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

Source: EUROSTAT
But also in absolute terms…

**annual growth rate of the cut-off income, Portugal**

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<thead>
<tr>
<th>Decile</th>
<th>2009</th>
<th>2010</th>
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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