European Union demands cuts after Portuguese court rules bailout unconstitutional

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Portuguese and European officials are demanding renewed social cuts amid a crisis unleashed by a ruling of Portugal's constitutional court, declaring European Union (EU)-mandated budget cuts unconstitutional. These cuts were central to the governments' €78 billion loan agreement with the "troika" (the European Commission, the International Monetary Fund, and the European Central Bank) in 2011.

The Court deemed unconstitutional four of the nine measures in the government's 2013 budget: the suspension of civil servants' holiday pay, a levy on unemployment and sickness benefits and cuts to pensions and teachers' salaries.

The court ruled that these measures discriminated between the public and private sector. The measures account for about €1.3 billion of cuts planned this year, more than 20 per cent of the total, and will increase the budget deficit to about 6.4 percent of GDP, compared to the agreed 5.5 percent target.

The EU may delay the release of the latest tranche of its loan—around €2 billion—which is due following the troika's recent, seventh review.

On Sunday, the European Commission demanded that Portugal's Social Democrat—Popular Party (PSD/CDS-PP) government stick to the bailout terms: "Any departure from the programme's objectives, or their re-negotiation, would in fact neutralise the efforts already made and achieved by Portuguese citizens."

It demanded that the government "swiftly identify the measures necessary to adapt the 2013 budget in a way that respects the revised fiscal target as requested by the Portuguese Government and supported by the Troika in the 7th review of the programme."

German Finance Minister Wolfgang Schäuble declared, "Portugal has made lots of progress in the last year to gain access to financial markets. But after this decision it will have to find new measures."

Portuguese officials are also scrambling to organize new attacks on the working class. After the Court decision, Prime Minister Pedro Passos Coelho said there was a serious risk to Portugal complying with the bailout terms and its return to international bond markets by this September's deadline. "In general terms, the judgment introduces uncertainty and unpredictability into a process [that is] already extremely demanding," he complained.

He criticised the Court for making its decision ahead of a meeting of EU finance ministers in Dublin at the end of this week, "for which Portugal has struggled so much in order to get the agreement of the European partners…to extend the maturities of loans to the Republic, and essential to our successful exit in 2014 from the Programme of Economic and Financial Assistance."

Passos Coelho said the only remaining option was to "intensify the restructuring of the state" and forcing through a "strong containment" of spending in health, education, and state-run companies. He declared, "I shall instruct ministries to implement necessary reductions in functional spending to offset what the court ruling prohibited. It will certainly be a very difficult process."

Economist Eduardo Catroga, who advised the government on negotiations with the troika, denounced the Court for having a "very narrow conception of the equality principle". He said the government could not raise taxes because "the country now lives in fiscal exhaustion" and that "additional measures and dialogue with partners and creditors to set a new goal for 2013" would be necessary.

The Portuguese court's ruling underscores not only the politically criminal nature of the troika's austerity programme, being faithfully implemented across Europe by political parties of all colorations, but also its anti-democratic and illegal character.

Basic constitutional safeguards and democratic processes have been torn up at the behest of the troika, in order to impose policies which seek to revert the living standards of tens of millions back to those that existed in the 1930s.

Last month's "bailout" of Cyprus was carried out on the basis of a Memorandum of Understanding", in which the troika completely disenfranchised the elected government. Decisions can no longer be taken by the Cypriot government without first being approved by the troika.

In Greece, the three party coalition government recently passed legislation ending the right to free public education; guaranteed up to that point in the country's post-military junta 1975 constitution.

The insistence of the troika, in collaboration with the Passos Coelho regime, that Portugal impose further austerity, following that forced on the population of Cyprus, confirms that the financial aristocracy will stop at nothing to load the burden of the crisis of capitalism onto the backs of the working class.

This is the significance of recent comments of Maria Damanaki, an MP for Greece's social democratic PASOK party and a representative of the European Commission, who said, "The strategy of the European Commission over the past year and a half or two has been to reduce the labour costs in all European countries in order to improve the competitiveness of European companies over the rivals from Eastern Europe and Asia".

BNP Paribas analyst Ricardo Santos commented following the Court ruling, "Any negotiations on making Portugal's adjustment programme more flexible will be extremely tough…The mood in Europe has changed and it will not be easy to gain more concessions."

António José Seguro, leader of the opposition Socialist Party (PS), which has an eight-point lead in opinion polls, responded by calling for new elections. "This government no longer has any authority or credibility. It has reached the end," said Seguro.

Expressing the PS's own subservience to the troika (it negotiated the 2011 austerity bailout shortly before losing power), Seguro sent a letter to them explaining that the PS was proposing the no-confidence vote because the government was "blindly" carrying out cuts. He called for a new "domestic social consensus" around a stimulus package aimed at raising growth, the creation of Eurobonds, and a banking union. Knowing none of these are on the cards, Seguro's protest amounted to a pleading for a renegotiation of Portugal's debt.

The unions and the parliamentary pseudo-left parties, Communist Party (PCP) and Left Bloc (BE) are proposing virtually identical policies for renegotiating social cuts with the troika. The secretary general of the PS-aligned General Workers Union (UGT), João Proenca, complained that Passos Coelho "did not mention the need to renegotiate the memorandum of understanding with the 'troika'…still does not recognize the country's difficulties…[and] should also ask for a contribution from the troika."

The leader of the PCP-influenced CGTP (General Confederation of Portuguese Labor) union, Arménio Carlos, merely proposed a few palliatives including taxing financial transactions and a renegotiation of public-private partnerships.

BE coordinator Catarina Martins called for new elections and a "Government of the Left" that would work with the troika at "a renegotiation of the debt and the conditions that will allow the country's economic growth and overcome the crisis."

Passos Coelho's claim, after coming to power in 2011, that two "terrible years" of austerity would lead to economic growth has crashed spectacularly. Portugal is mired a much deeper and longer recession than predicted.

Public debt was 123.6 percent of GDP in 2012, exceeding €200 billion for the first time. Portugal's global debt (comprising government, household, financial, and non-financial debt) reached 438.6 percent of GDP in 2012, one of the highest in the world.

The economy contracted by 6.4 percent last year, higher than the 5 percent target and is expected to contract 2.3 percent this year. Last week, credit ratings agency Moody's kept Portugal on a Ba3 rating with a negative outlook. Unemployment hit 17.5 percent in February, the third highest in the eurozone, behind Greece and Spain.