Portugal's Socialist Party agrees to impose further austerity

By Paul Mitchell
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On Friday, the European Commission (EC) announced that Portugal's Socialist Party (PS) government had agreed to amend its draft State Budget 2016 and impose more austerity measures in order to comply with European Union (EU) budget deficit rules.

The PS's agreement makes a mockery of its November 2015 election promise to "reverse austerity" and further exposes the Left Bloc (BE), Communist Party (PCP) and Greens whose support enabled it to form a minority government.

The BE justified this agreement by claiming it had secured "guarantees of no more cuts, an increased minimum wage, unfreezing pensions, restoring public sector wages, reductions in the income tax surcharge (IRS) and a stop to privatisations." This has all been revealed as lies.

Economic Affairs Commissioner Pierre Moscovici said the PS government has agreed to new measures worth around 950 million ($1 billion). Additional revenue will be raised from increased taxes on fuel, new cars and tobacco and a new €50 million tax on banks. According to the Dow Jones Newswire, the number of public employees will be cut, controls over sick leave tightened and a €135 million plan to reduce contributions from workers earning less than €600 a month has been scrapped.

Portugal News reports that the government was thinking of delaying the reduction in the working week for public sector workers from 40 to 35 hours until the end of the year. Plans to delay the reduction to July led to a strike.

Moscovici warned that Portugal remains "at risk of non-compliance." Its budget deficit for 2015 was 4.2 percent of economic output (GDP)—well above the EU's 3 percent target—and estimated to be 3.4 percent in 2016, contrary to the government's forecast of 2.6 percent. He declared that the EC would reassess the situation in Portugal in May, adding, "It's still a long, hard slog."

On the same day Moscovici made his announcement, the International Monetary Fund weighed in with a warning that the government had "little scope" for relaxing austerity because of Portugal's high public debt (around 129 percent of GDP). German Chancellor Angela Merkel, in a meeting with Portuguese Prime Minister António Costa, praised the "success" of the previous right-wing PSD/CDS-PP government's economic policies while declining to comment on Costa's own.

EC President Jean-Claude Juncker rejected claims Portugal was being blackmailed, declaring that "there were enough elements of flexibility of interpretation of the [Stability and Growth] Pact that are sufficient to allow member states—even those that have difficulties—to propose budgets that fulfil all the rules."

However, it is clear the EC is determined to make an example of Portugal in order to prevent a precedent being set. Almost half of euro zone countries are in dispute over deficit targets, most recently Italy, Spain, Austria and Lithuania.

Costa made the absurd claim that the agreement with the EC enables him to balance his election promise to "reverse austerity" while complying with EU fiscal policies. "The budget is responsible and creates conditions for economic growth, the reduction of our debt and the deficit," he asserted, and "it complies with all the pledges made to the Portuguese, with the parties that support the Government and our obligations with the rules of the euro."

The finance ministry made the equally absurd claim that Portugal was able "to safeguard the national right to make political choices."

Speaking on Friday, BE deputy and economist Mariana Mortágua sought to distance the pseudo-left party from the austerity measures agreed, declaring, “This is not our budget, nor the budget that the Left Bloc would make nor does it reflect its electoral program” only to add the transparently false claim that “we assume that it meets our goal, which is to halt impoverishment and restore income.”

Mortágua complained that the “worse version” of the budget now to be debated in Congress was the fault of everyone but the PS and its partners. “The pressures of the European Commission actively aided by the arguments of the PSD and CDS-PP hurt this budget and has made people’s lives more difficult,” she said. The BE “has not given up fighting…we will fight until the day of the final vote on the state budget.”

In a similar vein, PCP leader Jerónimo de Sousa covered for his party’s responsibility for the new austerity measures saying that the budget “was not the PCP Budget, but the PS government Budget.” He declared, “These last days of pressure and blackmail made it clear to the country and the Portuguese that the course of sovereign development, social progress and job creation that Portugal needs requires a break with the dictates of the European Union.”

This, of course, is only for the record. Like Mortágua, de Sousa proposed, “We will now work in a committed and serious manner throughout the [Budget ratification] process, which now opens with a debate [in Congress].”

Nobody should believe a word that issues from the mouths of Mortágua and de Sousa. The BE and PCP are bourgeois parties that rest on affluent layers of the middle class. Their policies are determined by union bureaucrats, academics and parliamentary functionaries, who are determined to defend their privileges by preserving the existing social order. They have enabled the PS government to impose one pro-capitalist measure after another in the short time it has been in power.

One of PS’s first acts was the bailout of the failed Banco Internacional do Funchal SA (Banif) for over €2 billion, followed days later by Portugal’s Central Bank having to cover a €1.4 billion shortfall at the so-called “good bank” Novo Banco, created after the 2014 collapse of Banco Espirito Santo.

Last month, the privatisation of the national rail freight company, CP Carga, went ahead and this week the government agreed to “share” control of the national airline TAP with the private consortium headed by Brazilian aviation billionaire David Neeleman, founder of US budget airline JetBlue, which bought 61 percent of the shares last year. Management of TAP will remain with the consortium.

The BE tries to justify continued support for the PS by claiming that the state budget will return more than €1 billion to workers through “the reinstatement of wages for the public sector throughout the year and the complements for the pensions of state workers that had been cut, mostly in the transport sector; the reintroduction of four bank holidays; the return of a 35-hour week in the public sector in the second quarter of 2016; the end of the special mobility status; and the reinstatement of the Social Security workers who were at risk of being made redundant.”

However, according to the Congressional budget oversight unit, UTAO, these measures and the slippage in paying off the debt will mean the government having to borrow a further €11 billion ($12 billion) by 2019.

This is at a time when Portugal’s access to cheap interest loans hangs by a thread. Credit rating agency DBRS Ltd, according to reports, could join the three other major agencies and downgrade Portugal’s rating to junk status, at which point the European Central Bank would no longer be allowed to buy government bonds, leading to higher interest repayments to private lenders.

Analysts say Portugal’s economy will have to grow by 3 percent a year for several years just to begin to repay the debt, but economists estimate the the growth rate will reach only half of that figure.