

HOUSING AND LABOR MARKET CONNECTIONS IN PORTUGAL - Challenges for the XXI Century -

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From past research to the new questions

In a former research group¹ where I worked (1996 to 1999), the core of the study was to compare the four southern European housing systems - Portugal, Spain, Italy and Greece – under the assumption that they had a different path other than northern European countries. We had the personal intuition that something could be different “at home”. People, history, household structure, life pattern, consumer preferences and even the weather, social communication style and custom traditions would play an important role on housing provision. We tried to understand at what extent could those several differences play a distinctive influence on housing practices, considering the development lag between northern and southern Europe post-II World War.

In the first half of that group research period, we characterised each country situation using an in-depth approach on each housing system and we set up an analytical framework considering housing provision, financing, tenure, prices, diversity, urban change processes, social housing and so forth. We wanted to know more about ourselves².

In the second half period, the group co-ordinators³ introduced a new viewpoint on the theme, opening the group to other colleagues and shifting the research core to the transition in European welfare system. Housing provision ‘became’ part of the broader welfare delivery policy.

In December 1998 we underlined the importance of this shift. Housing system is not seen 'anymore' as a question of database comparison but an important territorial and social issue. We needed to stress and understand at what extent the founded

¹ “Housing in Southern European Countries: a different path?” - a ENHR working group - European Network for Housing Research.

² Full text in Carvalho, P. G. (1998). Public intervention on housing: the Portuguese Case, ENHR Working Group Conference: "**Housing in southern Europe: a different path?**"

³ Liliana Padovani (ITA) and Jesus Maldonado Leal (SP).

differences could lead us to different (best or worst) global country reactions facing the EU welfare challenges. Some of the invited experts (Hugo Priemus – NL and Bengt Turner, SE) devaluated those differences between N-S housing systems, claiming that the focus should be centred on the historical development lag that EU economic convergence will solve sooner or later (close to the neoclassical approach).

The research evolved then within a different framework analysis. As Judith Allen - UK wrote in her presented draft (February 1999) “...*the biggest conceptual problem is to move from a fairly descriptive concept about the interrelationship between family and housing to a more analytical concept of society and welfare*”.

The research questions for that group became then:

- "Taking into account the differences in each country ability for social regeneration, could southern European countries have a comparative advantage in housing and social welfare delivery?"
- "Which outcome could be predicted in order to achieve a better adaptation/reaction facing the general shift in the EU welfare policies?"

Conclusions pointed out to a positive answer to both questions, meaning that housing delivery in these countries has much more to do with higher family network support than in other countries. In a certain sense, these family and friendship networking replaced for a long time, the absence of a strong public intervention after the II World War, which not happened in the northern European countries.

In this actual research group - “HOSE project” - started at York (October 2000), we were asked slightly different questions, expressing ideas about the possible relation between housing markets, labour markets and social welfare provision.

The following text will try to express my knowledge about these issues, considering the background accumulated over the two research periods and following the main guidelines we established for this HOSE project.

The remaining of this chapter will appear as follows:

First we show some structural developments considering the Portuguese settlement, its housing policy and urban changes from the 70s till recent policy measures; secondly we focus on household life conditions and the employment structure. After this brief characterization we look for changes in behavioural responses and the new risks we could

predict facing globalisation changes. We finish with some policy implications and concluding remarks, related with the HOSE research questions.

1. Structural Developments

Globalisation has different impacts on housing, labour and welfare systems. The spatial organisation of economic activity changed rapidly with new technology jobs, capital and labour mobility. Owning a home is therefore an important issue, once it can (not) constraint individual mobility needed for new labour market functioning. Looking at home tenure practices one could expect that the rental market is becoming more important than homeownership; however it looks like this is not the main trend occurring within European countries, which raises an important research question. Historical path is important in each country trying to know how many people they have, where do they live, work, how much they earn, in order to understand their settlement style. Each country reaction is also related with their growth rate, specialisation, development strategy and international trade share. Urban renewal is happening in several rhythms and patterns, influencing housing-labour market connections in a different way.

1.2. Housing policy and urban change in Portugal

Housing system analysis must consider explicit (enforced) and implicit (absence) housing policies, in order to stress the main consequences in housing provision and in social structure (Allen, Maldonado et al. 1998).

Housing construction is a complex process in the country. This complexity is due on one side, to the late (60s) and incipient industrialisation process, which caused an important traditional self-construction sector; on the other side, it is also the result of a strong centralisation in housing policy, which developed a peculiar informal and individual practice in house provision at the local level.

In fact, Portugal has a centralised policy over time. There are no regional or intermediate public administrative levels and therefore it emerged a practice of diversified and asymmetric housing provision at the local level. Moreover, Portuguese emigration flows originated during the 60s and early 70s in the rural areas, allowed capital inflows that were the basis for diverse kinship and family networks tied with housing self-provision. People always counted on themselves to build or find their shelter, largely supported by emigrant capital inflows.

Although local policies in Europe (after the 80s) progressively rely upon market forces, housing is still a very speculative business in a great part of Portugal. Due to the implicit policy of non-severe inspection upon housing construction and the incipient urban planning practices at the local level, households and constructors were stimulated to follow self-promotion practices, using their social links and looking after tax evasion benefits. The social cost of these procedures can be measured by a general low quality in housing supply, an increase in environmental costs and a pattern of spatial segregation and social exclusion expressed through the absence of maintenance and repair works. Beyond this, informal market practices also lowered demand exigency and created a considerable economic loss expressed in lower city competitiveness and sustainability, harming them to respond to global challenges.

Within this housing development pattern, a double negative effect occurred in different cities: over-agglomeration and periphery struggles claiming for different social and welfare policies. In the 90s the Portuguese Housing ‘map’ underlines the dualist side of the problem, with a predominantly rural territory, regardless of 67% of the total population living in the two main cities – Lisbon and Oporto.

According to these previous statements it seems strategically inappropriate to consider rural and urban issues separately as central policy tends to do. Urban centres are very dependent on the quality of their closest rural areas. Portugal and Greece show, in a major extent, a higher dependency ratio (Allen, Maldonado et al. 1998) and we know that this fact corresponds to the territorial pattern associated with rural areas, suggesting different and concentrated territorial policies. Of course these policies will produce different impacts, depending on the age structure of the population living there.

Let’s see how did Portuguese population settled over the last decades.

1.2.1. Portuguese settlement

Portugal location on the extreme western Atlantic arch of the European continent deeply influenced its past, pushing Portuguese people to cross overseas. Traveling across the sea belongs to the Portuguese history since the XVth century. With its colonial past, Portugal influenced the architectural heritage of many cities around the world (in India, Macao, Japan, Brazil, Angola and Mozambique, etc.) and, at the same time, determined its continental urban settlement.

In fact, Lisbon and Oporto grew as port towns and they are the main Portuguese metropolitan areas at the present, where over 37% of the total resident population is living, representing over 67% of the total urban population. The other Portuguese cities were always abandoned by central governments because Portugal growth was predominantly directed to foreign countries and therefore submitted to strong emigration pressures along different periods (the 40' to America and the 60's to Europe). Lisbon was the main sink for capital and human resources, creating twofold disequilibria on urban development: (i) fast urbanization with overcrowding problems on the main cities and (ii) desertification with scattered settlement in the most part of the national territory.

Democracy recovery, thought as an opening door for new settlement perspectives, was a delayed event in Portugal (1974), hence responsible for a delayed (ongoing) urbanization process.

At the same time, Portugal is one of the less urbanized⁴ and one of the last centralized⁵ countries in EU. These two characteristics explain why central government still have the leader role in housing policy (and others), although nowadays we have an increasing State-local authority co-operation on housing improvement programs.

Portuguese population stabilized at the 9,862,559 inhabitants in the last decade and do live in an asymmetric space: (i) the metropolitan areas with about 3,650,000 people; (ii) three 100,000 inhabitants cities - Funchal, Braga and Coimbra and (iii) only two 45,000 inhabitants cities - Faro and Évora. If we exclude about nine other 40,000 inhabitants coast towns, the most part of the urban centers have less than 20,000 people usually equipped to supply the minimum localized functions.

The recent trend in Portuguese demography expresses that although with stabilized population, the interior territory is still losing people to the coast urban centers, except in a few cities that still play the anchor role for its hinterland development. People look for working places and then housing constructed area is a

⁴ The Ministry of Equipment, Planning and Territory Administration estimated about 49% urbanised population in metropolitan and places with more than 2000 residents or, at most, 55% urban residents if we also consider the most intensive scattering urbanised councils MEPAT (1999). Plano Nacional de Desenvolvimento Económico-Social 2000-2006. Lisboa, Governo.

⁵ Regionalization process submitted to a national referendum 8 November 1996 was denied by people wish. In fact, more than 60% of the population answered "No" to the model presented by socialist and communist parties, proposing 8 new administrative regions.

dependant variable on population, income and place, which turns housing policy on a regional issue asking for regional and local policies (Carvalho 1998).

Between 1981 and 1991, Lisbon metropolitan area presented a population increase rate of 1,3% while in Oporto metropolitan area the rate reached up to 3,1%. These indicators mean that the urbanization process is still going although in a decreasing way.

In the rest of the continent we can observe two types of demographic patterns. First, the increasing importance of some mid-size towns that in the interior east territory, is pulling rural neighborhoods; secondly, a scattered urban process, in the other west spaces, where industrialization is penetrating the rural space since the 70's.

This settlement pattern strongly conditioned housing State intervention.

1.2.2. Different phases on housing policy

Acquisition was the way out for low social cohorts, leaving public house provision to the poorest population living in the two main towns - Lisbon and Oporto - as we can see.

In table 1 we can state that social housing provided by national government is spatially confined to the two main metropolitan areas and it represents a very small percentage of the whole housing stock.

Table 1 - Social housing* in total housing stock (%)

Census Year	Lisbon	Oporto	Others	% in Total stock
1950	3.6	1.6	0.2	0.8
1960	5.0	2.5	0.3	1.5
1970	7.0	5.1	0.7	2.7
1981	8.2	5.9	1.4	3.9
1991	5.9	3.8	3.2	4.4
2001	na	na	na	6,6

Source: adapted (INE 2001)

*Considering social housing as INE - (INE 1991) defines it, i.e., dwellings built by public institutions and administration.

We can also summarize some other important conclusions:

1. 2001 data is not available on the same basis although we know it shows the same pattern.
2. The percentage of social housing provision is not that great, although it is 8.25 times higher in half a century.

3. The 2 metropolitan areas reveal a net increase above average of 16.4 in Lisbon and 5.6 in Oporto (until 1991).
4. At the local level, most of the communities are shifting to a selling policy of their social housing stocks.
5. There is a special program (PER) started in 1995, which goal is to reallocate the fringe of the households still living in metropolitan shanties. The housing start is being accomplished within a short 2 years delay.

Looking now at Table 2 we can see that private sector covers, in average, 90% of total housing provision, while public sector only surpasses one digit percentage in 1966, 1970, 1972-73 and from 1977 up to 1984. This last indicator reveals an important fact: we have a housing deficit creating people's pressure over the government during crisis or democratisation periods; a return to market solutions appears after the mid-80's liberalisation process. We can say that housing provision is mainly a private business in Portugal.

The small increase in the co-operative sector can be explained by the after 90's legislation produced to develop this sector and to promote a central/local government co-operation although in a very segmented social belt (upper-middle class).

Table 2 – Total Housing provision (1960-1999)

Year	Total	Private sector	%	Public sector	%	Co-operative sector	%
1960	26.660	24.290	91.1	1.995	7.5	375	1.4
1961	29.803	27.688	92.9	1.759	5.9	356	1.2
1962	29.666	27.908	91.1	1.501	5.1	257	0.9
1963	29.710	28.070	94.5	1.319	4.4	321	1.1
1964	34.944	32.327	92.5	2.386	6.8	231	0.7
1965	34.940	31.575	90.4	3.077	8.8	288	0.8
1966	35.891	31.532	87.9	4.143	11.5	216	0.6
1967	41.328	38.721	93.7	2.368	5.7	239	0.6
1968	39.231	36.180	92.2	2.882	7.3	168	0.4
1969	38.593	n.a.		n.a.		135	0.3
1970	27.875	24.570	88.1	3.221	11.6	84	0.3
1971	36.007	32.409	90.0	3.453	9.6	145	0.4
1972	40.611	35.421	87.2	4.895	12.1	295	0.7
1973	41.933	37.141	88.6	4.559	10.9	233	0.6
1974	43.402	40.810	94.0	2.339	5.4	253	0.6
1975	31.967	29.563	92.5	2.180	6.8	224	0.7
1976	30.028	28.569	95.1	1.296	4.3	163	0.5
1977	34.893	28.896	82.8	5.848	16.8	149	0.4
1978	34.379	30.043	87.4	4.235	12.3	101	0.3
1979	36.430	31.136	85.5	5.154	14.1	140	0.4
1980	38.231	32.084	88.9	5.665	14.8	482	1.3
1981	38.632	32.226	88.4	5.490	14.2	916	2.4
1982	39.857	33.207	83.3	6.060	15.2	590	1.5
1983	38.191	31.917	83.6	5.525	14.5	749	2.0
1984	41.250	32.739	79.4	7.278	17.6	1.233	3.0

1985	35.475	31.738	89.5	2.127	6.0	1.610	4.5
1986	37.274	34.455	92.4	1.416	3.8	1.403	3.8
1987	38.833	34.777	89.0	1.391	3.6	2.665	6.9
1988	45.974	42.414	92.3	1.186	2.0	2.374	5.2
1989	58.152	50.703	87.2	4.029	6.9	3.420	5.9
1990	62.081	55.207	88.9	3.460	5.6	3.414	5.5
1991	63.229	57.808	91.4	1.599	2.5	3.822	6.0
1992	52.185	46.191	88.5	2.434	4.7	3.560	6.8
1993	63.199	57.310	90.7	1.602	2.5	4.287	6.8
1994	59.353	n.a.		n.a.		n.a.	
1995	65.304	n.a.		n.a.		n.a.	
1996	65.607	n.a.		n.a.		n.a.	
1997	70.515	n.a.		n.a.		n.a.	
1998	88.962	n.a.		n.a.		n.a.	
1999	105.962	n.a.	(a)	n.a.		n.a.	
2000	107.900	n.a.		n.a.		n.a.	

Source: buildt upon INE - Estatísticas da Construção e da Habitação (INE 1960-1999)

(a) Another source (INE 2000) indicates 99%.

After the II World War, housing construction/per year average rounded the 10/1000 inhabitants in the three main affected countries - France, Great Britain and Germany. In the same period Portugal has 4/1000 average and recently 6,4 in 1991 and 6,6 in 1996. In fact, the post-war period was determinant to the modernization of the construction sector that benefited from the Keynesian European macro policies, which did not happen in Portugal.

The history of Portuguese housing economy evidences that the main public interventions were carried out as a consequence of health reasons and as an instrument for social control, minimizing the socio-economic effects of the low salary policy implemented during the dictatorship in order to benefit the industrial sector. At the late 60s, urbanization and industrialization intensified and the State was pushed to create the first public institution in 1969 - F.F.H.⁶ - to inspect co-participated housing construction.

In the first half of the XXth century the State played the regulatory role in order to guarantee the accomplishment of the broad capital accumulation strategy. We can point out two main characteristics in this period: special programs to build *Casas Económicas* (economic houses - 1933) and rent freezing in the cities (1940). Although rent freeze was relevant during the dictatorship phase, the first law conditioning rent updating was introduced in the 1st Republic (1910-28)⁷. This rent freeze was a stop

⁶ People could ask for public help paying a mortgage rent, and kitchen and bathroom were under State responsibility; the remaining construction area suffered strong control creating a very strong informal provision. We had a dualist market with about 30% luxury formal sector and 70% informal.

⁷ The rent updating could be done from ten to ten years within a 10% limit; it was repealed the March, 30, 1928 (Decreto 15289) and recovered in 1940. For more details Carvalho, P. G. (1995). O Mercado

and go process in Portugal and, together with land ownership concentration in a small social group, could be pointed out as responsible for the huge homeownership rate in the country. The rent market could not be profitable while the income per capita was low and none investor would be interested to apply their savings in cheap house building.

We can date from 1970 the first legislation that paid important attention on housing problems⁸ and we name it because these laws still regulate our local authorities practice focusing on three important features in housing provision: need of planning, land acquisition and technical expertise.

After the beginning of the democratization process (April 1974), 1976 can be considered as the crucial year for housing legislation. The informal housing market in the surroundings of Lisbon has already reached its peak and the Government needed to cover the infrastructure lack in housing buildings. Some administrative power was transferred to local authorities in order to enable them to expropriate land and to provide technical advice to private owners.

Land becomes an important resource for housing markets, nevertheless neither central nor local power were successful when organizing a coherent and needed housing policy. Popular pressure was always stronger raising two important political movements: uncontrolled occupation of vacant houses and stronger housing rent freezing. In the period between 1974-76 we had the reinforcement of the direct public provision (from 1.104 to 9.000 and 14.795 dwellings each year), immediately followed by a financial reduction imposed to local authorities and the weaker importance given to public housing institutions.

The F.F.H. was extinct in 1982, which means that central government definitely gave up from direct intervention on housing, preferring that market forces could answer to the problem. At the same time ancient political promises of decentralization and regionalization did not came up, turning local authorities less able to promote social housing programs as they did it before. This means the beginning of the global liberalization consequences.

de Habitação em Portugal: uma análise cross-section para os 305 concelhos. Economics. Coimbra, Coimbra.

:cap 7.

⁸ Such as: the need for land expropriation, the redefinition of hierarchical competences and the creation of special services for local authorities (DL 576/70 and DL560/71).

The deep economic crisis in the very beginning of the 80's brought higher interest rates and budget deficits, which switched government intervention from housing provision to credit and fiscal policies. From 1982 to 1985, the Portuguese Government created two public institutions, the F.A.I.H. and the I.N.H., to coordinate credit supply operations and to control the construction process of State *casas económicas*⁹.

Although Portuguese integration in ECC reports to 1986, only in 1990 the National Bank dropped credit rationing and just in 1991 credit supply through commercial banking system was possible.

In what housing tenure concerns we can say that rental housing market in Portugal is not dynamic. Let's have a look on Table 3:

Table 3 - Concluded-housing buildings

Housing destination	1984	1992	Average %	
			1984	1992
Free rent houses	188	302	0.96	→ 1.49
Houses for sale	2.215	3.911	11.38	→ 19.34
Owner occupied Houses	15.312	15.314	78.67	→ 75.74
Owner occupied and others Houses	412	486	2.11	→ 2.40
Housing buildings supported by SAAL	8	0	0.04	→ 0.00
<i>Casas Económicas</i>	5	10	0.02	→ 0.04
<i>Casas Económicas</i> in rent system	83	12	0.42	→ 0.05
<i>Casas Económicas</i> in the mortgage system	21	1	0.10	→ 0.00
Houses with limited rent	11	0	0.05	→ 0.00
Houses for poor families	0	1	0.00	→ 0.00
Houses with development agreements	26	4	0.13	→ 0.01
Other	1.182	178	6.07	→ 0.88
TOTAL	19.463	20.219		
Dwellings	41.250	52.185		

Source: adapted from (INE 1993-1999)

Homeownership share is over 80% of the total destiny of housing buildings in 1984 and a little less (78%) in 1992. This trend is becoming stronger as a result of the progressive rental market liberalization and interest rate lowering. Housing represents the most important asset in family patrimony, absorbing almost the household savings¹⁰.

⁹ The main goal of both institutions was to guarantee interest bonus and the control of house dimensions built with special credit conditions ("*casas de custos controlados*"= controlled cost houses).

¹⁰ In Portugal, B. d. (1996). "Riqueza e Rendimento em Portugal: primeira abordagem do IPEF." *Boletim Económico*(Junho): 55-71.

, the table and graphic in pp. 57:60 show that housing represents 70% of the global household wealth.

The poorest fringe of the Portuguese society remains therefore the focus for special housing programs once people are not able to rent, even the supplied houses in controlled cost systems.

Summing up, the direct role of the State was to regulate social relations, to validate the informal processes and to intervene only in extreme cases of poverty, funding local authorities in partnership programs¹¹.

Indirect housing policy was the main trend, acting through easing credit procedures (= higher household effort rates), introducing several interest rate bonus (=interest and instalments are tax deductible) and allowing different income (=saving accounts for housing purposes) and property tax (= ten years exemption)¹².

Recent shifts in housing policy and household practices

In order to fulfil Maastricht convergence criteria, Portuguese government pushed public expenditure reduction since 1993, privatising national monopolies (cement, electricity, telephone, mail), enforcing tax evasion, shifting school maintenance and children transport from central to the local level. Moreover, local authorities do need funds to support the 25% of national participation in EU funding for infrastructure and developing programs. Due to weak regional administration in Portugal, only the top personality-based local authorities achieve to absorb the great amount of EU subsidies¹³. This means that regional disparities increased and the coast cities keep pulling people, running after new job opportunities.

The main outcome of such national policy was the increasing of the housing needs, the rise of more shanties in the main metropolitan areas and the promotion of a huge percentage of family credit indebtedness shrinking national savings. According to the report of the National Bank (Portugal 1996) household indebtedness is now higher than the total amount of the Portuguese enterprises deficit¹⁴. Banks became the real managers of household savings. People look at owning as a safe decision against future uncertainty, expecting that real estate never depreciate.

¹¹ Since 1995 it is being applied a special program (P.E.R.) to reinstall a great number of families still living in shanties in the suburbs of the main towns (near 10.000 new dwellings).

¹² Recent government measures (September 2002) point out for ending interest rate bonus for youth and enlarging the mortgage period behind 30 years.

¹³ Those were the main conclusions of the research I carried out on "spatial pattern in FEDER".

¹⁴ As over 76% is due to housing mortgage responsibilities, we could raise the question of what's the real meaning of homeownership: bank or family owners?

The report also states that the increase in the household disposable income is greater in the upper level classes. According to this, the Minister of Labour and Solidarity published recent measures (MEPAT 1999) revealing the shift in housing and household policies as a consequence of indebtedness rise, summarized as follows:

- to reinforce bank inspection, asking for accountability on how much are they really lending through housing special credit
- to improve the distribution of the minimum safety individual salary
- to create a family protection institution in order to re-evaluate family indebtedness
- to improve the homeowner protection on mortgage contracts, even when he is not legally married (people living together)
- to stimulate and legalise atypical work, increasing single work opportunities
- to change the average week work time, stimulating the part-time jobs.

Unlikely, the amount of disposable money for the minimum safety individual salary was not fully distributed in 1998 due to insufficient demand (will it be just an asymmetric information problem?).

With the increase of divorce rate, houses usually are ‘given’ in Court to the wife and children, protected in their ownership, which probably increases the maintenance financing problems. At the same time, houses are still over dimensioned to those households (Tables 4a, b), obliging a sharing or renting system in order to buy a smaller apartment (taking advantage from mortgage credit re-negotiation)¹⁵.

Numbers and comments on tables 4 a, b intend to give a broad sense of housing characteristics in the recent years:

Table 4a – Single and multifamily buildings

	1993	1994	1995	1996	1997	1998
Total buildings	23129	22484	26691	25765	28064	35046
1 dwellings	18903	18438	22051	21229	23101	28759
2 dwellings	852	943	1140	1117	1311	1721
%	85.4	86.2	86.9	86.7	87.0	87.0
3-11 dwellings	2200	2001	2317	2181	2338	2899
12-30 dwellings	980	907	1004	1046	1149	1428
> 30 dwellings	194	195	179	192	165	239
%	14.6	13.8	13.1	13.3	13.0	13.0

¹⁵ Although in 1997 there is a sign of behaviour shift while people are choosing smaller houses (n° divisions).

Table 4b – Housing characteristics

		1995	1997
Year of construction	unity: %		
	<1918	14.4	16.9
	1918-1945	13	11.7
	1946-60	11.3	13.2
	1961-1970	15.1	14.2
	1971-1980	25.3	21
	1981-1990	19.4	20.5
	>1990	1.5	2.3
Typology	%	1995	1997
kind of building	Single	63	64.6
	Multifamily	37	33.9
	Other	na	1.4
Size	%		
N° divisions	<3	5.8	9.8
	3	10.6	27.9
	4	29.4	33
	5	31.7	17.2
	>5	22.5	12
Area	%		
M²	<20	1.3	0.9
	20-29	3.3	2.6
	30-39	6.9	6.9
	40-59	21.2	20.5
	60-79	23.5	23.7
	>79	43.8	45.5
Infrastructure they have	%		
	kitchen	98.4	99.3
	electricity	99.4	99.3
	water	97	97.9
	shower	87	89.1

1. Construction of single housing largely exceeds the multifamily dwellings, apparently revealing the urban sprawl and higher demand for private and qualified places
2. There is a sign about housing stock renewal (houses built after 1981) and also some rebuilding of old houses (1997).
3. The number of divisions in new houses indicates the shift to a small family size although within larger spaces (≥ 80 m²) and better facilities.
4. Most part of the houses are being constructed with regular equipments and infrastructures, pushing away 60s and 70s style of construction.

Sources: (INE 1993-1999), (INE 1993-1999), (INE 1995)

Main Changes in household situation

Household structure is mostly dependent on each member project of life. Among other reasons, employment expectations, divorce/marriage rates, number of children, family extension, housing attributes are, hence, an important feature. The main changes occur in the bigger cities, but there is a general trend to diminish the extension of the nuclear household as a consequence of the increasing expenses related to job training needs, new consumption preferences and job/social mobility.

Housing mortgage is a huge restriction to new projects of life, because sometimes people need to move quickly, even if they only achieve to sell the house later on. This could be another explanation for social exclusion, once only the members of the upper class households can afford to move and pay for training or to buy/rent a second home in the city where they found the new job.

The diversity in the income sources we have described above will tend to diminish as long as the economic integration process goes on. During the 60s, family neighbourhood was decisive to establish kinship relations; nowadays, individual labour solutions gives rise to different location choices that, adding to the increased rupture in family structure, will worst off a lot of household situations.

For all these reasons we think that kinship networks will only be useful and constitute a comparative advantage if social policy shifts from housing to labour/education/health and training issues, trying to offset the natural real income decrease for lower class households (though it shows a smooth average increasing).

It will be also useful to fix population in the rural areas surrounding the cities, stimulating them to guarantee their self subsistence and to resist to the urban temptation of selling the land for a new house they will not be able to maintain, avoiding to move away at places where they have neither identity values nor qualified skills to work.

Anyway, according to the 2001 Portuguese Census, housing stock represents a number over 5,36 million for 3,7 million households, which represents a ratio of 1,34 houses per household. This is a huge number considering that in earlier 90s, we had a large house deficit. In the last decade, an average of 84 thousand dwellings per year were built, reaching over the 100 thousand in 1999 and 2000, which means an year average of 8,4 dwellings concluded per each 1000 inhabitant.

At the end of the 70s, the housing stock was close to 3,4 million dwellings and new construction was far from household growth, increasing the incentive to informal market to grow (inter census data revealed that the lag between housing stock and permits was over the 87%).

During the 80s, the average of constructed dwellings per 1000 inhabitants was 7,5, when the household growth reached the 226 thousands, though the disequilibrium yet remained.

Informal sector represented 43% of new houses and from the whole construction just 37% was occupied for permanent shelter, while 31% was reserved to temporary occupation or just vacant. This was the period where credit was rationed and rental market was frozen leaving over one third of the houses for no use at all.

Only in the 90s, as a consequence of the junction in four important economic factors (credit liberalization; rent liberation; inflation stabilization and employment growth), households absorbed 70% of the built houses.

Employment structure and labour market trends

During 1999 we can state an apparently positive situation in employment conditions. As a matter of fact, in spite of the decreasing rate in GDP growth, total employment has grown 2 points in the last year and unemployment stabilized at a 4.5% of total active population. At the same time, Working Population also increased around 1 point, which reveals a strong sensibility to the expansionist economic cycle. According to recent published data by the National Statistic Institute (INE 1999) the increase in dependent jobs is higher than average (3.4% against 1.9%), with different rates on non-permanent (12.3%) and permanent contracts (1.4%)(Tables 5a, b).

The National Bank (BP) explains this effect as an outcome of the expected labour reallocation facing the higher rigidity of national labour legislation. Workers are progressively tied to international weekly timetable, considering the total amount of those who worked more than 40 hours a week (28.3 in 1998 to 24.2% in 1999).

Table 6a - Weekly Work Time

CLASSES	1995	%	1996	%	1997	%	1998	%	1999	%
TOTAL EMPLOYED	4218.3		4264.3		4358.2		4735.9		4840.1	
1 to 15	106.5	2.5	125.6	3.0	159.8	3.8	153.9	3.6	149.4	3.5
16 to 25	230.0	5.5	246.1	5.8	273.2	6.5	262.0	6.2	276.5	6.6
26 to 35	551.9	13.1	566.9	13.4	572.0	13.6	591.9	14.0	616.4	14.6
36 to 40	1216.3	28.8	1267.2	30.0	1594.3	37.8	2386.1	56.6	2621.2	62.1
41 to 45	1197.5	28.4	1155.3	27.4	894.2	21.2	516.0	12.2	431.3	10.2
>45	916.0	21.7	903.3	21.4	864.7	20.5	816.0	19.3	734.6	17.4

Source: (INE 1999).

Employment growth, produced a structural change; actually, Construction, Electricity, Gas and Water increased at a rate of 7%, as well as Public Administration,

Education and Health (6.9%) and Other Services (4.7%); meanwhile, there is a decrease in Manufacturing Industry (- 2.4), Agriculture and Fishermen (- 4.4) and Mining Industry (- 16.6). (Table 5c).

Table 5c – Employment structure

		1993	%	1994	%	1995	%	1996	%	1997	%	1998	%	1999	%
EMPLOYED POPULATION	T	4240.6		4275.4		4218.3		4264.3		4358.2		4735.9		4840.1	
	M	2355	55.5	2370.8	55.5	2323.3	55.1	2354.5	55.2	2393.2	54.9	2633.9	55.6	2653.3	54.8
	F	1885.7	44.5	1904.6	44.5	1894.9	44.9	1909.8	44.8	1965	45.1	2102	44.4	2186.8	45.2
AGRICULTURE AND FISHERMEN	T	480.8	11.3	496.1	11.6	484.8	11.5	535.5	12.6	604.9	13.9	635.2	13.4	612.4	12.7
	M	236.3	49.1	239.2	48.2	241.8	49.9	260	48.6	286.9	47.4	315.5	49.7	297.1	48.5
	F	244.5	50.9	256.9	51.8	243	50.1	275.5	51.4	318	52.6	319.7	50.3	315.3	51.5
TRANSFORMATION, BUILDING, ELECTR. & GAS	T	1393.8	32.9	1411.8	33.0	1353.6	32.1	1339	31.4	1389.5	31.9	1707.4	36.1	1702	35.2
	M	946.2	67.9	948.6	67.2	924.5	68.3	923.1	68.9	986.6	71.0	1190.3	69.7	1173	68.9
	F	447.6	32.1	463.2	32.8	429.1	31.7	415.9	31.1	402.9	29.0	517.1	30.3	529	31.1
SERVICES	T	2366	55.8	2367.5	55.4	2379.9	56.4	2389.8	56.0	2363.7	54.2	2393.3	50.5	2525.7	52.2
	M	1172.5	49.6	1183	50.0	1157	48.6	1171.4	49.0	1119.7	47.4	1128.1	47.1	1183.1	46.8
	F	1193.6	50.4	1184.5	50.0	1229.9	51.7	1218.4	51.0	1244.1	52.6	1265.2	52.9	1342.6	53.2

Table 5a - Working Contract

		1993	%	1994	%	1995	%	1996	%	1997	%	1998	%
EMPLOYMENT contract	T	4240.6		4275.4		4218.4		4264.3		4358.2		4735.9	
	M	2355	55.5	2370.7	55.4	2323.3	55.1	2354.4	55.2	2393.2	54.9	2633.9	55.6
	F	1885.5	44.5	1904.5	44.5	1895	44.9	1909.8	44.8	1965	45.1	2102	44.4
Working for other	T	3112.2	73	3062.3	72	3041.6	72	3036.1	71	3082.4	70	3386	71.5
	M	1709.2	54.9	1673.4	55	1635.8	53.8	1648.9	54.3	1672.2	54.2	1865.3	55.1
	F	1403	45.1	1388.9	45	1405.7	46.2	1387.2	45.7	1410.3	45.8	1520.7	44.9
Single self work	T	763.8	18	823.3	19.2	825.4	19.5	890	20.8	941.6	21.6	930.7	19.6
	M	403	52.8	440.4	53	450.5	54.6	472	53.0	502.8	53.4	505	54.3
	F	360.8	47.2	382.9	47	374.9	45.4	418	47.0	438.8	46.6	425.7	45.7
Self work & employer	T	281.7	6.6	286.7	6.7	268.7	6.3	262.7	6.1	261.1	5.9	278.1	5.8
	M	209.4	74.3	213.3	74	200.9	74.8	197.5	75.2	186.9	71.6	204.9	73.7
	F	72.3	25.7	73.3	26	67.8	25.2	65.1	24.8	74.2	28.4	73.2	26.3
Family non paid worker	T	82.9	1.9	103.1	2.4	82.7	1.9	75.5	1.7	73.1	1.6	141.1	2.9
	M	33.4	40.3	43.6	42	36.1	43.7	36	47.7	31.3	42.8	58.7	41.6
	F	49.4	59.6	59.4	58	46.6	56.3	39.5	52.3	41.7	57.0	82.4	58.4
Other	T	250.2	5.9	310.8	7.2	310.8	7.3	324.5	7.6	310.8	7.1	231.8	4.8
	M	117.1	46.8	155.7	50	157	50.5	156.8	48.3	149.4	48.1	98.2	42.4
	F	133.2	53.2	155.4	50	153.9	49.5	167.8	51.7	161.4	51.9	133.6	57.6

1. Almost 3 quarters of the total contracts concern people working for other; around 1/5 is the number of self-workers; the share of people working at home without salary is lower and unstable, offsetting the periods of work-off.
2. The sexual structure of employment reveals the expected tendency for male predominance in self-work & employer, while female dominance emerges in non-paid work at home.

Table 5 b – Employment type of contract

using a more qualitative approach to this low unemployment rate we can state a link between this rate level and the slow level in industrial restructuring and salary level, which means that there will be no way out to long-term employment. The unemployment rate is being sustained through a stronger subsidy¹⁷ and low salaries policies, which pushes public expenditure to dangerous levels¹⁸.

Within the EU context, national governments have lost the exchange rate policy instrument, meaning that the macroeconomic adjustments should be nowadays achieved through other instruments. Among these other possibilities we have the stock foreign sales, the unemployment rate and also the private indebtedness level.

Looking at the Portuguese foreign accounts (Table 7) we see that either the Import/Export balance or the current deficit are negative, reaching over the 8% of the GDP in 1999, against the 2% in Austria and the substantial surplus in Ireland and Spain. In a 2-decade analysis Portugal reached the same deficit level than in the early 80s, which means Portugal is losing national competitiveness and comparing to the rest of the EU-15 countries is living an advanced stage in the economic cycle (open economy consequence).

Table 7 – Portuguese Foreign Accounts – Principal Components (Net values)

	1997	1998	1999	1998	1999	2000	1998	1999	2000
				Jan-Mar	Jan-Mar	Jan-Mar	Mar	Mar	Mar
1. Current Account	-5309.9	-	-	-	-	-	- 701.4	-	-
		7053.8	9373.2	1749.7	2030.8	3341.7		936.3	1230.9
2. Capital Account									
	2327.1	2246.8	2303.1	534.9	335.3	264.4	168.4	46.6	125.7
3. Financial Account									
	4392.9	4684.0	9482.6	2531.0	400.6	3374.2	1643.8	9.5	1127.6
3.1 Direct investment									
	518.7	18.6	2029.1	34.0	63.7	518.6	82.0	24.1	290.1
3.1.1 Abroad									
	1471.0	2563.7	2547.7	385.9	276.2	981.6	142.7	78.4	318.0
3.1.2 In Portugal									
	1989.7	2545.1	518.6	351.6	212.6	463.0	60.7	44.3	27.9
5. Current + Capital Accounts									
	2982.9	4807.1	7070.1	1214.8	1695.5	3077.3	533.0	889.7	1105.1

Source: Banco de Portugal, Indicadores de Conjuntura, Maio 2000:15.

(Portugal 2000)

¹⁷ In a recent Economics undergraduate research I have been supervising, there is strong evidence that Training Programs funded by European Funds achieve more Social goals than new employment places. Following the life track of those workers we cannot find an important market absorption rate. Training Programs are not territorial-based and not submitted to a competitive strategy planning.

¹⁸ September 2002, the new government presented legislation in order to turn labour market more flexible, easing the firing and stimulating horizontal and spatial mobility.

In the short run we should be 'glad' for this data information; nevertheless it could be illusory, once in the EU monetary environment all the economic adjustments will be achieved in the long run, which turns the revert effect task more difficult.

BEHAVIOURAL RESPONSES

- Changing attitudes
- Risk reduction strategies
- Housing mobility
- More prudent lending and borrowing

There are recent studies and newspaper interviews published in Portugal ((Marques 1999), (Mateus 1999)) highlighting some dangerous consequences for the Portuguese economy as a consequence of the rise in household indebtedness levels. The first quoted study considers that Portugal is expanding to ‘*European open credit society*’ in a path they call the ‘*Northern American matrix*’.

Private credit sharply grew in the 90s as a result of two convergent effects: the supply side – liberalisation and financial innovation, housing credit support and interest rate decrease – and the demand side for credit - changes in consumption behaviour, cultural shift in credit and increase in disposable income.

Housing credit for homeownership is the main indebtedness source (76%¹⁹ in 1998. In 1997 the indebtedness imbalance due to housing credit is 37% of the disposable income against 15% in 1990; the consumption credit also raised 10 points in the same period (13 against 3%). The total amount of the household indebtedness represents 50% in 1997 against 18% in the beginning of the 90s.

Nevertheless Portuguese household indebtedness is still lower comparing to the European average and we cannot firmly assert that the Portuguese cost will be higher than in some Northern European countries (e.g., UK, Sweden). However there is some evidence that habits and attitudes towards credit are changing once young people is the most indebted group.

Data from the National Bank (Portugal 1999), suggests that only 2.5% of the bank private indebtedness imbalance is ‘risky or doubtful’ (1.2% in housing credit and 4.5% in consumption). The other available information gathered from the 2 main Portuguese financial institutions, reveals that only 4.1% of the total contracted credit had more than 3 months repayment delay. (Marques 1999) refers to the UK as an

¹⁹ There is no coincidence in the number. Marques, M. M. e. N., Vítor (1999). Endividamento in Dossier Investimento. Economia Pura: 46-49.

refer to 76%; a national newspaper “Diário de Notícias June, 1st, 1999, refers to 71% and Mateus, A. (1999). Dossier "Essencial"; entrevista com consultor do BP. Semanário Económico: 4-8. refer to 80%. The 76.7% is our own result based in financial tables for 1997.

important advisor example, because from the same 3.9% level in 1989 the > 2 months repayment delay it reached the 9.3% two years later!!!

(Mateus 1999) enhances the comprehension of this phenomenon when he alerts to the difference between the 2 increase levels – 30% in the household credit against the 5-6% increase in the disposable income. Furthermore this has been a quick change, which doesn't allow short run comparisons and suggests more cautious analysis because per capita Portuguese income is 50% of the American citizens, which means a completely different share for households with housing credit affordability.

A personal survey just made near the main Portuguese housing credit institutions, which represent 65% share of the housing credit market, shows that household indebtedness is mainly due to extra commodity consumption, rather than from housing repayments. With the last interest rate decade decrease, people suddenly expected they could afford to improve their life standards and were tempted to ask for credit beyond their saving capacities²⁰. Anyway, all of the surveyed institutions confirmed that is not a problematic issue till now, which did not avoid they are studying security measures to those risks mostly based on the management of personal and local credit situations.

In spite of the global structural changes, Portuguese population doesn't look like to diminish the demand for new homes as owners. We do not have deep sociological studies providing us a satisfactory explanation, nevertheless we can feel that being a homeowner is sooner or later an important goal for everyone and three economic factors can underpin these behaviour: (i) first, rent level for new homes is very high attending to the interest rate performance; buying a house it's still a rational choice, once equity level will offset credit cost, due to housing market volatility; (ii) secondly, the late urbanization processes and the road infrastructure investment is still going on, raising the opportunities to suddenly raise housing prices across the country and allow people to expect returns wherever they buy; (iii) finally, facing job uncertainty and national growth lag, people look at their home as the main wealth asset and decide to deliver their savings management to the banking system because,

²⁰ A research centre in real estate evaluation in U. Politecnica de Valencia – Spain - concludes, after a long-term study, that household behaviour related with home buying is very stable over time and constant in the percentage they could save after basic needs provision. When people save more than before, they spend it on housing improvement or higher quality houses purchases.

as an excellent internationalised sector, it is more likely it could be more efficient and safe.

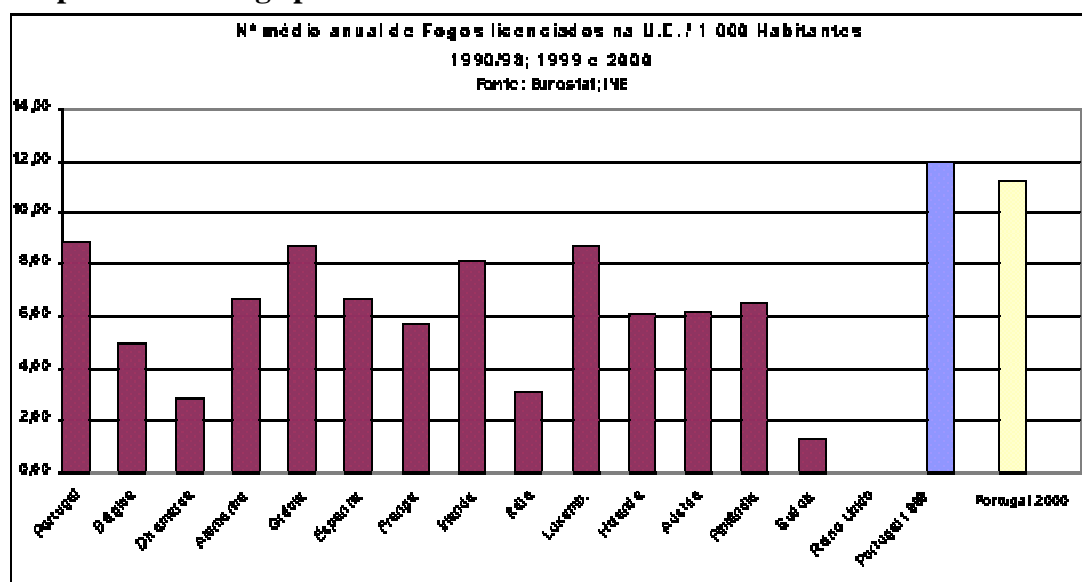
In few years we think that leadership of housing promoters will decrease and then housing quality will be the break point to understand who wins and loses in the process.

Another interesting issue about these markets is the heterogeneity of the housing/labour processes across the territory. Recent published data on overall housing prices is a remarkable confirmation of this situation, while for a national average index 100, we have 134 in Lisbon metropolitan area, 107.5 in Algarve, 104 in Oporto metropolitan area, while in the interior country the index goes over the 67.5²¹.

Further research based on more appropriated surveys are needed, in order to have a deeper understanding of behavioural answers to these issues, mainly because we have any information that relates labour and housing tenure to household responses.

Summing up, it is possible to state that in last XXth century decade, Portugal revealed a sustained economic growth, where the housing sector was one of the most dynamic sectors within the whole economy. Till the end of 2000, Portugal built an average of 11 dwelling per 1000 inhabitants/year, which represents over the double of EU rhythm (5,5) from 1990/1998 (graphic 1)

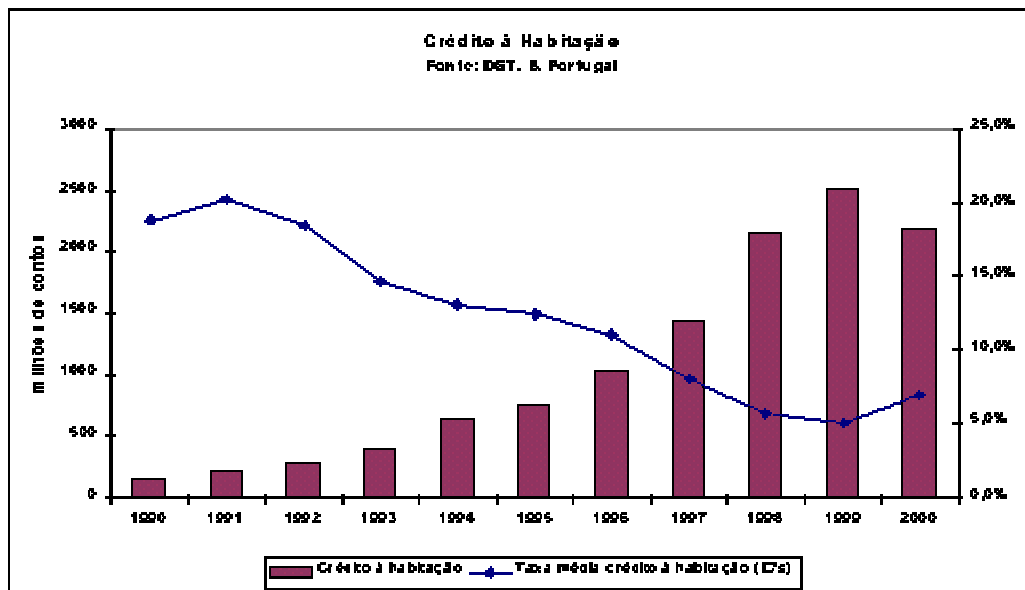
Graphic 1 – Average permits/1000 inhabitants



²¹ INE (2001). Sistemas de Indicadores de Preços na Construção e Habitação, Instituto Nacional de Estatística.

Housing credit still holds at a very high level, rising inversely compared to the interest rate trend (graphic 2). The housing construction represents something like 14 months of future construction business and over 80% of the whole construction sector. From this amount, housing rehabilitation, transformation and improvement holds a stable share of 17%, although we can predict some increase in the next decade. In fact, we assist to a number of urban renewal projects in the inner cities of the main towns, as a consequence of new legislation on rental markets and new initiatives on inner city renewal.

Graphic 2 - Housing Credit and average interest rate



Source: (Portugal 2000)

We think that the main reason for this incredibly high level of new housing is correlated with four main factors: (i) the lack of housing (quantity and quality); (ii) the interest rate decrease; (iii) the stable level of low unemployment and (iv) urban policies at the local level.

The first reason concerns the traditional lack of housing provision during several decades in the recent past of the country; the second and third are macroeconomic reasons concerning the EU convergence and inflation policies and still low salary specialization; finally, all those factors acted as main incentives to promoters and developers expectations in the absence of industrial diversification; at the same time, local authorities looked at housing as an important asset to raise the level of their budget revenues, once all the housing taxes revert to the local administration level.

New Risks (based on Last Housing Secretary of State interview – Feb 2002)

There are some several risks we have to face in the next decades, mostly related to the increase on migration inflows from eastern and African countries. Shanty neighborhoods are a politically assumed risk for the next future. Not all the municipalities are well equipped on human resources and there's a serious risk that a number of new illegal neighborhoods start to raise again while immigration can be exploited by less scrupulous administrative public officers at the local level, stimulating people to start building expecting that government will pay future re-building and qualification (based on the late 60's experience).

The delay in fiscal policy reform and the asymmetric income redistribution are major concerns on housing policies. Nevertheless there's a slow increase on the rental market share.

The last 2001 Census refers to a number of 5.000 households reallocated from shanties to decent and legal housing; the shanties lowered about an average of 25%, depending on local policies. Since 1995 we passed from a 100.000 unsheltered families to a lack of 30.000 decent houses supplied by a partnership between State and local governments.

Paradoxically we still count 560.000 vacant dwellings and the municipalities are being stimulated to re-build and reallocate people in those new buildings (REHABITA program).

Building owners are receiving incentives to make renewal construction, risking loosing their full property rights if they don't. At the same time, rented house before 1990 decreased over 50% (800 to 400 thousands) and new rental house raised up to 300 thousand dwellings.

Housing prices are not that expensive (around 450 euros/square meter) but the great volatility in prices is introduced through speculative land prices, which are not favored by fiscal policy measures upon speculators.

Social Security system

There is **no special housing protection**.

The social security system provides an income subsidy to all the unemployed, which is roughly 65% of his (her) salary on the basis of the last two-month wage, which cannot be either higher than 3 times the national minimum wage or lower than the minimum wage. This subsidy holds during 12 months for unemployed <30 years old; 18 months to unemployed ≥ 30 and < 40 ; 24 months to unemployed ≥ 40 and < 45 and 30 months to unemployed ≥ 45 . After the 45 years old there is a 2-month wage add/each 5 years of worker social security contribution. If 55, the unemployed gets the right to anticipate his(her) retirement.

All the unemployed household credit duties to financial institutions and rent duties to owners will be re-scheduled and renegotiated on a personal customer basis. After 6 months it is common to apply for court always counting on public condescendence and support.

POLICY IMPLICATIONS

According to everything we were able to show, housing and labour markets as well as social welfare issues reveals a high correlation and imply a cautious cross analysis between micro and macro levels as well as to international conceptualisation. Globalisation is a very quick phenomenon with important lag reactions in each country, depending on its particular ranking at the international competition game.

Belonging to the EU gives higher confidence to reach the main development goals; being a small and open economy brings higher risks to deal with the economic cycle; looking at housing and labour market functioning as a strict social and short run issue is a dangerous and lead to unsustainable policies.

It is therefore important to underline that socio-economic policies shifted a lot with the globalisation process within the EU. It changed from the national to the global level and at the same time, within each country, from the national to the local level; the focus shifted from the short to the long run effects and, consequently, from the State to the citizen level. The best each country is able to define its long run policies, the more it can prepare a citizen answer to this global challenge. Of course we consider that educational, health and training policies are, nowadays, territorial issues asking for network approaches.

These are the challenges to following research work.

CONCLUSIONS

The main conclusions in UK case applies to the Portugal, namely asserting that housing policies promoted homeownership and recent financial pressure over government expenditure tended to diminish subsidies and risk insurance of the indebted.

Unlikely the UK we have no available data to confirm the exact link between the labour situation of the indebted and the housing mortgage arrears. In Portugal, the main financial institutions and the Consumer Observatory say that indebtedness is not a dangerous problem yet, although it has been increasing in the last 2 years at the same time that housing transactions increase in number and value. These facts enable us to predict that heterogeneity (both social and geographical) is an important phenomenon in a country where unemployment is rather stable and low considering the EU context.

Behavioural responses facing these trends also need further research and data provided by the financial institutions just allow us to say that people tend to incur in longer term mortgages and banks force them to pay considerable mortgage insurance costs. Anytime repayment difficulties happen, negotiations about delaying mortgage duration are found. Housing is a very important cyclical business, which makes difficult to disentangle changes due to structural causes and ask for very cautious research methodologies considering that average indicators give rise to a number of considerable misinterpretations.

Covilhã, UBI, September 18th, 2002

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