

INTERVIEW

Making Portugal's Break With Austerity Real - As Portugal heads to the polls

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As Portugal heads to the polls this Sunday, the Socialist government boasts of its success in breaking the country out of austerity. Yet as the Left Bloc's Francisco Louçã tells *Jacobin*, the current low-investment growth model is unsustainable — and fundamental questions around debt restructuring and the Eurozone architecture remain to be answered.

For many on the European center-left, Portugal stands as proof that it is possible to break out of austerity without any need for a “populist” offensive against Brussels. For the *Guardian*, Portugal today stands as “Europe’s beacon of social democracy”; for the *New Statesman*, it is “Europe’s socialist success story.” Since 2015 the Socialist-led government has been acclaimed for its role in escaping the sovereign debt crisis, returning Portugal to growth even while taking poverty-reduction measures.

The government is especially notable for its parliamentary majority, dependent on the external support of both the Left Bloc and the Communists. Yet if Portuguese right-wingers deem Costa “in hock to the extreme left,” his government can also be seen as a rejuvenation of mainstream social democracy. Where other austerity-hit countries have seen a rise of Eurosceptic or otherwise populist forces, polls for Sunday’s vote suggest a strengthening of the Socialists’ position, outstripping even their success in the 2015 contest.

Yet for all the triumphalism surrounding the center-left’s record in office, the difference between Portugal and other PIIGS countries is, at best, relative. Without doubt, since the harshest period of austerity in the early 2010s Portugal has gained some economic breathing space — putting an end to the cycle of falling wages, lower consumption, tax rises, and rising debt. Aided by Europe’s emergence from the worst moment of crisis, Portugal has also seen a return to economic growth.

However, the particular forms this takes is also storing up long-term problems. In particular, the government has slashed investment — in 2016 it even recorded negative levels of public investment, where the depreciation in state assets outstripped spending. This is what Mickaël Correia called the “dark side of Portugal’s economic success story” — a historic tightening of the purse strings, in which even the return to growth has added to the economic weight of property speculation, tourism, and precarious employment.

Since 2015 the Left Bloc has offered external support for Costa’s administration, while also trying to exert leverage over it on such issues as precarious contracts and rises in the minimum wage. Ahead of Sunday’s vote, Left Bloc cofounder and economist Francisco Louçã spoke to *Jacobin*’s David Broder about the government’s record in combating austerity, the limits imposed by the Eurozone architecture, and the radical left’s attempts to push more profound structural change.

David Broder (DB)

In the period of the sovereign debt crisis, Portugal's governments have been presented by European institutions as a counterexample to Syriza. In particular, looking at the Socialist government in office since 2015, Antonio Costa has emphasized his fiscal credibility as well as his bid to alleviate the effects of the crisis. This has also drawn the Socialists (PS) praise from the international center-left, as a party that regenerated itself while also remaining solidly pro-European. Is it right to say that this has been a "model student" of the EU?

Francisco Louçã (FL)

Portugal was, indeed, presented as a counterexample to Syriza's government during the first years of the austerity program, when the Greek government first tried to resist the economic and social policy imposed by (German finance minister) Wolfgang Schäuble and (chancellor) Angela Merkel — and then capitulated — while at the same time the center-right government in Lisbon fully complied with austerity.

But when the PS leader Antonio Costa took office as prime minister at the end of 2015, the austerity program led by the troika (European Commission, European Central Bank, International Monetary Fund) was no longer a so-called legal rule, since the official troika intervention was over. From that moment, the strategy of the new government — conditioned by the written agreements with the left parties — made the opposite choice and dismantled some of the austerity decisions.

For instance, the minimum wage was raised by 20 percent, despite pressure from the European authorities not to do this, claiming that it would generate unemployment; in reality, unemployment fell from 13 to 6 percent, according to official figures. So, this was not a "model student" for the European authorities.

DB

In an interview for *Jacobin* before the 2015 election, you expressed doubts that a new government could manage the country for four years under EU pressure, without a restructuring of the debt, given the effects of the fiscal straitjacket in suppressing investment and job creation. Indeed, over the last four years, public investment has been so low that it has barely kept pace with the depreciation of state assets. Yet there is some growth, primarily driven by tourism and property speculation. What kind of rebalancing of the Portuguese economy does this imply, to whose advantage — and how sustainable is it?

FL

Yes, by the end of 2015 everyone was under the impression that not only would the European authorities try to oppose the government's policy (as they did), but also that the straitjacket would impose too much restraint. But the political conditions for such pressure became very difficult. In 2016, the European Commission even discussed the possibility of imposing sanctions, since in the last year under the previous government (2015) there had been a 0.3 percent deviation in the deficit-to-GDP ratio.

The decision not to proceed won out by only one vote — but such a move would have been impossible, since it was too scandalous (France had never met the same criteria, which Portugal risked being sanctioned for transgressing) and, after the disaster imposed on Greece, having another troubling situation could have been damaging for the official European discourse.

Moreover, the international conditions became more favorable for the peripheral countries, with the low oil price and a slight expansion of European imports. Combined with the expansion of aggregate demand, given the rises in wages and pensions, this favored some growth. Exports also expanded — and not only tourism.

In this period, public debt was not restructured, but the very low, even negative, interest rates for medium-term debt emissions substantially reduced Portugal's burden of payments. Although this remains a structural fragility, and any recession or speculative attack will mean more debt — or more political pressure, using the debt as a lever — this has not been the case over the last four years. I believe, as before, that this is not a sustainable economy in the long term and that a debt restructuring must, indeed, be imposed. But for the Left to advance from such a reflection to the actual ability to deliver on it, it first needs to achieve the necessary balance of forces.

DB

In the 2015 general election the Left Bloc (Bloco de Esquerda) enjoyed a big jump, from 5.2 to 10.2 percent of the vote. It then offered its external support to the PS government, as did the Communist Party (PCP), though neither participated directly in the cabinet. If this afforded you some leverage over the government, can we really say the questions of restructuring the debt, the euro, and public investment have become more central to Portuguese public debate over the last four years?

FL

No, the euro is barely discussed today, and the question of the public debt has become a marginal topic of political debate. This is because interest rates are negative; the ECB (European Central Bank) quantitative easing program has absorbed one-third of the new debt issued, and therefore some of the current stock of debt is being replaced by very cheap debt.

In 2018 the PS government agreed to sign a detailed report with the Left Bloc, prepared by a technical group, which proposed a reduction of 52 billion euros in the current institutionalized debt stock. This was a restructuring to be imposed on the ECB and European Funds. But then this was rebuffed by the PS.

DB

There was some controversy earlier this year when Marisa Matias said that the Left Bloc had never supported Portugal leaving the euro, though in the past its spokesperson Catarina Martins has suggested it should at least prepare for this eventuality. Looking at the wider European left, even initiatives like the “conferences for the Plan B” have not produced any single project for reforming or breaking up the euro. Has the window of opportunity for the left-wing challenge to the euro architecture passed?

FL

I don't see any controversy, here, but perhaps you are referring to a couple of articles published in the right-wing press on the issue. There is no contradiction: the Left Bloc's official documents do not propose leaving the euro, but they state very clearly that if in any circumstances new austerity measures are imposed for the sake of the euro, or by the European authorities, then leaving must be an option.

That is exactly what both Marisa and Catarina repeated, and that is also why the Left Bloc proposes rejecting the Budget Treaty and leaving the Banking Union. My personal view is somewhat different: I prefer to immediately present a plan for leaving the euro. Indeed, I published such a plan in a book *A Solução Novo Escudo*, (The Solution - a New Escudo) with my colleague João Ferreira do Amaral.

But you are right — the European initiatives challenging austerity were not strong enough, or persistent enough, to attack the architecture of the euro. Moreover, Europe's left-wing parties have, in general, weakened rather than become stronger these last few years. There is today no convergence and no European instrument of effective cooperation among popular and left-wing parties and movements.

DB

As you note in a recent column, sporadic injections of liquidity seem ill-equipped to promote a general economic recovery, and indeed this is also an instrument little-vulnerable to democratic control. You claim, the alternative instead lies in boosting internal demand through wage rises. So, what can be done to strengthen workers' bargaining power? Looking at disputes like the labor law or recent strikes by nurses, how would you assess the Socialists' record in this regard, and how far has the Left Bloc been able to exert leverage to support these actions?

FL

There was a recovery of wages and pensions, as many tax rises were eliminated, the minimum wage was increased as well as the majority of pensions. Other important measures were also taken which acted like an indirect wage rise: for instance, a social electricity price (with reduced bills for families on low incomes), much cheaper public transport tickets, free books for all students until the age of eighteen, and social protection for children. This was the result of the Left's leverage over the government.

Conversely, the conflict over the labor law has been one of the crucial differences between the government and the left parties over the last couple of months. As we speak, the most important rule within this law — the extension of an “experimental period” in workers' contracts, covering their first six months of their employment — is being examined by the Constitutional Court.

DB

Looking at this Sunday's election, what would be a good result for the Left Bloc — and what conditions would you place on supporting a Socialist government, if it doesn't win a majority?

FL

The PS will be the largest party, but it probably won't have a majority in Parliament. There is strong evidence that the PS will try to avoid any sort of negotiation with the Left. Indeed, its electoral campaign has been bitterly directed against the Left Bloc, indeed much more so than against the main right-wing party (the Social-Democrats, PSD). It is also notable that the PS campaign hasn't been directed against the Communists. They will likely lose some ground, but at least the PS government can consider them a nonthreatening partner.

For the Left Bloc, a good result would be to secure a larger popular and electoral influence than it achieved in 2015 and to prevent an absolute majority for the PS. That would provide the best scenario for fighting for a fresh rise in the minimum wage and in pensions, to propose concrete measures for a housing program and the national health system, a new wave of public investment in urban transport in order to reduce emissions, and the nationalization of the Post Office, for instance. It is, however, quite implausible that the PS would agree to negotiate these measures, and still less to apply them.

INTERVIEW BY David Broder

P.S.

• Jacobin. 10.05.2019:

<https://www.jacobinmag.com/2019/10/portugal-elections-economy-socialist-party-left-bloc-francisco-louca>