EUROPE 10.04.2018 | Miguel Szymanski

Smokescreens and sell-offs

Portugal's centre-left government promised an end to austerity when it took office two years ago. So why are so many Portuguese still feeling the pinch?

When António Costa took the reins of Portugal's new government in 2015, he promised the nation that he would make good on his campaign pledge. After four years of belt-tightening and cost-cutting under his Conservative rivals, the new prime minister promised he would finally end austerity.

Political power has for decades alternated between two parties in Portugal – the Socialist Party (PS), currently in power, and the Social Democrats (PSD). Both have close ties to finance and business.

That traditional power balance subtly but significantly shifted when the centre-left Socialists asked the Portuguese Communist Party (PCP) and the Left Bloc (BE) to prop up its minority administration in 2015.

The two far-left parties agreed to support the minority government until the next general elections in 2019 but set sharp demands – no more privatisations, no more cuts to welfare or public services, and no more reductions in family incomes.

A far-left turn

Both the Communists and the Left Bloc appear to have pulled their weight under the Socialist-led minority government, acting as a buffer against the neo-liberal economic agenda that the PS has pushed since the mid-90s.

There have for instance been no more public-sector pay cuts and previously abolished public holidays have been reinstated. The Socialist government has also reversed welfare cuts, while unemployment has fallen sharply, after 500,000 mainly young and educated Portuguese left the country in the last seven years. The minimum wage has risen to €580 per month. Costa also reduced taxes on lower income brackets and

introduced a new tax on property assets worth over €600,000.

In fact, in spite of the statistical economic gains Portugal has made, most households are still feeling the pinch.

Annual GDP growth has risen to almost 2.7 per cent – compared to 1.8 per cent during the Conservatives' final year in power in 2015 – while economic growth combined with sharply reduced government investment helped get the budget deficit under control. Tourism and industrial exports each accounted for a third of the country's economic growth last year, both sectors becoming more competitive as the salaries for new workers significantly sank over the last decade. Consumer sentiment is rising again, and so is consumer debt among low and middle-income earners.

The country's socialist government has won international praise for defying the perceived wisdom that austerity is the only way out of a crisis. The message goes: hard times are finally over for the Portuguese.

Feeling the pinch

But all that glitters is not gold. The country's total tax burden went up – from 34.5 to 37 per cent of GDP in 2017 – and the living standards of the average Portuguese still haven't improved.

In fact, despite the statistical economic gains Portugal has made, most households are still feeling the pinch. Close to 20 per cent of the general population continues to live below the poverty line. Many teachers in state schools bring their own electric heaters to stave off the cold in their classrooms, and corridors in state-run hospitals are overflowing with inpatients. The country's acute lack of doctors has produced waiting times of 2.5 years for appointments – a situation that the country's chief health official recently admitted was 'definitely excessive'.

Almost two years after Costa took office, an end to the financial crisis, the years-long austerity and spending cuts seems as out of reach as ever.

Golden visas

It isn't even clear whether the government can claim credit for the recent economic upturn. A recent article *[in German]* in the *Frankfurter Allgemeine Zeitung* for instance stated that the country was attracting 'primarily wealthy foreigners: pop stars, bankers and pensioners are

moving to Lisbon.'

The country is filling its financial coffers with its 'Golden Visa' programme, which offers residence permits to wealthy, non-EU citizens incomers who invest in local projects (starting at €250,000).

The government has also introduced tax incentives for foreign investors, and premiered a special tax treatment for EU citizens under which they pay much less tax in Portugal than in their countries of origin. The measure has been perceived by many as unfair.

In spite of the international, feverish praise for Costa's economic policies and the more optimist national mood, Portugal isn't in the clear yet.

The previous Conservative government had embarked on a rapid privatisation spree, selling strategic companies and stakes at bargain-basement prices to foreign investors from China and Angola.

Despite these sell-offs, Portugal's mountain of debt is higher than ever and interest payments on outstanding public debt equal the total cost of the national healthcare system. Even the extremely low interest rates of recent years have failed to drive this vast debt down, and the bank failures of the last few years have left a hole of at least €23 billion in state coffers.

Because the energy provider EDP, telecoms operator Portugal Telecom and several state insurance companies have been taken over by foreign private companies, the revenue from increased telecoms and electricity prices is benefiting foreign shareholders rather than the Portuguese. Portugal Telecom, now known as 'Altice', even has to pay its new parent company a seven-figure sum to use the name of its new main shareholder, which is based in the Netherlands for tax reasons.

The Portuguese bubble

After two years, the picture for the Communists and the Left Bloc is pretty bleak. Lawmakers from both parties agree that the minority government they are supporting is by no means a leftist one. When I interviewed Left Bloc leader Catarina Martins for a story in *Der Freitag*, she said that they had managed 'to bring a halt to the mechanisms that were responsible for increasing poverty and weakening democracy.' But she also admitted that it had proved impossible to 'reclaim the functions of the state that have already been ceded to the market'.

In spite of the international, feverish praise for Costa's economic policies and the more optimist national mood, Portugal isn't in the clear yet. The country's economic upturn will be undone as soon as interest rates rise or economic growth decreases if the European Union, or Berlin as the primary beneficiary of the Euro over the last almost 20 years, doesn't find a way to drastically reduce the national debt.

Also on this topic: Reinhard Naumann's article 'The fourth way' explains how Portugal's left-wing government has managed to move away gradually from austerity whilst sticking to EU rules.



Miguel Szymanski
Frankfurt/Main

Miguel Szymanski is a journalist and writer with Portuguese-German roots. He is a regular guest on the Portuguese show *Mundo sem Muros* ('World without Walls'), a columnist for *Diário de Notícias* and the *Portugal Post*, and a correspondent at *Der Freitag* and *N24*.