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TACKLING THE JOBS CRISIS IN PORTUGAL

Report prepared by the ILO inter-departmental Task Force on crisis countries for the high-level Conference on "tackling the jobs crisis in Portugal" (Lisbon, 4-November-2013)

SUMMARY AND RECOMMENDATIONS

The socio-economic situation remains critical …

Portugal is facing the most critical economic and social crisis in its recent economic history. Since the start of the global crisis in 2008, one in seven jobs has been lost -- the most significant labour market deterioration among European countries after Greece and Spain. The unemployment rate has reached a historical peak of more than 17 per cent. Young workers and families with small children have been disproportionately affected by the downturn.

The labour market has not improved since the launch of the financial assistance programme with the EC, ECB and IMF in 2011. In fact, the trend of rising unemployment intensified over the past two years – showing, some signs of abating only recently.

Some developments may yield long-lasting effects that will make it difficult to maintain current living standards. The volume of productive investment has declined by over one third since 2008—with much of this decline occurring over the past two years alone, thereby eroding productivity gains and impairing future prosperity. The over 56 per cent of jobseekers who have been without work for more than one year are losing skills and motivation and would find it difficult to participate in a future economic recovery, unless adequate support is given. Many workers, including some of the most talented and qualified youth, have been pushed into emigrating. Indeed almost 20 per cent of the population would like to move abroad permanently should the opportunity arise.

The latest IMF projections are for an economic recovery in 2014, and in fact some encouraging evidence of renewed activity has been registered recently, thanks to an increase in exports. However, on current trends, the projected recovery will prove too weak to make a significant dent in unemployment.

… reflecting the exceptionally tight macroeconomic conditions, notably since the launch of the financial assistance programme …

This critical situation reflects a combination of macroeconomic and structural factors. Fiscal policy has been geared towards a rapid reduction of deficits, which had reached alarming proportions. Restructuring measures in the public sector have directly affected unemployment. Cuts in wages and welfare programmes, combined with certain tax increases have eroded family incomes and domestic demand. Enterprises have been affected by the exceptionally tight macroeconomic conditions that have prevailed since 2011. More than one fifth of all small and medium sized enterprises report that access to credit is their most pressing problem – entailing lost opportunities for job creation. And, when they do obtain new credit, enterprises must pay interest rates of around 5.5 per cent, compared with 2 per cent in Germany and other core Eurozone countries.

The surge in exports is a positive development that shows that the economy has the ability to compete in world markets. However, higher exports cannot compensate for the continued weakening of domestic demand.

… while structural weaknesses in labour market institutions that preceded the crisis have not been corrected…

In addition to macroeconomic factors, labour market institutions have only partially succeeded in attenuating the impact of the economic crisis on jobs. Thus, the panoply of active labour market policies and public employment services has been insufficient to cope with the significant increase in unemployment recorded in recent years. The positive effect of employment policies has been further weakened by some of the fiscal consolidation measures that curtailed key job support programmes.

Another key institution at times of crisis is the practice of job retention. In Portugal this practice has been hampered by the relatively high incidence of temporary employment and the phenomenon of "dependent" self-employment. Both trends preceded the crisis and have intensified since then.

Likewise, the coverage of collective bargaining – an institution that has proved essential to preventing job losses in viable enterprises in countries such as Germany, the Netherlands and Italy -- has declined in unprecedented proportions. The 2011 reform of collective bargaining aimed at promoting enterprise-based agreements between employers and workers. For the time being, however, the reform has resulted in an overall reduction in the coverage of collective agreements, thereby exerting downward pressure on wages and further depressing domestic demand. The proportion of workers earning the minimum wage has more than doubled since the start of the crisis.

A new strategy is needed …

A new start seems necessary to tackle these trends. Such policy changes must take into account the long-term stagnation that Portugal was already experiencing in the years before the crisis. Between 2000 and 2008, the unemployment rate followed a gentle upward trend. Average real incomes for the Portuguese population stagnated, in contrast to the majority of EU countries. The period also witnessed the emergence of significant imbalances, notably a decline in the investment effort, the emergence of a large current account deficit and rising public debt.

… and is possible through the shift to a more job-centred approach …

The report points to the many benefits of a coherent job-centred strategy. Such an approach includes, first, measures to address the financial constraints weighing on small firms. The government has promoted a credit guarantee system, which should no doubt help. However the real problem lies with the financial situation of banks and their reluctance to engage in new lending, as opposed to investing in safer financial assets. This is an area where a rapid move to a banking union in the Eurozone would trigger significant and rapid progress towards sustainable investment and job recovery.

Second, the production base would be boosted through measures to facilitate transitions from small to medium-sized enterprises, engage in new export markets and take advantage of emerging patterns of comparative advantage. The dynamism of other Portuguese speaking countries, and the large Portuguese diaspora in certain countries, are major assets in this respect.

Third, well-designed labour market institutions can be instrumental in supporting jobseekers and nurturing the development of a new production base. The report offers examples of good practices in terms of facilitating transitions to stable forms of employment, reinforcing labour inspection, ensuring adequate coverage of collective bargaining hand-in-hand with enterprise competitiveness, and strengthening active effective labour market policies and public employment services. The competitiveness position of the country makes it possible to ensure that, in the future, wages grow closer in line with productivity. This would put a floor on the depression of demand, thus supporting the transformation process.

Fourth, devoting special attention to disadvantaged groups, notably youth, is both a social emergency and an economic necessity. Youth guarantee programmes have proved especially useful in addressing youth unemployment in countries such as Sweden and Finland. The European Commission has expressed its intention to finance similar programmes in its Member States. These resources would prove essential in Portugal, given the tight budget constraints. However, estimates presented in this report suggest that the resources needed to finance these interventions are above the proposals advanced by the Commission.

Jobless households are another key group that deserves greater policy attention. Child poverty tends to be high in this group, raising social concerns and also suggesting that policy interventions could have a significant return in the long run. The report discusses examples of programmes for jobless households.

Importantly, Portugal is relatively well placed to implement such programmes. Its institutional capacity is relatively solid, especially compared with other crisis countries. Moreover, the social protection system tends to be more redistributive than in other countries. Maintaining the purchasing power of welfare benefits would be essential to the success of such a strategy.

Fifth, certain weaknesses in the education system that existed prior to the crisis also need to be tackled. Despite significant improvements in recent years—notably in terms of the quality of secondary education and university performance—only 68 per cent of young people complete upper-secondary education, compared with 75 per cent, on average, in advanced economies. In general, the school-to-work transition can be eased through an apprenticeship system, work experience and internships as part of the curriculum and a new partnership between educational institutions, enterprises, worker representatives and young people themselves.

Sixth, a job-friendly strategy requires the strong involvement of the social partners as key actors in the world of work. Social dialogue on the difficult policy choices and possible trade-offs is crucial to achieving balanced solutions. It would also boost confidence and help define a vision for a better future.

… which would curb unemployment while meeting fiscal goals, at a slightly slower pace than presently envisaged

Some of these policies will inevitably entail a cost to the public purse. The report shows, however, that these costs would mainly arise in the short term and be compensated through kick-starting a job recovery process. According to ILO policy simulations, a stronger focus on job-friendly policies would contribute to reducing unemployment by up to 2 percentage points by 2015. The pace of reducing the fiscal deficit would be slower in 2014, but more rapid in subsequent years.

There is also a strong case for a well-designed job support system at the level of the Eurozone. This is an issue being considered in EU debates on the social dimensions of the European monetary union. Moreover, a stronger role of the European Investment Bank would be instrumental in unlocking the investment potential of Portugal.

The ILO stands ready to work with Portugal on better jobs for a better economy

The ILO could provide guidance in finding and analysing international best practices of interventions, based on which the Portuguese government and social partners could choose programmes suitable to their specific needs. The ILO could also further assist in the policy making process, by providing advice on the design of policies and encouraging the participation of social partners in the different stages of the process. Moreover, the ILO could directly support the implementation of such policies, by providing capacity building through specialized training in areas such as labour inspection, social dialogue or public employment services. Finally, the ILO could help the government to liaise with other international organizations to ensure that a coherent macroeconomic and employment strategy is implemented.