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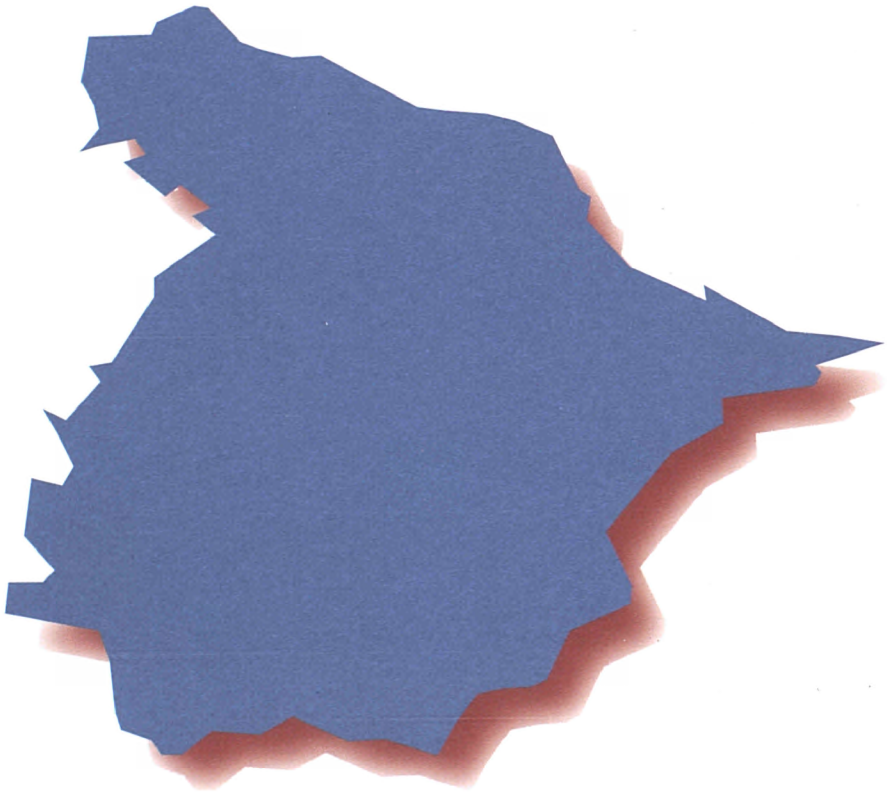

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Labour Market Studies

Spain

By

Luis Toharia, University of Alcalá

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EXECUTIVE SUMMARY

This text presents the final report for the study "THE LABOUR MARKET IN SPAIN", commissioned by the Directorate General for Employment, Industrial Relations and Social Affairs to a team from the University of Alcalá headed by professor Luis Toharia.

The main fact to be explained is the high and persistent unemployment rate prevailing in Spain. To that end, the report is structured in five chapters: "Labour Market Analysis and Forecasts", "Labour Market Institutions and Legislation"m Labour Market Policies", "Other policies affecting the labour market", and "Conclusions". Chapter I has two appendices and Chapter IV one. The bibliography used in the study is presented at the end.

Chapter I, "Labour Market Analysis and Forecasts" starts with the demographic evolution in Spain as well as the expected demographic trends for the next thirty years. The structure of the labour force is analyzed next. After an analysis of labour market participation rates, the characteristics of employment and unemployment are studied. This stock analysis is followed by a flow study on the main trends on job creation and destruction. Wages and macroeconomic policy are two important elements in any analysis of the labour market evolution and situation, and they are examined next. This chapter is completed with two appendices detailing the econometric results used at various points of the chapter and deepening on the methodological issues behind the analysis of labour market flows, as compared to the stocks.

Chapter II, "Labour Market Institutions and Legislation" deals with the institutional and legislative framework within which labour market activities take place. In the Spanish case, given the strong tradition of Labour Law, many of the labour market institutions themselves (most notably, collective bargaining) are heavily influenced by law. This implies that any analysis of institutions would be incomplete if not accompanied by a study of legislation. Hence, the strategy we follow in this chapter is the following: we first present an overview of the evolution of labour law in Spain, the basic public labour market institutions, and the system of industrial relations, heavily influenced by law. We then deal with various specific regulations (stemming partly from legislation and partly from institutions): employment protection schemes, working time regulations, and minimum wage. We conclude with a more specific analysis of the recent labour market reform, passed in 1994, as well as with the prospects for further reforms.

Chapter III deals with labour market policies. Following the traditional distinction, first established by the OECD, between "active" and "passive" policies, it is initially observed that in Spain the proportion of resources devoted to the so-called measures has represented around 80 per cent of total expenditure, although this figure has reached higher levels in some years (with a record high of close to 90 per cent in 1993). Passive policies are analyzed next. After a short description of the unemployment compensation system currently prevailing in Spain, figures on the incidence of that system are analyzed as well as the influence of unemployment benefits on search behaviour and job finding by the unemployed, an issue on which substantial controversy exists in Spain. Early retirement policies, as limited as they are, are also dealt with. To analyze active labour market policies, the structure adopted follows the MISEP reports. This departs somewhat from the OECD classification, most notably because contract-related measures, many of which do not carry direct expenditure from the government budget, are included as active measures. The three main strands of active measures are: labour market training (for the unemployed and for the employed), employment promotion and creation policies (without economic incentive, i.e. specific employment promotion contracts, with economic incentive, and direct jobs created in the public sector) and measures in favour of entrepreneurial initiatives and employment creation.

Chapter IV deals with other policies, most notably education and industrial policies. These policies, while not directly related to the labour market, exert an indirect influence on the evolution of employment and unemployment.

Chapter V rounds up the report summarising the main conclusions reached in terms of the explanation to be provided to the evolution of employment and unemployment in Spain. We now summarize the main conclusions reached.

First of all, it is clear that the origin of the Spanish unemployment situation dates back to the economic crisis of the late 1970s and early 1980s. From our analysis, at least the following six factors, which may partly overlap, may be identified to account for it:

i) the role of the economic structure under Franco. As stressed by various authors, the economic structure created by the "developist" strategy of the Francoist regime during the 1960s and early 1970s was very weak, in the sense that it did not create the conditions for industries to be able to compete in an open, less protected market. Thus, when the Spanish economy began to get closer to integration with Europe (and it was clear that the end of the dictatorship was the necessary step to pave the way towards it), many firms whose existence was bearing upon lack of

competition and cheap labour simply had to close down. A recent strand along this line of argument stresses the importance of modernisation of the economy in terms of the change in the structure of production, in the sense that, had it not been for the employment losses experienced by agriculture, in turn due to its mechanization and modernisation, unemployment would not have unwound as it did. An additional point that could be mentioned here refers to emigration. During the 1960s, it can be argued that the low unemployment rate was partly due to the fact the Spain was "exporting" her unemployment. The fact is that many workers emigrated to other European countries, and this represented a significant "safety valve" for Spanish unemployment. The return of these migrants in the 1970s added an element to the unemployment build-up. There are no comprehensive estimates, however, of their actual impact.

ii) the role of the political transition. Part of the process of modernisation just described was linked to the substitution of a democratic regime for the old "authoritarian" (following the label coined by Spanish political scientists) Francoist system. This implied a new cost for firms, as they now had to face very bellicose trade unions (especially in the early times, before their legalisation) and manage industrial relations, something which they were not ready (or willing) to do. The uncertainty which the new political situation brought about probably lasted well beyond the death of the dictator in late 1975, and even well after the general elections and the Moncloa Pacts in late 1977. Indeed, the new industrial relations framework was not set up until the end of 1980. This increases uncertainty probably added a genuine element to the process of employment downturn.

iii) the role of the oil shocks. Over the last twenty years, European economies suffered three oil shocks: two negative ones (1973 and 1979) and one positive (1985). As we have already mentioned, the first oil shock was not taken into account by the Spanish policy-makers, more worried by keeping law and order and unable to ask workers to accept the reduction in real income which the shock implied. The second shock was more taken into account by social partners, who had started a process of "social concertation", and wage agreements including cost-of-living adjustment clauses used to exclude from the latter the increase in imported energy prices. At any rate, the oil shocks meant a decline in demand which added a significant element to the employment crisis which the Spanish economy was suffering. As various authors suggested, the "classical unemployment regime" of the late 1970s gave way to a "Keynesian", demand-deficient regime after 1979. Finally, the third oil shock was one of the positive factors which made it possible for the Spanish economy to start recovery, because of its positive both supply as well as demand effects.

iv) the role of macroeconomic policy. In the the late Franco and early post-Franco periods, macroeconomic policy was passive, accomodating wage increases and the supply shock of the first oil crisis. It was impossible for governments to take a harder stance, as the political costs would have been unbearable. This situation lasted until the Moncloa Pacts in 1977, when the agreement with the social partners made it possible to adopt a more open anti-inflationary policy. As already mentioned, this was at some points too strong, and from a simple Phillips curve approach, one can argue that such disinflation brought about the cost of high unemployment. It is interesting to note that in 1981, when the Socialist Party (PSOE) was in the opposition, this Phillips curve argument was put forward as a criticism to government: inflation, it was argued, was the main concern of government, at the cost of unemployment. When the PSOE won the 1982 elections, they shifted to a more anti-inflationary stance: reducing inflation was considered a precondition for the reduction on unemployment. Would a less marked anti-inflationary policy have permitted a less costly in terms of unemployment (though longer) reduction of inflation? It is unclear, though we tend to think that the answer is negative. Employment losses were deeply rooted in the economic structure and anti-inflation policy probably did not add much to the process. On the contrary, orderly disinflation was necessary both for the normalization of industrial relations and for the ability of the Spanish economy to compete in the open market for which it was heading.

v) the role of wages. One of the most popular explanations of the employment downturn, especially in the early 1980s, was the wage explosion which took place in the 1970s. The latter certainly existed, and it was linked first to the political strategy of illegal trade unions against the dictatorship (in the early 1970s) and then to the vindications of emerging unions (in 1975-77). After the Moncloa pacts, however, it is clear that unions accepted a strategy of progressive wage disinflation which in some instances (as happened in 1978) was accompanied by a too tight monetary policy (thus leading to unduly high real wage growth). Given this evolution, it is difficult to blame wages for more than excessive increases in the very early period of political transition. Of course, one could take the view that given the high unemployment levels that developed in the 1980s, wages should have been more responsive to the situation (i.e. there was a significant wage rigidity). The point is whether this was feasible given the need for political stability still existing at the time. Additionally, the negative effects on consumption stemming from lower wage increases might have added impetus to the crisis.

vi) the role of labour market rigidity. Finally, in addition to the problem of lack of wage flexibility, discussed above, the lack of employment flexibility was also often mentioned as a factor behind unemployment in Spain. This argument became more popular in the 1980s, when unemployment was reaching record-high levels quarter after quarter. The point that was put forward was that firing costs were too high in Spain. However, high or low, they did not prevent 2 million people from being fired between 1980 and 1985, and it may be argued that, had these costs not existed, trade unions would have resisted much more strongly the necessary workforce adjustments of firms, thus aggravating their situation and ultimately leading to a worse situation in terms of employment and unemployment.

In the preceding paragraphs, we have discussed a series of elements which might account for the employment losses of 1975-1985, which were the primary factor behind the unemployment buildup. The next point to be dealt with is: ¿why did unemployment remain so high during the expansion of the late 1980s, despite the intense GDP and employment growth? Here again, as before, a number of elements may be put forward; the following five ones are worth being stressed:

i) first of all, there was a clear increase in the labour force with respect to the earlier crisis period. Labour force participation rates, especially those for women, started a process of catching up after a period of slower growth. This was compounded with the arrival into the labour market of the largest postwar cohorts, even though one cannot properly mention any "baby-boom" effect in the case of Spain.

ii) additionally, the various studies on flows in the labour market suggest that these increased substantially during this period, and this tended not only to speed the process of entry into and exit from the labour market but also worsened the unemployment-vacancies relationship, thus increasing the extent of mismatch existing in the labour market. The massive entry of women might be consistent with this, if the skills they were bringing into the labour market, or the kinds of jobs they might want, would not coincide with the type of jobs the economy was offering. Construction provides a clear example. Despite the existence of a significant unemployment rate, the fact was that skill shortages were being felt as soon as 1988, wages tended to respond upwardly and the number of vacancies left unfilled grew.

iii) labour market policy, particularly the reforms introduced in 1984, when the LET was reformed to facilitate the use of fixed-term contracts. Although there appears to be a consensus that this reform exerted a small, though non-negligible, effect on employment growth, its importance

rested in the increase of turnover which it implied. The side effects of the dual structure which tended to emerge between permanent and fixed-term workers, mostly concerning the higher volatility of employment and the perverse effects on wage bargaining led the government to believe that a reform was needed, although this was not implemented for various reasons, including the lack of agreement with the social partners, most notably the trade unions.

iv) as for macroeconomic policy, the unbalanced policy mix, with a loose fiscal policy after the consolidation efforts of 1986-87, implied that entry into the EMS in 1989, in the wake of the 1988 general strike, in an effort to "buy credibility" and to impose restraint on union behaviour, had to be made at an exchange rate which, with hindsight, may be qualified as implying an overvaluation of the peseta. The resulting high interest rates boosted capital inflows, which tended to appreciate even further the currency, with the result that competitiveness suffered.

v) to many authors, the fact that unemployment did not decrease despite the strong economic and employment growth was sheer evidence that the labour market was not working as efficiently as it should. Three main aspects may be mentioned. First, collective bargaining, with its intermediate structure in-between a centralized and a decentralized system, appeared to show all the disadvantages of both systems and none of its advantages. As we have argued, however, this should not be overemphasized. Secondly, the unemployment benefit system was considered too generous and preventing an efficient job search by the unemployed (again, we have shown our own doubts about this argument). Partly for these reasons (together with budgetary considerations), the government introduced in 1992 a reform aimed at cutting the unemployment protection system. Finally, firing costs for permanent workers were considered too high, especially in connection with the low or zero costs prevailing in the case of fixed-term workers. Although all of these elements, as we have mentioned, are debatable, especially as causes for the persistence of unemployment, there is no doubt that they indicate that the Spanish labour market institutions had problems which needed a solution.

Finally, in the early 1990s, a recession led the unemployment rate to new record-high levels, after which the Spanish economy entered a new recovery phase, still lasting at present. What elements may be cited to account for these developments? The following ones may be mentioned:

i) first and foremost, the Spanish economy was by this time an economy much more integrated into the European economy than it had ever been in the past. This meant that whenever there would be an international recession, it would clearly translate into the Spanish economy more

quickly than before. The recession of the early 1990s was observed in the OECD area as a whole and hence also in Spain. If anything, it can be mentioned that the important events of 1992 (the Barcelona Olympic Games, the Sevilla World Exhibition) made the expansion somewhat more lasting. by the same token, the recovery has also been an international phenomenon.

ii) at the same time, however, the intensity of the employment adjustment especially in 1992-93 implies that there was a process of structural adjustment in the economy. The strong employment losses in manufacturing and in permanent jobs suggests so. The adjustment of the Spanish economy to the new conditions of world competitiveness, after the breakdown of the socialist regimes of Eastern Europe, together with the high position of the peseta may be mentioned as factors behind this crisis, which meant a second industrial restructuring process, more intense but short-lived than the process which took place in the early 1980s.

iii) as mentioned in the preceding point, the unbalanced macroeconomic policy mix certainly played a role by forcing the peseta to remain at high levels (certainly validated by the foreign exchange markets, probably reflecting the strong committment of the Spanish government with the EMS as well as the high interest rates). The devaluations of 1992-93 restored competitiveness to its 1985 level, thus paving the way for a quick recovery.

iv) finally, labour market policy tried to solve what were perceived as the inefficiencies of the labour market at various points. However, the failure to agree a reform with the social partners led them to adopt a reform in late 1993 which basically aimed at strengthening collective bargaining, but which left virtually untouched many of the basic characteristics of the Spanish industrial relations system, most notably, firing costs. It is still too early to fully assess the effects of the 1994 reform on the labour market. However, the following points should be mentioned.

To begin with, it appears that the general feeling of both employers and employees was that the reform aimed at increasing the power of employers at the firm level. The thrust behind the reform was to shift the balance of labour law from a workers' right conception to a more balanced notion, i.e. by taking into account the needs of firms. The moderate behaviour of wages in 1994 has been interpreted as an effort by unions to avoid the full application of the reform by firms. It could also be, however, as already mentioned, that the strong employment losses weakened union's bargaining position.

Formally, many of the changes introduced in Labour law in 1994 aimed at enhancing the role of collective bargaining. Thus, many issues previously regulated by the law were now left to

the decision of the agreeing parties. This could be seen as an element creating a cleavage in the labour market between those workers properly covered by collective bargaining, especially at the firm level, and those workers whose only rights are those determined by law. Although this argument is reasonable, there are no detailed studies on these issues, as the elements involved are varied and complex. There has certainly been a change in the labour market framework, but its consequences are difficult to estimate, and they will probably be felt only in the long run.

There were two changes in the 1994 reform which have attracted more attention from economists: the reform in contracts and the changes in dismissal procedures. As for contracts, the main change was the elimination the fixed-term employment promotion contract. This was seen as a way of fostering permanent employment. However, what appears to have happened is that firms have resorted to other forms of temporary employment, which are even cheaper than the fixed-term employment promotion contract. As for dismissal costs, there have been various elements which have been altered in an effort to reduce them, most notably the intended recognition of the rights of firms to dismiss workers for economic reasons. Although this may have reduced somewhat the costs involved, it does not seem to have changed the situation dramatically. Thus, the dualization of the labour market which followed the 1984 reform has not been eliminated. On these two accounts, which are related because the main difference between temporary and permanent workers is their dismissal costs, many believe that the 1994 reform was incomplete. Hence the 1996-97 discussions to reach a new agreement between the social partners to achieve yet another reform. The results of this process remain uncertain.

On the whole, unemployment in Spain, the magnitude of which cannot be disputed on statistical grounds, is a problem with deep roots in the recent economic history of Spain. Many causes are behind both its development and its persistence and no simple policy exists to put a remedy to it. Spanish society and families have learned to live with it. This is a problem, as accomodation means less willingness to undertake the measures (probably complicated and multi-dimensional) which would be needed if Spain wants to converge not only in nominal but also in real terms with its European partners.

CONTENTS

I. LABOUR MARKET ANALYSIS AND FORECASTS

I.1. Demographic trends

One of the main elements that must be tackled in order to understand the past and the future of unemployment is the role played, and to be played, by the evolution of working-age population. Of the three main demographic factors (fertility, mortality and migrations), fertility is probably the most significant variable in determining the ultimate size and age composition of the population.

Of course, mortality, especially infant mortality is also very relevant in a country like Spain, where the rates were close to 50 per thousand in the 1960 and then dropped to reach the current rate of less than 8 per thousand.

In addition, migration has always been an important factor in Spain, a traditionally "emigration country" which is progressively becoming an "immigration country". Migration was important in the 1950s and 1960s and is often mentioned as a "safety valve" for the Spanish economy, enabling the unemployment rate to stay at very low levels during that period. In the 1970s, there was some returning flows and at present Spain has become the "Southern door" of Europe and it is experiencing increasing pressures from North-African immigrants trying to establish themselves here. At present, however, migration flows are of minor importance in determining the evolution of total population.

Turning to fertility, one of the main issues refers to the significance of the so-called "baby-boom" of the 1950s and 1960s to explain unemployment in the 1980s. Figure 1.1 presents two indicators of fertility: the synthetic fertility index (SFI, calculated as the average number of children per woman) and the number of recorded births for the period 1950-1990. Within these four decades, three periods can be distinguished regarding the evolution of the SFI: first, it increased until 1965, from 2.5 to 2.9, recovering somewhat from the decline experienced in the previous decade, but never reaching the levels of the 1930s, when it stood above 3.3; secondly, it remained somewhat stable with a slight decline, until 1976; finally, it experienced a sharp decline to its present levels of 1.2-1.3, one of the lowest in Europe. The size of the successive cohorts follows very much the same pattern.

These data suggest two main results:

- first, there actually was a limited "baby-boom", in the sense that the number of births increased between 1950 and 1963, but then the figure remained rather stable for another 13

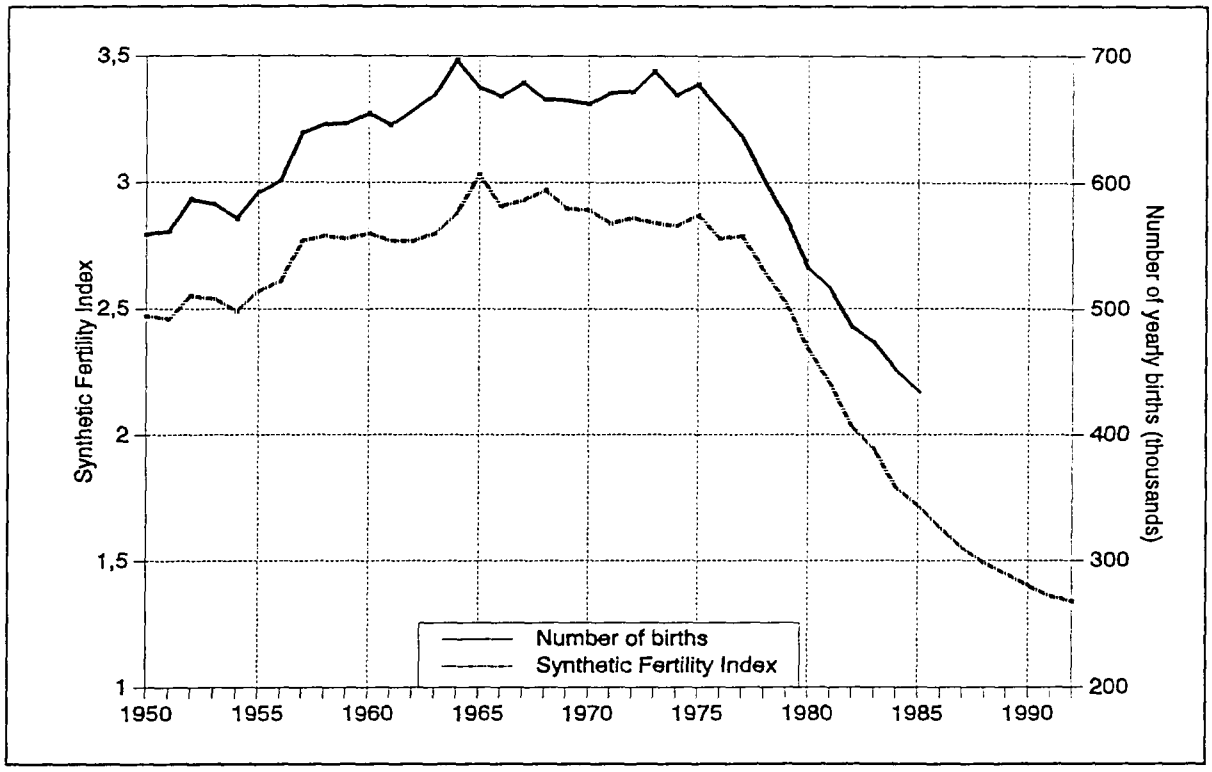

Figure I.1. The evolution of the Synthetic Fertility Index and the yearly number of births in Spain, 1950-1992 (Source: Olano y Agüero, 1988; Sáez et al. 1995).

years. It is more the sustained nature of the increase, as opposed to its intensity, that characterizes that "baby-boom".

- secondly, the decline after 1976 has been spectacular: the size of the cohorts have almost halved and the SFI has fallen to levels unthinkable twenty years ago. While in the 1970s the SFI was well above the European average (2.9 against 2.4), in the early 1990s, it was clearly below (1.3 against 1.5). While there has been a general decline in all European countries, it has been faster in Spain. As a matter of fact, this sharp decline in fertility is considered by demographers (A.Cabré) a very significant and even problematic development, which may affect the gender balance of population, affecting marriage patterns.

Figure I.2 presents the evolution of youngsters entering the labour market since 1976. It depicts the evolution of the number of males and females with 16-19 and 20-24 years of age. As can be seen, the fertility increase of the 1960s translated into a rising population aged 16-19 until the early 1980s, when it started to stabilize. People aged 20-24 also followed the same pattern, although the stabilisation of their evolution took place, logically five years later. In recent years, both groups have started to decline their numbers, although very moderately. The increase in the numbers after 1995 is to be related to the renewal of

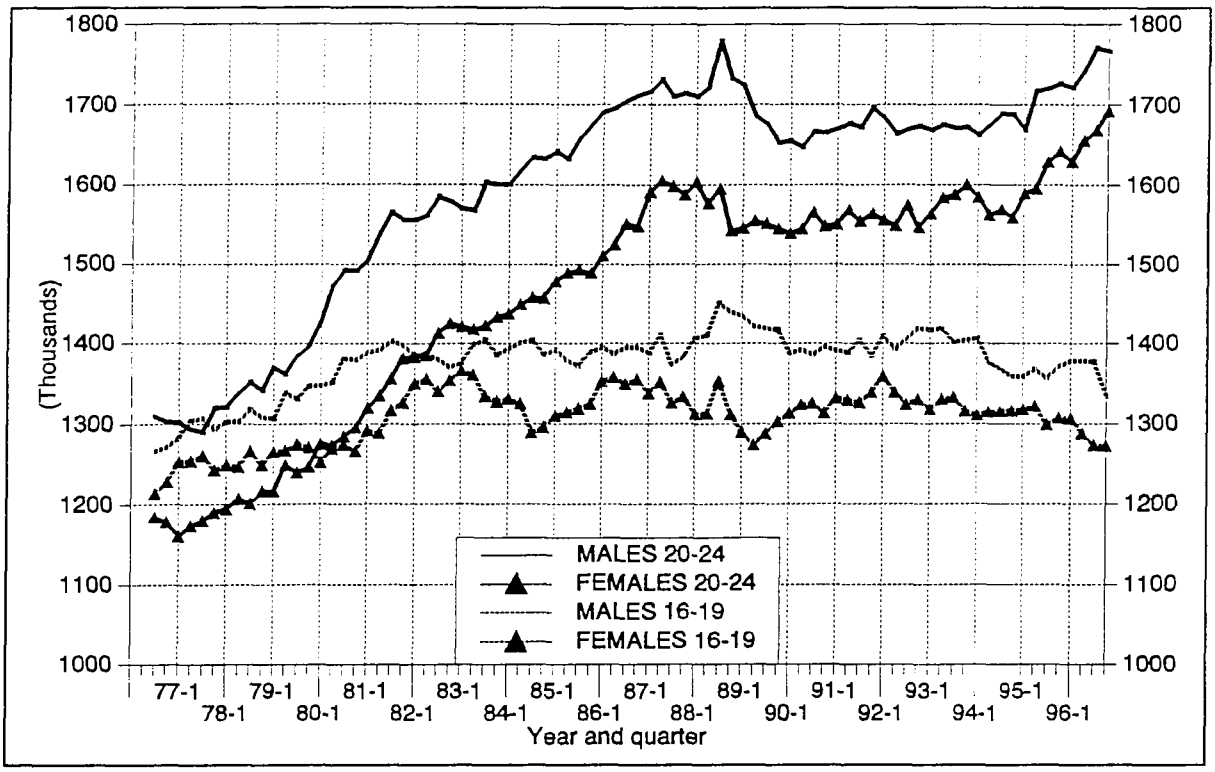

Figure I.2. The evolution of youngsters in Spain, 1976-1996 (Source: EPA).

the sampling frame used in the EPA, which has tended to correct (partially) the bias of the age structure against people between 20 and 45 (more on this later on).

The consequence of this decline has not yet been felt in the labour market, but it will imply that working-age population will be growing at an ever slower pace eventually starting to decline while the ageing of population will continue.

It is worth insisting on this future evolution of population. The Spanish Statistical Office has just released a full set of population projections for the period up to 2020, on the basis of the results of the 1991 Census. Figures I.3 and I.4 present the results of these projections for the working-age population (16-64 years old) both in absolute levels and in terms of the percentage distribution for three main age groups: less than 30, 30-44 and 45 and over.

The projections indicate that working age population is at present reaching a maximum, after which it will tend to decline. By 2020, working-age population will have returned to its 1990 level. However, there will have been very significant changes in its age composition. Thus, while in 1990 people between 45 and 64 years of age represented 32 percent of males and 35 percent of females, by 2020 it is projected that they will represent around half of working-age population. These trends are highly significant: if one adopts a

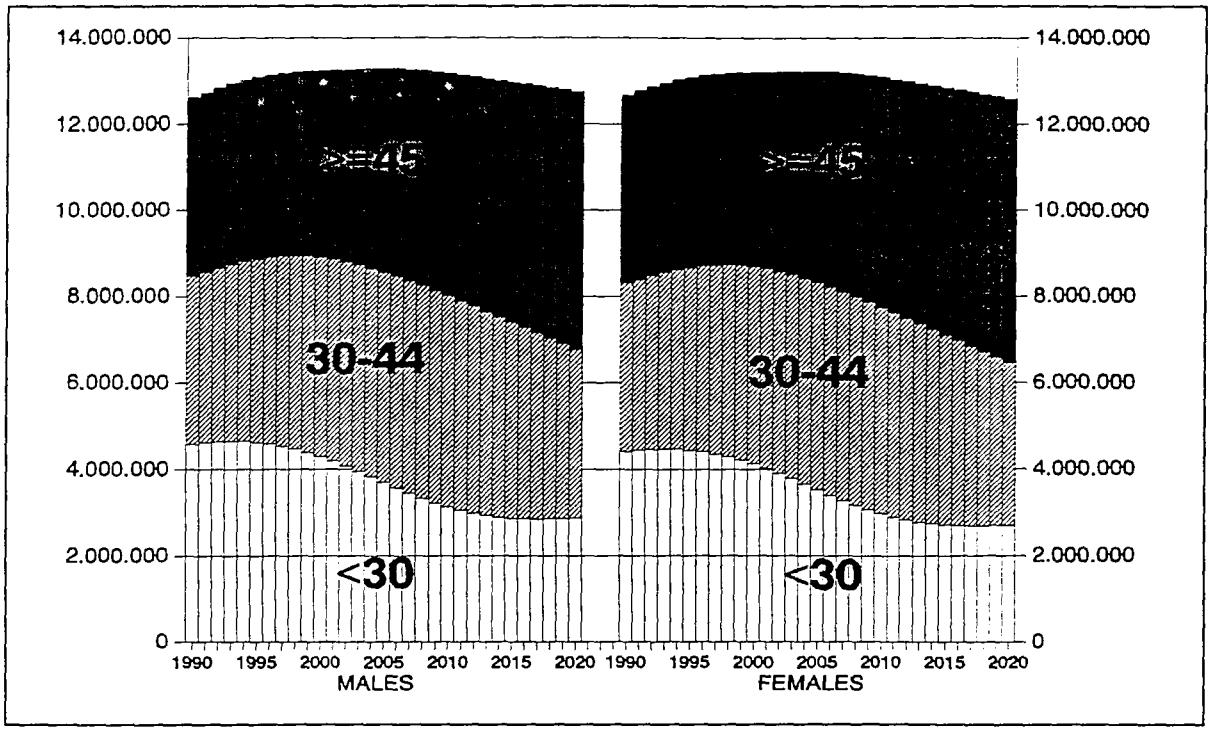

Figure I.3. Population projection and its age distribution, by gender, 1990-2020 (Source: INE, Proyecciones de la Población de España, 1995).

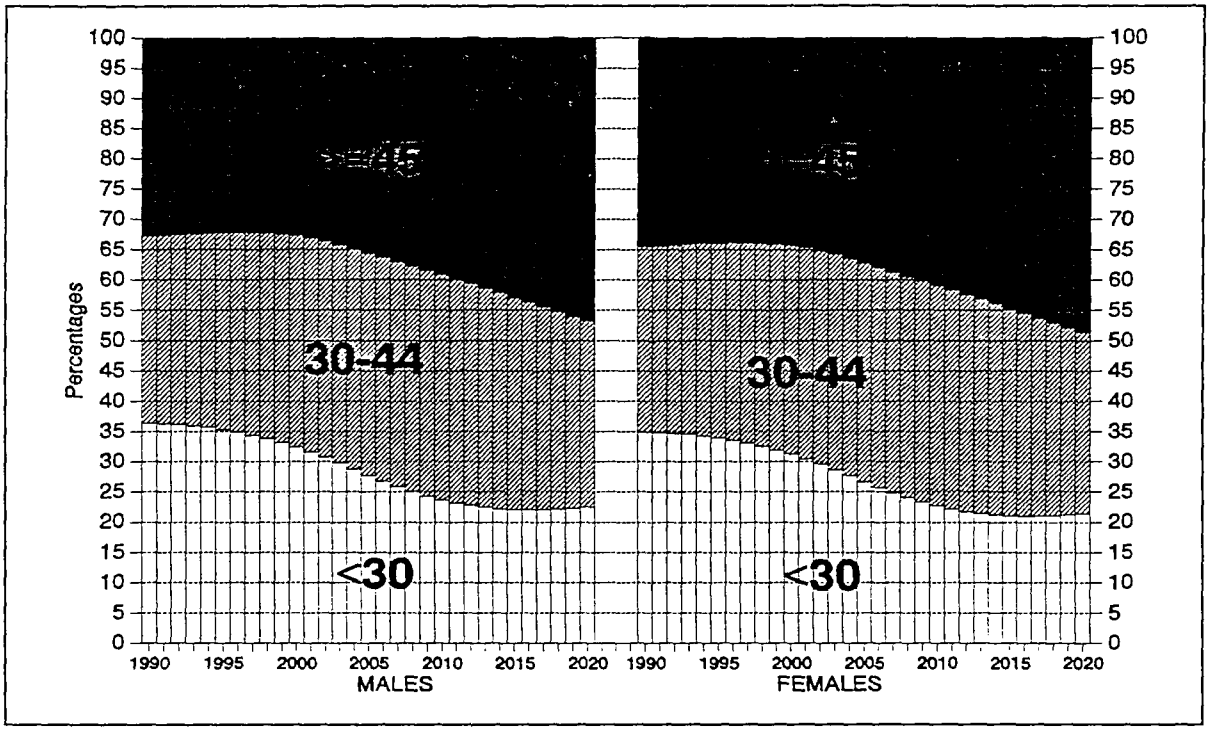

Figure I.4. Projected population age structure, by gender, 1990-2020 (Source: INE, Proyecciones de la Población de España, 1995).

long-term view, Spain a country with the highest unemployment rate in the European union might start experiencing labour shortages, a trend already present in other European

countries, in some 30 years or earlier.

What consequences can be obtained from these population projections from a labour market viewpoint? Figure I.5 presents an exercise aimed at illustrating it. It presents a projection of labour force and sets the employment path required for the unemployment rate to be 10 percent by 2015 and remain at that level thereafter. The labour force projection is based on various assumptions regarding age-specific participation rates (more on this later on). The basic message to be drawn from these projections is that, while it is true that in 25 years the Spanish unemployment problem could be eased by the demographic trends, the interim period still requires substantial employment creation. Of course, an alternative route could be simply wait; but this would certainly impose other costs. An additional issue which should be borne in mind is the substantial ageing not only of total population but also of labour force and employment. This could impose costs in terms of productivity growth. However, this goes beyond the scope of our study.

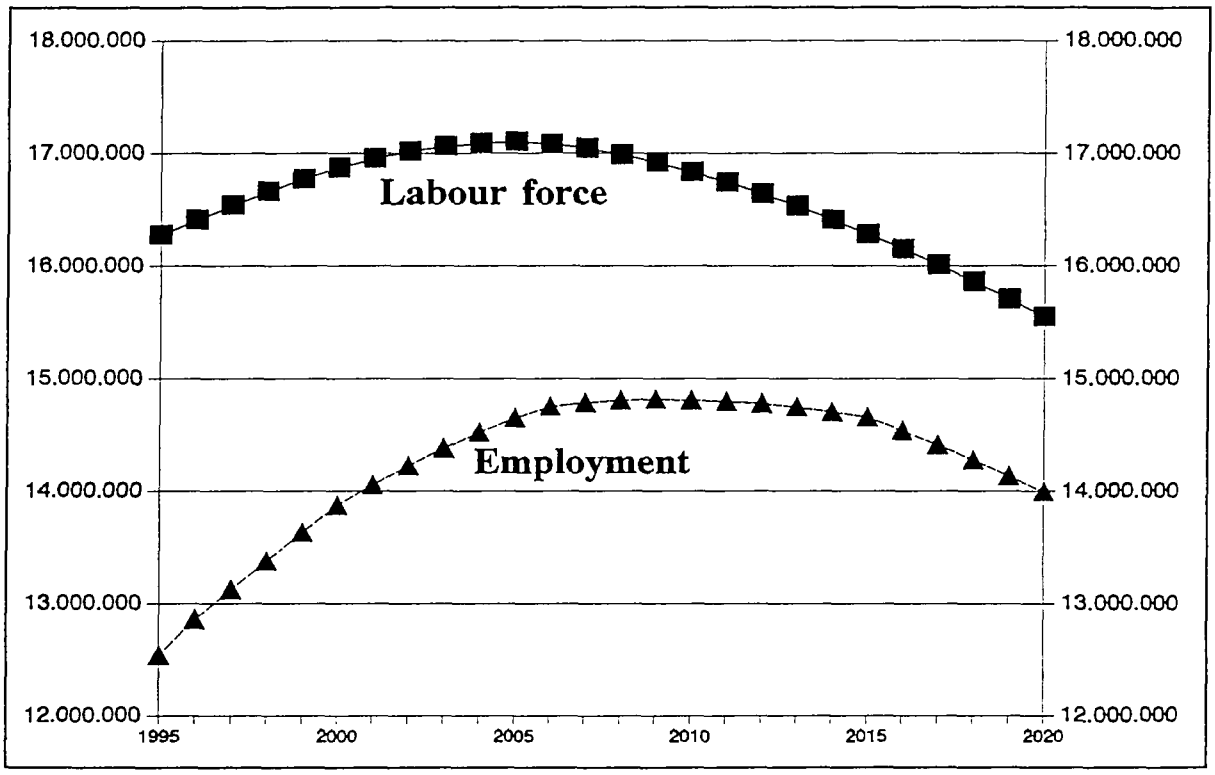

Figure I.5. Resulting evolution of labour force and employment to meet the assumed unemployment rate targets, 1995-2020.

I.2. Structure of the workforce

I.2.1. Introduction

The Spanish economy has undergone a complete transformation during the last three decades. The labour market has been one of the areas where this transformation has been most traumatic. The evolution of unemployment in Spain differs from that of other Western Europeans countries, mainly in the employment shifts described (destruction of jobs from 1975 to 1985 followed by an impressive recovery from 1985 to 1990 and again by a strong but shorter recession). Thus, after a review of the Spanish experience over the past 25 years, any account of the evolution of Spanish unemployment must provide explanations for the following:

(i) the big employment losses of the 1975-85 period;

(ii) the strong employment recovery during the second half of the 1980s;

(iii) the persistence of unemployment despite this strong employment recovery;

(iv) the lack of social turmoil despite the very high levels of unemployment.

Any analysis of the labour market situation in Spain must start with a general depiction of what has been happening over the last 25 years with employment, unemployment and the labour force. Figure I.6 presents such a depiction, based on homogeneous figures going back to 1970. Five main periods may be distinguished since 1970:

- first, between 1970 (as a matter of fact, since the 1960s) until 1974, employment grew at a moderately high rate, enough to keep pace with the evolution of the labour force, somewhat eased, as already noted, by the emigration flows, mostly towards Northern Europe. So unemployment remained at rather low levels;

- between 1974 and 1977, both employment and the labour force tend to stagnate. This is a period full of uncertainties in Spain, marked by the political transition from the Franco dictatorship towards democracy;

- between 1977 and 1985, employment fell dramatically , although the pace of decline appears to be somewhat lower after 1981, coinciding with the somewhat faster increase of the labour force. This latter increase was probably related to the arrival into the labour market of the somewhat larger generations born in the second half of the 1960s (see section I.1) and already benefitting from lower infant mortality rates. By 1985, the unemployment rate peaked at 21 percent of the labour force.

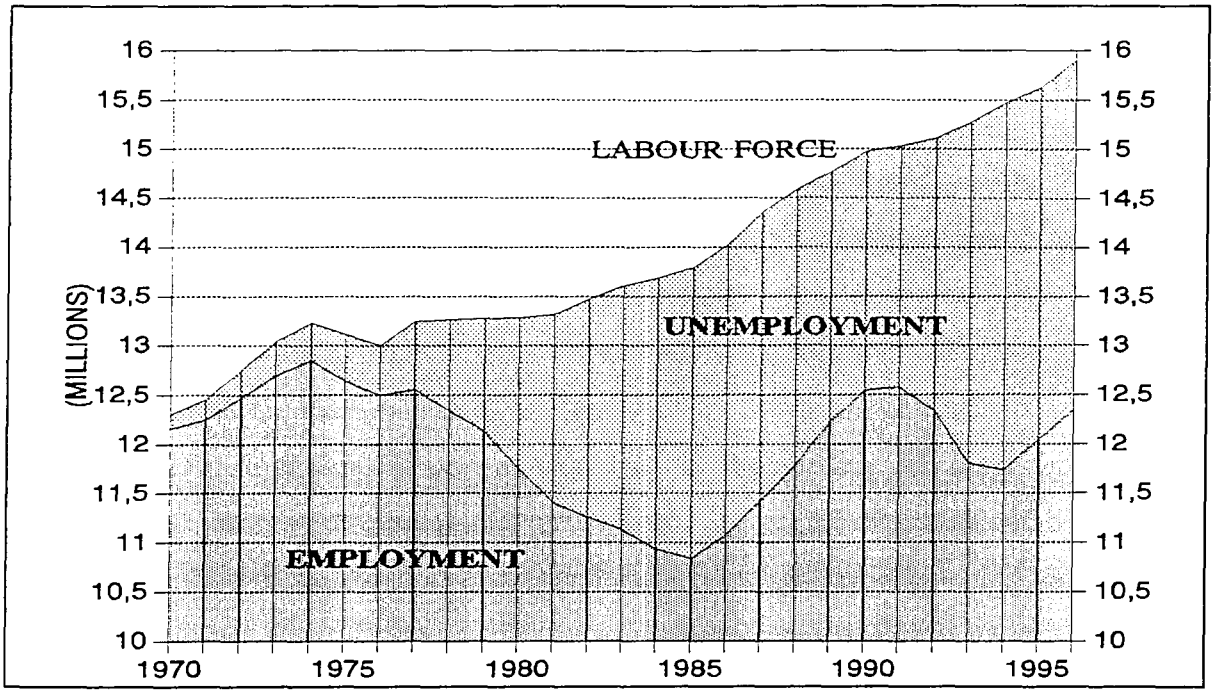

Figure I.6. The evolution of the labour force, employment and unemployment in Spain, 1970-1996 (Source: EPA, homogeneous series, average yearly figures).

- the period 1985-1991 witnessed the most vigorous period of employment creation of recent Spanish history, including the best years of growth in the 1960s and early 1970s; the earlier worldwide recovery, together with the decline in oil prices, fueled this expansion; the labour market reform of 1984, whereby the use of fixed-term contracts was generalized also played a part, albeit a limited one. In this period, however, the labour force also increased very rapidly, mostly due to higher female participation rates. On the whole, despite a total employment increase of 1.8 million jobs, unemployment only decreased by 500 thousands, for a rate on 16 percent.

- between 1991 and 1994, the Spanish economy experienced a very severe recession, with employment losses which were more intense than those of the earlier crisis; however, this crisis was much shorter than the preceding one and in mid-1994 employment began to recover; one interesting element of this crisis is that, contrary to what most people expected employment losses were not particularly concentrated among fixed-term workers, with the exception of the downfall at the end of 1992.

- in the last two years, the Spanish economy is growing rather quickly and employment is following a similar pace. However, it is likely that the official employment growth in 1995 (3 percent on an average yearly basis) is overestimated, the reason being the

renewal of the sampling units of the EPA (Labour Force Survey) undertaken over 1995 and 1996. Although there are not yet official estimates of this overestimation, the Ministry of the Economy has put forward a figure of 1.7 percent in its macroeconomic framework included in the 1997 budget. Non-government observers would tend to consider this a reasonable figure.

Figure I.7 summarises the evolution just described in terms of the global participation rate and employment-population ratio. As can be seen, the labour force participation rate (labour force divided by population 16 and over) has tended to decline since 1977, with a minor change in the late 1980s. At present, it tends to remain stable at 49 per cent, one of the lowest in the European Union. As for the employment rate, its movements have been more intense than elsewhere in the Union, thus imparting to the Spanish economy a substantial relative employment volatility.

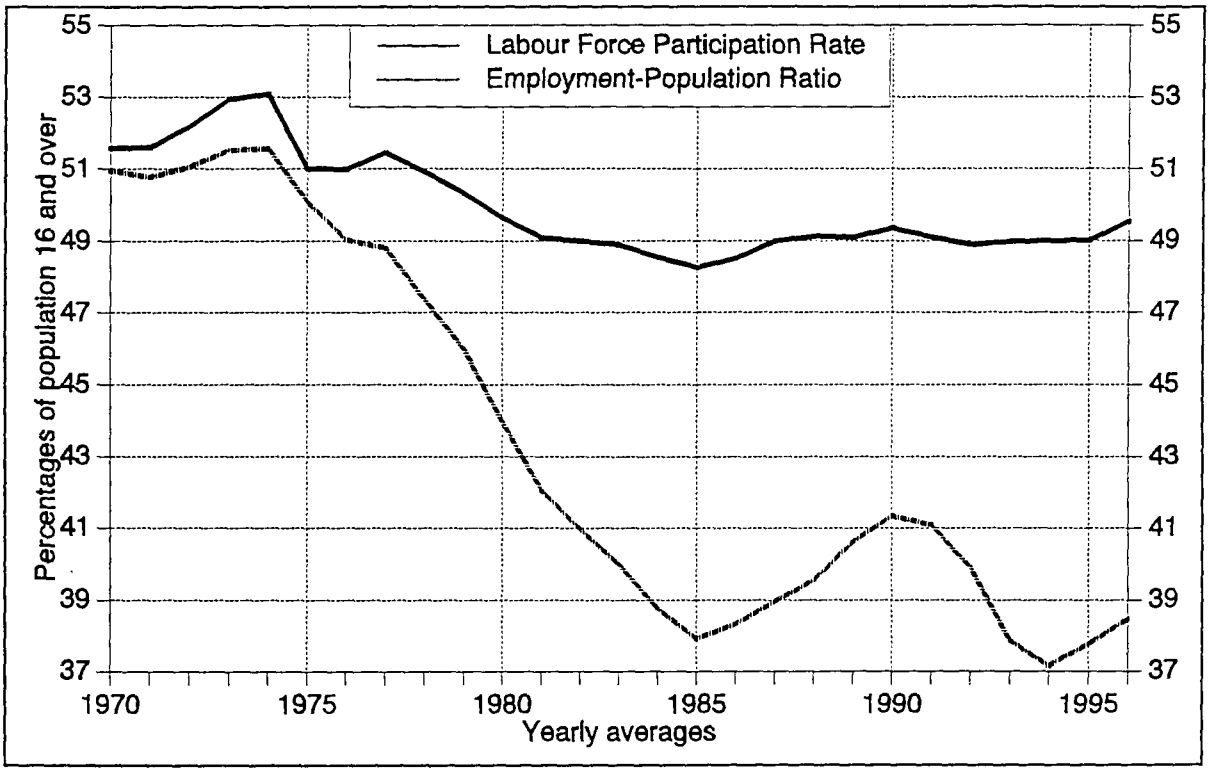

Figure I.7. Evolution of the global labour participation rate and the employment-population ratio, 1970-1996 (Source: EPA).

I.2.2. Participation rates by age and gender

In the preceding section, we have seen than the global labour force participation rate has tended to remain rather stable over the past fifteen to twenty years. This stability, however, hides significant divergences in terms of gender- and age-specific participation rates. Figure I.8 presents the evolution of the male and female participation rates, while Figures I.9 and I.10 present the corresponding figures for the different age-and-gendet groups.

Figure I.8 shows the clear differences existing between men and women regarding labour market participation. Thus, the female activity rate shows a persistent upward trend: slowly in the late 1970s and early 1980s, much more strongly in the late 1980s, at the time of the employment boom, and sustained in the early 1990s, despite the economic recession. As for males, their participation rate follows a continuing decline. Thus, while in 1976 over 75 percent of males over 16 worked or wanted to do so, twenty years later that proportion had dropped to just over 60 percent.

These general trends of the global participation rates by gender are the result of various trends in the age-specific rates. Thus, in the case of females, as Figure I.9 shows, youngsters under 20 have tended to drop from the labour market. This is due to the extension

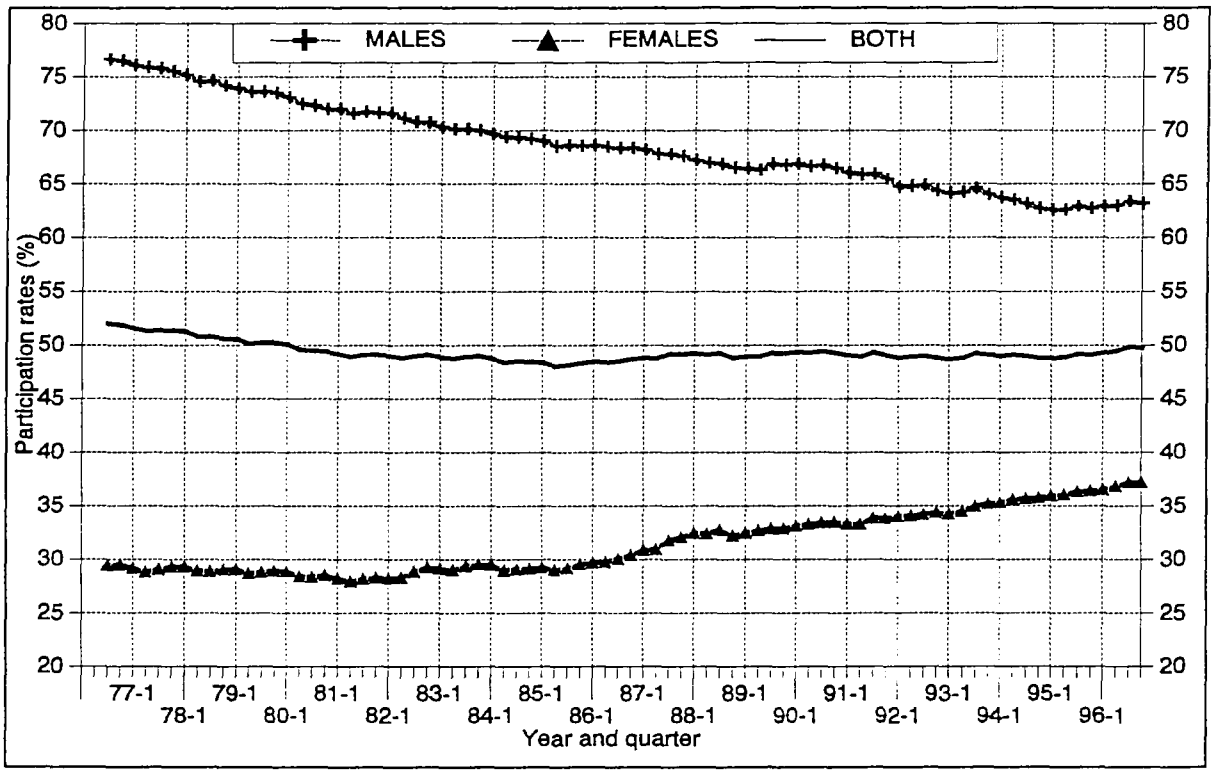

Figure I.8. Labour force participation rates by gender, Spain, 1965-1996 (Source: EPA, homogeneous series).

of the educational system which took place mostly in the 1980s and which kept on even in the booming times of the late 1980s. On the contrary, those between 20 and 24 follow a much more stable path, varying around 60 per cent during the period as a whole. The only period where this stability is broken in the booming period of the late 1980s when the participation rate for this group increased a little. The most significant evolution for women corresponds to the 25-54 age group. These prime-age women are the main propellers of the global females participation rate: their rate almost doubled in the past twenty years, from just over 30 per cent to close to 60 per cent. The upwards trend is more accentuated after 1980. The decline in fertility, already commented in section I.1 is probably not independent from this evolution (either as a cause or as an effect, probably as both).

A more disaggregated analysis in terms of age groups would reveal that what is happening, first, is that the traditional model of relatively high activity in the early years of life followed by a dropout at the time of marriage or first birth is being abandoned by Spanish women. More and more, the pattern is becoming the typical inverted U typical of males. At the same time, however, as shown by Garrido (1993), women in their late 30s and 40s also increased their participation in the 1980s, provoking a "return" movement which had not been so important in the past in Spain. On both accounts, the participation of women has increased dramatically in recent years. Finally, the participation rate of women over 55 has been declining from an already rather low level.

As for males, the downward trend of their participation rate also hides divergent patterns for the different age groups. Males aged between 16 and 19, like their female counterparts, have experienced a sharp decline in their participation rate. A similar pattern has been followed by those over 55. This is being due to the generalisation of retirement at legal age of 65, as well as to the different early retirement schemes introduced by government (industrial restructuring plans, extension of unemployment benefits to those over 52 with all pension rights other than age) as well as by firms. Men aged 20-24 follow a pattern similar to that of their female counterparts, maintaining a relatively stable ratearound 65 per cent. However, in this case, the cyclical element is more visible: in the late 1980s the rate for these "young adults" increased with the better employment prospects of the times, to drop later as youngsters probably returned to school in view of the bad employment situation. Finally, the rate for those over 55 years has followed a slow but persistent downward trend.

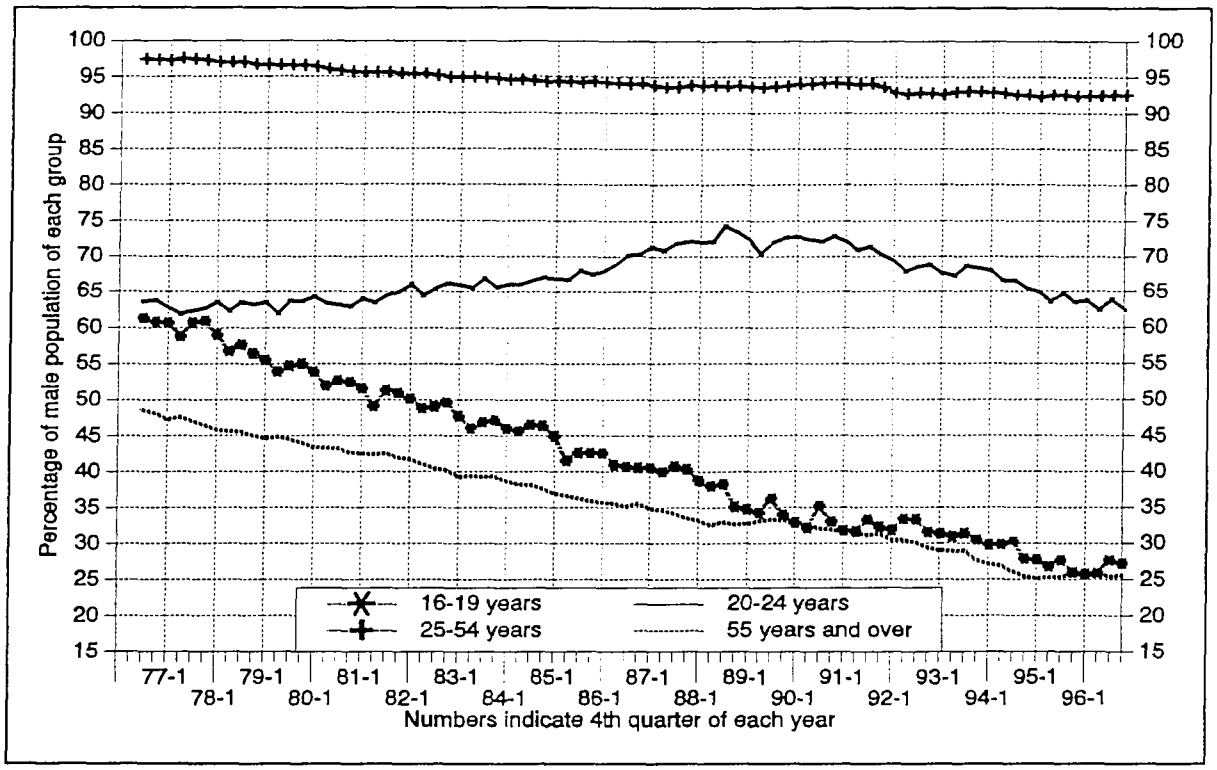

Figure I.9. Labour force participation rates of men, by age groups, 1976-1996 (Source: EPA, homogeneous series)

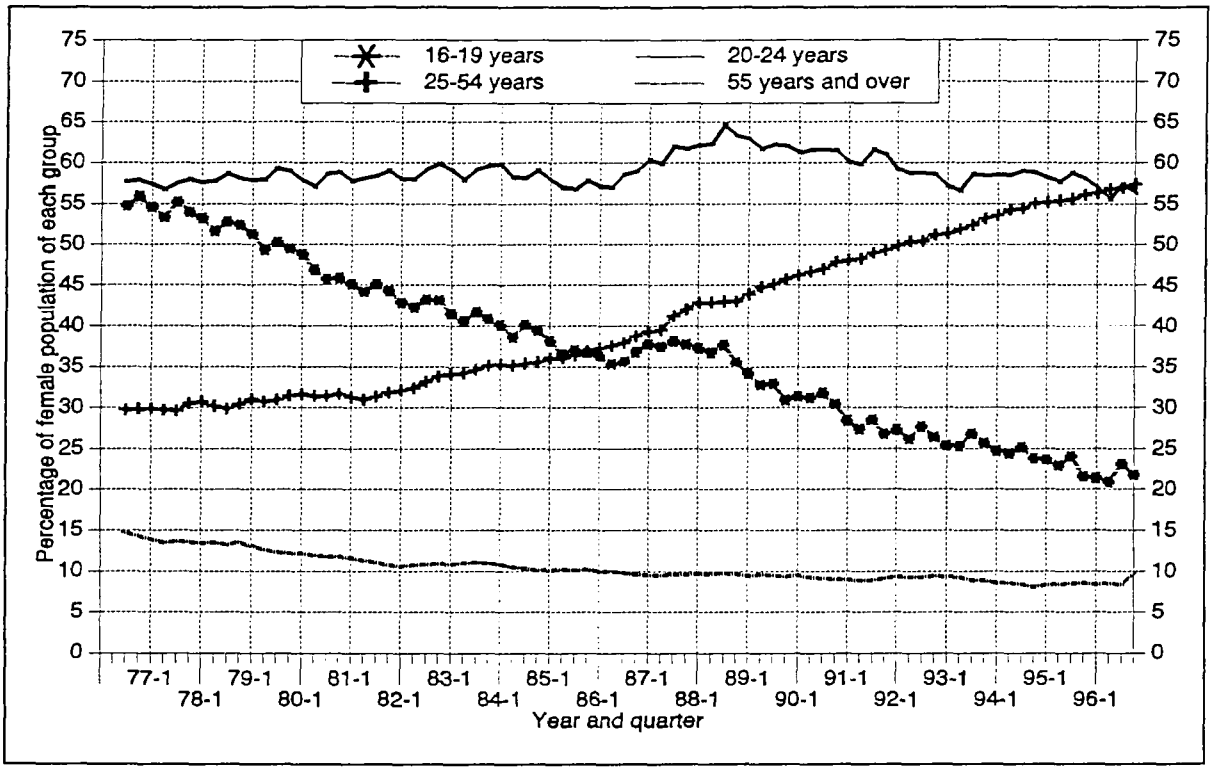

Figure I.10. Labour force participation rates of women, Spain, 1976-1996 (Source, EPA, homogeneous series).

To complete this analysis of labour force participation rates by age and gender, it is useful to study the complete distribution by five-year age groups at the two extreme moments of time considered: 1976 and 1995 (4th quarters). Figure I.11 presents this information. This graph portrays the declines already mentioned in male participation rates as well as the strong increase in adult female participation rates. The latter reflects the fact that women less and less follow the "traditional" pattern abandoning the labour market when getting married or having their first baby. Rather, it seems that once they enter a job, they are there to stay even after marrying. In fact, as illustrated in Cebrián, Moreno and Toharia (1997), married women (even with young children at home) are the group whose participation and employment rates have increased most. However, this is not due to higher entry into employment after marriage. Rather, it appears to reflect what we have just mentioned: women enter the labour market before marrying and remain there for good.

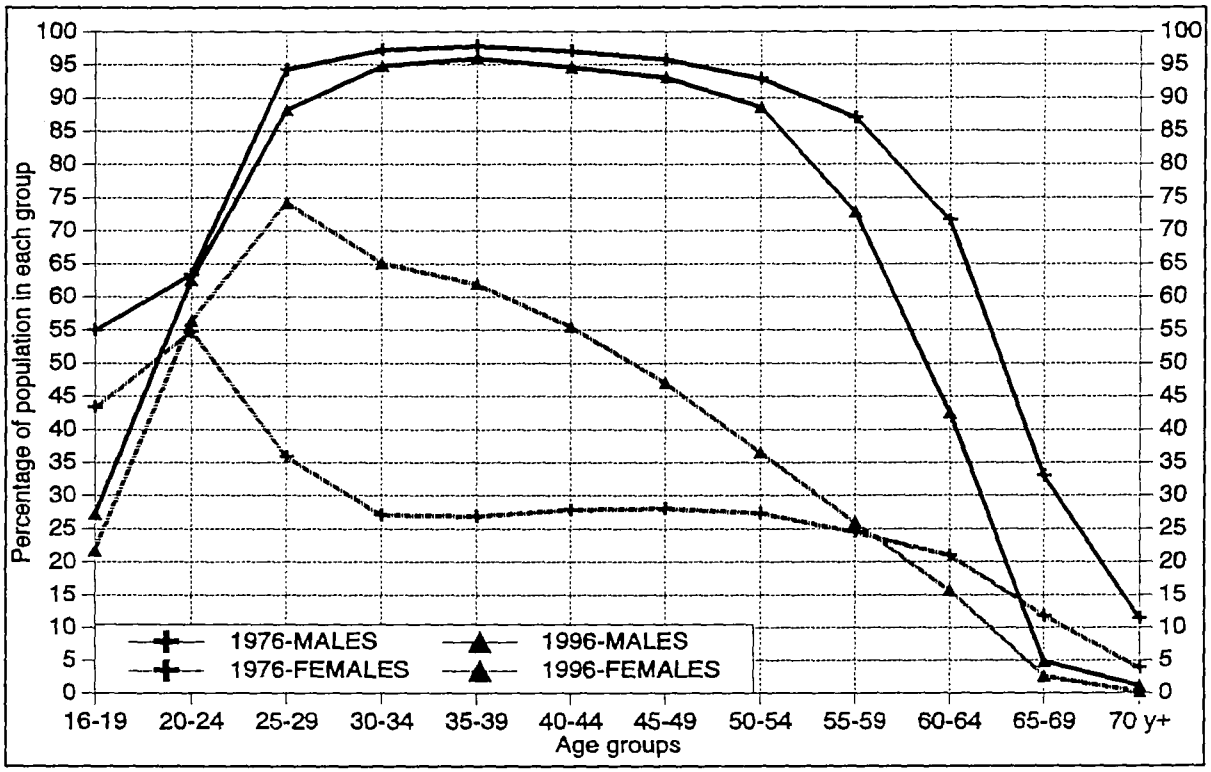

Figure I.11. Age-and-gender specific participation rates, Spain, 1976 and 1996 (fourth quarters). Source: EPA.

I.2.3. Employment

We have already seen in the Introduction to this section the tremedous shifts in employment experienced by the Spanish economy. The purpose of this sub-section is to deal with various specific dimensions of employment to study their evolution. More specifically, the following characteristics shall be considered:

- sectorial distribution
- occupational distribution
- work status
- working time
- contract tenure
- regional variations

a) Sectorial distribution

Agriculture has been historically an important sector in Spanish economy, with a considerable proportion of rural population. Nevertheless, since the years of development in 1960s, agriculture employment has experienced a strong downward trend linked to its modernisation. This process went hand in hand with significant rural-urban migratory flows, especially in the 1960s and 1970s. However, the process has taken place even during the crisis periods of the 1980s and 1990s, as well as, and more significantly, during the recovery of the late 80s. In this case, rather than migration flows, what happened was that many of the agricultural workers simply retired. Figure I.12 presents the breakdown of employment by broad sectors in the period 1976-95. In addition, Figure I.13 presents the evolution of employment in the different sectors, expressed as index-numbers relative to the initial point (1977).

Over this twenty-year period, the share of agricultural employment has dropped by more than half, from 22 per cent to just under 9 per cent. This proportion is still higher than in other European countries and is expected to keep falling, although perhaps at a less fast rate. As already mentioned, the decline in the share of agricultrual employment was rather concentrated in the 1985-1990 period, although it has been a persistent phenomenon.

Manufacturing shows a persistent, albeit slow, decline in its employment share, with two significant falls in the early 1980s, a period of very significant industrial restructuring, and in 1993, when it experienced a loss of over 10 percent in a single year. This is a trend

similar to that observed in other Western economies. Perhaps the most significant development was the substantial increase (although not enough to change the declining trend of the share) in the level of employment during the expansion of the late 1980s.

Construction has behaved in a rather cyclical way, as is characteristic of this sector in every country. Its employment share has remained around 10 per cent during most of the period although during the crisis of the 1970s and early 1980s its employment loss was very significant: at the trough of the crisis (1985), its share was only 7 per cent. During the recent recession, however, construction appears to have managed to maintain its share, although 1993, after the preceding booming years, partly fueled by the various international events that took place in Spain (most notably, the Olympic Games in Barcelona and the Universal Exhibition in Sevilla, both in 1992), was also a bad year for this sector (see Figure I.13).

Finally, the service sector has experienced a strong increase. Two phenomena may be mentioned behind this increasing share. First, during the 1977-85 crisis period, the increasing share was the result of employment remaining constant in the sector while decreasing elsewhere in the economy. That constancy was, in turn, the result of a significant increase of public sector employment while private services also lost employment. After 1985, however, the increasing share was due to the very fast growth of private services,

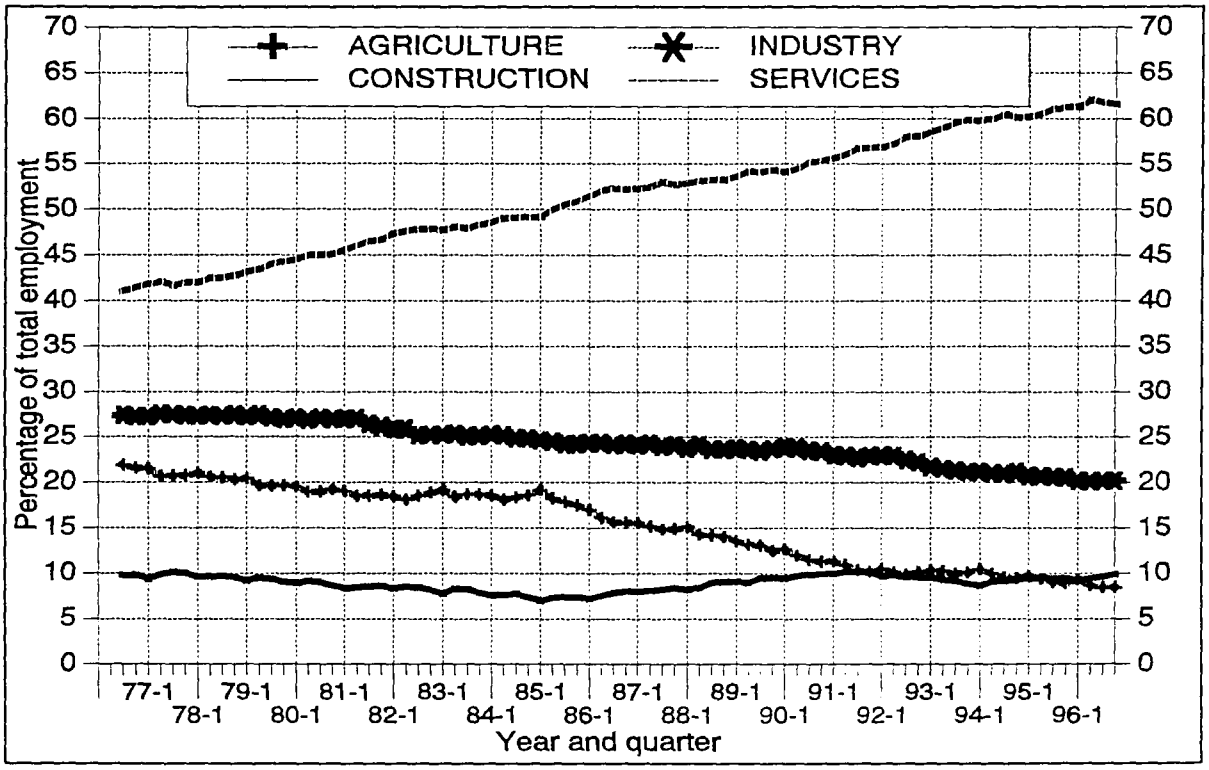

Figure I.12. Share of the broad economic sectors in total employment, 1976-1996 (Source: EPA, homogeneous series).

while the public sector also grew but much more moderately. During that period, employment in the service sector grew at an average annual rate of about 6 per cent. Overall, this sector represented about two-thirds of the recovery in employment of 1985-1991. Business and personal services were the most active industries during that period. In the recent crisis, employment in services has declined, this being due to the inability of public employment to act as a buffer in the way is had done in the early 1980s. However, as that decline was smaller than the general employment fall, the share of services kept increasing. On the whole, Spain has clearly become a service economy. Services now represent the majority of jobs. However, as recent researchers have pointed out (Fina, 1996) in some respects the development of services in Spain lags behind that in other European countries. This is so, in particular, when considering not just the employment share of the service sector but the number of service jobs as a proportion of total population, a better measure of the amount of services actually provided to society.

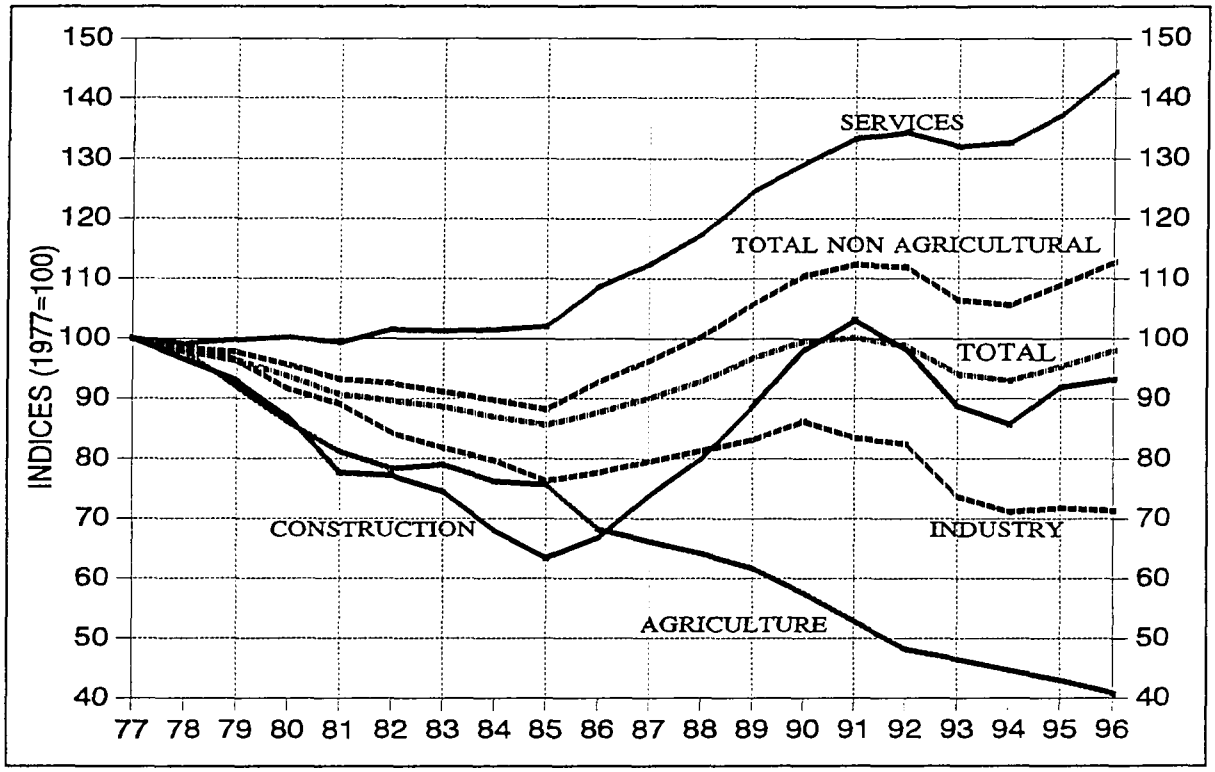

Figure I.13. Evolution of employment by broad sectors of activity 1977-96, 2nd quarter (Index, 1977=100). [Source: Spanish Labour Force Survey].

b) Occupational structure

Any study of the evolution of the occupational structure in Spain is hindered by the fact a new classification of occupations, which follows the ISCO.COM classification approved by the European Union, was adopted in 1994. At present, no homogeneous series have been developed. So our analysis will cover the period 1977-1993. This should be enough to detect the main trends in occupational change. Figure I.14 presents the distribution of non-agricultural employment by broad occupational groups in 1977, 1985, 1990 and 1993, the four cyclical turning points of the recent twenty years. Agricultural occupations have been taken out of the analysis, as their inclusion would introduce biases given the significant drop of agricultural employment, as seen in the preceding sub-section.

The main result from Figure I.14 is the clear increase of non-manual occupations, which represented a bit less than 36 per cent of employment in 1977 and grew until 45 per cent 16 years later. Within this broad groups, two categories experienced the fastest growth: professional and technicians, the share of which almost doubled, and "clerical" workers.

The former group reflects the modernisation of employment in Spain, as well as the increasing importance of the public sector, one the main employers of professional workers. Still, however, the proportion is likely to keep increasing in the future, as it is smaller than in other parts of the Union.

As for the latter group, it deserves a specific comment. It has been defined as the residually defined (i.e. "Others not elsewhere classified") sub-group within the larger group of "Administrative and clerical workers". What is interesting is not only that this presumably residual sub-group should be larger in numbers than the rest of the group but also that it is the fastest growing category. Of course, part of the problem relates to the classification of occupations, which was increasingly becoming obsolete, but the trend observed implies nonetheless a distinctive characteristic of occupational change in Spain, towards new administrative jobs.

These changes take place against a decrease in the proportion of manual production workers, whose share falls from 44 to 35 per cent. So over the past 15 years, it can safely be argued that the Spanish economy has experienced, broadly speaking, a process of "skilling" of its employment. Production work has been progressively replaced by non-manual work.

These trends raise the issue as to what extent these shifts are merely the result of the

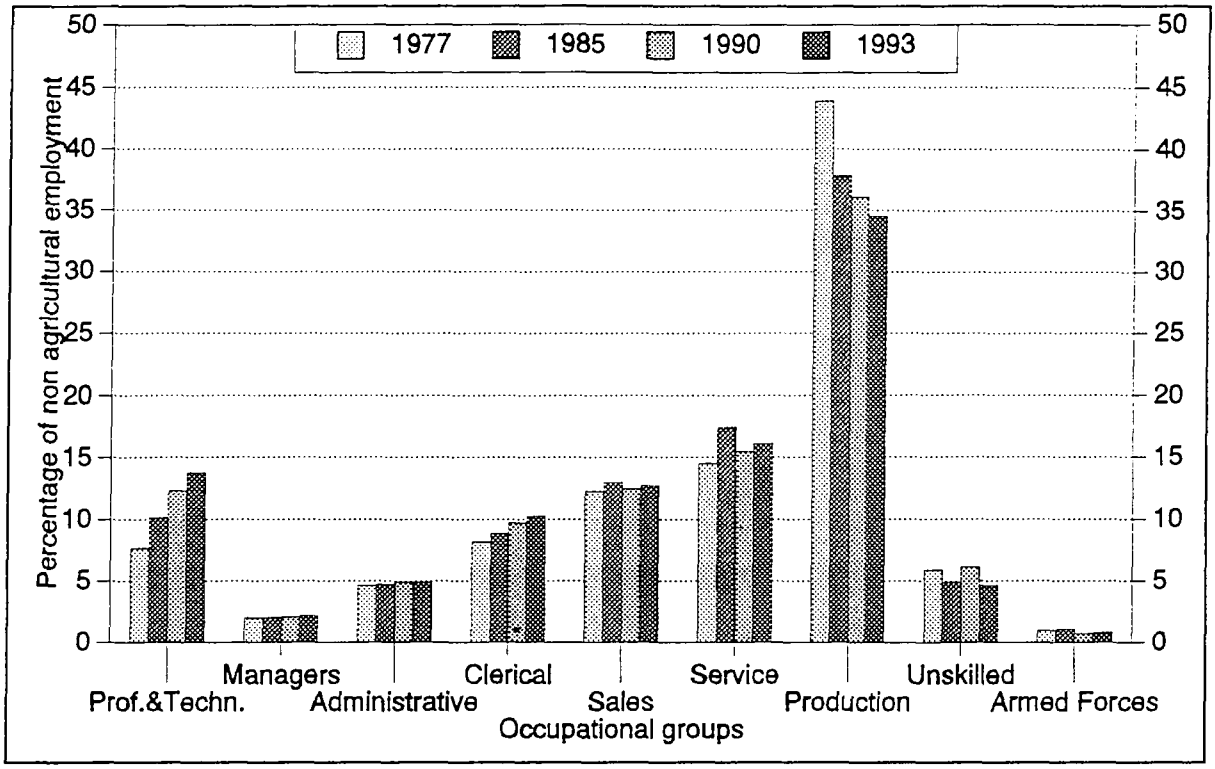

Figure I.14. Distribution of non-agicultural employment by broad occupational groups, 1977, 1985, 1990 and 1993 (Source: EPA).

changes in sectorial structure analysed above. The shift-share analysis carried out by García Serrano, Jimeno and Toharia (1995), on which the preceding analysis also draws, aimed at disentangling the relative significance of purely occupational as opposed to industrial effects in these changes, indicates that the sectorial effect dominated during the crisis, while the occupational effect was more significant in the recovery of 1985-90. Finally, in the second crisis, both effects had similar impact.

c) Work status

Work (or profesionnal) status is an important dimension in the study of employment, for two reasons: first, public sector employment has had an increasing role in all Western economies; secondly, self-employment has tended to gain weight as a form of employment. These two facts imply that the nature of employment may have changed considerably, hence the interest of determining their precise evolution.

A few terminological precisions are required before proceeding. When spealing about work status, we mainly refer to the position of the person employed vis-a-vis the means of production. So we distinguish between people who work for others (employees or dependent

workers) and people who work on their own account (self-employed). Employees can be divided between those who work for the private sector and those who work for the public sector as the nature of the employer is fundamentally different in these two cases. In turn, the self-employed may be divided into people who employ others, people who work on their own, family workers who help in a family business (in principle, without pay) and people who work on their own account associated with others in cooperatives.

The process of capitalist economic development entails the growth in the number of employees and the reduction in the number of self-employed. This process is partly dependent on the industrialization process, as the agricultural sector, where the self-employed are dominant, loses weight. In order to perceive the alleged growing importance of self-employment, it is thus necessary to separate self-employed in agriculture from the self-employed elsewhere in the economy.

As a starting point, Figure I.15 presents the evolution of the proportion of employees in total employment over the last twenty years. In the figure, we have included four percentages corresponding to the following categories: total employees, private-sector employees, public-sector employees (the difference between the two preceding ones), and government employees (i.e. the public sector excluding public enterprises).

Over the last twenty years, the proportion of employees in total employment has remained relatively stable, especially if account is taken of the fact that in the early 1960s the proportion was much lower, around 60 per cent. Still, three periods can be distinguished: the crisis period, from 1977 to 1985, when the proportion of employees, especially in the private sector, follows a clear downward trend, absorbed by the increasing share of public-sector employment. As already mentioned, the public sector acted during that period as a (partial) buffer of employment decline. The boom period of the late 1980s saw a renewed growth of the importance of employees, whose share in total employment went up almost 10 points, to 75 per cent by 1991. Finally, the recent crisis has seen again a small drop in the proportion of employees, again somewhat more visible in the case of the private sector.

The data included in the figure casts doubts about the "innovative" character of self-employment. Rather, it seems that self-employment offers some "employment shelter" when times are bad. It is an expedient to which employees (individually or collectively) tend to resort in recessionary times. Although no precise data exist on this, casual information suggests that many firms tend to subcontract work to their employees when demand is shaky,

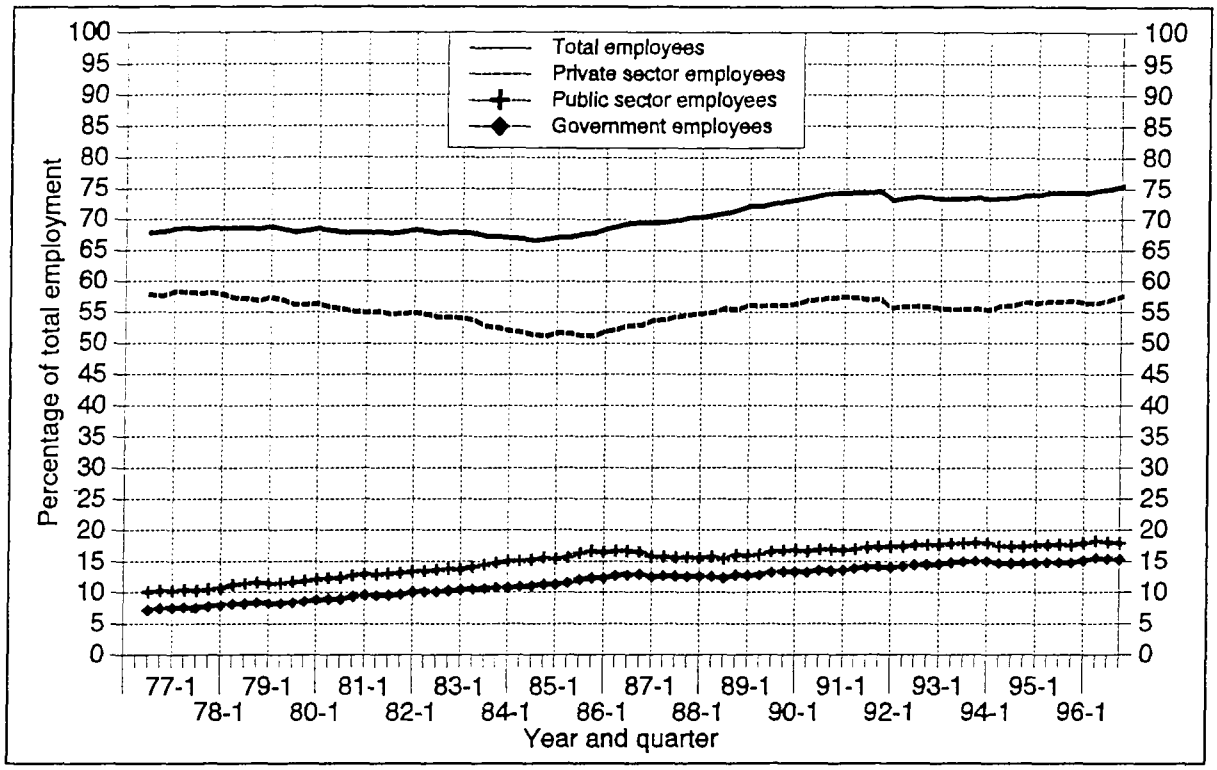

Figure I.15. Proportion of employees (total, private-sector, public-sector and government) in total employment, Spain, 1976-1996 (Source: EPA, homogeneous quarterly data).

thus transposing to them the risks associated with the market uncertainty.

The preceding information treated the self-employed as a group. We have already mentioned, however, that such group contains a quite diverse number of components. Figure I.16 thus presents the yearly change in employment of the categories identified above (with cooperatives included within self-employed) in the four periods we are considering: the two crises of 1977-85 and 1990-93 and the two expansions of 1985-90 and 1993-present.

Figure I.16 clearly shows that the private-sector employees are the driving force behind employment variations. This cannot come as a surprise, since they are the largest group. Public sector employees increased all through the first crisis and until the end of the 1980s, a period when many of the institutions conforming the "welfare state" (public administration, education and health) experienced a substantial development. More interesting is the evolution of non-agricultural self-employment. While it tended increased in the first crisis, it followed the general pattern of self-employment of losing weight in the expansion. The much shorter recession of the early 1990s showed again an increase, although much more moderate. As for the recent expansion, the increase is similar to that observed during the crisis of the late 1970s and early 1980s, with the difference that we are now considering

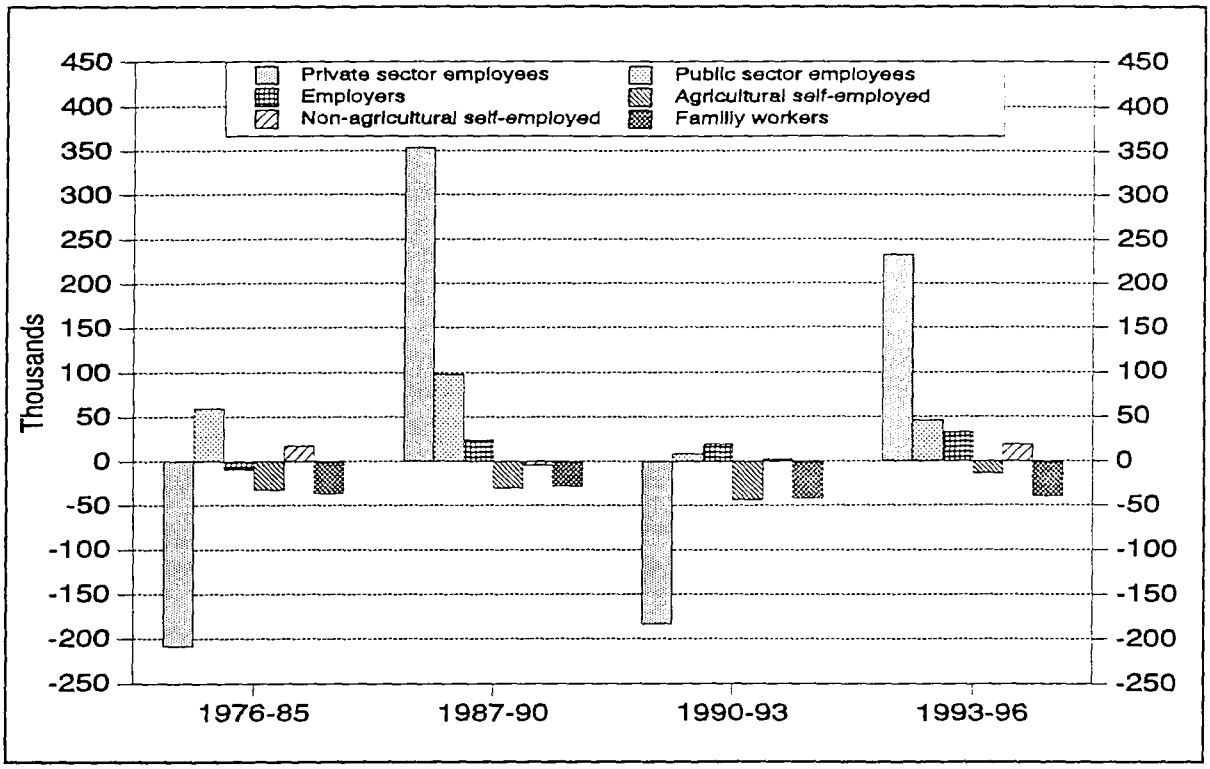

Figure I.16. Average yearly change of employment by work status, 1976-85, 1987-90, 1990-93, and 1993-96 (Source: EPA).

a period of employment expansion. This period is still too short to be conclusive, though, and it is necessary to wait and see if the trend is confirmed. Beyond this very last instance, however, the data sustains on the whole the hypothesis of self-employment as a defensive device used in bad periods.

Finally, family workers and agricultural self-employed show a clearly declining trend, these being two developments probably linked to one another.

d) Working time

No consistent series on usual working hours exist in Spain before 1987 as before that date only the number of hours actually worked was included in the Labour Force Survey. However, given the approval in 1983 of a maximum working week of 40 hours, it is worth analyzing the data, however problematic. Figure I.17 presents the series for the period 1979-1996 (figures refer to second quarter of each year). Between 1979 and 1986, the figures refer to hours actually worked; a distinction is made between the employed as a whole and the employees. For 1987-95, the figures refer to the more correct indicator of hours usually worked; in addition, the disaggregation between private and public sector employees adds a

Figure I.17. The evolution of the working week in Spain, 1978-1996 (second quarter) (Source: EPA).

further element to the analysis.

The clear conclusion to be drawn from this figure is that working time tended to decrease quite substantially in the period 1978-1985, and that no specific, adeed influence from the 1983 law can be observed. During the period of the expansion, the working week tended to remain stable. However, with the new recessionary period, the downward trend takes on again, this time around continuing even in the recovery.

Of course, there may be composition effects behind these trends, the most notable being the expansion of part-time work. There is no information on the extent of part-time before 1987 but, given the very low levels existing at that date, it is unlikely that this could have been an explanation for the decline in working hours observed in the 1978-85 period.

In order to determine the influence of part-time in the post-1987 data, it is necessary to deal with this question more directly. Figure I.18 plots the evolution of the proportion of part-time workers in Spain since 1987. The series shows a break in the first quarter of 1992, apparently due to the change in the way the question about part-time was asked. The criterion used in the Spanish Labour Force Survey (EPA) follows the suggestion by Eurostat that workers be classified as part-time or full-time on the basis of their self-classification, but with

the proviso that all people who declare a working week below 30 hours are to be considered part-timers and those who declare a working week over 35 hours are to be considered full-timers.

With these caveats in mind, the data in Figure I.18 clearly indicate a rising trend of part-time work since 1992, while it tended to remain stable, actually declining somewhat in the 1987-1991 period. There is no clear reason why the trend changed. The break in the series does not appear to be a sufficient explanation. In addition, no measures were adopted regarding part-time work until the end of 1993, when government changed a few aspects of part-time. The somewhat accelerated growth observed in 1994 and 1995 might be the result of such measures, but not the preceding, already upward, trend.

At any rate, at present (second quarter of 1996), 17 percent of women employed work part-time. The proportion is much smaller in the case of men. These figures are lower than in other parts of the European Union, but are already reaching a substantive level, especially for women. Still, part-time, as in other countries, is fundamentally a female phenomenon: women account for 75-80 per cent of part-time work.

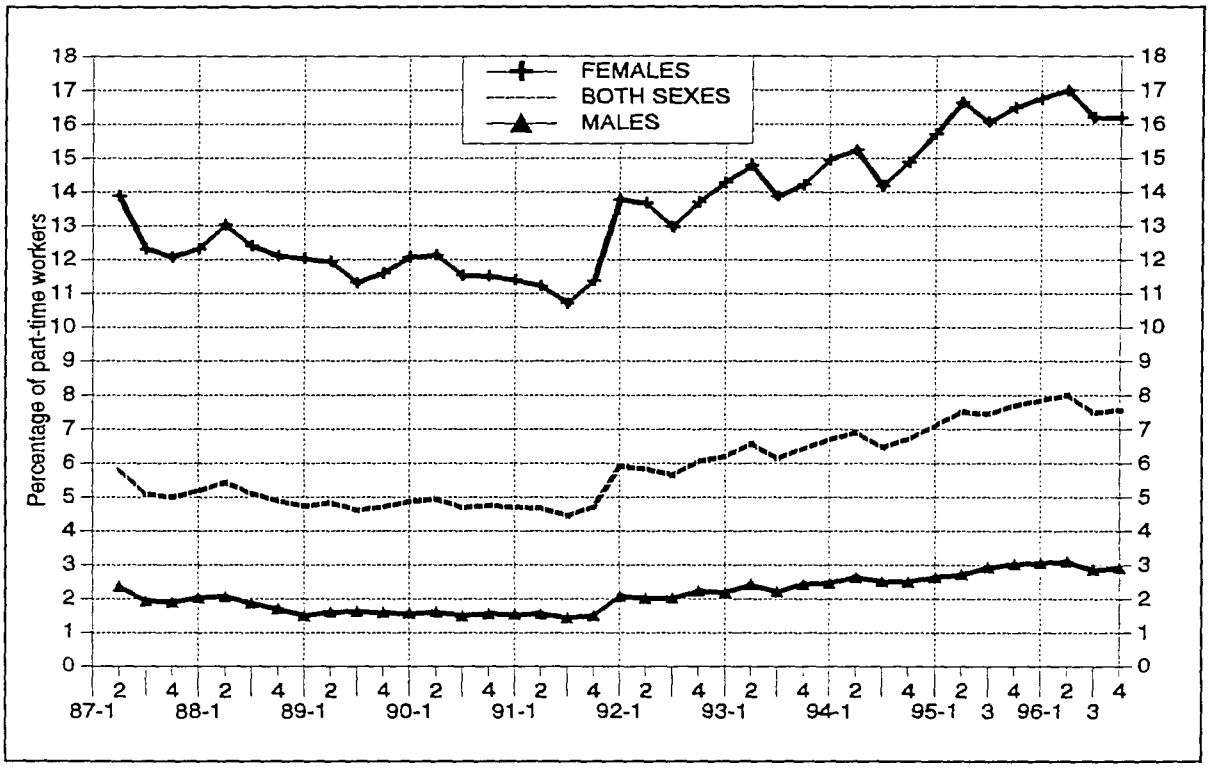

Figure I.18. The evolution of the proportion of part-time workers in Spain, 1987-1996 (Source: EPA).

The corollary of the rising trend in part-time work is that the observed decline in the working week could be due to a composition effect related to the growing importance of these part-timers. In order to verify that point, Figures I.19 and I.20 present the evolution of the number of hours usually worked by full-time and part-time workers in the period 1987-96 (second quarter). As can be seen, full-time workers show a rather stable pattern of evolution after 1989, with a slight decrease in the case of females, especially in recent years. As for part-timers, leaving aside the case of males, the number of which is rather small, there appears to be a decreasing trend with a jump in 1992, probably associated with the break in the series already mentioned.

On the whole, the observed decline of the average working week in recent years can be associated with the rise in the proportion of part-time workers. In the case of full-time workers, especially for males, the average usual working week has tended to remain rather stable over the past few years. An additional element in that decline has been the slight downward trend in the usual number of hours workers by females part-time workers. The proportion of part-timers has tended to increase in recent years, although no clear relation can be established betweeen that evolution and the reforms introduced in 1993-94, one of the aims of which was fostering the use of part-time work.

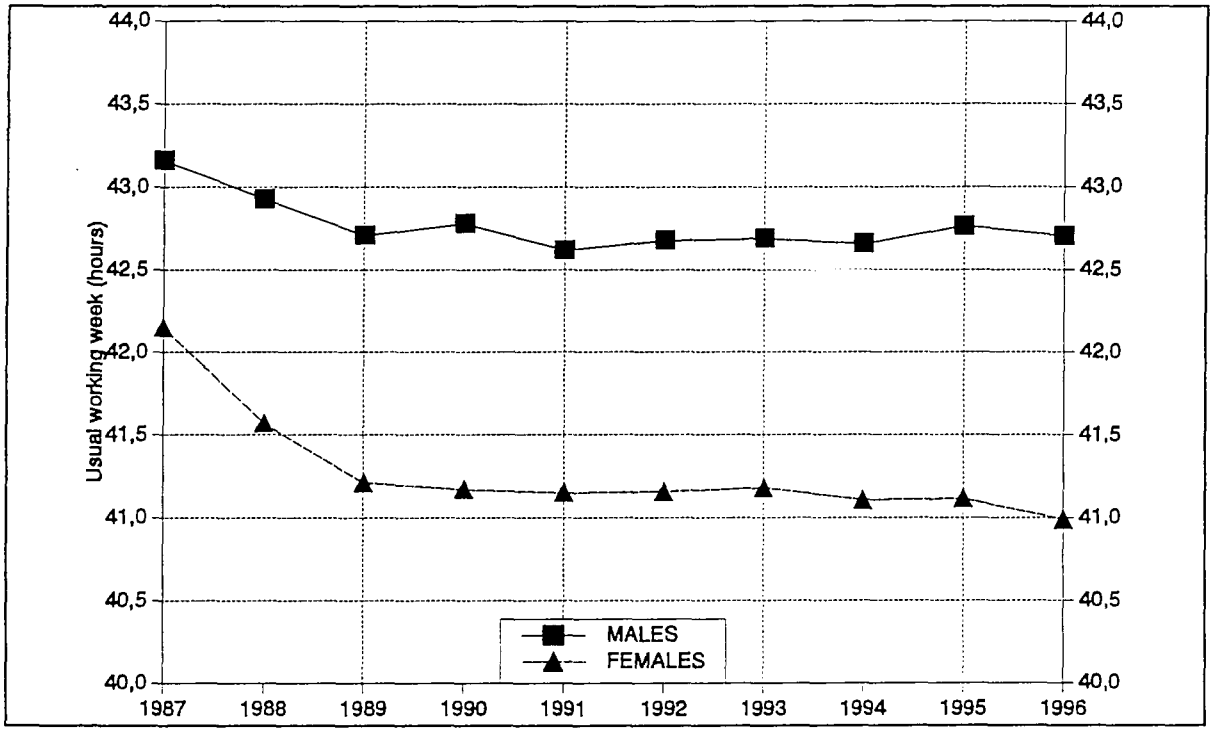

Figure I.19. Usual number of weekly working hours, full-time workers, by gender, 1987-1996 (second quarter) (Source: EPA).

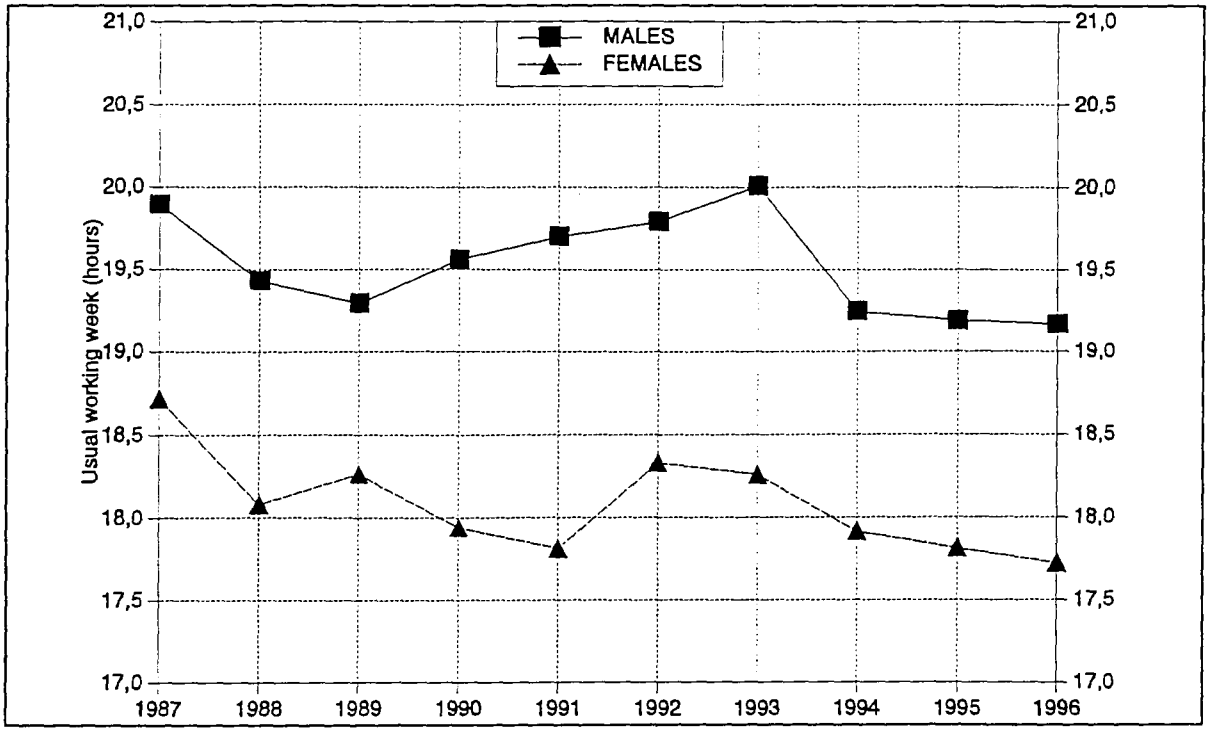

Figure I.20. Usual number of weekly working hours, part-time workers, by gender, 1987-1996 (second quarter) (Source: EPA).

e) Contract tenure

One of the main characteristics of the evolution of employment in Spain has been the substantial increase in the proportion of workers with a fixed-term (i.e. temporary for reasons different from the temporary nature of the job) contract. Thus, the proportion of employees with a fixed-term contract has substantially increased since 1987, the first date for which information is available. As is well-known, Spain is the European country with the highest proportion of fixed-term employees, although comparisons should be made with care, as institutional differences must be taken into account, especially as regards the definition of a "permanent" worker.

Figure I.21 plots the evolution of the proportion of employees with a fixed-term contract, disaggregating by gender. As can be seen, the proportion of fixed-term workers increased very rapidly until the end of 1988, to follow a more moderately increasing path until 1992. Since this latter date, the proportion has tended to remain more or less stable, with a decline during the sharp recession of the second half of 1992 and a renewed growth afterwards. The most recent period has witnessed again a decline, this time associated with the expansion of 1995, although it is likely that part of this decline is due to the already-

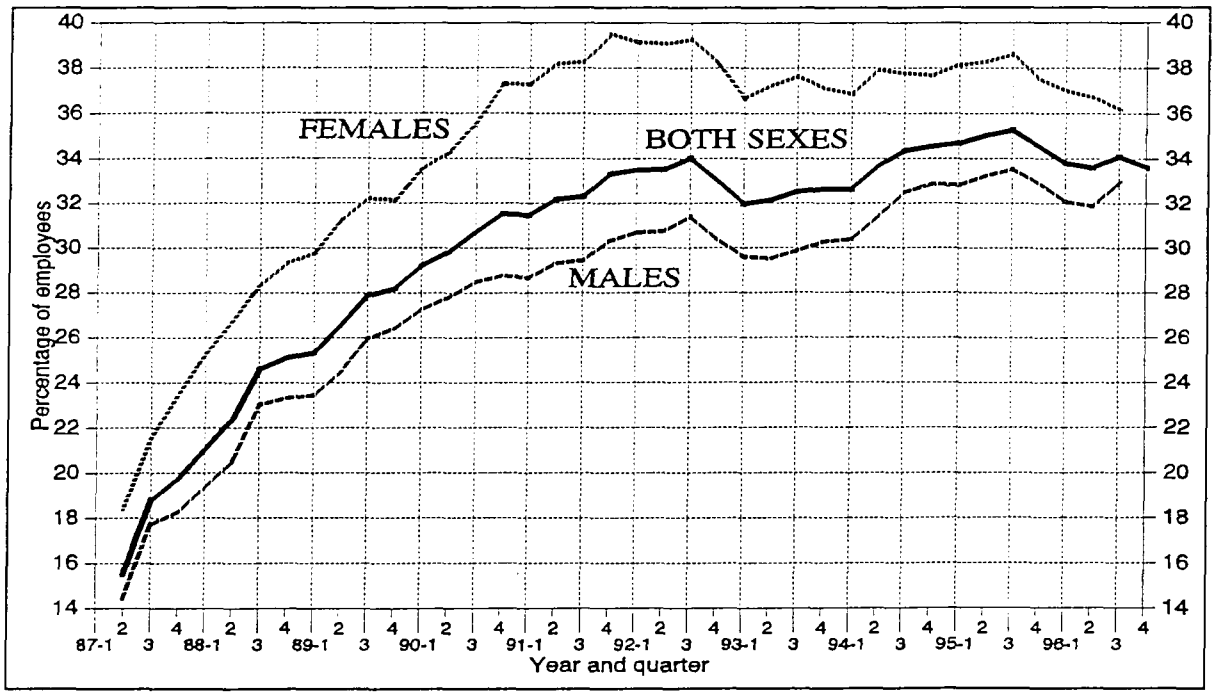

Figure I.21. Evolution of the percentage of employees with a fixed-term contract, by gender 1987-1996 (Source: EPA).

mentioned renewal of the sampling frame of the Labour Force Survey (no official estimates of such impact exist, though).

The analysis by gender introduces a few qualifications. First, the evolution of the proportion of fixed-term employees mirrors quite closely the aggregate figure in the case of males. Secondly, the figures are higher in the case of females, and they also tend to rise more quickly. However, their record-high rate of almost 40 percent is reached at the end of 1991, with a stabilisation afterwards in figures around 38 percent.

The rapid increase in the proportion of fixed-term employees has rasied various issues at different points in time. First, during the second half of the 1980s, there was some debate as to the relevance of fixed-term employment in explaining employment growth. An experts commission appointed by government in 1990 (Segura et al., 1991) concluded that the extensive use of fixed-term contracts produced a small, albeit significant, increase in employment. The experts commission also concluded that the elasticity of employment to GDP variations had clearly risen as a consequence of the general use of fixed-term contracts. As a matter of fact, it was this higher elasticity which became a source of worry in the early 1990s when the expansionary cycle was coming to an end. And indeed the decline in employment during the crisis of 1991-93 was more intense than it had been during the long

employment crisis of 1975-85.

Quite surprisingly, however, it is not so clear that the employment declines are always concentrated on fixed-term employees, as one could have expected. As can be seen in Table I.1, while the losses in dependent employment have tended (for seasonality reasons) to be concentrated in the winter period, only in 1992-93 was the decline in the number of fixed-term workers clearly higher than that corresponding to permanent employees. The conclusion to be drawn is that for the most part the 1991-93 recession was of a structural nature, as suggested by the substantial decline in the number of permanent employees. Only in 1992, when the international events of that date (the Universal Exhibition in Seville and the Olympic Games in Barcelona) were over, was there also a significant decline in the number of fixed-term employees.

Table I.1.- Change in the number of employees by contract status in the three winters of the recent recession (thousands).(Source: EPA)

	Total employees	Fixed-term	Permanent
III-91/I-92	-312.1	+4.2	-316.5
III-92/I-93	-423.4	-318.2	-105.2
III-93/I-94	-182.6	-49.5	-133.1

The substantial weight of fixed-term employment has also raised other kinds of comments and criticisms. From the trade union perspective, it has been criticized for the precarious working conditions it implies for workers. From a more academic perspective (Bentolila and Dolado, 1992; Jimeno and Toharia, 1993a), its negative influence on wage formation has been pointed out, on the idea that the presence of fixed-term workers provide a buffer stock of which permanent workers take advantage when bargaining wages (for which they are mostly responsible). Partly for this reason, the recent labour market reform passed in 1993-94 introduced various reforms in labour contracts and dismissal costs aimed at increasing the degree of flexibility of the labour market. It is unclear, as some authors have argued (see Malo and Toharia, 1995), that these reforms have actually altered in a substantial way the cost which firms have to pay to dismiss their permanent workers. If this is the case, as is increasingly thought, the reform would have left untouched the fundamental difference between fixed-term and permanent contracts: the cost of separation, which has not been fundamentally altered in the latter case and is still close to zero in the former case (more on this in Section III.1 below). The evolution depicted in Figure I.21 suggests that the

proportion of fixed-term employees has tended to stabilise or decline somewhat. However, no clearcut change in the trend can be observed which could be attributed to the 1993-94 reform.

A further point refers to the extent to which fixed-term contracts represent a temporary or a permanent situation for their holders. In principle, it could be argued that fixed-term workers are interesting to firms because they allow them to expand production without having to incur in substantial costs should things turn wrong, as the separation costs of this type of workers is very low, in any case much lower than the firing costs associated with permanent workers. Our preceding analysis suggests at the same time that fixed-terms contracts are, at least in some instances, the entry-level contracts which employers tend to use no matter the uncertainty of the economic situation. What is interesting, thus, is that employers are willing to convert some of their fixed-term workers into permanent employees, even before they are required by law to do so.

To deal with this issue, it is possible to take advantage of the fact that the Labour Force Survey (EPA) is renewed by sixths every quarter, so that it is possible to follow the situation of people over six succesive quarters. One can therefore know how many of those with a fixed-term contract are converted into permanent workers over a given period. Table I.2 present this type of analysis for periods of one year. Thus, the table provides the distribution of people with fixed-term contracts at one point in time by their situation one year later, the period covered being 1987-1996 (we shall deal more extensivelt with flows of workers -and jobs- in sub-section I.III below).

Table I.2.- Situation one year later of fixed-term workers, 1987-96 (Source: matched files of the EPA)

Initial/final quarters	Fixed-term employee	Permanent employee	Unemployed	Out of labour force	Other (*)	TOTAL
II.87/II.88	48.6	22.0	18.0	5.5	5.9	100
II.88/II.89	56.6	19.1	14.6	3.8	5.9	100
II.89/II.90	57.6	17.8	14.9	5.0	4.6	100
II.90/II.91	63.7	12.8	14.1	4.3	5.1	100
II.91/II.92	57.5	14.0	17.0	6.5	5.1	100
II.92/II.93	56.9	9.4	23.7	5.5	4.5	100
II.93/II.94	63.0	9.2	19.6	4.6	3.5	100
II.94/II.95	64.4	10.8	16.4	4.9	3.6	100
II.95/II.96	62.7	11.0	17.3	5.3	3.7	100

Notes:
- "Other" comprise employees not classified by contract tenure, self-employed and conscripts.
- calculations made using the weighting factors of the initial quarter.

One important caveat regarding the figures presented in Table I.2 is that we only observe the contract status of individuals at two points in time without being able to establish a definite connection betweem them. That is, when we use the word "conversion", what is to be understood is that the same individual who first mentioned a fixed-work status one year later mentions a permanent one, but we are not sure that there was a change within the same firm. At the same time, those who remain with a fixed-term contract do not necessarily are all the intervening period working for the same firm. It could be that they work for the same firm with a 6 month contract but between the two they experienced an unemployment spell. The problem is that questions regarding seniority refer to "the present job" and it is likely that a person whose fixed-term contract is given a permanent status might consider that a new job is starting. Despite these caveat, however, the figures in the table do provide an important insight regarding changes in labour contracts.

The figures is Table I.2 suggest two points. First, the proportion of fixed-term workers who get a permanent job one year later is not negligible. Considering those who remain employed only (the first two columns), some 30 percent of them achieved a permanent status between 1987 and 1988, although this proportion decreased afterwards to a low of less than 12 percent in 1993-94, to recover somewhat, up to 15 percent in 1995-96. Secondly, the rate of conversion of fixed-term workers into permanent employees it appears to be heavily influenced by the general economic situation. The highest conversion figures are found in the booming period of the late 1980s and the recessionary period of the early 1990s implied much lower opportunities to accession into permanent jobs. Seen in the light shed by these figures, the recent expansion appears to be rather moderate: the conversion rate has increased but it is still far below the figures observed in the late 1980s. In this respect, it should be mentioned that until the labour market reform of 1994, the law required that after 3 years of contract a fixed-term worker should be given a permanent status. Although it is impossible to determine the influence of such regulation in the conversions analyzed above, whatever positive influence it might have had on conversions will have disappeared after the reform. The fact that the proportion of conversions is rising, even though in a moderate way, does suggest that such legal regulation was not so important.

f) Regional variations

Spain is divided into 17 regions, so-called 'Autonomous Communities'. This division dates from 1978 and it is linked to socioeconomic and cultural factors (the regions are aggregations of provinces created in early 19th century). The South and North-West regions (Andalucía and Galicia) have usually been the most underdeveloped regions with relatively high proportions of agricultural employment. Northern regions (Basque Country, Asturias and Cantabria) had a high proportion of mining and heavy manufacturing (iron and steel) employment, before the processes of industrial restructuring of the early 1980s. Since the mid-1980s, the most dynamic areas have been the Mediterranean regions (from Cataluña to Murcia, the Ebro valley, Aragón, Navarra and La Rioja) as well as Madrid, Baleares and Canarias.

The 17 regions are far from being homogeneous. As Table I.3 shows, the four largest of them in terms of population (Andalucía, Cataluña, Madrid and Comunidad Valenciana) contain 55 per cent of population. As a result of the large migration flows of the 1950s and 1960s, population tends to be concentrated in the center (Madrid) and along the coasts (mainly along the Mediterranean). Population in the South tends to be younger, as fertility rates have been declining more slowly there.

Table I.3, which refers to the second quarter of 1996, also shows substantial variations in the various labour market indices included. In terms of employment, the employment-population ratio varies from a low of 32.5 per cent in Extremadura to a high of 45.6 in the Baleares, the average for Spain as a whole being 38.5 per cent.

As for the labour force participation rate, there are also significant variations, with Asturias having the lowest figure (43.1 per cent) and Baleares once again being on top (with 53.2), the Spanish average being 49.5. Finally, regarding unemployment, the differences are even more striking: while two regions, Andalucía and Extremadura, have rates above 30 per cent, four others (the three regions along the Ebro Valley, Navarra, Aragón, La Rioja, as well as the Baleares) have rates below or just above 15 per cent. Both Andalucía and Extremadura have enjoyed since 1994 special schemes against agricultural unemployment (sarting in 1997, these schemes will become generally applicable to the rest of the regions as well).

Table I.3. Population and labour market indicators at the regional level, Spain, 1996, second quarter (Source: EPA).

	Population 16 and over		Labour market indicators		
	Absolute numbers (000s)	Percentage	Labour force participation rate	Employment-population ratio	Unemployment rate
Andalucía	5583.16	17.4	48.2	32.6	32.4
Cataluña	5050.22	15.7	52.1	42.4	18.7
Madrid	4127.93	12.9	52.2	41.5	20.6
Com.Valenciana	3194.54	10.0	51.5	40.5	21.5
Galicia	2286.07	7.1	49.1	39.8	19.0
Cast.La Mancha	2100.74	6.5	46.2	36.9	20.2
País Vasco	1753.13	5.5	49.2	38.6	21.5
Cast. y León	1362.63	4.2	44.9	35.9	20.0
Canarias	1241.8	3.9	50.3	39.4	21.7
Aragón	992.64	3.1	48.0	40.7	15.2
Asturias	916.97	2.9	43.1	33.6	22.2
Extremadura	855.88	2.7	46.5	32.5	30.2
Murcia	850.9	2.7	49.2	37.3	24.2
Baleares	586.71	1.8	53.2	45.9	13.8
Cantabria	438.08	1.4	45.7	34.5	24.5
Navarra	437.29	1.4	48.3	43.0	11.0
La Rioja	217.2	0.7	47.3	40.5	14.5
Ceuta y Melilla	99.23	0.3	49.5	36.1	27.0
SPAIN	32095.12	100.0	49.5	38.5	22.3

One of the most puzzling questions regarding the regional diversity regarding the Spanish labour market is how can there be such large differentials, and especially what explains their persistence over time. As can be seen in Figure I.22, the comparison between the employment-population ratios in 1985 and 1995, two years in which the global ratio for Spain was the same, at 38 per cent, suggest minor changes only. Four regions experience significant decreases (Galicia, Asturias, Cantabria and Castilla-La Mancha) while four others experience substantial gains (Baleares, Cataluña, Madrid, and Valencia). The fact that the latter regions are among the most developed and the former are among those having experienced greater economic difficulties provides an indication that economic development in Spain has not tended to diffuse to the different regions but rather has maintained or even increased the regional dispersion. As a matter of fact, the various analyses carried out (for example, Toharia 1994) tend to suggest a pro-cyclical evolution of the regional dispersion indices. This implies that economic growth tends to be divergent and economic decline convergent.

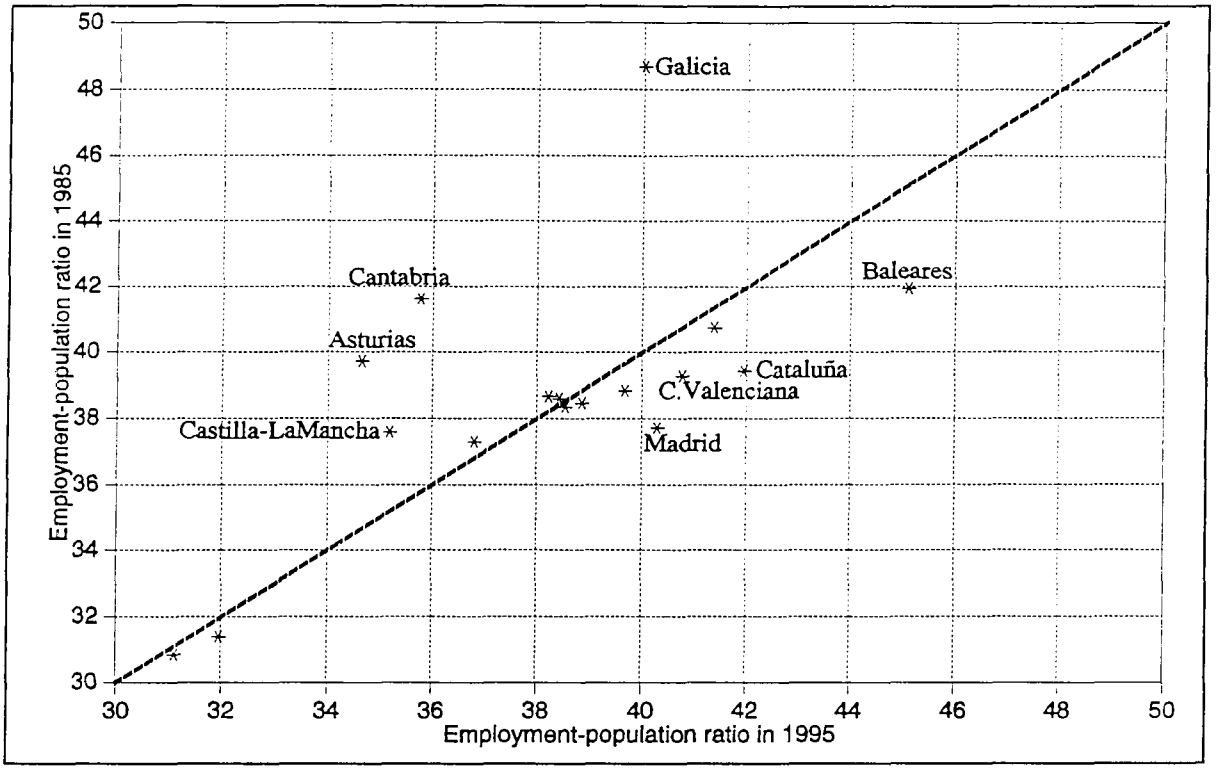

Figure I.22. Employment-population ratios in 1985 and 1995 in the different Spanish regions (Source: EPA).

I.2.4. Unemployment

After studying the evolution of employment, we now turn to an analysis of unemployment. After a general introduction providing a few basic data, we shall turn next to the issue of measurement, very important in Spain, as the magnitude of unemployment has been deemed by many observers impossible to be true. A related topic refers to the importance of the "underground" economy. Could that be the explanation of the high unemployment? In our opinion, the answer is negative. After these general analyses, we shall turn to the incidence of unemployment by age and gender and shall deal with the issue of the skill structure, as measured by the level of education. One of the consequences of the high unemployment rate in Spain has been the existence of a high level of long-term unemployment, an issue which we shall deal next. As with employment, regional variations are very important in the case of unemployment, and we shall devote a sub-section to study them. We shall finish with a household perspective of unemployment, arguing that the safety net provided by families is the reason why the high unemployment levels do not create social unrest in Spain.

a) Rate of unemployment

Figure I.23 depicts the evolution of the rate of unemployment over the last twenty-five years. The rise was continuous since 1970 and really sharp between 1976 and 1985, when the trend changes again. As we have seen in section I.2.1, the subsequent recovery of employment did not translate itself into a major decline of the rate of unemployment, which stood at 16 per cent in 1990-91. The subsequent crisis led to record-high unemployment levels, close to 25 per cent of the labour force in 1994. The relatively low rates of labour force participation imply that, if one considers the "absolute" levels of unemployment, i.e. with respect to total population rather than the labour force, the increase is less marked and, more interestingly, the level reached in 1988 is not much higher then the previous trough level of 1985. On the whole, unemployment in Spain has not always been as high as it has been in the 1980s. The period 1975-85 is crucial in building up the highest unemployment level of the OECD area.

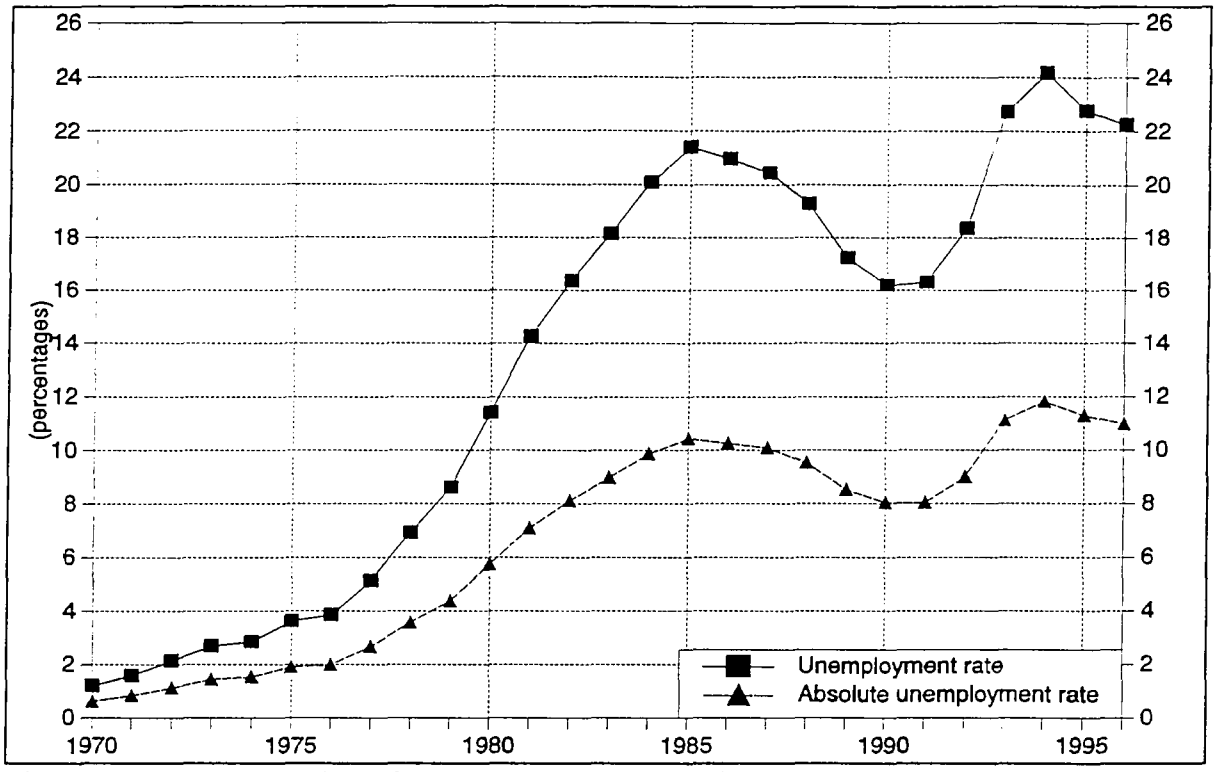

Figure I.23. The evolution of the unemployment rate in terms of the labour force and total population 16 and over, 1970-1996 (Source: EPA).

b) The measurement of unemployment

Like in all members of the European Union, in Spain the main instrument to monitor employment and unemployment is the Labour Force Survey (EPA). This is a quarterly survey to 60,000 households which closely follows the questionnaire and methods set up by the Statistical Office of the European Union (EUROSTAT). The survey was initiated in 1964 and there have been two major reforms: one in 1976, giving way to what could be termed the "modern EPA" and one in 1987, to adapt the survey to the requirements imposed by EUROSTAT after the accession of Spain to the European Community.

This implies that the methods and concepts used by the Spanish EPA are fully comparable to those used elsewhere in Europe. As a matter of fact, the Spanish EPA figures are accepted as adequate both by EUROSTAT and the OCDE Secretariat in their publications.

In spite of this general acknowledgement of the technical adequacy of the EPA, there have been two waves of criticisms of its figures, particularly regarding the unemployment figure, coinciding with the worst moments of the two recent economic downturns experienced

by the Spanish economy: 1985 and 1994. In 1985, with unemployment at 21 per cent, there was a widespread feeling that a large proportion of this figure was accounted by the underground economy (we shall return to this point).

The more recent wave of criticism has been less specific and has gone straight to the heart of the EPA. Simply put, there are, it is argued, other statistical instruments available which clearly tell a different story: the number of people registered as unemployed at the public employment service (*Instituto Nacional de Empleo, INEM*) is significantly lower than the unemployment figure stemming from the EPA, and the number of people paying social security dues is significantly higher than the EPA employment figures.

Regarding unemployment registration (UR), Figure I.24 presents the comparison between its figures and the EPA ones, for the period since 1987, when the EPA introduced questions relating to the situation of all individuals regarding the employment offices. As can be seen, in the case of males, the two series tended to be in parallel until 1990 when the UR figure tended to depart from the EPA one. For females, the UR figure has traditionally been above the EPA figure, which is normal given the more strict definition used by the EPA, particularly in terms of the availability criterion. However, the evolution has been such that

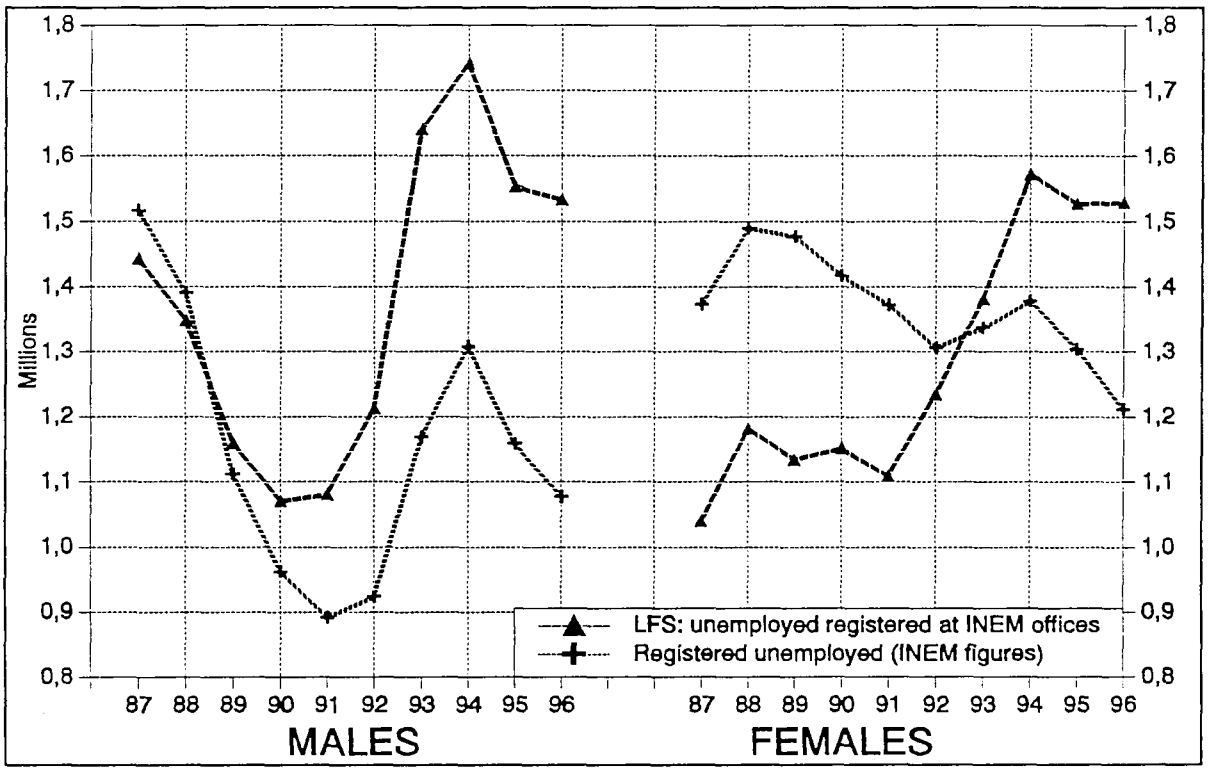

Figure I.24. Comparison between INEM's registered unemployment figures and the number of LFS unemployed who declare being registered at INEM's offices, 1987-96 (second quarter), by gender.

since 1993 the EPA figure is now higher than the UR one. Given the importance attached to the UR figure by Spanish officials (who every month publish an "unemployment rate", using as denominator the EPA labour force figure!) as well as by the media, partly stemming from the fact this it is the only source where unemployment can be studied at a very disaggregated, geographically-speaking, level, it is worth analysing the possible reasons behind this increasing gap.

The problem appears to be related to the fact that the UR figure is produced by INEM after making a series of "deductions" from the gross figure of people registered as job-seekers. These deductions experienced a substantial increase after 1990, as Figure I.25 shows, despite the fact that INEM has not reported any change in the methodology used to compute the UR figure. Moreover, an analysis of the causes for exclusion shows that the categories increasing more rapidly are "having another job" and "others not unemployed"; both of these categories accounted for 15 per cent of the exclusions in 1987, growing steadily to over 55 per cent of all exclusions by 1993.

Still, the increasing number of deductions does not appear to fully explain the increasing gap between the EPA and UR figures, as this gap has been also increasing after 1994, when the deductions to reach the UR figures tended to stabilize. Thus, this process of

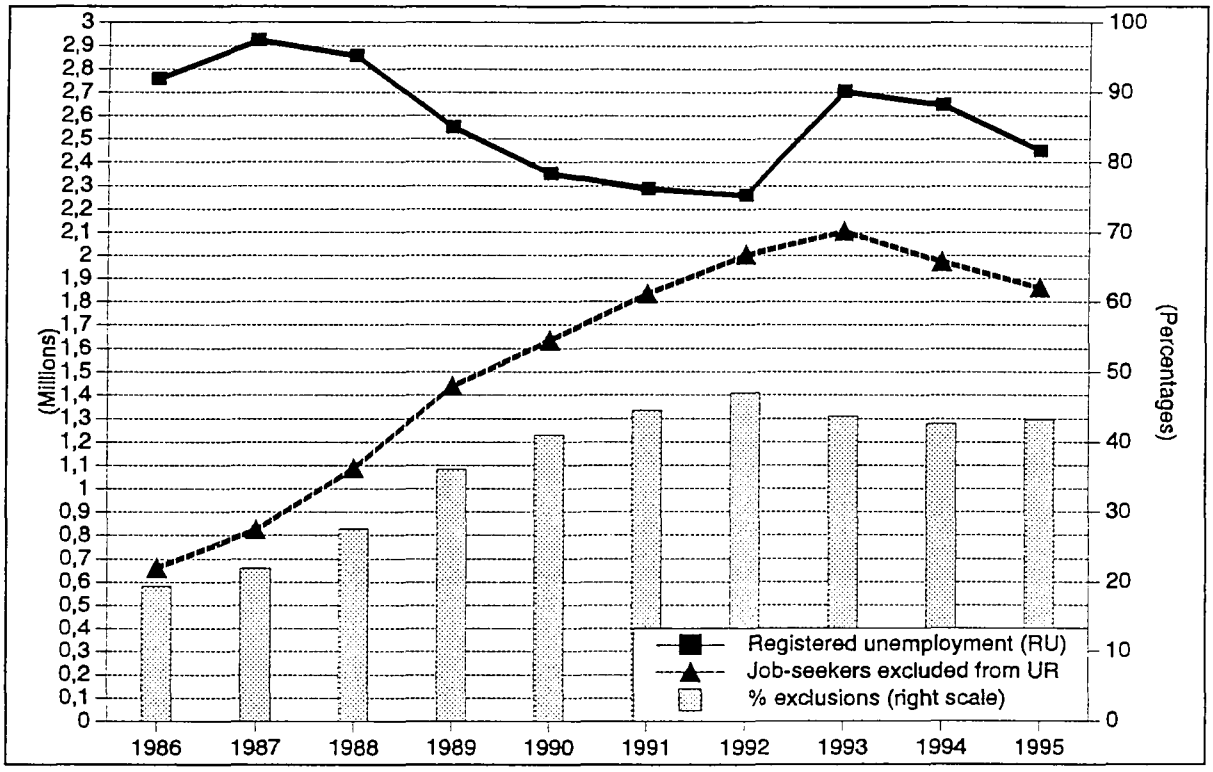

Figure I.25. Evolution of registered unemployment and the number of job-seekers excluded from registered unemployment, 1986-1994 (yearly averages). Source: INEM.

elaboration of the UR figure provides a hint as to where the cause of the problem may be, but more information would be necessary to fully solve the puzzle in a satisfactory way.

As for the Social Security records (SSR), the figures on the number of workers paying dues stem from a stock reconstruction based on the flows of accessions and separations which firms notify to the system, although it appears that a check on the adequacy of the resulting stock figures is regularly made by reading the whole affiliation file (the size of which is, as can be easily understood, rather large). It should be stressed that a full comparison between the SSR and the EPA is not possible, as many workers (most notably public servants and agricultural workers) do not pay Social Security contributions to the general system; additionally, self-employed workers may pay dues in order to build-up retirement rights even if their activity has been nil. However, inasmuch as comparable groups can be defined, the results, presented in Figure 1.26, suggest that the EPA and the SSR figures, although following a more or less similar evolution, are significantly different, with the EPA being clearly below the SSR one.

Part of the explanation for this gap may stem from the method used to compute the SSR figures. It could well be that a residual stock of would-be payers are always present in

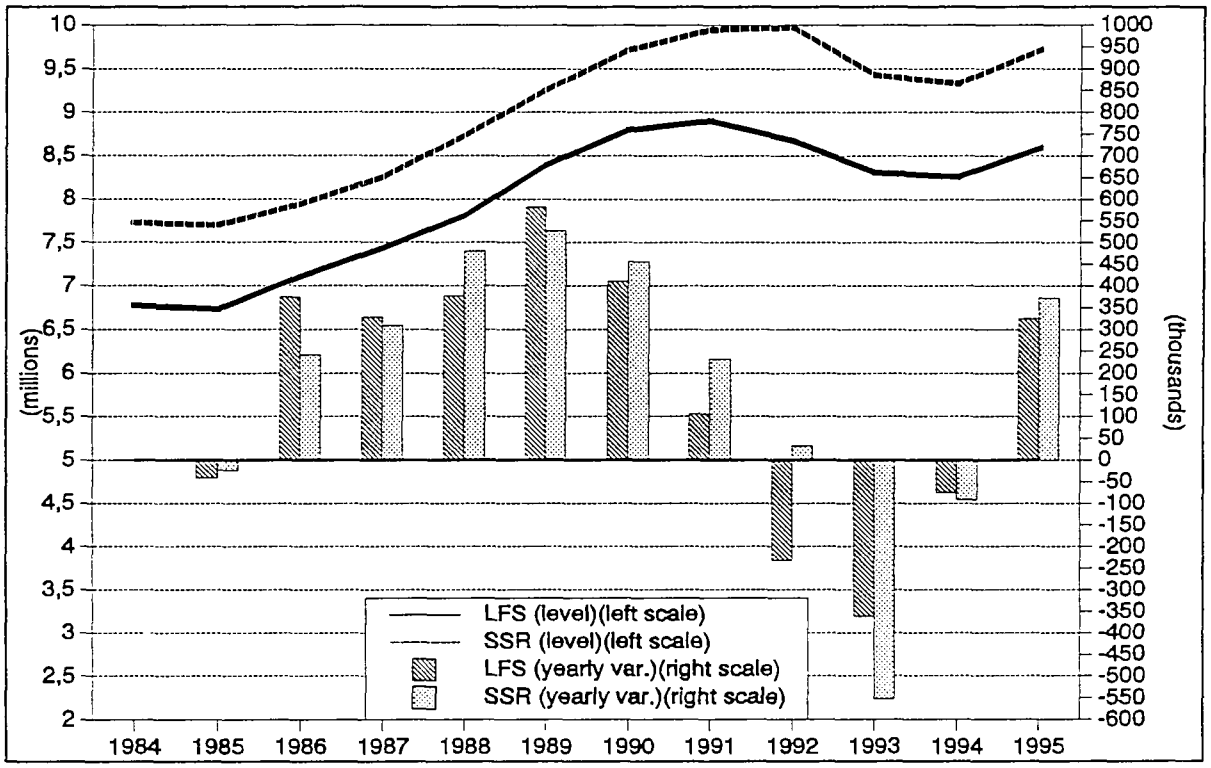

Figure I.26. Comparison between comparable employment levels from LFS and Social Security, non-agricultural employees, 1984-1995, levels and absolute yearly variations.

that figure because the affiliation file has not been completely filtered.

However, more recent analyses of the EPA have come to suggest an altogether different explanation. As any labour force survey, the Spanish EPA divides the Spanish territory in units based on Census information, from which it determines its sample. These units are defined in terms of the provinces (50 plus the North African towns of Ceuta and Melilla) and 10 geographical strata within them (the province capital, other large towns, towns with more than 100 thousand inhabitants, and so on). On the whole, out of the theoretical 520 province-strata, only half of them are relevant (as in many provinces some strata are simply empty). Each of these units is divided into sections, a certain number of which are selected as part of the sample; approximately 20 households from each section are then randomly sampled. The weight assigned to each questionnaire within each unit is calculated by dividing the population projection for the unit, exogenously estimated by the Statistical Office, and the effective number of questionnaires filled up. The sample so produced is hence statistically "pure", i.e. no further correction to the weighting factors are made in order to make the resulting figures are consistent with some other external source.

The recent publication of the results of the 1991 Census, as well as the projections made on the basis of it (which we have used in point I.1 above) has provided the opportunity to check whether the EPA procedure provides an unbiased estimation of the population structure by age and gender. The results, referring to the fourth quarter of 1994, appear in Figure I.27, where the percentage error for each 5-year age group is presented. As can be seen, it turns out that the EPA underestimates the number of people in their prime ages, from 24 to 49 years in the case of males, and from 22 to 41 for females (these detailed age numbers are based on a year-to-year disaggregation not presented in the figure). At the upper extremes, the opposite is true: the EPA tends to overestimate the number of relatively old people. This implies that the EPA is giving less weight than it should to the people who are more active and overweighting the most relatively inactive population. It follows that the EPA is certainly underestimating the labour force. Two questions follow: By how much? How should this increase be broken down between employment and unemployment?

The answer to the first question immediately follows from the comparison between the figures provided by the two sources.

To answer the second question, one could adopt a simplistic approach, assuming that the age-specific employment, unemployment and activity rates are adequately captured by the

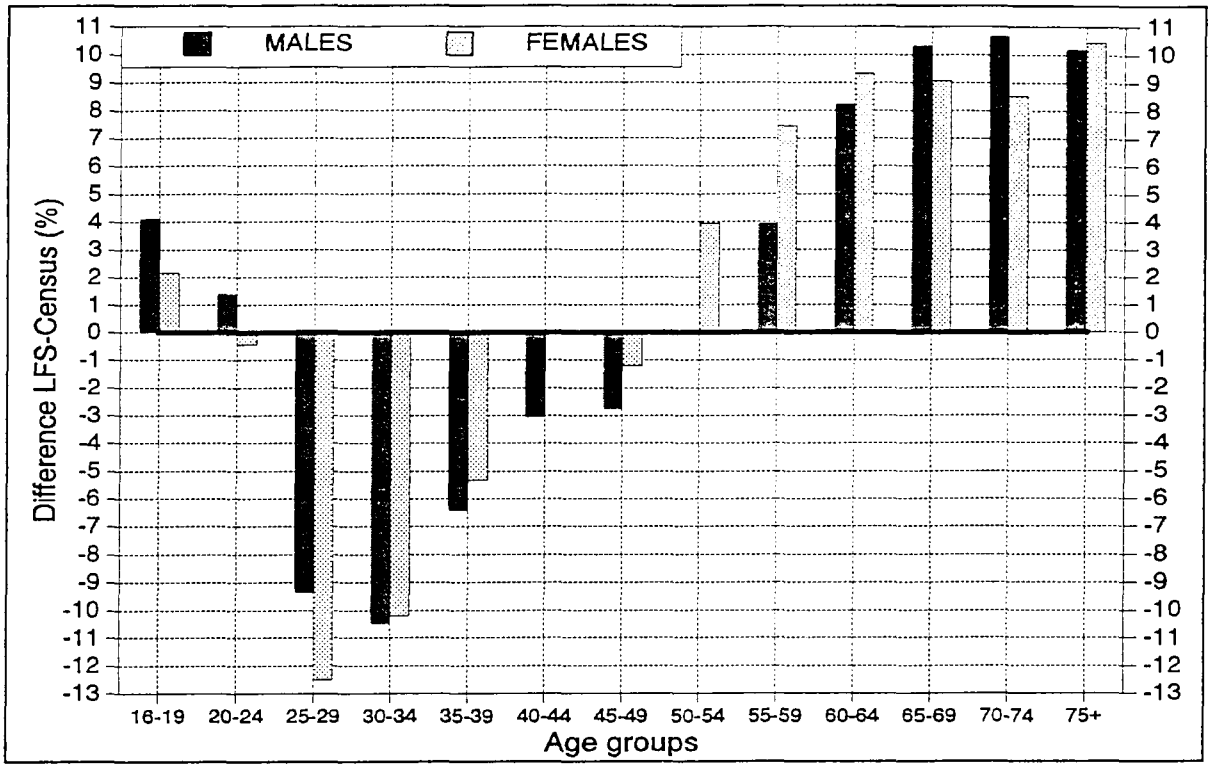

Figure I.27. Biases with respect to Census-based projections in the LFS estimation of the age-gender structure of the population, second quarter of 1993.

EPA, so that only the weighting factors should be corrected. This would lead, of course, to an increase in both employment and unemployment.

However, there are reasons to believe that more caution should be adopted, and that more information of the causes of the biases is needed. Although not much research has been made (or at least has not been made public) on this, it can be guessed that the problem must be related to the field work of the survey. Since the selection of the households within each section is purely random and no specific substitution rules are provided, not all households will have the same probability of being in the sample. Most notably, households with one or two members who all of them are at work, are less likely to be found to be interviewed, either the first time or in successive rounds (each household is interviewed during 6 successive quarters; if a household is not found the first time, it can be freely substituted for; after a first successful interview, the second time a household cannot be interviewed, it is dropped from the sample). It thus seems safe to argue that those excluded from the sample are mostly people who are employed.

As for people "overincluded" in the sample, one could argue that they are mainly people out of the labour force or unemployed. However, given the relatively low activity

rates of these groups (people over 50), it is not likely that the number of over-included who are unemployed would be high.

To further underpin this result, Figure I.28 presents the estimation of employment by age and gender from the Socio-Demographic Survey (Encuesta Socio-Demográfica, ESD), carried out in 1991 as a complement of the Census, as compared to the figures provided by the EPA. As can be seen in Figure I.28, the main difference between the two sources corresponds to the age groups identified above as biasedly estimated by the EPA.

More recently, the Spanish statistical office, conscious of the problems of underestimation of the EPA has undertaken a complete renovation of the sample used in the EPA. Starting in the first quarter of 1995, the old sections have been renewed. In order to avoid a sharp break in the series, as well as to maintain the partial panel nature of the survey (as already mentioned, each household in interviewed in six successive quarters), the process has been phased during six quarters. By the second quarter of 1996, the process of renovation has been completed. It is thus possible to carry out a comparison similar to Figure I.27 to compare the renewed age and gender structure with that projected on the basis of the 1991 Census.

The results of such a comparison appear in Figure I.29. They suggest that the

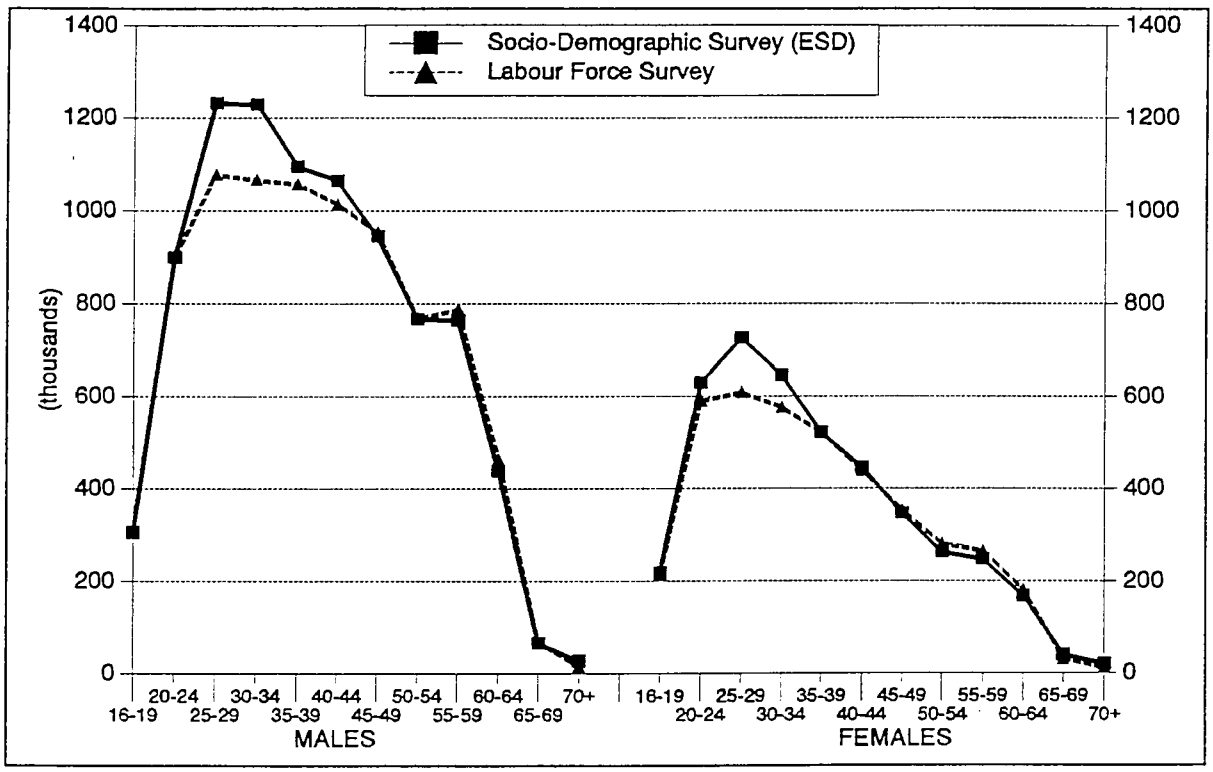

Figure I.28. Employed population by gender and 5-year age groups, according to the LFS (4th quarter 91) and the 1991 Socio-Demographic Survey.

renovation of the sample has corrected only partially, though substantially, the biases with respect to the Census-based projections. Thus, although there is still a sizeable proportion of people between 25 and 34 missing in the EPA figures, the overestimation for older ages is much less pronounced than it was in Figure I.27, especially in the case of women.

Summing up, the correction of the EPA bias would lead to a substantial increase in the number of employed people at the expense not so much of the unemployed but rather of the inactive. This correction would make the EPA more consistent with the SSR. On the whole, although the EPA has been (and still is) estimating in a biased way the age structure of the population, it can be safely argued that unemployment in Spain is in no substantial way a statistical artifact, not more at least than it is in its European partners.

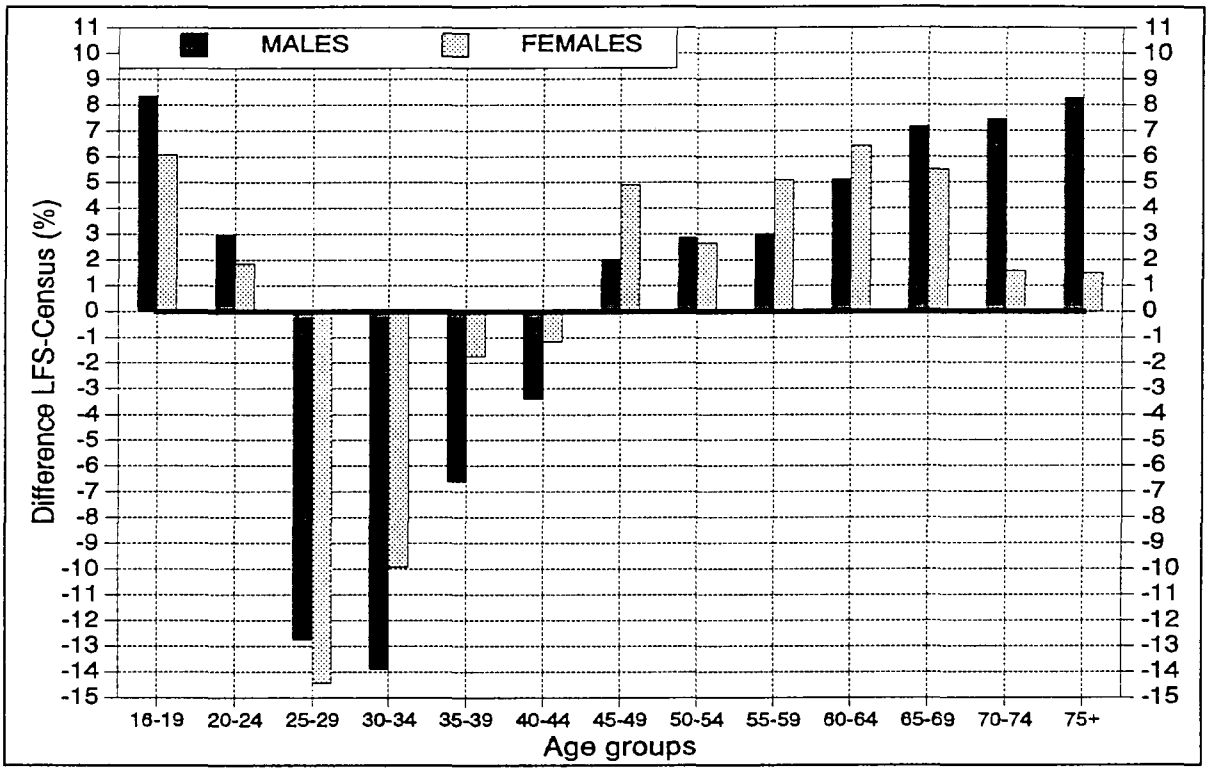

Figure I.29. Biases with respect to Census-based projections in the LFS estimation of the age-gender structure of the population, second quarter of 1996.

c) The underground economy

Spain is reputed to follow a Southern European pattern of having a large underground economy. We shall argue that this is to a large extent a myth.

Before proceeding, however, it is worth reminding that the notion of underground or hidden economy is not unique. Indeed, it can refer to three different phenomena: i) that part of GDP not recorded in official statistics; ii) that part of income not declared to the tax authorities; iii) that part of employment which is not recorded. This last strand may be divided in turn into two other versions, depending on whether recording relates to the EPA or the Social Security registers. Of course, although the three notions are distinct, they are related because the national accountants use all of them to establish their estimates. Thus, when sectorial estimates of GDP and employment give rise to unbelievable productivity estimates, either GDP or employment are not being properly estimated and should be corrected in some way. In addition, the three hidden economies can overlap, although this is not necessarily so: thus, it could happen that both GDP, income and employment in some sectors are missing in the statistics.

A recent assessment of the national accounting methods used by the Spanish Statistical Office, carried out, under the auspices of EUROSTAT, by a commission where independent experts sat together with statistical officials, concluded that the estimations of Spain's national accounting were sensible, and that the likelihood of a large proportion of economic activity being left unrecorded was low. This was based on the observation that most sectorial output estimates contained an upward correction from the original sources on which they relied.

The only case where the external experts were more skeptical was precisely in terms of employment, in which case the national accounts base their estimates on the EPA and only introduce substantial upward corrections in specific sectors such as education and public administration where other, more reliable, information is used. The problem here relates once again to the clear underestimation of employment by the EPA, already analized in the preceding sub-section.

Does that mean that unemployment is overestimated because the unemployed do in fact work in the unrecorded economy? The answer must definitely be negative. Once again, employment is underestimated but not at the expense of unemployment but at the expense of the population not in the labour force.

The use of the alternative notion of underground economy in Spain, relating to what

is dubbed "irregular employment", i.e. people working without paying Social Security dues, has created further confusion into this issue. Back in 1985, several public agencies (including the Ministries of Labour and of Finance, the Statistical Office and the Bank of Spain) launched the so-called "Working and Living Conditions Survey" (ECVT), the political purpose of which was to show that unemployment as measured by the EPA was grossly overestimated, mostly due to the underground economy. The technicians designing the survey were much more cautious: first, they devised the survey in a much wider perspective, as providing information on working and living conditions unavailable theretofore; secondly, they defined the underground economy in terms of irregular employment, by including questions relating to the position of individuals vis-a-vis the Social Security system.

The results of the ECVT were mixed. First, the estimations of employment and unemployment it provided, inasmuch as they could be compared with those provided by the EPA, indicated a somewhat lower unemployment rate (by 2-3 points, the EPA rate being over 21 per cent of the labour force) but a similar level of employment, *including* those working under irregular conditions, which represented some 20 per cent of employment. On this account, thus, it could be argued that the ECVT did not disprove the EPA, but rather confirmed that the latter was able to capture a significant proportion of people working under conditions which could be considered as defining an underground or hidden economy.

Despite the recommendations by labour market experts in favour of repeating the ECVT a few years later, this did not happen, so no later similar estimates exist. However, in the 1991 Socio-Demographic Survey (ESD, already referred to above), a question was included regarding the situation of individuals with respect to Social Security. The proportion of the employed population working without paying Social Security was around 10 per cent, i.e. much lower that in the ECVT, which is what was to be expected given the large increase in the use of fixed-term contracts in the second half of the 1980s. The important point here is that, as seen in Figure I.28 above, the ESD estimated a significantly higher level of employment than the EPA, but this was concentrated in the age groups for which the EPA is downward biased and had nothing to do with the irregular economy.

There is one further point to be mentioned. One of the reasons why it is thought that unemployment is overestimated in Spain is because unemployment benefits recipients are actually working. Data from the EPA can be illuminating here, as since 1987, as already mentioned, the EPA asks a question relating to the position of all individuals regarding the

employment offices, including whether or not they are beneficiaries of unemployment compensation. The argument would thus be that the EPA is likely to overestimate unemployment because unemployment benefit recipients who work would hide their activity.

There are two answers that can be given to this argument. First, and quite surprisingly, there is a non-negligible number of people who declare being working (and hence included among the employed) and getting paid unemployment compensation. They amount to 5 per cent of males and 4 per cent of females recipients in 1996. These figures may not be too high, it is true, but the very fact that they are not zero is what is surprising. Secondly, when a person is working and receiving unemployment compensation, the situation is illegal or at least not fully legal; the person has thus an incentive to hide one of the two situations when answering the EPA. The argument on unemployment assumes that employment is hidden. However, it could well happen that what is hidden is unemployment compensation. To give a clue on this issue, Figure I.30 provides the evolution of the total number of unemployment beneficiaries according to the EPA and the actual number of beneficiaries receiving their monthly check from INEM. As can be seen, the EPA and INEM figures follow a similar trend, with the EPA figures always being below the INEM. As the two groups being compared are fully homogeneous, it can be argued that the gap corresponds to people who do not declare in the EPA that they are receiving unemployment benefits. Incidentally, the trends in Figure I.30 lend further support to the idea that the figure of unemployment based on INEM's registers is quite suspicious, as it does not follow in any way the upward trend of both the EPA unemployment and the INEM's unemployment beneficiaries series.

On the whole, thus, although it is possible that some of the unemployed included in the EPA estimates do carry out some work, the various evidences available tend to suggest that this cannot be of much significance, certainly not more than 1 or 2 points of unemployment, barely enough to account for the extremely high level of unemployment in Spain.

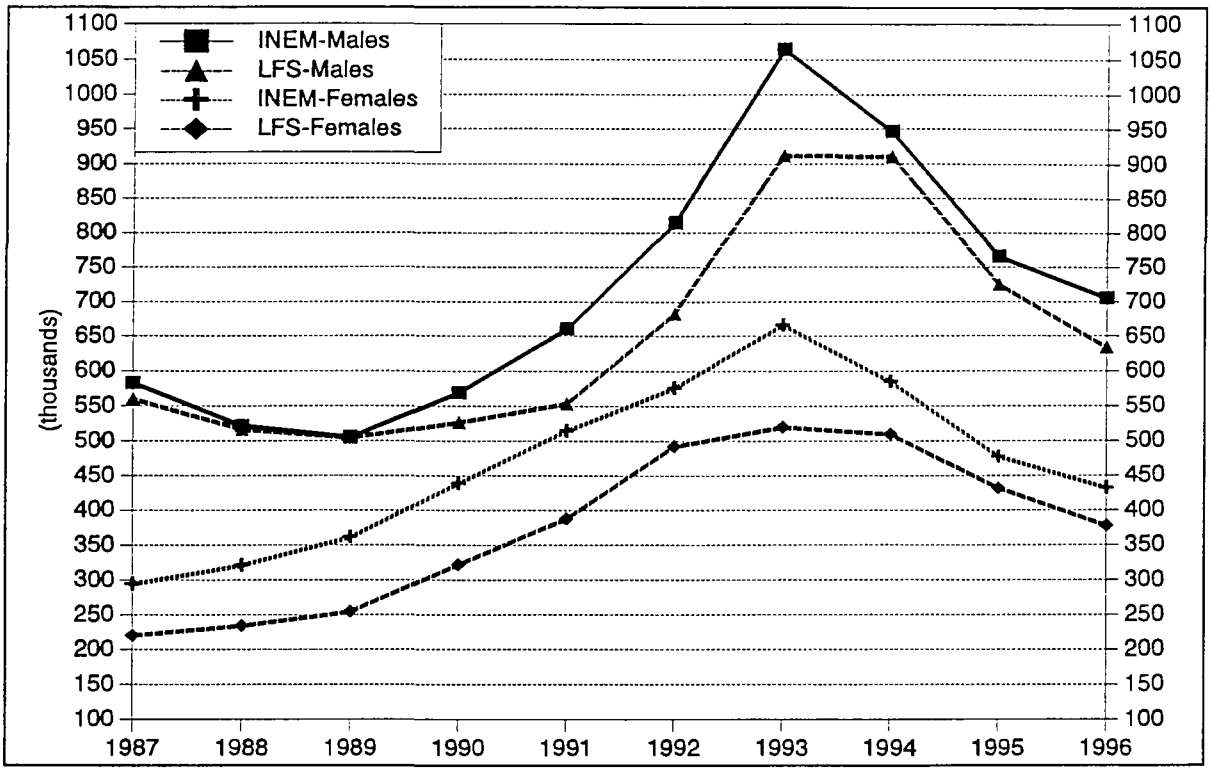

Figure I.30. Comparison between the EPA estimates of beneficiaries of unemployment compensation and the actual number of beneficiaries paid by INEM, 1987-1996 (second quarter average figures).

d) Age and gender variations

When we split up the unemployment rate by gender and age groups, some interesting results appear. The first one is showed by the fact of the different incidence of unemployment on men and women. We must stress one of the most common results of the evolution of participation rate showed in previous section. We saw that the male participation rate is more than twice the female rate and that many women entered the labour force in the second half of the 1980s. Figure I.31 shows the evolution of the unemployment rate by gender.

The unemployment rate has always been higher for women than for men. However, the significant differences start to appear in the second half of the 1980s. Thus, while the male unemployment rate starts to decrease in 1986, the female rate keeps increasing until 1988 and then drops again. A second feature of this figure is that the record-high level reached in 1994 by unemployment is explained by the female rate, which reaches a substantially higher rate than in 1985. However, the male rate just reaches its 1985 level but

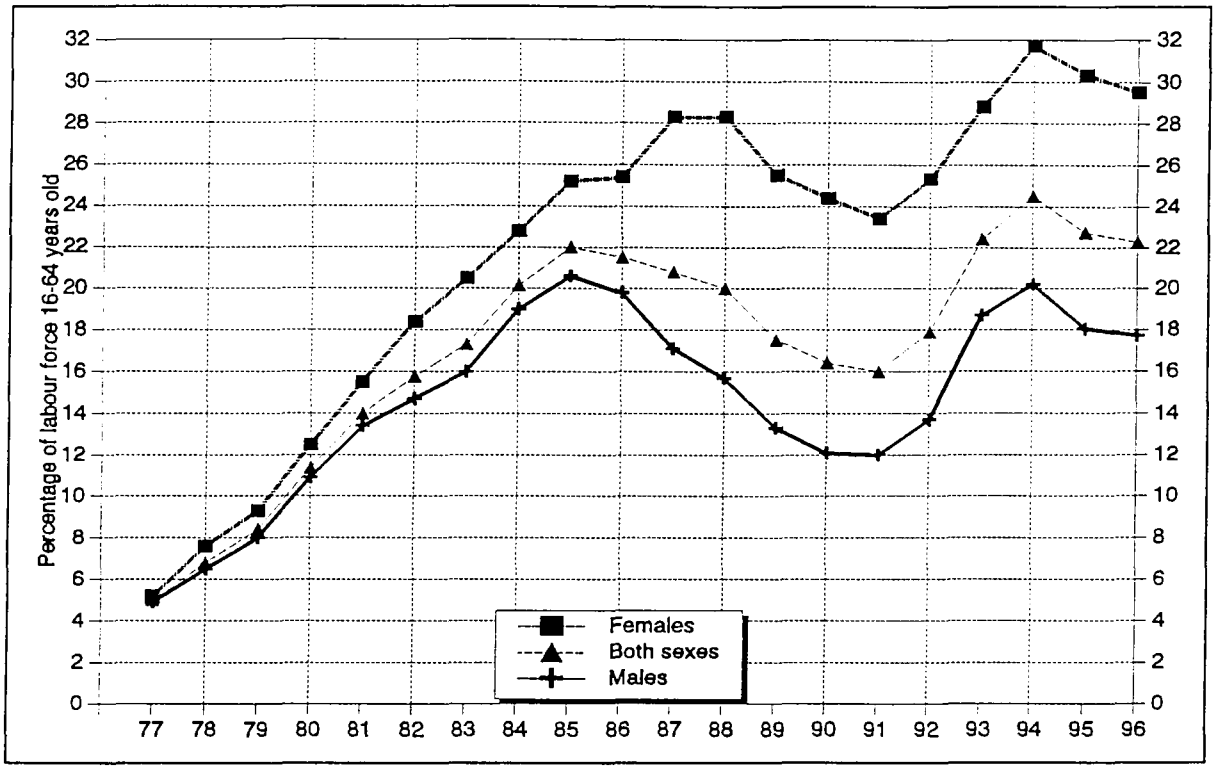

Figure I.31. Standard unemployment rates (as a percentage of labour force 16-64) by gender, 1977-1996 (second quarter) Source: EPA.

does not go beyond it.

From this picture, one can see that male and female unemployment have followed very divergent patterns. However, if one considers total population, as opposed to the labour force, as the reference for the calculation of the unemployment rate, the opposite trend emerges. As Figure I.32 shows, male and female absolute unemployment rates have tended to converge. That is, if one considered that the so-classified inactive women who spend their time as housewives are carrying out productive tasks, and hence ought to be included in the economically active labour force, the female unemployment rate would be much smaller and growing into convergence from (rather than divergence from) the male rate. Of course, this is quite unconventional and should merely be taken as an illustration of the information being provided. Most importantly, it does not preclude a clear conclusion that can be reached from the data: unemployment has progressively become less of a male phenomenon. At present, half of the unemployed are female (as opposed to 1/3 of the employed).

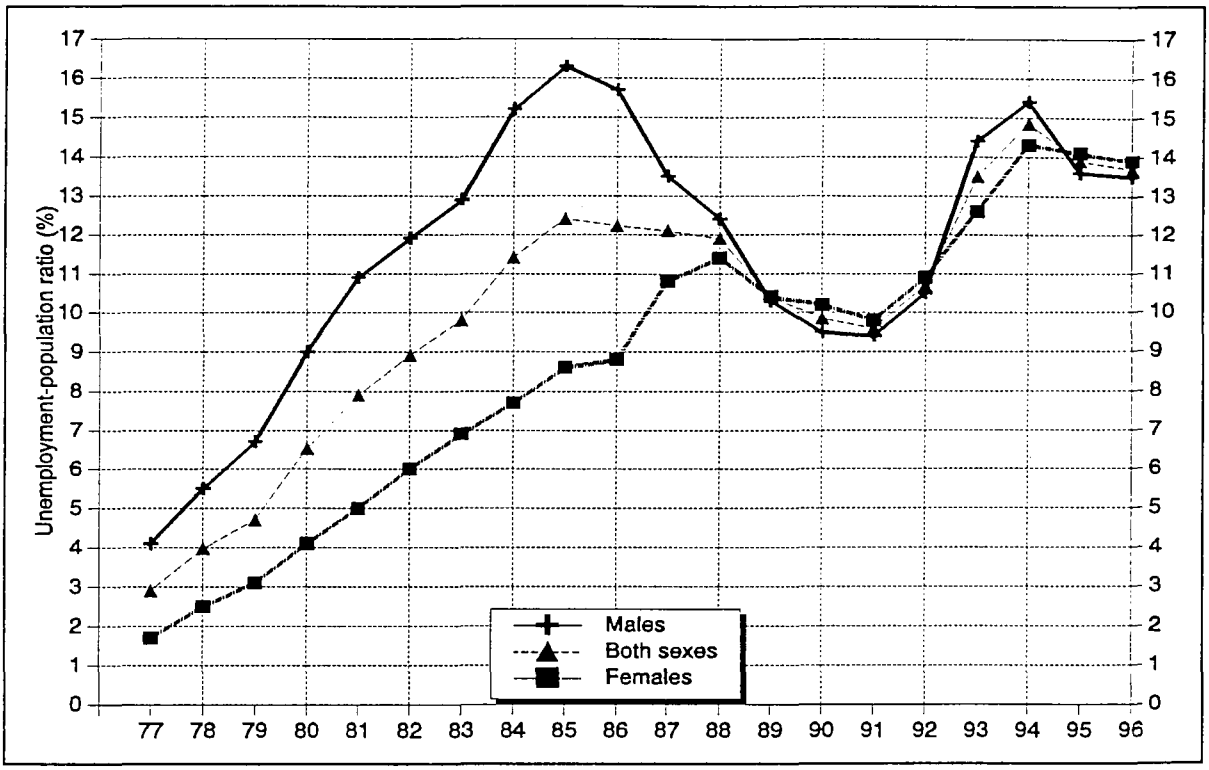

Figure I.32. Absolute unemployment rates (with respect to total population under 65), 1977-96, second quarter. Source: EPA.

Turning to the relationship between age and unemployment rates, it is necessary not only to distinguish by gender, as the preceding analysis clearly suggests, but also by the various life cycle situations of individuals. In fact, two main processes may be separated: the phase of integration into the labour market, which broadly speaking takes place until age 30-34, and the phase of exit from the labour market, which starts at age 45-49. Considering that the central ages of 35-44 represent both the ending point of the integration phase and the starting point of the exit phase, they can be taken as reference points for both of them. Thus, Figures I.33 and I.34 present the evolution over the period 1977-1996 of the age specific unemployment rates by gender.

Considering first the phase of integration, it can be clearly seen that, both in the case of males and females, there is a clear negative relationship between age and unemployment, this being so both in times of relatively low aggregate unemployment rates (the late 1970s, the late 1980s and early 1990s) and in times of worse economic conditions, such as the mid-1980s and mid-1990s. However, the recovery of the lae 1980s and the crisis of the early 1990s appear to have affected less than could have been expected the younger groups. Thus, in the case of males, the 1994 rates were lower than the rates for 1985, this being so despite

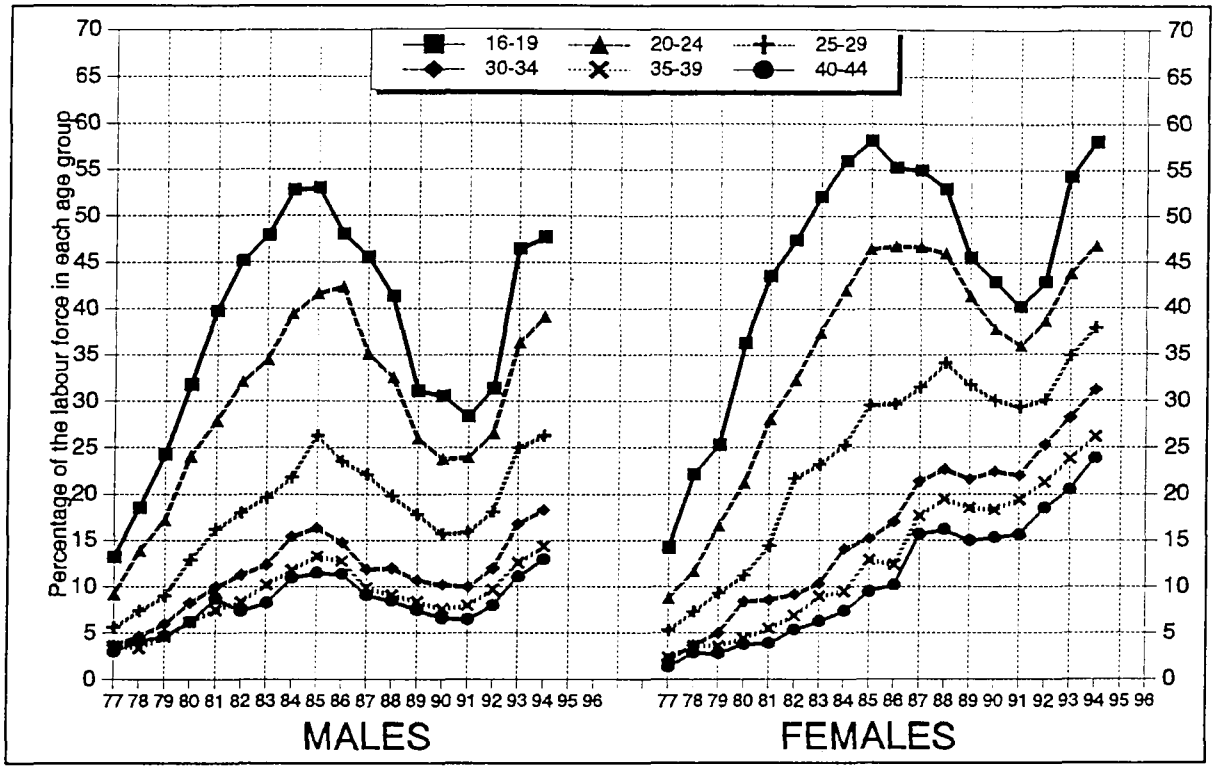

Figure I.33. Unemployment rates by age and gender, 16-44 age group, 1977-1996, second quarter (Source: EPA).

the fact the the aggregate male unemployment rate was similar in both years. In the case of females, a similar pattern is also true but only for the two youngest age groups. For women in their late twenties and, especially, for women in their thirties, unemployment has tended to worsen almost all through the period we are considering.

As for unemployment rates of those over 35, represented in Figure I.34, it should first be noted that the scale of the graph has been increased, in order to make the graphs easier to read. In the case of males, the rates follow a very similar evolution for all age groups, and the differences between them tend to be smaller than in the case of the age groups of the phase of integration. Still, the age group 55-59 is noticeable for its somewhat higher unemployment rate, especially for its increase in 1994 as compared to 1985.

As for females, the reduction of rates with age, already observed in the phase of integration, is also visible here. At the same time, the general upward trend of the unemployment rates can also be observed for these groups.

On the whole, age differences have tended to persist despite the wide variations of the aggregate unemployment rates, although there was a marked tendency towards a reduction of the differentials during the boom period of the late 1980s.

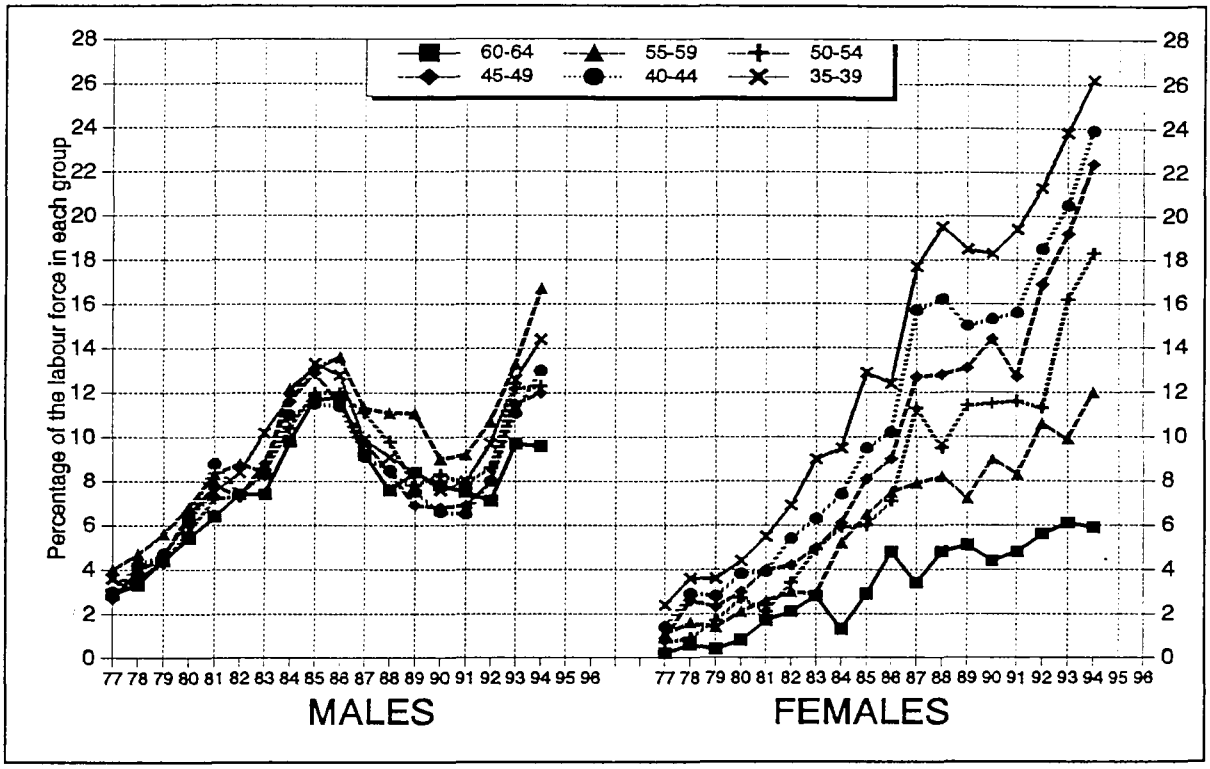

Figure I.34. Unemployment rates by age and gender, 35-64 age group, 1977-1996, second quarter (Source: EPA).

e) The skill level of the unemployed

One important dimension of the unemployment problem refers to the possible higher incidence of this phenomenon among the least qualified. In order to deal with this issue, Figure I.35 presents the evolution between 1987 and 1996 of the proportion of unemployed with at most a basic level of education, corresponding to 8 years of schooling, which until very recently was the compulsory level in Spain. A distinction is made between first-job seekers and unemployed with past job experience, as the age differences between the two groups is likely to exert a significant influence in their levels of education. In order to provide some reference, a similar proportion is computed for those with a job. In addition, the analysis is carried out separately for males and for females, given the differences between them analyzed above.

As can be seen, unemployment tends to be concentrated among those with o lower level of education. As a group, the unemployed with past job experience tend to be less educated than those who have a job. This is true for males and females and has remained a constant despite the general increase in the level of education of population as a whole. This

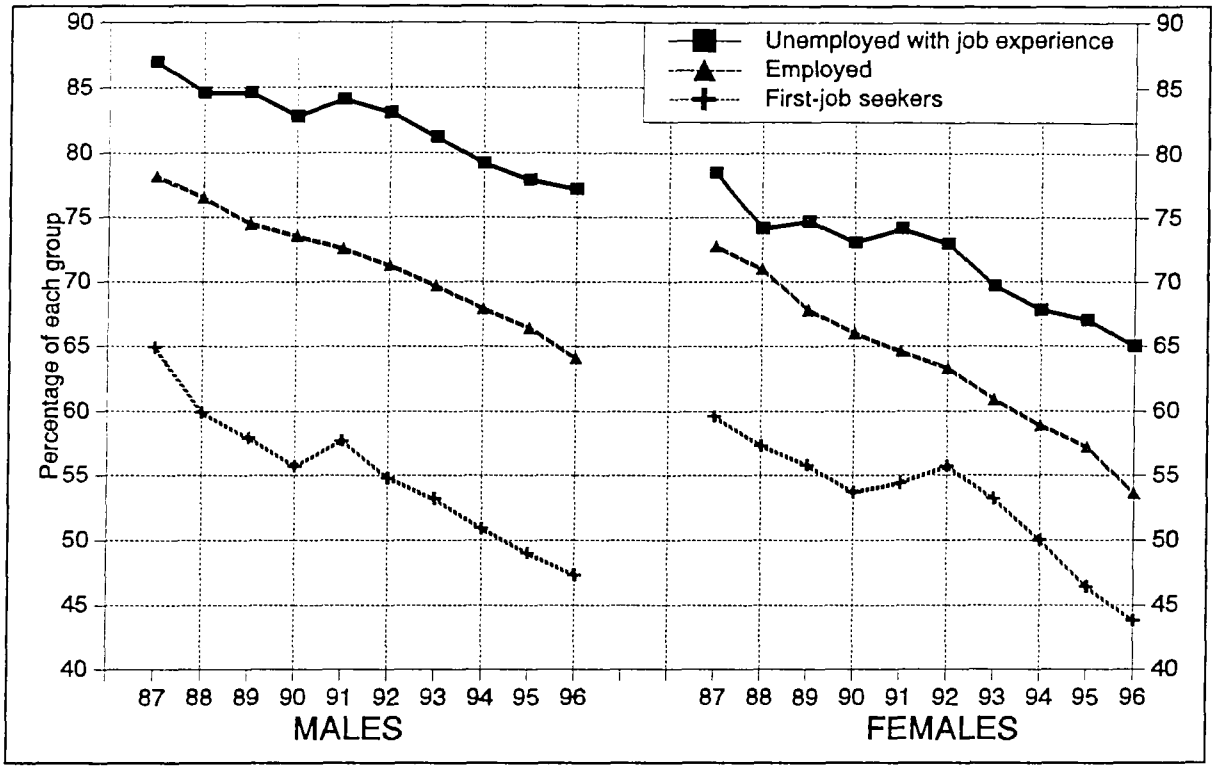

Figure I.35. Proportion of employed, first-job seekers and unemployed with past job experience who have only the basic level of education, by gender, 1987-1996 (second quarter) (Source: EPA).

general increase is behind the fact that first job seekers, who are obviously younger than either the employed or the unemployed with past job experience, are the group with the lower proportion of people with basic education or less.

This analysis of the skill level of the unemployed refers to stocks of unemployed and employed people. While a negative relationship has been established between the level of education and the probability of being unemployed, it is worth considering whether such relationship also exists in terms of flows of entry into and exit from employment. The presumption is that people with higher levels of education should show a higher propensity to leave unemployment and a higher probability of keeping their jobs. The matched files of the EPA, taking advantage of its partial sample stability, provide the possibility of dealing with this issue. Pooling the information for the period 1992-1996 (in order to get enough sample size), we have estimated two models referring to the probability of leaving unemployment towards employment and the probability of losing a job and becoming unemployed, separating, as usual, males and females (the full results of these models are presented in Appendix 1 of the Report).

Figure I.36 presents the results regarding the probability of finding a job thereby leaving unemployment (i.e. flows from out of the labour force are not being considered). As can be observed, there is a clearer positive relationship between education level and the probability of leaving unemployment in the case of females, where three broad groups can be established: those without any level of education, who have the lowest probability, those with an intermediate level of education, comprising primary through upper secondary education, among whom there appear to be no significant differences, and those with an upper vocational training or university degree, for whom the probability is clearly higher. In the case of males, however, the relationship is much less clear. Those with vocational training degrees (either first or second level) present a higher probability of leaving unemployment, followed by those with university degrees and those with a basic level of education (equivalent to 8 years of study). Those without education or with only primary education have the lowest probability, together with those with upper secondary.

As for the probability of losing a job and becoming unemployed, the results of which appear graphed in Figure I.37, the relationship with education is stronger: those with a higher level of education tend to show a lower probability of losing their job. This result tends to suggest that while education may not be as important a factor as could have been

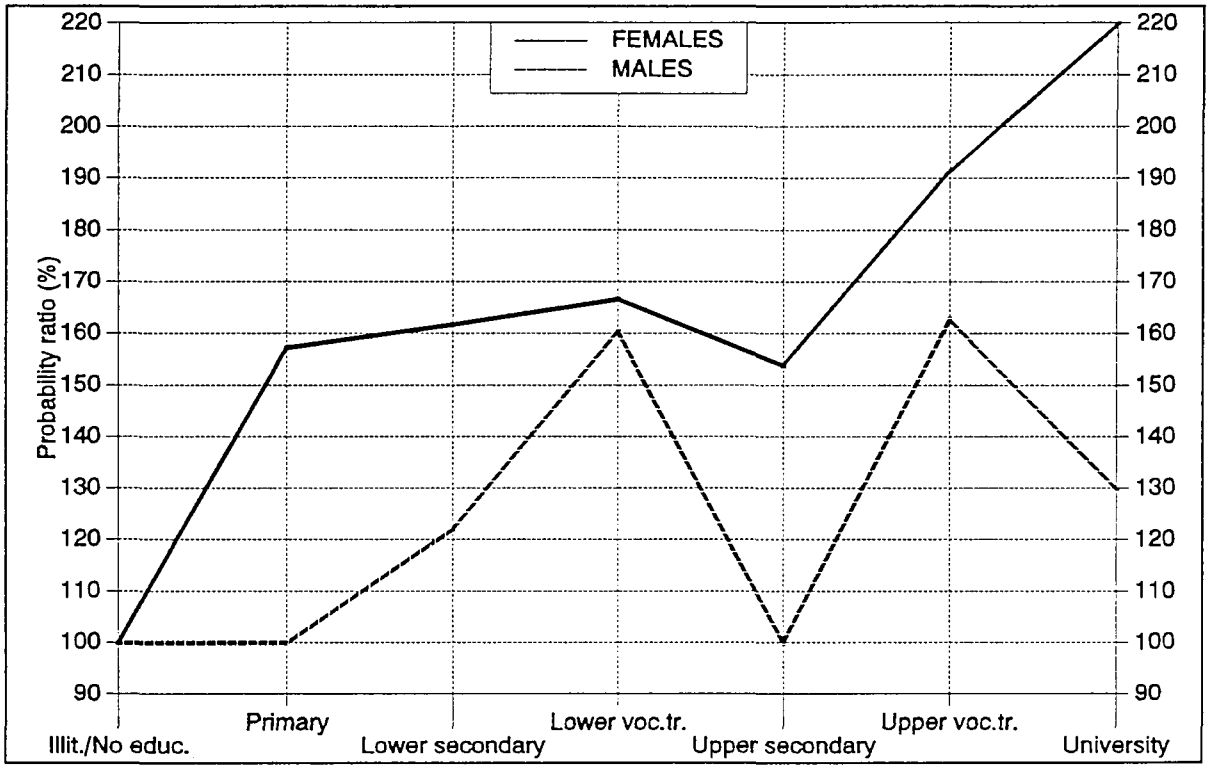

Figure I.36. The probability of leaving unemployment and finding a job depending on the level of education, by gender, 1992-1996 (pooled data from the matched EPA files).

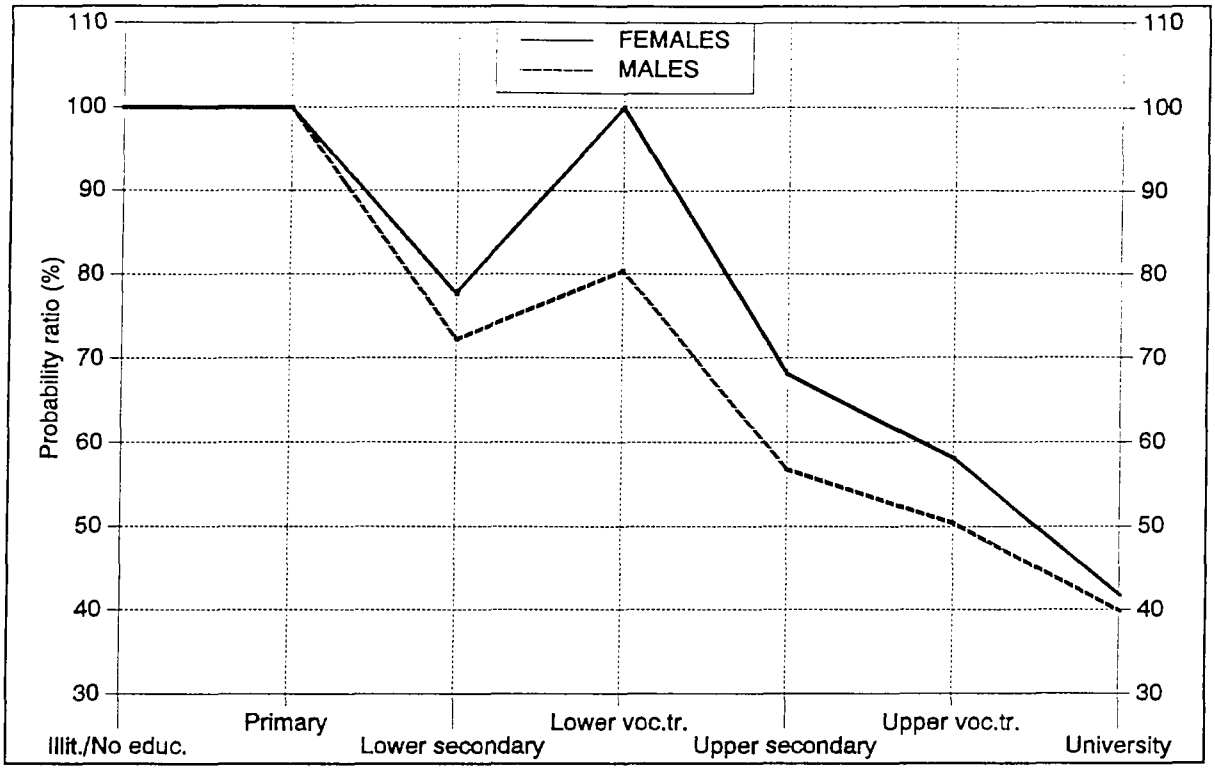

Figure I.37. The probability of losing a job and becoming unemployed depending on the level of education, by gender, 1992-1996 (pooled data from the matched EPA files).

expected in accessing jobs, probably because the type of jobs that are being created are not so qualifications-demanding or because the unemployed with higher levels of education are more choosy and only accept "good matches", it is certainly a sort of an insurance against job loss: having more education guarantees a higher employment stability.

f) Long-term unemployment

A relevant aspect of the evolution and incidence of unemployment relates to long-term unemployment, which in Spain reaches substantial proportions. Various analyses on the evolution of long-term unemployment suggest that there may be a problematic relation between the level of unemployment and the level of long-term unemployment. This would occur when a positive development in unemployment is associated with an increase in the proportion of those who remain for a long time without a job (the "long-term unemployed"). This "ratchet effect" is the result of the so-called "long-term unemployment trap" whereby people who have been more time without a job tend to experience higher difficulties to find a job when new opportunities arise. Sometimes known as "duration dependence", it implies that the probability of exiting the situation of unemployment is worse for those who have

been unemployed for more time.

Long-term unemployment is usually defined as the proportion of the unemployed who have been without a job for at least one year. Figure I.38 presents the evolution of such indicator in Spain over the period 1977-1996. For comparison purposes, the rate of unemployment is also graphed. The information in Figure I.38 suggests a quite parallel evolution of the unemployment rate and the proportion of long-term unemployed, with the only exception of the year 1995, when the proportion of long-term unemployed kept increasing despite the reduction in total unemployment. In addition, the crisis of the early 1990s, with its very rapid translation in high unemployment figures has not been followed by a rapid increase in the proportion of long-term unemployed. This is contrary to what happened during the crisis of the late 1970s and early 1980s, when the builup of unemployment tended to be followed by a continuous increase in the weight of the long-term unemployed. At present, although the aggregate unemployment rate has been for 3 years higher than it was at the height of the previous recession (1985), the proportion of unemployed who have been at least 1 year in that situation is substantially lower.

From these very aggregate figures, one could thus conclude that Spain has not been hit by the "ratchet effect" observed elsewhere (OECD, 1993) and that being a long-term

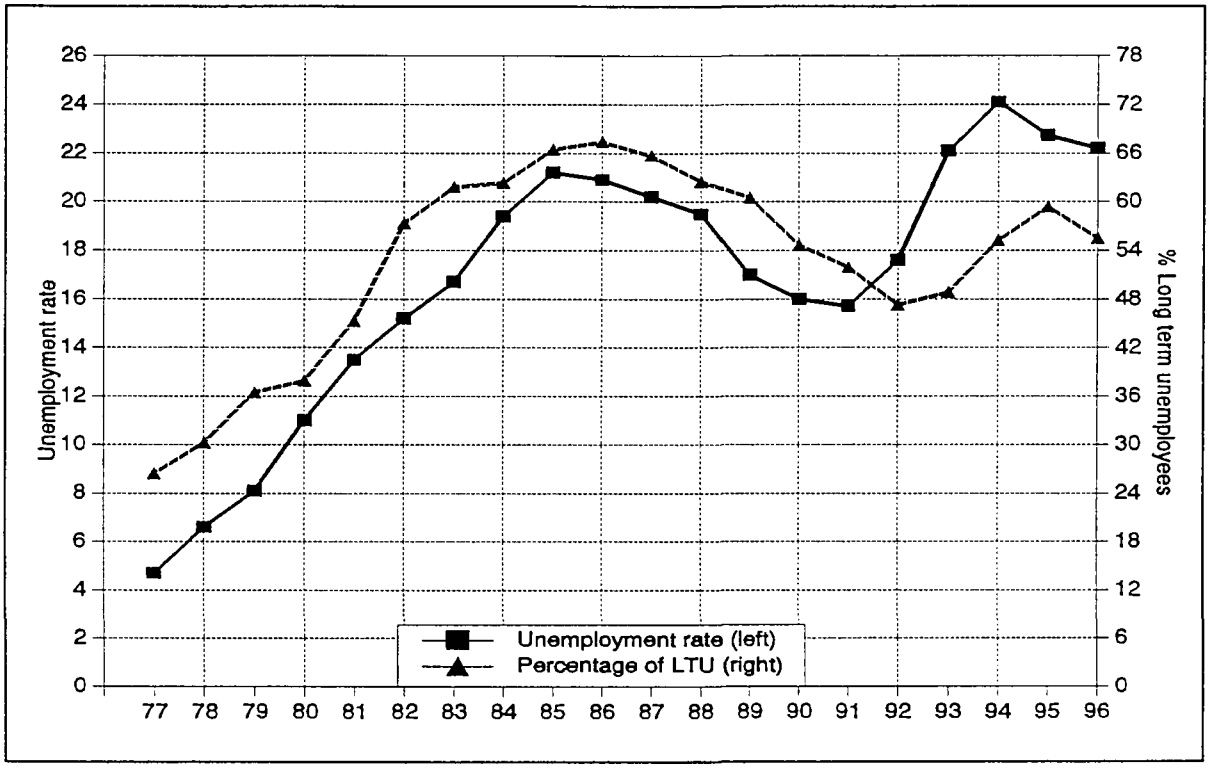

Figure I.38. Unemployment rate and percentage of long term unemployment, 1977-1996 (second quarter) (Source: EPA).

unemployed does not entail a significant disadvantage in the labour market.

However, before accepting this conclusion as good, it is necessary to adopt a longitudinal perspective, aimed at specifically following over time the fortunes of the unemployed. One such possibility is explored in Figure I.39, where two transition probabilities are calculated depending on the search time. These probabilities are based on the comparison between the unemployed with a certain search duration (say d years) at one point and the unemployed with d+1 years of search duration one year later. The information contained in Figure I.39 does indicate that, contrary to the conclusion suggested in the aggregate analysis above, the long-term unemployed (those with at least 1 year of search) have a higher probability of becoming "very" long-term unemployed (i.e. showing 2 years of search) than the short-term unemployed have of becoming long-term unemployed. In sum, dependence duration is clearly observed.

The preceding analysis is still too aggregate, however, as the intervals for the establishment of the transition probabilities are too wide and the follow-up of the individuals unemployed is somewhat fictitious.

In order to overcome these limitations, it is possible to use once again the matched files of the EPA, which allow a follow up of individuals over time. Figure I.40 shows the

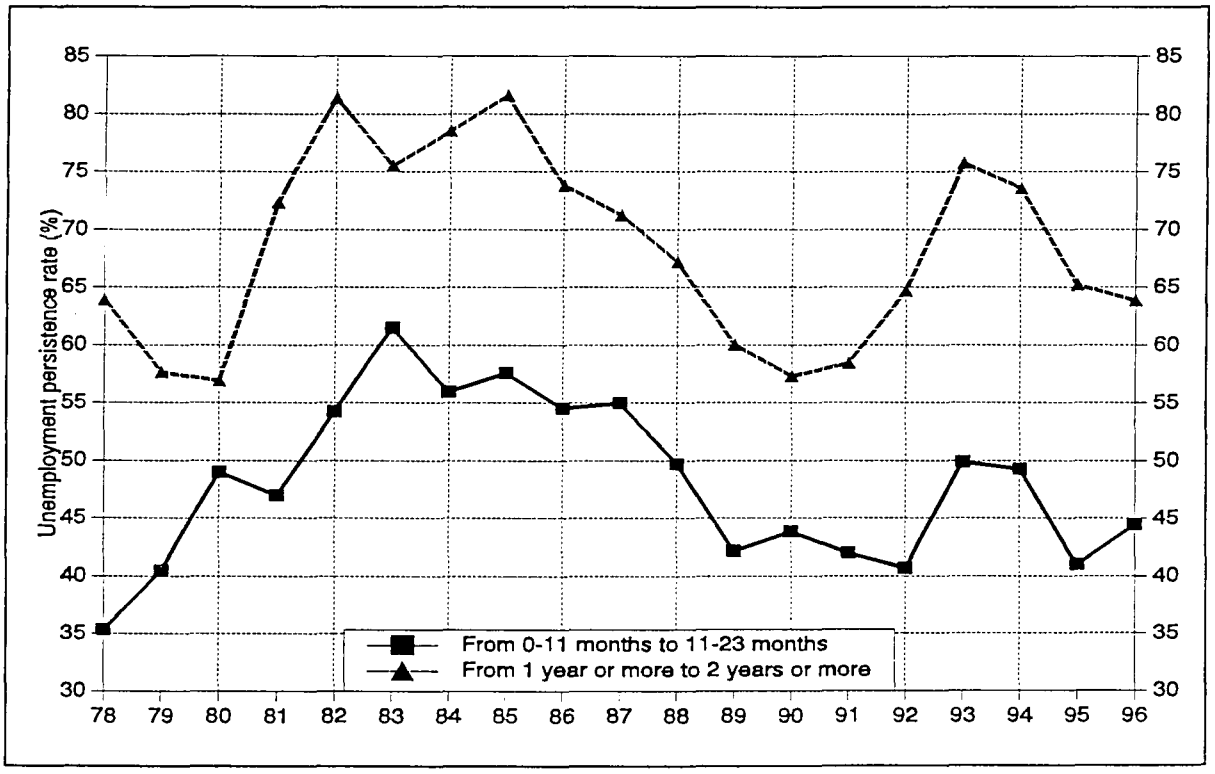

Figure I.39. Rates of unemployment persistence with respect to the year before, according to search duration, 1978-1996 (Source: EPA).

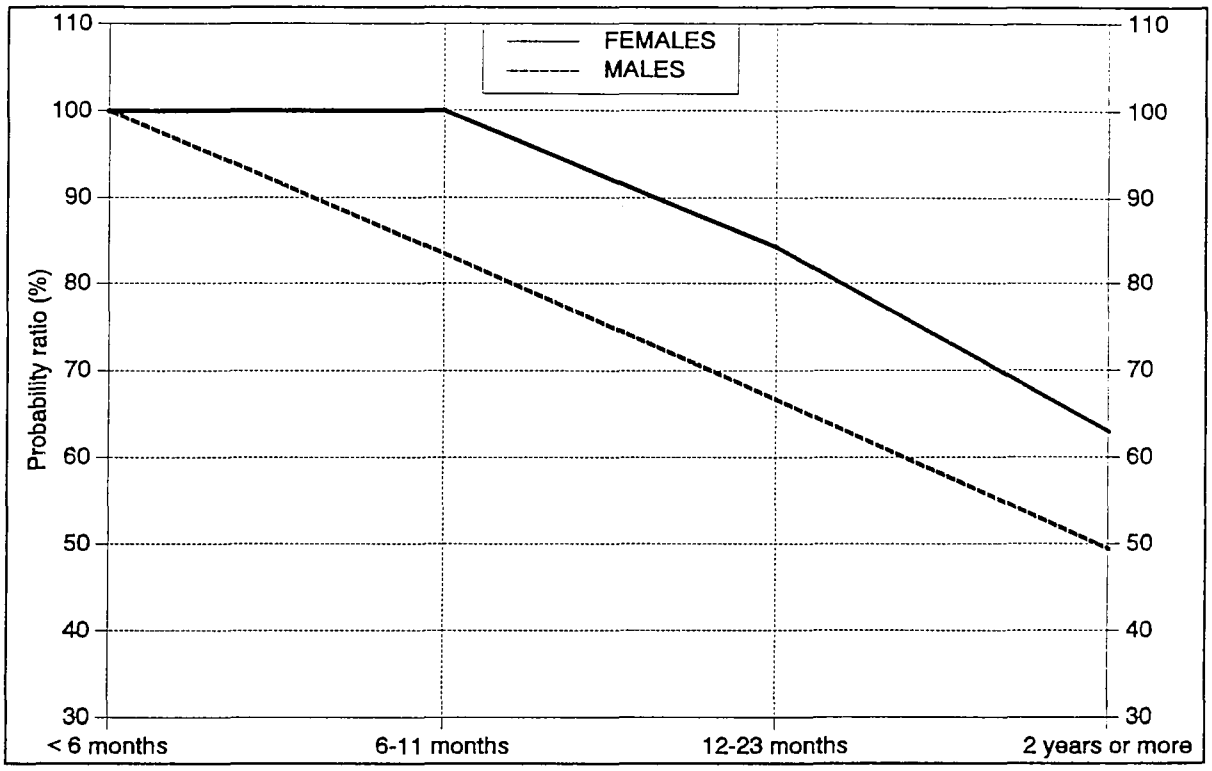

Figure I.40. The probability of losing a job and becoming unemployed depending on the length of job search, by gender, 1992-1996 (pooled data from the matched EPA files).

relationship between the probability of leaving unemployment and the search duration at the initial point, using the pooled sample data for the period 1992-1996 described in Appendix 1. As can be observed, both in the case of males and in the case of females (although somewhat less strongly in this latter case), a clear duration dependence can be established.

Summing up, the problem of long-term unemployment appears to be due to complex causes. Nevertheless, although apparently no aggregate "ratchet effect" is being oberved in Spain, in the sense that both unemployment and long-term unemployment tend to follow similar trends, a more microeconomic analysis clearly indicates that there longer unemployment duration is associated with a lower ability to find jobs. In other words, Spain appears to have a specific long-term unemployment problem, added to the general problem of joblessness.

g) Regional variations

We have already noted, when dealing with employment, that there are significant and persistent regional differences within Spain. In this section, we deal with the same issue from the perspective of unemployment.

Table I.4 presents the evolution of regional unemployment rates in Spain between 1976 and 1995. To better read the information contained in the table, the regions have been ordered according to the 1995 unemployment rate and their rank (from highest to lowest) has also been included in the table.

The information in Table I.4 indicates a noticeable stability regarding the relative unemployment position of the different regions. Thus, the Southern regions of Andalucía, Extremadura, Canarias and the North African towns of Ceuta and Melilla appear in all of the years at the top of the ranking (i.e. in the worst position). In the other extreme, Aragón, La Rioja, Navarra and Galicia have always tended to show the lowest unemployment rates.

Some of the regions have experienced sensible changes. This is the case of Murcia and Canarias, which have tended to worsen, and Madrid which has tended to improve.

One way to analyze the variability of the ranking of regions is to calculate the Spearman rank correlation coefficient. This measure, which varies between 0 and 1, takes value 1 when all ranks remains unchanged and value 0 when the ranking is completely turned upside down. We have also included in Table I.4 the values of this coefficient between the different pairs of successive years considered. In general, it tends to show quite high values, especially in the periods 1981-1985 and 1989-1995, marked both by a recession. By contrast, during the first part of the earlier recession (1976-81) as well as during the recovery period (1985-89), the value of the coefficient is much smaller, indicating stronger changes in the ranking of the regions. In all cases, the coefficients are statistically significant, indicating a positive relationship between the various rankings.

If we compare the 1976 ranking with that observed in 1995, only two regions, Navarra and Baleares, have experienced a significant changes, improving 10 and 9 places respectively; on the other hand, Cantabria and Castilla y León have been the two regions with the most significant downwards movement, with 7 and 6 places. The remaining 13 regions have experienced smaller changes in their ranks. On the whole, the Spearman correlation coefficient takes a value of 0.84 between 1976 and 1995; taking into account the distance of 20 years, this figure must be considered rather high.

Table I.4. Unemployment rate in the different Spanish regions, 1976-1995 (fourth quarters) Regions ranked according to their 1995 rates (Source: EPA, homogeneous series).

	1976	1981	1985	1989	1995
Andalucía	10.0	22.0	30.6	27.2	34.0
Extremadura	5.7	19.9	27.3	26.3	30.9
Ceuta y Melilla	9.7	25.7	37.2	27.5	29.7
Canarias	8.9	17.7	24.7	20.8	23.7
Cantabria	3.5	10.8	16.0	16.1	23.3
País Vasco	3.9	17.3	23.0	18.8	22.7
Murcia	5.1	12.7	18.6	15.7	22.2
Castilla y León	3.2	11.3	18.2	15.7	21.3
Madrid	4.8	15.8	22.8	12.6	21.1
Comunidad Valenciana	3.4	14.9	19.9	15.2	20.1
Castilla-La Mancha	4.2	14.6	15.4	14.0	20.0
Cataluña	3.8	16.6	21.7	13.7	19.9
Asturias	2.9	12.5	18.3	18.5	18.3
Galicia	1.7	6.1	12.6	11.5	18.0
Aragón	2.7	13.0	16.5	11.7	15.7
La Rioja	1.3	8.3	16.5	9.3	15.0
Baleares	4.4	10.8	14.3	11.5	14.9
Navarra	4.0	13.0	19.1	11.9	13.0
Spain	4.8	15.3	21.5	16.9	22.8
Ranking in terms of unemployment rate for each year					
Andalucía	1	2	2	2	1
Extremadura	4	3	3	3	2
Ceuta y Melilla	2	1	1	1	3
Canarias	3	4	4	4	4
Cantabria	12	16	15	7	5
País Vasco	10	5	5	5	6
Murcia	5	12	10	8	7
Castilla y León	14	14	12	9	8
Madrid	7	15	17	16	9
Comunidad Valenciana	13	8	8	10	10
Castilla-La Mancha	8	9	16	11	11
Cataluña	11	6	7	12	12
Asturias	15	13	11	6	13
Galicia	17	18	18	17	14
Aragón	16	10	14	15	15
La Rioja	18	17	13	18	16
Baleares	7	15	17	16	17
Navarra	9	11	9	14	18
Spearman Correlation Coeff.	--	0.74	0.90	0.81	0.87

The preceding analysis only refers to the relative position of the regions, without taking into account the distances existing between them. In order to duly take into account such distances, two indicators may be computed: first, the sum of the absolute value of the deviations of the regional unemployment rates from the national average (weighted by the regional labour force shares), which will provide an indicator of *absolute dispersion*;

secondly, half the variance of the ratio between the regional unemployment rates and the national average (known as the "MM" indicator, see Padoa-Schioppa, 1991). The evolution of both indicators between 1976 and 1996 appears plotted in Figures I.41 and I.42.

The evolution of both indicators is divergent, as could be expected given the strong variations of the aggregate unemployment rate. Thus, while the absolute dispersion measure has tended to increase, the relative indicator has tended generally to decrease. Within this general trend, however, more specific observations can be made. Leaving aside 1983, which appears as an outlier, absolute dispersion has tended to increase until 1991, more strongly until 1983 and more mildly during the expansionary second half of the 1980s. The ensuing recession has brought about a reduction of the indicator, which has continued in the current expansion, taking it back to values similar to those observed in the mid-1980s. With the caveat of this latter period, thus, and leaving aside the initial period of unemployment buildup, it can be argued that during recessions dispersion tends to get reduced and that expansions increase it.

As for relative dispersion, it tended to decrease markedly until 1981, remaining more or less stable until 1986, when it started to increase. In the recession of the early 1990s, it decreased again, and in the current recovery it has tended to moderately expand.

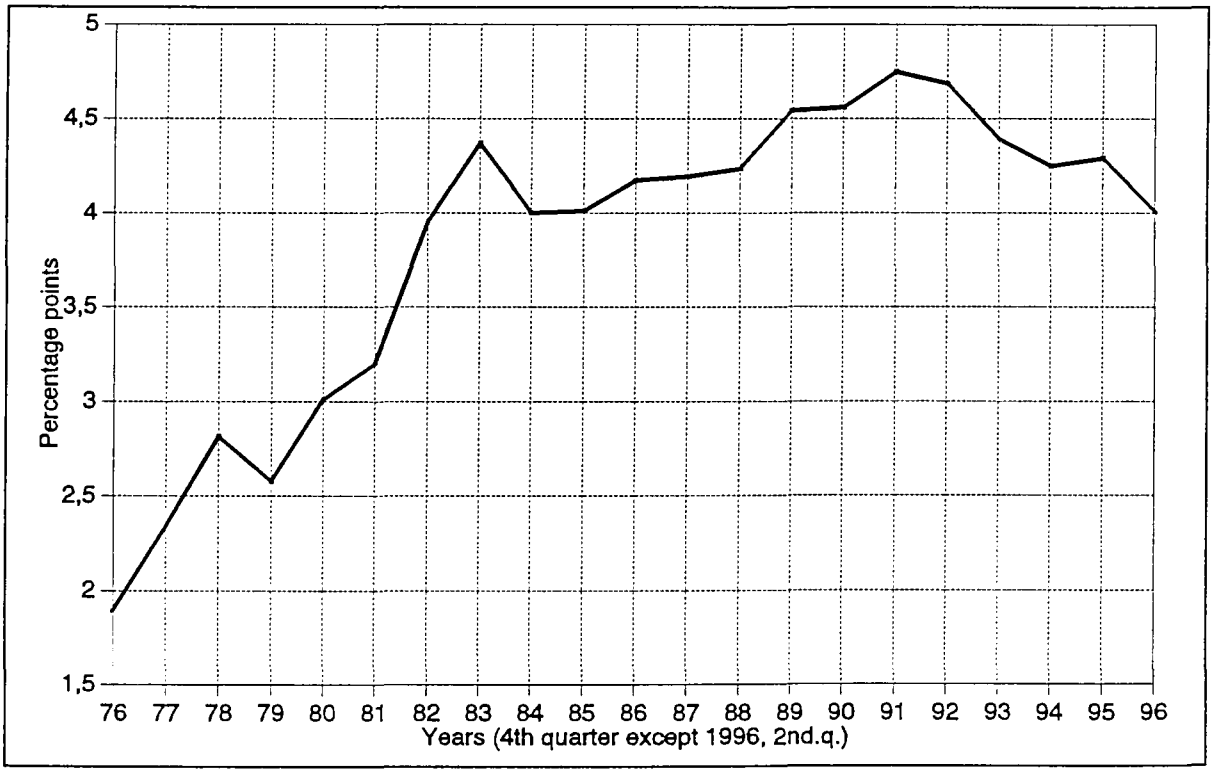

Figure I.41. Evolution of the absolute regional unemployment dispersion around the national average, 1976-1996 (4th. quarter, except 1996, 2nd. quarter).

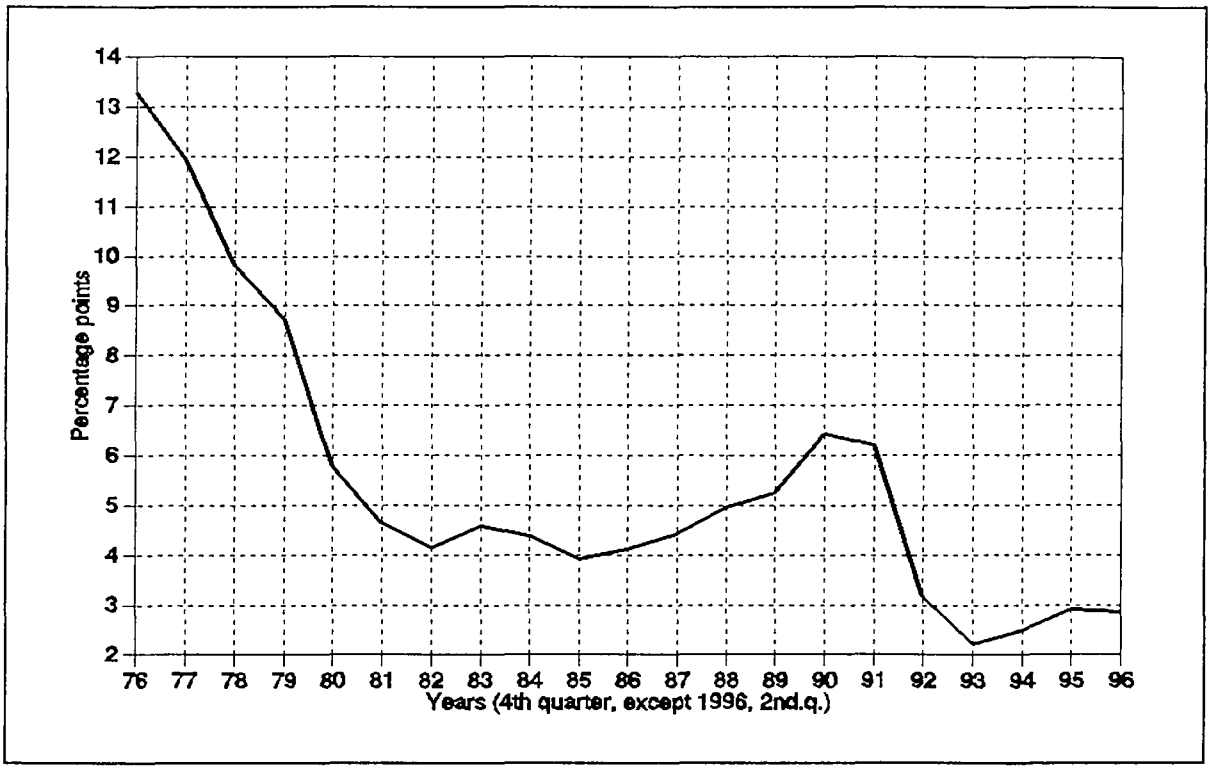

Figure I.42. Evolution of the relative regional unemployment dispersion around the national average, 1976-1996 (4th. quarter, except 1996, 2nd. quarter).

Thus, while it appears at first that both indicators behave in opposite ways, if one considers a period in which the unemployment rate has experienced relatively moderate fluctuations, a negative relationship between regional dispersion and the national unemployment rate, the only exception being the current recovery in which absolute dispersion has tended to decline in parallel with very modest declines in the national unemployment rate. So, when unemployment rate decreased during the recovery period of the late 1980s, regional dispersion tended to increase probably due to the fact that economic growth was distributed in a rather uneven way among the different regions. During the recession of the early 1990s, dispersion tended to decline, although in absolute terms following a higher path. This was probably due to the fact that the recession hit worst those regions which had experienced a better performance during the recovery. The current recovery has again been associated with an increase in the relative dispersion measure, in line with the argument just presented, although in absolute terms there has been a decline.

Summing up, from the point of view of unemployment rates, it can be argued that regional differences have tended to persist. On the other hand, the regional dispersion indicators have tended to behave anti-cyclically, i.e. when national unemployment has

decreased, regional dispersion has tended to increase and the opposite has occurred whennational unemployment has tended to rise.

The mainstream argument to explain this behaviour of the regional differences is that Spain is segmented in closed regional labour markets between which there is little or no mobility. This hypothesis has been put forward e.g. by Bentolila and Dolado (1991), who conclude that inter-regional migrations are indeed quite small, a fact which they try to relate to the regional wage differentials, differing housing prices, and so on. From a microeconomic point of view, using individual data, Antolín and Bover (1993) have also presented evidence in favour of such an interpretation.

h) Economic hardship and the family

To complete our analysis of unemployment, it is worth analysing their situation in terms of economic hardship. As we shall see, the main tenet of our analysis is that for most unemployed in Spain, their situation does not imply an economic hardship. The reason for this is that the household where the unemployed live provides an important safety net.

In order to investigate this point, the income situation of the households where the unemployed live will be analysed. Although not much information exists, there is one 1991 survey (the *Encuesta de Conciencia, Estructura y Biografía de Clase, ECBC*) which is representative of Spain as a whole and which provides information on the labour status of both the individual interviewed and the other members of the household as well as total family income (including sources) and the levels of equipment and services available within the household.

As only one point in time can be observed with this survey, complementary information shall be supplied based on the Labour Force Survey (EPA). Unfortunately, no quantitative income information is available from the EPA, where the only indicator is the existence of different types of income earners -employed, retirees and, from 1987 on, unemployment benefit recipients- in the household.

i) ECBC data

The ECBC is a survey carried out in 1991 to a sample of 6600 persons representative of Spanish society. Aiming at providing the basis for an analysis of classes in Spain, its questionnaire contains a very wide array of questions regarding the income and labour force situation of the individuals surveyed, as well as of the members of the household with whom s/he lives. From this information, it is possible to calculate the per capita household income (PCHI) of the individuals surveyed. Table I.5 presents the summary statistics of the distribution of PCHI, broken down according to the labour force status of the individuals surveyed. While the mean PCHI for population as a whole is around 40 thousand pesetas, the level corresponding to the unemployed is 28.9, i.e. 72% of that level. It is significantly lower than the level for the employed (59%), but not so much if one takes into account that labour earnings is the main source of earnings for most people. It is also somewhat lower than the level of those out of the labour force.

Table I.5 also provides indicators of the distribution for the different categories considered as well as two indicators of poverty levels:

- first, the conventional indicator based on the proportion of individuals whose PCHI is below 50% of the average national level;

- secondly, an indicator based on the proportion of individuals whose PCHI is below the level corresponding to the lowest decile for population as a whole; that level turns out to be 15 thousand pesetas, i.e. 37.5% of national average PCHI.

The results indicate that while some 20% of households in Spain are below the conventional definition of poverty level, this figure rises to 31-33% in the case of the unemployed. This figure is higher than average, as could be expected, but it can be argued that the differences are not that high. Turning upside down the figures, close to 70% of the unemployed live in households whose average per capita income is above the poverty level.

A similar picture emerges if one considers the second poverty indicator: while 10% of Spanish households live in a situation termed as "severe poverty", the proportion rises to 17% in the case of the unemployed. Once again, seen from the opposite side, it could be said that more than 80% of the unemployed are not living in conditions of severe poverty.

To further underpin these results, Table I.6 provides some indicators of the equipment of the households, once again broken down by the labour force status of the individuals surveyed. As can be seen, while people employed clearly enjoy a higher level of material

welfare, as shown by the higher proportion among them whose household has a micro-wave oven, a dishwasher or a vacuum-cleaner, the differences are much smaller in terms of other, more "basic" appliances, such as a washing machine, telephone, colour TV and videocassette recorder, and even hi-fi equipments, not to mention durables such as automobiles or housing.

Table I.5.- Distribution indicators of monthly per capita household income (in thousand pesetas) by labour force status of interviewees, and relative poverty indicators, 1991 (Source: Encuesta de Estructura, Conciencia y Biografía de Clase, specific exploitation of original data file).

Labour force status	Distribution indicators				% below poverty thresholds		Percentage distribution
	Mean	Median	Lowest decile	Uppest decile	(a)	(b)	
Employed	48.6	40.0	17.5	87.2	14-15.5	6.5	50.7
Unemployed	28.9	25.0	12.0	50.0	31-33	17	11.3
Students	43.9	36.0	17.5	83.3	13-14	7	2.7
Out of labour force	32.3	27.0	13.3	51.0	23-28	13-14	35.3
TOTAL	40.5	31.9	15.0	72.0	19-22	10	100.0

(a) Percentage of people whose monthly per capita household income is below 50% of average (i.e. 20 thousand pesetas); see note 3 for further details.

(b) Percentage of people whose monthly per capita household income is below income of the lowest decile for population as a whole (i.e. below 15 thousands pesetas).

What explains these results? The most important factor is that many of the the unemployed live in households where there are other people working. As a matter of fact, the analysis above could be made by households rather than individuals. The following four types of households may be defined:

- households with someone employed and no one unemployed
- households with both employed and unemployed
- households without any one employed and at least one unemployed
- households whose members are all out of the labour force.

Table I.7 provides a description similar to that of Table I.5. First of all, a bit less than 30% of households hit by unemployment (the second and third categories) correspond to a situation of full joblessness (6% out of 20.3%). Secondly, households fully hit by unemployment are in a much more precarious situations than any of the others; still almost half of them do not fall below the conventional poverty line, and 2/3 are above "severe poverty". Needless to say, having at work all those wishing to do so (the first category)

implies a much easier situation, although there are still a non-negligible proportion of households falling under the poverty lines considered. Nevertheless, any systematic connection between unemployment and poverty does not appear to exist.

Table I.6. Percentage of households with various equipments, by labour force status of interviewee (Source: Encuesta de Estructura, Conciencia y Biografía de Clase, specific exploitation of original data file).

Household equipment	Labour force status of interviewee					
	Employed	First-job seekers	Experienced unemployed	Students	Out of labour force	Average
Microwave oven	17.1	12.4	5.9	23.1	7.6	13.0
Dishwasher	19.2	15.2	7.8	44.4	10.5	16.0
Washing machine	96.9	96.8	94.2	97.9	94.3	95.8
Vacuum cleaner	43.5	43.6	28.4	74.3	29.2	38.4
Colour TV	96.3	97.3	95.3	100.0	94.0	95.6
VCR	61.1	61.8	53.4	68.1	44.4	55.1
Hi-fi equipment	46.7	43.1	39.6	66.9	25.6	39.4
Telephone	81.7	84.9	72.2	90.8	75.0	79.1
Automobile	83.0	77.4	73.3	90.5	62.5	75.4
Own house or apartment	79.8	74.7	72.9	86.9	81.6	79.9
Percentage distribution	51.1	3.8	7.7	3.1	34.3	100.0

Table I.7.- Distribution indicators of monthly per capita household income (in thousand pesetas) by type of households (Source: Encuesta de Estructura, Conciencia y Biografía de Clase, specific exploitation of original data file).

Type of household	Distribution indicators				% below poverty thresholds		Percentage distribution
	Mean	Median	Lowest decile	Uppest decile	(a)	(b)	
Someone employed, no one unemployed	44.9	35.0	16.7	80.2	16-17	7-8	67.5
Unemployed & employed	31.2	26.7	12.9	50.0	25-29	15	14.3
No one employed, someone unemployed	22.8	20.0	8.5	37.1	50-55	33-35	6.0
Others (all out of labour force)	34.6	30.0	16.5	59.8	15-21	9.5	12.2
TOTAL	40.4	31.7	15.0	71.4	19-22	10	100.0

(a) Percentage of households whose monthly per capita household income is below 50% of average (i.e. 20 thousand pesetas); see note 3 for further details.

(b) Percentage of households whose monthly per capita household income is below income of the lowest decile for population as a whole (i.e. below 15 thousands pesetas).

ii) EPA data

The analysis of the ECBC data can be extended using information from the Labour Force Survey (EPA). Given the importance of employment and unemployment for household income, as just seen, and given the lack of direct information in the EPA on the different types of income earners existing in the household, two classes of indicators may be constructed:

- first, indicators based on the existence in the household of different type of income earners;
- secondly, indicators related to the per capita income of the household.

As for the first kind of indicators, the following scale shall be used:

- there is at least 1 person employed
- there is no one employed and no one receiving unemployment benefits but at least 1 person with some kind of pension (retirement or disability)
- there is no one employed but at least some one receiving unemployment benefits (there may also be pensioneers of some sort).

Figure I.43 presents the cumulative percentages of unemployed in these three categories, the last one being available only since 1987 (which explains the distinction made between the second and the third categories). As can be seen, during the whole period considered, and despite the wide variations in the number of people unemployed, 60 per cent of them lived in households where there was at least one person with a job. Furthermore, a rather small proportion lived in households with no income from work or social insurance (pensions or unemployment benefits). Up to 1987, this proportion which, as already mentioned, does not include undemployment benefit recipients, was increasing, reaching a figure close to 25 per cent in 1985-86, at the height of the crisis. Since 1987, however, the percentage of fully unprotected unemployed never reached 10 per cent. Since 1992 and due more to the cutbacks in unemployment compensation (to be analyzed in more detail in section IV.1 of this Report) than to the recession and the ensuing recovery, this figure has tended to increase slightly, to get above 8 per cent in 1996.

It can be argued, however, that the above indicator is rather crude as it does not take properly into account the size of the household. The existence of one employed in a 2-member household is not the same as the existence of such employed in a much larger household. In order to control for this, the following indicator of per capita household

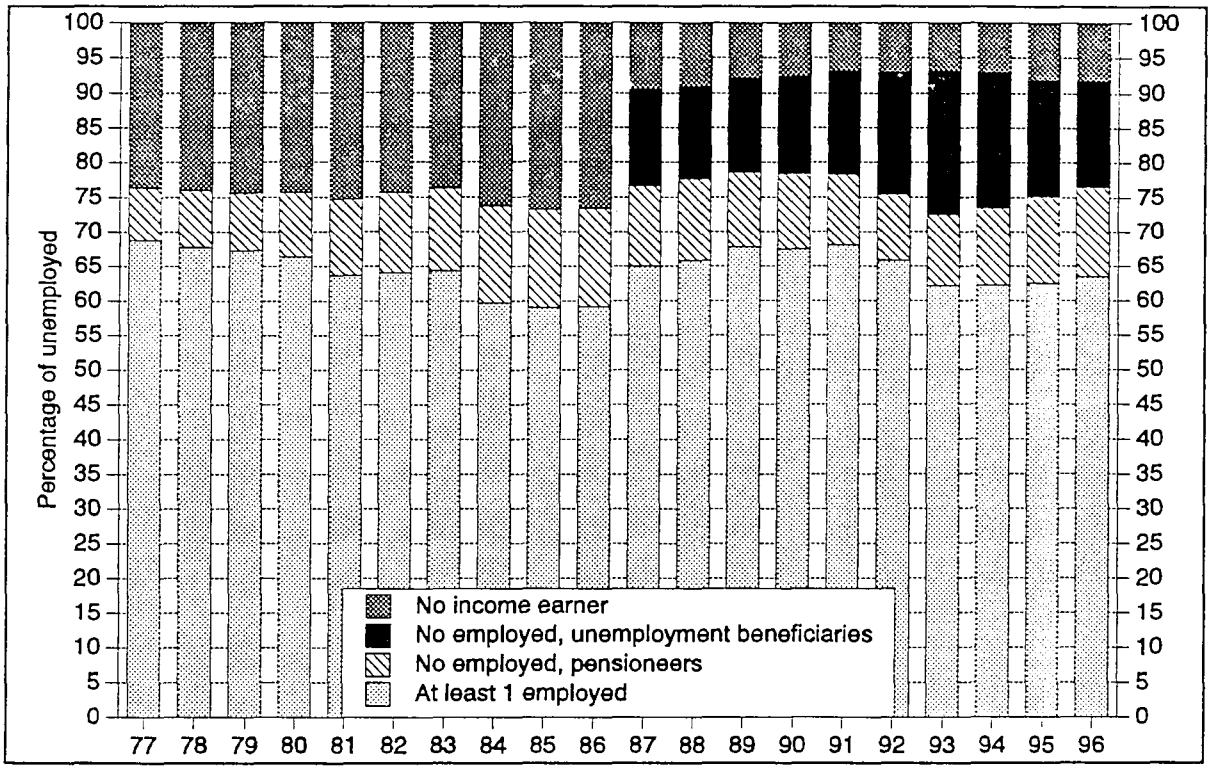

Figure I.43. Distribution of the unemployed in terms of the income situation of the household members, 1977-96 (2nd. quarter).

income may be defined. First, the number of income units in the household is calculated by giving each employed person a weight of 1, whereas each unemployment benefit recipient and pensioneer is given a weight of .75. To count the number of household expenditure units, youngsters under 16 are weighted as 50per cent of adults. Notice that this per capita indicator will always be below 1. Of course, this should be regarded as a crude approximation, as not all the employed earn similar incomes.

The results of this exercise appear in Figure I.44. As before, a distinction must be made between the period up to 1986 and the years 1987-1994. Centering upon the lowest category, corresponding to those with a per capita household income below .25, the proportion of unemployed in this category was around 40per cent until 1980, to rise thereafter until 1984-86 when it was above 45per cent. The inclusion of unemployment benefits since 1987 made this proportion to decrease to 30per cent to smoothly fell during the period of employment expansion to reach a figure of 20per cent in 1991. Interestingly enough, this proportion has remained constant during the recent crisis, although the already mentioned cuts in unemployment benefits have implied a worsening of the income situation of the unemployed, increasing the proportion of unemployed in the lowest category to close

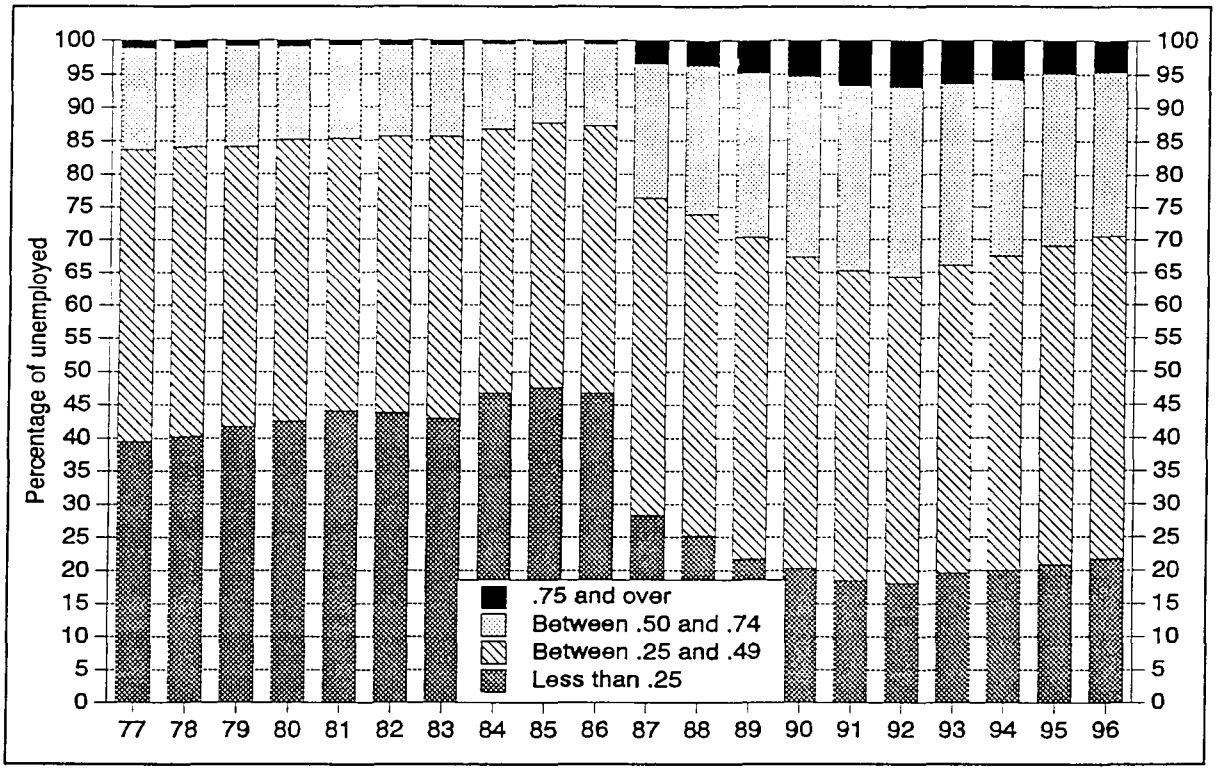

Figure I.44. Distribution of the unemployed according to the per capita income of the households where they live, 1977-1994 (2nd. quarter).

to 22 per cent in 1996.

Summing up, on account of both indicators used in this section, it can be argued that the economic situation of a very high proportion of the unemployed, between 80 and 90 per cent of them, is far from being unbearable. This provides an important factor to explain why unemployment can be so high without generating significant social tensions.

I.3. Main trends in job creation and job loss

I.3.1. Introduction

In the preceding sections, we have presented the main elements of the employment and unemployment situation in Spain. The approach there was mainly the analysis of stock variables, although at various points flow (transition) analyses have been carried out. We now turn to a more specific study of the evolution of labour market flows in Spain. We shall address three sets of questions:

- has labour turnover (i.e. the mobility of workers between the different labour market situations) increased in Spain over the last 10 to 15 years? Is turnover high or low by European standards? Sub-section I.3.2 shall address this issues.

- to what extent is this labour turnover associated to "job turnover", i.e. to a process of creation and destruction of jobs, or rather is it more related to movements of workers into and out of existing jobs? Are the results similar to, or different from, those observed in other countries? We shall try to answer these questions in Sub-section I.3.3.

- what is the relationship between unemployment and vacancies, known as the "Beveridge curve", in Spain? Has the implied mismatch between job openings and unemployed workers tended to worsen or improve in recent years? Sub-section I.3.4 shall summarize the information on this.

I.3.2. Labour mobility

The analysis of flows between the various labour market situations allows an understanding of the labour market as a dynamic process: young people enter the labour force, workers are dismissed or quit to become inactive, the unemployed get jobs, and so on. In this way, we can understand unemployment as the result of 'low' flows out of unemployment and/or 'high' flows from employment and inactivity into unemployment. In this sub-section, we present information on the evolution of various of these flows, and compare them with data from other countries. We shall first use information from the Labour Force Survey (EPA) matched files and then present data based on administrative sources.

a) Labour force survey data

Figure I.45 presents three indicators or labour mobility regarding exits from unemployment. The first two indicators used refer to the proportion of first-job seekers and unemployed with experience who declare one year later being employed. In addition, two "return flows" into unemployment are also included in the graph: the proportion of first job seekers and unemployed with job experience who declare one year later being unemployed and having started their job search less than a year ago. Although part of these two latter flows may be a statistical illusion due to misreporting, the presumption is that these people

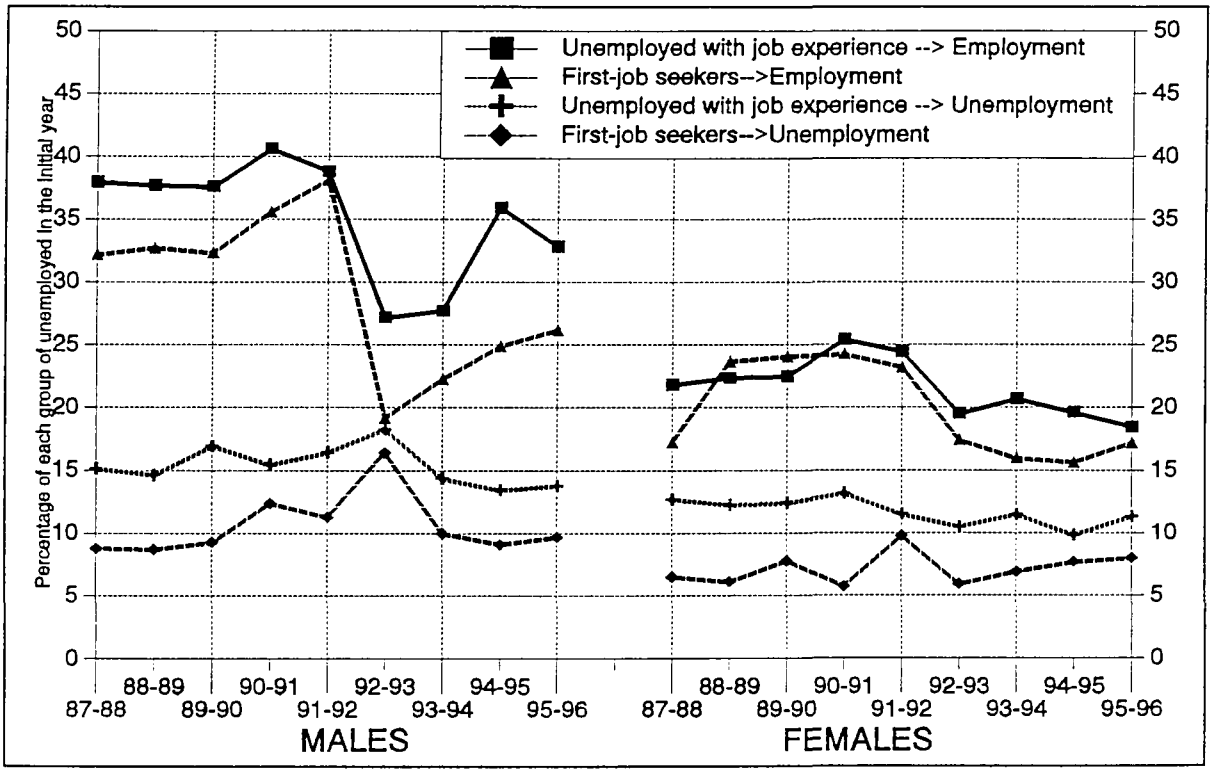

Figure I.45. Flows of exit from unemployment, by gender, 1987-1996, second quarters (Source: Labour Force Survey, matched files).

have either entered a job which they have lost very quickly or -less likely- abandoned the labour force and returned to job search within the year.

The results in Figure I.45 indicate that up to 1992, between 35 and 40 percent of men and around 25 percent of women unemployed were able to find a job a year later. In the case of men, the proportion was higher for those with past job experience, while the differences were much smaller in the case of females. In addition a further 10-15 percent of the unemployed reappeared as unemployed after a short job or inactivity spell. The economic crisis of 1992-93 implied a reduction in the outflows from unemployment, this being more marked for men and for first job seekers. The recent recovery has implied a new increase in outflows from unemployment, although this has not been the case for females, but the proportions have not reached the levels of the strong upturn of the late 1980s.

The other side of the coin relates to the flows from employment. Figure I.46 plots the evolution of the proportion of employed who one year later declare being unemployed, out of the labour force or employed in jobs with a seniority lower than a year. In this latter flow, as before, misreporting may be biasing the figures, but the presumption is that we observe people moving from one job to another, either directly or -less likely- after a necessarily short spell of unemployment or inactivity. The flow from employment to

Figure I.46. Flows of exit from employment, by gender, 1987-1996, second quarters (Source: Labour Force Survey, matched files).

inactivity is more or less stable at 4 percent in the case of females and 6 percent in the case of females, although a slight decrease may be observed in recent years. The flow into unemployment reaches similar proportions before the recession and remains visibly higher during the recent recovery, despite its decline. The most interesting feature of Figure I.46 is probably the increasing flow from employment into employment, i.e. the increasing proportion of people who change jobs within a year. The proportion clearly rises for both males and females, although for the latter the path is clearly steeper. The implication of this figure is that between the second quarter of 1995 and one year later, one out of seven people employed moved from their job to a different one; eight years before, the proportion was much lower: one out of sixteen.

A third set of flow indicators is plotted in Figure I.47. The focus here is entry into employment rather than exit. The relevant point is whether the unemployed get bypassed into employment by people from outside the labour market. Dealing first with the case of males, one can observe that the proportion of entrants from the labour force remains more or less stable at around 4 percent, a figure similar to -actually somewhat smaller than- the outflows from unemployment into inactivity. The proportion of entrant from unemployment is declining until 1992-93, which shows the waning of the booming period of the late 1980s. Incidentally, this declining proportion is not contradictory with the more or less constant proportion of unemployed finding jobs: unemployment was declining and employment was growing, so a more or less stable flow in absolute numbers would provide the observed result. In recent years, the importance of the flow from unemployment has increased.

In the case of females, entrants from inactivity were slightly bypassing those from unemployment until the recent recovery, when the trend has reversed. In recent years, flows tend to be of similar size.

For both genders, however, the most important flow is once again movement from other jobs. This flow obviously mirrors that included in Figure I.46 (the only difference being that here, since an "origin analysis" is being made, as opposed to the "destination analysis" undertaken before, the weights used correspond to the final year; this explains the small differences between the flow in the two graphs). While at the beginning of the period under consideration, this flow was similar in size to the flows from unemployment or inactivity, its upwards trend has been very significant, and it currently easily doubles the size of the other two flows.

Figure I.47. Flows of entry into employment, by gender, 1987-1996, second quarters (Source: Labour Force Survey, matched files).

At any rate, the data plotted in Figure I.47 indicate that, in 1996, some 25 percent of males and close to 30 percent of females employed had been in their jobs for less than a year, as apposed to 17 and 22 percent, respectively, in 1988. This process witnesses the increased importance of labour turnover, and suggests that such turnover corresponds to workers moving around existing jobs rather than to a process of job creation and destruction, an issue to which we shall return in the next sub-section.

It is worth trying to aggregate some of the indicators used before, to reach a global labour force mobility index. Such an index would take into account the flows from unemployment into employment and the flow from employment into unemployment: it is computed as the proportion of the labour force at the initial period which changes status [1]. A complementary index may be computed taking into account, in addition, the "internal" mobility within each of the statuses. Figure I.48 plots these aggregate indices for the period 1987-1996, disaggregated as before by gender.

The aggregate indices without considering "internal" mobility within labour force

[1]. This is equivalent to a weighted average of the percentage flows plotted in Figures I.46 and I.47, the weights being the unemployment rate and one minus the unemployment rate, respectively.

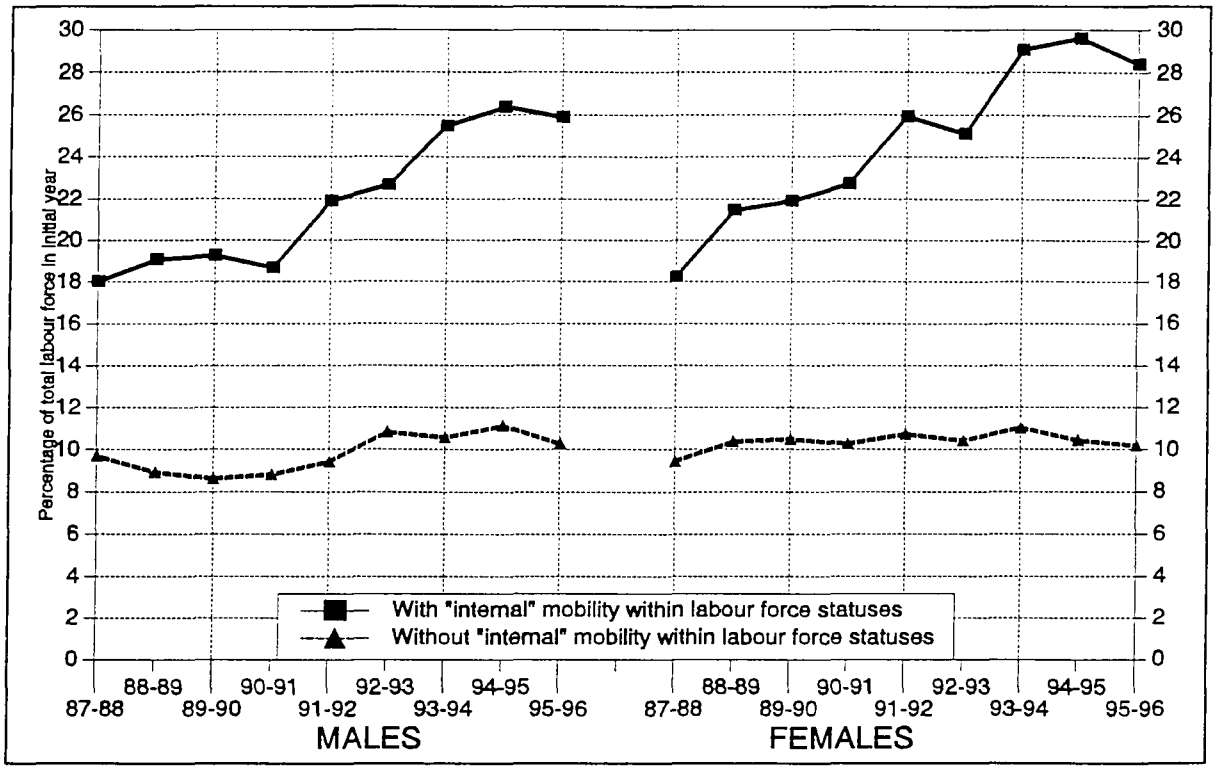

Figure I.48. Aggregate labour force mobility indices, by gender, 1987-1996, second quarters (Source: Labour Force Survey, matched files).

statuses show values more or less stable around 10 percent of the labour force, although the index fluctuates more in the case of males. Once again, what has made the Spanish labour market more volatile in recent years has been the mobility within the same labour force status, and most notably within employment, as we have seen. Between 1995 and 1996, one out of four active males changed its status, including changes in jobs and re-entries into unemployment; the proportion was close to 3 out of 10 in the case of females.

In order to get some perspective on the size of these flows, Table I.8 presents a comparison of three of the indices (the flow from unemployment to employment, the flow from employment into unemployment and the aggregate index) used above observed in various European countries at two points in time. In this case, the data come from the retrospective question included in the European Labour Force survey, whereby people are asked their labour force situation one year before. This kind of data are clearly inferior to those used above, based on matched files, because they are based on the memories of interviewees. However, there are no matched data available at the European level, or results from such data have not been published. At any rate, it turns out that broadly speaking, the two sources provide similar figures. It should also be mentioned that the aggregate index in

Table I.8 does not consider "within statuses" labour mobility.

As can be seen in the table, Spain appears to have the highest mobility index of all the countries considered. High mobility can thus be taken as a significant feature of the Spanish labour market, at least since the mid-1980s. Unfortunately, no similar data exist for the preceding period which would allow to test to what extent this strong mobility could be related to the changes in legislation introduced in 1984 and aimed at fostering the use of temporary and fixed-term contracts, although the presumption is that such was indeed the case.

Table I.8.- Mobility indices in various European Union countries (percentages) (Source: García-Serrano, 1996, based on Eurostat LFS data.

	Germany	Nether-lands	Belgium	United Kingdom	Ireland	Denmark	Greece	Portugal	Spain
Unemployment --> Employment									
86/87	13.4	24.2	15.9	33.9	7.2	36.9	27.4	33.5	28.4
90/91	17.0	23.0	20.8	34.7	7.7	31.5	19.0	43.6	35.0
Employment --> Unemployment									
86/87	2.4	1.8	1.8	3.7	4.8	4.1	2.0	1.8	4.1
90/91	1.2	1.4	1.7	4.1	4.5	5.6	1.9	1.4	4.9
Aggregate Mobility Index									
86/87	3.1	2.7	3.3	6.7	5.1	5.4	3.2	4.3	9.2
90/91	2.0	2.2	3.0	5.8	4.9	7.2	2.5	3.1	9.9

b) Administrative data

In the preceding sub-section, we have presented information on flows based on data from the Labour Force Survey. One of the main limitations of this data, as already mentioned, is that the starting date is 1987. However, given the major reform in labour contract legislation which took place in 1984, it is worth trying to determine whether there was an increase in labour turnover, as is generally thought (see e.g. Arellano, Bentolila and Bover, 1996), caused by it. One possible way of dealing with this issue is to use cross-sectional information from the EPA to indirectly determine the size of flows from seniority (in employment and unemployment) information. We shall return to this issue later (in sub-section d). Here we focus on available information coming from administrative data, i.e. the Public Employment Service (Instituto Nacional de Empleo, INEM) and dismissals.

Data on labour market from INEM are far from being well-suited for analysis. They refer to the global number of "demands", i.e. the flow of people who register at the employment offices in search of jobs, i.e. as "job demanders", and the total number of

"placements", i.e. people taken away from the stock of "job demanders" because they got a job. Although these data could be improved, and their relationship to the stock of registered unemployed (which is calculated as the stock of "job demanders" less various groups excluded for various reasons, recall Figure I.25 above) could be made clearer, they do provide an idea of the amount of labour turnover existing in the economy. Figure I.49 plots the evolution between 1978 and 1996 of the flow of "job demanders" and placements as a proportion of the total number of employees.

The data in this graph suggests that the flow of job demanders increased all through the crisis of the late 1970s and early 1980s, which is to be associated with the strong increase in unemployment observed during that period. However, it is interesting that this flow also increased during the first years of the recovery period, up to 1988. After a period of stagnation, this index surges again after 1992. Once again, this is attributable in the first instance to the economic downturn of the early 1990s, although the interesting point is that, as in the previous recovery, the proportion of job demanders keeps increasing during the recovery of the mid-1990s.

As for placements, they also follow a pro-cyclical pattern, increasing during the

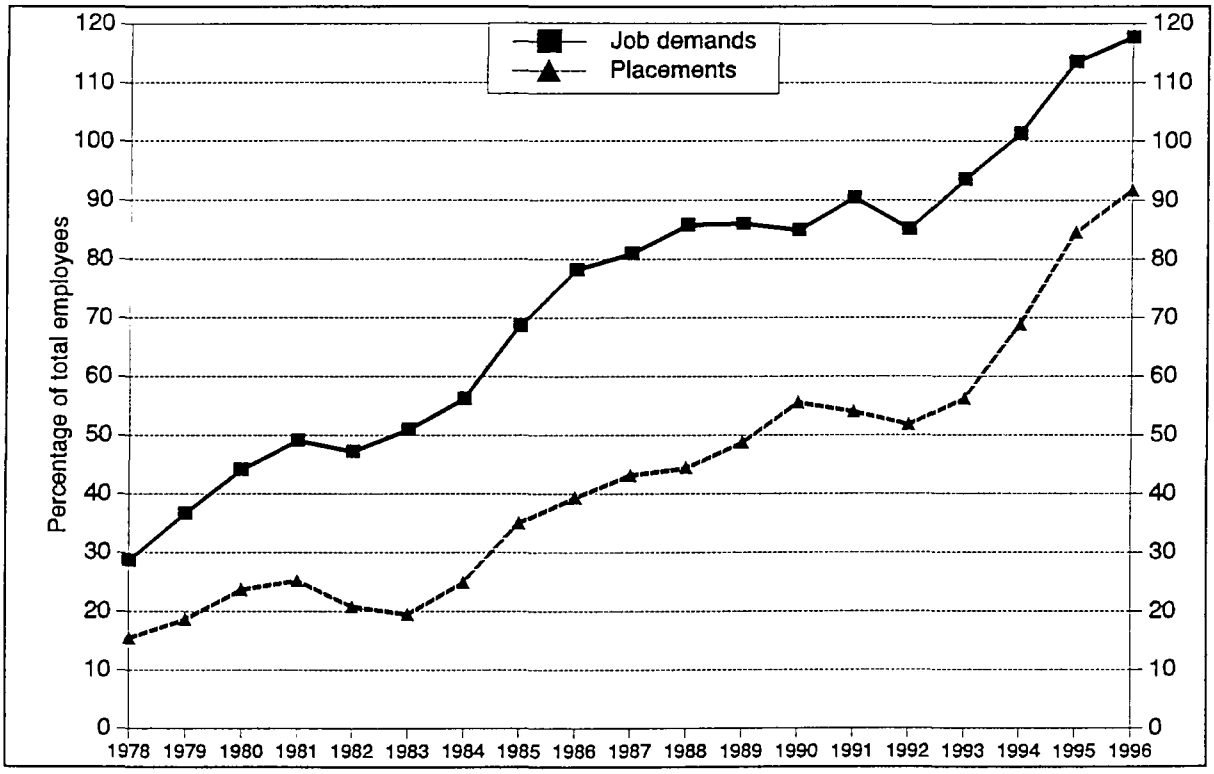

Figure I.49. Labour market flows from administrative sources, as a proportion of total employees, 1978-1996 (Source: INEM, in *Boletín de Estadísticas Laborales*, Ministry of Labour and Social Affairs).

recoveries and decreasing somewhat during the recessions, but within a generally upward trend. Taken together, these two measures of labour mobility suggest that there have been two spurts of turnover in the past twenty years in Spain. First, the economic expansion of the second half of the 1980s, together with the changes in legislation introduced in 1984, implied a first jump upwards of mobility. Secondly, the recent expansion, once again occurring in the aftermath of a labour market reform, has also implied a sharp rise of mobility. One significant problem, thus, is that purely cyclical factors are difficult to disentangle from genuine increases in mobility, as the spurts identified were associated with booming business cycle conditions. In any case, the fact that the level of the indices during the second recession remained higher than they had been in the first crisis, together with the increase in the number of job demanders during the two recovery periods, suggest that mobility did increase not only as a result of cyclical expansionary factors but also because labour turnover was more intense.

There is one further point which merits being analyzed from the administrative data from INEM. It refers to the distribution of labour contracts registered at the employment offices (registration is mandatory in Spain) between the various types of labour contracts available to employers. Figure I.50 plots this distribution for the period 1986-1996, for which

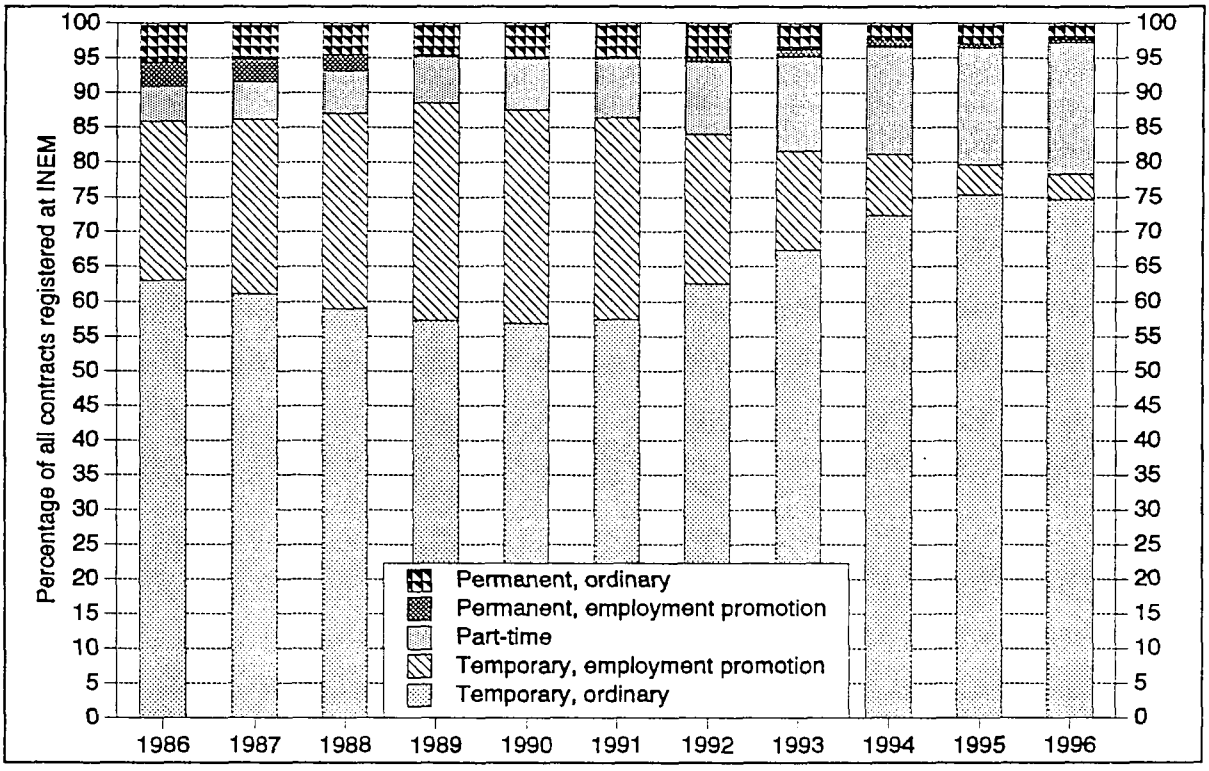

Figure I.50. Distribution of labour contracts registered at INEM by type, 1986-1996 (Source: Ministry of Labour and Social Affairs, *Boletín de estadísticas laborales*).

comparable data exists. As can be seen in this graph, fixed-term contracts have always represented the lion's share of all contracts during the whole period considered. As a matter of fact, their share tended to increase during the expansion of the late 1980s to lose some ground in the early 1990s. The latter decrease was not so much due to recession or legislative changes, but is more to be related to the continuing increase in the share of part-time contracts (most of which, as is known since 1995, are also temporary). In this connection, it is interesting to note that the increasing trend of the share of this type of contract tended to appear well before the legislative changes introduced in 1994, aimed at fostering part-time work, and which also implied a statistically artifacial increase due to the fact that permanent seasonal workers (known in Spain as "discontinuously permanent" workers) were included as part-time workers after the 1994 reform. This stemmed from the fact that, according to the new law, part-time work would be defined as working less than normal hours, these being computed on a weekly, monthly or yearly basis.

To complete our analysis of flow data from administrative sources, it is worth presenting the available information on the number of dismissals by type of legal procedure followed, for which data exists for the period 1980-1995; we have plotted it in Figure I.51. The importance of this information is that it refers to separations of permanent workers, the

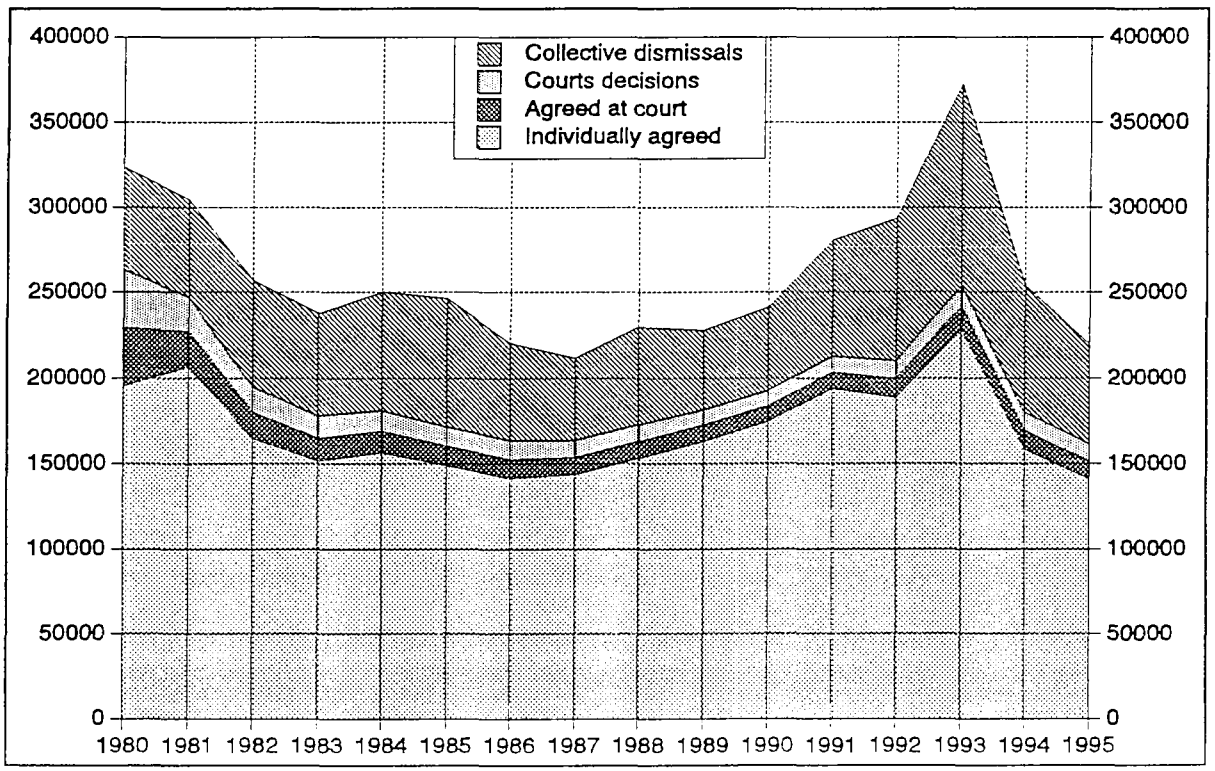

Figure I.51. Number of dismissals, by type of legal procedure, 1980-1995 (Source: Ministry of Labour and Social Affairs, *Boletín de estadísticas laborales*).

only ones who have the right to a legally-regulated termination.

Two points merit to be stressed from this information. First, the total number of dismissals tended to decrease throughout the 1980s, both during the crisis and the recovery periods. The gradual waning of the crisis in the early 1980s and the booming expansion of the late 1980s are behind this development. However, the number of dismissals did not decrease in any dramatic way during the latter period, indicating that firms were still in need of discharging their, probably older, permanent employees replacing them with younger, initially fixed-term workers. Needless to say, this is a too aggregate argument, and composition effects were doubtlessly at work. Starting in 1991, the number of dismissals started to rise rather sharply, peaking in 1993 at a record-high figure. This development stresses what was already observed in Section I.1 (recall Table I.1, p.26) when dealing with fixed-term employment, namely, that during the recent crisis employers have adjusted their workforces not only through the passive non-renewal of fixed-term contracts but also, and more importantly, through the dismissals of their permanent workers.

The second point refers to the importance of negotiated dismissals. Taking into account that a substantial proportion of collective dismissals are also agreed between the employer and the union representatives of the affected workers, this implies that a vast majority of dismissals in Spain are the results of a bargained agreement. We shall return to this point in Section III.1, when dealing with employment protection schemes. This partly explains the strong peak observed in 1993, to some extent attributable to the increase in the number of dismissals in the second half of the year when government announced that they were considering, as part of the labour market reform under study, reducing unemployment benefits in the amount of severance payments (on this issue, see Malo and Toharia, 1995).

I.3.3. Worker and job flows

As we have already suggested at various points, the analysis of flows carried out so far is not complete, because we only see worker flows and we cannot establish their relation to gross job flows, in other words, to job creation and destruction properly speaking. Recently, a new -and growing- economic literature tries to analyze this relationship in order to reach an adequate measurement of job flows. The main advance of this research line (started by Davis and Haltiwanger, 1990 and 1992) is the use of longitudinal microdata which gives information at firm level. Previously, in the absence of evidence from firm or establishment-level data, it was difficult to determine whether worker flows reflected a continuous movement of workers across a given set of jobs or, alternatively, whether an important proportion of worker turnover was explained by job creation and job destruction.

There are some recent studies which focus on the empirical estimation of Spanish labour market flows. The first one, by Dolado and Gómez (1995), has documented the extent of job flows (following the Davis-Haltiwanger methodology which is described in Appendix 2 to this Chapter) in the manufacturing sector for the period 1983-92 using annual data from "Central de Balances del Banco de España" (the Bank of Spain data base on large firms accounts, hereafter CBBE). The second one, by García-Serrano and Malo (1996)[2], provides empirical evidence on the extent of turnover in the Spanish labour market and on the relative importance of 'churning' flows (Burgess et al, 1994, denoted as churning the rotation of different workers through the same jobs) with respect to total turnover using quarterly information for the period 1993-1994 from the "Encuesta de Coyuntura Laboral" (hereafter ECL), a quarterly survey to firms carried out since 1990 by the Ministry of Labour.

Dolado and Gómez (1995) offer an estimation of the aggregate hiring rate (JPOS), the aggregate separation rate (JNEG), the worker reallocation rate (JFR) and the aggregate net employment growht rate (NET) (for the precise definition of these measures, see Appendix 2) from 1984 to 1992 (see Table I.9). To summarize, they obtain an average job creation rate around 3 per cent and an average job destruction rate of 4 per cent. Therefore, the average reallocation rate was around 7 per cent along the last period and the net employment loss was 1 per cent. An interesting insight is the coexistence of job creation and destruction throughout the period.

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[2]. García-Serrano (1996), using the same database, presents an analysis on the simultaneity of job creation and destruction in large Spanish firms.

Table I.9. Worker and jobs flows from the Bank of Spain database (Source: Dolado and Gómez, 1995).

YEAR	JPOS	JNEG	GROSS	JNET	Permanent workers	Fixed-term workers
1984	0.0212	0.0338	0.0550	-0.0126	-	-
1985	0.0200	0.0539	0.0739	-0.0338	-0.0389	0.0050
1986	0.0310	0.0348	0.0658	-0.0037	-0.0168	0.0130
1987	0.0364	0.0308	0.0672	0.0055	-0.0079	0.0134
1988	0.0454	0.0268	0.0723	0.0186	-0.0032	0.0218
1989	0.0487	0.0319	0.0806	0.0167	-0.0037	0.0204
1990	0.0316	0.0431	0.0747	-0.0114	-0.0148	0.0034
1991	0.0232	0.0490	0.0722	-0.0258	-0.0232	-0.0026
1992	0.0174	0.0571	0.0745	-0.0398	-0.0337	-0.0059
Average	0.0306	0.0401	0.0707	-0.0096	-0.0158	0.0076
St.deviation	0.0106	0.0103	0.0069	0.0198	0.0130	0.0094

Note: See Appendix 2 for the detailed definition of the measures included in the table.

Disaggregating by industry (their database only contains manufacturing firms) they obtain again simultaneous job creation and destruction and allocation rates above 6 per cent in all industries.

Considering firm size, there exists a negative relationship between the aggregate hiring rate and size, but there does not seem to exist any relation with the aggregate separation rate. That result does not imply than small firms drive the process of job creation, because the database used does not include sufficiently small firms and it is only representative of large manufacturing firms. Additionally, the database does not take into account the possibility of firms "births" and "deaths", an element which can be important to establish the trend for job creation and destruction.

The distinction by contract type (permanent and fixed-term, the former with severance payments and the latter without these costs) shows that the job creation rate for permanent workers is positively correlated with business cycle and the reallocation rate offers distinctive results for the two groups: it is correlated positively for permanent workers and negatively for workers under fixed-term contracts. Dolado and Gómez (1995) explain this result on the basis of the substitution of fixed-term workers for permanent ones. In order to test this explanation, they compute the share of firms by the sort of jobs created by type contract. The result supports their alleged explanation, as above 30 per cent of firms create jobs for fixed-term workers and destroy jobs for permanent ones.

As already mentioned, the other research available for Spain on job and worker flows using microdata at plant level is the paper by García-Serrano and Malo (1996). They focus their analysis on the components of turnover. The database used in this case is the "Encuesta de Coyuntura Laboral" (ECL), which provides quarterly information on the total number of workers arriving in and leaving establishments (by type of contract), allowing to measure the components of turnover. The time period covered by this research is 1993:I-1994:IV and only firms with more than 500 employees are considered [3].

The indices considered above have been calculated on the basis of the ECL data. Table I.10 and I.11 show the main results. The ratios estimated are around 1 per cent in the case of job creation, 2 per cent for job destruction, and around 3 per cent for global reallocation. However, worker flows are clearly higher: 5.5 per cent for increases, 6.5 per cent for decreases and 12 per cent for global reallocation. These results tend to confirm what was found in sub-section I.3.2 regarding the important of worker turnover around a job base which is changing much less quickly. The "churning" is on average 9 per cent. The figures in Table I.10 indicate that the hiring rate is five times the job creation rate, the separation rate is three times the job destruction rate and the worker reallocation rate is four times as large as the job reallocation rate.

Summing up, these figures indicate a quite mobile labour market, quite the contrary of the still popular view that rigidities are all important. Worker turnover, well above and beyond job turnover, appears to be, in recent years, a basic characteristic of the Spanish labour market.

Table I.9. Job and worker flows (percentages) (Source: García-Serrano and Malo, 1996).

Quarter	JPOS	JNEG	WPOS	WNEG	JFR	WFR	NET	RFR
I-93	1.51	2.38	5.63	6.49	3.89	12.12	-0.86	8.23
II-93	1.27	1.44	5.43	5.60	2.70	11.04	-0.17	8.33
III-93	0.81	1.69	6.20	7.08	2.51	13.28	-0.88	10.78
IV-93	1.13	2.36	5.94	7.17	3.49	13.11	-1.23	9.62
I-94	0.94	1.61	5.01	5.67	2.55	10.68	-0.67	8.13
II-94	1.49	1.01	5.48	5.00	2.50	10.47	0.48	7.97
III-94	0.82	1.78	6.58	7.53	2.60	14.11	-0.96	11.51
IV-94	1.81	1.97	6.80	6.96	3.78	13.76	-0.16	9.99

For the detailed definition of the various measures, see Appendix 2.

[3]. All firms with more than 500 employees are included in the ECL sample, so the database can be safely described as a "census" of large firms.

Table I.10. The ratio of worker flows over job flows (Source: Table I.9).

Quarter	WPOS/JPOS	WNEG/JNEG	WFR/JFR
I-93	3.7	2.7	3.1
II-93	4.3	3.9	4.1
III-93	7.6	4.2	5.3
IV-93	5.3	3.0	3.8
I-94	5.3	3.5	4.2
II-94	3.7	4.9	4.2
III-94	8.0	4.2	5.4
IV-94	3.8	3.5	3.6
Average-1993	5.2	3.4	4.1
Average-1994	5.2	4.0	4.3
Average 1993-1994	5.2	3.7	4.2

I.3.4. Vacancies and unemployment

The simultaneous existence of unfilled positions in the firms and unemployed people denotes an important mismatch between labour demand and supply. The Beveridge curve (or u-v curve) shows the unemployment-vacancies relation where inflows and outflows from unemployment are equal each other. The u-v curve is an excellent tool to understand the influences of aggregate, allocative and labour-force shocks of unemployment rate because it implies the simultaneous job creation and destruction. In this sort of labour market (the real and unique labour market that exists) workers and firms spend time to look for and decide the matching.

The estimation for Spain of the u-v curve has a great problem: the accounting for vacancies. The only statistical source has been the INEM (the Spanish public employment office). The database does not include vacancies which have been managed out of INEM. Antolín (1994) provides a correction of the INEM vacancies data to obtain more accurate figures.

Antolín (1995) summarizes the main features of the time-series analysis of unemployment flows and of the unemployment-vacancies relationship:

- first, unemployment growth and its persistence at high levels can be explained by the low outflows from unemployment which do not compensate the inflows into

unemployment.

- secondly, the u-v curve shows a continous shift from 1977 to 1984 and a loop for the period 1984-1991[4]. The econometric estimation of u-v curve gives an explanation for the shift: the participation of long term unemployment in total unemployment.

- thirdly, there exist multiple unemployment equilibria in Spain[5]. Therefore, old shocks (such as oil prices crisis or the uncertainty created by the political transition, etc.) could have shifted unemployment equilibrium to higher levels.

- fourthly, the long-run elasticity of unemployment with respect to vacancies is -0,268, which is lower than the estimated values for other OECD countries (Layard et al., 1991). This last feature can be related to the combination of employment increase and low unemployment decrease during the 1986-1991 booming period.

Dolado and Gómez (1996) enlarge the Antolín research. These authors (based on Blanchard and Diamond, 1989) build a generalized labour flows model to establish the importance of three shocks: aggregative, allocative and labour-force shocks. They reach four main results:

- first, allocative and aggregative shocks explain almost half of the long-run variability of unemployment. Allocative shocks shifted the u-v curve during the crisis years of the first half of the 1980s. Aggregative shocks are dominant in later years.

- secondly, there exists heterogeneity at the regional level.

- thirdly, there is a high correlation between the allocative share of unemployment rate and the percentage of long-term unemploed.

- fourthly, labour force shocks do not exert any influence on unemployment dynamics [6].

These results confirm the main conclusion from the previous research by Antolín: the increase of labour force does not fully explain the relatively small reductions in the unemployment rate from 1986 to 1990.

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[4]. Dolado and Gómez (1996) extend the analysis until 1994 and this loop is closed.

[5]. On this question, see Pissarides (1986).

[6]. However, they note that the lack of importance of this sort of shock can be caused by the ortogonality assumption between shocks.

I.4. Wage and salary trends

I.4.1. Introduction

Wages have sometimes been blamed for the high unemployment prevailing in Spain. Although this was a more popular explanation in the late 1970s and early 1980s than it is today, a knowledge of the dynamics of wages remains a basic element of any understanding of the evolution of unemployment.

To gain an initial insight into the general evolution of wages, Figure I.52 presents the evolution of monthly real earnings per person in Spain over the last thirty years. As can be seen in that graph, real wages (in terms of the consumption price index) roughly trebled between 1965 and 1979 and then started a much more moderate path through the 1980s and 1990s.

Of course, fast or slow real wage growth means nothing in itself. It all depends on the relative evolution of nominal wages, prices and productivity. This will then be the first issue we shall deal with in sub-section I.4.2. To complete the picture, we shall analyze three other issues: first, the importance of nation-wide social pacts on wages (sub-section I.4.3); secondly, the size of the "wage drift", i.e. the difference between wage rates agreed at the

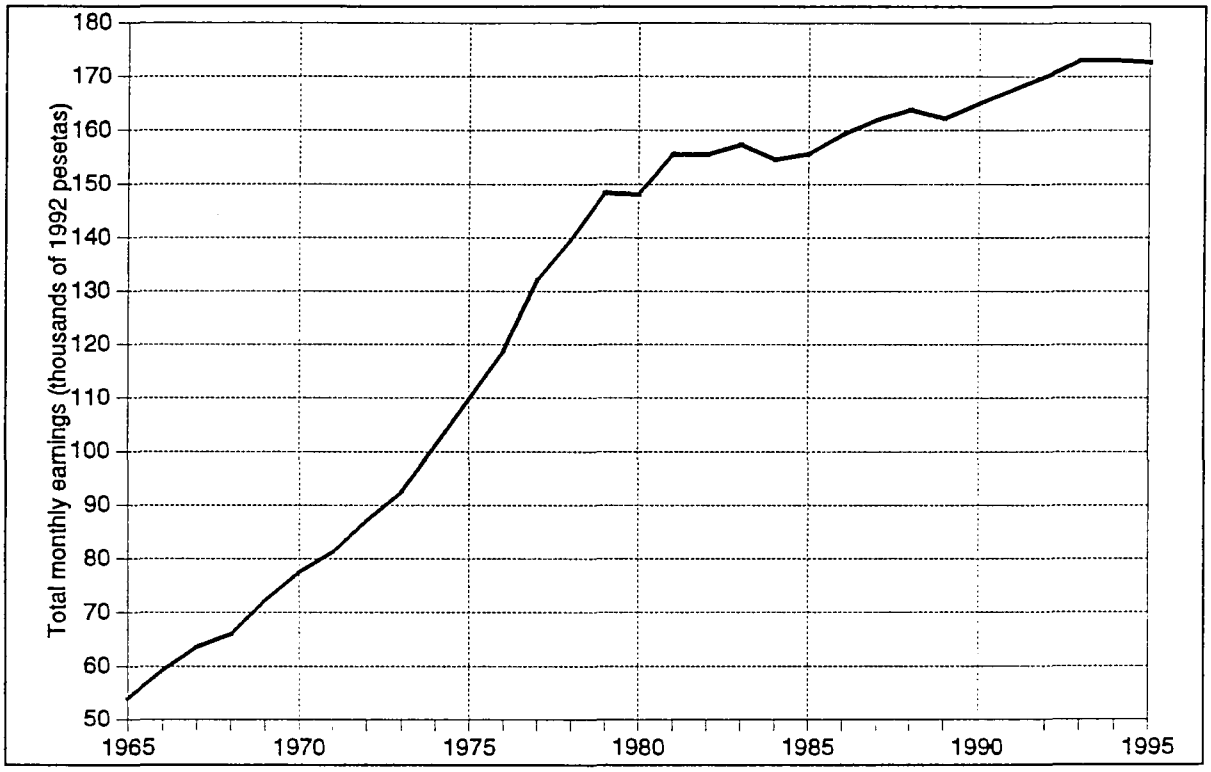

Figure I.52. The evolution of real wages per person in Spain, 1964-1995 (Source: Encuesta de Salarios, homogeneous data).

collective bargaining level and actual wages received by employees (sub-section I.4.4); thirdly, we shall present some information on the evolution of wage differentials by occupation and industry (sub-section I.4.5).

I.4.2. Wages, prices and productivity

Figure I.53 presents the growth rates of four measures of nominal and real wages and labour costs. Information on wages refers to total compensation per employee, as estimated in National accounts statistics. To calculate real wages, this has been deflated using the consumer price index (CPI), so what we are representing are real consumption wages. This price index is thus implicitly represented as the vertical distance between the two wage series. As for nominal unit labour costs, they represent the ratio between nominal wages as defined above and productivity per employed person. The latter thus accounts for the distance between the two series. Finally, real unit labour costs are equal to nominal unit labour costs deflated using the GDP deflator. The difference between them and real consumption wages is accounted for by productivity (the higher productivity the lower the distance) plus the ratio of the CPI to the GDP deflator, related to the (inverse of the) terms of trade (the higher the ratio the higher the distance).

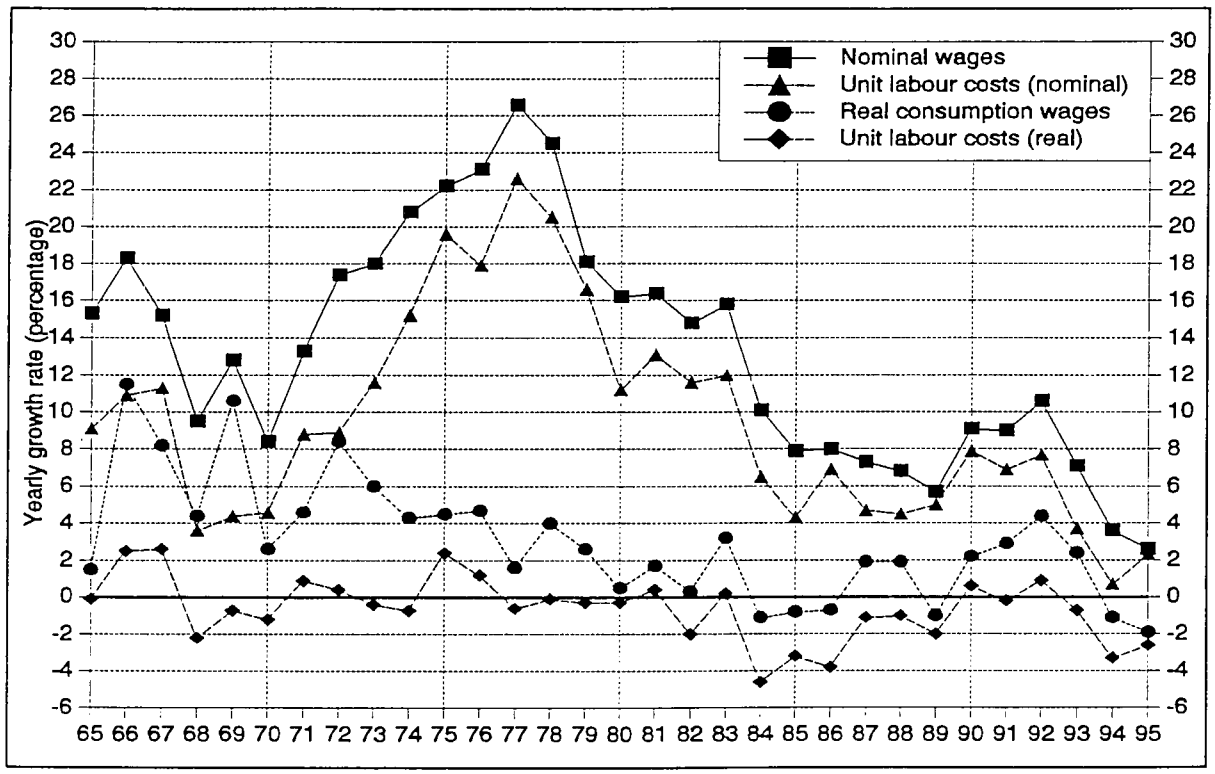

Figure I.53. Nominal and real wages and unit labour costs (Source: Instituto Nacional de Estadística, National accounts, Labour force survey, Price statistics).

Various periods may be distinguished in the graph. First, in the late 1960s wages increased very fast, as we have seen in Figure I.52, and this was generally accompanied by strong productivity increases, so that real unit labour costs stood still. In the early 1970s, the limited system of collective bargaining established in 1959 by the Francoist regime started to break down, partly as the result of the "entrist" strategy followed by the still illegal trade unions, consisting in trying to use collective bargaining, as limited as it was, to achieve wage increases considered a political weapon against the dictatorship. Incomes policies in that period (especially 1972 and 1973) established ceilings of 3 to 5 per cent growth for real wages, which in practice became the minima to be achieved. This process led to sharp increases in both nominal and real wages, as well as to increasing inflationary pressures, as monetary policy accomodated those demands, this being the "price" to be paid to keep "law and order" in the streets and the workplaces. However, the strong productivity increases of the period implied that real unit labour costs did not suffer. However, external competitiveness did suffer, and the peseta tended to depreciate to restore it: the nominal effective exchange rate decreased by more than 5 per cent per year in the 1976-79 period (European Economy, 1994, p.43).

The death of Franco and the initial phase of the political transition meant strong wage demands from the emerging (still illegal) unions. In 1975 and 1976, despite their quick translation into price inflation, these demands implied that unit labour costs increased noticeably in real terms. It should be remembered that energy prices had suffered a very substantial increase, and this was not translated in any way into a presumably necessary wage restraint. Hence profitability suffered a sharp decline in these two years. If in addition account is taken of the increased uncertainty which the political transition brought about, it is easy to understand that the outlook of the Spanish economy was quite bleak.

Various studies have reached the conclusion that this was a period of clearly unwarranted wage growth. Using a growth accounting framework, García Serrano and Toharia (1995) argue that 1975 and 1976 were the only two years when the growth of net wages can be considered "out of line". A similar line of argument has been adopted by Andrés (1994), who has argued that especially in the period 1972-78 labour costs did not adjust quickly enough to the decreases in productivity, leading to a substantial increase in unit labour costs. This "transitory, albeit lasting" real wage "problem" could be, according to Andrés, at the root of the strong increase in unemployment. On a more analytical vein,

Zabalza (1996) has estimated that in the early years of the 1970s real wage growth exceeded the level consistent with full employment, thus creating a "real wage gap", which was to become rather permanent [7].

The peak in terms of inflation was reached in 1977, and this implied a smaller increase in real wages and a small decline in real unit labour costs. This coincided with a turning point in the political situation. Trade unions were legalized, free elections were held and all the political parties, with the implicit support of the social partners, considered that there was an emergency situation which needed quick action. The so-called "Moncloa Pacts", signed that year, set the path for a disinflationary process which lasted throughout the 1980s, the main agents of which were the successive natiowide "social agreements" signed by the social partners and, sometimes, government. During all this period, real unit labour costs decreased rather sharply, with only very minor increases in 1981 and 1983. Real wages followed a very moderate path and the trough years of the recession (1984 and 1985) saw real wage reductions. According to Zabalza (1996), however, these declines were not sufficient to overcome the wage gap opened up in the 1970s.

The continuing expansion of the economy in the second half of the 1980s led unions to change their moderate mood and, after the general strike of 1988 (which was not clearly motivated by wage issues, but which clearly showed their actual political strength), they started pressing again for higher wages. This was felt in the period 1990-1993, when real wages increased by more than 2 per cent per year, with a peak over 4 per cent in 1992. This was so despite the recessionary conditions which were starting to be felt by the economy since 1991. Some authors (Bentolila and Dolado, 1993, Jimeno and Toharia, 1993b) have suggested that this dissociation between economic conditions and wage demands might be related to the strong weight achieved by the fixed-term workforce. The argument would be that, given that it is permanent workers who bargain wages, the existence of fixed-term workers is -implicitly- seen as a buffer against "excessive" wage demands, thus leading to stronger positions at the bargaining tables. And although the increase in fixed-term workers could exert a negative influence on wages, through a composition effect and a disciplinary factor on employees, the "clout" of permanent workers became the dominant factor in the late 1980s and early 1990s.

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[7]. A similar argument was already put forward in the 1994 Commission's report on Spain (see European Economy, 1994). See also Dolado and Jimeno (1997).

At any rate, productivity increases, helped by the strong position of the peseta (in turn partly due to the exchange rate with which Spain entered the EMS in 1989, an exchange rate considered by many, especially with hindsight, overvalued), which implied a lower CPI/GDP Deflator ratio, made it possible for real unit labour costs to remain relatively stable.

The last two years have seen a new disinflationary process, partly as the result of the labour market reform of 1994. According to some observers, the reason for the renewed wage restraint has been an effort by unions to slow the full application of the reform by employers. Although this may have been partly so, one should remember the strong crisis and the employment losses of 1992-93, which may have also weakened the wage position of unions. In any case, and despite the successive depreciations of the peseta in 1993 (which implied higher import prices and hence a higher ratio between the CPI and the GPD Deflator), real unit labour costs have experienced substantial falls in 1994 and 1995. For what we know of 1996, the trend is likely to have been similar, despite a somewhat more aggressive stance by unions, helped by the moderate recovery of the economy.

I.4.3. Wages and nationwide agreements

In our analysis of the evolution of wages, we have mentioned the importance of social pacts in the disinflationary process of the 1980s. Although sub-section II.2.2 shall deal more explicitly with the characteristics of collective bargaining, it is worth at this point presenting a summary analysis of these nationwide agreements. Table I.11 summarizes the various agreements reached during the 1980s.

The main characteristic of these agreements in terms of wage growth was the establishment of "wage bands" recommended for collective bargaining. In addition, cost-of-living adjustment clauses were generally agreed, in some cases taking into account the inflationary impact of imported energy prices. The agreements also could include a declaration of economic policy objectives, economic forecasts, and agreements on other matters such as social security, unemployment protection, employment conditions, training, and wage increases for public employees. In addition, labour and employer associations could reach agreements over productivity increases and worker absenteeism, design of the collective bargaining structure, and conflict resolution.

As can be seen in the table, the target wage bands were generally followed, the only exception being 1982, because of the cost-of-living adjustment clause. As a matter of fact,

nominal bargained that year wages were below the band and it was inflation which triggered the adjustment of wages to get them above it. This was also the case in 1984, when no agreement could be reached, although the government suggested a wage increase of 6.5 per cent (this was the increase given to public employees). Once again, bargained wages tended to be below that target but the adjustment clauses made for a final higher increase. On the whole, it can be argued that these agreements were instrumental in the disinflationary process observed all through the 1980s.

In addition, there is no evidence that these agreements affected the dispersion of wage-rate increases across bargaining units (Jimeno and Meixide, 1991). Furthermore, in the years following the end of "social concertation" (i.e. after 1987), a similar incomes policy was followed by the social partners, particularly by unions, which have followed the strategy of centrally establishing a wage objective to be followed by its members in collective agreements. At any rate, social pacts have been mentioned at various points in time, as important elements to fight inflationary pressures in the Spanish economy. However, their time appears to have gone away for good.

Table I.11.- Economy-wide agreements and inflation in Spain, 1978-90 (Source: Jimeno and Toharia, 1994).

	Signing parties	Target wage band (% increase)	Projected duration	Actual wage increases agreed (%)	CPI inflation (%)
1978					
Moncloa Pacts	Political parties	20-22	Open	20.6	19.8
1979					
No agreement	Decree law	11-14	Open	14.1	15.7
1980					
Acuerdo Marco Interconfederal (AMI)	UGT, CEOE	13-16	2 years (recomm.)	15.3	15.6
1981					
Extension of AMI	UGT, CEOE	11-15	Open (1 year)	13.1	14.6
1982					
Acuerdo Nacional de Empleo (ANE)	CC.OO., UGT, CEOE	9-11	Open (1 year)	12.0	14.4
1983					
Acuerdo Interconfederal (AI)	CC.OO., UGT. CEOE	9.5-12.5	> 1 yr. (if possible)	11.4	12.2
1984					
No agreement	-	-	-	7.8	11.3
1985					
Acuerdo Económico y Social (AES) 1st Year	UGT, CEOE, Government	5.5-7.5	2 years (recomm.)	7.9	8.8
1986					
AES - 2nd year	UGT, CEOE, Government	7.2-8.6	2 years (recomm.)	8.2	8.8
1987					
No agreement	-	-		6.5	5.3
1988					
No agreement	-	-		6.3	4.8
1989					
No agreement	-	-		6.7	6.8
1990					
No agreement	-	-		8.3	6.5

Notes: - The UGT and CC.OO. are two major labour union confederations, CEOE is the predominant employer association, which also has a confederal structure (see sub-section II.2.1).
- Actual wage increases agreed without ex-post cost-of-living adjustments.

I.4.4. Bargained and actual wages

In the process of wage formation, there can be no doubt that collective bargaining plays a fundamental role. However, the wage increases agreed at the bargaining table usually get translated into actual higher wages. This occurs through various processes, mostly composition effects linked to the turnover of workers and possible increases from changes in the classification of workers, the latter being a demand often pursued by trade unions to improve the wages agreed at collective bargaining, especially at plant level. Albeit originally applied in Scandinavian countries to the process whereby lower level bargaining units were able to improve upon the centrally bargained increases, it has become customary, at least in Spain, to refer to this difference between actual and bargained wages as "wage drift".

Figure I.54 presents the evolution of these three variables in Spain in the period 1978-1995. Wages here refer to actual earnings, i.e. they exclude the employers' social contributions, which were included in the notion of compensation of employees used in Figure I.53. As can be seen, during the recession of the early 1980s, a wage drift of 2 per cent was the customary value. At that time, it was common in economic policy discussions to consider the aggregate growth of wages as the level of bargained wage raises plus 1 or 2 points.

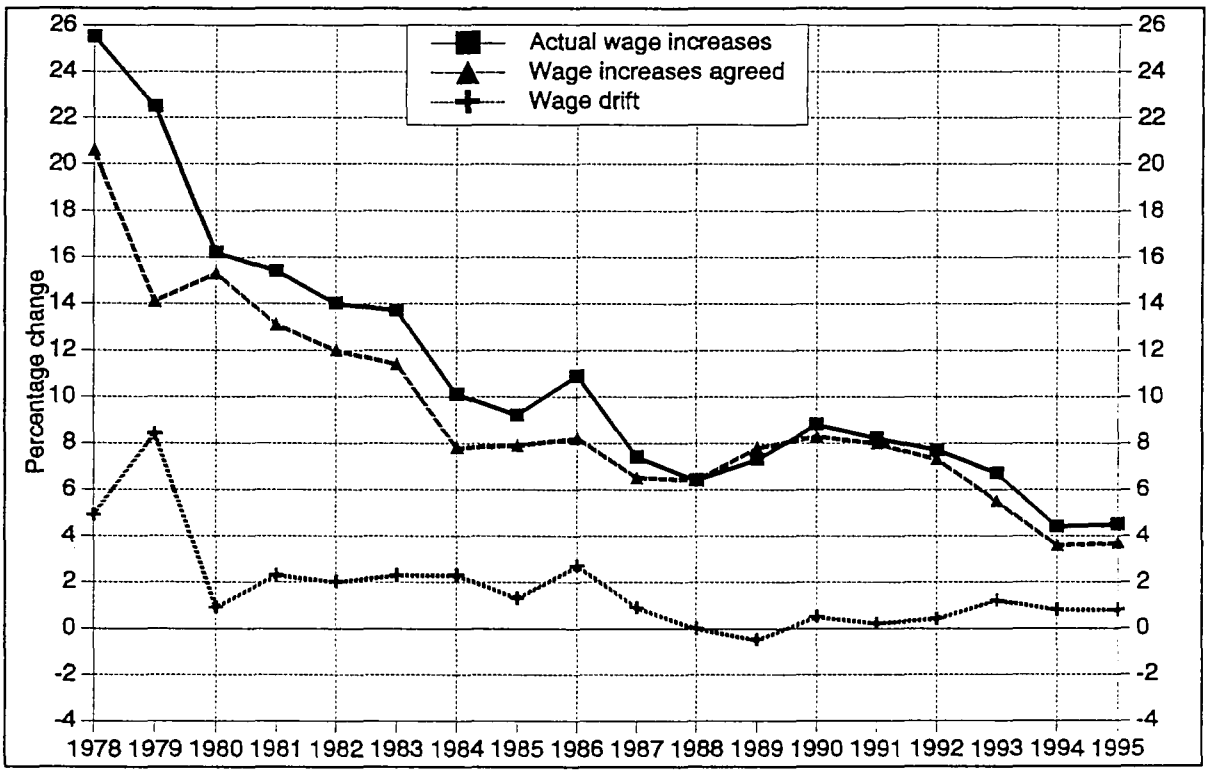

Figure I.54. The evolution of actual wages, agreed wage rates and the wage drift, Spain, 1978-1995.

This trend broke down in 1987. Between that year and 1992, the wage drift was close to zero. The reasons behind this development are difficult to assess, although it is likely related to the process of substitution of temporary and fixed-term workers for permanent ones, a process already analyzed in sections I.1 and I.2. Although wage discrimination by contract tenure is not permitted by law, the available estimates (e.g. Jimeno and Toharia, 1993b) do suggest that fixed-term workers earn less per hour than their permanent counterparts (the wage differential appears to be around 8 per cent for otherwise comparable workers). At any rate, the gross differential being much larger, around 40 per cent, it appears natural that a process of employment creation through fixed-term, lower-paid, workers should imply a lower, or even negative, wage drift.

Finally, during the last three years, actual wages appear to have been able to increase again clearly above bargained wages. The changes introduced in labour market law in 1994, aimed at giving more weight to collective bargaining at lower levels might be behind this trend. However, this is no more than a guess, as this has not been documented as yet. Alternatively, it could be that the rough stabilisation in the proportion of fixed-term workers could have eliminated the (offsetting) composition effects observed in the earlier period.

I.4.5. Wage differentials

To complete our analysis of wages, it is necessary to deal with the evolution of wage differentials by various characteristics. One important problem here refers to the lack of an adequate homogeneous database. Information on wages in Spain comes from the Encuesta de Salarios (Wages Survey, hereafter ES). This wage has suffered a series of methodological breaks over the last twenty years, aimed at improving its coverage and reliability, as it has always been criticized on both of these grounds. The last major change (before a very recent one introduced in 1996) took place in 1989. Prior to that date, the ES published its results disaggregated by industries (23 sectors from manufacturing, construction and services) and occupations (12 groups corresponding to the categories established for the payment of Social security contributions). Starting in 1989, the ES has reduced information on occupations (it now provides information only for manual and non-manual employees), it has widened the coverage and the detail regarding industries (it provides information on 45 sectors from manufacturing, construction and services), it now publishes information by gender once a year, and it also computes regional earnings statistics.

Basing themselves on the old ES, Jimeno and Toharia (1994) discuss the evolution of wage differentials by occupation and industry, trying to determine to what extent the appearance of free trade unions and collective bargaining implied a reduction in those differentials, as was to be expected given the flexible system of wage determination available under Franco, and well documented in Malo de Molina and Serrano (1979), whereby wages could be adjusted quite easily by employers, thus implying relatively large wage differentials.

What the data from the old ES suggested was that, in fact, in the early period of the political transition, when the declared strategy of the emerging unions was to achieve lump-sum increases (as opposed to homogeneous wage increases), wage differentials tended to decrease. Still in 1979, it was recommended that part of the wage increases should be given through these fixed amount raises. This may have negatively affected the relative demand for unskilled workers. However, since 1980, with the full advent of "social concertation" (recall Table I.11), pay raises were recommended in percentage terms. As a matter of fact, wage differentials tended to increase somewhat, especially by occupation although not so much by industry.

What has been the evolution since 1989, under the new situation of renewed wage demands, strong peseta within the EMS and economic downturn and recovery? Figure I.55

Figure I.55. The evolution of wage differentials by industry, Spain, 1989-1995 (Source: Instituto Nacional de Estadística, *Encuesta de Salarios*).

presents a measure of wage dispersion (the coefficient of variation) in the case of the two variables for which enough disaggregation is available, that is, industries (45 sectors) and regions. The available information indicates that wage differentials by industry have tended to widen, both in terms of average hourly wages and average monthly earnings, during the recent recessionary period.

On the whole, after a period which coincided with the beginning of the political transition, when wage dispersion tended to get reduced, as a consequence of the conscious egalitarian strategy followed by unions, the 1980s and 1990s have seen a much more stable pattern, with a widening of differentials by industry.

I.4.6. Final comments

On the whole, although the theoretical importance of wages on employment and unemployment cannot be denied, in our opinion, an explanation of the Spanish unemployment problem based on wages as the principal cause is not justified. Real wages experienced an unwarranted growth especially in the last years of the dictatorship and the early period of transition to democracy. This may have created, as some argue, a wage gap which the following period, much more marked by wage restraint, did not close. But given the difficulties of the political transition and the process of consolidation of democracy, one may wonder whether this closing of the gap was at all possible. It also appears that wages were again immoderate in the late 1980s/early 1990s. In this case, this may be due to both the strong economic growth of the late 1980s, when shortages started to be felt in the labour market despite the still high unemployment rate, as well as to the faltering of the dampening effects on wages of fixed-term work.

The analysis of this whole period also suggests that unions enjoy substantial power in wage determination at the aggregate level, which they are able to exert through collective bargaining. While this may be considered a negative element, it probably also may exert positive influences, especially if unions are convinced at the top political level of the importance of wage restraint. The period of disinflation in the early 1980s clearly shows so.

I.5. Macroeconomic policy

I.5.1 Introduction

Figure I.56 presents the evolution of unemployment and inflation in Spain and the European Union over the last twenty-five years. This is a good starting point to analyze the developments of macroeconomic policy. This information is supplemented with the various indicators included in Table I.12. As can be observed in both the graph and the table, the behaviour of unemployment has been the worst feature of the Spanish economy over this period. This contrasts with GDP growth which, until the last crisis, has been similar to that of Spain's European partners, and higher in the period 1985-90.

As regards the inflation-unemployment relationship, it can be seen that Spain has followed a pattern similar to that of the European Union as a whole, although with several important differences. First, inflation in Spain increased until 1977, while in the EU it stopped increasing in 1974. While in the European countries, monetary policy did not accommodate the price increases resulting from the first oil shock and the wage pressures existing since the late 1960s, Spanish governments pursued accommodating monetary policies until 1978, after the Moncloa Pacts had been signed (see sub-section I.4.3). After the second

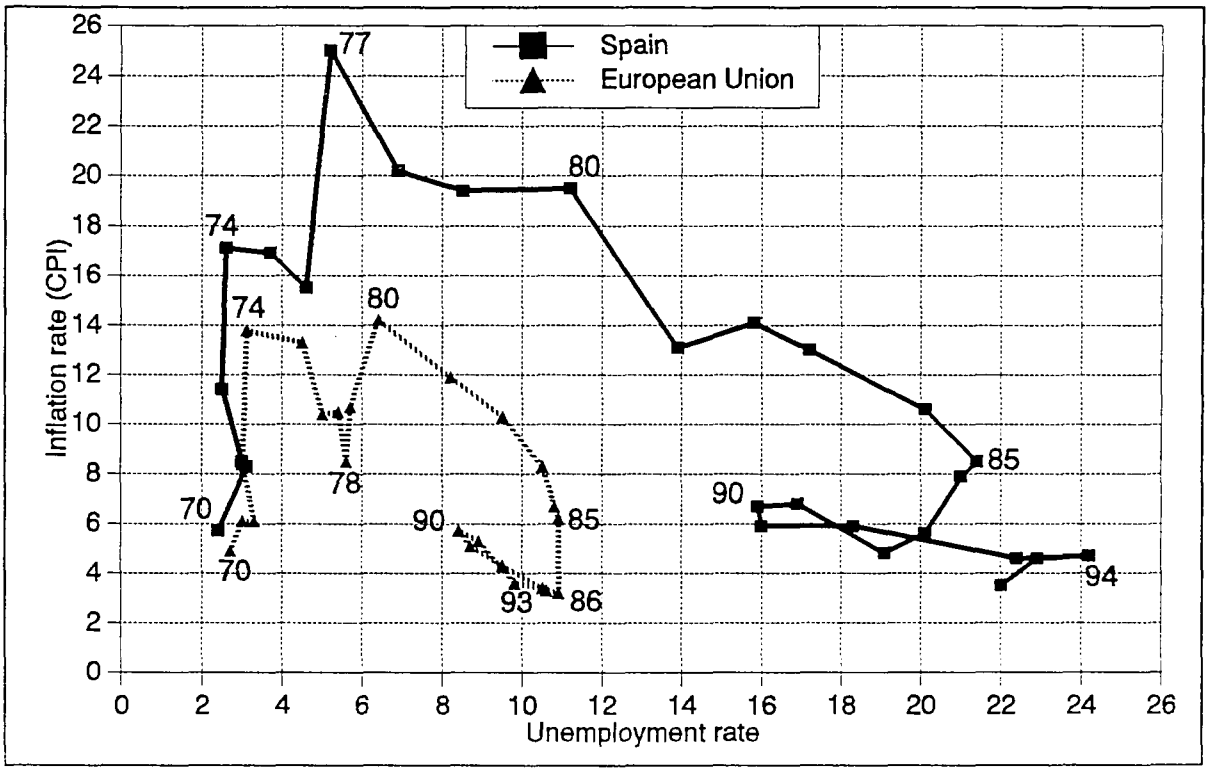

Figure I.56. Unemployment and inflation in Spain and the European Union, 1970-1993 (Source: Jimeno and Toharia, 1994, updated with OECD statistics).

oil price shock in 1979, inflation increased in the European countries but not in Spain, mainly because of the wage restraint policy agreed upon by the social partners, as we have seen. The post-1980 disinflationary process was associated both in Spain and in the EC with a substantial increase in unemployment; however, the process was much more intense in Spain, possibly because its starting inflation levels were higher.

In the second half of the 1980s, unemployment started to fall in Spain and in the other members of the (at that time) European Community; this time around, however, disinflation continued in Spain until 1988 while in the Community inflationary pressures began to build up as soon as unemployment began its decline. Both in Spain and in the EU, this inflation buildup was short-lived and not very intense (actually it was less intense in Spain) and tended to reverse itself in the early 1990s, with the onset of the new recessionary period. While in the EU there was a reversal of the path followed in the late 1980s, in Spain the intensity of the economic crisis led to a sharp increase in unemployment, which went together with a minor decrease in inflation. The inflation burst of the late 1980s, when unemployment was still at 16 percent of the labour force, has led many commentators to argue that the equilibrium unemployment rate (the rate at which inflationary pressures start to buildup) is very high in Spain. It is also true that this was a period of relaxation of fiscal policy, which may have been an additional factor in fuelling inflation. Whatever the interpretation one chooses, the fact is that in that particular period, despite the high global unemployment rate (although the rate for household heads was only at 7 percent), inflation turned up, led by wages (as seen in the preceding section).

Table I.12. Main macroeconomic indicators of the Spanish economy, 1961-1995 (Source: *European Economy*, various issues, 1994 and 1995).

Year	GDP growth	Inflation	Unemployment	Public Deficit/GDP	Year	Public Debt/GDP
1961-73	7.2	7.2	2.8	0.4	1980	17.5
1974-85	1.9	15	11.3	-2.8	1985	43.7
1986-90	4.5	7.4	18.9	-3.8	1989	43.2
1991	0.6	7.1	16.4	-5.0	1991	45.8
1992	2.8	6.7	18.5	-4.2	1992	48.4
1993	-1.1	4.4	22.8	-7.5	1993	60.4
1994	2.0	4.1	24.1	-6.6	1994	63.0
1995	3.0	4.6	22.5	-6.2	1995	65.7

The renewed recovery of these last years has implied, as in the late 1980s, a reduction of both unemployment and inflation, as if the Spanish economy were undertaking a new shift towards a lower theoretical Phillips curve. Inflation differentials with respect to the EU have dropped substantially, but they remain positive.

We now turn to the main aspects of fiscal and monetary policy. The two sub-sections rely on the work by Jimeno *et al.* (1994), as well as the European Commission's report on the Spanish economy (European Economy, 1994). The final section will sum up our arguments, trying to establish links between macroeconomic policy and the evolution of employment and unemployment.

I.5.2. Fiscal policy

Until 1975 Spain lacked a modern fiscal system and the provision of public services was practically null. Budget imbalances were thus absent and so was public debt. With transition into democracy, the demand of public goods and services together with political decentralization and public spending had a very significant growth. At the same time, the tax system, both direct and indirect, was modernized. Figure I.57 plots the evolution, for the period 1978-1998, of government outlays and receipts, as well as of the public deficit, i.e. the inability to cover expenditures with taxes (all magnitudes are expressed as a proportion of GDP; 1996 figures are OECD Secretariat estimates; 1997 and 1998 figures are OECD Secretariat projections). In this figure, the value of the structural deficit (which is a measure of the cyclically adjusted budget deficit) is also included. Although the construction of such an indicator is not without problems (as mentioned by the OECD in its tables; see also e.g. Blanchard, 1990), it provides a better idea of the stance of fiscal policy than the mere budget deficit figures.

Several periods may be distinguished. First, the transition into democracy brought an increase in the demand for public goods and services contributing to the rise in the State budget. Fiscal receipts were insufficient to cover the rise in expenditure and this resulted in an emerging deficit. By 1980, the public deficit was 2 per cent of GDP.

In the next period, 1981-85, all social benefits increased and so did public consumption and investment. Growth of the welfare state (health, unemployent benefits, pensions, etc.), needed investment in infrastructure, and growth in public sector employment constituted the main causes of the increase. On the receipts side, these experienced a slower

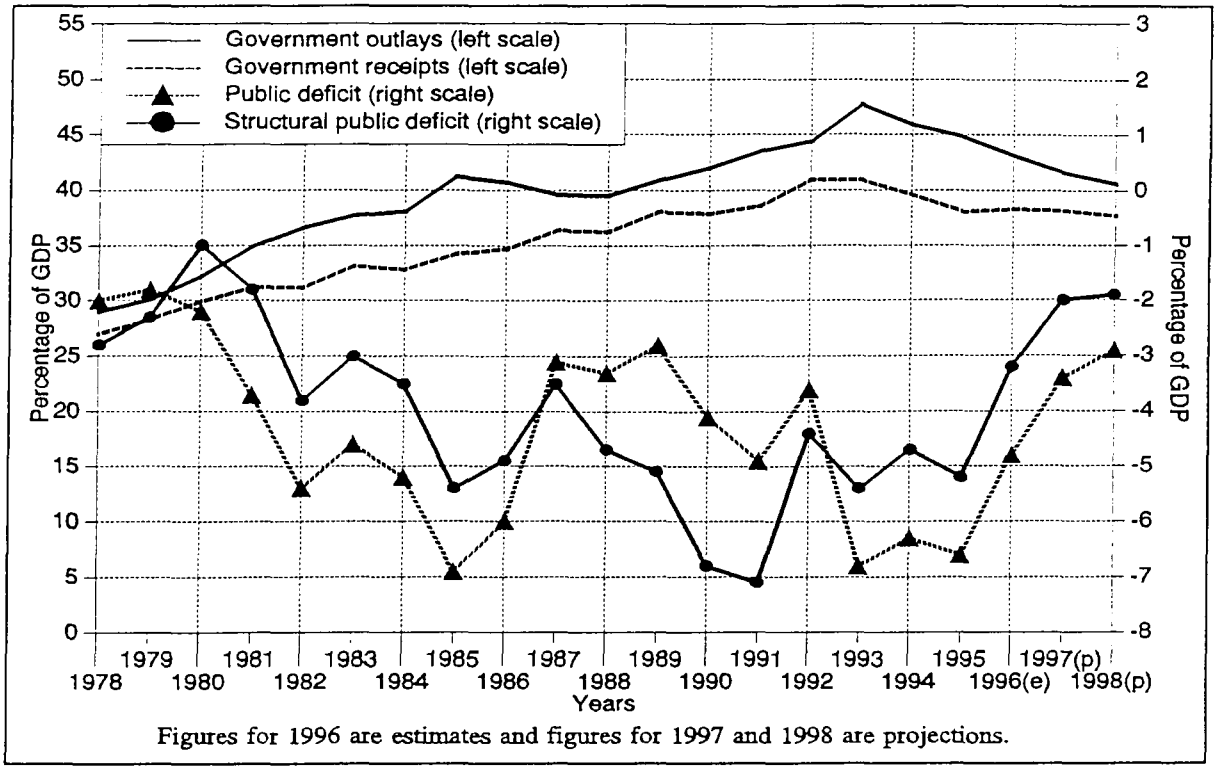

Figure I.57. The evolution of government expenditures, receipts and financial deficits, Spain, 1978-1998 (Source, OECD, *Economic Outlook*, no. 60, December 1996).

growth despite the reform in the income tax system in 1978, which created a modern, progressive, income tax. Public deficit as a proportion of GDP rose to almost 6 per cent and net debt to 20.3 per cent (from only 5 per cent on average in the 1976-81 period).

In 1986, the introduction of the VAT came to replace other, more inefficient, indirect taxes. This had the effect of widening the tax base and increasing the average rate. Receipts from this component rose to 8.5 per cent of GDP. Direct taxes also rose to almost 8 per cent on average for the 1986-91 period mainly due to the widening of the tax base, the full application of the progressive income tax system introduced in 1978, increasing inflation, and a decrease in tax evasion. These developments, together with the significant effort of budget consolidation which took place in 1986-88, led to a substantial decrease of the public deficit, which stood at some 3 per cent of GDP.

Starting in 1989, and partly as the result of the successful general strike of December 1988, which led government to agree to an increase in social expenditures, and partly as the result of the need to provide finance for the international events which were to take place in Spain in 1992 (Universal Exhibition in Seville, Olympic Games in Barcelona), the stance of fiscal policy shifted again towards looseness. Although the importance of increased social

expenditures may be questioned, especially as regards unemployment benefits (see Toharia, 1995a), the fact is that government deficit kept increasing, reaching close to 7 per cent in 1993.

Considering cyclically adjusted figures, fiscal policy became strongly expansionary in the 1988-91 period. This situation had consequences for monetary policy (which had to carry alone the burden of anti-inflationary policies, thus taking a strong restrictive stance) and is indicative that the policy mix during those years was somewhat contradictory. As a matter of fact, it has been pointed out that this fiscal policy looseness was behind the high interest rates prevailing in Spain at that time. And although this makes good sense, knowing that the Bank of Spain, which plays a fundamental role in interest rates determination, has always done so keeping an eye on the evolution of budget deficits, the empirical evidence is somewhat controversial: Esteve and Tamarit (1996) find a long-term relation, while Ballabriga and Sebastian (1993) find no clear relation.

During the most recent recession the deficit reached levels similar to those in the early eighties. On the expenditures side, this was mainly due to the evolution of social benefit payments, reaching by then 17 percent of GDP, and increasing debt interest payments due to higher interest rates. On the other hand, the economic crisis tended to reduce the tax base and receipts decreased somewhat as a proportion of GDP. In the last few years, fiscal consolidation has been, and still is, one of the objectives of government, as part of the Convergence Programme and the efforts to meet the Maastricht criteria to enter the Economic and Monetary Union.

On the whole, fiscal policy has followed a varied behaviour over the last twenty years. It was clearly expansionary in the early 1980s and in the late 1980s and 1990s, and only in the 1986-88 period and after 1993 was there a significant effort at budget consolidation (although the results in this respect in the period 1994-95 were quite disappointing, due to the fact that the decrease in expenditures was offset by a similar decrease in revenues, see Figure I.57). The fact that public debt stands now at 70 per cent of GDP, above the Maastricht criterion, will add pressures to budget deficit reductions, both because of the financial burdens created by the servicing of the debt and because of the need to reduce the debt itself.

I.5.3. Monetary policy

In the mid-1970s, Spain was still a very closed economy with a heavily regulated financial sector. At present, it is a much more open economy and the liberalization of the financial sector is almost complete. During the last two decades, monetary policy went from the control of the monetary aggregates through the use of reserve requirements and investment over the liquidity excess of private banks and capital controls to a more wider approach which also considers the evolution of the interest rate and the exchange rate.

Entry into the EMS in 1989 and the declared independence or autonomy of the Bank of Spain in 1994 are the two most important institutional changes in which monetary policy has moved in the 1980s.

Until the mid-1970s, no active monetary policy was adopted. The response to the first oil shock as well as to the wage demands of the late Francoist and early transition periods was to accomodate the negative supply side effects. However, the high inflation reached in 1977, together with deficit financing of public expenditures led to an increase in the monetary base. The policy response was to impose higher reserve and investment requirements on the excess liquidity of banks (these would be removed in 1989-90). The objective was to control an intermediate monetary aggregate, kwown as M3 (enlarged money supply), although the final objectives regarded inflation and GDP growth. Interest and exchange rates were allowed to fluctuate in order to maintain M3 within the limits set as objectives. A hardly open economy and a very regulated financial sector made the application of this very classical policy possible. The nationwide social agreements reached during this period (see Table I.11), which included incomes policies with government intervention, also helped meeting the inflation objectives. On the opposite side, the second oil crisis affected negatively this anti-inflationary polocy.

As Table I.14 shows, this monetary policy reached a substantial success, as the M3 objectives announced by the Bank of Spain (it began these announcements in 1978) were fully met and inflation sharply decreased.

Table I.14. M3 objectives and actual growth rates 1978-1983 (Source: Ayuso and Escrivá, 1993).

YEAR	M3 OBJECTIVE	ACTUAL M3	INFLATION RATE (CPI)
1978	14.5 - 19.5	20.3	198
1979	15.5 - 19.5	19.4	157
1980	16.0 - 20.0	16.1	156
1981	14.5 - 18.5	15.7	145
1982	13.5 - 17.5	15.3	144
1983	11.0 - 15.0	12.8	122

During the second half of the 1980s, inflation continued its downward trend, but foreign capital entries and demand pressures added problems to the control of the monetary aggregates. Another factor adding instability to the relation of M3 and the objectives set out was the increasing development of the financial sector which included liberalization of interest rates set by banks. Entry into the EC increased capital inflows putting further pressures on monetary policy. As can be observed in Table I.15, objectives (now defined in terms of a new, wider aggregate, M4, or "liquid assets held by the public") were harder to reach by the end of the decade.

From 1987 on, credibility was seriously hurt when government announced inflation objectives which were clearly impossible to reach. As already seen in the preceding sub-section, expansionary fiscal policy only made matters worse. The response to this situation was entry into EMS in 1989. The Bank of Spain raised the reserve requirements by 1 point and established credit controls. These controls were abandoned in 1991 once capital entries and internal demand slowed their rising trend. The idea of "importing credibility" was seemingly taking effect as stability was gained between January 1991 and July 1992. However, real interest rates remained high, as a consequence of the unbalanced policy mix, with a tight monetary policy and a loose fiscal stance. Real interest rates remained above 5 per cent from 1988 until 1993, and have continued to remain high in spite of decreases in the nominal rates. Starting in 1994, the rates began to slowly decline. By 1996, real rates stood at 3 per cent, and the positive developments on the inflation lead to expect further decreases in the near future.

Table I.15. M4 and inflation objectives and actual rates of growth 1983-1989 (Source: Novales, 1990).

YEAR	M4 OBJECTIVE	ACTUAL M4	INFLATION RATE OBJECTIVE	ACTUAL INFLATION
1983	14 - 18	16.0		11.3
1984	10.5 - 14.5	14.1		8.8
1985	11.5 - 14.5	13.2		
1986	9.5 - 12.5	12.9	8	8.8
1987	6.5 - 9.5	14.2	5	5.2
1988	8 - 11	11.0	3	4.8
1989	6.5 - 9.5	11.8	3	6.9

A final element to be considered is competitiveness. The entry into the ERM was established at a parity which, with hindsight, may be considered high, but which was the consequence of the strong position of the peseta, linked in turn with the high interest rates resulting from the unbalanced policy mix of the late 1980s. Upon entry into the EMS, the peseta stood close to the higher edge of its band, as the high interest rates fuelled capital inflows (mostly of a financial nature). As a result competitiveness suffered: it is calculated that the peseta experienced a real appreciation of around 15 per cent with respect to the EC, its main trading partner. The 1992-1993 crisis of the EMS and the three successive devaluations of the peseta reestablished the level of competitiveness back to 1985 levels.

I.5.4. Final comments

On the whole, macroeconomic policy has experienced various shifts which are likely to have affected the evolution of inflation, employment and unemployment. In the early and mid-1970s, it tended to adopt an accomodating role, probably due to the fact that governments were unable to handle the complicated political situation of the end of dictatorship and the early transition to democracy. After the Moncloa Pacts, monetary policy adopted a clear anti-inflationary stance, while fiscal policy tended to be expansionary as democracy increased the demand for public services and the development of a welfare state. The various tax reforms made this increase in expenditures possible, although budget deficits started to be a permanent feature of the Spanish economy. This tight monetary policy probably affected negatively employment, although the employment crisis was deeply rooted

in the economic and industrial structure of the Spanish economy. At the same time, the expansion of the public sector acted as a partial check to employment declines.

The expansionary period of the second half of the 1980s saw an initial period of budget consolidation followed again by a quite substantially expansionary fiscal policy, partly as the increasing expenditures by government to pay what was dubbed the "social debt". Inflationary pressures started to build up by the late 1980s, especially as compared to the relatively low objectives set up by government. In this context of fiscal expansion and rising interest rates and inflation, government decided to enter the EMS in an effort to "import credibility". The level at which the peseta joined the ERM was probably overvalued, but this was just a consequence of the unbalanced policy mix, with a loose fiscal stance and tight money (to curb what was considered a very inflationary-prone economy). High interest rates fuelled capital inflows and the peseta remained strong during the first years of ERM membership. Competitiveness suffered as a result, and this is probably partly behind the strong employment declines of 1992. The crisis of the system as a whole in 1992 which led to the devaluations which restored the competitiveness of the peseta certainly acted as a positive element allowing the Spanish economy to recover relatively quickly from the recession. Since 1993, the successive governments have adopted a policy of fiscal consolidation (unsuccessful in 1994-95) while inflation has kept declining, leaving room for interest rate declines. While these tight monetary and fiscal policies may be considered negative for employment, at least in the short term (although there may be offsetting effects from the lower interest rates and the lower expected budget deficits), they are a necessary step if the Spanish economy is to enter in a proper way the Economic and Monetary Union, a situation which most experts agree would be better for employment, in the medium and long run, than remaining outside of it. The current perspectives, while not fully optimistic, indicate that the Spanish economy may be able to do so.

I.6. Concluding remarks

In this chapter, we have reviewed the evolution of employment, unemployment, labour market flows, wages and macroeconomic policy. As the analysis has proceded, we have made various insights that may allow us to understand the situation of the Spanish labour market. However, in order to get a full assessment of the problems involved and to provide some sort of explanation of the severe unemployment problem which the Spanish economy doubtlessly suffers, it is necessary to deal first with various other issues, such as labour market institutions and legislation and labour market and other policies. This is what shall be attempted in the following chapters. We shall return in Chapter V to make a fuller statement of the diagnosis of the unemployment problem and the possible policy responses.

APPENDICES TO CHAPTER I

APPENDIX 1: Models of the probability of leaving unemployment and employment

1. PROBABILITY OF LEAVING UNEMPLOYMENT INTO EMPLOYMENT: pooled sample (for the period 1992-1996) from the matched EPA files.

Variables used:

EDAD: age in 5 years brackets (reference category: 20-24 years); uppest category, 55 years and over.

RELPP: relation with head of household
1. Head of household or spouse (reference category)
2. Children of H.H.
3. Others

ESTUD: level of education
1. Illiterate/no studies (reference category)
2. Primary education
3. Lower secondary (EGB or equivalent)
4. Vocational training, first level (FP-I)
5. Upper secondary (BUP/COU)
6. Vocational training, upper level (FP-II)
7. University, first level
8. University, upper level

CURSA: binary variable which takes value 1 if person is undertaking studies of any kind at initial moment (and 0 otherwise)

ACEP1 to ACEP4: binary variables which take value 1 if the person declares being willing to take a job which implies:
- ACEP1: change of residence
- ACEP2: change of occupation
- ACEP3: earnings lower than adequate for skill level
- ACEP4: work grade lower than expected.

DURA: duration of job search at initial moment
1. Less than 6 months (reference category)
2. 6-11 months
3. 12-23 months
4. 2 or more years

PREST: variable relating to past job experience and unemployment compensation
1. No past job experience, i.e. first-job seekers (reference category)
2. Receives unemployment benefits and duration of last job less than 1 year
3. Receives unemployment benefits and duration of last job between 2 and 5 years
4. Receives unemployment benefits and duration of last job 6 years or more
5. Does not receive unemployment benefits and duration of last job less than 1 year
6. Does not receive unemployment benefits and duration of last job 2 years or more
7. Left last job 8 years or more ago

CCAA: dummies for the different regions
1. ANDALUCIA
2. EXTREMADURA
3. CANARIAS
4. ASTURIAS
5. MURCIA
6. CASTILLA Y LEON
7. COMUNIDAD VALENCIANA
8. CASTILLA-LA MANCHA
9. GALICIA
10. PAIS VASCO
11. CANTABRIA
12. CATALUÑA
13. MADRID
14. NAVARRA
15. BALEARES
16. ARAGON
17. LA RIOJA

INTBUS: binary variable which takes value 1 if the person declares registration at the public employment services as the only job search method used.

NRENTAM: proxy for family income calculated in "employed-equivalent" units. Four brackets of similar size.

YEAR: dummy variables for the four years pooled in the sample

In the tables of results, Exp(B) provides the ratio between the probability of the corresponding value and that of the reference individual.

RESULTS FOR MALES (sample size: 8241)

Variable	Coeff.	S.E.	Sig	Exp(B)
EDAD			.0000	
EDAD(1)	-.1508	.1019	.1390	.8600
EDAD(2)	-.1879	.0770	.0147	.8287
EDAD(3)	-.2329	.0934	.0126	.7922
EDAD(4)	-.4870	.1085	.0000	.6145
EDAD(5)	-.6302	.1215	.0000	.5325
EDAD(6)	-.4946	.1226	.0001	.6098
EDAD(7)	-1.0123	.1435	.0000	.3634
EDAD(8)	-1.4345	.1498	.0000	.2382
RELPP			.0000	
RELPP(1)	-.6152	.0783	.0000	.5405
RELPP(2)	-.3310	.1203	.0059	.7182
ESTUD			.0003	
ESTUD(1)	.0820	.0896	.3603	1.0854
ESTUD(2)	.1996	.0987	.0432	1.2209
ESTUD(3)	.4722	.1340	.0004	1.6035
ESTUD(4)	.0588	.1325	.6571	1.0606
ESTUD(5)	.4864	.1374	.0004	1.6264
ESTUD(6)	.2609	.1462	.0744	1.2981
CURSA	-.0434	.0907	.6326	.9575
ACEP1	.1056	.0541	.0507	1.1114
ACEP2	-.0870	.0710	.2203	.9166
ACEP3	.0750	.0853	.3791	1.0779
ACEP4	-.2310	.0928	.0128	.7937
DURA			.0000	
DURA(1)	-.1798	.0658	.0063	.8354
DURA(2)	-.4047	.0706	.0000	.6672
DURA(3)	-.7033	.0682	.0000	.4950
PREST			.0000	
PREST(1)	.4362	.1053	.0000	1.5469
PREST(2)	.4009	.1172	.0006	1.4932
PREST(3)	-.0741	.1381	.5916	.9286
PREST(4)	.3205	.0887	.0003	1.3779
PREST(5)	.2734	.1009	.0067	1.3145
PREST(6)	-.1421	.2467	.5648	.8676
CCAA			.0000	
CCAA(1)	.1678	.1162	.1489	1.1827
CCAA(2)	.2267	.1047	.0303	1.2545
CCAA(3)	-.3362	.1701	.0481	.7145
CCAA(4)	.3868	.1349	.0041	1.4723
CCAA(5)	.2395	.0990	.0155	1.2706
CCAA(6)	.4149	.0936	.0000	1.5143
CCAA(7)	.4885	.1057	.0000	1.6299
CCAA(8)	.0823	.1119	.4621	1.0858
CCAA(9)	.1913	.1167	.1013	1.2108
CCAA(10)	.0801	.1704	.6382	1.0834
CCAA(11)	.3017	.1040	.0037	1.3521
CCAA(12)	-.2889	.1435	.0441	.7491
CCAA(13)	.3515	.2397	.1426	1.4211
CCAA(14)	.6730	.1760	.0001	1.9601
CCAA(15)	.3734	.1610	.0204	1.4526
CCAA(16)	.5281	.2344	.0243	1.6958
INTBUS	-.2964	.0876	.0007	.7435
NRENTAM			.6010	
NRENTAM(1)	.1073	.0715	.1337	1.1132
NRENTAM(2)	.0642	.0799	.4216	1.0663
NRENTAM(3)	.0286	.0991	.7730	1.0290
NRENTAM(4)	.0889	.1648	.5896	1.0930
YEAR			.0000	
YEAR(1)	-.0055	.0746	.9410	.9945
YEAR(2)	.4436	.0728	.0000	1.5584
YEAR(3)	.4083	.0743	.0000	1.5042
Constant	-.1623	.1772	.3595	

RESULTS FOR FEMALES (sample size = 7613)

Variable	B	S.E.	Sig	Exp(B)
EDAD			.2137	
EDAD(1)	-.0460	.1032	.6555	.9550
EDAD(2)	-.0879	.0847	.2996	.9159
EDAD(3)	-.1974	.1067	.0643	.8208
EDAD(4)	-.2879	.1312	.0282	.7499
EDAD(5)	-.2383	.1413	.0918	.7880
EDAD(6)	-.1845	.1612	.2524	.8315
EDAD(7)	-.6405	.2254	.0045	.5270
EDAD(8)	-.2504	.2563	.3287	.7785
RELPP			.0031	
RELPP(1)	.2748	.0847	.0012	1.3163
RELPP(2)	.3380	.1602	.0349	1.4021
ESTUD			.0010	
ESTUD(1)	.4524	.1604	.0048	1.5722
ESTUD(2)	.4809	.1639	.0033	1.6175
ESTUD(3)	.5105	.1835	.0054	1.6662
ESTUD(4)	.4302	.1845	.0197	1.5376
ESTUD(5)	.6496	.1883	.0006	1.9147
ESTUD(6)	.7876	.1826	.0000	2.1981
CURSA	.0174	.0788	.8255	1.0175
ACEP1	.0343	.0694	.6210	1.0349
ACEP2	-.0824	.0816	.3126	.9209
ACEP3	-.0591	.0999	.5542	.9426
ACEP4	.0247	.1062	.8163	1.0250
DURA			.0000	
DURA(1)	-.1090	.0848	.1988	.8967
DURA(2)	-.1715	.0850	.0437	.8424
DURA(3)	-.4616	.0784	.0000	.6303
PREST			.0000	
PREST(1)	.4084	.1155	.0004	1.5045
PREST(2)	.3084	.1408	.0285	1.3613
PREST(3)	-.2484	.2217	.2625	.7800
PREST(4)	.4976	.0798	.0000	1.6447
PREST(5)	.4421	.0979	.0000	1.5560
PREST(6)	.0344	.1461	.8137	1.0350
CCAA			.0002	
CCAA(1)	.1566	.1453	.2811	1.1695
CCAA(2)	.2482	.1308	.0577	1.2818
CCAA(3)	-.0778	.1923	.6857	.9251
CCAA(4)	.3733	.1621	.0213	1.4525
CCAA(5)	-.0223	.1167	.8483	.9779
CCAA(6)	.3264	.1067	.0022	1.3860
CCAA(7)	.1985	.1311	.1298	1.2196
CCAA(8)	.0310	.1339	.8170	1.0315
CCAA(9)	.0660	.1314	.6152	1.0682
CCAA(10)	-.8569	.2818	.0024	.4245
CCAA(11)	.1872	.1161	.1071	1.2058
CCAA(12)	-.0790	.1560	.6125	.9240
CCAA(13)	.5901	.2130	.0056	1.8042
CCAA(14)	.5649	.2014	.0050	1.7592
CCAA(15)	.1726	.1560	.2685	1.1884
CCAA(16)	.0158	.2725	.9537	1.0159
INTBUS	-.2805	.0890	.0016	.7554
NRENTAM			.0058	
NRENTAM(1)	-.0662	.0963	.4919	.9360
NRENTAM(2)	.1550	.1019	.1281	1.1677
NRENTAM(3)	.2147	.1258	.0878	1.2395
NRENTAM(4)	.3583	.1944	.0653	1.4308
YEAR			.3568	
YEAR(1)	-.1352	.0847	.1102	.8735
YEAR(2)	-.0183	.0830	.8251	.9818
YEAR(3)	-.0415	.0841	.6222	.9594
Constant	-1.6280	.2305	.0000	

1. PROBABILITY OF LEAVING EMPLOYMENT INTO UNEMPLOYMENT: pooled sample (for the period 1992-1996) from the matched EPA files (employees only).

Variables used:

EDAD: age in 5 years brackets (reference category: 20-24 years); uppest category, 55 years and over.

RELPP: relation with head of household

1. Head of household or spouse (reference category)
2. Children of H.H.
3. Others

ESTUD: level of education

1. Illiterate/no studies (reference category)
2. Primary education
3. Lower secondary (EGB or equivalent)
4. Vocational training, first level (FP-I)
5. Upper secondary (BUP/COU)
6. Vocational training, upper level (FP-II)
7. University, first level
8. University, upper level

CCAA: dummies for the different regions

1. ANDALUCIA
2. EXTREMADURA
3. CANARIAS
4. ASTURIAS
5. MURCIA
6. CASTILLA Y LEON
7. COMUNIDAD VALENCIANA
8. CASTILLA-LA MANCHA
9. GALICIA
10. PAIS VASCO
11. CANTABRIA
12. CATALUÑA
13. MADRID
14. NAVARRA
15. BALEARES
16. ARAGON
17. LA RIOJA

NRENTAM: proxy for family income calculated in "employed-equivalent" units. Four brackets of similar size.

YEAR: dummy variables for the four years pooled in the sample

SITU: binary variable which takes value 1 if working in the public sector and 0 if working in the private sector.

DUCONT: binary variable which takes value 1 if fixed-term contract and 0 if permanent contract.

NUMTRA: number of employees in firm at initial moment

1. Up to 10 employees (reference category)
2. 11-49 employees
3. 50 or more employees
4. Cannot tell, but more than 10

PARCOM: binary variable which takes value 1 if part-time and 0 if full-time.

DIV: sector of activity of firm at initial moment

1. Agriculture
2. Manufacturing (reference category)
3. Construction
4. Distribution, hotels, restaurants
5. Transport, communications, financial and business services
6. Public administration, education, health
7. Other services

In the tables of results, Exp(B) provides the ratio between the probability of the corresponding value and that of the reference individual.

RESULTS FOR MALES

Variable	Coeff.	S.E.	Sig	Exp(B)
EDAD			.5548	
EDAD(1)	.2094	.0974	.0315	1.2330
EDAD(2)	.0300	.0753	.6904	1.0305
EDAD(3)	.0912	.0894	.3078	1.0955
EDAD(4)	-.0394	.1015	.6975	.9613
EDAD(5)	.0207	.1082	.8486	1.0209
EDAD(6)	.0266	.1137	.8150	1.0270
EDAD(7)	-.0058	.1267	.9633	.9942
EDAD(8)	.0282	.1252	.8221	1.0285
RELPP			.0000	
RELPP(1)	.4903	.0711	.0000	1.6328
RELPP(2)	.2051	.1079	.0574	1.2277
ESTUD			.0000	
ESTUD(1)	-.1143	.0833	.1700	.8920
ESTUD(2)	-.3252	.0943	.0006	.7224
ESTUD(3)	-.2187	.1263	.0834	.8036
ESTUD(4)	-.5659	.1275	.0000	.5678
ESTUD(5)	-.6850	.1355	.0000	.5041
ESTUD(6)	-.9165	.1403	.0000	.3999
CCAA			.0000	
CCAA(1)	.0776	.1063	.4652	1.0807
CCAA(2)	-.4337	.1058	.0000	.6481
CCAA(3)	-.3332	.1467	.0232	.7166
CCAA(4)	-.9013	.1399	.0000	.4060
CCAA(5)	-.6589	.0936	.0000	.5174
CCAA(6)	-.4901	.0845	.0000	.6125
CCAA(7)	-.6509	.0935	.0000	.5216
CCAA(8)	-.5286	.1037	.0000	.5894
CCAA(9)	-.4448	.1096	.0000	.6410
CCAA(10)	-.3681	.1519	.0154	.6920
CCAA(11)	-.6690	.0868	.0000	.5122
CCAA(12)	-.1852	.1077	.0853	.8309
CCAA(13)	-.8058	.1835	.0000	.4467
CCAA(14)	-.4068	.1632	.0126	.6657
CCAA(15)	-.8414	.1338	.0000	.4311
CCAA(16)	-.9830	.2473	.0001	.3742
NRENTAM			.6122	
NRENTAM(1)	-.1808	.2297	.4313	.8346
NRENTAM(2)	-.1238	.2294	.5895	.8836
NRENTAM(3)	-.1726	.2318	.4566	.8415
NRENTAM(4)	-.2171	.2346	.3549	.8049
YEAR			.0000	
YEAR(1)	-.2558	.0591	.0000	.7743
YEAR(2)	-.5245	.0627	.0000	.5918
YEAR(3)	-.4379	.0602	.0000	.6454
SITU	.3962	.1104	.0003	1.4862
DUCONT	1.7205	.0561	.0000	5.5872
NUMTRA			.0458	
NUMTRA(1)	.0176	.0615	.7751	1.0177
NUMTRA(2)	-.1643	.0664	.0134	.8485
NUMTRA(3)	-.0171	.0616	.7819	.9831
PARCOM	.3463	.1295	.0075	1.4139
DIV			.0000	
DIV(1)	.0524	.0922	.5700	1.0538
DIV(2)	.4581	.0649	.0000	1.5811
DIV(3)	-.0389	.0716	.5875	.9619
DIV(4)	-.1880	.0898	.0362	.8286
DIV(5)	-.2310	.1353	.0879	.7937
DIV(6)	.1351	.1231	.2726	1.1446
Constant	-7.5371	.9296	.0000	

RESULTS FOR FEMALES

Variable	Coeff.	S.E.	Sig	Exp(B)
EDAD			.0000	
EDAD(1)	-.0706	.1105	.5226	.9318
EDAD(2)	-.0597	.0914	.5135	.9421
EDAD(3)	-.3434	.1144	.0027	.7093
EDAD(4)	-.4158	.1274	.0011	.6598
EDAD(5)	-.7135	.1455	.0000	.4899
EDAD(6)	-.6574	.1574	.0000	.5182
EDAD(7)	-1.0623	.2158	.0000	.3457
EDAD(8)	-1.8617	.2688	.0000	.1554
RELPP			.1832	
RELPP(1)	.1310	.0831	.1149	1.1399
RELPP(2)	-.0704	.1707	.6800	.9320
ESTUD			.0000	
ESTUD(1)	.1200	.1461	.4114	1.1275
ESTUD(2)	-.2525	.0869	.0037	.7768
ESTUD(3)	-.1923	.1241	.1212	.8250
ESTUD(4)	-.3836	.1176	.0011	.6814
ESTUD(5)	-.5414	.1393	.0001	.5819
ESTUD(6)	-.8710	.1248	.0000	.4185
CCAA			.0000	
CCAA(1)	-.0353	.1733	.8387	.9653
CCAA(2)	-.4275	.1462	.0035	.6521
CCAA(3)	.2460	.1862	.1865	1.2789
CCAA(4)	-.4267	.1764	.0156	.6526
CCAA(5)	-.2515	.1252	.0445	.7776
CCAA(6)	-.4249	.1190	.0004	.6538
CCAA(7)	-.3207	.1313	.0146	.7256
CCAA(8)	-.0944	.1372	.4912	.9099
CCAA(9)	-.6374	.1557	.0000	.5287
CCAA(10)	.0898	.2037	.6592	1.0940
CCAA(11)	-.5563	.1114	.0000	.5733
CCAA(12)	-.0754	.1367	.5814	.9274
CCAA(13)	-.4107	.2329	.0779	.6632
CCAA(14)	-.4911	.2008	.0145	.6119
CCAA(15)	-.5109	.1657	.0020	.5999
CCAA(16)	-.4197	.2625	.1099	.6572
NRENTAM			.0308	
NRENTAM(1)	1.7870	1.0386	.0853	5.9717
NRENTAM(2)	1.5000	1.0347	.1471	4.4818
NRENTAM(3)	1.5567	1.0350	.1326	4.7432
NRENTAM(4)	1.4441	1.0360	.1633	4.2380
YEAR			.0985	
YEAR(1)	.0302	.0823	.7135	1.0307
YEAR(2)	-.1703	.0858	.0472	.8434
YEAR(3)	-.0283	.0826	.7318	.9721
SITU	-.2036	.1226	.0969	.8158
DUCONT	1.5639	.0724	.0000	4.7774
NUMTRA			.0577	
NUMTRA(1)	-.1523	.0889	.0866	.8587
NUMTRA(2)	-.1511	.0863	.0797	.8597
NUMTRA(3)	.0737	.0949	.4378	1.0764
PARCOM	.0368	.0814	.6514	1.0375
DIV			.0009	
DIV(1)	-.1003	.1750	.5666	.9046
DIV(2)	.2446	.2287	.2850	1.2771
DIV(3)	-.2249	.0945	.0173	.7986
DIV(4)	-.2017	.1159	.0818	.8173
DIV(5)	-.5659	.1387	.0000	.5678
DIV(6)	-.1318	.1120	.2393	.8765
Constant	-3.4653	1.4371	.0159	

APPENDIX 2: Methodological issues on stock and flow measures

We can start from the definitions of stocks to distinguish the different flows and the biases caused by the use of net worker flows as approach to net job flows and then we will explain the main indices of gross flows and the available estimations for Spain.

Following Contini et al. (1995), we can write this stock measures at plant (or firme) level:

$$\mathbf{J\ (jobs) = F\ (filled\ positions) + V\ (vacancies)}$$

$$\mathbf{E\ (employment) = F\ (filled\ positions) + R\ (redundancies)}$$

This terminology has a great advantage against others: it includes vacancies (and we can connect this analysis to the Beveridge curve) and redundancies (not in the sense of dismissals, but in the labour hoarding sense).

As F (filled positions) is in the two equations, for each firm:

$$\mathbf{J = E - R + V}$$

However, we can not observe R and V at the firm level. This is the reason to miss R and V in the empirical analysis. This usual procedure, however, will introduce two biases when we estimate job creation and destruction because redundancies and vacancies evolves along business cycles in the following way:

- In recessions, $R > 0$ and $V < 0$.
- In expansions, $R < 0$ and $V > 0$.

As only E is observable at firm level, job creation and destruction corresponds to variations in the employment. Therefore, net employment growth overestimate net job growth in recessions (underestimating the job destruction) and underestimate it in expansions (underestimating now the job creation). Only when R and V are small (i.e., when labour hoarding and mismatch are negligible) variations in E offers an accurate approach to variations in jobs (J). As Spanish labour market exhibits labour hoarding and mismatch -R and V are not small- employment variations does not give a good measure for job variations and the conclusions obtained from this sort of data could be biased.

The analysis of job turnover has to go so far, because the information of levels or stocks offers a partial view. In this aim we can include the recent literature about job creation and destruction which try to build empirical measures of gross flows and to distinguish worker and job flows (also gross, of course).

Now, we offer a resume of the empirical measures used in both researchs following

García-Serrano and Malo (1996).

The seminal work by Davis and Haltiwanger (1990 and 1992) propose the use of dessagregated net flows (at plant level) in order to estimate the lower limit to the job gross flows[8]. In other words, their methodology use the worker flows to know the job creation and destruction flows.

As we have mentioned, worker turnover (gross flows of workers) can be divided into two components: worker mobility related to job reallocation (due to job creation and job destruction processes), and worker mobility in excess of job reallocation (ocurring independently of job flows).

First of all, we deal with total worker turnover. Given the size of establishment *i* in time *t* ($E_{i,t}$) and in time *t-1* ($E_{i,t-1}$), we define the average size of establishment *i* between *t-1* and *t* as follows: $N_{i,t} = (E_{i,t} + E_{i,t-1}) / 2$. Aggregating, it is possible to obtain the size of either a sector or the whole economy: $N_t = \sum_i N_{i,t}$.

The hiring (separation) rate is defined as the proportion of the number of workers arriving in (leaving) establishments between *t-1* and *t* with respect to the employment stock: $h_{i,t} = H_{i,t} / N_{i,t}$ ($s_{i,t} = S_{i,t} / N_{i,t}$).

Then, by aggregating, we may calculate the sectoral or aggregate hiring rate

$$WPOS_t = \sum_i (N_{i,t} / N_t) \cdot h_{i,t}$$

and the sectoral or aggregate separation rate

$$WNEG_t = \sum_i (N_{i,t} / N_t) \cdot s_{i,t}$$

The sum of both rates is the turnover or worker reallocation rate (WFR_t). It gives us an idea of gross external mobility of workers either in each sector or in the whole economy:

$$WFR_t = WPOS_t + WNEG_t \qquad [1]$$

Now we consider the case of job flows[9]. First, we define the employment growth rate in each establishment as follows: $g_{i,t} = (E_{i,t} - E_{i,t-1}) / N_{i,t} = (H_{i,t} - S_{i,t}) / N_{i,t}$. In other words,

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[8]. These authors and others insist on the term 'gross' to denote their measures, but as argued by Hamermesh *et al.* (1994), they only use disaggregated net flows at firm (or plant) level. In general, the terminology of this literature is confusing. This section tries to distinguish the main concepts following Contini *et al.* (1995) and Burguess *et al.* (1994).

[9] That methodology follows the empirical approach outlined in Davis and Haltiwanger (1990) which has been extensively used in most of the existing literature. We only modify notational details to permit an easy comparisson between Davis-Haltiwanger methodology and Burguess tipology of flows.

it can be calculated either as the difference between current and past employment stocks or as the difference between hirings and separations in the corresponding period of time. In any case, it tell us the net job creation or destruction rate in each establishment.

Then, by aggregating, we define the job creation rate

$$JPOS_t = \sum_i (N_{i,t} / N_t) \cdot g_{i,t} , \qquad \text{for } g_{i,t} > 0$$

and the job destruction rate

$$JNEG_t = \sum_i (N_{i,t} / N_t) \cdot |g_{i,t}| , \qquad \text{for } g_{i,t} < 0$$

The job reallocation rate (JFR_t) is the sum of both rates. It gives us an idea of the external mobility of workers (either in a sector or in the whole economy) which is due to job creation and job destructions:

$$JFR_t = JPOS_t + JNEG_t \qquad [2]$$

In fact, JFR_t is a lower bound of the gross job flows and, therefore, of that component of worker reallocation. The reason is the way in which it has been defined: it is the ratio of the increase/decrease of employment positions on each establishment with respect to its employment stock. As we cannot observe creation and destruction of positions, we consider that an establishment has created (destroyed) jobs if the difference between current and past employment stocks is positive (negative). Thus, this way of doing excludes the possibility that an establishment simultaneously creates and destroys employment positions. For instance, restructuring that causes job creation and destruction, but which leaves employment constant, will be missed. Hamermesh et al. (1994) provide a more detailed discussion on that issue and García-Serrano (1996) present an analysis for Spanish case.

Now we can compute the rotation component of worker turnover across establishments (RFR_t). As it is defined as the worker reallocation in excess of job flows, the following equation holds:

$$RFR_t = WFR_t - JFR_t = 2 \cdot min (H_t, S_t) \qquad [3]$$

Finally, the sectoral and aggregate net employment growth rates will be the difference between both job creation and job destruction. It also may be computed as the difference between total hirings and total separations:

$$NET_t = JPOS_t - JNEG_t = WPOS_t - WNEG_t \qquad [4]$$

II. LABOUR MARKET INSTITUTIONS AND LEGISLATION

The operation of the labour market is constrained by the regulations imposed by institutions and legislation. In the Spanish case, given the strong tradition of Labour Law, many of the labour market institutions themselves (most notably, collective bargining) is heavily influenced by law. This implies that any analysis of institutions would be incomplete if not accompanied by a study of legislation. Hence, the strategy we follow in this chapter is the following: we first present an overview of the evolution of labour law in Spain (section II.1), the basic public labour market institutions (section II.2), and the system of industrial relations (section II.3), heavily influenced by law. We then deal with various specific regulations (stemming partly from legislation and partly from institutions): employment protection schemes (section II.4), working time regulations (section II.5), and minimum wage (section II.6). We conclude with a more specific analysis of the recent labour market reform, passed in 1994, as well as with the prospects for further reforms (section II.7).

II.1. The changing legal framework of the Spanish labour market

The legal regulation of the labour market is one of the aspects of Spanish social life where the transformations whihave taken place over the last three decades may best be observed. However, these changes in the labour laws are not only interesting per se; they also give us an idea of the way in which the different problems have been addressed.

The death of Franco in 1975 marked a critical turning point in Spanish society, as efforts were made to transform the institutions set up during the dictatorship in order to reach a fully democratic system [9]. The inability (mostly political in nature) of the last governments of Franco to properly deal with the oil crisis posed an additional burden to the process of building up democratic structures, as the economic situation had to be taken into account. The changes regarding unionism and dismissal costs provide good examples of these processes.

Under Franco, there was only one "union" (known as "Organización Sindical Española", OSE) to which both employers and employees had to belong, in an effort to deny the existence of any class conflict at the workplaces. No matter the actual importance of this organization, or its nature; the point that interests us here is that for true union freedom to exist, something had to be done about the OSE. The initial strategy adopted by the first post-Franco government was to maintain the OSE as an administrative structure while recognizing Western-style free unionism, by ratifying the ILO Conventions 87 and 98, but favouring the existence of a single trade union structure[10].

As for dismissals, the most significant early change was the 1976 Industrial Relations Law which established (in its famous article 35) that any worker fired for no fair reason would have to be reinstated, without the possibility of replacing this by any severance payment. This may be interpreted as an effort to "maintain Francoism without Franco", i.e. to give full employment stability in exchange for the lack of free unionism and the right to strike (Valdés, 1985, Fina *et al.*, 1989).

Both the effort to maintain the OSE as the new regulation of dismissals could not be

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[9]. See Tusell and Soto (1996) for a detailed account of the changes which took place in Spain during what is known as the "transition period".

[10]. This was supported by Comisiones Obreras, one the two current trade union confederations, as explained in Soto (1996). See also sub-section II.3.1 below.

maintained for a long time, as they did not satisfy neither the needs to create a democratic industrial relations framework nor the increasing demands by firms for workforce adjustment. Thus, by the end of 1976 the OSE was dismantled and its personnel integrated within general government. In April 1977 (still before the first free general elections), the free trade unions were legalized [11].

Article 35 of the 1976 Industrial Relations Law was repealed in October of that same year. At the same time, in March 1977 a Royal-Decree, also labelled of Industrial Relations, was passed. This Decree regulated six crucial aspects: the right to strike, recognized but regulated in a restrictive way; collective conflicts, as a mechanism to solve workplace problems different from strikes; collective bargaining, eliminating the administrative constraints existing under Franco; dismissals, by recognizing new grounds for "fair" dismissals based on economic reasons (what are known as "objective dismissals"); and the process of "workforce adjustment" (i.e. collective redundancies), trying to simplify the procedure previously established.

We thus see that, within a short period of time, various and very important labour market regulations were established in an effort to quickly establish a modern industrial relations system but under the strains of the political and economic urgencies of the moment. The Spanish Constitution, passed at the end of 1978, clarified various points and established that the various aspects of labour relations would have to be regulated by law. The first and most important one was the 1980 Workers'Statute (*Ley del Estatuto de los Trabajadores*, quoted as LET throughout this chapter). In 1985, the Free Unionism Law (*Ley Orgánica de Libertad Sindical*, LOLS) was passed, although the criteria governing unions activities and representation were already established in the LET. The strike law is still to be approved (see sub-section II.4.3 below for more on this).

The LET tried to set up a stable, democratic industrial relations system, by establishing a legal framework comparable to that existing in other western (European) countries. However, the LET maintained legal and administrative interventionist elements, inherited from the Francoist regulations. This intervention can especially be seen in two aspects (Sagardoy *et al.*, 1995): first, the establishment of "norms of necessary law" (such as those regulating the maximum length of the working day, the weekly period of rest and

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[11]. For a full account of this process and the various regulations which dealt with the various aspects of free unionism, see Palomoque and Alvarez de la Rosa (1995).

so on), i.e. regulations which cannot be contradicted by other regulations, such as e.g. collective bargaining; secondly, the preference for province-level industrial collective agreements [12] affecting all workers and firms in the sector-province as the system to regulate wages and working conditions through collective bargaining. The LET adopts a conception of Labour Law as a "workers rights law", under the assumption that the labour market is an "unequal exchange" and that the weaker party needs to be protected by law.

Despite the stability to which the LET aspired, the worsening economic conditions and the continuing increase of unemployment, it was soon felt that the law had to be reformed to meet the challenges facing Spanish society, and especially to reduce the presumed "rigidities" of the labour market (lack of responsiveness of nominal wages to unemployment, high dismissal costs and low labour mobility). The LET was thus reformed in 1984. Many new contracts were introduced aimed mostly at facilitating the use by firms of fixed-term and temporary contracts (these contracts are reviewed in more detal in sub-section III.3.3). Instead of reforming the core of the labour market, thus, the stategy followed was to allow the development of a "fringe" where labour market regulations, in particular dismissal procedures, would be much less restrictive. At the same time, unemployment protection was also reformed to make it possible for fixed-term workers to be entitled to benefits.

It would not be until the crisis of the early 1990s when policy-makers started to consider again the need to reform labour law. The initial thrust came from a study on temporary contracts promoted by government [13] which contained a number of proposals for reform, but met with the opposition of unions (mostly for strategic reasons). Discussions followed in 1992, when government passed a Decree-Law reforming unemployment compensation and some of the contracts along lines different from the suggestions of the above-mentioned report) and in 1993 the government presented a document on labour market reform for discussion at the Economic and Social Council (a consultative body where unions and employers sit together with representatives from other organisations and experts appointed by government). The 1993 general elections changed the situation and, as one of the main electoral promises was to achieve a Social Pact, negotiations started soon after the

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[12]. This was also the level at which the Francoist "Labour Ordinances" were established. This can thus be seen as another aspect inherited from that period.

[13]. This report was published as a book: Segura *et al.* (1991).

elections. These failed andat, the end of 1993, government took the decision to pass a decree (regulating labour contracts) and presented a labour market reform bill to Parliament. Both became laws in May 1994, and constitute the basis of the currently prevailing LET.

The 1994 reform affected various elements of labour law. Most importantly, it tried to reduce dismissal costs (although to many experts the changes were actually minimal; see section II.4 for more on this), it tried to change the balance between law and collective bargaining (by giving the latter a more fundamental role) and reformed labour contracts (by limiting fixed-term contracts. Above all, however, there was a feeling among the social partners that the main thrust behind the law was to shift the balance of power at the workplace in favour of employers and against workers.

In the following sections, we shall be dealing with the various aspects of the labour market which the legislation and institutions regulate in Spain (the only exception will be the regulations of contracts, which shall be presented in Chapter III, as part of labour market policies). We shall come back at the end of the chapter to assess the situation created by the reform and the future prospects.

II.2. Public institutions

II.2.1. Introduction

In Spain, labour market policy and management is the responsibility of the Ministry of Labour and Social Affairs (prior to 1996, Ministry of Labour and Social Security). The Ministry also handles Social Security and, since 1996, Social Affairs matters. Under the Minister, there is a Secretary General for Employment, who is the person more directly in charge of all labour market policy matters. In addition, there is a Technical Secretariat, under which there is an Underdirectorate of Statistics, responsible for the publication of a monthly statistical bulletin (the *Boletín de Estadísticas Laborales*, BEL) as well as a yearbook (*Anuario de Estadísticas Laborales*, AEL). These statistical publications include materials produced by the Ministry itself (the results of a quarterly survey on employment, statistics on various matters, such as industrial relations, social security, social protection, and so on) as well as other statistics relevant for the knowledge of labour market developments, such as the labour force survey or the wages survey.

For the purposes of understanding the working of the labour market, there are three kinds of institutions which need to be understood, all of them belonging to, or dependent upon, the Labour Ministry: the Instituto Nacional de Empleo (National Institute for Employment, INEM), the Unidades de Mediación, Arbitraje y Conciliación (Mediation, arbitration and conciliation units, or MAC units), and the Labour Inspection. In discussing these three main institutions, the (growing) role played by the regions shall be described.

II.2.2. INEM

The Instituto Nacional de Empleo (INEM) is the Spanish Public Employment Service. Created in 1978, as a transformation of the older Francoist vocational training office, it is an autonomous agency dependent on the Ministry of Labour and Social Security. It has a supervisory body, the General Council, which is headed by a high official of the Ministry of Labour (who acts as President of the Council) and the Director of INEM (appointed by the government, who acts as Vice-President), and in which there are representatives of the social partners. Its role is to provide criteria for the actions undertaken by INEM, to prepare the pre-project of its budget, and to approve the Annual Report of INEM to be sent to government. This General Council thus has no say in the executive decisions of the Institute.

In addition to the central headquarters in Madrid, INEM has a delegation in each of the 50 provinces of Spain, and a total of 697 local offices. The staff of INEM is around 15,000 people. This implies a ratio of around 800 employed workers per staff member, a rather high ratio for international standards (OECD, 1993).

INEM, like other public employment services, is an agency in charge of various matters, which can be basically divided into three:

i) employment services. By law, until 1995, all placements had to be notified to INEM (actually, they had to be made there). In addition, INEM is the agency in charge of implementing the employment programmes passed by government, most notably the employment promotion contracts.

The fact that INEM held a monopoly position in employment services did not imply, to be sure, that all vacancies were filled through it. As a matter of fact, given that all placements were required by law to be registered at INEM, it can be estimated that less than 10 per cent of total placements were handled directly by INEM, i.e. corresponded to matches promoted by its services. The remainder were matches made outside INEM but communicated to it by legal imperatives. This coverage rate could be even lower if one thinks that some placements, most notably of permanent workers, would not probably be registered with INEM, although this is not likely to be a significant number. There are no studies regarding the kind of placements handled by INEM or outside it.

In 1995, as a development of the labour market reform introduced in Spain in 1994, the monolopy situation was broken with the introduction of private, non-profit agencies as well as the creation of so-called "Integrated Employment Services" (known as SIPEs).

The new placement agencies have to follow strict regulations and have to be approved by INEM's General Council, where social partners sit with government representatives, with which they are required to sign a cooperation agreement. They have no restrictions as to the groups of people and firms they cater. Any vacancy and any jobseeker (whether currently employed or unemployed) may be matched by the agency. Only 1 agency started to operate in 1995, the Catalonian Employment Service, promoted by the regional government of Catalonia. As of January 1996, 24 other agencies started to operate. Two others are still negotiating with INEM. These operating agencies correspond to various profiles: 3 of them have a nationwide scope, 5 of them are regional, and the rest are either provincial or local. Professional associations and nongovernment organizations have also setup their own agency.

It is still too early to get any impression of the significance and success of these agencies, although it seems that their role will be rather limited, although they could be relevant at specific local or sectoral levels.

As for the SIPEs, they are not really job broking institutions, but rather they are aimed at being an instrument of active labour market policy, the objective of which is to increase the "employability" of the unemployed. At present, 25 SIPEs are operating, most of them haven been created by local governments, mostly in the provinces of Barcelona and Madrid.

As a matter of fact, as an aftermath of the labour market reform, there has been an effort to reform INEM's activities as a public employment service, since there is a general agreement that its operation has been rather ineffective in the past. The liberalisation of placements, albeit limited, would also probably implied that those with a higher propensity to be employed would be catered for by the private agencies, thus calling for a redefinition of the role of INEM.

Thus, in May 1995, INEM signed a so-called "Programme-contract", which established the basis for a new role for the Spanish Public Employment Service, and which was to last until the end of 1997. The general aim of this Contract is to increase the employability of the groups who experience the highest difficulties in finding jobs. More precisely, the declared objectives of the Contract are the following:

- to increase the share of INEM in job placements to 15 per cent by 1997;
- of the placements managed by INEM, some 40 per cent should correspond to long-term unemployed and 20 per cent to people older than 45;
- of those vacancies "captured" (i.e. handled) by INEM, the successful placement rate should be 98 per cent, with a maximum reponse delay of 4 days;
- to approach more than 1 million firms in order to support the intermediating role of INEM.

In addition, and in order to meet these objectives, an effort of computerisation, whereby job seekers can access job vacancies and training posts through the use of a smart card, will be launched, together with complementary actions such as the optimisation of the employment office network, a new organisation of human resources (increasing the weight of employment promotion from 36 per cent in 1995 to 43 per cent by 1997 and decentralizing INEM's activities, by increasing the proportion of staff in employment offices, as opposed to the central and provincial headquarters, from 54 per cent in 1995 to 73 per

cent in 1997) and a new budgetary structure allowing to monitor and evaluate the effectiveness of the different programmes as well as a reduction in unemployment compensation expenditure in favour of active policies (the share of the latter in the total budget is planned to increase from 12 per cent in 1994 to over 15 per cent by 1997).

The situation at present, however, is in a state of flux. As is well known, there has been a change in government orientation after 13 years. As of today, not much is publicly known about the intentions of the new government regarding INEM and employment policies in general. So it is unclear whether the Programme-Contract will be reformed. One of the points included in the agreement between the ruling party and the Catalonian nationalist group (an agreement needed to achieve Parliamentary majority) refers to the transfer of the employment services to Catalonia, and maybe to other regions as well. If this is carried out, it will imply a new redefinition of placement agencies, the result of which is fully unpredictable.

ii) unemployment benefits. As described in section III.2.1, when the Ley Básica de Empleo was passed in 1980, creating the modern system of unemployment protection, INEM was designated as the managing agency of the system. During the builup of unemployment, this meant that substantial resources of the Institute had to be devoted to handle the increasing flow of unemployed claiming benefits. The enlargement of the benefit system which took place in 1984 only made the situation worse. However, by the end of the decade, unemployment benefit payment was progressively computerized and the effectiveness of the system in benefit recognition quickly increased. At present, although the number of unemployment beneficiaries remain high (despite the recent declines, see section III.2.2), it can be safely argued that unemployment compensation does not take up as many resources from INEM as it used to. Still, one should remember that the popular notion of INEM's offices is that they are the "unemployment offices", rather than the "employment offices", which is what they are really meant to be. As a matter of fact, efforts made at reforming INEM have partly centered on this issue, i.e. how to make them be real employment offices. One approach, unsuccessfully tried in 1993, was to separate the unemployment compensation system from INEM, creating a special agency managed by the social partners. The latter however, did not accept this because the system was seen to be in permanent deficit. Later on, it has been mentioned at various moments that unemployment compensation should be transferred to the social security administration. At present, however, no definite steps have

been taken, and INEM still handles the unemployment benefit system.

iii) vocational training for the unemployed. As already mentioned, INEM inherited a substantial part of the bureaucracy of the old Francoist vocational training office. The accession of Spain into the European Community also meant that substantial funding from the Structural Funds was to get into Spain. When the Vocational Training Plan was passed in 1986, it was only natural that INEM would be appointed as its managing agency. Over the next few years, INEM was to be the main beneficiary of ESF funds, which, together with the vocational training tax levied on all firms, financed the huge amount of vocational training courses provided in Spain during that period. Courses were provided either by INEM directly, through its own centres, or through various organisations and training centres. There has always been a feeling that this training was very wasteful, especially in the first years. INEM seemed to be too big and inflexible organisation to properly and effectively handle all these funds. In December 1992, the social partners and the government signed an agreement whereby training for the employed would be transferred from INEM to a newly-created private foundation, FORCEM (Fundación para la Formación Continua en las Empresas), which was to be managed by the social partners and which were to receive funds directly from government. This meant that INEM was left solely with the responsibility of vocational training for the unemployed. Moreover, at that time, regions started claiming responsibility for vocational training courses, and a few of them got the management of the Plan FIP transferred to them. This process of decentralization is likely to continue in the future, so that INEM will only retain a coordinating role.

On the whole, for many years, INEM has been more an unemployment benefit office and a manager of vocational training courses, rather than a real employment service. The latter has been the less developed facet of its activities. In addition, despite the potential advantages of the "single counter" (having the same office handling employment services, unemployment compensation and vocational training has clear potential advantages and economies of scale if the system is run in a properly coordinated way), in fact the three elements were always managed as distinct divisions and computer integration was never reached. The present situation is more optimistic and at the same time uncertain. Currently, INEM has been freed from the "chores" of vocational training and, thanks to computerisation, of a large part of unemployment compensation management. Thus, the current reform, which has not been very much publicized, maybe because of the bad image

of INEM within Spanish society, is a very important and timely event. INEM claims that it now has an integrated computerised system, whereby all three aspects are monitored for every person in the system. The demands expressed by the regions in terms of getting responsiblity for employment services casts doubts, however, on the possibilities of this reform, or at least point it towards a different direction.

II.2.3. The MAC units

The second institution which merits an analysis is the Mediation, Arbitration and Conciliation (MAC) units. Under the current legal situation, the MAC units are administrative bodies in charge of handling labour conflicts and disputes (most notably, but not only, individual redundancies) at a stage prior to their settlement in labour courts.

Created in December 1979, the then IMAC (Institute for MAC) was an independent agency similar, from an administrative point to view, to INEM, although with much more limited responsibilities. Its creation helped ease a problem of excessive work at the labour courts, unable to handle the many cases of dismissals which firms were trying to undertake and workers were opposing. The IMAC was later converted into an Under-directorate of the Ministry of Labour and subsequently, as part of a process of decentralization, converted again into the current MAC units, which depend on the provincial delegations of the Ministry of Labour or the corresponding regional authority when the responsibility for these matters has been transferred to the regions, as happens in 15 out of 17 cases.

Although the MAC units do not play an active role in labour relations, their existence represents a fundamental institution because Spanish law requires that, for all individual and collective conflicts and disputes between workers and employers, a conciliation must be attempted prior to going to courts. The vast majority of cases (well over 99 per cent) handled by the MAC units correspond to individual cases. Of course, collective cases involve more than one worker, but no figures on the number of workers affected is published. Given the percentages involved, however, it is unlikely that collective cases represent a sizeable proportion of workers involved.

Regarding individual cases, Figure II.1 presents their breakdown in four categories: redundancies, penalties to firms, quantities owed by workers, and others (including accidents). As can be seen, redundancies and quantities owed to workers represent the majority of cases.

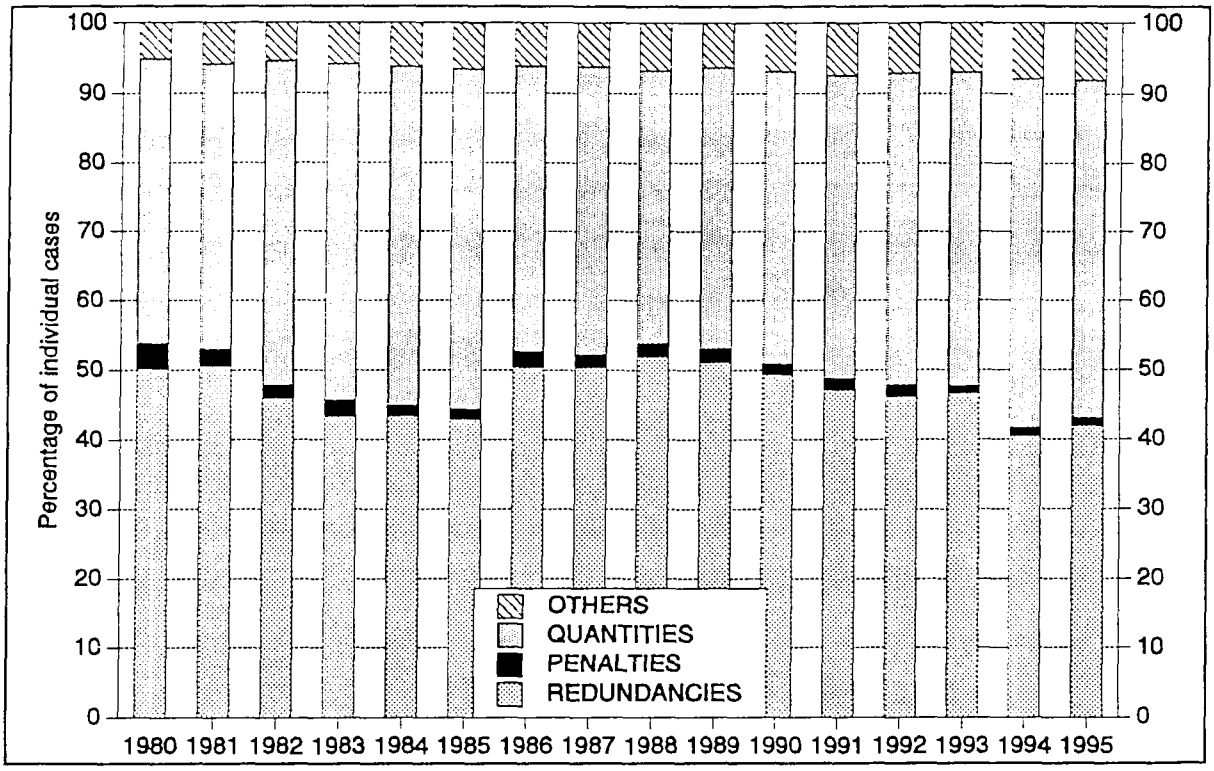

Figure II.1. Percentage distribution of individual cases handled by the MAC units, by type, 1980-1995 (Source: *Boletín de estadísticas laborales*, various issues).

Perhaps more relevant regarding the significance of the MAC units is the proportion of cases ending in "agreement", which may be thought of as a "rate of success" of the conciliation. In this case, there are substantial differences among the different types of cases. Thus while redundancies achieve a relatively high (and rather constant over time) rate of success, around 70 per cent, the rates are much lower in the case of the other types of cases. The fact that the conciliation procedure is required by law probably is behind these differences. At any rate, the interesting feature is that there is one instance at least, and a very important one for labour market performance, namely redundancies, where the rate of agreement is rather high.

On the whole, while the MAC units handle many cases of possible conflict between workers and employers, the fact is that their most relevant incidence, as revealed by the relatively higher rates of success achieved, refer to their intervention in individual redundancies.

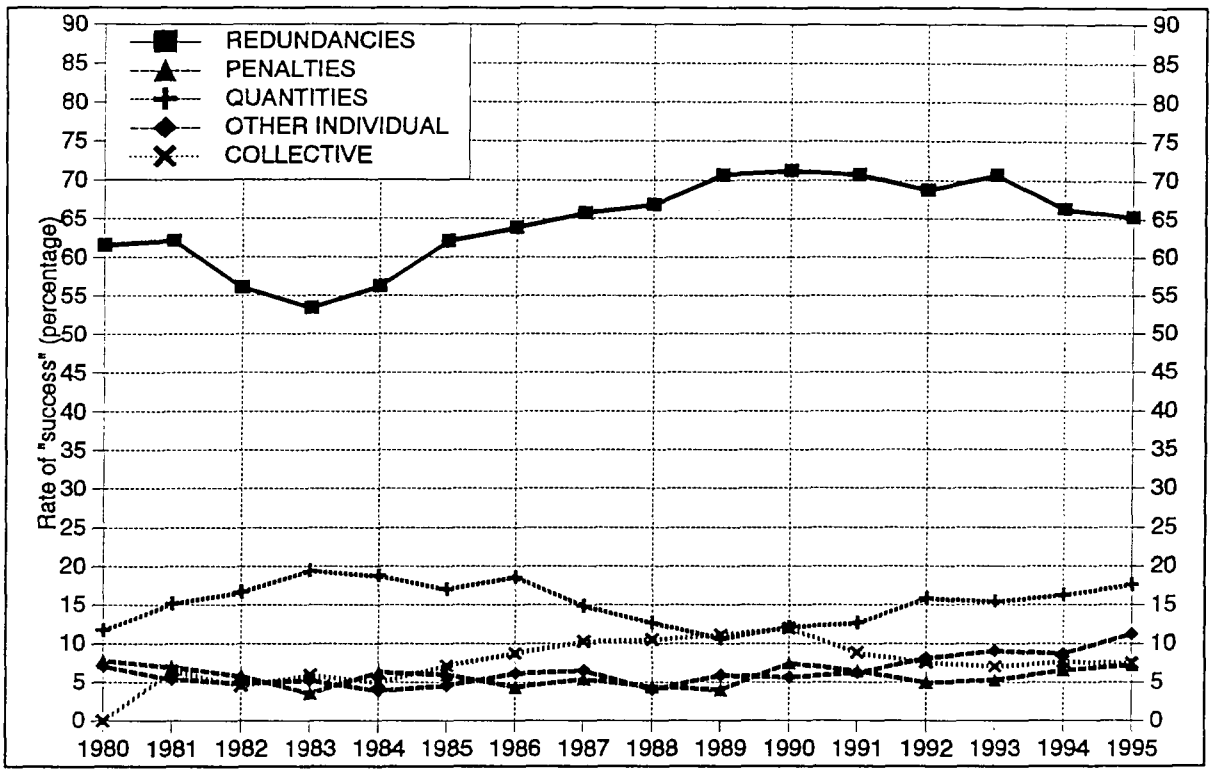

Figure II.2. Percentage distribution of individual cases handled by the MAC units, by type, 1980-1995 (Source: *Boletín de estadísticas laborales*, various issues).

II.2.4. The Labour Inspection

The third institution which merits being mentioned is the Labour Inspection. Formally a Directorate General in the Ministry of Labour, and with delegations in all of the provinces, its importance lies in its role as supervisor of the working conditions, when required by an interested party or at its own initiative, with the ability to establish sanctions to violating firms. In addition to this, labour inspectors play a fundamental role in collective redundancies (see sub-section II.4.1). This role stems from the fact that, in order for the administrative authority (generally, the regional labour department, although in cases involving workers or establishments in more than one region, the Ministry of Labour is in charge of the process) to approve or deny the collective dismissal a report from the Labour Inspection is required.

There are no consistent statistical series available on the actions undertaken by the Labour Inspection.

II.3. The industrial relations system

The structure of this section is as follows: first, we describe unions and employers' organizations; secondly, we discuss collective bargaining; thirdly, we deal with industrial disputes; fourthly, we outline the main features of government intervention; finally, we assess the strengths and weaknesses of the system. We will focus on the industrial relations system prevailing in the post-1977 democratic period, although in some instances comparisons shall be made with the earlier Francoist system [14].

II.3.1. Unions and employers organizations[15]

It was not until the beginning of the democratic period, in 1977, when unions and employers organizations were authorized by Law. The three main unions, *Unión General de Trabajadores* (UGT), *Comisiones Obreras* (CC.OO.) and *Unión Sindical Obrera* (USO), were linked to the also main political parties of the transition period: the socialist party (PSOE), the communist party (PCE) and the centre coalition (UCD), respectively. These political accents have been very important to understand the strategy of the labour movement during the 1980s (for example, the relative acceptance by UGT of the 1984 reform promoting the use of fixed-term contracts, in the early times of the PSOE government). The 1980s have consolidated a duopoly due to the fall of USO.

In the first years of political transition to the democratic system, unions had a peak in membership: over 35 per cent in 1979 and over 50 per cent in manufacturing (Milner and Nombela, 1994). Until 1980, the political problems were prevalent in all areas of Spanish life, and also in the union movement. In that year, Parliament (after negotiations with unions) approved the main law governing industrial relations: the LET.

As already mentioned in Section II.1, the LET is coherent with the general idea of Labour Law as a Worker Rights Protection Law. Once the LET was passed, trade unions progressively replaced their political claims by more specific labour-related problems, such

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[14]. A brief description of industrial relations under the Franco dictatorship may be found in Fina *et al.*, 1989.

[15]. In this section, we follow Jimeno and Toharia (1993) and partially Milner and Nombela (1994) and Köhler (1995). There are also several nationalistic trade unions which are important in some regions (such as Galicia and the Basque Country) and other, smaller, professionally-based or firm-based unions. We do not consider here this regional and professional unionism. On these topics see, for instance, Köhler (1995) for the first one, and Huertas (1991) for the second one.

as collective bargaining within the new legal framework.

The political influence of unions is generally recognized, because most regulations on the labour market are consulted with unions before the government implements it. Spanish governments (the center coalition in the period 1977-82, the socialist in the period 1982-1996 and the center-right at present) have also favoured negotiations between unions and employers' organizations prior to any reform of the labour market.

Usually, the main unions have a federal structure by industrial sectors and geographical regions. Coordination within unions is high[16] but coordination among unions is not easy because they compete for worker representation (as we shall explain later) and their *political accents* are different[17].

However, the influence of Spanish unions is not only related to their political intervention. There are two additional reasons (Jimeno, 1992) which explain the high degree of influence of these institutions:

- All workers elect representatives in the union elections, including temporary workers: regardless of contract type, workers with one-month's seniority can vote and any worker with six-months' seniority can be elected.

- Collective agreements are legally enforceable and apply to all workers, regardless of their union status. Moreover, agreements at the national or sectoral levels are binding at the firm level. The LET grants this coverage thanks to the principle *erga omnes* which permits the extension of industry agreements *ex-ante* and not *ex-post* as in other European countries.

As Jimeno and Toharia (1993c) point out, although the union membership rate is low (there are no reliable figures, but the rate could be between 10 and 20 per cent), the *effective unionization rate* (the proportion of workers whose collective barganining rights are defended by trade unions) is high, as the figures in Table II.1 clearly indicate. In addition, it should

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[16]. Although some of the sector federations enjoy a high influence, for instance, the metal one in the case of UGT.

[17]. In the years prior to 1986, both UGT and CC.OO. followed different strategies, as UGT was more willing to cooperate with the socialist government elected in 1982. However, the 1986 union elections marked a turning point: UGT lost ground particularly in large firms and opposed increasingly the economic policy adopted by government as CC.OO. had been doing since 1984. This convergence was seriously damaged by the 1990 union elections. However, the debates over labour market reform in the last years of the Socialist government and the advent of the new center-right government in 1996 have favoured a renewed unity of action of the major trade union confederations.

be mentioned that the figures in the table probably underestimate the actual significance of collective bargaining. There is no clear "coverage map" of collective bargaining; more specifically, it is unclear who the 10-20 per cent of workers not covered by collective agreements are. One well-known problem with the figures on collective bargaining coverage, for example, is that in the case of sector agreements, the number of workers covered is estimated at the bargaining table, and it is knwon that these estimates are sometimes "guesses" rather than reliable figures (the variations observed from one year to the next suggest so). Given the characteristics of collective bargaining (see next sub-section) arguing that union coverage is complete could not be misconstrued.

The main employer organization is CEOE (*Confederación Estatal de Organizaciones Empresariales*) which group more than 90 per cent of employers (Milner, 1995). Therefore, CEOE is present in all economic sectors. There exists other employer organization devoted to small and medium-sized firms, the so-called CEPYME (*Confederación Española de Pequeñas y Medianas Empresas*).

Both of them have a federal structure. As in the case of unions, they enjoy political influence -they have to be consulted in the same instances as unions- and there are divergences between this political status and their influence in employers bargaining at industriy and firm levels. Some authors -as McElrath (1989)- say that the availability of CEOE to impose decisions is simply unknown.

Table II.1. Coverage of collective agreements in Spain, 1977-1995 (Source: Ministerio de Trabajo y Asuntos Sociales, *Boletín de estadísticas laborales*, various issues).

YEAR	Number of agreements	Firms involved (thousands)	Workers affected (thousands)	Percentage of employees
1977	1349	557.1	2876.4	32.5
1978	1838	637.1	4629.2	53.7
1979	2122	657.8	4959.6	59.1
1980(1)	2564	877.7	6069.6	76.3
1981(2)	2694	672.7	4468.5	56.8
1982(2)	3385	889.3	6262.3	81.2
1983	3655	869.7	6226.3	81.1
1984	3796	836.9	6181.9	84.7
1985	3834	847.1	6131.1	84.8
1986	3790	891.8	6275.1	82.0
1987	4112	996.8	6867.7	86.1
1988	4096	958.3	6864.7	82.2
1989	4302	982.7	6993.8	78.8
1990	4595	1037.9	7623.9	82.2
1991	4848	1006.2	7821.8	83.5
1992	5010	1055.1	7921.9	87.3
1993	4749	1048.2	7737.1	89.1
1994	4581	950.7	7502.1	87.0
1995	4571	936.3	7339.0	82.1

(1) Figures do not include data from Basque Country and Catalonia.
(2) Figures do not include data from Catalonia.

II.3.2. Collective bargaining

Although during the Franco dictatorship there was a limited and hyper-regulated collective bargaining (Pedrós, 1995), it was not until the advent of democracy when a modern system of collective bargaining, comparable to that prevailing in most advanced countries, developed in Spain. Following Jimeno and Toharia (1993c) and Malo and Toharia (1996), the main characteristics of the legal framework of collective agreements are the following:

i) Bargaining takes place between worker representatives elected by direct vote and the employer or the "most representative" employer association(s). The initiative for the collective bargaining process may be taken by any of the parties.

ii) Collective bargaining agreements have to be registered with the Ministry of Labour (or the equivalent regional authority), whose only role is to see that they are legal and to publish them, after which they are legally enforceable and apply to all workers within their

scope, the industry to which they apply or, alternatively, the signing firm, independently of the personal characteristics of the workers and their employment relationship with the firm.

iii) Worker representatives elections play a key role. Prior to the 1994 reform, they took place every four years within a three months period. At present, elections are not concentrated in time and there is no official declaration of the results as was the case before the 1994 reform. The numbers to be elected depend on the size of the firm. Unions themselves are responsible for the electoral process. Workers vote to one of the various candidate lists (usually one per union, but occasionally "independent" lists also turn up) which have to contain as many persons as delegates to be elected (in a process similar to political elections whereby people vote to parties rather than individuals). The finally elected delegates are then picked from the different lists in a proportionate way . This means that winning the election in one firm -or industry- does not mean becoming the representing union in that firm -or industry- but rather obtaining the largest number of delegates; this implies, in turn, that no single union has a monopoly right of representation. Elected union representatives have the right not to work (and still get paid by their employer) for a certain number of hours, this number increasing with the size of the firm and reaching 40 per month in the case of firms with more than 750 employees. This electoral system has created substantial frictions between the two largest union confederations, especially in small firms, where monitoring the fairness of the process is very difficult. Another source of problems has been -and still is- the lack of an adequate and updated census of firms.

In the case of firms with 50 employees or more, the workers representatives constitute a "works council" (*comité de empresa*) which is then the bargaining agent in that firm, should a bargaining process be initiated in it. In the case of sectoral agreements, the bargaining table is composed of the "most representative" unions and employers. While there are ways of determining on objective grounds who they are in the case of unions (on the basis of the union elections, hence the importance of their global results and, in particular, of the way the process is carried out in small firms), things are much less clear in the case of employers.

iv) In Spain, there are multiple levels of bargaining: national economy-wide, usually tripartite among government, the employer organizations and unions; industry-level between representative employer association and workers associations which results in sectoral agreements whose geographical scope might be the whole nation but usually is the province;

and firm-level between employer and worker representatives.

The national economy-wide level has not been carried out on a regular basis (recall Table I.11 above). The level of bargaining is decided by the parties not by the State. Unions and CEOE favour sectoral and national level where their ability to impose organizational objectives is greater than at firm level. As a matter of fact, the proportion of workers covered by firm-level agreements is relatively low, at around 15 per cent. Moreover, Jimeno (1992) has observed that, while bargaining at the sectoral level is mostly about wages and working hours, firm-level bargaining (mostly in large firms) is more detailed and includes absenteeism, productivity, and so on (although explicit bargaining over employment is rarely observed). As a matter of fact, it is clear that collective bargaining is probably more constraining at the firm level than at the sectoral level. The general presumption is that sector level agreements are very important because they impose minimum wages for the area they cover, but their actual effectiveness may vary across sectors and provinces. Since the 1994 reform, sector agreements have to establish the conditions under which firms may "escape" the regulations contained in the agreement.

v) The relations between Labour Law and collective agreements determine the real depth and scope of collective bargaining. The Labour Law is seen to establish minima over which collective agreements represent improvements. Jimeno and Toharia (1993c) explain why public provisions dominate in Spain. Many legal regulations regarding the labour market were consulted with worker and employer associations during the negotiation of these agreements. Even during years when no economy-wide agreement was being negotiated, government, employer associations and unions held meetings to discuss new and already existing regulations affecting the labour market. In fact, this type of discussions has created some inertia in the sense that both employer associations and unions use their political influence to propose changes in the legislation instead of referring the non-regulated issues for discussion during at the bargaining table.

The recent 1994 reform of the LET aimed at changing this hierarchy between Labour Law and collective agreements but the extent to which this has been achieved is doubtful (Malo and Toharia, 1996). At any rate, it does seem that the reforme has increased the scope and depth of collective bargaining (CES, 1996).

II.3.3. Industrial disputes

The judiciary system plays an important role in the resolution of industrial (collective) disputes. Before going to the labour courts, conciliation meetings must take place at the MAC units (see sub-section II.2.3 above). In case of disagreement, the conflict is solved by a judge. Conflicts arising during collective bargaining periods usually result in strikes. As in other countries, strikes are the most important industrial dispute and the rest of this section is devoted to them.

Strikes are still regulated by a 1977 decree (before the approval of the LET, which validated its content relating to these issues). From time to time, there have been discussions as to whether a strike law is necessary. In december 1992, after nearly six months of negotiations between government and the main unions (UGT and CC.OO.), an agreement for a strike law was reached. However, the 1993 general elections delayed this law and the new political situation made it unfeasible. At present, it is more than doubtful that any such law will be passed in the foreseeable future.

At present, the legal regulation requires an advance notice of 5 days, except in the case of public services, in which the delay is 10 days. In addition, in the case of services deemed essential to the community, government may establish "minimum services" to be provided in any case by striking workers. These mimimum services have been often the subject of disputes between government and the unions (who tend to think that they are excessive). On the other hand, in the case of strikes thought to be particularly damaging to the national economy, government may appoint an impartial arbitrator whose settlement is compulsory for the parties. Additionally, by law, the parties may appoint a mediator during contract negotiations, but they do not have to commit themselves to his/her proposals.

However, the arbitration procedures for strikes are very poor in Spain until now. Binding arbitration by the state existed prior to 1981 and played a substantial role in the last few years of the Franco dictatorship. At that time, it was declared unconstitutional and this generated an important lack of means to handle conflicts through collective bargaining. This caveat can be fulfilled by the new 'Agreement on Extrajudiciary of Labour Disputes' (*Acuerdo sobre Solución Extrajudicial de Conflictos Laborales*, hereafter quoted as ASEC) signed in january 1996 by UGT, CCOO, CEOE and CEPYME. The ASEC concerns only collective disputes. It is still too early to assess these arbitration and conciliatory institutions

(created by unions and employers with the support of public Administration)[18].

Available information on strike activity is reported in Table II.2. It shows a problem pointed out by other studies: the discrepancies between different sources. The main sources are CEOE and Ministry of Labor. The CEOE data from 1975 to 1988 are reported in Babiano and Moscoso (1992) and in Soto (1991). The Ministry of Labour data are reported in Soto (1991), from 1970 to 1985, and in CES (1996) from 1986 to 1995. Finally, the 1970-1975 figures are reported in Soto (1991), who uses various reports on collective disputes by the Ministry of Labour for the period 1963-1974[19].

The CEOE dataset enjoys a wide credibility (also within unions) but the discrepancies clearly illustrate the dificulties to carry out more detailed analyses on strikes before 1986[20]. Milner and Metcalf (1995), using regression analysis for the period 1986-1992, find a positive influence of bargaining scope and the existence of multi-employer bargaining on strike activity[21]. The main finding of their research (see also Milner, 1994), they stress that the legal framework does not appear to be behind the higher strike activity observed in Spain as compared to other European countries.

Jiménez (1995) analyzes another database, from the Ministry of the Economy and Finance. His findings suggest a duality in strikes. First, short strikes produce a boost on wage settlements. Secondly, long strikes yield a wage agreement concession on the part of workers (this is understood as a revelation mechanism by Jiménez). However, the low representativeness of his database prevents a fuller analysis; in addition, this database only includes firm level bargaining and as we showed before this is not the main barganing level in Spain.

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[18]. The 1996 yearly report of the Economic and Social Council (CES, 1996) summarizes the scope and limits of ASEC and the new requirements (mainly related to the coordination with regional agreements) in terms of services and organization.

[19]. Milner (1994) presents different data for the period 1970-1973. He quotes Creigh (1989) who quotes in turn an unpublished paper. We do not present these data, because we have been unable to locate their source.

[20]. Since that year, the information collected by the Ministry of Labour is very comprehensive and detailed. However, in some cases a double-counting problem may arise, leading to an overestimation of the number of days lost.

[21]. These estimates have many problems, however, related to omitted variables and endogeneity, so further research is needed.

Table II.2. Strike activity in Spain: 1970-1995 (Sources: see text).

Year	Stoppages		Workers involved (thousands)		Days lost per employee	
	Ministry of Labour	CEOE	Ministry of Labour	CEOE	Ministry of Labour	CEOE
1970	1591		460.9		2.4	
1971	616		222.8		3.8	
1972	853		277.8		2.1	
1973	931		357.5		3.0	
1974	2290		685.2		2.5	
1975	-	8855	-	556.3	-	2.3
1976	-	1568	-	3638.9	-	3.8
1977	1194	974	2955.6	2317	5.6***	5.0
1978	1128	1356	3863.8	3633	3.0***	4.4
1979	2680	1789	5713.2	5752.3	3.3***	3.7
1980	2103	1669	2287.0	2461	0.3***	5.5
1981	1993	2556	1944.9	3358.2	0.3***	2.8
1982	1810	2582	1058.9	1634	2.6	4.4
1983*	1451	2174	1484.6	2997.4	3.0	3.3
1984*	1498	3091	2242.2	5495.4	2.8	2.8
1985*	1092	2029	1511.2	4538.7	2.1	1.8
1986**	914	2239	857.9	1793.1	2.7	3.5
1987**	1497	3194	1881.2	3222.7	2.7	3.2
1988**	1193 (1192)	2893	6692.2 (1894.5)		1.7 (3.6)	
1989**	1047		1382.1		2.7	
1990	1231		864		2.8	
1991	1552		1944.4		2.3	
1992	1296 (1295)		5169.6 (1678.4)		1.2 (2.4)	
1993	1131		997.2		2.0	
1994	890 (889)		5427.7 (452.8)		1.2 (2.8)	
1995	827		511.2		2.5	

* No data for Catalonia in the Ministry of Labour series.
** No data for the Basque Country in the Ministry of Labour series.
*** The figures for these years are underestimated because the number of workers involved includes Catalonia but the number of days lost does not.
Numbers in brackets refer to data without general strikes.

As a conclusion, Spain appears to have a strike activity problem (decreasing over the last few years, though), but the lack of adequate databases prevents a more detailed analysis of the causes. However, the absence of a strike law does not seem to be the main cause. In addition, this strike problem does not seem to be clearly related to the unemployment problem existing in Spain.

II.3.4. Conclusions: strengths and weaknesses of the system

To conclude, we summarize the strengths and weaknesses of the Spanish industrial relations system. The advent of democracy consolidated an industrial relations system free of the ideological constraints imposed by the Franco dictatorship. Unions and employers' organizations are accepted partners in economic and social life and they develop a true collective barganining. Also, work councils and union elections are perceived by workers as permanent institutions of that system.

There are two peculiarities of the Spanish system which are very important to understand the usual activity of unions and employer organizations:

- First, there exists a high degree of government intervention, although it usually follows consultation with the social partners, and agreement between the latter is favoured as a precondition for legislation to be enacted.

- Secondly, unions, and also employers' organizations, play an important social role as intermediate agents transmitting social claims to the policy-making process.

Therefore, the activities of unions and employers' organizations go well beyond the workplace, as they bargain with government in the 'public arena' or bargain between them in industry-level collective agreements.

There is no evidence as to whether the first result (bargaining with government) does or does not improve economic performance. If one accepts the notion that agreed changes of the legal framework are better than imposed changes, we can consider this feature as a strength of the Spanish industrial relations system.

The main weakness of the system, at least to some authors (Jimeno, 1992; Milner and Metcalf, 1995), is the prevalence of industry-level agreements. According to these studies, these agreements create distortions in the labour market by preventing the appropriate adjustment of wages at the firm level to the actual economic situation. This is seen as one of the reasons of the poor performance of the Spanish economy in terms of unemployment. However, the argument should not be taken too far. As we have seen in Chapter I, even with this system, the Spanish economy was able to create a substantial amount of jobs in the 1985-1990 period and the only episode, in the democratic period, when wages behaved "disorderly" (at the end of the 1980s) can hardly be attributed to the prevalence of industry-level agreements.

II.4. Employment protection schemes

II.4.1. The legal framework for individual and collective dismissals

The procedure to dismiss permanent workers in Spain is very different for individual and collective dismissals, but in all cases the Workers' Statue (LET) requires a cause[22] for a dismissal to be considered "fair" (*procedente*). This provides for a decisive role of the judiciary system, which has to decide about the fairness of the dismissal.

"Fair", however, does not always mean "free". In some instances, firms have to provide severance payment to dismissed workers, at the rate of "20 days" (this means 20 days wages per year of seniority, with a maximum of 1 year wages).

Unduly justified dismissals may be considered "unfair" (*improcedente*), in which case the rate for severance payments is "45 days" (meaning 45 days wages per year of seniority with a maximum of 42 months wages, plus the "procedure wages" -*salarios de tramitación*-, that is the wages for the period going from the dismissal to the final decision by the courts, if that stage is reached), or "null and void" (*nulo*), in which case the worker has to be reinstated (and the procedure wages paid).

There are two sorts of reasons justifying an individual dismissal:

- Disciplinary reasons, when the worker does not properly perform his/her duties. In this case, the worker behaviour is the cause of dismissal and no severance payment is required.

- Objective grounds which can not be attributed to the worker (this is known as the "objective dismissal"). This includes dismissals for economic, technical, organizational or production reasons. This kind of dismissal must affect less than 10 per cent of the total workforce[23] (otherwise, the firm would have to follow the administrative procedure for collective dismissals). In this case, severance payment is required at the rate of 20 days.

There are two additional requirements: i) Mandatory advance notice (*only* for objective dismissals) of 30 days, although the firm can pay the wages for this period as a

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[22]. The requirement of a fair cause is usual in continental Europe. In the United Kingdom, however, the firm has the dismissing power because this capacity stems from the property right: the employer is the proprietor of those production factors which he contracts and he can allocate them as he sees fit (Hyman, 1993); formally, however, dismissal still requires a fair cause in British Law.

[23]. This is the current definition, established in the 1994 reform of the LET. Previously, this type of dismissal could only be used by firms with less than 50 employees.

substitute for this requirement; ii) Written communication to the worker, specifying the reasons for the dismissal. Before the last reform of 1994, the non-fulfillment of these two requirements could lead to the nullity of the dismissal. After the reform, this only makes the dismissal unfair.

The legal procedure established by the LET starts when the firm gives to the worker the written communication of dismissal explaining the causes of that decision and, should these relate to the "objective grounds", paying severance payment at the rate of 20 days. The worker may accept the situation or sue the employer for unfair dismissal. The latter is the usual case and when this happens, the two parties have to go through specific arbitration procedures to see if they can reach an agreement. The bargaining proceeds at the MAC units (see sub-section II.2.3 above). The results of this bargaining can be two:

- An agreement is reached, stating some further severance payment. In this case, implicitly or explicitly the employer accepts that dismissal was unfair.

- An agreement is not reached. In this case, the worker may file a claim for unfair dismissal. In the courts, there is a new conciliatory meeting between the two parties. If no agreement is reached, the judge has to make a decision, declaring the dismissal fair, unfair or null and void.

For collective dismissals, the administrative procedure is the 'Employment Regulation Procedure' (*Expediente de Regulación de Empleo*, hereafter ERE[24]). The firm can initiate a collective dismissal grounded on economic, technical, organizational or production causes if the dismissals affects -over a period of 90 days- to 10 per cent of the workers [25]. The minimum severance payment must be at the rate of 20 days, although in the case of firms with less than 25 workers, the Public Administration pays, through the 'Wage Guarantee Fund' (*Fondo de Garantía Salarial*, FGS), 40 per cent of the legal severance payment[26].

The procedure starts when the firm sends a written communication to the "labour

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[24]. Here, we only consider the EREs which correspond to collective dismissals. This procedure is also used for temporary layoffs and for temporary short-time working (see sub-section II.5.3). Although one ERE may combine the different types, it usually only includes one of them.

[25]. For firms with less than 100 employees, the threshold is 10 workers. For firms with more than 300 workers, it is 30 workers.

[26]. The FGS is financed by a specific levy on payrolls. Before 1984, the law established that it would pay 40 per cent of the severance payment *agreed*. The law was modified because of the obvious perverse incentives created by the initial system.

authority"[27] and opens a 30 days bargaining period with workers representatives over the precise terms of the dismissals (severance payments and number of dismissals). When this bargaining is over, two results are possible:

- An agreement is reached; in this case, it is notified to the labour authority who certifies it.

- An agreement is not reached; in this case, it is up to the labour authority, who has to decide whether the ERE is accepted or rejected.

After the 1994 reform, the period stipulated for this procedure is 45 days: 30 for the bargaining period and 15 for the labour authority decision [28]. Moreover, if the firm has less than 50 employees, the bargaining period is halved (15 days).

It is important to note that these procedures are only applicable to permanent workers. Workers under fixed-term or temporary contracts may have the right (currently, under quite limited circumstances, see sub-section III.3.3 below) to a smaller severance payment (at a rate of 12 days per year of seniority) but cannot sue the employer [29].

II.4.2. The legal regulation in practice

It could be thought that the legal procedures just described are very easy to apply. For example, when a firm deems it necessary to dismiss more than 10 per cent of its workers because of the economic situation, it could simply start an ERE, involving a cost of 20 days wages times the number of workers involved plus the cost stemming from the approval procedure (bargaining and, when appropriate, response from the labour market authority). Alternatively, if a worker commits a severe fault (for example, using the firm's equipment for his/her own profit) a simple communication would suffice and the cost would be zero.

However, things are not so simple in practice. For one thing, if the law was applied meeting the objectives for which it was devised, one could expect that disciplinary roles

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[27]. This may be the provincial delegation of the Ministry of Labour or the regional authorities or the central Ministry itself, depending on the nature of the ERE and whether the region where the firm is established is responsible for handling labour matters.

[28]. But this period can be shortened or lengthened depending on the duration of bargaining. If agreement is reached before 30 days and the labour authority takes less than 15 days, the period can be much shorter. If the firm insists on reaching an agreement, even if bargaining takes more than 30 days, the period will be, of course, longer.

[29]. Unless the worker argues that in fact the end of the contract is hiding an unfair dismissal. But this rarely happens, especially in the case of employment promotion fixed-term workers.

should play a secondary role and most workforce adjustments should take place through ERE (especially prior to 1994). As Table II.3 shows, what happens is exactly the opposite.

Table II.3. Workers affected by collective (authorized) dismissals and individual (initiated) dismissals (Source: Ministry of Labour and Social Affairs, *Boletín de estadísticas laborales*, various issues).

YEAR	Collective Dismissals	Individual Dismissals	RATIO ID/CD
1980	60.222	317.252	5.27
1981	57.454	333.024	5.79
1982	61.805	294.030	4.76
1983	59.984	283.543	4.73
1984	68.990	278.135	4.03
1985	74.776	239.674	3.20
1986	56.882	221.597*	3.89
1987	48.166	218.369*	4.53
1988	56.753	229.030*	4.03
1989	46.322	230.759	4.98
1990	48.591	245.335	5.05
1991	68.032	274.079	4.03
1992	83.237	274.544	3.30
1993	118.744	323.452	2.72
1994	74.158	238.842	3.22
1995	58.153	215.721	3.71

* Does not include information for the Basque Country.

As can be seen in the table, individual dismissals are the main adjustment way for permanent workers, and it shows a clear pro-cyclical evolution. However, contrary to what could be expected, most individual dismissals adopt the form of disciplinary rather than objective dismissals. One important reason behind this is the restrictive interpretation of the law adopted by the courts in allowing this latter kind of dismissal (Briones, 1995). The recent 1994 regulation of objective dismissals aimed at easing this adjustment way, but it does not seem to have implied a significant change. Thus, although the Supreme Court has tried to unify the interpretation of the new law, especially by determining that it is no longer necessary to clearly prove that the dismissal will imply an improvement in the situation of the firm), obscure points remain, the most significant one being whether the dismissal will be considered fair when the firm tries to prevent future losses, even if the current situation is more or less healthy.

Thus, the figures in Table II.3 are not to be interpreted as meaning that the Spanish work force is particularly lacking in terms of discipline, but rather that firms are using this type of dismissal to adjust their workforce to the economic vagaries of the business cycle. The legal regulations provide incentives for such a behaviour. If objective dismissals are difficult and collective dismissals can only be initiated when the situation of the firm is already negative, the disciplinary dismissal may be considered an acceptable compromise. As for collective dismissals, firms will only resort to them when needing to quickly adjust their workforce in a significant proportion, especially if unions have some strength at the shopfloor level (thus making bargaining with them necessary in any case).

It can thus be argued that the practice has precisely subverted the very fundamental principle which the law tried to adopt: the causality of dismissals. Most dismissals are not justified by firms. The situation which labour law tried to prevent, namely the arbitrary behaviour of firms when dismissing workers, has become the rule.

As for actual severance payments, they need not coincide with the numbers established in the LET. Rather, as we have seen, their precise amount is determined through a bargaining process.

In the case of individual dismissals, bargaining takes place at the MAC units, when the worker sues the firm, as happens in almost all cases, upon receiving the dismissal communication. In addition, in the case of disciplinary dismissals (the majority as already mentioned), the unemployment protection law provides a further incentive to sue the employer: if a worker accepts the dismissal as disciplinary, s/he has not right to unemployment benefits; however, if the final outcome of the sueing process is that the court declares that the dismissal was fair, then s/he is entitled to benefits [30].

Thus, almost all dismissals are solved through a bargaining (mostly at the MAC units, but also at the courts, before trial) which, if unsuccessful (and only then, and this happens in around 25 per cent of initiated dismissals), leads to a court decision. The matter of bargaining is, of course, the amount of severance payment, i.e. the dismissal cost to the firm. Malo (1996) presents a pre-trial bargaining model to formalize this process of determination of severance payments for individual dismissals. The main result of his model

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[30]. In this case, the worker has a waiting period of 3 months, but the amount and duration of the benefit is not changed. This situation is cleary contradictory. If the worker accepts that the dismissal was fair in the first place, it does not seem necessary that the court should ratify it. See sub-section IV.2.1 below.

is that the key variable is the maximum amount which the firm is willing to pay for the dismissal. If one considers that such a maximum is the amount to be paid should the dismissal be declared unfair, the agreed severance payment would tend to bo close to the "45 days rate". Taking into account that most economic dismissals use the disciplinary way, the actual cost for them will also tend to be close to the "45 days rate".

As for collective dismissals, bargaining is required by the LET itself, and the matters to be discussed refer here to the number of workers and the amount of severance payment. The fact that the labour market authority automatically accepts any agreed ERE but can be (and in fact is) reluctant to make a decision in case of disagreement implies that the amount of severance payment agreed need not coincide with the "20 days rate" established by the LET (this would actually become a floor). Malo (1996) has formalized this process of simultaneous bargaining, considering that the labour market authority is an arbitrator who acts in case of disagreement. The most significant result of his model is that the average severance payment with be inversely related to the "fallback" position of workers if dismissed (i.e. unemployment benefits or wages in an alternative job). The structure of bargaining is such that severance payments appear to be playing a distributive role. This is a questionable situation, for at a time when they are under negative shocks it is not the best time for firms to play any distributional role.

This way of understanding dismissals (as bargaining processes) is rather different from the usual one, based on the idea that the crucial characteristics of the employment protection legislation were the "high" severance payments, the bureaucratic costs and the behaviour of labour courts. Instead, the bargaining view makes it clear that the legal regulations is crucial in three ways: because it creates the possibility of bargaining, because it creates various ways to carry out such bargaining, and because it provides a reference for bargaining by establishing minimum and maximum amounts for the severance payments. In this context, bureaucratic costs (thought to be essential by some authors, e.g. Bentolila and Dolado, 1994), play only a secondary role. They would merely become a friction factor: if it is eliminated things will be moving faster, but the fact of movement remains unchanged. Additionally, these costs are likely to be internalized in the bargaining rather than being a cost accruing to no one (the removal of which would be obviously efficient).

As for the behaviour of the courts, they remain important in the bargaining view, but in Malo's (1996) model, their role is not so much in influencing the amount of severance

payments as it is in determining whether the dismissal procedure will be initiated. The probability of declaring a dismissal unfair is one of the key variables, and this is not likely to depend on the attitude of judges (considered "paternalistic", i.e. systematically tending to favour workers in their decisions, see e.g. Jimeno and Toharia, 1993a) but rather follows from the fact the firms are using the disciplinary way as a means to undertake economic dismissals, thus acting clearly against the legal regulations. But then, why are they willing to go to the courts (instead of reaching an agreement at the MAC units)? There is no good information on this point, but the presumption by most experts is that only those firms with liquidity problems (i.e., those facing the worst economic conditions) or those with a clear case go to courts. Again, no good information exists on all these procedures. At any rate, the point is that it is not so much that judges may be willing to favour workers but rather that the *legal regulation creates incentives to use the dismissals procedures in such a way that courts necessarily have to decide against firms*.

Summing up, what matters is not so much whether the legal severance payments are high or not as the uncertainties surrounding these payments. In this sense, there have been proposals to reduce such incertainty, by e.g. agreeing beforehand the amount of severance payment to be made. However, inasmuch as the dismissal may be sued by workers, thus opening up a bargaining arena, the situation would not so much different from that currently prevailing.

II.4.3. The effects of employment protection schemes on employment

The influence of firing costs on the level of employment has been an area of research which has gained momentum over the last ten years (for an initial survey, see, e.g. Nickell, 1986; see also Bentolila, 1989). The starting point of these theoretical considerations has been the idea of labour as a quasi-fixed factor of production, which implies that any change in the amount used of that factor would imply adjustment costs. These models consider, therefore, labour demand by firms over time. Their main conclusion is that adjustment costs, rather than affecting the average level of employment, tend to reduce its variability over time. Adjustment costs would thus not generate unemployment, although they would increase its persistence (what is known as "hysteresis").

A second set of theoretical arguments, however, tend to argue that adjustment costs do negatively influence employment. According to the "insiders-oustiders" model, the higher

the dismissal costs, the higher the power of the insiders (those protected by these regulations) which would lead to higher wages, which, other things being constant, might affect employment (see e.g. Lindbeck, 1993).

Finally, it has been argued (Burda, 1992) that the existence of adjustment costs accruing to a third party (e.g. bureaucratic costs), the level of employment will be negatively affected.

Turning to the case of Spain, it is clear that, as already mentioned (Section II.1), one of the factors behind the 1984 changes in the LET aimed at favouring the use of fixed-term contracts (this policy is reviewed in more detail in sub-section III.3.3 below) was the idea that firing costs for permanent workers were too high. Because changing these costs in a general way would probably have been politically unfeasible, the strategy adopted was to create a more flexible "fringe" where the legal restrictions to dismissals would not apply. The consequence is that, at present, a dual labour market structure appears to exist in Spain.

The preceding analysis of dismissal procedures help us understand that the crucial difference between the permanent "core" of the labour market and the temporary fringe is based on dismissal costs, in three complementary ways. First, temporary workers are subject to much smaller severance payments (which, in most instances, are zero). Secondly, the costs (zero o positive) are certain in the case of temporary workers, while they are uncertain, as we have seen, in the case of permanent employees. Finally, the procedure involved in the non renewal of a temporary contract (none in many instances, and at most a written communication one month before expiry of the contract) is much simpler than in the case of permanent workers.

The employment effect of this dualization of the labour market is, needless to say, very difficult to estimate. The so-called *Informe Segura* ('Segura Report'[31]) was the first attempt to do it. As already explained in Chapter I, the main effect appears to have been an increased elasticity of employment over the business cycle. In addition, this sharp distinction between temporary and permanent contracts affects the labour market in other, unexpected ways. As argued by Bentolila and Dolado (1994) and Jimeno and Toharia (1993b), this situation creates wages pressures and increases the insider power of permanent workers, because they are less likely to suffer the potential dismissals due to wage increases.

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[31]. See Segura et al. (1991). The papers by Bentolila and Saint-Paul (1992) and Bentolila et al. (1992) deal with partial aspects of this report.

Additional negative effects on productivity, training and migration have also been mentioned as the consequence of this labour market duality. In this sense, Milner *et al.* (1994) conclued: "the Spanish experience is also probably the best example of the potential pitfalls of relaxing employment protection legislation".

However, Bentolila and Dolado (1994) consider that this duality could open up the possibility for a wider flexibilisation of the labour market. Given the fact that since 1992 the total number of temporary workers and unemployed is higher than the number of permanent workers, a new coalition among the former might arise to reduce the privileged position of the latter (Saint-Paul, 1993, suggests this possibility). However, such a coalition is unlikely to arise. Two reasons may be mentioned: first, unions enjoy a wide popular support, even among the unemployed[32]; in other words, they are seen as defending the interests of all "workers" (actual or potential). Secondly, as seen in section II.3, unions enjoy a strong political power which does not derive from membership (which is low) but from union elections (in which a high proportion of workers participate) and it is unclear how the above-mentioned coalition could reach similar strength. However, unions are conscious that any reform aimed at bridging the gap between the two groups of workers will necessarily have to involve reducing the adjustment costs for temporary workers. So what is to be expected is that unions will be willing to discuss with employers ways of reducing the duality, maybe by clarifying the fair reasons for objective dismissals or through collective bargaining. However, this will be a difficult negotiation and spectacular results are unlikely in the short term.

[32]. García *et al.* (1995) offer survey figures showing the increasing sympathy enjoyed by unions among the employed as well as among the unemployed.

II.5. Regulation of working time

II.5.1. Basic legal regulations affecting working time

The legal framework regulating working time may be found in the LET, which establishes that working hours will be that agreed in collective bargaining or labour contract, subjet to a number of restrictions:

- the working week will not exceed 40 hours, calculated on a yearly basis. By collective agreement or otherwise, the employer and the workers representatives may agree to an irregular distribution of working time may be agreed, subject only to the provisos on minimum

- unless otherwise agreed in collective or other agreements, the maximum daily working hours will be 9 (8 for those under 18).

- two consecutive working days will have to separated by a rest period of at least 12 hours.

- for each 6 hours of daily work (4.5 for those under 18), a paid rest of 15 minutes (30 for those under 18) has to be given.

- the minimum holiday per year will be 30 working days

- the maximum number of overtime hours is 80 per year. The may be paid at a premium or through time out of work. Overtime work compensated through free time within 4 months are excluded from the above limit.

This regulation corresponds to the 1994 reform of the LET, which aimed at introducing a higher flexibility regarding working time. By so doing, however, it can be argued that the 1993 EC Directive on working time was not followed. Most notably, the possibility of surpassing the daily limit of 9 hours implies that the limit of 48 hours per week could be surpassed.

Prior to the 1994 reform, the LET established stricter rules: the working week was limited to 40 hours, (this was introduced in 1983, as one of the first measures of the Socialist government), the reference period was the week (although yearly working times would be agreed through collective bargaining), the daily time limits could not be changed through collective agreements, and overtime had to be paid at a 75 percent premium. The significance of the changes introduced is not so much the greater importance awarded to collective bargaining (sectors covered by it will probably not be affected by the changes) as the changes

affecting those sectors of the economy not affected by it. Since it is unclear who these people are (see section II.3.1 above), the actual significance of the changes introduced becomes obscure.

In Chapter I (see Figure I.17) we saw a decline in the actual number of average working hours per week. Figure II.3 shows the evolution of yearly working hours agreed in collective agreements. As can be seen, while agreements at firm level have tended to agree lower working hours, sector agreements have shown a much more irregular pattern, with an initial decline and a much slower one after 1985.

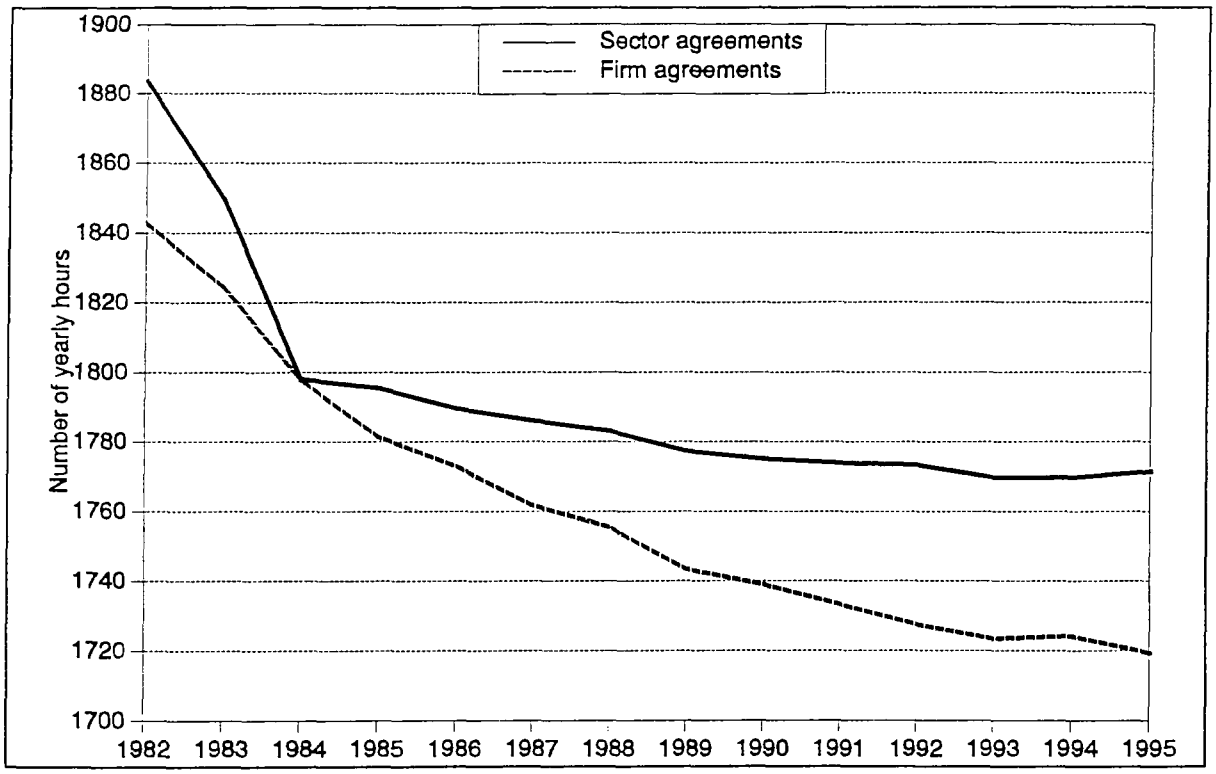

Figure II.3. Evolution of yearly working hours agreed in collective bargaining, by type of collective agreement (Source: MTAS, *Boletín de estadísticas laborales*).

II.5.2. Part-time work

Part-time work, defined as "working a number of days or hours per year, month or week smaller than two-thirds of normal hours in the sector", was regulated in the 1980 LET as one of the possible, normal, labour contracts. However, a transitory clause determined that, given the unemployment situation, the use of this contract would be restricted to specific groups of workers (beneficiaries of unemployment compensation, unemployed having exhausted their benefits and youngster under 25). Thus, part-time work was adopted as a promoting employment contract. The situation changed in 1984 when these restrictions were removed but the definition of part-time eliminated the reference to the year. The new regulation established a situation for part-timers proportional to the time worked, wihtout in particular any threshold in the number of hours worked to get access to social protection. Thus, part-time contracts became now clearly just another type of normal contract [33].

The recent 1994 reform, in an effort to boost the use of part-time contracts, has again redefined them (see CES, 1996, for an excellent and complete account). Most notably, part-time work may again be defined on an annual basis (thus absorbing the so-called "discontinuously permanent" contract, widely used for seasonal work [34]), any work for a time below the normal working hours will be considered part-time, and workers with a total working time (across all possible part-time contracts) under 12 hours per week or 48 per month will enjoy a smaller level of social protection (for the rest, the proportionality principle is maintained). Also, a part-time contract (like a full-time contract) may be permanent or fixed-term in nature. The actual change introduced by the recent regulation in unclear. It seems that many of the contracts signed before considered as either full-time or discontinuously permanent are now labelled as part-time, but, given the limited threshold established to be entitled to a reduction of social charges, it can be questioned that the change will mean any real difference to many of the workers involved. The enlargement of the definition of part-time work will, of course, entail an increase in the number of people hired under this formula but the actual meaning of this increase is far from clear.

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[33]. However, they were still considered a special contract aimed at promoting employment. For example, they were included in the statistics published by INEM and the Ministry on Labour on employment promotion contracts. These contracts are more fully discussed in Section III.3.3 below. However, part-time work is not considered there, because we think that their consideration as employment-promoting contracts is quite questionable.

[34]. Interestingly, the reason for eliminating the reference to the year in 1984 was exactly the same, but in the other direction, i.e. the purpose was to clearly separate part-time work from continuously permanent work.

II.5.3. Short-time working

In Spain, a change in the employment relationship implying short-time working requires, as already mentioned, that firms follow a procedure similar to that used for collective dismissals, namely what is called an *Expediente de regulación de empleo* (hereafter ERE). The only difference is that the time periods involved in an ERE containing dismissals is halved when the purpose of the procedure is to put employees on short-time working (which may involve no work at all, in which case instead of reduction of working time we would have a lay-off, but the regulation is the same in both cases).

The workers laid-off or under short-time working are entitled to receiving unemployment benefits, provided they have contributed to the unemployment insurance system long enough (see Section III.2 for a general discussion of unemployment compensation). In the case of short-time workers the benefit is proportional to the amount of working time reduction; in addition, a threshold for working time reduction of 1/3 of normal hours is established to be entitled to benefits. These benefits are against their total benefits; it could thus happen that a worker, when dismissed, might have already exhausted most of his/her benefits in previous short-time or layoff episodes. As part of the ERE, the firm may agree to supplement the workers' income so that no actual loss was experienced during the period of layoff or short-time. In the case of both layoffs and short-time work, employers have to pay social contributions for the workers affected.

The actual significance of short-time work has been limited. To get an idea of this, it can be said that the number of workers involved has been approximately around 15 per cent of the total number of people dismissed for all reasons. Since 1994, however, the number of workers affected has decreased dramatically. As for lay-offs, their significance has been much larger and more related to the business cycle. The number of workers affected has been the equivalent to half those dismissed, i.e. less than 2 per cent of total employees per year. The reform would thus appear to have discouraged firms from using the reduction of working time to their short-term needs, perhaps because employers may now adjust more freely the working conditions of their workers without having to resort to the more complicated procedures involved in the ERE. At any rate this is merely a hypothesis and more research is needed to confirm or discard it. What is clear, however, is that Spanish firms have shown a preference for an adjustment in their labour inputs by altering the number of people employed rather than changing the amount of time worked.

II.5.4. Career breaks

There are several types of career breaks, depending on the workers' right to leave their jobs and return to them. First, workers with one year of seniority have the right to a voluntary leave of between 2 and 5 years. Subsequent breaks may be taken 4 years after finishing the preceding one. It is also possible for workers with a union position at the provincial or higher level to have the right to leave for as long as their positions last. The worker on leave only retains a preferential right to be reinstated in possible vacancies of the same or similar category to his own.

Secondly, employed parents are entitled to "maternity leave" as well as "parental leave". The "maternity leave" lasts for 16 weeks, 6 of which must be after birth. It is possible that part of the leave be enjoyed by the father in case of death of the mother or, in any case, during the last 4 weeks of the period. Job is reserved and wages are paid by the Social Security administration. "Parental leave" refers to the right of parents to leave their jobs (only one of them is entitled if both work) to take care of a child (natural or adopted) during the first three years of life. During the first year, the same job is reserved; during the second year, a similar job is reserved; during the third year, only seniority rights accrue. If the worker is replaced by a recipient of unemployment benefits, employer is exempted from 95 per cent of social security contributions on the new contract during the first year, 60 per cent during the second year and 50 per cent during the third year.

Finally, university professores have the right to sabbathical leaves, although this varies across universities and often requires an explicit acceptance by the Department involved in terms of getting in charge of the leaving professor teaching without any replacement.

II.5.5. Working time as a policy issue

Working time has not received much attention in Spain as either a possible cause for unemployment or a possible policy to fight it. In this sense, Spain appears to be quite apart from the debates existing elsewhere in the European Union. The reasons for this situation may be found, first, in the actual decline of working hours (agreed and actually realised) despite the negative evolution of unemployment. Secondly, there has been no widespread debates on working time sharing or working time reductions, and most experts see these options reluctantly. As we shall see in more detail in Section III.3, the Spanish way to introduce work-sharing has been through the extensive use of fixed-term contracts, which have dramatically increased turnover (as we saw in Section I.3 above) and reduced the number of unemployed without any job experience. Work sharing in this case has to be seen on a time dimension rather than as a synchronous device. In addition, as we have seen, part-time has always been encouraged, but more as a rhetoric than with actual incentive measures.

Rather recently, however, social movements and left-wing political parties have started claiming for the reduction of the working week as a strategy for employment creation. Thus, the largest trade unions confederations (CC.OO. and UGT) are against "moonlighting", excessive working days and overtime, and they consider reduction of working time and job-sharing as long-term complementary targets. Left-wing political parties agree in the need to shorten the working week, but they have different views about incomes compensation: the Socialist party argues for wage and working time proportional reductions (something which they did not foster while in government), while IU (the left coalition, mostly Communist) is for generalized working week reduction (to 35 hours) without any income loss. However, the position of the employers' organizations are mixed. Bargaining over these issues with unions could be possible, but it is likely that any agreement that could be reached would at most affect single sectors rather than the economy as a whole.

Summing up, the debate on working time is yet to arrive to Spain.

II.6. Minimum wage regulation

The current system of minimum wages in Spain, called "Salario Minimo Interprofesional" (hereafter SMI), was introduced in 1963, replacing an earlier system in which minimum wages varied by region and age. It is set annually by government after consultation with trade unions and employer organizations and its stated purpose is to protect wage earners and ensure "a guarantee of their purchasing power and participation in the economic development of the nation". It currently sets one rate for workers aged 18 or over and one rate for those aged 16-17 (though prior to 1990 it used to set different rates for 16 and 17 years old workers). Unions oppose this discrimination, but the government justifies it as necessary and similar to practice in other European countries. There are also special rates for domestic workers and workers with very short-term contracts.

This statutory minimum is binding across the economy without distinction by occupation, work status or contractual relationship with the employer (for instance, temporary/fixed-term or permanent workers). According to the LET, the government must determine the level of the SMI taking into account various factors such as the cost of living index, the changes in productivity, the share of wages in national income, and the current economic situation. In practice, expected inflation is the most important determining factor. There is no pre-established formula on how these variables affect the minimun wage, so government enjoys a great deal of discretion.

There are no reliable data on the coverage of the minimum wage. Some estimates suggest that it affects between 2 and 6 per cent of all wage-earners. Indirectly, the SMI also affects the income of those receiving unemployment benefit, workers not covered by collective bargaining (see sub-section II.3.1 above on this issue) and self-employed workers, whose minimum social security contributions are fixed in relation to the SMI.

The effect of minimum wages on employment is not a subject of debate in Spain. In assessing this effect, two points of view may be adopted. First, there is the traditional opinion about its incidence on employment as far as its level is established above the wage which would clear the labour market. On the other hand, there is the view based on a monopsonistic labour demand in which no such clearcut effect is to be found.

A recent paper by Dolado and Felgueroso (1996) has tried to determine the influence of minimum wages on employment in Spain. The following points summarise their main

conclusions. First, the SMI ha substantially diminished as a proportion of average wages, and the proportion of workers affected by it is, as we have seen, rather small. Secondly, it is difficult to argue that the SMI has influenced employment. In the case of the general SMI (for people 18 or older), the effect is nil, mostly because the actual wage floors for these workers are set in industry-level collective agreements. Thirdly, in the case of teenage workers, the results indicate a negative relationship between the SMI and employment: an increase of 10 per cent of the SMI would lead, according to their estimates, to a reduction of 1-3 per cent in their employment. Fourthly, however, the number of teenagers affected has been decreasing, as it appears that older women living in poor households are becoming more important.

On the whole, therefore, while the SMI is important for many benefits paid as well as in the determination of social contributions for some workers, it cannot be related to the situation of unemployment prevailing in Spain.

II.7. Concluding comments

In this chapter, we have reviewed the evolution and situation of various aspects related to labour market legislation and institutions. We have seen at various points that there have been recent changes in the regulations which have affected many issues, in some cases in a significant way. Before attempting a global assessment of the effects of these reforms, however, it is necessary to complete our analysis with a consideration of labour market policies. The reason for this is that one of the main elements of the reform, namely that affecting labour market contracts, may be more properly considered an element of policy, and thus any assessment at this point would be incomplete. We shall come back in the concluding chapter to the issue of the effects of the 1994 reforms.

III. LABOUR MARKET POLICIES

III.1. Introduction

When dealing with the issue of labour market policy, it has become customary, following the analyses undertaken by the OECD, to divide the various measures adopted into "active" and "passive" policies, the idea being that passive policies reflect the mere response, as opposed to reaction, of policy-makers on the face of economic crisis and unemployment. Thus, while passive policies try to make life easier to the unemployed during a period of higher difficulties, active policies are supposed to be geared more towards solving the employment problem of people affected by the economic crises.

Taking this distinction as a point of departure, Table III.1 presents the distribution of expenditure on labour market policy in Spain over the recent period 1991-1995. The most striking feature of this table is the high relative proportion of resources being devoted in Spain to passive policies, which got close to 90 per cent in 1993. The cuts in unemployment compensation introduced in 1992 and 1993-94 made it possible to reduce expenditure on this item which, together with a modest increase in expenditure on active measures, notably labour market training, has given rise to a reduction in the proportion of resources devoted to passive policies.

Table III.1.- Total expenditure on labour market policies in Spain as a proportion of GDP, and number of new participants in active measures as a proportion of the labour force, 1991-1995. (Source: OECD, *Employment Outlook*, 1996).

	1991	1992	1993	1994	1995
EXPENDITURE AS A PROPORTION OF GDP					
Public employment services and administration	0.12	0.11	0.11	0.10	0.09
Labour market training	0.18	0.10	0.12	0.23	0.35
Youth measures	0.05	0.07	0.10	0.09	0.08
Subsidised employment	0.40	0.28	0.20	0.17	0.19
Measures for the disabled	0.01	0.01	0.01	0.01	0.01
Total active policies	*0.76*	*0.58*	*0.53*	*0.60*	*0.72*
Unemployment compensation	2.85	3.17	3.59	3.26	2.60
Early retirement for labour market reasons	0.00	0.00	0.00	0.00	0.00
Total passive policies	*2.85*	*3.17*	*3.59*	*3.26*	*2.60*
Total	*3.60*	*3.75*	*4.12*	*3.86*	*3.32*
Passive measures as % of total expenditure	79.2	84.5	87.1	84.5	78.3
NEW PARTICIPANTS IN ACTIVE MEASURES AS A PROPORTION OF THE LABOUR FORCE					
Labour market training	...	...	...	0.7	0.8
Youth measures	0.3	0.3	0.3	0.3	0.3
Subsidised employment	4.7	2.9	1.5	1.2	1.2
Measures for the disabled	0.1	0.1	0.1	0.1	0.1

Another significant feature of this table is the relatively low proportion of workers affected by the active measures: around 2.5 per cent of total labour force (i.e. some 375 thousand people) in the years for which full information is available. Prior to 1992, however, this proportion was substantilly higher, due to the high take-up in the subsidised employment programmes.

It should be noted, however, that the balance between active and passive policies which follows from Table III.1 is somewhat misleading. From this table, the conclusion one could draw is that active measures have not been considered an important of labour market policies in Spain. This is not so in any way. What happens is that the myriad of measures which have been taken (as we shall see in sub-section III.3) have not always implies direct outlays by government, but rather have involved legal modifications aimed at facilitating the process of hiring new workers.

The purpose of this chapter is to analyze these two types of policies. We shall deal first with passive measures (section III.2), which have been the dominant element (in terms of expenditure) of labour market policies in Spain, turning then to active policies (section III.3). Section III.4 shall present a series of concluding comments aimed at assessing labour market policies in Spain.

III.2. Passive measures

III.2.1. Unemployment benefits: description of the system

As in most advanced economies, in Spain the unemployment benefit system has two strands: an insurance-based level ("nivel contributivo", hereafter UI) and an assistance-based level ("nivel asistencial", hereafter UA). Unemployment insurance is designed for workers who have contributed for a certain period of time which entitle them to a benefit, the duration of which bears a certain relationship with the time contributed, and the amount of which also bears a certain proportion with the wage previously earned. Unemployment assistance is, in principle, independent of UI, although it is usually conceived as a complement to be given when UI is exhausted. In Spain, as we shall see, UA is in fact partly related to the time of contribution as there are instances where a minimum contribution time is required to get UA, independently of UI.

The Spanish system of unemployment protection was created in 1961, although it can be safely argued that a modern system was not created until 1980, when the *Ley Básica de Empleo* (Employment basic law, LBE) was passed. In 1984, the section of the LBE referring to unemployment compensation was converted into the *Ley de Protección por Desempleo* (Unemployment protection law, LPD), which is still in force. However, this law has been amended in various ways in 1989, 1992 (the most significant change) and 1993, mostly in an effort to reduce the expenditures generated by the system, which were considered out of line in the early 1990s. Throughout our description of the system, we shall add footnotes explaining the situation prevailing prior to 1992.

In order to be entitled to receive unemployment compensation, a worker has to be in a "situation of legal unemployment". This means "being willing and able to work" and having lost a job for unvoluntary reasons (i.e. having being dismissed for economic reasons, unfairly dismissed or upon expiry of a fixed-term contract); the only caveat to this requirement is that when a worker is dismissed and the case is ruled as "fair" in the courts, the worker has a waiting period of 3 months before receiving any benefit.

The system covers most dependent workers. The main exceptions are public servants, domestic workers and casual agricultural workers (who benefit from a special scheme, see below). In addition, first job-seekers are not entitled to any benefit.

Access to unemployment insurance requires a minimum period of contribution of 12

months during the 6 years preceding the entry into the situation of legal unemployment [35]. Workers having contributed at least 6 months but less than 12 have access to unemployment assistance. This is an important, often forgotten, aspect of the unemployment protection system. These workers enjoy a significantly lower replacement rate than those having contributed at least 12 months but they cannot be said not to be covered at all by the system [36].

Workers receiving UI have an entitlement period which follows the general rule of "2 months of benefit per each 6 of contribution", with a minimum of 4 months and a maximum of 24. The amount of the benefit (replacement ratio) is calculated as 70 per cent of the "regulatory base" (the average of wages contributed for during the six months preceding unemployment) for the first 6 months and 60 per cent afterwards. There is a floor to the benefit, equal to 75 per cent of the statutory minimum wage (SMI), which is raised to 100 per cent of the SMI if the beneficiary has dependent children, and a ceiling of 170 per cent of the SMI (rising to 195 per cent of the SMI if the beneficiary has 1 dependent children adn to 220 per cent of the SMI if she or he has 2 or more). UI benefits are liable to income tax; in addition, a small amount of social contribution is deducted from it to cover health insurance [37].

Unemployment assistance is given to workers having contributed at least 6 but less than 12 months, as already mentioned, and also to workers having exhausted their insurance benefit, or having contributed at least 3 but less than 6 months, who have "family responsibilities", meaning dependent spouse and/or children [38]. The duration of UA is 6

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[35]. Prior to 1992, only 6 months were required. Prior to 1984, "6 months and 1 day" were required. The change introduced in 1984 was designed so that fixed-term workers hired for a 6 month period could be entitled to UI.

[36]. Thus, the change introduced in 1992, increasing the minimum contribution period from 6 to 12 to be entitled to UI, did not in fact reduce the coverage of the system but rather decreased the replacement ratio for those having contributed between 6 and 12 months.

[37]. Prior to 1992, the entitlement period followed the principle "3 months of benefits per 6 of contribution"; the minimum was 6 months and the maximum was 24. The past reference period of employment was 48 months (4 years) instead of 72 (6 years). The replacement ratio was 80 per cent during the first 6 months, 70 per cent during the following 6 months and 60 per cent afterwards. The floor was 100 per cent of the SMI for all beneficiaries. UI benefits were tax-free prior to 1994 and no deduction was made to pay for health insurance.

[38]. This notion of family responsibilities was severely restricted in 1993. Prior to that date, any relative up to the second degree could be considered as determining the existence of family responsibility. The most significant restriction introduced in 1993 refers to the parents of the beneficiary, no longer included among those "depending" on him or her.

months renewable up to maximum figures which depend on the contribution period and age.

There are two significant special cases regarding UA which need to be mentioned. First, workers older than 52 who meet all the requirements except age to get a social security pension are entitled to UA until retirement age (65) is reached. Secondly, casual agricultural workers in Andalucía and Extremadura enjoy a special scheme whereby a certain number of SMI-days are paid depending on the number of days contributed (providing a minimum of 40 days have been contributed). This special scheme is linked to the Rural Employment Plan (see below, sub-section III.3.3)

Table III.2 summarizes the duration of benefits, both at the insurance and assistance levels.

Table III.2.- The duration of unemployment benefits in Spain.

Number of months of contribution during the preceding 6 years (C)	Insurance benefit (months)	Assistance benefit upon exhaustion, when applicable, of insurance benefit			
		With family responsibilities		Without family responsibilities	
		Less than 45 years old	45 years or older	Less than 45 years of age	45 years or older
3	-	3	3	-	-
4	-	4	4	-	-
5	-	5	5	-	-
6-11	-	21	21	6	6
12-17	4	18	24	-	-
18-35	2 x int(C/6) = 6,8,10	24	30	-	-
36-71	2 x int(C/6) = 12,14,...,22	24	30	-	6
72	24	24	6+30	-	6+6
Older than 52	-	Until retirement age is reached			
Others (*)	-	18			

Notes: int(C/6) means the integer value resulting from dividing the number of months contributed by 6. This formulation corresponds to the fact that the resulting entitlement periods must be even numbers and that each additional contribution of 6 months generates 2 additional months of entitlement.

(*) Others refer to various groups of workers who are also entitled to UA, such as returning migrants, people released from prison and formerly invalid people declared partially or totally able to work.

III.2.2. Unemployment benefits: incidence

In the preceding sub-section, we have described the system of unemployment compensation. The purpose of this sub-section is to determine the amount of effective protection provided by the system. There are two possible ways of dealing with this issue: first, the proportion of unemployment covered at a point in time can be analyzed; secondly, an index of the "generosity" of the system, in terms of the average benefit paid as a proportion of GDP, may be computed. We shall follow both lines of argument below.

a) Coverage rates

The calculation of a coverage index of benefits is, in principle, simple: by dividing the number of beneficiaries by the total number of unemployed, one can get an idea of the proportion of the latter "protected" by the system. In Spain, there is an "official" coverage rate computed by INEM (the agency in charge of managing unemployment benefits), which is calculated by dividing the number of unemployment beneficiaries by the total number of unemployed registered at INEM. The main problem with this coverage rate is that it is unclear that the two groups are homogeneously defined, particularly that the first is a subset of the second. Thus, as has happened at some points and in several provinces, coverage rates computed may reach figures higher than 100 per cent, which obviously does not make sense. An alternative measure may be computed from the labour force survey (EPA), which provides additional information on the search behaviour of the beneficiaries, although the total number of beneficiaries estimated by it is somewhat smaller than the actual number (see Figure I.30 above for information on this).

Figure III.1 presents the evolution of the rate of coverage as calculated by INEM. There are two rates included in the graph: the "gross" rate and the "net" rate. The gross rate is simply the number of beneficiaries (of unemployment insurance and assistance benefits, i.e. excluding the special schemes for agriculture) divided by registered unemployment; the net rate deducts from the numerator and the denominator workers in agriculture.

As Figure III.1 clearly indicates, after a decline in the early years of the decade, linked to the process of buildup of unemployment, during which those who had lost their jobs began to exhaust their benefits, the coverage of unemployment compensation tended to remain stable at relatively low figures until 1988. At that time, one the demands made by trade unions was to raise the coverage rate to at least 48 per cent. Partly as the result of the

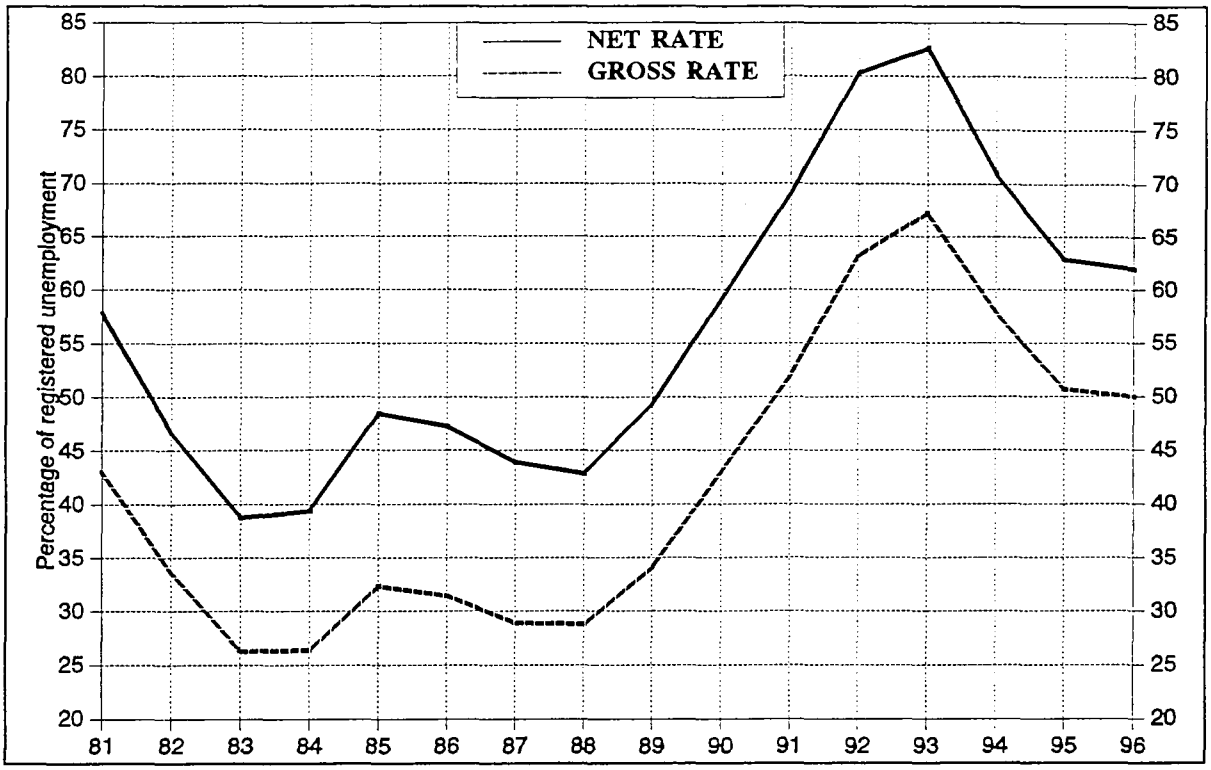

Figure III.1. Evolution of the gross and net coverage rates of unemployment compensation with respect to registered unemployment (Source: INEM).

application of the new Unemployment Protection Law of 1984 (see sub-section III.2.1 above), and partly as the result of the increased labour turnover which the new economic and legal conditions brought about in the second half of the 1980s, the rate sharply increased after 1988, to reach levels of 70 per cent by 1992. As a matter of fact, if account is taken of the delays in recognition of benefits, the net rate actually was over 90 per cent in 1992 (in January 1993, the net reached a record-high figure of 98 per cent; it was at that time when it was over 100 per cent in various provinces). After 1993, the coverage rate sharply decreased, presumably as a consequence of the reforms introduced in the system in 1992. In only 3 years, the rates experienced falls of 15-20 points.

Even though the evolution presented is probably accurate in terms of the increase and fall of the amount of coverage provided by the unemployment compensation system, it can be questioned that the size of the variations is correct. As can be recalled, the discussion in sub-section I.2.4 (especially Figures I.24 and I.25) on the problems of measurement of unemployment indicated that the evolution of registered unemployment was probably understating the true magnitude of unemployment.

An alternative measure of the extent of coverage of the unemployment compensation system may be obtained from the labour force survey. Figure III.2 presents the information

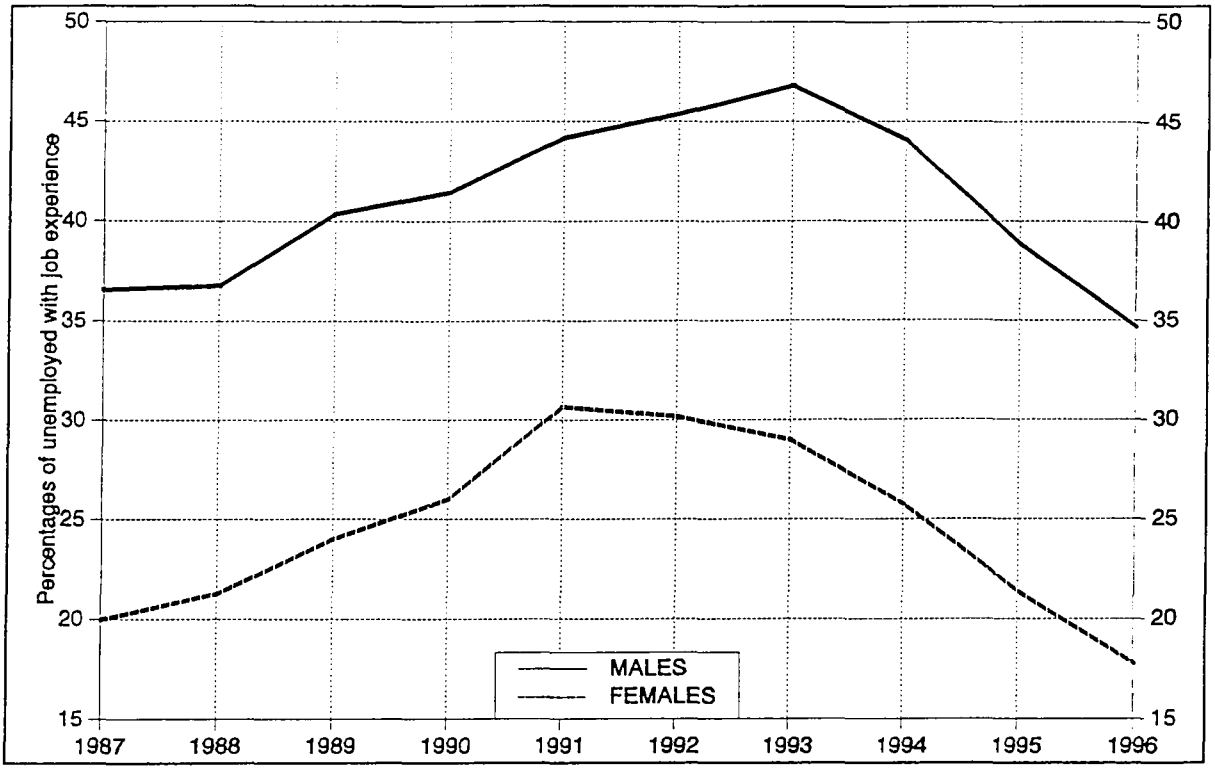

Figure III.2. Coverage rate of unemployment benefits with respect to unemployed with past job experience, 1987-1996 (second quarter) (Source: EPA).

for the period 1987-96, disaggregated by gender (the INEM coverage rates are not available by gender). More specifically, it presents the proportion of unemployed with past job experience (the only ones who may be eligible for benefits) who are in receipt of benefits. This graph suggests an upwards and downwards trend similar to that resulting from the INEM figures, although there are various significant differences. First, the females coverage rate starts declining earlier than 1993. Secondly, and most importantly, the situation in 1996 implies coverage rates which are lower than those observed in 1987.

On the whole, and it may be the case that the coverage rates provided by INEM are overstated after 1990, it is clear that there was a substantial increase in the coverage rates between 1988 and 1992, which has tended to reverse itself almost completely after 1993. Among the causes for such increase and decrease, the following may be mentioned:

i) Regarding the increase:

- the strong increase in labour turnover, which made it possible for many people to have a first job experience, usually linked to a short period of unemployment compensation (until 1992, six months working gave right to 3 months of benefit);
- the economic crisis which started to build up in 1990-92 and fully unwound in 1992 and 1993, which obviously implies an increase in the number of job losses, which are necessarily

associated with unemployment benefits, especially when, as was the case in that period, the number of permanent workers who lost their job was substantial;

- the increase in the periods of assistance benefits passed in 1989, leading to a maximum of 5 years for an unemployed worker older than 45 years with family responsibilities.

ii) Regarding the decline:

- the cuts passed in 1992, although it is likely that their effect was more a reduction in the amount of benefit received than any change in the rate of coverage;
- the changes in the regulation of labour contracts, which, by increasing the minimum for fixed-term contracts from 6 months to 1 year (which was also the minimum to get access to unemployment insurance benefits), reduced the number of contracts of this type, leading firms to use other types of temporary contracts, the duration of which did not have to be linked to any specific period (as was the case prior to that date), thus breaking the link existing since 1984 between fixed-term contracts and unemployment compensation;
- the stricter rules for the recognition of assistance benefits passed by the end of 1993, reducing the instances in which a person could be considered as having "family responsibilities".

III.2.3. Unemployment benefits and job search

One of the problems any system of unemployment benefits has to solve is that it is devised as a system for protecting workers who are unemployed, i.e. not only having lost a job but also searching actively for a new one. Systems have always ths tension between the "right" generated by the past job experience and the requirement that the person receiving aid be an active job-seeker. This tension is also present in Spain.

In order to get a feeling of the effective job search carried out by the beneficiaries of unemployment compensation, Figures III.3 and III.4 graph, for males and females, respectuvely, the distribution of beneficiaries of unemployment compensation by labour market status, according to labour force survey data. As can be observed, in addition to the relatively small (but nonzero) percentage of beneficiaries who declare being at work, the most significant element is the substantial proportion of people (close to 20 per cent of males and above 30 per cent of females) who are classified as "inactive", i.e. who declare that they are not looking for a job. This stresses the duality already mentioned between a system which is seen as a right naturally extending after a period of work, and a labour market policy

which tries to solve economic hardship during the -presumably not very long- time a person finds a new job after losing one. This remains a problematic issue in Spain, as probably happens elsewhere too.

At any rate, the aspect which generally worries policy-makers refers to the disincentive problems which unemployment compensation entails. For example, in Spain, when the system was reformed in 1992, this was one of the reasons mentioned (the other being budgetary problems). In Spain, the incentive effects on labour supply and on job search has been analyzed using two types of databases: cross-section data and longitudinal data.

The cross-section data come from the *Encuesta de Condiciones de Vida y Trabajo* (Life and Working Conditions Survey) launched in 1985 by Ministry of Finance. Using this survey, Alba-Ramírez and Freeman (1990) and Blanco (1995) have found a positive effect on unemployment duration of imputed benefit eligibility, while Andrés and García (1993) only find this effect when sector variables are excluded.

However, cross-section data do not give the best support to test the incentive effect of unemployment benefits. The main problems are the following: the stock sampling problem and the bias of unemployment spells. The first stems from the nature of this sort of data, because we have only the stock of unemployed workers, which means that the long-term unemployed people will have a higher probability of belonging to the sample. The second problem also refers to the static nature of cross-section data, because we do not know when will the unemployment spell reported in the survey end; in other words, the unemployment spells are "right-censored". Therefore, the negative effects found with cross-section data need to be checked against studies using longitudinal data, which are not subject to the mentioned problems.

At the moment, there are only two studies on this topic using longitudinal data. The results of the first research are presented in Cebrián *et al.* (1995 and 1996). They analyse the impact of unemployment insurance and assistance benefits (distinguishing between them) on the pattern over time of the exit probability from unemployment using administrative data from the INEM.

One of the most important findings is the lack of significance of replacement rate on exit probabilities, except in the case of males in the 12 to 21 months entitlement group.

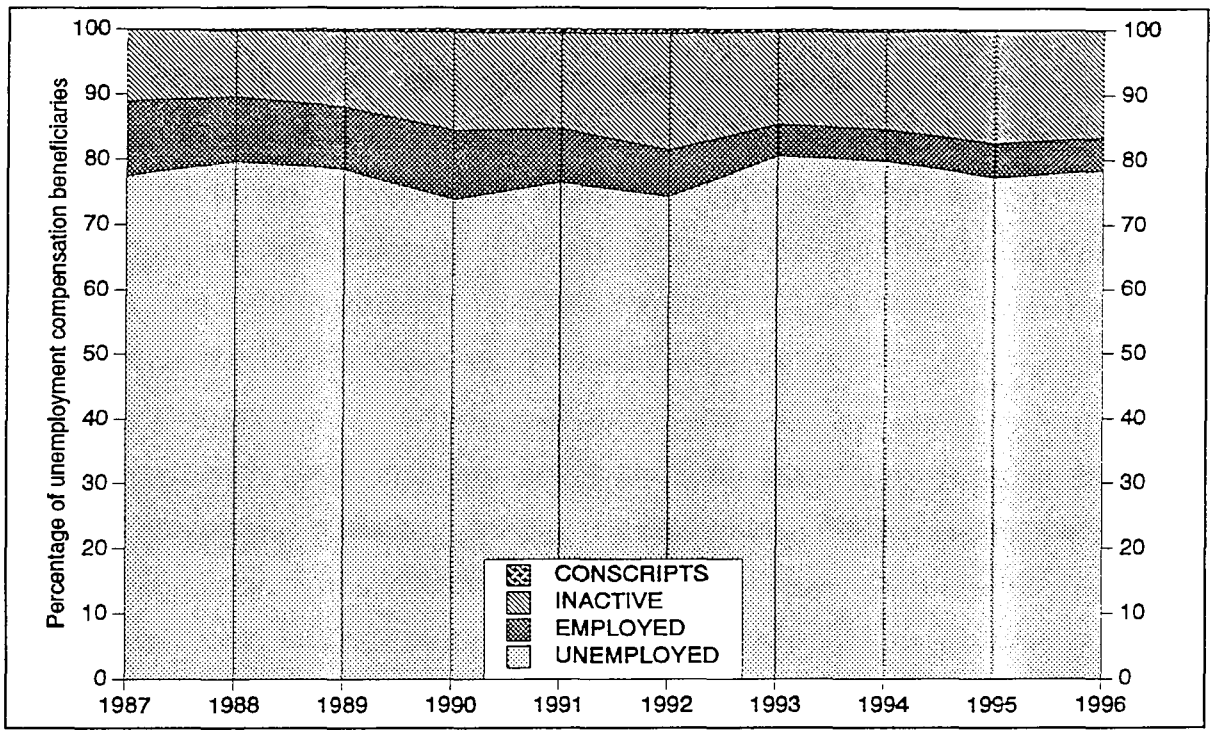

Figure III.3. Distribution of self-declared unemployment compensation beneficiaries by labour market status, 1987-1996, second quarter, MALES (Source: EPA).

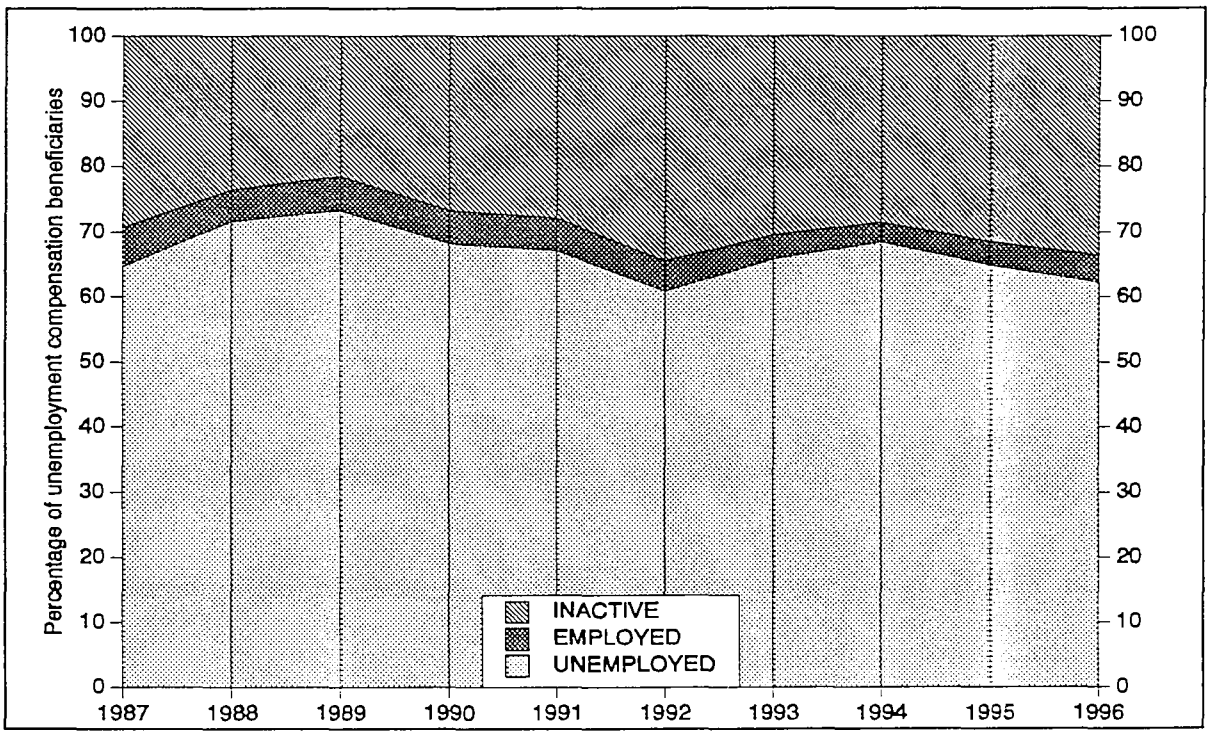

Figure IV.4. Distribution of self-declared unemployment compensation beneficiaries by labour market status, 1987-1996, second quarter, FEMALES (Source: EPA).

In general, the potential duration of benefits has the effect of extending the duration of unemployment[39] and the probability of exiting shows an increase at the sixth month before expiry. This result reflects the higher exit rates of groups with shorter entitlement periods, because they have detected that the cohorts of individuals with more months of entitlment have relatively stable patterns of exit rates, without showing an increasing trend in the last months of entitlement.

This heterogeneity problem was tested for men and women separately. For the longest entitlement group (24 months) there is a marked difference from the other two groups and the variables affecting the probability of exiting are fewer, especially for women.

The second research on unemployment duration in Spain using longitudinal data is Bover et al. (1996). Using the matched files of the EPA for the period 1987-1993, they constructed "histories" of unemployed men (women were excluded because the data base, lacking information on families, was considered inadequate), allowing them to construct a duration model of unemployment. As compared to the INEM data, this database includes the control group of unemployed people without unemployment insurance or unemployment benefits, but it does not include the replacement ratio and there is no distinction between insurance and assistance benefits. The estimations of these authors indicate that unemployment benefits significantly reduce the probability of leaving unemployment, while favourable business conditions increase it. The former effect is larger than the latter.

These results are at variance with those stemming from the models specifically estimated for this Report and already commented in Chapter I (see Appendix 1). According to the model of the probability of exiting unemployment estimated here for the period 1992-96, an important variable, not taken into account by Bover *et al.* but given strong relevance in the work of Cebrián *et al.* would be the duration of the entitlement period. In our model, unemployment beneficiaries with short entitlement (as measured by the duration of the last job) show a higher probability than non-beneficiaries with also short entitlement periods. Unemployed with the maximum entitlement period, together with unemployed who have been out of work for more than 8 years are the two groups with the lowest probability of exiting unemployment, followed by those without past job experience (the difference between this latter group and the two preceding ones is not statistically significant, though).

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[39]. Although they can not test this hypothesis, because the INEM data do not include a control group whithout benefits.

In addition, and as pointed out recently by Alba-Ramírez (1996), the way in which Bover *et al.* deal with missing information on unemployment benefits may be misleading. Thus, if they observe one person who declares that he does not receive benefits at one point but that he does at a later point, they assume that he was receiving benefits all through (the negative answer at the initial point is interpreted as responding to thedelay in the recognition of benefits, which may take several months). But a person in a similar situation (waiting for the recognition of benefits) who would get a job would be (incorrectly) observed as not receiving benefits prior to his entry into employment. According to Alba-Ramírez's estimates, this way of dealing with data could explain as much as half of the effect estimated by Bover *et al.*.

On the whole, the studies available on the disincentive effects of unemployment compensation on job search are not totally conclusive. Studies based on sources such as INEM data have the advantage of being truly longitudinal, while lacking various informations such as the level of education of the beneficiaries and referring to all beneficiaries part of which, as we have seen, may not be active job seekers; in addition, there is always the problem of the lack of a control group. Studies based on the labour force survey have problems because of the limited period during which individuals are observed, and important control variables such as the replacement ratio or the entitlement period are not easy to control for. Thus, more research is needed to solve these deficiencies and, for the time being, the question of the incentive problems created by unemployment benefits remains, in our opinion, unsettled.

III.2.4. Early retirement policies

As can be seen in Table III.1, no expenditures are devoted by Spanish government on early retirement policies linked to labour market problems. In general, it can be said that no specific early retirement policy exists in Spain. As a general rule, retirement age is 65, although there is the possibility of retiring earlier for those workers over 60 associated with a worker mutuality in 1967, although reduction coefficients are applied to the pension to be paid (8 points for each year before 65).

However, there have been two exceptions to this general rule. First, as part of industrial restructuring schemes, early retirement measures have been adopted (see section V.2 below for more on this). Secondly, two types of measures relating to contracts, both of them dating from 1985, can be linked to early retirement measures, although it could be argued that they are more "active" than "passive" policies. They both aim at facilitating entry into the labour market of younger unemployed in replacement of older workers whose age is close to retirement. The first contract establishes the possibility of early retirement at age 64 if the retiring worker is replaced by an unemployed registered as such in the employment offices. The second contract is a "solidarity" contract which allows the partial early retirement of an older worker if a young unemployed is hired to complement the exiting worker's working time. In both cases, the social security system pays the worker the pension or the lost wages. Also the conversion of these contracts into a permanent status upon expiry gives the firms the right to a subsidy. However, it must be said that these two contracts have elicit a very small number of hirings. They are still operative, but their incidence is minimal.

III.3. Active measures

III.3.1. Introduction

Following the OECD classification presented in Table III.1, active labour market policies comprise labour market training, measures directed towards young people, subsidies to direct employment creation and to hirings (which may take the form of direct subsidies or implicit subsidies deriving from e.g. legal changes), and measures in favour of the handicapped. In addition, the current efforts at reforming the public employment services should be considered part of active labour market policies. These efforts have already been described in section II.1 above. Although training policies have been the most important in terms of expenditure, some of the other policies have also exerted a significant influence in the labour market. However, as we shall see, the tightening of the budgetary situation has implied that some of these measures, the actual effectiveness of which was never properly evaluated, were abandoned.

To properly understand the evolution of active measures, we shall consider the measures adopted troughout the 1980s and 1990s, explaining the various changes introduced all along. The following classification of active measures [40] will be followed in this section (this departs a bit from the OECD classification in that such specific groups as youngsters and the disabled are considered as part of other policies, and in that contract-related measures are considered part of labour market policy):

- labour market training:
    - for the unemployed (known as "occupational training")
    - for the employed (known as "continuing training")
- employment promotion and creation policies:
    - without direct economic incentive: fixed-term contracts, part-time contracts
    - with direct economic incentive: practice and training contracts, permanent contracts for various groups of workers (people under 26, older workers, women in occupation where they are underrepresented, disabled)
    - direct employment creation in the public sector: through collaboration between INEM and the various public administrations; rural employment programme;

[40]. This is the classification used in the MISEP base report on Employment policies in Spain. We have used two reports, published in 1988 and 1995 by the Spanish Ministry of Labour.

work in projects of social interest.

- measures in favour of entrepreneurial initiatives and employment creation: promotion of self-employment, cooperatives and worker-owned firms, local employment initiatives, capitalisation of unemployment benefits.

III.3.2. Labour market training

The main scheme for labour market training in Spain has been the Plan FIP (*Plan Nacional de Formación e Inserción Profesional*, National Plan for Labour Market Training and Integration), initially set up in July 1985 with the specific aim of planning training expenditures to be made with the help of the European Community (accession into which was scheduled for January 1986). This Plan, which has been revised several times, is managed by INEM, the Spanish public employment service (see Section II.1 above). The latest regulation dates from 1993 when, as one of the elements of the National Programme for Vocational Training, passed in February 1993, the training of employed workers was transferred to a private foundation (FORCEM, Fundación para la Formación Continua en las Empresas) managed by the social partners and funded by government. Also, in line with the decentralization process initiated by INEM, FIP activities were transferred to some regions (Cataluña since 1992, Andalucía, Valencia, Galicia and Canarias). Up until 1993, therefore, training for both the employed and the unemployed, was the sole responsibility of INEM, under the Plan FIP. Since that date, the Plan FIP has been limited to training for the unemployed, and its management has been decentralized to the regions, while training for the employed is managed by the FORCEM.

Two other schemes may be mentioned as labour market training measures. First, the Workshop-Schools and Trades Houses programme (Programa de Escuelas-Taller y Casas de Oficios). Although it is currently part of the Plan FIP, this programme, aimed at young unemployed, is generally analyzed independently, due to its special characteristics. Secondly, practice and apprenticeship (formerly training) contracts may also be considered as part of labour market training policies, although we shall consider them below (in sub-section III.3.4) as part of employment contract policies.

Labour market training has been financed through two main mechanisms: the vocational training levy, whereby firms have to pay 0.7 per cent of their payroll, and the finance received from the European Social Fund since 1986. In the agreement creating

FORCEM, it was established that part of the training levy would be used to finance its activities: 0.1 in 1993, 0.2 in 1994, 0.25 in 1995 and 0.3 in 1996. For the next four years, it has been agreed that the level to be devoted to FORCEM activities will be 0.35 per cent (i.e. half of the revenue generated by the training levy). Regarding training for the unemployed, although INEM (or the regions where it has been transferred) manages it, it is only partially involved in training itself, which is mostly carried out by private training centres.

Figure III.5 presents the number of employed and unemployed trainees under the Plan FIP as a proportion of total employment and unemployment, respectively [41]. As can be seen, training for the employed never reached more than 1 per cent of potential trainess. On the other hand, training for the unemployed has tended to lose importance. While it covered close to 10 per cent of those unemployed in 1988, the proportion fell substantially in 1993 and now stands at some 4 per cent, which appears to be a stable figure.

There are two reasons behind this change: first, the end of the Community Support

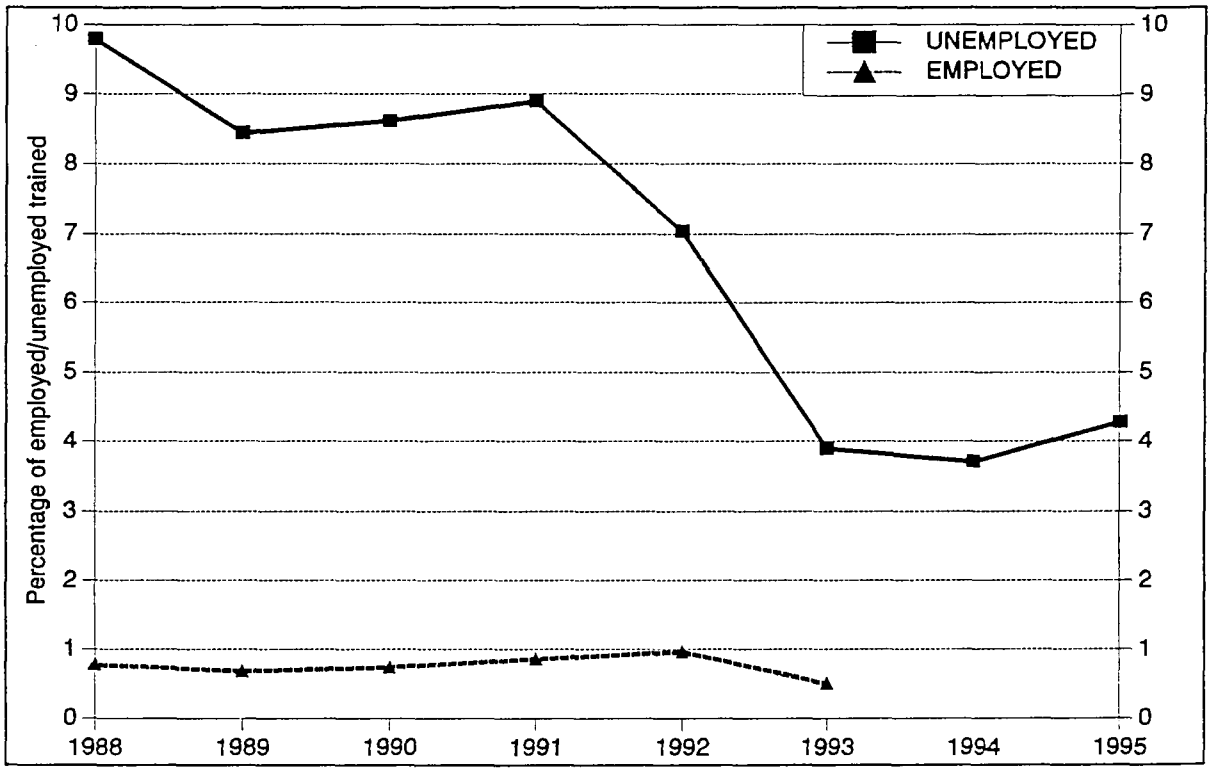

Figure IV.5. Proportion of employed and unemployed trained under the Plan FIP, 1988-1995 (Source: Ministerio de Trabajo y Asuntos Sociales, *Anuario de estadísticas laborales*, various issues).

[41]. Figures for the regions of Andalucía and Comunidad Valenciana, not available from the source used in this figure, have been estimated on the basis of their weight in 1993.

Framework for 1989-1993, which provided a substantial amount of ESF financing to be devoted to training, mostly for the unemployed; secondly, the transfer of funds to what is known as "continuing training", i.e. training for those employed, now managed by FORCEM. Thed level of penetration of FORCEM's activites has been sharply increasing during its first three years of operation: while it covered 5 per cent of wage and salary earners in 1993 (the only ones eligible for training, whereas the self-employed could also benefit from Plan FIP activities), the proportion rose to 12 per cent in 1994 and the figure for 1995 is estimated at over 17 per cent. For the new period of agreement (1997-2000), the coverage of FORCEM activities has been enlarged to public servants, self-employed and members of cooperatives.

It should also be noted that the numbers included in Figure III.5 probably underestimate the actual amount of training provided, as the regions (independently of the responsibility transferred by INEM) have their own training programmes. Although no systematic information exists on these programmes, the INEM itself, through its Observatory of Occupations (INEM, 1996)[42] has estimated that the total number of people (unemployed and employed) trained in 1995 outside the Plan FIP could be as much as twice those included in the Plan, presumably excluding continuing training financed by FORCEM [43].

As for Workshop-Schools, it is a programme which started in 1985 in a very voluntaristic way as a means to fight against youth unemployment through the restoration of the historical National Heritage and Urban Environments in Spain as well as the recovery of old artisan trades. After a first period of theorical training, students enter a dual system which combines theorical training with practice work. The duration of the work contract for each student has to be between 1 and 3 years and the initial training period has to be of at least 4 months. During the whole period, student-workers are paid a salary. The real boost to the programme came in 1988, when it was regulated by a govermment decree, which allowed the number of students to triple, from 10,000 in 1987 to over 30,000 in 1988 and more than 50,000 in 1990 and 1991. In later years, the number of students has been somewhat reduced, stabilizing around 40,000 per year, as established in the 1993 National

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[42]. The "Observatory of occupations" was set up in 1988 to follow up labour market developments and monitor changes in occupational requirements and detect the training needs entailed by entrepreneurial, social and market changes. It is a specific programme within INEM enjoying from co-financing from the ESF.

[43]. Although this is not fully clear in the INEM publication.

Programme for Vocational Training. The outflows of students finishing up their training has been around 15 thousand over the last few years. Schools are temporary in nature and last for the period established at the time of creation. They are usually linked to non-profit organisations or local communities. The number of institutions existing at any one time has been around 1,000.

We now turn to a more specific analysis of the two main schemes mentioned, namely the Plan FIP for unemployed and continuing training for the employed through FORCEM, especially in terms of their effectiveness.

a) The FIP Plan

Since 1990, INEM has been carrying out a follow-up of students trained under the Plan FIP, as one of the elements of its Observatory of Occupations, in order to assess the degree of labour market integration achieved (since 1992, these studies only cover the part of the Plan managed directly by INEM, i.e. it excludes training managed by the regions to which the responsibility has been transferred). The method used was to see the situation (in terms of INEM's registers) of former trainees one year after the training period, i.e. the situation of those trained in 1992 was checked at the end of 1993 and so on. The results of

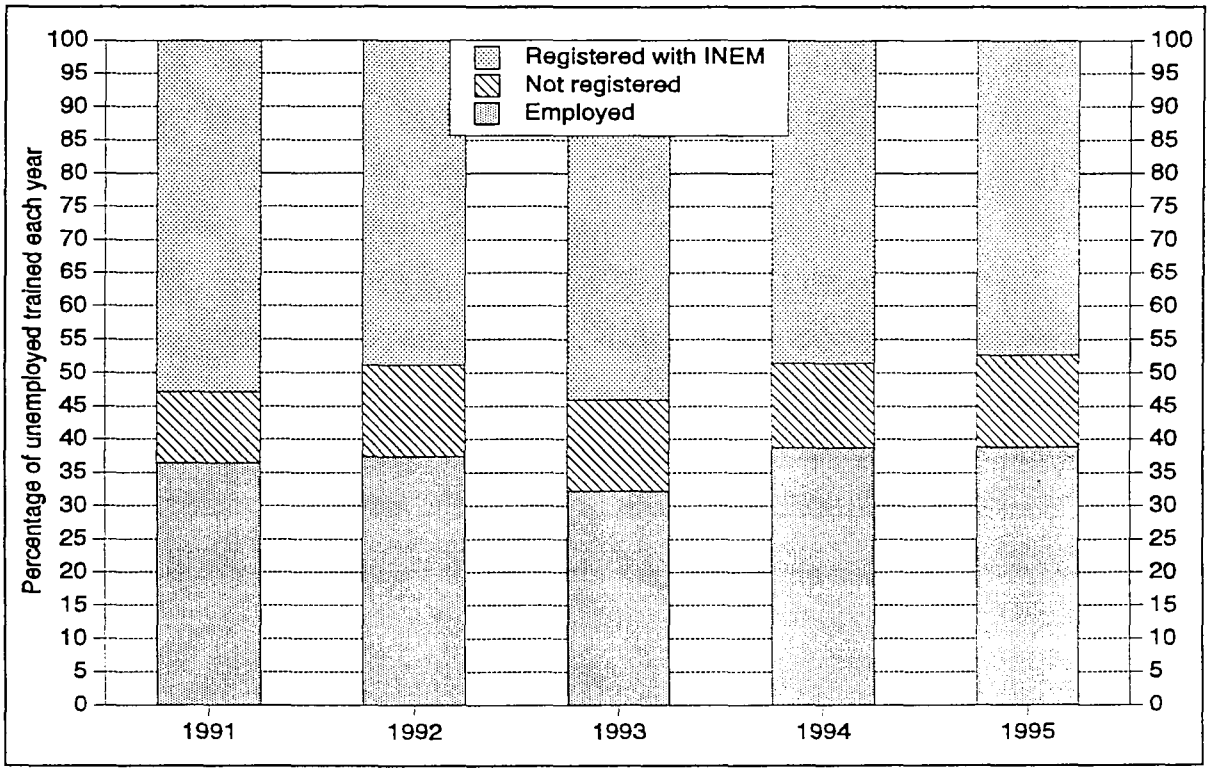

Figure IV.6. Distribution of unemployed trainees, according to their labour market situation at the end of the following year after receiving training (Source: INEM, 1996).

this analysis appears in Figure III.6. As can be seen, some 35-40 per cent of former trainees were at work roughly one and half years later, 50-55 per cent remained unemployed and 10-15 per cent had dropped from INEM's registers for various reasons. Over these years, differentials in the degree of labour market integration has been observed depending on the characteristics of the workers. Thus, men, young people, people with medium-level qualifications, and people receiving unemployment benefits ten to have higher rates. In addition, some 60 per cent of students trained declared to be working in jobs related to the training received.

One of the problems of this kind of studies is that no control group is provided to assess whether the level of labour market integration achieved is "high" or "low". Conscious of this problem, INEM has selected two identical samples (stratified in terms of gender, age and level of education), one of people trained and one of unemployed not trained. The comparisons between these two groups show that those having received training had an integration rate substantially higher (between 10 and 15 percentage points) above those who did not receive training. Of course, it could happen that the attitude towards employment of those receiving training was already higher beforehand, but this is an element which is much more difficult to assess. Sáez and Toledo (1996) report similar results from a study of 10,000 unemployed trained with a control group of 2,000 other unemployed.

Starting in 1995, thanks to the process of computer integration within INEM, a new method of measuring integration has been started. Instead of interviewing former trainees at one point in time, a computerised check was carried out to determine the proportion of trainees who has been given at least one labour contract during the year following the training received. According to this criterion, the rate of labour market "integration" is substantially higher, reaching almost 75 per cent. The difference between the two criteria used merely witnesses the extremely high turnover existing in the Spanish labour market (see sub-section I.3.2). It should be noted that only 2 percent of those trained received a permanent contract, which is in line with the global proportion of this type of contracts. Unfortunately, in this case no control group study has been made.

b) Continuing training

After three years of operation of FORCEM, information is starting to accrue regarding the characteristics of the training being provided. As already mentioned, the

number of workers involved has dramatically increased during the first 4-years agreement period (1993-1996). Assessing the effectiveness of a programme such as that launched by FORCEM poses more difficult questions than evaluating programmes for the unemployed. We have already mentioned the significant increase in the number of wage and salary earners participating in the programme. There is a general agreement, however, that FORCEM activities are very important for Spanish firms and workers, and also that a more substantial effort needs to be made to increase the take-up of small and medium-sized entreprises. Also, as already mentioned, the scope of the programme has been enlarged to cover public sector employees, self-employed and members of cooperatives.

III.3.3. Employment promotion measures

One of the main strategies followed by Spanish government regarding labour market policy has been the creation of various types of labour contracts, as temporary expedients (i.e. these contracts are not to be considered as part of the normal "labour code") aimed at facilitating hirings. These contracts may involve direct incentives (through subsidies, social charges deductions or exemptions and tax deductions) or indirect incentives (evading the regulatory framework for "usual" contracts). They may also affect specific groups of workers or all of them. Although it is debatable whether this kind of policy may be considered an "active" policy, it has been clearly interpreted in this way by Spanish policymakers, and thus deserves being analyzed here. As already mentioned, we shall make a distinction between three types of contracts:

- contracts with an economic incentive
- contract without an economic incentive
- public sector jobs.

Figure I.50 in Chapter I presented the distribution of the various contracts, including both the "ordinary" and the "employment promotion" contracts. Here we refer in detail to the latter type.

a) Contracts with an economic incentive

- Permanent contracts for specific groups of workers: since 1992, a flat-rate subsidy of 400.000 pesetas (roughly equivalent to 3 month-wages) is paid to firms hiring long-term unemployed under 25 years and unemployed between 26 and 30 with less than 3 months of

job experience, or giving a permanent status to training, apprenticeship or other fixed-term contracts. The same policy was in force between 1985 and 1988, with the proviso that it affected youngsters under 26. Similar subsidies are paid when the person hired is older than 45 or is disabled.

The numbers involved in this type of contracts have never been very large, with the exception of the programme for youngsters under 26. This programme, conceived for a 3 year period, was not renewed probably because it was thought to be too expensive and probably also because the deadweight and substitution effects it entailed were large (although no specific evaluation study was carried out and no public arguments along the lines suggested were provided).

- Permanent contracts for women in occupations where they are "underrepresented" or returning to the labour market: a subsidy of 500.000 pesetas is paid to firms. This programme is in force since 1986, although its boost came in 1992 when it was integrated with other contracts in the so-called "Programme for the promotion of permanent employment". Also, the subsidy involved prior to 1992 was 250.000 pesetas unles ESF financing was also available in which case the subsidy doubled. At any rate, the numbers involved in this type of contract have always been small (no specific information exists for the period prior to 1992, but the figures are known to be of the same order of magnitude). No specific evaluation of this programme is available.

b) Contracts without an economic incentive

- Apprenticeship contracts: these contracts, introduced in 1993 to replace the former "training contracts", are directed towards low-skilled youngsters (under 25); social security contributions are substantially reduced (the rights of the workers are also reduced accordingly, in particular regarding unemployment compensation); wages may be below statutory minimum wage (unles otherwise regulated in collective agreements); the minimum theoretical training required is 15 per cent of total working time. The former training contracts enjoyed, between 1985 and 1992, of other incentives in terms of financial aid and reduction of social charges. Since 1992, training and later apprenticeship contracts entitle to a subsidy of 550.000 pesetas if the worker is given a permanent status upon expiry of the maximum period of 3 years.

Training contracts involved relatively large numbers of workers until 1992, when the

economic incentives were suppressed; apprenticeship contracts, more limited in scope, have affected a smaller number of people. The change from training to apprenticeship contracts did not follow any specific evaluation. Training contracts were known to be used as merely cheap labour contracts (Segura *et al.*, 1991), hence involving significant deadweight and substitution, and displacement effects, but the reforms proposed in the evaluation report were not in the way of eliminating them and reintroducing apprenticeships (which the training contract itself had come to replace in 1980, when it was created).

- Practice contracts: these are contracts designed for people who have recently graduated from various educational and training programmes. The current regulation establishes a minimum period of 6 months and a maximum of 2 years (prior to 1994, the maximum was 3 years). There has always been a tension as to the types of qualifications which allow firms to hire workers under these practice contracts. The 1994 reform tried to clarify this point by restricting somewhat the qualifying degrees.

Prior to 1992, these contracts enjoyed direct economic incentives in the form of reduction of social security charges. Since 1992, they entitle to a subsidy of 550.000 pesetas if the worker is given a permanent status upon expiry of the maximum period of 2 years.

- Fixed-term employment promotion contracts. These contracts were introduced without restrictions in 1984. Their main characteristic was that they allowed a more or less unrestricted use of these workers on a temporary basis for carrying out normal tasks. The reason why this contract may be considered a policy, even though they do not involve direct outlays from government. The reason for this is that firms do not have to bear the (potential) burden of dismissal procedures (see section II.4 above) should have they hired the worker under the normal, permanent contract (employment promotion fixed-term contracts involved a small severance pay upon termination, but workers could not sue employers for such termination). These contracts established a minimum period of 6 months renewable up to a maximum of 3 years. Given the unemployment benefit regulations, workers could work 6 months with one of these contracts and be entitled to 3 months of benefits. In 1992, the regulation was changed to increase the minimum duration to 12 months.

In 1994, a more significant change took place, whereby the general nature of this contract was eliminated, restricting it to specific groups, to be determined yearly in the Law accompanying the government budget. Currently, the groups affected are people older than 45, disabled workers and long-term unemployed receiving unemployment benefits. Firms

enjoy in most cases a reduction of 75 per cent of their social charges on these contracts (so currently, these contracts could be included as contracts with a direct economic incentive). As already mentioned, if workers are given a permanent status upon expiry of the 3 year-maximum period, firms are entitled to a subsidy, which varies depending on the type of worker (between 400.000 and 500.000 pesetas), and also in some cases a reduction of the social charges for the entire duration of the contract.

These contracts were the most widely used of all contracts during the period 1985-1991. Its high flexibility, together with the small requirements to use it, made it the most convenient, especially for workers over 25. The analysis in Segura *et al.* (1991) suggested in fact that firms tended to use training contracts mostly for people under 20, mostly practice contracts for youngsters ages 20-24 and fixed-term employment promotion contracts for those 25 and over. This pattern of behaviour clearly indicates that these contracts entailed substantial deadweight costs. At any rate, there is a general agreement that they also played a minor, albeit nonzero, role in the strong expansion of employment which occurred during the second half of the 1980s. After the changes of regulation in 1992, the number of contracts of this type sharply diminished. Since 1994, the contract has clearly changed in nature, which explains the smaller number of participants. An interesting pattern which has been observed is that this reduction appears to have been compensated by other temporary contracts (the so-called "per task or service") which are meant for temporary activities. As a matter of fact, it can be argued that one of the side effects of this policy of favouring fixed-term contracts is that it has introduced a "culture of temporary contracts" in Spanish firms, which currently sign contracts of very short duration which they renew as they see fit: more than half of all the contracts registered at INEM during 1996 lasted less than 6 months (INEM, 1996) and a substantial number of the remaining had an "unknown" duration, leading to the suspicion that most of them were also of very short duration.

c) Public sector jobs

There have been two types of programmes creating direct jobs in the public sector for the unemployed. First, INEM has entered various agreements with public administrations (notable municipalities) to provide work for the unemployed in socially useful activities. These are fixed-term contracts which the unemployed cannot refuse when they are receiving unemployment benefits, at the risk of losing that benefit. INEM provides subsidies to pay for

the wage costs, including social charges. Some 200 thousand contracts of this kind have been signed every year.

The other programme has been the Rural Employment Programme. This is a plan aimed at providing low-skilled jobs in public investment projects, as a complement to the special scheme of unemployment protecion for casual agricultural workers in the regions of Andalucía and Extremadura (see sub-section III.3.2 above).

III.3.4. Other measures to support entrepreneurial activities and job creation

We now turn to various programmes aimed at fostering job creation, mostly through various forms of self-employment. The following programmes are to be considered:

- capitalisation of unemployment benefits
- promotion of self-employment
- promotion of employment in cooperatives
- promotion of local employment initiatives
- labour integration of the disabled.

a) Unemployment benefit capitalisation

Workers entitled to unemployment benefits may request in advance payment of the full benefit to start up their own business. Prior to 1992 (and since 1985, when this programme was established), eligible business included self-employment and employment in cooperatives and worker-owned firms. Since 1992, only the latter category of project is eligible in this programme. Workers whose projects are accepted enjoy a full exemption of social security contributions. This aid is compatible with other employment promotion subsidies.

The number of participants decreased substantially in 1992 when self-employment projects were declared non-eligible. From an average take-up of some 80 thousands per year, the current figures are at 10 thousands. Behind this decision, it appears that two kinds of consideration were at work (as was the case with the cut in unemployment benefits): the need to reduce public expenditure, which in the case of unemployment compensation, was considered excessive, and the belief (not clearly substantiated with evaluation studies) that many of these self-employment projects were doomed to failure. At any rate, this programme is the only instance when a policy of "activation" (i.e. converting a passive expenditure into

an active measure) has been adopted in Spain. In recent years, the size of the programme has become much more modest.

b) Promotion of self-employment

The purpose of this programme is to promote and financially support self-employment projects presented by workers registered as unemployed with INEM. The costs of feasibility studies, auditing and counseling are partly or fully subsidised. In addition, a financial subsidy in terms of soft credit is also provided. Finally, for people under 25 or long-term unemployed over 25, subsistence income is also provided, at a rate of 25.000 pesetas per month (equivalent to 1/3 of the minimum wage), which may be double is ESF support is involved.

The number of participants in this programme has been relatively modest but constant over the last few years, at some 10-15 thousands per year.

c) Promotion of employment in cooperatives

The objective of this programme is to grant financial assistance to the investments in the creation or maintenance of jobs in worker-owned firms ("sociedades anónimas laborales") or other cooperative firms. This investment may be through the association of more members or simply replacing members in these firms. Other activities such as promotion, technical assistance or management training are also elegible for subsidies. In addition, in the case of new cooperatives set up by workers under 25, as well as those devoted to educational activities, a maximum subsidy of 500.000 pesetas per new member may be awarded.

d) Promotion of local employment initiatives

This programme is geared toward the creation of small and medium-sized enterprises which show an innovative aspect for economic activity and self-employment in a local setting. Priority is given to projects which create steady employment for individuals under 25 years of age or older than 25 but more than a year unemployed and which are oriented towards community and social services, thus increasing the quality of life in their community. The following subsidies are paid: 700.000 pesetas foe each worker hired with a permanent contract; financial support equivalente to the reduction of interest rates in 6 points (with a limit of 700.000 pesetas); help to the managerial function of the promoter, up to 75 per cent

of costs, with a limit of 500.000 pesetas.

The projects are presented by local development promoters who receive a certain amount of subsidy for each worker and more if the programme is linked to European Structural Funds. This programme is coordinated with local governments and the Ministry of Labour. These local governments receive grants for hiring a local development promoter who in turn is in charge of finding employment opportunities in the type of projects describred above.

The employment impact on this programme is difficult to assess. There are a few success stories, especially in the area of tourism promotion, but no published information exists.

e) Labour market integration of the disabled

We have already mentioned at various points the subsidies provided to disabled hired under various contracts. In addition, grants are also provided to the so-called special job centres and to handicapped individuals wishing to start their own business. The grants for special job centres are for technical assistance in the financing of projects which generate steady employment for unemployed handicapped individuals or to maintain the work force in these centres. Most of those employed in these special centres must be certified as disabled by the sanitary authorities. Auxiliary personnel may also be included in the projects as the needs of the disabled dictate. The grants for self-employed hadicapped individuals take the form of either a low-interest credit or a subsidy for fixed capital investment [44].

[44]. For an excellent report on the situation of disabled people in Spain, including proposals to activate their employment, see CES (Consejo Económico y Social), 1995.

III.4. Assessment

In the preceding sections, we have reviewed the Spanish experience regarding labour market policies. One of the most salient features of these policies is the dominant role played by so-called "passive" as opposed to active measures. Why has this been so? To begin with, Spain is the country with the highest unemployment rate of the European Union and thus, other things being equal, expenditures to support the unemployed can also expected to be higher. Given the substantial amount or resources taken by this measure, however, one could wonder whether more emphasis should have been given to more active policies which, if successful, would provide more durable income support to the unemployed. One possible answer could be that active policies carry some uncertainty in that their role is to facilitate the integration of the unemployed, but not to directly create employment. Thus, in bad employment times, the money spent in an active policy could be "useless", at least in the short term, for the unemployed.

There is, however, another point which is worth being mentioned in the Spanish case. THe various policies adopted seemed to have been guided by budgetary considerations. Thus, unemployment compensation is financed to a large extent by the specific component of social security contributions aimed at covering this contingency. The cuts introduced in the benefit system in 1992 and 1993 were to a large extent guided by the need to reduce the excess expenditure which had been generated. Also, the funding for vocational training activities comes from both the vocational training levy paid by firms as one of the social charges and from support received from the European Social Fund. It is clear that the substantial increase observed in the second half of the 1980s was related to this latter source of funds.

Given these budgetary considerations, many of the policies aimed at fostering employment have taken the form of measures not involving direct support from the State. The most significant of these has been the creation of new types of contracts, aimed at easing the integration of the unemployed. There is no doubt that these policies involve a large deadweight effect, but it is also true that they enabled, especially in the second half of the 1980s, a first job experience for many, especially young, people.

It would thus be incorrect to believe that Spanish policy-makers have not been concerned with active policies aimed at job creation, as opposed to income support measures. Rather, they have adopted a strategy of altering the fringes of the labour market to make

hirings cheaper for firms. This policy has been successful in that the GDP elasticity of employment has increased in Spain. However, it has also created undesired side effects. Ths most important of these is the dualization of the labour market, with a segment of workers under permanent contracts and a substantial fringe (of around one-third) of workers with more unstable, fixed-term contracts. This dual structure appears to be maintained despite the partial reversal of the policy towards "employment promotion" fixed-term contracts. At present, no significant discussions exist regarding the need to replace passive measures by more active policies, beyond the reforms already introduced in the operation of INEM (already discussed in sub-section II.1.2).

IV. OTHER POLICIES AFFECTING THE LABOUR MARKET

IV.1. Education and vocational training

IV.1.1. A system in a state of flux

The educational system is Spain has experienced dramatic changes over the last twenty years. First and foremost, the enrolment rates have dramatically increased, to the point that it may be safe to say that at present all children under working wage are at school. Furthermore, the extension of the educational system during the late 1970s and 1980s, which could be understood as a reaction of families to the high unemployment situation (which government supported by increasing the resources devoted to education) followed during the late 1980s and 1990s, despite the changing economic conditions. To a large extent, therefore, education has played a significant role as a buffer against unemployment. At the same time, this increase in the general level of education of population will have a positive influence in the long run, as productivity and ability to learn of future workers will have been enhanced by this extension of the educational system. Thus, if one tries to analyze the level of education of employed population (indeed of population at large), striking differences will be found when disaggregating by age groups: people under 35 are much more fully educated than their older counterparts.

The structure of the Spanish educational system is at present in a moment of change. Since 1992 the educational system in place since 1970 was replaced by a new educational system which will be fully implemented in 1999. The detailed description of the old and new systems is presented in Appendix 3.

The most relevant aspects of the educational system reform are that the compulsory education has been extended to 10 years, two years more than in the past system, and that the basic technical education will be included within it. This reform solved two of the problems present in the 1970 education law: First, the youngest finished the compulsory education at 14 and were not allowed to start working until they were 16. Therefore, there was a two-year vacuum for students deciding to drop out of the educational system waiting to enter the labour market. Secondly, while the application of the 1970 law involved reinforcing the image of the secondary Vocational Education as the "poor brother" of General Education, one of the challenges of the new law is to make vocational training a more valued

level of education.

Basic technical training is now included in Compulsory Secondary education. This programme allows all student to acquire skills deemed necesary for any person and a first-hand knowledge of the possibilities of the various specific vocational training programmes upon completion of Compulsory Education. It is a intent of breaking the traditional tendency of poorly qualified students to go vocational training, which tends to be considered by many people as "second-class" education. Two aspects more are important in this project:

- The Curricula are being designed by the education administration, employer organizations and unions, in each province of Spain. This process aims at reducing the distance between the skills needed and the skills supplied.

- Vocational training modules include practice work in local firms. The number of places available is currently being negotiated by firms, unions and schools.

These reforms are probably the most important challenge which the Spanish education system will face in the next few years. Technical innovations, development of new products and other economic changes require the continuing training of workers. The implementation of the new primary and secondary educational programmes may guarantee that individuals entering the labour force in the future are adequately equipped to undergo training at work when needed.

IV.1.2. Rates of enrolment

The number of students at different levels has experienced various trends in recent years in Spain. In Figure IV.1, we can observe that since 1980 the decrease in the birth rate started influencing the number of pupils at the infant education level and compulsory education which has lost over a million and a half students since 1985.

Secondary and higher education have experienced an important increasing evolution. In the 1975-76 course, there were 1.100.000 students in secondary level education and by the 1994-95 course, the figure had risen to 2.600.000. The decrease in the birth rate has not yet been felt at this level. Higher education has also experienced strong growth from over half a million students in the early 1980s to more than 1.4 million in 1995.

The evolution in the number of students has been similar for boys and girls in infant education and compulsory primary school, but not so in secondary and higher education levels, as can be seen in Table IV.1. In secondary education, the percentage of women has increased since 1975-76 by 5 percentage points. However, the most significant growth has taken place at the university level: while women represented around 37 per cent of all students in 1975-76, their proportion rose to almost 52 per cent in 1995.

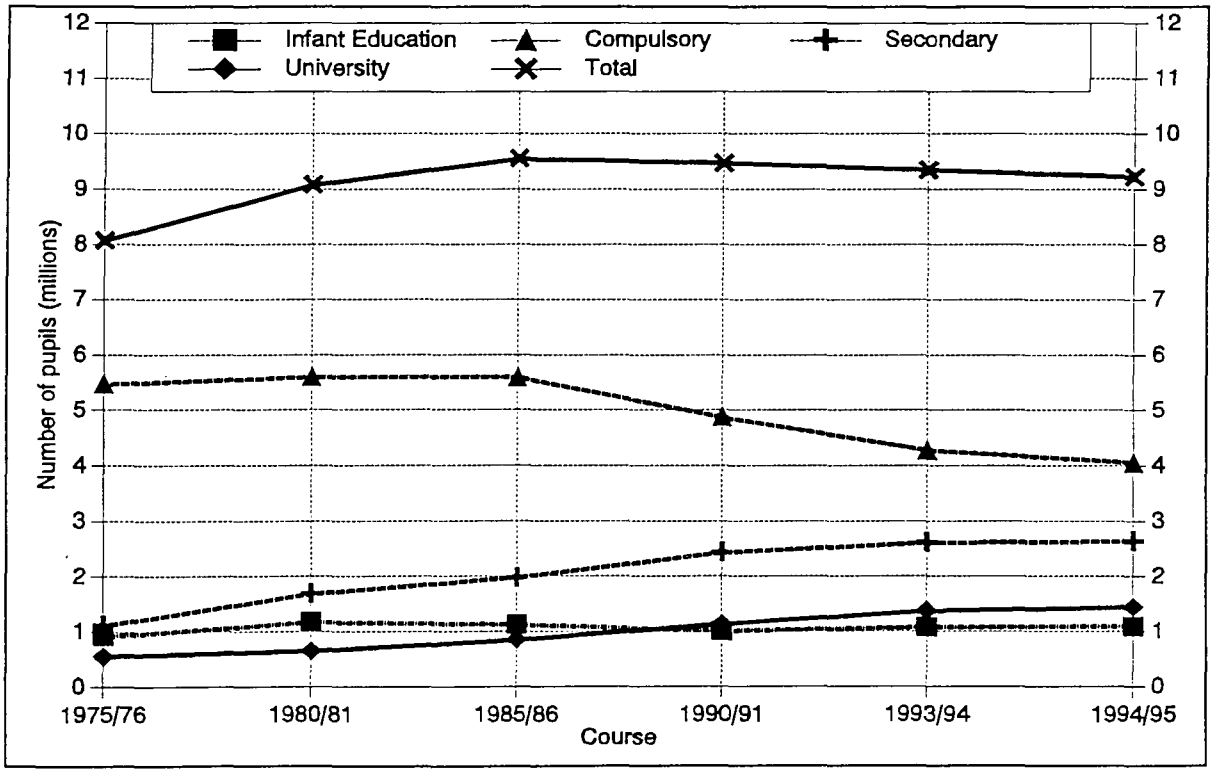

Figure IV.1. Evolution of the number of pupils by education levels, 1975/76-1994/95 (Source: Ministry of education) (1994/95 figures are provisional).

Table IV.1.- Evolution of the percentage of female students, by educational level, 1975/76-1994/95 (Source: Oficina de Planificación (MEC) and Consejo de Universidades).

	1975/76	1980/81	1985/86	1990/91	1993/94
Infant level	51.2	50.1	49.3	48.9	48.7
Compulsory	49.0	48.8	48.3	48.3	48.2
Secondary	43.4	48.2	49.2	50.7	49.2
University	36.9	44.0	49.4	51.0	51.9

On the whole, Figure IV.1 and Table IV.1 summarize two important events that have taken place in the Spanish educational system in recent years: a significant increase in the number of young people attending university and secondary education, and an increased participation of women at both of these levels.

With respect to net enrolment rates, presented in Figure IV.2, there has been a steady increase in the last two decades. At the beginning of the 1990s, it can be said that the full attendance to school of children aged 6 to 14 was achieved. Since then, the objectives have shifted to increase the enrolment rates of youngsters aged 14-16 as well as those regarding the second level of infant education. The increase in enrolment rates has affected all ages up to 24. For example, in 1991-92, the latest figure available, half of those aged 18 were at school. This proportion has kept rising.

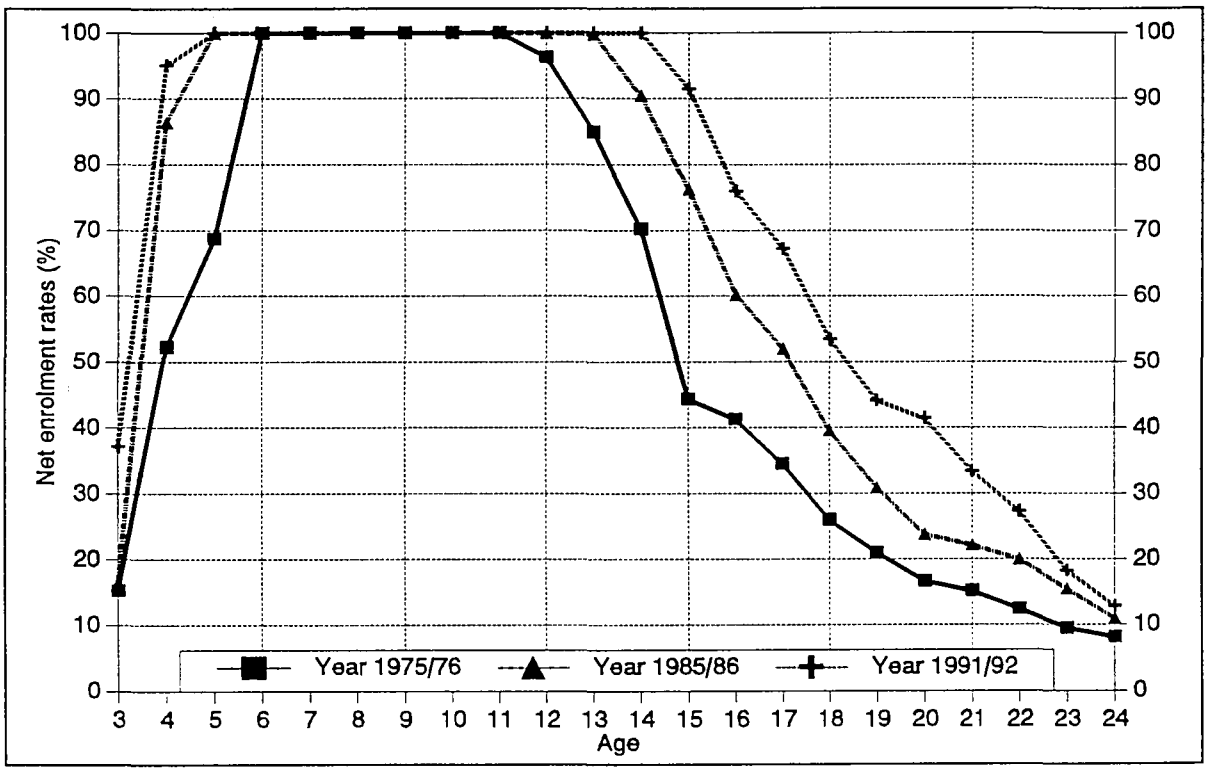

Figure IV.2. Evolution of net enrolment rates by age (Source: Ministry of Education).

To achieve a further insight into the evolution of enrolment rates, especially at the older ages (16 and above), data from the labour force survey (EPA) can be used. The main advantage of this source is that is more updated than the information from the Ministry of Education which is published with a delay of several years. In addition, although the EPA data may be subject to errors, the differences with the data published by the Ministry of Education are, in fact, small. Figure IV.3 thus graphs the enrolment rates as estimated from the labour force survey for youngsters aged 16 to 30, for three academic years: 1986/87, 1990/91 and 1995/96, which have been calculated from EPA figures corresponding to the second quarters of 1987, 1991 and 1996 respectively.

The ages represented only correspond to non-compulsory secondary education and higher education. We note that the enrolment rate has increased throughout the period for all ages, although the increase has been stronger for those between 16 and 22 years of age, and no increase is observed for those over 28 years of age.

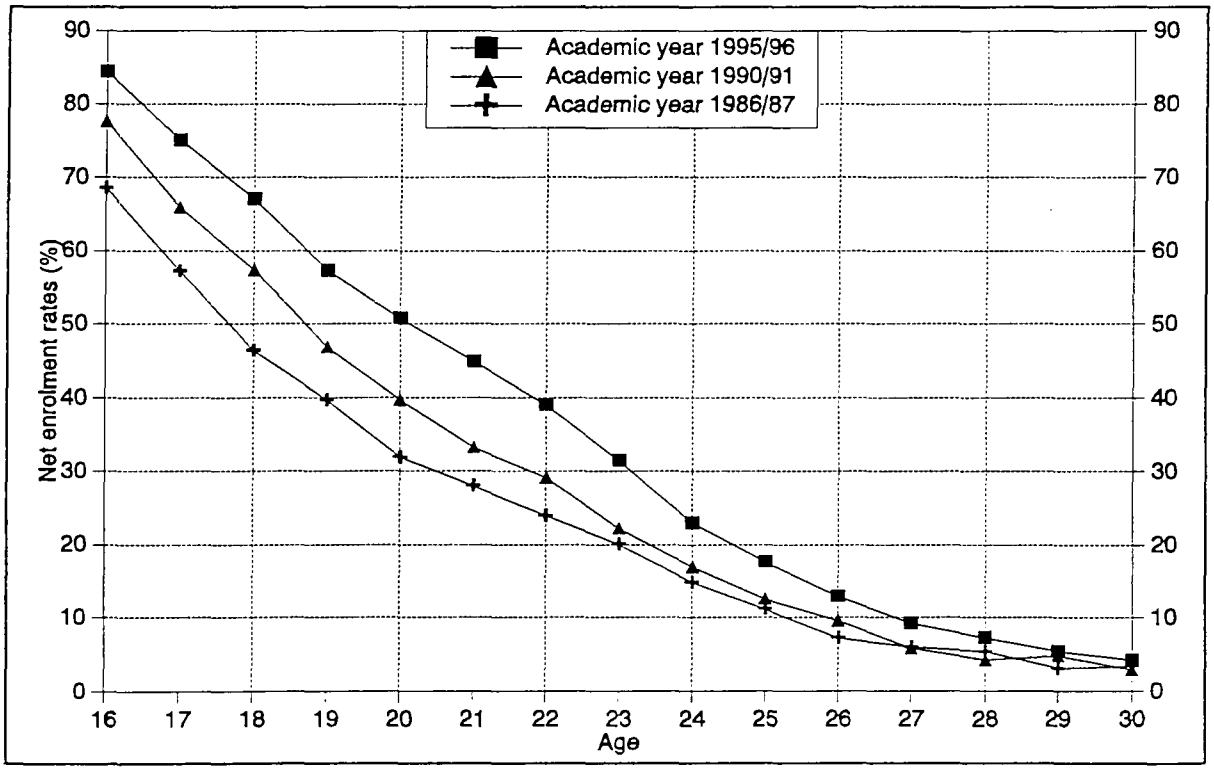

Figure IV.3. Evolution of enrolment rates by age (EPA).

IV.2. Tax and benefit

In this section, we will focus our discussion on two topics: taxes on labour as non-wages costs which can be important to decide the optimum size of employment in each firm; and the influence of social protection system on labour market.

IV.2.1. Taxes on labour

Taxes on labour in Spain were lower, as a percentage of GDP, than those prevailing in the European Union and the OECD countries as a whole in 1980, but during the last decade differences have tended to diminish and in 1992 Spain had the same average as the OECD and it was 3 points below the European Union average.

Table IV.2.- Labour tax index and its components in Spain, OECD and European Union (percentages of GDP) (Source: González-Páramo and Sanz, 1994, Table A.1)

Taxes	Years			
	1980	1985	1990	1992
Income tax				
Spain	3.7	4.3	5.6	6.4
OECD	8.5	8.5	8.6	8.6
EU	8.0	8.2	8.0	8.3
Social Security (total)				
Spain	11.7	11.9	12.2	13.1
OECD	8.9	9.5	9.8	10.2
EU	11.0	11.9	11.6	12.2
Social Security (employees)				
Spain	2.6	2.1	2.0	2.0
OECD	2.6	2.9	3.1	3.3
EU	3.6	4.1	4.2	4.5
Social Security (employers)				
Spain	9.1	8.9	8.8	9.4
OECD	5.8	5.8	5.9	6.0
EU	6.8	6.9	6.4	6.5
Consumption taxes				
Spain	2.5	4.1	4.9	5.1
OECD	5.3	5.7	5.7	5.9
EU	5.6	6.2	6.2	6.5
Labour taxes index				
Spain	17.9	20.3	22.7	24.6
OECD	22.7	23.7	24.1	24.7
EU	24.6	26.3	25.8	27.0

The labour taxes index is calculated as total Social Security contributions, 3/4 of income tax and 1/2 consumption taxes.

But attending to the different components, González-Páramo and Sanz (1994) stress the importance of labour taxes designed to finance Social Security in Spain. Both as a percentage of GDP (Table IV.5) and as a percentage of gross wages (Table IV.6), Spain shows the highest values regarding the share of employers in contributions; by contrast, the workers' share in labour taxes is one of the lowest.

Table IV.3.- Labour taxes to finance Social Security in 1992 (percentages of gross wages) (Source: González-Páramo and Sanz, 1994, Table 1).

Country	Employer	Employee	TOTAL
Belgium	26.5	13.1	39.6
Denmark	n.a.	2.4	n.a.
France	26.1	18.0	44.1
Germany	18.2	18.2	36.5
Greece*	22.2	13.2	35.4
Ireland	12.2	7.7	19.9
Italy	38.6	9.4	48.0
Luxembourg	14.9	12.0	26.9
Netherlands	9.3	29.6	38.9
Portugal	24.5	11.0	35.5
Spain	31.2	6.0	37.2
United Kingdom	10.4	7.6	18.0

* 1989

However, following McKee et al. (1986) who stress the influence of labour taxes in terms of marginal tax rates -because it is the relevant variable for economic choice-, the analysis of the effects of labour taxes have to rest on the level and components estimation of marginal tax rates. González-Páramo and Sanz (1994) report these estimations for Spain and other OECD countries. The main result is the high share of labour taxes to finance Social Security paid by firms, although Fernández et al. (1994) consider that structure of labour taxes as tipical from South Europe. This structure of marginal tax rate could explain the strong relationship found to the NAIRU (Dolado et al., 1986, and Lamo and Dolado, 1993). However, the employment effects of labour taxes (and its variations) depend on elasticity of labor demand respect to real labour costs. Fernández et al. (1994) present different simulations which have been realized by MOISEES model. The main result is the positive effect of reductions in labour taxes paid by firms but only if workers can not appropiate it by increasing real wages in collective bargaining. In that case, their estimations show a negative effect on employment.

In the European context of public deficit reduction -in order to reach Maastricht

objetives-, the last decrease of labour taxes has to be compensated by increases in other taxes. The substitution by consumption taxes as VAT change the structure of the gap between real labour costs and real net wage and some experts have proposed it (Zabalza et al., 1987, Serven, 1988, and Salas and Vilches, 1994). These researchs show a positive effect on employment if workers do not claim wage increases to compensate the initial prices increases caused by the new VAT rates. However, at the same time, the net effect is not very important: only 0,1-0,6 per cent increasing employment for each 1 per cent labour tax substitued by VAT. Morever, the fiscal fraud in VAT make impossible a great reform directed to change the financial sources of Social Security.

Finally, we resume the recent research developed by Herce (1996). This author has obtained results very different respect to the above described researchs. The theoretical framework of his research is the international competitiveness measured by real exchange rate. The taxes on labour are only an additional factor which affects to the Spanish firm competitiveness. In addition, this author considers that labour taxes could improve the competitiveness because the social protection (mostly financed by labour taxes) increases the labour quality and, therefore, the production process quality which improves firms capability to compete in international markets.

The empirical analysis of this research uses data from Industrial Survey (*Encuesta Industrial*) and it considers fifteen industrial sectors which differs in terms of their average effective rate[45]. These rates almost do not change along the time but they vary between industries. These differences proceeds from: different intensity in labour use; special regimes of Social Security with different tax rates; and the distribution of bargaining power of workers and firms between industries. The econometric results show that the increases in effective rate is translated to the workers in terms of wages[46]. However, this empirical evidence has been obtained only for industrial sector and we need more research using different databases to confirm this new result.

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[45] Herce (1996) uses two definitions: labour taxes on gross wages and on total labour costs.

[46] This result has been obtained for Chile where the reduction of labour taxes has had no effects on wages (see Gruber, 1995).

IV.2.2. The social protection system

Now, we detail the characteristics of the key institution of the social protection system: the Social Security.

The Spanish system of Social Security is a reformed version of the Francoist system, finally designed in 1974[47]. This system institutes (transitory and permanent) sickness and unemployment benefits, pensions and family protection measures. Affiliation is compulsory. Some of the reforms of the Social Security system arose from negotiations between employer associations, unions and the government within the national agreements that we describe in section B. Besides this system, some collective bargaining agreements include provisions in the case of sickness and death but, rarely, in the case of unemployment (Jimeno and Toharia, 1993c).

The finance is a "pay-as-you-go" system. The government fixes minimum and maximum effective wage bases and the rate at which employers and workers contribute. The bounds for the wage bases are revised annually. These bases are used to determine the amount of the pension which the worker gets upon retirement. More specifically, the pension is established as a percentage of the "pension base"[48], which may go up to 100 percent when the number of years contributed reaches 35. At any rate, the effective amount of the pensions paid is rather low: in 1990, the average pension awarded to retiring workers was 65.300 pts., equivalent to roughly 40 percent of the average wage and only 20 percent above the minimum wage. The contribution rate is 28.8 percent of the wage base (24 percent paid nominally by the employer and 4.8 percent by the worker). The social security contributions cover health and sickness protection, as well as unemployment benefits.

The effects on labour market of pensions have been estimated by Gómez Sala (1992). He obtain a negative effect on labour supply due to the negative income effect of pensions and the negative substitution effect of taxes which compensate the positive income effect of taxes.

However, the main question on Social Security in Spain is the finance of pension, an open and hot debate based in the main demographic trends which increase the importance of

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[47]. The General Social Security Act was passed by the Francoist regime in 1974. This law has been maintained as the central piece of the system, but several aspects of it have been modified.

[48]. The formula to calculate this "pension base" is as follows: divide by 112 the sum of the wage base used to contribute during the 96 months before retirement; the bases corresponding to the last 24 months are taken at nominal value while earlier ones are upgraded by the consumer price index.

older people against younger. The political parties signed before last political elections the Toledo Pact in order to elude the pensions as an electoral topic (MTSS, 1996). The Toledo Pact aims to maintain the Social Security reforming some aspects in order to guarantee the financial equilibrium of the system. As we said before, the debate is open and many experts and institutions propose different reforms in and outside of Toledo Pact. The *Revista del Instituto de Estudios Económicos*, nº 1/2, 1994, summarize different opinions on the state of the system and its capacity to survive in the next future.

The income maintenance system is completed by the unemployment insurance system. Because this is managed outside the Social security system, and also because it is more clearly part of labour market policy, its description and the analysis of its labour market effects has already been done in section III.2.

IV.3. Industrial policies

The main guideline for industrial policy in Spain in the last two and a half decades has been the restructuring of activities which faced fierce external competition and were no longer economically feasible, as it happened in the rest of Europe. Attempts to renew these sectors was limited and so was the modernisation and adaptation of better placed firms. The years of recovery between 1986-91 were insufficient to improve conditions for both types of firms. Only in the last phase of industrial restructuring (in 1984) did some measures appear in order to reduce the social impact of the shedding of employment which took place, and, to a smaller degree, relocation of activities to areas which were suffering from strong deindustrialization.

As to the employment measures, these policies were geared mainly towards early retirement plans as adjustment to the reduction in personnel. These plans were financed by the Employment Promotion Funds (Fondos de Promoción de Empleo, FPE) created in 1984 which allowed firms to improve their coverage of unemployment protection, to promote early retirement and to recycle or relocate workers. These funds could be claimed by firms in a sector declared under restructuring, by business societies (partly private partly state-owned) under restructuring and by firms and unions who negotiated and approved a restructuring plan. The funds were in themselves non-profit associations which, in collaboration with the National Employment Service (INEM), received public funds to cover the aims set out in the sectorial restructuring plans. The main sectors in which these funds were created were: naval construction, steel works, and electric home appliances. These funds were mainly used in the early retirement of workers and their relocation and recycling purposes were of limited impact. According to the Ministry of Labour and Social Security the FPEs from 1984 to 1989 covered 38 thousand workers, of which 25 thousand opted for early retirement and the rest for relocation (Espina, 1991). From 1990 the activity of FPEs is much more limited and are regulated by the Ministerial Order of 24-III-1994. Between 1990 and 1993 the aid for early retirement was only for 4 thousand workers. From 1994 to august 1996 a further 3.5 thousand workers were affected.

Another measure was the creation of the Urgent Reindustrialization Zones (Zonas de Urgente Reindustrialización, ZUR) also in 1984. These plans took more into account the regional dimension of the restructuring impact. Their objective was twofold: to diminish the

impact of the industrial crisis in the most affected areas in the short term and to contribute in the medium term to the creation of employment through the promotion of reconstruction, diversification and adaptation of industrial activities in specific geographical areas. The results were, again, limited and the plan no longer exists, although some of the projects continued into 1994 (Tables IV.7 and IV.8). The Barcelona industrial belt presents the highest indicators in investment (32.9 per cent), employment (33.8 per cent) and subsidies approved (28.3 per cent). Next is Madrid with 22.5 per cent of investment, 19,3 of employment and 21,5 per cent of subsidies. The Cuenca-Nervión zone is in the third place with 19.3 per cent of investment, 23.5 per cent of employment and 17.6 per cent of subsidies. by sectors 83 per cent of investment is concentrated in three activities which are metal transformation, other manufacturing and non-energetic minerals. The relative position of these zones has not changed as ZUR projects have come to a close (Table IV.4). However, as the projects have come to an end the indicators in the last three columns show an increase in the investment per project and per employment created and in the subsidy per employment created. Although this programme had as one of its main objectives the diversification of industrial activities, the regional perspective tied to the restructuring impact resulted in projects which were still strongly tied to the activity under reconversion, as was the case of metal works in the Basque Country. It is also important to note that this programme had close links with the FPEs so that the workers affected could be re-employed in the new or restructured firms.

When ZURs were no longer approved, in its place other plans were put forward which have as a main objective to correct the regional desequilibria and promote endogenous development. Their main instrument is the financing of economic activity in specific locations under a policy of harmonizing industrial regional growth. These plans are: Economic Promotion Zones (Zonas de Promoción Económica, ZPE); Espacial Zones (Zonas Especiales, ZE); and Industrial Decline Zones (Zonas Industriales en Declive, ZID). It is important to note that the execution of these plans included workers which are affected by FPEs as is reflected in the tables for the period totals.

Table IV.4.- Total of ZUR projects presented (1984-1990) (Source: General Secretariat for Industrial and Technological Promotion, Ministry of Industry and Energy, 1994.

	Projects	Investment	Employment created	Employment offered through FPE	Subsidies	Investment per project	Investment per job created	Subsidies per job created
Zones affected by ZUR								
Asturias	127	25,836	2,066	535	4,637	203,4	12,5	2,2
Barcelona	301	130,352	8,649	2,584	14,895	420,5	15,1	1,7
Cadiz	57	37,517	2,670	1,149	4,647	658,2	14,1	1,7
Galicia-El Ferrol	64	20,278	2,052	1,172	4,457	316,8	9,9	2,2
Galicia-Vigo	131	16,758	1,986	1,015	3,315	127,9	8,4	1,7
Madrid	91	89,282	4,929	1,205	11,290	981,1	18,1	2,3
Nervión	124	76,440	3,204	1,186	9,262	616,5	23,9	2,9
TOTAL	904	396,462	25,556	8,846	52,503	438,6	15,5	2,1
Industries affected by ZUR								
Agriculture	15	2,099	151	na	345	139,9	13,9	2,3
Energy and water	13	4,365	216	na	365	335,8	20,2	1,7
Non-energetic minerals	138	64,499	3,579	na	7,441	467,4	18,0	2,1
Metal transformation	293	165,741	10,679	na	27,186	565,7	15,0	2,5
Other manufacturing	307	98,864	8,016	na	12,819	322,0	12,3	1,6
Construction	9	1,290	292	na	241	143,3	4,4	0,8
Distribution, restaurants, ...	90	23,704	1,651	na	2,828	263,4	14,4	1,7
Transport and communications	18	8,792	396	na	564	488,4	22,2	1,4
Finance, insurance and services	11	3,158	158	na	167	287,1	20,0	1,1
Other services	10	23,950	400	na	547	2,395	59,9	1,4
TOTAL	904	396,462	25,556	na	52,503	438,6	15,5	2,1

Notes: na=not available; all money figures are in million pesetas.

Table IV.5.- Total of ZUR projects outstanding (March 1994) (Source: General Secretariat for Industrial and Technological Promotion, Ministry of Industry and Energy, 1994).

	Projects	Investment (million pesetas)	Employment created	Employment offered by FPE	Subsidies	Investment per project	Investment per job created	Subsidies per job created
Zones affected by ZUR								
Asturias	75	15,054	994	197	2,681	200,7	15,1	2,7
Barcelona	187	91,078	5,785	905	11,121	487,0	15,7	1,9
Cadiz	26	23,209	871	375	2,027	892,7	26,6	2,3
Galicia-El Ferrol	19	6,705	324	126	1,444	352,9	20,7	4,5
Galicia-Vigo	84	10,158	1,004	458	2,104	120,9	10,1	2,1
Madrid	60	75,091	3,213	545	9,269	1,251,5	23,4	2,9
Nervión	67	66,552	2,155	713	7,793	993,3	30,9	3,6
TOTAL	518	287,847	14,346	3,319	36,439	555,7	20,1	2,5
Industries affected by ZUR								
Agriculture	10	471	47	na	87	47,1	10,0	1,9,
Energy and water	4	3,076	88	na	121	769,0	35,0	1,4
Non-energetic minerals	89	15,210	2,054	na	5,010	508,0	22,0	2,4
Metal transformation	163	127,233	6,913	na	21,680	780,6	18,4	3,1
Other manufacturing	167	63,441	3,659	na	6,865	379,9	17,3	1,9
Construction	4	689	63	na	120	172,3	10,9	1,9
Distribution, restaurants, ...	56	17,728	1000	na	1,893	316,6	17,7	1,9
Transport and communications	12	6,341	299	na	409	528,4	21,2	1,4
Finance, insurance and services	8	3,016	136	na	141	377,0	22,2	1,0
Other services	5	20,642	87	na	113	4,128,4	237,3	1,3
TOTAL	518	287,847	14,346	na	36,439	555,7		2,5

Notes: na=not available; all money figures in million pesetas.

"The ZPEs coincide with areas which are less developed and which also have the largest geographical extension and the largest population. These were defined in terms of rent per capita and the unemployment rate. ZIDs correspond to areas which have been specially hit by industrial adjustment plans in their industrial activity and employment. The aim here is to diminish, in the shortest time possible, the negative consequences of the industrial adjustment. The ZEs are declared when a group of indicators, such as population structure, geographical and topographical situation, net migration and others suggest the adoption of special measures" (MINER, 1994). Up to 75 per cent of the planned investment for projects in these zones can be applied for and changes in variables such as employment carry

sanctions determined by law[49]. It must be said that the projects presented for this financial help in recent years was reduced in comparison with other years due to the recession in Spain. From 1991 to 1992 there were 42 per cent less projects presented and from 1992 to 1993 24 per cent less. Investment as presented in the projects for the same periods was reduced 28.5 per cent and 4.5 per cent, respectively. And employment creation as presented in the projects reduced 33.7 per cent and 26 per cent, respectively. Out of all the zones, the ZPEs are the only ones with an important amount of projects applied for and which will continue into the future with projects approved in previous years (Table IV.6).

Table IV.6.- Distribution by regions of approved ZPE projects, 1987-1993

Regions	Projects	Investment	Employment Created	Investement per Employment	Subsidy	Subsidy per employment
Andalucía	94	80.442	2.619	30.7	13.212	
Aragón	15	6.924	461	15.0	1.052	
Asturias	18	4.930	361	13.7	831	
Canarias	20	4.913	178	27.6	808	
Cantabria	2	984	6	164.0	63	
Castilla-La Mancha	31	16.082	848	19.0	2.616	
Castilla-León	116	35.294	2.400	14.7	5.323	
Ceuta	1	263	14	18.8	26	
Extremadura	33	7.172	355	20.2	1.607	
Galicia	42	14.568	691	21.1	2.097	
Murcia	13	3.411	233	14.6	606	
Valencia	32	6.170	352	17.5	596	
TOTAL	417	181.153		21.3	28.837	

Other plans for individual firms were also promoted and which consisted mainly of financial help for early retirement. These individual plans have gained more weight as the restructuring plans for specific industries have come to and end. According to the Ministry of Labour and Social Security between 1990 and 1993 1.5 thousand workers each year have benefited from this programme and an additional 2 to 6 thousand a year have also received other types of help. More recent figures are not available.

These plans have had their main impact on early retirement of workers and so have had little effect in other areas such as employment creation. These deficiencies have been recognized by government and a *white book* on industrial policy has been produced with the

[49] Royal Decree 2315/1993, 29 December; Royal Decree 303/1993, 26 February; Royal Decree 488/1988, 6 May.

aim of creating the debate on the issue and the future guidelines to follow (*Una política industrial para España*, 1994). With respect to the areas of labour relations and training the information in Table IV.7 synthesizes the objectives and actions that this document proposes.

It is obvious that many of the actions proposed by the Ministry of Industry and Energy fall outside their direct control, such as those related to the formal education system (Ministry of Education) and the certification of private training centres (Ministry of Labour and Social Security), however, the point is clear that a coordinated attempt in improving the quality of human resources will no doubt have a positive impact on employment through the improvement of productivity and the expansion of economic activity. This is of special interest since previous attempts by this ministry to carry out training programmes for firms have not been entirely successful. This is the case of the Technical and Industrial Qualification Programme for 1990 to 1993. This programme had four main objectives:

- Channel firm resources towards training and qualification of its technical and managerial personnel.

- Enhance the opening of large firm training centres to small and medium size enterprises.

- Enhance structures which allow for balancing the excess or deficit of managers and technicians between sectors.

- Inform about the need of continuous training as an important element of competition for the firm.

In order to cover these objectives, financing for the programme was approved by the Ministry. The activities elegible for subsidies were:

- Development of sectorial programmes for recycling and training of techniciana and managers in the field of industrial and technological management, promoted by firms or groups of firms provided in trainng centres outside the firm and which have a significative effect on the industrial structure.

- Training and recylcing outside the firm of its technicians and managers as long as the training activities are planned within a global training plan for the firm.

- The creation or promotion of training centres for technicians and managers which are associated or are part of firms or groups of firms which may develop training activities in the field of industrial and technological management in firms such as new technologies, automation, energy management, etc.

Table IV.7.- Industrial policy for the firm labour relations and training. (Source: *White paper on industry: An industrial policy for Spain (Objectives and actions)*, MINER, 1995).

OBJECTIVES	ACTIONS
- Enhance the **new model of labour relations**, closer to the real situation of firms	- Strengthen cooperation between employers and employees in collective bargaining at both national and firm level. - Increase functional mobility of labour by means of the process envisaged in the Labour Reform of 1994 and, in the field of collective bargaining, a new definition (more extensive and flexible) of the professional categories as contained in the "labour regulations" of previous use.
- Adapt to industrial and technological change through **new forms of labour organization** and through innovations in processes and products	- Adapt public employment exchanges to the existence of local employment markets through the creation of offices to attend to specific populations with particular problems such as the long-term unemployed, mismatch of professional qualifications of job applicants and others. - Promote a permanent adaptation of the capabilities of human resources and their greater involvement in industrial and technological change.
- Successfully meet challanges posed by geographical and functional mobility of labour and continuous training in an ever more flexible, versatile and ,ulti-purpose labour market.	- Encourage greater involvement of Spanish firms in the training process to cover all workers. - Develop specific training and technical and industrial qualification programmes, particularly for small and medium enterprises. - Complete and consolidate reforms to the educational system - Provide a better match between supply and demand in the field of vocational training.
- Promote mechanisms for continuous training in firms	- Review the overall contents of secondary and university education. - Make the educational system more flexible so as to respond more rapidly to training needs arising from emerging markets. - Introduce actions in the field of research about firm training. - Examine possibilities offered by new types of contracts, maintaining a balance between stability and flexibility encouraging firms to invest in training. - Encourage development of accreditation systems for training centres which have shown a good quality in their level of services for public programmes. - Channel public subsidies for training to the firms and accredited training centres eliminating intermediaries. - Spread the existing supply of continuous training and encourage systems of coordination and cooperation between the different centres. - Promote training for trainers and develop methodologies suitable for the real business world. - Favour real-cost price and self finance in continuous training offered by Universities. - RElate priorities of industrial policy to parallel training actions at sectorial and regional level. - Further the supply of training actions in the different technological spheres through the Network of Technological Centres existing in Spain. - Promote training actions aimed at technological innovation and product differentiation. - Encourage development of training actions to facilitate the creation of new industrial firms, particularly small and medium enterprises. - Introduce the culture and practice of training plans in firms. - Introduce regional criteria in the distribution of public funds for continuous training in order to ensure access to small and medium enterprises.

- Development of advanced training tools such as interactive systems, demo programmes and pilot plans which may quickly incorporate advances in qualification of technological and industrial management.

- Training of foreign technicians and managers sponsored by Spanish firms in Spanish training centres and with a period of practical trainng in the sponsoring firm.

In Table IV.8 the information on the approved programmes and the amount spent is shown. Unfortunately, there is no information presently on the number of workers affected by the programmes and the results achieved.

Table IV.8.- Technical and Industrial Qualification Programme. Subsidies Approved. 1991-1993

Year	Projects approved(1)	Investment (2) (million pesetas)	Subsidy (3) (million pesetas)	Subsidy-Investment ratio (3)/(2)	Average subsidy per project (3)/(1)
1991	144	1,895	818	43.1	5.7
1992	82	1,938	381	19.7	4.6
1993	51	2,208	402	18.2	7.9

APPENDIX TO CHAPTER IV. DESCRIPTION OF THE EDUCATIONAL AND TRAINING SYSTEM

The two structures currently in place derive from two educational laws, namely the *Ley General de Educación* (General Education Law), passed in 1970, and the *Ley de Ordenación General del Sistema Educativo* (General Management of Education System Law, LOGSE) passed in 1990. The General Regime (by far the most important) established by the LOGSE may de divided in different levels which we now present and compare to the previously existing situation.

a) Infant Education

Table A.3.1 presents the structure of Infant Education in the two laws. This level has been fully implemented by the new law. While the 1970 law included only 2 years for this level (4 and 5 years old children), the new law includes two cycles: from 0 to 3 years, and from 3 to 6 years. Although this level is not compulsory, the public administration must offer places for all applications. Infant Education has a prevention character in that its main objetive is to assist children to compensate possible needs related with their social and cultural environment or their economic status.

Table A.3.1.- Structure of Infant Education.

Age	Past System 1970-1992 (General education Law of 1970)	Present System of New Law 1992 (LOGSE)	Age
5-6	Preescolar	Cycle 2	5-6
4-5			4-5
3-4			3-4
2-3		Cycle 1	2-3
1-2			1-2
0-1			0-1

b) Compulsory Education

Table A.3.2 presents the two structures of Compulsory Education which coincide at the moment in Spain. According to the 1970 law, compulsory education, known as EGB (*Educación General Básica* - Basic General Education), was composed of three cycles: Initial Cycle (two years); Middle Cycle (three years) and Higher cycle (three years which are

equivalent to the first stage of secondary education in other countries). This level of education system has been fully replaced by 1996. Primary education is currently fully regulated by the new law (LOGSE).

Table A.3.2.- Structure of the Compulsory Education System

<table>
<tr><td colspan="2">System of old Law (General Education Law of 1970)[1]</td><td colspan="2">System of New Law 1992 (LOGSE)[2]</td></tr>
<tr><td></td><td rowspan="2"></td><td rowspan="2">Cycle 2</td><td>15-16</td></tr>
<tr><td></td><td>14-15</td></tr>
<tr><td></td><td rowspan="2"></td><td rowspan="2">Cycle 1</td><td>13-14</td></tr>
<tr><td>13-14</td><td rowspan="3">Higher Cycle</td><td>12-13</td></tr>
<tr><td>12-13</td><td colspan="2">Compulsory Secondary Education (ESO)
(College of Secondary Education)</td></tr>
<tr><td>11-12</td><td rowspan="2">Cycle 3</td><td>11-12</td></tr>
<tr><td>10-11</td><td rowspan="3">Middle Cycle</td><td>10-11</td></tr>
<tr><td>9-10</td><td rowspan="2">Cycle 2</td><td>9-10</td></tr>
<tr><td>8-9</td><td>8-9</td></tr>
<tr><td>7-8</td><td rowspan="2">Initial Cycle</td><td rowspan="2">Cycle 1</td><td>7-8</td></tr>
<tr><td>6-7</td><td>6-7</td></tr>
<tr><td colspan="2">Basic General Education (EGB)
(Schools of Basic General Education)</td><td colspan="2">Primary Education
(Schools of Primary Education)</td></tr>
</table>

(1) by 1997-98 this structure will have disappeared.
(2) by 1999-00 this structure will be fully in place.

According to the LOGSE, primary education and compulsory secondary education together account for 10 years of compulsory education (the past system contained 8 years of compulsory education). The primary education from 6 to 12 years of age is the first compulsory step and it is composed of 3 cycles of 2 academic years each.

The compulsory secondary education (*Educación Secundaria Obligatoria*, ESO) is composed of 4 academic courses for children from 12 to 16 years old and it is the final step of the basic education. This level includes the 2 additional years of compulsory and free education introduced by the LOGSE. It is a new step with its own characteristics. The curriculum at this level is composed of a number of compulsory areas which are a common base: nature sciences; social sciences; geography and history; physical education; visual and arts education, Spanish, the official language of the region if different from Spanish; foreign languages; mathematics; music; and technology. In addition to the compulsory common base for all students, the curriculum includes optional courses which take on an increasing

proportion throughout this educational phase, which includes an additional foreign language.

The pupils that achieve the objective at this level obtain the certificate of Graduate in Secondary Education (*Graduado en Educación Secundaria*). This certificate gives the individual the chance to enter the General Programme (*Bachillerato*) or the intermediate level Vocational Training Programmes (*Formación profesional de grado medio*). For the student who does not achieve the objectives at this level it is possible to enter a specific programme of Social Guarantee (*Garantía Social*) the purpose of which is offering a basic and vocational training which allows them to work or to get back to intermediate level Vocational Specific Training.

Compulsory Education is provided by public schools and private schools funded by the state. These funds are transferred from the central Government to the public and private schools. The central Government, through the Ministry of Education, is responsible for establishing the legal rules which apply to the whole of Spain but in the regions where the education competences have been transferred, the Departament of Education of the region is responsible for the administration and planning of the educational system.

c) Post-Compulsory Secondary Education

Table A.3.3 presents the basic structure of the Post-Compulsory Secondary Education system. Two blocks conformed the Secondary Education under the 1970 Law of 1970:

a) The General Programme, known as BUP-COU, which consisted of four years of schooling with 29 hours of classes per week. In the last two years of this programme, the students could choose one of the following specialization areas: Scientific-Technical; Biological Sciences; Social Sciences; Humanities. This level could be accessed if the student had the *Graduado Escolar* (i.e. had completed successfully the EGB).

The completion of the first three years led to the degree of *Bachiller* which allows students to continue one more year and to enter COU (University Orientation Course) or to enrol in the Vocational Programmes of level two (FP-II) or, of course, enter the labour market. Upon completion of the COU, a student could apply to the University (when describing the University System we will mention other requirements and exceptions).

b) The Vocational Training Programmes known as *Formación Profesional* (FP). Two levels were included in it: FP First Level (FP-I), consisting of two years, with 72 specialities; FP Second Level (FP-II), organized in three years programmes, with 139

different specialties. In these programmes, 30 to 40 per cent of the courses were assigned to basic general training in Sciences, Humanities and Languages.

The student could follow a FP-I programme after completion (with or without success) of compulsory schooling (EGB). When a student completed FP-I s/he obtained a degree which allowed entry into FP-II or the labour market. Upon completion of FP-II, the degree of *Técnico Especialista* (Specialist Technician) was awarded. This diploma did not only have value in the labour market but it could also be used to enter the General Secondary Programmes in the last course (COU); also, the student could apply to university three-year programmes.

Table A.3.3.- Structure of post-Compulsory Secondary Education System

<table>
<tr><td colspan="3">System of old Law (General Education Law of 1970)</td><td colspan="3">System of New Law 1992 (LOGSE)</td></tr>
<tr><td>18-19</td><td rowspan="3">Vocational Training II
Specialist technician.</td><td></td><td></td><td>Technician</td><td>Bachiller</td></tr>
<tr><td>17-18</td><td>COU(1)</td><td>17-18</td><td rowspan="2">Vocational Training</td><td rowspan="2">General Programme</td></tr>
<tr><td>16-17</td><td rowspan="3">General Progamme
Bachiller</td><td>16-17</td></tr>
<tr><td>15-16</td><td rowspan="2">Vocational Training I
Auxiliary Technician</td><td colspan="3" rowspan="2">Institute of Secondary Education</td></tr>
<tr><td>14-15</td></tr>
<tr><td colspan="2">Institutes of Vocational Training</td><td>Institute of General Programmes</td><td colspan="3"></td></tr>
</table>

(1) Meaning: "University Orientation course".

With the LOGSE, the post-compulsory Secondary Education starts in Spain at 16, two years later than under the Law of 1970. The application of the new law divides Secondary Education into two levels: Compulsory level for ages 12 to 16, and Post-compulsory programmes, which in turn are composed of two programmes:

- General curricula ("Bachillerato") of two years in Arts, Natural Sciences, Humanities, and Social and Technical Sciences. This level has three objectives: to prepare students for university education, to acquire specific higher vocational training and to prepare them for the labour market. The implementation of this programme, which has been operating on an experimental basis since 1994, is planned for the 1998-99 academic course

(the first course) and for the 1999-2000 academic course (the second course). The certificate obtained allows entry into higher level vocational training and university studies.

- Vocational Training programmes of 1 or 2 years. The new law gives great importance to these Vocational programmes: The Basic Technical training will be included in Compulsory Secondary Level (this programme allows in principle all students to obtain skills deemed necessary for any person and to acquire first-hand knowledge of the possibilities of following specific vocational training programmes upon completion of Compulsory Education) and the Specific Vocational Training Programmes have been upgraded because they will follow the new compulsory secondary education which lasts until 16 (in the past, vocational training programmes started at age 15). Specific vocational training includes a group of cycles leading to the certificates in:

- *FP de grado medio* (Intermediate-Level Vocational Training). This will be accessed after completion of compulsory secondary education. The degree awarded will be "Technician", with level-2 of professional competence according to European standards.

- *FP de grado superior* (Higher-level Vocational Training). This will be open to students who have completed post-compulsory General Secondary Education (two years of "Bachillerato"). These programmes will lead to the degree of specialist Tecnician (level-3).

These cycles follow a modular structure in order to obtain a close link to the productive system and to give the individuals the capacity to adapt themselves to technological, economical or social changes. In the definition of each professional profile a group of experts in each occupational field, employer organizations, unions and professional organizations are involved.

It is important to note that students will not be allowed to follow Higher-level vocational training after of completion of Medium-Level Vocational Training: they have to go back to general secondary education first, in order to improve their basic skills. Upon graduation from Higher-Level Vocational Training, the students can access three year university programmes.

d) Tertiary Education

The tertiary education is taught at two diferent types of centres:

- Specific professional training institutes or centres in which the cycle of higher

degree is obtained. One may access this level if the bachiller is completed and by passing an entry examination. The certificate obtained is of *técnico superior* (higher technician).

- Universities: University study is also undergoing a process of change which is directly linked to political decentralization and university autonomy. It also includes changes to respond to the demand for higher education, to adaptation to the labour market, and to the needs deriving from European Union membership.

This level of education is provided almost exclusively by public universities, which account for 97 per cent of the students. The renewal of the universities was initiated by the 1983 *Ley de Reforma Universitaria* (University reform Law, LRU). Three general programmes compose this level:

-Three-year programmes:

-Technical: Engineering and Architecture

-Business, Industrial Relations, etc.

-Nursing

-Teachers (for primary education)

-Five (six) years programmes:

-Technical: Engineering and Architecture (six years)

-Medicine (six years more specialization)

-Economics-Business-law (five years)

-Arts and Sciences (five years)

-Third-level Graduate Programmes (two years of courses and two more for dissertation) leading to a Doctoral Thesis degree after dissertation defense.

The conditions for admission at the University are:

- Once students have acquired the right to apply to university studies (through the various channels discussed above), they have to take a nation-wide selection examination (known as *selectividad*), which is administered twice a year (in June and September). Universities cannot give special entrance examinations.

- Students who have graduated from FP-II (vocational) can apply for admission at three years programmes. There is a quota of places reserved for FP-II graduates.

- Students older than 25 may access university education by passing a special exam for admission, even if they have not completed secondary education.

- Graduates from any university programme may apply for admission without taking

entry exams.

Each year, the Council of universities, formed by the Presidents of all Universities, the Minister of Education, the Heads of the Regional Departments of Education and a number of experts appointed by the parliament, establishes the number of places available at each centre. These places are automatically given to students on the basis of their demands and the grade achieved at the seclection examination.

Since 1989, Universities in Spain have been changing their curricula in all areas, with a general tendency to shorten the programmes: First level programmes will last 2 to 3 years; Second level programmes will last 4 to 5 years. New curricula are being created in many cases by mixing existing disciplines. The Council of University establishes the minimim requirements that have to be fulfilled by the curricula created by each university.

There are also other programmes, such as the special programmes created by the LOGSE, but they are less important than those described so far.

V. CONCLUSIONS: WHY IS UNEMPLOYMENT SO HIGH IN SPAIN?

Throughout this report, we have presented the situation of the labour market is Spain. After an initial analysis of the labour market situation and prospects, we have dealt with institutional, legal, and policy aspects relating to that situation. What are the conclusions to be drawn from these analyses as regards the origins of the current unemployment situation in Spain, which implies rates which double the average of the European Union, even after its enlargement with high unemployment regions (the new German Länder) and countries (the Scandinavian ones, particularly Finland)? The purpose of this concluding chapter is to recapitulate the arguments that can be made to reach an insight on this issue.

First of all, it is clear that the origin of the Spanish unemployment situation dates back to the economic crisis of the late 1970s and early 1980s. From our analysis, at least the following six factors, which may partly overlap, may be identified to account for it:

i) the role of the economic structure under Franco. As stressed by various authors (Fina, 1986; Fina and Toharia, 1987, Jimeno and Toharia, 1994), the economic structure created by the "developist" strategy of the Francoist regime during the 1960s and early 1970s was very weak, in the sense that it did not create the conditions for industries to be able to compete in an open, less protected market. Thus, when the Spanish economy began to get closer to integration with Europe (and it was clear that the end of the dictatorship was the necessary step to pave the way towards it), many firms whose existence was bearing upon lack of competition and cheap labour simply had to close down. A recent strand along this line of argument, put forward by Marimón *et al.* (1995), stresses the importance of modernisation of the economy in terms of the change in the structure of production, in the sense that, had it not been for the employment losses experienced by agriculture, in turn due to its mechanization and modernisation, unemployment would not have unwound as it did. An additional point that could be mentioned here refers to emigration. During the 1960s, it can be argued that the low unemployment rate was partly due to the fact the Spain was "exporting" her unemployment. The fact is that many workers emigrated to other European countries, and this represented a significant "safety valve" for Spanish unemployment. The return of these migrants in the 1970s added an element to the unemployment build-up. There are no comprehensive estimates, however, of their actual impact.

ii) the role of the political transition. Part of the process of modernisation just

described was linked to the substitution of a democratic regime for the old "authoritarian" (following the label coined by Spanish political scientists) Francoist system. This implied a new cost for firms, as they now had to face very bellicose trade unions (especially in the early times, before their legalisation) and manage industrial relations, something which they were not ready (or willing) to do. The uncertainty which the new political situation brought about probably lasted well beyond the death of the dictator in late 1975, and even well after the general elections and the Moncloa Pacts in late 1977. Indeed, the new industrial relations framework was not set up until the end of 1980. This increases uncertainty probably added a genuine element to the process of employment downturn.

iii) the role of the oil shocks. Over the last twenty years, European economies suffered three oil shocks: two negative ones (1973 and 1979) and one positive (1985). As we have already mentioned, the first oil shock was not taken into account by the Spanish policy-makers, more worried by keeping law and order and unable to ask workers to accept the reduction in real income which the shock implied. The second shock was more taken into account by social partners, who had started a process of "social concertation", and wage agreements including cost-of-living adjustment clauses used to exclude from the latter the increase in imported energy prices. At any rate, the oil shocks meant a decline in demand which added a significant element to the employment crisis which the Spanish economy was suffering. As various authors suggested, the "classical unemployment regime" of the late 1970s gave way to a "Keynesian", demand-deficient regime after 1979. Finally, the third oil shock was one of the positive factors which made it possible for the Spanish economy to start recovery, because of its positive both supply as well as demand effects.

iv) the role of macroeconomic policy. In the the late Franco and early post-Franco periods, macroeconomic policy was passive, accomodating wage increases and the supply shock of the first oil crisis. It was impossible for governments to take a harder stance, as the political costs would have been unbearable. This situation lasted until the Moncloa Pacts in 1977, when the agreement with the social partners made it possible to adopt a more open anti-inflationary policy. As already mentioned, this was at some points too strong, and from a simple Phillips curve approach, one can argue that such disinflation brought about the cost of high unemployment. It is interesting to note that in 1981, when the Socialist Party (PSOE) was in the opposition, this Phillips curve argument was put forward as a criticism to government: inflation, it was argued, was the main concern of government, at the cost of

unemployment. When the PSOE won the 1982 elections, they shifted to a more anti-inflationary stance: reducing inflation was considered a precondition for the reduction on unemployment. Would a less marked anti-inflationary policy have permitted a less costly in terms of unemployment (though longer) reduction of inflation? It is unclear, though we tend to think that the answer is negative. Employment losses were deeply rooted in the economic structure and anti-inflation policy probably did not add much to the process. On the contrary, orderly disinflation was necessary both for the normalization of industrial relations and for the ability of the Spanish economy to compete in the open market for which it was heading.

v) the role of wages. One of the most popular explanations of the employment downturn, especially in the early 1980s, was the wage explosion which took place in the 1970s. The latter certainly existed, and it was linked first to the political strategy of illegal trade unions against the dictatorship (in the early 1970s) and then to the vindications of emerging unions (in 1975-77). After the Moncloa pacts, however, it is clear that unions accepted a strategy of progressive wage disinflation which in some instances (as happened in 1978) was accompanied by a too tight monetary policy (thus leading to unduly high real wage growth). Given this evolution, it is difficult to blame wages for more than excessive increases in the very early period of political transition. Of course, one could take the view that given the high unemployment levels that developed in the 1980s, wages should have been more responsive to the situation (i.e. there was a significant wage rigidity). The point is whether this was feasible given the need for political stability still existing at the time. Additionally, the negative effects on consumption stemming from lower wage increases might have added impetus to the crisis.

vi) the role of labour market rigidity. Finally, in addition to the problem of lack of wage flexibility, discussed above, the lack of employment flexibility was also often mentioned as a factor behind unemployment in Spain. This argument became more popular in the 1980s, when unemployment was reaching record-high levels quarter after quarter. The point that was put forward was that firing costs were too high in Spain. However, high or low, they did not prevent 2 million people from being fired between 1980 and 1985, and it may be argued that, had these costs not existed, trade unions would have resisted much more strongly the necessary workforce adjustments of firms, thus aggravating their situation and ultimately leading to a worse situation in terms of employment and unemployment.

In the preceding paragraphs, we have discussed a series of elements which might

account for the employment losses of 1975-1985, which were the primary factor behind the unemployment buildup. The next point to be dealt with is: ¿why did unemployment remain so high during the expansion of the late 1980s, despite the intense GDP and employment growth? Here again, as before, a number of elements may be put forward; the following five ones are worth being stressed:

i) first of all, there was a clear increase in the labour force with respect to the earlier crisis period. Labour force participation rates, especially those for women, started a process of catching up after a period of slower growth. This was compounded with the arrival into the labour market of the largest postwar cohorts, even though one cannot properly mention any "baby-boom" effect in the case of Spain.

ii) additionally, the various studies on flows in the labour market suggest that these increased substantially during this period, and this tended not only to speed the process of entry into and exit from the labour market but also worsened the unemployment-vacancies relationship, thus increasing the extent of mismatch existing in the labour market. The massive entry of women might be consistent with this, if the skills they were bringing into the labour market, or the kinds of jobs they might want, would not coincide with the type of jobs the economy was offering. Construction provides a clear example. Despite the existence of a significant unemployment rate, the fact was that skill shortages were being felt as soon as 1988, wages tended to respond upwardly and the number of vacancies left unfilled grew.

iii) labour market policy, particularly the reforms introduced in 1984, when the LET was reformed to facilitate the use of fixed-term contracts. Although there appears to be a consensus that this reform exerted a small, though non-negligible, effect on employment growth, its importance rested in the increase of turnover which it implied. The side effects of the dual structure which tended to emerge between permanent and fixed-term workers, mostly concerning the higher volatility of employment and the perverse effects on wage bargaining led the government to believe that a reform was needed, although this was not implemented for various reasons, including the lack of agreement with the social partners, most notably the trade unions.

iv) as for macroeconomic policy, the unbalanced policy mix, with a loose fiscal policy after the consolidation efforts of 1986-87, implied that entry into the EMS in 1989, in the wake of the 1988 general strike, in an effort to "buy credibility" and to impose restraint on

union behaviour, had to be made at an exchange rate which, with hindsight, may be qualified as implying an overvaluation of the peseta. The resulting high interest rates boosted capital inflows, which tended to appreciate even further the currency, with the result that competitiveness suffered.

v) to many authors, the fact that unemployment did not decrease despite the strong economic and employment growth was sheer evidence that the labour market was not working as efficiently as it should. Three main aspects may be mentioned. First, collective bargaining, with its intermediate structure in-between a centralized and a decentralized system, appeared to show all the disadvantages of both systems and none of its advantages. As we have argued, however, this should not be overemphasized. Secondly, the unemployment benefit system was considered too generous and preventing an efficient job search by the unemployed (again, we have shown our own doubts about this argument). Partly for these reasons (together with budgetary considerations), the government introduced in 1992 a reform aimed at cutting the unemployment protection system. Finally, firing costs for permanent workers were considered too high, especially in connection with the low or zero costs prevailing in the case of fixed-term workers. Although all of these elements, as we have mentioned, are debatable, especially as causes for the persistence of unemployment, there is no doubt that they indicate that the Spanish labour market institutions had problems which needed a solution.

Finally, in the early 1990s, a recession led the unemployment rate to new record-high levels, after which the Spanish economy entered a new recovery phase, still lasting at present. What elements may be cited to account for these developments? The following ones may be mentioned:

i) first and foremost, the Spanish economy was by this time an economy much more integrated into the European economy than it had ever been in the past. This meant that whenever there would be an international recession, it would clearly translate into the Spanish economy more quickly than before. The recession of the early 1990s was observed in the OECD area as a whole and hence also in Spain. If anything, it can be mentioned that the important events of 1992 (the Barcelona Olympic Games, the Sevilla World Exhibition) made the expansion somewhat more lasting. by the same token, the recovery has also been an international phenomenon.

ii) at the same time, however, the intensity of the employment adjustment especially

in 1992-93 implies that there was a process of structural adjustment in the economy. The strong employment losses in manufacturing and in permanent jobs suggests so. The adjustment of the Spanish economy to the new conditions of world competitiveness, after the breakdown of the socialist regimes of Eastern Europe, together with the high position of the peseta may be mentioned as factors behind this crisis, which meant a second industrial restructuring process, more intense but short-lived than the process which took place in the early 1980s.

iii) as mentioned in the preceding point, the unbalanced macroeconomic policy mix certainly played a role by forcing the peseta to remain at high levels (certainly validated by the foreign exchange markets, probably reflecting the strong committment of the Spanish government with the EMS as well as the high interest rates). The devaluations of 1992-93 restored competitiveness to its 1985 level, thus paving the way for a quick recovery.

iv) finally, labour market policy tried to solve what were perceived as the inefficiencies of the labour market at various points. However, the failure to agree a reform with the social partners led them to adopt a reform in late 1993 which basically aimed at strengthening collective bargaining, but which left virtually untouched many of the basic characteristics of the Spanish industrial relations system, most notably, firing costs. It is still too early to fully assess the effects of the 1994 reform on the labour market. However, the following points should be mentioned.

To begin with, it appears that the general feeling of both employers and employees was that the reform aimed at increasing the power of employers at the firm level. The thrust behind the reform was to shift the balance of labour law from a workers' right conception to a more balanced notion, i.e. by taking into account the needs of firms. The moderate behaviour of wages in 1994 has been interpreted as an effort by unions to avoid the full application of the reform by firms. It could also be, however, as already mentioned, that the strong employment losses weakened union's bargaining position.

Formally, many of the changes introduced in Labour law in 1994 aimed at enhancing the role of collective bargaining. Thus, many issues previously regulated by the law were now left to the decision of the agreeing parties. This could be seen as an element creating a cleavage in the labour market between those workers properly covered by collective bargaining, especially at the firm level, and those workers whose only rights are those determined by law. Although this argument is reasonable, there are no detailed studies on

these issues, as the elements involved are varied and complex. There has certainly been a change in the labour market framework, but its consequences are difficult to estimate, and they will probably be felt only in the long run.

There were two changes in the 1994 reform which have attracted more attention from economists: the reform in contracts and the changes in dismissal procedures. As for contracts, the main change was the elimination the fixed-term employment promotion contract. This was seen as a way of fostering permanent employment. However, what appears to have happened is that firms have resorted to other forms of temporary employment, which are even cheaper than the fixed-term employment promotion contract. As for dismissal costs, there have been various elements which have been altered in an effort to reduce them, most notably the intended recognition of the rights of firms to dismiss workers for economic reasons. Although this may have reduced somewhat the costs involved, it does not seem to have changed the situation dramatically. Thus, the dualization of the labour market which followed the 1984 reform has not been eliminated. On these two accounts, which are related because the main difference between temporary and permanent workers is their dismissal costs, many believe that the 1994 reform was incomplete. Hence the 1996-97 discussions to reach a new agreement between the social partners to achieve yet another reform. The results of this process remain uncertain.

On the whole, unemployment in Spain, the magnitude of which cannot be disputed on statistical grounds, is a problem with deep roots in the recent economic history of Spain. Many causes are behind both its development and its persistence and no simple policy exists to put a remedy to it. Spanish society and families have learned to live with it. This is a problem, as accomodation means less willingness to undertake the measures (probably complicated and multi-dimensional) which would be needed if Spain wants to converge not only in nominal but also in real terms with its European partners.

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