Crisis and Employment in Europe

Case study 1: Portugal

UGT(P) Intervention at IMF meeting

Washington, February 15th 2013

Economic growth and unemployment reduction are the major challenges Europe faces. In Portugal unemployment and poverty has risen to unsustainable levels, in this context of economic crisis and uncertainty about future.

Structural reforms, reduction of public deficit and external budget imbalance have been made at the expense of lowering salaries and pensions. At present Portugal's unemployment rate is the third highest in the European Union.

Portuguese request for financial assistance was due to difficulties in obtaining funds at acceptable interest rates. In May 2011, Portuguese government signed with Troika's *Memorandum* - the European Commission, the European Central Bank and the International Monetary Fund.

Although acknowledging the need of external assistance, UGT has always expressed its disagreement regarding a number of Memorandum assumptions because it demanded strong austerity measures – most of them delivered in the short time without any previous discussion with social partners -, and it promoted social and labor deregulation.

Unlike the Memorandum, we have always fought for structural reforms that could encourage competitiveness focused on adaptability to change, on skills, on innovation and on the improvement of companies' technical capacity.

We have always advocated that the Memorandum must be applied with flexibility in articulation with necessities of economic growth and employment.

UGT is part of tripartite social dialogue, involving Government, Employers' and Trade Unions' Confederations. Within this framework UGT signed the Tripartite Commitment for Growth, Competitiveness and Employment, in January 2012.

This Commitment has been very relevant because it provided the basis to better adjusted economic and social measures and for the affirmation of participative democracy.

Government has often proven to be more troikist than Troika itself by adopting extreme austerity measures that led to a sharp drop in domestic consumption and the worsening of economic crisis.

All available data indicate that economic recovery will be slower than expected, and that the risk of entering a recessionary spiral is real, as the President of the Portuguese Republic has recently remarked.

There is a strong imbalance in the inflicted sacrifices, and subsequent worsening of social and tax injustice.

The fact is that Memorandum, overlooks a set of issues and tackles others inappropriately.

The needs for companies' financing, especially the small firms, and their fragile situation haven't been taken into consideration, unlike the attention paid to the financial sector. On the other hand, we consider the financing of the state owned companies approach was ignored.

The most important and serious omission of the Memorandum continues to be the complete lack of measures to promote growth and employment.

The changes introduced to the Memorandum by previous 6 Regular Revisions have just deepened the imposed austerity.

We want to stress that unlike the initial Memorandum of May 2011, its successive revisions have taken place without any serious debate at national level, undermining political dialogue.

The social dialogue has also been compromised, because either economic policies were not implemented or because of the Government’s disrespect for commitments made on a tripartite basis.

That’s the case of changes on severage payments (compensation payments) whenever an employee loses their job. The tripartite agreement envisaged the reduction of these compensations and, subsequently, their alignment with the EU average, in line with the Memorandum of Understanding of May 2011.

This alignment should have been based on a report to be presented by the Portuguese Government. However, even before this report was made, it had been announced that the average of the European compensation payments is 10 days, so it was agreed between the Government and the Troika, in November 2011 that the final amount would correspond to an 8 to 12 days period.

When the report was finally presented to social partners in April 2012, and it led UGT to conclude that the average compensation in the European Union is 12 days only after 30 years of working, as it is proven by UGT (*see the attached table*). For those with less working years, the average compensation amounts are higher, largely surpassing the annual 20-days limit for the first two years and gradually decreasing .

UGT believes that the 12 days limit, violates the text of the Memorandum signed in May 2011 and the subsequent Tripartite Agreement, therefore leading to its termination, which damages seriously the social dialogue.

UGT calls on the IMF not to contribute to the breach of this Agreement, on the grounds of lack of a serious discussion on the amount of this compensation.

We want to make absolutely clear that the creation of the Fund supported by the companies to guarantee the payment of 50% of these compensations, in all cases of non-compliance by employers, does not diminish the relevance of alignment with the EU average.

To UGT, the enhancement of collective bargaining is also fundamental, either at industry or enterprise level, there are still unjustifiable blockages that affect companies' adaptability to change and exacerbate social conflicts.

Investing in a model that is based on low salaries, low qualifications and precarious employment is an investment with no future.

It is crucial, in the framework of respect for Portuguese Constitution, to restore political and social dialogue in Portugal namely, around key issues, as de debate on State Reform and Welfare State.

However, to focus all discussion around a 4000 million cut in State structural expenditure, which above all affects the Welfare State, on the grounds of a questionable IMF Report would be a mistake, with severe consequences particularly for the companies and for society in general.

It is essential, in a context of respect for the Portuguese Constitution, to restore political and social dialogue in Portugal, namely around fundamental issues, such as the debate on the Welfare State.

It is a discussion that cannot be led only on an austerity basis. It must also comprehend the improvement of the Public Administration functioning, the guarantee of the public service quality provision, the financial sustainability of the Contributory Social Security Scheme and a most efficient use of the financial resources.

But above all it is necessary to take urgent steps to foster economic growth and, as a way to compensate austerity measures, these actions must prepare Portugal to get out of the crisis allowing for the employment growth trend to be reversed.

It is necessary to free financial resources in order to increase investment both public and private; therefore the Memorandum must be renegotiated aiming at a slower reduction of public deficit as well as the programed alteration of the charges imposed and with immediate payment of public debt.

We must remember that a better use of community funds into the promotion of private investment, in the increase of competitiveness and in the fight against unemployment, which is especially severe among young generation.

The brutal cuts in wages and pensions have aggravated poverty; concrete measures should be introduced to halt the decline of private consumption by rising, for example, the minimum wage.

We point out that over 70% of domestic product is connected with private consumption and that without its revival the economic recovery won't be possible.

The recent return of Portugal to financial markets is a positive indicator that has to pave the way to different policies.

We do not ignore that such measures demand supportive policies of Employment and Growth at the EU level, in this context of cohesion and solidarity. This can only be achieved if the European Central Bank acts differently, if part of the credits is mutualized and, if the financial sector is regulated in the context of the European Social Pact.

IMF has recognized that the impact of the austerity measures integrated from the start in the Memorandum on the economic growth in Portugal was underestimated. The IMF itself is now warning the Community Institutions and the EU Member States against the risks of an excessive austerity.

It will be important to *"continue with the difficult but necessary fiscal adjustment at a country level" but at the same time, "supporting demand, especially with further top monetary flexibility".*

The States must also "*have a better understanding that a more equal distribution of income allows for more economic stability, sustained economic growth, and healthier societies with stronger bonds of trust and cohesion*."

UGT has stressed these concerns for a long time, but the words are not ours, they belong to the IMF Director.

We do welcome this approach, but we are still waiting for its real impact on the position taken by the IMF in its intervention in several countries, and above all, during the process of evaluation and revision of the Memorandum of Understanding with Portugal.

João Proença

(UGT's General Secretary)

Compensation/Severage Payments

Without prior notice, Netherlands by judicial termination and up to 30 years of seniority. Portugal with the New Law (20 days/year). Government figures doesn't take into account prior notice.				
	No. of Days/Year			
Government report		UE24 (Without Nordic Countries)	Considering wage base and no retribution (+ 18%)	With collective bargaining and partial observance of prior notice
No. of Years	UE27			
1	23,4	26,3	31,0	35
2	17,2	19,3	22,8	
3	13,8	15,6	18,4	
4	12,2	13,7	16,1	
5	13,0	14,6	17,2	20
6	11,8	13,3	15,7	
7	11,2	12,6	14,8	
8	10,7	12,0	14,2	
9	10,2	11,5	13,5	
10	10,6	11,9	14,0	17
11	10,4	11,7	13,8	
12	10,2	11,3	13,4	
13	9,9	11,0	13,0	
14	9,6	10,8	12,7	
15	10,0	11,0	13,0	15
16	9,7	10,8	12,8	
17	9,6	10,6	12,5	
18	9,5	10,4	12,3	
19	9,2	10,2	12,0	
20	9,5	10,5	12,4	14
21	9,4	10,4	12,3	
22	9,2	10,2	12,0	
23	9,0	10,0	11,8	
24	8,9	9,8	11,6	
25	9,0	10,0	11,7	13
26	8,8	9,7	11,5	
27	8,6	9,5	11,3	
28	8,4	9,4	11,0	
29	8,3	9,2	10,8	
30	8,3	9,2	10,8	12