

ECPR Joint Sessions of Workshops, Grenoble, April 6-11, 2001

Workshop n°11 : Third Ways in Europe

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The Portuguese Socialists and the Third Way

Introduction

In October 1995, after having spent an entire decade in the opposition, the Socialist Party (*Partido Socialista* - PS) obtained its best electoral score in twenty years of free elections in Portugal, returning to power with only four seats short of an absolute majority in parliament. In retrospect, this victory can be viewed as the founding event of the 'rose revolution' that, by the end of the 1990s, would put social democratic parties in control of the majority of governments in the European Union. The PS's leading role in this European-wide electoral shift could be interpreted as a mere chronological accident or the result of an electoral cycle. However, and although the PS has explicitly refused to classify its agenda as part of any "new way", the political platform advanced back in 1995 had already shed most remnants of traditional social democracy and sought a new compromise between social concerns, economic liberalism, and budgetary orthodoxy. Thus, the Portuguese Socialists were arguably first in taking to power a political agenda that fell inside what has been called "new social democracy" or the "third way". Additionally, in the first half of 2000, the Portuguese Presidency of the European Council transposed for the first time to EU level many of the ideas "third way" leaders have been trying to implement in their respective countries. This was a remarkable transformation for a party that, in the early eighties, still espoused Marxism in its statutes, and spent a good part of the 1980s and 1990s in internal crisis and under the hegemony of its centre-right adversaries in the party system.

This paper attempts to explain the ideological and programmatic transformation of Portuguese social democratic politics in the last three decades, its similarities to that experienced by other European social democratic parties that have espoused some sort of "third way", and the extent to which that transformation has been translated into policy practice. In the seventies and eighties, the Socialist Party played a successful leading role in democratic transition and consolidation in Portugal. These protracted processes, and the dramatic economic circumstances found by the Socialist incumbencies, pushed the party towards the political centre in terms of its political and policy practice. However, in this period, the party's long-term goals of political survival proved to be contradictory with its short-term goals of electoral maximisation. Only in the early 1990s did important changes at the domestic and international levels allow the PS to openly dispute the centrist vote without fear of major losses to its left. Under the leadership of António Guterres, the PS swiftly

and effortlessly abandoned what had been the (mostly rhetorical) traditional social democratic components of its programme, turning the pragmatism, centrism, and Europeanism they had always displayed in their political practice into an asset rather than a liability. Particular attention will be paid to the period since 1995, tracing the policies which have been implemented by Prime Minister Guterres, in an attempt to determine the extent to which the changes which have occurred amount to a "third way", in line with the discourse and practices of Northern social democratic parties. Finally, we will discuss the causes of change of the Socialist Party, arguing that the European integration process, as well as changes in the domestic political environment were at the root of the policy and programmatic transformation which occurred in the Socialist party.

The PS before Guterres: between a rock and a hard place

By the mid-1980s, two aspects about the Portuguese Socialist Party's identity, support base, and role in the party system distinguished it from comparable cases. First, and in the words of Wolfgang Merkel, the PS had become "one of the most conservative social democratic parties of Western Europe" (Merkel 1991: 199). Among the members of the Party of European Socialists, only the *Partito Socialista Democratico Italiano* (arguably not a social democratic party and thus expelled from the PES in 1994) and the *Partito Socialista Italiano* were seen as more conservative (Huber and Inglehart 1995). Public opinion studies consistently showed that the PS's electorate was even further to the right in comparison with other social democratic electorates in Southern Europe, a puzzling phenomenon for a party that, at least until 1983, explicitly espoused Marxism and a peculiar brand of "democratic Socialism" in its statutes (Gunther and Montero forthcoming). The second noticeable peculiarity about the PS in that period was the fact that it was in the opposition. Being in the opposition in the 1980s might not seem particularly surprising in a decade when most observers announced the decline of social democracy in Western Europe.¹ However, the awkwardness of PS's situation becomes more evident in a comparison with the remaining Southern European countries that had democratised in the 1970s. While PSOE and PASOK took less than a decade to achieve supremacy in their respective Spanish and Greek party systems, the PS had followed almost the opposite path: from a leading role among the pro-democratic forces to a subordinate position in the Portuguese party system. The explanation of the profound crisis in which the PS was plunged by the mid-eighties has to be sought in the confluence of two interrelated factors: the nature of Portugal's democratic transition and the political and economic legacies it produced; and the unfortunate timing of the Socialists' brief accessions to power both in 1976 and 1983.

Before the 1974 coup that brought down the Portuguese authoritarian regime, the major opposition force was not the PS, but rather the Portuguese Communist Party (PCP). The PCP's pre-eminence in the political process was reinforced in the months following the coup, when the struggle for power in a highly unstructured political environment moved from the electoral arena to the military barracks, the unions, the fields, and the streets. The position of the PS in the Portuguese party system was to be defined in reaction to this process. Although the Socialists persisted

¹ See, among many, Dahrendorf (1980), Przeworski (1985), Przeworski and Sprague (1986) and Scharpf (1991).

in a markedly leftist anti-bourgeois discourse in what concerned distributive policies, they sought nonetheless to occupy the centre of a highly left-skewed political spectrum in which the conservative right had been totally delegitimised, drawing the dividing line between themselves and the extreme-left on what had become the lowest common denominator among its own increasingly diverse rank and file and the forces to the right of the PCP: the option for an "European-style" pluralist democracy, in opposition to the "popular democracy" and "third-worldist" orientation shared by the radical parties and military.

This strategy ultimately paid out. In the 1975 elections, the PS obtained the largest share of the vote (37,9%), revealing the distance between the extreme-left's control of the transition process and the actual preferences of the electorate. By the end of the year, the Socialists appeared to have "squared the circle". They remained favourable to the then fashionable policies of farm collectivisation, industrial nationalisation and state interventionism, but still managed to take front stage as the leaders of the successful anti-Communist struggle. At the polls, they had obtained substantial support from sectors of the large agricultural and industrial working-class, but also extended their influence across classes, regions, and the urban/rural divide, capturing even an important share of the Catholic vote and other fractions of the electorate that were clearly to the ideological right of their proposed policies and discourse (Opello 1985: 127; Bacalhau 1994: 110). In the 1976 elections they triumphed again at the polls, forming a minority cabinet and successfully completing the strategy "whereby the PS acted as a pivot in a political system where no party had an outright majority" (Gallagher 1990:29).

However, what seemed to be a recipe for unqualified success also turned out to lay the ground for long-term crisis, by placing the PS between a rock and a hard place. The "rock" remained on its left: the Communist Party. The PCP was incomparably better organised than any other party in Portugal, and enjoyed strong electoral support both in Lisbon's industrial belt and among rural wage labourers in the South. Their electoral clout (around 14% of the vote) was compounded by the *de facto* power that resulted from the extensive nationalisation of land, the heavy industry, and the banking sector that took place in 1975, allowing the PCP and its strictly controlled trade union to politically penetrate the management of these productive sectors. The PS's strategy during the transition — assuming the leadership of pro-democratic struggle in a tacit alliance with the moderate members of the military and the remaining anti-Communist parties — made competing for the leftist vote even more difficult.²

On the other hand, there was a "hard place" to consider: the tragic economic legacy of authoritarianism and consequences of revolution. Structurally, Portugal was characterised by a huge and backward agricultural sector and an equally antiquated and uncompetitive industry. The economic consequences of "revolution" were also troubling: depressed investment and exports that had caused negative economic growth (- 4.3% in 1975) and a enormous trade deficit; policies that had sharply risen real wages but took public expenditure from 27% of the GDP to 38% in just two years; and a massive and largely inefficient nationalised public sector, that included the entire banking system and heavy industry. Under what was already a difficult

² One of the manifestations of this alliance was the PS's jump to an unqualified defence of EEC membership, associating democratisation and economic recovery to the political and economic support that integration in the Common Market would bring (Sablosky 1996: 1013). In this way, the Socialists turned European membership into a political weapon, but that also meant plunging into a politics of exclusion of the PCP rather than competition for the Communist vote (Álvarez-Miranda 1996: 181).

competitive electoral context to its left, the newly formed PS government was forced to adopt unpopular economic restructuring and stabilisation policies. In sum, the Portuguese Socialists could not follow the successful strategy adopted by their Spanish and Greek counterparts, which used their opposition years to absorb the Communist vote by adopting radical ideological appeals, immediately replaced by more centrist positions once the Communist parties had been squeezed out of the party system (Kitschelt 1994: 289).

Throughout the following decade, the consequences of this double constraint would be felt over and over again. In 1978, the PS government had managed to stabilise the economy, but only at the expense of rising unemployment, two consecutive years of drops in real wages, and the growing hostility of the left. In the 1979 elections, the PCP bled the PS out of much of its previous share of working and lower-middle class constituency (Opello 1985). The Socialists ended up with only 27% of the vote and in opposition. In the 1980s, they were again forced to coalesce with the right. First, in the approval of a constitutional revision that finally completed the Portuguese democratic transition, by eliminating the tutelary powers of the military (the Council of the Revolution), curtailing presidential powers and attenuating the Constitution's leftist ideological content. Later, by forming a coalition cabinet with the centre-right PSD in 1983 (the Central Bloc), in a difficult economic context and in the final stage of negotiations for EEC membership.³ This PS-led government embarked on the "most drastic austerity programme to be implemented by any western socialist leader" (Gallagher 1990), and was able to bring down inflation and stabilise public finances. However, the costs were inordinately high. Unemployment rose to an all time high of 9%, GDP growth was negative, and real wages plunged. In the 1985 elections, the PS almost lost its status as second major party, obtaining only 20.8% of the vote forced to share electoral space to the left not only with the Communist "rock" but also with a newly formed party, the PRD.

The Socialists' attempts to escape this narrow electoral niche were often frustrated in the following decade. The Communists' relentless opposition to European integration throughout the 1980s placed the Socialists in a difficult dilemma. Although they sought a "leftist" angle to their Europeanism (explaining it as the best way to obtain political and regulatory protection against a purely market-oriented and monetarist Europe and as a necessary step towards a harmonised European social policy), they had little alternative but to keep coalescing with the right in measures such as the 1989 amendment of the economic articles of the Constitution that erased the "irreversibility of nationalisations". Besides, the governments led by their centre-right adversary, the PSD, was able to accompany an unabashedly liberal platform — focusing on privatisation, flexibilisation of the labour market, reduced state interventionism, and stabilisation of public expenditure and labour costs — with the neutralisation of the social costs associated to these measures. Starting from the favourable point where the austerity policies of the Central Bloc had left the economy, the PSD government already had positive economic growth to show for by the end of 1985 (2.8%) and took it to consistently high figures between 1986 and 1991 (5.0% on annual average). Real wages never stopped rising until the early 1990s, and Portugal went through a surge of economic

³ The economic policies pursued by a previous centre-right cabinet, combined with the effects of a second international recession, had resulted in new gains in real wages (1.9% per year on average from 1978 to 1983) but again, a new jump in public expenditures (from 38% to 49% of the GDP), huge public and balance of payments deficits (financed by escalating foreign debt), and an inflation rate of 26%.

development that had not been experienced in decades. To top it all, the PSD government did what was least expected of a centre-right party in the decade of Reaganomics. With economic growth at home and abroad, political stability, privatisation receipts, and EC structural funds, the government promoted real growth in social expenditures in rates that had been unseen since the 1970s, while, at the same time, the weight of those expenditures in the total budget remained stable. In sum, in the late eighties and early nineties, the Socialists' adversaries in the centre-right followed what was the "natural" but always unfulfilled destiny of the PS: to strike a balance between stabilisation, expansion, and egalitarianism, the same kind of balance that social democratic governments in Spain and Greece had obtained throughout the 1980s with remarkable electoral results (Maravall 1997: 177). In 1991, the PSD obtained a second consecutive absolute majority and its dominant position in the party system seemed virtually unshakeable.

The "new" PS: programmatic reconfiguration

In the 1992 Congress, in the aftermath of PS's third consecutive electoral defeat in parliamentary elections, António Guterres became the party's leader. In relation to previous leaderships, Guterres represented a clean break with the past. He was clearly not a close follower of Mário Soares, like Almeida Santos, (leader in 1985), nor was he from the leftist wing of the party, like Jorge Sampaio (leader from 1987-1991). Besides, and unlike all previous PS leaders, Guterres was a devout Catholic, displaying principles in his private and public life that struck at the core of the Socialists' traditional secularism. The programmatic reconfiguration undergone by the PS under Guterres's leadership reflected this break with the past. After 1992, Guterres managed to combine the advancement of a new social policy agenda with the full embracing of the pragmatic liberalism that, in fact, the PS had long given to its political and policy practice. To what extent has this programmatic reconfiguration approximated the transformation of social democracy in other countries? And to what extent has it been reflected in the policy practice of the Socialist government?

If there is a single thing that the sprawling bibliography produced on the "third way" has demonstrated it is the considerable difficulty in providing clear-cut definitions of the term. There is, nonetheless, some degree of consensus about a core set of principles that have been adopted by left-wing parties and governments in the last few years in an attempt to break with traditional social-democracy without following the path of neo-liberalism or neo-conservatism.

The first element of that core set is a redefinition of social policy goals. Falling short of completely abandoning the "equality" goal in favour of a purely meritocratic distribution of resources in society, the "third way" redefines equality as "inclusion", i.e., as equality in terms of "real" social citizenship rights and opportunities (Giddens 1998; White 1998). This redefinition of the main social policy goal has been accompanied by a redefinition of the means to achieve it. State-provided benefits that aim at pure equality of outcomes are thought to be excessively blunt social policy instruments in their emphasis of remedial over preventive action, their disincentive to individual responsibility, and their inability to face the new risk structure associated to family instability, increasingly skill-demanding labour markets, and the pressures of open and even integrated economies (Esping-Andersen 1999).

The alternative advanced by the "third way" is an "employment centred social policy", that views integration in the labour market as the most effective protection against poverty and exclusion (White 1998). This integration is to be achieved through regulatory, selective benefits and/or social investment strategies, such as work-sharing, basic income rights, or the redistribution of skills and opportunities by investment in education and professional training (Weber 1999; Lister 2000). Finally, the very role of the state in social policy is redefined. While financing and regulating social policy are preserved as state tasks (and redirected towards the new goal of inclusion), production of welfare goods is to be increasingly discarded and delegated on other providers in a collaborative relationship (Wright and Wright 1996; Le Grand 1997; Giddens 2000), an option that neatly ties into a specifically political and institutional dimension of the "third way": reinventing governance and devolving power to civil society and the community (Halpern and Mikosz n.d.; Le Grand 1998; Marquand 1999).

The Portuguese Socialists have remained adamant in rejecting the notion that their programmatic principles belong to any kind of "new way", third or otherwise.⁴ However, their electoral platform for the 1995 elections clearly followed — and, in some cases, surprisingly prefigured — many of these core elements of the "third way". The similarities start with the very process that led to the drafting of the PS's 1995 electoral manifesto. In the summer of 1994, the PS initiated a series of discussion meetings throughout the country that increasingly counted with the participation of independent intellectuals, scientists, cadres, and entrepreneurs identified not only with the moderate left but also with PCP splinter groups and even with the PSD faction more associated with the old Central Bloc government. A final and highly publicised general session was held in March 1995, in which Guterres signed a *Contrato de Legislatura*, a document that, similarly to the British Labour Party 1997 election manifesto, was symbolically depicted as a "contract" between the Socialist Party and Portuguese civil society.

The content of both the *Contrato* and the 1995 manifesto reflected their drafting process, in the sense that they combined excruciatingly detailed commitments in specific policy areas (dictated by the participation of specialists and special interests representatives in the program drafting discussion meetings) and a general vagueness in what concerned broad ideological principles. However, behind a remarkably high number of "absolute priorities" (employment, education, health care reform, fighting poverty, EMU, fiscal fairness, "the information society", fighting drug addiction, and so on), a clear hard core of policies emerged. First, the party's political practice of the past was wholeheartedly embraced through the adoption of an overarching commitment: "Europe". More specifically, this meant meeting the convergence criteria for EMU, i.e., reducing inflation, debt, and expenditure.⁵ Another major Socialist goal was "Employment", to be achieved under the constraints of EMU. In other words, this meant that creating more jobs would have to be the result of policies that promoted reduced working time and lower non-wage labour costs,⁶ and not of monetary or exchange policies, fiscal benefits, or increased public

⁴ The motion for reelection of António Guterres as party leader in the 1999 Congress stated that "the Portuguese Socialist Party has no need to search for 'new ways' — the third, fourth or fifth — nor to promote any act of refoundation, but only to persist in its goal of facing the challenges of the future." The sentence was later withdrawn after the protests by some members of the party's parliamentary group.

⁵ PS 1995 electoral manifesto Part 2 ("Economy and Development"), Chapter 3 (Participating in EMU).

⁶ PS 1995 electoral manifesto, Part 2, Chapter 7 ("Employment, Competitiveness and Solidarity").

expenditure.⁷ However, and more importantly, "Employment" was defined as a "transversal" goal, and actually included in the manifesto's section dedicated to "solidarity policies". According to the manifesto, current social crisis and poverty were explained by the "neo-liberal policies that had withdrawn thousands of worthy citizens from the labour market". The major objective of a PS government's economic and social policy was defined as "providing all Portuguese the opportunity to work", giving citizens "not only a source of income but also a powerful means of personal fulfilment".⁸ The positive integrative effects of job creation were particularly stressed in the case of female employment, a domain in which the Socialists vowed to increase what was already a relatively high rate of female activity (42% in 1994).⁹

The role of the state also received great attention in the manifesto. First, as an overarching principle, the PS now argued that although the state should "regulate the market, assuring the 'democraticness' of access to it and the justice of market transactions", that did not mean that "welfare goods and services should necessarily be produced and provided by public services".¹⁰ Instead, the government should act to encourage the role of the family, the mutualist sector and non-profits in providing welfare.¹¹ Second, the manifesto redefined the doctrinal goals of social and fiscal policies: not "Equality", but rather "Solidarity" and "Equity". The significance of this apparent terminological subtlety was clear: the PS would abandon any broad redistributive goals. Instead, in the fiscal domain, the PS proposed to promote "Equity" by attacking the inefficiency of taxation and the rampant tax evasion that structurally favoured the self-employed.¹² In what concerned social policy, the PS's major objective besides promoting employment would be a targeted war on poverty and social exclusion, using instruments as a means-tested guaranteed basic income (*Rendimento Mínimo Garantido* - RMG). In fact, social inclusion, the role of welfare providers other than the state, and the "Employment" goal were seen as intrinsically tied. Recipients of RMG would have to be available to work and to attend vocational training, and non-profits and the mutualist sector would co-operate in the program's administration.¹³

The last major goal of the new PS platform was "Education". Only here, in what Guterres would later call his "passion", lied the exception to the overall containment of public expenditures. However, investment in human capital was portrayed not only as a means to increase productivity, but also as social policy instrument, that would create employment in emerging technologically advanced sectors and enhance skills and capabilities necessary for labour market (and thus, social) integration.¹⁴

Therefore, it is easy to see that, by 1995, the Portuguese Socialists had already adopted several of the basic "third way" themes: equality as inclusion, inclusion through employment, employment through increased skills, and an overall shift towards a less interventionist and more regulatory state. In fact, by the mid-nineties,

⁷ As stated in the PS's 1995 electoral manifesto, "the active employment policies — a central commitment of the PS government and the New Majority — [will be] more complex and diversified than the simple (and increasingly ineffective) manipulation of macroeconomic policy instruments or the concession of fiscal benefits to corporations" (Part II, Chapter 4).

⁸ *Idem*, Part 3 ("Solidarity Policies"), Chapter 1 ("For a Society of Solidarity").

⁹ *Ibidem*.

¹⁰ *Ibidem*.

¹¹ *Ibidem*.

¹² *Idem*, Part 2, Chapter 4 (Macroeconomic Policies).

¹³ *Idem*, Part 3 ("Solidarity Policies"), Chapter 4 ("Work and Employment").

¹⁴ *Idem*, Part 4 ("Education, Scientific and Cultural Policies").

the time was already ripe for this platform's electoral success. Since 1992, the crisis triggered by the Gulf War and rising oil prices prevented the PSD government from simultaneously keeping up with EMU convergence criteria, prolonging the 'economic bonanza' of the eighties, and consolidating the expansion of the incipient Portuguese welfare state. Three years later, the toll taken by nominal convergence had been significant: the unemployment rate nearly doubled (reaching 7.3% in 1995), and real growth in both GDP and social expenditures had dropped or even halted. In October 1995, the PSD lost approximately 15% of their previous vote to the Socialists, which in turn obtained 43.5% of the vote and came four seats short of an absolute majority, their best electoral score ever.

Guterres' Policies: Implementing the Third Way (1995-)

The first Guterres administration benefited both from positive external economic factors, namely a fall in interest rates and commodity prices, a rise in EU transfers after 1995, and from the previous effort at curbing inflation and consolidating the public sector, i.e. privatisation, effected by the PSD government.¹⁵ Between 1995 and 1999, real GDP growth was on average 3.3%, a higher rate than the rest of the EU, where it averaged 2.2% (EC 1999:269). Not only were economic circumstances highly positive, but also, on 22 May 1998, the European Council of the EU announced the list of countries which would participate in EMU from 1999 onwards, and included Portugal on that list. The EMU objective had thus been fulfilled, and was an important success for the government in that its main commitment to European integration for the period was accomplished. It had been achieved whilst simultaneously increasing public expenditure on social services, even if to a limited degree¹⁶, decreasing the budget deficit, and decreasing unemployment from 7.3% to 4.7% (Barreto and Preto 2000).

We now turn to the analysis of the Portuguese Socialists policies in particular areas, namely privatisations, administrative modernisation, employment and social policy. These areas will help to indicate the extent to which the Portuguese Socialists, despite misgivings on the actual term "third way" have been following such policies.

Privatisations: the Socialists privatised the economy with much more vigour than their right-wing predecessors (Corkill, 1999:64). This drive to privatise was in part due to imperative need to decrease the budget deficit and the public debt, in order to be able to join EMU in 1999. Indeed, proceeds from privatisations in 1996-7 exceeded the total obtained in the previous six years (1989-1995) (Corkill 1999:63). During the first Socialist mandate, between 1996 and 1999, twenty-nine companies were privatised, involving a total of eighteen firms. The sectors targeted included the petrochemical, telecommunications, banking, cement, chemical industry, tobacco, agri-business, naval construction, steel and paper sectors (Alves 1999:63). This was not only in accordance with EMU convergence criteria but also with Guterres' views on the optimum balance between state and market forces, whereby state functions are to be circumscribed to essential functions such as the provision of social services, and

¹⁵ OECD, *Economic Survey of Portugal*, October 1999, p.1.

¹⁶ According to Barreto (2000), social expenditure in 1994 with education was 5.14% of GDP and in 1997 was only 5.46%. Given that Guterres had announced it as the PS' passion at the beginning of the legislature, it does not seem like a very large increase in expenditure. Health and Social Security follow the same pattern. Health expenditure also increased from 4.41% to 4.52% of GDP in the same time period, and Social Security only from 3.89% to 4%.

should only have regulatory powers over the market. During the late 1980s, privatisation had concentrated on revenue-generation (Corkill 1999:59). Cavaco Silva's last Finance Minister reformulated the privatisation strategy, shifting the emphasis towards wider share ownership, and the consolidation of large national economic groups. This strategy has been continued and reinforced by the Guterres government. In part, it has been successful due to the lower interest rates for most of the 1990s, which encouraged Portuguese savers to shift from low-interest-bearing savings accounts to shares. The sale of Portugal Telecom, in 1996, attracted 800,000 new investors. Perhaps the most emblematic sale during the first Guterres' government was the sale of EDP, the state electricity company, with three quarters of a million people applying for shares (Corkill 1999:63). Whereas in 1994, the state economic sector accounted for 11% of GDP and 3.2% of employment, in 1999, these figures had decreased substantially to 5.5% and 2.6% respectively (Alves 1999:73). Thus, privatisation has served the twin PS's goals of transforming an interventionist state into a regulatory one, and of extending share ownership, whilst preventing the foreign control of Portuguese firms.

Administrative Modernisation: the Guterres government also proposed to facilitate the citizens' access to the state services. The first indication of the government's commitment to this strategy was the creation of a Ministry for State and Public Administration Reform, which was to find ways of modernising the administration. The internet and telecommunications technology were used in order to disseminate information on requirements for all the state services available, as well as information on different legal contracts (e.g. marriage, divorce) where the citizen has to present state documents. The programme is entitled *Infocid* and can be accessed over the internet, or in computer terminals which have been placed around the country in order to be easily reached by the whole population. A "Citizen's shop" (*Loja do Cidadão*) was inaugurated in Lisbon, where all the necessary certificates, forms or other state documents can be obtained in one working day (before they were scattered in different departments across the city). The objective was to reduce the time delays caused by the state for citizens wishing to engage in activities where a state document is needed. More recently, since February 2001, it is now possible to order civil certificates, as well as various other commercial and building certificates on the *Infocid* internet site. All these efforts have contributed to decrease the burden on citizen's dealings with the state, and do facilitate all types of private and commercial transactions.

Employment policies: since 1995, a few active employment schemes have been created, which seek to decrease the "social exclusion" of certain vulnerable groups, such as the unemployed, and the poorest sections of the population. Some measures taken by the Socialist Party sought to facilitate the entry into the labour market of both long-term unemployed and young first-time entrants. To this end, the government created two types of incentives: a 36-month exemption of social security payments for these employees, to the firms hiring them; financial support to the firm, corresponding to 12 minimum incomes for each worker employed; and "independent workers" who started their own business were exempt from paying social security contributions for the first twelve months (Comissão Livro Branco Segurança Social 1998:65).

The decrease in unemployment to 4.7% was also in part the result of the Strategic Social Pact, signed between the government and the two main trade unions, the InterSindical and the UGT, in December 1996. This pact envisaged an annual rise of employment by 1% until 1999 (OECD 1998:90). To achieve such an increase, the

unions agreed on wage moderation, and furthering the flexibility of the labour market, in exchange for the government's compromise to draft laws regarding several aspects of the labour market, including changes in the legislation concerning the protection of pregnant workers. Perhaps one of the most important measures agreed in the Pact, was the levelling of social security contributions made by those who are self-employed, to equal the contributions of those under dependent employment. In Portugal, firms have in the past been encouraged to hire labour as self-employed, even if they are effectively dependent employees, to lower their costs in terms of social security contributions. This was clearly unfavourable for workers who lost out on the benefits of being dependent employees of a company, although it may have been one of the factors that enabled unemployment to stay at relatively low levels in the past compared to other European countries (Brassloff 1992:508-534). At the same time however, redundancies were made easier for firms, with compensation costs for labour being decreased, and "atypical" forms of labour regulated, which favours their very existence (OECD 1999:4).

Social Policies: Social policy in Portugal has suffered from historic underdevelopment. During the authoritarian regime (1933-1974), a few welfare schemes were created, which followed the continental European corporatist-conservative tradition of social security. However, these consisted of a weak system of mutual aid societies, with only 20% of the population actually insured (Esping-Andersen 1994:119). Unemployment insurance (1975, 1977) and the national health service (1979), for instance, were only introduced after democratisation. Even so, despite the huge effort by democratic governments to create a European welfare regime, in Portugal the social safety continues to be rather weak and coverage and benefit levels are low (Esping-Andersen 1994:120). When the socialists came to power in 1995, the Portuguese welfare regime still distributed modest benefits. This has not prevented it from being in permanent deficit. Thus, the Socialists faced the goal of reforming the welfare regime, to make it more efficient in fighting exclusion and poverty, whilst simultaneously finding ways of improving its finances.

Following an experimental phase in 1996, a minimum income guarantee (*Rendimento Mínimo Garantido*) RMG scheme was implemented in 1997, similar to schemes in thirteen other EC countries. The objective was to combat social exclusion, by providing a security net to those below the poverty line in Portugal. However, in line with the previous "third way" active social policies, it creates not only rights but also duties for the beneficiaries. In exchange for receiving a monthly income, granted for twelve months, and renewable, the person must be available to participate in work and training programmes, age and health permitting. According to the government, this subsidy would have various positive side-effects. Firstly, by identifying the families which are eligible to receive the subsidy, it would be possible to better target them for social inclusion, thus for instance the children of the beneficiaries will be encouraged to attend school. Secondly, the training schemes will ensure that it is indeed the most vulnerable elements of society who receive the training. According to the government, by singling out those which face social exclusion, it provides added incentives for those institutions working locally to co-ordinate efforts to promote their well-being. The scheme has been largely successful: by December 1999 there had been four hundred and thirty thousand beneficiaries, amounting to 4.4 % of the Portuguese population (Barreto and Preto 2000). Almost half of the beneficiaries also belong to social integration government programmes (PS election campaign 1999).

During the Socialists' second mandate, a reform of social security was legislated. The Social Security law, which passed in Parliament with the support of

the Left Block Party, redesigned social security to ensure that it became more flexible, and thus better able to respond to differentiated needs. The goal was to target the most vulnerable groups in society, and not all citizens indiscriminately. This would contribute to the inclusion of those living below the poverty line, whilst at the same time lightening the financial burden of the welfare system. The Minister for Social Security had already altered family benefits during the first PS mandate in the same direction. All family benefits (maternity, early childhood) were merged into one. Whereas the notion of universality was not dropped, in that all families are still entitled to this benefit, its value became income-linked. Within the Socialist party, and the Left more generally, traditional social democratic values such as the universality of benefits have clashed with notions of solidarity towards the most needy, given that the welfare system is already facing serious financial difficulties. Parties to the left of the PS have been unwilling to approve any reform which questions the principle of the universality of benefits. Given that the PS has ruled without an absolute majority since 1995, it has had considerably more difficulty than other third way governments, namely that of Tony Blair, to implement its policies.

Both concerning the redefinition of the state and the social sector, it seems that the Socialist government has been guided by the core principles of the “third way”. It has emphasised equity, not equality for the social sector, and responsibility, for recipients of state benefits. Benefits for the most vulnerable sectors of society have been tied to “active employment” policies in an effort to combat exclusion. Regarding the state, it has continued to extricate it from various economic sectors, transforming itself from an interventionist into a regulatory actor. There has also been an effort to use new technology to make bureaucratic services more easily accessible to all, which plays into the goal of a ‘citizens’ state’, easily accessible to all. Not all Socialist policies however, have contributed to the shrinking of the state: the increase in state expenditure which occurred after EMU entry crowded-out private investment. Thus, as the government extricated itself from the economy it has continued to expand in terms of GDP. On the other hand, the efforts regarding the obtention of state documents are overshadowed by the failure to make justice readily available to all: in Portugal, courts are overwhelmed with cases, making the redress of grievances an excessively lengthy process.

Explaining the new PS

How can the repositioning of the Portuguese socialists, in terms of political rhetoric and adopted policies, be explained? Two factors, one internal and other external, can be advanced as the most likely candidates. The first is the decline of the Communist Party, more strongly felt since 1989. This decline has made it considerably easier for the Socialists to position themselves more to the centre of the political spectrum, without fear of losses to their left. The second is the role that European integration has played in determining Portuguese national policy. Since entry to the EU in 1986, Portugal has faced a series of European challenges (the Single Market, the Exchange Rate Mechanism, and more recently EMU), which have shaped national policy to a large extent. Conditioned by external EU objectives and goals, European states have tended for some degree of policy convergence to achieve them. Portugal, and the PS government since 1995, has not escaped that trend.

The unfreezing of the Communist electorate

In the past, the pragmatic liberalism adopted by the PS-as-government had always resulted less from choice than from external pressures and/or unavoidable necessity, namely, the catastrophic economic situations faced by every Socialist incumbency and the need to deal with the political and economic legacies of democratisation. As a result of these joint pressures, the Socialists had remained unable to actively erode their competitors to the left, while they had also failed to give the centrist electorate a plausible reason to support them after austerity policies. Besides, throughout these years, the PS's centrist political and policy practice continued to collide with a set of programmatic and ideological principles where traditional social-democracy was tinted with some leftist rhetoric inherited from the revolutionary years.

What allowed the Socialists to escape these contradictions was a change in the competitive environment faced by the PS to its left. In other words, the Communist "rock" began to erode on its own. In 1987, disappointing electoral results for the PCP were followed by acute internal strife between the ruling orthodoxy of the PCP and emerging critical factions. While the latter were forced to abandon the party — many of them joining the PS —, the Communist leadership moved to a *fait accompli* view of democracy and EC membership. In the eyes of the Socialists' leftist faction, this doctrinal shift was first perceived as reducing the need for the PCP's exclusion in the party system. In 1989, that faction's foremost representative and then party leader, Jorge Sampaio, rehearsed an approximation to the Communists in the 1989 local elections, successfully running for Lisbon Mayor under a PS/PCP joint ticket.

However, the 1991 general elections would dictate the end of this particular strategy. On the one hand, the PS still failed to capture most of the centrist electorate, which went on to renew its confidence on a PSD government riding high in popularity and economic indicators. On the other hand, the 1991 elections also revealed a new interesting fact for the Socialists: the increased legitimisation of the PCP was accompanied by the "unfreezing" of its electorate. For the first time, the PCP dropped below 10% of the vote, and electoral behaviour studies showed that about one of out five of its previous voters moved to the PS (Lima 1991). Guterres saw here a golden opportunity. After carefully monitoring the reactions of the electorate through party-conducted opinion surveys, he decided to reject any further approximations with the Communists, and jumped to a clear centripetal strategy of competition for a PSD vote now threatened by economic decline (Bosco forthcoming). From this point of view, the Socialists 1995 "third way", in what it comprised of an unashamed embrace of budgetary orthodoxy and reduced state interventionism, was a result from Communist decline, that for the first time allowed the PS to compete for the large and volatile centrist vote without being threatened by major losses to its left.

The process of European Integration as a motor for policy change

The constraints of European integration have shaped the PS's policies since its foundation in 1973. In the transition and consolidation phase of Portuguese democratisation, the Portuguese Socialists distinguished themselves from other left-wing parties by their commitment to the European project, and most crucially to a European-style pluralist democracy (Alvarez-Miranda 1996: 181-87). Later on, in the mid-80s, the Socialists returned to power with the goal of successfully completing the lingering negotiations with the EC in order for Portugal to be admitted as member.

This commitment shaped the Socialist government policies between 1983-85, which meant the imposition of draconian economic measures, in order for the economic criteria of accession to be met. Thus, the process of European integration has traditionally been key to Portuguese Socialist policy.

Once again, on returning to power in 1995, the Socialist programme had an overarching European objective, that of joining the Euro in 1999. However, this time, compliance with EMU convergence criteria (the need to reduce inflation, debt, and expenditure) appeared as an opportunity to subjugate most elements of traditional social democratic discourse to the requirements of economic pragmatism. Thus, the Euro objective forced budgetary restraint, which represented a broad constraint on all other policies implemented by the Socialists. At the same time, however, the PS perceived that it also needed to widen the boundaries of the Euro objective, in order to include something more than monetary convergence and the strict financial measures it required. First, because these measures were precisely what the increasingly unpopular PSD administration were equated with. Second, because they had contributed to fuel the growing disenchantment with the EU among Portuguese voters, a disenchantment that might benefit the smaller 'eurosceptical' parties and, particularly, reverse the electoral decline of the PCP.¹⁷ The end result of the PS government's simultaneous pursuit of EMU and the introduction of a "social" component in the integration agenda was a "third way" program and practice. In this case, it was a particular blend of economic liberalism and social democracy, characterised by the use of regulatory instruments and relatively low-cost social policy programs, extensive privatisation, and a general retreat in relation to the universality of social security benefits, making sure that exclusion and unemployment could be targeted without jeopardising the broad macro-economic goals associated to the Maastricht convergence criteria.

In lieu of a conclusion

The Portuguese socialists clearly embraced "third way" policies in their first mandate, emboldened by their largest victory since 1991. They did that in two apparently easy ways. First, by shedding the remnants of a traditional social-democratic discourse that, in their case, had always been mostly rhetorical and contradictory with their policy practices while in government. Second, by embracing what had always been one of their foremost political commitments, Europe, and taking the necessary consequences of the convergence constraints in terms of the redefinition of the role of the state in social policy. More recently, their policy agenda seems to be slightly erratic. This is in large part due to changes in the factors which had propitiated Guterres' initial programmatic adherence to "third way" principles. On the one hand, the left of the PS has proved to be more resilient than anticipated and, more importantly, it has changed in nature. On the other, the external constraint, i.e. the EMU objective, which framed Socialist policy during the first mandate has

¹⁷ In 1992, and for the first time since 1985, more than 10% of the Portuguese expressing negative feelings towards membership. This decline in support for membership was shared throughout Europe, reaching its lowest levels since the 1970s [see *Eurobarometer: Public Opinion in the European Union. 25th Anniversary*, 50 (Autumn 1998)]. The electoral dangers of 'euroscepticism' for the PS, a party which traditionally supported European integration, were acknowledged in the 1995 pre-election manifesto: 'Situations emerge everyday which feed the fears of [Portugal's] further integration in Europe. That leads to nationalisms on the left and right (...) which are liable to receive support from certain sectors of society. In this context, a clear European project is necessarily one of the main instruments to fight this grave crisis' (*Contrato de Legislatura*, p. 106).

disappeared providing less incentives for fiscal restraint on the Portuguese government.

In 1999, with understandable ambition, the Socialists hoped to win an absolute majority in parliament, but failed.¹⁸ The only notable changes in the evolution of the Portuguese party system were the containment of the PCP's electoral decline and the emergence of a new political party to the left — the Left Bloc (BE), composed by an assortment of Maoist and Trotskyist parties, former Communists, and "new politics"-type citizens' groups. Two consequences appear to have followed from this. First, the PS has begun to discuss publicly a "left turn", apparently designed to appeal to an electorate defined by Guterres as "the ten per cent of Portuguese who have been systematically prevented from directly contributing to the governance of a modern, European and changing society",¹⁹ i.e., the Communist electorate. Second, a sort of symbiotic relationship between the PS and the BE has emerged. Introducing a radical left-libertarian appeal, focusing on issues such as gay and immigrants rights, reproductive freedoms, a complete separation between church and state, and participatory democracy, the BE has acquired great influence in the Portuguese political agenda. They have counted with the help of the PS government that, tempted by the possibility of causing further havoc in the PCP (whose older electorate is profoundly conservative on moral issues), has espoused many of these themes. The question is whether the growing salience of these issues, that in the past had been carefully depoliticised by all the older established parties, will not cause havoc inside the PS as well and endanger its ability to remain the pivot of the Portuguese party system.

The external constraint, i.e. the EMU objective, which framed Socialist policy during the first mandate, has now been substantially diminished after Portugal made the cut into the countries that could join the Euro. Even though it would be premature to draw comparisons between the first (1995-1999), and the second (1999-) Guterres' terms, the first "post-Euro membership" 2000 State Budget indicated a substantial loosening of the government's previous commitment to fiscal orthodoxy, resulting in an increase in inflationary pressures and a rise in the fiscal deficit. The 2001 Budget was then forced to apply the brakes on the economy to reduce the fiscal deficit from 1.9% (2000 Budget) to 1.1% in 2001 and lower the growth rate of public expenditure to 5.9% (10.9% in 2000). The Euro objective, which had conditioned the search for "third way" policies, has already been met, and the loosening of this immediate constraint has increased the incentives to relax some aspects of the previous tight economic course, causing a greater indefiniteness of objectives and a somewhat erratic economic policy.

¹⁸ Although pre-electoral surveys pointed to an absolute majority of parliamentary seats, the PS did not increase its voting share substantially, winning only two extra MP's, which means it presently controls exactly half of parliamentary seats.

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