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OBSERVATÓRIO POLÍTICO

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Recensões

Present, past and future of the Welfare State in Portugal: sustainability in debate

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In The Origins of the Welfare State in Portugal

The welfare state, that is, the assumption that part of the income of workers is not paid directly by salaries, but through an indirect "social" salary based on free and universal public services and goods (or almost free) emerged in Portugal in a generalized form as a result of the revolutionary conflicts of 1974-1975. We need to focus on these origins to understand the progressive erosion of such social rights that have in certain moments, such as after the 2008 economic crisis, declined drastically.

Mutualism or cooperative forms of solidarity existed in an organized form in the country since the nineteenth century. They were above all urban and 320,000 of the 380,000 members of such organizations in the country as a whole in 1909 were centered in the two largest cities of Lisbon and Oporto. To understand the success of these mechanisms, we may note that in 1843 there were only three organizations which grew to 628 in 1909 (Marques e Serrão 1991). The mutualism movement organized its first national congress in 1911 and continued to grow; by 1931 it compromised 570,000 members. Cooperativism – above all consumer cooperatives – had less success: in 1919 they comprised only 43,000 members. They achieved their peak in 1921 with 112,000 members and afterwards entered in decline (Marques e Serrão 1991).

The Portuguese welfare state and the quantitative and qualitative generalization of social rights arrived late in Portugal as Silva Leal (1985) stresses. Indeed, social rights emerged in the exact moment when in other countries – such as France that had implemented social rights after 1945 and England whose Beveridge plan in 1942 began the construction of the British welfare state – they were put in check through measures to recuperate profit rates after the 1973 economic crisis (Behring 2012; Martins e Coggiola 2006). Despite the peripheral status of Portugal in the

European context, the welfare state arose through the same causes as in Western and Northern Europe: pressure from the workers' and union movement, showing the primordial fear of the working classes among the elites as Luís Graça (1996, s/p) emphasizes and from the "preoccupation of the very economic and political system, concerned with industrialization" in the context of a demographic explosion, social and political conflicts and economic crises.

As the legal theorist Ângelo Ribeiro argues, human rights "in the sense of civic liberties, in their multiple aspects of civil, political, social, economic and cultural rights, that make a country a "democratic state with the rule of the law" were practically non-existent in Portugal [between 1926 and 1974]" (2000, 559). The coup on May 28, 1926 suspended the Republican Constitution of 1911 that consecrated, although in a restricted form, fundamental civic and democratic liberties. This Constitution was a result of the growth of the workers' movement, of social struggles and unionism during the end of the nineteenth and the beginning of the twentieth century. The Constitution of 1933, enacted through a plebiscite already under the tutelage of the future dictator Salazar, protected capital concentration, promoted the disciplining of the work force through the suppression of the right to strike and association, implementing a corporative union structure that abolished free trade unions, substituting them with "national unions" submissive to the state.

After the military coup of April 25, 1974 and the initiation of a revolutionary process there was a strengthening of social, political and economic rights characterized by universality. The welfare state did not evolve from mutualism or cooperativism (for the most miserable, infirm or restricted sectors of the trades and the working class) in the nineteenth century, accompanying that which would be a natural social evolution in the twentieth century. There was no linear progress, as many authors appear to suggest, independent of political factors, that would naturally impose itself and acquire the same reach of the model of European universal protection (Lucena 2000). The birth of the welfare state in Portugal resulted from a revolutionary process that modified labour relations namely through the increase in salary to levels that permitted universal coverage of wide social protection extending the social functions of the state to social security, healthcare, education, leisure, etc. In 1974-1975 alone, there was a transfer of wealth from capital to labour in the order of 18%. This model represented a qualitative historical leap and not merely a quantitative increase.

From the point of view of democratic rights, the welfare system guaranteed *de facto* since April 1974 the right to demonstrate, meet, associate, constitute political parties, strike, occupy the workplace, organize in the workplace and form unions. In the 1974-1975 period, moreover, the democratic organization of production acquired importance: in almost 50% of the workplace struggles studied by Santos *et al* (1976) in the entire period there were "sanitations" or purges of company managers and administrators linked to the fascist regime. In these two years, between 15 and 22.7% of workers' demands directly questioned the centre of power in companies (Cristovam 1982). Struggles over salary, constituting 39.8% of all demands in workers' struggles in the period, were marked predominantly by an egalitarian character: demands included equal salary for all, reduction of differential wage scales and a minimum wage. New demands also emerged, typical of revolutionary periods, such as equal work, equal pay and abolition of privileges in the workplace.

The IV Provisional Government was obliged in May 1975 to update the minimum wage (from 3,300 escudos per month in April 1974 to 4,000 escudos in April 1975) and to approve measures to contain price increases in basic foodstuffs after various demonstrations throughout March 1975 against the high cost of living. In many factories and companies (more than 300 in total), the government was forced to intervene to avoid layoffs and decapitalization, letting workers maintain production and their jobs. In many other companies, workers achieved salary increases, the generalization of the collective contract, a thirteenth salary and a Christmas bonus. They also won generalized improvements in the level of social assistance such as maternity leaves, sick and injury pay. It was in this period that workers also attained unemployment insurance, pension plans and social security; public healthcare; the right to civil divorces in Catholic marriages; public housing, rent and food price controls; nationalization of banks and insurance companies; agrarian reform; and the democratization of the management of secondary and post-secondary education.

Secured through the social struggles that marked the revolutionary process, these rights were consecrated through the form of a *de facto* Social Pact whose founding document is the Constitution of 1976. The social rights institutionalized between 1976 and 1986 covered the whole spectrum of social welfare: healthcare, education, labour rights and social security.

In 1960, there were 56,000 retired workers in Portugal; in 2000, there were 2.5 million (Barreto 2004). A part of the social welfare measures were already implemented during the final years of the dictatorship, but universality was posterior to April 25, 1974 (Lucena 2000). Education became free at all levels. In healthcare, Article 64 of the Constitution states that all citizens have the right to healthcare as well as the right to defend and promote it. This right was implemented through the creation of a free and universal national health service.[1] To secure the right of healthcare, the state was charged with the task of guaranteeing access to all citizens, independent of their economic condition, including preventative, curative and rehabilitative care as

1. As the very Minister of Health recognized, it was in 1974 that the "conditions were created" for the emergence of a national health service in 1979. Until April 25, 1974, medical services were under the auspices of family solidarity, private institutions or certain public institutions with unequal quality and severely restricted access.

well as ensuring rational and efficient medical and hospital coverage throughout the country. The latter was secured through the obligation of recently-graduated physicians to serve for one year in the poor periphery of the cities. The Ministerial Order published on July 29, 1978, known as the Arnaut Order, anticipated the National Health Service, giving access to Medical and Social Services to all citizens, independently of their capacity to contribute. Law 56/79 of September 15, 1979 created the National Health Service within the Ministry of Social Affairs.

The conquest of these rights resulted from the heightened social conflicts that forced a significant transfer of income from capital to labour (Barreto 1978). Between 1977 and 1981, real wages per capita registered an annual increase of 3.6% per year. In this calculation, remuneration from work (which in 1974-1975 was 60% and in 1979 45.9% of the total) is not the only variable: "transfers from the state, the majority constituted under the rubric of 'social payments'" counted for 13.3% of the total (Lima 1985, 506-508).

Is the Welfare State sustainable?

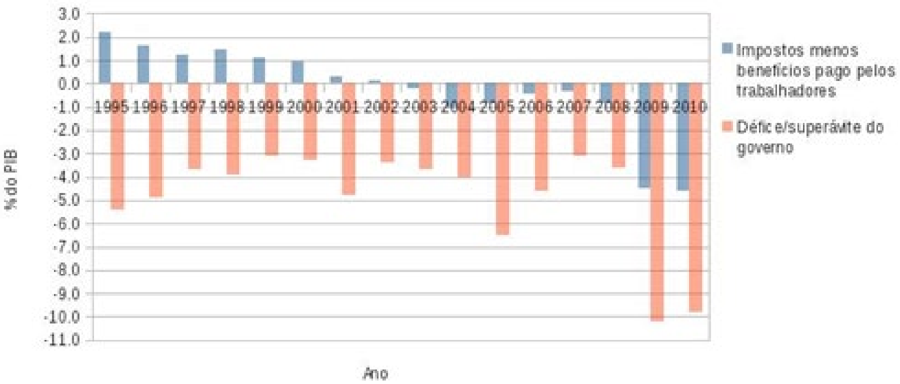
The impact of the cyclical crisis of 2007-2008, commonly known as the global financial crisis, a crisis of credit defaults whose most symbolic moment was the bankruptcy of Lehman Brothers Holding Inc., the fourth largest investment bank in the United States, was felt in a dramatic form in Portugal and the other semi-peripheral economies of the European Union. State finances suffered profound alterations that gave rise to a public debt crisis. The public deficit increased from 3.6% of the Gross Domestic Product (GDP) in 2008 to 10.2 and 9.8% respectively in 2009 and 2010 (Eurostat 2012).

In the first moment, the increase in the deficit was viewed as a necessary result of the diverse measures to deal with the effects of the crisis[2] adopted all over Europe. Soon after, both the Portuguese government and the European Commission (EC) opted to return to the Stability Pact agreed to in the Maastricht Treaty, that is, the constriction of the public deficit to a maximum limit of 3% of the GDP. With the intention of returning to disciplined government budgeting, the then government of the Socialist Party (SP) lead by Prime Minister José Sócrates approved three Stability and Growth Programs as austerity measures. Finally, when the government tried to approve a fourth "package" of measures, denominated PEC IV (Stability and Growth Plan IV) the parliament rejected it and the government resigned. While waiting for new elections, the managing government successfully secured an external loan

2. While it is outside the ambit of this article, we would like to stress that we share the theoretical proposals that economic crises in capitalism manifest themselves through deflation or a fall in prices of financial assets such as the depreciation of stocks, debt securities, mortgages, etc. In practice, this signifies a depreciation of property and a drop in the rate of profit. At this level, we may observe, on the one hand, a decrease in economic activity, especially industrial. On the other hand, governments and central banks attempt to resolve these crises through lowering interest rates in a manner which makes access to money easier and cheaper as well as providing incentives for increases in investment. (Rosdolsky 2001)

destined to pay the public debt and recapitalize the banking sector. A protocol of understanding was signed by the CE, the European Central Bank (ECB) and the International Monetary Fund (IMF), a triad of financial and governmental institutions that became popularly known by the Russian-language epithet, *troika*.

The loan was requested under the pretense of the argument that it was necessary to avoid bankruptcy. And the austerity measures that followed – salary cuts, tax increases and reductions in the social functions of the state – were assumed as guarantees that the loan would be repaid. The phrase used by bankers and politicians in Europe that "The Portuguese were living above their means" will perhaps be the most poignant marker of this immense social change. The measures resulted in salary reductions, the privatization of state companies and substantial cuts to social welfare programs that accompanied a general movement of the commodification of public services in various countries that has led to the substitution of universal coverage by focalized programs, that is, public and free social policies directed not to all citizens, but only to the poorest segments of society (Mota 2012).



Graph 1 – Government Deficit/Surplus and Benefits to Workers. Source: Guedes, Renato, Viana, Rui. In Varela, Raquel, 2012.

The ensuing political polemics reignited the scientific discussion on the historical-social origins of the welfare state and its sustainability. In the socio-economic study that follows we use the model of the calculation of the social functions of the state created by the economist Anwar Shaikh (2012) which he has already used to investigate other countries of the Organization for Economic and Co-Operative Development (OECD) such as Australia, Canada, the United Kingdom, Sweden and the United States. We calculate the "liquid social salary", a complementary form of the "indirect salary" that computes the conjunction of contributions delivered by workers and employers to the state (in direct taxes, indirect taxes and social contributions) and subtracts the cost of the totality of social services offered by the state to the working class in healthcare, education, social security, leisure and sports, public transit, etc. This balance, Shaikh defines, may be positive or negative yet the complex calculation results in a simple formula: if the liquid social salary is positive, the workers pay for more than they receive; if it is negative they receive more than they pay for.

The most important conclusion of this study is expressed in Graph 1. The contribution of the workers was positive between 1995 and 2002 and afterwards turned negative. However, this deficit was less than 1% of the GDP with the exception of 2009 and 2010 where it reached a little more than 4%. In any case, these values, despite being negative, are quite far from the deficits of the government in these years, making it clear that it is not possible to attribute state deficits to excessive social spending. On the contrary, the government ostentatiously used the surplus paid by the workers in the positive years to cover the deficits of capital at least until 2002.

"Man does not live from bread alone". Social security (1974-1986)

Social security is one of the principal pillars of the welfare state. In 1974, it was transformed from *welfare to security.* We utilize here the concept of social protection to include the wide range of measures necessary for the maintenance (healthcare) and formation (education) of the workforce. If social protection is not focused, that is, directed to particular sectors, but universal, we call this *social security*. We utilize the term assistance when we refer to the programs that aim to biologically reproduce the workforce; in other words, the measures, public or private (or the private management of public funds, which is more common) used to maintain the industrial reserve army of labour, that is, to avoid the death (or guarantee the survival) of the unemployed and the poor.

The change in name in 1974 was important as much in content as in form. Until recently, *grosso modo*, since Portugal had one of the best healthcare systems in the world and for many years an excellent public education sector (today we have more Ph.D.'s than we had undergraduates in 1970), social security refers to two large areas: 1) pensions, the fruit of the discount of the salary of workers or transfers from the state budget (in the case of non-contributory pensions) that was only possible by the historical increase in salary levels; and 2) political programs called "social actions" that aim to remedy poverty and involuntary unemployment.

Social security is roughly divided in three systems: the social welfare system, the system of social protection and citizenship, and the complementary system. The latter is a recent innovation destined to those who contribute beyond that obliged by law; its importance is minimal since it has not yet acquired a substantial financial dimension.

The first system, the welfare system, is divided in two: repartition and capitalization. Since it is a contributory system, it is largely funded by the contributions of workers (in 2011, worker contributions totaled 85%, for example); the funds that are guaranteed by this system are paid through repartition. The positive balance between the contributions and the payments becomes part of the capitalization which is a kind of savings account of social security system that is used in the eventuality of a deficit in the repartition process. The workers contribute to this system with 34.74% of their gross salary of which 11% is directly extracted from salaries and 23.75% from employers. Independently of who contributes this money to the state, it is considered a part of the remuneration of the workers. Finally, this system also covers protection for sickness, maternity and paternity leave, adoption, unemployment (as much through unemployment insurance as through programs for professional formation and training as well as salary subsidies), death, invalidity, old age and work-related illnesses. It is worth remembering here that we are discussing programs covered through the contributions of the beneficiaries. To provide an example, according to the most recent budgets of the Social Security system in 2011, the distributive part of the system comprised around EUE 17.3 billion, of which 13.5 billion came from contributions, 1.445 billion from the previous years' balance and around 1.15 billion from the European Social Fund. The remainder resulted from specific state programs such as the transfer of pension funds from one sector of the state to another which came to be administered by the Social Security system. The expenses (transfers to the population) absorbed the budget, that is, of the roughly EUR 17.3 billion euros in the budget, 13.683 billion were paid in direct transfers which was divided in the following manner: 10.828 billion in pensions and complements (survival, invalidity and old age absorbed around 80% of this value); 219.7 million in family support programs; 453.4 million in subsidies and complements for sickness and subsidies for tuberculosis patients; 1.7396 billion for unemployment insurance; 16.7 million for work-related sickness; and 425.2 million for maternity and paternity leaves. The remainder of the expenses was largely related to subsidies for professional formation, approximately 1.3858 billion, administrative costs, small programs, etc. Finally, the capitalization fund of the welfare system counted on EUR 6.6346 billion and would be used to cover possible deficits in the repartition part. About half of this value was invested in public debt securities or by debt securities guaranteed by the Portuguese state. This fund is, in general, formed in part by the contributions of the workers, sales of the patrimony of the Social Security System and profits from the financial securities. By legal imperative, its value should increase until it is possible to pay two complete years of pensions in the welfare system – which as we said earlier was EUR 10.8 billion in 2011.

The other system that concerns us here, the system of social protection and citizenship, is divided into three subsystems: the subsystem of solidarity, the subsystem of family protection and the subsystem of social action. It is a non-contributory system of Social Security. The budget of these subsystems is EUR 4.5679 billion, 1.297 billion and 2.2305 billion, respectively, totaling 8.0954 billion. The majority of these funds are transfers from the State Budget (OE) with the exception of EUR 715.2 million transferred from the so-called Social Aggregate Value Tax (IVA). A part of the IVA is designated for the subsystem of social protection as well as a part of the Santa Casa de Misericórdia lottery which transferred EUR 163.6 million in 2011 to the subsystem of social action. The largest part of the subsystem of solidarity is spent on pensions and complementary programs – survival (EUR 306.1 million), invalidity (383.4 million), old age (1.8988 billion), veterans benefits (34.2 million) and pensions for early retirement and reduction of work-time schemes (627.5 million). In total, the budget of the subsystem of solidarity is thus EUR 3.25 billion. The remainder is spent on family programs (255.6 million) and unemployment insurance (364.18 million).

The subsystem of family protection uses the great majority of its funds for pensions and complementary programs (EUR 370.1 million) and family protection (812 million).

Finally, the bulk of the spending of the subsystem of social action (EUR 1.6002 billion) is essentially transfers of funds to the Private Institutions of Social Solidarity (IPSS).

The welfare system is thus contributory and its spending on social programs is covered in the long term by the contributions of workers. On the other hand, the system of social protection and citizenship is non-contributory and is essentially guaranteed by the state budget, that is, by definition it is in deficit.

The debate around the sustainability of social security has been dominated by demographic arguments that predict a semi-catastrophic scenario in which the evolution of the age group pyramid (with the increase in the retired population in relation to economically active workers) will compromise sustainability. This is an erroneous explanation. The key to the sustainability of social security is in the wealth produced and in labour relations and not in the current demographic situation, in which, by the way, the United Nations (UN) predicts that the relation between economically active and non-active persons will not alter significantly until 2060.

The increase in average life expectancy (ALE) is not a tragedy, but an incredible advance in civilization that is a result of thousands of years of evolution. On the other hand, the ALE is an average – the difference in ALE between a manual worker and an executive could be as high as 18 years! It is worth stressing that the ALE in Portugal is almost identical to northern European countries, but the *healthy* ALE of 6 years is one of the lowest on the continent. In Denmark, it is 15, for example. Finally, the calculations of the ALE in Portugal presuppose *current* wellbeing, that is, access to healthcare and social security, healthy housing, healthy food and mobility. If there are cuts in this sector, the expectation is that the ALE will fall. Thus, cutting social security could result in us living less.

Social security is sustainable and could even provide a surplus if its decapitalization by the state is impeded and worker-employer relations are protected. Cuts to social security funding began in the second half of the 1980s and comprised the following measures: the use of social security funds to generate social programs to deal with the consequences of unemployment ("parents" paying for the unemployment of their "children"); reduction in the number of active workers through voluntary retirement, some of them only between 45 and 50 years old, who enjoyed rights and contributed to the system, but who were replaced by workers with precarious conditions; debts of companies (EUR 8 billion) who owed money to the social security funds that were not paid; the transfer of significant pension funds from various state and private enterprises (that today value less than one third of their original amount); distorted accounting maneuvers that hide the real value (non-nominal) of pension funds; subsidies from social security to pay for laid-off workers (which has tripled in 5 years); the creation of Professional Formation and Active Employment Policies (1.4% of the GDP) within which is included the program Youth Impulse, which allows employers to contract workers with almost no cost; and even the use of social security funds for "humanitarian aid to Kosovo".

We dedicate the majority of our arguments to labour relations because we believe that they are the key to sustainability. If it true that the number of elderly and retired workers has increased, it is no less true that the number of active workers in Portugal has never been greater than at the beginning of the twenty-first century, including the impressive entrance of many women workers in the labour market. Today there are 5.4 million active workers and 2.5 million pensioners or those retired because of old age. Thus the number of active workers is double that of retired persons.

To define the sustainability of social security it is useful to discuss the productivity of the workforce. Indeed, productivity has increased more than enough to compensate for any future reduction in the economically active population or the proportional increase in the number of pensioners. Productivity per worker in Portugal increased 5.37 times between 1961 and 2011, that is, 430% per worker. However, half the active population is unemployed or precarious, receiving on average salaries that are 37% less than full-time workers which results in the lack of contributions to the social security system to provide for dignified pensions for those retired.

"Buy the parents to sell the children?" From social security to assistance (1989-2012)

The utilization of social security funds to deal with precariousness and unemployment in the labour market, creating a social cushion, according to the orientations of the World Bank, was meant to avoid social disruptions from extreme poverty, inequality and social regression and has been an essential question in relation to the sustainability of the welfare state and the reconversion of the workforce. Indeed, it is exactly these measures which have made the welfare state possibly unsustainable. Such measures were negotiated, case by case, and the majority of cases of early retirement or reduction of work-time schemes were accepted by the union structures. This was the case in the banking sector, among large metal manufacturers (at the Lisnave shiopbuilding company, for instance, some of the almost 5000 workers who took full early retirement packages were up to 10 years younger than the age legally permitted[3]), stevedores and port workers (their numbers were reduced from 7000 to 700 in the country as a whole[4]) and the telecommunications sector. In exchange, the "acquired rights" for those already employed were conserved, but new workers would not be employed or if some were employed they would be subject to more precarious work regimes all of which led to a substantial reduction in contributions to the social security system.

We may verify a strict relation between the management of the employed workforce, social security funds and the growing creation of assistance programs to attenuate the effects of social conflict that are arising from cyclical but growing unemployment (partial and full subsidies for the unemployed, support for lay-offs, professional training, minimum salaries, and family welfare programs known of "social insertion").

In a 2008 study, Eugénio Rosa calculated that on average a worker in a precarious situation received 37% less salary than workers with a firm, full-time contract (Rosa 2008).

Table 1 – Work Force and Pensioners (2012)

Population Total	10, 572 178
Active Population	5, 543 000
Unemployed Population (real value)	1, 400 000
Population employed through short-term contracts	2 ,868 000
Pensioners (General Government Pensions)	603 267
Pensioners (Old Age)	1 991 191

Source: Estatística do Emprego, INE, 3.º Trimestre de 2012, Pordata.

Some of the most important moments of this imbricated relationship between social security funds and the management of unemployment[5] are:

3. On this theme, see Paulo Jorge Martins. 1999. As Relações Sociais de Trabalho na Lisnave, Crise ou Redefinição do Papel dos Sindicatos? Dissertação de Mestrado orientada por Marinús Pires de Lima. Lisboa: Instituto Superior de Ciências do Trabalho e da Empresa.

4. On the early retirement and reduced work-time schemes for workers in ports, see Law Decree n. 483/99, November 9, 1999.

5. On the evolution of the social security system, see Ministério da Solidariedade e Segurança Social. 2012. "Evolução do sistema de Segurança Social – conteúdo final". Accessed on January 4, 2013. http://

1) The creation of an unemployment subsidy (Law Decree n.20/85, January 17, 1985). There was already an unemployment subsidy for all workers created in 1975 (Law Decree n.169-D/75, March 31, 1975), but in 1985, by imposition of the then European Economic Community, a new law was enacted that created an association between the social security funds and the unemployment funds through the introduction of a consolidated social tax in 1986 paid by both employers and workers. In other words, it combined in the same fund, money from pensions and social programs with subsidies to the unemployed.

2) The institution of the juridical regime of "pre-reforms" (Law Decree n.261/91, July 25, 1990) that allowed private companies to offer compensation packages for workers to voluntarily reduce the number of hours worked or retire early.

3) In various forms over the years, exemptions from or reduction of interest rates on debts to the social security system were enacted for companies in "a difficult economic situation or [who were] objects of judicial processes involved in the recuperation of companies or protection from creditors".

4) Constitution of pension funds (Law Decree n.415/91, October 17, 1991).

5) Increase in the duration of the unemployment subsidy and the creation of a subsidy for the partially unemployed in 1999.

6) The replacement of the Guaranteed Minimum Income (1996) by a program of Social Income Insertion in 2003.

7) Successive decrees, in line with employer demands, establishing "anticipated reforms" that first allowed for workers of 45 years of age and then later 55 years of age, in addition to unemployed persons over 50 years of age, to enter into the unemployment fund through early retirement.[6]

8) The Employment and Social Protection Program (Law Decree 84/2003, April 24, 2003). This law reduced the time needed to access the unemployment subsidy, allowed the unemployed to claim early retirement and permitted the unemployed access to social unemployment subsidies.

9) Social security subsidies for laid-off workers, professional training and overdue remuneration.

10) Active Employment Policies.[7]

11) Exemptions from contributions to the social security fund and successive forgiveness of debts, the last one of which in 2010 was extended to all large, medium and small businesses.

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www4.seg-social.pt/evolucao-do-sistema-de-seguranca-social?p_p_id=56_INSTANCE_R6s5&p_p_lifecycle=1&p_p_state=exclusive&p_p_mode=view&p_p_col_id=column-1&p_p_col_count=1&_56_INSTANCE_R6s5_struts_action=%2Fjournal_content%2Fexport_article&_56_INSTANCE_R6s5_groupId=10152&_56_INSTANCE_R6s5_articleId=135838&_56_INSTANCE_R6s5_targetExtension=pdf

6. Consult, for example, Law Decree n.119/99, Aptil 14, 1999; Law Decree, n.483/99, November 9, 1999; and Law Decree n. 125/2005, August 3, 2005.

7. On this theme, see Dias, Mónica Costa e Varejão, José. 2012. *Estudo da Avaliação das Políticas Ativas de Emprego - Relatório de Progresso*. Lisboa: Instituto de Emprego e Formação Profissional.

12) Succession of debts of employers to the social security fund. Among current, prescribed and debts considered unpayable, the values have grown to billions of Euros since 1988.[8]

In short, what does this chronology tell us? First, that productive economic restructuration implied choices. In Portugal, the reduction of the work week to create full employment was not considered nor was taxation for social security according to the wealth produced. On the contrary, jobs were eliminated or made precarious through the use of social security funds. The phrase "salary of the parents to pay for the unemployment of their children" aims to capture this distorted situation. And in the post-2008 labour market the situation became even worse: now the unemployment of young workers could be the bargaining chip for the layoffs of their parents.

Yet these images do not do justice to the complexity of the process since there is no clear generational division: the majority of the unemployed tend to be the oldest and least qualified in the workforce, but it is also a fact that young workers are forced to delay their entrance into the labour market which diminishes the salary available for parents during the time they are sustaining their children. On the other hand, the salaries of these same parents are reduced by using the value that should above all be put into social reforms – and/or investments that would guarantee their sustainability – but instead are put into unemployment programs, support for lay-offs and focused assistance programs that are discretionary and not universal.

Before privatizing nationalized companies, workers were massively integrated into diverse forms of voluntary work-time reduction or early retirement schemes. In order to avoid paying the high values of legally-stipulated compensation, the companies ended up transferring the costs to the social security system with its funds used as backdoor compensations to capitalize and/or benefit these companies. Indeed, without such maneuvers they would not be sufficiently competitive in the privatization market.

The creation of the legislative measures outlined above, that permitted the elimination of jobs and put a contingent workforce into situations of unemployment, underemployment or reliance on social assistance has had grave consequences for the prolongation of dependency and the establishment of salaries below the minimum needed for subsistence. Although it still needs to be studied, they may have also generated a certain social apathy among the poorest in society. Cleusa Santos (2013) has made this argument in relation to the indication of the World Bank to create assistance programs to avoid social conflicts and guarantee the biological reproduction of the workforce.

Since the end of the 1980s, exemption mechanisms have been created for employers to avoid paying their contributions to the social security system. The first

8. For a study of employers' debts to the social security system, see Vítor Lima. 2012. «A dívida à Segurança Social». Accessed on July 29, 2012. http://grazia-tanta.blogspot.pt/2012_07_01_archive.html

of these measures conceded exemptions for employers for up to three years if the employer agreed to hire full-time, stable workers. At this time, the Active Employment Policies law was in effect in which the company could contract a worker for six months with a precarious contract with the salary paid by social security and then lay them off. The companies could also pay just a part of the salary with the rest paid by the subsidy for partial unemployment.

Social security has been used by companies to avoid a fall in profit rates. Businesses reduce or stop production and lay off workers with their salaries paid partially by social security. We do not know how many businesses have created "false" layoffs, that is, when six months after the layoffs the company declares bankruptcy. Social security also pays for overdue salaries, subject to certain conditions. The values of the latter tripled between 2008 and 2011 (Pordata 2011). Together, professional training and Active Employment Policies, corresponded at the end of 2011 to 1.4% of GDP, according to a study by Guedes and Viana (2012).

The capitalization fund of social security is also used to pay off the public debt with a part of the fund necessarily allocated for this purpose. Moreover, this fund of EUR 10 billion[9] is "fixed" and cannot be used for investment in public or social services, such as, for example, for public housing or homeownership loans (Granemann 2013). It is however, indirectly used to finance the banking system since it is invested in public debt securities.

Finally, we would like to mention the foggy circumstances involved in the transfer of pension funds, namely those from Portugal Telecom and the banks, to the state, shrouded by obscure numbers without knowing the real or face value of the funds or if in the medium term they are sustainable. These companies received fiscal exemptions in exchange for the transfer of the pension funds to the social security system (Rosa 2005).

Such policies have been progressively extended and widened in the last two decades in relation to unemployment which is created and managed through funds that were intended for pensions and social programs. For Marques, adapting to the European Economic Community and to the common Market has launched a series of measures such as "unemployment subsidies, retirement and work-reduction schemes, explicit support for restructuration, the active employment policies and professional formation" (2008, 78-29). As Hespanha et. al. argue, the creation of the Financial Stabilization Fund as well as the unification of Social Security with the Unemployment Fund have constituted measures that underline the relation between "the problems of un/employment and the necessity of the profitability of the contributions collected" (Hespanha 2000 apud. Fonseca 2008, 78).

What has been verified throughout the 1980s and 1990s is the transfer of universal policies of solidarity that secured the maintenance and formation of the work

9. Value calculated at the end of 2011.

force to focused policies that guarantee biological reproduction with the consequent dramatic fall in the salary necessary for the workers as a whole and the deflagration of poverty and social inequality. The principle of "universality" was effectively put in check during this period (Hespanha 2000 apud. Fonseca 2008, 80).

As Manuel Carlos Silva (2013) states, the unemployed and underemployed are not excluded fragments of society, but an essential part of the mode of accumulation which created an ideology arguing that it was necessary for competition within the international system of states to flexibilize the labour market to maintain competetivity and job creation. Thus, unemployment and flexibilization are two sides of the same coin that go hand in hand and, more dramatically, are financed with that which should be for the protection of a dignified old age with quality healthcare and services.

Finally, the revision of the labour code, which entered in vigour on August 1, 2012, not only lowers overtime pay to half its previous value, of particular importance for industrial workers, but also makes it easier to lay off workers.

In March 2013, for the first time in the history of the country, there were massive layoffs of public sector workers whose unemployment situation will once again be managed through pension funds and social programs which form the greatest part of the social security system. Under the form assumed by the XIX Constitutional Government, these dismissals will mostly affect the oldest and least qualified workers (Ecofinanças 2013), constituting a kind of social eugenics policy in which there is no space in the labour market, in this mode of accumulation, for those who could not adapt to the productivity levels that demand the lowering of the unit costs of work. This is not something completely new since in 1999 the government had assumed such a position in publishing one more decree that permitted the articulation between social security and the unemployed, referring to them "as those who due to age or qualification have greater difficulties in the insertion into an active life".[10]

On the one hand, the political regime considers that the country is saddled with both an aging and poorly trained workforce as well as a younger, more qualified and more productive workforce. As unemployment rates are historically high, in this phase of development it is clear that government has chosen policies that retrieve those who have rights in the labour market and replace them with those who do not and who are traditionally less capable of social and political organization and tend to accept poorer work conditions and relations.

It is therefore an *ideological* choice, we reiterate, to associate the longevity of the population to the unsustainability of social security. It is essential that social scientists respond to this dystopian common sense ideology with a radical and serious criticism. It is particularly important to expose the ideological nature of the

10. Law Decree n. 119/99, April 14, 1999.

governments' arguments through their use of successive studies in which they make predictions for 2020, 2050 and 2060 despite the fact that not one of their previous studies was capable of predicting the economic crisis or unemployment. Moreover, they are not even capable of rigorously studying the sustainability of social security, claiming, for instance, that previous studies from two to five years ago are now invalid since "conditions have changed" showing that such studies were not actually serious or solid. But it is on the basis of such determined but faulty studies that they implemented policies that involved the wellbeing of millions of people.

Concluding Notes

Paradoxically, that which was an historic gain – universal social security conquered during the revolutionary biennial of 1974-1975 – was transformed, for political reasons from the late 1980s onward, into a social "cushion" that financed unemployment and precarious work situations. The social security fund was thus used to mould new labour relations, legitimating "family salaries" in which families were forced to assume the costs of sustaining their children for a longer period. Moreover, the fund's resources were used in a systematic form to construct a welfare base that aimed to accompany the flexibilization of the labour market through subsidies for unemployment, for companies, for support for layoffs and for focused assistance programs.

We believe that this process may have opened a deep wound in Portuguese society through the "eugenization of the workforce": the low salaries of young workers threatens their social reproduction, including their biological reproduction, retarding their life experience as adults. Parallelly, it creates an aging society that is stereotyped and derided as an impediment to the country's development, accused of being stationary, pampered and poorly trained that blocks the entrance of better trained and more flexible workers in the labour market. A fiction was created, without scientific basis but considered unquestionable, that the "acquired rights" resulting from the Revolution of 1974-1975 are the origins of the problems that have led the country to bankruptcy in the competitive world market. As a result, in what is presented as a "generational war", only the precarization of labour relations, salary reductions and the introduction of programs that provide only for subsistence (in some cases, even less than this) can turn the tide.

This ideological project is a fiction since what has been empirically verified in Portuguese society are the historical limits of the capitalist mode of production: on par with the progressive flexibilization of the labour market, we have witnessed increasing unemployment, the deepening of economic crisis with anemic growth rates, the progressive erosion of small- and medium-sized property holders as well as the accelerated proletarianization of the middle classes of society and the general impoverishment of almost half the population to the pre-revolutionary levels of April 1974.

Politicians, economists and businesses have created a totally false image that the increase in life expectancy will undermine social security. This image is based on studies that continually replace older research that supposedly "failed in its predictions" (Guedes e Viana 2013), hiding the fact that Portugal has an economically active population of almost 5.5. million workers and only 2.5 million retired workers, but since labour relations and conditions have been made precarious, the pyramid is inverted and half the labour force – unemployed and precarious – appears as passive and not active. It is this inversion of the labour market that has created the social cushion funded directed by social security in multiple forms that simultaneously aids the finances of companies, on the hand, and creates unemployment and focused assistance programs, on the other.

The use of the image of a "generational war" is no different than the historical mechanisms of dividing slave workers, for example, in the Caribbean at the end of the eighteenth century in Saint-Domingue, the most productive of the French colonies, in 128 "varieties" based on the fraction of black blood that they possessed (James 2001). The modern division is based on new dichotomies. Beyond the classic divisions of man/woman, black/white, native/immigrant, today the hegemonic thinking divides the population in young/old, trained/untrained, employed/unemployed, precarious/with rights, active/non-active. In this model of accumulation, the real and valid differences that differentiate us as human beings – our taste for certain foods, the choice of names for our children, our size and weight, our ways of walking or tone of voice – are transformed into categories of division and social antagonism, tending to eliminate the constitutive essence of an immense volume of workers. All workers share the fact that they depend on a salary (and not rent, interest or profit), that is, they depend on the sale of their physical and intellectual labour power in return for a salary and exist as interdependent members of a group. It is this class that is the origin of value produced in the country, of the socially produced wealth, that is calculated today as around EUR 170 billion per year.

In the agony to reduce salaries to recuperate the historically record drop in the rate of profit, the policies applied since 2008 aim to make an historical leap by destroying the social pact established in the revolutionary process. Yet they have opened a Pandora's box. It is highly questionable that the supposed "mild customs" of the Portuguese people, the herculean anti-utopia appropriated by the dictator Salazar, will withstand the material fact of the widespread degradation of life of the large majority of workers. Peace, in Portugal, goes by two names: political police or ample social rights. The contemporary historical epoch has been marked by ungovernability and dialectically the consequences have been major impediments to accumulation whose only solution is supposedly "social stability", the term euphemistically used outside critical scientific environments.[11] In 76 years of constitutional monar-

11. It is curious to note that the large mainstream media refers to the frequency of strikes as moments of chaos

chism, there have been 43 elections or one year and eight months per legislature on average. Between 1910 and 1926, there were seven general legislative election, eight presidential election and 39 governments! (Marques 1980; Paço 2010) In the 1974-1975 revolution, there were six governments in 19 months and between 1976 and 1983, 10 governments, two of which were provisional and three of presidential initiative.

The role of the state has not been that of arbiter in an unequal relation, but a mechanism for the transfer of values from salaries, pensions and welfare programs to companies and the private sector. The state was the executor of the *regulation* of flexible labour regimes (and not as is erroneously argued of *deregulation*) since as we have seen all such measures were carefully accompanied by abundant state legislation and the use of public funds that were coercively collected by the state. The management of unemployment, the recapitalization of companies, the securitization of the social security fund, the commodification of the social functions of the state, the very management of the workforce through strategic conciliation, were all achieved through the state as an active regulator and financier and not by its absence as is wrongly attributed in the so-called "neoliberal phase". Indeed, this inappropriate use of the concept of neoliberalism errs since the state has not been diminished, but rather has intensified its interventions not just in the political and military sense, but clearly in the economic dimension as well.

This state is organized through a democratic-representative form whose crisis is visible not only in Portugal but throughout Europe. From the point of view of the regime, it is possible that we are at a historical crossroads that opens the possibility for the compulsive and authoritarian reworking of labour relations. This crossroads, whose resolution we are unable to predict, could open up space for *bonapartism*, that is, a dictatorship of the capitalist state where social rights are eliminated or severely restricted. Yet there is no social base for this in a Europe in which there is simultaneously a tendency to destroy social and labour rights, the live memory of the defeat of Nazi-fascism and the overthrow of the New State in Portugal just four decades ago and an ample consensus around the idea of the necessity of a welfare state (which unites distinct social sectors such as workers, the middle class and even conservative sectors). We thus believe that there are clear limits to the possibility of authoritarian dictatorships in this context.

The future of the welfare state depends today, as in the past, on the variable politics whose axes are employment policies and the social contributions that are utilized to fund social security. There are many conditioning factors which complicate the prediction of possible futures (Arcary 2013). Yet we would like to emphasize the following key conditions which will determine future outcomes:

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and to governance without strikes as stability (despite thousands of unemployed workers) using as their only criteria not the wellbeing of the population, but the absence of collective conflicts.

1) if there is a weakening and dramatic decrease in productivity that impedes the production of wealth in the country;

2) if emigration functions as a safety valve for the absence of social mobility (are their countries that can absorb this trained workforce?);

3) if the government is able to retrieve from the labor market the oldest and least qualified workers (either active or non-active) and put them on subsistence subsidies to allow the entrance of a more qualified yet precarious workforce into the labour market;

4) if the erosion of labour rights does not provoke a situation of disruptive inorganic conflict, that is, if the absence of collective contracts does not lead to the fragility of workers or weaken the possibility of solidarity with other sectors. It is worth remembering that the Portuguese working class was characterized by the absence of formal structures before the revolution, but widespread precarization led to the construction of powerful rank-and-file workers' commissions;

5) if the strangulation of social mobility, the expectation of living a decent life, does not provoke social conflict;

6) if the molecular and almost pre-capitalist degree of organization of both unions and political groups of the youngest and most precarious workers does not impede their capacity to fight for social rights;

7) if a more urban, educated, cultivated society conscious of its rights accepts the historical regression that has been the most important change in Portuguese labour relations since the revolutionary years of 1974-1975.

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