
THE TRUE COST OF AUSTERITY AND INEQUALITY

Portugal Case Study

The Crisis

The sovereign debt crisis in the Eurozone might as well be called the 'unemployment crisis' in Portugal, as in other member states in southern Europe. This crisis some say will lead to the loss of a generation of skilled labour across Europe.¹ More than GDP variations or sovereign debt yields, the number of people out of a job can be seen as an indicator of how hard the country has been struck by the crisis and subsequent austerity measures.

Portugal continued to function despite large public deficits and increasingly high levels of debt in the years leading up to the crisis. The last time Portugal's GDP grew was during the last quarter of 2010. With a deficit of 10.2 per cent of GDP in 2009 and 9.9 per cent in 2010, the country's public debt was 124 per cent of GDP in 2012, where ten years earlier it had been 54 per cent. The International Monetary Fund forecasts that those levels will only decrease after 2014. Earlier this year, the 'Troika' of lenders² extended the deadline for Portugal to fulfill its commitment to reducing the deficit to less than three per cent until 2015. The 2012 deficit was 6.4 per cent.

In 2012, Portugal witnessed the bankruptcy of more than 6,600 of its companies, a 41 per cent increase compared to 2011.³ Construction and restaurants have been hit the hardest, with the latter suffering from the increase in VAT to 23 per cent in 2012, which prompted multiple negative reactions from tourism stakeholders. Even sales of concrete have fallen: down 44.5 per cent in March 2013 compared to the same month in 2012.⁴

Unemployment

The Portuguese unemployment rate hit 16.4 per cent in the second quarter of 2013,⁵ a double-digit figure in a country where the last time unemployment crossed the eight per cent barrier before the crisis hit was 1986, the year it joined the European Economic Community.⁶ The unemployment rate reached 15.7 per cent in 2012, the equivalent to 860,100 people out of work according to official statistics, making it the third highest in the Eurozone, after Greece and Spain.⁷ Despite repeated attempts by different ministers to portray unemployment as an 'opportunity to change one's life',⁸ numbers have not improved.

Documents published by the Portuguese government in April 2013 included the expectation that the unemployment rate would be 18.2 per cent in 2013 and 18.5 per cent in 2014, the last year of Troika intervention.⁹ The main trade union confederation – CGTP – claims the real number is much higher than official statistics.¹⁰ Different economists and media have suggested that the 'real' unemployment rate surpasses 20 per cent, over one million people.¹¹

Cáritas, a Portuguese charity, has warned that there is a pervasive 'feeling of fear' that restricts workers and leads them to 'accept every sort of rules and impositions'. The discourse regarding the need to have a job, whatever the cost and regardless of how little it pays, is widespread throughout the country.¹²

The unemployment rate is roughly equal for men and women at 15.7 and 15.6 per cent in 2012 respectively. However, the lack of jobs has had a particular impact on those aged 15-24 years old, with 37.7 per cent unemployed in 2012 and 42 per cent in the first quarter of 2013. The other group hit hardest in recent years is the long-term unemployed. The long-term unemployment rate was 8.5 per cent in 2012, up from 6.8 just a year before, making it almost double the EU average.¹³ In the Azores and Madeira regions the numbers are, generally, even higher.

The minimum wage in Portugal is €485/month compared to €753/month in Spain and €684/month in Greece, while the poverty threshold (the line below which a family is at risk of poverty) was €5,046/year in 2010, according to official statistics.¹⁴ Unemployment benefits, as agreed between the Portuguese government and the Troika, were capped at a maximum of 18 months, slightly less than half of the previously established limit.¹⁵

Often mentioned alongside high unemployment amongst young people, emigration has also increased, despite its absolute levels remaining low, according to official statistics. In 2011, the number of new Portuguese emigrants almost doubled compared to 2010, from 23,760 to 43,998. However, the government acknowledged that the real figures might be twice those published officially,¹⁶ which would mean that almost 100,000 people left Portugal in 2011 alone. At the same time, the number of immigrants arriving to Portugal has steadily decreased since the beginning of the crisis, from 32,307 in 2009 to 19,667 two years later¹⁷.

Austerity measures

In October 2011, a few months after winning the elections that followed the bailout request, Prime Minister Pedro Passos Coelho said that Portugal was only going to get out of its current predicament 'by becoming poorer.'¹⁸ Indeed, charities speak of a 'social emergency', a term repeated by many of the political representatives in Portugal and abroad, from the President of the Republic to the President of the European Commission. The number of people who receive aid from the Portuguese Food Bank has steadily increased since 2006, from 209,445 to 329,176 in 2011.

The average family allowance ('abono de família'), a subsidy paid monthly to families per children and dependent on a series of factors, reached a peak of just €44.60 per month in 2010 and has steadily fallen since.¹⁹

Since 2010, the number of people who benefit from 'social insertion income' has been cut from 527,627 to 274,933. The average monthly amount received by those covered by this programme, which aims to provide support for those most in need, was €81.90 in April 2013.²⁰

As part of its bailout from the Troika, the government agreed to €4.7bn in cuts to public expenditure by 2014,²¹ with a special emphasis on health care, education and social security. Around 50 courts, out of a total of 327, will be shut down in 2014, further aggravating differences between the rural and urban areas. In May 2013, the government announced that it intended to cut a further 30,000 public sector jobs.²² In addition to the public sector, many workers saw their income decline as a result of a four per cent increase in the standard rate of income tax;²³ pensioners have also faced repeated cuts to their income.²⁴ A report written for the Economic and Social Council estimated that budget policy had a negative impact on available income of about €2.6bn in 2011, a 2.3 per cent decrease compared to 2010.²⁵

In 2013, health care user fees were raised in line with inflation (2.8 per cent in 2012), which means that to use a public hospital's emergency room now costs €20.60, with additional fees of up to €50 for examination and diagnosis.²⁶ The media reported in 2012 that the public health service registered a decrease in patients as a result of the rise in fees.²⁷ Deloitte, a consultancy firm, published a survey of health care in Portugal in 2011 which stated that 77 per cent of those surveyed said that 'costs have limited their spending on other essential household items' and two out of 10 did not feel financially prepared to handle future health care costs.²⁸

Portugal abruptly reduced spending on education between 2010 and 2012, by 23 per cent in two years.²⁹ Accompanying that figure, amongst those groups visiting job centres, teachers saw the most significant increase countrywide in 2012. Meanwhile, the government set a minimum of students per class at 26 with a maximum of 30, between the fifth and twelfth grade (10-18 years of age), which meant an increase of two.

The sale of the last public stake in Energias de Portugal (EDP) was an important moment in Portugal. It meant the entry of China Three Gorges in the Portuguese energy market, as the largest shareholder of the power company with 21.35 per cent of its capital. The government has also signalled its intention to privatize one of the two public television channels, something that has been surrounded by controversy.

The resentment caused by the significant number of measures implemented by the government led to a series of protests, some of which were the largest since the 1974 revolution. Some were marred by violent incidents, such as the assaults by police on identified journalists and demonstrators in 2012. According to the domestic security report for 2012, there were 3,012 demonstrations across the country.³⁰

Inequality

In June 2010, the rector of the University of Lisbon, António da Nóvoa, gave a speech during official ceremonies celebrating National Portugal Day. In it, Nóvoa said 'there are now too many 'Portugals' inside Portugal. There are now too many inequalities. A fragmented society is easily beaten by fear and radicalization.'³¹

'Let us have an armistice with ourselves and with the country. But let's not commit, once more, the error of thinking the storm is passing and soon calm will come. It won't. Everything is changing around us. And so are we', he added, referring to the return of poverty to Portugal.³²

Portugal had a Gini coefficient of 0.34 in 2011, worse than the European Union average of 0.31 and the worst performer in the Eurozone, which makes it the most unequal country in the common currency area. In 2011, Portugal was seventh highest in terms of economic inequality in the European Union,³³ a year when the earnings of the 20 per cent richest people in the country were 5.7 times superior to that of the 20 per cent poorest.

The former Finance minister, Vitor Gaspar, warned that 'budgetary discipline' will not end even if the austerity measures agreed between the Troika and the Portuguese government are adhered to and conclude in 2014. Mr. Gaspar has also stated that the work to reduce debt levels will not be finished in 2014 or the year after that: 'It will take the efforts of a generation.'³⁴

NOTES

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This case study was written by Tiago Dias. Oxfam acknowledges the assistance of Natalia Alonso, Krishnah Poinasamy, Teresa Cavero, Jon Mazliah, Joana Martinho and Kevin Roussel in its production. It is part of a series of papers and reports written to inform public debate on development and humanitarian policy issues.

For further information on the issues raised in this paper please e-mail eu@oxfaminternational.org

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The information in this publication is correct at the time of going to press.

Published by Oxfam GB for Oxfam International under ISBN 978-1-78077-430-5 in September 2013.

Oxfam GB, Oxfam House, John Smith Drive, Cowley, Oxford, OX4 2JY, UK.

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