

# Portugal: a false recovery built on flimsy foundations

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Recently, the bourgeois media, particularly in Europe, has been delighting in the “miraculous” turnaround of Portugal’s fortunes. Just seven years ago, the Portuguese economy was teetering on the brink. The country was heading for the kind of social upheaval that caused a pre-revolutionary situation in Greece, and led to an enormous mass movement in neighbouring Spain.

*Article by Colectivo Marxista Lisboa*

Earlier this year, the *Financial Times*’ Matthew C. Klein observed with admiration that now, in some respects, “Portugal looks much more like Germany than, say, Spain.”

In 2017, the Portuguese economy grew by 2.7 percent: the highest since before the crisis. The unemployment rate is 6.7 percent, more than 10 percent down on the post-crisis high of January 2013. The minimum wage is up almost 20 percent compared with the end of 2014 (without adjustment for inflation). At the same time, the government managed to cut the budget deficit to the lowest level in more than 40 years, to 2 percent of GDP. This meant that, for the first time in history, Portugal was one of the few members of the Eurozone actually abiding by EU rules on deficit control, which European economic commissioner Pierre Moscovici last year greeted as “a very good and a very important piece of news.” And all of this achieved by a government of socialists, propped up by communists, as gleefully pointed out by certain, less-critical sections of the left.

When interviewing Socialist Party leader and Prime Minister, Antonio Costa in April, *The Economist* crooned:

“He has a lot to smile about. Lisbon, among Europe’s hottest tourist destinations, is enjoying a mini startup boom. Portugal’s footballers are the European champions, and its politicians have nabbed a clutch of senior international jobs. And above all, he is the winner of a high-stakes political gamble.”

This rosy picture of the Portuguese economic revival is being used by all sorts of political commentators, from liberals to self-described Marxists, as a shining example of how to manage your way out of a capitalist crisis. Costa’s government has somehow balanced the books and ramped up the minimum wage at the same time! If only other governments would show the same ingenuity – then there would be no crisis in Greece or Spain or Italy. There would be no euro crisis at all!

## What has really led to this recovery?

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David Stubbs, a strategist for major finance capital firm JP Morgan, asserts that the recovery is, in fact, founded on the Portuguese government’s adherence to the European Central Bank’s policies of austerity. The government itself, along with many other

reformists, argues the exact opposite, that the recovery is happening because they have “dared to cast aside austerity”, as the *New York Times* has claimed in an eye-catching headline. The real reason for the recovery is neither of these things.

This government’s economic policy has largely been a continuation of the previous, right-wing government. Most of the measures included in emergency budgets passed at the height of the euro crisis, which condemned millions of Portuguese people to crippling hardship, have become permanent. But this ECB-imposed austerity has been a colossal failure even from a capitalist point of view across Europe. It has only led to ever-increasing, even less-manageable government debts, a shrinking market for investment by European capitalists, and – as a result of the poverty and misery caused by these consequences – ever-growing political instability across the continent.

It is true, meanwhile, that in certain isolated cases the current Portuguese government has refused to implement the diktats of the major capitalist institutions, including the public sector wage cuts being demanded, as well as a reduction in the legal minimum of annual holidays. But it is patently false, as we shall come to later, to say that they have “cast aside austerity”.

The recovery in the Portuguese economy is, firstly, linked to the broader, upward trajectory of European economies in the present period. This trajectory by no means represents significant growth and has the potential to be reversed even in the short term, under the impact of colossal events such as the commencement of Brexit or the opening up of the Italian banking crisis. The numbers for Portuguese growth are not exactly staggering, and as David Stubbs rightly comments, “just because you're in the right direction, it doesn't mean you're out of the woods.”

For now, the upward trend in Europe allows Costa to soften his cuts. But there will inevitably come a time when the ECB and IMF are not so accommodating of even minor divergences from their policy / Image: Flickr, Donald Tusk

Portugal’s government debt still stands at 125.7 percent of GDP, not far off its peak of 130 percent in 2014. Just to keep the figure down at this historically high level, successive governments have relied on the ECB policy of Quantitative Easing (QE), which has allowed national debt to be serviced relatively cheaply. This policy now puts Portugal ahead of other EU countries in the queue for extra cash, since it is only provided for governments following the rules on deficit spending. Once this policy is no longer a viable option for the European Union, Portugal’s enormous debts will pose an immediate threat to economic stability once more, as they did several years ago.

Secondly, there is a political aspect to Europe’s influence over Portugal’s resurgence, which both stems from and feeds into the economic situation. An IMF statement on the Euro Area in June 2017 read: “Countries should take advantage of the breathing space afforded by the recovery to press forward on structural reforms.” By structural reforms, for the most part, they still mean cuts to the living standards of the working class. However, in Portugal’s case, the momentary respite from the euro crisis has certainly provided room for tweaking some elements of the austerity programme that the previous right-wing government was carrying through.

Perhaps even more vitally, with economic crisis across Europe increasingly giving way to anti-establishment sentiment in what Donald Tusk has called a “political contagion”, the last thing that the European ruling class wants to do is further stoke the flames of popular revolt. At this stage, they are looking to avoid openly confronting – and strangling – any opposition to their programme of counter-reforms. They did that with the Tsipras government three years ago, which brought the Greek masses directly into play.

Therefore, if Antonio Costa wants to soften some of the cuts that the ECB has tried to impose on Portugal, or even if he introduces some reforms of his own, for the time being, they are prepared to let him. That is, as long as he continues along the general lines of austerity, which will ensure that the government sets a close-to-balanced budget each year. And as long as the economic situation in Europe does not change. There will inevitably come a time when the ECB and IMF are not so accommodating of even minor divergences from their policy.

## Tourism, more expendable labour and creative accounting

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Concurrent with its basis in the immediate economic and political climate of Europe, the main source of the recovery within Portugal has been the tourism industry. For the year 2017, the number of tourists visiting Portugal jumped 12 percent to 12.7 million. Last year, tourism accounted for 18.5 percent of GDP; this year it is expected to rise to over 20 percent. Tourism is now the country’s largest employment sector, with around one million jobs (more than one-fifth of Portuguese workers) depending on it. By current projections, that will rise to 1.2 million jobs within five years. From these figures, it is clear that tourism was the key factor in Portugal’s economic growth last year, and accounted for a very large share of the decrease in unemployment.

Considering the increasingly prominent role of tourism in the Portuguese economy, we can see the extremely weak foundations of the country’s recovery. Tourism is an incredibly unreliable basis for economic prosperity. On a mass scale, it depends upon the most disposable of disposable income for foreign working classes, which can scarcely be afforded at the best of times. Even without a global economic downturn or crisis, it is subject to the most ephemeral and unpredictable market trends.

In fact, the tourism statistics for the summer of 2018 suggest that the boom has already peaked. The number of foreign visitors in July dropped 3 percent compared with the same figure a year earlier, while the figure for August fell 2 percent. As prices rise in Lisbon, European tourists are already beginning to look elsewhere for cheap weekend breaks. The fall of the British pound has also affected the number of British tourists looking for holidays abroad. In addition, the collapse of prices in Greece has led to their tourism industry outcompeting countries like Spain and Portugal, while tourism in Turkey and North African countries has also recovered to some extent following the terror attacks and political instability that deterred visitors in recent years.

By founding an economic recovery on the tourism industry, the Portuguese ruling class is preparing the economy for a major fall in the coming years. What is more, to facilitate the tourist boom, the government has continued with their predecessors’ project of liberalising

the housing market, stripping away tenants' rights and even rigging competition in favour of super-rich property speculators from abroad. The social ills arising from this policy put paid to the idea that this government is making capitalism work for everyone.

Linked to the growth of the tourism industry is the normalisation of temporary, seasonal and short-term employment in Portugal since the euro crisis. This kind of work makes up the bulk of the difference in unemployment figures since 2013. In 2008, 10 percent of young Portuguese workers (16-24-year-olds) were in part-time employment. In 2015, that figure had risen to 22 percent. The percentage of all Portuguese workers on short fix-term contracts (six months on average) rose in the same period from 22 percent to a staggering 67.5 percent. This process has been fundamental to breaking the backs of the working class in Portugal – making it easier for austerity measures to be carried through – and has only continued under the current government.

Precarious employment has been the major selling point for the foreign capitalists who doubled investment in Portuguese export markets last year. Exports increased from 24 percent to 40 percent of GDP between 2005 and 2017. Portugal has historically been a portal for the movement of goods in and out of Europe because of its Atlantic coastline. Add to that the lowest wages in Western Europe and masses of casualised labour, and Portugal has become a very attractive prospect for investors in all kinds of production, including heavy industry. The suburbs of Lisbon and Porto now host huge car assembly plants, for example.

The “start-up boom” in Lisbon, meanwhile, actually consists of thousands of Portuguese engineering graduates getting paid less than the British, American or German minimum wage for doing highly-skilled programming jobs for tech multinationals (or Portuguese agencies working for tech multinationals). Many more thousands of young Portuguese, as well as others from around Europe, are working long hours on short-term contracts in the various low-wage call centres springing up around the city.

While tourism and exports are the key factors in Portugal's improved economic statistics, the Portuguese government has also worked hard on the statistics themselves. Certain expenditure has been excluded from the 2017 deficit – such as the 4-billion-euro bailout of Caixa Geral bank, which alone pushes the deficit up to 3 percent of GDP and past the EU's red line. Manipulating the figures may be politically expedient, and maintains the flow of QE in the short-term. But it scarcely masks the real picture of the Portuguese economy, which even in terms of superficial statistics is not nearly as rosy as is claimed.

## To what extent has austerity really been “cast aside”?

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It is undeniable that the growth of tourism and exports has provided additional fiscal income for the Portuguese government since 2015. However, while it has used some of these extra funds to hold back on minor details of the austerity programme, they have largely gone towards balancing the budget.

Minimum wage and employment rises are not expressions of improving living standards. Instead, they are covers for critical problems afflicting the lives of Portuguese people, which the government is doing nothing to resolve. Wage rises lag far behind the

astronomical rent increases in the main cities, and do nothing to tackle the scourge of precarious work and chronic underemployment. This phenomenon is the real means by which unemployment has been reined in.

What is more, unemployment statistics have been helped by a drop in the rate of labour participation (the proportion of Portuguese people in work or looking for a job). This went down from 62 percent in 2010 to 59 percent in 2014, and has not recovered since. Another factor is the 200,000 net loss of people (mainly youth) – a sizeable chunk of the working class – since the start of the euro crisis, which Matthew C Klein was forced to point out while eulogising the Portuguese economy for the *Financial Times*. And although youth unemployment has halved since its peak in 2013, it is still 20 percent – equal to the pre-crisis high.

As well as employment, the government's policies on healthcare act as a measure of their 'anti-austerity' credentials. Since the year 2000, the percentage of Portuguese healthcare funded by private means has gradually increased. Under Costa's government, this trend has persisted. Healthcare spending as a percentage of GDP was actually reduced from the previous government's low of 9 percent to 8.9 percent in 2017. The number of doctors and nurses emigrating abroad has tended to increase year-on-year since 2011, due to deteriorating conditions in the National Health Service.

Between 2011 and 2012, as part of the national 'restructuring programme', the set of user charges for the NHS more than doubled. Some of them became prohibitively costly. General emergencies went from 9.60€ to 20€, primary care consultations from 2.25€ to 5€ – significant increases for those with ongoing health issues who are charged repeatedly over a period of time. Although certain reductions and exemptions have been in place since that time, the rising costs of prescribed pharmaceuticals are increasingly being covered by users themselves, including pensioners and the chronically infirm. Almost three years into the Costa government, the payments at the point of use for the NHS remain almost exactly at the levels introduced by austerity seven years ago.

Education spending has also continued to fall steadily since 2010, and Costa has taken it down from the 3.8 percent level he inherited to 3.7 percent of GDP. This drop has been aided by the youth exodus of the last several years, but wide-ranging cuts to university funding are also discouraging young people from continuing their education.

While spending on public services is dwindling, the levels of taxation remain almost identical to those introduced by the previous government. The income tax hikes announced in 2012 place a disproportionate burden on low and median-wage workers who were already giving away the same percentage of their salaries in social security payments as their managers. The only change that the current government has made is to broaden the fourth (second-highest) income tax bracket by decreasing its lower limit. This will have little impact on most people, except for hitting the pockets of professionals such as doctors, lawyers and university lecturers.

Meanwhile, corporation tax remains at 21 percent – the lowest rate in Southern Europe – after being reduced from 25 percent in 2014-15. One significant change has been the reduction of restaurant VAT, previously raised to 23 percent, down to 13 percent in 2016, to

encourage the rapid expansion of the tourism industry. In conjunction with a squeezing of public services and high tax levels imposed on workers – a continuation of the previous government’s policies – this hardly indicates a reversal of austerity.

The question has to be asked: how could a government that nearly balances the budget of one of Europe’s weakest, most crisis-ridden economies be viewed as ‘anti-austerity’?

## Social explosion brewing over housing

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The issue of housing, in particular, goes to the heart of a social crisis brewing under the surface in Portugal, which has only deepened under this government. In 2012, as part of the restructuring programme encouraged by the ECB and the IMF, a new law removed longstanding rent caps for those on low incomes, and pensioners. These caps went some way to protecting the livelihoods workers as well as others without an income, effectively freezing their rent for decades.

Their removal has led to thousands of evictions, precipitating rampant property speculation and development in the main cities Lisbon and Porto, as well as in the Algarve. As landlords and foreign investors alike attempt to cash in on the tourist boom, more and more urban apartment buildings are being remodelled for holiday rentals. In Lisbon, it is now common to see newly-renovated Airbnb apartment blocks and hostels adjacent to the dilapidated homes of long-term local tenants. Their landlords are simply waiting for their contracts to end to ramp up the prices and kick them out, so that these homes can also be turned into holiday accommodation.

Whole communities are being broken up by this process. The worst off are forced onto the streets in some cases. Pensioners and working families who have lived in the same apartment for decades are left with nowhere to go. Even the middle classes from central areas of the cities are getting hit, with a [\*New York Times\* article](#) citing one example of a Lisbon bar owner whose landlord has quadrupled his rent from one year to the next, and is evicting him this year.

However, the youth are the demographic being hit hardest by this problem. A study published in January 2017 by *Caritas Europa* found that most young people can neither rent nor buy a property in Portugal. The study explains, “The prices of a property in Portugal, compared with the average salary, are disproportionate.” In addition to moving precariously from one temporary job to the next, and the education sector being ravaged by funding cuts, the average Portuguese young person stays living with their parents until they are 29.

Far from resolving this issue, the process has accelerated under the current government as the tourism bubble has been inflated. The Socialist-led coalition, rather than reversing the liberalisation law and supporting tenants against landlords and big business, has continued with the same policies. These include a ‘golden visa’ programme, which grants a residency permit to non-European property speculators buy up or invest in properties over a certain value (typically over 500,000€).

Under growing pressure from below, which has included several high-profile tenant occupations, the government has taken some steps to delay the worst social effects of the housing situation. An amendment they have passed to the 2012 law increases the stay of a non-paying tenant to three months before they are evicted. Meanwhile, pensioners and low-income families still renting via the old tenancy leases now have an extended transition period before landlords are allowed to enforce new prices. So at least now these demographics have time to prepare for their homes to be taken away from them, or, in the case of the pensioners, have been given the opportunity to die before being kicked out!

To maintain their position in the opinion polls, the government is looking to delay the social explosion that is brewing over the housing situation. They have done nothing with regards to the mass of evictions which have already taken place – and are still taking place. As long as the orgy of property speculation continues, the explosion being prepared – for this government or the next – will become greater and greater.

## The role of Bloco de Esquerda and the PCP

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The Socialist-led government relies on the support of the Bloco de Esquerda and the Portuguese Communist Party to pass through laws in parliament. This position gives scope for an enormous amount of pressure to be applied from the left. The PCP controls most of the largest trade unions in Portugal, while Bloco, for a time at least, has had significant electoral support among the youth.

Without these parties, the so-called ‘left’ government of Portugal would not exist. They could use the power that comes with this situation to force through a genuine reversal of the austerity measures imposed since the euro crisis, and, further, to win genuine reforms for Portuguese workers and young people. Indeed, last year, the *Financial Times* warned that the Portuguese recovery could cause a “crisis of good news”, which could lead the left parties to make greater demands on their senior coalition partners.



The PCP has been doing the Socialist Party a great service in keeping the labour movement under control, ensuring that strikes do not get out of hand / Image: Communist Party USA

By mobilising mass support for overturning the austerity measures imposed on the Portuguese people in recent years, the two left parties would have a real chance of affecting government policy. Their strength – especially in the case of the PCP – lies not in the chambers of parliament but on the streets.

Leaning on the movement of the working class would demonstrate the real power in the hands of the PCP, whose historical ties with the Portuguese masses run much deeper than those of the Socialist Party. And Bloco could translate the electoral support it has received for its radical language during election campaigns into a movement of its youth base, to force through policy changes on employment, education and housing.

Instead, the leadership of both parties, to varying degrees, has so far managed to turn this position on its head. They cower in fear at the thought of being blamed for the government collapsing, raising the slightest opposition as quietly as possible so as not to disturb the peace, while voting through budgets whose stated aim is deficit reduction at the cost of the Portuguese working class.

Certainly, both Bloco and the PCP played a role in certain minor alterations to the previous government's policies, such as the new tenancy laws. But the minimal nature of these reforms only serves to expose the limitations of the leadership of these parties, whose idea of imposing the will of the Portuguese masses onto the government is to extend the length of eviction notices.

The Bloco leadership, in particular, has demonstrated its hypocrisy in this regard. While Bloco activists make themselves visible at spontaneous tenant occupations across Lisbon, one senior councillor representing the party has been unmasked as a landlord cashing in



on the spike in rents. While his party has publically come out against attacks on tenants and their rights, this councillor has been raising the rent of his own property, effectively forcing the eviction of his tenants.



The government relies on the support of the Bloco de Esquerda and PCP to pass laws in parliament. This gives scope for enormous pressure to be applied from the left, but the chance is being squandered / Image: PÚBLICO

Furthermore, at the party's recent congress, the resolution moved by the current leadership group, setting out a framework for activity in the coming year, passed almost unanimously. The resolution opened up the possibility of an outright alliance with the Socialist Party in next year's general election campaign. This move would follow logically from the direction in which the party leadership has been heading since agreeing to support the government in 2015.

Part of the reason why the resolution passed without any real opposition is that, beyond different layers of bureaucracy, Bloco has now been drained to a great extent of what active base it had. Members have either been repulsed by the cosy relationship between the party leadership and the government, or have embraced this position – negating the need for independent party activism. If the party does go ahead with the electoral alliance, it is likely that its electoral base will be split in a similar manner.

The PCP, meanwhile, has been doing the Socialist Party a great service in keeping the labour movement under control, ensuring that public sector strikes, in particular, do not get out of hand.

## Rank-and-file militancy and weak leadership

That said, one of the largest industrial disputes in the history of the teaching profession in

Portugal was led by FenProf, a union dominated by the PCP. Teachers, lecturers and university staff took part in a series of strikes against low-pay, casualisation and for the 35-hour working week, between March and July. Turnout was as high as 70 percent, and, in the absence of official student unions in Portugal, the high turnout of young, casualised university staff was especially noticeable. There was also a huge public demonstration in central Lisbon in May. However, in spite of the militancy of the rank-and-file, many complained bitterly about the leadership failing to show the way forward.

The line taken was one that has been generally handed down to Portuguese workers since 2015 by the trade union hierarchy. Put simply: it is important that workers do their duty by coming out and making their demands clear, but it is also important that any action does not jeopardise the government. Once the dispute has reached a certain stage, it is necessary for everyone to accept their lot, go home and be thankful that they have the PCP keeping the government in check, working hard to change the prime minister's mind, here and there, on their behalf.

Elsewhere, a militant strike action by SEAL, the national union of dockworkers, against a vicious campaign of union-busting being carried out by industry bosses, as well as precarious working conditions, has been ongoing since May. This strike is notable for the shameful lack of solidarity, in terms of either words or actions, from leaders of other PCP-led unions – especially given that both reasons for the strike are issues generalised across the Portuguese working class.



A militant strike action by SEAL, the national union of dockworkers, has received a shameful lack of solidarity from leaders of other PCP-led unions / Image: SEAL

The PCP leadership's strategy – of de-escalating industrial disputes they are leading, and dismissing in a sectarian manner the ones they are not – has achieved two things.

Firstly, it has demonstrated beyond all doubt the weakness of their leadership, just when they appear to have been given a genuine opportunity to apply direct pressure to the Portuguese ruling class. In the case of the teaching strike, the weak leadership of FenProf

led certain workers to abandon the union altogether and join the newly-formed independent union STOP, which benefited greatly from the vacillations of the PCP-dominated FenProf executive.

Although the political situation in Portugal is clearly at a low ebb, there is a hunger for a more militant approach on the industrial plane. This is particularly true of layers recently thrown into the precarious working conditions that have helped ameliorate the government's unemployment statistics, as evidenced by a massive strike for employment and unionisation rights by temporary and subcontracted workers on 15 November. SEAL, for their part, passed a motion for the affiliation of casualised Setubal dock workers to their union soon after these workers had set an example for their already-unionised comrades.

But the executive of the main trade union federation, the PCP-led CGTP, does little more than pay lip-service to the struggles of these workers, while praising the government for lowering unemployment. The CGTP only involved itself on 15 November under huge pressure from the rank-and-file of some of its affiliated unions. The other struggles it has led in the past three years suggest that its role will be to limit the extent of action taken. Thus, the potential to apply huge pressure to the government, which could push them to implement the genuine reforms masses of casualised workers desperately need, is being squandered time and again by the PCP leaders.



The political situation in Portugal is at an ebb, but there is a hunger for industrial militancy, as evidenced by a massive strike by temporary and subcontracted workers on 15 November / Image: STCC

Secondly, the exploits – or lack thereof – of the PCP have sowed massive illusions in the Socialist Party, whose government the PCP leadership is willing to defend at all costs. This has led to the Socialists taking votes from them in the opinion polls.

As Bloco have roughly maintained their position the polls for the time being (although without making any gains), the PCP's percentage has actually dropped since the 2015 election. The lessons of allying with a social-democratic party and passively approving their anti-worker policies can be found amongst the rubble of Communist Parties across Europe, not least in the history of the PCP itself. If both left parties continue along these lines, rather than being blamed for bringing down the government, they will be subject to much more serious accusations when Portugal's recovery runs out of steam.

Although being openly critical of a popular and seemingly stable government from the inside may be a contentious act in the moment, it will not destroy the base of support or the credibility of a party. What will be repeated betrayals of the class interests upon which that support is built. If the PCP and Bloco are viewed as bound hand-and-foot to this government, with only the merest sliver of difference between themselves and the Socialist Party, when the government's popularity begins to sink, along with the economic situation in Portugal, they will go down with it. It will take a long time for the Portuguese working class to trust them again.

## The immediate future for Portugal

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In its study on the Portuguese youth, *Caritas Europa* suggested ominously that the combination of precarious working conditions and unaffordable living conditions poses a threat to "the future of the country". That such warnings are being given at a time when the Portuguese economy appears to be on the up, within the wider context of an extremely fragile economic political equilibrium across Europe, should be of serious concern to the Portuguese ruling class.

Antonia Costa is bound to be reinstated as prime minister in next year's general election, either through a parliamentary majority or coalition with Bloco. But it is more than likely that a crisis will arrive by any number of means during his second term. Tourism will have at the very least plateaued, if not stagnated, returning many of the now-precariously-employed to the unemployment figures and threatening to burst the speculative property bubble currently being inflated. The housing crisis brewing is liable to explode in the coming years.

And, perhaps most importantly, the European Union could well be mired in the deepest crisis in its history by that point, pulling the Portuguese economy with it. Even if that is not the case, the continuation of a Europe-wide recovery would mean a rolling back of Quantitative Easing, leaving Portugal stuck in the same spiral of unpayable debts that led it to the brink of disaster earlier this decade.

For the left, these things should be a signal to prepare for the monumental struggles that will be arriving sooner than the relative stability of the situation today would indicate. This does not mean subordinating one's political aims to the success of a government whose policies (however radical its language), are in line with the ECB and IMF. This means taking the lessons of previous events, both historically in Portugal and more recently in the rest of Europe, and applying them today. Above all, the PCP and BE need to move their focus from parliamentary manoeuvres to struggle and mobilisation in the streets.

