DANIEL FINN

Editorial

LUSO-ANOMALIES

Since the end of 2015, Portugal has been the scene of an unusual political drama. After failing to win a majority in parliament, the country's long-established centre-left machine rejected the offer of a 'grand coalition' with its conservative rival to implement the demands of Brussels and Frankfurt. Straying from the beaten path of European social democracy, the Portuguese Socialist Party came to an arrangement instead with radical-left forces of the kind ostracized everywhere else in the EU. The Socialist Prime Minister António Costa governs with the support of two groups that lie well outside the bounds of respectable opinion: the Portuguese Communist Party, which never had any truck with Eurocommunism or its post-Soviet afterlives, and the Left Bloc, which traces its origins back to the revolutionary movement of the 1970s. On taking office, Costa pledged to 'turn the page' on austerity and roll back measures imposed by the Troika. European voters have often heard such promises on the campaign trail, but Costa's government has broken with convention by following through on the initial rhetoric under pressure from its left-wing allies, reversing wage and pension cuts, halting privatizations and restoring collective-bargaining agreements. In defiance of conventional wisdom, these reforms have been followed by an upswing in economic growth. Dismissed by hostile critics as a rickety *geringonça* ('contraption'), the alliance between the Socialists and Portugal's radical left has confounded predictions that it would collapse in a matter of months. Costa's own approval ratings have soared, along with those for his party, in pointed contrast with the fiasco of Hollande, the bubble of Renzi and the capitulation of Tsipras. What conditions—long- and short-term—have made this exception possible, and how long can it endure?

For a brief period in the mid 1970s, Portugal was a focus of international attention in the West, for fear that it might go Communist. Once that danger had passed, the development of the country attracted much less interest than the rest of Europe's southern tier, and knowledge of it abroad has been much more limited. Perhaps the best way of sketching its founding coordinates is through a comparison with Spain. Both countries were ruled by long-standing dictatorships of clerico-fascist stamp—Franco's regime lasting some forty years, Salazar's nearly fifty—which came to an end at virtually the same time in 1974–75. But the origins and trajectories of the two regimes were very different. Franco was the military victor of a bloody civil war, won with the help of Mussolini and Hitler, and sealed with systematic extermination of those who had resisted him. Salazar was a civilian at the head of a police state that had been installed with scarcely a shot fired; although his regime crushed its opponents with iron determination, it never had to carry out baptismal massacres of the kind that consecrated Franco's authority. The violent repression of Salazar's PIDE secret police was more selective, if ultimately no less formidable.

The better part of half a century later, the exit of the two dictatorships reversed the pattern of their entry. From the sixties onwards, the Spanish regime steered through a modernization of the country's economy and society that was designed to perpetuate the Civil War victory beyond the Generalísimo's lifespan, with the creation of new middle classes attached to the consumer capitalism it brought. When Franco died, his heirs had little trouble securing a soft landing for the regime. The Bourbon monarchy was restored in all tranquillity, and a constitution imposed to guarantee that Spanish democracy would be manipulated and neutralized from the start, with an electoral system rigged to confine power in the Cortes to parties of the establishment, a Senate with a built-in conservative majority based on the countryside, and a Constitutional Court stacked with holdovers from *franquismo* and their epigones. The Communist Party, which had been the principal force of underground resistance to the dictatorship, rallied to the new royalism under its leader Santiago Carrillo, and in rubber-stamping the destruction of the Spanish Republic, committed *hara-kiri*, leaving the Socialists under Felipe González to become the reassuring heirs of what Franco had bequeathed to the country.

In Portugal, on the other hand, the killings over which Franco had presided at home were exported abroad, in fourteen years of brutal war to preserve its African empire, eventually provoking a revolt against the regime from within its own army. The Spanish colonies in Africa had served as Franco's trampoline to power, his Moroccan mercenaries ferried across the straits of Gibraltar to battlefields in Andalucía by the Luftwaffe. The Portuguese colonies, on the other hand, became the spring-board for the fall of Salazar's system: junior officers who had come to realize the futility and barbarity of their mission became rebels determined to put an end to the regime commanding it. There was no peaceful transition in Lisbon. The dictatorship did not engineer its own metamorphosis; amid popular jubilation, it was overthrown. Portuguese democracy arrived as a Revolution, not a Restoration, with the uprising of April 1974. In a year and a half of intense social and political ferment, lands were seized, factories occupied, banks nationalized. The Communist Party and a plethora of smaller left-wing groups were active in society and army alike. To Washington and Bonn, it looked as if a socialist revolution was taking shape; if Portugal was not to be lost to the West, NATO would have to mobilize. With funding and advice from West German Social Democracy, a Socialist Party committed to Atlantic normalcy bested the Communists on the electoral front; officers of a similar bent ousted the radicals from the army in November 1975, and the danger was averted.

Portugal was saved for capitalism, but the legacy of the revolution could not be entirely effaced. When political life had stabilized, the most radical parts of the new Portuguese constitution were scrapped—one article had spoken of 'the transition towards socialism' as an overriding goal; another declared that 'all nationalizations effected since 25 April 1974 are irreversible conquests of the working classes'—and the Council of the Revolution charged with safeguarding it abolished. But the Braganza dynasty was not restored: Portugal remained the republic it had been since 1910. Parliamentary government led by a prime minister was based on a voting system significantly less distorting than the Spanish, and coupled with an elected presidency of limited powers.[1] Portugal's Constitutional Court, instead of acting as a bulwark of reaction as in Spain, has on more than one occasion defended social rights against neoliberal attempts to dismantle them. There is no equivalent of Spain's Guardia Civil (or the death squads of GAL). The post-revolutionary

[1] Like Spain, Portugal uses the D'Hondt system, which gives an advantage to the dominant parties, but its electoral constituencies are larger, reducing the threshold for representation in parliament.

settlement has produced an institutional configuration that is much less restrictive—and much less rooted in the plans of the dictatorship and its pall-bearers—than the one in Madrid.

On the other hand, the newly democratized order inherited a society with the highest birth rate and the lowest life expectancy in Western Europe. At the beginning of the 1960s, GNP per capita was almost identical in Spain and Portugal ($274 and $270 respectively); by 1970, the Spanish figure had risen to $1,020, while the Portuguese was just $660. Small, uneconomic plots, chiefly concentrated in the north, still dominated Portuguese agriculture. At the turn of the seventies, 96 per cent of farms were less than 20 hectares in size; in contrast, four great southern landowners had 95,000 hectares between them. Some economic development did take place in the last years of the dictatorship: industry's share of GNP rose from 27 per cent in 1953 to 36 per cent in 1969, as new factories and dockyards sprouted on the outskirts of Lisbon, and employment in the primary sector fell sharply, from 48 per cent in 1950 to 32 per cent two decades later.[2]

But there was still a yawning gap between Portugal and its neighbours when it came to living standards. As Salazar's regime entered its twilight years, Portugal had fewer doctors per capita than any West European state, and the lowest number of students enrolled all the way from primary school to university level.[3] The minimum monthly income in France was higher than the earnings for nine-tenths of Portuguese workers; wages were two-thirds of the level in Spain or Greece, while the infant mortality rate was almost twice as high. One-quarter of the population was illiterate, including almost 40 per cent of women.[4] Between 1960 and 1973, one and a half million people left the country in search of jobs elsewhere, and there was a net population decline, despite the high birth rate. In the early 70s, more than half of all immigrants to France

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[2] Richard Robinson, *Contemporary Portugal: A History*, London 1979, pp. 140–4, 147, 136; Werner Baer and António Leite, 'The Peripheral Economy, Its Performance in Isolation and with Integration: The Case of Portugal', *Luso-Brazilian Review*, vol. 29, no. 2, winter 1992, p. 23.

[3] António Barreto, 'Social Change in Portugal: 1960–2000', in António Costa Pinto, ed., *Contemporary Portugal: Politics, Society and Culture*, New York 2003, p. 181.

[4] Kenneth Maxwell, *The Making of Portuguese Democracy*, Cambridge 1995, p. 23; Robinson, *Contemporary Portugal*, pp. 156–8.

came from Portugal, and remittances from abroad covered nearly one-third of the cost of Portuguese imports.[5]

With the fall of the dictatorship, moreover, the post-revolutionary state had to grapple with the stiff challenge of integrating 700,000 Portuguese nationals—equivalent to almost a tenth of the country's existing population—who fled the African colonies *en masse* as independence drew near: the so-called *retornados*. Many blamed the revolution and the left-wing parties for their plight and supplied a bank of votes for the Portuguese right once the electoral register had been adjusted to take them into account—without, however, becoming an anti-systemic irritant in the manner of the Algerian *colons* who rallied behind Le Pen in southern France. New immigrant communities subsequently arrived from the former African territories—Cape Verde, Angola and Guinea-Bissau in particular—and from Brazil. After 2000, a fresh influx from Eastern Europe helped turn Portugal for a time into one of the European countries with the highest proportion of immigrants in its population: a dramatic reversal of tradition.[6]

Two lefts

In the years directly following the revolution, the political landscape had yet to congeal into the shape it would assume for the rest of the century. The immediate threat to the social order might have been contained, but the Marxist left was still a force to be reckoned with. At the moment when the dictatorship fell, the Portuguese Communist Party (PCP) was the strongest political organization in the country. Initially it took a cautious approach, accepting ministerial positions in the provisional government and opposing strikes. As a wave of social agitation reached its peak in the summer of 1975, the party stiffened its line under the pressure of competition from smaller Marxist groups, and briefly contemplated making a revolution in tandem with radical officers. The constituent assembly election of April 1975 struck one blow against that

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[5] Barreto, 'Social Change in Portugal: 1960–2000', p. 164; Maria Ioannis Baganha, 'Portuguese Emigration after World War II', in Costa Pinto, ed., *Contemporary Portugal*, pp. 140–1.

[6] Sebastián Royo, 'The Portuguese Migratory Experience: A New Migratory Cycle?', in Royo, ed., *Portugal in the 21st Century: Politics, Society and Economics*, Lanham, MA 2012, pp. 157–61.

aspiration, as the PCP and its allies won less than 17 per cent of the vote; the defeat of the army's left-wing radicals finished it off for good. But, unlike its Spanish counterpart, the party was not a busted flush. With no immediate prospect of attaining power, it set about consolidating its base in Portuguese society over the long run, with the assets it still possessed.

The PCP had spearheaded resistance to the dictatorship throughout the long years of repression. It had none of the dark pages of the Civil War on its record that compromised the PCE (and its shady leader Carrillo in particular); nor had it splintered into rancorous factions like the KKE in Greece. In the unbending figure of Álvaro Cunhal, the PCP possessed the strongest leader of any West European Communist party of the time. An accomplished intellectual—with a prison translation of *King Lear*, a major study of Portuguese agriculture and a batch of pseudonymous novels to his credit—Cunhal had spent eleven years in prison under Salazar, before a spectacular escape from the cliff-side dungeon of Peniche, followed by exile in Prague and Moscow until the revolution allowed him to return home. The PCP leader was unwaveringly loyal to the Soviet leadership, and to the dogmas of his youth. But such was the respect Cunhal still commanded that a national day of mourning was declared after his death in 2005 at the age of 91: half a million people gathered in the streets to bid him farewell, in what his biographer José Pacheco Pereira has described as 'the last great demonstration of European communism'.[7] Under Cunhal, the PCP preserved its main areas of support in the industrial belt surrounding Lisbon and the rural southern districts of the Alentejo, where Communist-run municipalities established a solid reputation. The party's leading role in the country's largest trade-union federation, the CGTP-Intersindical, reinforced its social presence.

Electorally, the PCP's high point came in 1979, when it received nearly one-fifth of all votes cast. Thereafter its vote share gradually fell, a decline accelerated by the collapse of the Soviet bloc, after which support for the PCP dropped below 10 per cent for the first time. But Cunhal and his allies held fast to their course, reaffirming the party's opposition to capitalism, NATO and European integration. In purely electoral terms,

[7] Pereira has published three volumes of a monumental biography of Cunhal, based on his extensive personal archives, and is currently working on the fourth.

the PCP weathered the storm of the 1990s better than most of its sister parties, averaging 8 per cent of the vote in parliamentary elections since 1991.[8] Today the party is led by Jerónimo de Sousa, who first joined it as a factory worker from Lisbon's industrial periphery; now in his seventies, De Sousa has long struck a chord beyond the ranks of PCP loyalists with his colloquial debating style, in a political culture dominated by graduates from elite backgrounds. The part played by communism in the life of the country has been disproportionate to its electoral base, extending across Portuguese culture. José Saramago, the nation's greatest novelist, first joined the PCP in his late forties, five years before the revolution; he remained a loyal, if on occasion critical, member until his death in 2010. On today's political stage, the Socialist leader António Costa is the son of a Communist poet, while the Left Bloc's two leading figures, Catarina Martins and Marisa Matias, have spoken of the role played by Communist teachers in their political formation.

By the 80s, with the PCP marginalized as a contender for power, the political scene had been reduced to the common European pattern of centre left and centre right, alternating in what was effectively a two-party system. The Portuguese Socialist Party (PS), founded just a year before the dictatorship fell, was first off the blocks in this competition, and became the main barrier to Communist advance during the revolutionary period. Its leader Mário Soares had been a Communist in his youth—and a pupil of Cunhal's at one point—before leaving the party over Tito's breach with Moscow. A skilled lawyer and fluent orator, he too had spent years in prison and exile for his opposition to Salazar. After returning to Portugal, he quickly established himself as the most influential politician of his generation, serving in the provisional government of 1974–75 as foreign minister and supervising the decolonization of Portuguese Africa. Soares led the Socialists to victory in the constituent assembly poll, with 38 per cent of the vote and the broadest regional spread for any party. In the months that followed, the PS became a rallying-point for anti-communists of all varieties, and Soares the figure

[8] The Communists were the only major party to oppose EEC membership in the 1980s, and went on to campaign fruitlessly against Portugal's embrace of the euro: Richard Dunphy, *Contesting Capitalism? Left Parties and European Integration*, Manchester 2004, pp. 113–21. Since the late 1980s, the PCP's electoral campaigns have been fought under the banner of the Unitary Democratic Coalition (CDU), in partnership with the Portuguese Green Party—often depicted as a satellite of the PCP, having never fought an election in its own right.

in whom the US embassy placed its trust. After the Socialists topped the poll again in the legislative election of 1976, Soares was installed as the country's prime minister. Repudiating the Third Worldist leanings of the military's radical wing and affirming Portugal's allegiance to NATO, the PS administration offered Europe in place of empire for a nation that had recently suffered a drastic geopolitical demotion.

But the country's Western allies pressed Soares to accept an IMF austerity programme that rolled back revolutionary redistribution and hit popular living standards hard, imposing deep wage and public-spending cuts to reduce labour's share of national income from 62.5 per cent in 1976 to 45 per cent in 1979.[9] This had predictable effects on the standing of the PS, whose first government lasted only two years; when elections were held in 1979, the Socialist vote dropped to 27 per cent. The severity of this blow was enough to ensure that Soares could never match the political hegemony achieved by Felipe González in Spain, quite apart from the bitter divide on the Portuguese left: between 1976 and 1983, the average vote for the PS and PCP was still 5 per cent higher than that for their right-wing opponents, but there was never any question of the two parties forming a government together. Soares briefly returned as prime minister in a grand coalition with the right in the mid 80s, by which time he was already preparing a run for the presidency. When he achieved that goal in 1986, Soares left the PS at the lowest ebb of its fortunes, with barely more than a fifth of the vote in consecutive elections. But in a decade as the country's head of state, he proved to be a constant irritant to the conservative governments of the time, expanding the role of the office with campaigning tours around the country. In his support for the people of East Timor against Indonesian occupation, Soares also returned to the most progressive aspect of his career in the 1970s.

Atlantic headwinds

Power, however, had now fallen to the right, in the shape of the Social Democratic Party (PSD). The party's name was a feint from the revolutionary period, when discretion had been essential for those promoting a conservative agenda; its initial strongholds lay in the clerical north and

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[9] The average for the 1980s was a little under 50 per cent: Baer and Leite, 'The Peripheral Economy', p. 22.

the Atlantic islands. When the political climate became more favourable in the late 1970s, the PSD shifted right under the abrasive leadership of Francisco Sá Carneiro, who wanted to demolish the entire post-revolutionary settlement. This brought it onto the same ground as a smaller right-wing force, the Democratic and Social Centre (CDS): the only party to vote against the 1976 constitution, and a home for some recycled luminaries of the old regime (most notably Adriano Moreira, colonial minister under Salazar, who went on to lead the party in the 1980s).[10] The Portuguese right formed a 'Democratic Alliance' under Sá Carneiro's leadership and won a majority in parliament at the end of 1979, promising to reverse the nationalizations of 1974–75. But when Sá Carneiro died in a plane crash a year later, his successor Francisco Pinto Balsemão, a stolid figure without much support in the party, shelved the idea of large-scale privatization, concentrating instead on a roll-back of the army's residual power as guardian of the revolution—a task in which he could count on the backing of the Socialists.

When Balsemão led the PSD to defeat at the polls in 1983, he was replaced by a politician of a very different mettle. Aníbal Cavaco Silva, fifteen years younger than Soares, was a trained economist from a provincial background with a crude personality and rigid free-market outlook. After forming a minority government in 1985, he went on to achieve a great electoral triumph in 1987, winning just over 50 per cent of the vote—one of the best performances by any West European party since 1945, repeated four years later. Reagan was in his second term, Thatcher had just won her third majority in Britain; it was the high tide of Atlantic neoliberalism, and Cavaco Silva crested it with aggressive enthusiasm. Behind him lay the eager expectations of the country's economic elites. Under the dictatorship, forty great families had dominated the Portuguese economy, enjoying monopoly positions afforded by the state, with overlapping interests from agriculture and manufacturing to finance and retail.[11] The events of 1974–75 left this class in a much

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[10] Though here too another Iberian contrast could be seen. There was much less continuity of personnel on the Portuguese right than in Spain, where the *Franquista* stalwart Manuel Fraga led the conservative opposition for much of the 1980s, creating the Partido Popular that rules the country today.

[11] Eric Baklanoff, 'The Political Economy of Portugal's Later *Estado Novo*: A Critique of the Stagnation Thesis', *Luso-Brazilian Review*, vol. 29, no. 1, Summer 1992, pp. 4–5.

weaker position. The provisional government took giant conglomerates like the Companhia União Fabril and the Espírito Santo banking group into public ownership, giving the state a commanding role in economic life, with a quarter of all value added and half of total investment.[12] The business elite kept a low profile during the most radical phase of the revolution, or fled the country altogether: owners of big companies, who were in the best position to put up a fight, left Portugal in droves.

By the end of the 80s, however, many of the same dynasties—Champalimaud, Amorim, Espírito Santo—were back, chafing at the losses and restrictions of the post-revolutionary order. Portugal had joined the European Economic Community in 1986, the same year that the Single Market Act was passed, creating a more favourable climate for the revolutionary nationalizations to be reversed. In 1989, Cavaco Silva removed the clauses protecting those public assets from the constitution, with Socialist complicity, opening the floodgates for sweeping privatization. Between 1990 and 1996, the market share of state-owned banks fell from 74 to 24 per cent, and a widening tranche of other enterprises were sold off at bargain-basement prices, ostensibly to reduce the public debt.[13] In the early 90s, with Thatcher gone, the PSD chief headed the most hard-line neoliberal government in Europe. Grants from Brussels helped buoy up support for Cavaco Silva's administration while he set about remoulding the Portuguese economy, but protests mounted against cuts to social spending after his second victory. António Guterres, more recently installed as UN Secretary-General, had taken over as leader of the PS in 1992. Three years later, the Socialists returned to power with their biggest vote since the revolution.

Far from halting, let alone reversing, Cavaco Silva's privatizations, Guterres pressed ahead with yet more disposal of public property. Portugal was the EU's champion privatizer, its sell-offs amounting to nearly one-quarter of Portuguese GDP between 1993 and 2003.[14]

[12] Baer and Leite, 'The Peripheral Economy', p. 4.

[13] João Rodrigues, Ana Santos and Nuno Teles, 'Semi-peripheral Financialization: The Case of Portugal', *Review of International Political Economy*, vol. 23, no. 3, 2016, p. 9.

[14] This was double the rate of privatization in the UK over the same period: João Rodrigues and José Reis, 'The Asymmetries of European Integration and the Crisis of Capitalism in Portugal', *Competition and Change*, vol. 16, no. 3, July 2012, p. 196. In privatizing electricity, Guterres copied Thatcher's 'Tell Sid' demagoguery

Liberalization of trade with the rest of Europe drove Portugal to specialize more heavily in labour-intensive industries that were less productive than other sectors, but the country's leading politicians were in no mind to question the benefits of EU membership, and pressed hard to meet the criteria for entrance to the single currency. Structural funding encouraged a positive view of European integration beyond the political elite: between 1994 and 1999, such aid accounted for 3.3 per cent of Portuguese GDP, leaving a tangible mark on the landscape in the form of bridges, motorways and other infrastructure. In 1986, Portugal had just 54 per cent of the average GDP for its fellow EEC members; by 2001, that figure had risen to 75 per cent. The country now had one of the lowest birth rates in Europe, and levels of infant mortality had dropped from eighty per thousand in 1960 to seven per thousand four decades later. Wages, however, still lagged well behind the regional norm: in 1998, Portuguese workers earned less than two-thirds of the EU average, and 71 per cent of the level in Spain.[15]

In the last year of the Guterres government, as its privatization spree continued, growth faltered and the PSD overtook the Socialists by a narrow margin in the elections of 2002. Its leader was now the oleaginous one-time Maoist (and all-time careerist) José Manuel Barroso, who formed a coalition government with the CDS. The smaller right-wing party had struggled to find a role over the previous two decades, as a would-be Christian Democratic formation that could not rely on the Church to mobilize on its behalf. In the early 90s, it added 'People's Party' to its name; after flirting with Euroscepticism for a time, the rebranded party was expelled from the centre-right caucus in Strasbourg, but managed to keep hold of its electoral niche under the guidance of Paulo Portas, a

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to popularize the sale of British Gas, getting 800,000 citizens to buy shares with cheap credit, most of which naturally ended up in the hands of big business. Later operations dispensed with such fig-leaves, with the great bulk of assets going to foreign capital. In all, more than a thousand enterprises were sold off to some 44 main groups, leading to a greater concentration of capital than under the dictatorship. As for the proceeds—some €46 billion—far from reducing public debt, between 1989 and 2013 that burden increased by 400 per cent: Francisco Louçã, João Teixeira Lopes and Jorge Costa, *Os Burgueses*, Lisbon 2014, pp. 52–3, 508–9.

[15] Sebastián Royo, 'Portugal and Spain in the EU: The Paradox of Economic Divergence, 2000–2007', in Royo, ed., *Portugal in the 21st Century*, pp. 179–80; António Goucha Soares, 'Portugal: An Incomplete Europeanization', *idem*, p. 123; Royo, 'The Portuguese Migratory Experience: A New Migratory Cycle?', *idem*, p. 152; Barreto, 'Social Change in Portugal: 1960–2000', p. 163.

conservative media pundit who had first come to national prominence as a teenager, and now provided Barroso with the support he needed to become prime minister. Since then, every PSD administration has relied upon CDS–PP votes to put it in office. Barroso's only notable action as ruler was to supply a mid-Atlantic podium for Bush and Blair to announce their deadline for the invasion of Iraq, flanked by himself and Aznar in the Azores. A year later, he was rewarded with elevation to the presidency of the European Commission, from which he ascended still higher to a place at Goldman Sachs.

In the wake of Barroso's departure, the PS made a forceful return in the 2005 election, with its own version of the same type, José Sócrates—a man whose professional life had begun with dismissal for negligence in municipal construction—who went on to hold the premiership until 2011. With Sócrates in power, Portugal descended further into a prolonged slump that had begun after the new century dawned. Convergence with the other EU states went into reverse: from a high point of 75 per cent in 2001, Portuguese GDP had fallen to 66 per cent of the average for a much larger EU by 2008.[16] In contrast to the other 'peripheral' Eurozone members, Portugal did not experience a period of accelerated growth during the years leading up to the global crash. In the words of Ricardo Reis, economic growth since the millennium has been 'as bad as it gets for a developed economy': the Portuguese economy put in a worse performance after 2000 than the US during the Great Depression, or Japan during its 'lost decade'. Annual GDP growth from 2000 to 2007 averaged just 0.6 per cent—less than half the figure for the Eurozone as a whole.[17] In 2006, the median wage for Portuguese workers was 60 per cent of that earned by their Spanish counterparts, 45 per cent of the Italian level and less than 40 per cent of the German; five years later, those proportions were almost identical, but Portugal was now also in danger of being overtaken by Czechia (Table 1, opposite).

Stagnation and crisis

What lay behind this sluggish performance? When Portugal entered the European Monetary Union, the escudo was overvalued by a substantial margin, undermining the competitiveness of its export industries. With

[16] Soares, 'Portugal: An Incomplete Europeanization', p. 123.
[17] Ricardo Reis, 'The Portuguese Slump and Crash and the Euro-crisis', *Brookings Papers on Economic Activity*, Spring 2013, pp. 144, 149.

TABLE 1: *Median wage rates in Europe (€)*

	2006	*2011*
Portugal	9,167	10,120
Spain	15,347	16,643
Greece	14,660	15,589
Ireland	24,974	26,023
Italy	20,075	21,503
France	19,797	22,790
Germany	23,438	24,850
United Kingdom	27,179	25,150
Poland	5,086	6,790
Czechia	6,716	9,314

Source: Christian Dreger et al., *Wage and Income Inequality in the EU*, Brussels 2014.

the country locked into the single currency, Portuguese governments could no longer devalue to restore that edge, now threatened by China's accession to the WTO and the eastward expansion of the EU. Lisbon also had to reduce public investment sharply after breaching the Stability and Growth Pact in 2001 (the indulgence granted to France and Germany was naturally withheld from weaker EU member-states). At the same time, Portugal's entry to the Eurozone opened it up to an influx of capital on an unprecedented scale. Spanish, French and German banks took the lion's share of the new market for loans in a country that had formerly been rather isolated from international finance. Productive investment gained little from these infusions: the share of bank loans going to the manufacturing sector fell by half, while credit to real-estate and construction activity rose from 10 per cent of all loans in 1992 to almost 40 per cent in 2008.[18] However, there was no Portuguese property bubble to compare with those in Ireland or Spain. There had already been a sharp increase in the building of houses during the late 90s boom, saturating the market,

[18] Ana Santos, Nuno Serra and Nuno Teles, 'Finance and Housing Provision in Portugal', *FESSUD Working Paper Series*, no. 79, p. 22; Reis, 'The Portuguese Slump', pp. 150–1; Rodrigues, Santos and Teles, 'Semi-peripheral Financialization', p. 14.

and government programmes to subsidize home ownership tapered off after 2000. Construction employment actually dropped slightly between 2000 and 2006, and the industry's share of value added fell. The flow of credit was dispersed more widely to Portugal's non-tradable sectors, driving down productivity across the economy as a whole.[19]

But while Portugal never experienced the short-lived, intoxicating heights of financial euphoria in its peripheral counterparts, it shared in the crash after 2008 to the full (Table 2, opposite). Though the Portuguese economy did not collapse as dramatically as that of Greece, the performance of the two countries was virtually identical across the first dozen years of the millennium, with GDP growing in both cases by just 1.4 per cent between 2000 and 2012.[20] By 2013, unemployment had soared to almost 18 per cent, and mass emigration was once again a defining feature of Portuguese life. With the Spanish economy flat-lining, Britain, Germany and Switzerland became the prime European destinations, while Lusophone countries like Angola and Brazil offered another outlet—at least for as long as the global commodities boom lasted. In total, half a million Portuguese left the country between 2008 and 2013, from an active population of about five million.[21]

By then, Portugal had fallen into the clutches of the Troika. With the eruption of the Greek crisis from late 2009, as the fate of the single currency hung in the balance, interest rates on government bonds nearly doubled in the space of a year, and Lisbon was compelled to ask for a bail-out in April 2011. The Berlin Consensus identified two prime culprits for the economic malaise in Southern Europe: wasteful government spending and soaring unit labour costs. Neither had much relevance to Portugal. As Ricardo Reis observes, there was little evidence of profligacy in the years before the crash: 'All of the increase in public spending is accounted for by increases in the payment of old-age pensions and unemployment benefits, and both of these systems actually became less generous during

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[19] Santos, Serra and Teles, 'Finance and Housing Provision in Portugal', pp. 22, 25–9; Reis, 'The Portuguese Slump', pp. 155–7.

[20] Ricardo Reis, 'Looking for a Success in the Euro-crisis Adjustment Programmes: The Case of Portugal', *Brookings Papers on Economic Activity*, Fall 2015.

[21] David Justino, *Emigration from Portugal: Old Wine in New Bottles?*, Washington, DC 2016, pp. 14–18; Observatório da Emigração, *Emigração Portuguesa: Relatório Estatístico*, Lisbon 2015, p. 31.

TABLE 2: *Portugal in the Eurocrisis*

	Portugal	*Spain*	*Greece*	*Italy*	*Eurozone*
Real GDP (2008–13)	-7.9	-6.4	-23.3	-7.1	-2.0
Manufacturing output (2008–12)	-11.8	-22.1	-26.1	-7.8	-8.3
Real domestic demand (2008–13)	-17.1	-15.7	-31.5	-10.8	-5.2
Real investment (2008–13)	-12.3	-14.0	-30.7	-8.5	-4.3
Unemployment (2013)	17.6	26.5	26.6	11.9	12.1
Youth unemployment (2013)	40.6	55.7	60.1	39.2	24.1

Source: Storm and Naastepad, 'Europe's Hunger Games'.

this period.'[22] Nor could Portugal's loss of competitiveness be attributed to excessive wage growth: failure to match the performance of German export industries stemmed rather from long-term patterns of specialization in the respective economies. Some 45 per cent of value added in Portuguese manufacturing came from low-tech industries, compared with just 19 per cent for German companies; Germany had a global market share of 18 per cent for the most complex manufactured goods, against 0.04 per cent for Portugal.[23]

Unsurprisingly, this was of no interest to the Troika officials who insisted upon a punitive austerity programme intended to drive down wages and restructure the Portuguese economy. Since 2009, Sócrates had been governing without a majority in parliament, and relying on the conservative

[22] Reis, 'Looking for a Success', p. 437. Once the crisis broke out, public debt—till then lower than Germany's—soared, with two-thirds of it held by foreign bondholders: Francisco Louça and Mariana Mortágua, *A Dividadura: Portugal na Crise do Euro*, Lisbon 2012, pp. 208–16.

[23] Servaas Storm and C. W. M. Naastepad, 'Europe's Hunger Games: Income Distribution, Cost Competitiveness and Crisis', *Cambridge Journal of Economics*, vol. 39, no. 3, May 2015. Italy had 3.1 per cent, Spain 0.9, Greece 0.02.

opposition to help pass emergency budget measures. The PSD leader Pedro Passos Coelho pulled the plug in March 2011, leaving a caretaker government headed by Sócrates to sign the bail-out agreement before elections were held in June. Having presided over the crash and the first punishing round of cuts, the PS turned in its worst performance since the 1980s, with just 28 per cent of the vote: a fall of 17 per cent in the space of six years and two elections. The Portuguese right won a decisive victory, on the strength of a manifesto that promised to go 'further and deeper', in the words of Passos Coelho, than the measures already agreed with the Troika.[24] These included nearly five hundred 'structural reform actions', by the IMF's count: carving out new territories for privatization, raising the retirement age to 66 years, rolling back collective-bargaining agreements for much of the workforce—even insisting on the cancellation of four public holidays hitherto granted to the citizens of Portugal.

Inevitably, the results were drastic. Unit labour costs fell by 6.6 per cent between 2010 and 2014; by the time Portugal exited the bail-out, GDP per capita was almost 5 per cent lower than it had been four years earlier, while employment had shrunk from 4.9 to 4.5 million.[25] For a business class that saw the crisis as an opportunity to transform Portugal for good, this was a price well worth paying. As Passos Coelho told a PSD congress in March 2012: 'The country will not have a second chance. We cannot fail.'[26] Portugal became the second country (after Greece) to ratify the EU's Fiscal Compact. However, in spite of this avowed radicalization from above, the popular backlash against austerity appeared to be more subdued than in Greece or Spain. The right-wing coalition did face the biggest demonstration since the revolution in September 2012, with a million-strong march on the streets of Lisbon, and large-scale protests continued in 2013 under the slogan 'Screw the Troika!'. However, the protests never found a lasting organizational expression. Portugal's constitutional court also struck down some of the cuts that had been imposed by Passos Coelho's administration. But the government saw out its full term in office, and the PSD entered the election campaign of 2015 confident that, in tandem with the CDS–PP, it could see off its rival once again.

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[24] Peter Wise, 'Politicians battle over Portuguese bail-out', FT, 16 May 2011.
[25] Nearly half of all Portuguese workers are now employed on temporary contracts; these account for a large majority of jobs created since 2000, and have become standard for those under the age of forty: Reis, 'Looking for a Success', pp. 441–2.
[26] Peter Wise, 'Resolved to see reforms through', FT, 10 April 2012.

Thus, as the fortieth anniversary of the revolution drew near, Portugal appeared to have become a 'normal' West European country: shorn of colonies, at one with NATO and at home in the European Union, a seeming beneficiary of the single currency when spreads were low and credit was cheap, paying the price when bond markets took fright, and now taking its medicine from the Troika without complaint. Politically, power had alternated smoothly between centre-right and centre-left blocs, giving a slight edge to the former, but with scant ideological or policy differences between the two, as they competed in privatizing zeal and haste to join the Eurozone at the earliest opportunity. This cross-party consensus no doubt reflected to some extent the shared characteristics of the country's governing class. The prominence of academics among its rulers has been striking in a comparative perspective—a peculiarity that reaches from the time of the dictatorship, when Salazar and his successor Marcello Caetano were both originally university professors (economics and law respectively), to that of democracy, from Soares (who taught history and philosophy before entering full-time politics) to Cavaco Silva (economics), Guterres (systems theory) or Barroso (political science). The prestige of the *bacharel* in Portuguese culture, dating back to the nineteenth century, survived far into the next. This contrasts strikingly with the profile of the Spanish or British political classes in recent decades: the PSOE's González and Zapatero were essentially creatures of the party ladder, much like the Miliband brothers; Aznar and Rajoy of the PP, a tax inspector and land registrar respectively, Cameron a PR man.

At the same time, the closed-list system for parliamentary elections gave tremendous power to centralized party leaderships of all political colourations, blocking any strong identification between voters and individual candidates. Studies reveal a rather tenuous connection between social class and voting preference; with little to distinguish their policies, a large part of the electorate was liable to switch between the two main blocs from one election to the next.[27] The clearest predictor of support was (and remains) the divide between a right-leaning north and a left-leaning south, dating back to the revolutionary years, perhaps the most clear-cut electoral contrast anywhere in Europe, as a map of the most

[27] Pedro Magalhães, 'Elections, Parties and Policy-Making Institutions in Democratic Portugal', in Costa Pinto ed., *Contemporary Portugal*, pp. 193–4; José Magone, *Politics in Contemporary Portugal: Democracy Evolving*, Boulder 2014, pp. 87–9. On both counts the PCP stood apart, with a well-defined social constituency and a more committed base of support.

recent poll reveals (Figure 1). Occasional landslides in either direction for the PS or PSD have sometimes obscured this regional polarization, but overall the continuity is unmistakable.

What did change, however, was the credibility and popular standing of the political class presiding over this system. Large-scale privatization has been inseparable from corruption wherever it has taken place, and Portugal was no exception. Massive injections of kleptocratic capital from Angola, with whose regime Portuguese firms and politicians became ever more entwined, pushed in the same direction.[28] Once this had all gotten under way, a bipartisan degeneration set in. But the extent of the rot only became fully apparent in November 2014, when police arrested Sócrates on his arrival at Lisbon airport from Paris on charges of tax fraud, corruption and money-laundering. The scandal coincided with the ignominious collapse of the Espírito Santo banking group in a tangle of arcane financial transactions, with prosecutors hot on the trail of its CEO, Ricardo Salgado. After a year in jail, establishment solidarity got Sócrates out to house arrest, pending a trial which has still not taken place. But the damage was done. Belief in the honesty of the governing class had been falling steadily for years, in tandem with trust in the ballot box. In the 80s, voter turn-out averaged a high 77 per cent. Over the following decade it had declined to 65 per cent. When elections were held in 2015, it plunged to a record low of 56 per cent. At this rate, the country risked making a reality of Saramago's caustic 2004 fiction *Seeing*.[29]

A new departure

Seeking to claw back lost ground as the polls approached, the PS chose the mayor of Lisbon, António Costa, to lead it into battle. Although he was the son of a PCP stalwart, Costa had always followed in the less radical footsteps of his Socialist mother. On the campaign trail he put forward a half-hearted anti-austerity line, without calling the framework of the Eurozone into question. But Costa could not distance the party

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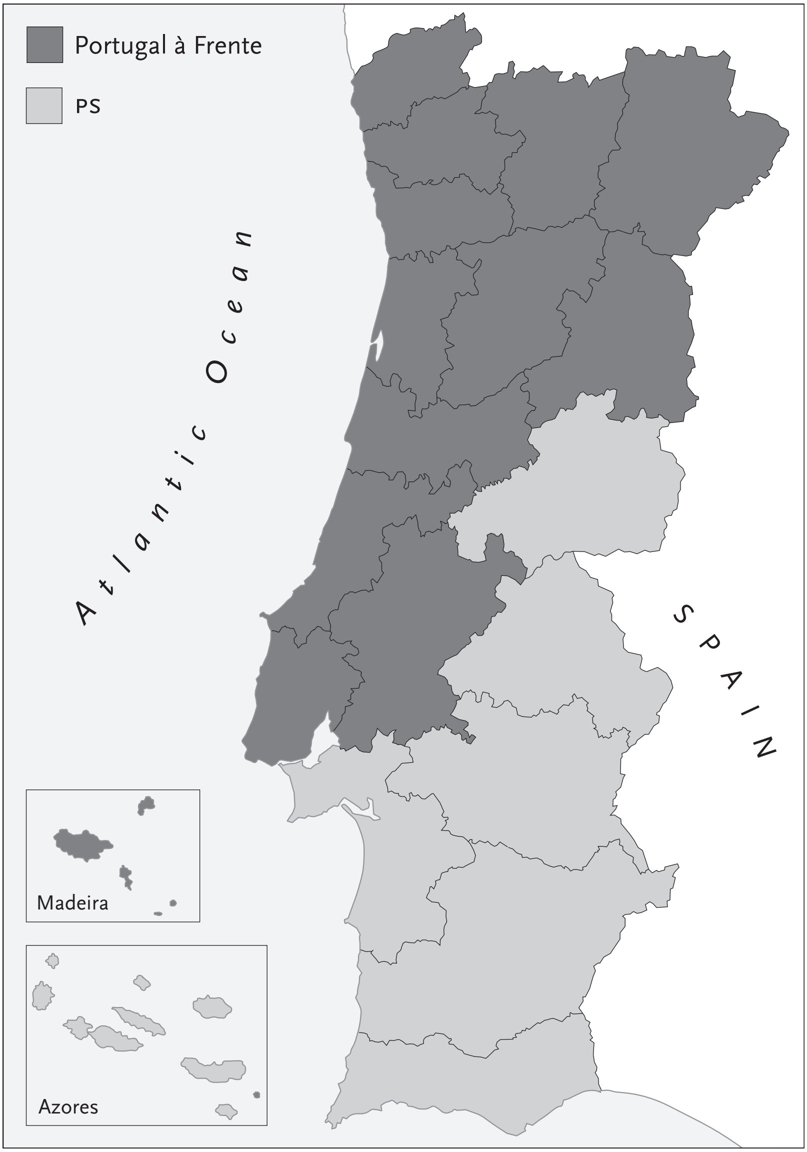
[28] About half the obscene, multi-billion fortune of Isabel dos Santos, gilded offspring of Angola's dictator, has been placed in Portugal: Jorge Costa, João Teixeira Lopes and Francisco Louça, *Os Donos Angolanos de Portugal*, Lisbon 2014, pp. 45–8.

[29] In which, on election day, 13 per cent vote for the right, 9 per cent for the centre, and 2.5 per cent for the left, while 75 per cent vote blank. In a panic, the government calls a second poll. This time, 83 per cent vote blank, whereupon the authorities declare a state of siege: a parable, of course, not only for Portugal.

FIGURE 1: *Leading party by constituency, 2015*



from its recent past so easily: the taint of having signed the agreement with the Troika still lingered, and there was the albatross of Sócrates around his neck. Running on a joint ticket as Portugal à Frente ('Portugal Ahead'), the PSD and CDS–PP were unabashed in praise of their own record and the virtuous necessity of the cuts they had imposed to redress the plight of the country. When the election was held in October, support for Passos Coelho's coalition fell by 12 per cent, but the PS only increased its vote by 4 per cent, and the right continued to hold the largest number of seats in parliament, though lacking an overall majority: 107 deputies to 86 for the PS, out of 230.

In the past, this would all but automatically have led to a German-style 'grand coalition' between the two establishment blocs. This time, however, a new political force disrupted the path towards accommodation. At the end of the 1990s, the shock defeat of a referendum to liberalize Portugal's abortion laws had brought together three far-left organizations that had survived the downturn of the preceding years into a common vehicle, the Bloco de Esquerda ('Left Bloc', BE): the Revolutionary Socialist Party, a Trotskyist group affiliated with the largest surviving fragment of the Fourth International; the Democratic People's Union, of Maoist provenance; and Politica XXI, largely composed of ex-PCP members who had left the party when it battened down the hatches after 1989. Adopting a pluralist organizational culture, with representation for different currents on the party's leading bodies and debates over strategy conducted in public view, the Bloc opened itself up from the start to people who had not been members of any of the founding groups. It was much quicker than the PCP to respond to issues raised by feminist and environmental movements, and much keener to distance itself from the heritage of 'actually existing socialism'.[30] The new party was also far more sympathetic to the idea of 'left-Europeanism' than the Communists. Francisco Louçã, an internationally recognized economist and PSR militant, became the party's first spokesperson, marrying the tradition of professorial leadership in national politics to a committed socialist activism.[31]

[30] One source of contention between the two parties is their differing attitudes to the regime in Angola. The PCP, with historic ties to the ruling MPLA in Luanda, is reluctant to criticize its record in power; the Left Bloc, on the other hand, has not hesitated to attack its corruptions and repressions.

[31] Before his stint as the BE's spokesperson, Louçã was a professor of economics at the University of Lisbon, a position to which he has since returned. His

When it first stood for election in 1999, the fledgling Left Bloc won a pair of seats in parliament with a little over two per cent of the vote. Its base increased steadily over the following decade: a growth that did not come at the expense of the PCP—the party suffered no real attrition during the same period—but which would eventually overtake it. The Bloc tapped into new social layers, its voters tending to be younger than the PCP's, often in white-collar or precarious employment.[32] Its regional spread was also more even, nowhere reaching the levels achieved by the PCP in its traditional strongholds, but outperforming the Communists in northern regions and the islands. The combined support for the two parties in the 2009 election—18 per cent—was nearly 6 per cent higher than the percentage jointly achieved by Syriza and the Greek Communist Party the same year, and one of the strongest performances by the radical left in any West European country before the political landscape was disrupted by the Great Recession.

The result of the 2011 election thus came as a bitter disappointment for the Bloc, which lost half of its 2009 voters in the right-wing sweep, while the PCP held steady. Louçã stepped down as party spokesperson the following year, and in his place a gender-balanced dual leadership of Catarina Martins and João Semedo took over. After unimpressive results in the European election of 2014—once again the party's vote share dropped by half—when Left Bloc militants gathered for the party congress in November of that year, they could only look with envy at the balance of political forces in Greece or Spain. Against a backdrop of electoral frustration, the 2014 congress was dominated by sharp disagreements and even talk of a split; that danger was averted in the end, and Semedo announced that he was standing down to give Catarina Martins a clear run as coordinator of the party. The change came with a wider renovation of the Bloc's leading personnel, bringing to prominence a set of women thus far unique on the European left. Alongside Martins, whose talents the Portuguese media were soon forced to acknowledge, the MEP Marisa Matias would prove highly effective as the party's presidential candidate in the election of 2016, while the Mortágua sisters,

publications, both theoretical and empirical, have ranged widely: they include a formidable, co-authored study of the Portuguese bourgeoisie (*Os Burgueses*), an overview of long-wave theories since Kondratiev, and an account of economic growth and technological change from the Industrial Revolution to the present (*As Time Goes By*, with Chris Freeman), along with many political interventions.

[32] The Bloc still has a much weaker foothold in Portugal's trade unions than the PCP.

Mariana and Joana, made a strong impression in parliament—Mariana in particular through her forensic televised grilling of the Espírito Santo boss Ricardo Salgado.[33]

With its newly strengthened team, and capable performances by Catarina Martins in the televised debates during the campaign, the Left Bloc emerged as a clear winner in the 2015 election: the only party to increase its score in every Portuguese electoral district, for a total of just over 10 per cent. With the PCP again maintaining its support, nearly a fifth of voters had backed the radical left. Commentators at home and abroad assumed that a grand coalition must be on the cards or, failing that, a minority government of the right headed by Passos Coelho with toleration from the PS.[34] However, Catarina Martins had already indicated during the election campaign that the Bloc would be willing to give external support to a PS government if it committed itself to a package of reforms to alleviate the social crisis. The PCP leader Jerónimo de Sousa had also signalled his party's readiness to discuss an arrangement.

To block any such prospect, Aníbal Cavaco Silva—Portugal's president since 2006, now in the final months of his term—attempted to lay down a red line while talks were in progress between the three parties: 'In forty years of democracy, no government in Portugal has ever depended on the support of anti-European forces, that is to say forces that campaigned to abrogate the Lisbon Treaty, the Fiscal Compact, as well as to take Portugal out of the euro—in addition to wanting the dissolution of NATO.' This was 'the worst moment for a radical change in the foundations of our democracy'.[35] Promising to do 'everything possible to prevent false signals being sent to financial institutions and markets', Cavaco Silva appointed Passos Coelho to form a new government, despite his lack of a majority in parliament, in the hope that he could pressure the PS into supporting it.

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[33] Marisa Matias comes from an impoverished background in a village on the outskirts of Coimbra; strongly influenced by the work of Boaventura de Sousa Santos, she trained as a sociologist before entering full-time politics. The Mortágua twins are daughters of a left-wing militant who was active in the urban-guerilla movement LUAR under the dictatorship.

[34] Tony Barber, 'Pedro Passos Coelho: Portugal's PM defies the austerity curse', FT, 5 October 2015.

[35] Ambrose Evans-Pritchard, 'Germany loses key ally in Portugal as austerity regime crumbles', *Daily Telegraph*, 10 November 2015.

But the Socialists could not overcome their fear of the electoral damage that would ensue if they signed up as junior partner for another round of austerity. For Costa, a pact with the left-wing parties was a lesser evil, and by November he was ready to take office after drawing up a programme for government that would roll back measures imposed by the right (negotiated separately with the Left Bloc and the PCP, as the Communists believed that political differences were still too great to allow for a joint platform). Pension and salary cuts would be reversed, the privatization of water and public-transport companies halted, and collective-bargaining agreements restored, along with the four lost public holidays. In addition, the government would scrap regressive tax hikes and boost the minimum wage. In an interview with the *Financial Times*, Costa dismissed the notion—central to the Troika's blueprint for its peripheral wards—of boosting Portuguese exports through wage repression:

> It's completely wrong to think that a European country like Portugal could become more competitive on the basis of Third World competitiveness factors. The idea that productivity goes up due to the number of hours worked gives people the wrong incentive. It has to be done by increasing the value of the goods and services we produce.[36]

In order to reach an agreement with the PS, the Left Bloc and the PCP had to put aside their calls for debt restructuring and exit from the euro, as Costa insisted that his government would work within the budgetary constraints of the Eurozone. For the Bloc in particular, there was considerable irony in this: the party had moved away from 'left-Europeanism' in the light of recent developments—especially the humiliation of Syriza in the summer of 2015—and placed the question of Portugal's departure from the single currency squarely on the agenda.[37]

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[36] Peter Wise, 'Portugal PM will roll back austerity and maintain fiscal discipline', FT, 24 January 2016.

[37] The Left Bloc MP Fernando Rosas spelled out the logic behind this new position in July 2015. After the Greek experience, he argued, it was clearly impossible to carry out an anti-austerity policy while remaining in the Eurozone: 'Our position has to be presented in a very pedagogical fashion because the Portuguese are very attached to Europe and the euro. Thus, we don't say: "Our programme is to leave the euro." Rather we say: "Our programme is to renegotiate the debt." If that doesn't work, we have to be prepared to leave': Dick Nichols, 'Portuguese elections: surge in Left Bloc support puts Socialist Party on the spot', *Links*, October 2015.

Costa and his cabinet found themselves under immediate pressure from EU officials as they prepared their first budget for approval, and had to reduce their spending commitments for 2016 to secure the assent of Brussels. The EU's economic commissioner Pierre Moscovici gave his own sanctimonious version of the outcome: 'I am personally rather satisfied that the Commission was able to win over the Portuguese authorities to insist our joint rules must be complied with.'[38] By that point, a presidential election in January 2016 had resulted in victory for the candidate favoured by the right, Marcelo Rebelo de Sousa, a former PSD leader turned TV host.[39] As the summer of 2016 approached, a confrontation with the EU looked imminent. Portugal and Spain were both in the Commission's gun-sights for their failure to meet budgetary targets. Catarina Martins raised the idea of a referendum on Portugal's EU membership if the Commission followed through on its threats to fine the country for non-compliance.

In the event, following established custom, the Commission bent its supposedly binding rules to satisfy the immediate requirements of Europe's political class. First it allowed a deadline to pass in May 2016 so as to avoid creating trouble for Rajoy ahead of the Spanish general election: as Moscovici delicately observed, it was 'not the right moment economically or politically' for the Commission to act.[40] By the time the votes were counted in Spain, the UK had voted for Brexit, alarming Brussels and Berlin enough to deter them from risking an Iberian backlash against their demands. Once again, Moscovici felt that it was a moment for leniency: 'A punitive approach would not be the right one at a time when people doubt in Europe.'[41] Thereafter, with the election of Trump, and potentially tricky votes in Germany, France and the Netherlands over

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[38] Peter Spiegel and Peter Wise, 'Portuguese budget narrowly avoids rejection by Brussels', FT, 5 February 2016.

[39] Behind this apparent setback for the Socialists, there was a victory for Costa over his inner-party opponents. Left- and right-leaning factions in the PS gave their support to independent candidates, continuing the battle over Costa's alliance with the radical left by proxy. The 'left' independent won 23 per cent of the vote, the 'right' just over 4 per cent, strengthening Costa's hand against his critics. For the Left Bloc, Marisa Matias managed an impressive 10 per cent, while the PCP dropped below 4 per cent.

[40] Alex Barker, Jim Brunsden and Claire Jones, 'Spain and Portugal win reprieve over breaking EU fiscal rules', FT, 18 May 2016.

[41] Mehreen Khan and Jim Brunsden, 'Brussels drops fines against Spain and Portugal for fiscal breaches', FT, 27 July 2016.

the course of 2017, the EU had its hands full, giving Costa's government some much-needed breathing space.

Economic growth picked up in the last months of 2016, largely powered by the expansion of domestic demand. Unemployment fell to a little over 10 per cent, and the budget deficit for 2016 was down by more than half, to the lowest level since the revolution.[42] The government had boosted consumption by fulfilling the terms of its programme on pensions, public holidays and the minimum wage. These measures hardly amount to a far-reaching transformation of Portuguese society, but after a long period of stagnation and crisis, they have come as a welcome relief to the country's citizens. Opinion polls from the first half of 2017 gave the PS an average 7 point lead over the two right-wing parties: a swing of 13 per cent since the last general election. Costa's approval ratings rose sharply, with two-thirds of voters naming him in preference to Passos Coelho as their choice to be prime minister. The increase in support for the PS came at the expense of the conservative opposition rather than its left-wing partners: polling figures for the Left Bloc and the PCP have been roughly in line with their vote shares in 2015. The combined support for the parties of the governing majority was 24 per cent higher than that for the right-wing bloc.

Faultlines

Can this political honeymoon last? Beneath the headline figures, dangers still lurk for the Portuguese economy. Investment has fallen sharply since the crisis began, and is now more than 30 per cent below its 2005 level.[43] The ECB estimates that the four main Portuguese banks are carrying €32bn in non-performing loans, almost a fifth of total bank credit—the third-highest level in the EU.[44] Only Greece and Italy have a greater burden of public debt than Portugal: the ratio of debt to GDP is now over 130 per cent, from less than 70 per cent in 2007. Portuguese access to the ECB's quantitative easing programme depends on the investment-grade rating it receives from a small Canadian firm, DBRS. The ECB enlisted DBRS expressly in order to dilute the hegemony of the 'big three' rating agencies, so its decision to grant Lisbon a reprieve at two crucial moments in 2016 was more predictable than some of the

[42] 'Growing Out of It', *Economist*, 1 April 2017.
[43] *OECD Economic Surveys: Portugal*, February 2017, p. 16.
[44] Economist Intelligence Unit, *Portugal: Country Report*, 23 March 2017, p. 34.

media coverage might have led one to believe. Mario Draghi certainly gave a clear signal as to what was expected when he told a press conference that Portugal had made 'remarkable progress', shortly before the second assessment had to be made. But even if DBRS is acting as a proxy for the ECB itself, this underlines the extent to which Costa's government is vulnerable to outside pressure.

At home, the handling of Portugal's financial sector has already proved a divisive issue. Within weeks of Costa's accession to power, the Left Bloc and the PCP had voted against a move to spend over €2bn of public money rescuing the firm Banif, on top of the €12bn already funnelled into Portuguese banks between 2008 and 2014; the proposal only went through parliament because the PSD decided to abstain.[45] The left parties have also challenged Costa's approach to Novo Banco, a 'good bank' formed out of the wreckage of the Espírito Santo empire, submitting plans of their own for long-term state ownership—a move that the PS government rejected, selling it instead to a US vulture fund, Lone Star.

Where the public debt is concerned, the most important line of division between the Socialists and the left is over means rather than ends. At the end of April 2017, a joint working group of PS and Left Bloc representatives published a report that called for debt restructuring to remove a choke-hold from the Portuguese economy. But the Socialists insist there can be no move in this direction without consent from the other Eurozone states—as Pedro Santos, a minister who helped broker the pact with the left-wing parties, explained:

> We are not against renegotiation of the debt, but we would not act unilaterally and risk a rupture with Europe. We have learned from the Greek experience. They tried a confrontational strategy; that didn't work. We already know what would happen if we had the same strategy. So our approach is completely different from the one that Syriza adopted, and it's also different from the one that the Left Bloc would follow if it was leading the government. We are working for a more intelligent management of our public debt. That solution has to be found within the European Union.[46]

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[45] Peter Wise, 'Bank bailout tests Portuguese leader's austerity pledge', FT, 27 December 2015.

[46] Pedro Santos, interview, 28 April 2017. Back in 2011, Santos had courted controversy from the opposition benches by calling for the threat of default to be used as a weapon in negotiations with the Troika: 'We should make the legs of the German bankers tremble.' Ambrose Evans-Pritchard, 'Talk of "nuclear default" sums up Left's anger at EU dictates', *Daily Telegraph*, 15 December 2011.

The PCP declined to take part in the working group, believing that it would leave the fundamental issue of how to secure debt relief unresolved.

With two years still to go before an election must be held, Costa's *geringonça* is heading into uncharted waters. There is little chance of his government adopting a more radical stance over debt restructuring or Portugal's relationship with the Eurozone—if the left parties were unable to extract such concessions back in 2015, they are certainly in no position to do so today, when the Socialists have the wind in their sails. The main threat to Costa's administration is likely to come from outside the country, rather than from a demoralized conservative opposition. An economic downturn that makes it impossible to satisfy the EU's budgetary criteria without further cuts could be the tipping point; or the leading European states might simply decide the time has come to snuff out Costa's mild heterodoxy, once they have safely navigated the electoral minefield of 2017. There is no guarantee, of course, that either scenario will materialize between now and 2019. But it would be reckless to assume that Portugal's stay of grace will last indefinitely.[47]

At present, the Left Bloc and the PCP are the only political forces raising the question of Portugal's departure from the single currency, and they lack the support necessary to translate such ideas into practice.[48] Portugal's radical left can claim credit for two main achievements since 2015. The steps taken by Costa's government to alleviate the hardship of recent years have had a palpable impact on everyday life for Portuguese citizens. The programme of relief may be limited in scope, but without the Left Bloc and the Communists, it would hardly exist at all: if the Socialists had been able to form a government without their support in

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[47] Were the PS to renege on its commitments, the two left parties might not agree on the circumstances in which they should pull out (they have continued to negotiate with the Socialists separately). The Communists are best positioned to survive the collapse of the government, having dug themselves a deep trench over the past couple of decades to which they can retreat if necessary; the Left Bloc has more reason to fear loss of its existing voters, but also appears better placed to acquire new layers of support, if it can plot the right course.

[48] The historian and media commentator José Pacheco Pereira, who formerly represented the PSD in parliament, has also been a prominent voice arguing that Portugal has no future in the euro: 'We could have better or worse years, but overall, we will not have the growth we need, because the constraints on public investment are too great. Without restructuring the debt, it's going to be impossible in the next twenty years to have a different policy. That means stagnation.' José Pacheco Pereira, interview, 4 May 2017.

parliament, they would not have strayed far from the path carved out by Guterres and Sócrates.

In a wider perspective, the left parties have also managed to contain the panicky rout that seemed to be in prospect after the Troika bent Greece to its will in the summer of 2015. They have shown that victories can be won against the Berlin Consensus, even at a time of limited popular mobilization; Syriza's pitiful surrender need not be the fate of all. The clarity of the line they have adopted on the single currency stands in welcome contrast to the mirage of a democratized Eurozone pursued by such figures as Varoufakis and Hamon. Their approach has set an example to the European left of how to deal with the remains of a once powerful social democracy, now in decline but still far from extinction. From the French and Italian communists to Denmark's Socialist People's Party, erstwhile radicals have been repeatedly drawn into service as impotent appendages of the centre left, and paid a stiff political price. By resisting the temptation to enter Costa's government, and extracting modest but tangible concessions in return for external support, the Left Bloc and the PCP have steered a path between sectarian closure and political neutralization, and still have the opportunity to put more radical solutions to Portugal's distress on the table when the next Euro-crisis intervenes. Lisbon gave its name to the EU's agenda of neoliberal reform, and to the repackaged constitution voted down by the French and the Dutch; today, the city may offer signposts towards a different future for Europe.