Thousands demonstrate against new budget in Portugal

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Thousands demonstrated in Lisbon outside the National Assembly and the prime minister’s residence, as the government announced the harshest budget proposals in decades on Monday. The draft budget for 2013 will take away the equivalent of a month's wages from lower-paid workers and up to three months for professionals.

The new measures announced by Portugal’s Finance Minister Vitor Gaspar include:

• A one-off surcharge on income tax of four percent.

• A reduction in Portugal's income tax brackets from eight to five, meaning those earning up to €7,000 will be taxed at 14.5 percent and between €7,000 and €20,000 at 28.5 percent.

• Unemployment benefit reduced by six percent and sickness benefit by five percent.

• Pensions above €1,350 a month to be cut by 3.5 percent and above €1,800 by 16 percent.

• The retirement age for public-sector workers to be raised to 65, from an average of 63, to match that in the private-sector.

• Public spending to be cut by €2.7 billion next year, with the health budget slashed by nearly 20 percent compared to 2012.

• The public sector to lay off three percent of its workers and in the case of state-run national rail, metro and bus transport companies, the figure “should be 20 percent” depending on the “availability of financial entities to undertake their compensation.”

• The subsidy to state-run media companies including RTP and Lusa to be cut by nearly half to €65 million.

• Temporary work contracts in the public sector to be cut by half by December 2013.

• Pay for overtime and working on a holiday to be cut from one and a half of the normal rate to one and a quarter.

• The amount of overtime worked in the civil service to be cut in half.

• State run companies to save at least 50 percent in spending on travel, subsistence and accommodation expenses.

• The ban on bonuses to public sector managers to continue.

• Increased taxes on diesel and petrol.

• Car road tax to increase up to 10 percent.

• Death grants halved to a maximum of €1,258.

• Renegotiation of Public-Private Partnerships in order to cut at least € 250 million (about 30 percent) from the costs.

• Property taxes to increase.

Gaspar declared the new budget was the “the only [one] possible” and that “The margin of manoeuvre for unilateral decisions is non-existent; a rejection of the 2013 budget would mean a rejection of the bailout programme.”

Portugal has received about 80 percent of the €78 billion ($102 billion) bailout agreed with the troika (European Union, International Monetary Fund, European Central Bank), with the rest to be paid before July 2014. In return, the country has been ordered to reduce its budget deficit to 4.5 percent of GDP in 2013 and then to the EU target of three percent by imposing brutal austerity measures. Last month the troika agreed to relax the reduction target for 2012 from 4.5 percent to 5 percent after figures showed that the deficit for the first half of 2012 came in at 6.8 percent.

The new proposals will take Portugal deeper into austerity and worsen the recession. It increases the risk of another bailout, default or euro-zone exit. The country’s economy has shrunk for seven consecutive quarters and is expected to shrink three percent this year and by one percent next year. Official unemployment has soared to nearly 16 percent and is much higher among young people.

Rising unemployment and a slump in domestic consumption has meant tax revenues have fallen much more than predicted. Portuguese bank savings have dropped nearly 10 percent this year and the country's cost of borrowing has remained astronomically high.

According to Capital Economics spokesperson Jennifer McKeown, "We still think that Portugal is likely to need another bailout if it is to avoid a disorderly default and euro-zone exit; and if the troika insists on yet more austerity first, this will be extremely difficult to implement. If Greece leaves the euro-zone, Portugal remains the most likely candidate to follow."

The new budget proposals are rupturing the agreement on austerity measures between the ruling Social Democrat-Popular Party (PSD-CDS) coalition and the opposition Socialist Party (PS), which agreed the terms of the bailout before it lost office last year.

Right wing CDS leader Paulo Portas has demanded changes to the budget—less tax rises and more cost-cutting—before the budget is voted on before October 31. Media reports suggest that leaders of the PSD and CSD met on Monday night to discuss the future of the coalition, which has an overall majority only because of CDS participation.

The Portuguese president from the PSD, Aníbal Cavaco Silva, has criticised the draft budget saying, "In the current circumstances, it is not correct to demand of a country being subjected to a budget adjustment process that it meets the targets at any cost."

PS leader António José Seguro described the draft budget as "a fiscal atomic bomb" and said that his party may vote against it. Former PS president Jorge Sampaio declared, "At this point, everyone has realized that austerity is destroying the country, the Portuguese and their hope, their rights and could even destroy democracy itself."

The threat to democracy they speak of, though obliquely, is the prospect of social revolution. Opposition is mounting to the savage austerity policies demanded by the bankers, big business and the EU. Even before the present proposals, the standard of living of the average worker has been slashed by about 24 percent.

The largest protests since the 1974 Portuguese Revolution, on September 15, forced Gaspar to withdraw his previous budget which included proposals to raise workers' contributions to social security from 11 percent to 18 percent of pay. Demonstrations took place in 40 cities, organised via social media, under the slogan "To hell with the troika, we want our lives back." There have been continuing strikes on the transport system, on the docks, at oil refineries and hospitals and amongst farmers and small businessmen.

The protests were organised outside of the trade unions. The PS-aligned General Workers Union (UGT) has gone along with the austerity measures and signed labour reforms with the government that enabled the slashing of holiday entitlement, redundancy pay, overtime rates and unemployment benefits, increased flexible working, and make it easier for employers to sack workers and undermine collective bargaining. UGT General Secretary João Proença has made it clear he disagrees with the slogan "Out with the troika" because "external support" is still needed.

The Communist Party-led General Confederation of Portuguese Workers (CGTP) poses as opponent of the budget, proclaiming it was "an attack on the dignity of the people." However, it diverts workers into useless protest stunts such as the "March Against Unemployment, for a Portugal with a Future" that ended on October 13 in Lisbon. CGTP union leaders made demagogic speeches to the rally, with CGTP General Secretary Arménio Carlos pleading that the march was "a cry demanding the government take concrete measures to combat unemployment and ensure social support to all the unemployed."

The budget, of course, took exactly the opposite "concrete measures." The CGTP has called a general strike for November 14, two weeks after the budget vote.