The state as a large-scale aggregator: statist neoliberalism and waste management in Portugal

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ABSTRACT

This paper explores state-economy relations in an understudied European country, i.e. Portugal. Main research questions are: How does the country fit into the Varieties of Capitalism conceptual framework? Are there specific patterns that define the case as a distinct model of statist economy? The research is influenced by Becker's open, historical institutionalist approach to capitalism (Becker, U. 2009. Open Varieties of Capitalism. Continuity, Change and Performances. Basingstoke: Palgrave Macmillan). The paper offers a macro-account of major transformations in state ownership, in democratic Portugal, followed by analysis of state-economy relations at a sectorial level, namely in the waste management sector. Findings suggest that Portuguese capitalism has evolved from statist socialism into a formally liberalised economy but, in reality, it re-configured into a model of state-dependency perpetuated by the allocation of vast external resources. From large-scale owner to large-scale privatizer, the state adjusted its role as a large-scale aggregator.

KEYWORDS: Varieties of capitalism; neo-liberalism; statism

Introduction

In the aftermath of the latest financial crisis, Portugal faced a sovereign debt crisis and was under great pressure from international financial markets. In May 2011, Portugal reached an agreement with the International Monetary Fund (IMF) and the European Union (EU) on receiving external financial assistance. Whilst Portugal and Greece went through internationally imposed austerity programmes, Spain received financial assistance for its banks and Italy was just short of external intervention (Baum, Schäfer, & Stephan, 2016; Bedendo & Colla, 2015; Gupta, Krishnamurti, & Tourani-Rad, 2013). The accentuated character of the crisis in the region prompted academic research with the use of the Varieties of Capitalism (VOC) model to examine southern European political economies.1

These studies have offered important insights on the intersection between external and domestic dimensions propelling the Eurocrisis. However, the comparative capitalisms literature offers little in the conceptualisation of southern European political economies apart from the general argument that they display an incoherent and low performing combination of statist, corporatist, and patrimonial elements (Becker, 2011, 2014; Royo, 2002, 2008, 2014; Schmidt, 2002). The aim of this paper is to contribute towards expanding the existing knowledge on the character of capitalism in southern and peripheral European countries. It will attempt to do so by offering new insights on the evolution of state-economy relations in one of the most understudied southern and peripheral European countries, i.e. Portugal.

The guiding questions used throughout this paper are the following: How does the Portuguese case fit into the VOC conceptual framework?; Is it possible to identify specific patterns of state influence over economic activity that define the case as a distinct model of statist economy?; If so, what are the institutional, political, ideological, and financial resources that support and define the Portuguese variety of statism? In searching for answers to these questions, we hope to expand the comparative capitalism literature beyond its conventional focus on the most advanced economies of Europe and, more recently, on the BRICs.

Theoretically, the research will adopt a historical institutionalist approach to capitalism. The methodological framework and initial research claims, which will be established in the next section, are influenced by Becker's (2009) open approach to comparative institutional analysis. The latter assumes that political economies may gradually change character over time, and should be analysed in longitudinal perspective. Our approach is also in line with the framework proposed by the editors of the Special Issue (SI), which assumes the role of the state as a central force organising the market.

The empirical research will cover the democratic period (following the 1974 Carnation Revolution) in Portugal. We will offer a macro-account of the great transformations in formal policy on state ownership of production and infrastructure assets. These changes were inspired by straight-cut economic ideas and developmental goals and led to major transformations in the institutional configuration of statism throughout the democratic period: nationalisation with full control, state retrenchment (with partial privatisation, joint ownership and public concessions) and, finally, consolidated liberalisation (with full privatisation and public-private partnerships under new public management models). From the institutional and policy evolution one would assume that the logic of capitalist organisation in Portugal changed from statism to liberal economy. However, as we will see via closer examination of the trajectory of large-scale privatisation, the state prepared and structured the outcomes of the neoliberalising reform according to a statist corporatist logic of large-scale sectorial aggregation. This secured the revival of old families who had been noyaux dures of capital during the authoritarian regime.

In order to explore the elements that define the evolution of the model of statist capitalism in Portugal, the fourth section of the article will zoom in the analytical lens and explore state-economy relations at a micro, sectorial level. We will offer a historical narrative of central state intervention in the waste management sector. One would assume that governance in this sector would evolve in tandem with the cycles of state expansion and retrenchment during the democratic period. Instead, the state manufactured a model of direct intervention via joint ownership in the sector at the onset of the nineties, precisely when the political discourse of the executive advocated state retrenchment and formally sponsored private initiative. Analysis of the processes and instruments of state intervention in the sector will again reveal the unanticipated re-emergence of core elements of state authoritarian corporatism under apparent neoliberalising reform.

Case findings will be based on more than twenty semi-structured interviews with multiple stakeholders. Interviewees include current and former policy makers and executive office-holders in the Environment Ministry, former administrators of the Environmental Global Facilities holding (Empresa Geral do Fomento – EGF), administrators of multi-municipal and inter-municipal waste management firms from different regions in the country, representatives of environmental NGOs, staff of the regulatory agency supervising the sector, and academics with technical expertise on this industry. The information will be complemented by legislation sources, newspaper articles, and documents published by the Environment Ministry and its agencies, as well as by the Court of Auditors.

Southern Europe and the under-studied cases of the VOC literature

Classic VOC references identify two fundamental models of capitalism, Coordinated Market Economies (CMEs) and Liberal Market Economies (LMEs), terms coined by Hall and Soskice in their 2001 Varieties of Capitalism book. Each model is characterised by the alignment of a set of institutions that mutually enforce and support each other and allow firms to effectively resolve coordination problems in the core spheres of business activity. Market institutions and competition drive the development of core competencies of firms in LMEs. Collaborative institutional networks provide information exchange, monitoring and sanctioning in CMEs. In the latter, business and labour organisations have strong organisational and coordinating capacity, and influence economic policy, industrial relations, and labour markets; state welfare benefits are redistributive, and financial markets tightly regulated. On the other hand, all these aspects are driven primarily by the forces of market competition in LMEs.

The VOC literature classifies the USA, Britain, Australia, Canada, New Zealand and Ireland as LMEs. Germany, Austria, the Netherlands, Belgium, the Nordic countries are in the CME category. Southern European nations are classified in the original VOC writings as 'mixed market economies' (MMEs), because they incorporate elements of both CMEs and LMEs, but do not fit in either type. In the conventional VOC approach, the 'hybrid' character of MMEs amounts to institutional incoherence and makes them prone to poor economic performance (Boyer, 2005; Hall & Gingerich, 2009; Hancké, Rhodes, & Thatcher, 2007; Schmidt, 2008, 2009; Streeck, 2010; Thatcher, 2004). However, VOC studies do not offer great detail on the specificities of these political economies, further to the general assumption that the state intervenes intensely in the economy and plays a central role in securing resources for economic actors.

The compensatory role of the state in the 'hybrid' political economies of southern Europe has been emphasised in VOC approaches to the Eurozone crisis. In examining the determinants of the severe financial and economic watershed in southern Europe, mainstream VOC analyses focussed on the intersection between international factors and domestic elements of statism, corporatism and patrimonialism. Hall (2012) argued that institutional asymmetries between southern and northern European political economies contributed for critical structural strains in the context of European Monetary Union (EMU) and were determinant for the Eurozone crisis. It has also been argued that the external dimensions of the Eurozone crisis were aggravated by the patrimonial character of national political economies in the European periphery. Hassel (2014) underscored the problems of excessive state-dependent investment associated with a system of state compensation to uncompetitive activity in southern Europe. Royo (2014) argued that, in the Spanish case, the corruption among political elites led to institutional degeneration and aggravated the financial and economic situation of the country.

Our empirical research on the Portuguese political economy began with the assumption that the case fits conceptually into these claims on the statist character of capitalism in the southern European periphery. We also expected that the Portuguese political economy adjusted significantly under the pressures of its democratic transition and in the subsequent process of European integration. This assumption is supported by several studies (Amaral, 2010; Freire Costa, Lains, & Münch Miranda, 2016; Silva, Amaral, & Neves, 2018). We anticipated that the policy and institutional u-turns that followed the 1974 revolution and, subsequently, the process of European integration, steered major transformations in the institutional configuration of statism and in state-economy relations in the country. The methodological implication of this claim is that a longitudinal approach should be adopted to analyse capitalism in the country. Therefore we propose to examine changes at the core of the institutional, ideological, political, and discursive elements of state-economy relations throughout the democratic period.

Our research also began with the expectation that the process of political and economic liberalisation in the country led to the erosion of old traits of authoritarian statist corporatism. More concretely, we assumed that the centralising force of the state and the industrial conditioning tools which defined statism in the authoritarian corporatist period (Confraria, 1992; Dos Santos Coelho, 2017) changed into new, indirect, and less impacting forms of state intervention. An initial supposition too was that the incoming flux of massive European funds for development, subsequent to entry in the European Community (EC) in 1986, would allow the state to strengthen its hand over economic organisation, if the state had a mediating role in the allocation of funds. Finally, we expected that as the position of the country in the EU consolidated and supranational pressures for economic opening heightened, the force of statism would subside in the logic of capitalist organisation.

The following section will explore each of these claims by means of condensed historical narrative of the evolution of state ownership of production and infrastructural assets in the democratic period. The subsequent two sections will examine state intervention in the waste management sector in particular.

Portugal's path from statist corporatism to statist liberalisation

In April 1974, the fall of the authoritarian corporatist regime by military coup induced dramatic changes in the organisation of political and economic activity in Portugal. The first major reform was the extinction of the corporatist structures of economic coordination which had overseen industrial conditioning (condicionamento industrial) and industrial relations during the authoritarian corporatist Estado Novo (Decreto-Lei n° 443/74, 1974; Lucena, 1977, pp. 543–433). This was soon followed by the nationalisation of all credit institutions and insurance companies with the exception of those owned by foreign capital. There were also the withdrawal of restrictions on trade-unions activities and the process of decolonisation itself. Both affected business groups with activities in African Portuguese colonies and led to major turbulence in the Portuguese economic environment (Silva et al., 2018).

The financial system had been a fundamental engine of the economy and a core instrument in the strategy of the large monopolistic groups of the E. Novo, rather than a system that supported individual savings and the financial needs of small and medium enterprises (Decreto-Lei n° 132-A/75, 1975; Decreto-Lei n° 135/A, 1975). In placing the financial sector under direct political control, the Council of the Revolution2 expected to break the economic and political power of the old economic elites. It also attempted to attain the first benchmark in the path to a socialist economy. Subsequent nationalisations occurred in the general services and the largest segments of industrial activity. Between April 1975 and July 1976, oil refineries, heavy metal works, electricity production and distribution, extractive industries, petrochemical industries, naval construction, tobacco cements, paper pulp producers, railways, air transports, the merchant navy, urban and inter-city transports, radio, newspaper and television, large agricultural production and fishing firms were nationalised.3 One could hardly envision more encompassing statism, with the restructuring of the entrepreneurial fabric of the country and the breaking the backbone of the old economic elites. These were in line with the Communist Party's (Partido Comunista Português) perspective which dictated policy during the revolutionary period. Ultimately, the seven economic groups that had controlled the state corporatist system (and controlled the admissions of new firms into the basic sectors of economic activity) were replaced by a vast and centralised public sector. Nationalised firms were merged according to sector of activity, and this induced concentration on a sector basis (Confraria, 1992; Louçã, Lopes, & Costa, 2014; Lucena, 1977).4

The 1980 election of the centre-right coalition of Social-Democrats and Christian Democrats (Aliança Democrática) to office marked the end of turbulent transition politics and set off the negotiations leading to the 1982 constitutional revision. This paved the way for the first stage in state retrenchment, i.e. the entry of private companies in the financial sector. The u-turn from economic étatization to privatisation began with the financial sector, which was perceived as the central pillar of the economy just as it previously had been.

The government considered that the development of a competitive and dynamic financial sector, and that of a mature capital market were necessary conditions for stimulating private savings (Asensio Menchero, 2001, p. 198; Cavaco Silva, 1995, pp. 138–139). They were also necessary for the success of the subsequent benchmark in the retrenchment of state economic activity, i.e. the privatisation of the previously nationalised industrial companies (Ibid). With the liberalisation of the financial market, the government expected to stimulate diversification of financial institutions and instruments, which had remained archaic as a consequence of the 1975 nationalisations (Cavaco Silva, 1995, p. 93, p. 101). Importantly, convergence with European financial practices was critical in preparations for full membership in the EC. In 1983, a legal reform authorised the entry of private firms in the banking and insurance sectors and limited participation of foreign capital to a very small percentage (Decreto-Lei n° 406/83, 1983; Decreto-Lei n.° 51/84, 1984; Lei n° 11/83, 1983; Louçã et al., 2014, p. 54). The first private banks were established in 1985, coinciding, with the election of the first single-party social democratic government under Prime Minister Cavaco Silva (Costa, Fazenda, Honorório, Louçã, & Rosas, 2010, p, 273).5

Membership in the EC in 1986 and the 1987 re-election of the Social Democrats (Partido Social Democrata) to office (with absolute majority) set off the movement to abridge the state entrepreneurial sector. According to Cavaco Silva (1995), when the government took office, the Gross Added Value (VAB) of enterprises with direct or indirect state participation represented nearly 20% of the Gross Domestic Product (GDP) and almost 10% of total employment in Portugal (Pereira, 2011; Viegas, 1996). The Prime Minister argued that this level of étatization of the economy was unparalleled in the EC, where the state entrepreneurial sector ranged from 4% of the GDP in the UK to a maximum of 16% of the GDP in Italy (Cavaco Silva, 1995, p. 128, pp. 135–6).

The argument put forward was that the excessive dimension of the public enterprise sector and the inefficient management, inadequate strategy and internal disruptions that characterised it, aggravated debt and limited the development of a strong entrepreneurial class with the capacity for large-scale investments (Catroga, 1995). In bringing state-owned enterprises to market competition through privatisation processes, the government expected to promote a modern and dynamic entrepreneurial structure in the most important sectors of national production, with the goal to improving economic efficiency and competitiveness. The Prime Minister also stated that the reform was critical for stimulating entrepreneurial trust (Cavaco Silva, 1995, p. 130, p. 139). Cavaco Silva regarded these conditions as essential for socio-economic development and national growth, as well as to meet the competitive pressures associated with European integration.

In 1988, a new reform allowed 49% equity private participation in the public sector and the transformation of public enterprises into joint-stock corporations with state majority control (Lei n° 71/88, 1988; Lei n° 84/88, 1988). The legal act stated the preoccupation with stimulating the formation of noyaux dures (hard core) national capital that would control the countrýs strategic sectors and implement medium-and long-term strategy aiming at competitiveness of the privatised enterprises in the context of regional economic integration (Asensio Menchero, 2001, pp. 198–199; Cavaco Silva, 1995, p. 138, p. 140; Lei n° 84/88, 1988). The second constitutional revision was passed in 1989 after intense negotiations between Social Democrats, Christian Democrats (Centro Democrático e Social) and the Socialist Party (Partido Socialista). It paved the way for re-privatisation of formerly nationalised companies in other sectors.

The terms and conditions for re-privatisation were regulated by law in 1990 and, again the legal act stated the preoccupation by the state with the formation of noyaux dures (hard core) national capital and established tight limits to foreign acquisition of shares in the public offerings of state companies (Lei n° 11/90, 1990). The Social Democratic Party was re-elected to government with absolute majority in 1991, and the political context was ripe for affirming the new conceptualisation of the role of the state in the economy. Cavaco Silva affirmed that the state should step back from productive activities and allow private investors and market forces in. The state intervention would be limited to regulating and stimulating private economic initiative. Yet, the government was particularly cautious about the privatisation of state companies providing general public services (Catroga, 1995; Cavaco Silva, 1995, p. 93, p. 101, pp. 131–133, p. 140).

When the Socialists replaced the Social Democrats in office in 1995, under Antonio Guterres, banking and insurance sectors were in a very advanced stage of privatisation and had provided 74% of the total revenues of privatisation. In turn, electricity and gas production and distribution, telecommunications, railways, water and waste management had only gone through initial preparations for the entry of private capital (Catroga, 1995; Cavaco Silva, 1995, pp. 131–133). These sectors were the object of phased liberalisation in subsequent party tenures (both centre-left and centre-right), starting with the first stage of privatisation of EDP (electricity) during Guterreś Socialist mandate. Inspite of the intense privatising effort, the state maintained control over partially privatised companies where it held minority stakes, via golden shares. This happened in telecommunications, energy production and transportation sectors, until the Troika institutions established the end of goldern shares as part of the conditions for external financial assistance in 2011.

In all processes of privatisation, Portuguese governments stated the preoccupation with maximising revenues in order to reduce public debt, and claimed transparency, exemption, and rigour (Decreto-Lei n° 339/91, 1991; Decreto-Lei n° 372/93, 1993; Lei n° 11/90, 1990). The peak of privatisations as measured by percentage of public debt occurred during this Socialist government, reaching nearly 8% and 7% of public debt in 1997 and 1998, respectively (Louçã et al., 2014, p. 95). Between 1991 and 2010, on average, the revenues of privatisations accounted for 2.5% of GDP, one of the highest rates among EU member states (Fundação Francisco Manuel dos Santos & Sociedade de Consultores Augusto Mateus & Associados, 2013). In the period 1989–1994, the ratio was 7.9% (Sousa & Cruz, 1995, p. 125).

As expected under the legal framework prepared for privatisation processes, it supported the formation of (Portuguese) noyaux dures.6 The small group of old-time families who dominated the privatisation of the financial sector ended up investing in subsequent waves of privatisation. This led to dense cross-sector participations in the financial, construction, energy, transports, telecommunications and food retail sectors (Costa et al., 2010; Louçã et al., 2014, pp. 96–99; Pena, 2014). Rosa (2013) found 170 cross-participations in these sectors, involving the largest firms in the country and accounting for 11.4% of the natiońs GDP. Furthermore, Rosa found that the average number of shareholders controlling more than 80% of capital in each of these sectors ranged between two and five (Ibid).

Recent studies have also found that a sizeable percentage of the firms that won public service concessions contracted out by both Social Democratic and Socialist governments in the 1990s and early 2000s are owned by the same groups that had acquired strong positions in the financial and construction sectors: Espírito Santo, Soares da Costa, Mello, and Mota-Engil (Babo & Gago, 2014; Louçã et al., 2014; Pena, 2014; Sampaio, 2013, 2014). A growing number of reports have questioned the financial conditions of these contracts, especially in the case of public and private partnerships (Sarmento, 2010; Sarmento & Renneboog, 2016a, 2016b; Tribunal de Contas, 2003, 2005a, 2005b, 2007, 2009, 2012). Studies have pointed out problematic networks of politicians, bankers and top public servants in the these sectors (Sarmento & Renneboog, 2016c).7

A case of statism: the waste management sector

When the Social Democratic party won its second mandate in 1991 and embarked on the economic liberalisation programme, municipal entities were responsible for waste collection and treatment. This essential service had historically been managed under municipal supervision. The situation of waste management in Portugal was bleak and far from meeting the standards of other EC members. Indeed, there were more than three hundred open rubbish dumps in the country, where large amounts of unsorted waste were left to burn, releasing smelling and polluting emissions on open skies, and contaminating waters. Waste management was perceived as a local problem with local, yet ineffective, solutions.

An incipient national legislation for the waste sector had been published in 1985, shortly before Portugal became a member of the EC. However, it could be argued that this legislation could hardly be seen as a national policy strategy. It essentially classified types of waste, defined central and local responsibilities in waste management, enforced waste accounting, and set general guidelines for management practices

(Antas, 2017, p. 27; Decreto-Lei n° 488/85, 1985; Pássaro, 2017, pp. 47–48). Entering the EC entailed compliance with supranational Directives. Yet, the meeting of international benchmarks relied on the development of infrastructures for waste treatment as well as adequate systems of collection and transport (Pássaro, 2017, p. 48). This meant that there was a need for large-scale investment in a very laggard national context (Ibid).

In turn, the implication is that waste management could no longer be seen solely as a local problem. Indeed, the government reasoned that municipalities, on their own, did not have the dimension or resources to modernise their infrastructures and operations (Martins, 2017, p, 10). The infrastructures and technical instruments that had to be implemented relied on large-scale funding and qualified human resources. The country was receiving massive European funds for infrastructural development, specifically for the Enviroment (and Transports) sectors through the Cohesion Fund. So there was a window of opportunity for fast and large-scale sectorial modernisation. On the other hand, the government reasoned that municipalities did not have the necessary technical expertise to craft the complex application for funds towards infrastructural development.8

The executive reasoned that the most effective way to meet the environmental goals it had negotiated in Brussels was to deploy a central state command-and-control strategy that involved three major pillars: the expansion of the regulatory apparatus and state monitoring capacity over the sector; direct state intervention in infrastructural planning and in the economic organisation and activity of the sector; and the development of a centralised entity with the necessary technical and human resources to craft applications for funds towards infrastructural development, and in record time.9 Thus, whilst Prime Minister Cavaco Silva had advocated for state retrenchment and argued for the urgency of the state to step back from productive activities so as to open up the economy to private investors and have it governed my market forces, the government actually conceptualised the reorganisation of the waste management sector according to a model of state command and control. Interestingly, this new model was to keep the appearance of continuity in the historical autonomy and jurisdiction of local authorities.

The government decided to use a nationalised firm, EGF, as a state corporate arm to intervene and organise sector. EGF had been created in 1947 as a research company within the CUF (Companhia União Fabril) Group. The latter had been the largest industrial group of the authoritarian corporatist regime, operating in areas as diverse as chemical production, tobacco, naval repairs, electrical machinery, metal-mechanics, textiles, insurance, banking, and healthcare (José de Mello, n.d.). In 1975, the firms of the CUF group had been nationalised and EGF was integrated into Portugal's State Holdings Institute (Instituto de Participações do Estado – IPE). Since then, EGF's operations consisted of providing strategic consultancy to regional and local entities in the context of development plans at the municipality level (EGF, 2018). The company had the technical and management expertise to craft the complex applications for funds towards infrastructural development in the waste management sector.

The Social Democratic government conceptualised the new corporate role of EGF as a public holding of new multi-municipal waste management firms, each serving a group of adjoint municipalities. Municipalities and the central state were the shareholders in the EGF model. The state provided at least 51% of public capital whilst municipalities held up to 49% and appointed seats in the board of multi-municipal firms.10 The goal was to promote scale by agglomeration of municipal systems and, at the same time, stimulate a modern entrepreneurial culture in the sector that would comply with European standards on reporting and accountability. A core mission of the company was to apply for European funding programmes and for financial support from the European Investment Bank (EIB).

Municipalities could opt to coordinate at the municipal level and maintain autonomy from the central state and the EGF Group by organising inter-municipal (versus the EGF's multi-municipal) systems. This option aligned with the executive strategy to promote scale, in order to update facilities, management and technological practices. Moreover, it accounted for existing associations of municipalities which had been foreseen by Decree Law in 1981 and were already operating in the sector (Antas, 2017, p. 28; Decreto-Lei n° 266/81, 1981; Leite, 2017, pp. 38–9).11 Also, it respected the historical tradition and constitutional norms on local jurisdiction. A new legislative framework published in 1993 (Decreto-Lei n. 372/93, 1993) established both the multi-municipal and inter-municipal models.

The mobilisation of multi-municipal coordination under the EGF was not an easy task. By joining multi-municipal systems controlled by the EGF, local governments would surrender control and abdicate municipal autonomy to central interference. Some municipalities had already formed their own inter-municipal structures which were either operating directly or under contractual delegation and did not want to change their modus operandi. In other cases the mayors of adjoint municipalities had personal rivalries and did not want to aggregate in the same multi-municipal system.12

With the exception of two important multi-municipal systems created in 1994, in Lisbon and in the Algarve (the firms under concession were respectively VALORSUL and ALGAR), the process of creation of the multi-municipal systems was still incipient when the Socialist government won executive office in 1995. The Socialist mandate accelerated the development of the statist model conceived by the Social Democrats. The incoming Socialist executive asked the EGF and the Directorate General of the Environment to press for the creation of multi-municipal systems and to help elaborate the concession contracts for the respective firms.13 A working group was also established, involving several stakeholders with the mission to prepare a national strategic plan for the sector. Many meetings were held involving central policy-makers, regional development committees, municipalities and municipal associations, in order to convince local authorities to agglomerate under the central hand of EGF.14 In 1996, six multi-municipal systems were created, and five othes were created in subsequent years (Almerinda Antas, 2017, pp. 31–2).15

The National Institute of Waste (Instituto Nacional dos Resíduos – INR) was created in 1996 and the Strategic Plan for Urban Waste (Plano Estratégico dos Resíduos Urbanos Sólidos – PERSU) was published the following year. The latter set benchmarks for the next decade and established the technological infrastructures that should be implemented in each region. In 1997, the Waste and Water Regulatory Institute (Instituto Regulador de Águas e dos Resíduos – IRAR) was created with a small structure and was primarily in charge of technical supervision (Martins, 2017, p. 11). The PERSU foresaw the configuration of 11 multi-municipal systems under the EGF and 29 inter-municipal systems held by associations of municipalities. According to the letter of the reform, private firms could be involved under contractual concession in both inter-municipal and multi-municipal systems, as long as the latter retained a majority of public capital. In reality, the multi-municipal systems of the EGF operated on 100% of public capital, joining central and local entities.16

There were negative incentives for municipalities opting out of the EGF model and organising horizontally under inter-municipal systems and without the central hand of the state. As mentioned above, the EGF had technical and human resources in areas of expertise that were necessary to craft complex applications for European funds supporting the development of large-scale infrastructures, namely landfills, incinerators, and other recycling sites. This expertise was namely in finance, engineering, territory planning, and project management. The large majority of municipalities (either individually or in association) lacked this as well as the amount of financial resources that under the rules of supranational funding had to be provided at the national (or local) level in the process of infrastructural implementation.17

The EGF also had direct access and proximity to office-holders at the national level who decided on the allocation of European funds and national operational programmes. According to interviewees, members of the EGF's board met with top level policy-makers on a regular basis, and discussed infrastructural priorities and problems with them. Administrators of inter-municipal waste management firms interviewed for this study claim that the formal projects submitted by the EGF to the national entities responsible for funding were swiftly approved and that this did not happen with the same ease in the case of inter-municipal applications for support to infrastructural development, especially those from periphery regions of the country.18 Another positive externality of incorporation into the EGF was that it helped with surmounting debt to suppliers – a problem that plagued many local executives. The EGF also subsidised the construction of roads, round-abouts, municipal sports areas, and other municipal infrastructures with no relation to waste management.19 According to interviewees, all these positive incentives influenced the expansion of the holding (via the incorporation of new municipalities) in the decade and a half that followed the creation of the first multi-municipal systems.

On a different note, municipalities used their right to appoint members to the board of multi-municipal firms as a source of local party reward. The careers of the staff of multi-municipal firms at all levels of qualification were attractive in terms of pay and benefits and provided a nice venue for employment of local residents.[20] In turn, interviewees claim, the board of the EGF holding was used by governments as a venue for political party compensation, much in the same way multi-municipal concessionaries offered jobs for local politicians.

On the other hand, the Environment Ministry perceived the EGF as the effective venue to secure fast alignment of large-scale infrastructural strategy and technological choices with European benchmarks and with the guidelines established by the PERSU.[21] As a result of the autonomy of municipalities vis-à-vis the central state, central structures of the Ministry had limited monitoring capacity as well as limited competence over inter-municipal structures. It was difficult to patrol the activities of firms outside the state-controlled EGF holding.[22]

The official discourse in negotiations with municipalities was that the allocation of up to 49% capital to local governments and the right to seat in the board of multi-municipal firms allowed local governments a voice in terms of policy. In reality, central policy-makers were convinced that the central state, with its majority of capital, secured command over the entities under EGF.[23] Indeed, each multi-municipal system agglomerated several municipalities and, therefore, any given municipality on its own was a small minority shareholder of one of EGF's concessionaries.

The privatisation of EGF

In May 2011, the Portuguese Socialist government received a rescue plan from the European Commission, the International Monetary Fund, and the European Central Bank (the ‘Troika’). The so-called ‘Memorandum of Understanding on Specific Economic Policy Conditionality’ (MoU) was signed on May 2011. With it, the Portuguese government pledged to adopt a set of global and sectorial adjustment programmes (Sousa, Magalhães, & Amaral, 2014). On January 2014, with the Troika entities heavily monitoring the country, and struggling to keep up with the obligations imposed by the MoU, the government, led by Social Democrat Prime Minister Passos Coelho announced that the Council of Ministers had approved the privatisation of EGF (Baptista, 2014).

This and other privatisations of state-owned companies were planned as a response to the imperative to decrease the public debt. The state-owned Águas de Portugal (AdP) Group had considerable debt and the government claimed that the purchase of EGF by a private group could settle it (Lusa, 2014; TVI24, 2014).

Moreover, the Environment Minister stated in a press conference that the privatisation of EGF was not only financially-driven but also conceptual, as there are certain areas where the state should participate and others where the state should regulate but not manage, the latter being the case for EGF (Baptista, 2014).

The government tender was launched through international public contest and the firm was to be traded in block, rather than selling the eleven multi-municipal firms separately. The Environment Minister explained publicly the rationale for selling in block: accordingly, the most sought-after firms were those located in the litoral areas because of the high population density and the more developed infrastructures allowed higher levels of rentability, making them more attractive to private capital. The state would sell the management of EGF but the infrastructures (heavily financed by European funds) were to remain state-owned (Ibid).

The decision to privatise was strongly contested by the municipalities which co-owned the concessionaires under the EGF Group and would feel directly the impact of a change in its ownership and governance. The municipalities protested that they had joined multi-municipal systems for waste management with a guarantee from the government that there would always be a majority of public capital and that EGF would not be privatised (Município do Barreiro, 2014). Local governments feared that privatisation would lead to a loss of control over waste management in their territories, and used the argument often tied with resistance to privatisation in general services sectors, i.e. that private management would not be the best model in serving interests of the population. On the one hand, they anticipated higher tariff payments to the privatised concessionaries, which would reflect on consumers. On the other hand, there were claims that the private drive for profit (versus concern for social wellbeing) would worsen service quality for consumers. Additionally, workers in the concessionaries protested the potential loss of jobs. The municipalities also criticised the government for its lack of communication and consultation with the municipalities in the change of legislation that made the privatisation possible.24

Political parties from the centre-left to the left of the political spectrum – Socialist Party, Leftist Block (Bloco de Esquerda), Greens (Os Verdes) and Communist Party – accused the government of succumbing to the interests of big business under the pretext of complying with the obligations set up by the Troika (Município do Barreiro, 2014; Silva, 2014). The criticising parties argued that it did not make sense to sell a state-owned company that had been making a profit and which had provided a service to the satisfaction of the population (Silva, 2014). Furthermore, it was put forward that the amount of public money injected in the company throughout the years, making it modern and efficient, could never be covered by the amount that it was going to be privatised for.

In a 2014 motion at the Lisbon City Hall to have the privatisation rejected, the Leftist Block mentioned that, in the previous three years, the EGF Group had accumulated a profit of around 62 million euros and had assets valuing over 1000 million euros, having invested 45 million euros in 2012 alone (Moção 03/042 (BE)). There was no reference to the large debt of the company. In a last effort to prevent the privatisation of EGF, several municipalities requested injunctions (Marques, Antunes, Marques Simões, & Freches, 2013). The latter were rejected (Soldado, 2015).

In September 2014, the executive led by Prime Minister Passos Coelho declared that the SUMA Group (Serviços Urbanos e Meio Ambiente) consisting of Mota-Engil (one of the large firms identified in the sections above) and the Spanish firm Urbaser had won the privatisation of 95% of the public capital of EGF (Lusa, 2014). The purchase cost 149 million euros. According to the rules on the privatisation, municipalities could opt to sell their shares in the concessionaires but only 12 out of 174 municipalities decided in favour (Decreto-Lei n° 45/2014, 2014). Municipalities claimed that the SUMA Group would enjoy a too comfortable position in the market which would distort competition and therefore the sale was illegal. Even so, the Competition Authority (Autoridade da Concorrência) approved the sale on July 2015, and stated that it did not create barriers to competition in the waste management sector (Autoridade da Concorrência, 2014; Dinheiro Vivo & Lusa, 2015).

In 2015, the Socialist Party came into power with a parliamentary agreement with left parties, including the Communist Party. Its position regarding the privatisation changed (Suspiro, 2015). The following year the Environment Minister announced that no illegality had been found in the privatisation process and claimed that the government was working on developing special agreements (acordos parasociais) for the management of the concessionaires between the private and public entities (Milheiro, 2016).

In 2017, the government implemented the necessary procedures to sell 5% of the company (approximately 560 000 shares) to employees (Cabrita-Mendes, 2017). However, only 1300 shares were purchased by three employees and SUMA had to purchase the remaining shares as per the rules of the tender (Cruz & Lusa, 2017). With the privatisation of EGF, Social Democratic and Socialist (with Communist support) executives awarded the SUMA Group (and therefore Mota Engil) direct control (through majority shares and changes in the corporate governance of) over eleven concessionaires that represent 60% of the waste management sector in Portugal.

The statist logic of Portuguese Neoliberalism

The above narrative of state-business relations at the macro and sectorial level reveals unexpected state intervention in the organisation of the economy, through great policy u-turns and institutional reform. In parallel with economic reform discourse and the implementation of rules on the entry of private capital in economic activity, as well as the formal institutional displacement associated with them, the central state reengineered a heavy hand over economic organisation. State ownership of means of production was largely reduced but the state-regulated processes of privatisation influenced sectorial concentration.

The mediating role played by the state in the allocation of vast European resources for infrastructural modernisation contributed to perpetuate central state intervention under the formal cover of economic liberalisation. The instruments of central dirigisme deployed in contrast to the official discourse and notwithstanding formal rules on economic liberalisation started out during the early nineties Social Democratic mandate and were reinforced during Socialist governments, suggesting that ideology has not played a determinant role in the reengineered model of statism.

This is evident in the close examination of the waste management sector. The neoliberal Social Democratic executive did not hesitate to use a legacy of the authoritarian period, i.e. a nationalised company from the largest industrial group of the E. Novo, to deploy a public vertical structure of corporate governance that controlled sectorial agglomeration and the implementation of infrastructural technological strategy. Under the vertical umbrella of the nationalised firm, the Social Democratic executive and the Socialist governments that followed used the financial power bestowed by European funds to exert a magnifying effect over governance in the sector. In other words, the European financial tap became one more instrument of state dirigisme under discursive neoliberalisation by means of central state mediation of resource allocation.

It would be expected that corporatist relations eventually become obsolete with radical political regime change and economic opening under the pressure of great regulatory reform. But statism has proven to be intensely resilient. This case suggests the revival of patterns of state-dependent economic power that were a trade-mark of authoritarian corporatism. Central-state command over the agglomeration of firms in a given industry had been one of the major tools of industrial conditioning in the authoritarian period (Confraria, 1992; Louçã et al., 2014; Silva, Amaral, & Neves, 2016). Case analysis reveals that privatisations contributed to revive old mechanisms of sectorial agglomeration. The revival of the authoritarian conditioning strategy of industrial agglomeration re-emerged as a pillar of central state command in the democratic period.

The trajectory of Portuguese capitalism has evolved from statist socialism into a formally liberalised economy but, in reality, it re-configured into a model of state-dependent political economy perpetuated by the allocation of vast external resources. The historical analysis of state-economy relations in democratic Portugal reveals the reemergence of old elements of state corporatism wrapped in a new institutional cover. From large-scale owner to encouraging of large-scale privatisations and, eventually, liberalisation, the state adjusted and secured its role as a large-scale aggregator.

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Notes

1 The Varieties of Capitalism concept became widely adopted in the comparative capitalism literature since Hall and Soskice’s (2001) seminal book. For VOC approaches to the determinants of the Eurozone crisis, see Hassel (2014) and Royo (2014).

2 The Council of the Revolution was established in 1975 by the Movement of the Armed Forces and featured in the 1976 Constitution. Its mission was to advise the Presidency and to guarantee that the programme of the Movement of the Armed Forces was implemented, as well as to guarantee that institutions complied with the 1976 Constitution.

3 Breweries (!) were also nationalised, due to ownership by large industrial and banking Portuguese groups. Law n° 46/77, de 8 de Julho was subsequently enacted to prohibit private economic activity in most of these sectors.

4 In 1973, seven groups – namely CUF, Espirito Santo, Champalimaud, BPA, Borges & Irmão, BNU and Fonsecas & Burnay – controlled more than 300 firms and nearly all the banking system (Sousa & Cruz, 1995). For a more detailed analysis, see Ribeiro, Fernandes, and Ramos (1987) and Silva et al. (2016).

5 See Costa et al. (2010, p. 273) for a detailed explanation of the actors involved in the creation of these banks.

6 Later, some of these state supported Portuguese private groups were sold to foreign investors, either by strategic option or financial difficulties or other factors (e.g. family conflicts). This happened, for example, with large players in banking and cement.

7 For a more detailed analysis of these corporate networks, see Silva and Neves (2014).

8 Interviews with former Enviroment Ministers and Secretaries.

9 Interviews with former Enviroment Ministers and Secretaries.

10 Interviews with former administrators of EGF, current and former executive and regulatory office holders overseeing the sector, and environmental NGO representatives.

11 See Decreto-Lei n° 266/81, de 15 de Setembro. For example, the second largest city in Portugal, Porto, and its adjacent municipalities had formed a municipal association already in 1982 and the latter directly managed waste treatment. There were other developing forms of inter-municipal coordinaton in the early nineties, namely the Associação de Municípios do Planalto Beirão, Associação dos Municípios de Coimbra-ERSU, Associação de Municípios de Vila Real, Municípios da Região do Algarve.

12 Interviews with administrators of inter-municipal systems and with former administrators of EGF.

13 Interviews with former Ministers and Secretaries of the Enviroment and with former regulatory office-holders.

14 Ibid.

15 The multi-municipal systems created in 1996 were Sistema do Vale do Minho (VALORMINHO), Sistema do Vale do Lima e Baixo Cávado (RESULIMA), Sistema do Cávado (BRAVAL), Sistema de Santa Maria da Feira e Vila Nova de Gaia – SULDOURO, Sistema do Litoral Centro (ERSUC), Sistema da Alta Estremadura (VALORLIS). The Sistema da Margem Sul do Tejo (AMARSUL) was created in 1997. Four other systems were created later – Sistema do Oeste (RESIOESTE), Sistema do Baixo Tâmega (REBAT), Sistema do Alto Tâmega (RESAT), Sistema do Vale do Douro Sul (RESIDOURO). The three latter ones would merge subsequently into RESINORTE.

16 Interviews with former Ministers and Secretaries of the Enviroment and with former regulatory office-holders.

17 Interviews with former Ministers and Secretaries of the Enviroment and with former regulatory office-holders.

18 Interviewees point out that inter-municipal firms in densely populated regions where effective waste management was critical to comply with supranational benchmarks were an exception to this statement.

19 Interviews with former Ministers and Secretaries of the Enviroment and with former regulatory office-holders.

20 Interviews with former administrators of EGF.

21 Interviews with former Ministers and Secretaries of the Enviroment and with former regulatory office-holders.

22 Interviews with former Environment Ministers and Secretaries.

23 Interviews with former Ministers and Secretaries of the Enviroment and with former regulatory office-holders.

24 Specifically, the Decree-Law n° 379/93 which forbade a majority of capital.

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