

The European Social Model in times of Economic Crisis and Austerity Policies Portugal

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Portuguese Social Model

▶ Historical context

▶ **Recent realization and Context dependence**

- ▶ A contemporary manifestation of 1974 revolution

- ▶ 1976 Constitution:

- simultaneously ended the unstable post Revolution period and started democracy consolidation in Portugal

- very generous as far as social rights are concerned, being a complex mix of social and political influences, strongly marked by the revolutionary social dynamics generated by the military coup

- ▶ EU accession in 1986

- ▶ **Unbalanced:** compromise between social policy achievements in the last period of the autocratic regime and new developments generated by democratic aspirations and the influence of the integration into the EU

- ▶ **An encompassing model**

Portuguese Social Model

▶ Pillars

- ▶ Public education system
- ▶ National health system
- ▶ Social protection
 - ▶ Combination of a contributive and a non-contributive (social) system
- ▶ Labour market regulation

To keep in mind

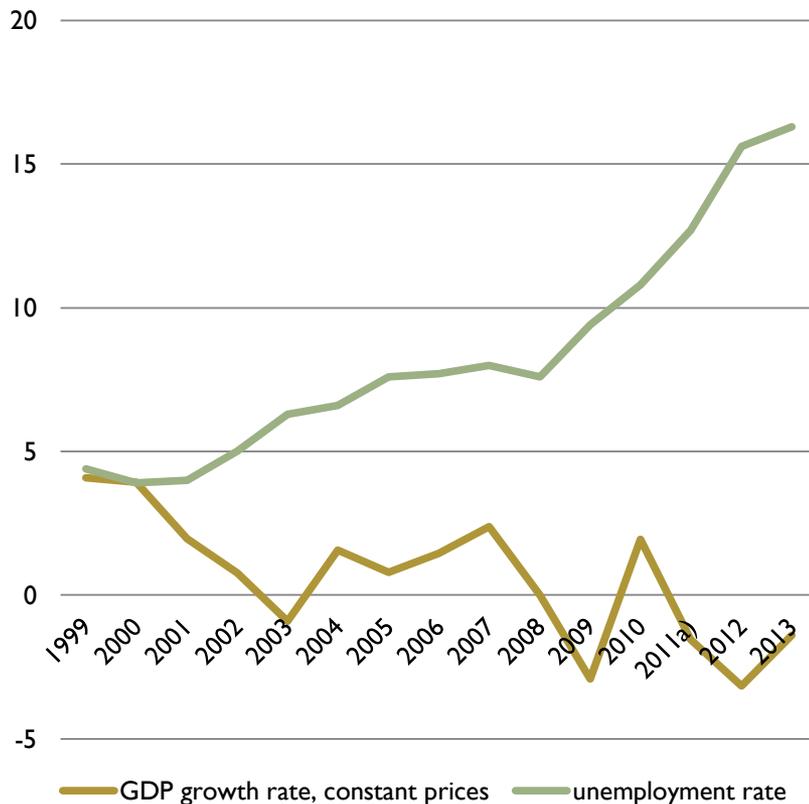
- ▶ Before 2008, Portugal was undergoing a process of structural change:
 - ▶ Adjustment of the productive specialisation profile to reglobalisation and overvalued Euro
 - ▶ Painful transition from a period of high employment creation in non-skilled and low wage jobs towards more skilled jobs, matching progresses in secondary and tertiary education
 - ▶ Need to stop or at least reverse the allocation of private and public resources towards non-tradable sectors

Portuguese Social Model

- ▶ **The reforms of the 2000s: targeted at combining equity and efficiency**
 - ▶ Labour market regulation: important changes based on Social Dialogue
 - ▶ Social Security (namely pensions): important changes based on Social Dialogue
 - ▶ Education and Health: rationalising the system
- ▶ **POSITIVELY EVALUATED BY OECD, IMF and EUROPEAN COMMISSION**

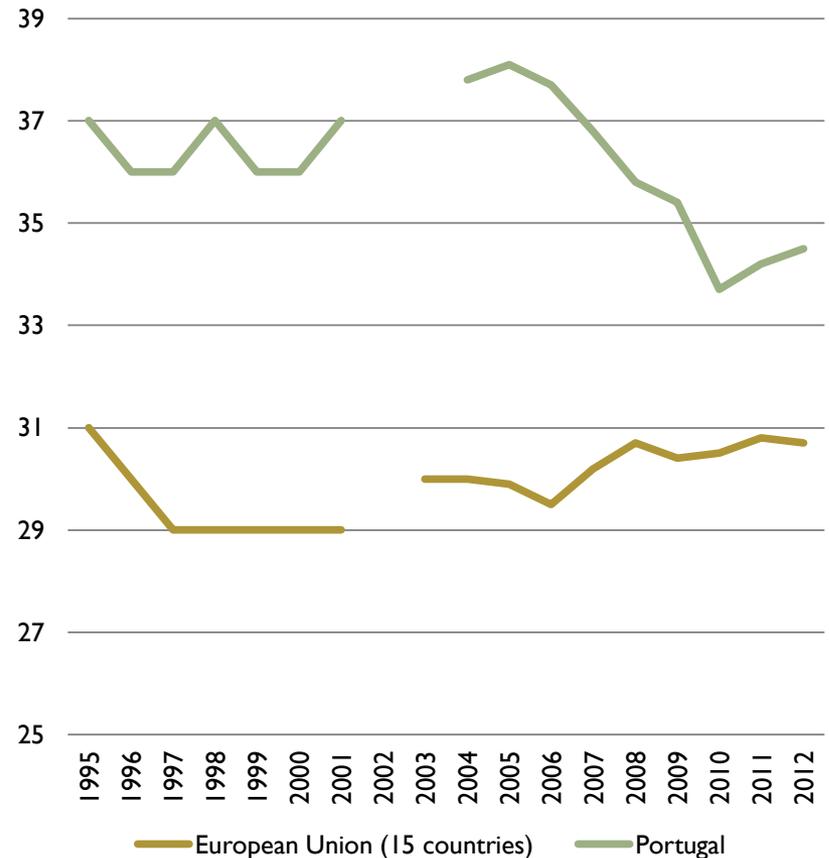
Crisis and MoU: some empirical evidence

GDP growth rate and unemployment rate: 1999-2012



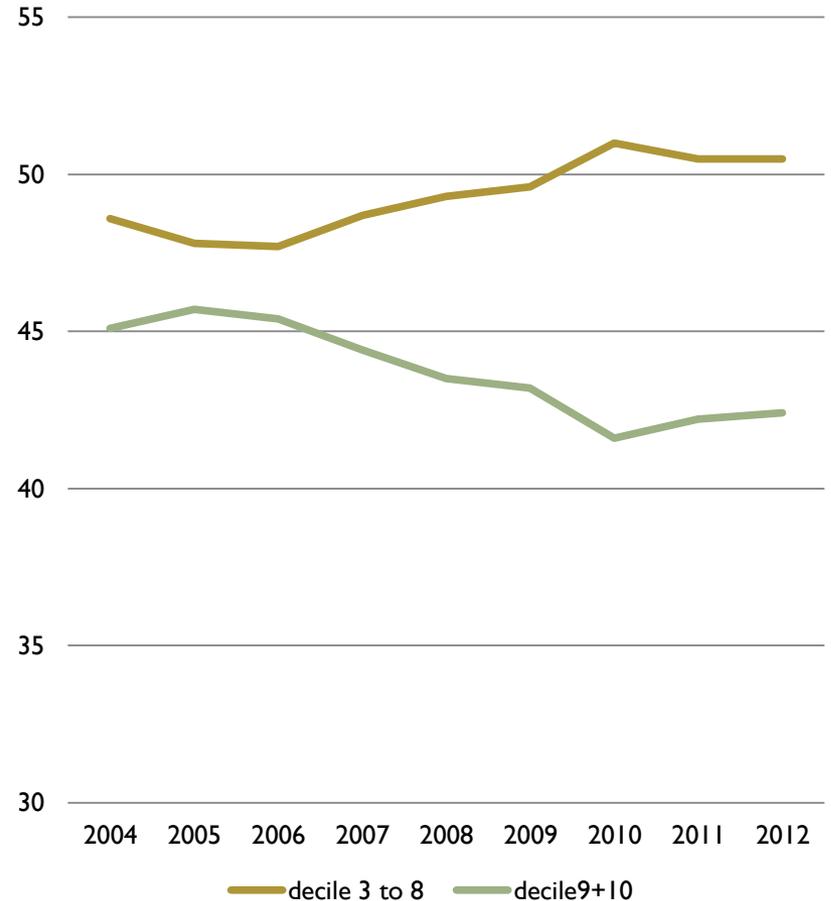
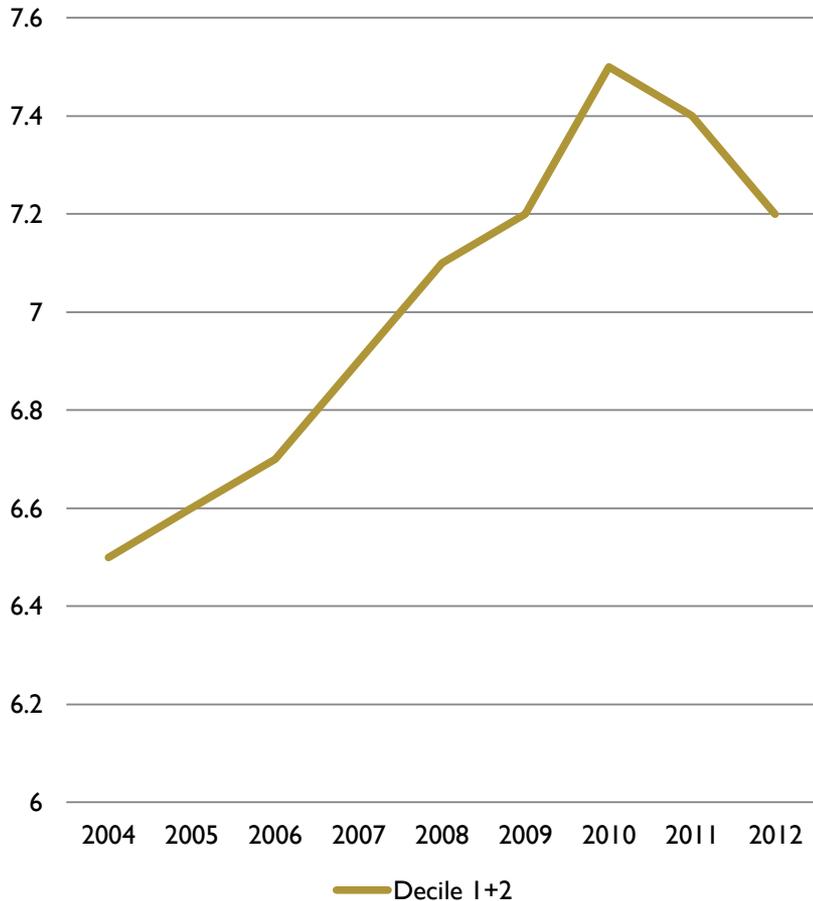
Source: PORDATA

Gini coefficient of equivalised disposable income



Source: EUROSTAT

Redistribution of income: income share



MoU: new dynamics of income distribution between groups



But also in absolute terms...

annual growth rate of the cut-off income, Portugal

	2009	2010	2011	2012
Decile 1	2,9%	5,5%	-3,4%	-2,6%
Decile 2	4,5%	4,9%	-2,0%	-0,3%
Decile 3	4,0%	3,4%	-1,7%	-1,1%
Decile 4	2,3%	3,4%	-1,5%	-1,8%
Decile 5	1,7%	4,8%	-3,1%	-1,0%
Decile 6	0,8%	6,0%	-3,8%	-1,4%
Decile 7	1,8%	4,6%	-2,4%	-2,5%
Decile 8	-1,3%	2,3%	-1,8%	-1,5%
Decile 9	-1,5%	3,0%	-2,7%	-1,7%

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- ▶ National Income decreased
- ▶ It decreased differently in different income groups

The shrinking of the middle class?

- ▶ Very unequal country
- ▶ Income cuts (wages, social security benefits, pensions)
- ▶ High unemployment even among the high qualified
- ▶ Wage cuts of public sector workers: a main cause of deterioration of the middle class
 - ▶ Income cuts + weakened prestige
 - ▶ Uncertainty and insecurity
 - ▶ Freezing careers
 - ▶ Political speech emphasizing a duality between the protected civil servants and the others;
 - ▶ Circle: deterioration of public careers; demotivation
- ▶ Increased homogeneity within income groups
- ▶ Significant fall of upward social mobility

Main conclusions

- ▶ The Portuguese economy was under a strong structural change before the crisis
- ▶ Austerity policies negatively extended the penalizing effects of the financial international crisis
- ▶ Bail-out measures should not ignore the development stage of the economy: dismantling the recent and vulnerable dimensions of the ESM in a context of strong demand for social protection had very high and not recoverable costs
- ▶ Fiscal consolidation of small euro-zone economy not feasible without a solution for the euro zone as a whole
- ▶ Portugal faces the emergence of strong dynamic negative effects

What negative dynamic effects?

- ▶ Inefficient allocation of resources:
 - ▶ Returns of education investments by families are falling and there is a risk of inversion of behaviour of families
 - ▶ Wages fall are a bad incentive to innovation: dynamic efficiency is penalized
- ▶ Social cohesion is undermined and long term unemployment risks to turn into structural and permanent unemployment
- ▶ Social Dialogue is loosing visibility: risk of dismantling the previously accumulated trust capital
- ▶ Lack of trust in public and EU institutions: democracy in danger
- ▶ Growth potential strongly penalized