

CRISIS AND AUSTERITY POLICIES IN PORTUGAL – unravelling myths

Attac Portugal

*ATTAC Norway Conference
Oslo, 21st – 22nd October 2011*

FROM FINANCIAL CRISIS TO A DEBT CRISIS

Financial crisis

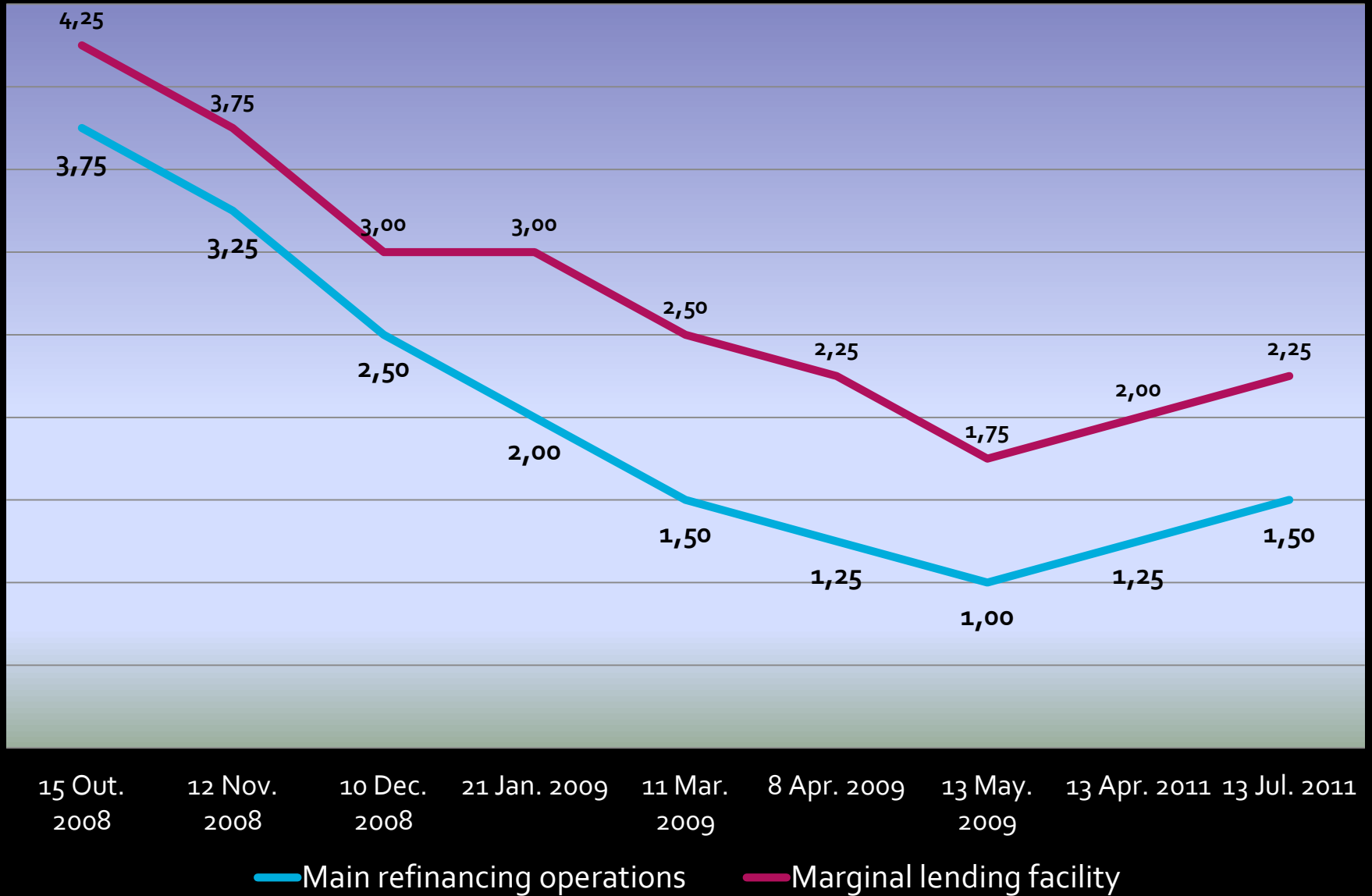
Public deficits to reduce consequences

2009  €2,2 Bn

- 1% to create jobs
- 61% financial system
- 36% enterprises

Financial speculation promoted by **European** Central Bank

ECB Interest Rates



Portugal Government 10y bond yield



ADJUSTMENT THROUGH LABOUR

- Banks recapitalization
- Restrain Government Deficit
- Support higher interest rates

But **who** is paying the adjustment, and **how**?

Income transfer: from labour to capital



The neoliberal strategy



Chattanooga Times Free Press Bennett

The Rescue Plan

CRISIS MYTHS

1. WE HAVE BEEN LIVING ABOVE OUR POSSIBILITIES
2. LOWER COMPETITIVENESS DUE TO WAGES GROWING FASTER THAN PRODUCTIVITY
3. LABOUR MARKET FLEXIBILITY TO CREATE JOBS
4. AUSTERITY IS THE ONLY WAY OUT

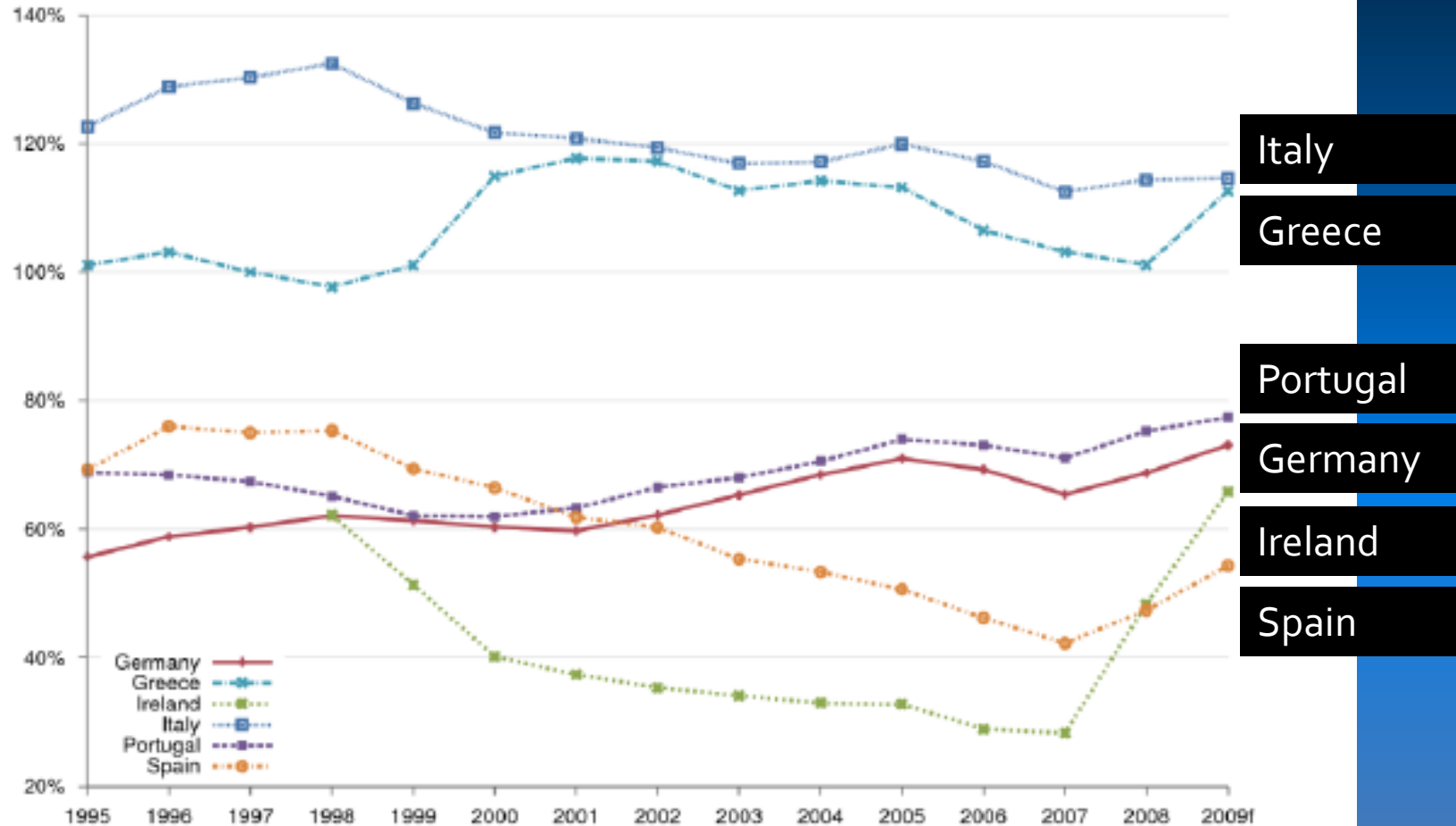
UNRAVELLING MYTHS

- 1. DID WE LIVE ABOVE OUR POSSIBILITIES ?**
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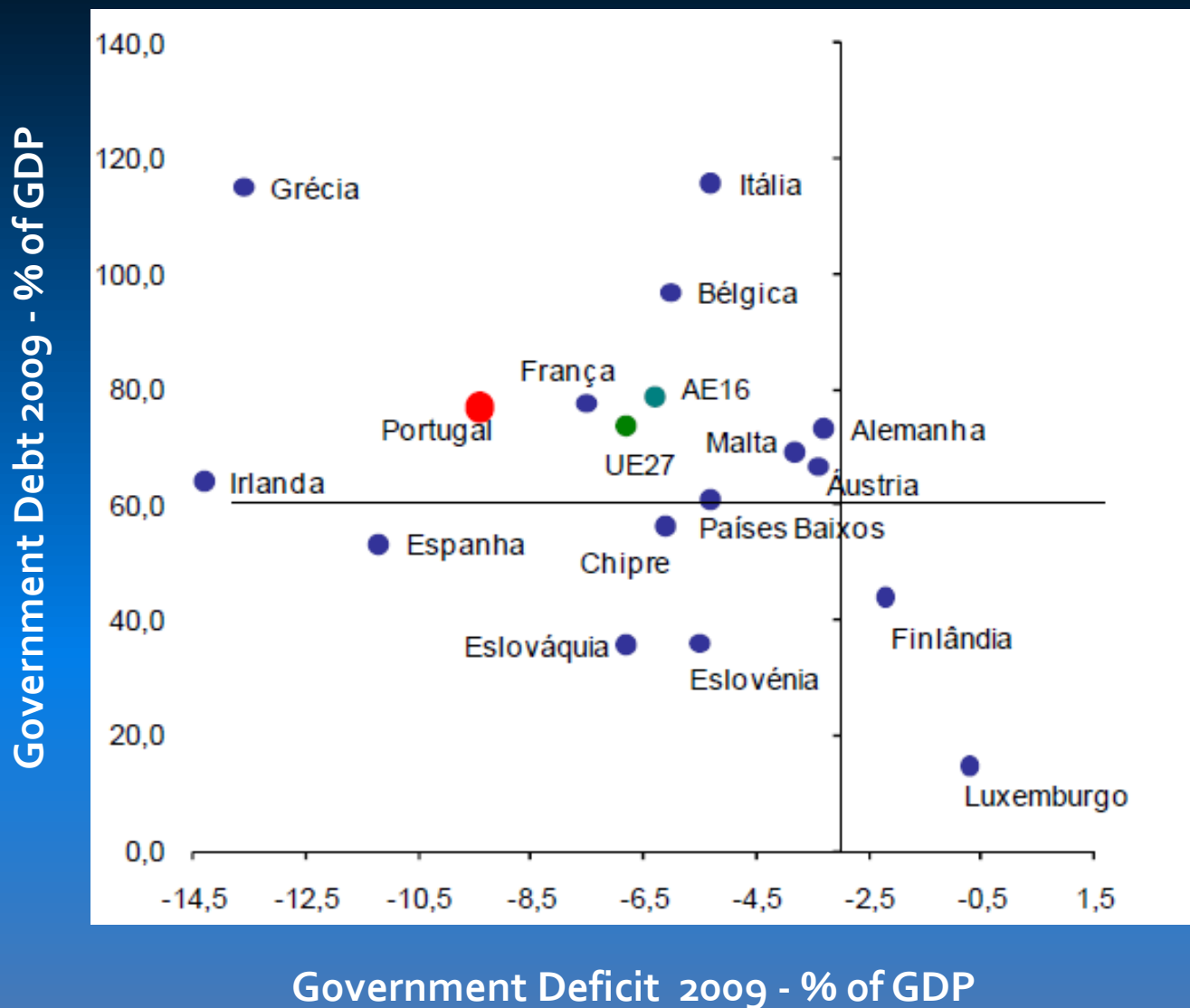
DID WE LIVE ABOVE OUR POSSIBILITIES ?

Fig. 22 General Government Gross Debt

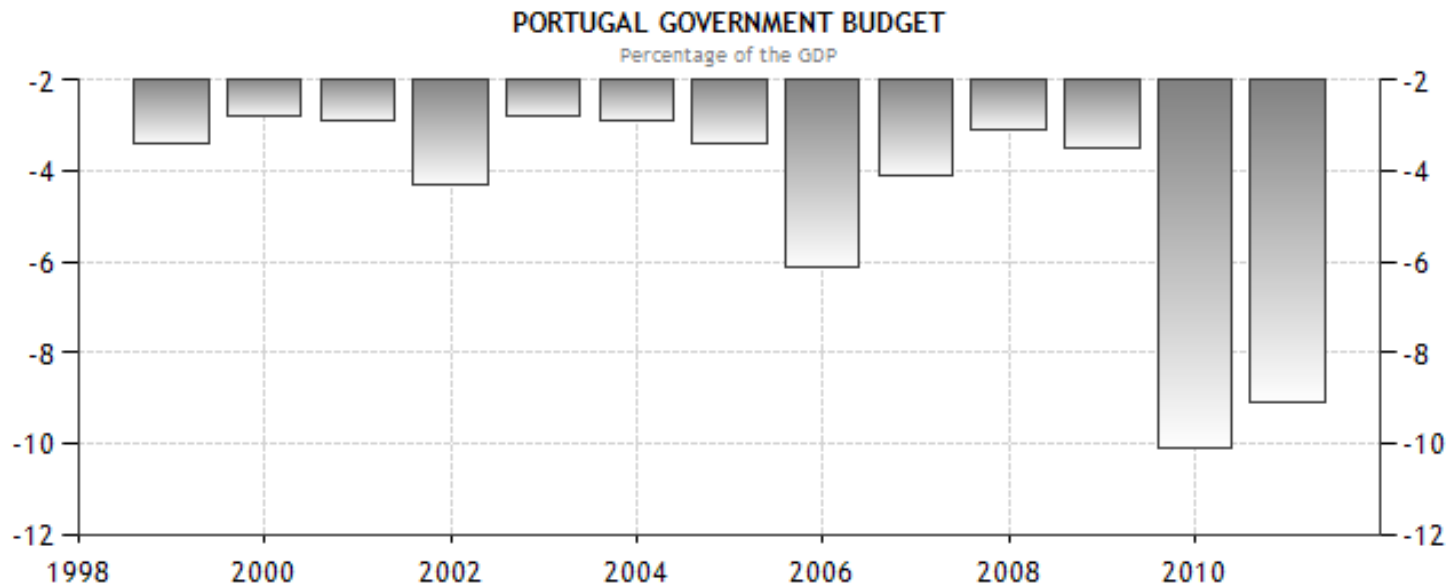
% of GDP Source: Eurostat



DID WE LIVE ABOVE OUR POSSIBILITIES ?

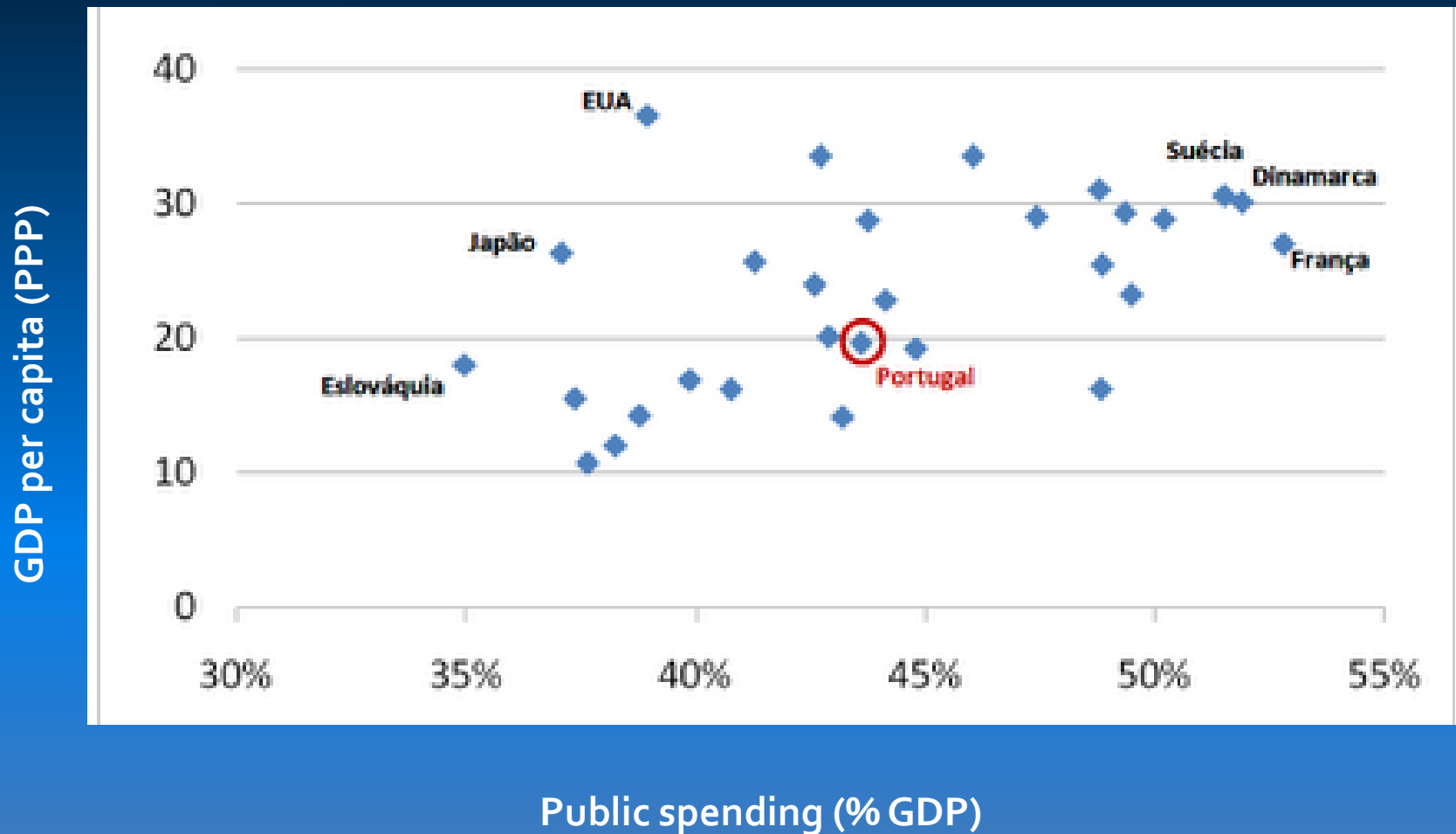


DID WE LIVE ABOVE OUR POSSIBILITIES ?



source: TradingEconomics.com; Eurostat

DID WE LIVE ABOVE OUR POSSIBILITIES ?



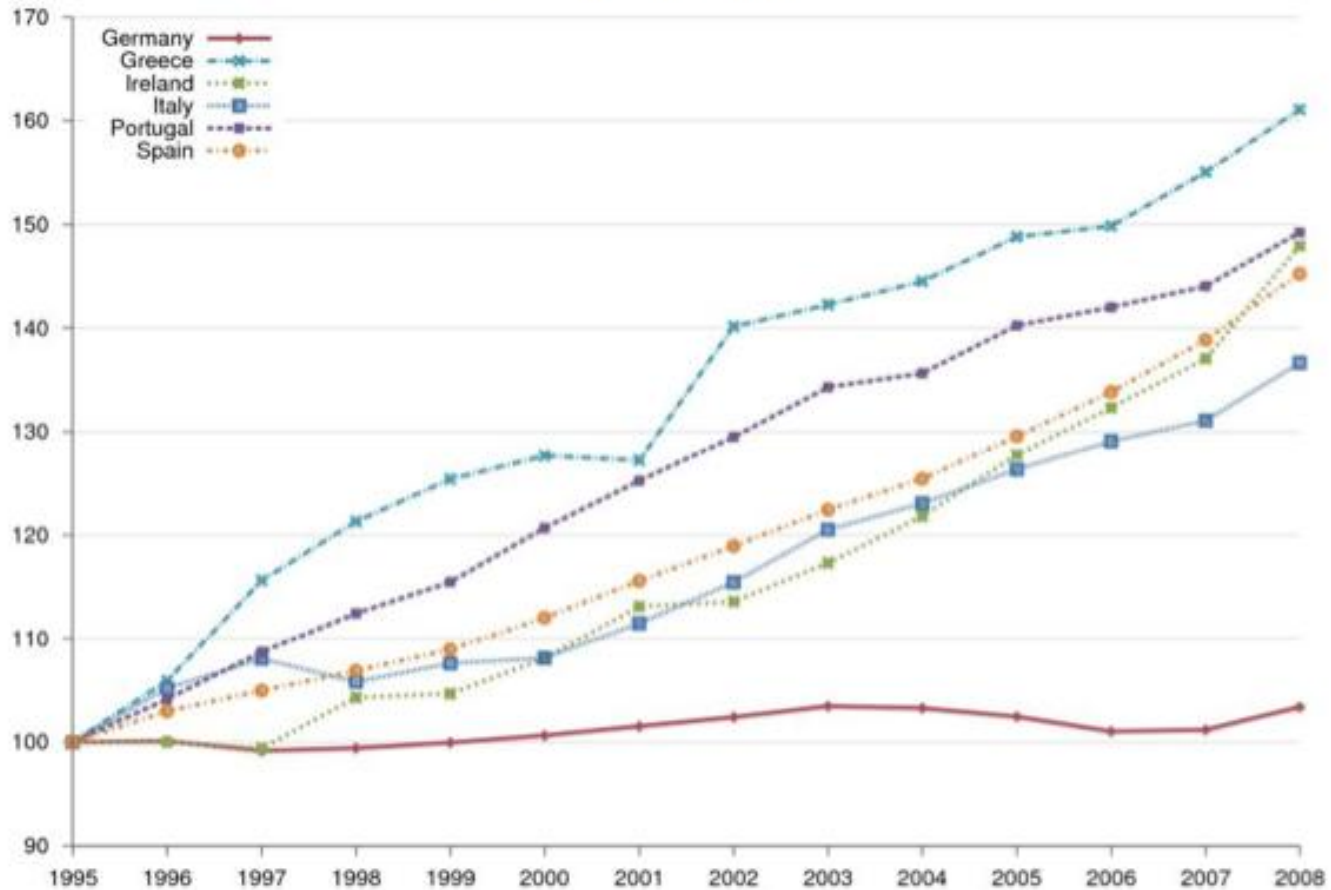
UNRAVELLING MYTHS

1. DID WE LIVE ABOVE OUR POSSIBILITIES ?
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3. ABOUT MARKET FLEXIBILITY TO CREATE JOBS
4. AUSTERITY IS THE ONLY WAY OUT

LOWER COMPETITIVENESS?

Fig. 10 Nominal Unit Labour Costs

(1995 = 100) Source: AMECO



Greece

Portugal

Ireland

Spain

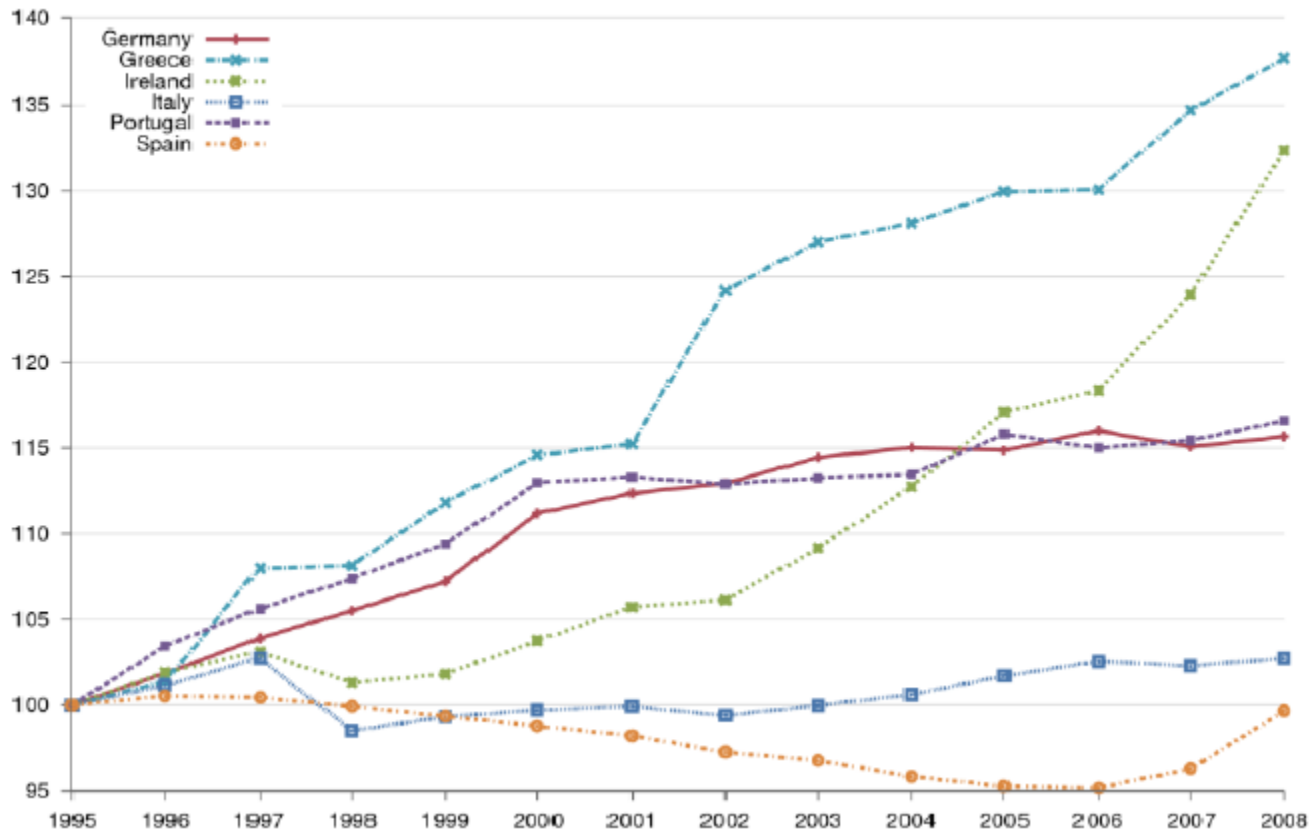
Italy

Germany

LOWER COMPETITIVENESS?

Fig. 11 Real Compensation of Labour

(1995 = 100) Source: AMECO



Greece

Ireland

Portugal

Germany

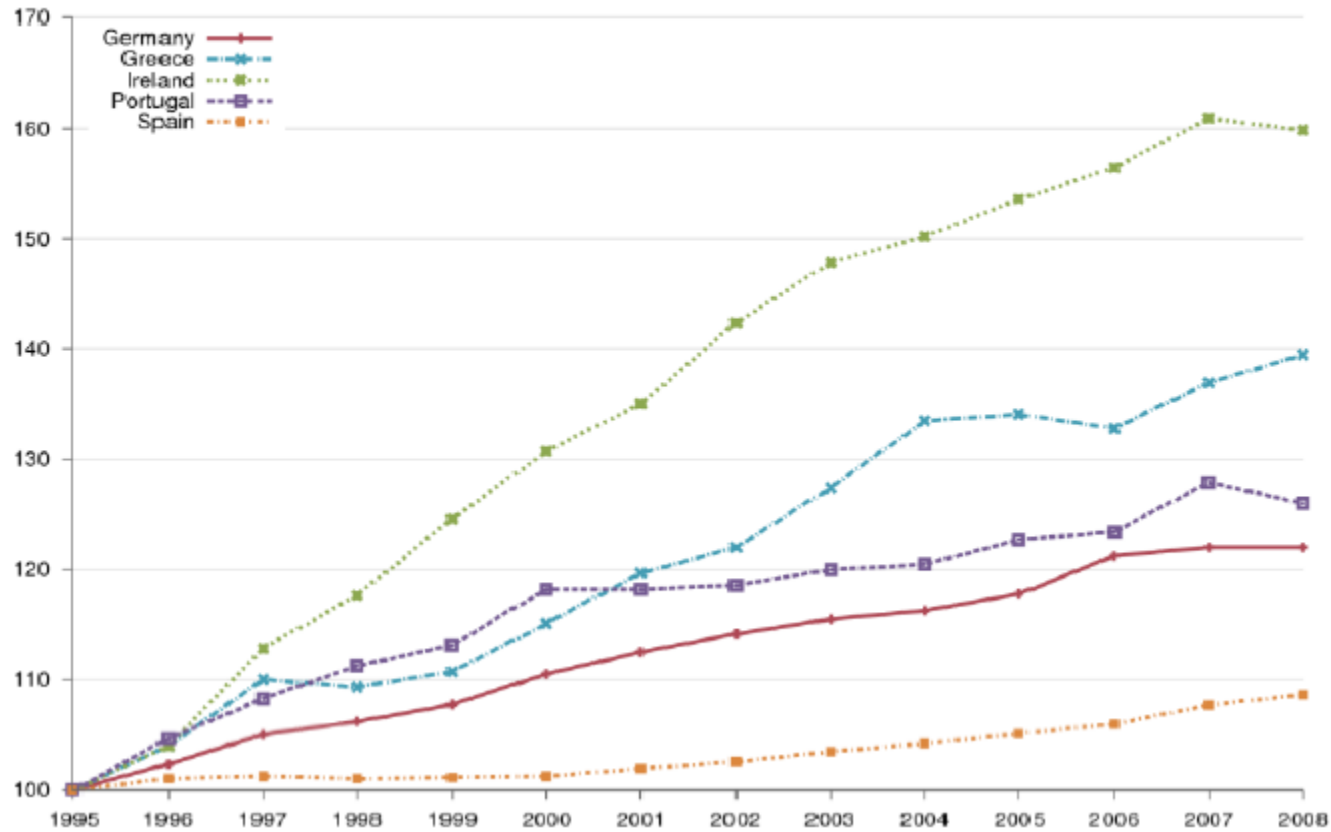
Italy

Spain

LOWER COMPETITIVENESS?

Fig. 12 Labour Productivity

(1995 = 100) Source: OECD



Ireland

Greece



Portugal

Germany

Spain

LOWER COMPETITIVENESS?

1991 - 2006  - **17,3%**

- Escudo overvalued  60%
- No impact from wage evolution
- Other structural factors  40%

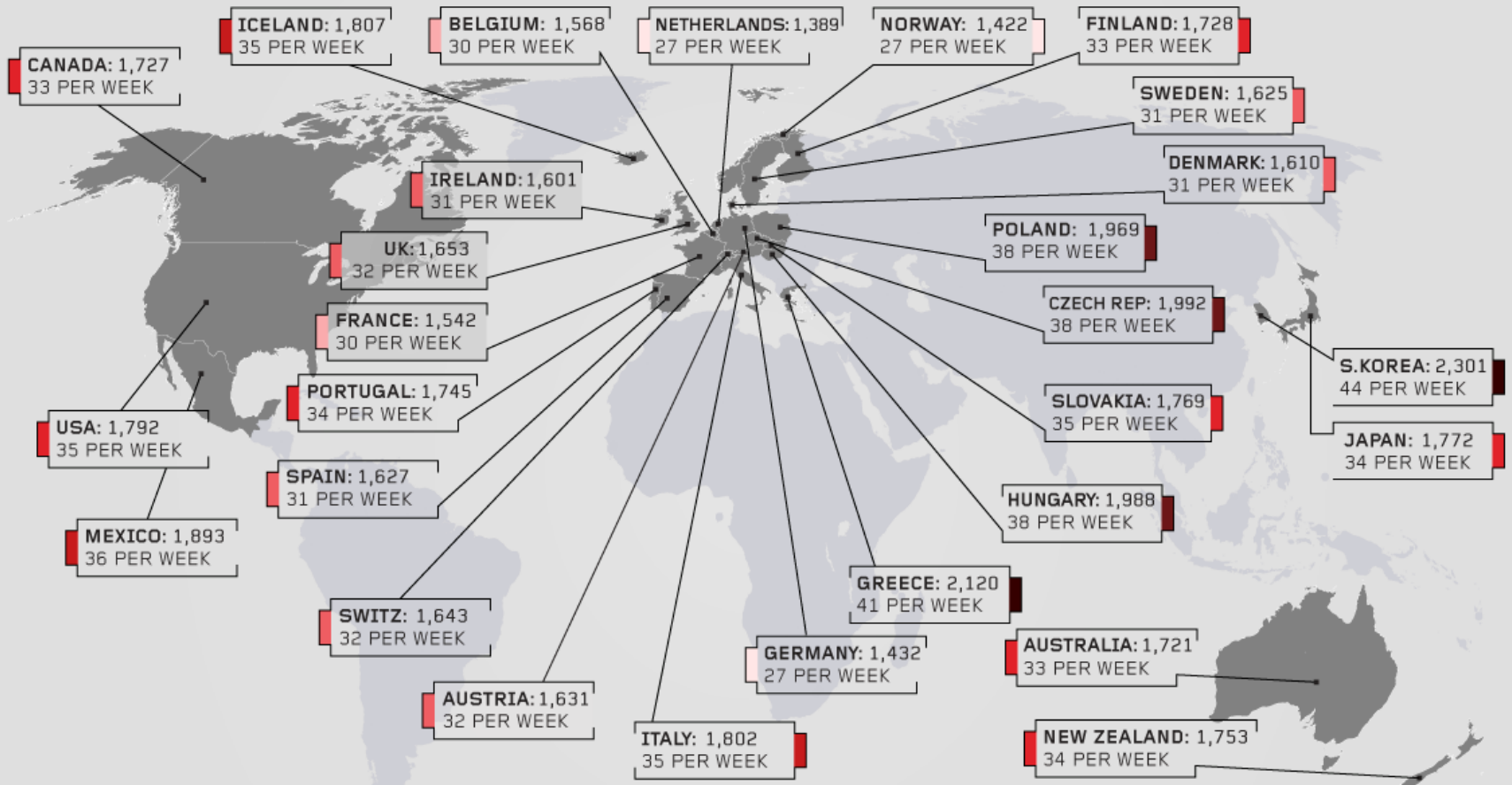
WORKING AROUND THE WORLD

The Organisation for Economic Co-Operation and Development just released their study on average annual hours worked per worker in 2008, showing us which countries have their nose to the grindstone and which ones are more often found smelling the roses.

KEY

COLOR INDICATES AMOUNT OF HOURS

COUNTRY: HRS PER YEAR
HOURS PER WEEK



UNRAVELLING MYTHS

1. DID WE LIVE ABOVE OUR POSSIBILITIES ?
2. LOWER COMPETITIVENESS DUE TO WAGES GROWING FASTER THAN PRODUCTIVITY

1. LABOUR MARKET FLEXIBILITY TO CREATE JOBS

2. AUSTERITY IS THE ONLY WAY OUT

LABOUR MARKET FLEXIBILITY TO CREATE JOBS?



LABOUR MARKET FLEXIBILITY TO CREATE JOBS?

Flexibility in Portugal

- 619 thousand people unemployed (12,3% - 4th highest in OECD countries)
- 60% with no support
- 1,9 M precarious workers
- 9 in 10 new jobs are precarious jobs

UNRAVELLING MYTHS

1. DID WE LIVE ABOVE OUR POSSIBILITIES ?
2. LOWER COMPETITIVENESS DUE TO WAGES GROWING FASTER THAN PRODUCTIVITY
3. ABOUT MARKET FLEXIBILITY TO CREATE JOBS
- 4. IS AUSTERITY IS THE WAY OUT?**

IS AUSTERITY THE WAY OUT?

- Main policies in Portugal
- Export our way out of the crisis?
- The falacy of composition
- Rising inequality
- Interests burden and the snowball effect

AUSTERITY MEASURES

Before the “rescue” plan:

Anticipated elimination of all anti crisis measures

TAXES

- VAT: + 3%
- Wages: 1% - 1,5%
- Corporate: 2.5% > €2M

WAGES

- - 5% all public workers

PUBLIC INVESTMENT HALT

AUSTERITY MEASURES

SOCIAL SECURITY

- Social Integration Income (- 20%)
- Cuts in child support, students scholarships, unemployment benefits, health services etc.
- Bring in proofs – you have the right, but you need to justify it

DURING 2010

- 460 000 families lost state support
- 75 000 lost SIS

AUSTERITY MEASURES

The “troika rescue” - not just cuts  overall change

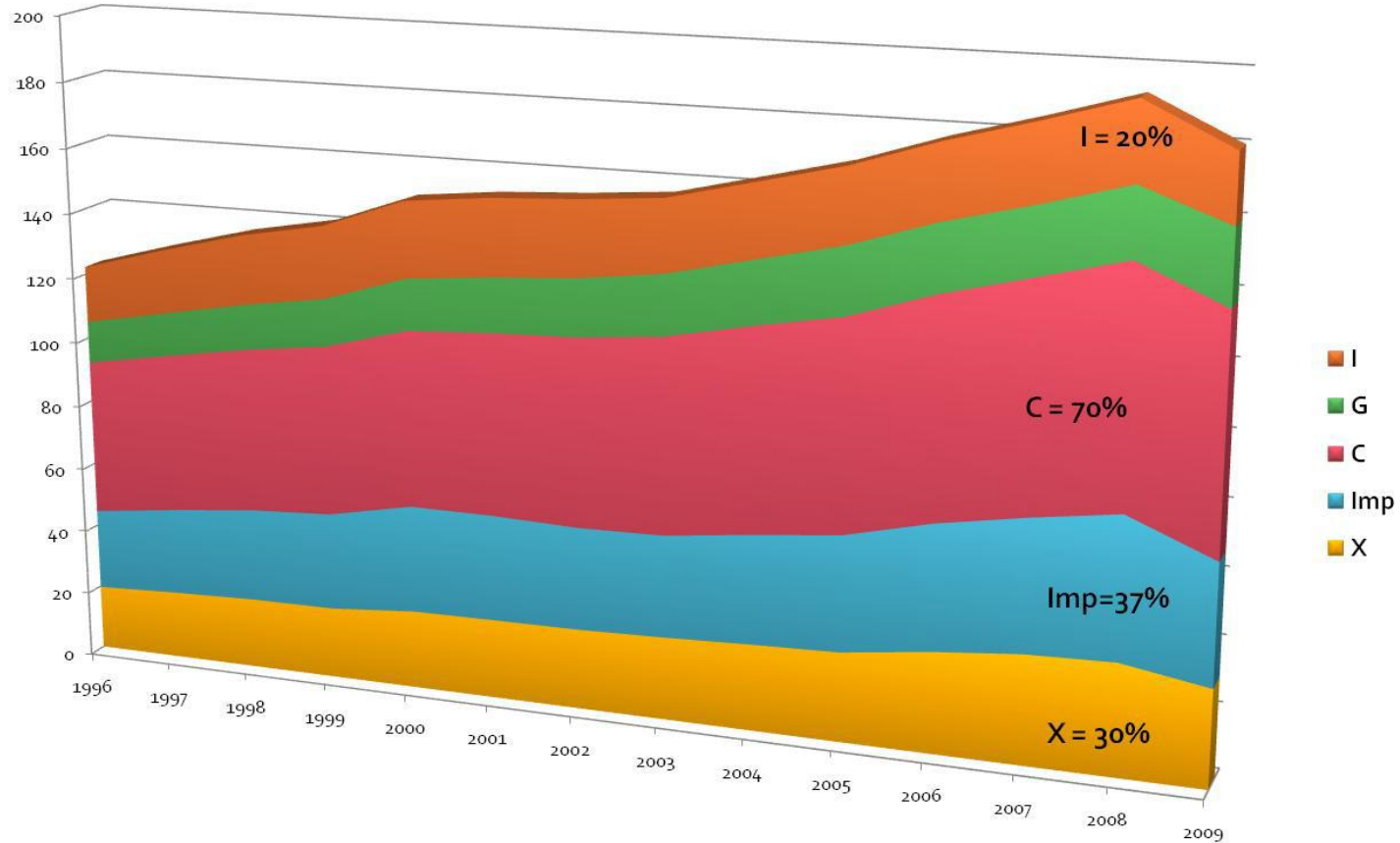
- Privatization of water, electricity, transports, mail services, ...
- Reduction of public health and education through cuts and “rationalisation”
- Radical labour market change

AUSTERITY MEASURES

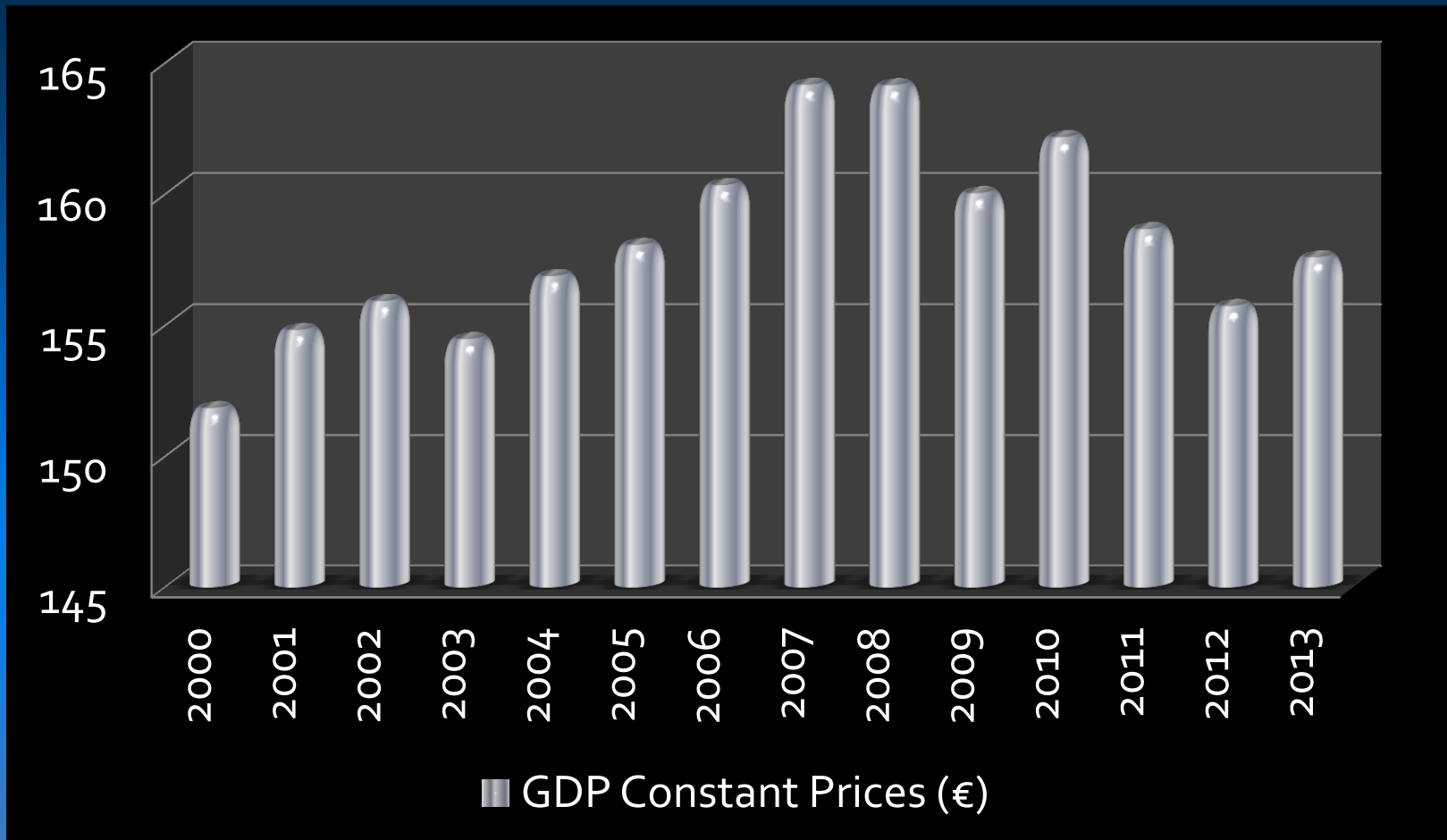
2012 – Will it ever be the same?

- Lost of 14% of wage for all public workers
- Increase of 30 mns/day on private sector working time
- Loss of most fiscal benefits
- Increased VAT tax especially in restaurants
- Increased taxes on house property
- Cuts especially on health and insurance
- Easier and cheaper worker dismissals

CAN WE EXPORT OUR WAY OUT OF THE CRISIS?



THE FALACY OF COMPOSITION



RISING INEQUALITY

Expenses



Revenue



Who pays the Bill?



INTERESTS AND SNOW BALL EFFECT

Evolution of Public Debt			
(% of GDP)			
	2010	2011	2012
Debt stock (end of the year)	93,3	101,9	110,5
Debt variation (pp. Of GDP)	10,3	8,6	8,6
Weight of Primary Deficit	6,8	1,6	-0,7
Weight of Interests and GDP Snow ball effect	1,0	5,1	6,4
Weight of interests	3,0	4,3	5,2
Weight of nominal GDP Growth	-2,0	0,8	1,2
Other	2,6	1,9	2,9
Of which bank recapitalisation support mechanism	---	1,6	4,7
Stock of debt without bank recepitalisation mechanism	93,3	100,3	105,8

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IS AUSTERITY THE WAY OUT?

PORTUGAL GOVERNMENT BOND 10Y
Implied Yield on 10 Year Bonds



Source: TradingEconomics.com

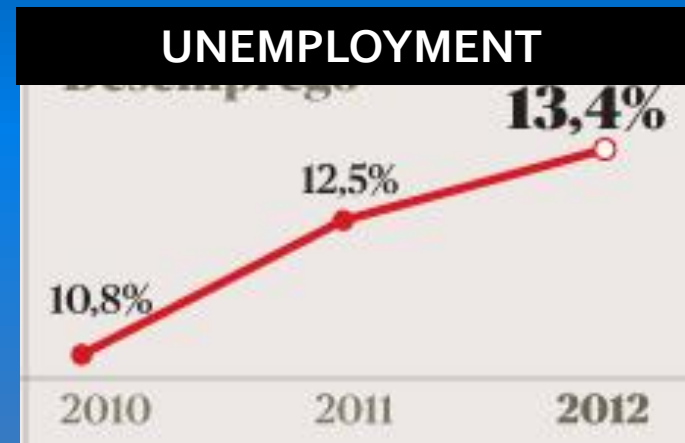
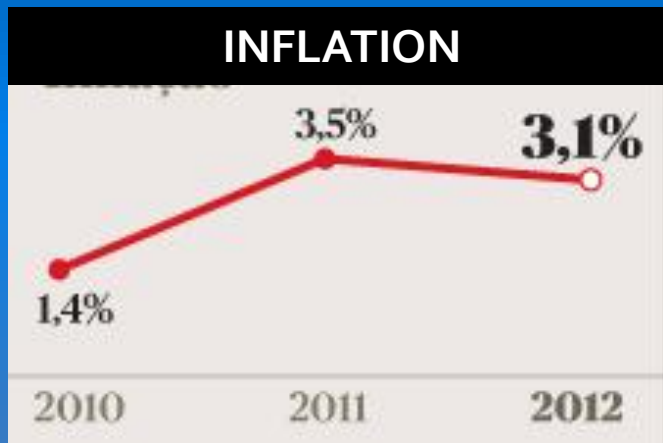
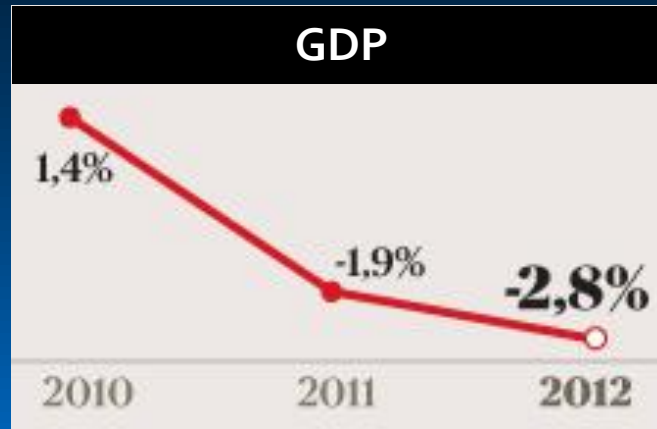


Austerity "packs"



International Financing Programme

MACROECONOMIC FORECASTS



CAN WE AFORD NOT TO GROW?

	Germany		Greece		Norway		Portugal		Spain	
Indicator	2007	2011	2007	2011	2007	2011	2007	2011	2007	2011
Population (millions)	82,18	81,44	11,11	11,19	4,72	4,96	10,60	10,66	44,48	46,14
CGD, current prices, Bn Dolars	3.328,59	3.628,62	311,24	312,04	387,58	479,30	232,08	241,92	1.444,02	1.536,48
GDP per capita (PPP) K dolars	35	38	29	28	52	53	23	23	30	31
Unemployment rate (%)	8,78	6,00	8,29	16,48	2,51	3,60	8,92	12,22	8,26	20,70

ALTERNATIVES

- No wage and social spending cuts
- Public bank against speculation
- Tax transfers to fiscal paradises
- Financial system effective tax rate 25%
- Public investment: urban requalification/renewal
- Audit on Portuguese public debt

ALTERNATIVES

- Different rules for ECB: growth and employment
- The end of Stability and Growth Pact – a new Pact for employment and growth
- Eurobonds and Stronger european budget
- Financial system reform and control
- Tax on financial transactions and elimination of speculative products

EUROPEAN LEADERS MUST LISTEN TO THE PEOPLE!

