

## FINANCIAL CRISIS REQUIRES BREAKING AWAY FROM THE CURRENT POLICIES

Press Conference - 13 October 2008

The serious financial crisis justifies rethinking the model of society and requires deep changes

- 1- The current financial crisis reveals deep **political hypocrisy**. Over the last decades, politicians: boosted the financial sector to the detriment of real economy; ignored the consequences of continued criteria of immediate profit to the detriment of investment, job creation and its stability; they refused an efficient regulation, using the argument that the state should not interfere and they privatised at any cost; they accepted unbridled speculation, easy enrichment, increased inequalities, in the name of the market; they imposed precarious work, lowering salaries and retirement pensions. Nowadays, in the context of the crisis situation, which could spread more intensely to the real economy, they use the state which they previously strongly slandered, to save the system and they shrug off responsibilities. The maximum they do is pointing the finger at financial managers, especially those who abandon those institutions receiving "golden" pensions, while politicians try to get the message across to the public opinion that they are the saviours (using the tax payers money) of the current situation, for which they pretend not to be guilty of.
- 2- In the CGTP-IN's opinion, the financial crisis, whose development is still unpredictable, there should be a turning point regarding **the model of society** we live in. Neoliberal economic globalisation was presented to workers and citizens as inevitable and as a positive development for mankind. Its costs were always minimised, despite the fact that it has been clear for a long time that a process which is based on the dilapidation of finite resources and inequalities between countries, classes and social groups and on the distribution of wealth and income, cannot be sustainable.
- 3- **Financial globalisation** has been the major trace of this model of globalisation, with a growing integration of globalised and deregulated financial markets. The ruling powers accepted as normal that financial (and speculative) activities should prevail over the production of goods and services. Casino economy, unbridled speculation, easy enrichment (only for a few, together with workers and families' indebtedness and impoverishment) were developed. If this were not the context, the current crisis born from subprime, a segment of the USA mortgage market, would never have converted itself into a financial crisis of the present dimension.

- 4- The financial crisis is taking place in a context of strong **social regression**. The myth was that regulation was not necessary and, if needed, minimum regulation would be sufficient and what would be desirable would be the self-regulation of banks and financial societies. Labour was downgraded in society with the argument that rights, now seen as privileges, even by socialist and social-democratic parties, were not compatible with globalisation. The concept of competitiveness was manipulated, narrowing it to the immediate profits of big shareholders. In the majority of countries the trade unions bargaining power was reduced, but in no European countries did any government go so far as in Portugal (the right-wing before and Socialist Party later), imposing the termination of freely negotiated collective labour agreements. Social protection was submitted to the rules of financial markets, thus weakening public social security systems and promoting (sometimes replacing them) private pension funds. Social inequalities grew deeper. An extreme example can be found in the European Council's adoption, in June of this year, of a proposal to review the working time directive, in which working hours could reach 60 hours a week counted over a period of 3 months (which means that in some weeks they may exceed 60 hours!), which can only find a parallel in the working hours at the early stages of the industrial revolution.
- 5- The **Welfare State** was attacked, this meaning a state which developed important social duties in areas like education, health, social security, justice or fight against poverty. At the same time, the state intervening role favouring the wealthy and the mighty was reinforced. Public expenditure was seen as an enemy while at the same time all forms of support to private capital were promoted. This same duality is obvious nowadays. State are now intervening, using the tax payers' money, to save banks and financial societies, not even ensuring that speculation is left aside.
- 6- **The financial crisis was not unpredictable**. Several organisations, including the trade unions and different personalities had been alerting to the subordination of real economy to the financial sphere, had been exposing "casino capitalism", as did namely the ETUC, had defended the need of regulating financial capital, as did the ILO, in its report on globalisation, and had exposed the close links between financial capital, corruption and utilisation of tax heavens. Therefore, it is not now acceptable that public funds are used to rescue the financial sector without first making accountable politicians for the decisions they made, which led to a situation that leaves the world on the verge of catastrophe.
- 7- The CGTP-IN does not minimise **the importance of the financial sector**, with adequate public and private participation to ensure the adequate functioning of the economy. Measures must be adopted. But what we are witnessing is that urgent priority is being given to rescuing banks and financial societies which had grievous management and operated enormous income transfers to the wealthier, including to their own top executives, and this when the same does not apply to the social and environmental crisis.

- 8- Therefore, the CGTP-IN considers that it is necessary to **draw lessons from the current crisis**. If that is not done, and if no consequences are drawn from the irresponsibility and, essentially, from the unacceptable political and economic objectives that led to the present crisis, if new paths are not demanded for economic policies, we will run the risk of simply changing a minimum so that everything may continue the same. We need to rethink questions like: the role of the state in economic and financial activities; the relationship between economy, environment and social progress; the anti-democratic nature of the monetary policy; the instability caused by injustice and growing social inequalities.
- 9- **The measures adopted** by the countries of the Euro area (now widespread in the EU) concentrate in citizens making sacrifices, without a clarification of accountability and control instruments and with the absence of concrete social return (particularly regarding employment and salaries) and concerning the implementation of the production of goods and services.

### **Action is needed to overcome the impact of the crisis in the Portuguese economy**

- 10- **The impact of the crisis in Portugal** was and still is minimised by the government (and also by opportunistic employers and opinion-makers who pay lip-service), although it is nowadays assuming a more cautious position with the finance minister suddenly ensuring the coverage of bank deposits. The CGTP-IN considers that the impact of the crisis cannot be minimised:
  - ↳ This crisis is added to an economic framework of very low growth, which dates back to the beginning of the current decade.
  - ↳ According to the most recent economic forecasts (those of the IMF), the countries to where most of our exports go are living through stagnation, or even in recession, as in Spain;
  - ↳ Our economy shows strong structural weaknesses which result from policies that always favoured the nominal adjustment with the European Union and cutting the public deficit;
  - ↳ The rate of the households and companies' indebtedness is very high and therefore the financial system presents vulnerabilities which cannot pure and simply be ignored.
- 11- **The workers' purchasing power** is low due not only to the very limited pay increases, which in many cases did not match the inflation rate, but also and especially due to the increase in the price of house mortgages. A large number of families (42%) owes money to the banks, especially of their mortgages, and indebtedness represents 129% of the available income. With the increase of interest rates (the Euribor rate, which stood at 2.6% in 2005, is now standing at 5.4%), payments for the debt interest rates also went up, strongly hitting people on lower incomes and the younger age

groups (where, we recall, job precariousness is higher). This fall in the purchasing power is hampering the dynamisation of internal demand.

- 12-The government has now set the target of reaching a 2.2% **public deficit** figure, for 2009. The prevailing economic message still relates to public deficit when the problem is, as the CGTP-IN insistently alerts, real economy. The productive sector is weakened, the productive rate is low and the deficit of the current balance is unsustainable (9.9% in 2007, but will go up to 12% and 12.7% in 2008 and 2009, if the IMF forecast is confirmed). It is an illusion to think that there may be “sound” public accounts in a fragile economy. Therefore the CGTP-IN criticises the rules of the Stability and Growth Programme, supported by the government.
- 13-Economic forecasts indicate a slowing down of European economies, or even recession in some countries, and insignificant growth in Portugal, this meaning lower than the European Union average. In 2009 the country cannot count on external demand which prompts exports, in order to improve its economic situation. Those countries that are the main destination of our exports may be living through recession (Spain and United Kingdom) or stagnation (Germany) or low growth rate (France). In this context there are added reasons to boost internal demand through salaries, pensions and family benefits, particularly to those on lower incomes and with higher bank charges, due to house mortgages. Thus, the CGTP-IN proposes the adoption of a new regime of credit for housing, targeting families on lower incomes. We are also in favour of reviewing the rules that update pensions through the Index of Social Benefits.
- 14-In the current context, the country must place its bet in **real economy**. One of the key problems is the companies’ low productive rate, which is due to factors like the high level of undeclared economy, the companies’ slack organisation and mismanagement, workers and employers’ low qualifications and lack of innovation. Valued work plays a key role. Research carried out in innovative economies shows that it depends less on technology than on social innovation and this implies the need of acting upon factors such as work organisation, working conditions, training, qualifications, participation and motivation.
- 15-These factors are absent from the concerns of managers of the overwhelming majority of companies as the government states in its Labour Relations White Paper. However, instead of acting along this line, the government, with its review of the **Labour Code**, is siding with the most backward employers, in order to undermine the right to collective bargaining, cutting labour costs at the expense of workers, making working time more flexible, and “legalising” precarious jobs. The CGTP-IN considers that there is still time to reverse this path and suspend the process of adoption of the Labour Code and start a serious and participative process of amendments, with priority given to safeguarding essential collective, trade union and bargaining rights.
- 16-The CGTP-IN demands that **the truth about the financial crisis and the economic situation** is revealed to the Portuguese people. It is not acceptable that the Finance Minister one day says that all bank deposits are ensured and the next day declares that there will be no problems

because no financial society will go bankrupt. The problem is not calming down or scaring the people. Irrational tendencies to panic do not result from knowledge but exactly from its opposite. We also need to know the impact of the crisis on the situation of social security's financial stability fund and on pension funds (in the banks and in several large companies).

17-The CGTP-IN considers that there is a need for measures that respond to the social situation and that come in aid of the families, namely those measures presented in our bargaining policy demands for 2009, besides other measures of deep structural nature. From these we underline:

- ↳ Higher salaries and pensions;
- ↳ Lower interest rates;
- ↳ Creation of a system of subsidised credit for families with lower incomes;
- ↳ A longer period of entitlement to the social unemployment benefit;
- ↳ Aid to families with lower incomes, with the use of several social policy tools;
- ↳ Elimination of restrictive pre-conditions of access to the old people's solidarity complementary benefits;
- ↳ Reorientation of available funds, particularly those of the QREN (National Reference Framework for the utilisation of European Funds), to address the current situation;
- ↳ To make the 2008-2010 National Reform and Employment Plans adequate to address the main problems of employment and real economy;
- ↳ Support and accountability of small and medium enterprises;
- ↳ Adopting and implementing an ambitious 2008-2010 National Action Plan for Inclusion in order to effectively address the problems of poverty and social inclusion;
- ↳ Inclusion of budgetary measures and resources in the State Budget for 2009.