Demands for restructuring of public sector follow approval of Portuguese budget

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Portugal's National Assembly last week approved the country's harshest-ever budget, comprising record tax rises of €4.3 billion (US$5.6 billion) next year and spending cuts of approximately €2.7 billion (US$3.5 billion). The right-wing Social Democratic Party (PSD)-Popular Party (PP) coalition government will announce a further cut of €4 billion (US$5.2 billion) in education, health and social benefits in February.

Following the budget's approval, politicians, business leaders and financiers declared that the tax burden had reached its limit and demanded a restructuring of the public sector and the welfare state.

As a result of the new budget, the equivalent of a month's wages will be taken from lower-paid workers and up to three months from professionals. Those earning between €7,000 and €20,000 a year will pay 28.5 percent income tax, up from 24.5 percent. Those earning between €40,001 and €80,000 will see their tax rise from 35.5 percent to 45 percent.

There will be a one-off surcharge on income tax of 4 percent next year and increased taxes on capital gains, property, cars, fuel, alcohol and tobacco. The government also wants to renegotiate public-private partnerships and speed up the sale of state-run companies.

Unemployment and the sickness benefit will be cut by 5 to 6 percent and pensions above €1,350 a month by between 3.5 percent and 16 percent. The retirement age for public-sector workers will be raised to 65. In addition, the public sector will have to lay off between 3 and 20 percent of the workforce and cut temporary work contracts by half next year. Pay for overtime and holiday work will also be cut.

Finance Minister Vitor Gaspar insisted there was no room for manoeuvre and the measures were needed to ensure that the country met the targets agreed to in the memorandum securing the €78 billion (US$101 billion) bailout deal last year with the troika (European Commission, International Monetary Fund and European Central Bank). The budget would increase state revenues by 30 percent and help restore investor confidence, he said, allowing Portugal to borrow on international credit markets again next September. It would enable Portugal to reduce its budget deficit from 5 percent of gross domestic product (GDP) this year to 4.5 percent next year, and to 2.5 percent in 2014.

The country's main opposition parties—the Socialist Party (PS), which negotiated the bailout agreement, the Communist Party (PCP) and the petty-bourgeois Left Bloc—voted against the budget. PS leader António José Seguro said the government was ruining Portugal and should ask the troika for more time to pay its debts and for lower interest rates. However, the PS is happy to keep the PSD-PP government in power by refusing to support a censure motion brought by the PCP and PS.

Prime Minister Pedro Passos Coelho's intransigent position is being dictated by the troika. In the week before the budget debate, the International Monetary Fund's head of mission, Abebe Selassie, visited Portugal for the sixth review of the country's bailout programme prior to the next €2.5 billion tranche of loans due in January. Selassie declared there should be no more tax increases and the government had to "cut spending seriously". He said the government should discuss what it "really wants to do" with health, public education and social support, and called for "a great national debate" on their restructuring involving "the social partners and other agents of Portuguese society."

Selassie said the troika forecast that unemployment would reach 15.5-16.5 percent next year (40 percent among young people), but refused to reveal long-term jobless projections. Asked what the ideal number of

public-sector employees was for Portugal, Selassie replied, “This isn’t a football game. There are no rules for levels of employment.”

Pensions were “generous”, he added, redundancy pay had to be cut to the European average, and the number of teachers per student was far too high.

Portugal’s second largest union, the PS-aligned General Workers Union (UGT), has been virtually silent about the budget. This is not surprising as it agreed to the bailout package, signed labour “reforms” and refused to take part in a one-day general strike on November 14. On that day, UGT general secretary João Proença declared, “I’ll be working as usual during the strike to support my comrades and I will give directions to deduct a day’s pay.” He predicted that the strike would “not generate a large turnout.”

The general strike, the second this year, was one of the country’s biggest in history, with more than half of public-sector workers participating and substantial numbers in the private sector. The participation of many UGT branches thoroughly discredited the union leadership, which now threatens that the planned cuts in February will cause “the rupture of relations with the government.”

The PCP-controlled General Confederation of Portuguese Workers (CGTP) called the budget “the class mark of a government of big business” that would “submit the Portuguese workers and people to a shameful programme of violent assault”. However, the only thing the CGTP offers is another demonstration to be held on December 8 in Porto, and one on December 15 with the slogan, “Towards a new policy. For the defence of the social functions of the state. Defence of democracy and freedom. For a developed, sovereign Portugal!”

The policy of the PCP consists mainly of appeals to the troika, with deputy António Filipe calling for the “fair and honourable renegotiation of the terms, amounts and interest on legitimate foreign debt.”

This demand is one of six being promoted by the Left Bloc, which claims it would free up about €9.5 billion annually, or about 5 percent of GDP, for a “shock” investment programme. The new leader of the Left Bloc, Catarina Martins, declared that although being “far from the ideal solution, it seems that after all you can always renegotiate the interest on more favourable terms.”

Among large sections of workers and youth, there is a recognition that the PCP and Left Bloc offer no alternative. The largest demonstrations in Portugal’s history—on March 12, 2011, and September 15, 2012—were organised outside of both organisations.

A socialist solution to the crisis, establishing the democratic control of industry and public services by the working class through revolutionary struggle, is opposed by both the PCP and the Left Bloc. Both call for the resignation of the government, but the PCP is promoting an unspecified “patriotic and left alternative,” while the Left Bloc supports the inclusion of the PS in government.