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Demography, labour force and migration: trends, prospects and policy implications in Portugal

Alexandre Abreu ¹ and João Peixoto ²

Introduction ^{3 4}

Across most European societies, demographic ageing began to make itself manifest a few decades ago and is only now beginning to show its true dimension. It is the necessary consequence of two inter-related processes, whose origins can themselves be traced back far into the past. One is unquestionably positive: successive victories in the battle against death that have made it possible to increase average life expectancy ever further. The other is far more controversial, though also a “natural” consequence of socioeconomic development: a sharp, sudden decrease in fertility, or the average number of children that people eventually bear. Together, these two processes shift the age structure of the societies experiencing them and bring about a series of potentially serious social and economic consequences – from potential labour shortages to changes in the structure of demands with which public budgets are faced, to difficulties in ensuring the sustainability of public welfare systems.

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In this context, the relevance of migration, labour immigration in particular, is being increasingly acknowledged. Immigrants (at least, labour immigrants) add to the labour force directly and typically help fill the fertility gap in the societies hosting them – hence the idea that immigrants might “replace” the declining autochthonous population and provide a decisive contribution to addressing the problems associated with present and future labour shortages. However, poorly-managed migration flows can also bring about undesired outcomes: poor integration (at times resulting in deviant behaviour and antagonistic subcultures), xenophobia and racism and labour-market outcomes that may involve many winners, but also leave some of the losers unprotected.

Searching for the “best practices in labour migration” in this context has thus become an essential strategic concern for present-day European societies – and is the overriding concern of the eponymous project undertaken by the International Organization of Migration, which involves a number of in-depth analyses of these issues in several European countries of immigration, emigration, or both. Portugal, the country covered in this report, is one of these countries. It is not a particularly unusual case study as far as its demographic dynamics are concerned, but its recent migration history is certainly more original: from a country of mass emigration throughout most of the 20th century, peaking in the 1960s, Portugal underwent some significant changes in its migration regime to eventually find itself in a mixed situation in which inward flows relatively recently overcame, in quantitative terms, outward flows that nevertheless refuse to wane completely.

This report seeks to provide an overview of the past, present and (as far as possible) future of these processes and dynamics insofar as they affect Portugal’s society and economy. This exercise is carried out in several successive steps. First, Section 1 briefly outlines Portuguese demographic dynamics and their likely future developments. As a complement to this section, the reader is also referred to the general chapter on demography included in this volume. Then, because the social and, especially, economic consequences of ageing may differ depending on a number of intervening variables, which might themselves be regarded as policy instruments, Section 2 discusses some of the past and likely future developments in the labour market, which provides the mediating link between demography and material production. This involves such crucial aspects as the level and characteristics of labour-force participation, unemployment, average working time, labour productivity

and undeclared work. Section 3 focuses in on migration issues and provides a characterization of the past, present and likely future of migration flows and of the migrant labour force in Portugal. Due to the specific characteristics of the Portuguese case, this involves addressing both emigration and immigration and, in particular, the main labour market and broader economic consequences of these two types of flows. Section 4 then analyses the various available policy options from the point of view of their costs and advantages and the extent to which they have been drawn upon in the Portuguese context. Finally, because immigration must be regarded as a possible partial solution to the problems posed by ageing, and because effective (and, most will agree, also humane) migration policies are a goal in themselves, Section 5 focuses specifically on immigration and integration policies in the Portuguese case. This is done by way of an analysis of the main policy developments in the recent past and a presentation of the main conclusions of a workshop involving multiple stakeholders that was held specifically for the purpose of writing this report. The conclusion sums up the main findings and puts forth a number of recommendations.

When it comes to such politically sensitive issues as those addressed in this report – demographic and family policies, employment and unemployment, redistribution, migration and integration, to name a few – the decisions over the desired outcomes should be the result of broad democratic discussions engaged in by well-informed societies. Like it or not, the Portuguese society will have to keep making those decisions in the decades to come – failures to decide and act upon those decisions will in themselves constitute decisions by omission. By bringing together data, analyses and interpretations that touch upon all of these issues, this report seeks to contribute to helping a better-informed Portuguese society make these decisions.

1 Demography: Recent Trajectory and Projected Developments

1.1 Recent trends

As highlighted by Ferrão (1996), among other authors, the years between 1960 and 1990 saw the belated modernization and convergence of Portuguese demography. By modernization we mean the gradual adoption of social, cultural, economic and epidemiological patterns and behaviours that characterize modern (as opposed to traditional) and (sub)urban (as opposed to rural) societies. It was a belated process,

insofar as it paralleled, in many ways but with a considerable lag, similar processes experienced in most of the more advanced European societies in the previous decades with which Portuguese society has been gradually converging.

Probably the single most expressive development in this period was the change in fertility behaviour: from 3.1⁵ in 1960 (well above replacement level), the Portuguese Total Fertility Rate⁶ (TFR) had dropped to 1.6 by 1990 – a trajectory that provides a clear illustration of the social, cultural, economic and even territorial changes experienced by Portugal. These changes in fertility were sudden, significant and came to stay: the total fertility rate dropped below the replacement level of 2.1 in 1983 and has not recovered since. In turn, changes in mortality have not been as radically concentrated in time as those in fertility. The epidemiological transition can to a certain extent advance through gradual technological progress, without necessarily requiring socioeconomic rearrangements of the magnitude of those involved in the fertility transition – and, indeed, life expectancy at birth⁷ (LEB) rose consistently in Portugal throughout the entire 20th century. After a period of intense expansion between 1920 and 1960, from 35.8 and 40.0 for men and women, respectively, to 60.7 and 66.4, the LEB kept on the increase and had reached 70.2 and 77.3 by 1990.

If the years between 1960 and 1990 were those of the most historically profound changes in Portuguese demography, those between the early 1990s and the present have seen the consolidation of these “modern” patterns. So it was in particular with respect to the TFR, which continued to drop, albeit at a significantly lower rate (to 1.4 in 2005). It can in fact be argued that, in a certain sense, Portuguese society continues to lag behind the most advanced European societies in this respect – in this case, in carrying out the social and institutional rearrangements (e.g. a greater level of child-care provision or greater work-schedule flexibility) that are needed in order to bring the TFR back up again in the context of a modern society (although under no circumstances do these return to the levels experienced in the “traditional” past). Still, it is worth joining Nicola (2006) in noting that, while lagging behind in this sense as

⁵ All the data in this section are taken from the website of the Portuguese Statistics Office, or Instituto Nacional de Estatística (INE): www.ine.pt.

⁶ I.e., the average number of children that women in a given population would give birth to over the course of their lifetime if they were to be subject to the age-specific fertility rates prevalent in that population in a given year. It is computed by adding up the age-specific fertility rates.

⁷ I.e., the average number of years that a person in a given population could expect to live if s/he were to be subject during the course of his/her lifetime to the age-specific survival rates prevalent in that population in a given year. It is computed by adding up the age-specific survival rates (which are the reciprocal of the age-specific mortality rates).

compared to more advanced European societies, the current levels of the TFR in Portugal are nevertheless above those currently experienced in other Southern European countries (e.g. Italy and Spain), where the TFR has dropped below 1.3 in the final years of the 20th century – a level characterized by Kohler et al (2002, cit. in Bijak, 2004) as “the lowest-low fertility”. Nevertheless, the current trend with regard to this fundamental determinant of the natural balance remains one of decelerating decrease.

Looking at mortality, the past two decades have also been characterized by the persistence and consolidation of previous trends: the LEB for both men and women has continued to rise (from 70.2 and 77.3 in 1990 to 74.9 and 81.4 in 2005), as the country continued to modernize. Also, at the beginning of this period, there remained significant room for convergence with regard to the more advanced European societies. The pace of this convergence is expected to decelerate in the future as the absolute gap diminishes further, but the pace of the expansion itself will ultimately also depend on the trajectories of the countries farther along the epidemiological transition, as they reflect the state-of-the-art technologies available for postponing death.

While the consequences of these changes in the determinants of natality and mortality upon the age structure (hence, upon the level of population ageing) typically take a few decades to fully manifest, they take even longer to have an effect upon the overall population volume. In this latter case, the expansion in life expectancy can exert – and indeed has exerted – a (temporary) countervailing effect with regard to the drop in fertility. Until the generations born in the days of high fertility complete their life-cycle (a time that is fortunately still being postponed by the reduction in their age-specific death rates), they will indeed continue to ensure that the drop in the absolute population volume does not occur neither as soon nor as suddenly as the increase in the level of population ageing. The evolution of the total resident population of Portugal, from around 9,867,000 in 1991 to around 10,356,000 in 2001 (Census data) and an estimated 10,599,000 in 2006 – i.e., not having yet begun to decrease despite more than two decades of below-replacement fertility – supports this conclusion⁸.

⁸ Bear in mind, however, that the total resident population also includes the immigrant population, which has indeed increased substantially, particularly throughout the 1990s and early years of the 21st Century. Nevertheless, immigration by itself does not fully account for the aforementioned increase in the total resident population.

1.2 Projected developments

Sustained rises in life expectancy and falls in fertility to below-replacement levels necessarily entail a process of population ageing. That process has come to stay in the Portuguese case. Its lesser or greater magnitude in the decades to come, however, depends not only on the past and present behaviour of the population fundamentals referred to in section 1.1, but also on their expected *future* behaviour. Therefore, in order to be able to adequately plan for the future, one has no option but to work with *population projections*, which in turn should be based on informed assumptions. In this section, we draw on the population projections published by the Portuguese Statistics Office (INE) and by the Central European Forum for Migration Research (CEFMR) in order to quantify the magnitude of the ageing and population-decline trends under varying assumptions so as to illustrate the most likely future developments.

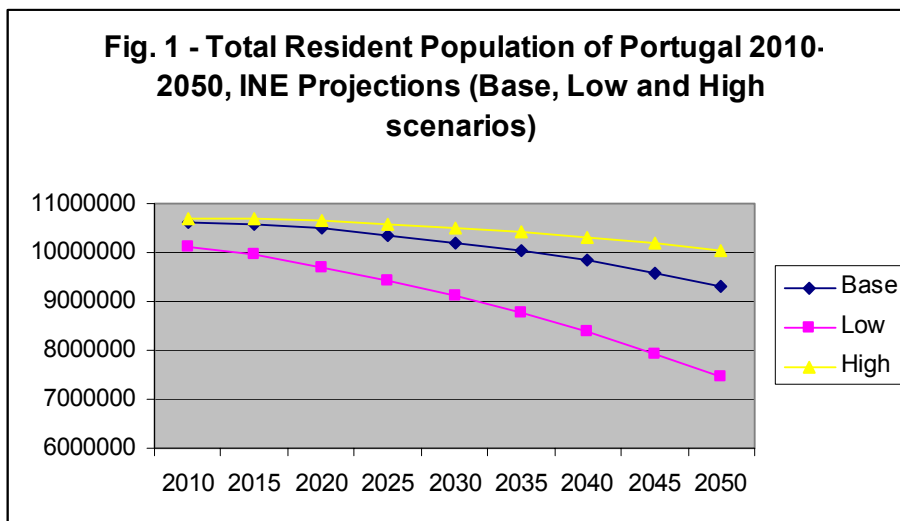
Both projection exercises followed the cohort-component method, whereby assumptions are separately made for each component of population change (mortality, fertility and net migration), and considered similar time horizons (2000-2050 for INE; 2004-2054 for CEFMR). The reader is referred to INE (2004) and Magalhães and Peixoto (2006) for a detailed presentation of the assumptions made by INE, as well as to the dedicated internet website⁹ set up by CEFMR and to Bijak and Kupiszewski (2007)¹⁰ for a detailed explanation of those considered by CEFMR.

The INE projections yielded the following results (Fig. 1): in the Base scenario, from an initial 10,356,000 in the beginning of the period, the total resident population is expected to increase to 10,626,000 by 2010, before dropping to 10,206,000 in 2030 and 9,302,000 in 2050. The relatively moderate character of this decline is due to the joint impact of positive migration flows, a relatively optimistic recuperation of fertility and the time horizon of the projection (since, under expanding LEB conditions, many children of the days of high fertility will still be alive by 2050). By contrast, under the assumptions considered in the Low scenario (zero net migration flows and “lowest-low” fertility), Portugal’s total resident population would decrease from 10,356,000 (2001) to 10,127,000 (2010), 9,109,597 (2030) and 7,467,000 by the end of the period (a return to the levels of the 1930s). Finally, in the High scenario, the effect of the past drop in fertility would be largely offset by its hypothesized future increase to 2.0 and by

⁹ <http://www.cefmr.pan.pl/browser/>

¹⁰ Accessible through the “Help” section of the aforementioned website.

significant net immigration, leading to a relative stable total population over the period: 10,027,000 in 2050, from 10,356,000 in 2001, 10,694,000 in 2010 and 10,513,000 in 2030. While absolute population decline by the end of the period is a constant in all three scenarios (most notably, of course, in the Low one), it is partly offset in all three cases by the increase in LEB..Its full foreseeable magnitude is only partially disclosed: a time horizon extending further into the future would reveal a further decline.

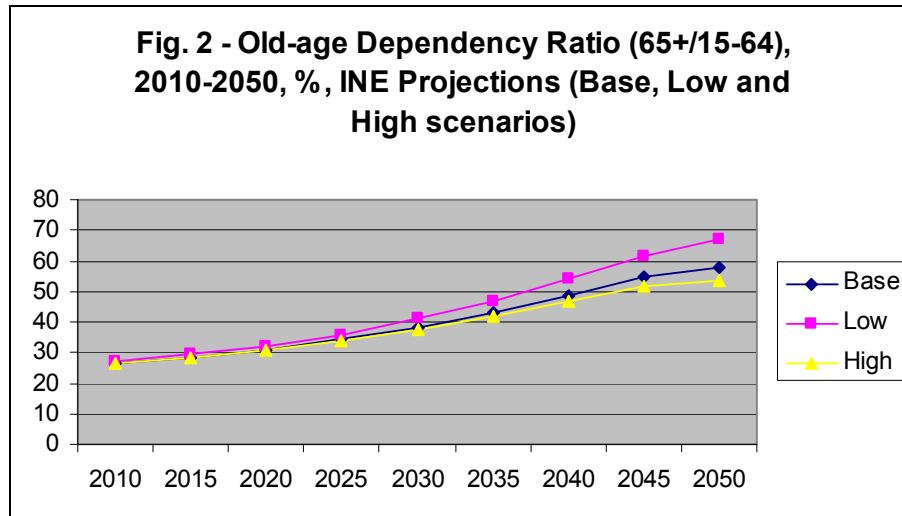


Source: Portuguese Statistics Office (INE)

Still, there are not really good grounds for considering population decline *per se*, of this order of magnitude and at the national level, as a relevant policy concern: a much more pressing concern is the issue of population ageing. The INE projections are telling in this respect, since the indicator most commonly used to analyse population ageing, the Old-age Dependency Ratio¹¹ (ODR), undergoes a massive increase in all three scenarios (Fig. 2): in the Base scenario, from 24.5% in 2001 (i.e., roughly four people within working age for each person within the traditionally defined retirement age) to a projected 57.7% in 2050 (i.e., a ratio of 1.7 to one). The end-period level in the Low scenario is even more impressive (67.1%, or 1.5 potential workers for each person within retirement age) and only slightly more favourable in the High scenario (53.7%, or a potential support ratio of 1.9 to 1). This is because even the much greater number of births optimistically allowed for in the High scenario does not start to have an impact upon the population of working age until after fifteen or so years into the future, and even then only a gradual one. In any imaginable scenario, then, population

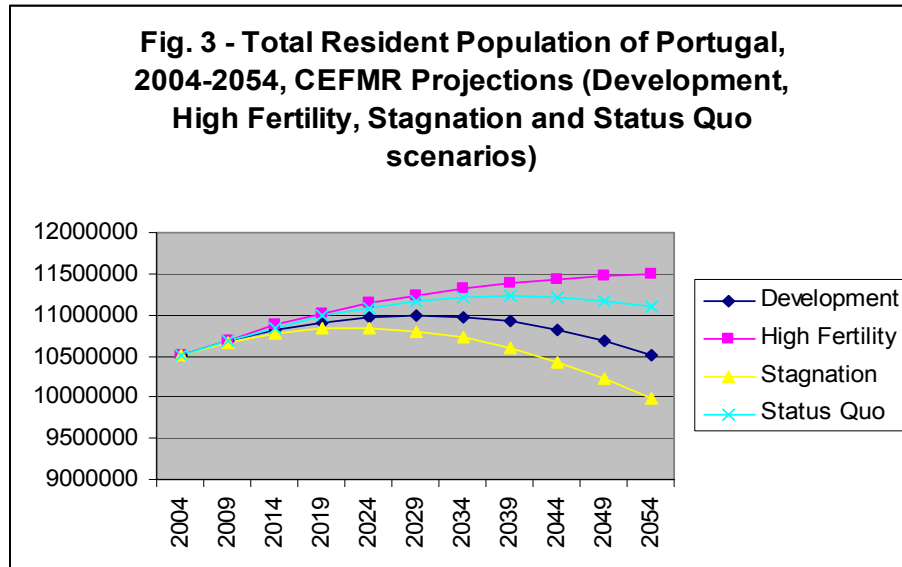
¹¹ I.e., the ratio of the population aged 65 and older to those between the ages of 15 and 64.

ageing will be an inescapable reality in the next few decades that will call for major social and economic rearrangements, not least due to a much greater strain upon the pension and health-care systems.



Source: authors' calculations based on data from the Portuguese Statistics Office (INE)

Comparing the results of the INE projections (as regards the total resident population) with those produced by the CEFMR (Fig. 3), it becomes clear how sensitive population projections are to differences in assumptions. In contrast to the former, CEFMR's "most populous" scenario results in a projected total population of 11,491,834 by 2054 (compared to 10,027,348 in INE's High scenario by 2050), whereas the total population in its "least populous" scenario by the end of the projection period (9,975,623) is much larger than that in INE's Low scenario (7,466,983). These differences are due to more "optimistic" assumptions with regard to LEB and migration.



Source: Central European Forum for Migration Research

Nevertheless, what is most noteworthy is that the differences are much less significant when we look at the ageing indicators: the projected 2054 levels of the ODR in CEFMR's four scenarios (60,6%, 57,5%, 56,1% and 63,4%) are in fact quite similar to those for 2050 in INE's three scenarios (57,8%, 67,1% and 53,7%), which is explained by the fact that the greater expansion in the LEB allowed for in the CEFMR projections (compared to the INE assumptions) reinforces the effects of the assumed relatively greater rise in fertility and relatively greater levels of net migration as far as the total population figures are concerned, but offsets them as regards the ageing dynamics.

Thus, the main conclusion to be drawn is that while population decline can be expected to occur in all of INE's three scenarios, but may be offset to a large extent by immigration, recuperating fertility levels and an expanding LEB (as shown by the results of the CEFMR projections), population *ageing* will inevitably occur very significantly in any conceivable scenario based on the available information. It inevitably follows from the massive change in the fertility behaviour of the Portuguese, and it will only be compounded by any actual and potential increases in life expectancy.

2 The Labour Market: Linking Population and Output

As hinted at by the use of the ODR as an indicator of population ageing, the main problem with ageing concerns the decreasing ability of a shrinking labour force to provide for an expanding share of dependents. However, the relationship between a society's total population – or that within the working age – and the total level of output (which must provide for the dependents and the economically active alike) is not a straightforward one. Rather, it is mediated by a series of other variables that ultimately determine the extent to which a given potential labour force is able to sustain the burden associated with an evolving age structure. These variables can be divided into two groups: i) the first one concerns the labour market and is made up of those variables that express the relationship between the *potentially* active population and the *actual* labour supply (labour force participation rate, unemployment rate, average number of working hours per employed worker); the second one concerns the average *productivity* of labour – productivity increases being one of the ways in which a shrinking labour force can sustain the same, or an increasing, dependent population. On the other hand, yet another aspect of relevance to this discussion is the size and characteristics of the informal or underground economy. Informal activities inherently entail several disadvantages¹² (including the illegal character of some of them, the fact that they give rise to unfair competition and the impossibility of ensuring that labour standards and regulations are respected), but of greatest importance for our purposes is the fact that, by definition, taxes and social security contributions cannot be levied on them. Therefore, a higher incidence of informality will inevitably imply placing an even greater burden upon those citizens who, through taxes and contributions levied on their (formal) activities, have to support the dependent share of the population.

The following sections provide an overview of the Portuguese economy as far as all these variables are concerned.

2.1 Labour force participation

The overall labour force participation rate¹³ (LFPR) in Portugal is both relatively high and rising: by 2004, it amounted to 73.0% (as compared to 69.7% for the EU-25),

¹² Although possibly also some positive ones, including the possibility of greater flexibility benefiting both workers and employers (DGEEP/MTSS, 2006a).

¹³ I.e., ratio of the economically active – employed or unemployed – to total population over the age of 15

upwards from 70.6% in 1998 (OEFP, 2006). The latest Eurostat data (Eurostat, 2007) confirms the persistence of this trend: by the second quarter of 2006, the Portuguese LFPR had continued to rise to 73.8%, against 70.4% in the EU-25. This differential is accounted for by the sex-specific LFPRs of both men and women, but especially so by the latter: the female LFPR in Portugal in the second quarter of 2006 was as high as 68.4% (EU25: 63.0%), whereas the male one was 79.4% (EU-25: 77.9%). Portuguese women are more economically active than the EU-25 average from the age of 25 upwards, and especially so in the older economically active age groups.

Future significant increases in most age-specific labour force participation rates do not seem likely in the Portuguese case, as they are already at relatively high levels in comparative terms. Indeed, under current institutional conditions, they probably could take place only at the expense of other outcomes, such as raising the fertility rate or ensuring the improvement of the future skill level of the working population. The exception, in line with the epidemiological transition theory, may consist of the group of the older potentially active, as further decreases in morbidity among the individuals in this age group may, especially in the long run, still leave substantial room for further active ageing – even for a radical rethinking of the concepts of “ageing”, “old age” and “retirement age”. On the other hand, it is true that the population ageing and decline scenarios presented in the section 1 will, by way of the labour shortages that they will most likely give rise to, probably turn labour into a more scarce – and consequently better paid – production factor, which will automatically create an added incentive to keep on working or actively seek employment across all sex and age groups.

2.2 Employment and unemployment

The recent increase in labour force participation in Portugal has allowed the employment rate¹⁴ and the unemployment rate¹⁵ to increase simultaneously. Between 1999 and 2005, employment grew slightly from 67.5% to 67.6%, while unemployment (as computed from the labour force survey) rose from 4.5% to 7.6% (OEFP, 2006a).

Despite this latter – and significant – increase, the unemployment rate in Portugal has in recent times always stayed below the EU-25 average, even though the

¹⁴ I.e., the ratio of the number of employed people to the total population within the working age.

¹⁵ I.e., the ratio of the number of unemployed people to the labour force.

gap has been diminishing (4.5% compared to 9.1% in 1999, 7.6% compared to 8.7% in 2005: id, ibid). Before the recent surge in unemployment from 2001 onwards, which has largely been due to a combination of business cycle factors (insufficient effective demand) and structural ones (economic restructuring resulting in a mismatch between skills and jobs), unemployment in Portugal was in fact half that in the EU25 as a whole. The characteristics of the unemployed are indicative of a labour market undergoing restructuring, but whose institutional framework values security of employment over efficiency and job creation. Despite the fact that Portuguese firms certainly still need a more-skilled labour force to help them move to a higher value-added competitiveness model, both the relatively skilled (secondary or tertiary education) and young people are significantly represented among the unemployed (id, ibid). On the other hand, Portuguese unemployment is also gender-biased, indicating patterns of discrimination against women in the labour market (Casaca, 2005): unemployment for women in 2005 was 8.7%, i.e. 2 percentage points above that of men, 6.7%¹⁶. Finally, there is a very significant overrepresentation of workers previously employed in manufacturing and construction (OEFP, 2006).

If we turn to the Portuguese *employed* population (a total of 4,583 million in 2005, for an employment rate of 67.6%), we find a considerable overrepresentation of males inside the middle interval of the working age interval, i.e. 25-54 years of age (OEFP, 2006). On the other hand, compared to EU-25 figures, the Portuguese employed population shows a lower incidence of part-time employment (11.3%, compared to 17.7%) and a higher percentage of both employees with temporary contracts (19.8%; EU-25: 13.7%) and self-employed workers (24.1%; EU-25: 15.9%)¹⁷. The relatively higher share of the self-employed is again partly a reflection of the skewed Portuguese labour-regulatory framework, since, as indicated by DGEEP/MTSS (2006a: 48), many of them are not self-employed professionals in the true sense of the term, but rather workers performing permanent or semi-permanent functions who are forced to “disguise” their work as self-employment to enable their employers to circumvent the much more demanding requirements associated with other types of contracts.

¹⁶ Source: INE website.

¹⁷ Source: Eurostat (data for 2005).

The vast majority of jobs are accounted for by the service sector (57.3% in 2005, although at some distance from the EU-25 level of 69.7%; OEFP, 2006) – and will undoubtedly be so even more in the future, as the Portuguese economy continues to expand its tertiary sector, even without having fully modernized most of its industrial and agricultural sectors. As manufacturing subsectors such as textiles, clothing and footwear are finding it harder and harder to compete in the global market – largely due to competition from emerging economies with much lower labour costs – the service sector has become by far the main source of new jobs, including for low-skilled workers.

Ribeiro (2000) argues that the decline of the “mature”-industries model (metallurgy; chemicals; electrical appliances and devices; cars; textiles, clothing and footwear; etc) is forcing developed economies to look elsewhere for their sources of competitive advantage (health; environment; information; software and automation; leisure; financial, business-to-business and business-to-customer services). In an exercise aimed at identifying specific potential niches for this latter type of industries in which Portuguese firms may be able to sustain a competitive advantage in the production of internationally tradable goods in the future, DGEEP/MTSS (2005) highlight the following: communications and electronics manufacturing; hi-tech components for the aeronautical, automotive, oceanic exploration, medical and pharmaceutical sectors; plastics; specific computer software, web services and multimedia; and the production of high value-added agricultural goods.

Tourism will remain important in terms both of its weight in the total output and of employment generation, since it is based upon the exploitation of the country’s resources as a partial international monopoly. Finally, certain Portuguese firms may also continue to be globally competitive in carrying out large-scale infrastructural work in developing countries undergoing rapid urbanization and modernization, as already visible in the examples of large-scale infrastructural projects in the transport, telecommunications and construction sectors adjudicated to Portuguese corporations throughout the developing world. It should be pointed out, however, that the goal of international competitiveness by Portuguese firms is partly undermined by a fundamental weakness: the share of the adult population (aged 25 to 64) that had completed upper secondary education by 2005 amounted to only 26.5 per cent, as compared to a EU-25 average of almost 70 percent – even though the former 26.5%

did constitute a significant improvement from a total of less than 20 per cent in the late 1990s. Similarly, Portugal is one of the OECD countries with the fewest adults who have completed a tertiary education degree (12% in 2005, compared to an OECD average of 25%¹⁸).

Alongside this (hopefully large and dynamic) internationally competitive sector, another one will co-exist that will mostly provide non-tradable goods and services protected from global competition by virtue of their *proximity* requirements: urban, household, personal care and health services; services to businesses; certain local retail and business outlets (e.g. restaurants and cafés); and the social economy as decentralized provider of collective goods. As a consequence of population ageing, the demand for these activities is likely to experience especially high growth in the field of personal care and health services. The changes in the structure of employment by professional categories are consistent with the aforementioned thesis: the largest professional category (*blue-collar, craftsmen and similar workers*, accounting for 18.6% of the employed population in 2005: OEFP, 2006) was also the one which experienced the greatest drop between 1998 and 2005: a net loss of 146.5 thousand. Conversely, the occupational categories that have grown the most have been *intellectual and scientific professionals* (a net +134.9 thousand) and *upper-level managers of the public and private sectors* (+112.9 thousand).

2.3 Average number of hours worked and labour productivity

The data provided by the OECD concerning the *average annual number of hours of work per worker* is computed by dividing the total number of hours worked in the economy by the total number of persons in employment. This data allows for two main conclusions: the first one is that this indicator has in the Portuguese case been undergoing a long-term decline, but remained relatively constant over the past few years (1,685 annual hours of work in 2005 compared to 1,691 in 2000¹⁹), as indeed has been the case in most OECD countries. The second conclusion is that while Portugal's figures are not very distinct from those in, say, Spain, France, Germany or the United Kingdom, they do seem to be considerably below those in Greece (a Southern European country commonly used as a benchmark with respect to economic

¹⁸ Source: OECD.

¹⁹ Source: OECD.

performance) and, most notably, Korea. Although it is important to look at these figures with some caution – the OECD itself warns that the differences in the data-collection methodologies used in the various countries can compromise the adequacy of international comparisons (as opposed to diachronic analyses for a single country) –, the magnitude of the differences in the two former comparisons (with Greece and Korea) seems to suggest that there might remain some room for the Portuguese economy to accommodate a greater number of average working hours (a possible “solution” to the additional burden associated with population ageing that, of course, entails trade-offs in terms of time available for leisure and for “non-productive” labour in the household and in the community) .

Another possible way in which both the total output and the tax base can increase (or be kept from decreasing as much) in the presence of a decreasing labour force is through increases in labour productivity, or the average output produced in the economy per hour of work. The gap is in this case a huge one – by 2005, labour productivity (GDP per hour worked) in Portugal (24.1 USD) stood at less than half that in France (49.0 USD) or in the United States (48.3 USD)²⁰ –, the problem consisting of how to narrow it in the context of rising global competition and a relatively unskilled labour force. Even though labour productivity in Portugal increased considerably in the 1990s, it has stagnated since the turn of the millennium and failed to significantly converge with the more advanced industrial economies over the past twenty years.

2.4 The informal economy

The size of the informal or underground economy in Portugal has been estimated by Schneider and Klinglmair (2004) as amounting to 22.3% of GDP in 2002/2003. It stabilized around 22%-23% throughout the late 1990s and early years of the 21st century, after having apparently increased very significantly in the early 1990s. The figures presented for Portugal by these authors are relatively similar to those found in Spain or Italy and, though below those in Greece, significantly above those in all the northern and western European countries.

Few scientific studies, however, have sought to assess or measure the Portuguese informal economy as a whole. Research has more often focused on one of

²⁰ Source: OECD website.

its aspects, namely undeclared work. Weber (1998), for example, has found undeclared work in Portugal to be "(...) the preserve of illegal immigrants and women. Sectors particularly affected are textiles, the retail trade and construction". Reyneri (n/d:7) specifies further, although for the group of Southern European countries taken together (Portugal, Spain, Italy and Greece), that the sectors and occupations in which undeclared work is most commonly found are "seasonal harvesting in agriculture, manual labourers and bricklayers in construction, housekeeping and caring for the elderly, low-skill services in metropolitan areas (waiters, dishwashers, cooks and other jobs in restaurants; gas-pump operators; guardians, concierges, night watchmen, painters; blue collar workers in repair workshops, garages and cleaning firms; porters and transport workers; home delivery workers; cleaners, low level workers in butcher shops and bakeries, and so on)".

The construction sector (Baganha, 1998a and 1998b; Baganha, Marques e Góis, 2002) has traditionally been one in which migrants make up a large share of the labour force and, at the same time, one in which the prevalence of informality is especially high: based on information from privileged informants in the sector, DGEEP/MTSS (2006b) have estimated undeclared work to account for 15% to 37% of the total work performed in construction in the Lisbon region in 2001. Another specific area characterized by the coexistence of significant informality and the recruitment of foreign workers, in this case mostly women, is cleaning and caring. Indeed, given the exhaustion of the unskilled labour-intensive industrial model, it is likely that undeclared work will increasingly be a feature of the "secondary" labour market associated with the service sector – with construction continuing to contribute very significantly in highly pro-cyclical fashion.

3 Migration Flows to and from Portugal: Economic and Labour Market Impacts

In a context of rapid and significant change in the demographic profile of the Portuguese society, with potentially serious impacts upon the labour market and the economy, it is especially important to scrutinize international migration flows as one of the main variables with the potential to either attenuate or aggravate the problems in the aforementioned domains. The reasons for this are simple: positive net migration

flows increase the resident population both directly (through the migrants themselves) and indirectly (through their offspring); migrants are typically characterized by higher than average labour-force participation rates, which renders them particularly relevant from a labour-market perspective; and migration (especially *labour* migration), whether primarily governed at the state level or within the context of formal or informal migration networks and chains, constitutes a relatively immediate and automatic “adjustment valve” for the problems of either labour shortage or excess. Since it is *net* migration (i.e., immigration minus emigration) that is relevant, however, and because Portugal is characterized by a “mixed” migratory regime in which both flows coexist, this section looks at the background and characteristics of both emigration and immigration.

3.1 Emigration

Portugal has long been a country of emigration, but both the main destinations and the characteristics of the flows have changed considerably over the long run. Throughout most of the last century, the vast majority of Portuguese emigrants were permanent emigrants, who settled by the hundreds of thousands first in the American continent (the predominant destination area in the early 20th century) and then mostly in the more developed European countries (particularly France, Switzerland and Germany). As a consequence, the number of Portuguese nationals or individuals of Portuguese origin scattered throughout the world *in the present day* adds up to around 4.8 million (Pimentel, n.d.), compared to a total resident population of just over 10 million.

More recently (from the early 1980s onwards), an important qualitative change took place, as emigration of a temporary character gradually increased and overtook permanent emigration (Peixoto, 2004a). The latest available figures indeed show that temporary emigration accounts for around 75% of total emigration flows (INE, 2004b), which reflects the increasingly “contemporary” character of the Portuguese emigration regime – one in which international mobility is regarded as a strategy for upward social, economic and professional mobility that possibly involves just a short-term phase in the life-cycle. It is likely that this relative upsurge in temporary emigration corresponds to the increasing predominance of short-term, often “circular”, migration intentions – rather than to a subterfuge for permanent migration, disguised as temporary for legal reasons, as initially thought (Baganha, 1993). The estimated number of annual temporary emigrants thus amounts to around 20,000 in the latest years for which data

is available, after peaking at close to 30,000 in 1997 – which contrasts with annual permanent emigration figures consistently below 10,000 since 1994 (dropping to a historical minimum of 4,000 in 1999). Despite the increasingly temporary character of their migration intentions, the main destinations chosen by the emigrants of the recent past have not differed very significantly from those of the days of mostly permanent migration. In particular, France and Switzerland remain the most significant destinations (INE, 2004b). Arguably the most notable developments in this respect have been the emergence of Spain and the United Kingdom as relevant receiving countries and the waning interest in Germany as a destination country for Portuguese emigrants.

3.2 Immigration

Like Portuguese emigration, so has immigration to Portugal undergone some profound changes in the recent past. In itself, it is a relatively recent phenomenon, at least on a significant scale: it was not until the 1970s that immigration to Portugal became truly considerable, following the democratizing revolution in Portugal and the independence of the former colonies in Africa, which led to the inflow of both nationals of those countries and, especially, hundreds of thousands of Portuguese return migrants who fled the turmoil in the newly independent African countries.

While the formation of a post-colonial migration system dates back to the moment of democratization and decolonization (or even before that), it was the political, and especially economic stabilization and development of the Portuguese society – particularly after joining the EU, then EEC, in 1986 – that lay the foundations for Portugal to become a more significant country of immigration, drawing in migrants from a wider variety of origins. Since, as we have seen, emigration from Portugal did not wane concomitantly – rather, it changed its predominant character from permanent to temporary – it can certainly be said that Portugal has come to be characterized by a “mixed” migration regime of an increasingly complex, global and “post-modern” character. Why this is the case with regard to immigration is easily explained. On top of the post-colonial migration flows that inaugurated the era of immigration to Portugal, layer upon layer of subsequent flows with distinct characteristics have been superposed: a contingent of relatively skilled migrants from Brazil (typically professionals moving independently) and the EU (mostly within the framework of the

internal labour markets of transnational corporations) beginning in the 1980s; steady though relatively minor migration flows from global diaspora-originating areas such as China and South Asia from the 1990s onwards; and much more impressive migration flows from Brazil and a variety of Eastern European countries, only this time consisting mostly of labour migrants targeting low-skilled segments of the labour market, in the late 1990s and early 21st century.

The stock of foreign citizens regularly staying or residing in Portugal is a reflection of the accumulated history described in the previous paragraph. There are three different legal titles in Portugal that confer to foreigners the right to long-term permanence in the country. These are residence permits, permits to stay²¹ and long-term visas. Adding up the numbers in the three categories yields a total of 415,934 foreigners in a regular situation as of 2005, the latest year for which data is available (INE, 2006). At that time, the most numerous national groups were the Capeverdeans (67,457), followed by the Brazilians (63,654) and the Ukrainians (43,799). These figures reflect the massive relative increase in the stock of foreign citizens that took place around the turn of the century, from around 178,000 in 1998 to the aforementioned 416,000 in 2005. Despite this significant increase, however, the share of foreign citizens in the total resident population of Portugal (just over 4%) remains well below those in countries such as Spain, France or Germany – even though their weight in Portugal's labour force is higher than that: a calculation based on the fact that two of the three main legal titles enabling foreigners to remain in the country require that they be employed (permits to stay and long-term work visas), and on applying the Census 2001 LFPR for foreigners to the remaining legal title (residence permits), makes it possible to estimate that foreigners probably account for at least 5.1% of the labour force (and most likely more than 6% if irregular migrants are taken into account).

Despite their still relatively limited share in the Portuguese population, the significant increase in the number of foreign citizens has had some relevant effects on the overall demographics of Portuguese society. For example, Rosa, Seabra e Santos (2004) pointed out that foreigners accounted for 22% of the increase in the total resident population of Portugal in the inter-census period 1991-2001 – and the equivalent figure for the years since the last population census is certainly higher than

²¹ Even though the law that instituted "permits to stay" was revoked in 2003 and no new such titles were issued from then onwards, those that had been issued have been prolonged on an annual basis, subject to certain conditions.

that, as the natural balance has continued to decrease and immigrant inflows have persisted at relatively high levels well into this century²². The foreign population's contribution to fertility in this country is also attested for by the fact that the total fertility rate among foreign women was much higher (2.4) than that of Portuguese nationals (1.5) (Rosa, Seabra and Santos, 2004) – despite the well-documented tendency for migrants' fertility rates to gradually converge with that of the autochthonous population.

The participation of foreign nationals in the Portuguese labour market may be characterized as considerably more “polarized” than that of the Portuguese: foreigners are over-represented both in the highly-skilled categories and in the low-skilled end of the occupational spectrum. However, the timing and the main nationalities of the immigrant flows contributing to the two sides of this over-representation exhibit considerable differences. While migrants associated with post-colonial “lusophone”²³ migration have traditionally taken up low-skilled and low-paid jobs (particularly in construction and cleaning, in the case of males and females respectively), the nationals of the other EU countries and the first wave of Brazilian immigrants have typically occupied positions in the “primary” labour market (Baganha, Ferrão and Malheiros, 2002; Baganha, Góis and Pereira, 2005; Peixoto, 2002a).

The most recent and numerous immigration wave, made up for the most part of Brazilian and Eastern European nationals, was again directed overwhelmingly to the “secondary” labour market, despite the fact that the latter are known to possess higher average skills' and educational levels than the Portuguese population in general, in a well-documented instance of deskilling and “brain waste”. Within the “secondary” labour market, however, even the typical labour market insertion trajectories of these two latter groups have exhibited distinct features. Whereas the Brazilians' command of the Portuguese language and their stereotypical cultural characteristics have rendered them particularly attractive, from the employers' point of view, for jobs that involve dealing with customers (e.g., in cafés, restaurants and commerce), the integration paths of the Eastern European immigrants have been relatively similar to those traditionally followed by the African nationals – with jobs in the agricultural sector providing the main exception. This has placed these two latter “macro-regional”

²² It is not possible, however, to rigorously compute a comparable figure, since the methodology used in the census (which aims to survey foreigners with both regular and irregular status) differs from that used in computing the stocks previously referred to (which consist only of foreign citizens with regular status).

²³ I.e., originating in Portuguese-speaking countries.

immigrant groups in direct competition against each other in sectors such as construction and household cleaning – although that competition is likely of much lesser significance with regard to the autochthonous population. In fact, as already stated, the Portuguese population has grown less and less willing to take up the sort of low-paid and “3-D” (dirty, dangerous and difficult) jobs performed by these immigrants, even while many *emigrants* consider doing just that in the context of their host countries.

Data on “socio-economic groups” (a statistical category that is mostly based on occupation and professional status) indicate that, among the economically active foreign population surveyed in the Census (142,442 in 2001), 15.4% were employed in commerce and service outlets, 54.2% were blue-collar workers (four fifths of which unskilled) and only 12.9% were independent professionals, upper cadres and intellectual/scientific professionals (dominated by EU nationals). Another aspect worth highlighting is overrepresentation (9.1%), compared to the autochthonous population, of foreign entrepreneurs and owners-managers of small businesses. As confirmed by recent research on this topic, immigrant entrepreneurship remains most significant in the case of the EU and Asian nationalities (Oliveira, 2004).

The patterns of professional occupation of the foreign population(s) are naturally related to their levels of educational attainment. Census data²⁴ show that the foreigners’ educational attainment distribution is significantly associated with their geographical origin: by 2001, 47.9% of the EU nationals had completed either secondary or tertiary education, as opposed to only 17.5% of the Africans – Americans with 39.3% and Asians with 33.2% standing somewhere in between. Unfortunately, no systematic data has recently been collected on the educational attainment of the nationals of all the countries with an immigrant presence in Portugal. However, both the Census figures and some latter research indicate that Eastern European nationals stand clearly above the average, in educational terms, of both the entire immigrant population and the Portuguese population. Their level of professional deskilling is therefore high, as they perform low-skilled jobs despite their relatively high levels of educational attainment.

²⁴ Accessible through the INE website.

In closing, it is worth mentioning the attempt by Ferreira, Rato and Mortágua (2004) to assess the impact of immigration upon the Portuguese economy by estimating the foreign population's contribution to Gross Value Added, on the one hand, and to enhancing labour productivity in two sectors in which foreign workers are especially represented – (i) construction; and (ii) commerce, hotels and restaurants – on the other. Although highly compromised by the lack of satisfactory primary data, these authors concluded that foreign workers accounted for 5% of domestic Gross Value Added (at a time when their share in the total labour force amounted to 6%) and that immigration accounted for an increase in average labour productivity in the two aforementioned sectors in the range of 30%-35% (taking 1992-1997 and 1998-2001 as the two reference periods in this econometric estimation). In a similar vein, Almeida (2003) has estimated that the foreign population has had a net positive impact of 324 million Euros upon the public budget in 2001 (the only year for which that exercise has been carried out), i.e. over 1,000 Euros per foreign citizen with a regular status – a result that seems plausible given the foreign population's relatively lower dependency ratios (hence, relatively lower health and education expenditure requirements) and their relatively higher labour force participation.

4 Policy Options

Even though immigration may not be *the* solution to the problems associated with population ageing (the scale of the migration inflows required to offset them is inconceivably large), it certainly is a possible partial solution – as are the reliance upon greater labour force participation, more working time, diverting gains in labour productivity to addressing this issue, and/or seeking to raise fertility levels. Each of these possible partial solutions has its own associated costs and benefits, which is why the determination of the *optimal* combination of the reliance upon each of them in order to address the problem at hand is a political, rather than technical or scientific, issue.

Portuguese society, through its democratic decision-making mechanisms, may well decide that it wishes to forego using its productivity gains to improve its standard of living and simply divert them to compensating the worsening ODR – in order to avoid working a greater number of hours, avoid having a larger number of the economically inactive enter the labour force and avoid letting a larger number of immigrants into the country. Or it may instead decide that it wishes to adopt a “Korean” working-time

regime, so as to offset the ageing problem while channelling productivity gains to improving standards of living and letting zero immigrants into the country. Or, which would be more typical, it may adopt a more balanced solution to this implicit joint optimization exercise and draw on each of these solutions to the extent that the gains from doing so more than exceed the disadvantages implied by them. In sum, it is clearly a matter of trade-offs.

It should be stressed, however, that there are several reasons – besides the “deterioration in the dependency ratios” argument – for immigration to be considered a potentially positive (and probably unavoidable) feature of the future of Portuguese economy and society. First, labour shortages may occur not only due to the endogenous demographic dynamics, but also as a result of changes in preferences: the existence of a dual labour market implies that a part of the native population may prefer other forms of living, or even emigration, to taking up socially or economically disregarded jobs. Therefore, even in a demographic “steady-state” situation, there may well be temporary or structural labour shortages that require immigrant labour in order to be filled. Second, ageing by itself (i.e. regardless of the countervailing trajectories of labour force participation, labour productivity, etc.) will most likely bring about specific skills shortages. In particular, health and caring for the elderly will in the future be fast-growing sectors, in which it is extremely likely that the demand for labour will increase too fast to be met by the autochthonous labour supply. Given the fact that these sectors rely mostly on labour-intensive technologies and that many of the jobs involved therein are characterised by low social status and low levels of pay, it is very likely that they will increasingly rely on “secondary” immigrant labour. Third, the increased liberalization of labour flows benefits a lot of people in some very real ways: the migrants themselves, of course (otherwise they would hardly choose to migrate), but also the host-country consumers (who thereby benefit from a higher *real* standard of living due to lower labour costs) and the holders of complementary production factors (e.g. employers and skilled workers). Finally, a country’s migration policy need not – and arguably should not – be driven by strictly utilitarian criteria; rather, it should reflect a country’s stance towards international solidarity and human rights and the role it wishes to play in the international arena. This is all the more obvious in the case of a country like Portugal, whose diaspora amounts to millions and who wishes to maintain friendly and mutually beneficial relations with its EU partners and its former colonies (to name the two most obvious examples).

Returning to the issue of the joint optimization exercise referred to above, it is important to note that the “instruments” are not independent from each other and cannot be treated as such. For example, measures aimed at increasing fertility will, all other things being equal, bring about a decrease in the employment rate (since some parents will not be able to work, at least in the few months prior to birth and immediately after it); measures aimed at increasing the employment rate through an increase in the labour force participation of young adults may be possible only at the expense of additional schooling, thereby compromising productivity gains; and the list goes on. On the other hand, some of these instruments have an “automatic stabilization” component to them: for example, a decreasing (in relative terms) labour force, in the presence of relatively stable total demand, capital stock and investment rate, is likely to lead to gains in labour productivity (due to greater capital intensity), as well as to an increase in wages (due to labour becoming more scarce), which will in turn increase the likelihood of potential immigrants wishing to enter the country and of the economically inactive (re)entering the labour force. The implication of these automatically stabilizing effects is that, even in the case of a total inability to acknowledge the ageing problem or of a total lack of political will to address it, the consequences will in reality never be as dire as in the scenario of a shift in the age structure alongside an unchanged trajectory of the remaining influencing variables. In the following paragraphs, a brief presentation is made of the various policy options available for addressing the demographic challenge presented in section 1, their main costs and benefits, some of their interrelationships, some of their “automatic stabilization” characteristics and the extent to which they have been mobilized in the Portuguese case in the recent past. It should not be regarded as an exhaustive treatment of these issues, but as a basis for further research and a contribution to a better-informed political discussion.

Thus, the first “group” of policy options consists of family and fertility policies with a view to influencing the fertility behaviour of the population and increasing the number of births. This may be done, for example, by increasing the availability and/or subsidizing the cost of child care, or by providing direct financial support to parents as a function of the number of children that they decide to bear. Its beneficial effects with regard to the demographic problem are obvious, since the increase in the number of youths offsets both population decline and population ageing. However, it should be

borne in mind that it also brings about an increase in the total dependency ratio in the short run: it is not until at least 15 years into the future that those born in response to these policies start contributing to the production of output; in the meantime, they add to the pool of dependents. Moreover, fertility policies are often remarkably expensive and relatively ineffective – the decision to bear (more) children is probably much more responsive to the conditions in the housing and labour markets, for instance, than to (necessarily moderate) direct financial incentives. Finally, it is worth highlighting that fertility policies are among those that entail a series of trade-offs, as suggested before: on the aggregate, bearing and rearing a larger number of children reduces the labour force participation rate and the average working time. In the Portuguese case, no integrated family or fertility policy of this kind has been implemented: the impact of the modest and isolated measures impinging upon fertility that have been implemented (maternal leave, subsidized pre-school, financial support) must be regarded as necessarily limited due to the existence of structural constraints (e.g. the lack of widely available child care facilities, low income levels and the restrictions to maternal leave imposed by many firms).

The second group of policies in the portfolio of options to address the demographic challenge consists of policies which aim to increase the employment rate. As mentioned before, a decreasing (in relative or absolute terms) potentially active population can sustain an increasing (also in relative or absolute terms) dependent population without having to endure a larger burden, provided that the increase in the employment rate makes up for that shifting balance. Typically (and especially so in the Portuguese case), it is particularly hard to raise the labour force participation rates of those in the middle cohorts of the working age. The most effective possible measures concern younger adults, by way of measures making it easier to reconcile (part-time) work and education, and older adults, by raising the retirement age, removing compulsory retirement requirements and fostering active ageing. On the other hand, the employment rate may be raised not only by raising the labour force participation rate, but also by reducing unemployment. The latter is obviously a policy goal *per se*, but it may be argued that more can yet be done in this field in the Portuguese case, particularly by enhancing the sectoral and geographical mobility of the workers and by further liberalizing the labour market (provided that the social safety net is reinforced, in line with the so-called flexicurity model). The “costs” associated with the measures to increase the employment rate are mostly measured in non-monetary welfare terms and

have to do with the smaller number of people available to perform the essential but largely “invisible” socially reproductive work in the context of the household and community. Moreover, these policies also involve trade-offs: increasing the activity rate of young adults can occur at the expense of time dedicated to education and, hence, future labour productivity; it may also be possible only by drawing on the “marginally productive” (e.g. some of the older) workers, thereby lowering labour productivity; and it may jeopardize policies aimed at raising fertility. However, the employment rate has a built-in automatic stabilizer component: labour shortages directly increase the attractiveness of being economically active by raising wages; moreover, as labour becomes more scarce, unemployment tends to fall.

In the Portuguese context, several policy initiatives have been taken in recent times with the aim of curbing unemployment and fostering job creation. Presently, the single most important policy framework document in this field is the National Action Programme for Growth and Employment 2005-2008 (PNACE, 2005), which constitutes the national-level expression of a European Union initiative within the ambit of the Lisbon Strategy. It includes a series of strategic plans with an impact at the macro- and microeconomic levels, addressing issues such as training and human capital formation, employment and social cohesion. Another important public strategy document is the National Employment Policy Plan 2005-2008 (MTSS, 2005), whose goals are to achieve full employment, improve the quality and productivity of labour and reinforce social and territorial cohesion. Its main priorities consist of attracting more people into work (and retaining them), improving the social protection mechanisms, enhancing the adaptability of workers and firms and fostering human capital formation, namely by seeking to improve the skills and educational levels of the working population through a variety of measures (MTSS, 2005; PNACE, 2005; Soares, 2006).

In rather loose and piecemeal fashion, many other specific measures have been taken by the various recent governments with the aim of increasing employment, improving labour productivity and reducing unemployment, some of which concern the rules of access to social protection mechanisms. These have included more systematic checks on the employment status of the registered unemployed and harsher conditions of access to unemployment benefits – for example, by making it more difficult for recipients to turn down job offers.

The third option, in line with our “decomposition” of the relationship between the potential labour force and the actual output produced in the economy, consists of increasing the average working time. This particular variable is liable to change mostly through its “automatic stabilizer” properties (when labour becomes scarcer, hence better paid, there is an incentive for each individual to supply a larger quantity of it). This is because it can only be implemented directly in the case of civil servants and it involves the risk of serious negative political reactions if imposed compulsorily. Moreover, the costs associated with the reduction in leisure time and in the time available for socially reproductive work must also be borne in mind, as must the fact that the productivity of the additional working time will typically be lower. The most that can be done by public policies in this domain (and an option which is yet to be explored systematically in the Portuguese case) is to provide positive incentives for workers to work longer hours of their own free will.

The fourth policy option consists in increasing labour productivity, so that the same (or a decreasing) labour force can sustain an expanding dependent population. In reality, increasing labour productivity is a policy goal *per se*, so the *real* policy option in this case is to channel the actual or potential productivity gains to addressing the welfare problems associated with population ageing: diverting any of those gains to this particular use instead of other alternative (public or private) uses is therefore equivalent to a tax (one, of course, which the Portuguese may well decide to approve). Still, with or without population ageing, it is obviously commendable that all efforts be made to increase labour productivity, namely through lifelong education and training and by way of facilitating institutional changes. Fortunately, labour productivity has a partial “automatic stabilizer” component in the context of population ageing: labour shortages create an incentive to the adoption of more capital-intensive technologies, which increase labour productivity directly.

The need to raise the levels of schooling and professional training of the Portuguese population and workforce is a domain where there is widespread consensus – the various successive governments have consistently introduced measures and reforms to achieve this. Even though the educational levels of the Portuguese population are still among the poorest in the EU, the relative number of individuals holding secondary and tertiary educational diplomas has been constantly

rising, as has the number of those in vocational training. In this sense, it can be said that the stage is set for a steady – albeit slow – future increase in labour productivity.

The domain in which public policy has been most active in recent years when it comes to addressing the welfare consequences of population ageing is that of social security mechanisms. Due to the increasing burden associated with public budget deficits and the rising number of pensioners, a number of actions have been taken in order to reduce the additional financial burden that is being caused by demographic ageing and to protect the system from the risk of financial collapse in the long run. Given the politically sensitive character of the issues at stake, this process has been neither linear nor fully consensual. Still, some important steps have been taken, particularly in the past two years. In October 2006, the left-of-centre government and the main social partners managed to bridge most of their differences and signed an Agreement on the Reform of Social Security within the ambit of the Social and Economic Council, which brings together government, public administration, employers' associations and trade unions (CES, 2006). The reforms agreed upon included measures that impinge upon the social-security mechanism and its funding, such as the convergence of the social security regimes, the elimination of the special regimes, the postponement of the retirement age, a new pension calculation method, the introduction of a new "sustainability" factor, taxes on pensions, penalties (in terms of the calculation of pensions) for anticipated retirements, and bonuses for postponed retirements. These various measures entered into force by way of a new law (Law no. 4/2007) in January 2007.

The final option in this portfolio is replacement migration, i.e. actively encouraging migration inflows in order to adjust the present and future age structure of the population, both directly (as most migrants belong to the potentially active cohorts) and indirectly (since the migrants' total fertility rate is typically higher than that of the autochthonous population). Generally speaking, this can be done both by way of greater liberalization of migration flows (presumably, labour shortages will automatically lead to in-migration) and through state-led direct recruitment schemes (more costly and often less effective).

From an economic perspective, replacement migration is particularly attractive as an option, given that it constitutes an immediate response to the problem of

population ageing (without the 15-year or longer time lag associated with the policies to raise fertility) and because migrants (especially, and by definition, *labour* migrants) exhibit higher than average labour force participation rates. Of course, it is not without its costs, namely the risks of an adverse reaction on the part of the autochthonous population (racism, xenophobia) or of the failure of the migrants to integrate (possibly leading to the formation of ghettos or antagonistic subcultures). Mitigating these risks requires substantial investment in measures to promote integration and to educate the general public. Moreover, under certain circumstances, replacement migration as an option to address population ageing may amount to “pushing” the problem further into the future, as the migrants themselves get older and eventually retire. In any case, given that they exhibit higher fertility rates and that many of them return to their home country after a few years, the contribution of their dependency ratios to the overall dependency ratios of the receiving society is usually a very positive one. It is therefore highly likely that they will be given much greater consideration in the future, as the welfare consequences of population ageing become direr. Up until now, however, Portuguese migration policies have never been explicitly regarded as instrumental in the context of the demographic challenge - instead, they have typically been driven by other (usually more short-term) objectives. The following section contains a brief presentation of the past, present and likely future of those policies in this national context.

5 Formulating migration policies

It is likely that the Portuguese society will seek to tackle the future challenges associated with demographic and economic change through a policy mix that includes a significant amount of immigration. This is due to the fact that the social and economic pressures in favour of greater liberalization of labour flows will likely increase significantly in the future; that Portugal will probably continue to be the source of relatively significant *emigration* flows for at least some time to come; and that, *de facto* if not *de jure*, the traditional Portuguese approach to migration policy cannot in fact be considered protectionist (rather, migration policy in Portugal has been largely *reactive* to market outcomes, rather than *proactively* selective or restrictive: Baganha, 2005).

As a consequence, the search for the best practices in the field of immigration and integration policies – and those best suited to the Portuguese case – certainly is,

and will increasingly be, an important concern. In order to contribute to meeting this aim, this section: i) provides an overview of the main features of Portuguese immigration and integration policies in the recent past; ii) presents the main results of a recent tripartite consultation exercise involving workers', employers' and government representatives; and iii) seeks to draw a number of conclusions and present a few recommendations.

5.1 Immigration and integration policies in the recent past and present

As highlighted by several specialists in migration policy (Baganha, Marques and Fonseca, 2000; Baganha and Marques, 2001; Baganha, 2005), it was not until the early 1990s that the Portuguese government took the first systematic measures aimed at regulating immigration flows. This should not be surprising, given that it was not until that time that immigration stocks and flows became truly significant in quantitative terms.

The purported aims of this initial policy reaction in the early 1990s, by a conservative government and against the background of Portugal's recent accession to the EU (then EC), were to achieve a better integration of those immigrants that had already settled in the country and to close the country's doors to further immigration (i.e. its aims were avowedly protectionist). The former aim was pursued by way of the first regularization campaign to be carried out in Portugal (in 1992-93), in the context of which 39,166 "residence permits" were issued to foreigners already in the country (Baganha e Marques, 2001; SOS Racismo, 2002). The second purported aim did not give rise to any substantial changes in the laws and rules regulating the access to the country and, as a consequence, the protectionist discourse was not followed through in practice. What followed was in fact an increase in immigration flows, especially originating in the Portuguese-speaking African countries, in a market response to the increasing demand for labour in the various segments of the Portuguese economy (particularly construction), as this country benefited from considerable EU financial support for infrastructural development.

Immigration policy then underwent a significant shift in the mid-1990s. The election of a new left-of-centre government led to a series of measures specifically aimed at facilitating the integration of immigrants. One of the most remarkable was the

creation in 1995 of the High-Commissioner for Immigration and Ethnic Minorities (ACIME) – a relatively independent government-sponsored entity that has continued to grow in importance ever since. At the same time, as the level of control over settlement in the country continued to prove weaker than the market forces, a second regularization campaign ensued in 1996. This second regularization sought to address some of the same general concerns as the previous one, but was based on a closer and more active relationship with immigrants’ representatives and civil-society organizations, and introduced a “geostrategic consideration”, since preferential conditions were given to citizens of Portuguese-speaking countries²⁵ (SOS Racismo, 2002; Baganha, 2005). Over 31,500 new residence permits were granted within this second campaign (id, *ibid*).

Meanwhile, the implementation of the Schengen agreement in 1995 introduced a new twist to migration policy, as the Portuguese state no longer held the monopoly of control over the access to its territory: holders of short-term visas issued by any Schengen Area member-state could now legally enter the country. This was one of the main reasons that accounted for the massive increase in Eastern European migration to the country, often supported by more or less organized smuggling and trafficking networks. In fact, most of these immigrants entered the country in possession of a legal title (often a tourist visa to a Schengen country) and then overstayed. Moreover, as Brazilians citizens and those from the Portuguese-speaking African countries continued to enter the country with relative ease, either due to preferential legal treatment or to a *de facto* incapacity to prevent them from doing so, the logical outcome was again the prevalence of the market outcome over the attempts to regulate the flows. The “permits to stay” legal mechanism was thus introduced in 2001, and in practice constituted yet another way to regularize the pockets of irregular migrants that were being persistently formed.

The 2001 law was also a landmark in immigration policy as it represented a shift from a completely passive policy stance to a more active one, namely by introducing the first policy instrument specifically aimed at planning and managing the inflow of foreigners. That instrument was to be the annual Report on Labour Market Opportunities, produced by the government’s employment agency (IEFP), which would

²⁵ Particularly as regarded the latest date of entry into the country for which candidates were eligible for regularization.

indicate the number of job vacancies in each economic sector to be filled by immigrant workers. This new mechanism therefore consisted of a quota-setting process, based on lengthy consultations with employers and representatives from a wide variety of productive sectors and on the assessment of the potential domestic supply of labour to those sectors, particularly from those registered as unemployed. The publication of the first report in late 2001 marked the beginning of a new phase in which the government displayed a more overt intention to actively regulate the inflows, which accounts for the fact that the “permits to stay” were only issued between the passing of the law in March 2001 and the publication of the aforementioned report at the end of the year.

Yet another change in both government discourse and the law occurred after a new right-of-centre government took office in 2003, abolished the “permits to stay” mechanism (which in practice served as an *a posteriori* way to regularize the outcome of market forces) and introduced a new, more protectionist stance. But again, the strength of market forces in determining the flows proved too much for the bureaucratic capacity of the state to regulate entry, settlement and labour market matching. Despite the overall decrease in immigration (see chapter 3), irregular migration inflows continued, just as the quota mechanism failed to be significantly used: while the 2004 Report on Labour Market Opportunities made allowance for a total of 8,500 job vacancies (distributed by construction (2900), hotels and catering (2800), agriculture (2100) and other services (700)), only 899 work visas were eventually issued under this mechanism. At the same time thousands of new migrants entered the country and found work irregularly²⁶.

Throughout successive changes in both governments and laws, the concern with irregular immigration and its associated integration problems was always present and was often the main reason for the various limited regularization campaigns implemented in order to try and address the problems created by the foreigners’ irregular status (MAI, 2006). Besides the ones already referred to, two further campaigns were carried out in 2003 and 2004: the first one meant only for Brazilian nationals and conducted in the wake of President Lula da Silva’s visit to Portugal in 2003; and the second one meant for workers who could attest their past contributions to the Portuguese labour market and economy, particularly as regarded previous tax

²⁶ The figures for 2007 are slightly better, but confirm that the system is far from effective in regulating labour inflows. Recent data on the execution of the Report on Labour Market Opportunities indicates that, between May 2004 and January 2007, around 5,700 job vacancies out of a total of 8500 have been filled.

payments and social security contributions (Fonseca, Malheiros and Silva, 2005; Malheiros, 2006). Both of these regularization processes were lengthy and cumbersome, but eventually resulted in a limited number of regularizations, thereby again illustrating the difficulties experienced by the Portuguese state in the management of immigration flows.

Yet another attempt to regulate migration inflows was made by signing temporary labour agreements with some of the most relevant sending countries. The first one was signed with Cape Verde in 1997, but has had little practical effectiveness due to administrative and bureaucratic difficulties. Subsequent agreements were also signed with Bulgaria, in 2003, and Romania and the Ukraine, in 2005, whose main aims were to curb irregular inflows and to create effective channels for regular migration. This was sought by way of creating specific procedures enabling Portuguese employers to recruit workers from these countries. Given the absence of data, it is impossible to assess the impact of these latter agreements (it is not possible to distinguish the visas that were issued under the general immigration law from those that were issued within the ambit of these agreements). However, because labour immigration decreased significantly in the past few years, their impact was probably low (Marques and Góis, 2007). With regard to this type of instrument, then, it seems that given the general failure of the agreement with Cape Verde and the lack of data and debate on the success or failure of the agreements with the aforementioned Eastern European countries, Portugal is still a long way from setting up an effective migration policy based on bilateral labour recruitment agreements.

Turning to the current state of affairs, the latest change in immigration policy was introduced by the left-of-centre government that took office in 2005, which immediately took it upon itself to put forth a new regulatory framework. The latest immigration law, passed in 2007, constitutes a renewed effort to regulate immigration while displaying a relatively open stance towards it. Among other aspects, the new law has abolished the sectoral quota system, while still requiring the setting of a “global contingent” of foreign labour needs to serve as the basis for the management of the flows. Therefore, it has again tilted the scales to the side of the market, by granting legal right of entry to prospective immigrants holding a declaration of interest on the part of potential employers and to those who match job vacancies available in Portugal. *De jure*, the new legal framework remains protectionist, as it contains a universally

applicable “national and EU preference” clause. However, in practice and save for some radical and unlikely changes in the policies aimed at controlling settlement (given that control over access to Portugal remains limited by the Schengen agreement), it is likely that it will continue to result in the market regulation of migration, though probably in a context more conducive to tackling irregularity from an earlier stage.

In conclusion, it is difficult to escape the conclusion that fifteen years of government attempts to regulate migration flows have so far had disappointing results. For those endorsing a protectionist stance, because each successive regularization campaign has constituted a *de facto* recognition of the incapacity to curb the flows; for those in favour of greater liberalization but seeking to minimise the social and economic costs of integration, because the fact that regular status has systematically been granted *a posteriori* has meant that each successive wave of immigration could not be adequately planned for, met by appropriate integration measures and prevented from contributing to the underground economy. This is not an exclusive feature of the Portuguese society, however: the “crisis of control” over migration flows has been identified as a current challenge all over Southern Europe and in most industrialized receiving countries (Cornelius *et al.*, 2004).

At the same time and somewhat paradoxically, recent Portuguese integration policy (or *policies*) has been met with greater success. A series of specific legal measures and programmes have been implemented over the years in many of the main arenas of integration – e.g. employment, education, housing, health, addressing the specific problems of second-generation immigrants –, some of which have indeed proven good and best practices. Many of these initiatives have involved the High Commissioner for Immigration and Ethnic Minorities (ACIME)²⁷, which has undertaken a plethora of measures aimed at safeguarding immigrants’ legal rights, addressing their social exclusion, producing and disseminating information, matching employment needs, promoting a culture of tolerance and hospitality, and strengthening immigrants’ associations and political participation. In pursuing these aims, ACIME often works in cooperation with other entities, both within the public administration and from civil society, including immigrants’ associations. ACIME has also launched an effective network of National and Local Immigrant Support Centres (CNAI and CLAI), one-stop shops where immigrants can access a variety of services. To name but two specific

²⁷ More information can be found at www.acime.gov.pt.

measures, ACIME provides information in the employment domain and works alongside the Portuguese official employment agency (IEFP) to provide job-matching services. Measures in other fields and by other government agencies have included safeguarding the right of foreign children to education, regardless of their parents' legal status; and the Escolhas ("Choices") Programme²⁸, which has sought to prevent criminal behaviour and to foster the social insertion of youths from run-down and deprived neighbourhoods in the Lisboa, Porto and Setúbal regions (and which has successfully targeted, though not exclusively, many second-generation immigrants).

Also in the integration domain, the recent passing (May 2007) of a National Plan for the Integration of Immigrants, again an initiative led by ACIME, is a multidimensional effort to address the problems of immigrants, containing measures in the areas of employment, education, health, housing, etc.. Finally, a new nationality law was passed in 2006 that has eased the immigrants' access to Portuguese citizenship, thereby facilitating their integration in the Portuguese society. While still a mix between the *jus sanguini* and *jus soli* criteria, the conditions under which immigrants and their offspring are eligible for naturalization have been extended compared to the previous laws.

5.2 Formulating migration policies: stakeholder perspectives

With a view to assessing the perspectives of a number of stakeholders with respect to the recent past, present and future of migration policy in Portugal, a workshop was organized during the writing of this report that brought together representatives from trade union confederations, employers' organizations and government agencies. The main aim was to identify the points of consensus and contention between these stakeholders, who in principle represented quite different – in fact, rather contradictory – interests.

In this workshop, it became clear that there is a clear acknowledgement on the part of the Portuguese workers' representatives that ageing is extremely likely to lead to labour shortages, particularly in the less skilled segments of the labour market, and that the immigrant and autochthonous labour forces are often complementary, rather than substitutes, as expressed in the catch phrase "most immigrants do the jobs that

²⁸ More information can be found at www.programaescolhas.pt.

the Portuguese are no longer willing to take up". For this reason, what matters the most for these representatives is equality of treatment in the labour market. This necessarily involves tackling the problem of undeclared work, insofar as it introduces unfair competition in the labour market from which immigrants (and employers) have traditionally benefited over-proportionally. This latter aspect is in fact a point of consensus between all the participants in this workshop: if immigration is to provide a solution to the problems of ageing and labour shortages and to assist in the country's development, it is vital that the immigrants' fiscal contribution is not lost and that they do not contribute to sustaining the underground economy.

Another source of relative consensus concerned the insufficiencies of the migration policies adopted until now: there is a general recognition that the various policy instruments and solutions adopted in the past, particularly the sectoral quota system, have failed to bring about satisfactory results. The differences emerge when it comes to attributing the source of these failures to the instruments and policies themselves, or to other intervening causes largely outside the reach of government powers. Some government representatives argue that, for all their insufficiencies, instruments to regulate the flows are an essential part of sovereignty, that they should reflect the demands of the labour market (albeit with a national preference proviso) and that, while some reformulation may have positive consequences, the fundamental spirit presiding over the current system should remain unaltered. Other government representatives, though more concerned with the integration dimension of immigration than with flow management *per se*, maintain that the defensive character of the current flow management approach is largely unsustainable given both the foreseeable developments in the demographic sphere and the fact that a more pro-active approach to migration flow management would probably bring about better integration outcomes.

In turn, employers are most concerned with the lack of flexibility and the bureaucratic character of the current system and with the effects of this upon the labour pool on which they draw, as it creates exogenous barriers to their economic activity. This is all the more evident in the case of those sectors of activity in which investment and output decisions have to be taken on a short-term basis, e.g. those involving the production of perishable goods (such as agriculture) and those with largely seasonal characteristics (such as tourism). The burdensome, top-down and bureaucratic nature of the current migration flow management system makes it simply impossible for

employers to flexibly draw on migrant workers to fill in the gaps of the domestic labour market. Apparently, a very positive note with regard to the employers' stance in this process concerns the fact that they do not seem to regard immigration as a way to postpone the restructuring of the predominant competitiveness model – rather, it is seen as a way to meet specific unmet labour market demands *while* seeking to reinforce the value-added component of the Portuguese economy, namely by promoting skills' acquisition by the workers in the various sectors.

In sum, there was a great deal of consensus among the (represented) stakeholders in this workshop as concerns the desirability of attaining two goals: (i) improving migration policy in general, and the flow management system in particular, so as to provide them with greater flexibility and a more bottom-up, decentralized and market-friendly character; and (ii) retaining some sort of “national preference” mechanism so as to protect domestic workers from international competition. The suggested ways in which this latter goal should be attained are, however, rather unimaginative and typically consist of government surveys of the demand and supply sides of the labour market in order to identify those segments in which there is a shortage that clearly cannot be met by drawing on the domestic labour force.

Given that most (though not all) of the participants in this workshop concurred that the system currently in place could be considered largely unsatisfactory, we also sought to find out which alternative systems might in their view perform better. Here, the answers have been varied and, meaningfully, did not always coincide with the solutions contained in newly-passed legislation. Some participants argued in favour of direct recruitment by recruitment agencies in the countries or origin (possibly complemented by co-development initiatives); others defended points-based selection mechanisms, so as to raise the skills' profile of the future immigrant flows (although with enough caution so as not to bring about excessively negative “brain drain” consequences); others still argued in favour of the current sectoral quota system, though welcoming improvements aimed at making it possible for it to more accurately reflect the demand side of the labour market. However, the issue of the specific flow management instrument to be adopted was considered relatively secondary by many of the participants in this debate, particularly the workers' and employers' representatives: what matters the most is for it to flexibly respond to the market

demands, ensure retention of sovereign state control over immigration and preferably protect national workers against foreign competition.

5.3 Conclusions and recommendations

As all the other European countries, Portugal is currently faced with a rapid and structural process of population ageing, brought about by declines in fertility and increases in life expectancy. All the projection exercises based on the available information forecast unprecedented increases in the absolute size of the elderly population and in the old-age dependency ratio. Though gradual, this process will require massive social and institutional rearrangements and bring about serious social and economic consequences (most obviously, labour shortages and unsustainable social security costs).

To make matters worse, none of the possible solutions to this problem are without their costs or disadvantages. Seeking to raise fertility levels, increasing the employment rate, channelling productivity gains, drawing on replacement migration and increasing the average working time all entail costs, are sometimes mutually contradictory and in some cases take years or decades to enter into effect. However, the Portuguese society will be faced with such an immense challenge that it will have no choice but to draw on at least some of these partial solutions, in search of a combination whose associated costs and advantages might make it possible to maximize national welfare. Considering the current status of some of the relevant variables (e.g. the already relatively high labour force participation rate) and the degree of relative ease with which each of the policy options can be mobilized (e.g. the difficulties that beset pronatalist policies), at least partial recourse to two of the aforementioned policy options seems almost inescapable: changes in the retirement age and in the social-security mechanisms, on the one hand; and replacement migration, on the other. The need for the former has already been explicitly recognized and measures to implement them have already been adopted; the second is yet to be regarded as instrumental, both in discourse and in practice.

There is a growing consensus among the most “enlightened” and politically aware segments of the Portuguese society that this country’s migration policy has underperformed ever since immigration became a socially and economically significant

phenomenon. The very fact that over half of today's legally resident migrants acquired their legal status through regularizations provides enough evidence of the "strong market, weak state" (Peixoto, 2002b) characteristics of the Portuguese migration regime.

Moreover, despite the relative successes of many integration policies and programmes in the recent past, it is clear that the failure to prevent the irregular entry of numerous immigrants, alongside the (necessarily consequential) failure to ensure from the outset that those migrants face the same rights and duties as the autochthonous population, has run counter to the goals of integration policy and prevented it from maximising the benefits and minimising the costs of immigration.

If the Portuguese society should choose (or be forced) to draw on increasing levels of replacement migration in order to tackle the challenge of population ageing, and if it objectively recognizes the successes and failures of its migration policies in the past, then decision-makers may wish to join many of the participants in our workshop in calling for and enacting a more market-based and less protectionist approach to the labour market. The protection of uncompetitive domestic workers might still be pursued as a policy objective – only *ex-post*, by way of social safety nets and training programmes, rather than *ex-ante*, through international barriers that come at a cost to national welfare *and* compromise integration. The full adoption of a policy stance of this sort would involve liberalizing the rights of immigrants to access the country and engage in work contracts in equality of circumstances with regard to national workers, while requiring that they register with government authorities in each stage of the process, meeting them (on a local basis) with appropriately targeted integration measures and making every effort to discourage undeclared work and informal economic activities. Portuguese tax-payers might then subsidize support to their less competitive co-national workers explicitly, i.e. through fiscal policy, rather than implicitly, by bearing the costs of protectionism as consumers.

Given the irreversibility of the ageing process and the fact that immigration will have to be part of the solution, the Portuguese society will in the future have to learn to live with an older and more diverse population and to manage these processes more efficiently. Some tough choices will inevitably have to be made – but a more timely and better-informed reaction will certainly make them less tough.

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