

# **A renewed development model<sup>1</sup>**

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Following the financial and economic crisis of 2008/2012 Portugal witnesses an impressive recovery, with many successful results as well as a considerable amount of future challenges.

Starting with the successful side of the story, after 2015 the country was able to resist to the continued adoption of the then dominant adjustment model, adopting an unconventional economic policy that not only stopped previous errors and excesses, committed in the immediate post-crisis era but also created conditions for a quick recovery without social damage. As a consequence, a larger portion of the employment destroyed, 460,000 jobs, was recovered, migration stopped and got reversed, unemployment rate came down from 16,2% to 7%, showing a dramatic reduction among the young and the long-term unemployed adults. Economic growth went up steadily several decimal points over the Euro Area average, minimal wage went up 19% in four years. Moreover, increased internal consumption grew alongside the reduction of unemployment and the corresponding social support measures. These factors also became major contributions for securing fiscal sustainability.

The budget deficit came down to 0.5% by 2018 and most probably 0.2% in 2019. The public debt declined accordingly. Interest rates went down significantly, demonstrating overall trust in national finances and implying reduced expenditure in debt service. The sustainability of social security became more a rhetorical issue than a real problem. In political terms the unusual coalition with left wing parties allowed for continuous political stability in spite of important internal differences on the role of Europe in the world. And last, but not the least, a highly popular President of Republic

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acted in accordance with Government to ensure political stability and preventing the growth of demagogy, xenophobia and populism.

However, many challenges lie ahead. Public debt remains vulnerable to unpredictable peaks at a very high level of 121.5%, the stabilization of the banking system was accomplished at a financial cost of 23 billion Euros, implying the loss of national control over all banks with rare exceptions. The trade balance, suffering from a Euro Area concentration of 75% continues highly vulnerable to the overall European economy. Salaries remain at the minimal wage level of 4 euros per hour, affecting fertility rates, deepening workers poverty and putting at risk a fragile social peace. Many newly created jobs were registered in intensive agriculture, low paid services and tourism, pressing domestic labor supply and attracting migrant low-skilled workers. On the positive side, a myriad of *startup* initiatives appeared in connection with universities and research labs generating self-employment and small size enterprises with better paid jobs.

The European Union contribution to the country stabilization was highly important in spite of its highs and lows. On the positive side we may register the European Semester. Setting aside its genetic malformation due to its intergovernmental, and not communitarian, creation, the Semester became a useful planning instrument. It forced Government to focus on priorities, to unify objectives and targets within fiscal policy, generating increasing motivation as a technical governance tool. Step by step, higher attention was paid to social and environmental indicators for the coming future. Another positive element was the global economic context, generally favorable from 2013 onwards. Uncertainty remains for sure, due to Brexit, to the wrong approach to the migration problem, to the US rejection of international trade agreements, unilateralism pervading global powers.

Still on the positive side, Portugal gained international recognition as a well-performing nation, in several domains. As usual, good reputation generates synergies.

On the negative side, Portugal was used as a guinea pig for the testing of the banking resolution mechanism. The National resolution fund was far from being built up when Brussels decided that the resolution of an important and traditional national bank in deep financial trouble, mostly aggravated by the crisis, had to be resolved and was later sold out at a symbolic price, implying the payment of arrears by the Portuguese State. The emergency of the decision was the enemy of common sense. The bank was strongly affected,

and the associated economic conglomerate was dismantled, implying a tremendous loss of value.

The Portuguese Economic and Social Council, CES, has limited constitutional powers. CES is neither involved in the environmental decision making process nor in direct policy decisions. Social Concertation is carried out inside CES, through a special Committee, chaired by Government in the conventional tripartite model. This Committee plays a decisive role in reaching consensus between social partners and Government on many social and labor areas. The setting up of minimal wages is always discussed inside the Committee, being later decided by Government. Social agreements of larger spectrum, lasting for years, are generally discussed and agreed upon in the Social Concertation Committee, under the chairmanship of Prime Minister. Under its constitutional mandate CES plays an important role on reviewing National Reform Programs, Main Options Plans, and major fiscal tools, the National Budget and the General State Account. CES influences indirectly, a year later, some aspects of these important documents.

CES plays another role, the dissemination of knowledge under critical and public review of social partners, media, specialists and academia. Every year, about four topics of national strategic interest are selected by the CES Coordinating Board, to be discussed in conferences to broad audiences, later giving place to publish the corresponding proceedings. Examples of selected topics were the sustainability of social security, the forest economy and forest fires, water resources management, lifelong learning, demographic issues, such as fertility, old age and migrations, the quality of enterprise management, energy, health policy and the state, and the modernization of public administration. These conferences have been a way of bringing together social partners, specialists, the academy and the Government to discuss in total freedom, prevalent and emergent problems, increasing knowledge and preparing the rise of future consensus.

Major challenges remaining at European level. Economic and Social Councils have a role to play there, for the coming future. The most critical issue we all are facing is the rise of inequalities in the performance of the economy. Results from overall growth have disproportionately benefited a small minority of financial managers and capital owners, at the cost of unfair income distribution. The consequences of the recent crisis were mostly supported by the working poor and the middle class. The young generation

has lost the hope of a better future for them as compared to their progenitors'. Part of the middle class went down in the social elevator, risking proletarianization.

A general political and economic myopia made governments unable to understand the roots of the problem and to find the correct solutions. Electoral abstention, cultural alienation among youngsters, increasing urban violence, the fear of international terrorism, the large flow of migrants to Europe and the present incapacity to deal with the problem were factors for growing populist values and extreme right leadership. Most political leaders have been reluctant to understand why the young generation values environmental issues, gender equality, animal welfare and the return to nature values, fearing global heating, and mobilizing themselves to causes and values apparently distant from those of the World War II baby boomers. Inequalities in the society, regional, urban/rural, or income-based reflected in taxation and the public services of the welfare state are the main reason for the uncertain political future of most of our countries.

Solutions should be found, not through full and low paid employment. The young generation is not looking simply for *Macjobs* or an easier access to travel or to a new digital equipment. They aspire to raise a family but they found it difficult for a lack of decent and qualified jobs, proper housing and urban transportation, allowing for a dignified and useful life. The European Pillar of Social Rights could be one clear answer to the equity problems. Equity in results, not only in opportunities or procedures. On the same line of action, the environment shall be considered more than an instrument for political correctness. It is an intrinsically political flagship for action in all policies. It is an essential basis for a renewed development model which we are much in need of.