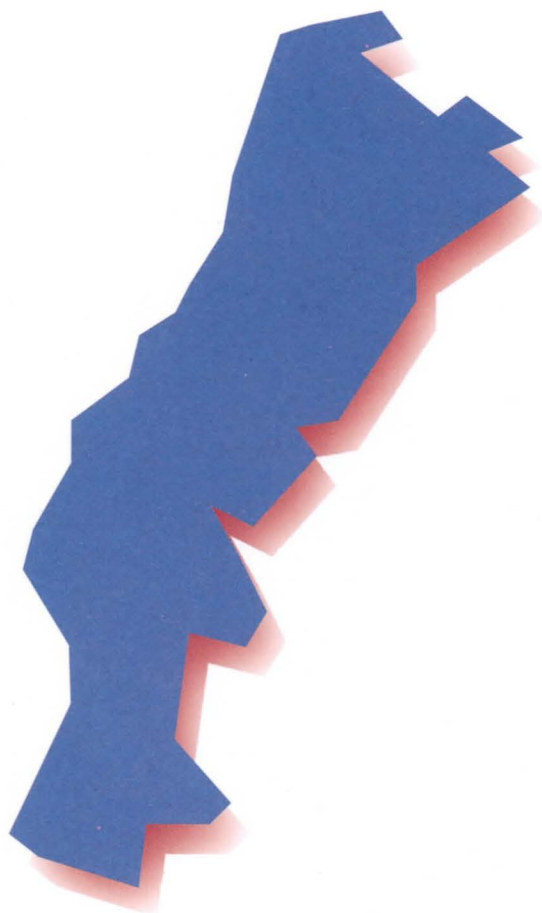


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# Labour Market Studies

## PORTUGAL



Employment & social affairs



European Commission

**Labour Market Studies**

# **Portugal**

**By**

**Quartenaire Portugal**

**and**

**Centro de Estudos de Economia Industrial,  
do Trabalho e da Empresa**

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## **EXECUTIVE SUMMARY**

### **I. Preliminary remarks**

This report has been conceived as a general survey on research available on the functioning and main prospects of Portuguese labour market ten years after Portugal's adhesion to EU. It presents a comprehensive view about the generality of factors affecting the performance of labour market in Portugal and some useful insights on the nature of unemployment progression in Portugal in order to match the appropriate policies.

Additionally, the report presents a new perspective on the main trends of debate in the area of employment, insisting as well on the issues that unfortunately remain absent of the major circles. We believe that a strictly approach of labour market prospects could not identify the right issues for the national debate and that a comprehensive view of education, training and social policies for the next stage of EU integration is necessary in order to achieve such an operative policy-oriented perspective. Active employment measures are seen under this framework of analysis and new insights for the trade-off between active and passive measures in Portugal are a main orientation of this report.

However, the identification of best practices in policies related to the functioning of labour market in Portugal remain hardly difficult to accomplish until a comprehensive information and evaluation system is available principally concerning vocational training and active employment measures.

Finally, we must also emphasise that the survey has been concluded only one year after the political changes observed at the end of 1995. Data on policies and programmes generated by new politically orientations are not yet available, complicating the anticipation of the new prospects.

## **II. Main Findings**

From 1985 onwards, Portuguese labour market performed remarkably well: total employment grew at an average annual rate of 1.1% (2.2% between 1985 and 1991), whereas unemployment rate remained low, by European standards at least.

Notwithstanding, since 1992 - when the Portuguese economy was hit by the international recession - employment has decreased and the unemployment rate has been on the increase, although it remains under 8 percent.

Such performance was accomplished against a background of high participation rates (most notably in the case of women), heavy employment losses in agriculture, and the persistence of long-term demographic trends leading to the aging of the Portuguese population (due to decrease of the fertility rate and the extension of life expectancy) and, in the second half of the 80s, to an absolute decrease of total population.(due to unforeseen negative migration flows.

During this period, several programs aimed at stimulating the modernization of the Portuguese economy (thereby reducing the gap that still separates it from the European average) were implemented with the financial support of the European Funds. To a large extent. To a large extent these programs were directed towards agricultural and industrial activities, as well as to education and training.

On its side, agriculture experienced heavy job losses despite the amount of financial aid received. Such losses are the result of both the existence of substantial hidden unemployment and the fact that, as a whole, this activity remains incapable of facing international competition. In fact, further job losses in agriculture are expected, although at a much slower pace.

Along with such changes, the share of unpaid family work in total employment sharply fell as agriculture, together with some services, is a major user of this kind of work. At least in recent years, family work seems to be acting counter-cyclically, meaning that it acts, to some extent, as a cushion against wage-employment losses.

On its side, industrial policy extensively promoted the development of Portuguese industry both by subsidizing private direct investment and by directly investing in the creation of new infrastructures capable of generating positive externalities. During the surveyed period, industry's performance was quite good - a considerable number of new establishments were created accounting for about 49% of total employment creation in manufacturing industries (the remainder is due to the expansion of continuing firms). Besides, the importance of plants start-ups and shut-downs in terms of employment should be stressed, as available evidence suggests that these originate job flows of about the same size of those that result from the expansion and contraction of continuing establishments.

Although there are no visible signs that point out to a specific entry behaviour of small firms, these have generated positive and increasing net employment flows, whereas those originated by large firms were small and even negative during at least part of the surveyed period.

The abovementioned evidence may suggest that an industrial restructuring process (whose necessity is widely agreed upon) took off during this period. However, further evidence suggests otherwise. On the one side, most of the total gross employment variation (about 80 percent) occur within industries or regions. On the other side, employment growth was more intensive for low-wage industries and regions. Finally, small plants, although presenting high birth rates, also face higher mortality rates, lower productivity, lower wages and more intensive job turnover than large plants.

Despite the signals that bigger firms have initiated a process of adjustment to the so-called "new competition", we conclude that for the most such adjustment is yet to be accomplished as a non-quantified, but certainly big, share of firms created in recent years instead of representing a new way of doing business, rather replicates the main characteristics of the entrepreneurial model that still dominates the Portuguese industry.

It is worth mentioning that the nature of the industrial policy implemented immediately after Portugal acceded the EC is at least partly responsible for this situation. In fact, the most widely used instruments of industrial policy - i.e., subsidies to investment - were conceived and managed with three different and contradictory objectives, namely, industrial modernization, employment creation, and the reduction of regional disparities.

Such a policy implemented in a context that deeply stimulated the development of some traditional Portuguese industries (due both to a lively internal and external demand, the latter fostered by an exchange rate policy actively promoting the devaluation of the Portuguese escudo) actually promoted capacity investments as opposed to modernisation investments and did not contribute to reducing regional asymmetries.

From the viewpoint of the labor market, such an evolution ended-up being positive as it promoted employment and delayed the substitution of capital for labour, thereby reducing unemployment. Furthermore, we believe that the fact that unemployment in Portugal is mostly of a cyclical nature (as we have seen in section I.V.) - unlike what happens in many other European countries where structural unemployment has been on the increase - is consistent with this view.

It is widely agreed that unemployment in Portugal is predominantly of a cyclical nature. Notwithstanding, the causes of the sensitivity of the unemployment record in relation to the economic situation is a matter for some controversy. Many opinions do, however, converge to consider that it is to the fact that the labour market displays a considerable degree of flexibility that Portugal owes its good performance in terms of unemployment. The fact that nominal wages and earnings are also sensitive to both inflation and unemployment reinforces this interpretation. The same goes with evidence at the micro-level where local, firm and industry-specific conditions play a significant role in determining pay.

If flexibility is to be given such a crucial role in explaining the performance of the labour market, there is one question still calling for an answer - why is the labor market so much more flexible in Portugal as compared to other European countries? This question is all the more relevant as it is a well-known fact that labour market regulation is quite stringent. Restrictions imposed refer, namely, to their capability of adapting working hours, moving workers across jobs and dismissing workers.

Arguably, flexibility stems mostly from the fact that in Portugal reservation wage levels are low due to three main reasons: the low levels of average wages, the low coverage of the unemployment insurance system, and the importance of atypical forms of work. Notwithstanding, one has to recognize that the degree of flexibility revealed would not be possible with existing legislation except if non-compliance with the law is



acknowledged. Several facts indicate that this is, indeed, the case in Portugal. Among these, the importance that term-contracts have attained until 1990 and independent work from there on, as well as the widely spread practice of using overtime work despite the strict regulation applying in all these case, are worth mentioning. These are good examples of situations where law is overruled, thereby creating a flexibility "de facto" where there were legal rigidities.

Such a context is coherent with the fact that the employment creation performances of Portuguese economy are still strongly dependent on growth general prospects and not merely on the labour-intensive pattern of growth paths. We believe that the best active employment measures should be targeted at improving growth performances of Portuguese economy, principally in what concerns physical and immaterial investments generating significant externalities. Consequently, we also believe that growth policies cannot be confined to traditional demand-driven interventions. All the evidences suggest that demand-driven factors depend mainly on growth performances of EU economies. Internally, supply-side and institutionally oriented policies should be the main drive in order to favour better growth prospects in a period of strong structural adjustments and considering the new scenarios for the intervention of EU structural funds within lagging countries and regions.

This is also the right framework to ask for a more accurate contribution of education and training systems. Notwithstanding the significant rise observed in the last 20 years concerning rates of participation and enrollment rates in practically all the education levels as well as training facilities, that increase cannot by itself compensate the very low average educational attainment levels still persisting within labour force. It is necessary to create favourable conditions in order that firms could adapt themselves to new turn-over conditions concerning the employment market, combining external flexibility performances with the up-grading of internal flexibility within firms. The reform of fiscal policy and of the way firms could contribute to the eradication of social security financial crisis should be oriented towards more ambitious targets than solving short-term financial problems. It is absolutely necessary that the structure of labour force qualifications within firms could adjust to the rise of enrollment and participation rates in the education system. Higher stages of industrialisation profiles in Portugal and more aggressive strategies of attracting foreign direct investments require that type of

adjustments. We believe that education system is precociously evolving towards a development model of Portuguese economy in which deindustrialisation is passively accepted and in which tertiary sector is seen as the only safeguard for employment creation.

### **III. Main trends of national debate**

The national debate on the labor market followed mostly along the three following avenues:

- i) the system of industrial relations, particularly in what concerns the relative roles of different levels of negotiation (i.e., centralised *versus* decentralised);
- ii) the flexibility of the labour market, particularly in what concerns legislation on dismissals, atypical forms of work, working hours and the definition of job contents;
- iii) the instruments of the labour market policy, particularly in what concerns the relative importance of active versus passive measures.

It is widely recognized that the State holds a proeminent position in the Portuguese industrial relations system. Therefore, it hardly comes as a surprise that one of the main topics for debate referred to the reform of such system particularly concerning the redefinition of the relative roles of the more centralised and decentralised levels of bargaining. Claims were that the highly centralized level of negotiation still prevailing in the Portuguese system is one major obstacle for adapting regulation to the diversity and variability of operating conditions which could only be dealt with at more decentralised levels of negotiation.

Although non-compliance with existing regulation remains an issue, the CPCS did manage to reach several agreements that established the principles applying to negotiations taking place at the industry or firm-level. These agreements proved a powerful instrument for the stabilization of the macroeconomic conditions of the Portuguese economy - it was with the agreement signed in 1987 that the concept of "expected inflation rate" became the referential for wage negotiations in substitution of the inflation rate observed during the period following the preceding agreement.

The agreement signed in 1990 (AES) introduced again some major changes. Among these was the adoption of an objective of effective growth of real wages towards the EC average, under non-inflationary conditions, and the concern with the safeguard of international competitiveness of Portuguese firms.

Despite these changes, collective bargaining remains highly centralized and unwilling to use the new prerogatives given by law.

Surprisingly enough, employers seem to be more adverse to firm-level negotiation than workers which is due to three main reasons: negotiations at this level are harder as single employers have to face aggressive trade unions; employers fear that conducting firm level negotiations will create new incentives to plant unionisation; industry-wide agreements give employers some flexibility over wages as conventional wages tend to be viewed as lower bounds for setting wages firms actually pay.

However, the flexibility issue was the major theme of the national debate on the labour market throughout the surveyed period. Two main topics, both of which represent major concerns of employers and workers, were particularly subject to discussion. These referred to the legislation on dismissals and the reduction of working time.

For a long time, employers had been claiming for deep changes of legislation on dismissals which was seen as highly restrictive due both to the procedures required and to the high costs firms had to incur in case of dismissals. Besides, the admissibility of dismissals was quite strictly regulated. For these reasons, employers considered that due to such rules their ability to react to external shocks was seriously diminished. Firms highly exposed to international trade (both in the national market and in international markets) were particularly concerned with this, particularly at a time when competition was becoming fiercer in European markets. Eventually, this led the Government to change the law on dismissals in 1989, thereby giving credit to many of employers' claims. Dismissals were thus made easier, but the very same law now regulates this matter also introduced a new regulation on term-contracts whose use became more limited. This should be considered as a compensation to the fact that dismissals were now easier. On the one side, job-security was reduced, but, on the other side, the use of more precarious forms of work, such as term-contracts (which roughly represented 20% of wage-employment), was restricted.

Unions (those represented in UGT, at least), unwillingly agreed with these changes, recognizing that the new international environment would forcefully lead to the loss of some jobs; these job losses were therefore seen as a condition for maintaining (and creating) other jobs.

However, this is still an on-going debate as neither employers, nor workers are pleased with the results of this changes. Employers still complain about the stringency of existing regulation, whereas workers consider to have given away one of their fundamental rights without sufficient compensation. In fact, term-contracts were not replaced by permanent contracts; instead, (false) independent work grew, at the same time that the importance of term-contracts sharply fell.

The other topic discussed under the heading of flexibility was working time. Workers had for a long time been claiming for the reduction of working hours which, despite the fact that they were higher than anywhere else in Europe (during the 80s, at least), showed no tendency to be reduced. For that reason, workers claim was based on the urge to improve workers' living and working conditions. Employers strongly opposed such claims, arguing that working time reductions would put an unbearable pressure on costs and, once again, deteriorate their international competitiveness. Instead, so they claimed, what was really necessary, was improve working time flexibility. An agreement was eventually reached on this topic in 1990 (AES) consacrating the reduction of working time to a new maximum level of 40 hours / week in exchange for the flexibilisation of working schedules. However, such an agreement took the form of a recommendation which was to be implemented by means of collective agreements until 1995. Once again, the result was that by 1996 normal working time was above the new maximum in most activities due both to workers unwillingness to make further concessions in what concerns working time flexibility and to employers opposition to the reduction of working time without further flexibility.

There are several factors that can help us to understand why these negotiations came to a dead-end and eventually called for State intervention.

It is a well known fact that working time reduction is a source of additional costs except in the case of no wage compensation (i.e., constant hourly wages). In fact, although some authors argue that productivity gains can be expected when working time is

reduced, this is a matter for some controversy and it is generally agreed that this gains, if they exist, will not be big enough to compensate for the increase in labour costs. Such an increase will be all the more important in the case of labour - intensive firms / industries; it will also be more difficult to deal with when firms / industries are highly exposed to fierce international competition.

Working time reduction, except if accompanied with incomplete wage compensation (i.e., with a proportional increase of hourly wages) demands workers to pay for the reduction of working time. This means that it will only be likely if the marginal utility of leisure is higher than the marginal utility of wages, or when levels of wages are higher and hours of leisure scarce.

Finally, working time reduction gains feasibility if it is combined with the reorganization of working time, allowing for the extension of capital operating time by means of the extension of shiftwork. In such case, additional feasibility arises of the reduction of capital costs. In such case, a more intensive use of the capital factor produces a reduction of costs that can be used to finance the increase in labour costs associated with the reduction of working time, thereby reducing the need for wage compensation and/or the loss of competitiveness. The higher is the share of capital in the cost structure of the firm / industry, the more likely will this outcome be.

From the abovementioned theoretical points, it results that the Portuguese economy is not a favourable ground for working time reduction processes to occur, considering the importance of firms / industries in traditional sectors, labour intensive, and highly exposed to international competition, as well as the low average level of wages. Therefore, it hardly comes as a surprise that employers and workers have not been able to agree and implement the decisions of the 1990 agreement. The reaction of employers to the new law that the Government has recently passed enforcing the 40 hours / week maximum working time (calculating the average duration of working time without considering the daily breaks periods, thus maintaining or even expanding the duration of work) reinforces what we have just said.

#### **IV. New themes for national debate**

##### The worksharing debate

The worksharing debate has been completely absent of the national debate of working time. This can be easily understood if we consider the low levels of unemployment that the Portuguese economy has experienced this far. However, the new Government seems to be particularly keen about this issue and has actually introduced a clause on the latest nation-wide agreement referring to the need to manage working time in the context of the employment policy, particularly by means of promoting the growth of part-time work by means of deregulating a number of aspects related to it.

However, it may happen that such a fight will be implemented at the expenses of (still) existing job-security regulations, meaning that in order to create further jobs, the whole employment relations will become more precarious. Although such a stand still calls for further verification (as we have to be able to measure the impact of non-compliance with existing regulation on actual job-security), this should be a major topic for the national debate on the labour market. However, strange as it may seem (particularly, because Portuguese workers seem to be more keen about job-security than about income security), this issue has not been discussed out in the open.

##### The job-security/employment trade-off

Also absent of the national debate is the job-security/employment trade-off at least in such terms that are compatible with the main findings of this report. It has been reported above that a major cause for the Portuguese good performance in what concerns unemployment has to do with the actual degree of flexibility of the labour market. In turn, this is explained by the low levels of wages, the still low coverage of the unemployment insurance system and the importance of the atypical forms of work.

It seems that tacitly a consensus has been reached indicating that the path the Portuguese economy wants to follow presupposes that all those measures will be implemented, along with further deregulation of the labour market. If such a consensus exists, it has been reached without balancing the social and economic benefits of such options against what is likely its major cost the increase in unemployment and the growth of its structural component. Furthermore, this will happen along with further reductions of job-security

implemented for the sake of flexibility which, in such a context, is not likely to produce positive results. We believe that this should be a major subject for debate.

#### An effective and operative consensus on the main guidelines of education system reform

We believe that a false consensus on education system priorities is recently installed in Portugal among the main political forces and civil organisations. The complexity of the situation is arising because a two-simultaneous steps strategy should be implemented: to manage the problems created by the explosion of demand at the same time that quality performances should be strictly observed. The conditions that Portuguese take-off concerning education prospects is facing are very unfavourable, because the Portuguese education system begins to react against its main failures and shortfalls when the countries that are sharing the same specialisation profile and disputing the same foreign investment contribution are deeply involved in improving the quality and efficiency of their systems. The difficulty of achieving a good compromise between these two issues is well perceived in the national debate concerning the discussion of what should families pay for their children being enrolled in public higher education (Universities and Polytechnic Schools) and of the bad results observed in the general examinations at national level of youth having completed 12 years of schooling.

The lost of energy that the Reform of Education System has suffered in recent times is a clear illustration that a false consensus is emerging. The challenge of the education system reform cannot be faced within a strictly sectoral approach. Families, firms, young people, civil society organisations should be involved as full interested and participant social groups. The lack of motivation among teachers and the management failures of schools require more than technical solutions.

It is necessary that national debate allows for further mutual knowledge between the education system and firms, eliminating the no man's land still existing between the aspirations and values of the former and the needs of the latter. Attitudes towards initiative, self-responsability, risk and decision-making in contexts of uncertainty should be produced and stimulated by education system in order to improve social commitment and responsibility of more educated young people.

### The trade-off between active and passive employment measures

There is a very generalised tradition in Portugal consisting in multiplying the number and the kinds of programmes aiming at implementing active employment measures. We may say that the diversity of targeted groups for active measures is managed multiplying the number of programmes and measures selected, instead of managing a small number of measures or programmes and adapting them to the diversity of targeted groups and individuals. We believe that the last alternative is more operative, reinforcing the probability of attaining better results.

The great majority of active measures now available and generalised should be implemented at decentralised levels and will be producing more positive results integrating and being managed within local development strategies. This is a challenge for the IEFP reorganisation and principally it should be seen as an opportunity for Employment Centres have a more active and autonomous role in promoting local development.

Finally, training policy must be not kept aside of the trade-off between active and passive measures. A training project or a training plan are not by themselves an active or a passive measure. The way the project or the plan are conceived, managed, targeted or implemented and the kind of apprenticeship environment and performances effectively achieved are key factors to be considered. Unemployed people (not ignoring of course the diversity of couples of situations of educational attainments and skills presented by unemployed people) and youngsters looking for a first job are key targeted groups in order that passive measures may have a shorter duration and in order that they could be better articulated with active measures. Such performance to be effective should be accomplished managing social unemployment and unemployment benefits with more active and severe modalities of follow-up and of control of people involved. The main bottleneck in Portugal to achieve such a performance is institutional. In fact, in order that an unemployment benefit could be seen as a temporary source of protection and not as a permanent charge, it is necessary that the beneficiaries could receive preferential treatment as targeted groups for active training and for active employment measures. The success of the recent Danish experience of reforming labour market and activating



measures is mainly explained by the ability of combining new regulations for the unemployed claiming unemployment benefit with several active measures and participation in active programmes (European Commission, Employment in Europe, 1996:133).

### The challenge of improving the transition into working life of youngsters

The young people that is looking for a first job is, in Portugal, a very complex targeted group, because at least we may identify three main situations:

- Those who leave the education system without any qualification at all;
- Those who leave it after having completed some years of basic, secondary or higher education but not having any vocational qualification;
- Those looking for a first job with vocational qualifications through education or vocational training system.

If we combine these situations with different social status or gender aspects, it's easy to understand the complexity of the problem of training policies aiming at improving the transition into working life.

The training programmes conceived under a strategy of training towards employment should have in mind that, at least in what concerns the youngsters that are looking for a job as result of drop-out cases without any qualification at all, these active training measures are as well instruments in order to prevent higher levels and incidence of social disability.

### The need of preparing the debate on social security reform

The progression of the work of the team that is preparing the White Paper on Social Security will allow for generalising the debate in the major circles affected by the new coming orientations, including the issue of achieving a complete harmonisation among different regimes of social protection. The very low average value of remunerations declared by Portuguese employees and employers as well independent workers for social security purposes can no longer be ignored, accepting it just a natural reaction of contributors. It is necessary to take into consideration that short-term financial difficulties

of social security should not delay the need of reforming equity and efficiency performances of the system, adapting distributive modalities to the new situation and helping the search of complementary sources of social protection.

Further debate on social responsibility of employers and employees is requiring further achievements in harmonising regimes and eliminating the existing inequalities. Considering that Portugal's tax pressure has sharply increased since the 70's, we believe that effects on labour demand of the social security reform will be strongly dependent upon audacious proposals concerning the reduction in the global rate of social contributions combined with tighter monitoring of the system. The improvement of budgetary manoeuvre is requiring a decisive political impulse.

## **Foreword**

This is the Final Report of the Study on the Labour Market of Portugal according to the contract signed between the European Commission-DG V and Quaternaire-Portugal and involving the collaboration of the CETE team - Oporto Faculty of Economics.

Practically all the comments and observations that have been made by the members of the group joining DG V and following the study have been integrated in this definitive version as well as all the observations and recommendations made to the Interim Report presented in September 1996.

We should emphasise again that the study has been conceived as a general survey on research available on the functioning and main prospects of Portuguese labour market ten years after Portugal's adhesion to EU. Nonetheless, we believe that this report added more value than a simple survey on research related to labour market issues. It presents a comprehensive view about the generality of factors affecting the performance of labour market in Portugal and some useful insights on the nature of unemployment progression in Portugal are now available that could be useful in order to match the appropriate policies.

Additionally, the report presents a new perspective on the main trends of debate in the area of employment, insisting as well on the issues that unfortunately remain absent of the major circles. We believe that a strictly approach of labour market prospects could not identify the right issues for the national debate and that a comprehensive view of education, training and social policies for the next stage of EU integration is necessary in order to achieve such an operative policy-oriented perspective. Active employment measures are seen under this framework of analysis and new insights for the trade-off between active and passive measures in Portugal are a main orientation of this report.

However, we must recognise that the identification of best practices in policies related to the functioning of labour market in Portugal will be hardly difficult to accomplish until a comprehensive information and evaluation system is available principally concerning vocational training and active employment measures. Portuguese participation on the MISEP working group could be an opportunity in order to achieve further developments in this area.

Finally, we must also emphasise that the survey has been concluded only one year after the political change observed at the end of 1995. Data on policies and programmes generated by new political orientations are not yet available, complicating the anticipation of the new prospects.

Quatenaire-Portugal and CETE of Oporto Faculty of Economics thank the representatives of DG II, DG V, DG XVI and ESF that have followed the study progression for the valuable contributions made on pertinent topics, stimulating the team for more accurate analysis of those topics and creating a very positive environment for survey analysis. We have benefited in the preparation of this report from the active collaboration of Dr. Vitor Viegas of the Direcção Geral do Emprego e Formação Profissional and of other members of the DEP staff updating information on active employment measures and wages as well of the flexibility and pertinent comments of Mr. Armindo Silva of DG V. The interview with Dra. Margarida Abecassis, Sub-Director General of Employment and Vocational Training has been also very useful to format this report. We also thank Professor Pedro Portugal for pertinent comments on the report.

Oporto, 30th December 1996

Quatenaire-Portugal

CETE-Oporto Faculty of Economics

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## **I. Labour Market Analysis and Forecasts**

### *I.1. Demographic Trends*

From 1980 to 1994, total population in Portugal grew at an average annual rate of 0,07%<sup>1</sup>.

From the viewpoint of demographic trends, this period can be divided into three major sub-periods:

- from 1980 to 1985, total population grew at positive though decreasing annual rates; during this sub-period, natural growth more than compensates for net migration which became negative in 1983;
- from 1986 to 1991, total population growth rates become negative and total population decreases at increasing rates; natural growth no longer covers the increasingly negative net migration;
- from 1991 onwards, total population resumes growing though at very small rates; this is mostly due to the major increase in net migration values that in 1993 became positive for the first time in ten years.

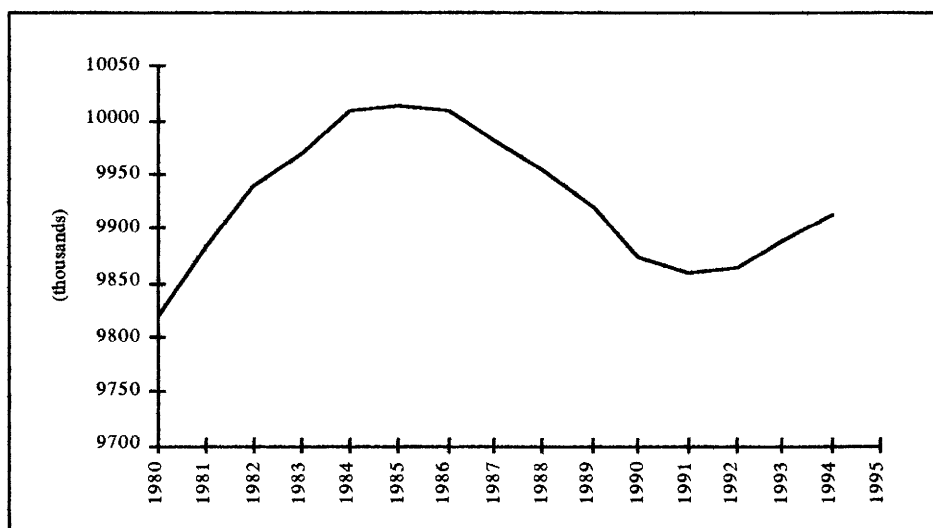
Figure 1 depicts the evolution of total population during the 1980-94 period and Table 1 presents its annual growth rates<sup>2</sup>.

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<sup>1</sup> Data refers to resident population at 31 December (source: INE - Anuário Estatístico).

<sup>2</sup> As an alternative, the evolution of total population could be described by using estimates published quarterly by INE - Inquérito ao Emprego on resident population in the Mainland; this would indicate a steady, though small, population growth throughout this entire period, including the 1986-91 sub-period. This is due to the fact that such estimates were not revised after the data from the latest Census were made available (see below). For that reason, and for this purpose we prefer to use the above presented estimates which were previously made compatible with the new facts.

**Figure 1. Total Population - 1980/94**



Notes: estimates of resident population at 31.XII; data refers to Portugal (including Mainland, and the Azores and Madeira archipelagos).

Source: INE - Anuário Estatístico

**Table 1. Total Population - Annual Average Growth Rate**

1981	0,7%
1982	0,6%
1983	0,3%
1984	0,4%
1985	0,1%
1986	-0,1%
1987	-0,3%
1988	-0,3%
1989	-0,4%
1990	-0,5%
1991	-0,1%
1992	0,0%
1993	0,2%
1994	0,2%

Source: INE - Anuário Estatístico  
(own calculations)

Long-term demographic trends accountable for the building of what some authors call the "modern demographic stage" of the Portuguese society (Ferrão, 1996) persisted throughout this entire period. These include the decline of natural growth rates, mostly due to the decrease of the fertility rates as well as diminishing child death rates.

Table 2. synthesizes the evolution of the natural growth of the Portuguese population and its main components.

**Table 2 - Evolution of Population's Natural Growth**

	Fertility Rate		Birth Rate		Mortality Rate		Infant Mortality Rate		Natural Growth Rate		Life Expectancy at Birth		% People over 65			
	abs.	1960 =100	%	1960 =100	%	1960 =100	%	1960 =100	%	1960 =100	1960 =100	1960 =100	%	1960 =100		
<b>1960</b>	3,01	100	23,9	100	10,6	100	77,5	100	13,3	100	61,2	100	66,9	100	8,0	100
<b>1970</b>	2,76	92	20,0	84	10,3	97	55,5	72	9,7	73	64,2	105	70,8	106	9,7	121
<b>1980</b>	2,19	73	16,2	68	9,9	93	24,3	31	6,3	49	68,3	112	75,3	113	11,4	144
<b>1990</b>	1,51	50	11,8	49	10,4	98	10,9	14	1,4	11	70,3	115	77,5	116	13,6	170

in: Ferrão (1996)

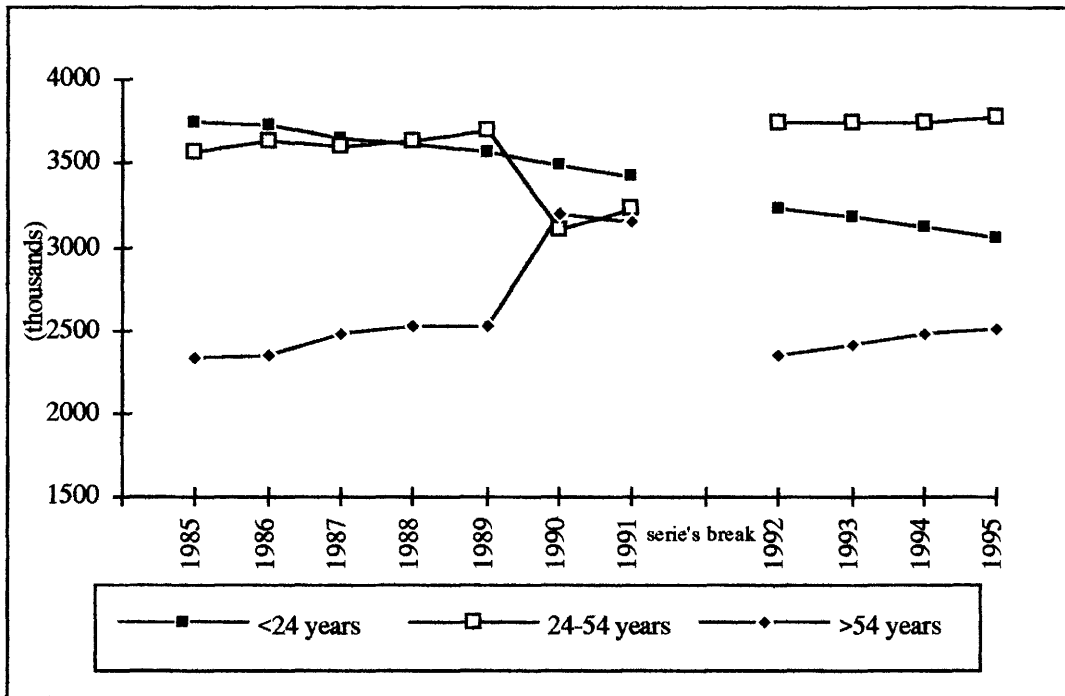
The marked decline of the natural growth rate is mostly the result of a declining fertility (which does not allow for the replacement of generations since the mid-80s), despite the simultaneous decrease of the gross mortality rate (particularly for children).

Although the decline of the fertility rate is quite notorious, there is some discussion on whether it is going to stabilize at its currently estimated level (1,5 children per woman), or it will keep on decreasing (as it did in Spain or Italy) or even if the recent trend will be reversed and it will resume growing (as it happened in Sweden for instance).

Regardless of its future behavior, it is fairly safe to acknowledge that life expectancy at birth is now much higher than before and so is the share of older people in total population - on average, Portuguese population is rapidly getting older, the share of youngsters (less than 24 years old) in total population is sharply declining, accounting in 1995 for 33% (39% in 1985) whereas the share of population aged 54 or more has been growing, accounting in the same year for 27% of total population (24% in 1985). Women account for about 52% of total population.



Figure 2. Total Population, by Age Group



Note: data refers to quarterly averages; figures for 1990 and 1991 are not comparable with the remainder because they refer to the following age groups: <24 years, 24-49 years and >49 years.

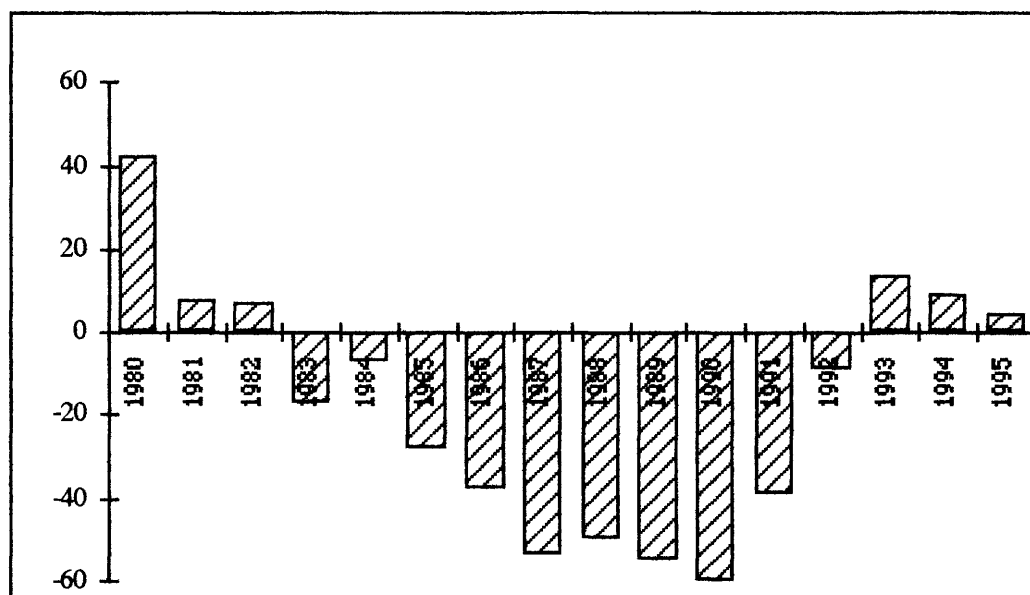
Source: INE - Inquérito ao Emprego

Along with natural growth, migration movements are a major determinant of demographic changes. From this viewpoint, Portugal is traditionally a country of emigration. Yet, until recently, it was generally admitted that after having reached a peak by the end of the sixties / early seventies, Portuguese emigration would have stabilised at low levels; the eighties were seen mostly as a period of immigration (due to the return of nationals who had previously left the country and to the arrival of foreigners, particularly those originating from Portuguese former colonies in Africa). As a result estimates of net migration for the entire decade were systematically positive.

However, these estimates were challenged by new trends noticed in the second half of the decade as well as the results of the Census of Population of 1991. In fact, on the one side, the massive return of nationals did not occur, and on the other side, Portuguese

emigration resumed growing round 1985<sup>3</sup>. The 1991 Census confirmed these new and unexpected facts by indicating lower levels of population than those previously admitted. Data on migration flows were therefore revised now indicating negative net migration throughout most of the eighties - Figure 3.

**Figure 3. Net Migration (000s)**



Source: Eurostat until 1991, INE - Estatísticas Demográficas onwards

Only in 1993 did net migration figures become positive again as a result both of the recovery of returns of nationals and possibly of stronger immigration of foreigners. However, these have been declining ever since being barely positive in 1995.

Estimates of the future evolution of the Portuguese population are conditional mostly upon the evolution of both the fertility rate and the net migration records. The abovementioned three scenarios concerning the fertility rate's path are admitted. In what concerns the evolution of net migration it is recognized that this depends on a number of unpredictable factors (international economic situation or the social-political situation in some countries where there are large Portuguese communities, such as the South Africa

<sup>3</sup> Although the growth of the world economy in these years may explain this behavior of emigration, it should be kept in mind that throughout this period the Portuguese economy was also expanding at a rapid pace (in fact, higher than in most other European countries).

Republic, e.g.) three alternative scenarios - positive, null and negative net migration - are usually admitted.

Forecasts currently available consider only the hypothesis of fertility stabilization coupled with the three alternative hypothesis concerning the migration balance and refer to the 1995-2020 period<sup>4</sup>. Their results are summarized on table 3 by broad age groups. Two main features should be emphasized.

To begin with, total population future prospects depend crucially on the behavior of the migration balance - it will increase if net migration is positive, it will decrease if net migration is negative. However, should the fertility rate remain at its current level it will, on its own, cause a decrease of total population (scenario B).

**Table 3 - Population Forecasts, 1995 - 2020**

		0-14	15-64	>64	All
<b>Scenario A</b>	1995	1 743 745	6 642 468	1 465 385	9 851 598
	2000	1 661 130	6 567 989	1 526 833	9 755 952
	2005	1 675 701	6 440 790	1 587 705	9 704 196
	2010	1 612 314	6 337 683	1 624 044	9 574 041
	2015	1 482 309	6 193 653	1 686 137	9 362 099
	2020	1 340 875	6 011 168	1 754 538	9 106 581
	<b>Scenario B</b>	1995	1 758 380	6 701 119	1 467 099
2000		1 698 836	6 708 143	1 528 220	9 935 199
2005		1 727 789	6 629 868	1 588 454	9 946 111
2010		1 679 211	6 579 963	1 623 327	9 882 501
2015		1 562 255	6 493 919	1 683 515	9 739 689
2020		1 430 983	6 373 939	1 750 499	9 555 421
<b>Scenario C</b>		1995	1 767 905	6 740 119	1 468 573
	2000	1 724 944	6 824 945	1 537 917	10 087 806
	2005	1 779 504	6 861 404	1 612 507	10 253 415
	2010	1 756 819	6 923 606	1 667 494	10 347 919
	2015	1 665 451	6 946 819	1 752 422	10 364 692
	2020	1 558 575	6 932 462	1 848 070	10 339 107

<sup>4</sup> Forecasts considering other scenarios are currently being prepared at INE.

Note: provisional data.

Scenario A: FERT=1,5 and MIG=-50 000; Scenario B: FERT=1,5 and MIG=0; Scenario C: FERT=1,5 and MIG=150 000. FERT=Fertility Rate; MIG= Net Migration.

Source: INE - Gabinete de Estudos Demográficos

On the other side, all scenarios considered lead to an increase in the share of population aged 65 or more. Therefore, the on-going ageing process of Portuguese population is expected to persist in the near future. In fact, it will even be intensified if the decreasing fertility hypothesis - that is not disregarded - proves itself accurate. However, this ageing process will be more pronounced if net migration is negative as the group of migrants is mostly made up of young adults. For that reason, scenario A is the one that predicts the biggest increase in the share of people over 65 (nearly 5 p.p.); conversely, this is the scenario that leads to the strongest decrease in the share of youngsters.

All scenarios point out to a slight decrease (-1.4 p.p. to -0.5 p.p.) in the share of people in the working age group, meaning that demographic trends will somewhat reduce the pressure over the labor market by reducing the size of the pool where labor supply arises of.

## 1.2 Structure of the Workforce

### Labor Force

From 1985 to 1995, total active population grew at an average annual rate of approximately 0,8%<sup>5</sup>. Throughout this period, women account for 42% to 45% of total active population.

The decomposition of total labor force growth into its two main components - population growth and change in participation rates - reveals that the growth of Portuguese labor force is the result of the mixed effects of a barely growing population (an average of 0.2% throughout the period) and slightly increasing participation rates (0.6%) - table 4.

**Table 4. Decomposition of Total Active Population Change  
(annual average rates of change)**

	<b>1985/88</b>	<b>1988/91</b>	<b>1992/95</b>
Population Growth	0,44%	0,13%	0,04%
Men	0,43%	0,15%	0,20%
Women	0,45%	0,12%	-0,11%
Change in Participation Rates	0,07%	1,60%	0,14%
Men	-0,36%	0,95%	-0,54%
Women	0,69%	2,40%	0,88%
Active Population Growth	0,53%	1,71%	0,17%
Men	0,07%	1,10%	-0,31%
Women	1,16%	2,51%	0,77%

Source: own calculations using INE data

Throughout this entire period, active population grew at positive rates although the average growth was more intense for women than for men. In fact, for the more recent sub-period considered (1992-95), the size of the male active population actually decreased (-0,31%).

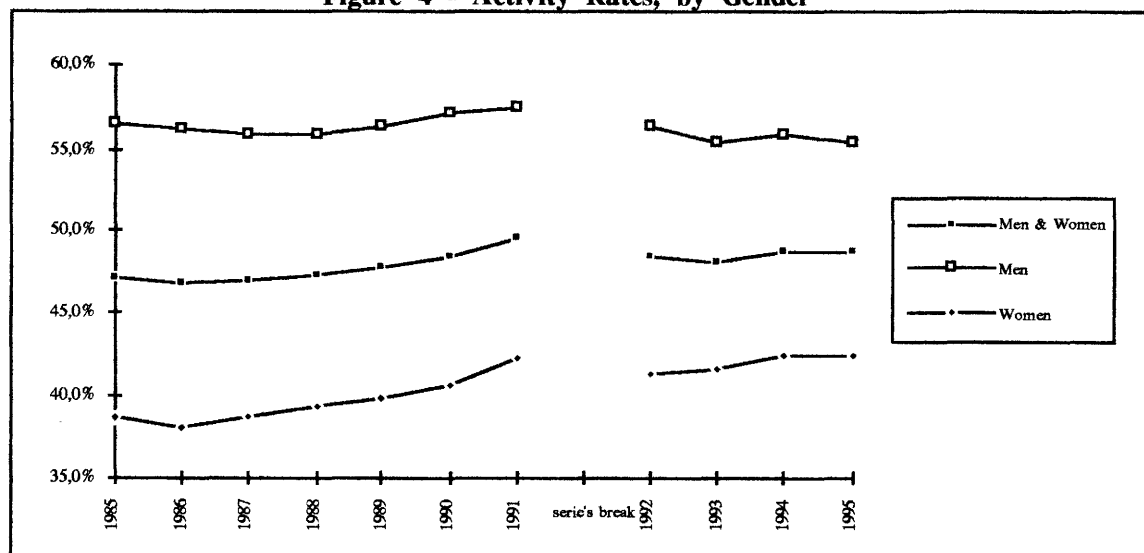
However, it is interesting to notice that the reasons for this different pace of change for men and women's labor force are also different. For men, the average growth of active

<sup>5</sup> This figure compares with an annual average growth rate of total population of 0.2%.

population is only the result of total male population growth (0.26% on average) as participation rates remained virtually unchanged (0.02%), whereas for women it is mostly due to the increase in participation rates (1,32%). Moreover, it should be emphasized that the overall men's participation rate increase is only due to its behavior during the 1988/91 sub-period when it increased 0.95% (remember that this was a period of rapid expansion of the Portuguese economy), as during the two other sub-periods considered it actually decreased (particularly in 1992/95 - -0.54% - when the Portuguese economy was going under a recessionary period).

The evolution of activity rates by gender is presented in Figure 4.

Figure 4 - Activity Rates, by Gender<sup>6</sup>



Note: Total Active Population in relation to total population.

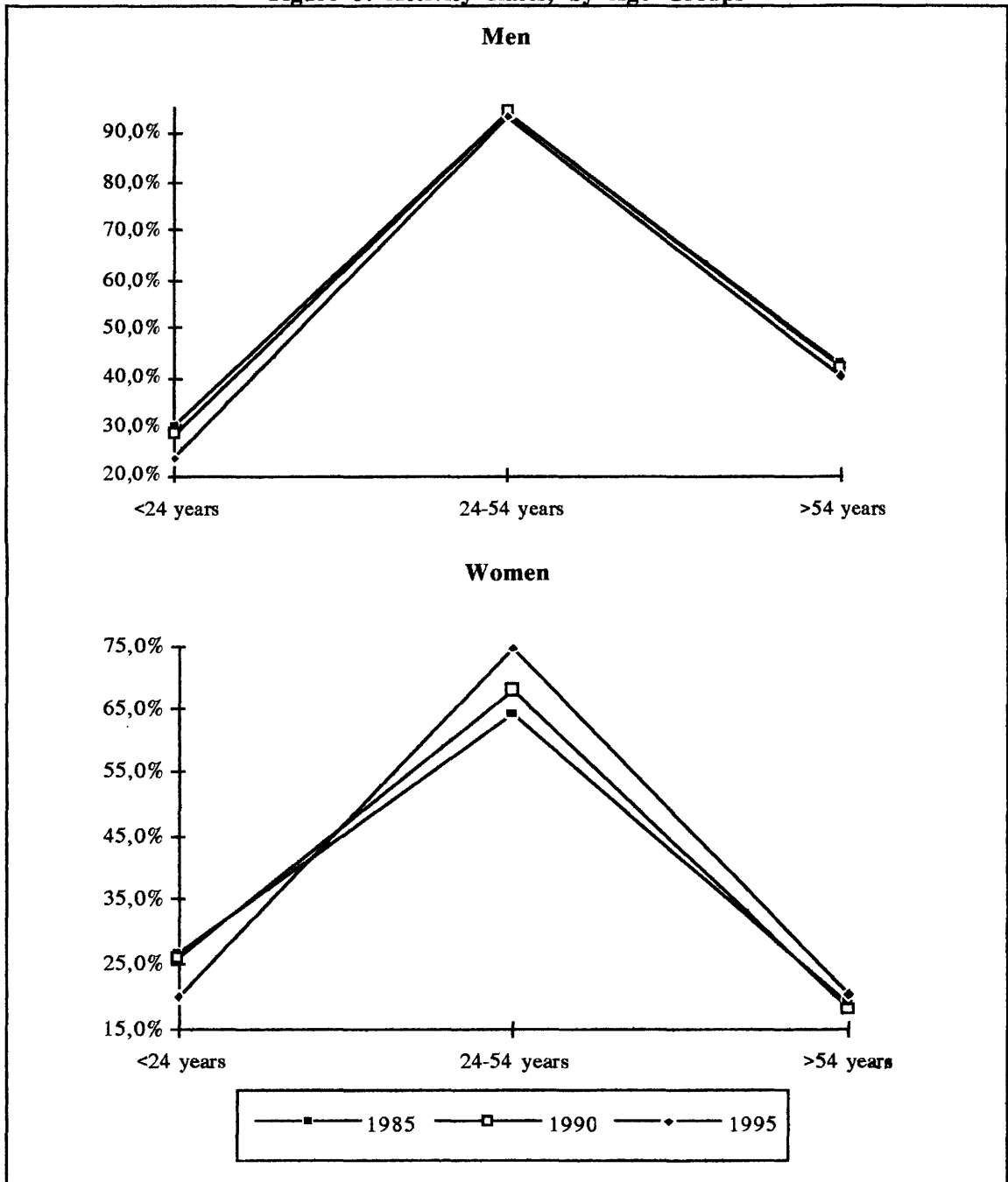
Source: INE - Inquérito ao Emprego.

The global evolution of activity rates cannot be fully understood without a further look into participation behavior of different age groups (figure 5).

The evolution of male activity rates is, for the most, the result of a declining participation of younger (<24 years) and older (50-64 years) men and an almost unchanged participation behavior for men in the 24-50 years group. The evolution of activity rates in each of the extreme age groups seems, however, to be driven by different forces. For the youngsters, lower participation is most likely due to a longer permanence in the schooling

<sup>6</sup> All series using INE's Inquérito ao Emprego data are subject to a break in 1992 due to the fact that in that year a new questionnaire was introduced, new concepts were adopted, and a new sample used.

Figure 5. Activity Rates, by Age Groups



Source: INE - Inquérito ao Emprego



system - activity rates in this age group follow a declining pattern since the beginning of the analyzed period, although this has become more pronounced in the last years when the labor market tightened. For older men, although there seems to be a slightly decreasing long-run trend, short-run fluctuations suggest that their participation behaviour is not independent of cyclical factors. Although this is only supported by weak evidence, it is interesting to notice that from 1988 to 1991, when employment levels were high and growing, the activity rate in this age group steadily increased.

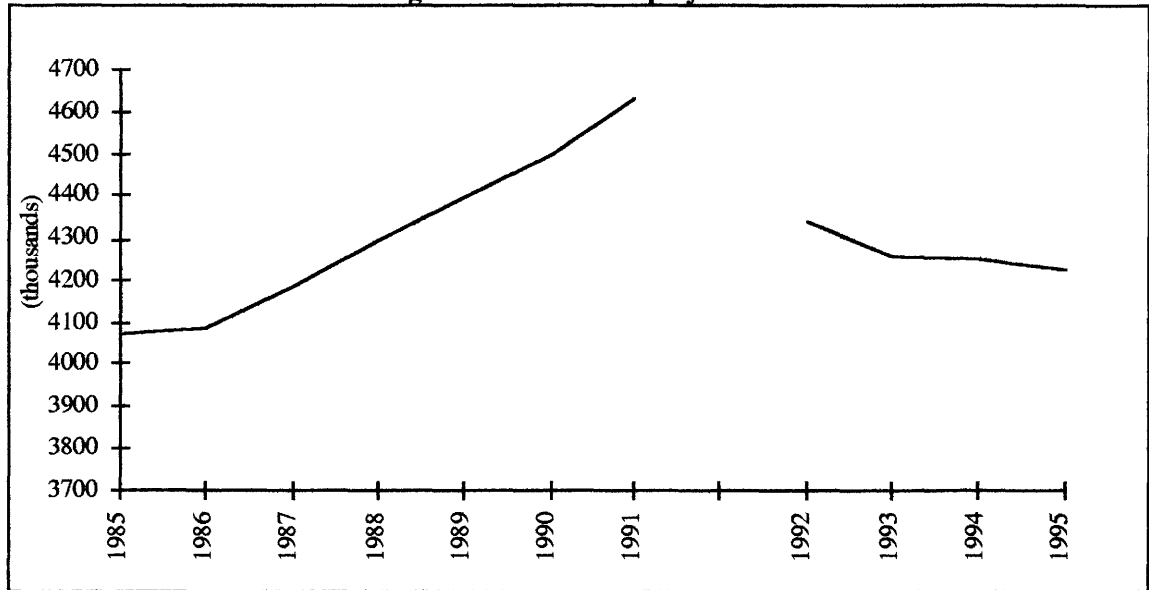
On their side, the rise in female participation rate is the result of a long-term trend mainly explained by changing life styles and family strategies concerning participation in the labor market, although it should be emphasized that women's accession to the labor market was for the most accomplished during the seventies. In spite of this, participation behavior of young women has been following a trend similar to those of men in the same age group, and most likely due to the same causes.

Although there is no clear evidence that participation rates may be following a cyclical pattern, their record through the last recession suggests that, at least for certain age groups, this could be playing a more or less important role. As we have seen activity rates of older men and of youngsters of both sexes have declined from 1991 onwards. Although some structural factors can explain such decline, particularly in the case of youngsters, there seems to be a case for the importance of cyclical components in explaining part of this evolution.

### Employment

From 1985 to 1995, total employment grew at an average annual rate of 1,1%. Within this period, two different sub-periods can be identified: one when employment sharply increased - 1985/91 (average annual rate of growth round 2.2%) - and another one when it decreased - 1992/95.(average annual rate of -0.9%) - Figure 6.

**Figure 6. Total Employment**



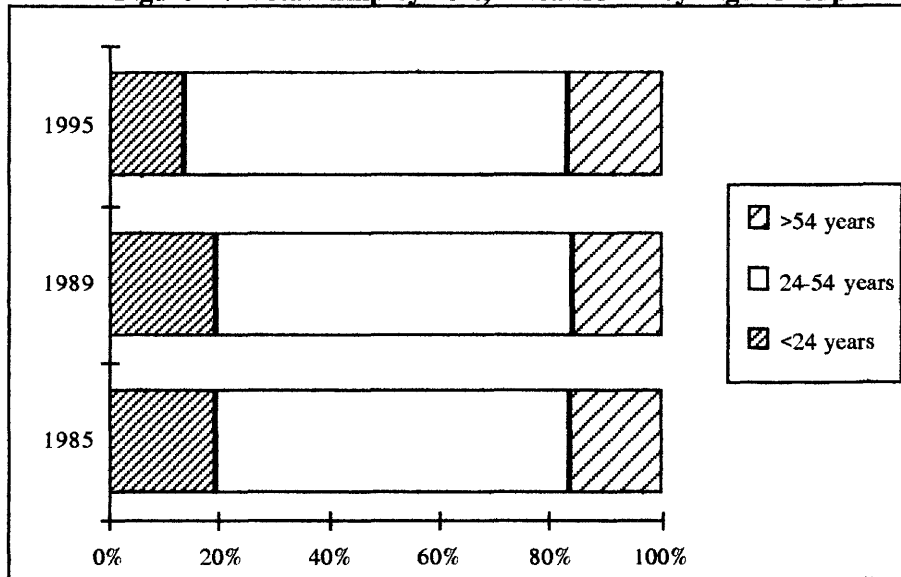
Source: INE - Inquérito ao Emprego (annual averages)

Throughout this period, several changes were noticeable.

The share of young workers in total employment decreased (figure 7) due mostly to the growing average age of Portuguese population, although the reduction of youngsters' activity rates and an uneven incidence of unemployment across different age groups may have played a role (see below, table 6).

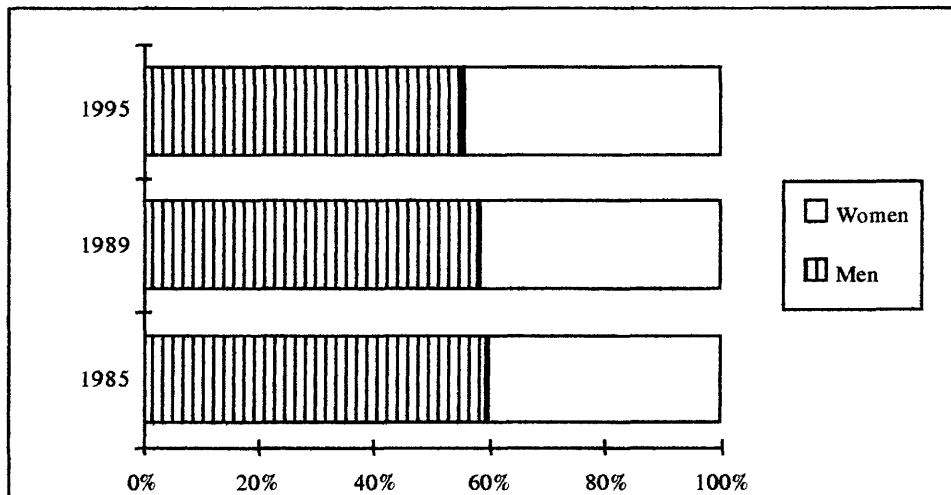
Women's share in total employment slightly increased (figure 8). This change may be the result of an increase in female participation rate (whereas male rates declined) as well as of a different incidence of unemployment growth across sexes.

**Figure 7. Total Employment, Breakdown by Age Group**



Source: INE - Inquérito ao Emprego

**Figure 8. Civilian Employment, Breakdown by Gender**

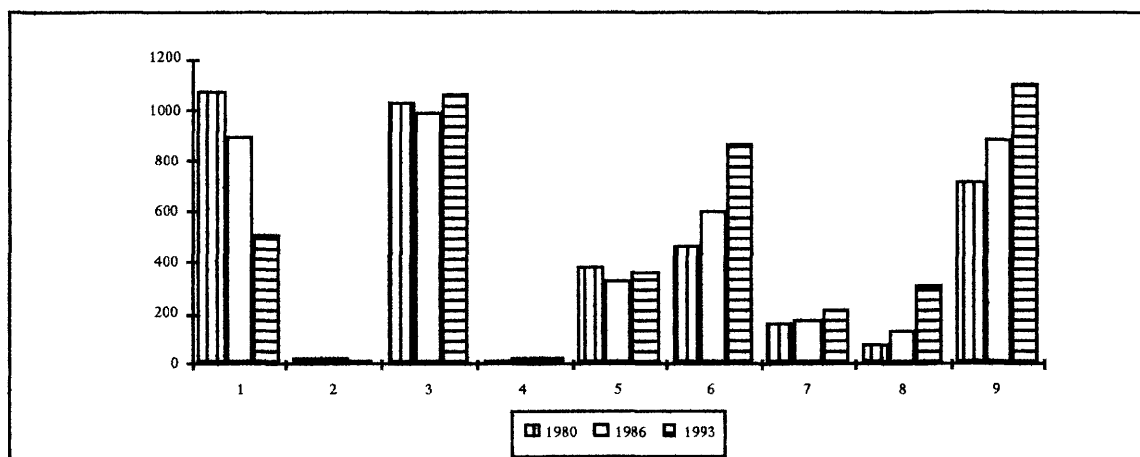


Source: INE - Inquérito ao Emprego

Sectoral distribution of employment has deeply changed. Total employment in agriculture sharply declined; Wholesale and Retail Trade, Financing Institutions and Other Services were the sectors where employment increased. The share of manufacturing remained approximately the same during this period of time but community, social and personal services is now the sector of activity with the highest level of employment. Such

evolution is the result of the tertiarization process that the Portuguese economy underwent during this period, along with a massive abandonment of agriculture.

**Figure 9. Civilian Employment, Breakdown by Activities (S.I.C. major divisions)**



Note: 1. Agriculture, Hunting, Forestry and Fishing  
 2. Mining and Quarrying  
 3. Manufacturing  
 4. Electricity, Gas and Water  
 5. Construction  
 6. Wholesale and Retail Trade, Restaurants and Hotels  
 7. Transport, Storage and Communication  
 8. Financing, Insurance, Real Estate and Business Services  
 9. Community, Social and Personal Services

Source: Eurostat

From 1985 to 1993, all occupational categories rose their share in total employment (employees only), to the expense of semi-qualified professionals (see table 5). Although changes at top categories are more or less similar to those registered at the bottom, changes recorded for the categories "medium-level cadres" and "highly qualified professionals" should be emphasized as positive.

**Table 5. Employment Structure, by Occupational Category (1985/93)**

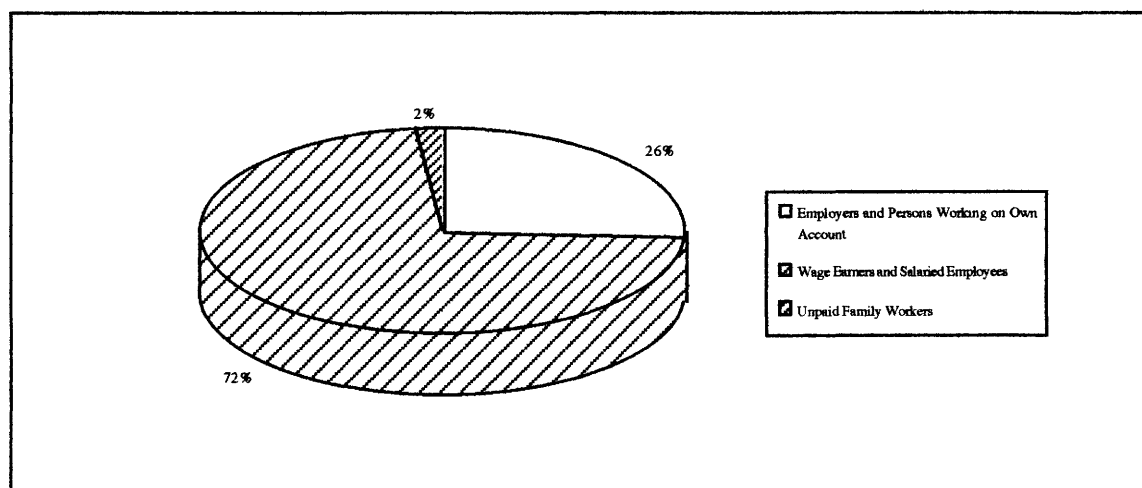
	1985	1993
Top Cadres	2,1%	2,3%
Medium-level Cadres	1,7%	2,1%
Craftsmen and team leaders	4,1%	4,0%
Highly Qualified Professionals	3,7%	4,3%
Qualified Professionals	39,5%	39,8%
Semi-Qualified Professionals	19,7%	16,9%
Non-Qualified Professionals	10,8%	11,2%
Apprentices	18,5%	19,3%
	100,0%	100,0%

Note: data refers to employees alone.

Source: DE/MESS - Quadros de Pessoal

By professional status, it is important to emphasize the share of employers and persons working on own account in total employment (figure 10).

**Figure 10. Total Employment, Breakdown by Professional Status (1995)**



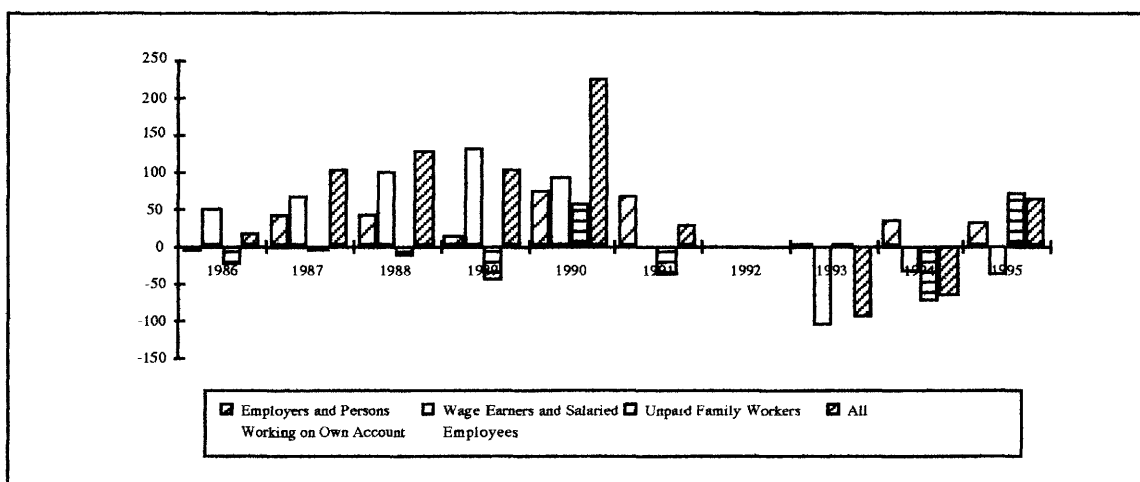
Source: INE - Inquérito ao Emprego

Until 1991, all groups of workers split by worker status were increasing thereby contributing to the overall increase in total employment. The only exception to this was the behavior of unpaid family workers whose number persistently declined until 1991. This category of workers seems to behave like a reservation of labor available for being recruited as employees in periods of expanding employment.

After 1991, when wage employment started to decrease, and total employment along with it, the evolution of other professional categories was not clear-cut. Yet, in 1995, approaching the end of the recession, while employed work kept on decreasing, the number of independent workers and particularly unpaid family workers sharply increased, allowing, in this manner, for a positive evolution of total employment that otherwise would have been negative (figure 11).

If in times of labor shortage, unpaid family work, mostly concentrated in agriculture, acts like a labor reservation, in times of recession it seems to act as a buffer against unemployment.

**Figure 11. Variations in Total Employment, by Professional Status**



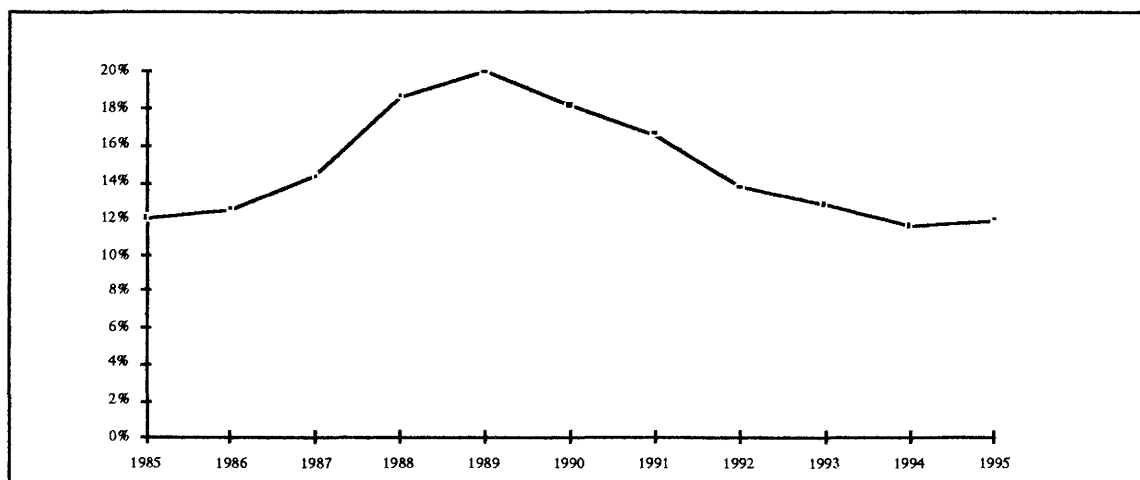
Note: series break in 1992  
 Source: INE - Inquérito ao Emprego

Among the so-called atypical forms of work, temporary employment, and employment under term-contract in particular, gained, during the eighties, considerable importance. Due mostly to the stringent restrictions imposed on employers' capability of firing its permanent workers, employment growth after 1985 was, to a large extent, achieved by means of recruiting workers on a temporary basis.

For this reason, in 1989, when new legislation on dismissals and term contracts was issued, the share of temporary employment in total wage employment was approximately 20% (see below, chapter III.1). Since then this steadily declined, being now situated round 12% (figure 12). Several reasons account for this decline of temporary employment rate. On the one hand, legislation restricted the use of term-contracts at the

same time that dismissals of permanent workers were made easier. On the other hand, the cyclical downturn caused both a reduction in new hirings and a high number of dismissals, workers under term-contract being the first to be laid-off.

**Figure 12. Temporary Employment Rate**



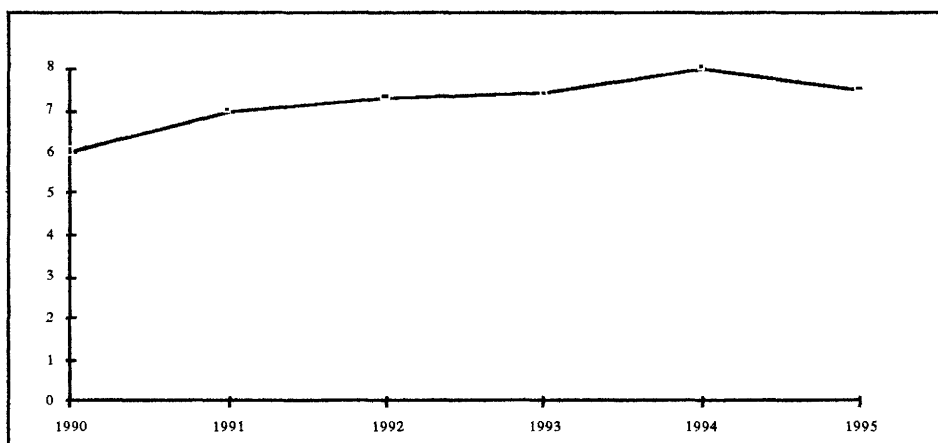
Note: Temporary Employment Rate is defined as the share of temporary employment on total employed work; temporary employment includes workers under term-contracts and other workers without non-permanent contracts (e.g., seasonal, occasional and temporary workers).

Source: DE-MESS - Inquérito Trimestral ao Emprego and Inquérito ao Emprego Estruturado.

On its side, part-time work, a form of work whose use has been increasing all over Europe, remains unimportant in Portugal. Yet its major characteristics are for the most similar in both Portugal and the European average. It is predominantly a female form of work (although men's share in total part-time employment is somewhat higher than elsewhere), and it is highly concentrated in the service sector. However, some important differences may also be noticed: the share of elder workers (particularly, male workers) in total part-time is quite high (round 25% for men and 12% for women), more than half of all part-times are employers or self-employees, and about one third of all part-timers are to be found in agriculture (see González et. al., 1997).

Available evidence suggests that part-time work has not been on the increase even after law was changed, thus making more difficult the use of other atypical and flexible forms of work, such as term-contracts (figure 13).

**Figure 13. Share of Part-Time in Total Employment**



Source: OECD - Employment Outlook

### Unemployment

Unemployment rate reached its peak in 1985 at 8.7%. Since then its record accompanied the economic upswing, so that it steadily decreased until 1992 when it rounded 4%. By this time, Portuguese labor market experienced a situation of full-employment. However, due to the recession initiated by 1991, unemployment rates resumed growing, averaging 7% in 1995.

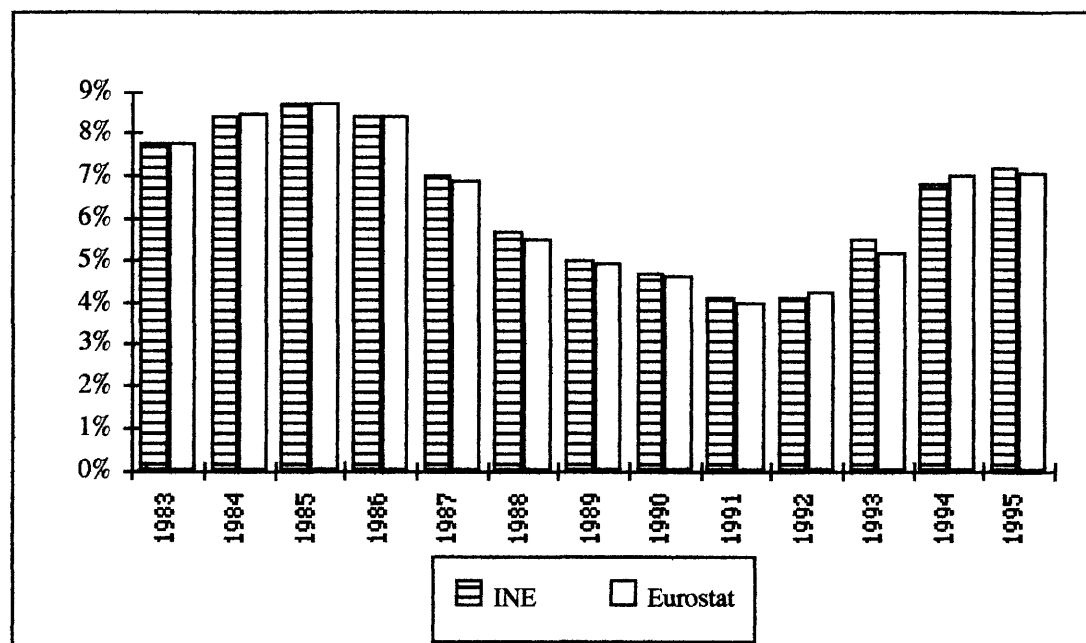
Figure 14 depicts unemployment rate evolution from 1983 until 1995, according to both INE (the national statistical office) and Eurostat. It clearly shows that there are no substantial differences between both sources - both indicate similar unemployment rates that follow the same trend<sup>7</sup>.

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<sup>7</sup> However, INE's rate is slightly higher than the one published by Eurostat. There are two possible reasons for such differences - on the one side, data transmitted by INE to the Eurostat are provisional, therefore subject to subsequent corrections; on the other side, it is also possible that the two sources may be dealing differently with individuals aged 14.



Figure 14. Unemployment Rates



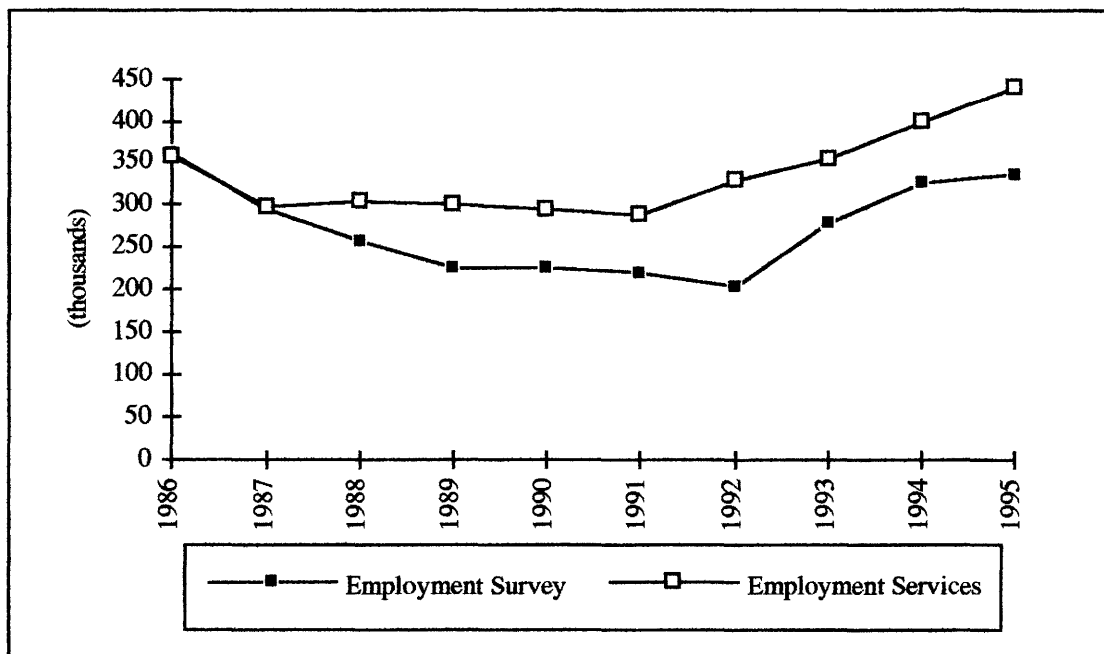
Source: INE and Eurostat

A comparison between the number of the unemployed as measured by the Employment Survey and by Employment Services shows that, since 1988, registered unemployment is higher than its counterpart statistical measure. It is also apparent that although both measures follow a similar trend, registered unemployment fluctuates less than measured unemployment either when employment is growing or declining

Differences arising from the use of this two different measures of unemployment are not specific to the Portuguese case and are inherent to the fact that whereas the first is a statistical measure of unemployment, the other is conditional upon an administrative act. However, the gap between these two alternative measures may be influenced by the use of an highly restrictive concept of unemployment (ILO concept) coupled with the growth of atypical forms of work that according to that definition exclude some individuals from the unemployed category although they could consider themselves as such. Institutional features - such as the coverage degree of the unemployment insurance system and the amount of benefits available - influencing individuals' decision of registering with the employment services could also help to understand such gap.<sup>8</sup>

<sup>8</sup> This means that we should expect that a higher coverage degree of the unemployment security system - such as the one initiated in 1989 (see below, chapter IV.1) - would lead to a wider gap between those two

Figure 15. Statistical and Registered Unemployment



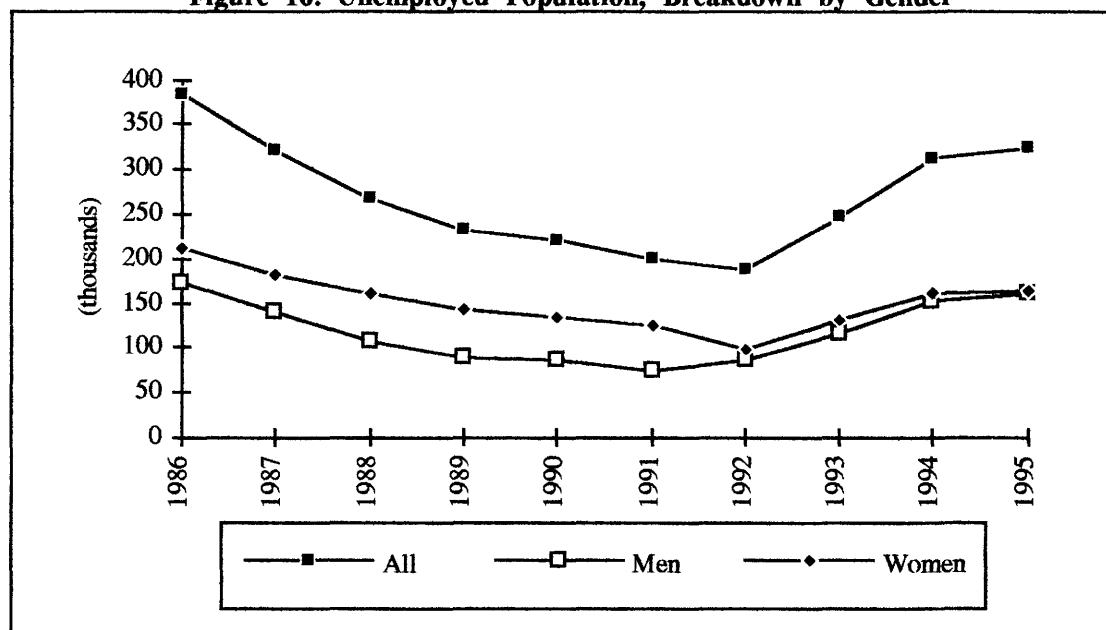
Source: INE-Inquérito ao Emprego e IEFP- Direcção de Serviços do Mercado de Emprego

An analysis of unemployment by gender - figure 16 - leads to the two following remarks. On the one hand, women are more hard hit by unemployment than men - they account for more than a half of total unemployment; women's unemployment rates are persistently higher than men's (throughout this period women's unemployment rate varies from 11.8% to 5.0%, whereas men's varies from 6.6% to 2.8%). On the other hand, female unemployment declines more slowly than its male counterpart, but rises roughly at the same pace.

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measures, which did not hapened. In turn, it hapened in 1992 when the unemployment concept utilized by INE became more restrictive.

**Figure 16. Unemployed Population, Breakdown by Gender**



Source: INE-Inquérito ao Emprego

An analysis of unemployment incidence by broad age groups uncovers two main facts - that young workers are more hard hit by unemployment (see table 6) and that it is among workers older than 24 years that unemployment rose more sharply since the beginning of the recession of the early 90s (see figure 17).

**Table 6 - Unemployment Rate, by Age Groups**

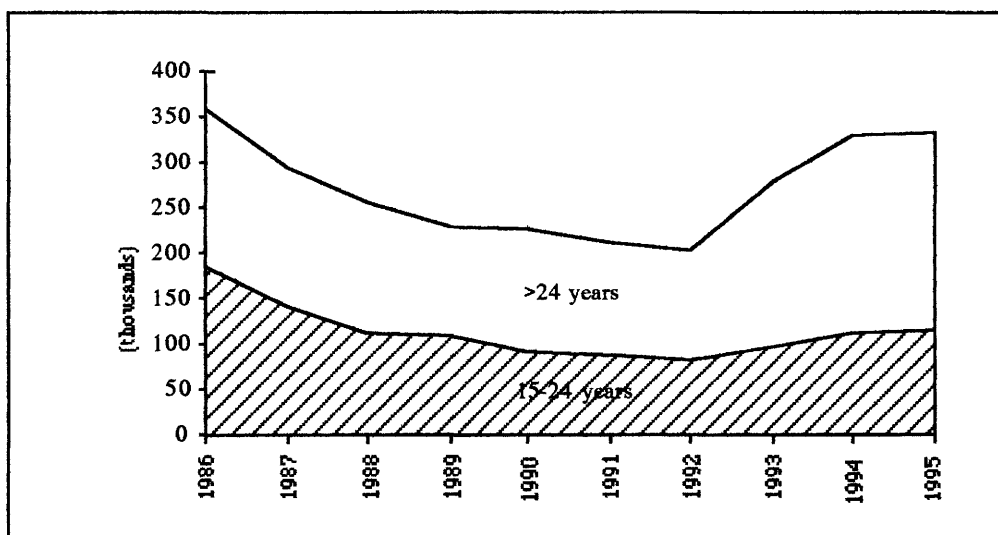
	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995
14-24 years	19.1%	14.6%	12.0%	12.0%	9.6%	9.9%	10.7%	13.7%	16.0%	17.2%
>24 years	5.0%	4.4%	3.9%	3.2%	3.5%	3.1%	3.2%	4.8%	5.6%	5.7%

Fonte: INE - Inquérito ao Emprego

Two major causes - both demographic and economic - can help to understand this second fact. Demographic factors refer to the decline of the share of youngsters among total population. This coupled with the decline of youngsters' activity rates reduces the pace of growth of active population in this age group thereby easing the pressure on the youth labor market. Economic factors also refer to the fact that during the last recession a number of restructuring took place, meaning that unemployment increased to some extent due to both plant shutdowns and downsizings. In both cases, unemployment increases

due to dismissals of incumbent workers. Among these, it is likely that workers over 24 years of age are over-represented (particularly in the case of plant shutdowns).

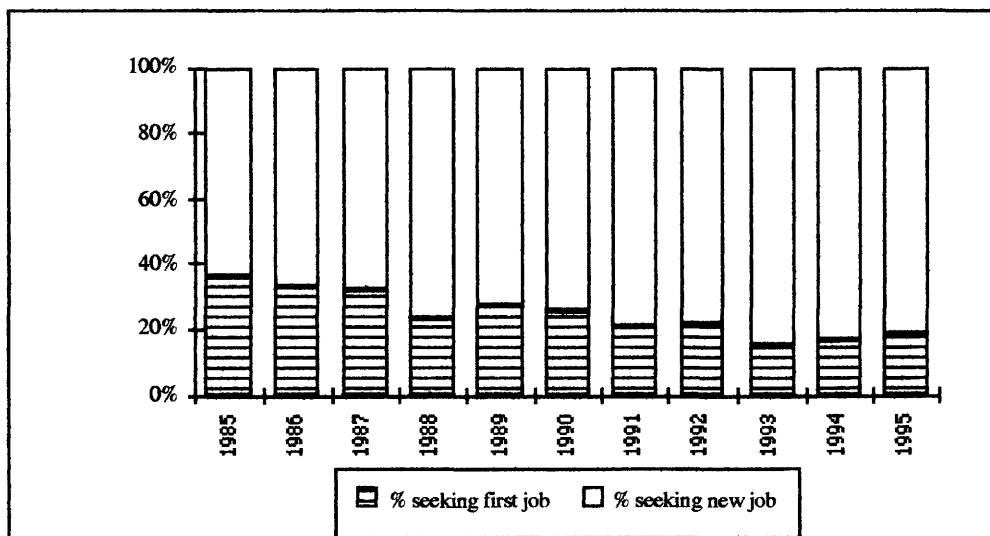
**Figure 17. Unemployed Population, Breakdown by Age**



Source: INE-Inquérito ao Emprego

The decomposition of unemployment into two groups - individuals looking for a first job *versus* those looking for a new job - points out in the same direction - the share of the later increased from 79% in 1991 to 82% in 1995, after having peaked at 84% in 1993 (figure 18).

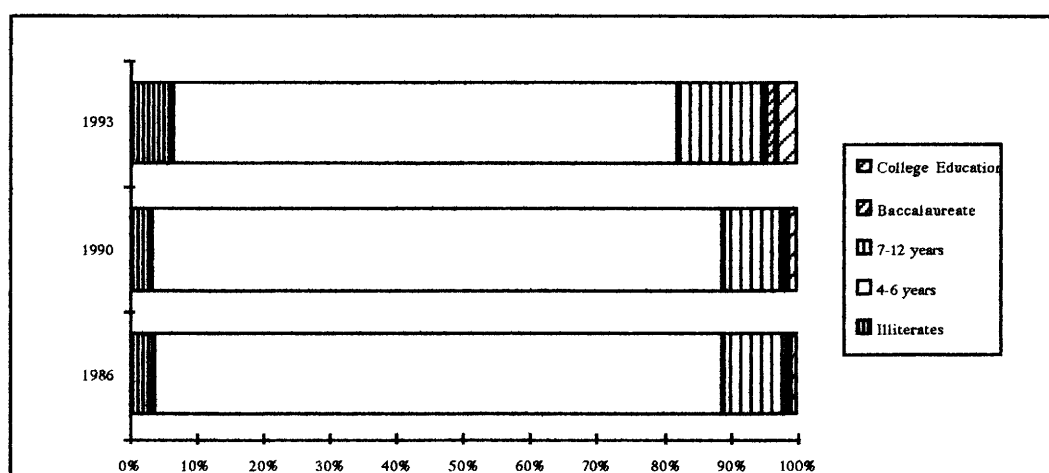
**Figure 18. People seeking a first job / a new job**



Source: INE-Inquérito ao Emprego

As it should be expected considering the average educational level of total population, the vast majority of people unemployed has no more than four to six years of education - figure 19. It is interesting to notice though that the last unemployment crisis increased the share in total employment of individuals with higher levels of education (i.e., individual with 7-12 years of education and those with college education), although this remains very low.

**Figure 19. Total Unemployment, Breakdown by Educational Level**



Source: INE-Inquérito ao Emprego

Unemployment record in recent years shows that high levels of long-term unemployment do not persist throughout the economic cycle. In fact, like unemployment duration, it follows a marked counter-cyclical path (table 7).

From trough (1985) to peak (1992) and on to the next trough (1995), the share of long-term unemployment varied from 44.6% to 25.9% and to 39.3%; at the same points in time, unemployment duration averaged 16.6, 10.5 and 13.4 months.

**Table 7. Unemployment Duration**

	Unemployment Rate	Share of Long-Term Unemployment	Unemployment Duration (in months)		
			Short-Term	Long-Term	Total
1984	8,0%	39,1%	5,8	27,8	15,4
1985	8,2%	44,6%	5,8	28,2	16,6
1986	8,0%	43,8%	5,7	27,6	16,2
1987	6,7%	43,8%	5,6	27,3	15,8
1988	5,4%	39,7%	5,3	27,5	14,6
1989	4,8%	37,1%	5,4	26,9	13,6
1990	4,3%	33,0%	5,1	26,5	12,3
1991	3,9%	29,5%	5,0	25,9	11,3
1992	4,1%	25,9%	4,7	27,0	10,5
1993	5,5%	29,3%	5,2	25,8	11,2
1994	6,8%	34,2%	5,3	25,2	12,1
1995	7,2%	39,3%	5,5	25,5	13,4

Source: Banco de Portugal

By age group - Table 8 - it is clear that, in 1986, unemployment duration was high for all age groups and for both men and women, although it was maximum for women aged between 25 and 44 years.

**Table 8. Unemployment Duration (in months), by Gender and Age Group**

	1986		1991		1992		1995	
	Men	Women	Men	Women	Men	Women	Men	Women
15-24 years	11.0	18.5	3.2	5.7	3.5	4.0	6.3	7.1
25-44 years	11.1	>36.0	4.5	9.5	4.1	9.4	12.2	>24.0
>44 years	19.2	11.2	8.3	3.9	7.4	6.8	>24.0	>24.0
All	11.4	21.1	4.1	6.7	4.1	6.0	11.2	13.2

in: Portugal (1996), p. 71 e 73.

(It should be noticed that the author uses data from INE's "Inquérito ao Emprego" and a methodology that assumes that the distribution of unemployment duration can be characterised with a parametric form)

From 1986 to 1991, unemployment duration fell sharply for all age groups. Notwithstanding, during this period, the reduction of unemployment duration was particularly strong for the youngsters. In fact, it should be stressed the fact that since then young workers seem to have better prospects of finding a new job within a shorter period of time than the remainder.

In 1995, unemployment duration of workers under 24 years averaged 6-7 months, whereas it was over one year for men between 25 and 44 years of age and over two years for all the other. It seems, therefore, that young workers face shorter spells of unemployment although they experience more frequent episodes than older workers.

Unemployment incidence also varies from region to region - table 9 -: it is minimum in Northern and Central regions and it reaches its maximum in the Southern part of the country, particularly in Alentejo. Lisbon region is the one where unemployment is subject to wider changes both in cyclical upturns and downturns. In Alentejo unemployment is persistently higher than elsewhere.

**Table 9. Unemployment Rate, by Region**

<b>Regions</b>	<b>1992</b>	<b>1993</b>	<b>1994</b>	<b>1995</b>
<b>Norte</b>	3,6	4,8	6,0	6,3
<b>Centro</b>	2,7	3,7	4,1	4,0
<b>Lisboa and Vale do Tejo</b>	5,0	6,5	8,5	9,1
<b>Alentejo</b>	7,7	9,6	11,0	11,8
<b>Algarve</b>	3,0	5,7	7,0	6,6

Source: INE - Inquérito ao Emprego

### *1.3. Main Trends in Job Creation and Job Loss*

#### Entry and Exit of Plants<sup>9</sup>

Between 1984 and 1990, 9894 new establishments were created in the manufacturing sector, representing a substantial degree of plant mobility. On average, new plants created yearly throughout this period represent about 15% of total plants, whereas plants shut-downs represent about 10% of total plants.

Furthermore, evidence suggests that current and potential employers are more sensitive to favorable shocks (those inducing plant creation) than to unfavorable ones (those inducing plant closing).

An analysis by sub-sector of activity shows both that this is a feature common to all industries within manufacturing, and that industries with above average entry rates also have above average exit rates - which suggests that sectors with low barriers to entry also have low barriers to exit.

The analysis of the determinants of plant-openings and closings has been the object of a number of papers. Mata (1995a) deals with the role played by macroeconomic conditions and industry-specific factors in explaining firms' starts. The author finds that new firms entry follows a pro-cyclical pattern, with new firms being created mostly when aggregate demand is fast-growing and interest rates are decreasing. The author also reports that industry rankings according to entry of firms intensity are stable over time, which is consistent with his own findings according to which the majority of the explained variance of new firm starts is due to industry-specific conditions. Portugal and Guimarães (1996) concentrate on the influence of local market conditions on plant location and exit decisions. They find that wages impact decisively on entry and exit decisions, most notably on the former. The authors also report that minimum wage legislation plays a non-negligible role, deterring plants from locating in regions with a large proportion of minimum wage earners.

An analysis by firm size indicates that, throughout this period, average plant size declined substantially due mostly to the high birth rates of small firms, despite the fact that these

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<sup>9</sup> At this point, we mainly summarize evidence and findings presented by Carneiro and Portugal (1996).



also face higher mortality rates - their survival rate is 50 percent after 5 years of activity (see Mata and Portugal, 1994).

The entry of small firms is reported not to differ significantly from the typical new firm, except for their sensitiveness to the interest rate, which is lower (Mata, 1995a). Among the major determinants of new firms' size, Mata (1995b) finds that age and educational level of the entrepreneurs matter, as industry characteristics do - older and better educated entrepreneurs create larger firms; these also tend to be created in larger industries, in industries with higher minimum efficient scale, fewer sub-optimal firms, and with higher and more balanced entry and exit flows.

### Job Flows and Employment Turnover

Table 10 summarizes data on employment flows in Portugal, for the period 1983-1990.

**Table 10. Gross Employment Flows in Manufacturing**

Year	L(t)	$\Delta L(t)$	$\Delta E(t)$	$\Delta C(t)$	N(t)	M(t-1)
1983	889153					
1984	893911	4758	49256	49790	45397	40105
1985	885436	-8475	40806	54869	41550	35962
1986	882858	-2578	45024	44696	38937	41843
1987	915143	32285	58658	37141	49559	38791
1988	963241	48098	65585	37980	64927	44434
1989	999537	36296	64116	53553	73018	47285
1990	1023069	25532	71049	53989	66840	60368

Note: L(t)=Employment;  $\Delta L(t)=L(t)-L(t-1)$ ;  $\Delta E(t)$ =change in employment due to expanding establishments;  $\Delta C(t)$ = change in employment due to contracting establishment; M(t-1)=number of workers at t-1 in establishments that shut-down during period t; N(t)=number of workers at time t in establishments that opened during the same period.

Source: Carneiro and Portugal (1996), p. 8.

Over time, gross positive changes in employment ( $N(t)+\Delta E(t)$ ) are more variable than gross negative changes ( $M(t)+\Delta C(t)$ ), which suggests that labor adjustment costs may be asymmetric, with firing costs exceeding hiring costs.

On average, new establishments account for about 49% of total employment creation in the manufacturing industries, whereas plant closings account for 48% of total

employment destruction in the same industries. Indeed, every year, about 10 percent of jobs in manufacturing are replaced due to gross employment flows.

Job creation and destruction accounted for plant openings and closings is about the same size of job creation and destruction produced by expansion and contraction of continuing plants. Net employment changes due to establishments' entry and exit account for 54%, on average, of total employment growth, although the share of plants entry and exit, on the one side, and of continuing plants' expansion and contraction, significantly changes over time.

Throughout this period, net employment flows generated by small plants increased (due mostly to their above mentioned high birth rates and to the fact that, if they survive, small firms expand rapidly), whereas net employment flows generated by large plants were small and even negative during part of this period (because both contraction and exits dominate expansions and entries).

Table 11 presents data on net employment changes by industry. A look at this data shows that<sup>10</sup>:

- The Banking, Insurance and Other Services to the Firms and Tobacco Industries are the only sectors where positive annual rates of net employment growth were recorded throughout the period.
- Some sectors that traditionally account for a high share of total employment (particularly, in the Northern Region) have persistent positive rates of net employment growth until the second half of the 80's, but afterwards, years of employment growth alternate with years of employment decline - this is the case of the textiles, apparel, and footwear industries, as well as of the wholesale and retail trade. This is compatible with the observed more intense growth of employment in low-wage industries and regions (Portugal and Guimarães, 1996).
- For the remaining sectors, there is no clear pattern of net employment change over time - from one year to another positive growth rates succeed to negative growth rates and vice-versa.

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<sup>10</sup> Data on table 12 as well as most of the following remarks on the information it contains were taken from DE-MESS(1994).

**Table 11. Net Employment Changes, by Industry**

	1982/83	1983/84	1984/85	1985/86	1986/87	1987/88	1988/89	1989/90	1990/91	1991/92
2. Mining Industries	-3,35	-9,77	-5,79	-2,13	-1,95	-0,22	-2,32	2,49	-0,08	-1,56
311/2. Food Ind.	-1,08	-0,29	1,03	0,63	0,68	-3,34	-0,74	-1,12	-0,72	1,89
313. Beverages	0,38	2,32	-0,43	-1,38	1,74	-1,94	0,62	-1,25	-1,41	1,58
314. Tobacco	3,43	6,82	4,12	4,06	3,58	1,68	5,42	4,37	4,36	11,62
321. Textiles	-1,97	0,71	0,84	1,27	2,80	4,39	1,08	1,78	-1,29	-1,11
322. Apparel	0,16	1,28	2,36	5,59	8,97	11,02	-3,43	1,86	3,70	-3,50
323. Tanning	-1,41	-2,04	3,02	1,20	-2,06	-2,65	-2,38	0,65	-3,14	-1,13
324. Footwear	-0,54	1,58	0,02	2,74	6,28	3,95	-5,94	1,27	-0,83	-2,73
331. Wood	-2,63	-1,10	-0,52	-2,19	-2,38	-2,60	-1,42	-0,91	-2,81	-0,55
332. Furniture	2,06	-1,54	-2,53	-0,76	2,77	0,54	1,05	0,17	-2,44	3,08
341. Paper	-0,60	1,07	2,47	1,23	-0,78	-2,05	1,19	0,22	-3,73	0,14
342. Printing	1,79	2,74	-0,15	0,71	1,40	-0,09	3,30	3,90	1,66	3,48
351/4. Chemicals	0,03	-0,61	1,66	3,22	2,76	-1,38	1,53	1,22	1,42	2,80
355. Rubber	3,43	2,52	0,85	-0,34	-5,92	-1,07	1,25	-2,96	-3,82	-1,37
356. Plastics	-0,93	0,35	0,73	2,71	-0,39	0,12	1,18	0,41	-1,30	5,11
360. Construction Materials	-1,13	-0,82	-0,62	-1,63	-0,71	-1,57	0,89	-0,75	-0,19	0,67
370. Iron and Steel	1,10	1,72	1,88	4,67	-1,75	2,52	2,11	1,61	-0,03	0,28
381. Metal Products	0,29	-0,16	-2,68	-1,96	-0,72	-0,95	-0,13	-1,74	0,34	0,78
382. Machinery	3,67	1,00	0,68	-0,15	0,13	1,27	2,61	2,34	0,40	1,79
383. Electrical Machinery	7,68	3,48	-0,37	-3,86	0,65	3,52	0,38	1,41	1,13	0,10
384. Transportation Equipment	-3,78	-0,26	-0,31	0,83	0,38	0,55	2,80	1,41	-0,90	1,46
385. Professional Instruments	5,76	1,80	-0,64	2,36	1,97	-4,03	5,91	0,13	-5,42	4,64
390. Others	-3,30	-3,63	-2,60	-3,15	-2,09	-1,61	-0,45	-0,03	0,44	-5,62
4. Public Utilities	-102,03	-26,51	4,12	-1,21	-1,68	-26,10	-5,39	-0,63	0,01	-5,04
5. Construction	-0,18	-5,41	-5,84	-3,94	-2,61	0,19	-0,52	1,34	2,20	0,66
61/2. Retail & Wholesale Trade	0,07	0,91	0,89	0,71	0,81	-0,33	0,33	-0,36	-0,24	0,31
63. Restaurants & Hotels	0,93	1,79	2,98	2,64	1,59	1,79	-0,17	-1,00	0,33	-1,40
7. Transports & Communications	-4,14	-3,81	-0,79	-1,71	-2,45	-1,42	0,57	-1,40	-0,38	0,14
8. Banking, Insurance & Other	3,52	3,52	3,05	1,10	2,18	3,20	2,52	5,89	3,30	1,71
9. Personal Services	0,09	0,97	0,14	-1,02	-3,80	-3,03	-0,63	-1,98	-2,38	-1,28

Source: DE-MESS (1994)

Employment turnover exceeds total net employment change whenever there are employment changes across establishments with the same characteristics. Carneiro and Portugal (1996) present evidence on employment turnover for manufacturing industries, considering two alternative criteria for aggregating establishments: sub-sectors and regions. Their results are summarized in Table 12.

**Table 12. Employment Turnover (Manufacturing, 1984-90)**

	Te(t)	Turnover Components (% of total turnover)					
		\Delta L(t)	Changes across sectors/regions		Changes within the same sector/region		
<b>Sectors' Cells*</b>							
1984-86	343687	11053	3,2%	40948	11,9%	291686	84,9%
1986-88	397075	80383	20,2%	6994	1,8%	309698	78,0%
1988-90	490218	59828	12,2%	19350	3,9%	411040	83,9%
1984-90	1230980	129158	10,5%	47128	3,8%	1054694	85,7%
<b>Regions' Cells**</b>							
1984-86	339391	10273	3,0%	40816	12,0%	288302	85,0%
1986-90	391901	77939	19,9%	2686	0,7%	311276	79,4%
1988-90	483462	60730	12,6%	4198	0,9%	418534	86,5%
1984-90	1214754	128396	10,6%	44476	3,7%	1041882	85,7%
<b>Sectors/Regions' Cells**</b>							
1984-86	339391	10273	3,0%	60122	17,7%	268996	79,3%
1986-88	391901	77939	19,9%	19782	5,0%	294180	75,1%
1988-90	483462	60730	12,6%	27502	5,7%	395230	81,7%

\* refers to Mainland and the Madeira and Azores Archipelagos.

\*\* refers to Mainland only.

Source: Carneiro and Portugal (1996)

Data on table 13, suggests that, for manufacturing establishments, total turnover major component is the one that refers to employment changes from one establishment to another within the same sector and/or region. On average, employment turnover across sectors accounts for 5,9% of total turnover, whereas turnover within sectors accounts for 82,3%; employment turnover across regions accounts for 4,5% of total turnover, whereas turnover within regions accounts for 83,6% of total turnover. Therefore, the

bulk of total turnover cannot be fully understood with sectoral and/or regional-based explanations. However, to the extent of our knowledge, no studies have, up to now, tried to analyze the role played by other relevant variables (the age of the establishments, e.g.). Carneiro and Portugal (1996) do, however, get evidence suggesting that employment turnover across sectors or regions is higher during cyclical downturns.

Besides a considerable degree of employment turnover, there is also some evidence pointing to a substantial degree of job turnover for young workers. Data for the 1985-91 period, when youth unemployment rates were declining point out that only roughly 10 percent of young males are able to hold their jobs for at least six years. For young women, out-of-job transitions took place at a slightly lower rate than for their male counterpart - in 1991, only 15 percent of all young female workers were still with their 1985 employer. Most of job terminations occur during the first years (see Oliveira et. al., 1994). Mobility decisions seem to be primarily influenced by the starting level of wages, the size of firms and the availability of jobs in the local labor market.

#### *I.4. Wages and Salary Trends*

Portuguese nominal wages and earnings have been trending upwards for most of the 1980-1995 period; rates of growth, however, have decreased in recent years, keeping pace with inflation. This is shown in the following table, which provides information on yearly percentage changes of selected wages and prices indicators:

**Table 14. Percentage changes of prices and wages, 1986-1995**

<b>Year</b>	<b>Consumer prices<sup>(1)</sup></b>	<b>Contractual wages<sup>(2)</sup></b>	<b>Average effective wages<sup>(2)</sup></b>	<b>Minimum wages<sup>(3)</sup></b>
<b>1986</b>	11.7	17.1	18.5	17.2
<b>1987</b>	9.4	14.4	15.1	12.0
<b>1988</b>	9.6	9.9	12.5	7.9
<b>1989</b>	12.6	10.6	14.6	13.1
<b>1990</b>	13.4	14.1	17.0	13.8
<b>1991</b>	11.4	14.2	16.0	14.6
<b>1992</b>	8.9	10.9	13.7	11.0
<b>1993</b>	6.5	7.9	6.5	6.5
<b>1994</b>	5.2	5.1	6.0	4.0
<b>1995</b>	4.1	4.8	n.a.	5.5

(1) From the Consumer Price Index (excluding rent) for the mainland (Madeira and Azores excluded). New index as from 1988.

(2) Excluding public administration and non-market services.

(3) Minimum wages for workers 18 and over in the non-agricultural sector.

Sources: INE and Bank of Portugal, as reported in OECD (1996), p. 136.

Evidence collected from staff logs (*Quadros de Pessoal*, a survey which covers all dependent workers, except for public administration and non-market services, and is conducted every year in March<sup>11</sup> by the Ministry of Employment) displays essentially the same trend:

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<sup>11</sup> In October since 1994.

Table 15. Wages and earnings, 1985-1995

Year	Average monthly base wages <sup>(1)</sup>	Percentage change	Average monthly earnings <sup>(1)</sup>	Percentage change
1985	30.1		34.2	
1986	35.8	18.9	40.7	19.0
1987	41.0	14.5	46.8	15.0
1988	45.2	10.2	52.0	11.1
1989	51.0	12.8	58.3	12.1
1990	59.0	15.7	67.8	16.3
1991	70.1	18.8	81.3	19.9
1992	80.1	14.3	94.4	16.1
1993	89.1	11.2	104.0	10.2
1994	n.a.	n.a.	114.4 <sup>(2)</sup>	n.a.
1995	n.a.	n.a.	122.0 <sup>(2,3)</sup>	6.6 <sup>(3)</sup>

(1) In thousands of Escudos. Base wages refer to (gross) pay for normal hours of work; earnings include also seniority payments, overtime pay, and other regular benefits. Public administration and non-market services are excluded.

(2) October data. All other figures refer to March.

(3) Preliminary estimates.

Sources: Statistics Department of the Ministry of Employment, *Enquadramento Estatístico dos Activos - Anuário de Estatísticas Sociais*, several issues, and *Boletim Estatístico*, October 1996.

The picture of nominal wage growth conveyed by the tables, with rates in the two-digit range for most of the period, is the more remarkable in the presence of government-sponsored national wage negotiations aimed at moderating wage inflation.

On the other hand, however, exclusion of public administration may introduce an upwards bias in the figures reported. In fact, wages and salaries in the public sector tend to lag behind those in the private sector, as government attempts to set the guidelines for economy-wide wage policies in the annual revision of civil servants' pay and is strongly limited by the need for budgetary restraint. The state being the country's largest single employer<sup>12</sup>, it is likely that the preceding figures overstate aggregate wage growth<sup>13</sup>.

Change in real wages was also positive, exception made for the recession years of 1983-1984 and, more recently, 1994 and, perhaps, for 1989. Table 16 (below) shows two series built by different agencies and with different methodologies, but which concur in the general direction of the movements in real earnings:

<sup>12</sup> The central administration has failed to provide an accurate measure of employment in the public sector. Estimates place public employment at around 10% of the labour force.

<sup>13</sup> According to estimates from the Department of Planning and Research (DEP) of the Ministry for Qualification and Employment, contractual wages growth in public sector was slower than in the business sector, but total earnings growth outpaced its private counterpart due to career adjustments.

**Table 16. Percentage changes in real earnings, 1986-1995**

Year	Average monthly earnings <sup>(1)</sup>	Compensation per employee <sup>(2)</sup>
1986	6.5	3.7
1987	5.1	3.9
1988	1.4	0.8
1989	0.4	1.5
1990	2.6	3.4
1991	7.6	1.9
1992	6.6	3.3
1993	3.5	1.0
1994	n.a.	0.4
1995	n.a.	1.4

(1) Base wages, seniority payments, overtime pay, and other regular benefits included. Public administration and non-market services are excluded. Consumer price index used as deflator. Data refer to March.

(2) Estimates for the entire economy, annual basis. Employers' contributions to Social Security included. Private consumption deflator.

Sources: (1) Statistics Department of the Ministry of Employment, *Enquadramento Estatístico dos Activos - Anuário das Estatísticas Sociais*, several issues; (2) Bank of Portugal (1996), *Annual Report*, 1985.

Whereas the fall in real earnings in 1989, which may have affected some groups of workers, was mainly attributable to a transitory failure in expectations following the setback in disinflation policies, the 1994 decline stems from the recession that took root in the preceding year<sup>14</sup>. Despite the dismal pace of recovery in 1995 and 1996, available indicators suggest that economy-wide real income losses have been reversed<sup>15</sup>. As was to be expected, some groups fared worse than others: women, workers in mining, building and public works, trade and restaurants and personal services, managers and non-technical occupations.

The picture emerging from the preceding tables strongly suggests that Portuguese nominal wages and earnings are sensitive to both inflation and unemployment. In a study for the period 1983-1992, Luz and Pinheiro (1993) found that wages respond to unemployment virtually without lags, whereas a three-quarter lag mediates the influence

<sup>14</sup>The first column of data in Table 16 refers to March earnings. Estimates from the DEP on an annual basis show a similar evolution up to 1992. For recent years, however, the DEP estimates a slight negative growth in 1993, a small positive one in 1994 and a larger increase in 1995.

<sup>15</sup>The latest forecast from the Statistics Department of the Ministry of Employment places the October 1996 average earnings (again, public administration and non-market services excluded) at 127600 Escudos, up from 122000 Escudos in October 1995. The 4.6% percentage change in nominal earnings compares favourably to the 3.2% rate of inflation in the twelve months to October 1996.



of past inflation on wage growth. Their conclusions were in favor of the stability of both the Beveridge relation and the Philipps-type wage equation over the period and lent support to the conventional view of the flexibility of the Portuguese labor market with respect to contemporaneous (or virtually so) unemployment and inflation conditions (see below, chapter I.5.).

In a follow-up paper, Luz and Pinheiro (1994) proceeded to a comparative analysis of labor market behavior in France, Germany, Spain, the United Kingdom and Portugal with data up to 1993 and attempted to control for productivity growth by detrending the (log) real wages. Their best results for Portugal were obtained with a modified real wage definition with four quarters-lagged consumer prices. They report a poor trade-off between the detrended real wage and the unemployment rate for all countries except Portugal. Portugal was also the sole country in which both the Beveridge and wage curves presented no clear evidence of instability.

According to OECD figures<sup>16</sup>, labor productivity grew at an annual average rate of 2.3% during the 1980's, slowed to 1.2% in the 1990-1993 period and 0.9% in 1994, and is estimated at 3.1% in 1995. It appears, thus, that recent developments in the labor market are still on line with the view of a substantial wage flexibility in the economy. Still according to OECD estimates, when productivity gains are subtracted from real wage growth and regressed on the unemployment rate, a picture emerges of a steady natural rate of unemployment consistent with stable wage inflation (NAWRU) of around 6%. It is interesting to notice that Luz and Pinheiro, in their 1993 paper, report the same estimate for the NAWRU.

Wage flexibility is also the norm at the firm level, changes in pay taking into account local, firm and industry-specific conditions. Fernandes (1992) finds significant roles for productivity and for the firm's financial and debt conditions in pay determination at the firm level; the role of unionism is less clear. A striking feature of wage setting behavior in Portuguese firms is the fact that average paid wages tend to remain consistently above those established in formal collective negotiations. The latter tend to be viewed merely as lower bounds, and informal negotiation mechanisms at the firm level (most notably, in larger firms) frequently end up settling above contractual wages. The practice provides a

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<sup>16</sup> OCDE (1996), p. 79.

cushion for marginal or infra-marginal businesses, while granting, at the same time, an adjustment buffer for all the others.

The influence of individual and job-specific determinants in wage formation can be inferred from Tables 17a to 17c. In the tables, a comparison is made between several indicators for the years of 1986 (the year of accession to the European Community), 1989 (at the peak of the cycle) and 1993 (the last year for which comprehensive information from the *Quadros de Pessoal* has been released). Reference data are average earnings in March of the selected year. Where available, preliminary results for October 1995 will be deferred to Table 18.

**Table 17a. Relative indices of earnings determinants, 1986, 1989, 1993  
Individual attributes**

	1986	1989	1993
All workers	100.0	100.0	100
<u>By gender:</u>			
Men	109.6	111.3	112.0
Women	79.9	79.6	80.3
<u>By age (in years):</u>			
15-19	n.a.	n.a.	53.6
20-24	n.a.	n.a.	70.9
25-29	n.a.	n.a.	90.0
30-34	n.a.	n.a.	102.8
35-39	n.a.	n.a.	112.1
40-44	n.a.	n.a.	120.1
45-49	n.a.	n.a.	130.7
50-54	n.a.	n.a.	129.8
55-59	n.a.	n.a.	118.1
60-64	n.a.	n.a.	109.0
65 and over	n.a.	n.a.	104.1

Base wages, seniority payments, overtime pay, and other regular benefits included. Public administration and non-market services are excluded.

Sources: Statistics Department of the Ministry of Employment, *Enquadramento Estatístico dos Activos - Anuário das Estatísticas Sociais*, several issues; 1993 data from Antunes (1996).

**Table 17b. Relative indices of earnings determinants, 1986, 1989, 1993**  
**Human capital attributes**

	1986	1989	1993
All workers	100.0	100.0	100
<u>By schooling level:</u>			
Primary basic education (4 years)	86.0	84.4	81.6
Preparatory basic education (6 yrs.)	92.1	86.1	81.7
Lower secondary education (9 yrs.)	124.1	120.2	113.1
Upper secondary educ. (11/12 yrs.)	136.4	131.4	128.4
College bachelors (14/15 years)	231.4	239.1	228.8
College <i>licenciados</i> (16/17 years)	246.2	264.7	278.3
<u>By length of tenure (in years):</u>			
Less than 1	73.2	74.6	78.2
1-4	80.8	82.5	87.6
5-9	104.7	116.8	97.8
10-14	111.1	119.7	119.9
15-19	123.8	121.6	128.2
20 and over	144.5	143.6	133.7

Base wages, seniority payments, overtime pay, and other regular benefits included. Public administration and non-market services are excluded.

Sources: Statistics Department of the Ministry of Employment, *Enquadramento Estatístico dos Activos - Anuário das Estatísticas Sociais*, several issues; 1993 data from Antunes (1996).

**Table 17c. Relative indices of earnings determinants, 1986, 1989, 1993**  
**Job attributes**

	<b>1986</b>	<b>1989</b>	<b>1993</b>
All workers	100.0	100.0	100
<u>By industry:</u>			
Manufacturing	87.0	88.0	87.1
Electricity, gas and water	195.8	192.1	194.1
Construction	82.3	85.9	87.7
Trade, restaurants and hotels	90.2	93.5	92.6
Transport and communication	160.9	159.9	147.1
Banking, insurance, real estate	177.4	173.8	166.3
Social and personal services	82.6	86.1	90.1
<u>By occupation:</u>			
Managers and top-level executives	257.5	275.6	291.4
Clerical	126.8	126.4	119.6
Trade and sales	94.8	100.2	97.1
Security and personal services	80.1	77.2	71.5
Production workers	94.3	95.2	93.6
Apprentices	46.9	50.9	54.3
<u>By firm size (number of workers):</u>			
Less than 10	65.1	66.9	67.3
10-19	72.5	75.8	78.2
20-49	78.1	81.8	85.7
50-99	84.0	88.9	91.7
100-199	91.1	95.5	100.7
200-499	98.8	102.7	107.4
500 and over	141.0	143.4	146.0
<u>By qualification level:</u>			
Top cadres	266.3	284.6	292.9
Medium-level cadres	204.7	209.6	208.4
Craftsmen and team leaders	142.0	149.4	144.3
Highly qualified professionals	148.6	152.3	149.3
Qualified professionals	100.2	100.2	94.7
Semi-qualified professionals	83.8	81.3	74.9
Non-qualified professionals	72.5	70.7	67.9
Apprentices	49.6	53.5	56.3
<u>By region:</u>			
North	85.7	85.9	85.5
Central Region	88.4	88.2	85.9
Lisbon and Tagus Valley	117.2	119.6	120.5
Alentejo	97.5	92.8	91.2
Algarve	94.3	99.0	94.8

Base wages, seniority payments, overtime pay, and other regular benefits included. Public administration and non-market services are excluded.

Sources: Statistics Department of the Ministry of Employment, *Enquadramento Estatístico dos Activos - Anuário das Estatísticas Sociais*, several issues; 1993 data from Antunes (1996).

A number of characteristics can be discerned from the preceding tables:

i) The gender differential appears to be fairly stable, men's earnings being 10 to 12% above all-workers average and women's at around 20 percent points below the average. The 1995 data on Table 18 keep to the same pattern.

ii) The age-earnings profile displays the usual concavity, with peak earnings being attained at 45 to 54 years.

iii) The education-earnings profile is as predicted in the human capital literature. The evidence suggests an increase, from 1986 to 1993, in the dispersion of earnings with educational achievements, with five-year-course college graduates gradually improving their relative status. As younger cohorts join the market, it appears that compulsory schooling (currently at 9 years) has been losing ground.

**Table 18. Relative indices of earnings determinants, 1995**

	1995
All workers	100
<u>By gender:</u>	
Men	112.6
Women	79.1
<u>By industry:</u>	
Manufacturing	86.6
Electricity, gas and water	158.3
Construction	81.2
Trade, restaurants and hotels	96.1
Transport and communication	144.8
Banking, insurance, real estate	171.5
Social and personal services	91.8

Base wages, seniority payments, overtime pay, and other regular benefits included. Public administration and non-market services are excluded. Preliminary data.

Sources: Statistics Department of the Ministry of Employment, *Boletim Estatístico*, October 1996.

iv) The tenure-earnings profile supports the view that firm-specific investments are rewarded. However, the dispersion of earnings across seniority classes appears to be narrowing.

v) Industry relative positions are virtually unchanged from 1986 to 1993, public utilities, banking and finance, and transport and communication being the best-paying industries. In the October 1995 data, public utilities and the banking industry switch places at the upper end of pay scales.

vi) Occupation rankings were unchanged in the three years surveyed. Earnings of managers and top-level executives point to an upgrade of their status, which is confirmed by 1995 data. In fact, the 1995 index of managers' earnings reached 293.9, whereas top-level cadres and technicians stood at 299.0, nearly three times the national average. Production workers, with a relative index of 75.1 in 1995, and apprentices, at 49.3, appear to have suffered most with the recession<sup>17</sup>.

vii) Evidence is unclear as to trends in the firm size-earnings dispersion. Firms employing more than 500 workers, however, retain a sizable differential over smaller firms.

viii) Data on relative earnings by qualification level, as was the case with occupation, essentially reveal a widening gap in favor of the top-level category.

ix) Regional differentials consistently display the same pattern from 1986 to 1993. Albeit slightly, the relative position of Lisbon and the surrounding region appears to have improved at the expense of all other regions.

Although inconclusive by itself, the evidence collected above is widely confirmed by econometric analyses. With 1985 data, Kiker and Santos (1991) report estimates of the average rates of return to an additional year of schooling in the 9.4-10.4% range under the standard Mincerian specification and uncovered substantial gender, industry and geographical differentials even after controlling for an extensive set of regressors. Results in Santos (1995) for the year 1991 proved again the importance of human capital

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<sup>17</sup> Due to a change in definition, occupational categories in 1995 are not strictly comparable to former versions.

(education, tenure, general experience) and job-specific (industry, occupation, firm size, region) attributes in earnings determination in the Portuguese case.

A minimum monthly wage provision was legislated for the first time in 1974. Since then, minimum wages are updated annually by governmental decree, after consultation with major workers' and employers' confederations and taking account of expected inflation and productivity growth. The minimum monthly wage in 1996 was set at 54600 Escudos<sup>18</sup>, up 5% from the previous year.

As the figures in Table 14 reveal, real minimum wages were roughly unchanged over the 1986-1995 period<sup>19</sup>; in a number of years, the pace of adjustment of the nominal minimum fell below the inflation rate. Minimum wages are set early in the year, the announced increase often reflecting the government's goals towards disinflation. It comes thus at no surprise that minimum wages have steadily moved away from average effective wages and earnings. The minimum wage, which stood at around 64% of average base wages in 1985, gradually drifted to 53% in 1993, and from 56% of average monthly earnings in the former year to 43% in 1995.

The rate of coverage was just below 6% at the end of 1992, excluding agriculture and public administration; although later figures are not strictly comparable due to a statistical break, the rate of coverage appears to be still drifting downwards and was estimated at around 4% in 1995<sup>20</sup>. Rates of coverage in the neighborhood of 20% were registered for restaurants and hotels, where seasonal work is important and payments in kind are common. The rate of coverage in manufacturing was similar to the average in the non-agricultural sector, but, as of 1992, two-digit rates were still observed in some traditional segments: clothing, wood and cork, furniture.

Coverage was also larger in firms employing less than 10 workers (in the 12 to 14% range at the outset of recession) and below 2% in the top bracket (500 employees and

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<sup>18</sup> For workers 18-year old and over in the non-agricultural sector. Lower minima apply to domestic services, younger workers and other special groups (see below, chapter III.3.).

<sup>19</sup> According to numbers from the DEP of Ministry for Qualification and Employment, real growth in minimum wages was 3.6% in 1996, kept within the - 1.6% to + 2.3% interval in the 1987-1992 period and was negative in both 1993 and 1994.

<sup>20</sup> OCDE (1996).

over). Women were burdened with the bulk of incidence, minimum wages applying to some 4% of all male workers and to 7.5-9% of women.

Taking into account the trends in coverage, real change and ratio to mean wages and earnings, the conclusion appears to be safe that minimum wage policy did not add any new element of rigidity to the core of the Portuguese labor market over the last cycle.

However, the innocuity of minimum wages can not be affirmed as safely for some market fringes, most notably that of young entrants. Pimentel (1994) found evidence of significant negative effects of minimum wages on employment for the 20-24 age group, with estimated elasticities in the range - 0.30 to - 0.08 for men and - 0.74 to - 0.32 for women. Results were less clear and robust in the 15-19 age group, but there was still a hint of employment losses for women. Employment in the adult age groups was essentially unaffected by minimum wages, pointing to virtually nil substitution effects. The negative effects of minimum wages on employment of the 20-24 age group are particularly worrying in view of the fact that they are generally unable to claim unemployment benefits.



### *1.5. Principal Causes of Unemployment Changes since 1980*

Evidence on unemployment changes since 1980 was already presented above. In this section we deal with the causes of such changes, identifying the changes due to structural causes and those due to cyclical causes.

It is a widely agreed upon fact that unemployment changes are in Portugal mostly due to cyclical causes. Structural unemployment is generally considered to be low<sup>21</sup>. Furthermore, there are no signs that it may have increased in the recent past, as it did in most European countries.

These results seem to be fairly strong as two papers addressing the issue - Luz and Pinheiro (1993) and Modesto (1994) - although using different data sets and different methodologies, come to similar results which are generally agreed upon.

Luz and Pinheiro (1993) estimate the long-run wage curve and the long-run Beveridge curve, finding that both of these curves are fairly stable over time. This result can be interpreted as a sign that no structural changes that could be made responsible for the decline of the unemployment rate have occurred throughout the period under analysis (1982-92). The fact that these authors have also confirmed the existence of a significant inverse relationship between the unemployment rate and the deviation of the GDP growth from its trend (Okun equation) is another argument confirming the importance of cyclical factors in explaining the unemployment record in Portugal, since the early 80s. The authors estimate the NAIRU to be around 6 percent, which is compatible with other available estimates (EC, 1995, e.g.).

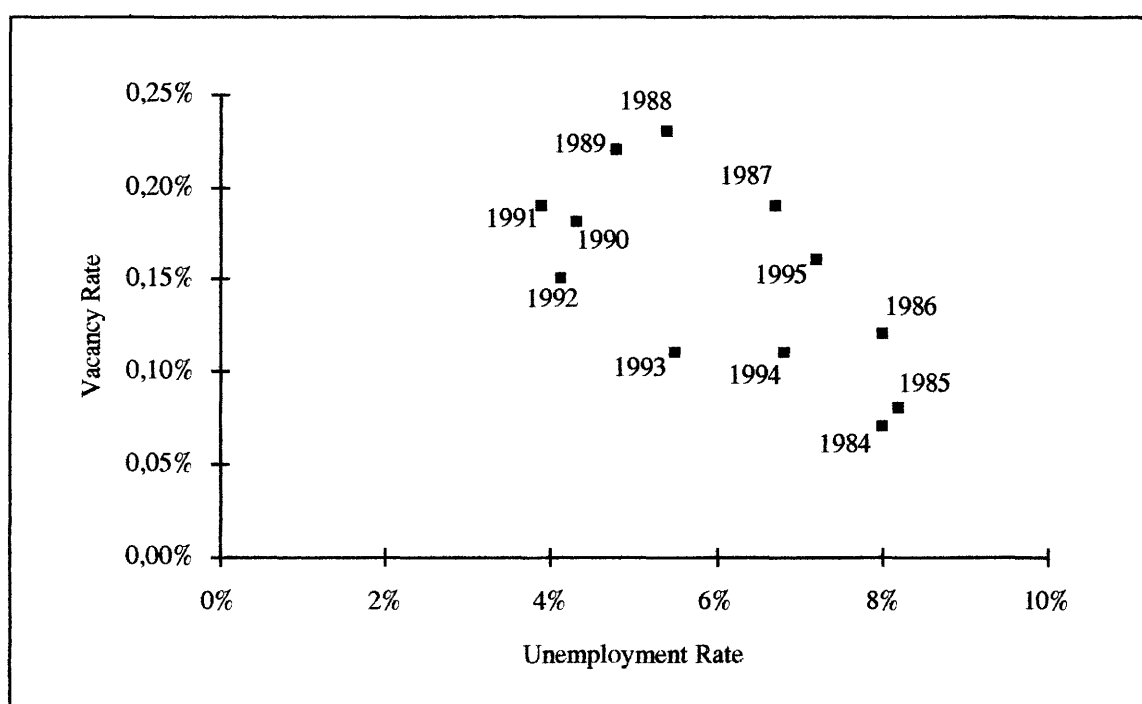
Modesto (1996) also presents a measure of structural unemployment based on the Beveridge curve that slightly fluctuates around 6.5 percent. The author estimates also point out to the stability of this curve in long-run. The author's findings point out to the stability of the Beveridge Curve in the long-run, although it shifts significantly in the short-run ( see figure 20).

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<sup>21</sup> | In this section, as well as in the concluding chapter, we refer to structural unemployment as opposed to cyclical unemployment. The structural nature of unemployment is thus seen from a macroeconomic point of view as it is discussed by using analytical tools such as the Philipps curve and the Beveridge curve.

However, such short-run shifts cannot be attributed to structural causes both because Modesto finds that mismatch due to labor heterogeneity, although existing, plays a minor role in explaining unemployment changes, and because changes in matching efficiency are themselves due to cyclical rather than structural factors. In fact, the author presents evidence that shows that matching efficiency has been following a pro-cyclical path and is best explained by the situation of the labour market. Finally, it is only because short-run shifts of the Beveridge Curve are mostly due to cyclical factors that such behaviour is compatible with the above mentioned stability of the same curve in the long-run.

**Figure 20. Beveridge Relationship**



Source: Banco de Portugal

Notwithstanding, a comparison between the last downswing and the previous one shows that for the same levels of vacancies lower levels of unemployment were recorded. This difference may be the result of a lasting increase in the matching efficiency (due either to the fact that some of the previous efficiency gains were not merely cyclical, or to a decrease in mismatch due to labor heterogeneity, or to both) which may have caused the long-run Beveridge Curve to shift.

Although additional yearly observations are required before we can come to a more definitive conclusion about this, it is interesting to notice that if structural changes have occurred, they have favoured the reduction of unemployment (and not its augmentation as in many other European countries. However, other competing explanations based on a wage flexibility argument are also admissible. And it should be reminded that several authors agree that the high degree of unemployment sensitivity to the GDP cycle is mostly the result of a degree of flexibility of the Portuguese labor market much superior to that that the widely beliefs about the stringency of labor market regulations would suggest (see, for instance, Grubb and Wells, 1993).

Blanchard and Jimeno (1995), for instance, argue that wage flexibility is fostered by low levels of reservation wages. These, in turn, are mostly due to the low levels of wages coupled with the low coverage of the unemployment insurance system, and the importance of fixed-term contracts and other atypical contracts.

## **I.6. Macroeconomic policy and forecasts**

### I.6.1. Macroeconomic policy and employment creation performances

The evolution of Portuguese macroeconomic policy concerning particularly its consequences on employment performances is determined not only by the new political cycle starting at the end of 1995 but also by a new range of structural regulating factors that became active in the last years of the 80's.

There is a great controversy about the identification of these structural factors and about the right moment from which they began to be operative. However, a consensus may at least be found concerning the relevant articulation between the changes progressively observed in the foreign exchange regime and its consequences on the productivity constraints of the Portuguese economy.

One of the main orientations within this debate sustains that it is in the middle of the period of recovery of 1985-91 (corresponding to the intervention of the XI Constitutional Government) that one may devise the crucial changes<sup>22</sup> concerning the external regulation of the Portuguese economy. 1988 is seen as a magic date. In fact, a very particular combination of events took then place: the degree of utilisation of the productive capacity was then 100%, real wages were growing and the Portuguese currency began to appreciate in real terms. It should be stressed that the changes of the foreign exchange regime have been implemented from then in a very gradual and progressive way : first, nominal devaluation began to desaccelerate; afterwards in October 1990, "crawling peg" has been stopped; finally, the new rules of the EMS and the transition to the EMU have completed the reconfiguration of the "marges de manoeuvre" of Portuguese foreign exchange policy".

From this point of view, which is clearly associated to those evaluating positively the performances of the Portuguese economy achieved by the last Government, the soft and well succeeded transition to a new foreign exchange regime is seen as a clear evidence that firms began to react positively to a new competitiveness challenges. Presumably,

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<sup>22</sup>See, for example, the essay of Prof. António Castel-Branco Borges, "A Economia Portuguesa de 1985 a 1991 : estabilização, crescimento, reformas estruturais e equidade", in Portugal em Mudança, Ensaios sobre a Actividade do XI Governo Constitucional, Lisboa, Imprensa Nacional, Agosto de 1991.

productivity improvements, diversification and technological up-grading took the place of low wages and of weak currency as the main competitiveness factors enhancing the Portuguese specialisation profile.

A preliminary assessment of this approach lead us to the following exploratory conclusion: if 1988 has been in fact the beginning of a new regime of competitiveness, based on productivity improvements, the adjustment effects on employment are considerably lagged, because employment growth rates were still positive in 1989,90 and 91(2.2., 2.2. and 2.6%) as well as the unemployment rates have been permanently decreasing (5.8, 5.1, 4.7 and 4.2% from 1988 to 1991).

We will call this approach of the changes in the external regulation of the Portuguese economy an "optimistic perspective of the effects on employment of the adjustment of Portuguese economy to the transition to EMU".

Anyway, this approach should be tempered with other "nuances" concerning several aspects:

- Firstly, the period of 1988-1991 is not a good reference for devising the adjustment effects on employment of a new regime of competitiveness because it corresponds to a stage of strong expansion in the cycle; it will be more useful to integrate the effects of the recession of 1992-93 and see in what way the economy will recover concerning the performance of employment, comparatively to the recovery of the second half of the 80's;
- Secondly, in a vast set of Portuguese traditional exporting industries, the potential gains of productivity induced by technological improvements (embodied investments) are expected to be small; diversification towards other products and sectors more intensive in higher-skilled labour force, improvements in national added value reaching higher international prices and disembodied investments in organisation, training and new entrepreneurship abilities and strategies are perhaps more important sources of productivity improvements; however, the evidences on these matters are not well known and presumably limited to a very small group of firms;
- Thirdly, the heterogeneity of the already mentioned adjustment effects is not well described by traditional statistics on industrial performances, generally based on

average indicators; case studies and the elaboration of typologies of the behaviour and strategies of firms validated by available data bases of Portuguese exporting firms are not very disseminated; one important exception is given by the 1992 Report of the Banco de Portugal (quoted by J.Cravinho and C.Figueiredo, 1995: 41) which sustains that, in the first years of the 90's, in manufacturing industry, the intra-sectorial recomposition effects have been more important than the inter-sectorial ones, validating the empirical observation that the diversification tendencies of the manufacturing industry are incipient;

- Finally, there is enough evidence illustrating that the inflow of new foreign direct investment will be crucial in order to achieve a well succeeded adjustment to the new competitive environment particularly concerning the new diversification path of exports .

Briefly, adding these "nuances", we have a more realistic approach of the effects produced by the new competitive environment concerning employment creation.

These preliminary considerations are useful in order to discuss the impact of the macro-economic policies (current and future) on employment. Some exploratory ideas may be arranged:

- More important than to discuss the direct effects of macro-economic policies on employment it is pertinent to discuss how they can help the adjustment of Portuguese economy and industry in particular to the new conditions of competitiveness; although it is correct to say that devaluation can no longer be the main instrument to maintain the markets already available, it is also essential to acknowledge that the great majority of the Portuguese exporting industries cannot tolerate similar effects to those provoked by the turbulences of the EMS in the first years of the 90's by which Portuguese currency has been significantly and artifitially appreciated "*vis à vis*" the peseta and the lira;
- Growth performances of the Portuguese economy (induced by external factors, mainly the magnitude and stability of European recovery, and internal sources, such as the moderation of the progression of real wages) will be the main sources of the recovery of employment creation in this framework of competitiveness;

- The role of current and future macroeconomic policy in stimulating better growth performances through a demand-side policy will be weak or unfeasible, given the strong restrictions imposed by the targets of reducing the public deficit and stabilising inflation according to the Maastricht criteria;
- The "marges de manoeuvre" of current and future macroeconomic policy are **supply-side oriented**, circumscribed to the up-grading of externalities favouring new opportunity investments and ventures and the consolidation of the flexibility in the labour market, and **institutionally-oriented**, improving strategical concertation among private and public actors and intensifying the insertion efforts and performances of training programmes for unemployed people in general and particularly young people searching for a first job;
- Finally, the search for the right policy-mix in order to ensure macroeconomic stability for the last years of the 90's should be balanced with a very cautious policy of co-financement and mobilisation of structural funds; in fact, it would be a really damage that in order to maintain financial stability the Portuguese government should pay the price of reducing the level of investment financed by structural funds and jeopardising the realisations of the CSF 1994-99. One may ask what are the implications of this assertion concerning employment creation performances? One should not ignore the impact of structural funds in Portugal concerning supply-side actions of improving investment conditions of firms (externalities) and the direct impact on growth of the CSF realisations.

The available research on CSF (1994-99) impacts on growth performances of the Portuguese economy is still very scarce. However, an important estimation presented by L.Modesto and P.Neves (1996) sustains that the CSF realisations represent an injection of public expenditures amounting to 3% of GDP per year and inducing a boost of 4.16% or 4.85% in the level of GDP, depending on considering only demand effects or taking into account externality effects.

### *1.6.2. Some considerations around the more recent macroeconomic performances of Portuguese economy*

Considering that the Budget of Central Administration for 1996 and 1997 have been already prepared by the new Socialist Government, a worthwhile exercise consists in reviewing the exploratory ideas and assertions presented in the last section analysing the more recent information about macroeconomic performances of Portuguese economy.

All the reports available stress that, in the first and second quarter of 1994, Portuguese economy began a period of recovery from a very severe recession that took place in the first years of the 90's, particularly in 1993. Anyway, even considering the results of 1994, the period of 1993-94 showed that, for the first time after the accession to the EU, Portugal had a negative growth differential for two consecutive years.

Comparing the recovery of 1994 with those of 1975 and particularly of 1984, some elements should be underlined in order to appraise realistically the present situation:

- The pace of economic expansion has been slower than it would be expected; the growth differential relatively to the average growth in EU will be positive again only in 1996 ;
- The recovery has been mainly induced by exports and investment associated to Structural Funds and private investment revealed itself strongly dependent on the behaviour of external demand;
- The fall of inflation led by nominal wage moderation and the stability of Portuguese currency turned into a clear evidence of the process of nominal convergence which is under way; data published by Portuguese Central Bank concerning the evolution of prices of traded goods and non-traded goods illustrate that both have been decreasing; anyway, one may question whether the tendency would be the same with a more effective and clear reaction of private consumption, which has been the last element of global demand to recover; even with a scenario of moderated progression of nominal wages the ratio "price of trade goods/price of non traded goods" will tend to fall due to the structural evolution of Portuguese economy and consequently will be reinforced if private consumption tend to consolidate its recovery;



- As regards the effects of nominal convergence performances on the evolution of interest rates, we may say that, even considering the risks that some renewed turbulence in financial markets putting downward pressure on the escudo may delay the falling of short and long term rates, the results of the first half of 1996 show a very clear process of convergence vis à vis the German rates. In fact, at the end of June 1996, the differentials concerning, respectively, the short and the long term money market interest rates were 3.9% and 2.2. %. Consequently, we have a very net falling trajectory of the evolution of credit bank rates to firms, allowing for a cost of money which begins to reinforce the confidence of private firms in the concrete results of macroeconomic stability. However, the very recent concentration prospects within national banking system (generated by the privatisation of Banco Português do Atlântico and Banco de Fomento-Borges & Irmão) will produce some effects on banking intermediation margins requiring further evidence in order to appraise the real consequences of concentration in banking system on active interest rates particularly those that are relevant to SME's.

Our conclusion tends to stress two main aspects: the up-grading of Portuguese external competitiveness is facing new challenges and growth performances remain the most important compensation factor for the adjustments required. Notwithstanding, it will be necessary to collect further evidences in order to estimate the duration of this period of adjustment.

In this context, one should isolate two dimensions of macroeconomic policies in order to appraise their impacts on employment creation: stabilisation policies and structural policies.

From the point of view of stabilisation policies, considering that they are progressively articulated at EU level and dependent on the efforts for accomplishing Maastricht targets, no substantial changes can be devised in the new political orientations. The growth contents of stabilisation policies will depend mainly on the magnitude of European recovery. It is unrealistic to admit that by itself financial stability will be able to allow for faster growth and consequently alleviating the moderation of employment creation. The very recent propositions of Paul Krugman on inflation and growth<sup>23</sup> fit probably well not only for developed economies but also for an adjusting economy as Portugal is.

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<sup>23</sup>See Paul Krugman, "Stable prices and fast growth: just say no", *The Economist*, 31 August 1996

The real impact of macroeconomic policies on employment creation will depend on the mix of stabilisation and structural policies (supply and institutionally oriented) that will be implemented. The confidence of private actors in macroeconomic stability should be completed with structural interventions creating a more favourable environment to the emergence of new opportunity investments and better conditions of integration of labour force and improving the so-called internal flexibility of the labour market, that is to say, within the firms themselves.

So, in the next sections, we will analyse, firstly, how macroeconomic targets are recently evolving in relation to the EMU criteria and secondly what we may expect from structural policies oriented towards employment creation.

### *1.6.3. Macroeconomic performances in relation to the EMU criteria*

We know that the Maastricht fiscal criteria are 3% and 60%, respectively, for the budget deficit and for the public debt as percentages of GDP, that is equivalent to a nominal growth rate of GDP of 5%.

It is worthwhile to note that the evolution until 1992 suggested good prospects for the accomplishment of the official targets mentioned above. In fact, in 1992, budget deficit represented 3.3% of the GDP and public debt amounted for 61.7%.

These two indicators have been severely deteriorated in 1993, even after adjusting cyclically the performance of Public Sector. Anyway, after the deterioration observed in 1993, the evolution of the two indicators has been divergent, as we may see from the following table:

**Table 19 - Main macroeconomic indicators**

Indicators/Years	1993	1994	1995	1996 (E)
Overall balance of State Budget as a % of GDP (a)	-6.8	-5.7	-5.2	-4.3
Idem - OECD Economic Outlook	-7.1	-5.6	-5.1	-4.4
Primary balance as a % of GDP (a)	-1.2	-0.4	-0.1	0.5
Idem -OECD Economic Outlook	-0.4	0.2	0.6	0.8
Overall structural balance of State Budget as a % of GDP (b)	-6.7	-4.5	-3.9	-3.2
General government borrowing requirement in % of GDP (a)	7.2	6.3	4.7	4.0
Idem (c)	7.1	5.8	5.4	4.4
Public debt as a % of GDP (a)	67.1	69.8 (c)	71.6 (c)	72.3
Idem (c)	67.2	70.0	71.6	72.2

Notes : (a) According to the "Relatório do Conselho de Administração do Banco de Portugal 1995"; (b) Overall balance cyclically adjusted According to OECD Economic Outlook, June 1996; (c) According to the services of European Commission;

Notwithstanding the differences between the figures given by Portuguese Central Bank and those of European Commission and OECD Economic Outlook, one may stress three relevant aspects:

- The evolution after 1993 of the overall deficit of State Budget is positive although is still hardly to accomplish the target of 3%;
- The difference between the overall deficit and the equivalent cyclically adjusted ratio, after having increased in 1993 and 1994, tended to stabilise in 1995 and 1996, which is a very important information given the recovery of the Portuguese economy;
- Public debt ratio to GDP is continuously increasing, due to the increase of foreign debt, that represented 17% of total debt in 1995 (11% in 1993).

It is worthwhile to note that, in the last three years, the positive evolution of the overall deficit of State Budget happened in a context of increasing public expenditures (excluding financial assets) as a percentage of GDP. The projection for 1996 is 48% of GDP for public expenditures (excluding financial assets). It's a high value which suggests that the elasticity of reducing the overall deficit exclusively through better performances of public receipts will be very low in the future. The recently approved 1997 State Budget suggests that the management of public expenditures is in the good direction.

However, a positive signal should be mentioned concerning the preparation of 1996 State Budget. In fact, public investment expenditures and public consumption will have in 1996 a divergent evolution : the former will increase and the latter will be diminishing, which indicates that a more selective control is under way. The selectiveness of public expenditure will be a priority for fiscal policy.

As a final reflexion, some further developments about the question of improving the selectiveness of public expenditures are presented in order to have a more realistic perspective on the effects that budgetary discipline will produce on (un)employment.

Firstly, one should recognize that national authorities will have a very difficult task in making public choices concerning the structure of public expenditures in order to minimize the negative effects of more budgetary discipline on the accession to Structural Funds. It is not only a problem of choice between investment and consumption expenditures. In some cases, for example scientific and technological infrastructures, which are a priority in the second CSF (1994-99), new investments have considerable effects on current expenditures, because we are talking of new institutions and organisations. So, in these cases, current and investment expenditures risk to be complementary, aggravating the complexity of the question. Additionally, if we are aware that implementing selective cuts in public expenditures is very sensitive to interest and pressure groups within Central Administration, we may conclude that the next phase of budgetary discipline will be significantly more difficult to achieve.

Secondly, the control of current expenditures (principally staff remunerations) will surely have negative effects on unemployment). We should take into consideration that a huge number of Central Administration staff has a very flexible labour relationship, because they are paid as independent workers and without a permanent work contract (liberal

professions status extended to another staff). As we know that in cyclical downswings the adjustment burden fell on workers without a permanent work contract, it will happen the same in the case of reduction of public current expenditures. The recent legislation made by the Government concerning the control of the number of independent workers in Central Administration staff seems to be contradictory with the objectives of budgetary discipline. On the other hand, the "marges de manoeuvre" of Social Security Budget are very small in order to accelerate retirements within civil servants and helping the modernisation of some public services.

#### *1.6.4. Impact of structural macro-economic policies on employment*

In previous sections, we argued that, beyond growth prospects led by the European recovery, only a virtuous combination of macro-economic policies oriented towards stability and reduction of inflation (led by EMU criteria) with structural policies (inspired by the new political orientations) could create a favourable environment concerning employment creation.

These considerations will be shared between this section and the chapter V. on the other policies having an impact on the labour market.

In this section, only two aspects will be analysed: the contributions of the Ministry for the Qualification and Employment for a Multi-Annual (till 1999) Employment Programme and the policy prospects for the strategic concertation around the objectives of employment, competitiveness and development that we may call the concertation agenda of the new Government.

As regards the Multi-Annual Employment Programme, it is worthwhile to note that within the characterisation of the recent performances of labour market some emphasis is put on the role of SME's in creating new jobs. The text underlines that firms with less than 100 workers represented, in 1993, 58% of the total employment and that, in the period 1989-93, the number of these firms increased 21% and that employment absorbed by them also increased by 11.5%.

The importance accorded to this reality is reinforced by the Plan underlying that SME's had a very weak participation in investment actions oriented towards the qualification of

human resources and through the evidence that a great majority of long-duration unemployed people (80%) has never participated in any training programme or action.

In what concerns the ability to identify and to formulate the pertinent structural problems that the new Government should tackle, the Multi-Annual Employment Programme is surely a good approach.

Working on a scenario of moderated sectoral diversification of exports, which seems to us to be very realistic, the Multi-Annual Employment Programme estimates that only the sheltered sectors (principally the services) will be able to create new jobs in the reference period, although stressing good prospects for some international services, such as for example ingeniering activities. As regards the open sectors of Portuguese economy, the Plan estimates that the net variation of employment will be negative or zero and that only the intensification of foreign direct investment and the emergence of export-oriented SME's can introduce some positive changes in this scenario.

Within this moderately pessimistic scenario, some reallocation of employment creation is expected: within the secondary sector allowing for the increasing importance of civil construction and concerning sex and age structure of employment: youth employment will tend to fall slowly and female employment will tend to increase slowly, which is compatible with the net creation of new jobs in social services.

As regards the programmes and the policies indicated by the Multi-Annual Employment Programme(30 th September 1996 version), one should stress the main strategic orientation of considering the objective "employment" as a transversal target assumed by the Government as a whole and requiring an integrated intervention concerning macro-economic and sectoral policies, regional development, education and the employment policy itself. We may say that is at the same time an innovating approach and a very difficult target to accomplish considering the lack of tradition of integration of Central Administration and of political decision-making process.

Some innovating objectives and actions should be stressed:

- The Multi-Annual Employment Programme emphasizes the improvement of integration and reintegration processes through active employment policies which is a

key orientation for training programmes and policies in a framework of declining growth and employment prospects;

- It also emphasizes local development and social activities as instruments to fight against long-duration unemployment: so, not only the already known ILE's (Local Initiatives for Employment Creation, targeted mainly at unemployed people or expecting to lose their jobs) are again under the supervision and management of Employment Centres, but also a new programme of Local Development Initiatives has been created aiming at improving the creation of micro and small firms in complementary fields of activity of industry, favouring the development of local and proximity services and enhancing socio-economic animation within rural development strategies;
- Aiming to achieve a better articulation between education and integration in the labour market, the Plan anticipates a cooperation programme between the Ministries of Education and Employment in order to format a programme of training actions of one year for the youth having completed the period of compulsory education;
- Finally, beyond the emphasis on apprenticeship programmes and vocational training actions for youth leaving school before having achieved the minimum school leaving age, the Multi-Annual Programme anticipates some actions aiming to improve training performances within SME's.

Briefly, we sustain that these are the critical targets of employment policies announced by the new Government. The effects on employment creation depend, on one hand, on the ability of the Government for implementing an integrated decision-making process concerning employment policies and, on the other hand, on the degree of concretisation of the innovative actions mentioned above. In any case, the key problem will be to manage a so extensive and diversified panel of interventions.

As regards the programme for Strategic Concertation, it aims at fixing a new concertation agenda with social partners for improving the modernisation of Portuguese economy enhancing the objectives of employment, competitiveness and development. The impact on employment creation of this agenda depends on the way how some strategic objectives will be assumed by social partners. Among them, one should mention :

- the election of the firm as the nodal point for the great majority of structural interventions;
- the implementation of productivity agreements, articulating real wages and competitiveness;
- the concertation of modernisation operations within the firms minimising the labour-saving effects and of reconversion processes integrating professional reorientation and social protection measures;
- the implementation of local development programmes;
- and the improvement of equity and efficiency performances of the fiscal system.

Notwithstanding the pertinence of these structural actions, we should admit that, in the framework of macroeconomic stability required by Maastricht criteria, their impact on employment creation performances will need better growth prospects than those achieved in the first phase of the recovery.

#### *1.6.5. Main forecasts and medium-long term scenarios of employment/unemployment*

The available information concerning *quantitative* forecasts and medium-long term scenarios of employment/unemployment for the Portuguese economy is very poor. In the version analysed of the Multi-Annual Employment Programme there is no quantitative scenario or estimation. The only exception available is the exercise made by J.Cravinho and C.Figueiredo (May 1995), in a study that, evaluating the determinants of employment creation policies in Portugal, presented an estimation of employment and of unemployment rate for the year 2000. In any case, it's hard to admit it as a medium-long term scenario.

Working with an annual average rate of growth of 3.25% corresponding to a growth differential vis à vis the EU of +0.75% (strong growth) and sustaining different hypotheses about the evolution of sectoral added value and about growth and productivity, the authors present the following estimation of employment:



**Table 20 - Employment scenarios**

Variables	Employment structure (%) 1994	Strong Growth Absolute variation 1994-2000	Weak growth Absolute variation 1994-2000
Agriculture	11.8	- 94	- 47
Industry	24.6	- 30	- 148
Civil Construction	8.0	64	0
Services	55.6	158	6
Total	100.0	98	- 189
Total Employment (thousands of individuals)	4449	4546	4260

Source : J.Cravinho and Carlos Figueiredo(1995) : 77

Concerning the estimation of the unemployment rate, the authors present the following scenarios:

**Table 21 - Unemployment rate forecasts**

Variable (thousands)	Strong growth and net emigration	Weak growth and net emigration	Strong growth and migration balance =0	Weak growth and migration balance =0
Labour force	4895	4895	4996	4996
Employment	4546	4213	4546	4213
Unemployment	349	682	450	783
Unemployment rate (%)	7.1	13.9	9.0	15.7

Source:João Cravinho and Carlos Figueiredo (1995) : 82

Considering that these scenarios have been validated by a vast panel of Portuguese experts and personalities, it is very important to stress how employment and unemployment performances are high sensitive to growth prospects. These conclusions agree with our own perspective, that can be synthetized in the following formula :

Better prospects for employment creation and minimising the negative adjustment effects on unemployment = Better growth prospects + Structural adjustment actions<sup>24</sup>

Although some structural actions could favour the achievement of better growth prospects, we must admit that the latter are still strongly dependent on the magnitude and persistency of EU growth prospects.

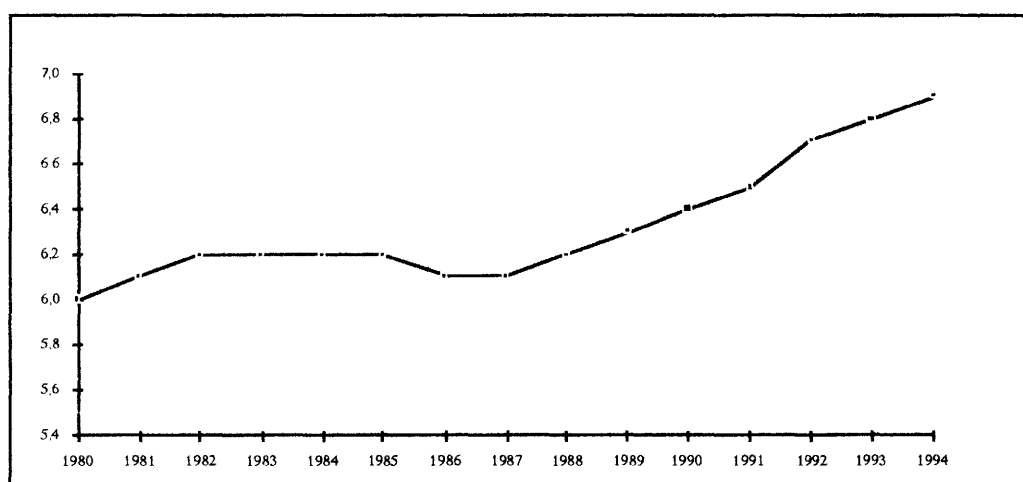
<sup>24</sup> The Strategic Concertation Agenda of the Government develops the concept of structural convergence, in order to search a compromise between nominal and real convergence.

As regards the incidence of structural unemployment prospects, we have already mentioned that it is a widely agreed upon fact that structural unemployment is generally considered to be low and that, furthermore, there are no signs that it may have increased in the recent past.

However, there are not so many available estimates of the incidence of structural unemployment and its share in total unemployment are. The exceptions concern two different estimates of the NAIRU (which can be seen as a measure of both of pure classical and structural unemployment) for the Portuguese case - Luz and Pinheiro (1993) and EC (1995) - concluding that this averages 6%.

The EC study, providing an estimate of the NAIRU for the years 1972-94 points out to an increase in this rate over the years - however, for the 1980-1994 years this increase falls short of 1 percentage point (see figure n° 21)

**Figure 21. Structural Unemployment (NAIRU)**



Source: European Commission

## **II. LABOUR MARKET INSTITUTIONS**

### **II.1. Public Institutions**

#### *II.1.1. The background*

Portuguese employment public services have a very rich experience of intervention in the labour market that began some years before the 1974 Revolution. National Employment System has been created in 1966 within an already existing institution called the *Fundo de Desenvolvimento de Mão de Obra* (Development Fund for the Labour Force), which was then already charged of training policy.

It is interesting to note that, in the framework of an autocratic political regime, national employment system has been created under the external influence of values and philosophical approaches such as humanistic and personalist ideas (Acácio Catarino, 1991:5). One of the personalities associated to the creation of the system (João Moura, 1991:14) sustains that it has been initially targeted at integrating migration policy in the framework of the national employment policy. Additionally, employment public services have been created before the implementation of social protection systems for unemployed people.

The evolution of Portuguese employment public services is very similar to those in Europe, particularly after the effects of the structural crisis of 1973-74 in labour-market performances. After then, they tend to emphasise their role of institutions managing all the financial incentives targeted at improving employment creation and weakening their contribution for the transparency and organisation of the labour market. In the beginning of the 80's, when the Local Employment Initiatives began to be prepared in Portugal, we may then speak of a third phase of evolution of public services on employment policy.

### *II.1.2. More recent developments*

The third phase of evolution occurs practically at the same time with the increasing importance of the *Institut for Employment and Vocational Training (IEFP)* concerning the implementation of employment policy. It is a public institution, with administrative and financial autonomy and own property. Within a vast set of attributions, the IEFP is charged of the organisation of the labour market, of collaborating in the elaboration, definition, conception and evaluation of employment policy and of the cooperation with foreign institutions as regards employment, vocational and continuous training.

One of the main changes introduced by the XIII Constitutional Government has been the separation of the Ex-Ministry of Employment and Social Security in two bodies : the Ministry for the Qualification and Employment and the Ministry of Social Security (Decree-Law 147/96 and Decree-Law 296-A/95).

In the framework of the new organisation of the Ministry for the Qualification and Employment, the Directorate-General of Employment and Vocational Training and the IEFP still remain the most important institutions concerned with employment policy. Some differences should be established between them: the former is effectively a central service and the latter is supervised by the Ministry assuming the role of implementing employment policy at regional and local level through its Regional Delegations.

There is some interpenetration between the competences of the two institutions, although the management functions of the employment policy are mainly concentrated in the IEFP.

The competences of the Directorate-General concern the realisation of research and studies, the definition of objectives and the formulation of propositions on measures and programmes of employment policy, the coordination of evaluation activities and the information system on external orientations on employment and vocational training.

The interpenetration mentioned above exists because the IEFP has also competences concerning the improvement of knowledge about employment problems and some intervention in conceiving, elaborating, defining and evaluating the employment policy. Nevertheless, we can say that the IEFP is the body responsible for the implementation of employment policy, which is a clear differentiation factor between the two institutions.

The most impressive feature of the IEFP is its big dimension. J.Cravinho and C.Figueiredo (1995:174) speak of a "mega-structure" of 3500 individuals, from which 800 are integrated in central services (Lisbon). It is deconcentrated in 5 Regional Delegations within the same intervention area of CCR's (Regional Coordinating Commissions of the Ministry of Planning). The IEFP supervises 79 Employment Centres and is also responsible for the operation of 50 vocational training centres delivering government programmes, directly through Direct Management Centres and through Participatory Management Centres with the participation of social partners and private institutes. In Lisbon there is also a rehabilitation centre managed by the IEFP. So, the organisation of the IEFP maintains the original tradition of keeping together the employment and vocational training services under the same political supervision.

The regional distribution of employment centres and Direct Management Centres for vocational training is presented in the following table:

**Table 22 -**

Region	Number of Employment Centres	Number of Direc Management Vocational Training Centres
North	26	6
Centre	15	5
Lisbon and Tejo Valley	22	6
Alentejo	11	5
Algarve	5	1

Source: Relatório sobre Portugal elaborado no âmbito da informação sobre políticas de emprego -MISEP, Directorate-general of Employment and Vocational Training

The Inter-Ministerial Commission on Employment (CIME) and the Observatory of Employment and Vocational Training (OEFP) are two subsidiary institutions concerning employment policy. According the orientations assumed by the programme of the XIII Constitutional Government, we may say that the OEFP, a tripartite body aiming at following the evolution of employment performances and of the structure of labour-force qualifications and appraising the impacts of employment and vocational training policy, will be probably reinforced. Some experimental actions have been successfully led in some regions (Águeda-Estarreja, for example) which could be a relevant factor for improving decentralised and local employment policies.

CIME remains a potential inter-face for introducing transversal approaches of employment strategies. In fact, as it is conceived as a cross-departmental committee for employment (Resolution nº 380/80 of 7.11.80), its role is concerned with:

- Making proposals for defining an overall employment policy;
- Providing for the coordination of the implementation by the competent ministries of the policy approved;
- Ensuring the coordination of all vocational training activities;
- Following the development of employment problems;
- Drafting opinions on the request of the Council of Ministers.

The Observatory is animated by a Coordinating Central Unity and it is based mainly on the IEFP services: at *central level*, through the "Direcção de Serviços de Estudos do Mercado de Emprego; at *regional level*, through the IEFP Regional Delegations and their Consultative Committees and at *local level* through Employment Centres, Vocational Training Centres and their Consultative Committees.

### *1.1.3. Reforms*

Considering the main orientations of the new Ministry of Qualification and Employment, the reform prospects of the national employment system depend principally on two aspects :

- Further developments on decentralised and local employment policies, mainly through the creation of new partnerships able to integrate all the employment policy instruments available for reinforcing local development initiatives;
- The reorganisation of Employment Centres, that is already under way, at least concerning equipment and infrastructures, will facilitate their role as the operational unities of the national employment system, principally from the point of view of ensuring a more equilibrated share of their interventions between the organisation and transparency of the labour market and the management of unemployment social protection mechanisms and of employment incentives.

A preliminary glance on the first question highlights that the experience acquired by the Employment Centres through the implementation of ILE's (Initiatives on Local Employment) could have relevant apprenticeship results in order to ensure further developments on decentralised employment policies. The critical question is how to help the Employment Centres in developing new attitudes and competences and principally to help them in achieving a more active presence in local partnerships. The experience of local employment and vocational training observatories may be extended and used by the employment services as a capital for strenghtening local development strategies. Some successful experiences of NACE's (Unities supporting the creation of new firms) should also be associated. The most successful experiences of NACE's are found when they are managed in strict articulation with local entrepreneurs and animated by a strong entrepreneurial and managerial culture. These experiences should be considered as true incubators, even that they cannot use seed-capital funds.

The second question is more complex. The evolution of the Employment Centres illustrates well the complexity of the problem. There is a general agreement that the operational complexity of a great majority of Employment Centres has been increased in two steps : the first one has arisen when the Centres have been charged of managing the

unemployment subsidies (some years after the 1974 revolution; the second one happened with the increasing role of the Employment Centres in managing employment incentives and grants involving EU funding. It's true that, meanwhile, huge improvements concerning infrastructure endowment have been made (some Centres have been reinstalled) and the reorganisation of the informatic systems is practically achieved.

Anyway, the argument that labour market reorganisation tends to divert the supply and demand forces from the Employment Centres cannot be generalised to all the country. It's true that big and medium companies tend to have their own hiring strategies and that the complexity of subcontracting relationships is reducing the role of the centres in guiding individuals searching for a job. The magnitude of youth unemployment is also an obstacle in order that Employment Centres could have a more active role in establishing new interfaces between labour demand and supply. Nonetheless, the excessive generalisation of this argument risk to produce a vicious circle: the lack of aggressive marketing strategies will reinforce the diversion effect mentioned above and the Employment Centres will tend to be mainly contacted by those unskilled workers having more difficulties in getting a job.

The crucial question will be to implement reorganisation measures alleviating the bureaucratic tasks required by managing the systems of incentives and to reinforce, through better information systems, the knowledge of the labour market evolution.

It will be also interesting to follow the evolution of methods used by the Employment Centres in their placement procedures. The available information suggests that the great majority of the Centres just wait for the concrete manifestations of supply and demand trying to manage the interface in the best way possible. Individual interviews and personal knowledge of the local situation are the main instruments used by the Employment Centres.

The official report on employment policies (Directorate-General of Employment and Vocational Training, 1995:59-60) mentions that new guidance and placement procedures have been experimented and tested. This is the case of new placement procedures targeted at long-duration unemployed people, in order to improve their capacity of reaction and of motivation. The Employment Centres have also a technical participation in the UNIVA's (Unities helping the entry into the working life) particularly targeted at youth.



Notwithstanding the diversion effect mentioned before, the Employment Centres are the public institutions knowing better local particularities of labour markets and more able to play an active role in enhancing articulation mechanisms between training programmes and actions and placements.

Concerning the question of employment private services, there are no recent legal developments in the regulation of these services playing a role on the labour market and on placement procedures (Decree-Law 124/89), particularly concerning the temporary work (Decree-Law 358/89). A lot of firms, including international ones, are working in the market of technical assistance to firms concerning the recruitment of new staff members, although, technically and legally, they cannot be considered autonomous placement organisations.

Finally, it should be noticed that a new institution for enhancing innovating procedures concerning training policy has been recently created. INOFOR ( Resolution nº 17/96 of 21.March.1996) is charged of prospective studies on training needs and new professional profiles as well of new methodologies for training programmes targeted at long duration unemployed people, low educated workers, workers searching for new professions and trainers and managers for training programmes. INOFOR should be seen as an agent for innovating procedures within a technostructure strongly dependent on bureaucratic tasks.

Still in 1996, new reforms have been introduced concerning the Apprenticeship system (Decree-Law nº 39/96 of 31th August 1996) and training in working environments (Decree-law 205/96 of 25th October 1996).

## *II. 2. The System of Industrial Relations, with an emphasis on Collective Wage negotiations*

Portuguese law defines industrial relations as those established between workers and employers, mediated by their organizations, with the purpose of regulating work conditions and collective interests. The analysis of industrial relations thus concerns both the subjects of these relations (and, in particular, their forms of organization and the way these organizations work) and the outcome of the relations (Pinto et al. 1996: e-457<sup>25</sup>).

Two major historical periods should be taken into account in the description of the current system of industrial relations. The first stems from the revolution of April 1974 and lasts until 1984, when a permanent forum, the Conselho Permanente de Concertação Social (CPCS)<sup>26</sup>, was established for the discussion of industrial relations, and is marked by the construction of the system of representation and the web of collective agreements that still stands. The second period, after 1984, is characterized mainly by the adjustment of the system of industrial relations to standard European Community practices (Cravinho 1995: 261-262).

Built over such a long span, it is not surprising that the Portuguese system of industrial relations encompasses regulations with conflicting logic: some reveal strong traits of corporatist interests, as is the case of labor contract law, others have socialist underpinnings, still others are short-lived in scope and merely reflect an attempt to overcome transitory economic difficulties.

### 1. Statutes and laws governing industrial relations

In Portugal, the State retains a strong intervening role in the field of industrial relations (Pinto et al. 1996:3). This role dates back to the pre-1974 era, when the corporatist system then in power led the State to regulate strictly labor relations, frequently leaving no room for the parties' discretion, and the trend was reinforced by the leftist governments of the 1974-1976 period.

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<sup>25</sup> In this setting, we follow closely Pinto et al. 1996, the most recent survey of industrial relations in Portugal, and, to a lesser extent, Cravinho 1995. References to the former work, which was organized in the form of a glossary, specify the number of the relevant entry (e-#).

<sup>26</sup> Standing Council for Social Concertation.

In this regard, the 1976 Constitution confers upon the State a large role in the definition of labor relations and in the promotion of workers' welfare, and grants the workers a broad set of rights. The rules that prescribe the participation of workers' organizations in the definition of labor law are still in place, and attempts at reform (e.g., those aiming at greater flexibility in the definition of job contents or working time) have been frustrated for a long period of time by union opposition. Worker protection is well illustrated by the fact that the law expressly states that its dispositions can be set aside or ignored by collective bargaining only if the changes thus made prove to be more favorable to workers.

## 2. Unions' structure and participation

According to Portuguese law, unions congregate dependent workers and are charged with the protection of their social and professional interests. Before 1974, trade union freedom was severely curtailed. A new union law, in 1975, granted freedom of association to workers and allowed the constitution of (primary) unions and of several associations of unions; specifically, provisions were made to allow federations (that would group unions in the same industry), regional union associations (joining unions across industries within a geographical region) and, at the top, a unique confederation which should congregate all union associations. The 1976 Constitution, however, banned the principle of a unique confederation and currently two confederations exist that share the leadership of workers' organizations: the General Confederation of Portuguese Workers, CGTP, founded in 1975 and generally viewed as pro-Communist, and the Workers' General Union, UGT, founded in 1978 and considered close to the positions of the Socialist and Social-Democratic parties.

Measurement of the influence of each confederation is a difficult task (Pinto et al. 1996: e-93; Stoleroff and Neumann 1993); however, it is generally believed that CGTP represents the largest share of Portuguese workers. Stoleroff and Neumann (1993: 31), for instance, estimate that 71% of unionized workers were members of unions either affiliated or close to CGTP, 23% were in UGT's sphere and 6% were members of independent unions, in the period 1987/1992. UGT's influence is mainly in the services industry, whereas CGTP covers a broader specter of activities.

Also difficult is the task of evaluating the extent of unionization. Estimates have been reported by Cerdeira and Padilha (1990), Stoleroff and Neumann (1993) and OECD (1991). Stoleroff and Neumann (1993:34) report rates of unionisation at the end of the 80's in the 34-40% range and, according to them, similar to those found in countries with a longer tradition of unionism, such as Germany, the United Kingdom or Italy. The estimates reported in the OECD publication (60,8% in 1978, 60,7% in 1984, 31,8% in 1991), which refer to total following (thus including retired, unemployed and self-employed workers), are also in general agreement with rates and trends found in other countries surveyed. The finding is rather interesting in a setting where incentives to unionisation are scarce: in fact, benefits obtained by workers under collective bargaining are automatically extended to non-members, and there is no distinction between union and non-union workers.

In what concerns comparisons among sectors, the rate of unionization is greater in the services, in particular in the financial services, than in manufacturing, a trait that appears to be characteristic of industrial relations in Portugal (Stoleroff and Neumann 1993:34).

Unions retain the monopoly of collective bargaining and a quasi-monopoly in the legal declaration of a strike<sup>27</sup> (Cravinho 1995:262).

Generally, collective bargaining has been undertaken at the level of professional sectors or activity branches, bargaining at the single-firm level being rarely observed; an important exception, however, relates to large public firms, where firm agreements were negotiated in the late 1970's and early 1980's. Workers representation is assured by union delegates, union commissions and, when needed, by committees of several unions. Single-firm unions are rare.

Portuguese law admits also workers' commissions at the firm level and attributes them a number of rights in management control. The statute, which was set in place in 1979 with the aim of imposing some discipline upon practices that were common during the revolutionary period of 1974/1976, is widely ignored today and workers' intervention in firm management is virtually non-existent (Pinto et al. 1996:6).

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<sup>27</sup> Under the Strike Act (bill no. 65/77), capacity to declare a strike rests with trade unions; however, an exception is allowed at the firm level, where a general assembly of workers can decide to go on strike if the majority of workers is not represented by unions (Pinto et al. 1996: e-272).

### 3. Employers' organizations

The corporatist system that prevailed in Portugal for 40 years was dismantled in the wake of the 1974 revolution and new models of employers' organizations arose.

Paralleling unions organization, low-level associations of firms may join regional associations and industry-based federations. At the top level, confederations congregate all the other organizations of employers. Existing confederations still reveal the influence of the corporatist model: there is a confederation of the agriculture, CAP, another for wholesale and retail trade, CCP, and the most influential is the confederation of manufacturing, CIP.

CIP represents 79 regional and sector associations and is a member of the EU Economic and Social Committee. The trade confederation brings together 137 employer associations. CAP, finally, represents 76 regional associations of landowners, 16 specialized associations and 12 co-operatives, and is also a member of the Economic and Social Committee (Pinto et al. 1996: e-87,88,89).

### 4. Industrial disputes

Industrial disputes were more common in the first years after 1974. Disputes decreased as the system of industrial relations moved towards stabilization and "social concertation" mechanisms were set in place.

However, conflicts at the plant level do remain. Strikes or strike threats (token stoppages) are, still nowadays, the most representative forms of industrial action (see table 23).

**Table 23. Forms of Industrial Action**

Form of Action	Single Enterprise Affected	More than One Enterprise Affected	Public Service	Total
Demonstrations, Rallies	8	4	14	26
False Imprisonment	–	–	–	–
Sit-Ins	–	–	–	–
Token Stoppages	288	26	10	324
Disruptive Action Short of a Strike	10	1	–	11
Strikes	246	34	35	315
Other	9	2	1	12
<b>Total</b>	<b>561</b>	<b>67</b>	<b>60</b>	<b>688</b>

Source: DE-MESS, Conflitos Coletivos de Trabalho, Anual, 1995, p.11.

Analysis of the data on strike activity since 1986 reveals that 1992 was the year when the number of strikes reached a maximum, but the severity of strike waves, as measured by the number of workers involved or of working days lost, was larger in 1986, 1988 and 1989 (see table 24.).

**Table 24. Number of Strikes, Striking Employees and Working Days**

	Number of Strikes	Number of Employees Involved (000s)	Number of Days Lost (000s)
<b>1986</b>	363	231,5	381,9
<b>1987</b>	213	81,3	113,2
<b>1988</b>	181	155,5	198,0
<b>1989</b>	307	296,1	357,4
<b>1990</b>	271	128,9	146,5
<b>1991</b>	262	119,1	123,8
<b>1992</b>	409	131,8	189,9
<b>1993</b>	230	83,1	79,9
<b>1994</b>	300	94,4	96,8
<b>1995</b>	282	60,5	62,9

Source: DE-MESS, Conflitos Coletivos de Trabalho, Anual, 1995, p.11.

Strikes are focused chiefly on wage matters (see table 24). However, the importance of wage matters has been decreasing since 1986, whereas that of working hours and bargaining procedures has been on the rise.

##### 5. The system of collective bargaining

The Constitution provides the juridical principles of collective bargaining and grants to unions the right to negotiate. The effects of the agreements are expressly recognized and considered valid sources of labor law. The dispositions of collective agreements apply to individual contracts and replace any other dispositions, legal or contractual, that are less favorable to workers (Pinto et al. 1996: e-126)<sup>28</sup>.

Capacity to negotiate is conferred upon every employer or employers' association and to trade unions, no matter the number of affiliated members they represent.

Agreements can be made at the firm level, by occupation ("horizontal agreements") or by industry ("vertical agreements"). Portuguese law shows a preference for vertical agreements, which prevail upon horizontal agreements (Pinto et al. 1996: e-137).

Collective bargaining is usually conducted at the industry or occupation level. Firm-level negotiation, which for a time was a common practice in large public enterprises, has lost importance. Up to 1992, the law itself favored a separate negotiation for large public enterprises (Pinto et al. 1996:9), but managers were reluctant to accept firm-level bargaining as they were pressed by very aggressive trade unions.

It is also believed that employers reject firm-level negotiations with the purpose of not creating any incentives to plant unionization; on the other hand, employers prefer industry-wide low settlements which give them some flexibility over actually paid wages. In fact, Aperta et al. (1994) report that effective wages tend to be substantially larger than wages accorded in collective industry-based agreements.

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<sup>28</sup> However, there are exceptions. Adoption of clauses more favorable to the worker is prohibited with respect to some matters, such as termination of the employment contract, fixed-term contracts, public holidays, vacation time, Social Security benefits and others.

**Table 25. Forms of Collective Labour Regulation 1986-93 (Mainland)**

Year	Total	Collectively Agreed Processes							Regulation by Government		
		Association Agreement	Multi-employer Agreement	Company Level Agreement	Association Agreement Renewal	Multi-Employer Agreement Renewal	Company Level Agreement Renewal	Arbitration Award	Adoption Agreement	Extension Directive	Labour Regulation Directive
1986	609	20	6	21	250	13	42	–	47	206	3
1987	554	22	3	4	259	17	48	–	49	151	1
1988	596	18	5	12	271	21	59	–	48	161	1
1989	576	21	0	5	272	24	52	–	43	158	1
1990	620	15	4	33	276	16	68	–	43	164	1
1991	552	17	4	14	264	16	51	–	32	142	2
1992	666	15	6	34	268	16	91	–	60	175	1
1993	488	17	3	12	201	14	61	–	36	141	3

Source: MESS - DGRT, Anuário das Estatísticas Sociais 1986-91 e 1988-93



Collective bargaining at the national or inter-occupation level has never been undertaken. Employers' and union confederations have exerted little influence in this regard. Union confederations have confined themselves to a supporting role in negotiations conducted at lower levels; they have engaged, however, in the negotiations for "social concertation".

In terms of content, Pinto et al. (1996:10) describe collective agreements as conservative.

"Beyond matters which are typically regulated through collective bargaining (definition of grading systems, pay determination, regulation of career paths and mobility mechanisms), agreements in many instances confine themselves to summarizing the multiple scattered legislation, functioning in practice as employment manuals. Little progress has been made, however, in terms of the institutionalization of mechanisms of employee participation in the introduction of new technology or in taking more important company decisions."

Collective agreements are only mandatory to those represented by the subscribing parties or to those that came to be affiliated with them during the period covered by the settlement.

Competition between agreements is allowed, and exists to a certain extent, given the freedom of trade union association and the rivalry between competing unions. The law does not establish mechanisms of co-ordination between agreements reached in different negotiations; however, as already stated, preference is given to vertical over horizontal agreements, and the principle of prevalence of the most favorable condition to the worker generally applies.

Portuguese law regulates in detail the procedure of negotiation towards collective agreements.

"For the peaceful settlement of collective disputes, the law makes provision for three procedures in which the element of the third-party intervention plays a successively stronger role: conciliation (in which this intervention is confined to encouraging the parties to negotiate), mediation (which involves the possibility of working out a recommendation to be proposed to the parties) and arbitration (which culminates in a decision arbitration award that is imposed on the parties). As a rule these procedures are

voluntary, and the alternative of direct and immediate recourse to forms of industrial action is lawful." (Pinto et al. 1996:12)

#### 6. Coverage of the agreements

According to OECD (1994), the rate of coverage of a settlement is defined as the ratio between the number of workers covered by a collective agreement and the total number of workers (OECD 1994:186).

The OECD study reports an adjusted rate of coverage that excludes civil servants (who have no right to negotiate) as well as personal service workers and seasonal farm laborers. The rates of coverage presented are the following (OECD, 1994:201):

1981 - 70 %

1985 - 75%

1991 - 79%

The fact that the rates of coverage are generally above average rates in the OECD is due to wide-reaching mechanisms of extension and to the high number of agreements negotiated each year in Portugal. Extension of the agreement to other parties can result from negotiation ("adoption agreement") or from law ("extension directives" from the Ministry of Employment)<sup>29</sup>(see Table 25).

#### 6. Level of government intervention

The distinction alluded to above between the periods before and after 1984 is relevant in this issue. In the former period, the State intervened to regulate and model collective bargaining, placing bounds on the parties' contractual freedom and frequently overruling them. After 1984, when the mechanism for "social concertation" was set in place, the State's direct intervention in collective bargaining decreased (Cravinho 1995:271). This notwithstanding, the State's intervention (in the settlement of conflicts, in support of negotiation, in the extension directives, etc.) is still far from negligible.

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<sup>29</sup> In 1993, the number of employees covered by instruments of collective labor regulations, in percentage of the number of employees included in the employment audits sent annually to the Ministry (Quadros de Pessoal), was 98.8 % (Pinto et al. 1996: 250).

**Table 26. Percentage Distribution of Strikes by Type of Claim**

<b>Year</b>	<b>Pay</b>	<b>Working Hours</b>	<b>Employment</b>	<b>Health, Safety and Welfare Facilities</b>	<b>Union Activity and Disciplinary Matters</b>	<b>Works Rules and Enterprise Structure</b>	<b>Bargaining Procedures</b>	<b>Other</b>
<b>1986</b>	65,0	5,1	10,4	1,1	5,1	3,1	7,9	2,3
<b>1987</b>	67,5	6,7	12,1	3,1	1,4	0,8	6,3	2,1
<b>1988</b>	51,8	10,6	16,6	4,1	4,8	1,7	9,2	1,2
<b>1989</b>	54,0	16,2	15,3	2,5	3,1	0,2	7,1	1,6
<b>1990</b>	57,0	19,8	7,5	5,6	5,5	0	4,6	0
<b>1991</b>	45,3	19,7	15,1	6,7	1,5	0,2	11,5	0
<b>1992</b>	44,9	30,2	7,0	4,7	1,1	0,1	10,1	1,9
<b>1993</b>	44,5	23,5	15,9	6,3	1,0	1,0	6,3	1,5
<b>1994</b>	46,2	16,6	11,1	4,9	2,5	0,6	12,0	5,1
<b>1995</b>	47,4	13,0	16,2	9,2	2,1	1,3	10,1	0,7

Source: DE - MESS, Greves Anual, 1994 e 1995.

## 7. Changes in the system : the "social concertation"

According to Cravinho (1995), after a decade of efforts to erect a system of industrial relations in a democratic setting an impasse was reached. The legal framework, in spite of having allowed the regulation of the labor market and the legal consecration of a broad set of rights of the workers, proved unable to prevent delayed payment of wages and violations of other rules. On the other hand, the system had a built-in inertia that made it hard to reach a consensus about reform of working conditions.

The different agents involved in the system of industrial relations did not share common views on European integration, on the social projects they fought for or, obviously, on the claims and pressures they put on the political power. Thus, the creation of a forum for "social concertation", joining together the State and the most important business and union leaders, aimed mainly at increasing "the governability of the Portuguese society" (Cravinho 1995:265).

The Council for Social Concertation, CPCS, was created in 1984 as a tripartite forum: it included the Government (and the Prime-Minister in particular), the workers represented by the two rival confederations, CGTP and UGT, and the three major confederations of employers, CIP, CAP and CCP. It had consultative and information functions, and the promotion of "social concertation" as its major goal. Later, the CPCS was replaced by the Social and Economic Council (CES), where seat was granted to other civil organizations. Within CES, an autonomous structure took over the concertation competence of the extinct CPCS.

CGTP opposed the creation of the Council for Social Concertation and only accepted to join it in 1987. Still, it refused to subscribe a number of agreements .

The agreements made under Council for Social Concertation, on incomes policy and other issues (see listing), "establish principles that apply to industrial relations at both the firm and the industry level" (Cravinho 1995:268). However, they are not mandatory and do only formulate recommendations which the subscribers are free to follow or not.

Agreements reached under the "social concertation" umbrella include:

\* the Recommendations on Income Policy for 1987, subscribed in July 1986 by the Government, UGT, and all employers' confederations, CIP, CAP and CCP;

\* the Agreement on Income Policy for 1988 (APR88), subscribed in January 1988 by the Government, UGT, CAP and CCP;

\* the Economic and Social Agreement (AES) (with a recommendation on income policy), subscribed in October 1990 by the Government, UGT, CIP and CCP;

\* the Agreement on Safety, Hygiene and Health in the Workplace (ASHST), subscribed in July 1991 by the Government, CGTP, UGT, CIP, CAP and CCP;

\* the Agreement on Vocational Training Policy (APFP), subscribed in July 1991 by the Government, CGTP, UGT, CIP, CAP and CCP;

\* the Agreement on Income Policy for 1992 (APR92), subscribed in February 1992 by the Government, UGT, CIP, CAP and CCP;

\* the Agreement on a Short-term Social Concertation, subscribed in January 1996 by the Government and UGT, CIP, CAP and CCP.

In the agreements, the objective of moderating wage increases was politically and economically essential. In the following we analyze the method of computation of wage adjustments in each of those agreements.

In the Recommendations on Income Policy for 1987, for the first time the concept of "expected inflation" was introduced and quantified, setting aside the up to then common practice of tying wage increases to the rate of inflation observed during the period following the preceding agreement. The practice aimed at recovering the yearly loss of purchasing power of wages, and adoption of the expected inflation yardstick was favored by the downward trend in inflation since 1984 (Rodrigues 1996:502).

In 1988, the Council for Social Concertation (CPCS) established quarterly benchmarks for expected inflation. Firms were expected to keep control over prices of goods and services, and wage growth should take into account expected inflation, productivity gains and competitiveness of firms (Rodrigues 1996:503). This agreement did not last: it was denounced by UGT when inflation failed to keep on decline.

In the Economic and Social Agreement (AES), it was stated that the objective of income policy for 1991 was "the effective growth of real wages towards community averages, under non-inflationary conditions and safeguarding international competitiveness of Portuguese firms, in particular in the European context" (Conselho Permanente de Concertação Social 1990). Thus, the AES formulated recommendations on the average growth of wages, taking account of the rate of inflation forecast by the government, of expected productivity gains and of prevailing conditions in business and industry.

In the agreement on income policy for 1992 the methodology and principles of the Economic and Social Agreement (AES) were retained, with further emphasis placed on the comparison of wage growth in Portugal and in competing economies, as well as on productivity differentials between Portugal and EU countries (Rodrigues 1996:506).

The short-term agreement of 1996 included a recommendation on the rate of adjustment of collectively agreed wages using the same methodology as the AES.

"Social concertation" was not confined to wage issues. Even in the agreements on income policy other areas, such as tax policy, were contemplated, but the Economic and Social Agreement (AES) is by far the most advanced of the agreements, both in topics covered and time horizon. Guiding principles were adopted, namely, on budget policy and other macroeconomic and industry policies, on earnings policy, on legislative actions towards social security, working time, safety in the workplace, education and occupational training, atypical work, and dismissals, among others (Cravinho 1995:269-270). The AES cleared the way towards the reform of labor law which employers had been claiming for, but at the same time empowering union confederations with a conditioning role over the changes (*idem*).

Despite the width of scope of those agreements, effects upon firm and industry collective settlements were limited, and related mainly to wage and working time issues (Cravinho 1995:271). The latter are remarkable: the Economic and Social Agreement ruled that by 1995 working time above 40 hours per week should be banished. Facing the scarce application of this rule, in 1996 the new socialist government imposed a 40 hours/week law .

Between 1992 and the October 1995 parliamentary elections no other agreement was reached, except for a "social concertation" pact on port work in 1993. This

notwithstanding, negotiations continued every year and matters of strategic relevance were discussed.

The aforementioned progress in the negotiations and the formation of a new cabinet following the Socialist Party victory in the legislative elections of October paved the way for the new "Short-term Social Pact" signed in January 1966. In the accord, guidelines are issued for nominal wage growth and for implementation of measures already agreed upon concerning the reduction of standard working time to 40 hours per week and a more flexible organization of working time. In this regard, job demarcation was reduced and employees are required to perform a wider range of activities than hitherto.

Besides, the agreement restates the parties' commitment to medium-term concertation on issues that go beyond industrial relations and the understanding that "social concertation" is of the utmost importance for the governability of the Portuguese society.

"Social concertation" has been an important tool in the leadership of society as far as it laid ground for social dialogue. However, its influence on firm and industry collective agreements fell short of expectations.

### *III.1. Employment Protection Schemes*

#### Individual and Collective Dismissals

Prior to the 1974 revolution, legislation on work contracts was based on the principle of mutual cooperation between workers and employers, meaning that dismissals and lay-offs were treated as extraordinary events that should take place only when there were no alternatives left. Until then, the law set three alternative ways of temporarily or permanently reduce the workforce attached to a firm: lay-offs, individual dismissals, and collective dismissals. Both lay-offs and collective dismissals were admitted due to economic reasons which were not mentioned as a possible cause of individual dismissals. However, legislation ended-up giving employers some flexibility by allowing them to dismiss individual workers without a cause.

In spite of this, the employment-at-will principle, which has never been part of the Portuguese tradition, was not consecrated. Legislation on the labour market traditionally calls for an indemnity whenever termination was not mutually agreed upon. This is a basic principle of the Portuguese law which remains untouched despite all the changes that legislation on dismissals has been through.

In 1975, after a short period when dismissals were forbidden, legislation was deeply changed. With those changes a basic concept making all dismissals subject to the fundamental right of working and being employed was introduced. Directly following this, individual dismissals without a cause and lay-offs were both banned from the Portuguese law. Dismissals were then allowed in three cases: collective dismissals, individual dismissal for cause and individual dismissals due to reasonable cause.

These more stringent regulations made individual dismissals due to just cause more difficult because these were seen as penalties that could only be imposed on workers whenever those of an administrative nature proved inadequate.

Individual dismissals due to reasonable cause were firstly introduced aiming at somehow softening the heavy consequences of the new legislation on labor adjustment at the firm or plant level. Under this heading, individual dismissals due to economic reasons (extinguishing jobs and failure to adapt, namely) were permitted, although requiring very



demanding procedures. Notwithstanding, after one year this possibility was removed on the grounds of its negative consequences on job-security and of workers discontent.

Collective dismissals regulation was left unchanged.

In 1976, the tightening of economic conditions and the growth of the number of firms facing severe problems led to the reintroduction of lay-offs on Portuguese legislation. It was thus recognized that stringent regulation on dismissals was producing undesired effects at the firm level by making more difficult the adjustment of the workforce to a changing economic environment.

Lay-offs were, however, restricted to those cases where maintaining the size of the workforce could be harmful to the survival of firms that had previously been considered in a difficult economic situation. In such cases, firms could choose either to temporarily reduce the number of workers or to implement shorter working hours schemes.

Later on (1983), lay-offs were also made possible for other firms as long as they (after negotiation with unions) considered it necessary for their economic recovery and financial balance, as well as for maintaining the number of workers. Thus, the new law was aiming at easing the adjustment of the labor force by widening the scope for temporarily laying-off workers. However, several restrictions and requisites applied, thereby eliminating most of the attractiveness that lay-offs could have for employers. Scaling down the size of the workforce through lay-offs would only be possible if shorter working hours schemes were proved inadequate and several formal conditions were met; a criteria establishing priorities in laying-off workers was also set.

Most of these restrictions were eliminated in 1989 when lay-offs' legislation was last modified. The length of the decision process was reduced and administrative redtape revoked. At the same time, legislation governing dismissals was deeply changed: individual dismissals due to failure to adapt were reintroduced; the list of circumstances that can be considered cause for individual dismissal due to economic reasons was enlarged. In general, these changes were meant to enhance labor market flexibility by easing dismissals. This new law (along the with the lay-off law and the law on temporary employment) represents a turning point of the perspective adopted by the legislator. The focus moves from employment to the job; the aim is to move towards a situation where firms can adjust the size of its workforce to shocks.

However, changes thereby introduced did not go as far as this general principle could suggest; Portuguese legislation on dismissals remains among the most stringent in Europe (see Grubb and Wells, 1993).

Although there are no studies specifically addressing the impact of firing costs on turnover and total employment, available evidence suggests that this could be important. Lopes and Fontaínha (1994) found a positive relation between transaction and turnover costs and labor hoarding; Teixeira (1995) and Pinto (1996) refer to the negative impact of legislation on employers capability of adapting their workforce to the desired level, and on firms probability of survival. Addison and Teixeira (1995) replicate Lazear's work on the effect of job security provisions on employment (Lazear, 1990) and come to the same conclusion, that is, rising levels of severance pay are associated with reduced employment and higher unemployment. However, this conclusion was considered highly sensitive to the model specification - if the model is enlarged so as to include two measures of the generosity of the Portuguese unemployment insurance regime (maximum duration of unemployment insurance benefits and unemployment insurance replacement rate), the coefficient estimates for severance pay became statistically insignificant in the employment, participation and hours equation. If anything, higher severance pay is now found to be associated with lower joblessness. The authors also found little evidence suggesting that the 1989 liberalization of dismissals due to economic reasons had provoked an increase in the speed of adjustment of employment behind output.

#### Temporary and Fixed-Term Contracts

Term-Contracts, as we now know them, were first introduced in the Portuguese legislation in 1976. Such contracts were deemed necessary to allow employers to get over the constraints that dismissals' regulation imposes on them. Therefore, term-contract were permitted whenever employers faced unforeseeable and temporary changes in output demand as well as in cases of seasonal demand. Workers under these contracts could be dismissed on short notice when the contract comes to an end; no severance pay is due in such cases. This kind of contracts were highly flexible because, on top of this, no special proof of the superiority of this form of contract over permanent contracts was required.

**Table 27 - Legislation on Dismissals**

Type	Definition	Mandatory Procedures	Exceptions	Notes
<b>1. <u>INDIVIDUAL DISMISSAL</u></b>				
1.1. Fair Dismissal	Dismissal due to employee's culpable behaviour; this due both to its seriousness and consequences makes the permanence of the employment relationship impossible.	Prior to the dismissal, the employer has to assess the existence of just cause as well as give the employee an opportunity to defend himself against the allegations made. This is an essential requirement for the validity and lawfulness of the dismissal which may otherwise be ruled null and void.	Firms with 20 employees or less as well as their workers are exempted from certain mandatory procedures.	Law lists the circumstances under which dismissals are null. These are: (1) failure to notify the intent of dismissal; (2) disrespect for the employees' right to self-defense; (3) non-compliance with the obligation of issuing a written and circumstantial notice of dismissal.
1.2. Individual Redundancy	Dismissal of one or up to four employees (depending on whether the firm has less or more than fifty employees), due to economic reasons.			
1.3. Dismissal for Failure to Adapt	Dismissal due to the employee's inability to adapt to changes in the nature of his work caused by the introduction of a new technology.	Mandatory procedures are similar to the ones applying to collective dismissal and include advance notice of both the employee and workers' commission of the impending dismissal. Dismissal will only be pronounced after the workers' commission has issued an appraisal of the impending dismissal and the worker has been given the opportunity of disputing allegations made.		Law defines the terms for invoking the failure to adapt clause. These include persistent reduction of productivity or of product's quality, equipments' repeated breakdown, and safety hazards. This type of dismissal can only occur after six months have elapsed since the introduction of the changes originating inadaptation and after adequate training has been provided and time allowed for adaptation.  Law also requires that all employees dismissed due to failure to adapt must be replaced within 60 days of dismissal.

<p>2 . <b><u>COLLECTIVE DISMISSAL</u></b></p>	<p>Cases in which employer terminates, either simultaneously or within a 3 months period, the contract of employment of at least 2 or 5 employees (depending on whether the firm employs less or more than 50 workers), on the grounds of permanent closure of the firm, shut-down of one or more of its plants, or the need to reduce the workforce for structural, technological or economic reasons.</p>	<p>Workers's commission as well as the ministry of employment of the impending dismissal. Notice must present the financial and/or technical reasons originating the dismissals, as well as a list of the workforce and the criteria to be used in selecting the employees to be dismissed and their occupational categories. A stage of negotiation between the employer and employees' representatives follows. This is aimed at agreeing on the terms of carrying out the dismissals and on the adoption of alternative measures (e.g., lay-offs, short-time working, re-training or early retirement). After agreement has been reached or 30 days elapsed since first notice of impending dismissals has been given, each employee concerned must be given a written notice of dismissal in advance of at least 60 days.</p>	<p>Currently, law doesn't stipulate any criteria for selecting employees to be dismissed; however, trade union representatives and members of working commissions are explicitly given preference for continued employment; collective agreements can establish other selection criteria.</p>	<p>Employees affected by collective dismissals are entitled to certain rights, namely: time off to look for another job; financial compensation (one month pay for each year of employment with the firm, subject to a minimum of three months-pay) and a special right to resign.</p>
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With the passing of the term-contract law, this kind of contract became quite widespread (see chapter I) - in 1983, non-permanent contracts accounted for roughly 20% of total employment.

By 1989 it was already widely acknowledged that employers were taking advantage of term-contracts' high flexibility to replace permanent by temporary workers even in the case of permanent jobs. Therefore, legislation was changed, and the use of term-contracts made more difficult. Among the restrictions now applying is the fact that situations where using term-contracts is permitted are now strictly identified, that non-permanent workers are given priority in acceding to permanent jobs, and that non-permanent workers become entitled to a severance payment upon completion of their work contract.

Regulation of temporary employment was also changed at the same time and in the same general direction: its use was restricted to certain specific situations and its duration limited to up to six months.

It should be remembered that these new restrictions applying to temporary and term contracts were introduced at the same time that dismissals were made easier. In doing so the legislator acknowledges the interaction between firing costs, and the permanent temporary contracts split.

Coincidentally or not temporary employment (temporary and term contracts) persistently declined throughout the nineties

The only study dealing with the effects of legislation on temporary employment (Teixeira, 1996) concludes that legislation matters for understanding the importance of temporary work in Portugal.

### *III.2. Regulation of Working Time*

There is, in Portugal, a tradition of high centralization concerning the regulation of working time. Until 1991, law contained rules governing all major aspects of working time duration and organization, some of which are, in many countries, a subject for

collective bargaining. Besides its high level of centralization, Portuguese regulatory framework was also characterized by stipulating long schedules as well as by a lack of flexibility concerning working time arrangements.

In fact, 1971 legislation (DL 409/71), which was conceived with the technical support of the ILO, established a maximum weekly duration of work of 48 hours (although ILO had already passed a recommendation calling for the reduction of working time towards 40 hours a week). After the revolution, unions persistently claimed for the reduction of hours of work. However, fearing that this could become a major hazard for the economic recovery and stability, passed a new law (DL 505/74) making all agreed reduction of working time conditional on a permit to be issued by the Ministry of Employment. Although several cases of non-compliance with this law have been identified (see Leitão, 1996), the fact is that this, along with the limits imposed to collective bargaining (DL 519-C1/79), is one of the reasons why agreed working time reductions have barely been implemented.

As a whole, this legal framework remained effective until 1991 when, after a nation-wide inter professional agreement was signed ("Acordo Económico e Social"), new laws governing the labor market were passed<sup>30</sup>. This new laws represent a major turning point of labor market regulation. On the one hand, the issue is now mostly dealt with from the viewpoint of firms and the safeguard of their competitiveness, although there are still references to the aim of promoting workers living conditions, which prevailed beforehand. On the other hand, these laws also withdrew some of the major restrictions pending upon the capability of regulating working time at more decentralized levels of bargaining; furthermore, collective bargaining was thereby committed the task of achieving further reductions of working time duration (starting from the new legal maximum which was set at 44 hours/week and until the 40 hours/week level was attained) combining these with the adaptability of new schedules.

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<sup>30</sup> However, new regulation applying to holidays and absenteeism as well as to overtime had been passed in 1976 and 1983, respectively. Changing the regulation of overtime was justified on the grounds of the changing situation of the labor market - when the 1971 law was passed Portuguese labor market was in a tight situation, therefore the law was meant to make the use of overtime work easier; by 1983, the fast growing unemployment lead to more strict regulation meant to keep overtime work within the limits recommended by its own nature.

Among the changes introduced by these new laws, the most important were the admissibility of annualisation of working time allowing both parts to set the reference period (which is 3 months if no agreement is reached), the modification of the overtime work regime (whose maximum limit goes up from 180 to 200 hours/year; compensation for overtime is flexibilized) and the holiday entitlement regime (holiday duration is set at 22 working days and its organization made more flexible). Simultaneously, new rules were passed applying to the regulation of firms opening hours, the more relevant of which are the extension of the exemption of opening on week-ends to more cases, as well as the regulation of week-end teams for the first time in Portuguese law.

With this new laws many obstacles to the negotiation on working time duration and organization were, therefore, withdrawn. At the same time, a signal was sent to the bargaining level pointing out the guidelines of the desired changes and encouraging negotiators to start new negotiation rounds aimed at reaching such agreements. However, this barely happened and in 1995, when the 40 hours/week target should have been met, average normal working hours were still 42 hours/week, with some industrial sectors still working at 44 hours/week.

Recognizing the failure of the industrial relations system to reach the targets which workers and employers had agreed upon at the highest level of negotiation, the new socialist government, a short-while after coming to power, and after signing a short-run agreement with the social partners, passed a new law establishing the calendar to reach the desired new maximum of hours of work.

However, this new law goes somewhat further than imposing what had previously been recommended. Besides imposing the new above mentioned calendar, it also sets new (higher) maximum hours of work when annualization of working hours is possible, defines a broader reference period of time for calculating the average duration of working time (four months), and also changes the rules applying to the duration and scheduling of daily and weekly rest periods.

This new legislation as well as the already public guidelines for the on-going negotiation aimed at reaching a new inter professional agreement (*Concertação Estratégica para Modernizar Portugal*) has one main objective: to reduce working time (thereby improving workers' living conditions and approaching European standards), while at the same time

satisfying employers' claims for increased flexibility in what concerns the organization of work and the management of workload fluctuations. However, there are also persistent references to the objective of sharing available work among a higher number of workers, by reducing working time, promoting part-time work and allowing for an easier transition between work and inactivity throughout the life cycle. These work-sharing policies are new to Portugal. The fact that these have never been given much attention can be easily understood having in mind that Portugal is a country where unemployment has never been as high as in most other European countries, and that external deficits and inflation are the most important Portuguese macroeconomic imbalances. However, some other non-competing explanations can be put forward. Leitão (1996) argues that the lack of integration of the industrial relations system, making more difficult for decisions to move across different bargaining levels, may have played a role. Varejão (1996) finds that structural features of the Portuguese economy (small size of the average firm, its labour intensive nature and its high degree of exposure to international trade, as well as the low levels of wages) do not facilitate neither work-sharing schemes, nor the reduction and reorganization of working time (see also Varejão and Ruivo, 1996).

Whatever the reasons, the problems that the implementation of new law on working time has been facing clearly shows how difficult it is to reduce actual working time in Portugal due to an unclear formulation of the law, there is an on-going controversy on whether the aim of the law was to reduce normal working time (the concept used in the Portuguese tradition) or actual working time (as the text of the law suggests in some points).

#### **Normal Working Time**

Daily Maximum Hours: 8 hours (7 hours for white collars).

Weekly Maximum Hours: 44 hours (42 hours for white-collars); 40 hours by the end of 1997.

Annualisation: normal working time is computed as an average over a four months period. In this case, the maximum number of hours of work is 10 hours per day and 50 hours per week (45 hours per week when the 40 hours target is reached).



## Rest Periods

Daily breaks: no worker is allowed to work more than 5 consecutive hours (6 hours if so stipulated by collective agreement), therefore daily breaks must be met; these breaks should last at least 1 hour and no more than 2 hours (in special cases - e.g., seasonal activities - these limits can be overruled by collective agreements).

Weekly Rest Days: every worker is entitled to a full day rest per week, normally Sunday; except in special cases (e.g., when firm operates continuously or has been allowed to close in a day other than Sundays). Collective agreements may stipulate an additional half or full day rest every week.

Public Holidays: workers are entitled to 12 mandatory public holidays per year plus 2 discretionary public holidays; the latter can be changed to any other day, by agreement between the employer and the employee. Rest on public holidays is paid.

Holiday: all workers are entitled to 22 working days of annual holiday, this right may not be waived away, nor can employees engage in any other gainful activities during the period of their annual holidays. Annual holiday must normally be taken in a single uninterrupted block, but the parties may agree that it will be taken in separate segments provided that one consecutive period of 10 working days off is preserved. During their annual holiday, employees receive the corresponding pay plus a holiday bonus of the same amount.

## Night Work

definition: work done between 8 p.m. and 7 a.m.; collective agreements may treat as night work any work done in periods of 11 consecutive hours provided that out of these at least 7 consecutive hours span between 8 p.m. and 7 a.m.

pay: night work must be paid a wage at least 25% higher than the wage rate paid for daytime work, except when the work must be done exclusively during the nighttime due either to its nature or to law.

restrictions: minors under the age of 16 cannot work at night at industrial plants; they can work at night on other activities only if this is essential for their training. Female employees are granted dispensation from night work for a period of 112 days before and after childbirth, and whenever such dispensation is deemed necessary for the health of a pregnant employee or of her unborn child.

## Overtime

definition: overtime work is all work done outside normal working hours.

admissibility: overtime work can be used to cope with increases in workload, in cases of *force majeure*, or when it is essential to prevent or repair serious risk or damage to the firm or ensure its viability.

limits: for each employee there is a limit for working time duration - 200 hours per year, 2 hours per normal working day, and normal daily working hours on a weekly rest day or public holiday.

pay: overtime worked on a rest day or public holiday attracts a 100% increase in pay, and that done on a normal working day is paid at a premium of 50% for the first hour and 75% for subsequent hours.

time off: time off in lieu must always be granted in respect of overtime worked on mandatory weekly rest day. In other cases (overtime done on normal working days, public holidays, and additional weekly rest days) only firms with more than 10 employees are obliged to grant time off in lieu, equal to 25% of total overtime hours

worked. This may be replaced by work paid at a 100% premium, provided the overtime concerned was not worked on weekly rest days and it has been so agreed between the employer and the employee.

exemptions: as a rule workers are obliged to work overtime that their employer may require them to, within the terms of the law; however this rule doesn't apply to disabled workers, pregnant women or women having children under the age of 10, an minor workers.

### **Part-Time Work**

Legislation on part-time work is not specific; law merely states that part-time workers must be granted, in all cases, the same rights as full-timers, on a pro-rata basis. Part-time is considered as a means of allowing certain workers facing specific and temporary circumstances (such as women with children under the age of 12, workers who are simultaneously attending school or workers with diminished working capabilities) to maintain a continuous participant status.

### *III.3. Minimum Wage Regulation*

Legislation on minimum wages was first introduced in 1974 (D.L. 217/74). Its current regime is established by the D.L. 69-A/87 and its subsequent modifications.

Law defines minimum wage as the minimum amount that any employer is due to pay to his employee. This minimum pay cannot be reduced by means of collective agreements or individual contracts.

Minimum wage law is universal in the sense that all work contracts are subject to its provisions. Yet legal minimum wages varies with the sector of activity. Currently there is a legal minimum for domestic servants and another one for all other workers.

Notwithstanding some exceptions are admitted. This is the case of workers under 18 years of age, trainees under 25 years and disabled workers. For these workers, their pay may be reduced to 25%, 20% and up to 50% of the legal minimum, respectively.

Table 28 summarizes the evolution of minimum wages in Portugal over recent years.

**Table 28. Evolution of Minimum Wages**

Year	Monthly Amount (workers 20 years old or more)			Minimum Wage of Workers under 20 as % of minimum wage for the remainder	
	Non-Agricultural Activ. (excludes domestic servants)	Agricultural Activ.	Domestic Servants	18 & 19 yrs	<18 yrs
1974	3 300\$	—	—	—	—
1975	3 300\$	—	—	—	—
	4 000\$	—	—	—	—
1976 (1)	4 000\$	—	—	—	—
1977	4 500\$	3 500\$	—	50%	50%
1978	4 500\$	3 500\$	—	50%	50%
	5 700\$	4 600\$	3 500\$	75%	50%
1979	5 700\$	4 600\$	3 500\$	75%	50%
	7 500\$	6 100\$	4 700\$	75%	50%
1980	7 500\$	6 100\$	4 700\$	75%	50%
	9 000\$	7 500\$	5 700\$	75%	50%
1981	9 000\$	7 500\$	5 700\$	75%	50%
	10 700\$	8 950\$	6 800\$	75%	50%
1982 (1)	10 700\$	8 950\$	6 800\$	75%	50%
1983	13 000\$	10 900\$	8 300\$	75%	50%
1984	15 600\$	13 000\$	10 000\$	75%	50%
1985	19 200\$	16 500\$	13 000\$	75%	50%
1986	22 500\$	19 500\$	15 200\$	75%	50%
1987 (2)	25 200\$	22 400\$	17 500\$	100%	17 yrs: 75% <17 yrs: 50%
1988	27 200\$	24 800\$	19 500\$	100%	75%
1989	30 000\$	28 400\$	22 400\$	100%	75%
	31 500\$	30 000\$	24 000\$	100%	75%
1990	35 000\$	34 500\$	28 000\$	100%	75%
1991 (2)	40 100\$	40 100\$	33 500\$	100%	75%
1992	44 500\$	44 500\$	38 000\$	100%	75%
1993	47 400\$	47 400\$	41 000\$	100%	75%
1994	49 300\$	49 300\$	43 000\$	100%	75%
1995	52 000\$	52 000\$	45 700\$	100%	75%
1996	54 600\$	54 600\$	49 000\$	100%	75%

(1) minimum wage was not the object of any revision; (2) changes in minimum wage legislation

Source: Banco de Portugal

An analysis of the recent evolution of the legal minimum wage shows that it has been growing at a positive real growth rate<sup>31</sup>. However, average wages grew more than the

<sup>31</sup> For the remaining of this section we mostly summarize evidence and findings of Pimentel (s/d).

legal minimum wage - whereas legal minimum wage mostly kept with the inflation rate (particularly, from 1988 onwards), average wages increased at a rate higher than the inflation rate (possibly, due to productivity gains), thus widening the gap between minimum legal wages and average wages.

Data for 1993 referring to the coverage of the minimum legal wage indicates that about 5.4% of all full-time workers in non-agriculture activities are paid this minimum wage. However, this percentage has steadily declined since 1985.

The coverage of the legal minimum wage is maximum in the furniture industries (22.5% of all full-time workers), restaurants and hotels (20.0%), and wood and cork industries (10.5%), among very small firms (13,5% for firms with less than 10 employees)<sup>32</sup>.

Pimentel (s/d) finds evidence confirming the negative impact of the minimum legal wage on employment in general, but particularly for workers in the 20-24 age-group and for women. The author reports the following intervals for minimum legal wage elasticities of employment in this age group.

<b>Men</b>	-0,3	-0,078
<b>Women</b>	-0,742	-0,324

The fact that similar results are not observed (or not so strongly so) for workers over the age of 24 nor for those under 20 could be explained acknowledging that the employment of older workers may increase when minimum wage increases due to a substitution effect, and that for younger workers omitted variables such as those reflecting educational policies and social attitudes could be playing a role. Furthermore, Portugal and Guimarães (1996) found evidence of the non-negligible role played by minimum wages in the location decision of new plants (detering these from locating in regions with a large proportion of minimum wage earners -see above, section I.3.).

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<sup>32</sup> All data is from Pimentel (s/d).

## **IV. Labor Market Policies**

### *IV.1. Passive Measures*

#### Unemployment Benefits

Until 1985, legislation on unemployment benefits reflected a social approach rather than an economic one. Indeed, being entitled to receive such benefits was conditional upon individual's current economic situation; benefits were therefore not meant to substitute foregone work pay, nor was their amount related to previous wages earned.

For this reason, it was then widely agreed that unemployment protection was far from sufficient. Therefore, in 1985, a new law was passed and thereby a new regime of unemployment protection introduced. This aimed at establishing a true unemployment insurance as a part of the social security system. For that purpose, both the amount of unemployment subsidy paid in each case and the entitlement period became conditional upon the individual's work background.

Major changes introduced by this new law included the establishment of a minimum 36 months period working as a wage-earner (working either full-time or part-time) as a requisite for being entitled to unemployment benefit whose amount and duration was made dependent of the average wage previously earned by the individual currently unemployed and the number of years he had been employed, respectively.

Although unemployment benefits were from there on seen as a financial compensation to income loss due to unemployment, the social relevance of such payments was also acknowledged. For this reason, the amount of benefit paid per employee was set a minimum (equal to the minimum legal wage) and a maximum (equal to three times the legal minimum wage).

Following the same principle, this law also introduced, for the first time in Portugal, the "subsídio social de desemprego" (unemployment social benefit) which is independent of the individual previous work background (means-tested social benefit). This is granted whenever individuals are not able to apply for general unemployment benefits or when the time where this was due has elapsed; it is conditional upon individual's economic condition, though.

In 1989, the legal regime of unemployment benefits was again changed. Such changes were aimed at adapting the system to the specific needs of industrial restructuring as well as at fostering the proportion of unemployed people receiving this benefits. The urge to get closer to European standards for this respect seems to have been the motivation behind this, although budgetary constraints have prevented that broader steps were taken.

Important changes were introduced, though. The period during which legal unemployment benefits are due was enlarged, and the coverage of the system thereby extended (table 29).

**Table 29. Unemployment Insurance**

	1987	1988	1989	1990	1991	1992	1993	1994	1995
<b>Number of Recipients (000)</b>	66,9	59,7	59,5	67,1	91,5	129,2	171,0	175,1	176,4
<b>% of registered unemployed</b>	22,4	19,7	19,8	22,6	31,6	41,7	50,6	44,5	42,3
<b>Pay per recipient (1000 esc.)</b>	289,3	307,0	340,2	394,3	444,1	500,7	622,1	727,5	751,0

Source: OEFP - Folha Informativa Anual

The amount of benefit paid in each regime remains roughly the same, although social unemployment benefits became variable with the number of relatives financially dependent of the unemployed and the amount of benefits paid by the general regime became variable with the age of the unemployed individual rather than with his professional background (i.e., years of experience), although the latter was only due to the need of easing the administration of an otherwise very complex system.

**Table 30 - Unemployment and social unemployment benefits**

	<b>Elegibility</b>	<b>Duration</b>	<b>Amount</b>
<b>Unemployment Benefits</b>	Individuals must have been employed for at least 540 days during the previous 24 months; individuals must be involuntarily unemployed and have registered as job seekers at the nearest Employment Office	Varies from a maximum of 10 months for individuals under 25 years of age and 30 months for those over 55.	65% of the average daily work pay during a 6-month period prior to the second month before becoming unemployed; it cannot be less than the legal minimum pay nor higher than three times its value.
<b>Social Unemployment Benefits</b>	All unemployed that don't qualify for regular unemployment benefits and were hired as employees for at least 180 days in the previous 360 days, or that have already received these benefits for a time-period equal its maximum duration.	The same as for legal unemployment benefits, unless if social unemployment benefits are due after legal benefits have been received - in this case, its duration is half of the above mentioned. For workers over 55, social unemployment will be paid until they reach the age of 60 when they can apply for anticipated retirement.	It is calculated as a percentage of the minimum legal wage; this percentage varies from 100% to 70%, depending on the number of dependents in the family of the employee.

Reflecting the changes the unemployment insurance went through, the proportion of the unemployed that receive one of the two types of existent benefits has fast increased between 1990 and 1992 (see Banco de Portugal, 1994, p. 76), although it has declined ever since being now roughly 56%.



## Early Retirement

Until as late as 1991, early retirement schemes were not the object of any specific piece of legislation. Only indirectly did law refer to these and even so because this schemes shed some doubts on how should payments made to early retired workers be treated for computing social security contributions due<sup>33</sup>. Although there is no available record of firms that might have implemented such schemes, the fact is that some authors (e.g., Silva, 1992) refer to their existence; the fact that the problem was relevant enough to justify the adoption of the above mentioned rules concerning the way the situation should be dealt with from the viewpoint of the Social Security system further suggests that this may have had some importance. In any case, it is clear that, for this matter, the facts have preceded the law.

In 1991, the first law governing early retirements was passed with the acknowledged motivation of recognising the specificity of older workers' position in the labour market. Although this law was also aimed at dealing with the consequences of the introduction of new technologies and organizational procedures in firms employing old workers lacking the adequate qualifications or college education, it was in fact conceived so as to accommodate the specific needs of firms that due to a severe financial situation or the need of undergoing restructuring processes were forced to reduce the size of their workforce.

This is still the viewpoint that dominates the guidelines which have been accepted by the social partners for the negotiation of a global long-run social agreement - for the most, early retirement schemes will remain a way of facilitating the way out of activity of older workers, especially if this is an alternative to unemployment.

Data available on early retirement experiences are limited to the number of workers concerned which is about 4 thousand/year. No data is available on the firms that made use of this measure, although it is common knowledge that these were mostly big firms, and, in many cases, state-owned. To the extent of our knowledge, no evaluation has ever been done of these measures, either.

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<sup>33</sup> Until a specific law was passed on this subject, effective rules pointed out that any amount of pay received under early retirement schemes should be treated as work pay although special (lower) rates applied for computing the amount of contributions to social security.

definition: early retirement is the situation whereby workers over the age of 55 are no longer required to work, or work required is reduced, although they keep the right to receive a monthly pay until they become legally retired (due to reaching the age limit or to disability), their work contracts are legally terminated or they are recalled.

pay: workers are entitled to a monthly pay that cannot be less than 25% of his last work pay nor higher than this one; this pay benefits of the same protection guaranteed for normal work pay. If due pay is not met the worker has the right to terminate the contract due to just cause and receive the corresponding indemnity.

contributions to the social security system: these contributions continue to be due; they are calculated on the basis of the same wage considered for stipulating the amount of pay due during the period the worker remains in an early retirement situation; however lower rates apply.

special remarks: (1) early retirements are conditional upon workers' agreement; (2) the worker may have another paid job during the time he remains on an early retirement situation; (3) as soon as they reach the legal age of retirement, workers on an early retirement situation are inherently considered to have applied for legal retirement.

special cases where early retirement is permitted: early retirements are also permitted in the case of firms in a critical economic situation with a recovery plan, covered by industrial restructuring programs or undergoing processes of recovery permitted by law. In such cases, the Instituto de Emprego e Formação Profissional pays half of the monthly pay (up to a maximum equal to the minimum legal wage) during 12 month at the most and exemptions of contributions to the social security system are granted for the period of 12 months. Additionally, when reaching the age of 60, workers can apply for an anticipation of legal retirement.

## *IV. 2. Active Measures*

In this section we follow the definition of Active Measures proposed by OCDE (1993:41). According to that definition, active measures are those aiming at easing individuals' access to the labour market and employment, as well as at improving qualifications and fostering labour market efficiency. Such a definition, extensive as it is, is for that very reason quite appropriate for our purposes. However, for practical reasons, mostly related to data availability, a more restricted concept will be used when we get to analyse existing measures. Throughout the remaining of this section we will restrict the set of active measures of labour market policies to those that are either managed or monitored by any department or institute of the Ministry of Employment. Most of the measures considered under this criteria are also monitored by MISEP - Mutual Information System on Employment Policies.

In this section we deal with:

- 1) Training Programmes
- 2) Promotion of Job Creation
- 3) Job Search Assistance

The most important measures aimed at helping groups of workers particularly hard hit by unemployment will be surveyed in an additional fourth item.

Rather than merely presenting the measures implemented in Portugal in recent years, this section aims at evaluating their results and identifying examples of best practices. However, chances are that such objectives prove themselves too ambitious as most of those measures were never the object of any serious effort of evaluation of their economic and social impact, and in many cases available information refers only to the number of individuals they have covered and the corresponding public expenditure who have benefited from any of such measures and to the amount of money spent with each of them.

## 1) Training Programmes

There are no coherent series available concerning the global amount of investment in education and vocational training by kind of programmes and actions. Only some specific information about some training actions and some data about the global training performances of training institutions, principally the training centres (directly or participatory) managed by IEFP (see table 31) are available. Further selective data about these same matters will be presented in Chapter V which deal with the education and training systems.

**Table 31. An estimation of the training system contribution for employment active measures (people involved and investment) in the period 1990-1995**

Training actions	1990	1991	1992	1993	1994	1995
1.Training actions realised through:						
11.Directly Management Centres						
111.People involved	7335	11566	17331	19656	12161	8084
112.Investment (a)	2971	4072	5321	6913	7277	6582
1.2.Participatory Manag.						
121.People involved	39220	36871	33796	33849	40737	30164
122.Investment	6593	9248	11347	13774	11817	10283
2.Training actions targeted at ex-trainees						
21.People involved	1500	806	1053	932	890	683
22.Investment	111	126	181	172	196	134
3.Apprenticeship actions						
31.People involved	10493	13171	17910	20339	17340	11145
32.Investment	6831	10261	17717	17795	14006	10126
4.Training actions aiming at improving the transition of young people into working life						
41.People involved	14078	13971	12685	4017	4737	1499
42.Investment	4033	4275	4786	1179	3269	851

5. Training actions targeted at adults and aiming at improving job search						
51. People involved			2811	4807	2395	1289
52. Investment			1497	406	1411	600
6. Training grants demanded by workers						
61. People involved				4768	2871	493
62. Investment				1782	2224	1032
7. Training actions targeted at handicapped people						
71. People involved	5204	4770	5827	5155	4816	5258
72. Investment	4280	4056	5226	5519	5796	5694
8. UNIVA's (b)						
81. Investment				77	63	91

Source : Adapted from MISEP data.

Notes : (a) 1000 contos; (b) UNIVA's cannot be strictly seen as training actions, albeit they could improve significantly the transition from training efforts to job-search conditions.

The estimation presented in table 31 should be cautiously understood due mainly to two reasons:

- First of all, not all training actions may be seen as examples of employment active measures; in fact, it would be necessary, in principle, to deal separately with training actions and programmes conceived and managed as means of achieving better conditions of transition into the working life and job search;
- Secondly, it is not possible to say that the seven groups of training actions identified in table 31 are mutually exclusive; it is likely that these involve some duplications in computing trainees and investment; if this is the case, it will not be possible to estimate accurately the contribution of the training system to active employment strategies.

## 2) Promotion of Job Creation

This set of measures includes those aimed at promoting the creation of new jobs, which can be divided into two broad groups. On one side, we have those measures designed to increase wage employment, and, on the other side, those that seek to promote self-employment, specially by assisting in the creation of new firms.

#### a) Promotion of Wage Employment

This group of measures works in general by stimulating labour demand. A distinction should be made between subsidies for hiring new employees, on one side, and exemptions or reductions of social security contributions paid by employers, on the other.

##### Wage Subsidies

Firms are temporarily granted subsidies of 12 times the legal minimum wage for each additional permanent job created whenever these new positions are filled by certain categories of unemployed individuals (youngsters seeking their first job or long-term unemployed). Currently, only firms with 50 or less workers are eligible to benefit from this programme, as results from the DL 34/96.

##### Reductions and Exemptions of Social Security Payments

The main category of employment promotion measures implemented in Portugal fall under this heading. Reductions and exemptions of Social Security payments have been granted with the specific purpose of stimulating the employment of specific groups of workers particularly hard-hit by unemployment. These incentives are only available for a limited period of time in the case of youngsters seeking their first job and long-term unemployed, but may be permanent in the case of disabled individuals.

Since 1986 (DL 257/86), employers have been exempted from social security payments whenever hiring youngsters seeking their first job. Exemptions lasted for a 24 month-period but were granted only if workers were hired on a permanent basis, either as full-timers or part-timers. For this purpose, individuals between the ages of 16 and 30 qualified as youngsters.

In 1995, a new law (DL 89/95) enlarged the period of exemption of payments from 24 to 36 month and also extended it to the hiring of long-term unemployed individuals. Simultaneously, a reduction of 50 percent on payments due to the social security system was introduced when these groups of workers were hired on a temporary basis.

Data available on the effects of these measures, refer to the number of workers hired under both regimes and are shown in table 32. The figures indicate a fall by one half in

the number of hirings covered by these measures, following the evolution of the economic cycle. It would be interesting to know whether this evolution is more or less marked than the observed for other groups of workers because if it happened to be less marked that could be a sign that these measures more than fostering employment by means of reducing marginal labor costs, were in fact stimulating the substitution of incumbent workers by youngsters or other targeted groups, as their relative cost is hereby reduced. Unfortunately, no such information is available. In fact, although the 1986 and the 1995 bills contain provisions to ensure that the programme was used to promote new job creation (and not the substitution of incumbent workers) enforcement was lax. The new government has recently changed the regime of this programme in the hope of making stricter provisions for new job creation (see the introduction to the DL 34/96).

**Table 32. Youngsters Hired Under Social Security Payments' Reductions and Exemptions Measures**

	1990	1991	1992	1993	1994	1995
<b>People Hired</b>	86 940	62 509	51 055	47 859	42 369	43 139

Source: MISEP in DGEFP (1995)

Measures designed to stimulate the hiring of disabled workers stipulate that whenever such workers are hired on a permanent basis, the corresponding amount of payment due to the social security system by their employer is reduced by 50%.

The number of people hired under such scheme is presented in table 33.

**Table 33. Disabled People Hired Under Social Security Payments' Reductions and Exemptions Measures**

	1990	1991	1992	1993	1994	1995
<b>People Hired</b>	143	212	381	465	565	951

Source: MISEP in DGEFP (1995)

Table 34 summarizes available data on the amount of payments to the social security system corresponding to the reductions and exemptions granted under these programs, concerning the two above mentioned target groups.

**Table 34. Exemptions and Reductions of Social Security Payments Granted with the aim of promoting the employment of the two groups of workers (1992 prices; 10<sup>6</sup> escudos)**

	1992	1993	1994	1995
<b>Youngsters</b>	10 511,5	10 046,1	9 092,9	8 280,7
<b>Disabled</b>	32,7	42,7	44,6	68,9
<b>All</b>	10 544,2	10 088,8	9 137,5	8349,6

Source: MISEP in DGEFP (1995)

#### b) The Promotion of Self-Employment and business Start-Ups.

Most existing programmes contain clauses that privilege those projects hiring unemployed individuals, although these are not their only beneficiaries.

Some programmes incentive individuals to create their own job by offering technical support and/or financial aid (such as subsidies and interest-free credit), the amount of financial aid granted is usually computed on the basis of the number of new jobs each project helps to create.

Besides these measures directly aimed at fostering the creation of new jobs, several programmes designed to support the creation of new firms are also worth mentioning. Although most of these programmes do not aim specifically at creating new jobs (they rather have more sector-specific objectives - such as the modernisation of the productive structure or the introduction of new technologies) this is one of their expected results (see chapter V.3.). At this stage we only intend to remind that such programmes are usually biased towards SMEs which are still seen as the leading force for both local development and employment creation policies. Three particular measures falling under this heading are worth a special reference. These are: the Local Employment Initiatives, the Programme of Local Development Initiatives, and the Social Market for Employment.

The Local Development Initiatives Programme was first introduced in 1995, and it has joined together, under the same legal framework, all existing measures aimed at stimulating both the creation of new jobs and small direct investment projects.

In particular this program is made up of the following measures supporting the<sup>34</sup>:

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<sup>34</sup> Source: Ministério para a Qualificação e o Emprego (1996).



- Creation of microbusinesses and small firms ancillary to the industrial and craft sectors;
- Setting up of local services dealing, in particular, with tourism, leisure, urban renewal, building safety, environment, preservation and restoration of the local heritage and social welfare;
- Local Employment Initiatives involving support for employment-generating investment schemes;
- Productive investment schemes in the industrial, tourism, commercial and service sectors;
- Exploitation of traditional products, develop rural areas, stimulate local communities, forge links between local initiatives and trans-European communications network, etc.;
- Pilot schemes to demonstrate the anticipated effects of other measures.

This Programme has been coordinated by the Ministry of Planning in conjunction with the Institute for Employment and Vocational Training (IEFP) and other services of the administration.

Out of the above mentioned group of measures, the Programme of Local Employment Initiatives (LEI) is also worth a separate reference. Although it is a part of the Local Development Initiatives Programme since 1995, this Programme was first introduced by the IEFP in 1986 who is again in charge of its management since the last revision of the PPDR.

The LEI Programme aims at stimulating all initiatives that, resulting of local dynamics, may contribute to the creation of new jobs that prove to be viable in both social and economic terms. All projects that fit these basic requirements are eligible for support. However, priority rules, concerning the area of activity and the employment status of individuals to be hired, apply. In fact, initiatives in the personnel services sector, particularly, in those welfare-related activities providing care to children and elderly individuals, as well as those that will employ people previously unemployed or at risk of losing their jobs, are considered priority. Furthermore, projects concerning long-term unemployed individuals, elderly or women, will apply for extended financial help.

Following some changes introduced by the current government (DL 189/96), the promoter of these initiatives are now expected to go under specific training programmes. At the same time, changes were also introduced at the level of the programme management. The fact that these changes were admittedly meant to achieve higher selectivity and efficiency may indicate that, despite the fact that this programme is usually presented as good practice some problems may persist after ten years have elapsed upon its creation.

Although there is some consensus around the success of this programme, no work has been made public presenting the results of any formal evaluation covering the whole period of time during which it has been effective and evaluating the sustainability of the projects that have been supported. Available data covering such time span is presented on Table 35:

**Table 35: Results of the LEI Programme**

	<b>Number of Individuals</b>	<b>Total Expenditure (current prices; 000 esc.)</b>	<b>Total Expenditure (1992 prices<sup>1</sup>, 000 esc.)</b>
<b>1988</b>	1791	1 353 475	
<b>1989<sup>2</sup></b>	1601	1 517 499	
<b>1990</b>	1633	1 640 689	1 990 161
<b>1991</b>	2086	1 136 047	1 236 985
<b>1992</b>	2432	1 326 014	1 326 014
<b>1993</b>	3045	4 833 270	4 523 839
<b>1994</b>	2293	3 819 896	3 406 971
<b>1995</b>	3050	4 008 129	3 436 030

1. deflator = consumer price index (house rents excluded);

2. data available were provisional when they were published and have never been confirmed or modified.

Source: MISEP in IEFP (1987, 1990) and DGEFP(1995)

A more in-depth evaluation of this programme is available covering the period from 1986 to the first semester of 1990 (see Henriques et. al., 1991). Over this time span, 1300 projects have been implemented, accounting for the creation of over 5000 new jobs at a total estimated cost of 4.1 billion escudos.

The objective of the above mentioned study was four-fold. It aimed at: a) assessing the net employment effects of the implemented LEI and their estimated cost; b) characterizing the group of actual beneficiaries of the programme and comparing it with the target - group; c) identifying the specific features of the initiatives successfully implemented; d)

gathering information that may help to improve the programme management in terms of the cost-efficacy relationship.

This evaluation, which attempted to come to both quantitative and qualitative results, is based on a number of interviews and case-studies, as well as on a survey, all of them allowing to synthesize both the comments and the experiences of people involved in the management of the programme, those implementing the projects and those occupying the newly created jobs. 147 out of 216 initiatives implemented in 1986 were surveyed.

The main conclusions of this study were as follows:

- Both the efficacy and the efficiency of the programme are considered acceptable, considering that its main objectives are reported to have been reached and that it compares favorably with other programs implemented both in Portugal and in other countries;
- Projects implemented perform quite well in terms of employment growth following their creation; however, this finding can be biased as the surveyed period (1986-90) was a period of intense economic growth in Portugal and, during the same period, the growth rate of SMEs during their early years is fairly high (see chapter I.3.)<sup>35</sup>. Wages paid are reported to be similar to the average wage rate for workers with similar characteristics in the rest of the economy. Notwithstanding, several cases of wages paid below the minimum legal wage are also reported;
- Most of the projects implemented have been capable of standing up to the financial commitments negotiated with the IEFPP. Notwithstanding, 13% of all cases were unable to pay back their liabilities, whereas 45% are reported to be going under some sort of financial difficulties;
- The result of this evaluation study is considered by their authors to be positive not only due to the economic results of the programme, but also to its observed results in terms of gains in self-esteem and in the improvement of the decision capability of the projects' promoters.

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<sup>35</sup> In fact, this study, just like many other, attempts to evaluate the effects of labor market policies without comparing the performance of firms or individuals that benefit from each program against the behavior of control groups designed for that purpose. Therefore, available results of most evaluation studies cannot be considered more than tentative and, for that reason, unsatisfactory.

More up to date data presented on table 35 suggests that this programme has been reinforced in recent years possibly due to the widely agreed upon good results of this programme. Furthermore, this programme is expected to play an important role in the implementation of the Social Market for Employment project. For this reason, as we have mentioned before, the LEI programme has recently undergone some changes, some of which are the direct result of some of the less positive aspects that came out of this evaluation study.

Recently, the Portuguese government has announced its intention of encouraging the creation of employment by means of the development of a Social Market for Employment, which is one of the main axis of its "Programme for Immediate Action for Employment".

The Social Market for Employment Programme (Law 10-A/96 of 23.3 and RCM 104/96 of 9.7) was conceived to support the activities that although lacking economic viability can help to meet certain social needs that fail to translate into a market demand. Among such activities are family-aid services (such as home help for dependent - old - people, kindergardens and nurseries), and activities devoted to the upgrading of the communities' natural, urban and cultural heritage. The basic idea underlying this programme is that such activities represent a reservation of work opportunities that can be use to provide an occupation to the unemployed. It is expected that these activities although not viable in economic terms can gain economic viability after a short period being supported by public funds.

The conception of this programme did not call for the launching of new measures specifically conceived. Instead, it merely articulated pre-existing measures (such as the Local Employment Initiatives and Occupational Programs) in order to make them fit for its specific purposes. However, this programme is still at its early-stage.

It is worth mentioning that there are some measures currently in force that aim at supporting the creation and safeguard of jobs in cooperatives and craftworks activities, as well as incentives to the preservation of the cultural heritage. Furthermore, atelier-schools are expected to develop craftwork activities in inner areas of the country where job opportunities are scarcer.

Data on Table 36 give us an idea of the importance of such measures.

**Table 36. Programmes for the Development of Craftwork and Preservation of Cultural Heritage Activities**

Years	Craftwork Activities		Cultural Heritage Activities	
	Individuals (number)	Public Expenditure (1000 escudos) (1)	Individuals (number)	Public Expenditure (1000 escudos) (1)
1992	360	364 690	777	955 701
1993	150	453 479	852	873 825
1994	137	363 469	125	495 078
1995	276	459 546	87	71 118

Source: MISEP in DGEFP (1995)

(1) 1992 prices

We have already mentioned that summing data published by MISEP is not exempt of difficulties. Notwithstanding, the OEFP (1996) follows that procedure and gathers information that shows that public expenditures on measures of “promotion of wage employment” were nine times as big as the expenditure on measures of promotion of self-employment and business start-ups”.

### 3) Job Search Assistance

The effectiveness of labour market policies, particularly the job search assistance, is to a large extent conditional upon the structure of the IEFP, which has already been discussed in chapter II.1.

Here, we will find a description of the functioning of the placement system, with an emphasis on new placement procedures in the following box, transcribed from ERSEP (1996). At the end of this point, table 37 gathers the data collected by MISEP about individual involved and expenditure made with mesures of placement.

## **BOX**

### **Functioning of Placement**

#### **General Procedures**

The approach of the employment offices to placement is based on personal interviews aimed at co-ordinating the jobseeker's data with vacancies.

General information is provided on local and regional labour market conditions, on alternative measures for integrating people into working life and on the unemployment protection systems which are in operation. Detailed information and counselling on career openings and/or the availability of vocational training schemes is also provided. Employment offices with the necessary capacity offer general information sessions on employment policy measures or for specific target groups. These include the long-term unemployed, for whom such information sessions are provided with a view to making their jobsearch activities more efficient.

The employment offices also disseminate information concerning employment policy measures to employers with the aim of encouraging them to make use of the employment offices' placement services and to create new jobs.

If necessary, jobseekers are examined by occupational doctors. Jobseekers who wish to be employed abroad are provided with information on appropriate vacancies. If a vacancy appears suitable the jobseeker is proposed to the respective employer. The employment office must record the result of the placement attempt in order to gain qualitative indications for future placement efforts and to keep its files up to date.

Apart from vacancies abroad, which are sent to the employment offices via the competent bodies in the Ministry of Foreign Affairs, there is no obligation to inform the offices of available vacancies. When a vacancy is reported to the employment office, it first checks the vocational requirements and ascertains whether the working conditions conform to current legislation.

As a second step, the employment office may negotiate the conditions of the vacancy.

#### **New Placement Procedures**

New placement procedures are currently being introduced with a view to preventing and combating unemployment and facilitating the integration and reintegration of young jobseekers and unemployed persons, especially the long-term unemployed. The primary

goal of these procedures is to encourage the unemployed to find solutions to their employment difficulties on their own initiative.

The following procedures deserve particular mention: information for the unemployed concerning application techniques in individual and group counselling sessions, vocational information, individual assistance programmes, incentives to independent jobsearch and establishment of self-help groups for the unemployed.

In group counselling sessions a number of unemployed persons are offered information and advice on their field of work. Different occupational groups are given consideration and jobsearch techniques are dealt with in detail. Counselling is fitted to suit the needs of the participants.

There are also group counselling sessions for unemployed persons experiencing similar difficulties with reintegration and information sessions relating to business start-ups and self-employment. These sessions are conducted in accordance with a model developed specifically for jobseekers.

In individual counselling sessions the jobseeker answers a questionnaire designed specifically to help in the search for employment, also in accordance with a special jobsearch model.

The provision of vocational information (D.-L. no. 59/92 of 13.4.1992) seeks to educate the population, especially the unemployed, as comprehensively as possible in order to prevent or solve problems related to employment and vocational training. The aim is to provide them with an opportunity to choose a career which offers prospects for personal, vocational, entrepreneurial, social and economic development.

The individual assistance programme is designed for unemployed persons under the age of 45 who are receiving unemployment compensation and have been unemployed for 9 months. Older unemployed persons may also participate on request if they are in receipt of benefits. This placement measure entails personal supervision of the unemployed person by agreement. Supervision is comprised of two elements: first, the actual possibilities of reintegration into the labour market are examined. Then, employment, training or on-the-job training is proposed.

Jobsearch incentives are designed to encourage the unemployed to find employment independently or with the assistance of the employment office. They include a bonus if the jobseeker is successful and reimbursement for expenditure on advertisements.

The promotion of "Jobseeker Clubs" (*UNIVA* and *Clubes de Emprego*) is intended to facilitate, in co-operation with the employment offices, the integration or reintegration of

young new entrants and the unemployed. Additionally, they provide a forum for communication between trainees and the employed through exchange of vacancies and jobs sought and through a joint analysis of employment and vocational training prospects and training oriented towards the labour market.

(Quoted from ERSEP, 1996).

**Table 37. Placement Measures Registered by MISEP**

Training actions	1993	1994	1995
UNIVAS			
People involved	–	–	–
Expenditure	71602	56532	77735
Job Clubs			
People involved	–	–	–
Expenditure	26194	57151	26834
Individual Assistance Plan			
People involved	–	130	–
Expenditure	–	–	–
Assistance in the Search for Employment			
People involved	–	–	91
Expenditure	–	3640	13003
Payment of Advertising Fees			
People involved	–	–	–
Expenditure	–	–	134
Incentives for Geographical Mobility			
People involved	–	–	5
Expenditure	–	–	2130

Expenditure in prices of 1992

Source: MISEP

#### 4) Improving employment opportunities of groups particularly hard hit by unemployment

Active measures frequently discriminate positively certain groups of workers who are particularly hard hit by unemployment and experience more difficulties in finding a job.



In most cases, these are youngsters, individuals seeking a first job, individuals long-term unemployed, women, and people over 45 years of age.

Measures in favor of disabled people are a part of a wider set of measures meant to ease their social integration that include, the incentive to their hiring, job-protection, and vocational training, among others. Due to their specificity, we will not be dealing with these here. Instead, we will concentrate on measures directed towards the youngsters, women, the long-term unemployed and the elderly.

#### a) Youngsters

In Portugal, youngsters are frequently considered a special target-group for either the educational, the training or the employment policy. This is due to the fact that this group of people usually experience higher unemployment rates than the average, in Portugal just like in many other countries.

Here we will only refer to the measures whose beneficiaries are youngsters that have an employment - oriented approach<sup>36</sup>. The Training / Employment Programme (P-iv.4, according to the MISEP classification) for youngsters unemployed is one of such measures. By this programme, the IEFPP shares with the employers the costs of recruiting and training for one year (both in a teaching room and on the job) youngsters previously unemployed. In its early days, many youngsters have been covered by this programme, but their number has been sharply declining (see Table 38).

**Table 35. Youngsters covered by the Training / Employment Programme**

	1992	1993	1994	1995
<b>Youngsters covered</b>	11 011	2 963	3 704	933

Source: MISEP in DGEFP (1995)

It should be noticed that MISEP data do not give any information about the number of youngsters that have been hired after the completion of the training actions.

Still within the training policy, there is another programme specially targeted at the youngsters (as well as at the long-term unemployed) that is worth mentioning. This is the

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<sup>36</sup> Other measures, such as those integrating the educational and vocational training policies are referred to elsewhere in this report.

Employment Incentives Programme for the Preservation of the Cultural Heritage that offers young unemployed people a two-years training course on those matters, expecting that such a background will improve their probability of finding a job. Unfortunately, there is no available information indicating whether this is the case or not.

The more important measures aimed at promoting employment that specifically address youngsters' case - exemptions from social security payments or allowance of wage subsidies for each youngster hired and the Local Development Initiatives Programme - have already been referred to. The Local Employment Initiatives also contain clauses giving priority to projects recruiting youngsters seeking for a first job.

Besides, there is also a programme (P-v.6, according to the MISEP classification) that seeks to support young people under the age of 25 that might be willing to create their own job. As long as they have the necessary qualifications and a feasible project, they will be given a subsidy, technical support and training. The available information on this measure indicates that it covers less than 500 individuals every year, since 1993.

Although aimed at promoting investment and not employment, the Integrated Incentive Scheme for Young Entrepreneurs deserves also a reference as it supports - by means of grants, loans, venture capital, guarantees and enterprise nurseries - the creation, expansion, modernization, internationalization and competitiveness enhancement of firms predominantly owned and run by young entrepreneurs aged between 18 and 35.

Finally, it should be mentioned that data available clearly indicates that the number of youngsters who have benefited from active labor market measures in recent years has been decreasing. The OEFP, gathering information mostly on training programmes and social security exemptions and reductions comes to the same conclusion.

#### b) Women

Women form another group of people particularly hard hit by unemployment. For that reason, they are also the target of a number of active measures included in the Portuguese Multiannual Programme for Employment, particularly in what concerns training programmes and incentives to job and employment creation. In general, such measures were designed with the aim of promoting equality between gender.

Out of these measures, the most important ones that are currently effective are:

- Vocational training for unemployed women that can facilitate their integration or reintegration into the labor market. Priority is given to training oriented to new occupational fields, traditionally male-dominated professions, and business start-ups. In addition, support is provided for the establishment of women's "Exchange and Counseling Networks" with a view to fostering co-operation between different educational centers for women and exchange of information and experience.
- Programmes for the Integration of young people into vocational life - these exempt the suppliers of training from paying their share of the training costs whenever women are the beneficiaries of training.
- Incentives to small businesses start-ups - subsidies grant for the creation of small businesses are subject to a majoration of 20% whenever the entrepreneur is a woman. Similarly, subsidies granted per each new job created are also majorated by 20% in case of recruitment of women into an occupation where they are underrepresented.
- Local Employment Initiatives - the creation of jobs for women is encouraged by granting a 20% increase in the subsidy given per new job. Projects presented by women are also given priority at all stages of the assessment and decision making process.

For the remaining, training programmes do not contain specific clauses calling for a more important adhesion of women which is elsewhere reported to depend, among other factors, on the times, schedules and locations chosen for the organization of the training schemes (see Meulders, 1996:7). Data presented by ERSEP 1996 on these measures, though scarce, are the most complete available (see Table 3639).

**Table 39. Women under Training Programmes**

	<b>Public Expenditure (000 PTE)</b>	<b>Number of Women</b>
<b>1992</b>	119 178	200
<b>1993</b>	123 804	572
<b>1994</b>	66 366	n.a.

Source: ERSEP (1996)

For all other measures, no information was made available indicating the share of women in the group of all individuals who have benefited from them. It is, however, fair to say that from a policy point of view, redirecting training and job preferences towards women as well as stimulating their entrepreneurial spirit are major commitments. Incentives to women's employment are mostly given to the creation of their own firms, as no specific incentives to the hiring of women exist (unlike what happens for youngsters and long-term unemployed). Notwithstanding, short-term programmes directed towards the training of women as entrepreneurs, which were effective in 1989 and 1990, had met no more than 100 applications.

#### c) Long-term unemployed

Several active measures available are either specific to long-term unemployed individuals or contain clauses granting these a more favorable treatment. Government's intervention at this point has three main objectives: a) to help people unemployed with their job-search effort; 2) to help them to get new skills; and 3) to increase their probability of finding a job.

Bearing in mind these objectives, the Multiannual Programme for Employment, following the guidelines of the Immediate Action Programme for Employment, embodies an Integrated Programme of Fight Against Long-Term Unemployment which is no more than an attempt to gather and stimulate efforts at the Employment Services level in order to offer better services for the unemployed, particularly in what concerns their counseling activities.

This new programme goes along with other continuing measures such as "job clubs", the individual assistance plan, the self-placement support scheme, and placement incentives. Besides, a number of measures, which we have already referred to, also apply. Out of these, the following are worth mention again:

- Exempting employers from social security payments or allowing subsidies of 12 times the legal minimum wage whenever they hire long-term unemployed individuals;
- Incentives to the creation of a self-employment business whereby a 20% bonus and a subsidy for the rent and the costs with the preparation of premises and equipment are added to the general subsidy available (equal to 12 times the legal minimum wage);

- Vocational training in areas related to the preservation of the cultural heritage that may enhance the prospects of finding a job or of becoming an independent worker;
- Special vocational training courses for people in a disadvantaged situation or making part of marginalized social groups.

Although by their nature, they should be considered among the group of passive labor market measures, we believe that Occupational Programmes should also be mentioned among the set of measures designed to help individuals long-term unemployed<sup>37</sup>. Such programmes provide temporary occupation for people unemployed that for that reason notoriously experience economic difficulties and that either do not qualify for receiving unemployment benefits or have exhausted the period over which this was due. The responsibility for such programmes rests with public institutions or with non-profit private organizations. Table 40. summarizes data available on this programme.

**Table 40. Occupational Programmes**

	Number of Individuals	Total Expenditure (current prices, 000 PTE)	Total Expenditure (1992 constant prices)
<b>1992</b>	5574	9 366 819	9 366 819
<b>1993</b>	6170	2 428 788	2 273 295
<b>1994</b>	8070	1 409 421	1 257 065
<b>1995</b>	11 978	3 082 747	2 642 732

Source: MISEP in DGEFP (1995)

Data on table 40 therefore suggests that the number of people covered by these programmes has been increasing in recent years, like most of all other passive measures and unlike the active ones. However, the evolution of this measures is not complete without referring that in 1989 and 1990, some 15 861 and 8 145 individual were covered by similar programmes that preceded the Occupational Programme. These were the Occupational Programme for Seasonal Workers, and the Programme Supporting Workers that are Long-Term Unemployed (the only one addressing specially the case of long-term unemployed workers who do not receive unemployment benefits).

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<sup>37</sup> Although these programs are not, in fact specially designed to help those who are long-term unemployed, it is legitimate to believe that these are among their main addressees.

#### d) Elderly Workers

Some special measures are also available assisting elderly workers in finding a new job. These include employment incentives for older workers, on-the-job training incentives both of which apply in the case of workers older than 45.

## **V. OTHER POLICIES HAVING AN IMPACT ON THE LABOUR MARKET**

### **V.1. Education and vocational training**

#### *V.1.1. A national consensus identifying the problem and a lot of interrogations about the measures and actions to tackle it*

There is a broad consensus among political, economic and social actors enhancing the need of improving the performances of education and vocational training national system in order to favour a more effective catching-up process *vis à vis* E.U. countries and to accelerate the adjustment process towards a new regime of competitiveness.

A so broad consensus would probably justify a more fastly progression in selecting the pertinent measures and actions and in mobilising enough resources for tackling the problem and increasing more fastly the level of accumulated human capital in Portuguese society.

Some analysts, in a very stimulating and provocative way, say that hesitations and interrogations on strategies for action suggest that we are probably facing a false consensus. Just in exploratory terms, some questions should be isolated in order to understand why a false consensus is emerging :

- It's true that, notwithstanding the expansion and diversification of educational and training streams over the past ten years, basic education, vocational education and vocational training are still lacking a strategic integration through the implementation of a common decision-making process;
- The social value and validation by the market and by the society in general of education and qualification levels are still low comparatively to other societies searching for similar places in international competitiveness;
- The organisational level of the entrepreneurial models that are still dominant in Portuguese economy and the low level of education of SME's entrepreneurs are strong factors explaining the still remaining low propension to hire qualified people and to invest in training actions; paradoxically, the recent Porter's report (Monitor

Company) on comparative advantages of Portuguese economy sustained that "insufficient education and training of the workforce" was the most widely cited factor hampering firms' productivity performances ( OECD, 1995 :44);

- The social acceptance and the self-esteem of teachers is decreasing and generating hardly complex situations of decreasing quality of education courses in a context of a very large rise in school attendance and of some progresses in repetition and drop-out rates;
- Due to the low internal flexibility of the labour market (within firms themselves) the improvement of the average level of qualification of human resources within firms risks to be significantly lagged *vis à vis* the increasing education levels;
- The illusionary perspective that the regime of "numerus clausus" in public higher education could have prevented the Portuguese system from the dangers of massification in higher education provoked a contradictory situation of increasing private supply without a corresponding jump in quality and innovative areas;
- Experimental education and technological vocation of young people significantly decreased in the last ten years; the very bad results in national examinations concerning Mathematics and Physics of 10th, 11th and 12th year courses seem to be the result of a very risky reorientation of people expectations towards white-collar" activities, generating a terciary bias within education system.

Answers to these exploratory questions mentioned above are not yet a matter of true consensus among political, economic and social actors, suggesting that questions are much more complex that they seem to be.



## *V.1.2. Recent developments in education and training systems*

### V.1.2.1. Education system

#### a) A global overview

Within the most important references concerning the analysis of the evolution of Portuguese education system<sup>38</sup>, there is a broad consensus on the importance of the Basic Law on Education of 1986 (46/86 of 14th October) in establishing a "coherent framework for educational reform". The perceptions of the achievements induced by this reform remain very controversial among the different education agents and actors. Some critics argue that the way how the administrative apparatus of the Ministry of Education implemented this reform has been biased towards quantitative realisations, neglecting a more comprehensive and qualitative evolution of the education system, principally the mobilisation and motivation of teachers.

Notwithstanding the controversy around the evaluation of the effects of the reform implementation, the mentioned Basic Law is effectively the main conceptual framework structuring the education system (Luis Imaginário, 1995:5).

The most relevant changes have been introduced in basic and secondary education levels. First of all, the compulsory education has been extended to nine years, corresponding to three cycles (four years for the first cycle, two years for the second and three years for the third).

It is important to notice that, according to the 1984 OECD review of Portuguese situation, the extension of compulsory education would require complementary investments in new facilities and curricula reforms in order to prevent the intensification of early school leaving prospects. The available evidence show that OECD remarks were correct and very pertinent. In fact, the creation of basic integrated<sup>39</sup> schools is seen as one of the most important pre-requisites for achieving high rates of conclusion of compulsory education : "Considering that early school leaving between the different cycles of basic education is

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<sup>38</sup>See for example OECD 1994 and 1995 Economic Surveys on Portugal, Luis Imaginário (1995) and Joaquim Azevedo (1995)

<sup>39</sup> The concept of integration is very broad (organization, curricula, teachers, local resources and different modalities of education, such as vocational education and community education).

also correlated with the transitions from one school to another school, basic integrated schools may increase the visibility of the association between compulsory education and the attendance of the "same" school" (Luis Imaginário, 1995:6-7). Nevertheless, we know that basic integrated schools are still a small fraction of education establishments and a cautious interpretation is necessary : "The Basic Integrated School may be the mainstream of the political reformulation of basic education, concerning the spatial distribution and the territorial integration of schools and the training of teachers . However, it cannot be seen as a panacea for the resolution of the huge problems of basic education" (Joaquim Azevedo, 1994:71).

Other controversial questions about basic education are the interventions required for the up-grading of first cycle and the discussion about the eventual role of technological education in basic education. Some authors think that technological education should play a similar role to those of Mathematics, Physical Education or the mother language in basic education. Others, on the contrary, sustain that technological education cannot be understood as an element of basic education. In any case, it should be noticed that Portuguese education system has a deficit of technological culture and information.

As regards the first question, the main priority of the new Government is improving the coverage of early childhood and of basic education (particularly of the first cycle). The key question will be to discuss whether the generalisation of early childhood education would be better approached in a more decentralised way, involving Municipalities and families, rather than turning it into a task-force for central services.

The second question is more controversial. The lack of technological education in Portuguese society may be considered as a serious bottleneck of the adjustment to new competitiveness dynamic factors. The question is to know whether or not technological education should be integrated in basic education. For the moment, technological education appears in the third cycle of basic level as an alternative curricula for musical education, arts and the second foreign language, which seems to be an hybrid solution, not solving the main central question mentioned above.

Concerning secondary education, the new Basic Law on Education introduced two different types of secondary courses: *General* courses, targeted at youth planning to continue to higher education and *Technological* courses mainly oriented towards young

people planning to have access to the labour market after the completion of upper secondary education. Some problems have been noticed due to the coexistence of two secondary courses (before and after the Reform). The main difference was that the new secondary course just admits a three-year duration cycle, whilst the "old" one had a two year duration cycle, requiring a 12th year for accessing higher education. So, some problems of compatibilisation emerged concerning the conditions of accessing some post-secondary education courses offering a professional qualification to young persons planning to enter the labour market.

The creation of a small number of technological secondary courses seems to be a result of a good perception of the risks probably generated by an excessive specialisation. A very fast technological evolution will surely precipitate faster obsolescences of specific knowledge in very specific fields. Briefly, the existence of a small number of technological courses is not a consequence of an experimental approach but, on the contrary, represents a political and wise decision of reinforcing the knowledge of technological processes and the role of attitudes, competences and behaviours within them. So, "each technological course is a kind of a common base able to integrate several terminal specifications, through work experiences or terminal traineeships" (Luis Imaginário, 1995).

Anyway, one may question what is the rationale of creating technological courses in secondary education and at the same time creating vocational courses within Training schools<sup>40</sup> (Escolas Profissionais), both leading to the award of level 3 certifications and of a secondary "diploma" (12 years). We totally agree with J.Azevedo (1994:88), closely associated to that question, when he sustains that a great majority of young people wants to have further education within a secondary school, seeing it as an opportunity to social progression and access to higher education. Many students are choosing technological courses as good interfaces with Polytechnic higher education and some University courses such as Ingeniering and Arts. The question is always how to combine this role with that of allowing for a good preparation and certification to those young persons aiming at entering the labour market.

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<sup>40</sup>According OECD definition, they are autonomous schools created by local authorities, enterprises, unions and entrepreneurial associations in response to specific needs, directed to persons completing the second and third cycle of basic education, offering currently three-year courses, as well as traineeships within enterprises after completion, leading to the award of EU level and level certifications (1995:94)

It is possible that some young people, coming from low and medium income families, anticipating bigger difficulties in accessing public higher education and being unable to pay for alternatives in private higher education, are choosing technological courses as a second best choice. On the contrary, some experts sustain that there is a very generalized perception in Portuguese society devaluating the role of vocational secondary education (technological courses, training schools and apprenticeship<sup>41</sup> comparatively to general education trajectories. As Luis Imaginário has stressed, vocational education is often seen as a good solution that we recommend to other people and not for ourselves, conducing to a biased hierarchy (1995:17). As, it is easy to understand, if we could find a significative correlation among the distribution of those who succeed in accessing higher education and the income distribution of their families, we are facing a very severe reproduction of inequalities in Portugal and very strong obstacles to social mobility.

Vocational education system is completed with some experiences not managed by the Ministry of Education, combining the award of education levels with professional certification. That is the case of Technological Schools created in the framework of the PEDIP, targeted at young people having completed 11 years within secondary schools, the Schools managed by the Instituto Nacional de Formação Turística targeted at young people having completed 9 years and the very specific case of Casa Pia in Lisbon.

Within this complex system perhaps the most interesting feature to follow in the future will be the evolution of training schools and the way how vocational education demand will be distributed between them and technological courses. Available information suggest that the reaction of civil society to the creation of the Training Schools has been very positive. In the period 1989/90-1993/94, 182 schools have been approved within 412 applications and in the last year of this period the total number of enrolled students was already of 22 727 students (J.Azevedo, 1994:91-99). According to the same source, in the year 1993-94, technological courses (secondary schools) and professional courses (Escolas Profissionais) represented, respectively, 27 and 9% of the total ammount of 111 000 enrolled students in the 10th schooling year.

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<sup>41</sup>According OECD definition, it combines vocational training provided at government centres and work experience in firms and is targeted at the needs of young people having dropped out of the school system before completing secondary education and of thus entered the labour market without vocational training (1995:55); it will be analysed concerning the evolution of training system (specifically of initial vocational training activities).

It is true that, concerning training schools, local, regional and sectoral aspects led to a very strong diversification of curricula and courses. We may question the ability of the employment market to perceive that diversity of supply of vocational education courses. This is a very important topic because the rationale of training schools requires a strong involvement of entrepreneurs in the project. In the period 1989/90-1993/94, the promoters of 20 and 13% of the schools created were, respectively, private firms and entrepreneurial associations, which is a positive signal. Nevertheless, further evidence is needed concerning the evaluation of this experience<sup>42</sup>. Some problems are arising particularly because, after the enthusiastic first years, some projects didn't succeed in achieving enough financial autonomy. Strongly dependent upon actions co-financed by the European Social Fund, these experiences failed in strengthening their basic partnerships. Nonetheless, whatever will be the results of the global evaluation of Training schools' experience, it is unquestionable that Training Schools will be key instruments in order to improve and decentralize the vocational education system and above all in order to reduce the degree of disconnection between education system and firms.

One of the main effects of the bad average results of national examinations for students completing the 12th year of schooling has been to renew the controversy on the assessment of the education system performances. The problem of the quality of education of those who complete secondary education is arising again, whilst the performances of the system concerning the evolution of drop-out rates, in spite of the progresses that have been observed, are still lagging behind EU countries.

In sum, exclusion and lack of quality are, paradoxically, two problems still evolving together in a context of substantial improvements in the performance of the education system. These two problems are closely associated to the lack of articulation and dialogue between education system and firms.

In a so complex context, a stage-approach for the improvement of education performances will be a very risky choice. Different problems should be tackled at the same time. The case of *remedial programmes* ("ensino recorrente") for further education of adults illustrates well why a multi-problem approach is needed.

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<sup>42</sup>A second global evaluation of the experience is under way not yet available.

*Remedial education* is ("ensino recorrente") targeted at adults as well as young people with more than 15 years old, extending the tradition in Portugal of night schools providing evening classes. It offers courses for the three cycles of basic education and for secondary education. The main difference is that, concerning basic education and contrary to the example of Training Schools and Apprenticeship System, it offers no vocational education, which seems being contradictory with the characteristics of the population targeted. Although it aims at offering education trajectories adjusted to the needs of this population. Anyway, one should acknowledge that it is not easy to organize courses able to integrate so different forms of formal or informal knowledge and competences. Remedial secondary education offers general and technological courses.

Finally, between secondary education (12 years) and Polytechnic higher education (generally three years), in the structure of education system in Portugal we should mention a kind of post-secondary vocational education concerning Technological and Artistic specialisation courses<sup>43</sup>. Their duration is about 2-4 half-year courses, including a professional traineeship within working environment. According to our perspective, post-secondary vocational education should be wisely organized in a very close association to some specific needs of intermediate staff within firms. More controversial is to discuss who can have access to this post-secondary vocational education: only those completing level III vocational education secondary schools or extending that possibility to the population having completed general secondary courses.

As regards higher education, the most impressive developments are the correlated effects of the "numerus clausus" regulating the conditions of access to public higher education and the proliferation of private polytechnic schools and universities. By the first time, since several years, in September of 1996, some vacant places have been registered in public Polytechnic Schools and Universities, which is an indication of the new tendencies arising concerning the adjustment between demand and supply.

Nonetheless, it is very impressive that the appraisal made by firms and entrepreneurs of the qualification of graduates and of higher education supply didn't improve even in a context of explosion of public and private courses. Beyond the very particular case of the Catholic University, with a good image within firms, public universities and

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<sup>43</sup>Similar to the French experience of BTS -Brévet de Technicien Supérieur (bac plus two years).

polytechnical schools remain the better placed institutions from the point of view of firms concerning the social validation of the quality of graduation.

On the other hand, the average classifications of those who succeed in accessing the courses that they have chosen as the first, the second or the third priority became a *proxy* of the reorientation of youth preferences. In our opinion, the decreasing average classification of secondary students that have accessed engineering schools or technological schools in general it is a striking feature of the present situation. We know also that the average classifications in the 12th year examinations have been very bad as regards some matters as Mathematics or Physics.

Another important critics made by some important entrepreneurs concerns the lack of experimentation, case studies approaches and simulated environments of decision-making processes involving risk in the great majority of higher education courses. A trade-off between the quality of general knowledge in specific fields, including vocational education concerning attitudes, and the proliferation of curricula more and more specialised exists and there is enough evidence that is not well solved.

b) Some strategic figures

Pratically all the analysis available confirm that the Portuguese education system is being recently characterised by two main trends : the strong increase in rates of participation and the persistency of serious structural bottlenecks<sup>44</sup>.

Table 40 summarises the most significative and accepted structural indicators reported to the beginning of the 90's (in order to ensure a good correspondance with 1991 Population Census):

**Table 40. Structural indicators of the Portuguese education system at the beginning of the 90's**

Indicators	North	Centre	Lisbon	Alentejo	Algarve	Mainland
1. % of child enrolled in pre-schooling	38.7	50.8	53.5	48.3	39.1	46.0
2. Illiteracy rates ( > 15 years old) (%)	12.9	15.3	8.9	23.6	15.4	12.6
3. % of young people (12-14) enrolled in education system	81.7	88.9	94.8	90.3	93.7	88.2
4. % of young people (15-17) enrolled in education system	48.8	61.5	77.9	66.9	73.8	62.5
5. % of young people (18-23) enrolled in education system	23.5	30.6	41.6	29.2	28.6	31.2
6. Net enrollment rate for 2nd cycle of education system (%) (a)	54.3	56.3	64.3	58.5	57.9	58.2
7. Net enrollment rate for 3rd cycle of education system (%) (a)	41.4	48.9	61.1	52.4	57.9	50.5
8. Net enrollment rate for secondary education (%)	20.2	25.7	36.7	27.8	30.8	27.5
9. Net enrollment rate for higher education (%) (a)	8.3	10.7	15.8	8.4	7.1	11.2
10. % of 15-19 age group having completed 6 years of schooling	73.6	75.7	85.8	82.7	78.5	78.6
11. % of 15-19 age group having completed 9 years of schooling	26.9	29.4	46.3	39.2	35.4	34.4
12. % of 25-29 age group having completed 6 years of schooling	52.9	60.9	74.9	66.1	63.6	62.5

<sup>44</sup>Analysing the last twenty years, Joaquim Azevedo speaks of spectacular evolutions and disturbing impasses; the former are mainly association with the explosion of demand and the latter are principally concerned with regional and social disparities, drop-out rates and educational attainments( J.Azevedo, 1994:17).



Indicators	North	Centre	Lisbon	Alentejo	Algarve	Mainland
13. % of 25-29 age group having completed 9 years of schooling	26.3	32.0	49.3	38.4	33.6	35.8
14. % of 30-34 age group having completed higher education	9.3	10.4	17.2	9.1	9.1	12.3

Sources : Adapted from CCRN, *Disparidades Regionais em educação e formação : a Região Norte*, Porto, February, 1996

Notes : (a) Net enrollment rates differ from gross enrollment ones because they represent the ratio of the number of individuals belonging to a specific age group enrolled in school level corresponding to their age relatively to the total amount of individual of that age group. Gross enrollment rates concern the ratio of individuals enrolled in education system independently from the level of schooling.

This table gives a very pertinent picture of the structural strengths and weaknesses of Portuguese education system. It is particularly impressive to notice the decrease of gross and net enrollment rates as we pass from younger to higher age groups, reflecting the effects of the explosion of demand in more recent times.

Education attainment levels concerning the completion of nine years of schooling and of higher education by individuals from 25 to 34 years old are impressively low, illustrating how recent is the explosion of demand for education. Regional disparities complete this picture, principally taking into consideration that North and Centre regions, with significant levels of industrial concentration, are facing a relatively less-favoured situation concerning the majority of the indicators presented in the table.

Anyway, considering the magnitude of demand trends, these structural bottlenecks should be understood in a framework of transition towards much higher enrollment ratios ( see Table 41, illustrating the generalisation of demand for education):

**Table 41. Main trends in demand for education in Portugal**

Education levels	1980-81	1985-86	1991-92	1992-93	1993-94	1994-95
1st cycle of Basic Education	886046	846318	658305	613697	585190	518192
2nd cycle of Basic Education	322382	388994	354631	339244	328671	283294
3rd cycle of Basic Education	259289	335980	438939	431552	439695	410579
Secondary education and technological and vocational courses - day schools	134746	170961	296315	291758	301545	288065
Idem night schools			59371	58679	62829	56679
Public Higher education	75830	76530	150685	165827	181965	195709
Public higher education (only Universities)	69682	92423 (1986-87)	145825	158687	168119	

Education levels	1980-81	1985-86	1991-92	1992-93	1993-94	1994-95
Private higher education	8956	22583 (1986-87)	68650	81696	93779	94589
Public spending in education /GDP*100 (a)	4.13	4.03	4.91	5.36	5.38	5.36
Public spending in education/public spending*100 (a)	13.83	10.64	11.87	14.22	13.84	12.91

Notes : (a) Reported to the first year of each period

Source : A.Barreto (org.) (1996), A situação social em Portugal 1960-1995

The need for a transition approach is clearly demonstrated integrating the evolution of demand and the evolution of repetition and drop-out rates. These rates remain a matter of concern, principally because early-school leavers, entering the labour market, tend to perpetuate the hard trends observed in a vast majority of firms hiring non qualified people. Nonetheless, from 1980 to the provisional data of 1994, drop-out rates are falling principally regarding the level of 6 years of schooling. Recent evidences (Portuguese Catholic University, 1995) show that the drop-out problem, although losing relevance at national level, tends to remain a hard tendency in some areas. North Region fits well these evidences : in the beginning of the 90's, drop-out rates for second and third cycle of basic education were, respectively, 15.1 and 23.7% (CCRN, 1996 : 127).

The last official estimation of drop-out incidence is reported to 1992-93 (see the following table):

**Table 42. Incidence of drop-out situations in 1992-1993 ( rates and absolute amounts)**

Years of schooling	Drop-out rates (%)	Absolute amount (individuals)
1	0	-
2	6	7788
3	6	8428
4	7	10500
5	8	11551
6	14	21996
7	12	16400
8	10	15116
9	11	13958
10	8	9450
11	8	8169
12	-	-
Total	-	123956

Source : DEPGEF/ME

Drop-out incidence, although it presents serious spatial unbalances, mainly concentrated in the more industrialized areas of the North and Centre regions, is a clear evidence that decentralisation needs further developments concerning the integration of several instruments and policies. At the same time, it is necessary to demonstrate to families that school is a valuable contribution for job search and to firms and local entrepreneurs that school may produce qualifications needed.

#### V.1.2.2. Training system

a) From the impulse of the 1st Community Support Framework (CSF) (1990-93) to the reorientation trends being introduced by the 2nd period of implementation of the 2nd Community Support Framework

Before the adhesion of Portugal to the European Union and principally before the preparation of the 1st CSF (1990-93), the lack of national tradition and capacity concerning the organisation and management of training programmes and actions was the main element of characterisation of the national training system's structure.

Recently, an official document published by IEFP (November 1996) assumed a very critical evaluation of this transition period: "Considering that another orientations have not been available, national priorities for national's training system and those of CSF's are practically the same. The European Social Fund (ESF) became then not only the main source for financing the training system but also the main factor organising national's training policy.(...) Nonetheless, the lack of adaptation of the ESF management structures to national reality induced in the 1st CSF a very generalised and easy way of accessing the available resources leading to a low quality level of training achievements, generating a system lacking organisation and solid demonstration effects for actors outside the system". This is a particularly severe assessment, principally because it is formulated and assumed by the IEFP, the main public institution responsible for training policy in Portugal.

In fact, the 1st CSF 1990-93 has been organised under a strategy of diversification and plurality of operational programmes, that represented a new stage for training policy in Portugal (see the following table). At the same time, the co-participation of EU regional funds allowed for a significative improvement concerning training infrastructures. The influence of EU structural funds should be emphasised. The radical alteration that it has been introduced in the mid-1980's in vocational training system, strenghtening the decentralisation of IEFP and establishing a tripartite body for overseeing the functioning of the training system, required, in order to be effective, new commitments concerning public funding only available with EU's intervention. According an estimation made by OECD services, EU structural funds, from 1989 to 1993, provided resources equivalent

to 6.8% of Portugal's 1989 GDP concerning investment in education infrastructures and vocational training courses involving around 1.7 million persons (OECD, 1995:61).

**Table 43. Operational programmes of the 1st CSF concerning training**

OP1-Training for active population
OP2- Developing and supporting employment and training structures
OP3- Apprenticeship programmes
OP4- Advanced training concerning Information Technologies
OP5- Training for long duration unemployed adults
OP6-Supporting the creation of new jobs for long duration unemployed adults
OP7-Training-employment actions for long duration unemployed handicapped adults
OP8--Training-employment actions for long duration unemployed adult women
OP9-Training-employment action for long duration unemployed migrant adults
OP10-Training actions targeted at improving integration conditions of young people into the working life
OP11-Supporting the creation of new jobs for young people searching for a job
OP12-Training-employment actions for handicapped young people searching for a job
OP13-Training-employment actions for young women searching for a job
OP14-Training-employment actions for migrant young people searching for a job

The diversity of situations and of targeted social groups is very impressive, principally taking into consideration that the 1st CSF has been prepared under a climate of good prospects for labour market performances in Portugal.

The evolution and the results of the 1st CSF are particularly critical concerning the Operational Programmes aiming at improving the access of young people to the working life. such as OP 10 and more indirectly OP2, OP3, OP4 and OP11. In fact, the training programmes targeted at young people and aiming at achieving a more effective transition for working life and entry into the labour market are key instruments of training policy, principally in periods in which labour market performances begin to worsen. As the 1st CSF has been then prepared under a climate of optimism for labour market and it ended in a sharp decrease of employment creation, training programmes such as the OP10 should be analysed as case studies able to identify best practices for training strategies improving young people job-search strategies and attitudes.

A brief overview on the main results achieved by the OP10 highlights the active intervention of IEFP and Training Centres closely associated to it:

**Table 44. Structure of training actions promoters within OP10 (1990-94)**

Promoters	Number of trainees
IEFP through specif programmes of training-employment transition	44845
IEFP through Direct Management Training Centres (DMC)	9113
IEFP through Participatory Management Training Centres (PMC)	27480
External institutions	60225
Total	141663

Source : IEFP - Relatório de Saldo 1990-1994

Two main elements should be emphasised:

- Firstly, beyond the intervention of IEFP through Training Centres, IEFP managed their own programmes aiming at providing better conditions for entry of young people into the labour market;
- Secondly, further analysis on training actions shows that, whatever is the promotor, services have been the main activity covered by the programme, as one can see through the following table.

**Table 45. Distribution of OP10 training actions by sector of activity and type of promoting institutions**

Promoters	% of training actions in manufacturing industry	% of training actions in services
IEFP through specific programmes	28.1	49.6
DMC	25.8	35.8
PMC	33.6	27.3
External institutions	4.7	92.7

Source : Adapted from IEFP, Relatório de Saldo 1990-94

Evaluation results of implementing the OP 10 show how difficult is the preparation of qualification training programmes aiming at managing the complex theme of helping the entry of young people into the labour market. Evidence available suggests that these kind of programmes should manage not only the segmentation of labour market but also the diversity of social groups of young people that should be targeted. The groups of unemployed young people that have been more easily covered by this programme have been precisely those that left the education system with higher levels of qualification, consequently more prepared in order to use training as a passport for getting a job.

b) The legacy of 1991 Economic and Social Agreement on vocational training policy

The 1991 Agreement on vocational training policy has been one of the main results of the 1991 Economic and Social Agreement signed between social partners and the XI Constitutional Government, observed in the mid-period of implementing the 1st CSF. That Agreement has introduced two main areas of innovation within vocational training system : *the improvement of the vocational training/work interface* and the *development of further education and training*.

Concerning the first area of innovation, it must be said that, by the first time, it has been clearly expressed the objective of providing a minimum one-year of vocational training to all new entrants into the labour market. The main priorities were a global legislative framework on vocational training, specific measures on vocational training within labour-market programmes, the implementation of pre-apprenticeship courses targeted at young people not having completed compulsory education, developments in assessment and recognition of competencies acquired in the dual system (education and training systems), the creation of UNIVA's (guidance organisations for the entrants into the working life) and an Observatory following the entrants into the working life (OECD, 1995 :66).

As regards the second area of innovation, the Agreement foresaw the creation of a system aiming at recognising the new competencies acquired by workers through further training. At the same time, it strengthened the involvement of the social partners in the development and management of training policy. Within the actions that have been agreed between the parts, we should stress the elaboration of a survey on the needs of vocational training and of studies on the impact of vocational training within different industries and the creation of targeted programmes enabling the integration of disadvantaged groups (OECD, 1995:66).

c) Interpenetration between education and training systems

The year of 1991 is also an important reference because it was then that a key difference was established by law : *vocational training provided by the education system* (mainly led by the Ministry of Education) that we may call vocational education, including technological secondary courses and training schools; *vocational training provided mainly*

*by the Ministry of Employment*, including principally the apprenticeship system and other training actions.

This is a key feature of Portuguese training system and probably one of the leading inefficiency factors. Vocational training or vocational education are led by two political decision-making processes not necessarily converging for the same priorities and approaches. The case of Training Schools and of the Apprenticeship System, managed by two decision-making systems, illustrates well this difficulty. Some experts argue that the management of vocational and continuous training programmes by the Ministry of Employment would be improved if vocational training would tendentially be managed by the education system. Others, on the contrary, sustain that schools managed by the Ministry of Education are not able to create the working conditions required by vocational objectives. Some clarification and convergence of approaches and decision-making processes would be effective: the education system would be targeted at qualifying young people before entering into the labour market and the training system would manage the continuous adaptation of qualifications to the changes within professions and labour market organisation ( Luis Imaginário, 1995:27).

Probably, an institutional revolution would be necessary in order to improve significantly the efficiency of this new organisation model. So, in the present context, the progresses are strongly dependent on political concertation efforts between the two Ministeries. Some progresses are surely possible though requiring a strong commitment of social partners in order to ensure the convergence of the two decision-making processes. The role of CIME (Comissão Interministerial para o Emprego) should be improved, considering that it is not yet the interface that education, training and employment policies need in order to face the crucial issues mentioned before. It will be necessary to use CIME as a solid basis for accumulating strategic knowledge about the achievements, failures and best practices generated by education and training systems. The same should be said about the Working Group between the Ministeries of Education and Employment, whose activity should be more visible.



#### d) The legacy of the main changes introduced by the XI Constitutional Government

At the end of 1995, when the new Government began to be operative, the structure of the vocational training system was still influenced by the significant transformation operated in the mid-80's, allowing for the decentralisation of the Institute for Employment and Vocational Training (IEFP) and for the creation of a tripartite body, integrating the state, unions and employers's representatives. The government intervention in vocational training programmes and actions is provided directly by Direct Management Centres, managed by IEFP, and by Participatory Management Centres, operated by the IEFP (that presides), social partners and private institutes.

EU funding (particularly ESF), as we have already noticed, has played an important role in enhancing the structure of the system and allowing for a more diversified supply of vocational training programmes and actions, principally after that the EU funds have been allowed to be used in the educational area.

The main intervention areas were the following ones :

- *The Pre-Apprenticeship system* (1991) is targeted at youths of 15-21 years old, having completed four years of compulsory education and including general education and pre-vocational education, aiming at allowing for the apprenticeship of a qualified profession and awarding a level 1 professional certification;
- *The Apprenticeship system* (dual system reformed in 1988 and more recently in 1996) is targeted at those searching for a first job and having completed 9 years of schooling and combining vocational training provided at public centres and work experience in firms;
- *Initiation to a profession* it is targeted at those who search for a first job without having completed the compulsory education and provides preparation for a mainly practical profession;
- *Initial vocational training* is targeted at those with more than 15 years searching or a first job, providing level II and III vocational training (socio-cultural, scientific and technological and practical knowledge) completed by a traineeship in work environment;

- UNIVA's (Unities guiding the entry into the working life) are institutions that may be created through different ways (by schools, Training centres, associations, etc) aiming at improving the knowledge of jobs vacancies, helping those who have been enrolled in vocational training to get a job and following their trajectories in working life and may be considered as a mechanism of articulation between the training system and employment policy measures.

The apprenticeship system is probably the more interesting modality of vocational training within the employment market. It is conceived as a dual system, because it awards a professional certification and a diploma. Although the apprenticeship system is organised under a regime combining a training environment ( in class) and work experience in firms, we may see it as a vocational training system emphasising the virtues of a concrete situation of work. This is the main comparative advantage of the system, well suited for training operations that need to develop skills and attitudes in work experience and not in simulated environments or in traineeships. It is seen by some young people as a good substitute for professional courses that have been eradicated by the Basic Law on Education of 1986 .

Additionally, the apprenticeship system can be understood as an experimental model concerning the question of management and organisation. The system is coordinated by a tripartite body, the National Apprenticeship Commission, integrating representatives of unions, employers and different public services managing several training sub-systems, allowing for a convergence of approaches and methods.

The first comprehensive evaluation of the Apprenticeship System, made within the IEFP in 1991 and 1992 it is already available, which is a very important contribution in order to identify eventual good practices transferable to another situations (O.Neves, P.Pedroso and Nelson Matias, 1993).

Among the main results of the evaluation mentioned above, the authors sustain that the programme has been increased through not only the increase of the population enrolled and of the diversity of the firms within the system but also determining higher degrees of diversification of qualification levels, of vocational education trajectories and of sectors involved and multiplying the number of programmes : "This situation shows a deficit of strategic coordination and a weaker global perspective of the system being strongly

dependent on the increasing number of sectors and on the fragmentation of curricula" (O.Neves, P.Pedroso, N.Matias, 1993:216).

The lack of strategic coordination has been often associated to a deficit of cooperation between the Ministries of Employment and of Education, that has just evolved towards an institutional model of co-participation in regulating certification and validation activities. One of the main recommendations of the evaluation team was a strong investment in strategic coordination, taking into consideration that the Apprenticeship system was evolving from a period of initial growth to the consolidation of structures and to improvement of quality.

It has been also observed that some troubles have arisen in implementing a pattern of vocational training within different environments (vocational training centres, schools and firms) because the Programme has been led by the same institutions that are responsible for the implementation of employment and vocational training policies at central, regional and local levels. To combine a strong investment in vocational education in class with work experience requires a good staff concerning vocational trainers which is a great challenge to the Employment Centres staff.

Finally, another important result has been the weak participation of firms in the co-financement of the costs of the Programme, which as well suggests lack of cooperation.

e) The 2nd Community Support Framework and further prospects for the training system

Though some problems concerning the control over the quality of the training provided that have emerged within the continuous vocational training programmes of the first CSF 1989-1993 financed by the ESF, the impact of EU funding in allowing for further expansion and modernisation prospects of the training system has been very positive.

As it has happened in other fields of EU financing, there is a clear evolution from the first CSF (1989-93) to the second one (1994-99). After having been mainly directed in the first CSF at the infrastructure investment in education and vocational training courses, the EU financing is expected to be extended in the second one to other public bodies, "while social partners and consortia of firms are allowed to benefit from direct community financing for training plans" (OECD, 1995:61). This is a very important evolution, that

should be integrated with another two changes : the number of operational programmes has been reduced as well as the number of programmes directly managed by the IEFP.

Considering that the 2nd CSF is facing a more pessimistic scenario of net employment creation than of the first one, the evaluation of the procedures that have been implemented in order to adjust the targets of vocational training programmes to the deterioration of the labour market should be further developed. We consider it as a main trend of debate concerning the training system and perhaps one of the main examples of "good practices" to be followed in the future.

So, the question of assessing the effectiveness of measures to assist with the transition from school to work should be completed with the same approach concerning vocational training actions and training programmes targeted at unemployed people( youth, adults and graduates).

In the following table, we are presenting the expected incidence of the ESF within the Portugal's 2nd CSF concerning the training system <sup>45</sup>:

**Table 47- Expected incidence of the ESF within Portugal's 2nd CSF**

<b>Programmes-subprogrammes and measures</b>	<b>Estimation of the number of individuals involved</b>
<b>Initial vocational training and integration in the employment market</b>	
Apprenticeship system	115 145
Other modalities of initial vocational training	38 555
<b>Improvement of the quality of employment</b>	
Continuous vocational training	190787
Training actions for unemployed people	45691
Training actions within processes of reconversion in declining sectors	17 983
Training actions for trainers and other agents	40350
<b>Economic and social integration of less-favoured social groups (a)</b>	
Support to social development	57720
Social and economic integration of long-duration unemployed adults	30300
Socio-economic integration of less-favoured groups	11 100

Source : Directorate-General of Employment and Vocational Training, 1995:69

Notes : (a) One should note that the intervention of the training system in this programme (INTEGRAR) is shared with other modalities of intervention, such as social support, employment actions, etc.

<sup>45</sup>Not including the employment actions.

In order to have a broad perspective of the "state of art" concerning policy measures being implemented by the training system, it is useful to analyse the investment efforts realised (1994-95) and programmed (1996-1999) in the framework of PESSOA, the main operational programme of the 2nd CSF concerning training managed by IEFP. Nonetheless, one cannot ignore that training system depends on the contribution of the ESF managed under other programmes of the 2nd CSF than PESSOA, briefly presented in the following table:

**Table 48. Contributions of ESF to Portuguese training system performances under the 2nd CSF not included in PESSOA programme**

Main programmes of the 2nd CSF involving the contribution of ESF	Targeted population	Main actions
PRODEP II	Young people enrolled in basic, secondary and higher education	Actions aiming at improving technological skills and vocational training in general
PRAXIS XXI	Young people enrolled in higher education	Technical specialisation
MODERNISATION OF ECONOMIC STRUCTURES (Agriculture, fishing, Industry (PEDIP II) and tourism and culture heritage	Cadres, technical staff, operators and project managers within firms and institutions having access to these programmes and other agents involved in information and technical assistance projects	Training, information and animation
Health and Social Integration (Social and economic integration of disabled groups - INTEGRAR	Long duration unemployed people, handicapped, agents involved in socio-economic integration processes, social partners	Training, guidance/information, animation
PROMOTION OF ENDOGENOUS DEVELOPMENT POTENCIAL	Unemployed people wanting to create their own jobs, development agents, local initiative promoters and private investors	Incentives to job creation, vocational training and training towards development
ADAPT	Workers risking to loose their jobs due to technological and organisational changes and entrepreneurs, managers and cadres of SME's	Local initiatives aiming at creating new jobs, animation actions and information systems on employment performances
EMPLOI	Women, socially disabled groups and youth	Information, animation, training, entrepreneurial initiatives, professional guidance
LEONARDO DA VINCI	Young people and training agents	Training, information

However, due to the magnitude of EU funding involved, the relevance of the Programme PESSOA should be underlined.

**Table 49. Total disbursements of PESSOA Programme (effective and programmed) by sub-programmes and measures**

Sub-programmes (SP) and measures	1994 (a)	1995 (a)	1996 (b)	1997-99(b)
SP1-Vocational training and integration in the employment market	105562000	121093668	121766000	425033000
Apprenticeship system	52167000	68012589	57669000	152847000
Vocational training	53004000	52564000	61688000	201297000
Integration in the employment market	391000	517079	3606000	12589000
SP2-Improvement of the quality and of employment performances	112540000	113278411	122090975	402400000
Supporting employment creation	46047000	49489333	53043000	185149000
Development of continuous vocational training	45609000	36417690	44380975	131148000
Training actions for unemployed people	13915000	20212431	15923000	55579000
Training actions within declining sectors	6969000	7158957	8744000	30524000
SP3-Training and management of human resources	7858000	40935278	45817000	159922000
Global measures	3843000	4811143	20252000	70688000
Training of trainers	4015000	10957135	10929000	38148000
Infrastructures	0	25167000	14636000	51086000
Total	225960000	275307357	289673975	987355000
Total ESF	225960000	250140357	275037975	936269

Notes : (a) Amounts effectively disbursed; (b) Amounts of expenditures programmed (Decision C(96)309 dated from 29 April 1996;

Source : Quatenaire-Portugal and IESE

The preparation of the 2nd CSF concerning training actions has been inspired by two main operational objectives: to reduce the number of operational programmes and to experiment some decentralised management models. In fact, at least concerning the training programmes managed by IEFP, the objective of reducing the number of Operational Programmes has been accomplished; only two programmes, PESSOA and INTEGRAR are under way. However, some Ministries, such as Agriculture and Economy, went on managing their own ESF training programmes.

As regards the implementation of new decentralised management models, the available evidence shows that the initial objectives are very far from being accomplished. Only two framework programmes have been implemented within the general framework of PESSOA : a framework programme for the IEFP and another one for the Confederation of Portuguese Farmers (CAP). Additionally, social partners such as CGTP-IN, UGT and

CCP have been considered as managing institutions developing specific training plans. We have then a very modest decentralising performance, reflecting the lack of specific know-how within organisations led by social partners concerning the management of comprehensive and integrated training projects.

The table presented in the next page is a preliminary view of the actions implemented within the framework of PESSOA from 1994 to 1996, involving the available information on the framework programme managed by the IEFP (training actions managed by external institutions and by IEFP Training Centres) and by CAP. As regards the external institutions that have accessed to the IEFP Framework Programme, continuous vocational training actions, followed by initial vocational training actions, have been the main priorities mainly presented by firms with more than 200 workers and employers's organisations. Concerning the actions managed by IEFP Training Centres (Direct and Participatory Management ones), the information available for 1996 shows that initial vocational training actions (including apprenticeship and pre-apprenticeship programmes) are the most important item of the budget. The CAP's framework programme is very modest and mainly oriented towards continuous vocational training.

**Table 50 Trainees and investment involved in training actions financed by PESSOA Programme (1994-96)**

Institutions and framework programmes	Initial vocational training		Continuous vocational trainin		Idem for unemployed people		Training in declining sectors		Training for trainers		Total	
	Trainees (%)	Investment(%)	Trainees(%)	Investment(%)	Trainees (%)	Investment	Trainees (%)	Investment	Trainees (%)	Investment	Trainees(%)	Investment
<b>IEFP Framework Programme</b>												
<b>External institutions</b>												
Firms with 1-9 workers	1,9	2,6	1,2	1,4	4,7	6,3	9,5	3,6	0	0	1,7	2,6
Firms with 10 to 49 workers	0,9	1,3	3,3	8,8	1,4	1,6	0	0	1	3,1	2,6	4,4
Firms with 50 to 99 workers	1,8	1,5	2,4	4,9	0,1	0,2	2,5	1,2	0,4	0,2	1,9	2,5
Firms with 100 to 199 workers	2,8	2,7	4,7	5,2	2,7	3,2	1,1	0,9	0,3	0,1	3,8	3,4
Firms with more than 200 workers	19,7	8,9	57,2	43,9	2,8	2,9	6,8	2,8	4	1,5	42,3	20,7
Business services	2,2	3,2	2,5	4	18	15,9	21,1	6,6	19,6	30,3	5,8	8,1
Training institutions	30,9	40,9	2,9	2,3	17,8	16,2	0	0	24,9	32,8	9,1	17,8
Education institutions	0,4	0,4	0,1	0,1	1,9	1,3	0	0	1,5	1,6	0,4	0,5
Social action institutions	3,6	3,2	0,5	0,7	1,8	1,2	0	0	1	0,2	1	1,4
Organisations of employers	16,7	14,5	18,9	19,9	14,9	15,7	0	0	16,9	10,6	17,7	15,4
Unions and professional organisations	9,4	11,3	5,5	7,5	14,4	14,7	59	84,9	3,6	2,3	7,9	15,3
Other associations	9,8	9,5	0,9	1,4	19,6	20,8	0	0	26,9	17,2	5,8	8,1
Total	100	100	100	100	100	100	100	100	100	100	100	100
Total amount	9696	10748214	63226	15264799	8194	6301954	2301	2967881	8241	3282002	91658	38564850
<b>Internal actions(only 1996)</b>												
Total amount	9552	7225090	6275	892618	1342	1365334	444	373161	2210	204047	19823	10060252
<b>CAP Framework programme</b>												
Farmers associations	79,6		67,8						48,2		67,4	74
Agricultural Cooperatives	4,6		8,5						1,4		7,7	8,3
C.A.P.	5,3		18,2						47,8		19,2	10,6
Business services	9,3		4,6						1,2		4,7	5,4
Local Development Associations	1,2		0,1						1,4		0,3	0,7
Agricultural firms	0		0,9						0		0,8	0,9
Total	100		100						100		100	100
Total amount	1169		13007						1014		15190	3825849

Note : Total amounts concern the number of trainees and the value (contos) of training actions approved



### *V.1.3. New political orientations and their consequences on education and training systems*

It is not easy to anticipate the main changes that will be generated in efficiency and efficacy performances of the education and training systems by the new political orientations. The extrapolation from recent data (1996 realisations) is not a satisfactory way to have a credible answer to that question, not only because 1996 available data are very fragmented and scarce, but also because a great part of the achievements that will be produced in 1996 remain influenced by the political orientations assumed in the past.

Some official documents enhancing the main prospects for the future and recent legislation on the key functioning aspects of those systems should be the main elements in order to capture the implications of new political orientations<sup>46</sup>.

The strategy vehiculated by the Multi-Annual Employment Programme concerning the upgrading of training system performances is focused on the following main priorities:

#### As regards initial vocational training

- To reinforce the role of the apprenticeship programmes taking advantage of recent revisions aiming at introducing more flexibility and commitment of all partners involved;
- To generalise the realisation of one year actions of initial vocational training;
- To reinforce the experience of UNIVA's (Guidance system for the transition into working life);
- To develop a specific programme of traineeships financed by State Budget;
- To improve the guidance services;

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<sup>46</sup>Among these elements we should mention the Multi-Annual Employment Programme (version of 30th September 1996) presented by the Ministry for Qualification and Employment and the document published in November 1996 by the IEFP "Para o Desenvolvimento da Formação Profissional em Portugal: prioridades, qualidade e financiamento". Among the recent legislation we should mention the management conditions of the ESF (Decree-Law 15/96 of 23th November and Portaria 745-A/96).

- To reinforce the programmes targeted at improving the transition of youth into working life.

#### As regards continuous vocational training

The most important orientation is to consolidate the training actions programme targeted at micro and small firms, aiming at increasing significantly the rates of participation of these firms ( employers and employees) in the training system realisations, combining it with specific retraining and vocational rehabilitation measures for workers.

#### As regards training actions targeted at unemployed people

The Multi-Annual Employment Programme mentions this type of training actions, combining vocational rehabilitation aspects with retraining actions and reconversion strategies, although one cannot measure the relative importance of this priority.

Very recently (November 1996), the IEFP has presented the main guide lines for the reorientation of training policy in Portugal at the same time that new legislation about the management of ESF has been published. This is a promising orientation for the future. Priorities seem to be clearly perceived. Two main reasons explain this optimistic view.

First of all, the reorientation guidelines are very clear :

- To develop a global view about the evolution of education and training systems in order to ensure that all population groups will have apprenticeship opportunities during their lives;
- To improve the rationale of the available supply of education and training by integrating objectives and priorities of several Ministeries;
- To identify correctly the failures of supply in covering social groups and sectoral needs;
- To combine two modalities of financial support: a direct support to supply institutions (public institutions and associations) and a demand-driven support;
- To reformulate the ESF management conditions;

- To improve the quality and credibility of training institutions introducing more selective criteria of access.

Secondly, by the first time, there is a clear perception of what should be done by the several training institutions dependent on the political decision-making process led by the Ministry for Qualification and Employment, which is a first step towards a more global rationality of the training system as a whole. Table 51, presented in the next page, illustrates who should be doing what.

The reorientation of the strategy of training policy funding is based both on the reinforcement of the role of the ESF Coordinating Commission (ESF-CC) and on new guidelines for organising the institutional framework of public management of training system. The strategy aims at diversifying funding sources for training policy, involving progressively the State Budget and firms and creating a solid basis for an efficient training market. The key problem will be to coordinate the several departments integrating the ESF-CC such as the DAFSE (Financial management), the DGEFP (Conception and evaluation of employment and training policies), the INOFOR (quality and innovation performances concerning employment and training) and the IEFP itself. All of these decision-making centres should be supported by an efficient information system and by new methodologies of training needs identification.

Table 51. Main guidelines and priorities concerning vocational training for Public Training System

Demand segments and Targeted groups	Training institutions						
	Apprenticeship System	Direct Management Training Centres	Participatory Management Training Centres	Other Institutions	Entrepreneurial Associations	Unions and Employers Organisations	Firms
1. Youth without basic education	Initial vocational training						
2. Youth having completed basic education	Initial vocational training	Initial vocational training	Initial vocational training				
3. Youth having completed secondary education			Initial vocational training	Initial vocational training			
4. Youth having completed higher education					Skill training Practice traineeships		
5. Employed Adults without basic education and qualification		Occupational qualification Remedial programmes	Occupational qualification Remedial programmes			Occupational qualification Remedial programmes	Occupational qualification Remedial programmes
6. Employed Adults having completed basic education and without qualification		Qualification or Skill training	Qualification or Skill training	Qualification or Skill training	Qualification or Skill training	Qualification or Skill training	Qualification or Skill training
7. Qualified Employed adults having completed basic education			Skill training Upgrading training	Skill training Upgrading training	Skill training Upgrading training		Skill training Upgrading training
8. Non qualified Employed adults having completed secondary education			Occupational qualification Skill training	Occupational qualification/ Skill training		Occupational qualification Skill training	
9. Qualified Employed adults having completed secondary education					Skill training Upgrading training		Skill training Upgrading training
10. Employed adults having completed higher education					Skill training		
11. Unemployed adults without basic education		Occupational qualification Specific training Retraining		Occupational qualification Specific training Retraining		Occupational qualification Specific training Retraining	
12. Unemployed adults having completed basic education		Occupational qualification Specific training		Occupational qualification Specific training		Occupational qualification Specific training	
13. Integrated training plans for SME's			X	X	X		
14. Retraining actions		X	X			X	X
15. Training for managers			X	X	X		
16. Training for entrepreneurs		X (NACES's)	X	X	X		
17. Training for trainers		X	X	X	X	X	

Source : IEFP, "Para o desenvolvimento da formação profissional em Portugal: prioridades, qualidade e financiamento", November 1996

#### V.1.4. Strengths and weaknesses of the system

Although some positive signs having been recently observed, education and training systems are not yet a coherent body of strategic and political decision making-processes. Beyond the weaknesses of each system that should be progressively eradicated, strategic coordination between the two administrative structures could be significantly improved. According to our perspective, the increasing participation of social partners is necessarily a condition in order to go further in improving the articulation between the two systems. The challenge of employment creation prospects and the still existing lack of mutual knowledge between firms and education and training decision-making centres are requiring higher levels of strategic coordination between the two systems.

The need of implementing progressively a coherent body of decision-making process between education and training system inspires the general overview of the weaknesses and strengths summarised in the following table.

**Table 52. A global overview of the strengths and of the weaknesses of the system**

Strengths	Weaknesses
Very fast increase of participation rates concerning not only the education system but also the vocational training system	Still high levels of centralisation and complexity of decision-making processes, in spite of the existence of regional deconcentrated authorities
Interesting experiences of vocational education courses within basic and secondary education with a strong potential of improvement and generalisation and generating best practices	Although recent progresses observed, strategic coordination between the Ministeries of Education and Qualification and Employment needs further developments and political commitments
It is possible to improve the Apprenticeship system reinforcing strategic coordination and allowing for a more active participation of firms in the financement of the system	Still high drop-out rates in compulsory education with particular incidence in some Regions like the more industrialised North Region
Some examples of Employment Centres well integrated in local employment systems and local economies in general, allowing for further decentralised programmes improving the experience of the ILE's	A regional distribution of education infrastructures strongly unbalanced between depressed areas (infrastructures lacking critical enrollment levels) and more concentrated areas (overcrowded infrastructures) and strong regional disparities concerning educational attainments, enrollment rates and drop-out rates penalising principally the diffuse industrialised areas of North and Centre regions

Strengths	Weaknesses
Significative efforts of modernisation and reinstallation within the network of Employment Centres	Secondary and tertiary enrollment rates still low comparatively to other countries searching for the same opportunities in attracting foreign investment and aiming at the same external specialisation profile
A positive experience, in general terms, of the Participatory Management Vocational Training Centres concerning public-private concertation and training actions aiming at improving transition into working life of young people	Higher education supply underestimates the importance of technological courses weakening the Portuguese comparative advantage in attracting foreign investment in sectors requiring higher skilled labour force and technological professionals
Increasing awareness of the social partners of the necessity of improving the quality of training actions and increasing their own responsibility in achieving that objective	The education and training system are underestimating the need to generalise entrepreneurship abilities and attitudes favouring initiative and risk
A strong political commitment of the XIII Government in reinforcing measures and funding for active employment policies	Significative lags in adjusting vocational training system priorities and targeted social groups to the deterioration of the labour market performances occurred in the first years of the 90's, principally concerning the management of the complex problem of transition of youngsters into working life
Very relevant legislation has been published concerning new guidelines for managing ESF in Portugal	Lack of motivation within teachers of all levels of the education
The experience of the Observatory on Employment performances is a good instrument in order to allow for territorialised approaches of employment creation	Difficulties experimented by the Employment Centres in harmonising their role as inter-faces in the employment market and their increasing role in managing employment policy instruments and social protection systems
Preliminary experiences of training actions and programmes targeted at improving technical assistance to SME's are under way, helping the emergence of a specific market of services in this field.	Divergences between the quantitative performances of the training system and the qualitative results achieved at least after the 1st CSF
By the first time, training priorities and main strategic guidelines have been formulated integrating what the existing public training institutions should do and which targeted groups and individuals should be attained (IEFP, November 1996).	Lack of mutual knowledge between entrepreneurs and schools (secondary and higher education) generating a lot of suspicions and interrogations about the quality of the vocational role of education and about the interest of firms in hiring qualified people

<b>Strengths</b>	<b>Weaknesses</b>
There are positive signs that the Ministry of Education and the Ministry of Qualification and Employment are interested in conceiving a convergent decision-making process on matters lacking strategic coordination	Incipient stage of generalisation of processes of appraising and identifying training needs mainly within SME's
The reactivation of the ESF Coordinating Commission is emerging as the main factor favouring higher integration performances within the Ministry of Qualification and Employment	Knowledge and technical expertise concerning methodologies of identification of training needs is not available in a generalised way all over the country
Acknowledgement efforts of credible private training systems are underway allowing for further decentralising efforts of managing training actions	SME's remain significantly far-away from training system and being unable to invest in training actions(including the training of managers)
	Difficulties in integrating the management of EU initiatives such as ADAPT and EMPLOYMENT and the Operational Programmes of the 2nd CSF
	Strategic guidelines concerning education and training systems are not enough divulgated; official documents and references are very scarce.
	A comprehensive information system integrating all the vocational training actions supported by the ESF in Portugal and helping the up-grading of evaluation system is still lacking

## **V.2.Social protection systems**

### *V.2.1.A general overview of more recent trends*

The state of art of the debate on social protection trends in Portugal is clearly dominated by the following assertion : social protection systems in Portugal share the same problems of the majority of European protection systems although the Portuguese Welfare state is weaker than European ones in practically all the fields of social protection.

The available research shows that the bad performances of labour market observed in the last years of the first half of the nineties reinforced the negative effects of the unfavourable demographic trend, aggravating the difficulty that the contributions to social security systems have in order to cover the increase of social protection expenditures, principally on early retirement and disability pensions<sup>47</sup>.

It is important to remember that only after 1974 an effective social security system has been created in Portugal. After 1974, a significative evolution concerning social risks being covered, people involved and protected and the increasing ammounts of the different types of pensions has been observed, then combined with the emergence of the unfavourable environment concerning demographic trends. The Basic Law on the Social Security System has been published only in August of 1984, which is a good indicator of

Among the main innovations that have been introduced after the Revolution, the most important one was the creation of the "social pension", a non contributory pension plan involving all the people not protected by the general system. In 1980, the non contributory system has been extended in order to cover social protection programmes targeted at low-income families. Great efforts of harmonisation of different social protection situations have been implemented during the eighties, including the integration of agricultural workers within the general system. In more recent times, the political change observed after the general elections of October 1995 has introduced a new orientation concerning social policy, mainly through the creation of an experimental system of minimum income levels for very poor families, managed at local level and financed by State Budget.

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<sup>47</sup>It is worth to note that transfer payments for invalidity, disability and sickness represent 23% of total social benefits. OECD's recent assessment sustains that inadequate monitoring of the evolution of spending on these issues is one of the main reasons for this rise.



As regards the organisation of the social protection system, two modalities should be stressed: the general system, the most important one, which concerns the private sector employees and the system protecting the employees of the public administrative sector, although in March 1994 the social security contributions of the latter have been equalised with those of other dependent workers. A specific capitalisation system for the employees of the banking system is still effective covering about 135 000 workers.

The following table shows the evolution of the number of pensioners of the general system, the agricultural workers and of the non contributory system:

**Table 53. Number of pensioners by social security systems and of contributors  
-private sector**

Unity - 1000 individuals  
In brackets - percentage structure

Year	General system	Specif system for agricultural workers (a)	Non contributory system	Total	Number of contributors	Contributors/pensioners of the general system
1980	818,5 (49,4)	759,1 (45,8)	78,6 (4,8)	1656,2		
1985	1152,0 (59,4)	700,3 (36,1)	88,5 (4,5)	1940,8		
1990	1413,7 (64,2)	695,6 (31,6)	93,0 (4,2)	2202,3		
1992	1498,9 (66,1)	584,9 (25,8)	182,9 (8,1)	2266,7	3964,8	2,65
1993	1558,0 (67,3)	586,9 (25,3)	170,0 (7,4)	2314,7	3866,2	2,48
1994	1574,1 (68,5)	585,6 (24,7)	163,2 (6,8)	2322,9	4018,6	2,55
1995	1650,3 (69,8)	566,9 (24,0)	148,2 (6,2)	2365,4	4035,0	2,45

Notes : (a) The specific system for agricultural activities has been closed in 1986.

Sources :Segurança Social : Evolução recente 1992-1995 and other reports of Social Security System

Considering the evolution of the number of old age and disabled pensioners and of the average amount of the pensions received, the available evidence shows that the key problem is not the evolution of the expenditures of the non contributory systems or of the social action but the maturity of the system itself. We may see that the ratio Pensions/GDP increased significantly from 1983 to 1994 (see the following table) and that the difference between contributions and pensions is much smaller than at 1983.

**Table 54. Financing of Social Security general system - private sector (% GDP)**

Variables	1983	1986	1990	1992	1993	1994
Current Receipts	7.1	8.4	8.5	8.7	9.5	9.3
Contributions	6.3	7.3	7.5	7.6	7.5	7.4
Transfers from Ministry of Social Security	0.3	0.7	0.6	0.6	1.5	1.5
Other receipts	0.5	0.4	0.4	0.5	0.5	0.4
Current expenditures	7.3	7.4	7.8	8.6	9.0	9.2
Pensions	4.9	4.9	5.5	5.8	6.0	6.1
Unemployment subsidies	0.2	0.4	0.3	0.5	0.8	0.9
Illness	0.6	0.5	0.6	0.6	0.5	0.5
Social action	0.3	0.4	0.4	0.5	0.5	0.5
Other expenditures	1.2	1.3	1.0	1.1	1.1	1.0
Current transfers	0.0	0.2	0.4	0.3	0.2	0.3
Balance of current operations	-0.2	0.8	0.0	-0.2	0.3	-0.2
Balance of Capital operations	0.0	-0.3	-0.3	0.0	-0.3	-0.4
General balance	-0.2	0.4	0.0	-0.1	0.0	-0.6

Source : OCDE, 1996

The evolution of Social Security receipts in the 90's needs further analysis in order to capture all the dimensions of this problem:

**Table 55. Evolution of the structure of Social Security receipts**

(millions of contos; Nominal values)  
(in brackets - percentage structure)

Variables	1992	1993	1994	1995
Social contributions	958.2 (78.2)	1010.9 (69.5)	1071.7 (69.1)	1224.9 (72.2)
From employers	629.7 (65.7)	665.5 (65.8)	693.3 (64.7)	
From employees	328.5 (34.3)	345.4 (34.2)	378.4 (35.3)	
Transfers from State Budget	76.8 (6.3)	206.5 (14.2)	214.4 (13.8)	166.2 (9.8)
Total	1225.7 (100.0)	1455.1 (100.0)	1550.3 (100.0)	1697.7 (100.0)

Source : Segurança Social, Evolução recente 1992-95

Although in the first years of the 90's the contribution of the State Budget has been significantly increased, the relevance of social contributions remains high. As regards the relative importance of the contributions of employers and employees, the situation is practically stabilised around a ratio of 2/3 to 1/3.

Anyway, the evolution of debts to social security system (contributions not paid) is very impressive :

**Table 56. Evolution of debts to social security system (reported to 31 th December of each year)**

References	1992	1993	1994	1995
Contributions not paid	266.8	328.2	377.3	425.0
Ratio "Contributions not paid/contributions paid * 100"	27.8	32.5	35.2	36.9

(millions of contos)

The evolution described above may be seen as an indicator of the inelasticity of the increase of social contributions reported to employers. We know that almost 60% of the debts to the social security system belong to manufacturing firms localised in the districts of Oporto, Lisbon and Braga and that, more recently, the progresses observed in recuperating contributions not paid are not enough to compensate the emergence of new debts. Even within the framework of general agreements to solve the problem, we find evidences of firms not able to respect the payment schedule previously accepted.

This is a particularly complex situation, principally because a permissive climate of being indebted concerning contributions to social security tend to emerge among firms, breaking the solidarity rules established by law and validated by social concertation agreements between social partners and the Central Government. Official reports confirm that the efficacy of the mechanisms available in order to promote the recuperation of debts is not enough in order to have an optimistic view about future. Notwithstanding the progresses that could be implemented concerning all kind of agreements between Social Security System and firms in order to improve the payment of debts, the increase of indebtedness ratios should be seen as evidences showing that the structure of costs of firms is highly sensitive to social security contributions.

The complexity of this problem is aggravated by the difficulties that the State Budget is facing in order to co-finance some social security modalities established by the Basic Law on Social Security, principally the non contributory system, the social action and social protection of agricultural workers ( see the following table):

**Table 57. Implications of the Basic Law on Social Security on State Budget**

Millions of contos

Year	State contributions established by Basic Law on Social Security	State contributions to Agricultural workers protection system	State Budget transfers already made	State Budget transfers still missing
1992	117.5	115.5	76.8	156.2
1993	130.6	123.7	206.5	47.8
1994	134.3	125.8	215.8	44.3
1995	152.4	133.5	152.0	133.9
Total	534.8	498.5	651.1	382.2

Source : Segurança Social -Evolução Recente, March 1996, op.cit.

Notwithstanding the financing problems already identified, the contribution of social security for active and passive employment measures should be stressed. Tables 56 and 57 try to measure the contribution of the Social Security Budget to employment and unemployment policies.

**Table 58. Contribution of Social Security Budget for active employment measures**

Measures	1992	1992	1993	1993	1994	1994	1995	1995
	Individ.	1000 c.	Individ.	1000 c.	Individ.	1000 c.	Individ.	1000 c.
Subsidies helping young people to access working life	94	9	77	8	55	17	106	18
Self-employment creation by unemployed people receiving unemployment benefits	1857	1945	2675	2893	3232	3242	2910	4710
Measures supporting the creation of independent activities	765	383		2				
New jobs for young people created through reductions of contributions to social security	52020	10622	48845	10944	42369	10195	43990	11219
Integration of handicapped people through reductions of contributions to social security	381	33	470	46	563	62	700	55
Incentives to long duration unemployed people to get a job	35	8		1				
Total	55152	13000	52067	13894	46219	13516	47706	16002

Source : Segurança Social -Evolução recente 1992-95, op.cit.

**Table 59. Contribution of the Social Security Budget for passive measures on labour market**

Variables	1980	1985	1990	1991	1992	1993	1994	1995
1. Individuals having received unemployment benefits and social unemployment benefits	58683	71351	69277	93830	136098	181518	180816 (a)	179317 (a)
2. Total amount of Unemployment benefits (1000 contos)	-	1772	18357	29315	47330.8	81277.1	96838.2	100441. (b)
3. Total amount of Social unemployment benefits (1000 contos)	4491	10747	8826	12220	18704.1	27332.2	33880.6	38859.8 (b)
4. Total contribution of the Social Security Budget for unemployment protection	4491	12519	27184	41535	66034.9	108609.7	130718.8	139301.4
5. Total amount of social security expenditures (1000 contos)	99857	284556	802581	966093	1116613	1248478		
6. Ratio 4/5*100	4,5	4,4	3,4	4,3	5,9	8,7		
7. Ratio "Total unemployment benefits/Active employment measures" (c)	-	-	-	-	5,08	7,82	9,67	8,71

Sources : Social Security Budgets (several years) and "Segurança Social-Evolução recente 1992-95", op.cit.

Notes : (a) - Preliminary results; (b) Estimations from the Budget for 1995; (c) It should be stressed that only active employment measures financed by Social Security Budget have been considered.

In order to have a more global perspective about social protection trends in Portugal it is worthwhile to integrate two additional elements, concerning respectively the regime of social protection of public sector employees and the situation of independent workers.

Notwithstanding the efforts of harmonisation established in September 1993, concerning general (contributory and non contributory) system and public sector's regime, the generosity of the latter is clearly demonstrated comparing the ratio "amount of expenditures/number of beneficiaries" in each regime: the ratio for public sector social protection system was, in 1994, 991 contos and for the contributory regime was only 421 contos. Nonetheless, the ratio "number of contributors/number of beneficiaries" is following the general trend of other regimes and has decreased significantly from 1985 to 1995 (3.0 against 1.7). OCDE estimates that the positive effects of the reform introduced in 1993 will be significantly lagged (about 40 years) (OCDE, 1996:65).

As regards the regime of independent workers, the reforms introduced in 1994 tried to adapt it to the increasing importance of this modality of work, principally among white-

collar professions and young people looking for a first regular job. The new regime aims at involving progressively independent workers in their own social protection, beginning with percentages of contribution between 23 and 28% of the total amount of income received that will be evolving to 25.4 and 32% till the end of 1999. Beyond the compulsory regime, independent workers may choose a complementary scheme of protection run on a voluntary basis aiming at protecting situations of illness and of professional diseases.

The generalisation of the social protection system of independent workers faced a lot of problems. Two main reasons should be indicated. Firstly, the new measures would require further and more accurate divulgation, considering the high level of percentages of income involved and the traditional resistance to any reallocation of resources devoted to social protection. Secondly, the diversity of situations and of regimes of independent work is generating further complexity. In fact, independent work is often a complementary source of income, accumulated with dependent work in private sector or in the public administrative sector. Legislation admits that, in these cases and in some circumstances, independent work could be exempted from contributing to social protection system, introducing then further complexity into a framework already characterised by strong resistances.

### *V.3.2. Main prospects concerning the effects on labour supply and demand*

The results of the Working Group created by the new Government in order to study and presenting some alternative solutions for reforming the Portuguese Social Protection system are not yet available. So, this section tries to summarise what are the main consequences of the recent trends presented before and incorporate the main critical reflexions available on the effects that will be generated on labour supply and demand trends.

We should say that the reform of social security systems is becoming now a matter of criticism and preoccupation within national debate and among social partners, after a long period (almost two decades) of hibernation provoked by the natural evolution of a system which before 1974 was weak and very fragmented.

The evolution of private pension funds clearly illustrates how upper income families have been receptive, principally in the 90's, to new forms of social protection, seen mainly as

complementary to public social protection system<sup>48</sup>. This evolution illustrates as well how upper income families are using the mechanism of tax deductions associated to the constitution of private retirement pension funds, suggesting that, at least for families and individuals facing higher direct taxation levels, the combination of tax deductions or incentives and the increase of complementary sources of social protection deserves further developments (see Table 60):

**Table 60. Evolution of Private Pension Funds in the 90's**

References	1990	1991	1992	1993	1994	1995
Number of Pension Funds managed by :	190	200	216	219	217	225
Insurance Companies	90	90	90	87	81	81
Pension Funds Management Societies	100	110	126	132	136	144
Pension Funds Capitalisation (1000 contos)	170.7	290.6	452.3	789.3	987.1	1384.6
Insurance Companies	51.4	81.2	53.5	78.7	95.9	98.1
Pension Funds Management Societies	119.3	209.4	398.9	710.6	891.2	1286.5

Source : OECD (1996) : 66

The general situation of Portuguese social protection system is critical because, after a period of generalisation of protection mechanisms explaining the increase of social expenditures, Portuguese situation is sharing now the main problems underlying the financial crisis of Social Protection Systems within the vast majority of EU countries, that is to say, facing the consequences of unfavourable demographic trends and of unemployment pressures.

Recently, new insights have been presented concerning the situation of the social protection system to public administration workers managed by Caixa Geral de Aposentações (CGA). A recent estimation made by Eugénio Rosa and presented in the last Forum on Social Security points out that in 1996 the transfers of the State Budget in order to reequilibrate the financial situation of the CGA were equivalent to 30% of the total wages paid in public administration(almost 280 millions of contos). The same source estimates that in 2003 that percentage will be amounting to 48% of total wages paid in Public Administration.

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<sup>48</sup> A recent research on the progressivity of direct taxation in Portugal shows that the Gini concentration index of tax deductions made through the constitution of Saving -Retirement pension funds are very high and they have been increasing from 1990 to 1993 (Luis Morais Sarmiento, "Progressividade no IRS - o caso do modelo 1 -rendimentos do trabalho", in Boletim Económico Trimestral, Banco de Portugal, June 1996

This situation is introducing new kinds of inequalities, since it is generally agreed upon the fact that the calculation of pensions of Public Administration workers is much more permissive than in private social security system. Only from 1993 onwards, the method of computing pensions has been changed: still then, the pension was determined considering the highest wage in the last two years of activity and representing 100% of this amount, whereas private pensions are actually calculated considering the best 10 years in the last 15 years and representing generally 80% of the average value considered.

So, two contradictory ideas are emerging within national debate : the criticism and concern about the ability of social security to satisfy payments in the future and simultaneously the feeling that contributions from employers and employees are significantly inelastic. Furthermore, several regimes (almost 20) are still coexisting, ten years after having been approved the Basic Law on Social Security establishing the integration of all systems in a coherent body of protection.

The more recent assessment of OECD about the need of reforming social security in Portugal (OECD, 1996) sustains that the main weaknesses of social protection system in Portugal are the unbalance between payments and contributions and the need to increase contribution percentages in order to maintain payments at present levels. Within this framework, OECD recommends a two-step strategy : firstly, the control of future payments concerning retirement pensions in order to ensure the solvency of the system; secondly, a more ambitious and generalised reform aiming at establishing a closer correspondance between current contributions and future payments and alleviating the Social Security Budget from financing social action programmes that would be progressively covered by State Budget receipts.

The first step could be approached by some technical decisions such as establishing higher retirement ages, harmonising more effectively the social protection regimes of private and public workers or adapting calculation methods of pensions in order to take into consideration all the periods of working life.

The second kind of alternative solutions will require new forms of strategic concertation among social partners and between the State and citizens in general. There is a solid convergence on the idea that only a new social and political agreement on solidarity achievements could alleviate contributions from employers in order to increase the



demand of labour force. We think that, beyond the choice between capitalisation (compulsory and voluntary) and distributive systems (pay as you go), the key question will be political, because it is strictly necessary to clarify what could social security reform expect from State Budget contribution. Strategic concertation is the right institutional space to clarify who should be responsible for what.

As regards further developments that could be expected from the Working Group on the White Paper of Social Security, we know that the reflexion have been evolving around three main themes : the possibility of implementing flexible regimes for the retirement age (Public Administration included), the estimation of combined effects of changes in fiscal and social security policies and the appraisal of the effects of strategies establishing different ceilings (relative to minimum wage levels) for contributions and pensions. A recent interview with the President of the Working Group published by the newspaper Expresso<sup>49</sup> highlights that the Working Group is aware of the complexity of the problem and principally of the several factors that are undermining the justice and the equity of the system. The data base that is supporting the Working Group shows that the average remunerations officially declared by Portuguese contributors is relatively low (lower than two minimum wages) and that average remunerations are not increasing as age structure rises.

It will be then necessary to deal with the short-term financial crisis of social security separately from the issues of reforming all the system and principally of improving efficiency and equity levels. Short-term perspectives cannot ignore also the critical situation of Caixa Geral de Aposentações the institution that is managing and being responsible for the social security of public administration workers.

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<sup>49</sup> Expresso, 21th December 1996, interview with Professor Correia de Campos.

### **V.3. Industrial policies**

#### *V.3.1. Contents and scope of industrial policy in lagging countries*

Traditionally, the determination of contents and scope of industrial policy is a source of controversy and debate. Some alternative approaches may be invoked in order to help us to format the analysis of how effective industrial policy is as an instrument of economic cohesion in lagging countries, not ignoring employment creation objectives.

One of the alternatives available defines industrial policy as the wide set of acts and policies of the state in relation to industry, either positive (participation or control) or negative (minimizing intervention). As a Portuguese researcher has recently noted (J.Amado da Silva, 1994:2), the discussion about the contents and scope of industrial policy cannot ignore a more global discussion concerning the role of state intervention in the economy and the modalities of coordination of the several interventions.

Others prefer the criteria of the instruments managed by the several centres of decision of industrial policy, which perhaps is a more pragmatic view about the contents of the policy. Nonetheless, this pragmatic view leads usually to a conception of industrial policy strongly related to economic (de)regulation and indirectly to the controversial question of the concept of public interest which supports the (de)regulation acts of the state in industrial markets (J.Confraria, 1995:72-73). Privatisation efforts of the Portuguese Government in the very recent years make this conception attractive, since the strategy of privatisation has been presented as an instrument of industrial policy oriented towards objectives of strengthening market forces, helping the emergence of Portuguese economic groups and supporting public interest in Portuguese companies being opened to foreign participation.

One of the main consequences of the "instruments approach" of industrial policy is the growing relevance of competition policy and the difficulties of establishing a clear delimitation between them.

Furthermore, when some analysts suggest that the preexisting national industrial policies explain the puzzled evolution of E.U. industrial policy they are positively wrong. In fact, in that evaluation, they are not using the same approaches of industrial policy. The very

last orientations of some national industrial policies are already guided by other arguments for state intervention in industry. In fact, besides the traditional arguments of market failures, domestic distortions of price systems and infant industries, the creation of positive externalities and employment promotion became central elements for a new rationale of national states intervention in industry.

The only effective illustration of the new tendencies arising in E.U. industrial policy is the field of information technologies where a stronger pressure for a pooling of resources became particularly insistent and the way research efforts at the European level begin to be considered as a powerful engine of a new E.U. industrial policy.

Briefly, other approaches should be implemented in order to combine efficiently E.U. developments with those that national member states are experimenting. I think that the most promising orientation is evolving as a convergent combination of different tendencies which allows at the same time to establish a new framework for understanding competitiveness from a supply side performance point of view and to consider the role of decentralisation.

Quoting I.Begg and D.Mayes (1993 : 4), it is easy to find an illustration of that orientation : "a narrow definition of the term 'industrial policy' covers a wide array of policies, including direct intervention to support emergent or declining sectors; help for innovation, diffusion of new technology or R&D; capital subsidies; sector strategies and direct public production". In this case, it is obvious the presumption that the aim of decentralised industrial policy is to bring about improvements in competitive advantage using a supply-side perspective rather than a macroeconomic framework.

This is not the right moment to discuss all the theoretical contributions converging to this kind of approach of industrial policy. We only know that industrial and regional economics are now sharing common interests focusing the role of decentralised interventions. The relevance of this approach is enhanced when industrial policy orientations are questioned from the point of view of their implications in employment creation performances.

### *V.3.2. Some evidences about Portuguese industrial policy in recent times*

The Portuguese experience of elaborating strategies for implementing industrial policies within the two CSF's (1990-1993 and 1994-1999) is a good evidence of the new roles that industrial policy should play as an instrument of cohesion policies. In fact, the first programme for the development and modernisation of Portuguese industry (PEDIP1) has been negotiated by the Commission and Portuguese government as a derived result of the more complex negotiation of new orientations of Structural Funds for Objective 1 and other targeted regions. It was the first time that a specific programme for industry modernisation in Objective 1 regions was accepted by the Commission. So, the first CFS(1990-93) has been prepared, conceived and negotiated as an experimental programme designed in order to help real convergence of Objective 1 countries.

The second CFS(1994-1999) has been already conceived accepting the possibility of another PEDIP, confirming some experimental issues presented by PEDIP1.

PEDIP1 and PEDIP2 are not just instruments for up-grading competitiveness of Portuguese industry. They should also be seen and evaluated as instruments of economic cohesion. So, a decentralised approach of those programmes should be elaborated not only as a different strategy of implementing a sector policy, but also combining it with a rationale for spatial development. And we may say that PEDIP 1 and particularly PEDIP 2 have introduced a new cycle of industrial policies Portugal.

One cannot ignore that Portuguese industrial policy after the Revolution of 1974 is a fine illustration of the difficulties in creating a steady environment for the configuration of the expectations of economic agents concerning the main priorities of public intervention in industry.

First, industrial policy has been forced to fit itself to a new favorable environment to market economy, particularly when the industrial public sector was politically no longer seen as an instrument for enhancing and disseminating changes in industrial system. So, in the new framework of E.U. funding, Portuguese industrial policy is a learning-by doing process of adapting to a market-oriented environment (L.Mira Amaral, 1992:73-74).

Second, Portuguese industrial policy is not a well-succeeded experience of creating a steady environment for economic expectations because it has assigned very different and sometimes opposite roles to traditional industrial activities already in place. Industrial policy produced some changing orientations about the main priorities of industrial modernisation. Either recommending the technological up-grading of Portuguese natural resources-based sectors such as ceramics or wood industries or evolving to a strategy oriented towards efficient and progressive companies and not towards sectors, industrial policy oscillated very much in giving credible indications of modernisation priorities to economic agents and new investors . In other words, the strategic orientations of industrial policy concerning the role of sectors representing the core of Portuguese model of international specialization became paradoxically a source of instability among economic agents.

So, PEDIP 1 and PEDIP 2 became key opportunities for improving another process of learning by doing which consists in leaving out progressively the traditional presentation of strategic orientations by sector and, on the contrary, helping the emergence of new competitiveness factors and focus the policy priorities within the firm itself.

Favorable conditions for a steady environment of economic agents expectations arise particularly if the way industrial policy authorities understand the promotion of new competitiveness factors of existing industries is clearly perceived by entrepreneurs and investors. We shall see that these favorable conditions produced a not enough steady environment, due to the changes having been introduced between PEDIP 1 and PEDIP 2 and to the prevailing non decentralised approach followed by Portuguese authorities in managing industrial policy.

Nonetheless, the two programmes allowed for a new paradigm of Portuguese industrial policy, organised around three main principles :

- To see industrial companies and establishments as the core of all interventions and leaving out the sector rationale;
- To use foreign direct investment as an instrument in order to spread intensively quality, productivity and organisation among the sub-contracting companies;

- To improve a better articulation of industrial policy with financial instruments, namely venture capital.

Anyway, as long as a new paradigm is arising, the emergence of E.U. funding in Portuguese industrial policy coexists with some conflicting tendencies in organising the main instruments available. One illustration of these conflicting tendencies is the balance between investment incentives offered to the reequiptment and modernization of individual companies and societies and other indirect interventions such as improving technological infrastructures, helping missions of up-grading productivity and efficiency and promoting global strategies for improving environment quality.

So, from PEDIP 1 to PEDIP 2 the new paradigm has been seriously improved. A key illustration of this evolution are the so-called horizontal objectives of industrial policy which inspired the elaboration of PEDIP 2, renovating a tradition dominated still then by the presentation of objectives for specific sectors :

**Table 61 - Horizontal objectives of Portuguese industrial policy introduced by PEDIP 2**

- |   |
|---|
| <ol style="list-style-type: none"> <li>1. To improve the way markets work concerning competition and adjustment</li> <li>2. To create inter-faces for integrating competences in different sectors, in order to allow for dynamic factors of competitiveness like innovation., quality and design, creation of Portuguese labels and human resources qualification</li> <li>3. To make industrial structure receptive to environmental investments</li> <li>4. To reduce the weight of energy-intensive products in industrial structure</li> <li>5. To develop the culture of entrepreneurship strenghtening Portuguese industrial groups and helping strategic concertation with SME's</li> <li>6. To reformulate the structure of funding of Portuguese companies, improving permanent capital and the diversification of funding sources</li> <li>7.To help cooperation among firms as an instrument for larger scale investments</li> <li>8. To promote the internationalization of Portuguese industry helping new investments in commercialization structures in external markets and strategic alliances and joint-ventures with foreign companies</li> </ol> |
|---|

### *V.3.3. What kind of indirect effects could industrial policy produce concerning employment performances*

Within this framework, industrial policy could no longer be seen as a direct instrument in order to achieve better performances concerning employment creation.

Negative effects could be expected considering that, enhancing modernisation improvements, concerning technological equipment and internal organisation and helping reconversion procedures, industrial policy may reinforce the tendencies for down-sizing of firms involved in strong adjustment processes, principally when firms, after having completed modernisation investments, have been confronted with a sharp decrease in demand determined by either cyclical or structural effects. Some evidences have been found in firms having received support from PEDIP 1 concerning modernisation investments implemented without a clear perception of commercialisation and market priorities and then forced to face a particularly severe environment in the first years of the 90's.

Positive effects of industrial policy concerning employment performances depend on the ability of creating and consolidating some externalities, as for example technological infrastructures, particularly active concerning the dynamic performances of competitiveness of firms. In our opinion, it is no longer operative to adopt the magnitude of employment creation as a criteria for accessing investment incentives and grants side by side with other criteria of industrial performance, economic and financial feasibility or productivity improvements. The best way through which industrial policy may induce better performances concerning employment creation is to allow for a more favourable environment for the emergence of new ventures and supporting externalities such as Technological Centres, logistic infrastructures, incubators, decentralised and integrated technical assistance to SME's. The more recent experience of orienting venture capital funds managed by industrial policy towards reconversion investments and procedures within traditional sectors of Portuguese industrial seems to be a very precarious solution, aggravating the experience of introducing venture capital as an instrument of industrial policy.

The impact of industrial policy on employment performances will furthermore depend on the ability of adjusting policy orientations to the diversity of entrepreneurial models and trajectories evolving within Portuguese industry.

Some empirical evidences and research results are available showing that, in the more concentrated industrialized areas of the country, particularly in the North and Centre regions, a dual industrial structure is evolving, though we are not yet in able to quantify how significant are now the emerging examples of firms in which modernisation, organisation and innovating potential are up-grading flexible specialisation<sup>50</sup>. Anyway, the entrepreneurial model that is still dominant can be described through the following table :

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<sup>50</sup>The empirical research made by Professors José Silva COSTA and Mário Rui SILVA (see the authors 1993 and 1994 references) is the more recent and solid essay of quantifying how significant are these emerging examples.



**Table 62- Main characteristics of industrial entrepreneurial model still dominating the more industrialized areas of the country**

Criteria	Main characteristics
Entrepreneurship achievements	<ul style="list-style-type: none"> <li>• Entrepreneurship supply is characterised by a strong capacity of initiative and of creating new firms, without significant up-grading of organisation which is not traditionally well managed</li> <li>• Prevalence of small and medium entrepreneurs whose qualification is mainly produced by learning-by-doing processes within the firm and a particular sector</li> </ul>
Knowledge of external markets and of internationalisation mechanisms	<ul style="list-style-type: none"> <li>• A strong experience of commercialisation accumulated in manufacturing export-sectors producing consumption goods, either by participating directly in external markets or throughout sub-contracting networks</li> <li>• Difficulties in conforming to higher stages of internationalisation, such as joint-ventures or technological transfer strategies</li> </ul>
Entrepreneurial culture	<ul style="list-style-type: none"> <li>• A strong tradition of local embeddedness culturally associated to the entrepreneur origins and family and to the previous experience as workers</li> <li>• Very sensitive to demonstration effects of wealth and industrial performances</li> <li>• Tendency for concentrating in the same person several functions and responsibilities</li> </ul>
Capability of accumulating technological knowledge and inducing advanced services	<ul style="list-style-type: none"> <li>• Very weak average performances of inducing advanced services demand</li> <li>• Weak potential of accumulating technological knowledge and of identifying what are technological needs, strongly dependent on the intervention of suppliers of capital goods</li> </ul>

Innovation trajectories	<ul style="list-style-type: none"> <li>• Relevance of incremental innovations</li> <li>• Up-grading of processes and products already available</li> <li>• Very sensitive to industrial policy incentives</li> </ul>
Funding	<ul style="list-style-type: none"> <li>• Strong resistences in sharing capital participation and management and inherent weak receptiveness to venture capital</li> <li>• Low participation of entrepreneurs' own capital in the great majority of firms already in place</li> </ul>
Environment culture	<ul style="list-style-type: none"> <li>• Low propensity to investments able to up-grade external image of the firm</li> <li>• Slow adjustment to environmental protection conditions namely in rural industrialisation areas</li> </ul>

J.Silva Costa and M.Rui Silva(1993:183-184) showed that this entrepreneurial model, though sharing the same characteristics of industrial districts, it has not been well succeeded in achieving the same performances : "There is a strong agglomeration of firms and dense formal and informal relationships among them, but the division of labor and production services are weak.However, it is feasible to admit that this model may evolve towards a model of industrial district".

We know that the evolution of a model characterised by the combination of territorial and horizontal integration of firms towards a model of industrial district may be a good argument for a decentralised industrial policy. In this debate there is a tradition of invoking the model of italian districts as a benchmarking for that evolution.

Nonetheless, the question is more complex than simply evolving from a model in which territorial integration is combined with horizontal integration of firms to another one combining territorial and vertical integration.

In fact, the reconsideration and further analysis of Italian districts performances and evolution are undergoing. New insights on the way subcontracting relationships evolve into forms of quasi-integration among firms, creating "constellations of subcontractors around a group of leader firms" in North Italy are an interesting contribution to identify another forms of organisation among SME's (R.Cappellin, 1995:2-5).

The question of how the relationships of interdependence among small and medium firms are a precondition for flexible specialisation is a matter of controversy. G.Becattini sustains that in industrial districts "the population of firms is segmented in the sense that different phases of the process of production are divided between the firms, each of which specialises in one or a few phases"(1991:111). Other contributions, though accepting that the key feature of industrial districts is " a production system organised on the basis of small, vertically desintegrated and highly specialised firms, knitted together in a dense network of market-based interactions" (F.Martinelli and E.Schoenberger, 1991:117), consider that flexible accumulation may progress from other organisation forms: "the fragmentation of the production system must not be confused with a fragmentation of capital and control and a generalised resurgence of atomistic and competitive entrepreneurial forces"(F.Martinelli and E.Schoenberger, 1991:128).

The issue of flexible specialisation is still relevant for a significative part of Portuguese industry, obviously not for the same reasons invoked by those who think that the previously dominant Fordist regime of accumulation is moving away towards new forms of flexible industrial organisation. Fordism is practically absent from the entrepreneurial model described above and intra-industry trade is not dominant in the main patterns of export-led industrialisation managed by Portuguese traditional sectors. I think that flexible specialisation fits well to this entrepreneurial model because it shares the main characteristics suggested by Becattini concerning creative environments : "a mental curiosity as an end in itself, a strong tendency to socialise, a bent for using analogies as reasoning processes and a moderate tendency to overvalue an individual's own possibilities of success" (G.Becattini, 1991:110). Or, as P.Roemer provocatively recognised, the fact of being incurable experimenters and problem-solvers explains that "the essence of flexible production or continuous improvement is a set of arrangements and physical imperatives that push everyone in an organisation to look for small improvement in how things are done" (P.Roemer, 1993:78).

We know that the "learning economy", combining the new competitiveness factors such as knowledge, information and innovation, will be the new engine of E.U. economic recovery. However, it is hardly difficult to generalise this model within E.U. territory and market forces will obviously reinforce the agglomerations in which creative environments are already working and performing well. Nonetheless, cohesion policies cannot be conceived ignoring the disembodied aspects of the new competitiveness paradigm. It is

true that, as it has been underlined by A.Amin and J.Tomaney, objective 1 regions often lack "institutional density, diversity and interdependence characteristics of learning based competition" (1995 :32).

Criticism of regional and technological E.U. policies excessively focused on embodied technological investments for objective 1 regions is gaining new supporters inasmuch as real convergence performances are weak and so did national industrial policies guided by the same rationale A.Amin and J.Tomaney speak of improving collective knowledge and developing learning and adaptation potential of existing industrial clusters as a new orientation (1995:32).

This is the pertinent framework to discuss the role of decentralised industrial policies in favoring a disembodied and complementary approach of cohesion policies. North and Centre Region should be in the core of this debate, not only because there are targeted as objective 1 regions, but also as a territories searching for a national industrial policy more receptive to the need of creating conditions for the improvement of the still dominant entrepreneurial model mentioned before.

Industrial creative environments existing there are still looking for policies supporting and helping the emergence of higher forms of collective knowledge and institutional interdependence between small and medium firms and technological infrastructures.

A.M.Figueiredo, J.Silva Costa and M.Rui Silva (1993 : 111-116) have identified the critical issues for a strategic intervention taking into consideration the existing forms of flexible industrialisation within Portuguese industry:

- To improve the strategic capacity of existing small and medium firms in upgrading their specialisation;
- To reinforce the territorial integration of main productive functions and advanced services in order that specialisation upgradings may evolve simultaneously with some kind of services externalisation;
- To improve internationalisation of small and medium firms in order that rather being merely passive subcontractors they can implement active cooperation strategies;

- To improve logistic conditions of regional exports intensifying the comparative advantage of being near the markets of Central Europe (just in time procedures in distribution);
- To reinforce the capacity of national and regional R & D systems of producing technological knowledge being assimilated by the exporting small and medium firms and coherent with their realistic technological trajectory;
- To help flexible specialisation firms to ask for and to assimilate new qualitative patterns of education and training of human resources and of entrepreneurial organisation.

These critical factors show how discriminating (negatively) would be a national industrial policy exclusively guided by objectives of reorganising or creating "ex novo" competitive and internationalised entrepreneurial groups. In fact, objectives of creating new institutional conditions for sharing collective knowledge and information between SME's and technological infrastructures and of combining industrial and R & D policies ask for decentralised policies. If the creative industrial environments already working need different kind of upgradings industrial policy should be designed within them, either benefitting of the interactions already working or promoting the pertinent institutions and the initiatives able to improve the functioning and the performances of the interdependence system.

Until now, the need of territorialising industrial policy has been wrongly identified with the implementation of a regional investment grants system, through which less-favored regions should have higher grants and other transfers in order that equity may be respected and which is managed by another Ministry, the Ministry of Planning<sup>51</sup>. With this misunderstanding of decentralising industrial policy a perverse effect is rising : all the firms installed in already industrialised areas turn into targets for industrial policy and the chance of being supported will only depend on their capacity of reacting and fulfilling global conditions and criteria imposed by programmes such as PEDIP 1 and PEDIP 2.

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<sup>51</sup>This argument has been invoked by Portuguese Government in order to justify the high amount of grants received by the large foreign investment of Ford-Volkswagen in the zone of Palmela at south of Lisbon.

What we mean for a decentralised policy is a coherent set of actions in which technological infrastructures, entrepreneurial associations, institutions supplying advanced services to small and medium firms and technological research inter-faces are simultaneously targets and brokers. In other words, in a decentralised industrial policy creative environments become supported spaces evolving as learning-based networks among small and medium firms and private-public partnerships.

We may argue that decentralised policies risk to provoke some drawbacks such as a greater requirement for coordination and the opportunity of beneficiaries obtaining support from multiple sources, creating the proliferation of agencies (I.Begg, M.Lansbury and D.Mayes,1993).

Notwithstanding this possibility, formulation and delivery are other functions of industrial policy that must be considered in order to identify the merits of that approach. Furthermore, the previous centralised experience of managing PEDIP 1 illustrates that, though in this case, problems of lack of coordination arise within different agencies of the ex-Ministry of Industry (now integrated in a more vast Ministry of Economy) and between the latter and other Ministries such as Science and Technology.

Brief, negative impacts of industrial policy on employment will be more severe if regional experiences of flexible industrialisation and concentration areas of SME's will not be taken into consideration by industrial policy orientations. It is very important to stress that the experience of attracting foreign direct investment in sectors such as car industries, electronics and information technologies as a priority for industrial policy should not necessarily be an obstacle for taking into consideration the need of supporting flexible industrialisation led by SME's. The experiences of attracting foreign direct investment in key emerging sectors are always risky. Actually, in Portugal, the experience of Renault, closing some plants, is the other side of the same coin, although Ford-Volkswagen and Siemens projects still go on being seen as positive results of attracting foreign direct investment. Supporting the flexible industrialisation led by SME's should not be limited to establishing networks of suppliers to those huge foreign investments, although it may be seen as a condition for generalising the internal effects of those projects. Flexible industrialisation led by SME's is claiming for specific interventions of industrial policy beyond the influence and the multiplying effects of foreign direct investments. As we

have already shown, is still important to help it to keep the comparative advantage of selling to the markets of the EU, benefitting from the proximity of them.

Among the priorities of the new Government we see that training policy will take into consideration the need to support SME's through specific programmes targeted at them, considering that, in last years, the access of SME's to general training programmes has been very limited. This is a good illustration of a more comprehensive understanding of the issues that industrial should be facing the future.

## **VI. Conclusions**

### *VI.1. Synthesis and Main Findings*

From 1985 onwards, Portuguese labour market performed remarkably well: total employment grew at an average annual rate of 1.1% (2.2% between 1985 and 1991), whereas unemployment rate remained low, by European standards at least.

Notwithstanding, since 1992 - when the Portuguese economy was hit by the international recession - employment has decreased and the unemployment rate has been on the increase, although it remains under 8 percent.

Such performance was accomplished against a background of high participation rates (most notably in the case of women), heavy employment losses in agriculture, and the persistence of long-term demographic trends leading to the aging of the Portuguese population (due to decrease of the fertility rate and the extension of life expectancy) and, in the second half of the 80s, to an absolute decrease of total population.(due to unforeseen negative migration flows.

During this period, several programs aimed at stimulating the modernization of the Portuguese economy (thereby reducing the gap that still separates it from the European average) were implemented with the financial support of the European Funds. To a large extent. To a large extent these programs were directed towards agricultural and industrial activities, as well as to education and training.

On its side, agriculture experienced heavy job losses despite the amount of financial aid received. Such losses are the result of both the existence of substantial hidden unemployment and the fact that, as a whole, this activity remains incapable of facing international competition. In fact, further job losses in agriculture are expected, although at a much slower pace.

Along with such changes, the share of unpaid family work in total employment sharply fell as agriculture, together with some services, is a major user of this kind of work. At least in recent years, family work seems to be acting counter-cyclically, meaning that it acts, to some extent, as a cushion against wage-employment losses.



On its side, industrial policy extensively promoted the development of Portuguese industry both by subsidizing private direct investment and by directly investing in the creation of new infrastructures capable of generating positive externalities. During the surveyed period, industry's performance was quite good - a considerable number of new establishments were created accounting for about 49% of total employment creation in manufacturing industries (the remainder is due to the expansion of continuing firms). Besides, the importance of plants start-ups and shut-downs in terms of employment should be stressed, as available evidence suggests that these originate job flows of about the same size of those that result from the expansion and contraction of continuing establishments.

Although there are no visible signs that point out to a specific entry behaviour of small firms, these have generated positive and increasing net employment flows, whereas those originated by large firms were small and even negative during at least part of the surveyed period.

The abovementioned evidence may suggest that an industrial restructuring process (whose necessity is widely agreed upon) took off during this period. However, further evidence suggests otherwise. On the one side, most of the total gross employment variation (about 80 percent) occur within industries or regions. On the other side, employment growth was more intensive for low-wage industries and regions. Finally, small plants, although presenting high birth rates, also face higher mortality rates, lower productivity, lower wages and more intensive job turnover than large plants.

Despite the signals that bigger firms have initiated a process of adjustment to the so-called "new competition", we conclude that for the most such adjustment is yet to be accomplished as a non-quantified, but certainly big, share of firms created in recent years instead of representing a new way of doing business, rather replicates the main characteristics of the entrepreneurial model that still dominates the Portuguese industry.

It is worth mentioning that the nature of the industrial policy implemented immediately after Portugal acceded the EC is at least partly responsible for this situation. In fact, the most widely used instruments of industrial policy - i.e., subsidies to investment - were conceived and managed with three different and contradictory objectives, namely, industrial modernization, employment creation, and the reduction of regional disparities.

Such a policy implemented in a context that deeply stimulated the development of some traditional Portuguese industries (due both to a lively internal and external demand, the latter fostered by an exchange rate policy actively promoting the devaluation of the Portuguese escudo) actually promoted capacity investments as opposed to modernisation investments and did not contribute to reducing regional asymmetries.

From the viewpoint of the labor market, such an evolution ended-up being positive as it promoted employment and delayed the substitution of capital for labour, thereby reducing unemployment. Furthermore, we believe that the fact that unemployment in Portugal is mostly of a cyclical nature (as we have seen in section I.V.) - unlike what happens in many other European countries where structural unemployment has been on the increase - is consistent with this view.

It is widely agreed that unemployment in Portugal is predominantly of a cyclical nature. Notwithstanding, the causes of the sensitivity of the unemployment record in relation to the economic situation is a matter for some controversy. Many opinions do, however, converge to consider that it is to the fact that the labour market displays a considerable degree of flexibility that Portugal owes its good performance in terms of unemployment. The fact that nominal wages and earnings are also sensitive to both inflation and unemployment reinforces this interpretation. The same goes with evidence at the micro-level where local, firm and industry-specific conditions play a significant role in determining pay.

If flexibility is to be given such a crucial role in explaining the performance of the labour market, there is one question still calling for an answer - why is the labor market so much more flexible in Portugal as compared to other European countries? This question is all the more relevant as it is a well-known fact that labour market regulation is quite stringent. Restrictions imposed refer, namely, to their capability of adapting working hours, moving workers across jobs and dismissing workers.

Arguably, flexibility stems mostly from the fact that in Portugal reservation wage levels are low due to three main reasons: the low levels of average wages, the low coverage of the unemployment insurance system, and the importance of atypical forms of work. Notwithstanding, one has to recognize that the degree of flexibility revealed would not be possible with existing legislation except if non-compliance with the law is acknowledged.

Several facts indicate that this is, indeed, the case in Portugal. Among these, the importance that term-contracts have attained until 1990 and independent work from there on, as well as the widely spread practice of using overtime work despite the strict regulation applying in all these case, are worth mentioning. These are good examples of situations where law is overruled, thereby creating a flexibility "de facto" where there were legal rigidities.

Such a context is coherent with the fact that the employment creation performances of Portuguese economy are still strongly dependent on growth general prospects and not merely on the labour-intensive pattern of growth paths. We believe that the best active employment measures should be targeted at improving growth performances of Portuguese economy, principally in what concerns physical and immaterial investments generating significative externalities. Consequently, we also believe that growth policies cannot be confined to traditional demand-driven interventions. All the evidences suggest that demand-driven factors depend mainly on growth performances of EU economies. Internally, supply-side and institutionally oriented policies should be the main drive in order to favour better growth prospects in a period of strong structural adjustments and considering the new scenarios for the intervention of EU structural funds within lagging countries and regions.

This is also the right framework to ask for a more accurate contribution of education and training systems. Notwithstanding the significative rise observed in the last 20 years concerning rates of participation and enrollment rates in practically all the education levels as well as training facilities, that increase cannot by itself compensate the very low average educational attainment levels still persisting within labour force. It is necessary to create favourable conditions in order that firms could adapt themselves to new turn-over conditions concerning the employment market, combining external flexibility performances with the up-grading of internal flexibility within firms. The reform of fiscality and of the way firms could contribute to the eradication of social security financial crisis should be oriented towards more ambitious targets than solving short-term financial problems. It is absolutely necessary that the structure of labour force qualifications within firms could adjust to the rise of enrollment and participation rates in the education system. Higher stages of industrialisation profiles in Portugal and more aggressive strategies of attracting foreign direct investments require that type of adjustments. We believe that education system is precociously evolving towards a

development model of Portuguese economy in which deindustrialisation is passively accepted and in which tertiary sector is seen as the only safeguard for employment creation.

Consistently with such an understanding of the Portuguese labour market main features and functioning is the fact that the national debate on the issue has, for the most, been driven around some of the abovementioned topics. However, some issues that this report considers much more important, were left aside.

### *VI.2. The National Debate*

The national debate on the labor market followed mostly along the three following avenues:

- i) the system of industrial relations, particularly in what concerns the relative roles of different levels of negotiation (i.e., centralised *versus* decentralised);
- ii) the flexibility of the labour market, particularly in what concerns legislation on dismissals, atypical forms of work, working hours and the definition of job contents;
- iii) the instruments of the labour market policy, particularly in what concerns the relative importance of active versus passive measures.

It is widely recognized that the State holds a prominent position in the Portuguese industrial relations system. Therefore, it hardly comes as a surprise that one of the main topics for debate referred to the reform of such system particularly in what refers to redefinition of the relative roles of the more centralised and decentralised levels of bargaining. Claims were that the highly centralized level of negotiation still prevailing in the Portuguese system is one major obstacle for adapting regulation to the diversity and variability of operating conditions which could only be dealt with at more decentralised levels of negotiation. In fact, the Council for Social Concertation (CPCS) was created in 1984 as an attempt both to improve the system's capability of dealing with cases of non-compliance with existing rules and to reach a consensus leading to the reform of regulation applying on working conditions.

Although non-compliance with existing regulation remains an issue, the CPCS did manage to reach several agreements that established the principles applying to

negotiations taking place at the industry or firm-level. These agreements proved a powerful instrument for the stabilization of the macroeconomic conditions of the Portuguese economy - it was with the agreement signed in 1987 that the concept of "expected inflation rate" became the referential for wage negotiations in substitution of the inflation rate observed during the period following the preceding agreement.

The agreement signed in 1990 (AES) introduced again some major changes. Among these was the adoption of an objective of effective growth of real wages towards the EC average, under non-inflationary conditions, and the concern with the safeguard of international competitiveness of Portuguese firms. As a direct consequence of such concern, the agreement contained clauses acknowledging the need to decentralise the level of labour market regulation, particularly by redefining the roles of law and collective bargaining. These clauses materialized later on in legislation giving collective bargaining a wider scope of negotiation, particularly in the field of working time.

Despite these changes, collective bargaining remains highly centralized and unwilling to use the new prerogatives given by law.

Surprisingly enough, employers seem to be more adverse to firm-level negotiation than workers which is due to three main reasons: negotiations at this level are harder as single employers have to face aggressive trade unions; employers fear that conducting firm level negotiations will create new incentives to plant unionisation; industry-wide agreements give employers some flexibility over wages as conventional wages tend to be viewed as lower bounds for setting wages firms actually pay.

In what concerns the contents of the very agreements, it is clear that they seldom go beyond matters typically regulated by through collective bargaining (grading systems, pay determination, career paths, and mobility mechanisms, e.g.). The contents of the majority of the agreements passed is therefore quite poor, frequently going no further than merely restating the law. For that reason, in 1996, law came again to the forefront and regulated some issues that the agreement passed in 1990 had left to the negotiation.

However, the flexibility issue was the major theme of the national debate on the labour market throughout the surveyed period. Two main topics, both of which represent major concerns of employers and workers, were particularly subject to discussion. These referred to the legislation on dismissals and the reduction of working time.

For a long time, employers had been claiming for deep changes of legislation on dismissals which was seen as highly restrictive due both to the procedures required and to the high costs firms had to incur in case of dismissals. Besides, the admissibility of dismissals was quite strictly regulated. For these reasons, employers considered that due to such rules their ability to react to external shocks was seriously diminished. Firms highly exposed to international trade (both in the national market and in international markets) were particularly concerned with this, particularly at a time when competition was becoming fiercer in European markets. Eventually, this led the Government to change the law on dismissals in 1989, thereby giving credit to many of employers' claims. Dismissals were thus made easier, but the very same law now regulates this matter also introduced a new regulation on term-contracts whose use became more limited. This should be considered as a compensation to the fact that dismissals were now easier. On the one side, job-security was reduced, but, on the other side, the use of more precarious forms of work, such as term-contracts (which roughly represented 20% of wage-employment), was restricted.

Unions (those represented in UGT, at least), unwillingly agreed with these changes, recognizing that the new international environment would forcefully lead to the loss of some jobs; these job losses were therefore seen as a condition for maintaining (and creating) other jobs.

However, this is still an on-going debate as neither employers, nor workers are pleased with the results of these changes. Employers still complain about the stringency of existing regulation, whereas workers consider to have given away one of their fundamental rights without sufficient compensation. In fact, term-contracts were not replaced by permanent contracts; instead, (false) independent work grew, at the same time that the importance of term-contracts sharply fell.

The other topic discussed under the heading of flexibility was working time. Workers had for a long time been claiming for the reduction of working hours which, despite the fact that they were higher than anywhere else in Europe (during the 80s, at least), showed no tendency to be reduced. For that reason, workers' claim was based on the urge to improve workers' living and working conditions. Employers strongly opposed such claims, arguing that working time reductions would put an unbearable pressure on costs and, once again, deteriorate their international competitiveness. Instead, so they claimed, what

was really necessary, was improve working time flexibility. An agreement was eventually reached on this topic in 1990 (AES) consacrating the reduction of working time to a new maximum level of 40 hours / week in exchange for the flexibilisation of working schedules. However, such an agreement took the form of a recommendation which was to be implemented by means of collective agreements until 1995. Once again, the result was that by 1996 normal working time was above the new maximum in most activities due both to workers unwillingness to make further concessions in what concerns working time flexibility and to employers opposition to the reduction of working time without further flexibility.

There are several factors that can help us to understand why these negotiations came to a dead-end and eventually called for State intervention.

It is a well known fact that working time reduction is a source of additional costs except in the case of no wage compensation (i.e., constant hourly wages). In fact, although some authors argue that productivity gains can be expected when working time is reduced, this is a matter for some controversy and it is generally agreed that this gains, if they exist, will not be big enough to compensate for the increase in labour costs. Such an increase will be all the more important in the case of labour - intensive firms / industries; it will also be more difficult to deal with when firms / industries are highly exposed to fierce international competition.

Working time reduction, except if accompanied with incomplete wage compensation (i.e., with a proportional increase of hourly wages) demands workers to pay for the reduction of working time. This means that it will only be likely if the marginal utility of leisure is higher than the marginal utility of wages, or when levels of wages are higher and hours of leisure scarce.

Finally, working time reduction gains feasibility if it is combined with the reorganization of working time, allowing for the extension of capital operating time by means of the extension of shiftwork. In such case, additional feasibility arises of the reduction of capital costs. In such case, a more intensive use of the capital factor produces a reduction of costs that can be used to finance the increase in labour costs associated with the reduction of working time, thereby reducing the need for wage compensation and/or the

loss of competitiveness. The higher is the share of capital in the cost structure of the firm / industry, the more likely will this outcome be.

From the abovementioned theoretical points, it results that the Portuguese economy is not a favourable ground for working time reduction processes to occur, considering the importance of firms / industries in traditional sectors, labour intensive, and highly exposed to international competition, as well as the low average level of wages. Therefore, it hardly comes as a surprise that employers and workers have not been able to agree and implement the decisions of the 1990 agreement. The reaction of employers to the new law that the Government has recently passed enforcing the 40 hours / week maximum working time (calculating the average duration of working time without considering the daily breaks periods, thus maintaining or even expanding the duration of work) reinforces what we have just said.

*VI.3. What are the crucial matters that are still absent of the national debate?*

#### VI.3.1. The worksharing debate

The worksharing debate has been completely absent of the national debate of working time, unlike what happens in the rest of Europe. This can be easily understood if we consider the low levels of unemployment that the Portuguese economy has experienced this far. However, the new Government seems to be particularly keen about this issue and has actually introduced a clause on the latest nation-wide agreement referring to the need to manage working time in the context of the employment policy, particularly by means of promoting the growth of part-time work by means of deregulating a number of aspects related to it. However, we fear that this means that a form of work that is still highly protected will be made more precarious with the only aim of fighting against unemployment. If this will be so, it may be feared that such a fight will be fought at the expenses of (still) existing job-security regulations, meaning that in order to create further jobs, the whole employment relations will become more precarious. Although such a stand still calls for further verification (as we have to be able to measure the impact of non-compliance with existing regulation on actual job-security), this should be a major topic for the national debate on the labour market. However, strange as it may seem (particularly, because Portuguese workers seem to be more keen about job-security than about income security), this issue has not been discussed out in the open.



### VI.3.2. The job-security/employment trade-off

Also absent of the national debate is the job-security/employment trade-off at least in such terms that are compatible with the main findings of this report. It has been reported above that a major cause for the Portuguese good performance in what concerns unemployment has to do with the actual degree of flexibility of the labour market. In turn, this is explained by the low levels of wages, the still low coverage of the unemployment insurance system and the importance of the atypical forms of work.

If this is so, one cannot ignore that all the official documents dealing with policy issues and the prospects of the Portuguese economy consider that the reduction of the wage gap that still separates Portugal of the European average is a major objective of the economic policy. Likewise, since 1989 that it has been decided to improve the coverage of the unemployment insurance system (sucessfully, so it seems), and that policy has not been reversed ever since. Finally, it is also worth mentioning that several attempts to keep the importance of the atypical forms of work within certain limits have also been done since 1989 (although not so sucessfully).

For all these reasons it seems that tacitly a consensus has been reached indicating that the path the Portuguese economy wants to follow pressuposes that all those measures will be implemented, along with further deregulation of the labour market. If such a consensus exists, it has been reached without balancing the social and economic benefits of such options against what is likely its major cost the increase in unemployment and the growth of its structural component. Furthermore, this will happen along with further reductions of job-security implemented for the sake of flexibility which, in such a context, is not likely to produce positive results. We believe that this should be a major subject for debate.

### VI.3.3. An effective and operative consensus on the main guidelines of education system reform

We believe that a false consensus on education system priorities is recently installed in Portugal among the main political forces and civil organisations. The complexity of the situation is arising because a two-simultaneous steps strategy should be implemented: to manage the problems created by the explosion of demand at the same time that quality

performances should be strictly observed. The conditions that Portuguese take-off concerning education prospects is facing are very unfavourable, because the Portuguese education system begins to react against its main failures and shortfalls when the countries that are sharing the same specialisation profile and disputing the same foreign investment contribution are deeply involved in improving the quality and efficiency of their systems. The difficulty of achieving a good compromise between these two issues is well perceived in the national debate concerning the discussion of what should families pay for their children being enrolled in public higher education (Universities and Polytechnic Schools) and of the bad results observed in the general examinations at national level of youth having completed 12 years of schooling.

The loss of energy that the Reform of Education System has suffered in recent times is a clear illustration that a false consensus is emerging. The challenge of the education system reform cannot be faced within a strictly sectoral approach. Families, firms, young people, civil society organisations should be involved as full interested and participant social groups. The lack of motivation among teachers and the management failures of schools require more than technical solutions.

It will be necessary to collect further insights and informations on the recent innovations of Training Schools and Technological Courses within secondary education generally accepted as generating best practices fitting well to the main weaknesses of the system, in order to appraise if these experiences have already been accepted by firms as solid supply sources of skilled labour force.

But, above all, it is necessary that national debate allows for further mutual knowledge between the education system and firms, eliminating the no man's land still existing between the aspirations and values of the former and the needs of the latter. The natural increase of educational attainments of young people entering now the education system and of those who have completed the compulsory education of nine years means that they will delay the moment in which they should face and solve the problem of job-searching and getting their own money. So, attitudes towards initiative, self-responsability, risk and decision-making in contexts of uncertainty should be produced and stimulated by education system in order to improve social commitment and responsibility of more educated young people.

#### VI.3.4. The trade-off between active and passive employment measures

The ESSEN's recommendations have been probably accepted in Portugal without having captured all of the implications of the theme and principally without adapting those orientations to the problems and to the functioning of the labour market in Portugal.

There is a very generalised tradition in Portugal consisting in multiplying the number and the kinds of programmes aiming at implementing active employment measures. We may say that the diversity of targeted groups for active measures is managed multiplying the number of programmes and measures selected, instead of managing a small number of measures or programmes and adapting them to the diversity of targeted groups and individuals. We believe that the last alternative is more operative, reinforcing the probability of attaining better results.

In spite of Unions having kept insisting on active employment measures, there is no consistent debate about the evaluation of the results of the whole panoply of measures that have been implemented in the last ten years and principally about the pertinent territorial level in order to have better results and better coordination performances. We believe that the panoply of active measures being implemented in the EU countries is closely related with the energy and the initiative capacity of civil society organisations in these countries. We cannot then merely import the institutional ability and imagination emerging in other countries, admitting optimistically that nothing else would be necessary in order to have positive results.

The great majority of active measures now available and generalised should be implemented at decentralised levels and will be producing more positive results integrating and being managed within local development strategies. This is a challenge for the IEFPP reorganisation and principally it should be seen as an opportunity for Employment Centres have a more active and autonomous role in promoting local development.

Finally, training policy must be not kept aside of the trade-off between active and passive measures. A training project or a training plan are not by themselves an active or a passive measure. The way the project or the plan are conceived, managed, targeted or implemented and the kind of apprenticeship environment and performances effectively

achieved are key factors to be considered. Unemployed people (not ignoring of course the diversity of couples of situations of educational attainments and skills presented by unemployed people) and youngsters looking for a first job are key targeted groups in order that passive measures may have a shorter duration and in order that they could be better articulated with active measures. Such performance to be effective should be accomplished managing social unemployment and unemployment benefits with more active and severe modalities of follow-up and of control of people involved. The main bottleneck in Portugal to achieve such a performance is institutional. In fact, in order that an unemployment benefit could be seen as a temporary source of protection and not as a permanent charge, it is necessary that the beneficiaries could receive preferential treatment as targeted groups for active training and for active employment measures. The success of the recent Danish experience of reforming labour market and activating measures is mainly explained by the ability of combining new regulations for the unemployed claiming unemployment benefit with several active measures and participation in active programmes (European Commission, Employment in Europe, 1996:133).

#### VI.3.5. The challenge of improving the transition into working life of youngsters

The young people that is looking for a first job is a very complex targeted group, because at least we may identify three main situations:

- Those who leave the education system without any qualification at all;
- Those who leave it after having completed some years of basic, secondary or higher education but not having any vocational qualification;
- Those looking for a first job with vocational qualifications through education or vocational training system.

If we combine these situations with different social status or gender aspects, it's easy to understand the complexity of the problem of training policies aiming at improving the transition into working life. In fact, for the first group, that kind of training programmes will be seen as practically the last chance of getting a vocational qualification and a job; the second group sees the programme as a typical situation of training towards employment and, finally, the third group tends to accept training as improving their chances of getting a job, believing that firms will be attracted by their investment in training. The national

debate is not aware of all the implications generated by the complexity of these situations concerning the implementation of active training measures aiming at improving transition into the working life.

The training programmes conceived under a strategy of training towards employment should have in mind that, at least in what concerns the youngsters that are looking for a job as result of drop-out cases without any qualification at all, these active training measures are as well instruments in order to prevent higher levels and incidence of social disability. The following table tries to summarise what could be the central issues for a debate around transition into working life of young people that are still dropping-out the Portuguese education system and demanding training programmes as the last chance of improving their job-searching strategies:

**Table 60- Main guidelines for training programmes aiming at improving the transition into working life of young people**

Key variables of training system	Critical aspects of a vocational training programme improving transition into working life					
	Diversity of targeted groups socially and vocationally	Segmentation of labour market	Role of vocational guidance	Support to integration into working life	Engagement of employers	Evaluation of integration processes
Conception	x	x			x	
Organisation	x	x			x	
Targeted groups and individuals	x	x				
Guidance		x	x	x		
Divulagation	x			x		
Trainers	x					
Access to employment market	x	x		x	x	
Evaluation			x	x	x	x

Source : Elaborated by Quatenaire-Portugal

Considering that drop-out rates will be falling very slowly in the future and that the extension of vocational aspects managed by the education system are also slowly increasing, training programmes towards employment will be a strong opportunity in order that training system could play a major role in accelerating active employment measures.

#### VI.3.6. The need of preparing the debate on social security reform

Finally, we believe that the progression of the work of the team that is preparing the White Paper on Social Security will allow for generalising the debate in the major circles affected by the new coming orientations, including the issue of achieving a complete harmonisation among different regimes of social protection. The very low average value of remunerations declared by Portuguese employees and employers as well independent workers for social security purposes can no longer be ignored, accepting it just a natural reaction of contributors. It is necessary to take into consideration that short-term financial difficulties of social security should not delay the need of reforming equity and efficiency performances of the system, adapting distributive modalities to the new situation and helping the search of complementary sources of social protection.

Further debate on social responsibility of employers and employees is requiring further achievements in harmonising regimes and eliminating the existing inequalities. We hope that the Working Group on Social Security reform will have the audacity of proposing realistic ceilings for contributions and pensions in order incentivating complementary sources of social protection and principally leading firms to hire more qualified workers.

Considering that Portugal's tax pressure has sharply increased since the 70's, we believe that effects on labour demand of the social security reform will be strongly dependent upon audacious proposals concerning the reduction in the global rate of social contributions combined with tighter monitoring of the system. The improvement of budgetary manoeuvre is requiring a decisive political impulse.

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