

Portuguese Left Tests the Limits of European Social Democracy

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Across Europe, social-democrats look to Portugal with a mix of hope and envy. The reasons are simple. Since 2015 the *Portuguese Socialist Party* (PS) has led a minority government which relies on the support of the *Portuguese Communist Party* (and its satellite partner, the Greens) and of the radical left party *Left Bloc*, and which has managed to achieve several miracles, namely to ‘turn the page on austerity’, to reduce the public deficit to historic levels and to convince the *European Union* (EU) to support its economic approach. If that was not already short of miraculous in a Europe where social-democratic parties are in retreat (Hix and Benedetto, 2017), the PS is also well-positioned to lead the next government following this year’s parliamentary elections.

At first glance, the story of Portugal’s anti-austerity success resembles the adventures of Astérix, the tiny but gutsy Gaul hero who always managed to win

against the all-mighty Roman Empire. Like Astérix, the Portuguese government has been able to defy the expectations of more powerful actors at home and in Brussels. When the ‘quasi-coalition government’ (Fernandes, 2016) led by the socialists was formed in November of 2015 few commentators and European leaders believed it would survive more than six months. In Portuguese right-wing circles, this government was derogatorily described as a ‘Contraption’ which would collapse at the first sudden right turn.

It turns out that the ‘Contraption’ defied these expectations. In less than four years, it approved four budgets and has won important economic battles with the EU. So far, so Astérix. But a closer look suggests that the story of the ‘Contraption’ is less heroic though not less interesting because of that. Evidence suggests that austerity was only contained, and not reversed. Above all, the ability of the socialist minority government

to completely reverse austerity and implement a social democratic agenda remains heavily constrained by membership of the *European Monetary Union* (EMU).

Despite these constraints, the socialist minority government has not given up hope on social democracy.

Its commitment to social democratic values is the main driver behind the Prime Minister's recently announced proposals to reform the *Eurozone* which he has been promoting in different European forums. If those proposals are endorsed across Europe the Portuguese socialists may have, as suggested by the former architect of Third Way politics, Peter Mandelson, discovered a 'fourth way' for social democracy in Europe (Meireles, 2018). On the other hand, if those proposals are ignored, Portugal's governance experience of the plural left may merely show the limits of European social democracy.

The following pages will map this potential 'Fourth Way' to social democracy by first contextualising the emergence of the 'Contraption' and assessing its term in office. Next, it will



António Costa

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show how the realisation that austerity could not be fully reversed led the socialist minority government to become one of the most ardent defenders of *Eurozone* reform. The article will conclude with an analysis of Costa's proposals for *Eurozone* reform and what do they mean for the renewal of European social democracy.

A Contraption That Works

The PS's return to power was far from straightforward. Following inconclusive legislative elections in October of 2015, the leader of the PS António Costa snatched victory from the jaws of defeat by inviting the parties of the left to support his government (the four parties hold a majority in Parliament). After 35 days of negotiations, the PCP-Greens and the *Left Bloc* agreed to support a minority socialist government

provided it delivered the list of 70 policies that had been agreed in three separate written documents. These agreements were comprehensive in scope, but they fell short of a coalition government. In theory, the socialist leads a minority government supported by the parties of the radical left, but, in practice, the relationships between the parties have become so highly institutionalised (Fernandes, et al, 2018) that the government can be defined as quasi-coalitional (Fernandes, 2016).

A number of factors made this historic agreement possible. Firstly, the severity of the austerity measures demanded in 2011 by the *Memorandum of Understanding* agreed with the EU and the *International Monetary Fund* and implemented with gusto by the centre-right government led to a *rapprochement* between the four parties of the left. In the period of the 2011-15, the thus far historical rival parties of the left – PS, PCP-Greens and *Left Bloc* – were often united in their opposition to the austerity agenda of the centre-right government.

Secondly, the new ideological orientations of the different political parties facilitated this agreement. While the PS shifted to the left under the leadership of Costa, the radical left parties adopted more pragmatic stances. It was certainly the case of the *Left Bloc*, who under the stewardship of Catarina Martins became less interested in debates

about doctrine and more focused on the effects of austerity (Freire 2017).

Thirdly, the inconclusive electoral results meant that the Left was tantalisingly close to power; to miss this opportunity would mean another four years in opposition watching the right consolidate its austerity agenda. The combination of these factors were sufficiently powerful to persuade the three parties to set aside their profound and long-standing disagreements about NATO, membership of EMU or the restructuring of the public debt, and to agree on a bread-and-butter anti-austerity agenda.

From an electoral perspective, the results of this experiment have been encouraging. The Portuguese experiment shows that dialogues between the different families of the left can bring electoral benefits to all. The PS is on course to win a comfortable plurality at this year's elections, and both the PCP and the *Left Bloc* have so far escaped the black widow's curse that normally affects the parties of the radical left that join coalition governments. If anything, the 'Contraption' has enabled these parties to make the most of the quasi-coalitional arrangement: they can claim responsibility when things go right and blame the socialists when things go wrong.

Placating Brussels

The news that a socialist minority government supported by the radical left had been formed in Portugal in November of 2015 were not welcomed in Europe. The promises to turn the page on austerity made by Costa during the electoral campaign were seen as heretic by Brussels and several Northern European governments. The German Chancellor Angela Merkel let it be known that the prospect of an anti-austerity government in Lisbon was ‘very negative’ (Tooze, 2018: 537). For all intents and purposes Portugal was still a ‘naughty’ country that should do, to use the expression used by the former German Finance Minister Wolfgang Schäuble, ‘what it had been told to do’ by the EU.

Having watched from the sidelines how the EU institutions and the *Eurogroup* (the informal but powerful group of Finance Ministers of the *Eurozone*) had outmaneuvered and humiliated the *Syriza*-led Greek government, Costa knew he could not be confrontational in his dealings with Brussels. In particular, he knew he had to convince the EU institutions and the German government that his economic agenda would not undermine the governance rules of the *Eurozone*.

To help him in this task he appointed to key cabinet positions individuals who knew Brussels inside-out but

who also had relevant expertise and a patina of Establishment credibility. That reasoning led to the appointment of Mário Centeno, a Harvard-trained economist who had served on a board of the *European Commission* (EC), as Finance Minister. This appointment proved to be crucial for the success of Portugal’s strategy. Centeno had the expertise to deliver budgets that met Brussels’ approval but he also had the credibility and the diplomatic nous to resist pressure from the *Eurogroup* or from Berlin when needed.

Despite the careful preparations, the dealings with Brussels were not always easy. For instance, the socialist government’s first budget, presented in Brussels in January of 2016, and which included proposals to raise the minimum wage and reverse the cuts to pensions, was fiercely attacked by the EC on the grounds that it was fiscally unsound. In the end, Costa was forced to cave in to Brussels demands and added to his budget extra taxes on financial transactions, fuel and tobacco.

In the spring of 2016 a new crisis emerged. The EC threatened to issue fines against Portugal because its deficit reached 4.4% of GDP. Once again, the government fiercely resisted the EC ruling. The Minister of the Economy Caldeira Cabral told the media that it was counterproductive for the EU to sanction Portugal for ‘applying the exact formula

it was told to by the EC' (Politico, 2016).

In the end Portugal was saved by the political calculations of Berlin. At the time, Wolfgang Schäuble, wanted to help the then struggling Spanish centre-right government led by Mariano Rajoy who also faced the threat of fines for failing to meet the *Eurozone* public deficit targets. As the EC could not be seen to give preferential treatment to one member-state over another, it decided to not to issue fines against both countries.

In the meantime, Portugal's economic outlook improved significantly. In the spring of 2017, official data showed that Portugal's public deficit was set at 2.1 per cent of the GDP, the lowest in 40 years; economic growth reached 2.7 per cent (at the time the highest in the *Eurozone*) and unemployment had fallen to below 7 per cent (it had reached 16 per cent at the height of the crisis). As a result of these good news Portugal withdrew from the *Excessive Deficit Procedure* in the summer of 2017.

The transformation of the Portuguese economy was so unexpected that Wolfgang Schäuble started to refer to the Portuguese Finance Minister as the 'Cristiano Ronaldo' of European finances. The restoration of Portugal's credibility in the EU was concluded with the appointment of Mário Centeno as chair of the *Eurogroup* in December of 2017.

Containing Austerity

But Costa's and Centeno's success in Brussels turned out to be the sign that austerity was not over yet. Surely, the most severe austerity measures had been reversed. Since 2016, the socialist minority government rose the minimum wage to 600 euros, widened the scope of the minimum income guarantee scheme, reversed the cuts on pensions, reintroduced the 35-hour week for public sector workers, and introduced tax cuts to low-income earners. The government also stopped some privatisations, introduced legislation that sought to protect the self-employed, and introduced popular policies like free textbooks for schoolchildren.

However, these measures did not reverse all the austerity measures that have been introduced in Portugal since 2009. More worryingly, the reversal of some austerity measures was done at the expense of much needed investment in public services and infra-structure. According to official figures, in the period 2015-2017 public investment in the healthcare system, education and other public services dropped from 2.2 per cent to 1.8 per cent of the GDP.

The reality is that, as it was argued by Cardoso, Costa's government 'merely worked to limit austerity's worst effects by manoeuvring within the *Eurozone's* strict budgetary limitations' (2018). In

short, Costa's government prioritised the reversal of austerity measures that directly affected the pockets of the most vulnerable, over investments in public services, in infra-structure and in the scientific fabric of the country. For these reasons, the effects of the Portuguese government's economic policies have been remedial rather than transformative.

policies. For that reason, the strongest constraint to social democratic politics is membership of the monetary union. As Moschonas put it, the institutional design of EMU effectively 'limits social democratic freedom of manoeuvre' (2014: 253; see also Sloam and Hertner, 2012: 36) as governments privilege fiscal discipline over social justice.



Portuguese anti-austerity graffiti
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Costa is fully aware that under the current rules of the *Eurozone* it is not possible to respond to popular demands for more public investments in the economy or for progressive measures that would deliver social-democratic outcomes. Membership of the EU imposes other constraints to other social democratic parties, especially in the areas of state-aid and liberalisation of public services, however most EU member states have learnt to navigate these impediments to interventionist

The convergence criteria established in the *Maastricht Treaty* signed in 1992 and the *Stability and Growth Pact* of 1997, limits government deficits to 3 per cent of the GDP and public debt levels to 60 per cent of the GDP. Complying with these rules leaves very little room for public investment or for the development of more equitable welfare provision. To make matters worse, since the *Eurozone* crisis, the changes to the governance rules of the euro have made social democratic politics even more difficult to achieve.

To save the *Euro*, the EU decided to tighten the ordoliberal screws of the EU. In 2012, the Fiscal Stability required member states to introduce in domestic legislation a fiscal rule which requires budgets to be balanced or on surplus, a new rule which, as

Matthijs and Blyth argued, challenges 'the nature and legitimacy of national constitutions' (2015: 259). The EU has also strengthened the *Excessive Deficit Procedure* and gave the *European Commission* more power to monitor the enforcement of the *Eurozone* rules to the point that it can veto budgets that have been approved by national parliaments.

The adoption of these measures, together with a vast programme of quantitative easing, was the price to pay to 'save' the euro, however this rescue operation was achieved at the cost of growing social and economic divergence between *Eurozone* member states.

These reforms had other collateral damage. In the *Eurozone* most social democratic parties have been condemned to the opposition for having caused so much social and economic pain to their voters. However, the main problem is one of intellectual imagination. Most social democratic parties still do not know how to make their commitment to European integration, and in particular to the monetary union, compatible with their ideological goals.

Reforming the *Eurozone*

The proposals to reform the *Eurozone* made by the Portuguese Prime Minister are an attempt to stop the intellectual paralysis of the European social democratic left, but

in a way that go with the grain of European integration. In other words, Costa's proposals are incremental in scope though they have the potential to have a transformational impact.

At the heart of his proposals is the recognition that in its current shape the monetary union is detrimental to European social democracy given that the current rules reflect the ideology of the minimal state. They also reflect Costa's concern with the growing economic and social divergence between the different economies of the *Eurozone*. According to him, without greater economic convergence in the EMU, poor and small countries like Portugal will be forever condemned to be peripheral and low-waged economies.

These concerns could have led to a big-bang approach to *Eurozone* reform. However, Costa is a pragmatic leader who is acutely aware that neither Germany nor the Northern European countries that have recently formed the *New Hanseatic League* will support changes to the *Eurozone* governance rules (Schmidt, 2015: 108). Instead, he defends a layering approach to reform that builds on the existing governance structure as well as on the proposals recently made by both the president of the *European Commission* Jean-Claude Juncker, by the French President Emmanuel Macron, and by the 2017 *Monti Report*.

As such, his proposals require *Eurozone* member states to comply with the convergence criteria set-up in the Maastricht Treaty, with the rules of the Stability and Growth Pact and of the Fiscal Treaty, and which require strict budgetary discipline by the national governments. Thus, to promote economic and social convergence, he defends the development of a budget for the *Eurozone* (funded by a *European Monetary Fund*) tasked with the role of awarding investment funds to the member states that seek to develop high-productivity and high wage economies. Acutely aware that no German government will ever sign blank cheques to less competitive European economies, Costa's proposals avoid the language of transfers and instead emphasise the rights and obligations that normally bind the signatories of a contract.

Under this scheme, the EU and each member state would negotiate a *National Programme of Reform* (NPR) whereby *Eurozone* funds would be awarded with the sole purpose of helping a member state to achieve its *Country Specific Recommendations*. These would consist of a list concrete targets that would be met within a specific timetable set out in the jointly agreed NPR (Costa, 2017).

This form of layering, which can be summarised in the formula 'ordoliberalism at home and Keynesianism at the European scale', is not the most

effective way of reforming the *Eurozone*, but it may prove to be the most politically feasible. Because they represent just an incremental step that will add a new layer of policies to the existing *Eurozone* architecture they are more likely to be accepted by Berlin and Brussels. But these reforms have the potential to have a transformational effect. As Streeck and Thelen (2010: 33) reminded us, the neoliberalisation of Europe and North America occurred as a result of a drip feed of incremental measures. But Costa's proposals can have the reverse effects. Over time, the European cash injections can neutralise the effects of ordoliberalism in the *Eurozone*.

To promote his reform agenda, the Portuguese prime minister has tried to form alliances across Europe with like-minded governments, but it hasn't been easy. Most European social-democratic are in opposition. Nonetheless, he has coordinated the promotion of a *Eurozone* convergence agenda with the French President Emmanuel Macron, with the Greek Prime Minister, Alexis Tsipras, with the Spanish Prime Minister Pedro Sánchez and in the regular meetings of the group of the seven Southern European countries.

However, this small group of reformists can achieve very little, especially because the Northern European countries grouped in the recently formed *New Hanseatic League* have already

made clear that they disagree with the proposals. However, there are signs that the mood is changing in Brussels. Following this year's elections to the *European Parliament*, several voices in the Commission started to talk about the need to focus on the social dimension of the EU. In addition, the highly political way the *European Commission* and the *European Council* have policed how member states comply with the rules of the *Eurozone* has eroded solidarity and trust amongst member states.

These factors combined have the potential to unleash a new dynamic in Europe that prioritises economic convergence, solidarity and social justice. But until social democratic parties rediscover their agency to unleash that new political dynamic in the EU, the future of European social democracy will remain on hold.

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