

As Europe Moves Right, Portugal Veers Left—and Thrives

Trish Lorenz | Tuesday, Jan. 2, 2018

LISBON—European politics are in turmoil. The United Kingdom is tearing itself apart after a vote to exit the European Union. Spain is deeply divided in the face of separatist demands from its Catalonia region. In France, the far-right National Front mounted a serious challenge for the presidency. Farther east, from Norway to Austria to Hungary, right-wing populism is resurgent. Even in Germany, where memories of the Nazis still hold significant sway, almost 6 million Germans—12.6 percent of those who voted—chose the anti-immigrant Alternative for Germany party in September elections. Across the continent, the established order of things, in place since the fall of the Berlin Wall, no longer looks so certain or robust.

Within this context, Portugal stands out. Its center-left government, buoyed by an impressive economic recovery, is bucking the populist trend and growing in popularity—not by moving right but by turning left.

Headed by Prime Minister Antonio Costa, the center-left Socialist Party, or PS, took power in November 2015 following inconclusive elections the previous month. Costa formed a minority government that relies on support from the Portuguese Communist Party, or PCP, the country's third-largest political group, and Bloco de Esquerda, or BE, a small euroskeptic party on the far left. This alliance was locally derided as a "geringonça," Portuguese for an unstable contraption unlikely to function, and its anti-austerity platform was viewed with suspicion by the markets and across Europe.

But against all expectations, the geringonça has not only held together but prospered. In nationwide local elections on Oct. 1, widely seen as the first electoral test for Costa and the PS, the party won control of 159 of the country's 308 municipalities, earning 38 percent of the vote

(<https://www.rtp.pt/noticias/eleicoes/autarquicas/2017/eleicao-CM/990000>). It was the party's biggest local election victory ever. Meanwhile, the center-right Social Democrats, or PSD, the main opposition party, suffered its



The full moon rises behind the Castle of Saint George in Lisbon, Portugal, Sept. 6, 2017 (AP photo by Armando Franca).

worst ever defeat in local elections, winning just 16 percent of the total vote and dropping to third place in the capital, Lisbon, where it got only 11 percent (<https://www.rtp.pt/noticias/eleicoes/autarquicas/2017/distrito-lisboa/concelho-lisboa/eleicao-CM/110600#resultados>).

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The results highlight how Costa has, since assuming office, been able to strengthen his political position. “In political terms, Costa’s premiership has been a success,” says Antonio Barroso, deputy director of research at Teneo Intelligence, a political analysis and advisory firm. “He actually lost the last election but was able to put together this alliance. And if the election was held again today, he would have a commanding majority.”

The Socialists’ success, while impressive, is inextricably linked to the country’s remarkable economic turnaround from the dark days of the eurozone crisis, which hit Portugal harder than almost anywhere else. For this reason, there is considerable debate as to whether, as a case study, Portugal offers lessons for social democratic parties elsewhere in Europe that are losing ground in the current political environment. And there are also signs that Portugal’s domestic political challenges may soon become more formidable, calling into question whether the strong run Costa has enjoyed to date is sustainable.

A Booming Economy

The reasons behind the Socialists’ strong showing in recent polls are both practical and emotional.

Guilherme Sousa, 23, is a Lisbon-based graphic designer. He’s slim, thoughtful and rolls a cigarette as he drinks an espresso at one of the city’s outdoor kiosks. “I’m a left-leaning person, so perhaps I’m biased, but I think the biggest noticeable change is that this government is more humanistic—they have more respect for people,” he says. “Salaries have increased, and there’s a sense of having more opportunities. I have friends who started their own business. They have new clients. They just moved to a bigger office. They’re growing. These are the kind of opportunities we didn’t have two or three years ago.”

The data backs up Sousa’s impressions. Portugal has had three years of consecutive GDP growth. At the end of 2016, it was the fastest-growing economy in Europe, and the most recent figures (<https://tradingeconomics.com/portugal/gdp-growth>) showed that it continued to expand—by 2.5 percent year on year—in the third quarter of 2017. Unemployment, at 8.5 percent, is at a 10-year low (<https://tradingeconomics.com/portugal/unemployment-rate>); exports and investment are recovering; a high-tech start-

up economy is developing; and booming tourism is reinvigorating the country's two biggest cities, Lisbon and Porto.

The government is winning plaudits for its economic performance outside the country, too. In May, the European Commission reported that Portugal's budget deficit had fallen to 2 percent of GDP in 2016, well below the limit of 3 percent set out in its budget rules and the lowest since the country joined the eurozone in 1999. And in September, the Standard & Poor's rating agency lifted Portugal from "junk" sovereign borrower status, marking what The Financial Times referred to as "a stunning recovery" (<https://www.ft.com/content/8d397578-9d06-11e7-8cd4-932067fbf946>) for the economy.



Portugal's prime minister, Antonio Costa, speaks to journalists after holding a meeting with his Moroccan counterpart, Saadeddine El Othmani, in Rabat, Morocco, Dec. 4, 2017 (AP photo by Mosa'ab Elshamy).

Federico Santi, Europe analyst at Eurasia Group, says the coalition has effectively taken advantage of economic tailwinds in making the case for its continued rule. "The alliance is working better than expected. They came to power during an extremely helpful economic cycle and have been able to reap the benefits of the accelerating economic recovery," he says. "They have also developed a strong political narrative around rolling back austerity that is going down very well with the public."

The ‘Terrible’ Crisis Years

Portugal was one of the countries most affected by the financial crisis that plagued the eurozone between 2010 and 2014. The country’s high public debt and unemployment coupled with a weak banking system hindered its ability to cope with the global downturn. In 2011, the Socialist government that was in power agreed to a bailout of 78 billion euros—more than \$90 billion—from the EU and the International Monetary Fund.

Under the terms of the bailout, Portugal was forced to reduce its deficit by slashing public sector spending—including wages, pensions and benefits—and raising personal taxes. Unemployment rose dramatically: At its peak, almost 40 percent of young people were without a job. More than 485,000 people left the country (<https://www.eurofound.europa.eu/observatories/eurwork/articles/working-conditions-labour-market/portugal-high-and-rising-emigration-in-a-context-of-high-but-decreasing-unemployment>) between 2011 and 2014, nearly 5 percent of the total population. Internationally the country became known as an economic basket case—one of Europe’s “PIGS,” along with Ireland, Greece and Spain. On the ground, the crisis years translated into significant personal hardship for a large swath of the population.

Luisa Santos is a doctor in Portugal’s public health system. She also runs a guesthouse in Porto, in the north, a side gig that provides an upbeat contrast to her day job. Over a breakfast of strong coffee and sweet cake, she comes close to tears when she recalls the bailout years.

“We are a resilient people, but the crisis years were terrible for us, and it wasn’t just a few cases here and there. It was widespread,” she says. “Unemployment was incredibly high. I know middle-class families where both partners lost their jobs, they couldn’t pay their mortgage, they lost their apartment and had to live with their elderly parents, relying on their parents’ pensions to survive. Often it wasn’t enough. They had to sell jewelry and other belongings. Some people struggled to have enough to eat. We still have food banks here today, and it was never like that before.”

Such bitter memories underscore the importance of complementing strong macroeconomic figures with a growing sense of national pride and hope. “The last government would only talk about economic stability and sacrifice, but now there is more willingness to talk about the importance of quality of life and happiness,” Sousa says.

Backlash Against Neoliberalism

Unlike in Greece and Spain, where center-left governments implemented bailouts, in Portugal the task fell to the center-right PSD government, which was headed by former Prime Minister Pedro Passos Coelho. According to Catherine Moury, a senior lecturer in political science at the New University of Lisbon who has studied Portugal’s response to the crisis, Passos Coelho used the crisis to justify reforms he personally

avored but which would have been difficult to engineer in other times. Broadly speaking, the PSD government used the bailout years to transition the country to a more neoliberal model, deregulating the labor market, privatizing government entities such as the national airline and lowering corporate taxes. The approach won plaudits from the IMF and EU but alienated voters, laying the groundwork for political change. In that sense, Moury says, “The current political situation in Portugal has its origins in the period between 2011 and 2014.”

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The PSD’s embrace of more neoliberal policies contributed not just to the change in power in 2015 but also to the durability of the current alliance. According to Andre Freire, professor of political science at the Institute University of Lisbon, the prospect of a second term for the PSD government gave the far left an incentive to compromise with the Socialists.

It also reduced the likelihood of an alliance between the Socialists and centrists, something that in different circumstances would have been more plausible. “Socialists in Portugal are very centrist when compared to socialists in the rest of Europe, and in the past, they have tended to prefer a coalition with the center-right parties than with the radical left,” says Freire. “But this move to the right by the PSD after 2011 made it more difficult for the socialists to consider forming a coalition with them.”

The result is that, for the first time in Portugal’s modern history, the left has successfully held together an alliance.

Costa, the leader of that alliance, was elected to become head of the PS In 2014. The 56-year-old is the son of a communist militant and is naturally left-leaning. He entered national politics in 1995, serving as a secretary of state and holding ministerial roles in previous socialist administrations before becoming mayor of Lisbon. Between 2007 to 2015, he was elected mayor three times, earning a bigger majority with each win. He returned to national politics to lead the PS into the 2015 election.

“Costa was a rising star, the mayor of Lisbon, but he was not associated at all with the austerity program. That’s no coincidence: He is a very skillful political strategist,” says Barroso, adding that the prime minister also enjoys an ability to relate to ordinary voters. “He’s approachable, and this makes him very popular beyond the core PS votes. At the same time, he’s also been very good at giving in to some of the far-left

Bloco de Esquerda and the Portuguese Communist Party demands without alienating the markets and the EU.”

Freire, the author of a book about the coalition titled “Beyond the Geringonça,” argues that Costa also realized that center-left parties around Europe were losing ground because of their shift to the right.



Children play soccer as the sun sets on a beach in Cascais, near Lisbon, Portugal, Sept. 2, 2014 (AP photo by Francisco Seco).

“There is a problem with the social democrats in Europe and that problem is very much associated with a coalition with the right. They are losing ground everywhere: The German socialists are down to 20 percent after a coalition with the right. Greek socialists fell from 43 percent to 4 percent after a coalition with the right. The Dutch socialists lost 29 seats in the last election and are smaller than the Greens, and the French left had the worst results ever,” Freire says. “Costa understood this, so both for party and personal survival, he entered a left coalition.”

A New Socialist Model?

Whether the success of Costa’s approach offers broader lessons for Europe is up for debate. Young voters

such as Sousa believe so. “I think socialists everywhere, not just in Portugal, are starting to realize that there are advantages to taking a more left-wing stance,” says Sousa. “Bernie Sanders, Jeremy Corbyn, the Greens in Austria—they are exciting for young voters like me because they believe in something.”

Yet many analysts stress that the Portuguese situation is unique. The far right has not gained a foothold here in part because the country has not experienced a recent influx of refugees or a surge in immigration, problems that are driving some voters to the right in other parts of Europe. The Muslim community, in particular, is tiny, accounting for less than 1 percent of the population. Portugal was for many years one of Europe’s poorest countries, and the Portuguese thus have a long history of economic migration to European countries like France, Germany and Britain as well as destinations farther afield, including Brazil, the U.S. and Australia. This may make them more understanding of the issues immigrants face.

Portugal’s political history no doubt also plays a role, especially the lasting legacy of former Prime Minister Antonio de Oliveira Salazar, the dictator whose regime ruled for more than four decades before falling in 1974. “Portugal has historical peculiarities that help explain its position in Europe,” Santi says. “The transition to democracy happened later than in other countries, and the EU was a big vehicle and component of that transition. Euroskeptic sentiment is quite low, particularly compared to places like Italy or Greece. My sense is that the EU is still associated with openness, democracy and socioeconomic progress despite the negative feelings associated with the bailout years.”

Even without strong anti-European sentiments or a populist right- or left-wing alternative, it remains to be seen whether the Portuguese government can continue to avoid the turbulence destabilizing other European countries.

One of Costa’s biggest achievements to date has been his ability to placate the far-left members of his alliance while keeping the trust of markets and EU regulators. Perversely, the country’s improving economy means this balancing act is likely to become more difficult. Costa’s government is already coming under increased pressure at home to further roll back austerity measures. In recent months, teachers and doctors have been agitating for wage increases and for benefits that were given up during the crisis to be reinstated.

And for the alliance partners, who fared less well than the PS in the October local elections, cooperating with the PS may become less appealing. “The main challenge to the government will be as the next election approaches,” says Santi, referring to the legislative elections that should happen before October 2019. “The left will start to make demands as a way to distance themselves from other parties for electoral gain. That could lead to more volatility in parliament.”

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This is already evident. Although the 2018 budget passed through parliament in late November with the support of the alliance partners, both Catarina Martins, the BE chairperson, and Jeronimo de Sousa, the general secretary of the PCP, have spoken out against the government in the local press. Martins believes the government has yet to meet its commitments on labor rights and on taxation of larger corporations. De Sousa has said that although the PCP will support the government to the end of the current legislature, it will reject a future pre-election agreement with the Socialists.

“The government now has greater economic leeway, but in some ways, the job is more difficult than it was two years ago,” Moury says. “It has already implemented measures such as reducing the tax burden, increasing pensions and public sector salaries, but what is less visible is that there has been a decrease in spending. Health spending is as low a percentage of the GDP now as it was in 2011 during the crisis, and the left is starting to push against this.”

To date, Costa has had some room to move in his negotiations with his alliance partners, in part due to a growing recognition at the EU level that austerity policies and the inequalities they expose can be damaging to the European agenda.

“The success of the National Front in France led the European Commission to realize that it could not continue with stringent austerity—that this would create much bigger political problems,” Barroso says. “There’s a recognition that the only way socialist parties in the eurozone can survive is by creating a counternarrative to austerity by reversing some measures, such as public-sector salary cuts in Portugal, but still containing public spending, managing the deficit and keeping the trust of the markets.”

This trust is vital to Portugal's ongoing economic success. At 130 percent of GDP, public debt in Portugal is still the third-highest in Europe (http://ec.europa.eu/eurostat/statistics-explained/index.php/Government_finance_statistics), and a rise in interest rates would have an immediate and significant impact on public finances.

“The government [cannot ignore] the view of the markets. They are spending as much meeting the interest payments on debt as they are on education. An increase in interest rates could have a significant impact, so signaling credibility to the markets is very important,” Moury says.

But Portugal's reputation has yet to fully bounce back from the bailout years, and analysts are watching closely to see how long the economic recovery and the political alliance can hold.

“My perception is that the economic recovery is not based on a very deep reality,” Santi says. “The country was considered a basket case six months ago, on the verge of a credit downgrade. Growth projections have improved a lot, but there are still some big issues that need to be addressed. Public debt is very high, and Portugal has a large negative international investment position and it’s still very dependent on foreign capital. It also has very high levels of nonperforming loans in the banking system, behind only Italy and Greece.”

It’s clear that the country and the ruling left-wing alliance face challenges in 2018 and beyond. For the moment, though, the governing “contraption” remains united, the economy is doing well, Costa is riding high in the polls and Portugal’s reputation as a beacon of moderation in a Europe riven by unrest is holding up. There are clouds on the horizon, but in comparison to the challenges most heads of state on the continent face, they signal not so much a storm as choppy waters—conditions that a capable leader should be able to navigate.

Trish Lorenz has been a journalist for more than 15 years. She is currently based in Lisbon, Portugal, where she is Monocle Magazine’s correspondent and also writes about the country for a variety of other publications, including The Financial Times, The Guardian and The Telegraph.