

# Economic Crisis and Governance

## *The Portuguese Case*

Athens

May 16th, 2011

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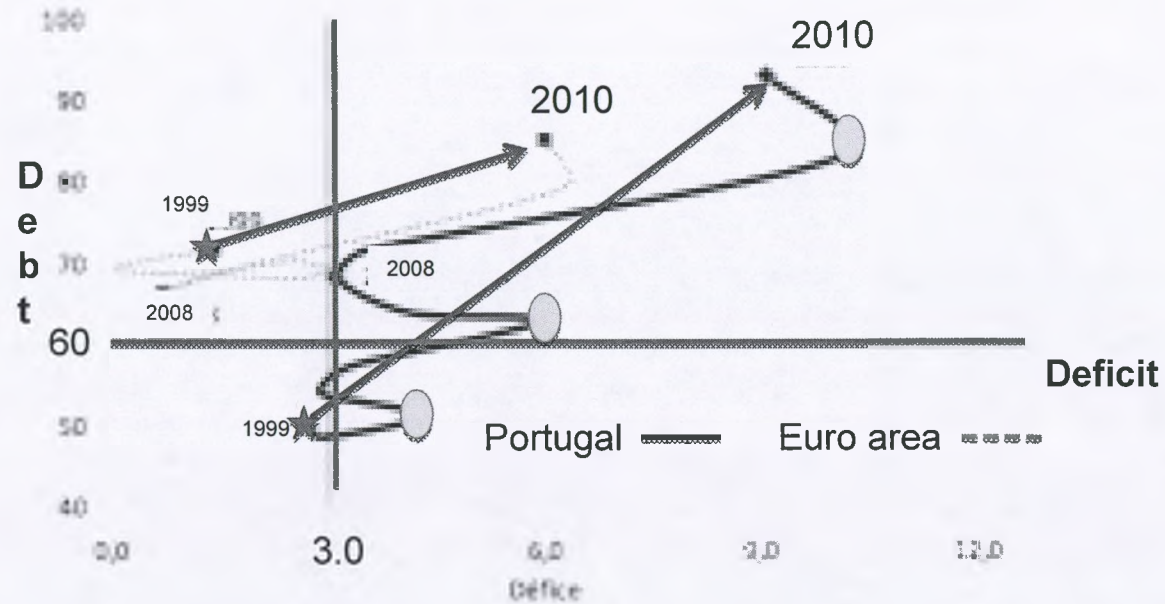
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34

# The Portuguese Case



Source: UTAO, Eurostat

## The problem in a picture

# The International Crisis (IFC) 2008-09 as a stress test to all economies

**Ireland:** banking sector → fiscal sector

**Spain:** real estate bb. → banking sector

fiscal sector

**Portugal:** fiscal sector →



# Imbalances were accentuated with the IFC

## BEFORE the IFC

2001-07	GDP	Unempl.	Fiscal Balance	P. Debt	CA
Spain	3.4%	9.9%	+0.5%	46.0%	-5.5%
Portugal	1.1%	6.6%	-3.7%	57.8%	-7.7%

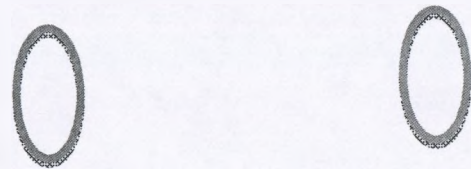
## DURING the IFC

2009	GDP	Unempl.	Fiscal Balance	P. Debt	CA
Spain	-3.7%	18.0%	-11.1%	53.2%	-5.1%
Portugal	-2.6%	9.5%	-10.1%	83.0%	-10.9%

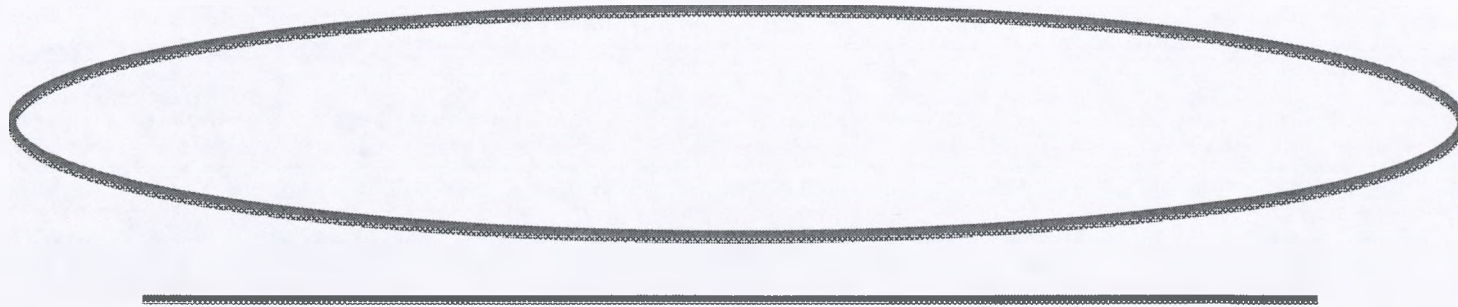
## AFTER the IFC

2010	GDP	Unempl.	Fiscal Balance	P. Debt	CA
Spain	-0.1%	20.1%	-9.2%	64.4%	-4.6%
Portugal	+1.4%	10.8%	-9.1%	93.0%	-8.8%

**Fact 1:**



**Fact 2:**



# The Portuguese Case

- **Macroeconomic imbalances**
  - Significant and persistent Fiscal deficits
  - Large and persistent CA deficits
  - Structural problems (L market, low savings rate...)
  - High leverage economy
  - Low growth rates (during the last decade)
- **However (2008-09)**
  - No toxic assets (neither imported, nor domestically produced)
  - No real estate bubble
  - No banking problems
  - Social Security reform *already* implemented (2007)
  - Falling oil and natural gas prices
  - Falling food prices

# The Portuguese Case

- In short:

**Portugal was in a relatively better position than other countries to cope with the IFC during 2009**

- Then,

**Why was 2009 (and 2010) a disaster year for Portugal?**

- Problems of Governance:

**Populist government coupled with**

**elections by the end of September 2009**



# The Portuguese Case

- **Populist policies...**
  - **2008 (March) VAT was lowered to 20% (from 21%);**
  - **Public sector wage increases of 2.9% (plus promotions) for 2009;**
- **...even worse after September 2008:**
  - **(pseudo) keynesian policies justified all kinds of spending before September elections**
  - **Large projects (HST), more highways, new Lisbon airport, renewable energies... (PPP)**

# The Portuguese Case

- Lies, half-truths...

- Ex-1: Fiscal deficit forecast for 2009:

until late 2009,	5.9%
by January 2010,	9.3%
most recent estimate,	10.1%

- Ex-2: Fiscal deficit for 2010:

target,	7.3%
estimate by February 2011,	6.9%
most recent estimate,	9.1% (10.5%)

# The Portuguese Case

- **Problems of Governance: populist policies, lies, half-truths...**
- **Problems in the democratic system** are widespread, they are only worse in the Portuguese case.
- **Solution:**1) open the party system, attract the best for public service;  
2) separate Government from private interests.
- **HOW?** :Parties only change due to external pressure:
  - organized civil society and independent bodies of control;
  - electoral system (open lists);
  - blank and null votes (not abstention) with “representation”;
  - politicians’ salaries (linked with past income tax declarations); ...

# The Portuguese Case

- **HOW?** : Parties only change due to external pressure:
  - organized civil society and independent bodies of control;
    - electoral system (open lists);
    - blank and null votes (not abstention) with “representation”;
    - politicians’ salaries (linked with past income tax declarations); ...

## **Furthermore...** separate government from private interests:

- public disclosure by firms of all public contracts, subsidies, tax exemptions...;
- (only?) public financial support for political parties;
- role of media and so-called “PR agencies” (disclosure of clients?).

## The Portuguese Case

**Problems in the democratic system are widespread but the only way out is to improve it.**

We have to keep in mind that **political parties are the pillars of the democratic system.**

But we have also to remember that **democratic life is far more and is not confined to the party system.**

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***Thank you !***

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