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Portugal: 40 Years of Democracy and Integration in the European Union

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Introduction

This paper reviews Portugal´s recent decades. It portrays a country full of hopes for the future in 1974, after the democratic revolution that closed a long lasting imperial course, mirrored for centuries in the world vision of its political elites. A country with very poor macroeconomic and social-development indicators, where most of the population had limited contact with the rest of the world, except those spread in the African colonies and in some European countries. It shows how the country integrated internationally in the decades that followed.

Phase I: 1974-1979: revolution and the first infant steps of democracy

Portugal has changed beyond recognition in the last four decades of democracy. Portugal's April 25th, 1974 revolution was followed by a parliamentary democracy, based on a new constitution, following 48 years of dictatorship. It ended 13 years of colonial war, which demanded the presence of a total 800 thousand military in three main war theatres (Angola, Mozambique and Guinea-Bissau), with an army deployment that, at its peak in 1973, reached nearly 150 thousand men in arms. The war resulted in the death of 8.831 men of the Portuguese Armed Forces and in more than 100 thousand wounded and sick.[1] It is estimated that more than 100 thousand combatants and civilians died as a consequence of the colonial war.[2] The war, on average, consumed one third of the annual government budget expenditure and represented more than 40% of budget expenditures during the 1960s.[3]
In the 1950s and the 1960s, Portugal, departing from extremely harsh economic conditions, experienced one of the highest rates of economic growth worldwide, which, however, still left it, by 1974, as one of the poorest countries in Europe. On April 25th, 1974, the country, led by its mid-officers-corps, tired of a war without a political solution in sight, tired of the lack of political and economic freedom, tired of large scale

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[1] José Brandão, 2008, *Cronologia da Guerra Colonial.* Lisbon: Editora Prefácio.
[2] Irene Pimentel, "50 anos depois do início das guerras coloniais, alguns dados para avivar a memória", blog Jugular; http://jugular.blogs.sapo.pt/2535614.html.
[3] José Brandão, *ibid*.

emigration of its youth, embraced the idea of democracy through a captains-corps military revolution, which was largely peaceful despite heavy movements of troops.[4]
The political and economic instability in the first years following the revolution was high. A country based on a colonial empire had to reorganise itself as a small European peripheral economy. It welcomed and integrated more than half a million Portuguese from the former colonies (6%-7% of continental Portugal's population),[5] an enormous success when we compare with the sombre integration process of the French 'Pieds-Noirs', after the Algerian Independence (1962). Portugal created a National Health Service in 1979, offering for the first time, free access to health to the wide population. It vastly expanded its public and free education system, resulting in an exponential increase in the number of enrolled students. It introduced a public social security system for all citizens, including those that had not paid any contributions, guaranteeing a minimum income for its eldest.[6] Portugal raised child care allowances, and expanded benefits so that the unemployed could also claim child care allowances. It introduced a minimum wage (May 1974), which has never been as high in real terms since then. Portugal also created a national unemployment insurance in 1975 and nationalised the Bank of Portugal, the commercial banking system and leading industrial conglomerates.
In part as a result of: the political and economic instability; the increase in public spending and in disposable income and the long impact waves of the oil shock of 1973, which made some Portuguese industries obsolete, the country quickly experienced small recurring balance of payments crises right from 1974 onwards. The trade deficit jumped from -5,9% of GDP to -12,9% of GDP between 1973 and 1974. Between 1973 and 1974, Portugal's net borrowing requirements deteriorated by 7.9 percentage points from -1.9% of GDP to 6% of GDP.
According to Paul Krugman[7] and Diário Económico[8], between 1975 and 1977, the then governor of the Bank of Portugal, José Silva Lopes called on various teams of MIT professors and graduate students, which included Rudiger Dornbusch, Robert Solow, Lance Taylor, Richard S. Eckaus, Cary Brown, Andrew Abel, Jeffrey Frankel, Miguel Beleza, Paul Krugman, Ray Hill, David Germany, Jeremy Bulow and Ken Rogoff for advice. In 1975 Dornbusch, Taylor and Eckaus helped to create national accounts statistics. In 1976 Abel, Frankel, Beleza, Krugman and Hill, led by Rudiger Dornbusch, helped devise a novel solution to deal with the large trade deficits: a crawling peg for the Escudo which consisted in a planned and constant devaluation rate of the escudo vis-à-vis other currencies, whereby the Bank of Portugal committed to guaranteeing the forward exchange rates.
The trade deficit initially fell marginally but remained at over 10% of GDP, in all but one year, in the period going from 1974 to 1983. The country net borrowing requirements remained high despite the first IMF bailout in 1977. Following, the second oil shock in

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[4] Shots were fired on three separate incidents. Five people died and at least 50 were wounded when, at the former secret police PIDE headquarters, PIDE agents opened fire at the civilian population that surrounded the headquarters (Jofre Alves, "25 de Abril de 1974: O Dia em que a PIDE Matou", 25 April 2008, blog Escavar em Ruínas, http://escavar-em-ruinas.blogs.sapo.pt/17840.html).
[5] "Flight from Angola", The Economist (16 August 1975), http://www.economist.com/node/12079340.
[6] "Dossier sobre o 25 de Abril e a Segurança Social", http://www.pcp.pt/actpol/temas/25abril/30anos/dossier-seg-social.htm.
[7] Paul Krugman, "Portuguese Memories (Trivial and Personal)", The Conscience of a Liberal blog, NewYork Times, May 27, 2013, http://krugman.blogs.nytimes.com/2013/05/27/portuguese-memories-trivial-and-personal/.
[8] "Como Krugman e Solow ajudaram a salvar economia portuguesa", March 25, 2010, Diário Económico, http://economico.sapo.pt/noticias/como-krugman-e-solow-ajudaram-a-salvar-economia-portuguesa_85242.html.

1979 and the abandonment of the crawling peg policy in 1980 (“strong escudo” policy), the balance of payments crisis aggravated, with the country registering a trade deficit of 17.3% of GDP in 1982, leading to a second IMF bailout in 1983.

Phase II: 1980-1998 - joining the European Union (EU)

Portugal formally applied to join the EU on March 28 1977. It signed the pre-adhesion treaty on December 3 1980. On January 1, 1986, Portugal and Spain formally joined the European Union. Portugal’s policy makers eagerly endorsed the European integration process. In the late 1980s and early 1990s, they embraced the Economic and Monetary Union (the launch of the single currency) project. It became an economic policy priority to be in the group of early euro adopters.

Very few argued against joining the euro. In fact, most economists and most policy makers had quite naïve views about the difficulties of the euro project. Thus, the country, and other member countries, ratified the Treaty of the European Union (Maastricht Treaty in 1992, and the Treaty of Amsterdam in 1997), in the process ceding away various economic and jurisdictional policy instruments.

Thus, Portugal: abolished capital controls in July 1990; reduced its banking system minimum reserve requirements from 17% in 1997 to 2% by January 1 1999; altered its constitution twice to accommodate the Maastricht Treaty and the Treaty of Amsterdam.

This widespread belief, without sound political or economic grounds, in the virtues of adopting the single currency was somewhat understandable. In fact, despite the damage caused by the European Rate Mechanism (ERM) in the early 1990s and the growing impact of the of economic integration in specific sectors of the Portuguese economy, the fact is that the first 6 years of integration in the EU were highly favourable for Portugal. Between 1986 and 1992, real per capita incomes increased enormously, moving from 50% to 65% of the average of 15 OECD developed economies.[9]

At the political level, a number of arguments were put forward: that the Economic and Monetary Union would ensure that there would be peace among the Europeans; that it would accelerate economic development; that it would lead to higher levels of social justice; that it would result in increased powers for the European Parliament; and ultimately that it would lead to an European citizenship.

For Portugal, the Maastricht Treaty would have three alleged advantages: “first; it is an insurance for democracy, since the European political class is far more democratic than the Portuguese one; (…) second, it is a source of economic development; (…) third, it is a factor of world relevance”.[10]

The widespread enthusiasm with an embellished and idealised vision of the European Union likely explains why the naysayers had little representation in the media and on public opinion, on the one hand, and, on the other hand, why their views, even when presented publicly, were not able to gain the hearts and minds of the general public.

The refusal to submit the Treaty ratification process to a public referendum also explains the lack of effective national debate about the subject, confirming Adriano Moreira’s thesis that one of the larger sins of the European integration process is the “stealth fashion” by which it was brought about.[11]

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[9] Luciano Amaral, 2010,, *Economia Portuguesa, As Últimas Décadas*, Lisboa, FFMS, p. 13.

[10] Diogo Freitas do Amaral, 1992, *Um Voto a Favor de Maastricht. Razões de uma Atitude*. Mem Martins: Editorial Inquérito, p. 23.

[11] Adriano Moreira, 1994 “A Vertente Atlântica”, in: Viva Portugal. Uma Nova Ideia da Europa, Manuel Monteiro (direcção), Mem Martins: Publicações Europa-América, pp. 17-31.

Phase III: 1999-2011 - adopting the euro

On January 1, 1999 Portugal adopted the euro. The main problem of the euro area is that its member countries do not form a classic monetary union, based on federalism, which finds in the US its most mature type. A functioning monetary union has self-adjustment mechanisms that, while demanding responsible economic and financial behaviour from the member states, ensure that member states in crisis automatically receive fiscal transfers from other member states, in the form, for example, of unemployment insurance and reduced tax bill, greatly reducing the chance that these states will be forced into bankruptcy.
In the United States, there is a proper federal government, with a very high own budget, which allows it to share with the federated states some of the social expenditures, which tend to increase during crises. Moreover, in contrast with the single inflation mandate of the ECB, the Federal Reserve has a dual inflation and full employment mandate.
In the US there is a single common purpose. In contrast, in the EU, there is no entity with a strategic vision of the mission and future of the Union as a whole. On the contrary, the responses are found in a disruptive logic of 'zero sum games', in which the strongest (creditor countries with current account surpluses) seek to advance and protect their national interests, without care for the losses caused to the weaker, indebted countries, with current account deficits and with a lesser role in the EU decision making process.
Unfortunately, the Economic and Monetary Union not only does not have any of the mechanisms that made the US federation a success story, but instead, the letter of the law (the European Treaty) forbids such mechanisms. The result, obviously, was that the European Council was forced to violate the letter of the law in order to be able to respond to the euro crisis.[12]
At the present, by insisting on keeping the main body of the rules that have shown themselves highly destructive of the well-being and wealth of people and countries, the European Council and other EU governing institutions are simply showing an incomprehensible level of stubbornness, bordering on recklessness, since such an approach risks bringing about the collapse of the entire European project with it.
While Portugal experienced rapid economic growth in the years that preceded the launch of the euro (between 1995 and 2000), the country's macroeconomic performance since the introduction of the euro was a disillusionment. The performance was poor for most macroeconomic metrics (economic growth, domestic demand, gross investment, employment, unemployment rate, productivity growth, wage growth, etc).
In fact, for example, real domestic demand, total employment, gross investment are all lower than in the first year the country adopted the euro.
Nonetheless, the country registered strong progress in a number of social-economic indicators, such as educational attainment, production structure, and the structure of exports.
From 2001 onwards, with the country in risk of violating or *de facto* in violation of the stability and growth pact (budget deficit no larger than 3% of GDP), successive governments undertook various austerity measures and one-off non-recurring measures to lower the budget deficit, but these efforts were not successful.
Notwithstanding the successive austerity measures, the country economic performance aggravated during the rest of the decade. Undisturbed by the austerity measures the

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[12] Article 125º of the Treaty on the Functioning of the European Union (TFEU) formally forbids bailouts of member countries by other member countries.

country’s net external debt grew at a rapid pace, so that by 2013, Portugal’s international investment position reached -118.9% of GDP (it had been close to balanced in 1996). This followed consecutive years in the late 90s when the trade deficit was close to or above 10% of GDP.

However, led by the Governor of the Bank of Portugal who, in 2000, announced that under the euro the country would not have to worry about current account deficits,[13] and by leading economists that argued that, with the euro, balance of payments statistics would become a mere curiosity of the past, the authorities and policy makers paid no attention to the growing external imbalances.

As a consequence, at the end of 2009, about three fourths of the Portuguese government direct debt was held by non-residents abroad, i.e., the Portuguese government was highly dependent on external funding.[14] Moreover, the Portuguese banking system was strongly indebted abroad, and dependent on external funding. And the Bank of Portugal showed growing dependency on large Eurosystem TARGET2 loans, from abroad.

Thus, as the financial crisis stroke in 2007-2008, and the banking systems of creditor countries (Germany, Holland, etc) cut back on lending to Portugal and other periphery countries perceived as more risky, the Portuguese government and the Portuguese banking system rapidly faced a funding crisis, whereby they were unable to raise new funds to repay old debt that matured: the euro crisis arrived in Portugal a few months after it landed in Greece and in Ireland.

Between 2010 and 2011, the main rating agencies lowered Portugal’s government debt rating from investment grade to non-investment grade (“junk”).[15] In April 2011, under the prodding of the ECB,[16] the Portuguese banking system announced that it would not participate in further Portuguese government bond auctions. In June 2011, a large Portuguese bond series was due. The government did not have the funds to repay that debt at maturity, which would have precipitated a default event. To avoid default, the minister of finance Fernando Teixeira dos Santos on April 6th 2011, notwithstanding the opposition of the prime-minister José Sócrates, gave an interview announcing that Portugal would request a bailout. An initial agreement was reached on May 3, 2011 and the memorandum of understanding for the bailout was signed on May 17th, 2011.

Phase IV: 2011-2014 – the troika bailout and the adjustment programme

The consensus perception of reality often matters more than facts – and this is of course the reason why propaganda, and not only in dictatorial regimes, is so important. The consensus view of the euro crisis was that this was a crisis that had its origins in ‘misbehaviour’ of the peripheral countries’ governments. Meaning this was a fiscal crisis caused by lax fiscal discipline: the governments of the peripheral countries “had been living beyond their means for too long”. This consensus view was shared not only by the governing institutions of the EU[17] but also by wide segments of the population of the affected countries, including Portugal.

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[13] Vítor Constâncio, “Discurso de Tomada de Posse do Governador Dr. Vítor Manuel Ribeiro Constâncio, em 23 de Fevereiro de 2000”, *Boletim Económico do Banco de Portugal*, Março de 2000, pp. 5-10.

[14] Ricardo Cabral, 2010, “The PIGS External Debt Problem”, May 8, VoxEU.org.

[15] According to Wikipedia (available at <http://en.wikipedia.org/wiki/List_of_countries_by_credit_rating>, accessed March 2014).

[16] See for example, “European Central Bank 'encouraged' Portugal to seek aid”, BBC News, 7 April 2011, www.bbc.co.uk; and “Trichet pressed Portuguese banks”, RTE, 8 April 2011, available at http://www.rte.ie/news/2011/0408/euro-business.html.

[17] Clearly, at least some EU officials should have recognized this crisis for what it is – a balance of payments crisis between euro area member countries -, but at least officially. For example, according to

In fact, in Portugal, the memoranda of understanding between the EU and the International Monetary Fund (IMF), on the one side, and the government of Portugal, on the other, was widely hailed in the press and by many academic economists. One often repeated slogan was that the memorandum meant that finally, under the close supervision of a troika of IMF, European Commission (EC), and European Central Bank (ECB) officials, Portugal would finally be able to 'get rid' of some old bad habits.

Many Portuguese believed that the country had 'lived beyond its means' and that the cause of the crisis was poor national (and poor government) policies. Many Portuguese believed that the country required some austerity to overcome the funding crisis, and actually embraced and accepted the first austerity measures with resignation to their 'fado'.[18] Many welcomed the troika of IMF, EC, and ECB technocrats because they believed the foreign technocrats would be far more competent stewards of Portugal's economy and government, than the Portuguese politicians of the previous three and a half decades.

Therefore, it is no surprise that the design of the bailout and accompanying 'conditionality',[19] was essentially based on the view that Portugal faced eminently a fiscal crisis.

However, in reality, the euro crisis is an external debt and balance of payments crisis. Up until 2005, according to the Eurostat, Portugal's sovereign debt in percentage of GDP (67.7%), was lower than Germany's (68.6%)[20], and this following 5 years of subpar economic growth. At the end of 2009, Portugal's net external debt and the net external debt of Spain, Greece and Ireland were very high (between 80% and 100% of GDP), roughly twice the size of Argentina's gross external debt in 2001, when it declared a moratorium on debt, triggering a default event.[21]

Thus, the adjustment programme suffered from a fundamental problem: the misdiagnosis of the nature of the crisis.

A second problem is the widespread belief, by the powers that are running both EU and euro area destinies since at least the early 1990s, in the almost mythic powers and virtues of austerity. These unwarranted beliefs were allowed to be ingrained in key pieces of the Maastricht Treaty.[22]

When the crisis stroke, the response was immediate: more austerity, and "austerity is the only option to respond to the euro crisis".[23]

Thus, austerity policy measures were numerous and blunt. They focused on raising fiscal revenues and reducing fiscal expenditure. They did not explicitly target improvements to the balance of payments (the cause of the crisis).

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wikileaks, the ECB Deputy Head of the Financial Stability Department, Karlheinz Bischofberger, claimed in 2010 that IMF intervention was not required since Greece did not "have a balance of payment crisis" (http://wikileaks.org/cable/2010/02/10BERLIN181.html#). Nonetheless, the fact that the IMF was involved in the bailouts is a stark sign of the recognition, among the officialdom, that the peripheral countries of the euro area faced a balance of payments crisis.

[18] "Fado" in this context means fate or destiny.

[19] The EU and the IMF committed to lending Portugal €78bn (which due exchange rate effects has meanwhile risen to around €80bn) under strict conditionality. In addition, the ECB committed to maintaining access of the Portuguese banking system to euro system open market operations and to accept Portugal's sovereign debt as collateral, as long as Portugal complied by the terms of the conditionality programme. The strict conditionality was a set of (222) policy measures, which has since been revised several times.

[20] Corrado Andini and Ricardo Cabral, 2012, "Further austerity and wage cuts will worsen the euro crisis", IZA Policy Papers No. 37.

[21] Ricardo Cabral, *ibid*.

[22] Namely the monetary policy strategy and the statutes of the ECSB, as well as regarding the articles that led to the stability and growth pact.

[23] Wolfgang Schäuble, "Why austerity is only cure for the eurozone", Financial Times, 5 September 2011.

Improvements in the external accounts were seen as a by-product of the adjustment programme, though the size of the external adjustment envisioned for Portugal (of more than 13 percentage points of GDP) was much larger than the size of the fiscal adjustment.

Disastrous, regression and impoverishment are perhaps the keywords that best characterize the effects of the adjustment programme on the Portuguese economy and on the Portuguese social fabric and people.

First, the adjustment programme has resulted in unprecedented job destruction. In 2012 alone, the first full year of the programme implementation, 227 thousand jobs in the private sector were destroyed, 106% more than in 2011, representing 5,8% of total private sector employment. In the 4 years between the end of 2008 and 2012, 550 thousand private sector jobs were lost. The unemployment rate rose rapidly, particularly among youth.[24] In fact 35.7% of 16-24 year-olds were unemployed in Portugal at the end of 2013. Despite the increase in unemployment, access to unemployment insurance was restricted so that by April 2013 only 44% of the unemployed could claim unemployment benefits.[25]

Second, the adjustment programme resulted in a massive increase in emigration of young singles and couples, often with a higher education degree. The best qualified generation in Portuguese history, more than 200 thousand Portuguese emigrated between 2010 and 2013, with an estimated 120 thousand emigrating in 2013 alone.[26] This rate of emigration is similar with that registered in the worse period of the dictatorship in the 1960s. This is very problematic for the demographic sustainability of a country whose pre-crisis birth-rate was already among the lowest in western Europe.

Third, the adjustment is so harsh that Portugal registered in 2013 the first balance of trade surplus in 70 years (the 8th trade surplus in 238 years of History). This is a stark indicator of the level of stress that the Portuguese economy is being subjected to, and is clearly unsustainable.

The social and human consequences of the adjustment programme are known: an increase in suicide rates, poverty, hunger, including among children. Widespread segments of the population, including employed families (for example, in Portuguese public security forces), are facing hunger and hardship due to financial difficulties. These austerity policies were implemented in a country with high levels of poverty and income inequality. According to Journal i,[27] in 2010, prior to the bailout, but already after the first package of austerity measures were implemented, 2.3 million families (48% of total) had gross annual incomes of less than 10 thousand euro. Following the austerity measures implemented by imposition of the troika adjustment programme, families' incomes dropped significantly. By 2012, 3 million families (66% of total) had gross annual incomes of less than 10 thousand euro.

Phase V: 2014 - … – the post-troika

The roadmap laid out by the EU governing institutions, the IMF, and the Portuguese government is clear. The country should, for the next few decades, "stay the austerity course":[28]

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[24] Filipe Cardoso, "Empresas privadas perderam meio milhão de trabalhadores em 4 anos", *Jornal i*, 22 March 2014.

[25] "Apenas 44% dos desempregados recebem subsídio de desemprego", *Público*, 16 May 2013.

[26] "Emigração terá levado um quinto dos trabalhadores qualificados de Portugal", *Público*, 12 March 2014.

[27] "750 mil famílias caíram para os escalões mais baixos do IRS em dois anos", *Jornal i*, 22 February 2014.

[28] Olli Rehn, "Europe must stay the austerity course", Financial Times, 10 December 2012.

- Achieve a primary budget surplus (before interest outlays) that allows the country to pay about three fourths of the interest on public debt, and over a period of at least twenty years, allow it to reduce its stock of debt to 60% of GDP;
- Achieve a significant external surplus (before interest outlays), which would allow the country to pay interest on its external debt, and slowly, over a period of at least forty years, reduce its stock of external debt to close to 0% of GDP;
- Build a cash cushion well about medium and long term refinancing needs, which would mean Portugal would not need to refinance debt in the markets for up to one year, but which would increase interest outlays by at least 0.5% of GDP each year;
- All the while the country should grow at high nominal rates (of more than 3% per year).

However, the roadmap laid out by the EU governing institutions and the IMF, and condoned by the Portuguese government, always was, and unfortunately continues to be unrealistic. It requires that Portugal, by 2019, reach a primary external surplus of 9.5% of GDP similar to that of China in 2007. It requires a budgetary performance, in every year for two decades that was observed only 7 times in the last seventeen years in 28 European Union member countries (1.6% of a total of 446 observations).[29] That is, the troika plan has no connection to reality and is clearly not feasible at all.

As a result of the above facts, as of the writing of this article, on the eve of the 40th anniversary of the April 1974 revolution as well as on the eve of the exit from the three-year adjustment program in June 2014, the debate in Portugal on the merits of the current austerity strategy is finally intensifying.

Various opinion makers and institutions - such as the Constitutional Court, workers unions, business associations leaders, and, in a very disguised manner, the President of the Republic - contest some of the policy measures taken by the government and question whether the strategy defined by the EU-IMF and fully supported by the Portuguese government is sound and viable.

In particular these voices question whether, beyond the short run, the country will be able to endure at least two decades of austerity to bring down the deficit to under 60% of GDP, as mandated by the intergovernmental treaty 'Fiscal Compact' signed by all EU member countries except the UK and the Czech Republic.[30] Recently one manifesto, subscribed by 74 individuals with widely different political views and backgrounds (which includes both authors of this text), has defended negotiations, at the EU level, with a view to restructuring Portugal's sovereign debt above 60% of GDP, through maturity extension and coupon (interest rates) reductions, within a broader EU strategy of debt redemption.

Not that the debate is so strong that it will be able to influence policy making in the near future, but given Portugal's tradition of scarce debate on the questions that really matter - typically decided discretely in high-level closed-door negotiations -, it is a welcome change.

A second of the very few positive results to come up of the last three years is a very healthy dose of scepticism about the advice Portugal receives from European Union governing institutions, and about European Union governance. Several of the policy measures being implemented in Portugal, mandated by the European Commission and the European Central bank on behalf of the European Council, are perceived by the

[29] Ricardo Paes Mamede, "Factores determinantes da trajectória de empobrecimento do país", Jornadas parlamentares do PS, 24 February 2014.
[30] http://en.wikipedia.org/wiki/European_Fiscal_Compact.

general public as mean spirited and callous, when not altogether plainly illegal, and in stark contrast with the perks that the troika officials implementing these policies benefit:[31] a case of 'do what I say, not what I do'.

Unfortunately, the main political parties find themselves in gridlock, with political leaderships unable to negotiate an alternative strategy - on behalf and in the interest of the Portuguese citizens - with the powers that be of the European Union.

Thus, a realistic assessment of Portugal's perspectives cannot but be dim. The propaganda machine is in full course in Berlin, Brussels, Frankfurt, Lisbon and in the Portuguese media: the Portuguese adjustment programme is a success, as argued by Angela Merkel in a joint conference with the Portuguese prime-minister, Pedro Passos Coelho, in the Berlin Chancellery on March 18, 2014.

Wolfgang Schäuble, the finance minister of Germany since 2008, has said since at least 2011 that austerity is the only option, and has claimed, in various occasions, that austerity is working in Greece, Ireland, Spain, and Portugal. Apparently, Wolfgang Schäuble believes in his own propaganda, and believes it so badly that he is willing to commit enormous amounts of German taxpayers' funds to make sure his beliefs can become reality.

Who is right? Is the adjustment program and the austerity strategy a success, as proclaimed by the national, European, and IMF officials and authorities? Or is it a failure as argued by many, including the authors of this text?

It is all, we fear, a question of who is spending the most resources to support their own vision of reality.

Unbeknownst to most, the EU governing institutions have committed, through various policy instruments, as of December 2013, approximately €153 bn of EU taxpayer funds (93% of Portugal's GDP)[32] to support Portugal and ensure that the country is able to carry on with the austerity strategy defined by EU governing institutions.

The austerity strategy would have long collapsed through government bankruptcy and systemic bank failure were it not for this huge injection of EU taxpayer funds that help keep government and banking system afloat, with little substantive change in the policies that have driven the country to the present predicament. A similar picture emerges when one looks at the other peripheral countries in Europe.

Those few policy makers commanding EU governing institutions believe in their austerity strategy. They believe their strategy is correct. And they are able to command the immense financial resources of Eurozone member countries taxpayers, in practice, unchallenged, in support of their beliefs.

This austerity strategy is, by this one metric - the amount of already committed EU taxpayer funds -, an utter failure. Though the series are not entirely comparable, Portugal's total employment is below the level registered when Portugal adopted the euro. The unemployment rate was 15.3% in the 4th quarter of 2013. Real GDP and real domestic demand have returned close to the level registered in 2000 and 1998, respectively. Real gross investment is well below the level observed in 1995. In 2013, gross public debt approached 130% of GDP and the budget deficit was close to 5% of GDP. The Portuguese government and the Bank of Portugal now owe the taxpayers of

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[31] Anecdotal cases of the mean spirited policies mandated by the troika include the increase in retirement age to 66, cuts to pensions, and cuts in special education support for children with deficiencies, prohibition on the accumulation of pensions, all while Germany proceeds to lower retirement age to 63, and the European Commission troika mission head for Portugal retires at 61, and is hired back as a special advisor to the European Commission, accumulating a consulting fee with his already very large European Commission pension (http://www.tvi24.iol.pt/economia---troika/juergen-kroeger-troika-reforma-portugal-pensao-tvi24/1505833-6375.html).

[32] This amount results from the EU-IMF loan (€72bn), ECB SMP holdings of Portuguese sovereign debt (estimated at €21bn) and gross external debt of the Bank of Portugal (€60 bn), according to Ricardo Cabral, "A Soberania Nacional no Contexto do Processo de Integração Europeia?", Sessão solene alusiva ao 21º aniversário do Comando Operacional da Madeira, 13 March 2014, p. 15.

its EU partners and the IMF €153bn (93% of GDP), which the country will probably never be able to fully repay.[33] Surely, such a huge amount of EU taxpayer funds could have been put to better use than this.

But little change can realistically be expected. The EU governing institutions seem intent on spending nearly unlimited financial resources to keep "austerity on course".[34]

The opinion makers, institutions and trade unions can muster far more limited resources to question the austerity strategy defined by EU governing institutions. Thus, it is foreseeable that austerity will continue for a few years more. In 2015, general elections will likely result in the current conservative government losing elections to the main opposition party (PS). The current PS leadership seems committed to continuing, with small variations, the current policies. It is unlikely to win a parliamentary majority in 2015. Thus, a post-election pact with the current conservative majority seems a distinct probability, which would imply the continuation of austerity policies.

Therefore, it is difficult to anticipate when Europe and Portugal will finally be ready to change course. It may require drastic social unrest or a military coup or a revolution to determine a rupture with the current state-of-affairs. In any of these cases the results for the country and also for the European Union project would be severely damaging. Another possible outcome, in the line of Max Planck's paraphrased quote that "science advances one funeral at a time",[35] is that the likely less than one hundred policy makers that command the destinies of the European Union retire or get voted out of office, and the policy makers that replace them came with fresh views and finally change economic policies. The issue is that it may then be too late to change the current course which is, in our view, corroding the good faith and belief in a joint European project for European nation states and European citizens. So, while the authors are strong believers in the EU integration project, realistically, on the horizon, with stronger odds, we see, with pity, not more EU integration, but anarchic disintegration of the euro and of the European Union and a challenging test and regression for Portugal.

The austerity policies are putting the country under tremendous economic and social strain. In our view, the country is moving backwards to a past long thought gone of widespread misery and suffering, similar to that lived during the dictatorship, i.e. prior to the Carnation Revolution of 25 April 1974.

The Portuguese do not understand why the European Union, rather than helping Portugal become a developed country with decent living conditions, is aiding and abetting, when not altogether forcing a general degradation of living conditions and an increase in poverty. It's both a grave economic policy error and a politically self-defeating strategy.

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[33] The Bank of Portugal gross external debt essentially results from collateralised euro system lending to the Portuguese banking system. The Bank of Portugal would incur losses correspondent to its adjusted capital key on euro system loans. However, since the euro system would hold on to the collateral, the Portuguese government would see itself forced to recapitalise the banking system, thereby assuming the external debt of the banking system held through the Bank of Portugal.

[34] Olli Rehn, *ibid*.

[35] According to the wikiquote entry on Max Planck (http://en.wikiquote.org/wiki/Max_Planck), Max Planck said: "A new scientific truth does not triumph by convincing its opponents and making them see the light, but rather because its opponents eventually die, and a new generation grows up that is familiar with it. Wissenschaftliche Selbstbiographie. Mit einem Bildnis und der von Max von Laue gehaltenen Traueransprache. Johann Ambrosius Barth Verlag (Leipzig 1948), p. 22, as translated in Scientific Autobiography and Other Papers, trans. F. Gaynor (New York, 1949), pp. 33–34 (as cited in T. S. Kuhn, The Structure of Scientific Revolutions)."

This undertone of resentment will not be easily forgotten. The policies of the current generation of European Union leaders will make it far more difficult for future European leaders to develop new solutions for the further integration of the European Union.
Portugal's economic policies under the adjustment programme seem to have been designed with Machiavelli's advice in mind, i.e., divide to conquer: put the young against the old; drive private sector employees against public sector employees; target deficients; target old widows; increase taxes for restaurant businesses but protect hotel businesses; increase taxes on small and medium enterprises but lower corporate tax rates for the largest companies, and so on.
Thus, the public dialogue and debate has become more virulent. There is the risk that the tensions brought about by far greater economic difficulties and distress will stoke tensions between sectors of society and that this will tear the country apart.
We hope, if the darkest scenario comes to pass, that the stark national identity of Portugal's near 900 year history will allow it to survive as a nation in a post-EU Europe. However, we sincerely hope that our analysis is wrong and that the European Union is able to change course and reinvent itself as more dynamic economy and a more democratic polity.

Concluding Remarks

On the 40th anniversary of the Carnation revolution one would expect to recognise the enormous advances achieved. Portugal should be thankful to the European Union for the support and aid in its transition to a developed democracy. However, the celebrations happen in a grim context, where the participation of the country in the European Union is increasingly put in question. There is growing bitterness and resentment that the European Union is forcing the country to adopt irrational, counter-productive, and mean-spirited policies.
We should never give up on reason and sound principles. We believe that, against all odds, there is a strong need to raise and mobilise new social and political actors, building new alliance across and beyond national boundaries, united by the defence of Europe as a great democratic and federal political entity. May the pain of the Portuguese people, under the yoke of blind and narrow minded austerity policies, contribute to the awakening of courage and solidarity that EU is so dangerously missing in the unfolding of this unique crisis. Our common future as Europeans is again at stake, a century after the great 1914-1945 turmoil era. No more, no less.

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