Público

Medina Carreira supports ten billion cut in public spending

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The former minister is convinced that all the taxes between 2010 and 2015 will go to pay state workers and welfare, if nothing is done.

The state must reduce the percentage of Gross Domestic Product (GDP) that goes to pay workers, pensions and welfare from the current 33% to 25 or 26%, which would imply, in the current framework, a cut of ten billion euros. The measure is defended by the former finance minister Medina Carreira, who said the cuts are the only way to tackle the difficulties that the current social model is suffering and that puts it in danger of "bankruptcy".

"In a few years' time, the state won't be able to pay, which will have unimaginable effects" Medina Carreira said in Angra do Heroísmo on Friday night, recalling that "five to six million Portuguese" depend on the state in one way or another. "If the trend continues at this pace, everything we pay in taxes will go on wages and welfare."

The lawyer said that the country was facing the "most serious crisis" of the past 30 years, because this time "it has no intervention tools", such as devaluing the currency, which it could have turned to before joining the euro. And this is why he sees cutting expenses as the only path to follow. "Lowering spending to lower taxes is an essential condition to overcoming the crisis", he said at the 5th José Duarte Monjardino Memorial Conference, dedicated to "Portugal: the social-democracy crisis".

Since modest growth does not allow the state to remain as it is, and as the rise in taxes is not supportable, since they have already reached the levels of countries like Germany, Medina Carreira prescribes a 7% cut in spending. "This social-democracy's days are numbered. It exists when there is economic growth", he said, referring to the social model based on economic growth, full employment, redistribution of wealth and social stability. The former minister recalled that between 1960 and 1970, Portugal's growth was over 7%, and between 1970 and 1980 it was above 4%, between 1980 and 1990 it was slightly more than 3%, between 1990 and 2000 it was close to 3%, but between 2000 and 2005 it was just 0.6%. However, he added, between 1980 and 1990 the trend was sustained by falling oil prices, and between 1990 and 2000 by falling interest rates.

The cost of wages and welfare (such as pensions and various subsidies) represented 27% of GDP in 1995, when taxes were about 34%, which left a 7% gap, he said. But this difference has been worn away and if nothing is done, spending and taxes will both be at 42% in 2015.

"Taxes have gone up a lot, but less than spending", he said, recalling that taxes were 16% of GDP in 1960 and 36% in 2000, when in Germany they were at 38%. A drop in taxes is necessary to boost economic activity and make the country more competitive in a more and more competitive market place.

Only 10% of GDP for personnel

As regards wages, Medina Carreira prescribes a reduction from the current 15% to 10/11% as seen in countries such as Spain and Austria, but does not state whether the reduction should be made through the number of workers or the remuneration. "It is not possible in Portugal to spend 15% of the wealth that is generated on (state) workers", he told to more than 100 people at the Lawn Tennis Club in Angra.

The difficulty in altering the situation is due, he believes, to government electoral opportunism that avoids affronting the millions of people who depend on the state budget.

“Is there no way out? There is. But it is difficult in this social-democratic situation”, where “nobody wants to take any step that could lose the elections now, to win them in two or three years’ time”, he said. “I can’t see any people or ideas or skills, to do what is needed.”

PUBLICO asked him about the changes to the state-sector retirement rules the government had announced. Medina Carreira considered them positive, even though limited, as their effect will only “affect less than 20% of the spending”. “It is going to be necessary to go for the existing pensions. Ten years ago it was a principle that was worth talking about”, he stated, referring to the paths laid out in the social security white paper, and which he was connected with in the 1990s.

One possibility for maintaining the current situation would to be, in his point of view and as a declared non-federalist, “to create a federal state to have a single European currency and customs policy” that attenuated “all the shocks that are out there for 20 or 30 years”.

The reporter travelled on invitation from the 5th José Duarte Monjardino Memorial Conference.