

Portugal's "National Salvation" pact fails

Paul Mitchell
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Attempts by Portuguese President Aníbal Cavaco Silva to form a "National Salvation" pact between the ruling Social Democrat-Popular Party (PDS/CDS-PP) coalition government and opposition Socialist Party (PS) have broken down.

Cavaco Silva had demanded the three parties agree by Sunday a pact to demonstrate to the European Commission, International Monetary Fund, and European Central Bank (the troika) a continuing commitment to the austerity programme imposed as condition of the €78 billion (\$102.5 billion) bailout in May 2011. The talks were sparked by the resignation early July of two key CDS-PP ministers—Finance Minister Vítor Gaspar and Foreign Minister and CDS-PP leader Paulo Portas.

Gaspar, regarded as the architect of the austerity programme, said that he was stepping down because of increasing public opposition to austerity and a lack of political backing in the government. He said he had lost some of his credibility because economic targets had been missed as a result of lower than expected tax revenues and domestic demand.

Shortly after Gaspar was replaced by his deputy Maria Luís Albuquerque, Portas resigned "irrevocably" because he said she was associated with continuing austerity rather than policies for "growth". That night, several other ministers from the CDS-PP threatened to resign which would have led to the government's collapse.

The political crisis caused the Lisbon stock market to slump and interest rates on Portuguese government debt to soar past the 7 percent level—generally regarded as unsustainable—to touch 8 percent. However, within days, the two coalition partners had got back together. Prime Minister Pedro Passos Coelho proposed a cabinet reshuffle in which Portas was promoted to deputy prime minister responsible for coordinating economic policy and dealing with the troika.

Cavaco Silva refused to accept the new cabinet and insisted on a broader pact involving the PS as the "best solution" for resolving Portugal's "national emergency" and to make sure of a return to the international money markets after completing its bailout programme next June. Portugal had to show it was not "ungovernable" and "unpredictable", he added.

The PS quickly agreed to take part in the talks, even though it has been calling for elections and posed as opponents of the government implementation of the troika's bailout programme, which it negotiated in 2011, shortly before it lost power. After the collapse of the talks, PS leader António José Seguro declared, "This process has shown that we face two different visions for our country: keep the direction that we are in... or provide a new path for Portugal and for those who think, like us, that the Portuguese can't take more sacrifices and that this isn't providing the expected results."

Seguro's main objection was to the government's plan to impose the troika's diktat that public spending must be slashed by €4.7 billion (\$6.2 billion) next year, which will involve huge cuts to welfare spending and tens of thousands of public sector job losses. As in Greece, the gutting of civil servant jobs has only begun.

As president, Cavaco Silva could have dissolved parliament and called early elections—the government has lost massive support to the PS, Communist Party/Green alliance and Left Bloc—but he has consistently ruled it out, describing it as the "atomic bomb" option.

In a televised speech on Sunday, Cavaco Silva declared, "I think in the current context of national emergency, calling elections is not a solution for the problems Portugal is facing."

He said, "As the national salvation compromise was impossible to achieve, I consider that the best

alternative solution is for the present government to remain in its functions” and that he had received “additional guarantees” from the two government parties promising to maintain the coalition and impose further austerity measures.

Cavaco Silva made no mention of the cabinet reshuffle and told the government to continue discussions with the PS, employers and unions in order to “give value” to their proposals.

PSD Vice President Jorge Moreira da Silva said, “We consider there are conditions of stability and cohesion in the coalition, that there are conditions for us to be able to fulfil the memorandum of understanding [with the troika]... We regret the result of the talks, but the Portuguese know they can continue counting on us.”

The government easily defeated a no-confidence motion proposed by the Left Bloc last Thursday.

The CDS-PP resignations were a behind-the-scenes manoeuvre to prepare Portugal for a possible second bailout after the current package runs out in mid-2014 along with further austerity measures, budget cuts and job losses. Last week the Bank of Portugal published figures showing that the country’s economy will grow less than previously forecast next year—expanding just 0.3 percent in 2014 compared to its March prediction of 1.1 percent.

According to media reports, the troika is privately admitting that an Ireland-style exit from the bailout programme is now unlikely and talks are under way for a new bailout. Last week its eighth review was postponed until the end of August or early September in order to work out the details.

Cavaco Silva’s actions over the last two weeks are a dictatorial response, seeking to smother the aspirations of the Portuguese working class. These are expressed in the collapse of electoral support for the PDS/CDS-PP—from 51 percent at the 2011 election to 33 percent now—and increasing support for ostensibly left wing parties—the PS (from 28 percent to 37 percent), Communist Party/Greens (from 8 percent to 12 percent) and Left Bloc (from 5 percent to 8 percent).

None of these parties offer a genuine alternative. The PS honours the bailout it negotiated, calling only for the period of repayment to be increased and the interest rates on the debt to be lowered. The Communist Party and Left Bloc are also calling for “debt restructuring.” Both parties are organically tied to the PS and plead

with it to form some sort of “left” government with them.



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