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Social security and economic performance in Portugal: after all that has been said and done how much has actually changed?

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Abstract This paper provides an empirical estimate of the macroeconomic effects of the Portuguese pay-as-you-go social security system based on data for the period 1970–2007 and on VAR estimates using GDP, the unit cost of labor, the unemployment rate, the savings rate and social security spending. The major findings are twofold. First, growing social security spending has had detrimental effects on all of the private sector variables under consideration suggesting the existence of sizable inefficiencies. Second, these inefficiencies persist despite the successive reforms that took place over the last two decades. These results highlight the need for structural reforms of the pay-as-you-go system thereby addressing the sources of these inefficiencies, regardless of whether or not the system is financially sustainable. Furthermore, any reforms designed to address sustainability concerns cannot ignore these inefficiencies

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or risk making them even worse and thereby hindering the quest for sustainability itself.

Keywords Social security · Unemployment · Savings · Output · VAR · Portugal

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