

## *Policy Brief on the study*

# “Finanças Públicas: Uma Perspetiva Intergeracional”

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\* The opinions expressed herein are those of the authors and not necessarily those of their employers or of the Fundação Calouste Gulbenkian. Miguel St Aubyn is an executive member of the Senior Board of the Portuguese Public Finance Council (CFP). The opinions expressed in this article are those of the authors and in no way commit the CFP.

## 1. Introduction

This policy brief assesses the effects of ageing and other demographic developments on the sustainability of public finances in Portugal, and on what policy measures could be envisaged to cope with them. The starting point of our brief is the report Franco et al. (2021) on intergenerational sustainability.

Public finances sustainability encompasses both the issue of explicit government responsibilities (such as the existing stock of public debt) and the intergenerational aspect of implicit government responsibilities (e.g. future expenditure on pensions and healthcare). Indeed, there are several studies on these topics, showing the relevance of primary balances and of the interest rate-growth rate difference for sustainability purposes<sup>1</sup>. Indeed, a sustainable path is the one that guarantees the fulfilment of explicit responsibilities, namely the payment of the outstanding stock of government debt to the creditors, without jeopardizing the continuous provision of public goods and services to current and future generations, with the same quality and with the lowest level of exclusion of those who effectively need these public goods and services. The study at hand is more focused on the latter facet.

It should be noted that the study in question is based on data available up to 2017, well before the Covid-19 pandemic. The pandemic crisis implied important budgetary impacts<sup>2</sup>:

- public revenues decreased, -6.8% in 2020, namely due to the action of automatic stabilizers, with an effect particularly on direct and indirect taxes.
- total public expenditure increased by 8.2% in 2020 compared to 2019. This increase in public expenditure, notably expenditures on personnel, acquisition of goods and services and current transfers, was only partially mitigated by an observed reduction in 2020 in interest and other charges.
- the budget balance for the general government as a whole was -7.3% of GDP in 2020 (0.2% of GDP in 2019). Portugal's budget balance was, nevertheless, above the EU average, which stood at -8.3%.

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<sup>1</sup> Afonso (2005, Afonso, Rault (2015), Auerbach et al. (1994). The Dynamics of the debt-to-GDP ratio ( $B/Y$ ) depends of the difference between the nominal interest rate ( $i$ ) and the nominal growth rate of the economy ( $y$ ), of the primary budget balance, primary spending ( $G$ ) and revenues ( $R$ ), and of the possible additional revenue sources ( $Z$ ).

$$\frac{B_t}{Y_t} = \frac{(1+i_t) B_{t-1}}{(1+y_t) Y_{t-1}} + \frac{G_t}{Y_t} - \frac{R_t}{Y_t} - \frac{Z_t}{Y_t}. \quad (1)$$

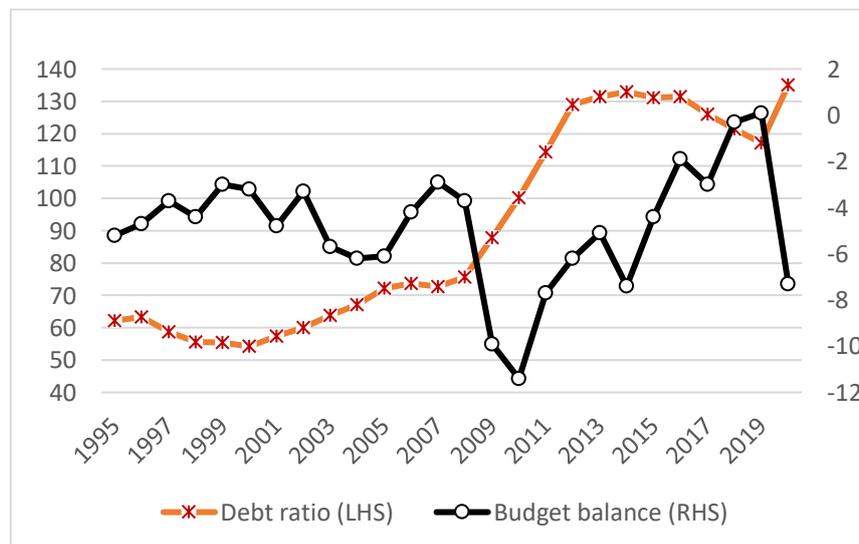
Bohn (2008) and Blanchard et al. (2020) stress the relevance for the sustainability of public finances of the relative magnitude of  $i$  and  $y$ .

<sup>2</sup> See the data provided in AMECO (European Commission) and International Monetary Fund (IMF).

- the debt-to-GDP ratio increased substantially, from 116.8% in 2019 to 133.6% in 2020. A debt-to-GDP ratio in 2020 of almost 135% puts additional pressure on the starting point for the study's calculations.

In other words, the starting financial situation of public accounts in 2021 is much more difficult, both in terms of the debt-to-GDP ratio and in terms of the primary budget balance. This situation may even become structural, contrary to the view of many that the effect of COVID-19 on public accounts is merely cyclical, and which illustrates how serious the effect of the pandemic may be on fiscal sustainability. Indeed, it is not yet clear what the real loss in terms of knowledge acquisition that occurred for the student population in this pandemic period, and as such could affect the stock of human capital in the medium and long term. This adverse situation is reflected in Chart 1.

Chart 1 – Budget Balance (SO) and Government debt (% of GDP): Portugal



Source: AMECO, EC.

## 2. Ageing developments in Portugal

The demographic transition towards an ageing society can severely influence not only social security systems but also the sustainability of fiscal policies. These impacts can contribute for social disruptions, namely with growing feelings of intergenerational unfairness. Therefore, there is a need for policy measures that may contribute to mitigate fiscal policy sustainability problems stemming from the ageing process.

The case of Portugal is illustrative of how the ageing process is putting pressure on the sustainability of public finances. The 2021 Ageing Report (European Commission, 2021) provides a set of demographic and economic forecasts for the period 2019-2070. In those forecasts, the expectations for Portugal are not particularly positive. Regarding the demographic question, the European Commission expects the fertility rate to increase from 1.43, in 2019, to 1.59, in 2070; however such values are quite far from the ideal – a fertility rate slightly higher than 2.0 – to keep population numbers stable through time. Such dynamics will lead, according to the projections made by this report, to a reduction in the Portuguese population of almost 2 million persons, down to nearly 8.5 million individuals in 2070.

In addition, these demographic expectations will also hamper the Portuguese economy. For instance, while healthcare costs derived from the ageing process are expected to rise, the pension system will be forced to reduce pension payments drastically. In fact, the gross replacement rate at retirement will reduce almost 33 percentage points (p.p.), signalling the economic burden imposed by the ageing process. This will add to the growing sense of injustice felt by those who contribute today to a system that will pay them less and less in the future. This declining trend regarding the gross replacement rate is quite evident when we compare to the 2018 Ageing Report (European Commission, 2018). Observing the values for the expected gross replacement rate between the 2018 and the 2021 Ageing Reports, we can conclude for an increasing costly impact of demographic change in Portugal between 2030 and 2070. Indeed, while the European Commission projected a higher replacement, it had to revise such forecasts to accommodate the new demographic projections in the last ageing report. In sum, the public authorities have constantly been faced with the need for parametric changes in the social security systems in order to accommodate the non-replacement of future generations.

Table 1. Gross replacement rates for Portugal, 2030-2070

	2030	2040	2050	2060	2070
2018 Ageing Report	76.0	66.0	58.6	55.7	55.9
2021 Ageing Report	81.1	54.5	43.5	43.0	41.4
<b>Difference in p.p.</b>	<b>5.0</b>	<b>-11.5</b>	<b>-15.0</b>	<b>-12.7</b>	<b>-14.5</b>

Sources: European Commission (2018, 2021).

On the other hand, the ageing process is also seriously challenging the overall attempts to keep Portuguese public finances sustainable. As the Portuguese Public Finance Council (CFP, 2018) highlights, costs related with healthcare derived from the Portuguese ageing dynamics will raise in the next 50 years. Excluding pension's related costs, public spending

associated to the ageing process will amount to about 14.2% of the GDP in 2070 when in 2020 such costs were 11.7% of the GDP, a growth rate of almost 20%. Despite the slightly better forecasts made by the European Commission (2021) for the costs of ageing, if some adverse scenarios occur, the pressure over fiscal sustainability will be much stronger. In accordance with the data provided by CFP (2021), a consolidation and sustainability trajectory is forecast, as inferred from the decreasing trend of Portuguese government debt-to-GDP ratio that the CFP is foreseeing. However, it is expected that the debt-to-GDP ratio will still attain a value of 114.1% in 2025 (see Table 2). In addition, the starting point is already more demanding after the COVID-19 pandemic, with the debt ratio at 133.6% of GDP in 2020.

In sum, the demographic transition towards an elderly society puts some pressure to fiscal policy sustainability, which deserves special attention to guarantee an economic development that does not disrupt social and intergenerational fairness.

**Table 2. Portuguese Government Debt (% of GDP)**

<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>	<b>2024</b>	<b>2025</b>
133.6%	128.7%	122.5%	119.5%	116,3%	114.1%

Source: CFP (2021).

Hence, in the context the ageing process, fiscal measures are needed to guarantee the sustainability of public finances sustainable and keep intergenerational fairness at the same time. In that sense, in the next section, we discuss such possible fiscal policy measures. The discussion of such policies will take into consideration that there will be no demographic change, i.e., we assume demography as exogenous for the Portuguese economy. We compare the proposed measures with other benchmark cases in advanced economies that are facing similar ageing processes. After that discussion, we also propose and analyse policy measures to ensure fiscal policy sustainability while aiming a reversal of the ageing process.

### **3. Policy measures in the case of no change in the demographic scenario**

In order to ensure a sustainable trajectory for social security systems facing an ageing scenario, different policies can be adopted, as they may include measures in both the expenditure and the revenue side of the system. The large majority of adopted measures in European countries facing ageing problems tend to focus on the expenditure side. In fact, policies have been implemented to reduce the amount spent in pensions, namely by applying a sustainability factor and an increase of the retirement age linked to life expectancy. Such

measures have the effect of reducing not only the amount of average pension payments but also the reduction of the duration that each retiree will receive his pension (see Table 3 for the implemented policies to ensure social security sustainability in EU countries).

However, these measures on the expenditure side may increase feelings of social unfairness as the life expectancy is increasing and, at the same time, the respective average pension amounts are reducing over time. Moreover, the increase of legal retirement age severely impact in the firm's production, reducing its rentability. This is evident for the study conducted in Martins et al. (2009), which analysed the convergence of the legal retirement age between men and women from a legislative reform introduced in Portugal in 1994. Increasing of retirement age may benefit the workers more than firms, imposing costs to the overall economic production<sup>3</sup>.

Table 3. Implemented policy measures to ensure social security systems sustainability.

Country	Automatic Balancing Mechanism	Sustainability factor (linking benefits to life expectancy)	Retirement age linked to life expectancy	Legislation
Italy		X	X	1995 and 2010
Latvia		X		1996
Sweden	X	X		1998 and 2001
Poland		X		1999
France		X		2003
Germany	X			2004
Finland		X	X	2005 and 2015
Portugal		X	X	2007 and 2013
Greece			X	2010
Denmark			X	2011
Spain	X	X		2011 and 2013
Netherlands			X	2012
Cyprus	X			2012
Slovakia			X	2012
Lithuania	X			2016
Malta			X	2016
Norway		X		2011

Source: European Commission (2017).

<sup>3</sup> This argument is justified by the fact that when an individual enters into the labour market, it receives less than his productivity. From a given point in his career, the same individual will earn more than his productivity (Ehrenberg and Smith, 2011).

Therefore, and in order to promote social fairness and not to jeopardize economic activity, we can set also consider measures on the revenue side of the social security system. The Portuguese Social Security System is mainly financed by the overall contribution rate on wages, and it reaches 34.75% (Direção-Geral da Segurança Social, 2020). However, this rate comprises several items, and payment of pensions only represents 58.16% of the overall contribution rate<sup>4</sup>. However, due to some non-compliance degree and the multiple regimes covered by the Portuguese Social Security, the effective overall contribution rate is then expected to be, at maximum, 30% (Garcia et al., 2017). In this way, we could propose the convergence of the existing multiple regimes to the normal regime, which will allow an increase in the effective overall contribution rate, in the share related to the employee, as one solution for a sustainable and social fair social security system. In addition, a reduction in the share of over events on the overall contribution rate may help to balance the long-run social security budgets. For instance, if the remaining share of the overall contribution rate, 41.84%, was financed by the State Budget, it would reduce the financial pressure of the social security system. In turn, we cannot neglect the financial pressure that such abovementioned measure would bring for the State Budget and in overall fiscal sustainability. Consequently, we must propose structural policy measures that ensure fiscal sustainability and promote smaller cuts in pension payments.

As we discussed in our introduction, the costs related with the ageing process will rise in the next fifty years. Increasing the spending side of State Budget by allocating the share of the other events related to the overall contribution rate of social security is not an option. The Portuguese economy cannot be sustainable in part. Sustainability must be guaranteed in all domains and, at the same time, economic development and social justice towards the most fragile strata of the population, namely the elderly population is to be promoted. In accordance with this postulate, we propose the following measures to accommodate the increasing costs of the ageing process:

1. Promote programme budgeting in each area of State intervention. This will lead not only to an improvement of efficiency but also a structural reduction in government expenditures. Specifically, healthcare is one of the most benefited government spending

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<sup>4</sup> The other items include *illness, occupational disease, parenthood, unemployment, invalidity and death*.

function by resorting to this management techniques. Existing literature shows that an implementation of programme budgeting is a good strategy to perform a structural reduction in long-term costs related to healthcare (see, for instance, Martin et al., 2008). One can also evaluate to what extent better dealing with public-private partnerships (PPP) might lead to a higher efficiency degree with related costs reduction. Although there is some evidence of better outcomes from PPP in healthcare area, as for instance, concluded in the Tribunal de Contas (2021), IMF has reported the Portuguese case as a negative illustration in mastering the risk associated with PPPs (Fouad et al., 2021) and in Pimentel, St. Aubyn and Ribeiro (2017), PPP investment is found to crowd out, and not to crowd in, other private and public investment.

2. In order to obtain spending space in the budget, efficiency spending gains can be assessed. Indeed, available studies point to the existence of scope for efficiency improvement, both at the general government as a whole, and at the sectoral level. Theoretically, the same level of services could be provided with fewer resources, and in this case, Portugal usually fares less well in international comparisons.<sup>5</sup> For instance, Afonso and Kazemi (2017) find that for 20 OECD countries in 2009-2013, average inefficiency scores of 26.8% (input oriented) and of 23.1% (output oriented). These scores attain 30.8% and 43.8%, respectively, in the case of Portugal. The magnitude of these results allow us to envisage as possible that some efficiency gains would allow the public sector to better fulfil some of its responsibilities without jeopardising other ones.
3. Market-oriented policies that promote the reduction of red tape costs and promote the overall Portuguese structural competitiveness.
4. We can consider the expanding of the tax base and the convergence of the multiple tax sources into a unique tax system, where incomes from capital and labour tend to be

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<sup>5</sup> Several studies show that overall government spending efficiency could be improved in many OECD countries (see, for instance, Afonso et al. 2005; 2010; Afonso and Kazemi 2017), and, for instance, for the health and education sectors (see, Afonso and St. Aubyn, 2005, 2006).

taxed in a similar way. Taxes could also be levied on inheritances to spread tax efforts more equally. Moreover, overall tax exemptions on income could be decreased.

5. Increase excise taxes on tobacco, beverages, carbon emissions and other products to address negative externalities and to decrease government budget primary imbalances<sup>6</sup>.

## 4. Changing the demographic scenario

### 4.1. Increasing the birth rate

The current demographic scenario implies that measures with great impact on justice and generational equity are to be taken in order to balance public accounts in the long-term. Measures to alter this scenario are desirable, and even inevitable. The low birth rate in Portugal, a phenomenon which, it should be noted, shows no signs of reversal, is not the result of an express willingness of parents not to have children, or to have few, namely, only one child. The most recent INE Fertility Survey, published in 2020 but whose data refer to 2019, is very enlightening in this regard. The average number of desired children of 2.15 contrasts with the expected average number of children, taking into account the children who had already been born and those who are projected to be born, and which was 1.69. If each couple had effectively the desired number of children, demographic replacement would be ensured, since the fertility rate for this is commonly considered to be 2.1.

The gap between what people want and the birth rate actually observed results in family dissatisfaction (families have fewer children than they want) and a negative externality in collective terms (in the absence of migration, the population decreases over time, when it could be maintained or even grow). It is therefore urgent to identify the causes for low fertility as a first step towards the definition of public policies that can combat and overcome this unwanted result.

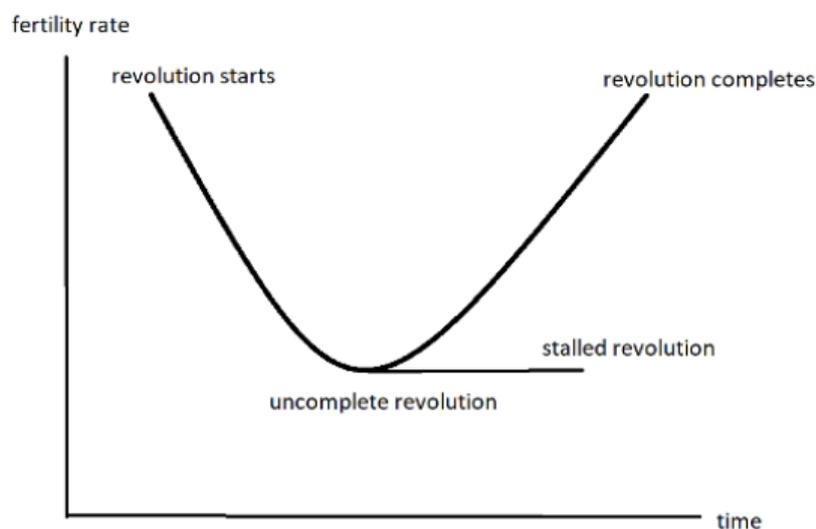
The results of the 2019 INE Fertility Survey come, in our view, in agreement with what had already been defended by Sobotka (2016). A set of economic and social circumstances are combined in Portugal with what the latter author considers to be a society where the “gender

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<sup>6</sup> Tax Foundation (2020). The raise of each excise tax has to take into account the price- and income-elasticity in order to ensure to promote a decrease in the quantity demanded without jeopardizing revenues collected for each tax. Share of the excise taxes on alcoholic beverages and on tobacco in <https://taxfoundation.org/eu-excise-duty-on-alcohol-eu-distilled-spirits-taxes-2020/> and in <https://taxfoundation.org/cigarette-taxes-in-europe-2020/>, respectively.

revolution” is far from complete. The following figure (Chart 2) is adapted from Esping-Andersen and Bilari (2015) and describes possible time paths concerning the so-called “gender revolution” and applies in stylised form to different countries. This revolution starts when the traditional male breadwinner family model starts to lose its predominance, as women enter the labour market massively, as in Portugal in the 60s. As women become less willing, or able, to engage in their traditional motherhood role, and as men and society at large do not adapt to new circumstances, the number of children starts to decline.

Chart 2 – Fertility rate and the gender revolution



The fertility rate decline depicted in the figure is not necessarily the end of the story. Reversal is possible when men and women increasingly share family tasks and new policies and social arrangements are set in place. But it can also be that this does not arise, at least at the desirable pace, and in that case some authors refer to a “stalled revolution” (see Scarborough, Sin, and Risman, 2018). To avoid a Portuguese stalled revolution some measures have to be taken.

In more concrete terms, those that emerge as the closest causes of low fertility in Portugal are the following:

- Economic uncertainty in many of the young adults living in Portugal. Many early-life young people do not feel job security and their incomes are low and uncertain. Precariousness at work is combined with the disproportionate incidence of unemployment.

As pointed out by the INE Survey, “the women who had the first child later than they desired were the ones who most pointed out as very important for the postponement the reasons related to financial stability and employment and housing conditions”. Further evidence concerning job security comes from OECD figures – Portugal ranks 33<sup>rd</sup> in a sample of 40 countries in this respect<sup>7</sup>.

- The difficult housing conditions, as expressly mentioned by the respondents to the above-mentioned survey. It should be noted in this regard that the evolution of house prices has been much higher in recent years than the variation in the population incomes. According to OECD figures, housing prices increased 31.3 percent above income from 2015 to 2020. This is the highest increase in a sample of 37 countries, the Euro area average being 12.5 percent<sup>8</sup>.
- Often rigid working hours, which make it difficult to reconcile the work-making of parenthood and working life. Making working hours more flexible for small children parents was the single measure concerning working conditions that was more often cited by respondents to the 2019 INE Fertility Survey.
- A small network of day care centres, kindergartens and leisure activities, i.e. many families do not access, or have difficulties in accessing, this network. According to Conselho Nacional da Educação (2019), the coverage rate of socially provided nurses and babysitters was 48.4 percent in 2019 in continental Portugal (35.1 percent in 2010, 51.1 percent in 2015)<sup>9</sup>. According to the same source, Portugal ranks 23<sup>rd</sup> in 43 OECD territories or countries in what concerns the childcare gap, the time interval between the end of the maximum compensated parental leave and the beginning of guaranteed universal access to childcare. In Portugal this gap is more than three years.
- The perception that government provides little support to families on health, transport, education and housing (see Table 4).
- The maintenance of a traditional division of tasks in the family, a core part of the “uncompleted gender revolution”, which makes the most important tasks related to the care of the house and children (transport, meals, washing and taking care of clothes, cleaning of the house and others) rest in the woman/mother, as it comes from the 2019 INE Fertility Survey.

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<sup>7</sup> Job security is measured by the expected loss of earnings when someone becomes unemployed. See <https://www.oecdbetterlifeindex.org/topics/jobs/>, consulted in August 2021.

<sup>8</sup> See <https://data.oecd.org/price/housing-prices.htm>, consulted in August 2021.

<sup>9</sup> The coverage rate is the ratio between places available and the number of children younger than 3.

The problem of low birth rate is not specific to Portugal. Several countries have implemented birth policies with mixed results, as short-term results are not always consolidated in the long term. In a recent survey, Sobotka et al. (2019), some of the key factors for success are pointed out. A clear positive effect of the provision of public childcare on fertility stands out. This effectiveness in increasing fertility will also depend on qualitative aspects of the childcare provided, being available to children of all ages, aligning schedules with parents' needs and not at a high cost.

Single measures are not effective. There should be a package of measures that are integrated and coherent with each other and which remain over time. This makes sense, since, as we have seen above, the causes of low fertility are transversal to various areas of society and the economy. On the other hand, and by abstracting us from the emotional aspect of the decision to have children, this decision represents a long-term investment, so any kind of uncertainty has a negative effect on it. It is therefore very important that families have the perception that public policies to support the family will essentially remain, despite the democratic alternation of governments and will not be reversed when the country is going through a more adverse macroeconomic period. Such perception can only exist if there is, in fact, a national consensus on the importance of birth support policies.

For comparative purposes, we choose from among the cases of countries that have been successful in reversing the trajectory of fertility, Sweden, France and Germany. Table 4 presents some selected indicators related to expenditure on family support.

Table 4 – Indicators of support for families as % of GDP

	Portugal	EU	OECD	Sweden	France	Germany
Public expenditure on early childhood and pre-primary (2015)	0.38	0.7	0.7	1.6	1.32	0.6
Public support for the family (2017)	1.69	2.57	2.34	3.4	3.6	3.17
in cash	0.76	1.35	1.16	1.24	1.42	1.08
in services	0.44	0.93	0.95	2.15	1.46	1.25
in tax benefits	0.49	0.29	0.23	0.0	0.72	0.84

Source: OECD.

As it turns out, Portugal spends significantly less than these countries and also compared unfavourably with the EU and OECD average. In fact, Portugal often appears close to the last places in the ranking with regard to expenditure on family support. One exception has to do with tax benefits for households whose weight is above the EU and OECD average. Portugal

has privileged the tax route to grant benefits to families. In the last two decades, the increase in spending on support for families owes much more to the growth in the weight of tax benefits than to the increase in services such as day care centres.

This priority given to the tax route does not seem to meet the anxieties of families if we take into account the responses of women to the INE fertility survey, which favour the expansion of the network and access to day care centres, kindergartens and leisure activities.

With nuances in terms of composition and calibration of measures, the policies of the three countries chosen for comparison are characterized by a strong investment in the provision of services to preschool, which are provided directly by the government or other entities subsidized by the government, by generous and extensive parental leave and by significant monetary support.

For example, in Germany, families receive a minimum of around €200 per month and per child until they turn 18 (or 25 if they continue school), a figure that increases slightly with the number of children and is not conditional on parents' income (Sobotka, Matysiak, & Brzozowska, 2019). In Portugal, family allowance cannot be considered a birth policy, as it is very easy to have incomes that exclude families from this benefit. With the current limits it is essentially a policy to mitigate poverty.

## 4.2. Migration

Franco et al. (2021) contains an analysis of the potential impact of migration. The main objective is to “understand whether a successful immigration policy (or an exogenous immigration flow) could significantly mitigate the budgetary imbalance induced by ageing” (p. 55, our translation). Considering a hypothetical maintenance of the 2017 net migration value, i.e. the difference between immigration and emigration flows, it is calculated that the sustainability imbalance factor would increase by 0.02. Even if net migration was positive by 5.1 thousand individuals in 2017, sustainability worsening is due to the emigration of working age individuals combined with immigrant ageing. Other migration projections in Franco et al. (2021) are more sustainability friendly. With null emigration and immigration at the double of 2017 levels, the sustainability factor would equal 1.18, a decrease from the baseline value of 1.22, but still far from 1. The main message from the study is thus that immigration matters, but does not solve the problem.

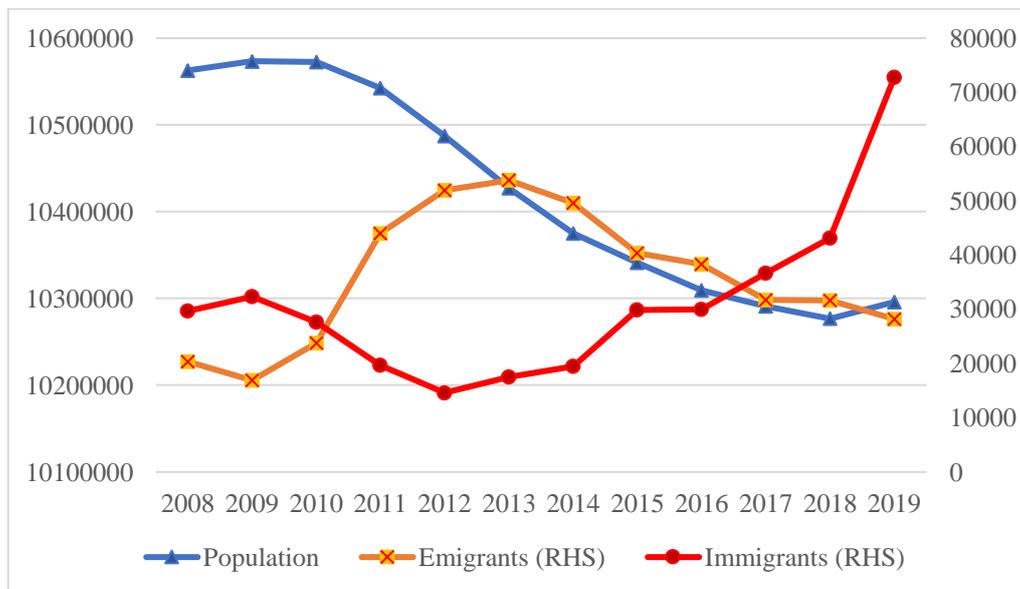
Even if we consider that in 2017 immigration to Portugal was relatively low, a closer look at values lead us to consider that Franco et al. (202) main conclusion is still warranted. In 2017 Portugal received almost 37 thousand immigrants (according to Pordata). This figure would increase to about 72 thousand in 2019, which is an historical high figure. Values for immigration to ensure sustainability without any other contributing measure or factor would have to be much higher than the ones ever observed for Portugal.

In this regard, Chart 3, relating to recent population developments and the number of new permanent immigrants, illustrates a less optimistic scenario than the one underlying the report under consideration. Through Chart 3, it is possible to verify that, despite the decreasing trajectory of emigration, in the period 2010-2019, around 39,000 Portuguese on average, left the country each year, with the expected economic and budgetary consequences.

Another study on the subject, Garcia et al. (2017), provides evidence and projections that lead to the same conclusion. The authors conclude (pages 259 and following) that to ensure that population does not decline net migration would have to be about 47 thousand per year. This would have to increase to 75 thousand to maintain the labour force. Much more stringent would be to maintain the 2015 observed ratio of younger to older people in 2060. This would imply immigration to attain 250 thousand persons per year, an implausible value.

We conclude from this that a successful immigration policy and outcome is part, but only part, of the solution to the sustainability problem at hand. It should be noted that this policy should be pursued also due to other objectives, namely, to ensure a qualified workforce, a necessary condition for economic growth.

Chart 3 – Population and permanent immigration : Portugal



Source: INE.

According to OECD/Bertelsmann Stiftung (2019), in a set of 35 OECD countries, Portugal ranks 21<sup>st</sup> when it comes to attract workers with Masters or Doctoral degrees, 22<sup>nd</sup> when entrepreneurs are considered, and 15<sup>th</sup> for university students. The attractiveness factors include the quality of opportunities, income and tax prospects, future prospects (e.g. acquisition of nationality), the family environment (including school quality and public spending on family benefits), the skills environment and inclusiveness (e.g. attitudes towards immigration and gender equality). Some of these are specific to immigration and deserve special attention in policy terms and should be considered in a successful immigration policy designed to attract qualified individuals to Portugal. However, there is also a sizeable intersection of these attractiveness elements and the factors that may have an influence on the parent’s decision to have more children. As such, our proposals for a more effective birth policy constitute, in fact, proposals for Portugal to become a more attractive place to start living in general – either from the very beginning, or for a second start as an immigrant.

#### 4.3 Proposals for a more effective birth policy

There are several measures that can be considered, but here we present only measures that seem to us to be priorities to respond to the specific problem of low birth rate in Portugal, bearing in mind that resources are scarce.

1. Increase investment in day care and kindergartens by increasing supply and subsidisation to reduce costs for families (including easing day care times, kindergartens).
2. Give more incentives in conditional parental leave to the father to take advantage of the leave in order to reduce gender inequality in household chores.
3. Tax policy measures are not recommended although they may be useful in that it seems to us that the main problem is not the lack of tax benefits.
4. Recover the Commission's idea for a birth policy in Portugal: Support for the hiring of pregnant women, mothers/fathers with children up to 3 years of age through the total/partial exemption of TSU.
5. In order to finance any additional spending in these budgetary items, one can: i) improve the level of spending efficiency in other areas of government spending (providing the same services with fewer resources); or ii) include a "population growth" related tax in the budget.

## **5. Conclusion**

We can easily acknowledge that economic development is associated with a decrease in fertility rates, shrinking demographic structure at the bottom. However, this pattern presents itself as an economic paradox. In fact, the ageing process brought by the economic development decreases the fiscal policy sustainability in the long-term, reducing the effectiveness role of public sector as a promoting agent of sustainable development. Moreover, while the government must fulfil its obligations, the decrease in the government capability to ensure the well-being of the elder population tends to exacerbate the burden imposed to the remaining economic agents by the hunger of revenues.

This abovementioned dynamic is well presented in economies like the European economies, especially Portugal. The Portuguese case is an example of a depressed demographic structure with a stagnated economy, whose average growth rate in the past two decades is just marginally positive. The performance of the Portuguese economy has not been sufficiently able to allow a demographic trajectory reversal and this has depressed Portuguese economic development even more. This negative economic-demographic symbiotic relationship has been overtaken by ever increasing cuts in future pensions to offset the decline in social security financial sustainability derived from the ageing process. These policy options obviously result

in intergenerational social unfairness for those that will receive a small fraction of the social security contributions they have paid during their working period.

In this sense, this brief intends to contribute with some public policy solutions to serve as a ground for public debates on this topic. In that way, we propose two sets of public policy measures based on two different scenarios, whose primary goal is to ensure fiscal sustainability and promoting a higher degree of intergenerational fairness. One in which public policies assume they cannot change the demographic trajectory in the mid-term, and, another one, that includes measures to enable a reversal process of the demographic decline. In the first scenario, measures like increasing public sector efficiency or increases in some taxes over goods presenting negative externalities are included. Indeed, as we mentioned, the increase in government spending efficiency can create rather non negligible fiscal savings to potentially finance additional spending in specific budgetary items. The second approach involves measures like an increased investment in day care and kindergartens, more incentives in conditional parental leave and a “population growth” related tax in the State budget.

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