



The Portuguese Economy: Dealing with the Twin Deficits

John FitzGerald

*The Economic and Social Research Institute, Dublin
www.esri.ie*



Topics

- *Short-Term Adjustment*
 - *Balance of Payments rediscovered!*
 - *Speed of adjustment*
- *Structural Adjustment*
 - *Human Capital and Labour Market*
 - *Investment in Human Capital*



The Balance of Payments

- *Signal of imbalances – Blanchard*
 - *Capital Flows – short or long term?*
 - *Counterpart to deficit – investment?*
- *Consumption funded by capital inflow*
 - *Unsustainable*
- *Adjustment*
 - *Public sector: deficit reduction*
 - *Private sector: competitiveness*



Speed of Adjustment

- *Cyclical v Structural*
 - *Potential Output?*
- *Perceptions*
 - *International*
 - *domestic*
- *Expenditure v Tax*
- *Public investment?*
- *Labour market adjustment*



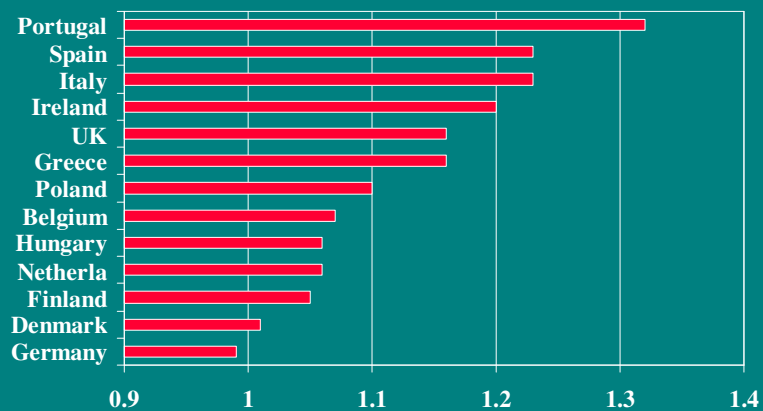
Structural Adjustment

- *Medium-Term*
 - *Raise potential output*
 - *Role of Human Capital*



Investment in Human Capital

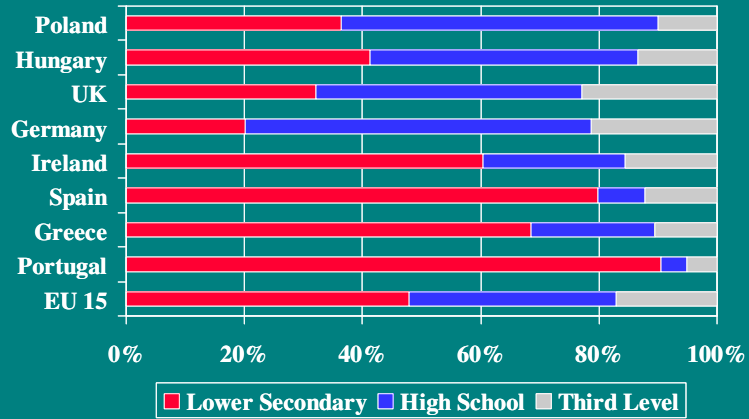
Ratio of Human Capital Index for 25-29s / 55-59s





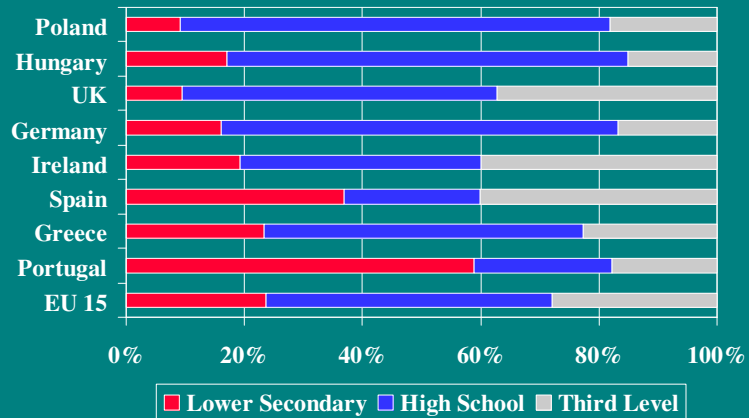
Educational Attainment

Population aged 55-59, 2002



Educational Attainment

Population aged 25-29, 2002





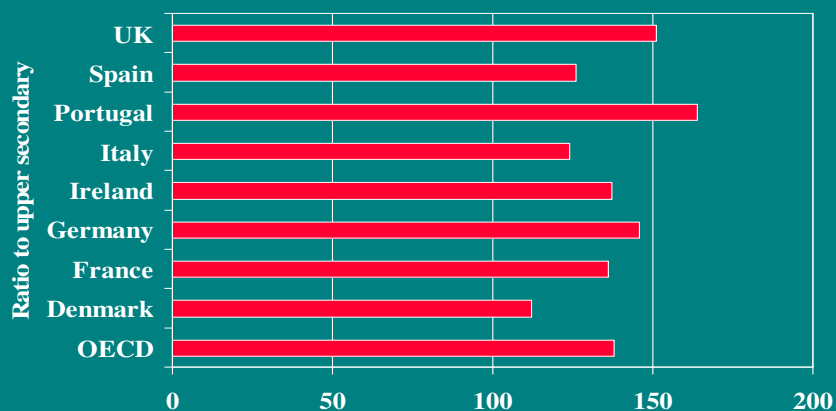
Labour Market Effects

- *Increase supply of skilled labour*
 - *Reduce price – wage premium*
 - *Make economy more competitive*
- *Substitution between skilled and unskilled labour?*
 - *If low: cut unskilled wages problematic*
 - *Need to reduce supply*
 - *Need to increase demand*



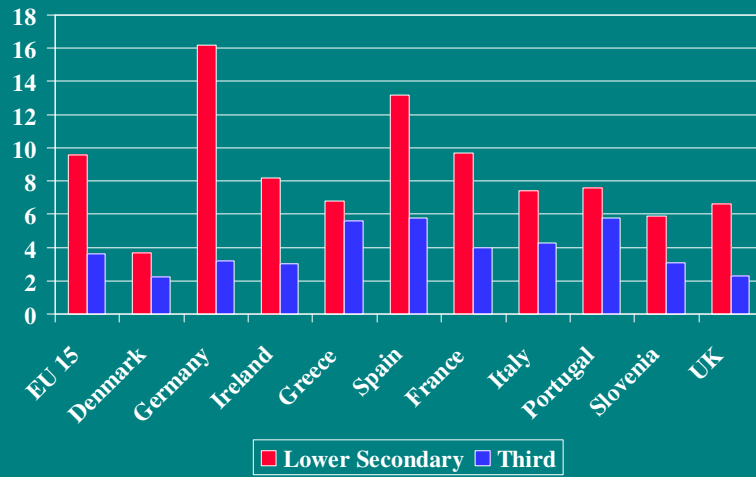
Returns to University Education

1997, Population aged 25-34

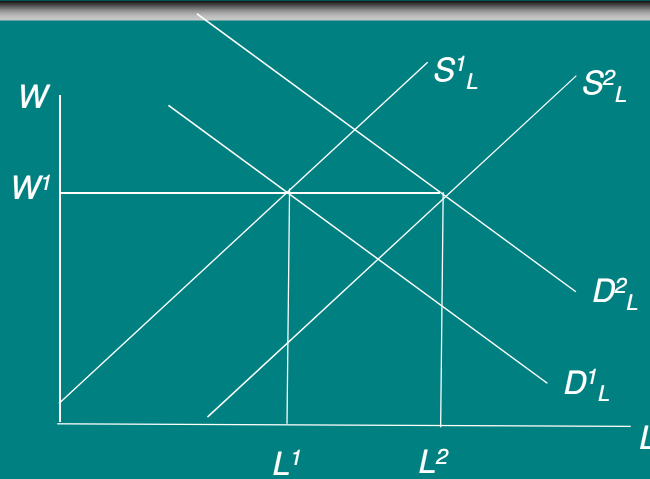




Unemployment Rates, 25-65



Skilled Labour Supply





Unskilled Labour

