

In the polls the Socialists just ahead of the outgoing right-wing coalition in Portugal

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Analysis

Abstract:

On 22nd July last the President of Portugal Anibal Cavaco Silva (Social Democratic Party, PSD) announced that the next general elections would take place in Portugal on 4th October next. On the same day nearly 5000 people demonstrated in the streets of Lisbon asking for the resignation of the government led by Pedro Passos Coelho (PSD) and the end of political austerity.

21 parties are running in this general election; 14 are standing in the country's 22 constituencies. Just one month before the election the opposition leads in the polls – a situation ongoing since 2012 – but its lead over the government coalition is very slight.

The most recent poll by Eurosondagem in August credits the Socialist Party (PS) with 36.3% of the vote and the Social Democratic Coalition (PSD)-People's Party (PP) with 34.8%. These two parties are running ahead of the Unified Democratic Coalition (CDU) that is due to win 10% of the vote and the Left Block (BE) 5%.

The Portuguese electoral law which previously obliged the media to bring together all the leaders of the parties running in the election in any debate they organised has been modified. Prime Minister Pedro Passos Coelho and his main rival, socialist leader Antonio Costa, are to meet in a face to face interview on the three main Portuguese TV channels (RTP1, SIC and TV1) on 9th September. Eight days later the two men will face each other again in a debate that will be broadcast on radio Antena 1, Renascença and TSF.

STILL A WEAK COUNTRY

In 2011 Portugal benefited from a rescue plan of 78 billion € granted to it by the IMF, the European Commission and the European Central Bank in exchange for the adoption by Lisbon of structural reforms with the aim of restoring the country's

competitiveness, reducing the debt and, more widely, consolidating public finances. Although the country has not experienced a bank or real estate crisis like Ireland, its economic growth has been extremely low. Money became extremely expensive for Portugal which could only borrow on the financial markets at interest rates over 8% on 10 year loans. The financial markets then considered that Lisbon had no other option but to request international aid to end the crisis and the then Prime Minister, José Socrates (PS), had to ask for financial help from the European Union and the IMF.

After its victory in the last general elections on 5th June 2011 by the Social Democratic Party Pedro Passos Coelho's government implemented an austerity policy: many budgetary cuts, sharp tax increases (+40%), reduction in civil servants' salaries, privatisation of state-run businesses, major reduction in unemployment benefits, etc. These austerity measures led to a reduction in the budgetary deficit but they also increased unemployment and reduced the living standard of many Portuguese.

Between 2011 and 2013 Lisbon experienced 11 consecutive quarters without growth, the country's severest recession in 40 years.

On 17th May 2014, Portugal officially emerged from the international aid programme which it had been granted in May 2011, achieving this without a safety net i.e. any additional aid. In three years the country has won back its access to the international financial

markets and finalised its programme for budgetary consolidation. The Portuguese GDP has been in the black for the last 8 quarters; Pedro Passos Coelho's government is forecasting growth of 1.6% this year. In 2014, ahead of the deadline, Lisbon even paid back nearly a quarter of its debt of 29.6 billion € to the IMF.

Although the Portuguese economy is more balanced than some years ago and businesses are stronger and more competitive and all economic players (households, businesses, civil service) have reduced their spending, recovery is weak and the upswing is not to the benefit of the entire population. Hence unemployment is still high (12.1% in July 2015 – its lowest level since 2010 however and just a few 10ths below the European average (11.1% in comparison with 17.5% in January 2013). One third of the under 25s are looking for a job and half of the graduates under 35 find employment in a series of temporary contracts and earn no more than 900€ per month. There is a great amount of inequality: according to the most recent OECD report Portugal is one of the countries with the highest inequality levels and the one in the euro zone which has become the poorest: 10% of the richest Portuguese possess 25.9% of the country's wealth and the poorest 10% only 2.6%. Nearly one Portuguese citizen in five lives below the poverty line, i.e. with an income below 411€. Taxes are at an historic high and the government debt is also still high (130% of the GDP). Finally emigration is at its highest level since 1960. In 2013 more than 100,000 people left Portugal. Many went to live in former colonies (Mozambique, Brazil and Angola). Unemployment and emigration explain the decline in the country's working population (- 0.80% over the last 12 months).

Growth remains weak and this is mainly due to the contraction in domestic demand and imports; whilst exports are up, recovery is still too slow for the country to recover its pre-crisis output and employment levels. Lisbon has also benefited from the weak euro and the drop in oil prices.

The IMF has indicated that the country might not achieve the deficit goal that it had set itself this year (2.70%, i.e. below the 3% mark set by the Stability

and Growth Pact which would be a first in 15 years) if it did not make further spending cuts. The EU has also asked Lisbon to take steps in support of consolidation. Portugal would also like to reduce its debt to 125% of the GDP.

THE PARTIES RUNNING

Severely shaken in 2013 [1], the outgoing coalition formed by the Social Democratic Party and the People's Party is more united now than ever before. Both sides have chosen to run joint lists in the general election.

Prime Minister Pedro Passos Coelho is campaigning for the continuation of the present austerity policy which is vital in his opinion. He maintains that a second mandate granted to his coalition *"would reduce the danger of a return towards bad policies and dangerous illusions."* *"The Socialist Party is promising the electorate miracles and will lead the country to disaster. I am convinced now more than ever that the path that we have adopted is the one we must follow,"* repeats the outgoing head of government.

Pedro Passos Coelho can use the recovery of the housing market as a support as well as the rise in exports and investments and also the good figures produced by tourism. He is promising tax relief (reduction of 4 points in taxes that are a burden to businesses and the reimbursement of a quarter of a surcharge of 3.5% on income tax in 2016).

The government is also able to promote the positive figures published at the end of August by the Portuguese Statistics Institute (INE) which show that growth is continuing (+ 0.4% for the GDP in the 2nd trimester 2015) whilst unemployment continues to decline. Youth unemployment is improving although one third of the latter (31%) still have no job. The Socialist Party is challenging the recovery boasted by Prime Minister Pedro Passos Coelho. *"With high emigration the labour market has contracted over the last 15 quarters. If we add the 250,000 unemployed who have relinquished their quest for work to the 650,000 unemployed, the 350,000 migrants and the 170 000 trainees, we have a clearer idea of the legacy left by this government,"* declared Mario Centeno, the PS's economic programme. *"Of course emigration*

1. On July 1st 2013 the Finance Minister and main craftsman of the austerity policy, Vitor Gaspar (Independent) resigned from government deploring the obstacles which he faced in terms of implementing his work. The next day Paulo Portas (PP) Foreign Minister also resigned which was rejected by Prime Minister Pedro Passos Coelho. By resigning Paulo Portas was trying to protest against the appointment of the Secretary of State for the Treasury, and Vitor Gaspar's second in command, Maria Luis Albuquerque (PSD), at the Finance Ministry.

has helped improve the labour market figures but employment is rising and business heads are more confident," said Paulo Carvalho, economist at the bank BPI.

At the end of August the Portuguese government announced that the budgetary deficit (5.37 billion €) had decreased by 8% over the first seven months of this year and said it was confident in that it would drop below the threshold of 3% of the GDP in 2013: 2.7% in comparison with 4.5% last year. The coalition in office also indicated that the State's fiscal revenue had increased by 4.9% (20.87 billion € over the first seven months of 2015).

The Socialist Party is promising to turn the page on austerity which in its opinion is simply making the Portuguese poorer. The party suffered a leadership crisis in 2014. On 28th September 2014, the Mayor of Lisbon Antonio Costa finally won the primary election organised by his party with 67.9% of the vote against the party's leader José Antonio Seguro, who won 31.7% of the vote. Antonio Costa was elected Secretary General of the PS on 22nd November with 96% of the vote and will therefore be leading the Socialist campaign.

According to the party's leader the policy undertaken by the government coalition has made life for the unemployed more difficult, it has increased job insecurity and damaged public services, notably in terms of education and healthcare. Antonio Costa is however very discreet and very vague about the way he intends to end austerity. *"We want to govern better and differently,"* he declared saying, *"We have to stop taking radical positions and start constructive debate."*

The Socialist Party has made the fight to counter unemployment and to improve job security its priorities. It accuses the outgoing government of not creating jobs and of simply financing short term training sessions that take the unemployed out of the national statistics. It plans to stimulate the country's economic growth by providing the Portuguese with greater buying power again. To do this it hopes to reduce the social charges that are a burden to employees (reduction from 11% to 7% in

terms of social security contributions) likewise those weighing on employers. It is proposing the reduction of taxes introduced by the outgoing coalition which in its opinion "have suffocated the middle class", the restoration of civil servants' salaries to their 2011 levels and the reintroduction of a 35 hour working week for civil servants (working time had been increased in the civil service to 40 hours a week at the end of 2013 in order to align with the private sector). However the socialists are proposing to introduce a new inheritance tax and sanctions against businesses in which there is a high staff turnover. It wants to make it harder to dismiss people and is promising to increase spending in the healthcare and education sectors. It is putting forward a traditional policy of wealth redistribution which seems impossible in view of the state of government finances. As the election date gradually approaches Antonio Costa has however moderated his discourse on austerity. He has said for example that he would honour Portugal's commitments if he came to office in October next and would continue the deficit reduction policy.

If it wins on 4th October the PS is not due to win an absolute majority. It might then find it difficult to form a coalition. The socialists might choose to form a minority government or join forces with the "small parties" - solutions which both appear potentially to be the vectors of instability.

Just one month before the election the PS has suffered a heavy blow with the imprisonment of its former leader, ex-Prime Minister (2005-2011) José Socrates is being prosecuted (with six other people) for corruption, money laundering and tax fraud.

The former socialist leader is said to have repatriated 20 million € from a Swiss bank account to Portugal via an extraordinary regularisation scheme introduced in 2009 by his government which enabled tax adjustment and therefore granting a kind of amnesty for any type of tax fraud.

The authorities also believe that the building company Lena paid major sums of money into a Swiss bank account held by Carlos Santos Silva, a businessman close to José Socrates, in exchange for favours granted to the company during the socialist leader's mandate

as head of the country. The former Prime Minister is denying the accusations made against him but these scandals and his detention have been a heavy burden for the PS.

During the local elections on 29th September 2013 the Socialist Party won 36.26% of the vote and 149 town councils (+18 in comparison with the previous local elections on 11th October 2009), including Lisbon where Antonio Costa won the absolute majority, Coimbra, Vila Nova de Gaia and Sintra. The Social Democratic Party won 16.7% of the vote and 106 town councils (- 32). These elections were typified by a record number of independent candidates (80 in comparison with 54 four years previously). The latter won 6.89% of the vote and 13 town councils including that of Porto – the country's second most important town. Turnout was low (52.60%).

THE PORTUGUESE EXCEPTION

Unlike Greece or Spain Portugal, where several demonstrations against the austerity policy have rallied many citizens in street protests, has no radical left party that might threaten the main parties. Several new parties have been created over the last few months: one on the left Livre/Tempo de avançar (Free/Time to move forward L/TDA) founded in 2013 and three in the centre: Juntos pelo povo (Together for the People, JPP) created in March 2014 and led by Elvio Sousa; Nos, Cidadãos!, (We, the citizens!) founded mid-2014 and led by Mendo Castro Henriques and the Republican Democratic Party, created in October 2014 by lawyer and former President of the Bar Association Antonio Marinho e Pinto which is fighting for electoral reform and justice. The Earth Movement which the latter led previously did however make a breakthrough in the European elections on 7th June 2014 winning 7.72% of the vote and two seats.

"Portugal has lacked a political project that might gain the trust of the discontented," analyses Viriato Soromentho Marques, a professor of Political Science at the University of Lisbon. The ambiguous attitude of the Socialist Party, deemed by some to be working

hand in hand with the Troika might have benefited from an offer on the part of the radical left but this was not the case. .

There are several reasons behind the weakness of this political trend in Portugal one of which is the importance of the Communist Party that undoubtedly absorbs a greater share of the left's protest vote. The lack of any charismatic leader who can galvanise discontent within the alternative parties is also an important factor. The Portuguese political system, which is slightly proportional also makes it difficult for the "small" parties to find representation and as a result gain access by the latter to public funding. Finally European surveys show that the Portuguese are much less politicised and less interested in politics than the Spanish and the Greeks. In the face of the crisis many have preferred abstention to the protest vote. *"As is often the case everything that is happening in Europe takes several years to get to Portugal,"* concludes sociologist Elisio Estanque.

THE PORTUGUESE POLITICAL SYSTEM

There is only one chamber in the Portuguese parliament. The Assembly of the Republic comprises 230 members, elected every four years by a proportional system within 22 multi-member constituencies. The country comprises 18 metropolitan constituencies and 2 autonomous regions – Madeira and the Azores which each form one constituency. In addition to this Portuguese living abroad are divided into two constituencies: the first includes those living in Europe, the second those living elsewhere in the world.

The lists of candidates are blocked hence voters cannot express their preferences on the list for which they are voting.

After the election seats are distributed according to the d'Hondt method.

5 political parties are represented in the Assembly of the Republic at present:

- the Social Democratic Party (PSD), created in 1974 and led since March 2010 by Prime Minister Pedro Passos Coelho, with 108 MPs;
- the Socialist Party (PS), founded in 1973, led since

September 2014 by Antonio Costa, with 74 seats;
– the People’s Party (PP), formerly the Social Democratic Centre/People’s Party (CDS/PP), a Christian Democratic party founded in 1974, a member of the outgoing government coalition and led by Paulo Portas, with 24 MPs;

–the Communist Party (PCP) created in 1921 with 14 seats

–the Ecologist-the Greens (PEV) founded in 1982 with 2 seats;.

These two parties formed the United Democratic coalition (CDU) with Democratic Intervention (ID).

The coalition is led by Jeronimo de Sousa.

– the Left Block (BE), founded in 1999 and led by Joao Semedo and Catarina Martins, with 8 MPs

The Portuguese also elect their president every five years by direct universal suffrage. The present head of State is Anibal Cavaco Silva (PSD), who was re-elected with 52.94% of the vote on 23rd January 2011 in the first round. He is the first president of the country’s liberal Republic since the Carnation Revolution on 25th April 1974. The next presidential election will take place in Portugal in January 2016.

Reminder of the General Election results of 5th June 2011 in Portugal

Turnout: 58,03%

Political Parties	No of votes won	% of votes won	No of seats
Social Democratic Party (PPD/PSD)	2 159 181	38,66	108
Socialist Party (PS)	1 566 347	28,04	74
People’s Party (CDS/PP)	653 888	11,71	24
United Democratic Coalition (CDU)	441 147	7,90	16
Left Block (BE)	288 923	5,17	8
Others	247 731	4,44	0

Source :
(<http://www.parlamento.pt/DeputadoGP/Paginas/GruposParlamentaresI.aspx>)
(http://www.cne.pt/sites/default/files/dl/resultados_ar2011.pdf)

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