

The web of austerity and Europe's weakened democracy

The case of Portugal

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Introduction

Portugal is probably a single case in the context of financial assistance programs in the Euro area. Between 2011 and 2015, the European institutions and the IMF have had in the Portuguese right-wing government coalition the perfect partner to implement the Financial Assistance Programme.

There was clearly a true mutual understanding between the two parts

- **For the government:**

- The memorandum of understanding was the opportunity to pursue some economic policies that:
 - i) they would never dare to implement in another context
 - ii) the ordinary citizen never thought that would be taken
- The presence of European institutions and the IMF in Portugal was never considered an external interference, and always considered as normal, with the argument of the Portuguese economic situation, and consequently necessary.

1. The European “adjustment process” in Portugal

Financial Assistance Programme in Portugal, 2011-2014

- The diagnostic has been distorted to impose an adjustment programme of the type “one-size-fits-all”.



- Major explicit objective of the memorandum of understanding: “consolidation of public accounts”.



- The public deficit-to-GDP ratio decreased, but in 2014 was almost double of initially estimated by memorandum.
- The public debt-to-GDP ratio has increased more than initially estimated by memorandum



- Public debt interest rates fell sharply \Leftarrow ECB’s intervention in the secondary market



Portugal: luxury public debt interest rates but... junk rating



Major contradiction

1. The European “adjustment process” in Portugal

Financial Assistance Programme in Portugal, 2011-2014

- Labour devaluation
- Labour income severely penalized
- Devaluation of the State figure
- All State budgets presented by the previous government had measures that were considered unconstitutional by the Constitutional Court

- Hysteresis effects
- In 2014, the high-tech industries account for only 6.9% of total exports, while have represented 12.4% in 2004
As ten years ago, more than a third of exports are low-tech industries

1. The European “adjustment process” in Portugal

Financial Assistance Programme in Portugal, 2011-2014

“Clean exit” in 2014

But serious problems were hidden in the financial system ⇐ BANIF

- i) Collusion between the right-wing coalition government and the European Commission ⇒ the decision to resolve BANIF was postponed ...
“to not jeopardize the clean exit”

- i) Recently known: the resolution would have been chosen by the ECB and the European Commission: its sale to Santander
The order was given by the ECB through an e-mail sent to the Portuguese Minister of Finance

2. The European monetary integration and democracy

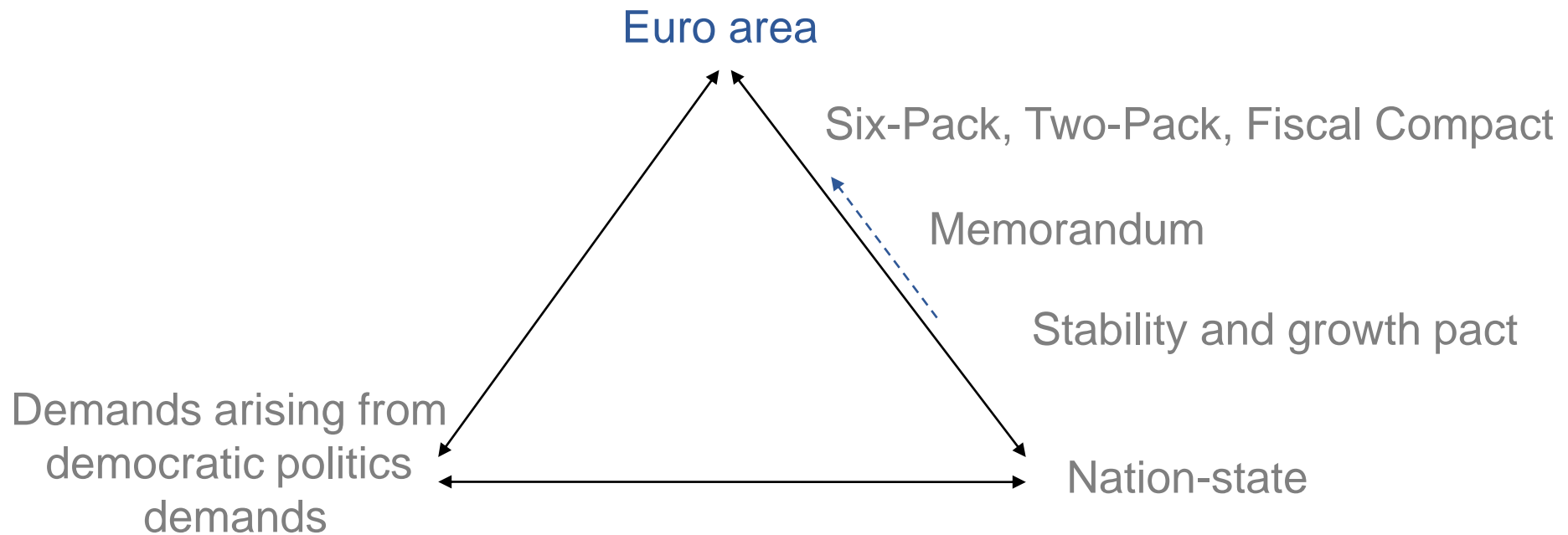
The Portuguese case

Is democracy at risk?????

- Governments should impose rules on the existence and functioning of financial markets
- However, markets limit central aspects of economic policy, decided by governments.
- Currently, the situation is aggravated by the fact the European institutions, instead of controlling the markets, are working like them, jeopardizing democracy too, and legitimizing their behavior.

2. The European monetary integration and democracy

The Portuguese case



3. Portuguese elections and the democratic fragility in the EU

- The right-wing coalition was the most voted political force in parliamentary elections late last year, though most Portuguese voters have rejected such policies



The power mechanism

- **Right-wing government** ⇒ delineated an electoral strategy that had, as one of the pillars, the control of the media at the level of political analysts and of the selection of timing, form and content of the news.
- **European institutions** ⇒ essential that the right-wing coalition won the elections to... denial the idea that the European institutions and governments have ruled:
 - against the citizens
and
 - in favour of financial markets

3. Portuguese elections and the democratic fragility in the EU

- **Elections: What is new ?**

⇒ conditions for a Socialist Party (PS) government with the parliamentary support of other three parties: Left Bloc (BE), Portuguese Communist Party (PCP) and the Ecologist Party "The Greens" (PEV)

→ Portugal as **for the first time** a government with the support of all major left parties

- **President of the Republic:** very reluctant to induct this government

⇒ this attitude is more a case of how democracy can be injured because of European commitments and loyalties to financial markets

- **State Budget for 2016:** intention to replace the income levels seen before the crisis
⇒ assumes stimulus measures on the demand side



distinguished from the European context

3. Portuguese elections and the democratic fragility in the EU

- **Draft budgetary plan:** highly criticized by European Commission and Eurogroup. The Portuguese government was forced to take some steps back and had to include new restrictive measures. However, the government maintained its point of honour: not budge an inch in the income replacement before the crisis.
- On 7 April 2016, Mario Draghi **suggested** in Portugal, but without referring to Portugal, **to change**:
 - **the Constitution** of some countries, because it is an obstacle to some reforms such as labour market reforms
 - **the electoral laws** in some countries due to question of governance. Certainly, he was thinking on Portugal and Spain.



Democracy is probably more at stake than we are thinking...

Conclusion

Difficult task to
the governments, namely to
the Portuguese one

In a democracy, like Portugal,
it is true that it is always
possible an
alternative governance

BUT

It is also true that the
implementation of alternative
policies in the context of the
current Euro area is increasingly
difficult

Conclusion

- Today, the situation is so odd, that institutions that were not elected supervise democratically elected institutions — national governments.
- Supervise even *ex ante*, meaning that they know and approve national budgets even before elected institutions and the national parliaments knowing them.
- As evidenced by Weeks (2016):

Member governments de facto formulate their budgets for the Commission not their legislatures; after the Commission judges them as satisfactory the national legislature goes through a pro forma approval process. Adopting the [Fiscal Compact] transfers sovereignty from democratically elected institutions to an unelected bureaucracy.

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