Portuguese perspectives

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With attention focused on the Greek programme, the situation in Portugal is discussed less often. Yet, the Greek situation, although almost completely different from the Portuguese, carries lessons for how to approach the euro area debt crisis.

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Excessive austerity isn't working

Even though Portugal has been a given a one-year extension to bring its structural budget deficit back to the EU norm of 3% of GDP, the macro-economic assumptions underlying the severe budget for 2013 seem unrealistic. There is a risk of an austerity trap, with tax receipts going down because citizens are squeezed way beyond their means and consumption dwindles, leading to a further reduction in GDP and, therefore, an increase in the debt/GDP ratio. This is now foreseen to reach a high of almost 124% of GDP in 2013. A debt trap is what Greece is experiencing, which has lost almost a quarter of its GDP since 2008. Portugal only saw a 1.6% contraction in 2011, with a further drop of 3.2% this year. But the wariness of the electorate to accept structural reforms increases, with steep reductions in income and increases in taxes. The Portuguese have seen annual allowances taken away, basic salaries cut, and taxes increased to a staggering 23% 'normal' VAT rate and a 54.5% tax rate for couples earning over € 80,000 per annum (not counting social security contributions, which come on top of this). By the way, average monthly wages are not higher than € 900 in Portugal; the minimum wage is € 485 per month. VAT proceeds have diminished by 5.2% whilst the rate hike was supposed to lead to increased returns. The downward revised GDP projections (-1% for 2013, +1% for 2014) may be over-optimistic. Portugal's Public Finance Council urges the government to improve the quality of macroeconomic projections, to be entrusted to an independent institution (in line with the requirements of the so-called six-pack of EU legislation on economic governance). It also argues that balancing the budget should not emphasise the revenue side but the spending side. The Public Finance Council calls for a change in emphasis, and for including regional and local government fiscal indicators in the budget framework law. Wise advise when one considers the impact that budget overshooting in Madeira has had on the overall Portuguese budgetary situation. Unemployment is at 16.3% of the workforce, and rising.

Social repercussions and popular response

Shielded behind these hard figures is an even harsher reality. The cuts in budgets and social security have hurt what the most recent Council Implementing Decision of 9 October 2012 itself calls “the most vulnerable parts of Portuguese society”. The people most affected cannot fight back: the pensioners, minimum wage earners, unemployed and those on social security. This is the same elsewhere in Europe, of course. ‘Fighting back’ is done Portuguese-style, with only two general strikes thus far and with humour and reflection rather than anger and noise. See the calls to solidarity addressed to Finland and, recently, Germany. In the meantime, Portuguese youth go to London or Germany, to Angola or Brazil, to find work. Others stay at their parents’ homes until well in their 30s, waiting to venture out on their own until this is finally financially feasible.

Strategic interests and inward investment

The privatisations required by the EU and the IMF lead to strategic investments that may fill the State’s coffers but may at the same time undermine strategic Portuguese and EU interests. After the port of Piraeus becoming 50% Chinese-owned, and the Portuguese electricity grid and gas distribution privatised to Chinese investors, do Europeans really wish to see Portuguese banks and media being absorbed by investors from third countries whose outlook on democracy and transparent banking may not match the EU approach? This is not xenophobia: a reversal of roles with Portugal’s former colonies may be justified but we know that not all are democracies and an oil money plutocracy may not have popular interests at heart. Public investment in education and vocational training is needed, as the EU itself admits. When can Portuguese see with their own eyes the investments promised by the European Council last June? The € 120 bn. Compact for Growth and Jobs is noticeably absent on the ground.

Conclusion

These are tough times for Portugal, as they are for Greece, Ireland, and other Member States. There is a need to bring budgets back to balance. And the reality of today’s markets, and of the EU’s current structure, with Northern nations being reluctant to lend ever more, limit the options. Yet, wise reforms do not undermine future revenue-raising growth, nor imperil strategic interests, notably the interest of the people whose consent is needed for the reforms. Acknowledging that I do not have the answers, I submit it may be time to rethink some of the current policies. A longer period of adjustment, and more favourable terms for the credit, should be considered. A recent study by the Bruegel think-tank maps out structural weaknesses of EU States, identifies their correlations and calls for a holistic vision of public investment which enables smart choices for growth. Also, Europe should ensure rapid progress in implementing hope-giving investments promised in a high-sounding declaration almost 6 months ago.

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