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Catarina Príncipe

Anti-Austerity and the Politics of Toleration in Portugal

**A way for the Radical Left to
develop a transformative
project?**



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MARIO CANDEIAS

TOLERATION BY THE RADICAL LEFT - A SUCCESSFUL MODEL? BETWEEN OPPOSITION AND "JUNIOR PARTNER": HOW THE STRATEGY OF SUPPORT ALLOWS ROOM FOR MANOEUVRE

Since the end of 2015, Portugal's social democratic Partido Socialista (PS) has been in a minority government with parliamentary support from the radical Left – the Left Bloc (Bloco de Esquerda) and the Communist Party (PCP). Does this strategy of toleration of an anti-austerity government allow room for manoeuvre for a radical Left negotiating between opposition and participation in a coalition government as a 'junior partner'? Does it enable the advancement of specific limited reforms and at the same time the development of an independent transformative project? Could it possibly even serve as a model for other countries? Of course, in reality the specificity of context will always hinder the simple transfer of 'models' onto other contexts; nevertheless, there are still important lessons to be gleaned from the experiences of other countries.

To begin with, the situation in Portugal is a rare example of an attempt to oppose the politics of the Troika or the authoritarian austerity measures of European institutions. There is also a clear shared aim of putting an end to the austerity regime of the Right in Portugal. Yet we are not talking here of a left-wing government, not even a centre-left government – but rather the strategy of toleration on the basis of clear agreements on particular issues.

Successful Measures

One such agreement was the decision to discontinue the politics of privatization. Existing measures to privatize the public sector in Lisbon and Porto have been halted. Water has been declared public property, and it therefore can no longer be sold off. The public sector has seen a reversal of wage cuts. In the private sector, wages after deductions have risen following a reduction in social security payment obligations, without this having a negative impact upon pension schemes later on, or upon the sustainability of social security. False self-employment is being combatted, with the result that employees are once again receiving work contracts. Collective bargaining is to be reinstated. The elimination of four public holidays by the previous right-wing government has been reversed. On 1 January 2017, as a measure for combatting poverty, the monthly minimum wage was raised to EUR 557, and is due to increase to EUR 600 by the end of the current legislative period. Impoverished families – and in Portugal these number in the millions – have seen their energy costs reduced. Forced evictions resulting from defaults on mortgage loans will no longer take place. Pensions below the level of EUR 600 have been raised slightly, while those above EUR 600 will be exempt from some contributions. By contrast, the previous government had promised the Troika to cut the state's social expenditure by four per cent, including EUR 1.6 million in pensions.

To finance this new social policy, the current government plans to draw more strongly on the wealthy. Income tax will once again take on a progressive form, meaning that those with higher incomes will pay a larger portion of taxes. The corporate tax code will not be lowered any further, and shareholder income will be taxed more heavily. The problem of foreign debt and the future of social security are to be discussed in working groups comprising members from all three parties. Should all the agreed measures be implemented, it will be not so much a radical break with current politics but rather a soft end to the existing policy of spending cuts.

The new Portuguese government has not made any display of open solidarity with Greece's Syriza government. Quietly and calmly, it is attempting to weaken the austerity measures in its own country, to put an end to the resulting social hardship, at the same time as striving to not drastically miss fiscal targets. Whilst there have been some threats and strong pressure from European institutions, these have not enforced the usual cuts and liberalization measures, with the exception of privatization – or more accurately, sales – within the crisis-shaken banking sector (for a thorough discussion of these issues, see the interview with Mariana Mortágua). One can only assume that, following the subjugation of Greece, and in times of eroding cohesion in Europe, European institutions do not want to open yet another front.

Public Favourability

For Portuguese society, these developments mean that pressure has eased; the fear of job losses, cuts to pensions and income, as well as the retrenchment of social infrastructure, have subsided. Employees in the public sector and retirees have more money at their disposal; the savings rate is falling, while consumption is growing. The change has been palpable for many, with even poorer sections of the population feeling the

support. This is also reflected in public opinion polls. Support for the governing Socialist Party rose in the polls from April 2017 to 42 %, putting the PS 17 points above the right-wing conservative PSD (24.6 %). But support also increased slightly for Bloco de Esquerda and the green-communist electoral coalition around the Communist Party, to 9.5 % and 7.6 % respectively. The ultra-right CDS-PP, former governing party of the PSD, gained, in comparison, only 4.8 %.¹ This is an important interim statement: a signal that its toleration in the 'shadow of the government' does not have to lead to a loss of support for the radical Left.

In the meantime, municipal and regional elections took place in October 2017. Again the Right lost votes and the governing Socialist Party was able to win even more voters. The green-communist coalition CDU was able to maintain its municipal and regional strongholds, with the South and the industrial regions winning clear majorities. But they also lost nine municipalities to the Socialists, including their stronghold of Almada in the southern suburbs of Lisbon. The Bloco de Esquerda was able to improve on their results from the last municipal and regional elections, especially around Lisbon and other cities – enough to shift the majorities in many town halls towards the left.

Fernando Medina, for instance, who clearly won the city of Lisbon for the PS, is now in the position of needing to forge an alliance with the radical Left. The PCP will be able to govern in many places, with the help of the other two parties. This presents the Bloco with an opportunity to use the systems in place at the municipality level to expand their work through participation in local government and support of the local party branches and anchors.

The results have meant a reinforcement and renewal of the "confluencia", the ties between PS-Bloco-PCP. But with this also comes more responsibility, more negotiations, and, inevitably, an increase in tensions between the three parties – a necessary consequence, as Francisco Louça, former head of the Bloco and member of Parliament, put it.

Independence

The radical Left's concern that a toleration of the government should not alienate its supporters is reflected in the minimum conditions and measures for a toleration set out in the written agreement, similar to a coalition document. This is not self-evident, for in contrast to a coalition agreement, 'coalition discipline' is rather limited from the outset. The terms of the agreement stated that the radical Left should not get tied up in ministries and administrative apparatuses which they cannot control; it would have no ministers charged with dressing up minor reforms as great successes, or held responsible for negative decisions and setbacks. Instead, its role is to concentrate on the expansion of agreed-upon bills and reform initiatives in parliament and on societal debates, without the subordination of the party and parliamentary faction to governmental logic. In return, the party's own initiatives are given a greater public platform and thus enjoy greater public attention (instead of just being proposals submitted to the government for discussion). The arrangement enables left-wing parties to pursue its goal of calling for a fundamental change of course, and at the same time, through the politics of toleration, to contribute to the implementation of concrete reforms which aim to help people affected by the crisis as much as possible. When necessary, the radical Left can vote against the government – a precedent for this was set by the PS and its position on the banking crisis and the privatization that followed it (see the interview with Mortágua). This shows that 'coalition discipline' that is based on a toleration agreement is not as strict as in formal government participation. The Left must only support those measures it is committed to, and not all. The most challenging points are budgetary decisions, but so far an agreement has always been reached, and, of course, these are the main leverage issues for forcing the government to the left.

Unsettled

According to Catarina Príncipe (2017), the offer by the Bloco de Esquerda to tolerate a minority government was initially only meant tactically, made in the expectation that the Socialist Party would refuse it. The policy of toleration, then, was not a strategically developed option. Given this, it is working incredibly well for the radical Left in Portugal. But within the Bloco, there is no view of the direction the party should take, at either the national or local level. This is partly due to the unclarified division of labour between the parliamentary faction and the party. While the latter can be seen as an independent agent, the parliamentary faction, which is now completely occupied with government work, has been strengthened. Yet in comparison to the Communist Party, the Bloco's roots in the working class, at the local level and in the unions, are weak. The social movements, with which it maintains some close contacts, do not have a strong following in Portugal. It has yet to develop an over-arching strategy of connecting, spreading, and anchoring, although the conditions for creating solidarity structures as has been done in Spain and Greece certainly exist. The parliamentary faction dominates over

¹ 11.4.17, <http://eleitoral.com/2017/04/portugal-los-socialistas-aumentan-17-puntos-ventaja-centroderechista-psd/>.

the party, but it is unable to compensate for the “vulnerability” (Príncipe) which stems from its weak societal anchoring – one reason for the fluctuating electoral results for the Bloco in the last years. By contrast, the PCP has been able to rely on a stable group of loyal voters.

Because of the hastily arranged toleration agreement, its exit strategy also remains unclear. The Bloco is not obligated to go along with every measure proposed by the government, and it certainly makes use of this option. But at what time, or in which case, should it end its toleration of the PS government? At what point does it say, we can no longer go along with this government? These are difficult questions. Certainly, it is not easy to identify the precise point, but the party also needs to avoid stumbling into such a conceivable situation without first having debated it. “We should therefore try to identify and highlight the red lines now within which our support of the government is conceivable,” demanded Carlos Carujo and Catarina Príncipe back in September 2016 (Carujo/Príncipe 2016). Mariana Mortágua, deputy leader of the Bloco de Esquerda, describes in the interview which follows the struggle over the rescue, nationalization and the re-privatization of the banking sector. She is only too aware of the enormous sums of state resources that are being used, many times the total of social expenditure, and how this will necessitate difficult budgetary restrictions in the future. Would that also constitute such a breaking point? Should the party draw the line when it sees that the government and European institutions are continuing to pursue such banking policies? Or would this still leave enough latitude for social improvement?

And finally, was this also the reason why the radical Left decided not to participate directly in the government, because, with the exception of the reversal of the harshest spending cuts, there are few other common ideas regarding the country’s future development? The toleration agreement has overseen an improvement to the social situation of broad sections of the population, and economic recovery. But hardly anything has changed with regard to the structural weaknesses of the Portuguese economy; investment, for example, remains weak (Príncipe 2017). A genuine debate between the parties over the need for a transformation of the structural basis of the economy, over a socio-ecological policy for industry and the service sector, or over a generalized solidarity economy has yet to take place. The differences between the Bloco de Esquerda and the Socialist Party, which continues to work on the integration into the EU-market, are enormous.

And yet ...

The successful mobilizations that we have seen in recent years, from Bernie Sanders in the US and Jeremy Corbyn in the UK, cannot be simply replicated in continental Europe. In both cases, it was a majority electoral system without a serious political challenge from the Left that allowed a progressive renewal of social democracy to come about. It is questionable whether such a process would be possible in countries in which the place for a left-wing social democracy is contested by other parties. In view of this, the path of a careful renewal without rupture, which the Portuguese PS is currently attempting, is of interest to social democratic forces in Europe which, caught between a (self-inflicted) decline and renewal promises à la Martin Schulz, are otherwise at a loss as to how and in which direction they should proceed. The Socialist Party in Portugal is an example of how a soft divergence from the course of austerity without a real change of direction might work, and one that bypasses the option of an unhappy coalition with the radical Left (see Brie/Candeias 2016).

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CATARINA PRÍNCIPE

ANTI-AUSTERITY AND THE POLITICS OF TOLERATION IN PORTUGAL

A WAY FOR THE RADICAL LEFT TO DEVELOP A TRANSFORMATIVE PROJECT?

1 AUSTERITY, MOVEMENTS, AND THE UPS AND DOWNS OF THE RADICAL LEFT¹

1.1 Austerity and its consequences for Portugal

Austerity is a state of exception under which Portugal has been living for the past ten years. Starting with smaller adjustment programs applied as a result of the 2007-2008 financial crisis under a minority SP (Socialist Party) government – bank bailouts, wage cuts, and steadily diminishing social services –, it became a clearer infraction against working people during the years of 2011 to 2014. The right-wing coalition government that ruled Portugal during these four years ratified the Memorandum signed with the Troika (IMF, ECB and the EU) in what can be deemed the fastest and harshest process of neoliberalization the country has ever undergone.

Austerity is a state of exception at several levels: first of all, because it is an “exceptional” political moment, many measures can be applied with minimal social contestation. The TINA (There Is No Alternative) narrative lodged itself firmly in people’s minds, and made it harder for the Left to actually articulate possible alternatives. Secondly, the state of exception justifies the enforcement of exceptionally harsh policies of labour devaluation, social cuts, and impoverishment. In this sense, austerity meant the impoverishment of the vast majority of workers and pensioners, the rise of direct and indirect taxes, the privatization of public services and goods, as well as an undisguised attack on labour laws in which collective bargaining essentially disappeared from the political map. Thirdly, and this is not a minor issue, austerity as a state of exception makes its way into the dynamics of social and interpersonal life. More conservative and even reactionary policies and ideas become hegemonic, which allows for the decline of progressive policies on education, sexuality, women’s rights, racism, and LGBT rights. The transformation of the fabric of social life in a context where people are more vulnerable and dependent on private structures like the family allows for a rise in violence against women and minorities, as well as a more conservative and protectionist mode of relating to society as a whole, including the economy. Because people are afraid, people consume and spend less (even if they still have enough money), and that alters patterns of consumption, which, in turn, diminish the capacity for economic recovery. In this sense, when we talk about austerity and the role that left-wing politics must play in order to overcome it, we need a proper understanding of the different layers of analyses and transformation this politics must address.

1.2 Huge movements but weak organization

The extreme neoliberal offences Portugal has seen in recent years have not given way to a rising tide of resistance. Whilst moments of mass mobilization have happened during the last years – in particular the huge demonstrations against austerity on 15 September 2012 and 2 March 2013 – these movements have failed to transform themselves into a generalized resistance capable of shifting the balance of class forces in Portugal.

The reasons for this failing are varied. One cause is the clear “rootlessness” of the Portuguese social movement. The moments of mass mobilization arose out of previous experiences of protest organization which had little to do with the workplace or communities (and which have rarely been used in Portugal since the times of the 1974/75 revolution). This resulted in a contradiction for the movement: whilst on the one hand people encountered a space and a collective moment in which to express their grievances towards austerity, on the other, because there were no structures in place to ensure the daily organization of the movement at the more local level, people were unable to commit the time needed to build up a momentum that could actually change relations between social forces. The reasons for this “rootlessness” also lie in the role that the labour movement has played throughout the past decade. Faced with an overwhelming number of precarious workers, the trade-unions have been steadily losing their membership – and with this the capacity to organize disputes at work. In Portugal there are more workers unemployed than unionized, and most precarious workers are not unionized. The failure of Portugal’s largest trade union confederation, the CGTP, to adequately address this issue has left a large political vacuum

¹ My thanks to Mario Candeias for having invited me to do this study and for his infinite patience with me along the way. I would also like to thank Nuno Teles for his precious help with data and economic analysis – this study would not have been the same without you.

to be filled. Given the low level of work-place protests and the lack of connections to the trade unions, the movement chose to organize outside of the workplace.

The CGTP is a fairly militant trade-union confederation and is politically very close to the Portuguese Communist Party (PCP), but it has a very closed apparatus and a bureaucratized structure and is highly suspicious of any activity that does not come from inside its own organization. Moreover, many of the young activists who started the anti-precarity movement in Portugal are from or close to Left Bloc or more autonomist organizations, and thus have little or no influence inside the unions. This difficult situation made real collaboration between the union leadership and the movement more or less impossible. Excluded from the traditional structures of organized labour, the movement was forced to adapt by organizing precarious workers away from the workplace. It was a necessary decision, and the right one under the circumstances, but it was a decision nevertheless prompted by weakness, not strength.

During the austerity years, the trade unions organized several general and sectional strikes. However, their relations with the movements and the moments of mass mobilization – when many people that were not organized showed up – remained tense. The inability of the trade-unions to actually incorporate these new dynamics and give organizational answers to the capital of protest unlocked in Portuguese society is a core reason for the deteriorating organizational capacities of the country's anti-austerity movement.

In this respect, it should be of central importance today that union membership does not depend on a work contract or employment status, on whether a worker is employed or not. It is necessary to coordinate trade-union interventions with the needs of the communities and bring an anti-austerity politics to the labour struggle. We need better coordination between movements and unions that can consolidate economic and political demands, and that can build an anti-austerity (and anti-capitalist) front capable of multiplying protagonists in order to reverse relations between the forces of labour and capital.

1.3 Ups and downs of the radical Left

The parties of the radical Left were also not immune to this political moment. After the first big mass demonstration against precarity and cuts on 12 March 2011, and the snap election on 5 June 2011, the Left failed to capitalize on the public's discontent with both the minority SP government and the signing of the Memorandum with the Troika by the three mainstream parties – the PS, the PSD, and the CDS-PP. This is especially true of Left Bloc, whose polls dropped from 9.8 % in 2009 to 5.2 % in 2011. The PCP maintained its electoral results (7.9 % both in 2009 and 2011), evidence that the party is more or less immune to big shifts in the political scenario since it has a very stable membership and support base.²

The reasons for Left Bloc's misfortune in 2011 may well have various explanations. The first of these is a more general issue, namely that the TINA narrative which lodged itself firmly in Portuguese society gave the Left little room for manoeuvre, as I suggested above. It meant that any party that had not signed the memorandum was not seen as a credible alternative, since people genuinely believed there were no alternatives to the bailout programs. The years of harsh austerity have, of course, led people since to realize this was not the case (something I will analyse more in depth in the next chapter), but this widespread belief gave the Left a hard time in 2011.

Secondly, it is important to note that Portugal did not undergo a process similar to Greece, where the traditional (now liberalized) social democratic party was part of an austerity government. As a result, the SP was still perceived as a viable alternative during the Memorandum years, although they had also signed it. This created the conditions for what happened in the October 2015 election.

Thirdly, and perhaps most importantly in terms of left-wing strategy, was Left Bloc's encounter with a "to be or not to be" sort of dilemma. This is what I call the difficulties of the "dual strategy".

The process of the recomposition of the Left in different European countries has taken similar – and at the same time, diverse – forms. The new broad left parties, or "parties of a new type" (since they are not grounded on clear ideological standpoints, but rather characterized by a diffuse ideology) emerged to fill the political space left empty by a now liberalized traditional social democracy. But their aim was not to just become "a party like the others", concerned simply with winning over the disillusioned constituency of the former partisan (or labour) parties. With their strong roots in the experiences of different social forums and the alter-globalization movement, their aim was not only to broaden their political agenda into topics traditionally seen as outside of the sphere of the organized Left, but to actually create an organizational tool that allowed syntheses and continuity for all those active in the movements I referred to above.

And this is precisely what characterizes this new type of political group: their relations with the social movements and the 'anti-capitalist milieu' (or the people who are critical of the form that the normal, parliamentary political

2 It is interesting here to note the results of both parties in the last election in October 2015: Left Bloc obtained its best result ever (10.2 %), while the PCP only saw a slight gain with 8.6 %.

system has developed) are a core strategy for building their own constituency and activists. Bridging the gap between the traditional forms of politics (parties, parliament, institutions) and social movements has given these parties a new form of organizing, and a new set of agendas.

However, this shift does not come without its difficulties. What many of these parties have experienced, both through the fluctuation in polls and/or their inability to grow beyond a certain level, is what we would call the problem of this “dual strategy”. On the one hand, these parties need to take on a certain institutional bent that allows them to gain credibility among former centre-left voters. On the other, these parties need to appeal to a large group of the population that is disenchanted with institutional politics as such, and need therefore to present themselves – both in form and content – as different from the parties that are at the core of the political system. Politically, the dual strategy can also be a difficult one to handle: how to, on the one hand, fight for reforms that could better manage the system, while at the same time maintaining the clear position that these reforms are insufficient and that the ultimate aim is to profoundly transform the system as a whole? The difficulties of this dual strategy have been particularly felt by parties such as Left Bloc, which seem too far “outside” the political system for the former SP-constituencies, whereas for the massive numbers of people who are sceptical about the political system as a whole, they do not look much different from any other party. The difficulties of the “dual strategy”, together with the “rootlessness” of both the movements and the party itself, are clear explanations for the fluctuation in electoral results. Furthermore, in a country with big moments of mobilization that do not translate into organized, daily resistance and political shifts, the feeling that changes can only be achieved through the ballot box also produces unsteady electoral results.

2 THE ELECTIONS, THE AGREEMENT, AND ITS EFFECTS ON PORTUGUESE SOCIETY

2.1 How did it start? The elections, a new parliamentary composition, and the bullet points of the agreement

Portugal held a national election on 4 October 2015. The victory of the right-wing coalition that had governed Portugal for the previous four years and imposed harsh austerity measures was interpreted by many mainstream commentators as a vindication of these policies. Yet the election also saw a significant drop in the Right’s total share of the vote and the radical Left’s total raised, with Left Bloc enjoying its best result ever. This unexpected outcome has raised new questions for the Left about how it can seriously contend for state power, and demands a new analysis of the changing alignment of Portuguese politics.

The victory of the right-wing coalition Portugal Ahead (PaF) was not anticipated until a few weeks before the elections, when it finally overtook the centre-left opposition Socialist Party (PS) in the polls. The coalition is composed of the Social Democratic Party and the Popular Party – in spite of their names, the two largest right-wing parties. Although PaF did not manage to win an absolute majority and their percentage of the vote dropped to 36.9 %, many people found it hard to understand how an unpopular government which implemented such unpopular policies managed to obtain such results.

Unless we want to join with German Finance Minister Wolfgang Schäuble in celebrating the popular triumph of austerity policies, it is important to offer a robust account of how PaF came to win in spite of, not because of, their economic platform.

The first factor was the Public Sector Purchase Program, introduced by the European Central Bank just before the elections. The program reduced interest rates, which allowed Portugal to fulfil the criteria imposed by the Troika without having to ask for a second bailout. The simple fact that Greece was never offered such help shows the shameless political nature of this manoeuvre: the European institutions sought only to prevent a destabilizing upsurge of contestation from the Left.

Other factors include the perceived drop in unemployment (“perceived” because the reports were based on dubious accounting); a return to the bond markets (even though national debt grew from 80 to 120 % of the GDP); the right-wing coalition’s clever, non-confrontational campaign strategy; and the anti-austerity movement’s inability to effectively challenge mainstream narratives about the need for shared sacrifice and the austerity program’s distribution of benefits.

Finally, the Socialist Party completely failed to assert itself as a strong opposition party, fuelling the sense that there was no real alternative. Not only was their political program unclear and barely different from the Right’s; their electoral campaign was weak and characterized by mistakes and rhetorical contradictions. The PS leadership, in short, proved incompetent at capitalizing on widespread discontent. This is a very important point for understanding the events that followed.

The election's silver-lining could be found by a glance to the left of social democracy. Left Bloc and the Portuguese Communist Party won 10.2 and 8.2 %, respectively. For Left Bloc, which garnered more than half a million votes, this was the highest vote tally ever. Although the right-wing champions of austerity retained control of parliament, almost 20 % of the new assembly was now occupied by representatives who explicitly opposed not just austerity, but capitalism altogether. While the PCP's result is not surprising, the results of both parties combined create an unprecedented situation in modern Portuguese politics. It is only now becoming clear just how dramatically the crisis has polarized the electorate.

For the last four years, if not longer, the central issue in Portuguese politics has been austerity. Left Bloc has developed its general activities and its immediate electoral program in response to this issue. This has meant a focus on unemployment, precarity, and the dismantling of the public sector in all its forms: budget cuts, school and hospital closures, and the destabilization of the Social Security system.

A critical addition has been the issue of migration. In recent years, Portugal has witnessed the biggest migratory flux in its history, and the emigration of more citizens than those who fled the dictatorship in the 1960s. In the past three years, from a population of around just 10 million, more than half a million people have left the country. At the same time, since it is not possible to talk about austerity without talking about the question of national debt – because the latter has been the excuse for implementing the former – Left Bloc has also focused on the problem of debt in its political activity of the last few years. Meanwhile, austerity has not solved the so-called public debt problem: on the contrary, it has only aggravated it. This is because austerity is mainly a political program aimed at profoundly modifying relations of power between the classes. It sustains itself through the dependency that the debt creates – the debt is the pretext – with the aim of implementing the fastest and most violent neoliberal agenda for the destruction of the social state, the shrinking of trade unions' power, and the commodification of public goods. It is a brutal attack on labour and social rights, and on democracy.

How to build politically on the illegitimacy of this debt is a central political question for the Portuguese Left, not only as one of its political principles, but also as a central political demand: without the restructuring of the debt and the renegotiation of interest rates, the recovery of the Portuguese economy remains virtually impossible.

Another key issue of the campaign was Portugal's future in the European Union and the Eurozone. Prior to the recent election, Left Bloc's position on the question of the EU and the euro was underdeveloped. In many ways, it resembled the stance taken by Syriza, but the Greek party's ultimate failure to break with the European elite and its institutions has pushed Left Bloc to clarify its position.

During the campaign, hostile forces attempted to paint Left Bloc as irresponsible, arguing that the Syriza experience had proven that a broad left party, organized along an explicitly anti-austerity line, could not govern an EU-member state. This line of attack was less effective than many feared, and the party was able to shift this narrative and persuade voters that European officials were responsible for the Greek disaster, not the party that tried to resist them. This was not merely an electoral ploy, but an opportunity for the party to strengthen its critique of the European Union and the euro. For the first time, Left Bloc publicly declared a willingness to leave the Eurozone if such a step proved necessary to end austerity and regain sovereignty: "No more sacrifices for the euro" became an important rallying cry of the campaign.

There can be little doubt that Left Bloc's best ever electoral results were due to its openly voicing reservations about Portugal's future in the EU and Eurozone.

2.2 The process of the agreement

It started as a surprise in the form of an electoral stunt pulled at the end of a debate.

Left Bloc had previously taken a clear stance on the SP. At the previous convention in 2014 (the Party's National Congress), although other divisions emerged, a strong majority rejected any kind of coalition with the "socialists". The SP was seen as defending a "soft austerity" that couldn't be a real alternative to the Troika's policies. In fact, the SP's previous government had signed the deal with the Troika in the first place, telling people that there was no alternative.

The SP was also very far from imagining that an agreement with the Left might be the outcome of the election. Indeed, in the run-up to the election the Socialist Party fantasized that, given the popular rejection of the right-wing government austerity measures, the general election would be for them a glorious rise to power.

In the final rounds of the debate, Left Bloc's spokesperson Catarina Martins took António Costa (SP) by surprise by challenging him to entertain the possibility of a left-wing government after the election if he were prepared to give up some of the more liberal policies in his program. The challenge remained unanswered, and so the same SP that had begun by dismissing Left Bloc's proposals as unrealistic, and arguing alongside the Right that they would lead the country to a "SYRIZA nightmare", ended the debate with a tactical silence.

The three main points that Left Bloc proposed to the SP as conditions of the party's support in a minority government were: 1) the unfreezing of pensions, 2) no further lowering of the Single Social Tax for workers and employers, and 3) an end to the labour market liberalization process. Accepting these three points would

require the SP to make changes to its political and economic platform. This was a smart tactic: it forced the SP to define itself politically and to clarify its loyalties. But it was based on three premises that later proved incorrect: 1) that the SP would win the elections, 2) that Left Bloc would receive a low percentage of the vote, and 3) that the SP would refuse to negotiate with the Left.

The elections delivered no absolute majority to any of the major parties in the new parliament, forcing coalition negotiations. Left Bloc's outstanding result, and the active role it had taken in offering the SP baseline terms for an agreement, pushed it into the centre of these negotiations. The SP leadership clearly understood that they could not enter into negotiations with the right-wing parties.

Portugal has no history of grand-coalition governments, and for the SP to enter government with the Right as a junior party would have intensified the political crisis, dissolving the small space that continued to distinguish it from the centre-right. For these reasons, the SP refused to accept the agreement proposed by the Right, and called on the Left to support a minority SP government. Both Left Bloc and the PCP were forced to take a position. This process sparked an intense political crisis that lasted almost two months. The then President of the Republic, Aníbal Cavaco Silva, an avatar of the Portuguese Right, intervened to try to force the Right into power, but his efforts ultimately failed. For its part, Left Bloc could not afford to back down after having made the initial overtures for such an agreement. After a long period of discussion, an agreement was signed between the SP, Left Bloc and the PCP, which included several measures that formed the basis of the state budget of 2016. On 26 November 2015, an SP-government with parliamentary support from the Left took office.

The Agreement

The Socialist Party and Left Bloc's joint document on a political solution

The Socialist Party (PS) and Left Bloc (BE) undertake the following agreement on a political solution within the framework of the new institutional reality of the XIII parliamentary term which resulted from the elections of 4 October.

1. The results of the national election of 4 October 2015 meant a clear defeat of the strategy of impoverishment and austerity conducted by the right-wing coalition (PSD-CDS) during the last four years. Taking into consideration the profound difficulties that Portugal is experiencing in the wake of a long social and economic crisis, and an external context of high uncertainty, and in the light of the new parliamentary composition that came out of the most recent electoral process, the PS, the Left Bloc and the CDU [electoral coalition between the Portuguese Communist Party (PCP) and the Greens (Verdes)] have announced a process of convergence founded on the patriotic necessity of translating into a political solution the will expressed in the ballot boxes. In this sense, these parties have assumed the responsibility of negotiating an agreement with the ultimate goal of constructing a stable, durable, and credible majority in parliament which sustains the formation and action of a government founded on the will of change expressed in the ballot box.

2. It is within this framework that both the PS and BE have established a joint position to identify matters, measures, and solutions that can implement the necessary changes.

This is a serious position which recognizes the distinct programs of both parties and the varying viewpoints from which they observe and frame structural aspects of the country's situation.

This is also an evaluative process which acknowledges a series of measures that will respond quickly to the legitimate aspirations of the Portuguese people, namely the recovery of their lost income, the restoration of their rights, and the securing of better life conditions. These were the points of convergence, not of divergence, that both parties chose to value.

3. Among others, the PS and BE identify the following issues where convergence is possible, despite the different reach of each party's program, and solutions for immediate policies are in view: Unfreezing of pensions; restitution of public holidays cancelled by the previous government; a decisive struggle against precarity, including false self-employment, the abusive use of internships and mandatory "social" work for the unemployed; revision of social security contributions for the self-employed; an end to the "special mobility" program for public sector workers; the right to collective bargaining in the public sector; reinstatement of all complementary pension plans for workers in state-owned enterprises;

reduction of VAT to 13 % for restaurants; real-estate protection of the most vulnerable; protection of homes against foreclosure; tax incentives for SMEs; a reappraisal of all exemptions from social security contributions; a revival of the public national health system through an injection of sufficient resources, personnel and adequate technical and financial means, including the objective of guaranteeing to all services users access to a general practitioner and nurse; a repeal of the recent change to the law concerning the voluntary termination of pregnancy; guaranteed access to nursery school for all children from three years of age until 2019; increased social support for vulnerable students; permanent contracts for all education-sector workers; the reduction in the number of pupils per classroom; school textbooks to be made progressively free of charge for compulsory education years; permanent contracts for all PhD researchers working in public research centres and other public entities; repeal of all privatization and concessions in the public transport sector; no new processes of privatization.

With the aim of including these measures in the government's program, the basis of the future cooperation between both parliamentary groups, the PS and BE have listed some of these and other points in the appendix attached to this declaration.

4. The PS and BE recognize the largest demands of political identification that a government and a government program would imply. The PS and BE also recognize that, within the framework of convergences that it was possible to achieve, the conditions are created to:

- i) end the cycle of economic and social degradation that a PSD/CDS government would prolong. For this reason, both parties will reject any governmental solution that proposes a PSD/CDS government, and will, as well, try to defeat any initiative that tries to stop this alternative governmental solution;
- ii) ensure the existence of an adequate institutional basis that can allow the PS to form a government, present its governmental program, assume functions, and adopt policies that ensure a long-lasting perspective for this legislative term;
- iii) on the basis of the new institutional correlation present in parliament, adopt measures that respond to the aspirations and rights of the Portuguese people.

In this sense, the PS and BE affirm their reciprocal willingness to:

- i) start a joint investigation into how the identified issues of convergence can be translated into the state budgets, with the objective of not missing the opportunity that these instruments enable: the indispensable restitution of salaries, pensions and rights; the indispensable reversal of the degradation of the life conditions of the Portuguese people; a commitment to the social services that must be provided by the state, to their accessibility to all citizens and to quality of service provided;
- ii) examine the measures and solutions that, outside the sphere of the state budget, can be achieved more immediately;
- iii) examine in bilateral meetings (on an as-needed basis) other measures whose complexity so requires, or that are related to:
 - a) legislation with a budgetary impact;
 - b) motions of no confidence;
 - c) legislative initiatives coming from other parliamentary groups;
 - d) legislative initiatives that although without implications for the budget constitute fundamental aspects of the governmental program and the functioning of Parliament.

This position does not limit other solutions that both the PS or BE decide to establish with the PCP or The Greens.

5. With full respect for the political independence of both parties, and fully open to the Portuguese people about the differences between the structural aspects of the political vision of each party's program, the undersigning parties of this text confirm with enough clarity their willingness and determination to prevent the pursuit of a political course by the PSD and CDS that the country has now expressly condemned, and to embark upon a new path for the country that guarantees:

- a) a reversal of the policies that have implemented the strategy of impoverishment carried out by the PSD and CDS;
- b) to defend the social functions of the state and public services, social security, education and health, and to promote a serious fight against poverty and economical and social inequalities;

- c) a new economic strategy that sustains growth and employment, an increase in family income, and the creation of conditions for public and private investment;
- d) to promote a new model of progress and development in Portugal that hinges on the valuation of salaries and the fight against precarity, returns to public investment in education, culture and science, and restores trust and hope in the future for Portuguese society.
- e) value citizens' participation, political decentralization, and autonomy of the insular territories.

Lisbon, 10 November 2015

Appendix

1. In order to prepare common initiatives on fundamental matters, a series of working groups will be created prior to the beginning of the legislative term. These groups will be composed of the undersigning parties, that is, by the member of government responsible for that particular area, and will present biannual reports:

- Working group to establish a National Plan against Precarity, to be presented to the Conselho Económico e Social [body where the government, the unions, and bosses meet to discuss labour laws];
- Working group on social protection and the fight against poverty;
- Working group on external debt sustainability;
- Working group to evaluate energy costs with a focus upon families and proposals for their reduction;
- Working group on housing policies, mortgage debt, and real estate taxation

2. The “regime conciliatório” [a form of labour market liberalization] will not be included in the government’s program.

3. There will be no reduction of the Single Social Tax for employers included in the government’s program.

4. On 1 January 2016, the norm established by Law no. 53-B/2006 of 29 December will be reinstated. This norm concerns the amendments to pension rates, with the guarantee that there will be no nominal cut to pensions.

5. The need to diversify social security funding sources should be discussed through social dialogue institutions (Conselho Económico e Social). The signing parties commit to working together on a proposal to be presented to the Conselho Económico e Social.

6. In order to increase household income there will be a reduction of 4 percentage points on the social security contributions paid by workers earning less than 600 euros a month. Such a reduction will not have any impact on final pensions; the loss of revenue is to be covered by fiscal transfers.

7. The National Minimum Wage will hit the 600 euros benchmark during the on-going legislative term through an annual raise of 5 % in the first two years;

8. Conferral of new powers to the Authority for Labour for its fight against falsely reported self-employment and other illegal employment contracts which should be immediately converted into regular employment contracts.

9. The gradual restitution of public sector wages will begin in January 2016 (25 % in the first trimester; 50 % in the second; 75 % in the third; 100 % in the fourth);

10. The four holidays that were eliminated by the previous government will be reinstated.

11. Tax policy:

- a) Move to progressive income tax through the introduction of new income brackets;
- b) Withdrawal of the category “household coefficient” for tax purposes, which has a regressive impact, and its replacement by “each child” deductions with no regressive character;
- c) Introduction of a limited annual increase of 75 euros for real-estate tax when it concerns permanent homes with a low market value;
- d) Outlawing of any home foreclosures related to tax payments in arrears when the latter is a lower amount than the debt;
- e) Revision of fines and interest charged in tax arrears;
- f) To facilitate debt payment, plans for tax and social contributions arrears;
- g) Reduction of VAT to 13 % for restaurants;
- h) Reversal of the capital income tax code regarding “participation exemption” and the period given for the report of tax “losses”
- i) Tax incentives for firms located along the border, through capital income tax deductions

12. On the costs for families with electric energy and gas:

- a) Redesign the Social Energy Tariff, making it automatic in its application to low-income families and beneficiaries of social support whose access is subject to conditions. In the case of consumers who are not beneficiaries of social support and are in a vulnerable financial situation, the income note issued by the Portuguese Tax Authority will allow compliance with the requirements for the application of the social tariff; consumers who, due to their level of income, are exempt from filing income declarations, must do so in order to obtain the income note from the Portuguese Tax Authority and thus access the social tariff; access to the social tariff gives automatic access to the Extraordinary Social Support for the Energy Consumer (ASECE);
- b) Withdraw the audio-visual contribution fee from electricity bills and incorporate it into the realm of communications without loss of revenue for RTP (Radio and Television of Portugal)

13. Privatizations and Concessions:

- a) Cessation of the on-going processes of concessions and privatization of the public transport systems of Porto and Lisbon;
- b) Reversal of the mergers of water companies that might have been imposed on some municipalities;
- c) Reversal of the process of privatization of EGF [company that builds and administers river dams], due to its illegality;
- d) No new concession or privatization.

2.3 The *Contraption* and an agreement to stop the impoverishment process

The negotiation processes were complex, full of tense moments, and took place mostly behind closed doors. Both left-wing parties negotiated the agreement with the Socialist Party separately, a problematic decision which gave the SP access to all information while the Left was not communicating and thus unable to bring shared proposals to the table. Within Left Bloc the discussion was also complicated due to differences that were mainly based on two competing tactics: on the one hand we could not force the SP too far because, should the agreement fail to happen and the Right come back to power, the blame would be on us. On the other hand, the SP desperately needed an agreement with the Left in order to survive politically (and to reverse the pattern of “pasokification” in most European Social Democracy parties), and could therefore be forced into accepting bolder proposals that were not only about stopping the impoverishment process, but could also reverse austerity in the mid-term – placing the renegotiation of public debt at the core of the discussion. In the end, the first tactical approach won, and this was the position Left Bloc assumed during the negotiations. I will outline the strategic outcomes of this debate in the last chapter of this study.

After more than a month, Left Bloc and the CDU (the electoral coalition of the PCP and the Greens) negotiated with the SP the terms of their parliamentary support, according to which they pledged to approve the Budget and several other laws, while remaining outside the government with the autonomy to propose other policies. This allowed the parties to declare that this was not their government and it would not solve the country’s fundamental problems, but it would still try to address the public’s immediate priority of ending the most damaging austerity measures. Moreover, it allowed the parties to vote against some governmental measures

in parliament since they were not restricted by the same disciplinary expectations as in a real governmental coalition. (The full text of the agreement between Left Bloc and the SP can be found in Appendix 1).

Very quickly, the new government was subjected to an attempt by a right-wing politician to ridicule it by calling it the Contraption – *Geringonça* in Portuguese – a term that became widespread and is today dearly used by everyone, including those who are critical supporters of the solution.

Although the agreement reached allowed the formation of a government for just one year, after which there would be new negotiations, the truth is that the text of the agreements remain the baseline for the discussions between the different parties about the specific measures for the forthcoming state budget. The details of these processes, as well as the measures, can be found in the interview with Mariana Mortágua, Left Bloc's MP responsible for Economy and Finance and a member of the negotiations team since day one (Appendix 2). There are still some important points that are worth highlighting.

The agreement was based on the idea of reversing some of the previous austerity measures. These included ending the cuts to public sector salaries (in fact this was made mandatory following a ruling by the Constitutional Court against the selective cuts in salaries introduced by the previous government), restoring a value-update system for retirement pensions in line with inflation so that they retain their effective value, reinstating the national holidays that the right-wing government had cancelled, putting an end to the on-going processes of concessions and privatization of the public transport systems of Porto and Lisbon, restoring the previous number of income tax brackets in order to introduce progressive tax, reducing the Value Added Tax paid by restaurants, bars and cafes (a measure that was only partially applied), and implementing severe restrictions on home evictions by banks.

Other measures essentially reverted decisions by the previous conservative majority, such as the increase in abortion costs, the blocking of same-sex couples adoption, or the controversial teacher tests and fourth-grade student exams.

New measures were also proposed, including a small increase in the minimum wage (five per cent a year in order to reach 600 euros by 2018), or automatic access to the Social Energy Tariff – instead of the lower-income consumer having to request it –, a small raise in family allowance for the lower income bracket, and a new method for calculating the contributions of “independent workers” that reduces the heavy tax penalties imposed on them (the fiscal figure of the “independent” worker is increasingly regarded as representative of the main form of precarious employment).

Furthermore, SP dropped some of its more overtly liberal proposals, such as a more liberalized layoff system, and a reduction in the welfare contributions paid by employers (in fact there had been negotiations with employers' associations over a reduction in their social contributions for lower wages, which could amount to providing an incentive to pay lower wages overall).

Other pledges on more general principles were part of the agreement: the fight against precarious working conditions – including a report on the number of precarious workers in the state (this report was recently released, and is problematic for several reasons: it does not cover the full extent of public sector precarity, nor does it set out clear measures for the integration of those workers); the defence of the “welfare state”, still at risk due to the prevailing cuts; a ban on new privatizations – which has not been fully realized, since the government privatized the Public Train Freight company and sold two banks following state bailouts.

Other important issues were shelved with the creation of cross-party working groups between Left Bloc and SP. Public debt is one of these issues. The outcome of these working groups has been close to nil, with the sole exception of the report on precarious public sector workers mentioned above.

Whilst two state budgets were approved with the parliamentary support of the Left on the basis of this agreement, the budgets also entailed significant concessions as the European Commission demanded a set of additional measures to comply with deficit procedures. Another concession by the SP was the approval of a higher military budget following a demand by NATO.

There are now restraints to hiring new employees in the public sector; the reduction on the social security contribution paid by lower-income workers has been postponed. At the same time, real-estate funds are now subject to property tax, and taxes on cars, tobacco and fuel have increased. Such decisions have given the Right the opportunity to push the idea of a “left austerity”, an increase in the tax burden through indirect (and socially blind) taxes.

There have been three moments of significant tension between the government and Left Bloc: the first, the lowering of the Single Social Tax for employers, was contrary to Left Bloc's proposals, yet the SP was clever enough to write in the agreement that this issue would be handled by the Social Concertation. Secondly, the recapitalization of Caixa Geral de Depósitos (CGD – the Portuguese public bank), and the sale of Novo Banco, the third largest Portuguese bank, following a state bailout, contravened the expectations that Mortágua expresses in her interview). The lowering of the Single Social Tax for employers was decided at the Social Concertation meeting with the employers, the government and the UGT, the trade-union confederation close to the SP, voting in favour of it, and the CGTP voting against it. This sparked an intense debate within the Left,

which ultimately took the issue to parliament, where, at the last minute, the Right decided in a populist turn to vote on the side of Left Bloc, the PCP and the Greens. This meant that the measure did not get passed, and pressure was on the government to propose a compensatory solution. In the end, the lowering of the Single Social Tax for employers was replaced by the lowering of another business tax, the Special Payment on Account, a measure that is actually beneficial to medium and small-scale companies. This turn of events shows two things: that in decisive moments the SP and its trade unions decide to side with the employers on a key issue for the Left, and that the Left, when it is not afraid to push forward its agenda, can actually secure some victories. I will write about the banking system below.

There remain several urgent issues which have not yet been solved. The problem of lower, non-contributory pensions and their value – an issue that affects a large number of workers in Portugal, especially the most vulnerable women and migrants – is currently a point of conflict between Left Bloc and the SP. The improvement of progressive income tax through the introduction of new income brackets, a central demand of Left Bloc aimed at restoring income justice and actually reversing one of the most damaging measures of inequality implemented by the former right-wing government, still has no resolution in sight. The unfreezing of the progression of public sector careers – whose wages have been frozen for over a decade – is another crucial question which remains unanswered.

The daily work of negotiation, discussion, and toleration of the agreement is currently being carried out by the Secretariat of the Left Bloc together with the parliamentary group. Although Left Bloc does not have an independent parliamentary fraction (meaning that it cannot take decisions independently of the party's leadership), it has mainly been in parliament that decisions have been made since the party's political focus is now predominantly on parliamentary issues. This is a serious problem because many decisions are not made in the proper party bodies that carry both the political responsibility and accountability for the political guidelines of the party as a whole.

2.4 The Portuguese banking system: a ticking time bomb

One of the first serious problems that the Left, in its support of the government, has had to face was the necessary recapitalization of the public bank CGD. After some conflict and debate, the bank did get the capital injections it needed, but the trade-offs are still unclear. The government is forcing dozens of bank branches around the country to close, and is disguising actual layoffs as friendly terminations of contracts and early retirements – without any clear benefits. The process is on-going and it is still unclear how the Left is going to deal with its outcomes and the ensuing difficulties.

To evaluate the collaboration between the left-wing parties we must also keep in mind that, outside of the agreement, there are policies adopted upon direct negotiation with the European Commission: for example, Banif Bank, bailed out by public funds, was sold to Santander without the parliamentary support of the Left, but with the support of the right-wing parties. The government also created a “bad bank” that would serve as a deposit for all toxic credit in the Portuguese banking system, with the risk of huge costs to public accounts – an arrangement that was also handled without the Left's agreement. A similar solution, albeit much later, was adopted for BES, now called Novo Banco (more details on these questions in the interview with Mortágua). What makes the crisis of Novo Banco so extraordinary is that it is Portugal's third largest bank and bears significance for Portuguese society as a whole. At present, the government is in the early stages of selling Novo Banco to a vulture fund called Lone Star.

This is the second time the government has recapitalized a bank to sell it on at a very low price. BANIF was recapitalized by the government with a capital injection of 1.1 billion euros. It was then sold on to Santander (for a symbolic value of 150 million euros), and the Government injected a further 2.3 billion euros before the sale – 1.8 billion directly and 489 million through the Resolution Fund. So far, the Government has already injected 4.9 billion euros in BES (3.9 from the state and the rest through the Resolution Fund) to create the Novo Banco. As sale negotiations stand, the Resolution Fund, that is to say the state – since the Resolution Fund will never meet such amounts in the foreseeable future – still assumes responsibility for a further 3.9 billion euros in possible losses with toxic assets (possibly dealing with real liabilities, which are still recorded on the balance sheets as accounting assets). And only then would the government sell the bank to Lone Star.

In short, in the Banif case, the government injected 3.4 billion euros into the bank and then sold it to Santander. In the case of the Novo Banco, the government has already injected 4.9 billion euros, still assumes responsibility for an additional 3.9 million, and wants to sell the Bank to Lone Star – and is even willing to pay up to 3.5 million euros to Deutsche Bank for its assistance in the selling process. In addition, the government has already injected 8.26 billion into two other banks, and is expected to pump another 3.9 million into one of these. This entails costs for taxpayers that could amount to 12.2 billion euros – and the loss of the banks to foreign capital. The process is still on-going, and Left Bloc has already announced that it is going to propose the nationalization of the bank in parliament, in order to keep Portuguese capital on national ground. But there is little chance of

this proposal being approved since the government is against the move, not least because of international pressure, and because a process of nationalization would clearly be in conflict with some European laws. If this dispute concludes with the privatization of the bank, it will mean that more than 65 % of the Portuguese banking system is in the hands of foreign capital. And this raises difficult questions about sovereignty and instruments Portugal still has at its disposal for overcoming austerity.

2.5 Growth without investment: a new Portuguese miracle?

Much has been said and written about the Portuguese economic rebound due to a new left-wing government – namely the extraordinary budget deficit of just 2 %. However, if we are to seriously engage in this discussion we must separate fact from fiction, and understand what is actually happening with the Portuguese economy. First of all, it is important to understand that in periods of crisis, budget deficits tend to grow: there is less economic activity, less revenue and more state expenditure (on forms of social protection such as unemployment funds or bank bailouts). Austerity comes along, supposedly, to “correct” this deficit growth: by cutting state expenditure (although, as a matter of course, only on social spending, while investing even more in the financial sector) and investment, and raising taxes in order to create a form of revenue. But as we know, austerity is not a solution, rather, it aggravates the problem: austerity lowers wages, which subsequently diminishes consumption, which in turn aggravates recession, deepening the deficit, which begs for more tax hikes, which aggravates consumption, which aggravates recession, which aggravates unemployment, which aggravates recession and aggravates the debt, which begs for more loans (with interest rates) which aggravate the debt. This is the endless cycle of austerity in which Portugal has succeeded in gaining some breathing room.

Although throughout the years of the Memorandum the Portuguese budget deficit was slowly but steadily diminishing, the European Union’s predictions for the 2016 budget deficit were set at 2.7 %, thus above the limit imposed by the Budgetary Treaty. In July 2016, the European Commission decided not to apply sanctions against Portugal or Spain in what was to be considered a political move to allow the Portuguese government some room, but in fact was mainly a move to prevent a possible rise of the Left in Spain in a situation where austerity would hit the country amidst a political crisis caused by pressure from Europe. The Portuguese government forecast a 2.2 % deficit, but the final result was actually 2 % – the lowest budget deficit of the last 40 years. The numbers seem to indicate a complete change to the country’s economic policy, but is this really so?

The simple answer is no, but it is more complex than this. The two state budgets that this government has set are not budgets that aim to reverse austerity, but to contain it (this is the reason why we talk of an agreement to stop the impoverishment process). Thus, because harsh austerity has – for now at least – been stopped, this has allowed for a very small income rebound (mainly for public sector workers and pensioners), which in turn has slowly started to rebuild a dismantled middle class. The other factors that explain the deficit level was the enormous rise in the number of tourists (and the short-term economic dynamics that such a boost creates), the fall in the price of oil (a determinant factor for an economy highly dependent on imports), and – most importantly – a shift in the TINA narrative. As we have seen before, crisis and austerity produce fear and conservatism also at the level of consumption patterns. When a government succeeds in gaining some room to breathe and achieving a small income rebound, as well as shifting the dominant narrative to an optimistic one of “austerity is over and everything will be better from now on”, consumption patterns also shift because people are less afraid to spend, buy, or borrow money. And that, in turn, boosts the dynamics of the economy. Another interesting reason for this deficit figure is the role that European institutions played. Not only did they not apply sanctions, but they also allowed the European Central Bank, through the Bank of Portugal, to buy Portuguese public debt bonds directly. This had two positive outcomes: it lowered the interest rates on the debt, and a part of the interest rates the Portuguese government pays is currently paid to the Bank of Portugal, which means that money is re-injected into the Portuguese economy. It is important here to remember that this solution was never offered to the first SYRIZA government by the European institutions.

Portugal went through a period of deep recession. And periods of recession are periods when a lot of a nation’s productive capacity cannot be used because there is no market for it. Due to this shift in internal consumption (by some national, but mainly foreign consumers), it is actually possible to produce more (in comparison to what was being produced during the years of deep recession) without any sort of new investment. There has been absolutely no public investment since the beginning of this government, no structural changes in the productive capacity of the country, and only a very small level of private investment. In spite of this, there has been economic growth. But this is no miracle: it is the coming together of some internal factors (small income growth, shift in the narrative and, therefore, in consumption patterns), but mainly external conjunctural political factors (the support of some European institutions extended to this government, the fall in the price of oil and the mass upsurge in tourism – the latter two mostly due to the on-going political crisis in the Middle East) that have allowed for the moment we are living today. The political reasons for why Portugal is being held up as an example, and the challenges this poses for the radical Left, are the topics of the last chapter of this study.

3 WHAT ABOUT STRATEGY?

When we discuss strategy on the basis of the Portuguese experience, we must approach it on two different levels: the strategy of the revitalization of European Social Democracy, and the deeper strategic issues facing the radical Left.

3.1 The revitalization of European Social Democracy

With the rise of neoliberalism and the attendant shift of traditional social democratic parties from mass workers' parties into parties that administer austerity, the political centre of gravity moved to the Right. This means that the struggles in Europe for a functional welfare state and labour rights have been orphaned for several decades. It bears repeating that the vulnerability and decline of social democratic parties has been self-inflicted. In their implementation and management of austerity instead of an expansion of social provision, these former workers' parties have adopted the same basic policy approach as their conservative counterparts. This process, which in western Europe began decades ago, has led to the unsustainable situation in which traditional social democracy finds itself today, where former social democratic parties cannot be set apart in their economic programs from the Right. Moreover, over the last few years many of these parties have entered government coalitions as junior partners or supported right-wing governments throughout Europe, and the result is clear: they are essentially disappearing. PASOK in Greece is, of course, the most striking example of this trend, but electoral results and forecasts for the PS in France, the SPD in Germany, the PSOE in Spain, or even the SP in Portugal (bearing in mind that they failed to win the election after four years of harsh austerity) all point in the same direction.

At the same time, the parties of the Socialist International are witnessing the collapse of their supranational project: the crisis of the European Union is happening at the same time and of course is linked to the crisis of the national parties. It would be unreasonable to argue that the Europe of Merkel is very different from the Europe of the former social democratic parties: it is not. Europe is undergoing a process of neoliberalization that has been happening with the support – often the active participation – of these same parties. However, it is important to remember that the ruling class is not a homogeneous body, and has its own internal clashes and conflicts from time to time. At this moment in time the differences are about the survival – and therefore the political and economic dominance – of one of the two core political groups of the European ruling class. This is why, on the subject of Portugal, Schäuble and Schulz clash.

What Portugal has shown – and continues to show – is that cooperating with the Left can be a survival tactic for a moribund social democracy. With their own political programs depleted in recent years, resulting in their misfortunes at the ballot box, social democratic parties need the Left to be able to distance themselves from the Right and regain a credible political space. But for this, they need room for action at the national level, which only the European institutions can grant. The survival of European social democracy is the reason why measures like the Public Sector Purchase Program, the lifting of sanctions, or the decision to allow Portuguese public debt to grow without any new bailout programs (for now at least), are possible today. Portugal is to be held up as an example of how liberalized social democracy cannot only survive but be revived (the latest polls in Portugal give the SP results a near absolute majority, and the forthcoming local elections on 1 October will be the Socialist Party's first display of strength). It has done so by taming the radical Left into supporting a government that making no structural changes to actually overturn austerity and neoliberalism, and with an economy even more vulnerable and dependent on external factors – such as a financial crisis or a crisis in the Eurozone. Although this is not the only possibility – see Macron in France and the restructuring of the “extreme centre” – it is still one the Left must take into serious account when deciding upon their strategic guidelines.

3.2 Beyond the agreement: strategy for the radical Left

We cannot predict the rhythms and the intensity of international political pressure or even the short-term evolution of the economic crisis. But one thing is certain: the pressure won't slacken and the Portuguese government knows that it cannot stray from the path drawn by European bureaucracy, following the better interest of the German bourgeoisie, and by international financial capital. The ambiguous ideology of social liberalism does not allow for any glimpse of hope that the SP will resist these pressures. It's up to the radical Left to prepare for this struggle.

Nothing in the SP's recent history suggests that the party is prepared to stand firm on labour and social rights in the moment of confrontation. Indeed (and unlike other parties from the Socialist International), it has never been a true workers' party, and its representatives have been responsible for supporting social budget cuts and the on-going deregulation of the labour market. Moreover, the party was a cosignatory of the 2011 Memorandum with the Troika, a clear indicator of their long-term position on public debt. It would be foolish to think that one circumstantial agreement would so completely change the commitments of the party's leadership.

But the position of the radical Left is as difficult as it is new. Being called upon to take responsibility and keep the Right out of power put the Left in a position of not really being able to say no – especially when Left Bloc had been the first party to even mention a government solution with the support of the Left. Navigating this hard situation demands a good deal of prudence from the Left, as well as plenty of internal debate.

As choices have to be made, we need first to consider the alternative positions towards the government. At this moment, the country is experiencing a decompression period following a time of extreme austerity. The government and the coalition agreement are popular and the signed pact has been partially fulfilled. Given this, and irrespective of the criticism that can be levelled at the agreement process in the first place, it would be counter-productive and unsustainable to defend a toppling of the government.

This notwithstanding, the contrary position would be an even greater political disaster: to fully and uncritically support the government blinded by the short-term advantages, to be unable to critically manage the great existing capital of hope, to promise a happy ending to this story, to be tied up in the government's logic and to accept more austerity out of fear of losing popular support and being blamed for the agreement's failure. Soft austerity is a lure and to see the near future through the prism of the blame game is reductive.

Highly dependent on their performance and image in the bourgeois media, Left Bloc's leadership seems unable to escape the "ghosts of 2011": when the Troika came, the PCP and Left Bloc were isolated counter-voices proposing an alternative way of dealing with sovereign debt, and the media campaign against the Left was overwhelming. As a result, Left Bloc lost half of the electoral score in the following election. There is the belief that in the face of lack of support for more austerity measures from its left, PS and the dominant media will blame the PCP and Left Bloc and try to pass them off as radical utopians intent on handing back power to the Right. And there is an unspeakable fear that Left Bloc will be incapable of counteracting this aggressive campaign.

Left Bloc is the party that has more to lose in the current situation. Not only does it bear direct responsibility for the agreement's key points; the party also lacks a large core constituency and the capacity for continuous political mobilization. The Socialists can always walk out on the agreement under one pretext or another (such as international pressure), and the Communist Party maintains its firm voting base. And so, Left Bloc remains exposed, on the one hand, to any sudden moves from other actors, and on the other, to the shifting alignments of uncommitted voters. If the SP decides to implement a clear program of austerity, Left Bloc is in a difficult position, since if it breaks the agreement it will likely be held responsible for the fall of a perceived progressive government.

There is no escape from this impasse. We can only try to draw intelligent and intelligible red lines that would lead to a withdrawal of support for the government in the event of an open crisis scenario, in which the government tries to force a hard-core, EU-backed austerity package, or a gradual scenario of an increase in austerity in small, successive steps. These red lines cannot be limited simply to the text of the agreement because "intelligent austerity" can be insidious. The radical Left needs to be more critical. And there have been moments in which Left Bloc's leadership has been uncritically supportive, seemingly more pro-government than the government itself (!) as it bragged about its huge victories.

But being critical in discourse only is clearly not enough. The real challenge is to outline the political alternatives beyond negotiations with the government and parliamentary debates. This is how to do radical politics nowadays; how to reinvent a mass-based active resistance to austerity; how to change the relations of social forces.

There are plenty of obstacles to (re)starting this work. The social movements against austerity that organized the massive demonstrations against the Troika have vanished; there is no substantial popular self-organization against austerity; and Left Bloc, even though it is enjoying a period of popularity, is now perceived as, and behaves like, a system party: media driven (and thus heavily dependent on the bourgeois media) and completely institutionalized in its actions. Many of the party's resources and cadres are invested in parliamentary work and there is a strong structural dependence on state financing. Left Bloc's leadership has been unable to set an offensive agenda; it makes politics on a day-by-day basis, reacting to whatever happens, adopting a defensive approach to politics and showing a fundamental lack of strategy. Another problem facing radical left-wing parties today is the difficult identity-split between "opposition" and "governmental" types of parties. When these parties aim for state power, they normally need to take on a certain institutional bent, in order to not be seen as mere opposition parties that could never be "responsible" enough to govern. This is a difficult dilemma to solve, and it underpins the "dual strategy" that I discussed in the first chapter: the less structured "character" of these parties poses new strategy issues that are yet to be solved.

The step forward that is needed is not just a rhetorical figure. It implies a radical rethinking of practices and priorities. The radical Left has to work from below, to reinvent its democracy, to grow from the roots, to rebuild the popular movement, to help self-organized collectives to flourish, to give new strength to the labour movement, to build a social and political anti-austerity front that emerges as the real alternative to hard as well as to soft austerity.

In addition, the Left is not immune to commotions at the European level. Finding political answers that are capable of building social majorities is a central task for the radical Left today. The Brexit outcome has produced the now hegemonic idea that leaving the European Union only interests the far Right. Because of this, the Left needs to navigate this issue carefully, especially those parties that see the central strategy of leaving the European Union as an end in itself, not only because this idea has become associated with the Right — with, perhaps, the exception of southern European countries — but also because the possibility of an exit produces fear and uncertainty in a large portion of the population. It is important to reinforce the fact that leaving the Eurozone (or even the European Union) is not an end in itself, but only a possible tool to be used if necessary for rebuilding prosperity in a progressive manner that is far removed from imposed austerity.

However, these concerns cannot force the Left either to put its criticism of the European Union aside or to pretend that the shift — even the dismantlement — of the EU project is not already underway. The measures that truly reverse austerity in the long run — restructuring and repudiating public debt, nationalizing financial and strategic economic sectors, taxing the rich — cannot be implemented within the existing structures of the European Union and the Eurozone. Promoting such measures — even if it means disobeying the EU's ruling classes — is the only way forward for building a credible political platform that responds to the real grievances of people, and for reaffirming an independent and autonomous political program independently of social democratic parties that are not at all willing to confront the European powers. Furthermore, because these policies are not only possible but also popular in many places, this strategy will claim the political ground that has so far been occupied by the far Right. In providing the only answers that can actually transform people's lives for the better, the Left can build the broad support it needs to oppose supranational forms of exploitation and oppression. In this sense, sovereignty can be an instrument for salvaging what is left of democracy and creating the necessary space to enact policies that advance the conditions of workers. This does not negate the need for international political coordination, nor does it underrate the difficulty of the task ahead of us.

We need organizations that enable experiences of self-management at the subnational level, political parties and movements that dispute austerity and capitalism at the national level, and movements at the supranational level that emerge from the encounter between all these political actors.

MARIANA MORTÁGUA/CATARINA PRÍNCIPE

“TOWARDS AN IMPROVEMENT OF THE CONDITIONS OF STRUGGLE”

AN INTERVIEW ON SOCIAL PROGRESS AND ECONOMIC RECOVERY – WITH AN UNCERTAIN OUTLOOK

Catarina Príncipe: Which are the most important measures that the Bloco de Esquerda (BE) negotiated and made binding agreements on with the government of Partido Socialista (PS)?

Mariana Mortágua: The minimum wage increase of at least five per cent per year, a VAT reform, the reversal of the previous reform of the right-wing government, ending privatization, or an agreement to reverse privatizations which have already taken place, to the extent that this is judicially possible.

Does that include the national airline TAP?

The deal with TAP cannot be reversed – it was already a done deal. The privatization of local public transport is a different matter. To return to the measures agreed to with the PS: these also include measures aimed at pushing back against precarious labour conditions.

How far will this latter issue go? To the point of concerted action, with frameworks for agreements between government, unions, and business associations? And all this must be ratified with the social partners, correct?

No, we want new measures implemented. And beyond that: we have negotiated salary adjustments for the year 2017, and decided to address a problem affecting many people, namely income tax, which is too high for many people, and to restructure appropriate tax brackets. On this last point, there is nothing in the toleration agreement, only the reinstatement of progressive tax. That does not necessarily mean simply returning to the previous model. We wanted to make improvements and were able to achieve these. The same applies for the VAT rate for restaurants.

Naturally, there are always new obstacles. Initially, we had assumed that the restructuring of the income tax brackets could be relatively tax-neutral if reductions for lower income groups were balanced by increases for the top brackets. But most people in Portugal are assigned to the second and third tax groups which means that, in order to reduce the majority's tax burdens, we would have to substantially raise taxes on the higher income groups. Thus, the reform can only proceed in stages. Until now, there's been too little assertiveness on the part of the government, and a lack of will to complete the process.

What about developments affecting retirees? Weren't there some mistakes in the accounting here?

We, as the Bloco, undertook the calculations on the basis of existing statistics and prognoses. The challenge is gaining access to information which the government has. Without precise data on the number of legitimate claimants and the level of benefits to be paid, it is difficult for us to predict exactly how specific increases would impact the total costs. These were setbacks. But with regard to the content, we not only met the pension increases we committed to in the toleration agreement – we went significantly further.

Was there not a ruling by the constitutional court related to income tax groups which helped you?

No. The constitutional court made a ruling only in relation to salary increases in the public sector; it did not address the restructuring of tax groups. The judgment was nevertheless helpful, because the return to specific wage standards in the public sector is of particular importance for us. But on the topic of income tax burden, we, the Bloco, have always questioned the existing judgment by the court.

Can you tell us about the new social rates with energy provision?

The introduction of a social rate for the struggle against energy poverty was a huge success for us, because it helped societal groups which otherwise hardly benefit from other socio-political measures. All in all, we managed to reach different parts of the population, especially those with some access to social support. And in this case, an increase of 20, 30, or 40 million euros makes a large difference – it affects minimum incomes, retirement, or child benefits. With a couple of dozen million euros, you can either increase the level of support or at least widen the circle of legitimate claimants. The example is even more complex with unemployment support because it is a question of the range of legitimate claimants and the beneficiary groups. In other words: If I have 30 million or even 100 million euros at my disposal, it is much more effective to use it to raise minimum income

than to use it to raise unemployment support levels. Additionally, because of the high level of unemployment in Portugal, the claimants would feel little to no change when it is spread among the large group of claimants. That is the section of the population which is the most difficult to reach of all: the unemployed, whether they receive unemployment support or not. It is clear that these people would be helped by the social rate to combat energy poverty, since it broadens the group of people with access to social support. Officially, such a levy was already in existence and it was supposed to be financed by the energy companies. But there was too little information, people knew too little about it, and the energy companies shaped the conditions of eligibility in a complicated way. We have changed that: Household incomes that fall below a certain level are now automatically charged the reduced rates. This has raised the number of users from around 100,000 to 800,000. And the energy companies are paying for it! This makes the social rate an important instrument of redistribution.

Which are, in your opinion, the most important points for the budget office for 2016 and 2017?

The increase of the minimum wage is the definitive measure. It will rise to 600 euros per month by the end of the current legislative period. The government has pledged to raise it by at least five per cent per year until the goal is reached. And we have insisted that this is the minimum, which means that there is always the possibility of raising the minimum wage even faster, or of going above the agreed-upon 600 euros. The left-wing trade union congress CGTP wanted to see the minimum wage raised to 600 euros in one go – a demand supported by the Bloco as well. This wasn't feasible. But the agreement we made with the government is a guarantee that the increase will occur within this legislative period. We should bear in mind that the minimum wage before the succession to government by the PS was still at 505 euros per month. That means nearly 100 euros more for every person who earns the minimum wage, and this affects more than 500,000 people.

This improvement to lower wages is of particular importance to us and this is the reason for the on-going tensions with the government. In the first year, the increase took place without significant resistance, in the second year the employers' association protested. The government felt the pressure from both the side of the employers, who fought the minimum wage for being too high, as well as from the left-wing parties the Bloco and PCP, for whom the increases were proceeding too slowly. The conflict with the former could only be resolved after the government promised them a reduction in the so-called standard social taxes. And whilst the government had in fact promised that it would not waiver in raising the minimum wage, pressure from European and international institutions to flexibilize the labour market is almost stronger than the pressure on countries to align their fiscal or budgetary policy with the neoliberal line. This being the case, the PS government is really struggling to reconcile all these demands, that is, to meet the demands of the left-wing parties and to send a signal abroad and to the European institutions that it is, as before, taking into account the interests of capital and the financial world. Brussels is especially interested in concerted action and close coordination with the economy.

The reduction of the social tax was not part of the original agreement?

No. We insisted that the reductions in social security contributions should not be felt by employers alone, but also by employees. The Bloco will challenge this one-sided reprieve for employers in parliament because this scheme was not part of our toleration agreement. We will challenge the government on this point and try to prevent this change.

Are there already estimates for the expected costs of the PS government's planned reductions in social security contributions by employers? This must be at least partially covered by social insurance money.

I don't have any exact figures available, but I estimate it to be around 30 million euros. The social security system will not feel the burden though, because the government will compensate for the lost income with tax money. This means, tax payers will bear the costs, and that is the reason why we oppose reductions in the unitary social security tax for employers.

With minimum wage increases, we're pursuing another goal, and that is to increase average wages. This has yet to make its mark. So far, pay scales set by the employers are usually oriented towards the minimum wage as the lowest level. Based on this, employees are ascribed to different wage groups. Now the minimum wage has been raised, but other wages have stagnated, because hardly any collective bargaining is taking place. We have therefore focused our efforts on the struggle against precarious labour conditions because that is an area in which we were able to raise pay most effectively.

In the near future, a report will be published about precarity in the public sector.

What can be expected from it?

This report on precarity also stems from our toleration agreement. The government is promoting it as if it was its own idea, part of its struggle against precarious employment conditions. In reality, we essentially had to force the government during parliamentary deliberations on the budget of 2016 to agree to the step of

investigating precarious working conditions in the state sector. This meets an old demand of the Left. Previous governments have always refused to publish information on this topic. The completion of the report has been deferred repeatedly. It was supposed to be published last October, and we still don't know exactly when it will come out. It is important that it appears soon because we succeeded in pushing through a measure in the most recent budget negotiations. The government has pledged, on the basis of the report, to develop a scheme for permanent positions for precarious workers in the public sector. We don't expect the state to move everyone in the public sector from fixed-term contracts to permanent positions, but to have wrestled this commitment from the government encourages demands and expectations amongst the employed and offers a good basis for labour struggles. With this, we want to embolden people and offer them our support.

The government has delayed publication of the report, and we expect it to leave open as many areas of precarious employment in the public sector as possible in order to play down the breadth of the problem. We are already in contact with employees who work in the public sector and who want a permanent position. Although the report omits details, this is the first time the government has acknowledged the problem. Just four years ago, it was completely contested. This means an improvement to the starting point for social struggles. We are improving the conditions of struggle.

How have the disputes over the crisis of the financial system evolved since the toleration agreement?

Where to begin? There was the rescue of Banif Bank, the recapitalization of the publicly owned Caixa Geral de Depósitos, and now we're dealing with the Novo Banco that emerged following the crash of Portugal's largest bank, the Banco Espírito Santo, which was nationalized and restructured with lots of money. Now the Novo Banco is supposed to be put up for sale once again, for a fraction of the money the state put into it.

Is there an estimate of how the bank rescue has affected the Portuguese national budget?

We estimate that the rescue of Banif cost approximately two to three billion euros. Basically, the problem has been dragging on for a very long time, and the last government did not manage to solve it. This attests not only to its incompetence and lack of political will, but also to the partiality of European institutions. A left-wing government would have been placed under much more pressure. From our perspective, this is what needs to happen: We need a law that provides clear guidance in such cases. This means that when public money is deployed for bank rescues, then, in the long term, such banks should be nationalized and turned into public property, and/or dismantled in an orderly fashion. Shareholders would be compelled to sign over their shares for very low payments (although pension funds present a certain problem because they administer large investments of fewer people). In addition, the creditors would have to accept losses, as would the owners and even the depositors (with the protection of low-level depositors). Alternatively, bankrupt banks would be liquidated. That is the process we are advocating.

The previous government tried unsuccessfully for four years to convince Brussels of its restructuring plan for Banif. It did not want to close down the bank and hoped to prevent wide-reaching liability for its creditors. The government which came into office in 2016 had little time to solve the problem because the European institutions adopted a sharper tone: they demanded the participation of the depositors or the sale of the bank. The latter is what they really wanted. But to sell a bank by a very tight deadline is not a good idea. If the buyers know that they need to sell quickly, this inevitably pushes the price downwards – just as with the case of the large Spanish bank Santander. So Santander paid 150 million euros for a bank which the state had already pumped nearly 2 billion euros into. The state was left with 'toxic assets', and the rest went to Santander. That was not a good deal for Spain.

The case of Novo Banco was somewhat different. Firstly, because it is regarded as the country's largest bank. Its precursors went bankrupt and the shareholders and some creditors lost everything. On this occasion, the previous government set up a liquidation fund. The banks were required to capitalize this through the payment of fees. When a bank now becomes insolvent, the shareholders and other beneficiaries lose their money, and the liquidation is then financed from the funds funded by the banks. It sounds smart in theory, but the practice was different, with the result that a multitude of banks came into competition as the newly founded liquidation fund lacked money. When the Banco Espírito Santo went bankrupt, approximately 4.9 billion euros was needed. The liquidation fund lent the bank the money although it had received no payments from the bank. In reality, it was the state that lent the fund money which financed the bank's liquidation. If it ever occurs to the state to demand that the banks repay their debts, the Portuguese banking system would collapse.

But because of the extension of the due date for interest payments, was it not possible to implement measures to control the banking system?

Well, the Novo Banco is in public hands. For the entire banking sector it is now the case that, rather than the ties between banks and the state being severed, the connection between them has deepened even further. No

country can allow one of its largest banks to simply go bankrupt and watch the entire economy be pulled along with it into the abyss. But the fact that the bank's liquidation was so poorly managed by the state, as we now know, made the situation for Novo Banco even worse. In the attempt to protect the previous government by limiting the losses, so many toxic assets remained on the books. The bank needed capital, but no one wanted to put money into it or buy it in the shape it was in. Thankfully, this government is not willing to proceed with Novo Banco in the same way as it did with Banif. It will not sell even if this entails more losses. So for the time being, the bank remains under state control.

The radical Left and the socialists have rather different ideas about what goals a nationalization [of the bank] should serve.

Yes, there is the position of holding onto the bank until there are better conditions for its sale. Others fear that the bank could slip into the hands of "locus", which would dispose of all securities and trigger a series of bankruptcies amongst large Portuguese companies because they are (like the failed BES) part of the Grupo Espírito Santo. We advocate, for two reasons, the retention of the bank as public property: first, because only then can it serve the common good in the future, and second, because only then can it be certain that the capital remains in the country. If the Novo Banco were sold to international investors, this would place three-quarters of the Portuguese banking system in foreign hands. That would mean a significant loss of autonomy for Portugal as far as the steering of its own economy is concerned, and this would be especially fatal should it be faced with another crisis.

Is it even possible under existing European law and the relevant guidelines to hold the bank as public property and even develop a new business model?

The EU's, and other institutions', regulations are not there to protect collective interests, but instead encourage destruction and competition. Yes, it is difficult. We stand for a kind of bank that operates in the service of the public, for a more democratic and more transparent management. This also means making more capital available for productive development. And we want to reserve for ourselves the possibility of re-introducing our own currency, should this become necessary. But even in a scenario that involves only a temporary nationalization to limit losses, there is no guarantee that the European Central Bank (ECB) would agree to this. The ECB has enormous power because it authorizes bank licenses and can retract them. It is shocking how non-transparently they operate. We have no access to the entire decision-making process, to important conference reports or other documents. The ECB board does not have to justify its decisions to any national politicians, even those with important functions.

But do you believe that the current government could decide in favour of a course of nationalization?

Do you mean long-term nationalization? It is too early to judge. It partly depends upon the European institutions, partly on the current bank balance. There are also bad memories of the way in which the Banco Português de Negócios (BPN), a bank mainly active in the investment sector, was nationalized in 2008. This permanently ruined the balance of our fiscal budget and affects us even today. Nationalization on that occasion continues to cost taxpayers money still today, presently over 5 billion euros. And then the bank was sold in 2012 for only 40 million euros. It should have been liquidated instead.

What is the situation of the Caixa Geral de Depósitos, the Portuguese savings bank?

The Caixa Geral de Depósitos is Portugal's largest bank and is a classic public bank. But it too has been subjected to the demands of questionable business models. There are four factors which undermine the stability of the banking system in Portugal: First, the dominant business model in Portugal is based on easily accessible credit for fast growing firms, for example in the construction industry, which is often linked to corruption, and survives on patronage and specific power relations at the national as well as the local level. That is how our domestic mini-capitalism functions. And this model has artificially inflated specific branches of economic activity since the 1990s, especially the building industry, which having failed after 2001 to grow at its earlier pace, collapsed completely during the financial crisis of 2008.

Second, there have been numerous fraud cases, one of which is connected to the Banco Espírito Santo. Third, there is the crisis. In a country which lost 7 % of its wealth in just three years, and experienced a record number of company and private bankruptcies, the banking sector could not be spared. The politics of austerity has made the banks' previous security worthless because vast numbers of families and entire businesses were pushed into bankruptcy. And the Caixa is even more affected by the problem of insecure mortgage loans than by the implosion of commercial loans. As the banks were recovering, the minimum requirements for their proprietary capital were drastically raised. And what did they do to meet these demands? For the most part, they brushed the losses under the carpet. That was the survival strategy of the banks during the financial crisis. This was also the case with Caixa. The magnitude of the problem is still unknown to us.

Nearly every bank needs capital injections during a crisis. It should be regarded as normal that a state puts money into its own bank. It cannot be the case that states are allowed to own companies and to control them, but are expected not to invest in them. It is no surprise that at some point someone should come along and say: "See, the state cannot run businesses, they must be privatized." That is what happened with the Portuguese airline TAP. For twenty years, TAP received no public money, despite intensifying international competition and price dumping by new airlines such as Ryanair. Eventually, TAP was in a sorry state. It paid its taxes and dividends but never received sufficient money for investment. That Caixa had to be recapitalized is normal.

The previous government tried to remedy the situation with so-called convertible bonds, which was a very expensive solution for Caixa. The process was never really transparent because we never knew precisely how large the gaps were which we had to fill. The previous government announced shortly before its end yet another higher loss of value and estimated the deficits to be around 3 billion euros. We don't know if this is true. What matters though is that Caixa is recapitalized so that it can survive – because it was mainly the reliable Caixa Geral de Depósitos that saved the Portuguese banking system during the crisis.

And how do growing interests affect the Portuguese national debt, which grew significantly during the bank bailout?

Interest rates are climbing because growth in Germany and the United States is comparatively good. This creates the impression of an economic recovery. This applies to Portugal too, because our measures for relieving the tax burden for small- and medium-income groups and our social reforms have stimulated consumption. This has helped the economy to recover. At the moment, the financial world and media always stress two risks: the Italian and Portuguese banking systems, especially the Novo Banco. The doubt about the stability of some banks allows doubts to arise about the state's ability to pay its debts, and results in an additional credit-rating surcharge being applied to Portugal's government bonds.

It appears, then, as if there was an upswing, as if things were livening up, even if this doesn't always reflect so much the reality as a strong desire for a change. Nonetheless, there have been improvements, albeit unstable ones. The outbreak of a new financial crisis cannot be ruled out. While the ECB is retreating from its policy of quantitative easing, interest is rising on the debt peripheral countries have to pay back. The periphery survives in a way on quantitative easing, including the purchase of government bonds by the ECB. Otherwise, the gap between the interest rates in Germany and Portugal would further increase and the debt-holding capacity of the peripheral countries would definitively explode. A debt audit is needed to assess the legitimacy of the debts which have accumulated dramatically from financial market speculation, an overpriced bank bailout, and a questionable austerity formula.

How large is the current government debt?

It has reached an absolute highpoint. The deficit continues to grow, although the primary deficit no longer exists and the Portuguese national budget has recently shown surpluses. But the current interest rates are a punishment to the debtors. We are going into debt right now simply to pay off interest. At the same time, no matter how many swaps we are making to exchange expensive debt for cheaper debt we hardly have any growth and no inflation to help us address the debt burden. So the debt continues to grow and will not stop growing in the near future. This applies also, for example, to France and Italy, who have had to accept a growing government debt. What is needed is a debt annulment for illegal debt, and not only for Portugal and Greece.

Can we say that there has at least been a change in income distribution in the country?

Compared with what used to happen previously, yes. Measures such as the minimum-wage increase have had a substantial effect; the introduction of the social tariff in the area of energy provisioning has also been very successful. In the public sector, employees have felt a clear increase in income because wage cutbacks were reversed, and because there was significant relief from the previous drastic increases in income taxes. In addition, the 35-hour week has been partially reinstated and vacation entitlements have been raised, meaning that employees now work less for higher wages. Also, for those who receive the minimum wage or those whose small pensions are now ramped up by the government, there has been a palpable improvement in income. Additionally, the sales tax has been lowered for restaurants and cafes, a measure welcomed by both owners and customers – the café or bar on the corner are, after all, important places for social contact. That is not entirely revolutionary, but for individuals and particular societal groups of enormous meaning.

Taxes on tobacco and alcohol or the negotiation of new conditions for consumer credit have been deliberately negotiated. The tax on gasoline has indeed been raised, but the price of gasoline before was actually very low. In this sense, there are no new taxes which would directly burden the ordinary person in Portugal. Finally, a tax on luxury items was enacted, but it ended up being much lower than originally planned. Nonetheless, this was an important step, because a key societal debate was initiated. Generally, we should respond more

strongly with demands on the issues of growing private wealth accumulation and the extremely unjust property distribution. These demands should be directed towards the low level of participation from the large banks and wealthy individuals in their contribution to the common good and we should make this a political issue. And the tax policy of the current government must thereby be criticized, for it has focused too much on budget consolidation and too little on investment. Given the development of debts in Portugal, significantly more radical redistribution measures are needed.

As of august 2017. Translated by Rob Ogman