



5th Evaluation by the “Troika”

PORTUGAL: AN ASPHYXIATED ECONOMY AND A SUFFERING COUNTRY

THE GOVERNMENT PRESENTS A MISLEADING PICTURE

The portrait presented to the country by the PSD-CDS government is a misleading one. It promises the return to growth already in 2013 – while the Bank of Portugal is still forecasting economic stagnation – following serious recession in the current year in which, with the imposition of successive sacrifices, the budgetary deficit will not be attained and public debt will continue to increase.

Despite the fact that interest rates of the debt titles are going down, the interest rates of 10 year obligations are still unacceptably high and subject to the “markets” speculation. Exports have maintained significant growth rates, but with less acceleration in the present year, while imports have fallen, due to lower purchasing power and drop of public and private investment. The message insists on cutting the external deficit, which means alleviating the need of funding the economy, without trying to assess if that is sustainable.

Therefore, a favourable scenario is being portrayed, in the precise moment in which the recession is deepening, unemployment grows yet again and more youngsters are leaving the country. This is serious, not only because it is sowing illusions to try and lead to the acceptance of unfair sacrifices. September is a crucial month not just because there is another evaluation but also because the evaluation must be done in the light of what is being shown by the enforcement of austerity policies in several countries, including in Spain, but also of developments concerning the EU debt crisis. Besides being based on a wrong diagnosis, it is even more serious because the government has completely abdicated from its negotiating capacity.

RECESSION IS DEEPENING

Recent statistics do not back the government’s vision. The economy contracted for the sixth consecutive quarter, homologue variation is -3.3% and in the EU, only Greece is worse off. The National Statistics Institute (INE) signals that “the sharper decrease of the GDP results from the performance of domestic demand which was more negative than that of the 1st quarter of 2012, particularly regarding investment”.

The austerity policy impacts on the fall of both private consumption and on investment. Lowering incomes (unemployment, salary cuts, rising prices and taxes, etc.) makes workers, pensioners and other social groups involved having to cut in their spending. This reduction has also unfavourable effects on investment, since companies are finding it hard to sell, particularly those that depend on the domestic market, and also to be financed, due to restrictive credit. Therefore, it is not surprising that recent forecasts of the Bank of Portugal indicate a drop of 12.7% this year in the gross formation of fixed capital (gffc), which is the main component of investment, (to which we must add the one of 2011, of 11.3%). This negative evolution follows a period of a practically continuous fall of the gffc since 2002.

Exports, although growing (but this is a mere recovery in relation to 2007), not only do not compensate for the contraction in domestic demand but they are not accelerating any longer. Foreign trade figures concerning the 1st semester are quite clear: non acceleration of exports, from the 1st to the 2nd semester; a significant share of the exports growth based on fuel prices and on the sale of gold and precious metals, drop of imports. The sale of gold and precious metals (in every street corner sprout up gold purchasing shops) portray the crisis, with impoverished families selling all they have to meet their daily needs. Imports are falling due to dropping domestic demand and not as a result of economic efficiency or of substitution of imports, and thus, the improvement of the foreign deficit is not assured in the future.

The budgetary execution of the first seven months of 2012 confirms the growing divergence to the objective of attaining a budgetary deficit of 4.5% by the end of the year. The drop in fiscal revenue (- 3.5% and - 4.7% in indirect taxes), the sinking of social security deductions (- 4.4%) and the growth of expenditure with unemployment benefits (+ 22.6%) are an evidence of the cul-de-sac provoked by a recessive budgetary policy.

Perspectives for 2013 are not favourable. The Bank of Portugal, contrary to the government, predicts that there will be no growth in 2013. The OECD forecasts the continuation of recession. The EU, in turn, is on the threshold of recession: in the three last quarters, the GDP variation was negative or null; Spain and Italy are in recession; Germany itself saw growth not accelerating. Therefore, there is high risk, including for the evolution of exports – the Bank of Portugal forecasts for the current year a growth of 3.5%, well under that of last year (7.6%).

In conclusion, we are facing a deep recession that will be followed by a probable stagnation next year. The government (Document on Budgetary Strategy) is forecasting an average growth of 2% in the 2013 – 2016 period. This means that, at the most, we will continue with low growth rates that have characterised the last decade. With obvious consequences for the reduction – which will be slow – of the debt's weight in the GDP, and for employment, knowing as we know that with low growth it is very unlikely that jobs are created.

The CGTP-IN considers that insisting on more austerity policies will only deepen the recession. Thus, trying to force the fulfillment of 4.5% for the deficit this year is suicidal. Experience shows that drastic policies to cut public deficits –besides the suffering inflicted on social groups that are not responsible for the crisis – generate recessive effects. From the out start we stressed that the deadline to cut the public deficit is completely unrealistic. But it will be an illusion to think that tolerating a higher deficit in 2012 will solve all our problems. .

The CGTP-IN believes that we should combine conjuncture measures with a medium and long term vision. In this context, it proposes the following essential lines:

- We must immediately get out of the current economic and social suffocating situation. This requires, first of all, **the debt's renegotiation**– involving the restructuring of its amount, its duration and the diminishing of its funding costs– and **the progressive reduction of the public deficit**, so as to make it compatible with growth, employment and the sustainable reduction of the public debt;
- Also in the short term, we require measures **to foster domestic demand**, involving consumption and investment. We need urgent measures for income policies: higher salaries, immediate updating of the statutory minimum salary and improving pensions. In the field of investment, we need public and private investment in productive activities, in building and public works, notably in the urban renovation, rehabilitation and re-qualification, considering this sector's explosive situation.

- We need measures in terms of **credit**, so that it is directed at the micro, small and medium enterprises, and **a lower VAT in restaurants**;
- We need measures that mix a short term vision with a larger horizon, such as: a **programme of development** for investment in the productive fabric and its modernisation; reduction of the so-called context costs, particularly those concerning energy; enhancement of the public services and the defence and reinforcement of the state social responsibilities (Education, Health and Social Security); to stop the privatisations process and develop actions that allow the state to control strategic sectors of the Portuguese economy, including the reconstitution of a strong entrepreneurial state sector in financial activities;
- We need a **fairer fiscal policy**, abandoning the policy of “always the same ones paying more”: Fight against tax and fraud evasion and against underground economy; fiscal reform measures that make the system more balanced, fairer and more progressive, namely by: raising the income tax for very high revenues; the creation of an extra tax on distributed dividends: elimination of tax exemption that mean more than 70% of surplus value in Portugal, by taxing them at the current value of 21.5%; introduction of a general tax on fortunes and a tax on financial transactions; reform of the corporate tax, so as to assure that larger enterprises pay, like all the others, an effective 25% tax rate.

JOB DESTRUCTION AND UNEMPLOYMENT

The destruction of jobs is the most dramatic feature of the current crisis. In one year (from the second quarter of 2011 to the second quarter de 2012) the employed population went down by more than 205 thousand people. If the fall was sharper during this year, the truth is that these job losses had been steadily occurring since the second quarter of 2008. Since then, there were over half million jobs lost¹.

By not taking into account the relevance of the domestic market to sustain the economy and employment, the government and the troika have caused a serious social crisis and an unprecedented employment crisis. In fact, the worse affected sectors have high employability, particularly building and public works, retail trade, restaurants and different services. This is made worse by the contraction of credit – except for the export sector – affecting most of the SME’s, as the troika itself acknowledges.

Manufacturing industry has been losing jobs for several consecutive years, thus demonstrating that the main problem lies in the withering of production, now aggravated by the austerity measures. Building and public works are now in a dramatic situation, with the number of employed people lowering from 559 thousand in 2008 (2nd quarter) to 375 thousand nowadays. Without an ambitious industrial policy, without public works, without a re-orientation towards urban renovation, rehabilitation and re-qualification, these activities will go on contracting and losing jobs.

The unemployment rate has reached 15.7%². in one year alone, there are 249 thousand more unemployed with a real number of unemployed of 1 million 382 thousand (by adding the available and non.-available inactive workers and the part-time sub-employed workers). More than half have been seeking a job for over 12 months, and return to work – in a context of deep recession - is getting harder, also because the majority of them have been looking for a job for 25 months or more. It is especially revealing that the available inactive workers, not seeking a job, have risen from 148 to 217 thousand in one year (see annex

¹ INE, Enquiry on Employment.

² Eurostat, Euroindicators, available in http://epp.eurostat.ec.europa.eu/cache/ITY_PUBLIC/3-31082012-BP/EN/3-31082012-BP-EN.PDF

table). The risk of social exclusion is clear and we must take into consideration that the majority of the unemployed is not entitled to unemployment benefits since, as the CGTP-IN has exposed, successive restrictive reviews of unemployment social protection schemes are leaving unprotected a growing number of the unemployed.

Measures regarding the labour market, imposed by the troika, are only aggravating the employment crisis: among other, easier dismissals, cheaper unemployment compensations and the strong reduction in the cost of overtime pay – a measure which is clearly anti-employment. The return of mass emigration and growing labour deregulation complete this bleak picture.

The CGTP-IN believes that the main requirement to face up to a downgraded labour market is the adoption of job creating economic policies. These policies must be complemented with the fight against job precariousness, with measures directed at specific groups of workers (in the context of active employment policies) and with more means and capacity of intervention of the Labour Inspection (ACT) and of the Commission for Equality at Work and Employment (CITE):

- **The fight against job precariousness** in all its components, following the principle that to permanent jobs must correspond effective open-ended contracts;
- **The adoption of employment policies that promote the level and quality of jobs:** In the present conditions, it is essential to combat **youth unemployment and long-term unemployment**. Besides the necessity of creating jobs, the main priority resides in the combat against the abusive hiring of youngsters to occupy effective and permanent jobs. Regarding vocational apprenticeships (main element of the “Impulso Jovem” programme), the CGTP-IN defends: the existence of written contracts and apprenticeship plans, the non-substitution of open-ended workers by apprentices in enterprises benefiting from the programme; the maintenance of the employment level at the date of the apprentice’s hiring; apprenticeship grants that respect the relevant collective bargaining and not inferior to the statutory minimum salary; coverage by social security; setting of rules that make the entity promoting the apprenticeships integrate in their labour force a percentage of apprentices. Measures directed at the **long-term unemployed** must include vocational training as a crucial axis;
- **More means and capacity of intervention of the Labour Inspection and CITE**, in order to ensure better screening and control of the law abidance by enterprises in all fields, especially concerning the illegal use of short-term contracts, temporary contracts, outsourcing and false self-employment (the so-called green pay slips), as well as other multiple forms of discrimination in access to employment.

RETURN TO MASS EMIGRATION

High unemployment, besides causing the current social suffering, has unleashed the return of mass emigration. It is indeed a new fact, for today’s emigrants are, in their majority, youngsters with high qualifications. And not just those who have already left. The Press published conclusions of a study by the Porto Students Union in which 70% of university students consider emigrating. And the government has been promoting this flow, including with statements of the Prime Minister. The situation is serious particularly in a country with a deficit of qualifications and one of the lowest fertility rates in the EU.

Youngsters are one of the social groups more strongly hit by the current downgrading of the labour market. They are more exposed to unemployment, precariousness and low wages, although having a higher school attendance rate. The unfavorable situation of youngsters at work, recognised by European



institutions, mostly depends on the lack of job creation and on labour market deregulation, with discriminating measures like those in short-term contracts.

Demographic consequences are evident, since Portugal has a fertility rate which is lower than the one that may ensure the population's renewal (it is around 1.5 already since the second half of the 80's and it reached 1.32 in 2009). Actually, this rate is one of the lowest in the EU³, and the current emigration flow, plus the return of part of the emigrants, will also accentuate ageing.

The impact on economic growth, also in the long term and in the funding of social policies could be dramatic. The country wastes manpower, which has just been trained with public resources, and when qualifications are, in today's economies one of the key factors of growth and development, and this is even more serious in a country with a qualifications and skills' deficit. The CGTP-IN highlights the contradictions of an austerity policy, determined by the government, the IMF and European institutions, that contradict the five objectives announced in the 2020 Strategy: that at least 40% of the 30-40 year old population obtains a higher education certificate. It is important to compare this objective with the percentage in Portugal (26%), with the European average (35%) and with Ireland (47%).

A MORE DEREGULATED LABOUR MARKET

The standard of living (which stagnated in the past decade compared with the European average) is on the retreat in absolute terms after 2011. Workers, together with pensioners, were those more deeply hit. According to the European Commission, workers' real wages went down 4.4% in 2011 and 6% in 2012. The accumulated reduction of wages' purchasing power between 2009 and 2013 will be 12% in the whole of the economy, and even higher in public administration. Greece alone shows a more unfavourable evolution. This salary regression does not take into account tax increases or the cuts in the holiday and Christmas allowances, therefore purchasing power decreased even more.

And even the statutory minimum salary, nowadays covering over 400 thousand workers fell by 1.5%, in its purchasing power, in 2011 and was not updated this year. In July of the current year, the accumulated fall of their purchasing power reached 4%.

The measures of the government/troika also mean an attack on the right of collective bargaining, with the pretext of salary moderation. The number of published labour collective agreements, which has been falling since the Labour Code's enforcement in 2003, was accentuated in the last two years. A new fact is the non-publishing of most of the extension decrees since the middle of last year. The Memorandum of Understanding includes the freezing in the publishing of extension decrees until the establishment of union representation criteria, evaluated on the basis of quantitative indicators.

The troika's interference in collective bargaining matters illustrates in crude way how, with the pretext of the need to quickly cut the deficit and the public dept, fundamental workers' rights enshrined in our constitution, are being undermined.

The labour market has become more deregulated and unequal. The high unemployment level forces workers to accept any job, as bad as it may be. Job offers normally pay below the minimum salary, or very little more, even for highly qualified jobs; precariousness is very high. Being a fact that precarious workers are being more strongly hit by job destruction, 24% of wage earners are on precarious contracts (short-term employment, false self-employment, etc.). Law breaking is a constant feature, because the

³ In 2009, before the debt crisis emerging, the three lowest birth rates belonged to Estonia (1.31), Hungary (1.32) and Portugal (1.32), compared with a European average of 1.60. A rate below 1.3 is considered as the lowest fertility threshold (Eurostat, **Demography Report**, p. 28)

legislation's effectiveness degree is "traditionally" low. This fact is forgotten when "rigidity" of labour legislation is mentioned. The same happens in relation to legislative changes that diminished workers' individual and collective rights, especially since 2003.

The CGTP-IN will actively intervene in the work places to defend the standards contained in the collective labour agreements or in company practices that may be more favourable than those of the **Labour Code** (law 23/2012 of 23.6). It also esteems necessary:

- **Revoking the negative regulations of the Labour Code and of the legislation for Public Administration workers;**
- The unblocking of **collective bargaining**, with the active intervention of the government in order to find solutions to the existing conflicts by promoting collective bargaining;
- **Respecting working hours** contained in collective labour agreements or resulting from company practices;
- Publishing **extension decrees** of collective agreements, whose vast majority was suspended after the middle of 2011;
- To **enforce the rights** enshrined in the legal and contract regulations;
- Implementing **the right to vocational training**, included in the Labour Code but not implemented by a substantial number of enterprises;
- **Reducing work accidents**, whose number remains unacceptably high.

A SUFFERING COUNTRY

The austerity policy is mostly geared at cutting social expenditure in the 2012 State Budget (SB); social allowances represent 41% of the expenditure cuts. For 2013, the Document of Budgetary Strategy again gives priority to cutting the expenditure, which represents nearly 2/3 of the anticipated budgetary adjustment. And the indication is for yet another reduction of these expenses by 0.2% in the GDP (22% of the expenditure cut). In that document, the government considers diminishing the weight of public expenditure in the GDP by 4.5 percentage points by 2016, compared with 2012, while revenues will diminish 0.4% in that period. This policy will have a strong impact in the living conditions of a population with low incomes and a high poverty level, especially in the areas of social security and health.

As for social security, we highlight the cut of State transfers, restrictions in access or in the amounts of social benefits (like unemployment benefit, sickness allowance, insertion social income and maternity allowance) and the suspension of early retirements.

The social protection of society's poorest and more vulnerable sectors (Citizenship Social Protection Subsystem). The SB's for 2011 and 2012 reduced the State transfers to the social security by 17% in nominal terms and, in the middle of 2010, there was a restriction put in place for the conditions of access to all non-contributive allowances and to other social aid that depends on the verification of resources. Exceptional measures of support to the unemployed were revoked. The consequence was the rapid cut of expenditure on benefits, between 2010 and 2012, and a sharp fall in the number of beneficiaries after June 2010 (over 30% in the family allowance and in social unemployment benefits). The 2011 budgetary execution shows that the expenditure related with family allowances dropped 30% and 20% with the Social Insertion Income (SII). The government now wants to make the SII beneficiaries do community



work for 15 hours a week, in social institutions or local authorities, meaning another step forward in the stigmatization of those people and subversion of the foundation for the creation of that allowance.

The welfare system is therefore put under pressure by diminishing contributions (-4.4% in the first seven months of this year), the increase of expenditure on unemployment, the high volume of contributive fraud and evasion and the expenditure resulting from the integration of the bank workers' welfare regime. This situation not only affects the system's sustainability but is the actual backdrop for measures to diminish the right to social security.

There is a strong decline in the coverage of unemployment benefits since the middle of 2010 (from 61% in the 2nd quarter of that year to 45% two years later (see annex table). The orientation adopted was to make the system less "generous". The risk of social exclusion is clear, since more than half of the unemployed have been looking for a job for over 12 months. This is made worse by the fact that the share of long term unemployment is rising (unemployed for 25 months or more): from 27.6% in 2007 to 31.4% in 2011.

Budget cuts in health (around 14% in the National Health Service in 2011 and 2012, in accumulated and nominal terms), together with the Law of Compromises (Law 8/2012 of 21.2) – that criminalizes any compromise that goes beyond the limit of available funds, administratively defined – is leading the health care institutions to near rupture situations.

This situation is taking place in the middle of a deep crisis, without an evaluation of the consequences for the population. Last May, the Portuguese Health System's Observatory questioned whether it was reasonable that the comfort of the Portuguese debt's creditors should prevail over fundamental principles, including over the concern to protect health, which must be transversal in all policies. The Observatory exposes the implicit rationing resulting from cuts in spending, the difficulties in access to health care and it alerts that the review of Primary Health Care contains downgrading risks. This policy of attack against the NHS is translated into diminishing its capacities and response (closure of units, services and specialties), in the transfer of costs to the patients, in the loss of human resources and in its precariousness.

Access to health is limited as a result of higher health fees, of difficulties in the transportation of patients and long waiting periods. The share of the health expenditure paid by the citizens (already above the average in OECD countries), is going up, due to a 100% increase of health fees and a reduction of the state participation in the price of medicines, not compensated by lowers prices for some of them.

Emergency programme to fight unemployment

The CGTP-IN considers that the growth of unemployment requires in itself the change of economic policies and the adoption of emergency measures. It therefore proposes a structured programme with four essential lines: a) the general guidelines of economic policies must put the priority on growth, employment and social cohesion; b) fighting unemployment; c) measures to stimulate domestic demand and support to funding the economy; d) measures to strengthen social protection.

The CGTP-IN defends that notwithstanding the need to review the unemployment benefit regime, urgent measures are needed to prevent the unemployed from finishing their benefits and remain without any sort of income. **We therefore defend the enlargement of the social employment benefit.**

The social unemployment benefit is part of the Citizenship Social Protection System and therefore it is funded by taxes and not by social contributions. Thus, it is necessary to reinforce state transfers to this subsystem. These transfers should be supported by additional means, obtained from income

contributions that have, in a scandalous manner, dodged the budgetary consolidation effort. The CGTP-IN's proposal strengthens social security, without jeopardizing its sustainability.

The CGTP-IN considers it essential to defend the public, solidarity and universal system, the improvement of social security, in order to alleviate the effects of the crisis, to contribute to the recovery of the economy and to the strengthening of the system's sustainability:

- **The improvement of social security**, through increased benefits and pensions, including all minimum pensions; change of the Social Support Index; better access to non-contributive social allowances;
- **Strengthening sustainability**: among other measures, the CGTP-in proposes that contributions from wages are complemented by a tax on corporate wealth (net added value) which is currently not contributing to social security. It also defends the periodical evaluation of the regime of transfers to the state of responsibilities concerning pensions in the banks, by reconsidering the deduction tax and the mortality rate and passing the responsibility for actives to the Institute for the Management of Social Security's Capitalization Funds.

A SUICIDAL MODEL OF COMPETITIVENESS

The present model is based on using the austerity to try to reduce labour costs and the prices of export goods, thus allowing for more competitiveness gains. The underlying idea is that labour costs are high and that balance can only be achieved by a strong increase in exports.

The idea that the loss of competitiveness results from the successive increase in labour costs is not true. First, because it ignores the extremely low level of salaries in the country. In the middle of this year, 35% of the wage earners had a net monthly income of less than 600 euros, 43% of them in the northern region⁴. Second, because in 2011 our labour cost was only 44% of the Euro zone average⁵. Third, because the evolution of wages and salaries in the GDP was practically unchanged between 1995 and 2008 (it went from 38.4% to 38.7%), despite the fact that, in the same period, there was an increase in the employment figures (see annex chart). It is a sufficiently long period to analyse the salary share in the product in the years preceding the emerging of the crisis (first the international crisis and later the dept crisis). Such a modest salary evolution could not have unleashed it.

On the other hand, to place all the responsibility for growth in exports, means ignoring the weight of the domestic market and remaining totally vulnerable to the economic evolution of the countries to where we export. The very development of the export sector is conditioned by the crisis, which is limiting access to credit.

This policy does not respond to the Portuguese economy's structural problems – low labour force qualification, underproductive profile, mainly composed of low technology goods. These reasons explain, to a great extent, the difference of productivity in relation to the more advanced European countries. In 2010, 37.4% of the exported manufactured goods were of low technology and 24.2% of medium low technology⁶.

An evolution to higher technological intensity goods would require an effort directed at better productivity and not at wage cuts. With the option made, what is being given is an incentive to the

⁴ INE Statistics (2nd Quarter)

⁵ Eurostat Statistics

⁶ According to statistic data of the Economy and Employment Ministry



enterprises to try and obtain competitiveness-price gains, while sacrificing wages and pushing the economy towards low productivity sectors. We become more vulnerable because, in a context of a global economy, there will always be countries producing for lower prices.

Under these conditions, the country's productive capacity will wither instead of developing. This capacity (potential GDP) depends on factors that are being weakened: compression of the capital *stock*, loss of qualifications as a result of qualified young and adult emigration, cuts in education, freezing of investment in infrastructures, workers' de-motivation, emphasis on competitiveness-price and not on productivity and innovation. This orientation of the troika clashes in fact with the fundamental messages and priorities contained in the guidelines for the EU economic policies, the Europe 2020 Strategy. In this strategy the priorities set are: a) creating value by basing growth on knowledge; b) training people for inclusive societies; c) creating a competitive interlinked and greener economy

Lisbon, 3 September 2012

ANNEX

Indicators: unemployment, sub-employment and precariousness (2^o quarter, thousand)

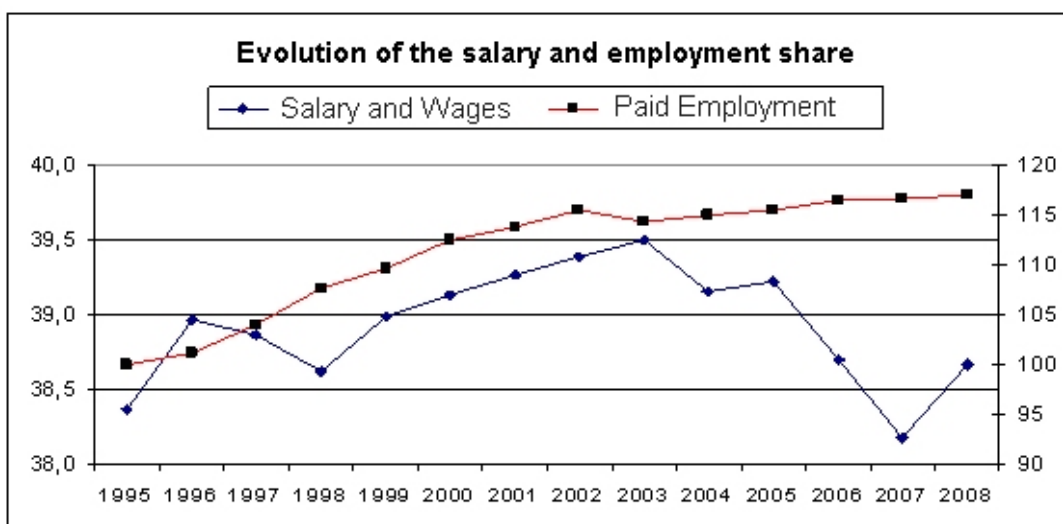
	2011	2012
Sub-employment		
Part-time sub-employment	211.4	261
% of part-time employment	33.4	38.6
Unemployment		
Official Unemployment	675.0	826.9
Non-Available Inactive Seeking a Job	31.6	37.7
Available Inactive Not Seeking a Job	147.7	217.4
Precariousness		
Non-permanent contracts	882.3	768.7
% of Wage Earners	22.8	21.0
Wasted Labour Force (without sub employment)	854.3	1082.0
Wasted Labour Force (with sub employment)	1065.7	1343.0

Source: INE, Inquiry on Employment

Coverage of Unemployment Benefits (2^o quarter)

	2008	2009	2010	2011	2012
Unemployed with benefits (thousand)	257.0	322.8	363.8	290.1	369.4*
Unemployed (thousand)	409.9	507.7	598.8	675	826.9
Seeking new job (thousand)	359.6	457.9	535	608.3	745
Coverage – total (%)	62.7	63.6	60.8	43.0	44.7
Coverage – seeking a new job (%)	71.5	70.5	68.0	47.7	49.6

Source: INE (Inquiry on Employment) and GEP-MSSS (Statistical Bulletin) * April and May average



Source: Estimated by INE, National Accounts

Note: Share of (%) wages and salaries in the GDP (in the left axis) and full time paid employment (1995 =100) in the right axis.

Reading: The share of wages and salaries in the GDP went from 38.4% in 1995 to 38.7% in 2008; employment went from a 100 index in 1995 to 114 in 2008.

