



Lusotopie

Recherches politiques internationales sur les espaces
issus de l'histoire et de la colonisation portugaises

XIII(1) | 2006

Périphéries des villes, périphéries du monde

The Rise and Fall of the Right-Centre Coalition Government in Portugal (2002-2005)

*A ascensão e a queda do governo de coligação do centro-direita em Portugal
(2002-2005)*

*Essor et chute du gouvernement de coalition de centre-droit au Portugal
(2002-2005)*

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Electronic version

URL: <http://journals.openedition.org/lusotopie/1451>

ISSN: 1768-3084

Publisher:

Association des chercheurs de la revue Lusotopie, Brill, Karthala

Printed version

Date of publication: 30 June 2006

Number of pages: 39-59

ISSN: 1257-0273

Electronic reference

José M. Magone, « The Rise and Fall of the Right-Centre Coalition Government in Portugal (2002-2005) », *Lusotopie* [Online], XIII(1) | 2006, Online since 10 April 2016, connection on 20 April 2019. URL : <http://journals.openedition.org/lusotopie/1451>

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THE RISE AND FALL OF THE CENTRE-RIGHT COALITION GOVERNMENT IN PORTUGAL (2002-2005)

This article assesses the impact of the centre-right coalition government on Portuguese economy, society and politics. It starts with an analysis of the coalition formation process and places it in the context of previous coalition governments in Portugal. The austerity measures of the coalition government are then discussed at length. Moreover, government policies are placed within the context of the emerging regime of monetary policy and fiscal discipline imposed by the European integration process.

The austerity measures of the government were quite unpopular, allowing the opposition parties on the left to make electoral gains in the two mid-term elections to the European Parliament and to the regional assemblies of Madeira and the Azores. The disorganised image of the Santana Lopes government led to early elections being called by President Jorge Sampaio. On 20 February 2005, the Socialist Party under popular leader José Socrates won the legislative elections with an absolute majority.

Essor et chute du gouvernement de coalition de centre-droit au Portugal (2002-2005)

Quelle a été l'influence de la coalition de centre-droit sur l'économie, la société et la politique portugaises ? L'analyse du processus de formation de cette coalition est replacée dans l'histoire des autres gouvernements de coalition qu'a connus le Portugal. Elle est suivie d'une étude approfondie des mesures d'austérité appliquées prises par ce gouvernement, dans le contexte de la politique monétaire et fiscale du processus d'intégration européenne.

Les mesures d'austérité du gouvernement furent peu populaires et de ce fait les partis d'opposition de gauche furent capables d'engranger des gains électoraux tant aux élections pour le Parlement européen que pour les assemblées régionales de Madère et des Açores. L'image de désorganisation donnée par le gouvernement de Santana Lopes a poussé le président Jorge Sampaio à provoquer des élections législatives anticipées. Le 20 février 2005, le parti socialiste sous la direction de son populaire *leader* José Socrates, a alors gagné les élections, à la majorité absolue.

A ascensão e a queda do governo de coligação do centro-direita em Portugal (2002-2005)

Este artigo avalia a influência da coligação da centro-direita sobre a economia, a sociedade e a política portuguesa. A análise do processo da formação de coligação é contextualizada na história dos governos de coligação que se sucederam em Portugal. Esta análise é seguida de um estudo profundo das medidas de austeridade implementadas e tomadas por este governo no contexto da política monetária e fiscal imposta pelo processo de integração europeia.

As medidas de austeridade do governo foram mal aceites, por isso os partidos da oposição da esquerda puderam obter ganhos eleitorais nas duas eleições para

o Parlamento Europeu e para as assembleias regionais da Madeira e dos Açores. A imagem de desorganização dada pelo governo de Santana Lopes levou o Presidente Jorge Sampaio a decidir eleições legislativas antecipadas. A 20 de Fevereiro de 2005 o partido socialista, sob a direcção do popular líder José Sócrates, alcançou a maioria absoluta nas eleições legislativas.

After 1998, Portugal became one of the twelve Member States taking part in the third phase of Economic and Monetary Union. As a member it was and is obliged to stick to the criteria of the growth and stability pact. Among these criteria is containing the budget deficit below 3 percent of gross domestic product (GDP). Although until 1999, the Portuguese government was able to keep to the growth and stability pact convergence criteria, the deteriorating economic situation, the overall increase in social expenditure and, last but not least, the lack of reforms in the public administration led to a budget deficit of 4.4 percent of GDP.

The Portuguese population has the worst qualification structure in the European Union and there is a need for long-term investment in education and vocational training to change this situation¹. In terms of global recession, the open Portuguese economy is more vulnerable to asymmetrical shocks than other stronger economies in the European Union. Fast rises in unemployment lead to a considerable reduction in budget revenues and an increase in expenditure. Moreover, Portugal is one of the countries with the largest informal economy in the European Union, along with Spain, Italy and Greece. In times of crisis, the informal economic sector comprising mainly capital-poor small firms tends to grow, leading to increased tax evasion. There is also a tendency to introduce new indirect taxes over direct taxes to close the gap between income and expenditure. This is what happened in the late phase of the Antonio Guterres government which was forced to turn to so-called amended budget items to close the gap between income and expenditure. In 2000 and 2001, being one seat short of an absolute majority, it had to rely on the support of a rebel Member of Parliament from the Social Democratic Centre-People's Party (CDS-PP, *Centro Democrático Social-Partido Popular*). In exchange, the government allegedly promised to provide financial support for a cheese-processing factory in its constituency of Ponte de Lima².

The centre-right coalition government, consisting of the social democratic party (PSD, *Partido Social-democrata*) and the CDS-PP was a reaction to a deteriorating budget situation, that led to further divergence from the criteria of the Economic Monetary Union set out at Maastricht and confirmed in the growth and stability pact. The recent centre-right coalition government in Portugal is an excellent

¹ COMMISSION OF THE EUROPEAN COMMUNITIES, *Council Recommendation on the Implementation of Member States' Employment Policies*, Brussels, 12th of September 2001, COM-2001/512 final: 17; EUROPEAN COMMISSION, *Social Situation in the European Union 2002*, Luxembourg, Office of the Official Publications of the European Union, 2002: 89 and 125.

² J.M. MAGONE, "Portugal", in "European Data Yearbook 2000", special issue of *European Journal of Political Research*, XXXVIII (3-4), December 2001: 396-401, particularly p. 400; J.M. MAGONE, "Portugal", in "European Data Yearbook 2001", special issue of *European Journal of Political Research*, XL (7-8), December 2002.

example of how difficult it is to implement austerity measures in a country with a weak economy. In spite of thirty years of democracy and twenty years of European integration, Portugal is still characterised by labour-intensive industries, with low investment in research and development and an inadequate education system for the labour market³.

Portugal was the first country to have to deal with the excessive budget deficit procedure of the European Commission. After 2002, other countries including Germany, France, Italy and Greece were either on the brink or were also subject to the same procedure. Germany and France tried to change the rules of the game in 2003, but a decision by the European Court of Justice upheld the position of the European Commission. In spite of that, all the Member States agreed to ease the excessive budget procedure in periods of crisis⁴.

In this article, our aim is to study this centre-right coalition government from 2002 until its downfall in 2005. One of the main reasons for its downfall was that its austerity programme became more and more unpopular over time. Instead, a growing number of people were switching their support for the opposition left-wing parties. The elections of 18 February 2005 confirmed this trend.

The article begins by discussing the aspect of coalition government in Portugal, going on to apply it to the centre-right coalition government. Afterwards, the difficulties of the government in presenting the agenda are explored. The subsequent section analyses the European elections of 12 June 2004, before we turn to the handover of power between Barroso and Santana Lopes. The last section deals with the elections of 18 February 2005. The article will end with some conclusions.

The Elections of 17 March 2002: an Unconvincing Victory for the Right-Centre Parties

The catastrophic results in the local elections of 16 December 2001, led to the sudden resignation of Prime Minister António Guterres and his socialist government. President Jorge Sampaio decided to call early elections. Guterres' sudden resignation happened in a period of recession and growing budgetary deficits. At this point in time it was assumed that the budget deficit was above the 3 percent of gross domestic product (GDP) prescribed by the criteria of Economic and Monetary Union. The centre-right parties, in particular the PSD under José Manuel Barroso, conducted an opposition strategy built around the topic of Portugal diverging increasingly from the European Union mainstream. The resignation of Guterres could be regarded as a major victory for the PSD. The position of the PSD was supported by the eurosceptic conservative CDS-PP which also regarded the management of the economy by the Socialist Party as deteriorating considerably. The CDS-PP was led by the young, rather charismatic former journalist Paulo Portas. Guterres also faced opposition from some quarters inside the party, which felt

³ On the portuguese economy see D. CORKILL, *The Portuguese Economy. A Case of Europeanization*, London, Routledge, 1999.

⁴ M. CHANG, "Economic and Monetary Union", in N. Nugent (ed.), *European Union Enlargement*, Basingstoke, Palgrave, 2004: 184-198, particularly pp. 194-195.

that he was no longer up to the job. The Socialist Party elected new leader Eduardo Ferro Rodrigues, who had been a member of the Guterres government. In the Communist Party (PCP, *Partido Comunista Portugues*), the lack of reform and acceptance of opposition groups undermined its electoral chances. The perception that it remained a fossilized, autocratic party characterized by a lack of renewal was the main reason for its continuing internal crisis. Party leader Carlos Carvalhas lacked charisma and was too dependent on *eminence grise* Álvaro Cunhal.

The campaign for the 17 March elections was regarded as one of the most polarised since the founding elections of 25 April 1975. Nevertheless, both main parties, the PS and PSD, avoided being specific about the policies they wanted to implement to sort out the growing budget deficit. The PS acknowledged the importance of tackling the deficit, but tended to refer to the social dimension of convergence. The PSD stressed the need to re-converge towards the European mainstream, but remained quite vague about the policies to achieve it. The main objective for both parties was to attract the highest number of votes through catch-all strategies, as the PS and PSD share a large number of voters in the centre. These voters belong to the new middle-classes and are value-oriented rather than class-oriented. Carlos Jalali calls it an “electorate *marais*”, which is apolitical and more electoral-market oriented⁵.

In spite of the deteriorating economic situation, the victory of the PSD was quite unconvincing. The PS under the leadership of Ferro Rodrigues was able to achieve a respectable 37 percent and remain only 3 percentage points behind the PSD. One of the main reasons for this poor result for the PSD may have been the lack of charisma of leader José Manuel Durão Barroso who had faced opposition inside the party since he was elected by an extraordinary party conference in the spring 1999. From the outset, this “most Portuguese party”⁶ has been characterised by in-fighting and dominated by regional political barons, which have shaped the direction of the party⁷. Barroso always had to deal with the factions existing inside the party.

The main loser of the elections was the Communist Party which lost more than 100,000 votes in comparison to the legislative elections of 1999. In contrast, the Block of the Left (BE, *Bloco da Esquerda*), an electoral coalition consisting of the

⁵ C. JALALI, “As mesmas clivagens de sempre? Velhas clivagens e novos valores no comportamento eleitoral português”, in A. Freire, M. Costa Lobo, P. Magalhães (eds), *Portugal a Votos. As eleições legislativas de 2002*, Lisbon, Instituto de ciencias sociais, 2004: 87-124, particularly pp. 95-96; the electorate *marais* was used for the first time by E. DEUTSCH, D. LINDON & P. WEIL (*Les familles politiques aujourd'hui en France*, Paris, Éditions de Minuit, 1966) to characterise the apolitical centrist electorate of the late sixties in France.

⁶ This is one of the popular self-characterizations of the party according to M. FRAIN, “The Right in Portugal: the PSD and the CDS/PP”, in T.C. Bruneau (ed.), *Political Parties and Democracy in Portugal. Organizations, Elections, and Public Opinion*, Boulder (Co), Westview Press, 1997: 77-111, particularly p. 80.

⁷ The best studies on the PSD are M. FRAIN, *PPD/PSD e a consolidação do regime democrático*, Lisbon, Editorial Notícias, 1998, and the unpublished PhD dissertation M.J. STOCK, *Elites, Fações, e Conflito Intra-Partidário. O PPD/PSD e o Processo Político Português de 1974 a 1985*, Évora, University of Évora, 1989.

Trotskyite Revolutionary Socialist Party (PSR, *Partido Socialista Revolucionário*), the Maoist Democratic People's Union (UDP, *União Democrática Popular*) and the post-modern Politics XXI (*Política XXI*) was able to increase its 1999 result to 2.74 percent and 3 seats. This shows the pressure on the Communist Party to reform itself, to become more attractive to the younger leftwing electorate which has turned to the BE.

The CDS-PP was able to consolidate its result from the previous elections, in spite of the catastrophic electoral results of December 2001. Arithmetically, the two centre-right parties had enough support in parliament to establish a coalition. Soon after the elections the PSD looked into the possibility of allying itself with this small conservative party.

Tabl. I. – RESULTS OF THE 17th MARCH 2002 LEGISLATIVE ELECTIONS

<i>Parties</i>	<i>2002</i>		<i>1999-2002</i>
	<i>Percentage</i>	<i>Number</i>	<i>+/- Percentage</i>
PSD	40.21	105	+7.89
PS	37.79	96	- 6.21
CDS-PP	8.7	14	+0.32
PCP-The Greens	6.94	12	- 2.08
BE	2.74	3	+0.28

Source: Comissão Nacional de Eleições, <<http://www.cne.pt>>, accessed on 28th Sept. 2005.

The formation of a centre-right coalition is not something new in Portuguese politics. Indeed, between 1979 and 1983, there was a pre-electoral coalition called the Democratic Alliance (AD, *Aliança Democrática*) which included the PSD, the CDS and the tiny People's Monarchic Party (*Partido Popular Monárquico-PPM*). One of the main aims of the AD was to change the highly revolutionary constitution towards liberal-democratic principles. Nevertheless, the coalition government collapsed due to infighting between party factions, the lack of charisma of Prime Minister Francisco Pinto Balsemão and his inability to control dissent inside the party⁸.

This idea of a centre-right coalition was re-activated by the predecessor of José Manuel Durão Barroso, Marcelo Rebelo Sousa, who was leader of the party between 1997 and 1999. Actually, his strategy of developing a pre-electoral coalition with the CDS-PP called the Democratic Alternative (AD, *Alternativa Democrática*) emerged after the local elections of 1997. Rebelo Sousa began to change his mind, however, when there was a change of leader in the CDS-PP, with Manuel Monteiro handing over to Paulo Portas. Moreover, the party was not very enthusiastic about this strategy, due to the fact that opinion polls tended to suggest that such a pre-

⁸ For an account of the AD government under Francisco Pinto Balsemão see J. MAGONE, "Portugal: the Rationale of Democratic Regime Building", in W.C. Muller & K. Strom (eds.), *Coalition Governments in Western Europe*, Oxford, Oxford University Press, 2000: 539-558, particularly pp. 538-539.

electoral strategy would lead to just a slight improvement in the electoral position of both parties. Last but not least, Durão Barroso led the opposition against such a strategy throughout 1999. The resignation of Rebelo Sousa and his replacement by Durão Barroso at the party conference of Coimbra in 1999 also represented a shift in party strategy.

Summing up, the elections of 17 March 2002 pointed towards a coalition government between PSD and CDS-PP, in spite of the fact that Barroso's original hope was to achieve a strong absolute majority which would allow his own party to take power. A coalition government between the two main parties, PS and PSD, was not possible, due to the ongoing polarization between the two camps since 1985. The PSD would also never ally itself with the Communists nor with the new leftwing party.

Setting up the Coalition-Government: the Quest for Convergence with Europe

The coalition between the PSD and CDS-PP was a minimal winning coalition and from the outset ideologically quite convergent on many issues.

Portugal is one of the countries where coalition governments are quite seldom. Between 1976 and 2002, there were five very short-lived coalition governments⁹. They were all characterised by instability and led to early elections. This record clearly shows the difficulty of establishing a coalition culture in Portugal. The preferred outcome is a clear majority for one party, either the PS or PSD. Between 1987 and 2001, such majorities existed. The PSD under Anibal Cavaco Silva was able to gain two absolute majorities in 1987 and 1991 giving stability to the political system, while the PS under Antonio Guterres came close to absolute majorities in 1995 and 1999. There is a general trend towards a majoritarian¹⁰ two-party system, in which smaller parties are declining¹¹.

Coalition government is regarded as a last resort in the Portuguese political system. The negotiations for a coalition started shortly after the elections and were finalised within a month. The coalition's framework agreement was announced on 28th March and showed a strong convergence of objectives between the two main parties¹². In spite of policy differences in such areas as immigration, justice and defence, both programmes were quite compatible, so that it was not difficult

⁹ 1 government PS-CDS (1978), 3 gov. AD [PSD+CDS+PPM] (1979-1983), 1 gov. PS-PSD (1983-1985). For more detailed information see MAGONE, *op. cit.*

¹⁰ Majoritarian means naturally a polarized two-party system and refers to the typology of Arend Lijphardt of consensus based coalition government and majoritarian polarized coalition government, characteristics of consensus democracies and Westminster model democracies respectively. See A. LIJPHARDT, *Patterns of Democracy. Government Forms and Performance in Thirty – Six Countries*, New Haven, Yale University Press 1999: 90-115.

¹¹ P.C. MAGALHÃES, "Elections, Parties and Policy-Making Institutions", in A. Costa Pinto (ed.), *Contemporary Portugal. Politics, Society and Culture*, New York, Columbia University Press, 2003: 183-202, particularly pp. 188-194.

¹² Full text from *O Público*, 29th March 2002 <http://www.dossiers.publico.pt> accessed on 3rd of January 2006.

to find common ground¹³. The government programme included reform of the public administration which was linked to reducing public spending. Measures to revitalise the ailing Portuguese economy were given priority in the overall strategy of the centre-right coalition. Overall, the programme was designed to improve the competitiveness of the Portuguese economy. At the centre of the strategy lay the issue of tackling the public finances¹⁴. In terms of ministerial positions, the junior partner CDS-PP got the defence, justice and social security and labour portfolios. Paulo Portas became the Defence Minister and Vice Prime Minister. Barroso was very keen to keep the cabinet to the minimum number of ministers. It therefore consisted of 17 members, of whom the vast majority belonged to the senior partner, 3 to the junior partner and 1 was independent. Barroso included many members of the former Cavaco Silva government. A central figure of the overall cabinet was the so-called “Iron Lady” Manuela Ferreira Leite, who was a super-minister in charge of finances and the reform of public administration. She had previous experience in the Cavaco Silva governments between 1985 and 1995. Her main task was to reduce public spending considerably, including cutting bureaucratic waste, and reducing superfluous personnel in public administration and superfluous governmental agencies. She was given drastic powers to contain public spending, including powers over local authorities. According to first estimates made by the department of Ferreira Leite, Portugal had a deficit of 3.8 percent of GDP, well above the prescribed 3 percent of the EMU criteria. In the summer, the European Commission would revise the estimate to 4.4 percent. This meant that the first year of government was geared to finding ways of cutting public spending in a short term perspective¹⁵.

The Performance of the Coalition Government

The coalition government had major difficulties in gaining the confidence of the population, due to their poor communication skills¹⁶. Indeed, the message that the coalition government was giving to the outside world was that Portugal was in a catastrophic economic situation and diverging from the rest of the European Union. Although the data did point to this situation, the coalition government continued to blame the previous government for the bad economic situation. The negative discourse of the government had a major impact on the economic market and foreign direct investment. This poor management of public relations on behalf of the country was one of the major reasons for the difficulties restoring credibility and confidence in government measures. When the government realised that they were not undermining the previous government nor the opposition, but actually their own prospects of success, the discourse changed towards a more optimistic message. This led Prime Minister Durão Barroso to announce a package of €355

¹³ *Expresso*, 23rd March, 2002.

¹⁴ ASSEMBLEIA DA REPÚBLICA, *Programa do XV Governo* (Lisbon 2002): 8.

¹⁵ *Expresso*, *Economia*, 29th June 2002: 3-5; *O Público*, 12th July 2002: 25.

¹⁶ The concept of communicative discourse is taken from Vivien SCHMIDT, *The Futures of European Capitalism*, Oxford, Oxford University Press, 2003: 240.

million of programmes, most of them financed through the EU structural funds, which would lead to investment in infrastructures and to the relaunching of the ailing Portuguese economy¹⁷.

Containing the Budget Deficit

In spite of this, the government remained quite unpopular, trailing in the opinion polls behind the main opposition party, the PS, during the summer. Barroso continued to be less popular than Ferro Rodrigues, the leader of the Socialist Party¹⁸. The drastic policies were also accompanied by a huge legislative programme which the coalition government wanted to push through parliament without proper consultation of the opposition parties. This further undermined cooperation between the main parties. In the autumn, the centre-right coalition government had to deal with growing discontent among public civil servants who feared for their future prospects in view of the intended reforms of public administration by the government. The increase in the number of strikes and industrial relations conflict further undermined the centre-right coalition government. The main Communist-dominated trade union confederation the General Confederation of Portuguese Workers (CGTP-In, *Confederação Geral dos Trabalhadores Portugueses-Intersindical*) organised a highly successful general strike against the government on 10 December 2002¹⁹.

The crisis was exacerbated when a trial related to the University Moderna, a private higher education institution, revealed that Vice Prime Minister Paulo Portas, who had been director of the university's opinion polls centre, allegedly used funds from the university for his party the CDS-PP. Paulo Portas was only a witness at the trial, but this alleged undercover transfer of resources led to a negative reaction among public opinion.

Prime Minister Barroso had also to deal with the fact that his party continued to be highly divided with strong opposition against the new centre-right coalition government, including from his predecessor Marcelo Rebelo de Sousa. The 24th PSD party conference in early July 2002 was designed to rally the party around the rebirth of the party as a government party. Optimistically, he conveyed the image that his government would last for a decade and lead to major reforms similar to what Anibal Cavaco Silva had achieved between 1985 and 1995. The overall atmosphere of the party was sober, not triumphant²⁰.

During 2003, several important measures were introduced that had a strong impact on the economy. The government froze the salaries of public civil servants earning more than €1,000 per month. This measure affected about two thirds of the 700,000 civil servants. The salaries of civil servants earning below this figure would be adjusted in line with inflation. The government also introduced indirect

¹⁷ *Diário de Notícias*, 7th July 2002: 6.

¹⁸ *Expresso*, 5th July 2002: 5.

¹⁹ M.L. CRISTOVAM, "2002 Annual Review for Portugal", in European Industrial Relations Observatory online, <http://www.eiro.eurofound.eu.int>, accessed on 10th of September 2004.

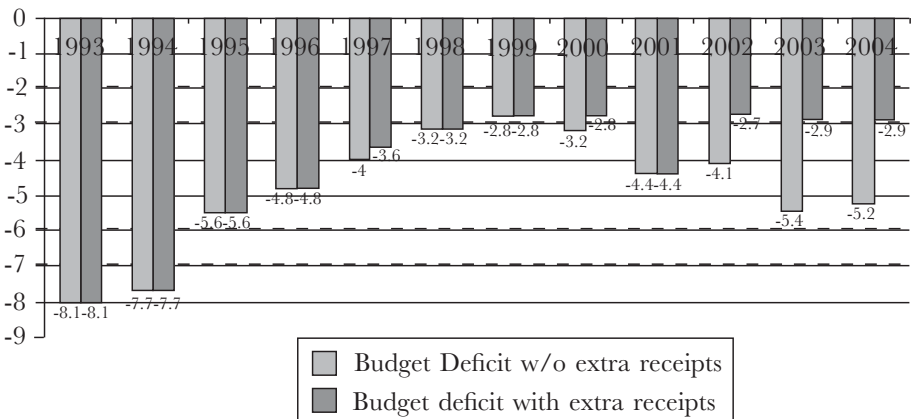
²⁰ *O Público*, 12th July 2002: 2; 13th July 2002: 3.

taxes and started selling off public enterprises. Ferreira Leite controlled local authority expenditure tightly and banned them from borrowing. Last, but not least, the ailing National Health Service had to endure tight austerity measures²¹. The government also increased student fees in the public university sector to €852, leading to major protests by students.

Quite central to Barroso's government programme was public administration reform. The lack of such reform had led to growth in personnel costs in the public administration. In 2003, Portugal spent 15 percent of GDP on personnel costs, above the EU-15 average of 11 percent. Only Denmark (17.7 percent) and Sweden (16.6 percent) are above this average, with considerably higher GDP²².

He asked former Minister of Foreign Affairs and former Commissioner of the European Commission João de Deus Pinheiro to chair a commission to assess how the Portuguese public service could be modernised. Barroso's overall long-term plan was to slim down public administration and move towards a post-modern reflexive public administration which would create more public-private partnerships and become more transparent and accountable. He wanted to promote a public management model based on the principles of governance. Some EU structural funds were redirected to help finance these reforms, in particular to improve the qualifications and professionalisation of civil servants²³.

BUDGET DEFICIT IN PORTUGAL AS PERCENTAGE OF GDP
(1993-2004)



²¹ On the ailing Portuguese National Health Service see M.D. OLIVEIRA, J.M. MAGONE & J.A. PEREIRA, "Non-Decision Making and Inertia", *Journal of Health Politics, Policy and Law*, XXX (1-2), February-April 2005: 212-230.

²² BANCO DE PORTUGAL, *Relatório para a análise da situação orçamental*, Lisbon, 2005: 13.

²³ A review of the modernization of the Portuguese administration can be found in J.M. MAGONE, *The Developing Place of Portugal in the European Union*, New Brunswick, N.J., Transaction, 2004: 101-129.

The austerity measures had a negative impact on the Portuguese economy. At the end of 2003, Portugal registered negative growth for the first time since the transition to democracy. This had a major impact on unemployment figures which were rising quite fast. The number of firms that had to close their doors due to the recession increased dramatically at the beginning of 2004. In spite of huge efforts, Ferreira Leite predicted that the budget deficit would remain just slightly below the EMU criteria threshold by 2.9 percent of GDP. In this sense, the Portuguese government had little room for manoeuvre. Indeed, apart from the rising personnel costs in public administration, the main reason for the budget deficit was the considerable increase in social expenditure on education, health and social security in the second half of the 1990s. Economic growth until 2001 allowed for the improvement of social transfers of the Portuguese welfare state, which developed quite late and still provided the population with the lowest social transfers in absolute numbers, in spite of the fact that in relative terms, it represented a considerable additional burden for the budget. It is expected that social security, particularly expenditure on pensions, will remain a major problem for the Portuguese government²⁴.

Tabl. II. – GROWTH OF THE PORTUGUESE GROSS DOMESTIC PRODUCT (GDP) 2002-2004

<i>Growth of GDP</i>	2002	2003	2004
World	3	4	5.1
Eurozone	0.9	0.5	1.8
Portugal	0.4	-1.1	1.1

Source: BANCO DE PORTUGAL, *Relatório anual 2004*, Lisbon, Banco de Portugal 2005: 15.

The government set big hopes on the forthcoming Football European championships to achieve a revival of the economy. Indeed, at the end of the year the figures of the economy were becoming more promising. This became evident when they started the campaign for the European Parliament elections of 13 June 2004. These elections were regarded as the first test for the right-centre coalition government.

Reforming the Labour Market

Since the adoption of the Lisbon strategy for employment and competitiveness in the European economy by 2010, Portugal has been committed, like other members of the European Union, to introducing measures to achieve a more competitive labour market. It must be acknowledged that, in comparative terms, the Portuguese working population has a high level of employability which fits in more or less with the targets set out in the Lisbon strategy. The main problem is that most of this employment is very precarious, temporary and with a low level of

²⁴ BANCO DE PORTUGAL, *op. cit.*: 16.

social protection. Indeed, one fifth of the Portuguese working population has fixed-term contracts, the highest level in the European Union, surpassed only by Spain with one third of its population in such a situation. Most of these jobs are precarious and paid low wages. Like in Spain, it is impossible to make long term plans²⁵. The Portuguese economy is based on low wages, so families are dependent on the income of all their members. Although there is protective social legislation, child labour is still a reality in Portugal which naturally leads to dropping out of school early to help the collective family income²⁶. In cases of crises such as in 1978-79 and 1983-84, firms may just not pay out salaries, and many employees have to deal with the phenomenon of wages being several months in arrears. This includes even football teams of the Portuguese Superliga like Vitória de Setúbal presently.

The centre-right coalition government was very keen to reform the labour market. It engaged in a dialogue with the employers' organisations, particularly the Confederation of Portuguese Industry (CIP-*Confederação da Indústria Portuguesa*) and the main trade union confederations the CGTP-In and the General Workers' Union (UGT, *União Geral dos Trabalhadores*). The Portuguese system of intermediation is dominated by the Economic and Social Council (CES, *Conselho Económico e Social*) institutionalised in 1992. The most relevant bargaining body within the CES is the Council for Social Consultation (CPCS-*Conselho Português de Concertação Social*) which was founded in 1983 by a previous coalition government of the two main parties PS and PSD. The general pattern is that employers' organisations and the UGT tend to search for a compromise, while the CGTP-In has a record of opposition to labour market policies that reduce the rights of workers.²⁷ After almost one year of negotiations, the new Labour Code (*Código de Trabalho*, Law nr. 99/2003 of 24 August 2003) was approved in parliament with the support of the governing parties in April 2003 and, after presidential ratification, came into force on 1 December 2003. This was the first time that such a codified document had existed in Portugal since 1974. The purpose of the exercise was to make the Portuguese economy more competitive. Several measures were introduced to make the labour market more flexible, particularly in relation to legislation on employee dismissal. It also included aspects of compulsory arbitration determined by the Minister of Social Security and Labour in relation to the expiry of collective agreements. There was also better regulation of night work and fixed-term contracts. Moreover, employers were obliged to organise vocational training programmes for their employees, although the enforcement of such measures was not sufficiently thought through. The code of practice was welcome by employers' organisations, because it made the labour market more competitive. The opposition

²⁵ EUROPEAN FOUNDATION FOR THE IMPROVEMENT OF LIVING AND WORKING CONDITIONS, *Industrial Relations Developments in Europe 2002, . . . 2003, . . . 2004*, Luxembourg, Office of the Official Publications of the European Union, 2003: 55, 2004: 65, 2005: 68.

²⁶ This is based on the excellent study of P. HESPANHA *et al.*, *Entre o Estado e o Mercado. As fragilidades das instituições da protecção social em Portugal*, Coimbra, Quarteto, 2000.

²⁷ J.M. MAGONE, *Iberian Trade Unionism. Democratization Under the Impact of the European Union*, New Brunswick, N.J., Transaction, 2001: chapter five.

came from the main trade union confederations, CGTP-In and the General Workers Union (UGT, *União Geral dos Trabalhadores*) and the leftwing opposition. CGTP-In organised one-day strikes on 10 December 2002 and a joint one with the UGT on 20 January 2003. The main argument of the trade union confederations against the new Labour code was that it would increase the already high level of precariousness of labour contracts based on low salaries²⁸. In general terms, the labour market reform did not contribute to a considerable improvement in the employment situation. On the contrary, unemployment rose through 2004. Although Portugal has a lower level of unemployment than the EU25, the precarious nature of existing jobs can lead to fast growth of unemployment in times of crisis. The most affected regions are naturally the southern regions of mainland Portugal, in particular Alentejo, with higher unemployment figures passing the 8 percent mark. The country's lower unemployment figures are also sustained by lack of reform of public administration. Furthermore, in 2004 46.7 percent of the jobless were long-term unemployed, which is a sign of the deterioration of the labour market since 2001, but particularly since 2003²⁹. The main reasons for unemployment in 2003 and 2004 were collective dismissal due to closure of firms and individual dismissal or the end of a temporary contract. The latter reached 24.1 percent in 2004 and 26.1 percent in 2003³⁰. In 2004 one fifth of persons with higher education degrees, representing 9.5 percent of this specific job market group, had difficulties finding a job. More problematic were young unemployed people with basic education who represent 34.2 percent of this specific job market group and of whom 17.6 percent were unemployed³¹.

The government tried also to gain the backing of the social partners for a strategic social agreement. The social contract for competitiveness and employment was geared towards fulfilling the growth and stability pact with the support of the

Tabl. III. – UNEMPLOYMENT IN PORTUGAL 2001-2004

	<i>Overall</i>				<i>Female Unemployment</i>		<i>Youth Unemployment 18-24</i>	
	<i>2001</i>	<i>2002</i>	<i>2003</i>	<i>2004</i>	<i>2003</i>	<i>2004</i>	<i>2003</i>	<i>2004</i>
Portugal	4.2	5.8	6.3	6.7	7.2	7.6	14.5	15.3
EU*	7.8	7.2	9.2	9.2	10.1	10.1	18.6	18.5

* EU 15 (2001-2002); EU 25 (2003-2004).

Source: Eurostat.

²⁸ M.L. CRISTOVAM, "CGTP Holds Strike to Oppose Draft Labour Code", in A.C. Ferreira *et al.*, *2002 Annual Review for Portugal*, in European Industrial Relations Observatory Online (EIR Online). EIR Online, "2003 Annual Review for Portugal", <<http://www.eiro.eurofound.ie>>, accessed on 10th of September 2004.

²⁹ BANCO DE PORTUGAL, *Relatório anual 2004*, Lisbon, Banco de Portugal, 2005: 81-82.

³⁰ *Ibid.*: 86.

³¹ *Ibid.*: 85.

social partners. Negotiations took place during 2003 and 2004. The CGTP-In was very keen to get more concessions from the government, so the negotiations took longer than anticipated.

Taking Sides in the Iraq War

Portugal is traditionally a strong ally of the United States and as such aligned with the Atlanticist countries of the European Union. It was one of the founding members of the North Atlantic Treaty Organization (Nato)³². Nevertheless, European integration led to growing Europeanisation of Portuguese foreign policy.³³ Like in other members of the European Union, the Iraq war contributed to divisions among the political elite and the population³⁴. Prime Minister Durão Barroso supported by Vice Prime Minister Paulo Portas strongly supported the American position. The organisation of the Azores meeting in March 2004 was an initiative of Prime Minister Durão Barroso. Although the US, UK and Spain were the main visible actors in the coalition of the willing, the Portuguese government remained a staunch supporter. This support was not shared by the leftwing opposition. All three parties PSD, PCP and BE, vehemently opposed the war and took a similar position to that of the Franco-German alliance. This opposition to the war was even supported by the Church, which normally does not intervene in public debate. The anti-war opposition was strengthened by the support of the Christian-democratic *eminence grise*, and former president of the United Nations Assembly, Diogo Freitas do Amaral. He clearly saw this support of the Portuguese government as quite negative for the country within the European Union³⁵.

The Reshuffles of the Barroso Government

In the year 2003, the Barroso government had to make several reshuffles of the cabinet. In early April 2003, he had to replace two ministers. Isaltino Morais, the Minister for Cities, Planning of the Territory and Environment had to resign because the media found out that he had evaded paying taxes and had several Swiss bank accounts. He was replaced by the experienced civil servant Amílcar Theias. The second minister was heavyweight Luis Francisco Valente de Oliveira who had wanted to leave cabinet for a considerable period of time, and was waiting for the earliest possible reshuffle to do this. He was replaced by António

³² N.S. TEIXEIRA, *From Neutrality to Alignment: Portugal in the Foundation of the Atlantic Pact*, Florence, European University Institute, 1991, mimeo ("Working Paper HEC", 9).

³³ Á. VASCONCELOS, "A Europeização da política de defesa", *Estratégia*, 14, 2nd Semestre, 1999: 7-19.

³⁴ J. RUPNIK, "Élites et opinions publiques européennes face à un moment historique pour l'Europe", in J. Rupnik (ed.), *Les Européens face à l'élargissement. Perceptions, acteurs, enjeux*, Paris, Presses de Sciences Po, 2004: 11-45.

³⁵ J.M. MAGONE, "José Manuel Durão Barroso. A Political Scientist", *International Journal*, LX (2), 2005: 544-552, particularly p. 550. On the Atlanticist position of José Durão BARROSO see his book: *Uma certa ideia da Europa*, Lisbon, Grádiva, 1999: 157-158.

Carmona Rodrigues, a local civil servant working under the Mayor of Lisbon, Pedro Santana Lopes.

The second major reshuffle took place in October 2003. Foreign Minister António Martins da Cruz was forced to resign after allegations that his daughter was granted entry to public university without having the required marks. By law, children of diplomats are allowed to enter university without the necessary marks, but Martins da Cruz had resigned from diplomatic service when he became a minister, so the law no longer applied. Moreover, one of his relatives tried to get a change of the law to accommodate his daughter's wish. The press regarded this as a clear case of influence peddling. He was replaced by Teresa Gouveia. Martins da Cruz was a major loss for the Prime Minister, because both families were quite close. The "Martins da Cruz" affair led involuntarily to the resignation of Minister of Science and Higher Education Pedro Lynce. He was replaced by Graça Carvalho, a civil servant from the ministry in question³⁶.

In all, these reshuffles after one year in government clearly undermined the credibility of the government. The loss of heavyweights and their replacement by civil servants gave less visibility to many policy areas of the government.

The European Parliament Elections of 13 June 2004

The first half of 2004 was geared towards preparation of the campaign for the European Parliament elections³⁷. The Nice Treaty had reduced the number of available seats from 25 to 24. There were nineteen parties competing in elections. Growing unease with the drastic austerity measures of the government was a major issue of the campaign which started one month before the election. The parties of the coalition government decided to stand as a united list. It was called *Força Portugal* (Go On Portugal) and was strongly influenced by the electoral campaigns of Italian tycoon Silvio Berlusconi and his party *Forza Italia* (Go On Italy). The use of the strategy naturally meant a "footballisation" of the campaign. The coalition parties used the forthcoming European championships to present an image of optimism, which they hoped would boost their chances in the elections. The head of the list was the former European Commissioner João de Deus Pinheiro campaigning with posters under the banner of competence (*competência*). The main opposition party PS nominated António Sousa Franco as the head of its list. He had served as Minister of Finances in the previous Guterres government and former Audit Court President. From the very beginning, opinion polls were strongly in favour of António Sousa Franco who criticized the austerity policies of the gov-

³⁶ J.M. MAGONE, "Portugal", *European Journal for Political Research*, XLIII (7-8), December 2004: 1116-1120, particularly pp. 1117-1118.

³⁷ For a more detailed study see J.M. MAGONE, "Portugal", in J. Lodge (ed.), *The European Parliaments Elections 2004*, Basingstroke, Palgrave, 2005: 211-217; for a background of party system dynamics European Parliament elections in Portugal, see M. Costa LOBO, "Legitimizing the EU Elections to the European Parliament in Portugal, 1987-1999", in A. Costa Pinto (ed.), *Contemporary Portugal. Politics, Society and Culture*, Boulder (Co), Columbia University Press, 2003: 203-226.

ernment and presented himself as the representative of a party which had and has been involved in shaping the European Union from its very first beginnings. Tragically, Sousa Franco died exhausted during campaigning in Matosinhos in north Portugal on 8 June, some days before the elections.

The smaller parties also presented lists to the elections. The head of list for the Communist Party and the Greens coalition was the experienced Member of the European Parliament (MEP), Ilda Figueiredo. The party focused its campaign on opposition to the Iraq War and the call for a referendum on the Constitutional Treaty. The BE focused on the same topics as the Communist-Green coalition. The negative impact of the economic policies of the government remained the main topic of these leftwing parties. The head of list of B.E. was actually the brother of Vice Prime Minister Paulo Portas, Miguel Portas.

Tabl. IV. – RESULTS OF EUROPEAN PARLIAMENT ELECTIONS ON 13 JUNE 2004

<i>Party/coalition</i>	<i>2004</i>		<i>2004-1999</i>	
	<i>Percentage</i>	<i>Seats</i>	<i>Percentage</i>	<i>Seats</i>
Socialist Party (Ps)	44.5	12	+1.45	-
Força Portugal (PSD/CDS/PP)	33.3	9	-5.9	-2
Social Democratic Party (PSD)				9
Democratic Social Centre/People's Party (CDS/PP)				2
Democratic Unitary Coalition (PCP-PEV)	9.1	2	-1.22	-
Block of the Left (BE)	4.9	1	+3.2	+1

Source: Comissão Nacional de Eleições, <<http://www.cne.pt>>, accessed on 28th Sept. 2005.

The electoral results confirmed the unpopularity of the right-centre coalition government. They were the big losers of the elections, losing 5.9 percent of the vote in comparison to 1999. This led to a loss of two seats. Although the Communist-Green coalition lost over one percent, it kept its two seats. The big winners were the Socialist Party with an increase of +1.45 percent in relation to 1999 and remaining with the same number of seats, and the BE which almost tripled its vote and got one seat. In spite of all attempts by the European Parliament and the National Electoral Commission to mobilise the population, abstention remained quite high and even increased in relation to 1999. While in 1999, 60 percent did not vote, in 2004 the figure increased to 61.3 percent.

The electoral results were a major blow to the right-centre coalition government which was severely punished for its austerity policies. In spite of this fact, the sudden emergence of the name of Prime Minister Durão Barroso as a potential compromise candidate as President of the European Commission changed the topic of discussion. Moreover, the successful performance of the Portuguese national football team throughout the European championships diverted attention from national politics. During June and early July rumours indicated that Prime Minister Durão Barroso wanted to reshuffle his cabinet. In the end, the nomination of

Barroso for the presidency of the European Commission by the Council of Ministers of the European Union, changed the situation.³⁸

The Handover of the Prime Ministership: from José Manuel Barroso to Pedro Santana Lopes

Prime Minister Barroso wanted to preserve the coalition government under a new Prime Minister from his party. His proposed candidate was Pedro Santana Lopes, his long-standing friend since his days as a student in the Faculty of Law at the University of Lisbon, who was currently the Mayor of Lisbon. Barroso's main argument was that Portugal needed government stability to implement the austerity measures and continue the economic convergence course in the European Union. Socialist opposition leader Eduardo Ferro Rodrigues mobilised his party and activists against such an option and urged President Jorge Sampaio to call early elections, as he had done after the local elections of 2001. He was very hopeful that Sampaio would decide on early elections. In fact, President Jorge Sampaio accepted Barroso's wish for continuity of the coalition government under a new Prime Minister. This led to the resignation of Eduardo Ferro Rodrigues, who felt that his credibility was undermined by this decision of the president³⁹.

The new government was sworn in on 23 July 2004. It led to major changes in the composition of the government. Indeed, inside the PSD there were many opponents to Santana Lopes, so many members of the Barroso government decided against taking part in a Santana Lopes government. In total, only four members of the previous Barroso government remained in the Santana Lopes government. According to *O Público*, there was an increase of ministers from 17 to 19 ministers and from 36 to 38 Secretaries of State (junior ministers) from the Barroso to the Santana Lopes government. The CDS-PP lost two junior ministers in relation to the Barroso government⁴⁰.

The new Santana Lopes government had difficulties imposing its authority. After the summer recess, the unpopularity of the government continued to be quite high in the opinion polls. The continuation of the austerity measures under a new team was lacking consistency and coherence. Many decisions of Santana Lopes were regarded as hasty and clumsy. The image of the government deteriorated substantially during the months of October and November. This became evident in the elections for the regional assemblies in the Azores and Madeira. The two coalition parties lost ground in both autonomous regions.

In the Azores, regional President Carlos César was able to make substantial gains in his socialist-dominated autonomous region, while the coalition parties, which formed an electoral coalition, lost heavily. In Madeira, both coalition parties ran for elections separately which led also to losses, but less than in Azores. The charismatic president of the regional government Alberto João Jardim continues to be an asset for the PSD in this Atlantic island. In spite of that, the

³⁸ J. MAGONE, "José Manuel Durão Barroso . . .", *op. cit.*: 550-552.

³⁹ *Expresso*, 10 July 2004.

⁴⁰ *O Público*, 22 July 2004.

Tabl. V. – RESULTS OF THE ELECTIONS IN THE AUTONOMOUS REGIONS ON
17 OCTOBER 2004

Parties	Azores				Madeira			
	2004		2000-2004		2004		2000-2004	
	%	seats	%	seats	%	seats	%	seats
PPD/PSD					53.7	44	-2.2	+3
PPD/PSD-CDS	36.8	21	-5.6	+1				
PS	57.0	31	+7.8	+1	27.5	19	+6.1	+6
CDS-PP					7.03	2	-2.7	-1
PCP-GREENS	2.80	-	-2	-2	5.50	2	+0.9	-
BE	0.97		-0.4	-	3.70	1	+3.7	1

Source: Comissão Nacional de Eleições, <<http://www.cne.pt>>, accessed on 28th Sept. 2005.

Socialist Party was able to make inroads and improve its share of the vote by 6.1 percent. This was a substantial gain for the opposition. Although the results have to be understood primarily as a reaction to regional politics, they also had some linkage with, and repercussion on national politics. The coalition parties lost heavily in autonomous regions, which were natural strongholds of the centre-right. A complete electoral disaster was only prevented by Jardim in Madeira.

The climax of the negative perception of the government came about when Minister for Parliamentary Affairs, Rui Gomes da Silva, intervened on behalf of the government against the weekly commentaries of party member Marcelo Rebelo de Sousa on the independent television channel TVI. He accused Marcelo Rebelo de Sousa of spreading ‘hate’ against the government and appealed to the regulator, the High Authority for Social Communication (AASC, *Alta Autoridade para a Comunicação Social*), to intervene in this matter. The TVI channel decided to refrain from airing his weekly commentaries. This was regarded as improper pressure of the government exerted on TVI and as censorship against the critics of the government.⁴¹ Growing discontent with the performance of the government was met by Prime Minister Santana Lopes with a reshuffle which went badly wrong. Although Rui Gomes da Silva resigned from the Ministry of Parliamentary Affairs, he now became minister of the presidency of the council of ministers. The reshuffle led to no personnel changes, but some ministers switched portfolios. Three days later the government was sworn in and Henrique Chaves, the Minister for Sport, decided to resign due to the fact that he felt misled by the Prime Minister, because no additional funding for his ministry would be available. The resignation of Chaves was quite embarrassing for the government. Moreover, resistance against his government continued to grow inside his own party. Quite relevant was the intervention of *éminence grise* Anibal Cavaco Silva in the weekly newspaper *Expresso* at the end of November. He was quoted as saying, without naming Prime Minister Santana Lopes, that incompetent people should be replaced

⁴¹ *Visão*, 25 Nov. 2004, <http://www.visaoonline.clix.pt> accessed on 25th November 2004.

by competent ones. Moreover, the request of Prime Minister Santana Lopes to undertake another reshuffle due to the resignation of Chaves was not granted by President Jorge Sampaio. Instead, Jorge Sampaio called for early elections and asked the outgoing government to approve the budget on 2 December, before formally resigning.

This was the end of the centre-right coalition government which was clearly conditioned by the need to implement highly unpopular austerity measures to restore macro-economic convergence towards the European Union⁴². Apart from the very difficult agenda that the right centre coalition had to undertake, one has to acknowledge that after the power handover from Barroso to Lopes the overall discipline of the government in the implementation of the austerity measures began to slip away. This has to do with the fact, that Prime Minister Lopes had almost no time to prepare himself for the new job. Moreover, he had to select a more or less new team in order to continue the work of the previous government. Last, but not least, the highly divisive personality of Prime Minister Santana Lopes both inside as well as outside the party may have contributed to the downfall of his government. The image of a disorganised government reflected on his ability or rather inability to present a cohesive whole.

The Elections of 20 February 2005: the Historical Victory of the Socialist Party

After the resignation of Eduardo Ferro Rodrigues as leader of the Socialist Party, José Socrates, a former minister of the Guterres government, became interim party chief. Finally, in November 2004, he was confirmed as the new party leader with an overwhelming majority of the delegates at a party conference. Socialist Party leader Ferro Rodrigues was highly popular with the population, but the paedophilia scandal of Casa Pia in 2003 had damaged his authority within the party considerably. The main reason was that Ferro Rodrigues stood by his friend Paulo Pedroso, a former minister in the Guterres government, who was placed in preventive custody due to his alleged involvement in the scandal. Although Paulo Pedroso was not charged and was released in October 2003, João Soares and his supporters launched a negative campaign against him within the party. This was reinforced by a witch hunt in the Portuguese press against Paulo Pedroso. After Paulo Pedroso's release in the autumn, Ferro Rodrigues was again able to gain widespread popularity. Nevertheless, Jorge Sampaio's decision to support governmental stability by nominating Pedro Santana Lopes to replace Durão Barroso in July 2004, led to his resignation.

Throughout the autumn 2004 opinion polls indicated that new socialist leader José Socrates was the best-liked politician. In terms of elections, opinion polls gave him a decisive lead, with a possible absolute majority for the Socialist Party.

The popularity of José Socrates contrasted heavily with the unpopularity of the outgoing government. The Socialist Party could also count on the support of

⁴² V. MOCK & T. TAMIS, "Defusing Portugal's Political Crisis", *Radio Netherlands*, 3rd of December 2004, <<http://www2.rnw.nl>>.

heavyweight outgoing European Commissioner António Vitorino, who became its electoral campaign strategist. Like during the electoral campaigns of António Guterres, the Socialist Party set up a forum with an internet website called “New Frontiers” (*Novas Fronteiras*) which was designed to mobilise the electorate around its project. The programme of the PS followed the model of the previous socialist government under Prime Minister António Guterres, tending to emulate the British style party manifesto for the forthcoming legislature. The programme was called *Government Manifesto for Portugal. 2005-2009. To Believe Again* and naturally emphasised continuity in relation to the policies of the previous governments. Nevertheless, it emphasised the aspect of social and economic cohesion and a process of economic convergence towards the European Union which should be achieved in a mid-term perspective, but also be accompanied by social measures in order to reduce the burden upon the poorest segments of the population. Moreover, the so-called growth strategy was very keen to improve the qualification structure of the Portuguese and reduce the income gap between richest and the poorest, the largest in the European Union⁴³.

Tabl. VI. – RESULTS OF THE LEGISLATIVE ELECTIONS ON 20 FEBRUARY 2005

	2005		2005-2002	
	%	Seats	+/- %	Percentage/Seats
PS	45.00	121	+7.20	+25
PSD	28.70	75.00	-11.50	-30
PCP-PEV	7.50	14.00	+0.60	+2.0
CDS-PP	7.24	12.00	-1.56	-2.0
BE	6.40	8.00	+3.60	+5.0

Source: Comissão Nacional de Eleições, <<http://www.cne.pt>>, accessed on 28th Sept. 2005.

On election day, the centre-right parties lost heavily. While the CDS-PP under Paulo Portas was able to contain the losses by losing only 1.56 percentage points and 2 seats, the big loser was the PSD led by Santana Lopes. His party lost 11.5 percent and 30 seats, remaining below the 30 percent threshold. The big winner was the Socialist Party with a landslide victory giving it a comfortable absolute majority of 6 seats. The other parties of the left were also to profit from the downfall of the centre-right coalition. The Communist Party-Green coalition was able to improve its share of the vote in comparison to 2002. New Communist leader Jerónimo de Sousa was able to appeal better to the masses than his predecessor Carlos Carvalhas. Last but not least, the Block of the Left became a strong party challenging the Communist Party. It almost tripled its share of the vote and seats. It shows that there is space for a new leftwing party in the

⁴³ PARTIDO SOCIALISTA, *Compromisso de governo para Portugal, 2005-2009. Voltar a Acreditar*, Lisbon, 2005.

Portuguese political system, and the BE under the leadership of Francisco Louçã was able to capitalise on it. Now the BE was represented at local, regional, national and European levels, becoming a fully-fledged national party.

In all, the coalition government led to substantial electoral costs for the PSD, less so for the CDS-PP. This shows that, in Portugal, the senior partner tends to be punished harsher by the electorate than the junior partner. This happened in 1985, when the senior partner, the Socialist Party, was punished heavily by the electorate, while the PSD with its new charismatic leader, Aníbal Cavaco Silva, was able to win the elections and stay in power for a decade⁴⁴.

* * *

The centre-right coalition government was formed, because the PSD under Barroso was not able to achieve an absolute majority. Its main purpose was to tackle the budget deficit and reduce public spending. Most of the government's instability could be found in the senior partner, the PSD, less so in the junior CDS-PP. The opposition to Barroso from factions within the party, and later on to Santana Lopes, undermined the credibility of the government. The government was able to push through many important reforms, such as the Labour Code, but the lack of consultation meant that such changes would always be reversible when a new government came to power.

The short-term austerity policies were ill-designed to achieve sustainable convergence. In spite of three years of cuts in public administration and the selling public companies, the budget deficit remained only slightly below the threshold.

Last but not least, the changeover from Barroso to Santana Lopes in the summer 2004 broke the rhythm of reform and implementation of austerity measures. A new Prime Minister and new team could not ensure the continuity and survival of an unpopular government. In this sense, Prime Minister Santana Lopes had almost no room for manoeuvre. Moreover, in-fighting in the PSD itself undermined the credibility of the government.

The end result was heavy losses at the European Parliament elections, regional elections in the Azores and, finally, in the legislative elections of 18 February 2005. The absolute majority of the Socialist Party will contribute to political and macro-economic stability in order to undertake the necessary public administration reform, long term investment in human resources and research and development. In this effort, the Socialist government will need to tackle the continuing inequalities in Portuguese society, otherwise the gap between Portuguese political elites and the population will continue to grow.

A report from the Bank of Portugal commissioned by the new socialist government found that the budget deficit of 2004-2005, taking into account the EU

⁴⁴ See J. MAGONE, "The Rationale of Democratic Regime Building", *op. cit.*: particularly 539-542 and 554; in the PS-PSD coalition of 1983-1985, PS lost 15.68 percentage points in the 1985 elections in relation to the 1983 elections, while the PSD was able to win 2.79 percent; see also M.J. STOCK, "O centrismo político e os partidos do poder em Portugal", in M.B. Coelho (ed.), *Portugal: o sistema político e constitucional 1974-1987*, Lisbon, Instituto de ciências sociais, 1989: 147-192.

statistical methodology, was predicted to reach between 6.5 and 6.8 percent, if extra revenues were not included. It means that the present Socialist government is under considerable pressure to keep on the path of convergence⁴⁵.

November, 2005

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⁴⁵ BANCO DE PORTUGAL, *Relatório da comissão para a análise da situação orçamental*, Lisbon, May 2005: iv; this figure is related to budget deficit without extraordinary income. In spite of possible extraordinary income, the prediction is that the budget deficit will remain above the 3 percent threshold. It seems that for 2004, the budget deficit was 3.9 percent.