Determinants and shrink smart strategies for the municipalities of Portugal

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1. Introduction

- According to United Nations (2008) World Population Prospects Database, Bulgaria, Poland, Germany, Portugal and Italy will lose, respectively, 28, 16, 14, 7 and 5 percent of the population by 2050, compared with 2010 figures
  - More than half of the Portuguese mainland municipalities have population exit problems
- Although recognised that are fiscal consequences of demographic changes, their implications for local governments and municipalities are rarely object of study
- The underlying incentives for public intervention lead often to political practices deviating from theoretical predictions
- Portuguese local governments have reasons to be concerned with the population decline since major financing sources are related with the number of inhabitants
  - Policies are oriented to sustain population decline, meaning that public choices intend to contain or reverse the problem: the growth focus is maintained

- **Paper goal:** Understand the major strategies implemented by Portuguese central and local governments and identify their success
  - Four types of implemented policies are analysed:
    - promotion of marriage numbers,
    - secondary students increase,
    - maintenance of health care services and
    - creation of employment opportunities
2. Literature review

• Under globalisation, regions with lower adaptive efficiency entered into a progressive decline of population and economic activity
  ▫ Peripheral regions that are neither in any of the new global centres, neither at the specialized nodes of the global networks, face a sharp decline of economic activity because they are simply left out (Kiely, 1998)
  ▫ Rural areas are the first to feel the effects of the society change
  • Alternatives: To be resilient to major changes or to extinct. Services related to knowledge and leisure was the first opportunities to be adopted as strategies do adapt in the economic and socio-ecologic decline
2. Literature review

- Local governments are prepared to deal with a growth scenario which brings more job opportunities and inhabitants to the municipalities but are less prepared to live with shrinkage
  - As municipalities are often financed through per capita grants, which depend on population size, local governments privilege policies promoting growth

- Planning tools are directed towards new development of land, new construction and more public infrastructures as an incentive to attract economic activity and residents in opposition of planning actions towards recycling of land and buildings or adaptation of public facilities to changed needs (Muller and Siedentop, 2004)
  - However, local governments in isolation cannot determine municipal growth rate (Downs, 2001)

Policy mix implementation should combine central and local public interventions
2. Literature review

• Model of Shrinking Smart
  ▫ Cities are shrinking smart by returning abandoned neighbourhoods to nature, increasing walking spaces, making urban space more liveable and housing more affordable
  ▫ Shrinkage smart strategies imply the reconfiguration of infrastructures to the new dimension of population, increasing often per capita spending
    • Small municipalities are especially more vulnerable to increasing expenditure stress under declining population; larger municipalities are more resilient to cost increases as population size changes (Geys et al., 2007)

• Model of Smart Growth (Gabriel et al., 2006)
  ▫ Development strategies that do not promote urban sprawl
    • The cities adopting this concept conserve resources by recycling the existing infrastructure and reclaiming historic buildings

• Since local governments prefer big to small budgets, the incentives are to avoid or delay downsizing
  ▫ Smart growth strategies are proposed to deal with the increasing request of growth
2. Literature review

- Identified strategies to deal with increasingly low population and economic density
  - Access of elementary and high-performing public schools as a device for preventing population from exit
    - Ensures regional equity and smart growth (Blackwell and Fox, 2004)
    - Proximity to schools with quality, jointly with local employment centres, are the most valuable amenities for population location (Epplle et al., 2010)
      - Brasington (1999), Bogart and Cromwell (2000), and Chung (2002) find that public school quality is capitalised into housing prices
  - Marriage promotion is usually related to public policies enhancing the reduction of poverty (Lichter, 2001)
    - By giving some financial support or economic privileges, local governments intend to fix new couples
2. Literature review

- **Maintenance of the more skilled employees, namely in health sector**
  - Average satisfaction with health care makes municipalities more attractive to households (Carlsen *et al.*, 2009)
  - As young families exit, municipality will be increasingly composed by ageing individuals, increasing the per capita spending request on health care (Mading, 2004)
    - Policy primarily oriented to the elderly, supporting a shrinkage smart approach

- **Strategies towards the attraction of fiscal contributors, as firms, inhabitants or tourists**
  - Tourism stimulates other activities: food service, entertainment, retail sales and transportation services (Siegel and Jakus, 1995)
    - The attraction of new business and inhabitants enhance growth and increase local receipts
3. Empirical application

- Framework
  - Portugal is a country where political decisions are mainly concentrated at central level
    - In Portuguese mainland there are only two political levels: a central government and several local governments – Municipalities
  - Portugal comprehends 308 municipalities, 278 of them in mainland
    - 121 have being systematically shrinking during the last decade, corresponding to a decrease of 10.26% inhabitants
      - Includes Lisbon, the capital, and Oporto, the second most important municipality, with 490 and 216 thousand inhabitants, respectively, in 2008
      - The reduction of inhabitants covers 57% of the Portuguese municipalities
  - Not all Portuguese local governments are located in cities
    - Portuguese cities are mainly located near the littoral
3. Empirical application

- **Strategies promoting marriage**
  - Local governments by offering houses or other residential advantages to young couples, try to attract new inhabitants to those municipalities.
  - This policy is not accompanied in most cases by other policies, namely policies that promote employment or avoid speculative rent estate activity.
    - In **Lisbon** and **Oporto** cases, real property valuation forces households to search for houses in neighbouring municipalities, despite of job opportunities.
    - **Boticas, Vinhais e Marvão** that faced a reduction in the property value, did not generate employment.
    - **Almeida** faces a change on employment profile: industrial employment is in decline, being the major number of jobs offered in the primary sector which is often a seasonal activity, thus not ensuring permanent residence.
3. Empirical application

- **Strategies promoting education**
  - Some municipalities negotiate with central government the maintenance or the building of secondary schools
  - The employment profile in the municipalities with increasing secondary students evolves to absorb people with secondary or even graduated degrees
    - Attracting secondary school students generate employment in several municipalities
    - However, the restructuring of the employment profile with the replacement of primary and secondary sectors by tertiary sector jobs are not sufficient to invert the population decrease
  - Despite not solving the problem of population decline, such strategy can promote the increase of wealth creation, which capitalize into real property value
    - The variation of the property value in some municipalities might be the reason since households would have to compete with enterprises for land
3. Empirical application

- **Strategies promoting health care maintenance**
  - Intends, by ensuring more health care by inhabitant, to avoid inhabitants of a certain municipality from exit
  - This policy generates some conflict between central and local governments, since the former intend to close some of the health facilities alleging a small number of patients, position that faced opposition by the latter
    - This strategy does not revitalize building sector and new employments creation
    - This type of policy can be considered in accordance with a shrinking smart perspective
3. Empirical application

- **Strategies promoting employment**
  - Intends to give residents a reason to stay by guarantying jobs opportunities
  - Cases in which employment in the municipalities increased without containing the abandon of inhabitants
    - Job opportunities are mainly in primary and secondary sectors
    - A factor for the success of policies promoting local employment is the capability of resilience of each municipality for adapting from activities of primary and secondary sectors into tertiary sector activities
  - A policy that seems to retain economic activity in interior municipalities with less than 10 thousand inhabitants like **Carrazeda de Ansiães**, **Oleiros**, **Almeida**, **Vila Velha de Rodão** or **Fronteira** is the practice of exemption or of a reduced rate on income tax generated by business activity called “derrama”
3. Empirical application

- Municipalities with a permanent and severe shrinking process
  - The majority of local governments adopted some strategy to deal the phenomena
    - Adopted strategies reveal not be sufficient to invert the desertification process of those municipalities
    - Mainly identified strategies are toward the development of smart growth practices
    - Only a small number of municipalities seem to accept shrinkage as inevitable, engaging into smart shrinkage strategies

- Municipalities facing a more recent process of population declining, i.e., population loss in the last five years
  - A public intervention attempting to invert population decline is not broadly found due to two reasons:
    - Actions taken by local governments are not yet captured by data or
    - Are a symptom of local governments’ problem misperception, thus doing nothing to mitigate the population decline consequences
3. Empirical application

• Only two municipalities showed, during the last decade, a period of population loss followed by a population increase
  - **Tarouca**
    • Is a small municipality in the North region with around 8 thousand inhabitants
    • Reinforce the secondary sector relevance but employment in the other sectors decrease
      • Have a particular situation because benefit from the fact that 4 of the 5 neighboring municipalities do not have secondary schools
    • The primer activity remains related to the agriculture
    • The municipality is located in the interior part of the country, surrounding by shrinking municipalities
      It _not seems to be a sustainable evolution_
3. Empirical application

- Only two municipalities showed, during the last decade, a period of population loss followed by a population increase
  - **Alcobaça**
    - In the Centre region, is a medium-sized municipality with approximately 56 thousand inhabitants
    - The number of jobs created on the primary and tertiary sectors do not compensate the jobs decline on the secondary sector
    - Increasing number of students
      - Some of the secondary schools have the highest ranked score position of the region and
      - This result is in line with Black (1999) and Bayer et al. (2004) predictions that school quality is determinant for household choices
    - Change in the development profile, increasing the relevance of the tertiary sector
      - A monastery and a castle makes the municipality attractive for those that like cultural tourism
      - The existence of heritage, combined with a privileged location: near the littoral and surrounding by several growing municipalities

*It seems to be a sustainable evolution*
4. Main policy results and implications

- The majority of municipalities facing a persistent process of population decline have been implementing at least one policy promoting growth.

- Those policies either promoted by local or central governments appear to be isolated actions, lacking an integrated approach, provoking a management problem at regional level.

- The data reveals that even when municipalities combine more than one policy to obviate the shrinking phenomena, if property is highly valued, inhabitants will continue to abandon the municipality.
  - This is the cases of Lisbon, Porto and Espinho, municipalities surrounded by expanding municipalities.

- The declining of population in Lisbon has been slightly extended to the neighbouring municipality Amadora, and more recently has capture also the municipality of Loures.
  - This observation emphasizes that a solution cannot be found at municipal level but have to involve all municipalities composing the metropolitan area.
5. Conclusions

• Local governments engage in policies that privilege growth, even at expense of other neighbouring municipalities with a similar problem. The ignorance of externalities effects when local governments compete for inhabitants and business cause an inefficient provision of public services.

• The absence of any national or regional policy to deal with the increasing abandon of the territory does not help to define an effective strategy to overcome shrinkage.

• Policies oriented to increase the number of young people like those promoting marriage or attract students, if not accompanied by an increase in jobs opportunities, does not revert exit dynamic.

• The maintenance of health care services, seen by local governments as an anchor for obviate the abandon of inhabitants, also reveal not to be effective.
5. Conclusions

- Although not solving the decline of population, policies oriented toward the attraction of economic activity, seems to give some transitory results
  - Local governments that give some fiscal advantage to local business delay the economic consequences that will emerge in the future, given the loss of population

- The major driven force for population decline reversion was the municipal resilience by adapting from activities of primary and secondary sectors into tertiary sector activities
  - The economic conversion to more appealing sectors, accompanied by policies that ensure residence opportunities, such as the ones that improves secondary schools quality, without increasing property value, appears to be a way of solving the problem.