GlobalResearch
Center for Research on Globalization

Can the Left Look to Portugal for an Alternative to Austerity?

By Asad Ismi
Global Research, March 01, 2019

Region: Europe
Theme: Global Economy, History

While social-democratic parties all over Europe have been losing power and popularity, the centre-left Portuguese government is being lauded even by the mainstream media for defying the European Union (EU) with its anti-austerity policy and thereby sparking an economic recovery in the country.

The minority government led by the social-democratic Socialist Party (PS) has been in power since 2015 thanks to parliamentary support from the Communist Party (allied with the Green Party) and the euroskeptic radical Left Bloc. These two parties, which are to the left of the PS, do not have any cabinet posts in the government, so the arrangement is not a coalition.

Hit hard by the 2008-09 economic crisis, Portugal got a 78 billion euro bailout in 2011 (about $107 billion at the time) from the European Commission, the International Monetary Fund (IMF) and the European Central Bank (ECB). In exchange for the loan, the troika, as the trio of European institutions are called, imposed drastic spending cuts on the country that increased unemployment to 17.5% and company bankruptcies to 41% in 2013.

Close to half a million Portuguese (out of a population of 10 million) left the country between 2011 and 2014, the highest number in five decades. The centre-right government of the day, led by the misnamed Social Democratic Party (PSD), slashed public salaries, pensions and health spending, and instituted the highest tax increase ever of 35%. Education spending was cut by 23%.

The unpopularity of these stringent austerity measures saw the PSD lose power to the left in the 2015 elections. The PS reversed some of the salary and pension cuts and tax increases, raised the minimum wage and improved social security for poor families, and gave businesses subsidies.

As the British political commentator Owen Jones noted in the Guardian (U.K.) in late 2017, by 2016 corporate investment in Portugal had jumped by 13%, and by 2017 the budget deficit had been halved to 2.1%, the lowest figure in 40 years and in line with the EU's requirements.

In 2017, Portugal's GDP grew by 2.7%, according to the country's official statistics agency, the fastest rate in 17 years (compared to 1.5% in 2016), and the country has seen an investment, tourism and export boom in 2018 that has lowered unemployment to 8.5%.

> "What happened in Portugal shows that too much austerity deepens a

> recession and creates a vicious circle," claimed **Prime Minister António Costa** in a New York Times interview last spring. "We devised an alternative to austerity, focusing on higher growth, and more and better jobs."

Some are not convinced by this argument. **Catarina Principe**, an organizer with the Left Bloc, called the government's economic program "austerity lite" in an article she wrote for Jacobin magazine last summer. She does not think that the PS is serious about ending austerity, only about countering "mass impoverishment."

Principe points out that the govern- ment's stimulus measures have been made possible by a severe reduction in public investment and deep cuts in the health care and education sectors which "are on the verge of collapse."

The PS reduced public investment by 16.5% in 2016 to only 1.8% of GDP, the lowest amount since 1960. AECOPS, the main construction industry association, cautioned against "the danger of false savings," stating:

> "Through drastic cuts in public investment to reduce the deficit, the government has contributed decisively to the degradation of construction activity and prevented the recovery of the sector."

Then there is "the central question," as Principe put it, of Portugal's massive debt, which the PS is committed to repaying. This issue has "disappeared from public debate," she wrote in her article. Portugal's debt is 130% of its GDP, the third largest in Europe after Greece and Italy.

According to Principe, the current economic boom is the result of factors unrelated to the government's stimulus, such as the reduction in European tourism to the Middle East due to political instability there. This has resulted in more tourists visiting Portugal, where tourism is the country's biggest employer. Secondly, low oil prices have helped the Portuguese economy bounce back.

Principe does not believe official unemployment figures and thinks that the true number is 17.5% (not 8.5%), which she attributes to a study by the Observatório das Desigualdades. She maintains that most of the new jobs created are precarious and that "collective bargaining has almost vanished" since the troika-imposed labour laws were retained by the PS.

Furthermore, Principe warns, the Portuguese banking system "is a ticking time bomb, with more banks bailed out with public money but not under public control, leaving it more vulnerable to shifts at the European center than in 2008."

Conn Hallinan, an analyst with Foreign Policy in Focus, says Principe and others who see only "austerity lite" in Portugal's recovery are overstating their case.

> "Portugal is a lamb midst a pride of lions, and it has to tread carefully lest, like Greece, it gets devoured," he tells me. "The steps that have been taken to cut taxes on working people, fund pensions, increase job growth through economic stimulation are clearly the best way out of the crisis. That approach has a long record of success dating back to the Great Depression following the 1929

> crash."

Still, Hallinan is not enamoured of the PS, which, he points out, "has a track record of caving in when caught between the demands of capital and the demands of the people."

Hallinan agrees with Principe that repayment of Portugal's debt is the central question and that it cannot be repaid. The Communist Party and the Left Bloc are correct, he says, to demand that the debt be reduced or dumped.

> "If the PS insists on repaying it they will eventually break up the alliance, and Portugal's mean-spirited right will lift a page from the fascist League party in Italy and attack the EU and austerity. That will leave the PS as defenders of capital, and they will go down to defeat, just like the Democratic Party did in Italy."

Hallinan explains that Portugal's debt is not a result of irresponsible spending. Portugal had a budget surplus when the 2008 financial crisis hit, causing interest rates to soar so that Portugal could not afford to borrow money.

> "That is what killed the country," says Hallinan. "The crisis was caused by bank speculation in the U.S. and Europe and enormous real estate bubbles pumped up by speculators. When the bubble popped, governments committed themselves to bailing the banks out at taxpayers' expense. That is what tanked budgets in Portugal. Spain, Ireland and Cyprus."

For Hallinan, the solution is a London debt conference, such as the one in 1952 that reduced the German debt by 50%, lowered interest rates and gave more time for repayments.

> This "ignited the great German industrial explosion and countries like Portugal, Spain and Greece can never catch up unless those debts — debts they were not responsible for — are cut," he says.

Francisco Louçã, one of the founders of the Left Bloc and an economics professor at Lisbon's Instituto Superior de Economica e Gestão, told me a renegotiation of the external public debt is necessary "in order to obtain further means for investment and creation of jobs." For Louçã, the solution to Portugal's economic problems and the best strategy to deal with them are investment and full employment.

So do Portugal and the PS alliance offer a model for other European social-democratic, socialist or leftist parties to follow? **Jeremy Corbyn**, leader of the British Labour Party, thinks so. He has proposed the creation of an "anti-austerity coalition" in Europe with help from the PS. For Louçã, on the other hand, "social democracy is dead," killed off from within by neoliberals such as Tony Blair in the U.K. and Francois Hollande in France. Social-democracy "plays no role in the reconstruction of sensitive economic and welfare politics," he tells me.

Indeed, the PS has already started moving to the political centre. Reuters reported last April that the PS and the centre-right PSD agreed "to co-operate on some reforms and funding plans, in a deal that may reduce the government's dependence on its hard-left allies."

On the other hand, they may not need to co-operate with opinion polls showing the PS at 42% public support. If sustained until the May 2019 elections, that would deliver a majority to the party, making an alliance with other parties unnecessary. The PSD lags far behind at 27%.

> "Being part of the EU has trapped Portugal in a situation where we can economically recover only to a small extent and it can only be a short recovery," said Principe in an interview for the Politics Theory Other podcast. "In order for us to really overcome austerity, we have to get back the instruments of sovereignty and democracy that have been taken away from us by membership in the EU.
>
> "These instruments are democratic control of the means of production, state control of the strategic sectors of the economy, the banking sector serving the public interest and national control over how to respond to economic crises," she adds.

But is this so different from what Corbyn is proposing for the U.K.? Whether or not we call these policies social-democratic, the Portugal experience suggests there are popular and practical alternatives to neoliberal austerity.

*

Note to readers: please click the share buttons below. Forward this article to your email lists. Crosspost on your blog site, internet forums. etc.

This article was originally published on the Canadian Centre for Policy Alternatives (page 52).

***Asad Ismi** is an award-winning writer and radio documentary-maker. He covers international politics for the Canadian Centre for Policy Alternatives Monitor (CCPA Monitor), Canada's biggest leftist magazine (by circulation) where this article was originally published. Asad has written on the politics of 64 countries and is a regular contributer to Global Research. For his publications visit www.asadismi.info.*

Featured image: Photo of Cobryn by Hamish Gill, Flickr CC, photo of Antonio Costa by European Union/Fred Guerdin