INSTITUTIONAL RESPONSES TO POVERTY IN THE CITY OF LISBON

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SECOND REPORT – *WELFARE STATES: REFORM, DECLINE OR DISAPPEARANCE?*

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NEW UNIVERSITY OF LISBON / SCHOOL OF SOCIAL SCIENCES AND HUMANITIES / e-GEO

COLUMBIA UNIVERSITY IN THE CITY OF NEW YORK / EARTH INSTITUTE / CENTER FOR SUSTAINABLE URBAN DEVELOPMENT

PROJECT: INSTITUTIONAL RESPONSES TO POVERTY IN THE CITY OF LISBON

SECOND (INTERMEDIATE) REPORT:

WELFARE STATES – REFORM, DECLINE OR DISAPPEARANCE?

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INTRODUCTION

The current progress report signals the end of the second phase of the project "Institutional Responses to Poverty in the City of Lisbon". The given project found its contextual scope in the wake of two earlier and successive academic initiatives, focused on the "Strategies to Help Homeless People in the City of Lisbon" (the first one) and on the "Ongoing Evaluation of the New Strategies to Help Homeless People in the City of Lisbon" (its follow-up). Both these ventures have been developed by a team of researchers from e-GEO – Research Center in Geography and Regional Planning at the School of Arts and Social Sciences of the New University of Lisbon and supplemented by the scientific advisory of Professor Elliott Sclar, from the Center for Sustainable Urban Development / Earth Institute at Columbia University in the City of New York.

The main conceptual and operational aim of the current project is to broaden the scope of analysis of the two abovementioned academic ventures. In other words, it is the authors' intended purpose to analyze not only the reality, and the problems and strategies related to homelessness, but to further expand on this issue, thus enlarging it into a wider ambit of study. Synthetically, the project intends and defines as its focal goal to proceed with an analysis of the current situation of the institutional supporting systems available in Lisbon to help the city's poorer residents, hence determining key areas for intervention, where a shortage of supply may be found, therefore being those in need of a greater consideration.

In order to achieve the main goal mentioned above, the project was divided into three different stages, each one comprising a set of tasks and mileposts:

a) A first report (already delivered in January 2012) named "The Social Dimension in the City of Lisbon": This milestone contains an overall summary of Lisbon's social traits and characteristics. It was developed with the valuable support of two BSc graduates – Marcelo Ribeiro and Ana Sofia Travessa – and it covers Lisbon's foremost features in terms of social issues and areas of intervention;

b) A second report (i.e. the current one): This outcome is dedicated to the presentation of a (predominantly theoretical) reasoning on an elementary issue for social security schemes: Welfare systems / models. The objectives of this second report are related, on the one hand, with the need to focus on the general analysis of such a vital dimension of the "social question" as this one, and on the other to critically present and debate the Portuguese welfare system's main traits, both in terms of its strong points and its weaknesses. Following this discussion, some lines of thought regarding future challenges for Portugal's welfare system will be advanced. The report's main conclusions will represent an important contribution to the project's last stage;

c) The third and final report: This last report will pinpoint the outcomes of the ultimate phase of this project. This last period will be of a more programmatic nature; it is our intention to present through it a scheme of some of the most important axes for future social institutional interventions regarding the mitigation and alleviation of poverty in the city of Lisbon. This final report is to be delivered in January 2014.

The search for the ancestral notion of "welfare system" leads one back to the XIXth century. Its development is closely related to two different processes: On one side, the striking pace of economic development of Western European and North American nations in the given epoch and, on the other, the concomitant rising of a "social dimension" within those modern and, at the time, industrializing states.

By acknowledging this, one must take into immediate consideration that the conditions under which the modern welfare states were born and developed were not necessarily a match to those we are currently facing. All throughout the XXth century, most Western European nations developed, to some extent, some specific forms of institutional solidarity and social support that acquired such a level of relevance and complexity that leads one to consider them as unique at a global scale. Candidly speaking, there is no other region in the world that has experienced during the same lapse of time (the XXth century) a similar process of designing and building such an organized structure to assist the poor and the socially excluded; to guarantee basic financial assistance to those in need, particularly valuable in times of economic recession; to help secure kinship and family-related privileges; to protect the disabled and the ill; or to socially and financially support the elderly. Even in the United States of America, the so-called welfare state was developed (as we will see in the first chapter of the present report) following a much lighter perspective.

However, in the last decades, Western European nations have been facing a series of dramatic changes, which have been posing massive challenges for the sustainability of their welfare systems. Aspects such as an increasingly ageing (and retired) population, a most evident overall loss of economic competitiveness, an ever-enduring incapacity to attract “top-of-the-game” (young) researchers from outside of Europe, or the notoriously increasing weight of public social expenditure, combine to draw a general social and economic picture that should be a matter for serious reflection and consideration. Hence the title of the current report, which intends to firmly establish itself as a preliminary theoretical “wake-up call” to actors and agents with social and political responsibilities in Portugal, alerting them for a set of aspects related to the long-run (in)sustainability of social security systems in a country vehemently suffering from all the problems mentioned above, especially with population ageing and the incapacity to find its niche(s) in terms of both European and international economic competitiveness.

Posing the problem plainly and simply: Welfare states costs money; in fact they cost a lot of money! And in a country which has not been observing positive economic growth rates in the last years, one which appears to be incapable of regaining economic competitiveness, and which has not been able to secure the replacing of its generations, the problem’s contours are much more serious, thus demanding the most efficient and urgent answers.

As will be seen in the first chapter of the current report the literature transversally posits the existence of three chief models for welfare systems and for the organization of public social support to specific groups, such as the elderly and retired, the unemployed, single parents and single parental families, the poor and the socially excluded. This tripartite segmentation is based on the seminal works produced by Gosta Esping Andersen (e.g. 1990, 1996), still today viewed as a solid basis for welfare state analysis and research.

One of these welfare systems, that which presents itself as the one with the least public intervention and responsibilities, is the so-called “liberal system”, which was developed in nations with economic systems that are more open to market competition such as the United States, the United Kingdom or Ireland. In these countries, the public component of the welfare system is condensed to some critical responsibilities, and the periods in which citizens are able to apply and benefit from public social support are usually narrowed down to a very short timeframe. Conversely, continental European countries have developed another model, sometimes labeled (in memory of its conceptualizer) as the “Bismarckian welfare state”. This is characterized by a stronger public commitment to social issues and also by a visible influence of the social doctrine of the Roman Catholic Church. Finally, a third model, the “social democratic welfare state”, developed and applied mainly in the Scandinavian countries and normally viewed as the most advanced welfare system in the world, must also be underlined. The latter consists of a strong security net of State provided services, designed to deliver continuous assistance to its citizens for longer periods of time.

Following the previous discussion, in the second chapter of the present report we will try to position the Portuguese welfare system in Andersen’s basic classification, by describing its main characteristics. As will be seen in a subsequent chapter, two different approaches may be followed here: On the one hand, we have some authors who defend that Southern Europe in general (i.e. Portugal, Spain, Greece and, although to a lesser extent, Italy), may be grouped as constituting by themselves a fourth system because their specific characteristics are enough to separate its solutions from the other systems described above. Nevertheless, on the other hand, and following works produced mostly by socially-oriented scientists, there is also a widespread guiding line that stations Southern European countries in the Bismarckian system, assuming that the main differences from the original model are the result of a slower and less efficient social response system, which appears as the outcome of the fact that South Europe’s countries have not begun the serious and wider implementation of its social welfare systems until the 1970-80’s, this having incited a considerable delay in the construction of the institutional and public support networks considered to be the bulk of continental Europe’s welfare state system.

Taking into account the previously stated the specificity of the Portuguese case becomes clearer. This is one of the main reasons behind the interest in analyzing Portugal’s welfare state system. An attempt to reform Portugal’s welfare state system should obviously take into consideration the achievements made so far, while incorporating, at the same time, measures to correct what is still lagging and inefficient (especially in comparison with more orthodox approaches to the Bismarckian system). Moreover, Portugal’s (following Europe’s) current economic and financial crisis, demands strict and effaceable interventions. It is no longer just the national welfare system that is at stake but also the overall role of the central government that should questioned. What type of social state model should Portugal aim for? What kind of public administration is the country able to pay for? What welfare solutions could be deemed as sustainable in the long run? These issues will be analyzed in further detail on the third chapter of the present report.

In summary, this research report focuses, firstly on the organization and structure of welfare state models; secondly the Portuguese specific arrangement will be under analysis; and finally an examination of the measures that should be taken to secure the long-term sustainability of Portugal's welfare state will be pursued.

It is our aim that by the end of this second research report, some challenges for Portugal's future social development will have been made clearer and that we are able to bring about some valid lines of reasoning to the questions under study. The future organization of Portugal's welfare state is no longer to be considered as a one way street after this report.

The future effectiveness of welfare states and welfare systems will strongly depend on the development of financially creative solutions, aiming at a wider social scope and at an increased and more efficient economic performance. It is inevitable that some forms of rearrangement of the so-called social contract are put at the table of negotiations. It is essential to assess what contours for the welfare states citizens want for their country; and also how much they are willing to pay for the right to have public social protection?

The combination of these two questions will help define the future (participated) design of welfare states across Europe and, concurrently, for Portugal. The search for an unbiased balance between social fairness and economic performance in Portugal is a long road that is just starting to be crossed, and one must not expect to find simple solutions at the next intersection. It is very likely that Portugal's (and Western Europe's) future welfare system will have to be an original structure, one which combines elements derived from the traditional Bismarckian solution and simultaneously the inclusion of some more "liberal" features, enough to enable the preservation of the State's basic social functions and, at the same time, to bring a higher level of economic and financial sustainability in the long run.

It is exactly the State's basic social role, and the structure and main characteristics of the different welfare systems, which will be under analysis in the subsequent chapter.

1 – WELFARE STATE SYSTEMS – MAIN TYPES AND CHARACTERISTICS

The most common definitions of Welfare State tend to underline the fact that this form of government derives from the understanding of the need to promote a State's responsibility towards guaranteeing the basic well-being of its citizens. However, such a conceptualization does not encompass multiple other relevant aspects (e.g. the extent and types of social policies or market interventions) which are also worthy of notice when one is undergoing an analysis such as the one guiding the current research (Fitzpatrick, 2011; Garfinkel *et al.*, 2010; Olsen, 2002; Pierson, 2001).

Earlier studies tended to blindly connect the level of public expenditure to the existence of a Welfare State. These were produced mostly in the field of theoretical political economy and intended to produce international comparative classifications and universally explanatory theories of the State's functioning, especially in industrial and rich countries (Fitzpatrick, 2011; Olsen, 2002; Pierson, 2001). However, these linearly quantitative approaches tended to disregard the sociological implications imprinted idiosyncratically by the regional and national structures of power, democracy, social well-being and even poverty alleviation and mitigation policies, among many other aspects (Feldman, 2011; Glaeser and Alesina, 2004; Rainwater and Smeeding, 2003).

Subsequently to the acknowledgement of the previous limitations, follow-up studies have started to focus on the need to place the emphasis upon the structural aspects of a State's organization. Such a turnaround would comprise, first and foremost, adopting a diachronic and subject-oriented perspective of the transformation of each State's activities. A clear example of such a renovated approach may be found in Richard Titmus' (1959) seminal content-based distinction between residual (i.e. a State's responsibility will begin only when family and the markets prove to be inefficient being therefore ordinarily aimed mostly at socially marginal groups) and institutional (meaning a tendentiously universalistic State, directed towards promoting a widespread distribution of social benefits) Welfare States.

Synthetically, the abovementioned evolution signals the need to understand Welfare States not only in quantitative terms but also qualitatively. This form of political organization should not be linearly linked to the granting of social benefits and warranties. Instead, it ought to include the way in which the State's activities are intertwined with the social provision practices advanced by the markets and the overall social and family structures (Esping-Andersen, 1990; 1996; Feldman, 2011; Fitzpatrick, 2011). An internationally comparative examination would make clear the existence of a myriad of different and geographically scattered combinations between these three aspects (the State, the market and the family structures) whose general organization enables the production of classifications of a diverse set of somewhat typical Welfare State regimes (Esping- Andersen, 1990, 1996; Esping-Andersen *et al.*, 2002).

Perhaps the most transversally and widely accepted classification of Welfare State regimes is the one produced by Gosta Esping-Andersen (1990, 1996; *et al.,* 2002). The author considers that Welfare States may generally be grouped according to a tri-partite classification.

On one end of such a grouping we may find the so-called Liberal Welfare State. In such a form of organization the State's most important social function is to provide assistance to those unmistakably poor (Glaeser and Alesina, 2004). Universal transfers are reduced to the least possible and social providence plans are in general very modest. Low-wage workers, especially those working for the State, and their respective families are usually the main beneficiaries (Feldman, 2011; Rainwater and Smeeding, 2003). Universally traditional and liberal norms guide the overall societal work ethics and have limited the progression of a deeper social reform. Rules regulating the possibility to apply for the generally very modest public social benefits are usually strict and tend to impose various visible forms of stigmata upon those assisted by them (Cancian and Danzinger, 2009; Haveman, 1987; Haveman and Danzinger, 2001). There are both passive (through the multiple restraints imposed on social benefits) and active (by the public subsidizing of private providence schemes) attempts to encourage the creation and development of a strong market for privately financed welfare arrangements. Hence, the impacts of a possible de-marketization are minimized and a stratified social and economic organization – one which merges a relative equality among the (very) poor beneficiaries of public assistance and a differentiated access to privately provided (market) services by a majority – is established, with disreputable political and social implications. This model is the norm in countries such as Australia, Canada and also (to a greater extent) the United States (Esping- Andersen, 1990, 1996; Esping-Andersen *et al.*, 2002; Goodin *et al.*, 1999).

A second type of regime is one which patents as its most definite characteristic the historic imprint of State corporatism and displays a deep inspiration drawing from the ancestral Bismarckian model (Adnett and Hardy, 2005; Cousins, 2005; Kleinman, 2002; Van Berkel, 2011). These Welfare States tend to be markedly corporatist and conservative and were never deeply influenced by the ideals of marketization and market efficiency, at least not until recently and never in a way that deeply subverted the values inherent to the concession of social rights. This regime finds the preservation of everlasting socioeconomic statuses to be one of its most relevant concerns and this is the principle guiding the way benefits are provided. The State has a chief role as a benefactor of social assistance, pushing private social providence schemes to a secondary position. Nevertheless, one must not help to note that given the original intended purpose of maintaining class standings (and the differences between them) untouched, these States only very residually play a redistributive function. Corporatist regimes are also highly influenced by the Church and likewise very committed to enhancing the social functions of family and societal structures. Maternity, for instance is highly encouraged. The State's purpose is to limit its interventions to when the capacity for family providence has been extinguished. Nations like Austria, France and Germany and, although with some idiosyncrasies to be examined ahead that place it in a sub-group with the remaining southern European countries, Italy are vivid examples of this type of welfare regime (Esping-Andersen, 1990, 1996; Esping-Andersen *et al.*, 2002).

A third type of welfare system is composed by nations where the principles of universalism and large de-marketization of social and citizenship rights have expanded in order to include other social strata (e.g. the middle-classes) and not only poor working classes. This regime is often acknowledged as the Social-Democratic Welfare State, signaling the most influential catalyst for their social reform. Refuting the dual intertwining between the State and the markets, these Welfare States tend to signpost the promotion of quality equality, i.e. a universal and egalitarian social benefits model instead of one granting only minimal aids. The mandatory conditions for the accomplishment of such an ideal are the development of welfare services suitable for a middle-class and the granting of complete participation in the benefits and social and citizenship rights systems to everyone, including those belonging to the working class. This formula translates itself in highly universalistic and de-marketized programs through which all classes are incorporated into a socially widespread system that grants benefits according to individual wages. A national equality and solidarity scheme – everyone contributes, everyone benefits, everyone relies – between the State and its citizens is therein established. Contrariwise to the case of the corporatist model, the social-democratic State emancipates itself and anticipates the granting of subsidies in reference to the markets and familial structures, which also helps individuals and families (for example women) to emancipate themselves in social terms. In a way, this model fuses some elements of liberal states with those characteristic of socialist ones. Concomitantly, social-democratic welfare systems tend to erase the lines existent between labor (markets) and social services, since they are both compromised and highly dependent (giving the need to reduce social problems and maximize individual revenues provoked by a massively expensive welfare organization) on guaranteeing full employment with the least number of citizens having to be assisted through public transfer schemes. This is probably the most definitive characteristic of this social welfare regime, one which influences many other features like, for example, the primacy granted to gender equality and the labor market emancipation of women and minorities characteristic of these nations (Adnett and Hardy, 2005; Cousins, 2005; Kleinman, 2002; Van Berkel, 2011). Scandinavian countries are the ones where this regime is more firmly established and developed (Esping-Andersen, 1990, 1996; Esping-Andersen *et al.*, 2002).

Not disregarding the interest of the former classification (and of others created under the same flag) it is important to acknowledge that no complete orthodoxy exists amongst the social welfare systems examined (Esping-Andersen, 1990, 1996; Esping-Andersen *et al.*, 2002). We may instead find, under the same category numerous hybrid forms of social and political organization, social stratification, quality of social and citizenship rights or of the overall intensity and combinations found in the nexus between State, the market and the overall family and societal structures (Adnett and Hardy, 2005; Cousins, 2005; Graziano *et al.*, 2011; Van Berkel, 2011).

Following the presentation of the main types and characteristics of welfare state regimes it appears to be of interest to try to understand and explain the reasons behind the differences found between them.

Many possible economic inductors of change may be presented here as causal for the establishment of the differences existent between the various models identified, from the level of penetration of capitalist morals in the country's social, economic and political structures, its degree of industrialization or its rates of economic growth (Fitzpatrick, 2011; Garfinkel *et al.*, 2010; Olsen, 2002; Pierson, 2001). Resorting again to Esping-Andersen (1990, 1996) we may also add to these elements the existence of clear differences in terms of the grade of mobilization of the working class and also of its forms of participation in the economic and social structures of public welfare benefits. Thus, fundamentally we can identify three main groups of factors drawn from the previous literature: i) the nature inherent to the mobilization of the working class; ii) the political and social structures of class coalition; and iii) the historic legacy of the institutionalization of Welfare State regimes (Esping-Andersen, 1990, 1996; Esping-Andersen *et al.*, 2002; Fitzpatrick, 2011; Garfinkel *et al.*, 2010; Olsen, 2002; Pierson, 2001).

Concerning the first aspect a chief conclusion that may be drawn is the fact that differences are in effect found between the objectives, ideology and political strength and significance of working class organizations, either we are speaking of syndicates or political parties. For example, the Church may be more present and interventional in some contexts than in others and its active character has even lead to the establishment of some of the most important features of the corporatist model. These variable forms of organization influence the way the working class is able, predisposed or even allowed to cohesively articulate its demands. Moreover, and given that normally the traditional working class rarely constitutes an electoral majority, these affect not only leftist or working parties but the whole spectrum of a country's political parties and social classes (Fitzpatrick, 2011; Garfinkel *et al.*, 2010; Olsen, 2002; Pierson, 2001; Van Berkel, 2011).

The appearance and strength of alternative class coalitions is also generally determined by each country's social and territorial structures of class formation (Adnett and Hardy, 2005; Fitzpatrick, 2011; Garfinkel *et al.*, 2010; Olsen, 2002; Pierson, 2001). A very clear example of this is the ancestral importance of the rural working class for the formation of significant socialist and social-democratic parties. This is one of the reasons why the social-democratic regime was so successful in Scandinavian countries, where the rural proletariat and the property-owners were fairly well organized and articulated, which enabled the creation of the right conditions for the development of a strongly developed and interventional Welfare State. In the United States, the New Deal was based on a similar coalition forged by the Democratic Party but the attempt to implement a truly universalistic social providence system was blocked by southerly states, whose agricultural system was based mostly on intensive labor inputs. In a similar vein, agriculture in continental Europe was also highly intensive in labor and hence conservative forces managed to forge strong alliances between the land-owners, which resulted in the isolation of the rural working class in what concerned its ability to intervene politically and its overall social and economic strength and visibility (Esping-Andersen, 1990, 1996; Esping-Andersen *et al.*, 2002).

Political changes and the increasing importance of Fordism determine that after the Second World War the consolidation and development of Welfare States started to depend more on the establishment of political alliances both within the middle-class and between it and the members of the working class. The (political and electoral) rise of the former led to the fact the middle-class started to be able to satisfy its social demands, particularly in terms of job security. This created new challenges for the three regimes (Collier, 1999; Esping-Andersen, 1996; Glatzer and Rueschemeyer, 2005; Wahl, 2011). For the social-democratic model, it established a need to incorporate these more educated, hedonistic and demanding middle-class elements in a universalistic Welfare State instrumentally directed at the expansion of social services and public employment. In continental Europe the middle-class pledged its loyalty to the preservation of (politically) conservative epitomes with greater intensity, which ended up expressing itself in the form of a socially segregated system of social security. In the liberal nations the middle-class maintained itself focused on market-provided services and hence the State did not acquire a greater prominence there. The consequence of this was the creation, in these countries, of a dualistic structure through which private services were mostly directed at the (electorally relevant) middle-class. As a result, in these countries the State continued to portray a residual character (Titmus, 1959) attending solely to the working-class and the poorer of its constituents (Glaeser and Alesina, 2004).

Even though the specific idiosyncrasies inherent to the Portuguese case (and generally to the southern European countries) and the positioning of Portugal in the previously presented schemes will be the focus of a later chapter the current historical analysis invites a few comments on such aspects, thus preluding the contents and ideas of that later topic (chapter 2) of the current research report.

Portugal's social policy, as is the case with other southern European countries like Spain and even Italy, is deeply influenced by the conservative and corporatist tradition, enough to place it – as for example Gosta Esping-Andersen (1990; 1996; *et al.*, 2002) does – under the label of the Bismarckian model characteristic of continental Europe's countries. However, there are certain hybrid aspects that are worthy of notice. First, the presence and power of the Roman Catholic Church in these countries, and particularly in Portugal, with its specific work ethic and doctrine for social assistance, introduces some important changes to the functioning of welfare regimes, perhaps granting an even greater strength to conservative and traditional ideals and values. Furthermore, and most importantly, the fact that Portugal (as for example Spain and Italy) was under a political dictatorship for over four decades has determined that its Welfare State maintained itself very residual, strict and underdeveloped until late in the XXth century. Family providence dominated in this mainly agricultural economy and non-societal providence was mostly based on corporatist privately oriented schemes. This regime was overall highly segregational and residual and it was maintained to a great extent by the beneficiaries themselves (Cohen *et al.*, 2012; Katrougalos and Lazaridis, 2003; Ferrera, 2005; Pereira, 2003).

After the 1974 coup overthrew the four decade long dictatorial regime several social reforms were introduced to attempt the creation of a modern constitutional background and social security system for Portugal. For example, unemployment subsidies (1975, 1977) and a national health system (1979) came only after the democratization had taken place. These social benefits were established mostly during the presence of leftist parties in the country's governments. The ingress of Portugal in the European Union in 1986 was also very important in this matter, especially in what concerned filling territorial gaps in terms of the social security net existent in the country. However, and in spite of clear increases in terms of its social and territorial coverage, this safety net still remains fairly deficient and the level of benefits is also relatively modest, due to the inability to avoid rather high unemployment rates and to the heavy weight this factor, obviously and in truth accompanied by the accumulation of some mismanagements of public funds, has carried (and still continues to do so) upon public budgets (Cohen *et al.*, 2012; Katrougalos and Lazaridis, 2003; Ferrera, 2005; Pereira, 2003; Rhodes, 1997).

This last issue is actually of the utmost importance and has been at the center of the debate about the sustainability of Welfare State regimes not only in Portugal but also in other countries. Hence, a small synthesis on this topic in a chapter where the main characteristics of Welfare State regimes are being discussed will certainly prove its merits.

It may easily be understood from all that has been said before that perhaps the most crucial definitional aspect of the characteristics of Welfare States is the way they manage the balance between the public and the private spheres. Such a debate goes back to the times of the absolutist States. Only in partial terms have the various constitutional and liberal revolutions of the XVIIIth and XIXth centuries solved this question. If it is true that early liberal regimes established the state of rights and introduced general bureaucratic administration procedures, it is not to disregard that they have usually remained authoritarian. Democratic States were then implemented but not in a uniform way.

On the one end of a large spectrum of democratic Welfare States we may find the liberal States and on the other the social-democratic ones. If those of the first type appear to have been unable to tackle issues related to a universal social justice and equality, the latter ones – in spite of having presented some adequate responses to the issues related to social rights – are normally deemed of as economically inefficient. Such a dualism has remained at the center of the debate until our days having reached an ever-higher relevance in the context of the current economic and financial crisis (Castles, 2004; Esping-Andersen *et al.*, 2002; Fligstein, 2008; Glatzer and Rueschemeyer, 2005; Wahl, 2011). Basically the question is: How can a social Welfare State be simultaneously efficient from an economic point of view while maintaining social justice as its main focus?

The current financial crisis and the common positioning of the Welfare State as a scapegoat responsible for the demise of the economy has led to a recent rise of support towards the constitution of neoliberal or ultraliberal States, molded and highly stimulated by an upcoming wave of renovated and exceedingly conservative right-wing parties. These have posited the economic superiority of this model when confronted to those characterized by a greater presence of the State in the economy. However, and even considering that the previously stated may be at least partially true, the evidently populist policies advocated by those parties are probably bound to fall into deep criticism on the short to medium run, because this approach fails to promote fully the expansion of several constitutional values considered to be instrumental in democratic societies such as freedom, social order, social justice, social cohesion and universal well-being (Fligstein, 2008; Wahl, 2011).

Social-democratic States have generally tended to produce more egalitarian and cooperative societies. Greater job security has the virtue of promoting workers' willingness to accept innovation and involve themselves in job flexibility programs, while also exhibiting a grander possibility for the endorsement of human capital and also a larger adaptability to labor-markets. However, such a degree of social support has high costs and generally tends to be inefficient in economic terms, with sometimes hazardous budgetary charges (Castles, 2004; Glatzer and Rueschemeyer, 2005; Pereira, 1993). Hence, some degree of privatization may be advised, one that is regulated to avoid the formation of monopolies. If carefully managed, public-private schemes where the States act as public providers and the private sphere (including non-lucrative organizations) as administrators, even though not exempt of criticism, may be viewed as possible positive alternatives.

Attempting to overcome the limitations inherent to the excessive orthodoxy of each model one has been witnessing in the last decades the appearance of hybrid models, attempting to congregate the strong points of all the regimes (Castles, 2004; Collier, 1999; Fligstein, 2008; Glatzer and Rueschemeyer, 2005; Wahl, 2011). Canada and Australia's liberal models, for example, are nowadays more heterodox than that of the United States having incorporated some elements of the social-democratic model, namely a greater attention towards social justice and social rights in a context where the private sphere stills appears to predominate and the ideals of fair trade and market competition are still very active. Many changes have been drawn from these hybrid approaches: For example, this is one of the reasons behind Canada's successful model of multiculturalist immigrant integration. However, the linear transposition of these successful attempts to other contexts does not prove to be an easy task since these hybrid models appear to be able to thrive only under conditions of high economic development and human and cultural capitals, and also of an advanced transition from political forms of social government to those of social (and even territorial) governance and public participation which is definitely (at least) not (yet) the case in Portugal.

2 – WELFARE STATE IN PORTUGAL

2.1 A BRIEF HISTORY OF THE SOCIAL SECURITY SYSTEM IN PORTUGAL

For most of Portugal's history as an independent State the moral responsibility of socially protecting people and families in need was awarded to religious orders. The so-called holy houses of mercy mushroomed all across the country following the founding of the first Brotherhood of Mercy by Queen Leonor in 1498. These entities were the major centers for assistance in what concerned health and social action at least until the founding of the "*Casa Pia*" in Lisbon in the late XVIIIth century, the first official public institution offering social assistance. Even after the establishment of the Republic in 1910 this trend was just scarcely modified. The approval of the first status of healthcare in the first half of the 1940's endured even further this trend by attributing a renovated role to the locally managed mercies.

Also worthy of notice is the rise of workers associations, especially during the XIXth century, which created the foundations for a somewhat vigorous growth of the number of mutual aid assistance mechanisms. These entities fulfilled an important role as providers of medical care and in the allocation of cash benefits in case of sickness or incapacity for work. The acknowledgment that these were markedly insufficient led to the establishment, later in the same century, of the first retirement pension schemes.

Five pieces of legislation published in May 1919 embodied the first attempt to establish a system of compulsory social insurance, designed to cover workers whose incomes were under a certain threshold. This was implemented through the creation of a wider national fund managing institution – the Mandatory Social Insurance Institute –, which granted benefits in the contingencies of sickness, disability, old age, death, unemployment and work accidents. Nevertheless, and due to the lack of political conditions and stability to do so, this legislation would never get to be applied fully.

Another important legislative instrument was published in 1935 (16th March): The Law n. º 1884, drawn in consonance with the principles established by the Constitution of 1933. This posed as the catalyst for the establishment of a general framework for a system of compulsory social insurance which emulated the model applied at the time in many other European countries. This archaic social security system was limited to sickness, disability, old age and death benefits (i.e. health-related) and was managed mostly by nationwide union security pension schemes (with some sectorial exceptions, for example, those related with primary-sector activities like agriculture and fisheries).

In the 1960's, important reforms were implemented through the Law n. º 2115 (18th June, 1962) and the Decree-Law n. º 45266 (23rd September, 1963). These documents changed the methods organizing the financial equilibrium of welfare institutions from a mechanism of strict capitalization to one of mitigated capitalization, which resulted in the improvement of already existing services and on an extended protection against emergencies related to maternity and family issues. Aiming at the curbing of distances between pension institutions and workers the first started to operate on a regional basis, except in what concerned contingencies related to invalidity, old age and death, which were addressed by the national-wide Public Service Pension Fund. Also on the national level it is to underline the creation of the National Bank of Insurance for Professional Diseases (integrating issues related to occupational risks and hazards into the welfare system) and the Central Social Security for Migrant Workers, which functioned as an intermediary between Portuguese social security institutions and their equivalents in other countries. Finally, the safety net against work-related hazards was also recast in 1965 (Law n. º 2127) in order to incorporate a greater participation of private insurance companies in the welfare system.

2.2 . THE EVOLUTION OF THE PORTUGUESE SYSTEM OF PROVIDENCE: FROM THE *"ESTADO NOVO"* PERIOD UNTIL OUR DAYS

The emergence of social policies in Portugal was always conditioned by the evolution (or lack of it) of historically relevant factors. Whilst in more advanced countries like France, State mechanisms emerged early; in Portugal public responses and financial mechanisms to social problems remained fairly weak until very late, placing the country structurally in a backward position in the European context.

Portugal's late economic and industrial blossoming hindered the development of a truly organized public welfare system. As Rodrigues *et al.* (1999:44) crudely puts it *"social policies in Portugal [were and] are discontinuous, fragmented, sectorial"*.

The national Social Security system is guided by the principle of responsibility to all members of the Portuguese society in terms of prevention and risk coverage and in the construction of a collective welfare. According to Miriam Halpern Pereira the Portuguese Welfare State did not rose in virgin territory; neither had it come together, holding the current configuration. Its inception corresponds to an integrative movement whose previous initiatives and current forms of social rights have resulted in a slow process that led to a de-commodification of different areas, from healthcare to education, implying a strong upgrading of the placement of State's intervention.

The first steps towards the construction of a Welfare State in Portugal may be dated back into the period prior to the "Estado Novo" (the dictatorial regime that governed Portugal for 41 years, from 1933 to 1974). Examples of these early developments are the creation of socially oriented institutions such as the Council and the Bureau of Charitable Superior Public Charity (still during the monarchic period, in 1901) or the already mentioned laws of the Mandatory Social Insurance, designed during the First Republic days, namely in the year 1919 (Cardoso and Rocha, 2007), following an identified need for social reforms and political stability that had become obvious after a sequence of internal upheavals and the First World War (e.g. Decree Law n.º 5636; Decree law n.º 5637; Decree law n.º 5638; Decree law n.º 5639; Decree law n.º 5640). The first Ministry of Labor had already been created in 1916 (Law n. º 494, March 16th). Notwithstanding such innovative endeavors results were short of their objectives and this new regime of social protection remained nothing but a promise. The Insurance Institute for Mandatory Social Welfare was dissolved early during the Estado Novo and replaced (still in 1933) by the National Institute for Work and Welfare (Decree-Law n. º 23035, September 23rd). The same had happened to the Ministry of Labor (Decree n. º 11267, November 25th) in 1925.

In short, the extent of the measures taken during the early days of the First Republic was evidently insufficient and short of any significant social effects, tumbling abruptly in face of the context of political turmoil and massive socio-economic fragility felt in Portugal during that period. State's presence was in fact residual. Public social security was never developed beyond a mere capitalization system built around private contributions by beneficiaries and employers with the State being assigned few responsibilities other than ensuring the proper functioning of this system.

Early in the Estado Novo regime particularly old legislation (some dating back to the XIXth century) was re-examined to try to tackle the compulsory fiasco of earlier attempts at the creation of a concerted and cohesive social security system. Hence, the characteristics of the current Portuguese welfare system were shaped mostly from the 1930's onward. Four main driving forces / periods may be identified:

a) The creation of the social security system in 1935;

b) The Revolution of 25th April 1974;

c) Portugal's adhesion to the European Union in 1986; and

d) The International Monetary Fund bailout in 2011.

2.2.1 The creation of the social security system in 1935

It would not be until 1935 – that is, half a century after Germany (1883), twenty-five years after the United Kingdom (1906-1911) and five years later than France (1930) – that Portugal would begin its concerted efforts for the enactment of State welfare and social intervention by means of a compulsory social insurance system. In comparison with other European countries the delay is noticeable (Carreira, 1996); this was mostly due to the country's slow pace of industrial growth and its generalized weak corporate organization (Lucena, 1976).

A first attempt at an organized pension system in Portugal had been established in 1929 with the creation of the General Pension Fund. Nevertheless, this was directed only at ensuring the protection of public workers whereas for the private sector a compulsory social welfare system was created only in 1933 (and even this was not implemented until 1935). This last arrangement was based on Pension Schemes and welfare institutions and funded mostly by the capitalization model already described. This insurance system covered only events related to old age, disability and disease and was directed solely at non-primary sector workers and activities. It was introduced through 1933's Constitution and it ensured the outline of a compulsory social insurance system distinctly of German inspiration in a period strongly marked by State authoritarianism. So, the period ranging from 1935 to 1974 was characterized by a momentum gaining mandatory social insurance system. However, and in spite of an already moderately widespread social protection system in Portugal, mutualistic public welfare would never cease to be an extremely influential compensatory element during this period (Guibentif *et al.*, 1997).

The 1935 Law of Social Security Institutions (Law n. º 1884, March 16th) is often considered to be the legal document binding the creation of an organized social security system. Its main goal was to outline the statutory principles and framework under which the security system should be implemented (Maia, 1984). Through it, social security institutions were structured into four categories:

a) A first category constituted by the so-called welfare institutions of corporate bodies like the Union Sickness Funds, mostly of a corporate nature, that had been created through the initiative of National Unions and Guilds, after a series of collective social agreements related to sickness, invalidity, old age and unemployment; also included under this category were the Providence Funds of the Houses of the People, active since 1940, that, by means of a compulsory membership mechanism, began to cover farmers and their families; and the Houses of the Fishermen, which held a similar position but were directed at seafarers and their families;

b) A second category comprising providence and retirement funds, composed of non-corporate institutions created by governmental initiative and directed at covering issues related to sickness, invalidity and old age and holding a funding scheme based solely on contributions by both employers and employees;

c) A third category, the so-called mutual aid associations, consisting of institutions in which enrollment was voluntary; and

d) A fourth category, the institutions for the State security servers and administrative bodies, covered by the General Pension Fund and the State Montepio Servers.

The financing of welfare institutions was dependent on initiatives developed by the social partners. This means that, initially, the pension's scheme was not funded by taxes or by any direct fiscal State activity. Pension funds were based primarily on voluntary contributions by both its partners (employees) and its payers (employers). In this sense it may be considered that the welfare system's early development was grounded on individual contributions with seldom regulatory enforcement by the State and absent of an imposed collective tax system. This would often result in a surplus presented by many institutions since the contributions were generally enough to cover the expenses, which led to a gradual enforcement of State's participation, especially in healthcare, in order to attempt the correction of imbalances and deficiencies inherent to the previously described system (Carolo, 2006).

Some steps towards the extension of the scope of the previously mentioned institutions were undertaken during the 1940's. More workers were included and conditions for a lower share of private stakeholders in the system were made possible. Examples of this are the creation of health insurance funds to integrate occupations which had not been assimilated into the system or the concession of a greater attention to workers' families.

The 1960s saw the endorsement of the social security reform of 1962 (Law 2115, 18th June; Carolo, 2006), which introduced relevant changes in the structure and range of institutional security systems, granting them a greater universality and contributing for the creation of the General System of Social Security. Particularly, the establishment of District Security Pension Funds induced the regional (districts) reorganization of health insurance funds according to a system of branches. This allowed for a better coordination between the country's welfare institutions and also to an overall wider coverage. Other examples are the creation of the National House of Pensions and the National Insurance Cash and Occupational Diseases, which led to a greater specialization of health insurance funds, thus improving the healthcare system in terms of the overall hazards covered.

Prime-Minister Marcelo Caetano (1969-1974) introduced a whole new set of social benefits, lowering the number of professions without pension coverage, which sharply increased the overall number of beneficiaries from 1970 onwards. During this period a prototypical Welfare State was implemented. It was directed mostly at filling gaps hitherto existent in terms of social protection, thus including some labor market fringes (e.g. rural workers, hairdressers, domestic laborers) into a public system of social security. We may say that the foundations for the establishment of a more developed social security system in the 1980's were laid during this period (often labeled as the Marcelista Spring). The 1971 restructuring of the Ministry of Health and Welfare is one of many examples of this; amongst others we may consider the reorganization of security agencies and health centers, the broadening of protection schemes to include rural and domestic workers or the creation of new regional (such as sickness funds and family allowances) and central (as the national pension fund and the central pension fund for migrant workers) bodies and mechanisms. The recipients of such advances were mostly disadvantaged groups in vulnerable situations, including their families and communities. These changes, however, did not bring the results expected of them due to the political crisis the country was facing at the time. The promise of a global social policy was kept vague to say the least and only a small number of social rights were actually implemented. A clear disproportion between identified social needs and actually allocated resources and a weak and asymmetric deployment of social facilities, as well as an overlapping between various departments and sectors of public intervention, were the predominant features. It would not be until after the Revolution of April 1974 that this public welfare system would more fully extend its safety mechanisms to non-employees in a way truly participated and funded by the State.

2.2.2 The Revolution of 25th April 1974

Decisive steps towards both the expansion of social protection to the entire population and the improvement of the monetary value of the allowances provided have been taken following 1974's revolution. Overall, we may say that a pattern of institutionalization of public social policies and of a Welfare State has begun with that uprising. Two of the first measures to be taken were the creation of a non-contributory social pension scheme to cover cases of people with extremely low incomes and the universal introduction of a 13th month pension to all workers. Even prior to the new and vanguardist 1976 Constitution, several other actions had already been advanced by the provisional governments: As examples we may point out the introduction of a Christmas bonus, an improved unemployment fund, supplemental safety nets for those with disabilities, or broader maternity and death allowances (Rodrigues, 2000).

The Portuguese Constitution (1976) is clear to point out the necessity for ensuring universal rights and the accomplishment of social, cultural, civil and political democracy and equality. The rights to a fair employment and salary, to unemployment assistance, to a minimum wage and to social providence in what concerned health, housing, education or culture are considered to be mandatory. The 1976 Constitution also posits that social security is a State responsibility. The State is also bound to be accountable for the fulfillment of the principles of unification, decentralization and participation. It is also its role to organize, coordinate and support the social security system and the just participation of unions in the processes of definition and evaluation of any social policy. The importance of private institutions for social solidarity is also recognized; these, however, are subject to legal regulation and to financially contribute to the work of the State. An enlarged field of social providence, covering unemployment, disease and disability related contingencies, maternity, old age and widowhood was also ascribed to the State. In general, one may say that *"the huge gap in terms of social security inherited from the dictatorship days may help to explain why the 1976 constitution and subsequent reforms have given so much emphasis on social policy"* (Esping-Andersen, 1991: 600).

Notwithstanding the previous advancements, the Portuguese model of social protection remained characterized by an insufficient coverage of services to support families and communities. This has been compensated by some forms of "welfare society" (Santos 1995; 1999). Boaventura de Sousa Santos defines this welfare society *"as the set of networks of inter-relationships of mutual recognition and support that are based on ties of kinship and neighborhood, through which small groups socially exchange goods and services on a non-market atmosphere"* (Santos, 1995:46). However, one must note that this welfare society only partially has the ability to replace the Welfare State and to offset the disruptions created by its imbalances and insufficiencies.

Given all the previously stated, one may say that between 1974 and 1980, State intervention in Portugal was probably more proximate to that typical of a social-democratic system, based on a universal social protection arrangement and on the assumption that the entire population should be covered by State's contributory scheme. However, during the (internally) politically stable 1980's, the State started to seek a greater rationalization of the tax structure, in part due to the challenges posed by the country's integration into the (at the time) European Economic Community.

2.2.3 Portugal's integration in the European Union in 1986

Portugal’s integration in the European Union has led to the development of what is often mentioned as the "ideology of integration", referring to the country’s actions to take on the principles and purposes operating in Western societies and democracies and particularly of those functioning in Western European countries. This obviously included the structure and prerogatives of the national Welfare State.

A set of prerequisites for integration was initially defined. These were pragmatically translated into tasks technically justified through negotiations with European partners, in which the Portuguese State had to assert and demonstrate its capabilities for leadership and autonomy. The country’s legislative framework was heavily reinforced; however it was so in a way that allowed for the possibility of some continuity of on-going nationally wide political and institutional reforms. The Ministries of Health, and Labor and Social security are created as has been the case with the Permanent Council for Social Dialogue. This last institution was aimed at promoting the participation and mutual responsibility of various socioeconomic agents and organizations.

In 1986 a social tax was created aiming at promoting an easier calculation of contributions to the general Welfare System. It set the rate at 35.5% of a worker’s labor revenues (11% to be delivered by the workers themselves and the remaining 24.5% by the employers) as the mandatory socioeconomic contribution. During the same year, and following the integration of agricultural laborers in the general scheme of independent workers, the regime guiding work-related contributions was finally completed. And so was the legal framework applicable to the public employees who had contributed to the social security system with the creation of the unified pension in 1988.

The 1990’s brought with them an increase in concerns about poverty and vulnerable social groups, manifested not only by State organizations but also by private institutions and those of the so-called Third Sector of the economy. This led to the establishment of numerous anti-poverty programs, many of them under European funding. These were mostly intended at refining national social policies, promoting a larger participation of the civil society and the decentralization of social activities, and at achieving a better and improved coordination between social and territorial policies. Ethnic minorities were also subject to increasing concerns about their social integration, which led to the creation of the High Commissioner for Immigration and Ethnic Minorities in 1996 and the implementation of extraordinary legalization periods. The 14^{th} month was extended to pensioners in 1991 and two years later a series of measures to reduce the growing burden of pensions on the State's budget and to make the system more equitable were also applied. Later in the same year the scheme regulating civil servants was integrated into the general contributions system, but this came without retroactive effects: The civil servants who were already so before 1993 remained covered by previous rules. Overall, various types of benefits are made available of which we highlight the most relevant ones:

a) A family allowance for children and youngsters in the form of a monthly cash benefit granted to the descendants of the beneficiaries of social security schemes firmed on the basis of three income brackets;

b) A maternity allowance, meaning a cash benefit granted to workers during a 98-day period (i.e. the period of maternity leave);

c) A death grant, which refers to a cash benefit granted to family members (normally wives or children) of beneficiaries who have died recently;

d) A pay in case of long-term sickness (excluding tuberculosis), consisting of a pecuniary compensation to the salary that would otherwise be lost due to the illness situation;

e) Unemployment benefits, i.e. cash benefits granted to workers with records of formal contributions in the year preceding the date of unemployment and who show willingness to work and are enrolled in employment centers;

f) The so-called "social income for integration", which is basically a non-contributory mechanism issued monthly to people in economic distress, complemented with other (non-pecuniary) measures of social and economic integration;

g) An old-age pension: A cash benefit issued to beneficiaries who have at least fifteen full years of contributions and a minimum age of 65 years;

h) A survivor's pension consisting of a cash benefit granted to family members of beneficiaries that had completed at least thirty-six full months of contributions at the time of their deaths;

i) A disability pension, which is a monthly cash benefit granted to beneficiaries with at least sixty months of contributions which are unable to work due to a disability.

Even with all the previous mechanisms, European statistics referring to the year of 1994 showed that expenditure with social providence in Portugal was the second lowest of Europe, with Greece occupying the last position. These investments did not surpass 19.5% of the country's GDP whilst the average for the EU-15 was 28.6%, with Denmark lodging on the highest position with 33.7% of its GDP assigned to social protection.

In summary, we can say that it was not until 1986 that a concerted expansion of the Welfare State took place in Portugal. Among other catalysts, the integration of the country in the European Union was extremely influential on this behalf. Retirement pensions and, although to a lesser extent, healthcare benefits were the main contributors for the massive growth in social expenditure felt during this period of convergence with Europe, especially during the 1990's. Although progress in areas such as healthcare is evident (expressed for example by a sharp plummeting in infant mortality rates), in economic terms and also in what concerns social features such as education, convergence with European standards stills remains, more than 25 years later, little more than an unaccomplished hope.

2.2.4 Since the International Monetary Fund (IMF) bailout in 2011

The Welfare State has recently been the subject of a broad debate in Portugal, especially since the beginning of the International Monetary Fund financial rescue in 2011. According to representatives of this international institution, Portugal's public social security system is unsustainable and impossible to finance, at least in a country with such a weak economy and poor export base that hinder the possibility of implementing a model in the line with the social-democratic one practiced in the Scandinavian countries. The IMF went further on this discourse stating that Portugal should rethink issues related to the funding basis of public spending such as the way in which the State finances social expenditures, what areas should be granted privilege in terms of support and contributions, or which components are to be funded by taxes. In the end, the IMF staff came to the conclusion that it would be necessary to cut four billion Euros in State expenditure until 2014 and they even prepared a report with a set of recipes to reduce public spending. However, and due to the fact that some of IMF's ingredients include measures with potentially very high social costs, this is causing a huge social clatter within the Portuguese society. The increase in user fees in health services; the waiving of 50000 teachers; extreme cutbacks on all pensions; the reduction of salaries in the health sector, in education, in the judicial system and in the military (sectors considered by the IMF to have to many perks) are some of those "ingredients", amongst others destined at increasing the State's efficiency and decreasing its weight on social assistance. Basically, the IMF claims that the Portuguese social providence system is overall costly and unfair.

Even though not completely evident at the time, changes rising out of these measures will certainly call for a re-composition of Portugal's Welfare State. Questions about "where", "how" and "who will be affected the most" are still to be answered. The only apparent certitude is that Portugal will be further "impoverished"! What kind of system will be able to deal with such a dramatic transition?

3 – CHALLENGES FOR THE FUTURE

Now that we are approaching the final pages of the present report we may say that the two previous chapters made clear that Portugal is face-to-face with a highly delicate question: To what extent or dimension is the country's public sector sustainable, especially taking into account its harsh economic situation?

When we take a closer look at the existing data concerning the public sector, one conclusion is more or less easy to discern: Across time, since the democratic revolution of 1974, the number of people employed in the public sector increased at an impressive rate. At the same time, between 1974 and 2012 Portugal knew only two periods of significant economic growth: A first period from 1986 to 1991 and a second one between 1994 and 1998. Apart from these two phases, Portugal's economic growth has been modest or even inexistent. And more serious than this is the fact that Portugal has not observed relevant growth in its national product in the last 10 years. Therefore, Portugal's competitiveness problems did not start with the current economic crisis. In fact, truth to be told, the inception of the country's present economic crunch is to be found a long way back into the past and its causes are much more serious than a simple direct effect or impact of the 2007 mortgage crisis.

In order to better understand the problems and issues that Portugal is currently facing one must take into consideration the following chain of events:

a) Back in the 1990's, China's adhesion to the World Trade Organization (WTO) and the openness of other new and strong competitors to the international markets such as India, Brazil and Indonesia. Several of these new actors in the international stages had patterns of economic specialization very similar to those of Portugal. In this way, Portugal has suffered directly and very vividly the impacts of globalization, particularly in what concerned the recent trend of elimination or at least reduction of barriers to international trade. Somehow, Portugal fell victim to the following "snare": Throughout last decades, Portugal's economic structure specialized mostly in labor-intensive industries; the country founded its international competitiveness precisely in the low-costs associated to its labor force. Not long ago, Portugal's medium wage in industry related activities was under 50% of Western Europe's average. This determined that, as time went by, Portugal was being able to maintain itself competitive within the European market, by exploring the set of advantages represented by its low salaries in the tradable sectors. This strategy was deemed to fail as soon as countries like China or India entered “full throttle” in the international markets and started to sell similar tradable goods at an even lower price, by taking advantage of a work force with far lower wages and highly more flexible and less punitive labor and environmental regulatory frameworks. During the first years of the XXIst century, Portugal witnessed the wrecking of relevant parts of its export-oriented entrepreneurial tissue. A vivid emblem of this was the massive loss of jobs beheld in traditional sectors such as textiles and footwear, a phenomenon which occurred at a larger scale in the Norte Region where the heart of Portugal’s export capacity in the two sectors mentioned above is located (a good description of this set of events is included in the *Programa Dinamo* Report – 2003);

b) After the chain of events mentioned in the previous topic, Portugal’s entrepreneurs were forced to act swiftly in order to preserve their capacity to compete in the international markets. The export-oriented sectors had to restructure themselves and are now formed by a smaller number of companies with a different approach to competitiveness. The footwear industry is a rather interesting case of success: If in the 1980’s, Portugal’s shoes were seen as a fairly low quality product, they now rank second in terms of average value per pair. This specific export-oriented sector was hence able to regain competitiveness, through the modernization of its production lines, investments in design and product differentiation, and by entering/conquering new international markets and approaching different social and economic segments. Generally speaking the situation is not as optimistic as this may show once Portugal still needs to upgrade its international competitiveness and technological inputs;

c) On the other hand, the loss of international competitiveness aggravated one of the most serious problems characterizing Portugal’s global economic structure, i.e. a structurally negative trade balance. In other arguments, this means that Portugal’s exports have consistently displayed an historical trend of failure to compensate for its imports, which means that the country’s net exports (in the basic equation of the equilibrium of trade) have a negative sign;

d) As it has been already mentioned, during the period we are taking into consideration (approximately 1974 – 2012), the number of people employed in the public sector increased dramatically. In consequence of this more public money was needed to pay for the new employees part of Portugal's different levels of administration;

e) Finally, two other factors deserve to be mentioned: For one part, the development of a modern Welfare State required an increase in public spending for the building of a national healthcare system and to secure universal public education. On the other hand, the high levels of investment in infrastructure, roads and sanitation implied the venture of significant parcels of public money.

All the elements described above combined to generate the very complicated situation that Portugal is currently facing: On the one hand, the development of a modern Welfare State, the sharp increase in public employment, the large investments in modern infrastructures, all of them have required (and continue to do so) enormous amounts of public money; on the other hand, the country's loss of competitiveness, its incapacity to guarantee a positive economic growth trajectory, or the increase in international interest rates originated severe problems resulting in amplified burdens to the public debt. We are currently aware of the impossibility of continuing an ever-increasing public spending or investment structure without fashioning, on the other side of the equation, a solid net rate of economic growth. Due to all this Portugal was recently obligated to formally require the designing of an international rescue program, under the scrutiny of the so-called *Troika* (i.e. the European Central Bank, the International Monetary Fund and the European Commission).

Despite the way we look at it, Portugal has none but two solutions/options: On one side, it is vital to regain economic competitiveness and produce a healthier investment environment for entrepreneurial activities; on the other side, it will have to cut on its public spending, down into an amount viewed as sustainable in the long run. Obviously, it is the latter that is closely related with the issue at stake in the current research report, that is, the reform of Portugal's Welfare State system.

We will now make reference to the main question launched at the beginning of the present research report: How to preserve some important social achievements made so far while, at the same time, guaranteeing the financial sustainability of our public sector? This is the main leitmotif of our analysis. By resorting to theory on other Welfare State systems and also by conducting an approach on Portugal's specific situation, the authors had in mind the search for possible answers to that and the following questions: What Social State can Portugal have? What kind of Public Administration can we pay for? What welfare system solution could be viewed as sustainable in the long run for the Portuguese case?

Clearly, and as we have tried to point out throughout the present research report, Portugal's current economic and financial crisis demands very difficult decisions. It is no longer just the welfare system that is at stake here but also the general role of the Central State that should be under question.

Given this, the first two (out of the last three) questions are closely related with another problem: The evident restriction on the imposition of higher taxes, to both workers and companies, without creating severe social distress and turmoil and without damaging the firms' competitive capacity. So far, Portugal's Government approach has been focused more on taxes than on the needed to cut public spending. By increasing taxes such as the tax over individual income, Portuguese workers have faced massive reductions on their net incomes. Somehow this approach appears to be coming to a limit. It is difficult to imagine further tax increases without generating a serious social uproar (some recent events, such as a general strike in mid-November can be considered as a clear sign that at certain (near) point in time it will no longer be possible to continue resorting to this instrument).

In this line, the reduction of the number of employees in the public sector with short term contracts (about one hundred thousand workers) will surely be a nearby solution. If this is the road the Portuguese Government decides to travel on, consequences will definitely be very painful and result in the increase of the country's already high unemployment rates. However, the reduction of salaries in the public sector advanced through this solution will have a strong impact in the structure of Portugal's administration expenditure. Even if the Government decides to withdraw from the complete application of this strategy, one thing is clear: There is no easy way to solve our structural problem of excessive public expenditure.

In fact, it appears that “no matter the solution, social suffering will always be an outcome”; this is to say that it will be impossible to keep social pain at bay.

Lastly, and concerning the third question, one can say that as a means to launch reasoning over our future Welfare State, changes will definitely have to be implemented, in both the levels and permanence of public protection systems and in its respective areas of coverage. This will surely imply following options that, most likely, will meet public resistance. Social scientists are now well aware that once something has been guaranteed by public spending, there will be a stoic attempt by beneficiaries for that coverage to be kept for as long as possible. So, changes will not be implemented peacefully. Portugal is already observing some level of public distress, with a growing number of demonstrations and strikes. In the last paragraphs of the report the authors will present suggestions about “what could be done” to preserve social conquests achieved thus far; surely one thing will be the re-designing of our Welfare State, which will take a pivotal role in keeping our public finances in “good shape”.

CONCLUSIONS

In the wake of our words from the previous chapters, some final ideas about what could be done to preserve some of the main features of the Portuguese Welfare State without falling into a permanent state of "bankruptcy" are synthesized henceforth in the form of proposals:

a) Reducing the number of salaries directly dependent from the State: The IMF report already sets the scenario for a serious discussion on this issue. This could be achieved either by amicable lay-offs, or by increasing the simple ratio between the number of retirements and the number of new civil servants (a note: Portugal is currently trying to keep this ration 2:1, but most likely it will be necessary to raise it up to 5:1);

b) Improving the overall efficiency of public services, with education and health being the most complex cases;

c) Transferring some basic services currently guaranteed by the public sector to the private sphere: This may imply an important reduction of civil servants, particularly those with lower formal levels of schooling. This will pose important challenges in terms of social support for middle-aged individuals (in their 40's or 50's), which will face serious difficulties in finding new jobs in the private sector;

d) Defining what is the "main core" of services (i.e. those that should remain attached to the public sphere no matter what the circumstances) under direct management of the public sector;

e) The definition of the "main core" of services to be provided by the State should also take into consideration the kind of national strategy Portugal will chose for the next two or three decades: As an example one could point out the need for an efficient surveillance of the large maritime zone under Portuguese jurisdiction, which will certainly imply some improvements in terms of the Portuguese Navy;

f) Establishing a series of protocols and cooperative schemes between the public and the private and third sectors in order to guarantee adequate levels of service in areas directly related with solidarity while, at the same time, searching for better cost-efficient solutions. On this behalf, strategies like the housing first programs directed at homeless people can be perceived as valid examples;

g) Finally, it is urgent to define the terms of a “new social contract”, one which will represent the type of society we want for our common future as a Nation: Here, it is not just a mere case of “more or less State”, it goes far beyond that issue. The set of challenges in front of Portugal will require a collective answer, one which brings citizens, the third sector, political actors and private entrepreneurs together.

The third and final report of the current research project, to be delivered in January 2014, will analyze possible answers in a very sensible area: The support strategies designed specifically for impoverished citizens. Taking into account the economic restraints and social problems currently affecting Portugal, this will certainly be a field of intense discussion during the next years. Our goal will be to provide some possible answers to be be seen as a contribution to such an urgent debate.

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