# Mass opposition blocks Portuguese pension reform

**Jordan Shilton**
**23 December 2013**

Beginning last Monday, strikes and protest actions took place across Portugal in opposition to the largest budget cuts in over 30 years. These were called by the main trade union confederation, CGTP.

The “week of indignation, protest and fight” was in response to the budget of the right-wing coalition of the Social Democratic Party (PSD) and Popular Party (CDSPP), which passed the 2014 budget on November 26. It contained €3.9 billion in spending cuts, equivalent to 2.3 percent of the country’s GDP.

Strikes at various locations were accompanied by a rally at the president’s official residence in Lisbon Thursday. This was in keeping with the CGTP’s stated goal of using the protests to urge President Anibal Cavaco Silva (PSD) to veto some of the measures in next year’s spending plan and to call early elections, which are not due until 2015.

Later that evening, the constitutional court announced that it was blocking the planned pension reform in the budget, which would have brought pensions for public sector workers in line with the private sector. Judge Lino Ribeiro told a news conference that the proposal “violates the principle of confidence” in the Portuguese constitution. It is the fourth time this year that the court has blocked proposed measures, including a decision in April that opposed plans to cut the equivalent of a month’s salary for public sector workers.

The court is not opposed to the consolidation measures but fears a backlash. A statement on Thursday evening declared that it believed the pension cuts had to be enforced more gradually, and raised doubts as to whether public sector workers received a better deal than those in the private sector. Its previous ruling against the cuts to salaries was more than compensated for by the government’s move to increase the working week from 35 to 40 hours without any corresponding pay rise.

The CGTP hailed the decision as a victory, with CGTP leader Arménio Carlos declaring, “This government does not deserve to rule. We will continue the fight until this government goes.”

However, anticipating the court’s ruling, the government had already confirmed that it would implement alternative measures to make the required savings in the 2014 budget. A statement from Prime Minister Pedro Passos Coelho’s PSD raised concerns that it “is a strong constraint” on the government’s spending cuts.

The government’s options all threaten to intensify the crisis, with an increase of the already high VAT rate of 23 percent being considered. This would produce worsening hardship for thousands of workers and threaten businesses with bankruptcy due to declining sales.

Responding to the ruling on the sidelines of the European Union (EU) summit in Brussels, German chancellor Angela Merkel expressed her full confidence in the government in Lisbon. “I’m sure that Portugal will deal with it responsibly. It’s not an easy situation but I think Portugal will find a way to solve it,” she said.

Should the government get into difficulty, opposition leader of the Socialist Party Antonio Jose Seguro reassured ruling circles that he would be prepared to step in. Urging that any other measures that need to be reviewed by the court be done quickly, he added, “The country cannot live in uncertainty for another two or three months.”

Seguro’s Socialist Party negotiated the original bailout deal and is fully in agreement with the austerity measures. It has merely expressed tactical differences as to how they should be implemented.

The court's decision came just days after the announcement of the result of the latest review by the troika of EU commission, International Monetary Fund (IMF) and European Central Bank under Lisbon's bailout programme. Although they agreed to release the next tranche of loan payments, they explicitly warned that any let-up in the implementation of cuts would endanger Portugal's access to financial markets when the programme ends in June next year.

Prior to last week's EU summit, a Portuguese government official announced that while Lisbon planned to exit the bailout, it was pushing for access to low-interest loans from the EU under a precautionary credit arrangement. This would be tied to the further imposition of structural reforms and budget consolidation.

Troika officials were encouraged by the government's ability to push the austerity budget through parliament in spite of widespread popular opposition. The plan includes wage cuts of up to 12 percent for public sector workers and layoffs.

They also welcomed the latest stage in Lisbon's privatisation drive. At the beginning of the month, the government completed the majority selloff of the postal service, raising €580 million.

The privatisation was successful only thanks to the combined efforts of the government and trade unions, which worked to control the broad hostility to the plan from postal workers. Close to 1,000 jobs were cut from the service since 2012 to make it a more attractive prospect for investors. A series of protests and one-day strikes were organised throughout this year, with the unions always ensuring their isolation. A week before the selloff, striking postal workers clashed with police on November 28 at a depot in Lisbon.

But much more is being demanded. According to the official statement of the troika, a major concern for the banks was that "low profitability signals that challenges remain."

To overcome this and attract further investment, the troika warned, "Continued structural reform efforts will have to be the centrepiece of a credible strategy for sustainable growth in the coming years."

This would involve "the rebalancing of the economy from the non-tradable to the tradable sector"—i.e., the further downsizing of the public sector—and "increasing competition and flexibility in product and labour markets."

Indicating that Portugal would remain under strict surveillance for some time, the statement cautioned that "the implementation of reforms must be continuously evaluated to ensure that they deliver the desired results."

In an interview given to the *Financial Times* to coincide with the latest review, the head of IMF operations in Portugal, Subir Lall, bluntly declared, "The transformations that the economy needs will have to go on for another 10 to 15 years and they will have to be home-grown. Changing how the economy responds and overcoming inertia requires an ongoing effort and will have to be done regardless of which political party is in power."

Such policies would not be affected by the outcome of elections, with Lall warning with reference to the vote due in 2015 that investors "want to perceive that there is a broad consensus on the main objectives of reform."

The "inertia" identified by Lall concerned "distortions in the economy" that "have built up over decades." Behind the jargon, this will mean the elimination of any remaining social programmes that are seen as an intolerable burden on the state's drive to increase competitiveness by slashing wages and attacking the living standards of workers.

On top of the billions in cuts for next year, workers are immediately faced with an increase in the cost of living. Recent reports have confirmed that utility prices will rise in the new year, with more than 1 million customers facing an increase in water bills and electricity prices also going up. The national operator of public street lighting has announced a proposal to turn out the lights in whole districts of towns and cities to save money.