

**MUTUAL LEARNING PROGRAMME:
PEER COUNTRY COMMENTS PAPER - PORTUGAL**

(Almost) No use for STWA-extension in Portugal?

Peer Review on “Employment measures to tackle the economic downturn: Short time working arrangements / partial activity schemes”

France, 27 - 28 September 2010

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1 LABOUR MARKET SITUATION IN THE PEER COUNTRY¹

This paper has been prepared for a Peer Review within the framework of the Mutual Learning Programme. It provides information on Portugal's comments on the policy example of the Host Country for the Peer Review. For information on the policy example, please refer to the Host Country Discussion Paper.

The crisis struck the Portuguese economy less hard than most other European countries, but due to structural problems its recovery is slower than in the EURO-area (see table 1). Value added registered significant decreases in manufacturing and construction and a modest growth in services (with the exception of transport and communications). In comparison with France the evolution of the Portuguese GDP since 2000 has been somewhat better, and the forecasts for 2010-2011 indicate a small increase in this difference in favour of Portugal (see table 2).

Before the crisis the unemployment rate in Portugal registered a steady and considerable increase, starting in 2000 from a percentage far below the European average and reaching the European level in 2006 (EU-27 and EURO-16). In contrast, unemployment in France was close to European average during the whole period. In the years 2007-2009 unemployment rates in both countries are almost identical and slightly above the EU/EURO average. In this context it has to be pointed out that Portugal almost doubled its unemployment **before** the crisis (from 4.0% in 2000 to 7.7% in 2008) (see table 3).

In Portugal, before the crisis, the female unemployment rate was much higher than the total, but in 2009 the difference shrank sharply because male unemployment rose by 2.4 percentage points (female 1.3), to a large part due to the loss of almost 100 000 jobs in construction and manufacturing. In France the decrease in the gender difference had started before the crisis. In both countries young workers (less than 25 years old) were particularly affected by unemployment (see tables 4 and 5).

Between the third quarter of 2008 (immediately before the crisis) and the third quarter of 2009 job losses in Portugal totalled 169 000. The negative rate of change was highest in construction, hotels and restaurants, financial services and consultancy, scientific, and technical activities (between 10% and 12.5%). Real estate activities were the only sector with a two-digit increase (+25.5%) (see table 6). The large majority of those who lost their jobs had temporary work contracts². The number of temporary agency workers decreased from 120 000 in 2008 to 100 000 in 2009³. During 2009 mass redundancies contributed with approximately 10 000 effectively dismissed workers to job reduction, and in the same year employers asked for the authorisation of a further 20 000 collective dismissals⁴.

The evolution of long-term unemployment indicates that the structural problems on the Portuguese labour market are more serious than those in France and in the EU-area as a whole. During the last decade long-term unemployment decreased in the EU-27 by one percentage point (from 4.0% in 2000 to 3.0% in 2009) while it more than doubled in Portugal (from 1.7% to 4.3%). In 2000 Portugal had half the percentage of long-term workers compared to France, and today the Portuguese rate is one percentage point higher than the French one (see table 7).

¹ I wish to thank Nadia Nogueira Simoes (DINAMIA-CET/ISCTE-IUL, Lisbon) for her help in writing this paper.

² Bank of Portugal, Annual Report 2009.

³ 'Relatorio sobre actividade de trabalho temporario e hoje apresentado', in OJE, 15th April 2010.

⁴ Ministry of Labour, Statistical Bulletin, July 2010.

2 ASSESSMENT OF THE POLICY MEASURE

Short time working arrangements (STWAs), or partial activity schemes, are important measures to help companies to keep the core of their qualified workforce during a limited period of economic difficulty. In the context of an extraordinary external shock a temporary extension of this kind of instrument may be useful. The French reform of lay-off arrangements responds to this need. It is particularly positive that an effort is made to articulate STWA with vocational education and training (VET). The question emerges to what extent and how this articulation between STWA and VET could be maintained in the long term in a less costly way.

As a matter of principle of public policy the regulation of STWA should be simple and transparent and social partners should be involved in the relevant decisions. The French reform was subject to social Concertation, but with regard to simplicity and transparency it does not seem to be optimal.

As is the case with any labour market intervention, the costs of STWAs need to be proportionate to the expected benefits and to the total budget for employment policies. Furthermore, the financial burden has to be shared in an equitable way between state, employers and workers. Special attention should be paid to the fact that STWAs usually benefit the core workers, while employees in precarious conditions who are particularly vulnerable during economic downturns tend to be excluded. From this viewpoint the extension of the French model to Temporary Agency Workers (TAWs) is very positive.

Costs must be periodically assessed under the perspective that the tax payer should not pay for situations that are normal risks in a market economy, or in other words, that state subsidies should be the exception and not the rule. The reform in France results in a considerable increase of the costs for the state. It might be worthwhile to discuss whether these are adequate in relation to the needs in the current crisis, but they are certainly too high to be accepted in the long run.

2.1 Comparing France and Portugal

STWAs have existed in Portugal since 1983 under the legal designation '*Redução temporária do período normal de trabalho ou suspensão do contrato de trabalho*' (temporary reduction of the normal working period or suspension of the work contract)⁵. Later legislation, namely the Labour Code (*Lei 99/2003*) and its revision (*Lei 7/2009*), did not introduce significant changes in this area. In its objectives and general design the Portuguese model of STWA is similar to the French one, but there are some important differences. One is that in Portugal the state reimburses only 70% of the compensation to the workers, the rest (30%) is paid by each company that implements STWA.

In contrast to France, the recent crisis did not bring the Portuguese government to widen the partial activity schemes and to introduce major changes in their regulation. The Country Fiche on France states that in 'many EU countries' governments extended the number of hours authorized, the duration and the sectors covered, widened the group of beneficiaries, increased the level of the benefits, and combined STWA with training. In contrast to this trend, the Portuguese government did not make any substantial change in its general regime of the lay-off. The major reason for this may be that the Portuguese model already included higher standards than in other countries. A comparison of some features of the French 1st level of STWA (before the reform) with the Portuguese general regime illustrates this. In the latter, compensation for the laid-off workers (two-thirds of the gross wage) is very close to the *subsídio de desemprego* (unemployment benefit), while it was considerably lower in France. In terms of target groups and eligibility the Portuguese

⁵ These instruments must not be confounded with 'partial unemployment' (*desemprego parcial*) which describes a completely different situation where an unemployed person accepts a part-time job and continues to receive a part of his/her unemployment benefit.

general regime was from the beginning (1983) less rigid than the French model. It applies to all salaried workers⁶ (production and services) in all sectors and in the whole country. Working time reduction is not measured in relation to the legal working time (in Portugal 40 hours per week) but to the '*Período Normal de Trabalho*' (Normal Working Period) stipulated in the individual work contract, which may be less than 40 hours. The maximum duration of STWA (working time reduction or suspension) is still today longer than in France. It may last six months⁷, and the company can apply for an extension for a further six months. The procedure for the implementation of STWA seems also to be simpler in Portugal.

2.2 Similar measures

The only Portuguese measure in line with the above mentioned European trend of extending STWAs was the creation of an important temporary programme to articulate the working time reduction, or suspension, with vocational education and training (VET). The '*Programa Qualificação-Emprego*' or PQE (Programme Qualification-Employment) increased the level of benefits for employees and employers, thus stimulating the use of the lay-off for VET in the companies. The programme was limited in time (applications started in February 2009 and ended in June 2010⁸), followed tighter criteria of eligibility and focussed on competitive companies that produce material goods, although it did not exclude other sectors. From this perspective it corresponded to the 2009 Cambridge Review's demand cited in the referred Country Fiche⁹. Under the PQE, the government's share in the compensation for the worker is 85% or more (70% in the general regime) and the compensation itself may reach 100% of the wage (two-thirds normal lay off compensation plus a Qualification Incentive of up to one-third). These arrangements may be as 'generous' as those in the French 2nd and 3rd level.

2.3 Résumé

Statistical data show that during the crisis the use of STWA by companies in Portugal made an enormous increase (see table 8). In 2009 the number of workers affected was 15 times higher than in the previous year, and the social security's expense for STWA grew ten times. The special regime of the PQE further increased the number of laid-off workers by more than double the total of the general regime in 2008 (see table 9). This drastic change indicates that the Portuguese general regime of lay-off did not need legal changes to be able to respond to the economic crisis, and that the design of the PQE produced impressive results. The fact that the administration of the *Segurança Social* (Social Security), which finances the general regime of lay-off, has announced an extraordinary inspection of 400 companies that have used STWA¹⁰ may be an indicator of the government's concern with the quality of the recent wave of lay-offs in the general regime.

3 ASSESSMENT OF THE SUCCESS FACTORS AND TRANSFERABILITY

In the light of the my observations in sections 1 and 2 it seems that the question is not so much how the success factors could be applied and transferred to Portugal, but rather

⁶With the exception of members of the corporate management bodies.

⁷In very specific cases (catastrophe) the layoff may last one year, plus a possible extension of 6 months.

⁸The Portaria (administrative rule) 765/2009 set the deadline for applications for December 31st 2010, but another Portaria (353/2010) determined an earlier end of the program (deadline of applications: end of June 2010).

⁹ 'Temporary short time working arrangements, especially when combined with training, remain useful until unemployment starts falling – but only in sustainable firms/sectors and with regular revisions as regards eligibility criteria.'

¹⁰ *Segurança Social fiscaliza 400 empresas em situação de «lay-off»*, in: *Vida Económica* 26th February 2010, Internet.

whether the French model **should** be transferred, namely in line with the following three questions:

3.1 To what extent the measure in France is different from the practice in Portugal? What would change if the French model would be transferred?

As demonstrated above, the traditional Portuguese regime of lay-off is, in several aspects, at least as advanced as the French reformed model. Therefore the French reform may provide some suggestions for specific changes (limited in scope) in Portugal, but it does not seem to bear the potential for a broader reform.

3.2 Is the French measure adequate in relation to the specific needs of the Portuguese labour market?

The problems of the Portuguese economy are mainly structural and less cyclical. There is a substantial delay in the move from the traditional model of competition based on low-wages to a modern knowledge-based economy. The constant increase of unemployment during the past decade, and in particular the growth of long-term unemployment, indicate this. From this perspective a broad extension of measures (such as, for instance, STWA) that respond to cyclical problems would not be a priority.

3.3 Does it fit into the Portuguese government's employment strategy and is it affordable?

Since 2005 the Portuguese government has implemented a programme that aims to resolve some of the most burning issues in the country's development. It has started to remove some of the central obstacles to the improvement of the business climate (e.g. by promoting e-government and by simplifying administrative procedures), has upgraded R&D, and has made major investments in a comprehensive and sustainable improvement of the qualification of the workforce. Measures to respond to cyclical problems are important, but they are subordinated to the government's strategy that is focussed on strategic problems. The Programme Qualification-Employment is a prominent example of this circumstance.

4 QUESTIONS

1. The extension of STWA to temporary agency workers is one of the aspects of the French reform that might be of interest for the Portuguese debate. It would be valuable to know more about the experience with this measure.
2. The French reform guarantees the highest compensation for those workers who are affected by "long-lasting partial activity"? Is this not too expensive?
3. In Portugal there is one authority responsible for funding the general lay-off scheme (Social Security). The same applies to the PQE that was funded by the IEFP. The general regime is monitored by the Social Security and the Autoridade para as Condições do Trabalho / ACT (Authority for Working Conditions) and the PQE was monitored by a specially created commission under the direction of the IEFP (with representatives from Social Security, ACT and the Ministry of Labour). It seems that a larger number of bodies are in charge of funding and monitoring STWA in France. Are there plans to simplify the system?
4. What have been the costs of the reform? Is it possible to calculate the state's expenditure on the different STWA-measures during 2009?

ANNEX 1: SUMMARY TABLE

Labour market situation in the Peer Country
<ul style="list-style-type: none"> • The crisis struck the Portuguese economy less hard than most other European countries, but due to structural problems its recovery is slower than in the EURO-area. • Already before the crisis Portugal registered an enormous increase in its unemployment (from 4.0% in 2000 to 7.7% in 2008), in particular amongst long-term unemployed (from 1.7% to 4.3%). • Due to a strong increase in male unemployment during the crisis (2.4 percentage points) the gender difference decreased in Portugal. • Job losses during the crisis in Portugal totalled 169 000, with the highest negative rate of change in construction, hotels and restaurants, financial services and consultancy, scientific, and technical activities (between 10% and 12.5%). • The evolution of long-term unemployment (much more negative than at European level) indicates that the structural problems in the Portuguese labour market are more serious than those in France and in the EURO/EU-area as a whole.
Assessment of the policy measure
<ul style="list-style-type: none"> • STWA-measures may be a useful instrument in economic crises, and their use should be limited to exceptional situations. Therefore it makes sense that parts of the elements of the French reform are temporary. • The general regime of lay-off in Portugal is to a large extent as 'generous' as is the French model after its reform. • The only common aspect between the Portuguese and the French governments' action during the economic crisis is the articulation of STWA with vocational education and training (VET). • The extension of the French STWA to the temporary agency workers (TWAs) seems to be an important attempt to benefit those workers who are generally struck harder during a crisis. • The explosive growth of the number of workers affected by STWA under the Portuguese general regime of layoff during the most recent crisis indicates that the Portuguese model of regulation is able to respond to cyclical changes.
Assessment of success factors and transferability
<ul style="list-style-type: none"> • The French reform may provide some suggestions for changes (that are limited in scope) in Portugal, but it does not seem to bear the potential for a broader reform. • As the problems of the Portuguese economy are mainly structural and less cyclical a broad extension of measures (such as, for instance, STWA) that respond to cyclical problems would not meet the specific needs of the Portuguese labour market. • The Portuguese government's strategy is designed to respond to the structural problems of the economy and the labour market, with a strong focus on VET. STWA and other measures against cyclical changes are important, but strictly subordinate to this priority.

Questions

- More information about the experience with the extension of STWA to temporary agency workers
- High compensation for “long-lasting partial activity” too expensive?
- Are there plans to simplify the French system of funding and monitoring STWA?
- What have been the costs of the reform in 2009?

ANNEX 2: TABLES

GEO/TIME	2008	2009	2010	2011
Portugal	0	-2.6	0.9	0.2
EUR (negative forecasts 2010-11)	0.6	-4.1	1.4	0.5
EUR (positive forecasts 2010-11)	0.6	-4.1	1.8	2.3
Source: Bank of Portugal				

GEO/TIME	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
European Union (27 countries)	100.0	102.3	104.9	105.3	107.7	109.9	112.2	115.3	115.9	114.6	:	:
Euro area (16 countries)	100.0	102.6	105.2	107.6	109.4	111.3	113.1	115.6	118.3	120.0	:	:
France	100.0	102.4	105.0	107.1	108.4	110.7	112.9	115.9	118.9	120.0	120.9	122.7
Portugal	100.0	103.3	106.7	109.4	111.9	113.8	116.0	119.4	122.0	123.3	124.6	126.5
Source: EUROSTAT												

GEO/TIME	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
European Union (27 countries)	8.7	8.5	8.9	9.0	9.1	8.9	8.2	7.1	7.0	8.9
Euro area (16 countries)	8.4	8.0	8.4	8.8	9.0	9.0	8.3	7.5	7.5	9.4
France	9.0	8.3	8.6	9.0	9.3	9.3	9.2	8.4	7.8	9.5
Portugal	4.0	4.1	5.1	6.4	6.7	7.7	7.8	8.1	7.7	9.6
Source: EUROSTAT										

GEO/TIME	2009	2008	2007	2006	2005	2004	2003	2002	2001	2000
Portugal female	10.3	9.0	9.7	9.1	8.8	7.7	7.3	6.1	5.1	5.0
Portugal male	9.0	6.6	6.7	6.6	6.8	5.9	5.6	4.2	3.2	3.2
PT female/male	1.1	1.4	1.4	1.4	1.3	1.3	1.3	1.5	1.6	1.6
PT female-male	1.3	2.4	3.0	2.5	2.0	1.8	1.7	1.9	1.9	1.8
Source: EUROSTAT and author's own calculations										

GEO/TIME	2009	2008	2007	2006	2005	2004	2003	2002	2001	2000
Portugal total	9.6	7.7	8.1	7.8	7.7	6.7	6.4	5.1	4.1	4.0
Portugal <25	20.0	16.4	16.6	16.3	16.1	15.3	14.5	11.6	9.4	8.6
France total	9.5	7.8	8.4	9.2	9.3	9.3	9.0	8.6	8.3	9.0
France < 25	23.3	19.1	19.6	22.1	21.1	20.6	19.2	19.3	18.9	19.6

SECTOR/TIME	III 2008	IV 2008	I 2009	II 2009	III 2009	Overall
						Rate of change III 2008- III 2009
A: Agriculture and fishing	589.4	572.2	558.9	551.3	567.2	-3.8
C: Manufacturing	885.6	880.3	867.3	863.6	844.3	-4.7
F: Construction	559.2	540.9	514.6	513.5	503.1	-10.0
G: Wholesale and retail trade	756.1	765.2	779.6	771.9	746.4	-1.3
H: Transports and storage	179	174.7	173.5	183.7	177.7	-0.7
I: Hotels and restaurants	327.9	324.3	307.8	297.3	291.6	-11.1
J: Information and communication activities	97.1	96	93.6	90.6	90.2	-7.1
K: Financial and insurance activities	97.2	89.8	90.8	94.1	85.7	-11.8
L: Real state activities	25.9	31.7	31.2	34.8	32.5	25.5
M: Consultancy, scientific, and technical activities	182	185.1	184.8	172.6	159.2	-12.5
N: Administrative and support activities	137.8	133	134.4	134.1	136.5	-0.9
O: Public administration, Defence, and mandatory social security	328.8	342.2	334.5	327.3	345.4	5.0
P: Education	335.5	364.6	355.3	360.9	351.9	4.9
Q: Health and social support	306.2	301.7	300	314.9	328.7	7.3
R: Arts, sports, and other entertainment activities	48.1	43.3	48.3	48.2	46.6	-3.1
S to U: Other services	264.6	254.6	251.3	250	244.4	-7.6
Total	5120.4	5099.6	5025.9	5008.8	4951.4	-169.0

Source: National statistics (as cited in Simões/Naumann, Restructuring in Portugal) and author's own calculations

GEO/TIME	2009	2008	2007	2006	2005	2004	2003	2002	2001	2000
European Union (27 countries)	3.0	2.6	3.1	3.7	:	4.2	4.1	4.0	3.9	4.0
Euro area (16 countries)	3.4	3.0	3.3	3.9	4.1	4.2	4.0	3.7	3.7	4.1
France	3.3	2.9	3.4	3.9	3.8	3.8	3.5	3.0	2.9	3.5
Portugal	4.3	3.7	3.8	3.9	3.7	3.0	2.2	1.8	1.5	1.7

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Workers affected										2208	2088	3804	4128	61740
Total costs (000 €)	137	109	114	204	511	194	692	1989	1200	1331	903	1502	1662	16696

Sources: Ministry of Labour LPM-DGERT-IGFSS

Workers affected general regime	61740
Workers affected special regime PQE	9046
All workers in lay off	70786
Share of PQE (%)	12.8
Source: Ministry of Labour and IEFPP	