Portugal: A programme against the debt tyranny

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1. In a previous resolution by the National Council, the proposals for a European response against speculation by the financial markets were defined. In these proposals a strategy for a partial pooling of the debt and to assure financing of the European economies was presented. Left Bloc maintains these guidelines. Spain's financial collapse and the constant threat over Italy clearly show that the European Union needs a financing mechanism independent from the financial markets, and this mechanism is the issuing of Eurobonds and having the ECB as the entity financing in the last resort the European states.

This crisis moreover demonstrates the technical incompetence and fanaticism of the European leadership. They guaranteed that, in the Euro reality, an imbalance problem, such as that we are facing today, would never occur because the economy would automatically correct it. Take, for example, the statement of Vitor Constancio when inaugurating his position as governor of the Portuguese Central Bank, in 2000: "Without national currency, we will no longer have problems in balancing our budget like we did in the past. There is no macroeconomic currency problem and no need to take restrictive action because of our balance of payments. Nobody analyses the macro dimension of Mississippi's external balance, or any other region of a large currency zone." This statement by Constancio is now proven completely wrong by the facts: there are financing problems, these create an external vulnerability and Portugal is now un-der the IMF, ECB and EU custody.

2. However, the European governance has always refused a consistent European solution. On the contrary, it continues to ratify the Budgetary Treaty, which consists on an authoritarian response to the Euro crisis, by yielding the effective control over the national budgetary options to the ECB and European Commission and by prohibiting counter-cyclical public policies, given the permanent restriction over the core public deficit to levels never attained in Europe as a whole. This ratification had the Socialist Party (PS) support in Portugal and now has the German Social-democratic Party (PSD) and Green Party support in Germany.

The Left Bloc voted against this treaty and believes it represents an attack against Europe. If Europe fails to revoke this treaty and substitute it by European cooperation mechanisms for employment, the Union is fated to further instability.

3. There is an immediate problem of financing the economy and an even bigger problem of imbalance in the Portuguese external budget (the Portuguese balance of payments deficit, in the 2010-2011 average, was 7% of its GDP). These two problems must be solved.

The first must be solved within the European scope, with financing from the ECB. The second must be solved putting together efforts to cancel the external balance deficit and, consequently, the structural dependency of the Portuguese Economy. This demands budgetary and fiscal policies to promote investment and exportation and substitution of imports, in order to decrease the balance of payments deficit (for e.g., with the goal of reducing the GDP by 3.5%), as well as to cancel the debt to reduce its impact in the balance of payments (in this case, in at least another 3.5% of the GDP). This way, the need for financing would almost be reduced to zero, so that the Portuguese economy and the State would gain autonomy and power to decide.

4. To that effect, Left Bloc proposes a policy against the debt tyranny, summarizing its two main goals:

1) Portugal must reject the Memorandum signed with the IMF, ECB and EU and thus dismiss the conditions defined therein.

The Memorandum places the Portuguese economy at the mercy of speculation and leads to a degradation of the economical and social regimes, which diminish public services, quality of employment, social rights and democracy. The rejection of the Memorandum has become a question of human rights: the one and a half million unemployed people that we will have at the end of the first years of the IMF, ECB and EU rule (20112013), prior to the second bailout, will be outcasts of the society.

The Memorandum should also be rejected because the policies it enforces are not a plausible alternative for our country. The conditions imposed will deepen the debt as well as increase unemployment and precariousness, making it even harder to face the increasing debt pressure. Privatizations are but a farce, disguising the surrender of strategic control of public goods, namely to Chinese and Angolan companies. The financial markets law is destroying people's lives.

2) Portugal should restructure the debt and renegotiate the conditions and deadlines of the payment, cancelling debt in order to reduce it to 60% of its GDP.

In 2013, the public debt will be higher than 100% of the GDP; in order to have stability for Portuguese economy future it is mandatory to have the annulment of 70 billion Euros of debt. If this restructuring does not occur, the economy will be insolvent and the country will plummet to bankruptcy or lose its sovereignty. The creditors will receive nothing in case of bankruptcy and the economy will not be financed, escalating the depression that oppresses workers.

At the end of the current year, the public debt will be allocated as follows: 86 billion Euros will be retained by the IMF, ECB and EU (IMF 21 billion; ECB 25 billion; EU 40 billion), 83 billion Euros will be managed by investors under Portuguese law and 10 billion Euros will be managed by investors under English law, which is less favorable. This numbers show that the IMF, ECB and EU have retained an important part (presently almost half) of the debt, which was previously managed by finance investors and international banks.

A small part of this debt is held by workers and taxpayers both directly and indirectly, and it should be protected: less than 20 billion Euros are held by Portuguese people through Savings Certificates and Treasury Certificates and other workers pension funds also have further investments in this debt.

Therefore, the debt reduction should be directed thus:

a) Annulment of 50% of debt stock to the IMF, ECB and EU and the decrease of interests to 1%, as what is charged by the ECB to private banks.

In Greece's case, the IMF, ECB and EU accepted the reduction of 53% in the value of private investors debt, although they did not cut on debt stock (which means that the reduction did not reach 25% of the Greek debt, keeping an unacceptable pledge over the people). The reductions, both in Portugal as in Greece, should include the IMF, ECB and EU with similar conditions in the amounts.

b) Negotiating with the private investors, to swap the bonds they retain for 30-year Treasury Bonds, at 50% of its current nominal value and with interest rates indexed to the future growth of the GDP, with a grace period until 2020.

c) Negotiating with the public Social Security Capitalization Fund and other pension funds, and with holders of Savings Certificates and Treasury Certificates, in order to assure nominal payment of their bonds but with an interest rate indexed to the GDP growth, plus a bonus to promote savings and national debt financing.

Consequently, the public debt will be significantly reduced, with losses imposed on the financial capital instead of reducing salaries and pensions. Restructuring the debt is crucial to the survival of the economy and it is entirely justified: throughout the last decades, the costeffectiveness of the investment in the Portuguese debt has always been guaranteed by the sacrifices of the taxpayers. This must end so the economy can respond to the difficulties of unemployed people.

Portugal paid 635 billion Euros in debt repayment plus 45,5 billion in interests and charges, between 2002 and 2011. During this period, it had an average growth of 0.01%. Continuing to sacrifice employment and the lives of people is an option that must be rejected.

The choice lies between employment policies or debt tyranny.

5. There is yet another debt that has to be negotiated, which is the internal debt, more specifically, the prodigious public-private partnerships (PPP). The Left Bloc has always condemned these contracts and has always shown that they represent an enormous advantage for the creditor capital, they damage the taxpayers and the end users, favoring ineffectiveness and corruption. Currently, this point has been thoroughly proven. The Left Bloc was correct in stating that these contracts were pernicious.

These contracts should be renegotiated to terminate the advantages of bank consortiums and constructors, to reduce their interests to values similar to those due to the ECB by private bank, terminating also the clauses that transfer risks (like lack of traffic) to the State. This is still a priority and a democratic demand.

The illegitimate debt must be unequivocally rejected.

Portugal does not have to pay what it does not owe. Debt that comes from unreasonable conditions of PPP, as well as ruinous interests sought by national and international finance, imposed contractual relations, submarine purchasing and other corruption acts, must therefore be repudiated.

6. Lastly, the Left Bloc proposes a national policy for credit control. Without this, no employment policy is successful nor any response to financial markets is viable. Although the national banks received more than 50 billion Euros in liquidity loans at 1% for 3 years, they have been reducing credit and thus the economy. If the economy's future depends on this bank's agendas, there will be no future.

A deviant cycle has thus been created, in which the ECB, which cannot lend money to the EU

countries, lends to the private banks at 1% interests, which in turn will apply their capital in Portuguese debt securities at 10% interests or in which the Portuguese state lends to banks so they can regain their capital endowment – which the private shareholders refuse to correct, in most cases – so that this banks profit over the public debt. In the end, it is always the taxpayer who pays.

This cycle must be terminated. Therefore, the Left Bloc proposes the inclusion of BPI and BCP in the public bank sector, of which the CGD is already a part. The state holds the majority of capital from these two banks, through the introduction of more than 5 billion Euros of so called "hybrid" capital, and the whole of CDG. If the taxpayers are financing this capital, then it is only fair to have the banks at the service of the economy and to direct their activities according to the economy and employment priorities.

This public bank service should organize its activities and brands in a way that promotes credit and protects the depositors. Furthermore, it should also create, in parallel with the commercial banking activity, a public development bank to stimulate the economy and to finance strategic investment programs of employment creation and innovation.

7. The slippage in budgetary execution has clearly demonstrated the ineptitude and the loss caused by austerity and recession policies. The government that increased taxes is the same government that will increase taxes and sacrifices once more, to make up for the drop in fiscal revenues. The government that eliminated two subsidies is the same that will now continue to reduce salaries and pensions in order to pay for the increasing interests in this recession context. The increase of unemployment and debt is the clear result from these strategies. These policies are not a solution.

The Left is now asked to demand a courageous political program to break with the IMF, ECB and EU policies and with austerity, and to recover our economy against the debt tyranny. The Left Bloc undertakes the responsibility of promoting the public debate about the solutions in this sense.

Left Bloc

P.S.

* Translation International Viewpoint. http://www.internationalviewpoint.org/

* The Left Bloc in Portugal was founded in 1999 by the PSR (Portuguese section of the Fourth International, the UDP and Politica 21, a current from the Portuguese Communist Party.