

AFTER AUSTERITY

Europe's Recovery Patients

Spain, Ireland and Portugal will go to the polls in a few months. The countries have successfully exited bailouts and experienced economic growth, but voters may still punish political leaders for inflicting hardship cures.

BY SIOBHÁN DOWLING



Portugal, ostensibly one of Europe's austerity success stories, has been rocked by protests over how economic pain has been distributed among its residents. Source: AFP

In 2013, a trio of young architects who couldn't find work in their home town of Porto, Portugal, decided to set up their own business.

They decided to run tours that showed visitors the darker side of the picturesque city, including closed-up shops and businesses, and its poor

WHY IT MATTERS

Greece's political instability could be replicated in other bailout countries as electorates seek to punish governments for austerity.

FACTS

Portugal's election is October 4; Spain will hold an election by December; Irish elections are scheduled for early 2016.

In 2011, Portugal received a €78 billion bailout. Ireland was rescued in 2010 with a €67 billion bailout. Spain's banking system was bailed out in 2012.

Spanish growth is forecast to reach 3.3 percent this year, while Irish growth last year, at 5.2 percent, was the strongest in the euro zone.

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run-down districts. Named the “Worst Tours,” they sought to reveal the Portugal beyond the tourist guidebooks.

The tours also questioned the narrative that Portugal was one of the euro zone’s bailout success stories, along with Ireland and Spain.

All three countries had to turn to their European partners for bailouts during the financial crisis.

And they are held up as countries that, unlike Greece, opted to take strong fiscal medicine and push through painful austerity cuts, and are now reaping the benefits.

With elections looming over the next nine months in all three countries, political leaders are pointing to Greece as a potential warning to voters of what could happen to another radical left government that refuses to embrace the logic of austerity.

Even though the situations in Portugal, Spain and Ireland are much better than in Greece, voters in these countries are still bearing the burdens of austerity, both politically and socially. As a result, the governing political parties that prescribed the belt-tightening remedies now are facing tough fights to stay in power.

Portugal will be the first to go to the polls, on October 4.

The poor country on Europe’s southwestern Atlantic coast never took part in the economic booms to hit Spain and Ireland and was hit hard by the global financial crisis. In 2011, Portugal went to its European partners for a €78 billion bailout.

In 2014, the country exited its bailout program after cutting spending, and carrying out labor reforms and privatizations.

Yet, the picture in Portugal is not all that rosy.

Growth remains sluggish, just 0.4 percent in the second quarter of 2015, unemployment is down from a peak of 17 percent in 2013 but still over 11 percent, and there has been a steady emigration of young people.

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In 2013 alone, more than 110,000 people left Portugal, a country of 10 million.

At the beginning of August, the International Monetary Fund, which was a participant in the country's bailout, said that Portugal's level of public and private debt was still too high. The national debt forecast this year is to fall only slightly, to 127 percent of gross domestic product.



In Spain, nearly half of youth are unemployed and the two established political parties could be ousted from power in coming elections. Source: Reuters

“Greece is in an extremely difficult situation, but Portugal is not that far behind regarding the macroeconomic fundamentals,” said Luís Faria, director of the Contraditório think tank in Lisbon. “If you take Portugal’s contingent liabilities and potential obligations and add them to the consolidated debt, Portuguese debt would be 200 percent of GDP.”

Meanwhile, austerity has been deeply unpopular in Portugal.

“Portugal was a poster child for austerity,” Blanka Koleníková, an analyst with IHS Global in London, told Handelsblatt Global Edition. “But it was a poster child in the eyes of the creditors and the markets. However, if

you look at the actual population, people were going through measures that were really unpopular.”

Yet, despite these difficulties, Portugal has not rallied around a radical left party like Syriza.

Instead, Portugal has an old-school communist party, which attracts about 10 percent of the vote, a new, tiny radical Syriza-like party, LIVRE, which polls at 3 percent, and the Left Bloc, which has 5 percent.



Hitting the streets to protest austerity in Lisbon. Source: AFP

The center-left Socialists, the main opposition party, are carrying the mantle of the country’s anti-austerity resentments. This is somewhat ironic, considering the party was the one that formally applied for the bailout while in power in 2011.

Since then, the center-left has lost an election and gained a new leader, Antonio Costa, who says he wants to end the “obsession with austerity.”

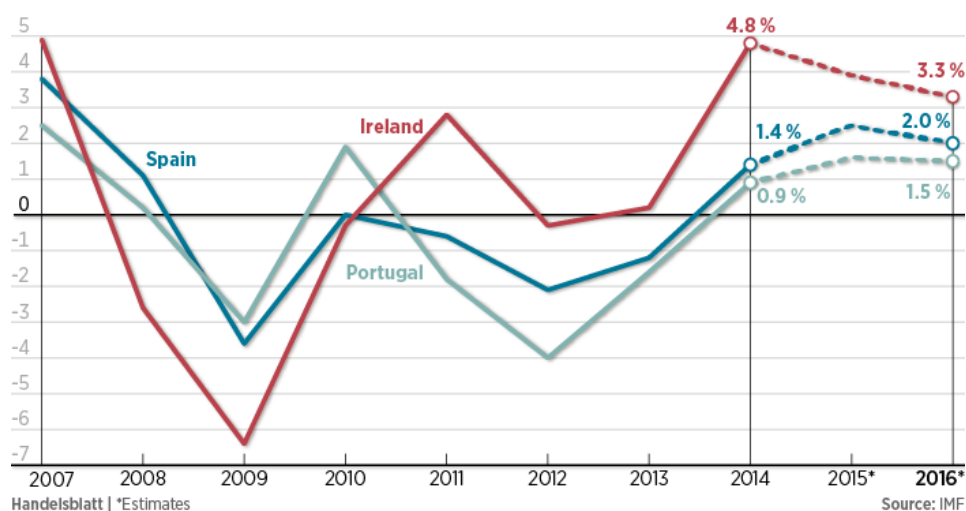
He told journalists in Lisbon that Portugal must start rebuilding key parts of the public sector following the drastic cuts.

“There must be an alternative that allows us to turn the page on austerity, revive the economy, create jobs, and - while complying with euro area rules - restore hope to this country,” he said.

The election will be a knife-edge battle between the Socialists, now polling at 36.3 percent and the ruling center-right coalition, now on 34.8 percent. The smaller left-wing parties account together for about 15 percent in opinion polls.

Bailout Countries

Gross domestic product, constant prices, change in percent



That leaves little room for any kind of new radical, left-wing movement.

Even if the Socialists do win, they are unlikely to bring about radical change.

“I don’t think there will be a massive deviation from the current policies, because Portugal is still obliged to meet fiscal targets,” Ms. Koleníková said. “Even if they win, it is not something the market or investors will be really spooked about.”

In Spain, things are very different.

There, two new populist parties are expected to undermine years of political stability in national elections planned for November or December.

Born from the rebellious Indignados movement, Podemos, which means “We Can” in Spanish, was formed as a political party early last year. Podemos is determined to take on Spain’s established parties, which it lumps together as “La Caste,” or, roughly, The Ruling Caste.

In May 2014, Podemos won European parliament elections and last January, opinion polls showed the party to be the country’s most popular, with 25 percent support.

With Syriza’s [election victory](#) in Greece the same month, there were fears or hopes, depending on one’s perspective, of a revolutionary wave sweeping across Europe.

Yet since then, Podemos has stumbled. Although it did well in May local elections, with candidates close to the party taking control of governments in Madrid and Barcelona, polls by early August gave the party just 15.7 percent of the vote.

In part that has been because of the arrival of a rival party, the centrist [Ciudadanos](#), on the stage, which has split the protest vote and has taken 11 percent in the polls.

The fact that Podemos allied itself strongly with Syriza, which eventually caved to E.U. lenders to secure its [€86 billion bailout](#), has also likely hurt the party’s prospects.

And then there is the pretty strong recovery of the Spanish economy.

At 1 percent, its growth in the second quarter was one of the strongest in the euro zone. The government of Prime Minister Mariano Rajoy expects growth to reach 3.3 percent this year.

Since the crisis hit and Spain’s banks had to be bailed out, successive governments, both from the ruling center-right Popular Party and its

predecessor, the center-left PSOE, had signed up to tough cuts and labor reforms.

That has led to a steep erosion of their political support.

Both parties have also been embroiled in corruption scandals, further eroding trust in the establishment.

While Mr. Rajoy's PP party has managed to recover somewhat in the polls, due to the economic recovery, it is still only at 28 percent, far below the 45 percent he won in 2011.

In fact, the two parties that for decades attracted 90 percent of the vote are now struggling to win 50 percent between them.

"The corruption cases and high levels of mistrust toward the political establishment have led to the rise of new parties that have fragmented the country's party system," Antonio Barroso, an analyst with Teneo Intelligence, told Handelsblatt Global Edition.

It means that for the first time since democracy returned in the early 1980s, Spain will have a coalition government made up of two or even three political parties.

One key issue that have contributed to Spain's political malaise is unemployment.

Even with the recovery, unemployment remains stubbornly high, at 22 percent, and youth unemployment is still just under 50 percent, which doesn't even count the thousands of young Spanish people who have fled to other parts of Europe for work.

It is these young people who are most drawn to Podemos and Ciudadanos' message of change.

The emigration option is also one taken by many of Ireland's young people, giving them access to relatively strong job markets in Canada and Australia.

“There must be an alternative that allows us to turn the page on austerity.”

ANTONIO COSTA
PORTUGUESE OPPOSITION LEADER

It is estimated that around 10 percent of Ireland’s young people emigrated while the country was in the throes of recession.

Between 2008 and 2014, around 400,000 people left the country, whose population is just 4.5 million, sparking talk of another “lost generation.”

The difficulties came after a massive slump in the former Celtic Tiger. Ireland’s banking sector collapsed when the country’s real estate market bubble burst. After committing to cover the banks’ massive losses, the state was forced to avail itself of a €67 billion bailout in 2010.



In Ireland, anti-austerity anger has focused on water charges, which consumers are being asked to pay for the first time after water districts were privatized. Half of Irish consumers are refusing to pay the charges. Here, a protest in Dublin in April 2015. Source: Mauritius images

The move was regarded by many in Ireland as a humiliating loss of sovereignty. Successive governments then implemented stringent austerity measures, including severe cuts in public spending and tax hikes.

Ireland exited its bailout program in December 2013, and returned to the markets.

Now Ireland, too, has ostensibly recovered. Last year, the country had the fastest-growing economy in the euro zone, at 5.2 percent. In the first quarter of 2015, growth was 1.4 percent.

Job creation is strong, particularly in the thriving tech sector, with many U.S. Internet giants such as Google, Facebook, LinkedIn and Twitter having European headquarters in Dublin, attracted by **low corporate tax rates**, skilled labor and access to European markets.

On the surface, those figures point to a successful end to Ireland's austerity program. But some economists argue that the legacy of austerity is more nuanced, and less rosy.

In the wake of austerity, a dual economy has emerged, said Aidan Regan, an economist at University College Dublin. Mr. Regan said Ireland is now split between those benefitting from the tech boom and those hit by cuts, particularly those on welfare or in the public sector.

"Standards of living have declined, purchasing power has declined, people are paying more taxes, the quality of public services have declined," he told Handelsblatt Global Edition. "People are really feeling austerity, and austerity does not affect everybody equally."

One of the focuses of discontent in Ireland is the country's introduction of charges for water, which has given birth to a huge grassroots movement against water privatizations.

The sales of water districts, part of the austerity measures prescribed by lenders, has led many to impose water charges on consumers for the first time. In Ireland, more than 50 percent of households have refused to pay the charges, and anger against the political elite is rising.

Some argue that Ireland's strong recovery has little to do with austerity at all and more to do with the rising level of foreign direct investment and exports from the tech sector, a product of Ireland's efforts to attract U.S. firms.

“Ireland has an export-led recovery. Ultimately that has very little to do with austerity, understood as cuts in public expenditure, fiscal stabilization or even cost competitiveness,” Mr. Regan said.

“These firms that are shaping the domestic recovery, and they are not here because Ireland cut its public spending by 24 percent,” he said.

A host of parties oppose the established parties’ rigid adherence to austerity remedies. The ruling coalition of the center-right Fine Gael party and center-left Labour Party have diligently implemented the bailout negotiated by a predecessor, the center-right Fianna Fáil.

“People are really feeling austerity, and austerity does not affect everybody equally.”

AIDAN REGAN
ECONOMIST, UNIVERSITY COLLEGE DUBLIN

Sinn Féin, the party that favors a unified Ireland and is in government in Northern Ireland, has been at the forefront of the anti-austerity

movement. There are also a number of smaller left-wing parties, a new center-left party, the Social Democrats, as well as one on the center right, Renua.

Yet, it is unclear if this smorgasbord of parties will be able to muster enough support to unseat the ruling coalition. In particular, Fine Gael, which traditionally has the backing of the middle class, is seeing its support grow with the economic recovery.

The Irish Labour party is likely to suffer in forthcoming elections, as its grassroots, largely public sector workers, punish it for backing austerity.

“The question is whether Sinn Féin and the smaller parties can mobilize the low-income earners to come out and vote,” Mr. Regan said.

What is certain is that the old system will give way to a new party landscape.

That is true not just in Ireland, but Portugal, Spain and many other post-austerity survivors.

The radical left may not be sweeping to power across Europe any time soon.

Yet, in Spain and Ireland, just as in Greece, the crisis and bailouts are roiling the political status quo.

In Spain the two-party system appears to be a thing of the past, while in Ireland, entirely new parties will likely enter parliament for the first time. Others will see their fortunes diminish.

Austerity's undisputable legacy is that it is shaking up of Europe's political landscape, leaving it more fragmented and unstable.

"The crisis has widened the disconnection between the people and the established political elites," said Mr. Barroso, the analyst at Teneo Intelligence who is based in London. "The economic crisis has led to a political crisis."

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