LABOUR MARKET REFORMS IN PORTUGAL 2011-2015
A PRELIMINARY ASSESSMENT
In October 2015 the XIX Government of Portugal asked the OECD to evaluate the labour market reforms that took place over the period 2011-2015, covering:

- Employment protection legislation
- Unemployment benefits
- Activation framework
- Collective bargaining
- Minimum wage
- Working time

The present report offers a preliminary assessment of these reforms:

- The reforms are relatively recent
- A large number of measures were taken (including outside the labour market)
- The reforms coincided with a second dip in GDP growth and a gradual recovery

Important to take stock
Portugal’s economic performance was weak prior to the crisis.

Annual real GDP growth rate, Portugal and OECD, 2002-2015

- Other OECD Countries
- OECD Average
- EU-28
- Portugal
Portugal was badly hit by the crisis – but unemployment had been rising even before

Unemployment rates, Q1 2007 - Q4 2015, Portugal and OECD

- Other OECD Countries
- OECD Average
- EU-28
- Portugal
The reforms were a step in the right direction

Predicted and actual changes in the unemployment rate, Q1 1983 to Q3 2015

Unemployment rate

Predicted unemployment rate
But significant challenges remain

A. Unemployment

B. Youth Unemployment

C. Long-term unemployment

D. Temporary employment

E. Poverty

F. Unit Labour Costs
RECENT REFORMS AND REMAINING CHALLENGES
Employment protection legislation
One of the most substantial reforms of EPL among OECD countries in recent years

Changes in employment protection for regular contracts (2008-2015) in those countries that implemented the largest reforms

Scale 0-6

OECD average
Severance pay was significantly reduced (for new hires)

Severance pay on temporary and permanent contracts before/after the reform
In multiples of the individual’s monthly wage
Accumulated severance pay entitlements of existing workers were preserved.

Average severance pay entitlement under the old rules, new rules and actual
In months of base wage and tenure-related increments

Permanent contracts

- Old rules
- Actual
- New rules

Graph showing the average severance pay entitlement under the old rules, new rules, and actual over different quarters and years.
The early evidence indicates that these reforms have had a significant effect

- The reductions in severance pay have:
  - Incentivised on-the-job search (a lead indicator of job-to-job flows)
  - Incentivised hiring
  - Increased the share of hiring that is on permanent contracts
  - (and the effects on hiring are larger for small than for large firms)
  - Protected existing workers from an increased risk of dismissal

- Looking forward, these reforms are likely to result in significant gains in both productivity and growth
The regulatory gap between permanent and temporary contracts remains large.
To reduce disputes, it is important to clarify the conditions that justify a dismissal for economic reasons (as was recently done in France and Spain).

To promote hiring of workers on permanent contracts, consider moving closer to the EU average in terms of compensation following unfair dismissal and, as recently done in Italy, limiting reinstatement to specific cases (e.g. discrimination).

Labour market duality could also be reduced by raising the relative cost of hiring on temporary contracts (e.g. by charging higher social security contributions) – however this may come at the expense of employment, which would affect marginal workers in particular.
Unemployment benefits
Access to unemployment benefits was eased

Previous employment and contribution conditions for unemployment insurance, 2007-2013

Weeks

- Employment/contribution period 2013
- Reference period 2007 (if different)
- Reference period 2013
- Employment/contribution period 2007 (if different)
The unemployment insurance/assistance coverage rate held up relatively well.

Unemployment insurance and assistance recipients and number of unemployed
January 2011 to December 2015

Unemployment Insurance
Unemployment Assistance
Unemployed
Ratio beneficiaries/unemployed (right-hand axis)
But coverage of unemployment benefits remains relatively low

Ratio of unemployment insurance/assistance beneficiaries to LFS unemployed

2012 (or latest year available)
The generosity of UB was reduced

Maximum duration of unemployment insurance, 2007-2013

Months

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Unemployment benefits: Possible ways forward

- Provide greater protection for the unemployed by further widening the coverage of unemployment benefits (e.g. by raising the means test threshold for unemployment assistance and uprating it annually in line with inflation).

- Further strengthen incentives for job search and tackle the high incidence of long-term unemployment – particularly for older workers, for example by limiting the possibility of extending unemployment assistance until the age of retirement to those who remain unemployed despite taking active steps to find work.

- These reforms should be combined with measures to reinforce employment programmes to support the reintegration of jobseekers into employment.
Activation
Portugal strengthened its activation framework

**OPPORTUNITIES:** Addressing demand-side barriers, expanding employment opportunities for jobseekers

**MOTIVATION:** Ensuring jobseekers have the motivation to seek work

**EMPLOYABILITY:** Case management, placement services and measures to increase employability
Participation in ALMPs increased significantly

Participation in hiring subsidies and subsidised internships, 2011-2015
Cumulative number of participants in each year
 Activation: Possible ways forward

- Fully implement the measures outlined in the programme to modernise the Public Employment Service (Programa de Relançamento do Serviço Público de Emprego).

- Ensure that more costly active labour market programmes (ALMPs) are more closely targeted on those who need them most (i.e. disadvantaged youth and the long-term unemployed).

- Consider building stronger incentives to hire on permanent contracts into active labour market programmes, but ensure that take-up by employers is not reduced unduly as a result.

- Devote more resources to the careful monitoring and evaluation of ALMPs. In particular, all new programmes should be trialed on a random, pilot basis.
There may be a need to dedicate more resources to activation

Unemployment and expenditure on ALMPs, 2013

Harmonised unemployment rate (%) vs. Expenditure on active measures (% of GDP)
Collective bargaining
Reforms of collective bargaining were a mixed success

- Administrative extensions of agreements:
  - Temporary freeze
  - Representativeness criteria introduced:
    - Employer organisation should represent 50% of workers in the relevant sector
    - OR
    - 30% of the signatory employers should be small and medium enterprises

- Firm-level agreements can be negotiated by works councils in firms with at least 150 employees (previously 500 employees)

- Additional constraints were placed on the time for which collective agreements can remain valid

- Employers can temporarily suspend a collective agreement (or certain terms contained in it) at times of crisis
The number of collective bargaining agreements has dropped significantly.

Evolution in collective bargaining, by type of agreement, 1976-2015

- Sector
- Groups of firms
- Firm-level
There has been a decrease in the coverage of collective bargaining

Changes in collective bargaining coverage, 2008-2013
Adjusted bargaining coverage (%)
Collective bargaining: Possible ways forward

The potential negative effects of administrative extensions on competitiveness and employment can be limited by:

– Making the representativeness criteria for extension of collective agreements more challenging, while keeping them realistic.
– Granting administrative extensions only if they are in the “public interest”, i.e. if they meet clearly defined criteria by the government which are announced well in advance and known by the social partners before they enter into negotiations.
– Alternatively, making the extension of collective agreements conditional on the inclusion of opening clauses that clearly specify the issues (including wages and working conditions) that can be delegated to the individual firm, and under what conditions.
– Setting up an independent body responsible for deciding (or advising the government on) whether extensions should be granted.
Limit unnecessary employment losses by **making it easier for firms to temporarily opt out of collective agreements** at times of crisis by:

- Clarifying the conditions under which firms can opt out due to “inability to pay” or hardship.
- Introducing a swift arbitration process in case of disagreement between employers and worker representatives.

Making it easier for firms to opt out should go hand in hand with measures to **strengthen worker representation at the firm-level**.

Enshrine in legislation the current practice which **limits the retroactive effects of collective bargaining agreements which have been extended** to the first day of the month in which the extension occurs.
Minimum wage
The minimum wage was frozen between 2011 and 2014.

Nominal and real levels of the Portuguese minimum wage
January 2000 to September 2015

- Nominal MW
- Real MW (base=jan 2011)
While low in absolute terms, the MW is quite high when expressed as a proportion of median wages.

Minimum wage levels pre- and post-crisis, 2007-2014
As a percentage of median wages of full-time employees (in gross terms)
Minimum wage: Possible ways forward

- Soften the impact of planned increases in the minimum wage on labour demand by reducing employer social security contributions on all minimum-wage workers (including new hires).

- Set up an independent commission comprised of experts and representatives of the social partners to provide the government with impartial information and advice on future changes to the minimum wage, carefully considering current and future labour market conditions.
Concluding remarks
The future performance of the labour market will not depend just on employment policies, but also on:

- A return to higher and more sustainable growth
- Further product market reforms
- Improved access to credit for firms
- Reductions in the tax wedge
- Further investments in skills
Thank you

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Annex
Working time
The adjustment in labour input to the crisis in Portugal occurred primarily through job destruction.

Decomposition of the change in total hours worked, 2007-2014

Change in total hours worked that can be attributed to changes in employment and average hours worked, respectively.
Firms were granted additional working time flexibility

• Reduction in procedural requirements and time needed to implement short-time work arrangements
  – Also: improvements in the design of short-time work compensation schemes to reduce their deadweight loss

• Individual working time accounts were introduced alongside the collective working time accounts already in place
The Portuguese bargaining system remains centralised.