the 2010 budget deficit to be 9.1 percent and not the government's previously reported 8.6 percent.

The agreement made last year with the EU to cut the deficit to 4.6 percent in 2011 and 3 percent in 2012 has now been revised to 5.9 percent in 2011, 4.5 percent in 2012, and 3 percent in 2013—meaning bigger cuts, not smaller.

In his TV appearance, Sócrates also implied that harsh austerity measures would not be needed, declaring that "everything that has been in the newspapers has been speculation."

However, early indications of the scale of the austerity measures, still to be officially released, point to a terrible assault on the living standards of the working class in a society where unemployment is already at a record high 11 percent and where social inequality is the worst in the entire European Union.

Sócrates has agreed to:

* Reduce the public-sector wage bill by freezing wages for the next three years. This is under conditions where inflation is already 4 percent and likely to climb higher.

* Limit public-sector promotions and hiring; reduce the scope and cost of health schemes by 30 percent in 2012 and 20 percent in 2013; slash central government jobs by one percent a year, regional government jobs by two percent, and management positions by 15 percent.

* Reduce monthly pension benefits above €1,500 ($2,200), stop increasing pensions in line with inflation, and freeze all pensions in 2012.

* Reduce the number of collective bargaining agreements.

* Make it easier to dismiss workers, introduce "flexible" working hours, lower overtime pay, and link wage increases to productivity.

* Cut maximum unemployment benefits from three years to 18 months.

* Slash redundancy payments from 30 days' pay for every year worked to 10 days on new contracts by September 2011, and thereafter for all existing contracts.

* Reduce compensation schemes and fringe benefits for workers at state-owned companies.

* Freeze the minimum wage, already one of the lowest in the EU, for three years.

* Freeze all existing tax benefits and incentives and cut others. Introduce a cap on health, education and housing allowances.

* Increase the cost of medicines and other health services.

* Raise the VAT sales tax, including on car sales and tobacco.

* Slash central government funds to local authorities and cut the number of town councils.

* Reduce overall operating costs of state-owned companies by 15 percent from 2009 levels and limit their borrowing.

* Halt new public-private partnerships and large infrastructure projects. Prevent public funds being used for construction of a new Lisbon airport or the Lisbon-Porto high-speed rail link.

* Privatise oil company Galp and energy companies EDP and REN, national airline Air Portugal, airport authority ANA, the national rail freight company and the national mail company. Select two further large companies for privatisation by the end of next year.

Sell off, at any price, the failed bank BPN, nationalised in 2008.

* Review property values and increase property taxes.

* Reduce state subsidies to private companies, although corporate tax will also be reduced.

* Reorganize the justice system to speed up economy-related cases and create new courts on competition and intellectual property rights.

The Portuguese bourgeoisie, in fact, set out to provoke a crisis so as to bring in the EU and the IMF. Sócrates' services as prime minister were dispensed with after the banks carried out a lending strike ordered by the European Central Bank (ECB). Up until then, they had been unable to borrow money on the international money markets for over a year and relied on money printed by the ECB, which they then loaned to the Portuguese government at higher interest rates.

When the ECB told the banks it would no longer provide funds, the banks refused to loan money to the state except at extortionate rates, precipitating the crisis. The PS government found itself without sufficient reserves to repay an estimated €14 billion of debt by mid-June.

The opposition right-wing Social Democratic Party (PDS) refused to support Sócrates' budget, the fourth in a year, which led to the collapse of his minority PS government. Sócrates formally resigned, but stayed on in a caretaker government, agreeing to enforce the anti-democratic demands of the banks for austerity.

Elections are scheduled for June 5, with the PS and opposition PDS running neck and neck in opinion polls. However, PDS leader Pedro Passos Coelho has already indicated that his party will support the bailout. "An agreement that is so urgent gives us very little chance to change anything," he said. "This is a tough, difficult package."

Portugal is the third country to request a bailout in the last year and there are fears the financial contagion could spread to Spain, which is bigger economically than Portugal, Greece and Ireland combined.

The EU and IMF say that Portugal's bailout will be paid only in quarterly instalments over three years, subject to the government imposing agreed austerity measures. The interest rate on the loan is expected to be between 4.3 percent and 4.7 percent, compared to Greece's 4.2 percent repayable over seven years and Ireland's 5.8 percent to be repaid over a similar period.

This led Ireland's foreign minister, Eamon Gilmore, to complain that his government "would be very fed up too if another country was getting a bailout deal better than the terms that we are getting."

The May, 2010 bailout (€110 billion) for Greece and the November, 2010 bailout (€85 billion) for Ireland have led to a collapse of those countries' economies, with debt loads soaring and huge cuts in jobs, wages, and pensions undermining economic life.

In Greece, sovereign debt stands at €340 billion, more than 150 percent of GDP, and in Ireland it is expected to surpass 125 percent of GDP. The interest the Greek government has to pay on two-year bonds is an incredible 25.7 percent. Both Greece and Ireland are seen as candidates for default and restructuring of their sovereign debt. This will have huge repercussions for other European governments and the ECB, all of which own large amounts of Greek debt. Seventy percent of Greece's sovereign debt is owned by foreign institutions.

There is no reason why Portugal's crisis will not extend further, with even deeper attacks carried out against the working class.

Capital Economics chief European economist Jonathan Loynes explained, "[B]oth the Greek experience and Portugal's own position suggest that the bailout is very unlikely to mark an end to the country's problems."

On the day Sócrates made his announcement, interest on Portuguese 10-year bonds hit a euro zone record of 10.32 percent. The following day, the government sold three-month Treasury bills at an average yield of 4.65 percent, higher than the 4.05 percent when such bills were last sold on April 20.

Unlike Greece, Ireland or Spain, Portugal did not experience a boom in the early 2000s. From 2001 to 2005, the Portuguese economy expanded on average less than one percent per year, compared to Ireland's 5.5 percent, Greece's 4 percent and Spain's 3.6 percent.

Over the next five years, the Portuguese economy is forecast to grow just 0.4 percent a year on average—one of the lowest growth rates in the world, according to the IMF. Portugal has also remained a largely low-wage, low-skill economy, unable to compete with new EU members in Eastern Europe, as well as China and India. Public spending cuts, reduced tax revenues and falling consumer spending will exacerbate the problem, as will further increases in interest rates by the ECB.

Portugal's bailout still needs to be agreed by EU finance ministers meeting on May 16. All member states must approve the package, but it could be rejected by Finland, where negotiations are continuing to form a coalition government involving the right-wing nationalist True Finns party, which is opposed to euro zone bailouts.

Finland's outgoing finance minister, Jyrki Katainen, said a decision on the country's position on bailing out Portugal would be announced by May 13. "If the majority of Finland's parliament decides not to support Portugal and the bailout facilities, then that is Finland's official stance which I will respect," Katainen declared.

Portuguese workers have fought back against Sócrates' austerity measures all along the line. Mass strikes and protests took place during February and March. Transport workers have been on intermittent strike since.

Hundreds of thousands of people were organised largely outside of political parties and the trade unions by Facebook groups opposing PS austerity measures and demonstrated on March 12 to denounce the government as thieves. On April 25, the traditional celebration of the anniversary of the 1974 Carnation Revolution that overthrew the fascist dictatorship, turned into a massive protest against austerity measures. Nationwide rallies also took place on May 1.

But the working class is hamstrung by the trade unions, which organise protests only to dissipate mass anger and resistance. The Communist Party-led General Confederation of Portuguese Workers (CGTP) has announced two rallies in Lisbon and Oporto on May 18, three days after the IMF officially reveals the conditions for the Portuguese bailout. "A general strike is an instrument that is on the agenda," the CGTP declared, but set no date.