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Labour Market Measures in Spain 2008–13: The Crisis and Beyond

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Contents

Introduction	4
1. Contractual arrangements and Employment Protection Legislation (EPL)	6
1.1 Basic facts	6
1.2 Regulation of contractual arrangements	11
1.3 Contract typology	15
1.4 Specific groups	18
2. Social protection and social assistance for jobseekers	26
2.1 Unemployment insurance and assistance	26
2.2 Minimum income	31
2.3 Interactions between unemployment compensation and other income support programmes	33
3. Wages	35
3.1 Basic facts	35
3.2 Minimum wage	37
3.3 Tax wedge	38
3.4 Wage-bargaining system	40
3.5 Wages in the public sector	45
4. Active labour market policies	47
4.1 Basic facts	47
4.2 Training programmes	49
4.3 Employment incentives	51
4.4 Specific target groups	52
4.5 Public employment services	53
4.6 Social partners and active labour market policies	54
Conclusion	57
References	59

Introduction^{1,2}

This report presents a comprehensive analysis of the recent evolution of the Spanish labour market and how labour market policies have responded to the challenges of the crisis. Even compared with other European peripheral countries, Spain has been severely affected by the crisis. The growth of unemployment has been severe, even for a country experiencing very high unemployment rates for the last two decades. The rapid and substantial increase in unemployment after a long period of increasing employment has questioned almost everything about the institutional organization of the Spanish labour market.

Before the crisis, the main challenges in the labour market were the relatively high average long-term unemployment since the late 1970s and the widespread use of temporary contracts by firms (in all sectors, not just those that offer seasonal work such as the tourism industry). The successive packages of employment incentives to promote open-ended contracts and the growth of the construction sector were supposed to address these challenges. The first package created the social feeling that at least open-ended contracts were growing, and the second package directly increased employment in the construction sector and indirectly increased employment almost everywhere thanks to the backward linkages of this sector. The first package, however, was a misunderstanding about the link between gross flows and stocks, and the second package was not related to a healthy growth of the sector but to a speculative bubble propelled by the convergence of interest rates in the Eurozone at relatively low levels and a lack of effective monitoring of lending practices in the financial system (especially in savings banks – in Spanish, *Cajas de Ahorros*), together with bad practices of Public Administration at the local level.

In Spain, the crisis is related to two shocks: the end of the speculative bubble of the construction sector in

autumn–winter 2007 and the global financial shock in September 2008. Because of the high reliance on the use of temporary contracts in the construction sector in particular and in the Spanish economy in general, employment losses were concentrated among temporary workers in the first stage of the crisis, although very soon, dismissals of workers with open-ended contracts reached historic levels.

The national debate on the problems of the labour market in the first stage of the crisis focused on two issues: how to change the “productive model” of the Spanish economy and what type of labour market reform to implement in order to fight duality between temporary and open-ended contracts. The discussion about the “productive model” was related to the importance of low-productivity sectors such as construction and tourism, and the relatively minor role of sectors such as manufacturing and industries related to technological progress. However, the short-term needs created by the crisis (and the negative impact on the public deficit) overtook almost all discussions about designing a new industrial policy. This issue has only recently returned to the debate as to how the government can promote concurrence in key markets (such as energy markets) and dismantle the influence of oligopolies in different industries.

The debate on labour market reforms is a “never-ending story” in Spain. Since the Workers’ Charter was launched in November 1980, labour market reforms have been implemented in 1984 (facilitating the use of temporary contracts), 1994 (eliminating the temporary contract introduced in 1984 and creating a new type of dismissal on economic grounds), 1997 (creating a new open-ended contract with lower severance payments and employment incentives to promote open-ended contracts), 2001 (introducing another wave of employment incentives), 2002 (allowing firms to conclude dismissal procedures in two days by paying a severance payment corresponding to an unfair dismissal), 2006 (launching a new wave of employment incentives), 2010 (mainly affecting the rules governing dismissals and collective bargaining) and 2012 (again affecting legal regulation on dismissals and collective bargaining). Some of these

1. The author is grateful for the comments and suggestions on previous drafts of this report from Catherine Saget, Ángel Martín, Alfonso Morales and Begoña Cueto and is solely responsible for the opinions included in this report or for any remaining errors.

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reforms were implemented with the agreement of the social partners and others were implemented unilaterally by the government after unsuccessful negotiations by the main unions and employers' organizations. The latest two labour market reforms have been implemented without the agreement of the social partners, seriously affecting the social trust in tripartism and social dialogue.

In the second stage of the crisis (starting at the beginning of 2010), the possibility (and the generalized feeling of "imminence") of a default dominated everything, jointly with the impact of the fiscal adjustment measures (the so-called "austerity policies"). In fact, different fiscal adjustment packages have been approved by different governments up to the present. Public expenditure restrictions affect all dimensions of public policy, including, of course, employment policies.

There were also two stages to labour market policies during the crisis. At the beginning, all measures tried to mitigate the worst impacts of the rapid increase in unemployment: for example, approving extraordinary budgets for unemployment benefits, and improving access to unemployment benefits in short-time work schemes. The government tried to boost negotiations for a wide agreement between the main unions and employers' organizations, noting that no labour market reform would be implemented without the prior agreement of the social partners. With the exception of limited agreements on very specific issues, negotiations between the social partners were not successful, especially when discussing dismissal costs and collective bargaining.

In 2010, a new stage began with the increasing worry of an eventual default by Spain on its debt and the increase in employment losses. Subsequently, there was increasing pressure on the government (not only from an alarmed Spanish society, but also from the European Union) to implement a labour market reform to fight duality and change collective bargaining to allow internal flexibility (as a counterbalance to external flexibility). Negotiations between the social partners were again unsuccessful, but in this case the government launched a labour market reform changing the

legal rules governing firing costs and collective bargaining. Employment incentives (the central measure in the legal reforms of the 1990s) were clearly put aside. The government change at the end of 2011 was a continuation of the attempt for new labour market reform, implemented in February 2012 after disagreement in tripartite negotiations. Again, the main issues were firing costs and collective bargaining. In many ways, the reforms of 2010 and 2012 are rather similar in their content, the only difference being the intensity of the changes. There was, however, also a slight change in active labour market policies or, rather, a rediscovery of employment incentives to promote new types of open-ended contracts and self-employment. Later, this new emphasis on employment incentives was developed (mainly through the so-called "flat rate" for new hirings using open-ended contracts). In addition, the promotion of self-employment has become a distinctive feature of active labour market policies since 2012.

The way in which wages have reacted to employment losses has been a much debated issue during the crisis. The reliance on temporary employment losses in the first part of the crisis was attributed by some analysts to the lack of wage flexibility in collective bargaining. In the unilateral labour market reforms of 2010 and 2012, a key element was to provide ways to adjust wages at firm level with respect to sectoral agreements. At the same time, wages in the public sector were frozen and suffered two nominal cuts (in 2010 and 2012). In recent years, the existence of a fall in real wages has no longer been debatable, although the impact on different deciles of wage distribution is not homogeneous. There is a growing concern that those at the bottom of the wage distribution are disproportionately supporting the weight of the fall in real wages to decrease unit labour costs at an aggregate level and improve the country's international competitive position.

The above description is the context of the detailed analyses presented in the following sections: the legal design of employment protection legislation; social protection and social assistance for jobseekers; wages (distribution, minimum wage, wage-bargaining settings, etc.); and active labour market policies. A final conclusion section closes the report.

Contractual arrangements and Employment Protection Legislation (EPL)

1

1.1 Basic facts

1.1.1 Employment and unemployment rates

Figures 1.1 and 1.2 show the evolution of unemployment and employment rates in Spain from 2002 onwards. This period covers the beginning of the expansion of the building sector to the last published figures at the closing date of this report.

As a general trend, the unemployment rate for males decreased slowly until 2007T2 from around 8–9 per cent to 6 per cent, while for females the decline was larger and much more rapid, falling from around 16–17 per cent to 10 per cent. After 2007T2, hence before the shock of Lehman Brothers, the Spanish unemployment rate had begun to increase. In fact, Spain has been affected by two negative shocks: the end of the speculative bubble of the building sector (in autumn 2007) and the global financial shock (in September 2008). The break in the falling unemployment rate was related to the negative shock of the construction sector, but the huge and rapid increase in the unemployment rate for both genders occurred as a result of the global financial crisis. As the increase was more intense and faster for men, the “traditional” gap in unemployment rates with respect to women closed during most of the crisis. Only when unemployment rates began to

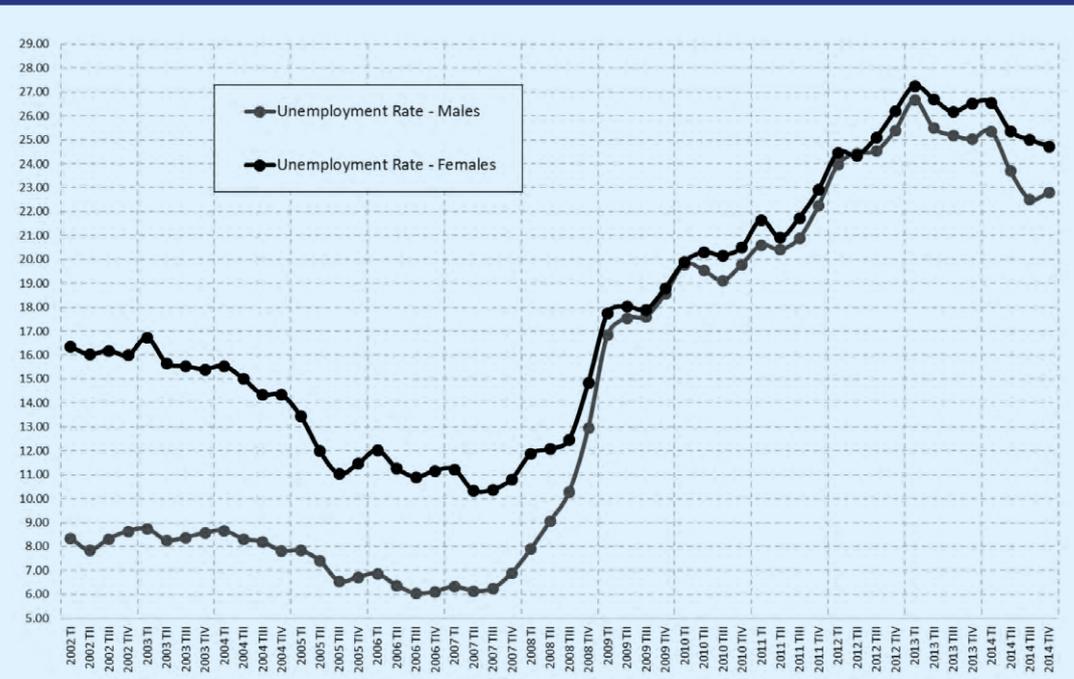
decrease in 2013 did this gap open again. In any case, the unemployment rates for men and women went even beyond 26 per cent in 2013T1, figures only reached (and slightly surpassed) by Greece during the current crisis.³ Nevertheless, the Spanish labour market suffered similar unemployment rates in the crisis of 1993–95 and in the first part of the 1980s. Therefore, such huge unemployment rates are a key feature of the performance of the Spanish labour market.

Figure 1.2 shows that before the crisis, the decrease in the unemployment rate was closely linked to increases in employment levels and not to exits from unemployment to inactivity. The increase in employment rates was especially significant for women: while for males the increase was from 61 to 65 per cent, for females it increased from 35 to almost 45 per cent. With the crisis, the difference in employment rates of males and females narrowed, but this was as a result of the poor results for men rather than an improvement in female employment.

Most labour market analysts and practitioners agree that the intensity and rapidity of the unemployment increase and employment fall are closely related to the dualization of the Spanish labour market by contract type.

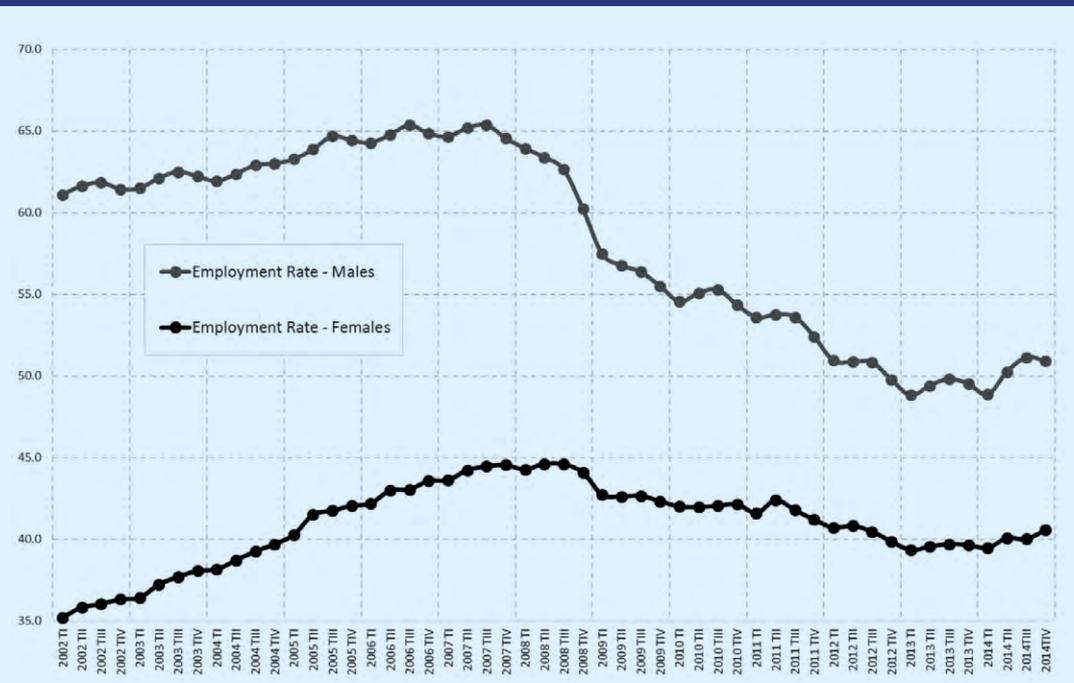
3. In Greece, the unemployment in 2013T1 was 27 per cent. For 2014T2, the unemployment rate was 24.7 per cent in Spain and 26.8 in Greece (source: Eurostat).

Figure 1.1 Unemployment rates by gender in Spain (above 15 years old)



Source: Labour Force Survey (Spanish Statistical Office).

Figure 1.2 Employment rates by gender in Spain (above 15 years old)



Source: Spanish Labour Force Survey (Spanish Statistical Office).

1.1.2 Temporary contracts and dualization of the labour market

In 1984, the Spanish unemployment rate was 25 per cent. In order to promote employment, the government implemented a labour market reform facilitating the use of temporary contracts not only for seasonal or temporary needs of the firm but for any type of job. Rapidly, Spanish firms learned to use these contracts and during the subsequent expansion, the share of temporary workers in the total wage and salary workforce reached around 30 per cent (Toharia, 2005).

However, this was a sort of “honeymoon” effect (Boeri and Garibaldi, 2007): the rapid increase in employment when the expansion arrived was soon offset by different negative side-effects related to the huge increase in the use of temporary contracts, together with a higher sensitivity of employment to the business cycle not only in expansions but also in crises.

The negative side-effects of temporary contracts are diverse: for example, lower training, higher risk of injury and negative impacts on different dimensions of job quality (García-Serrano and Malo, 2013).⁴ With respect to training, the share of temporary workers is larger in firms which do not train their workforce; even in firms which develop training, holding a temporary contract reduces the probability of participating in training activities (Albert et al., 2005). With respect to risk of injury, temporary workers are associated with jobs and economic activities with more labour accidents, but even controlling for job and firm characteristics, temporary workers have on average a risk of injury 0.32 percentage points higher than workers with open-ended contracts (Guadalupe, 2003; Hernanz and Toharia, 2006). Finally, negative impacts on quality of jobs for temporary workers have been widely found. Not only do temporary workers have, on average, lower levels of self-evaluated quality of life at work and job satisfaction (Toharia, 2005), but these lower levels are still present after controlling for characteristics of workers, jobs and firms (García-Serrano and Malo, 2013).

4. Beyond the labour market effects, many authors have found negative impacts of the huge increase in the use of temporary contracts in Spain at macroeconomic level that have decreased productivity (Lisi and Malo, 2014) and also affected social integration and led to delays in marrying, postponing of childbirth, etc. (Garrido and Requena, 1996). At the same time (and until the crisis), the extension of temporary contracts was part of a social adaptation process to high unemployment rates with an evolution of family organization and a sort of implicit agreement between old and young generations (Garrido, 1996; Toharia and Malo, 2000). Such an agreement or social equilibrium has blown up with the crisis (Malo and Cueto, 2014).

Because of these negative effects, employers’ organizations, trade unions and the government negotiated some legal changes to decrease the temporary employment rate. These changes were made through social dialogue between employers and unions, but not always as a result of agreement among them. The different labour market reforms have been linked to such changes in 1994, 1997, 2006, 2010–11 and 2012.⁵ In all reforms, legal changes affected different aspects of labour contract regulation and working conditions: overtime, non-regular working hours, new open-ended contracts (with lower severance payments), financial incentives for open-ended contracts, changes in bureaucratic costs affecting legal procedures for dismissals, collective bargaining, etc. In any case, as figure 1.3 shows, only the current recession was able to decrease the temporary employment rate as a result of the rapid and enormous employment adjustment.

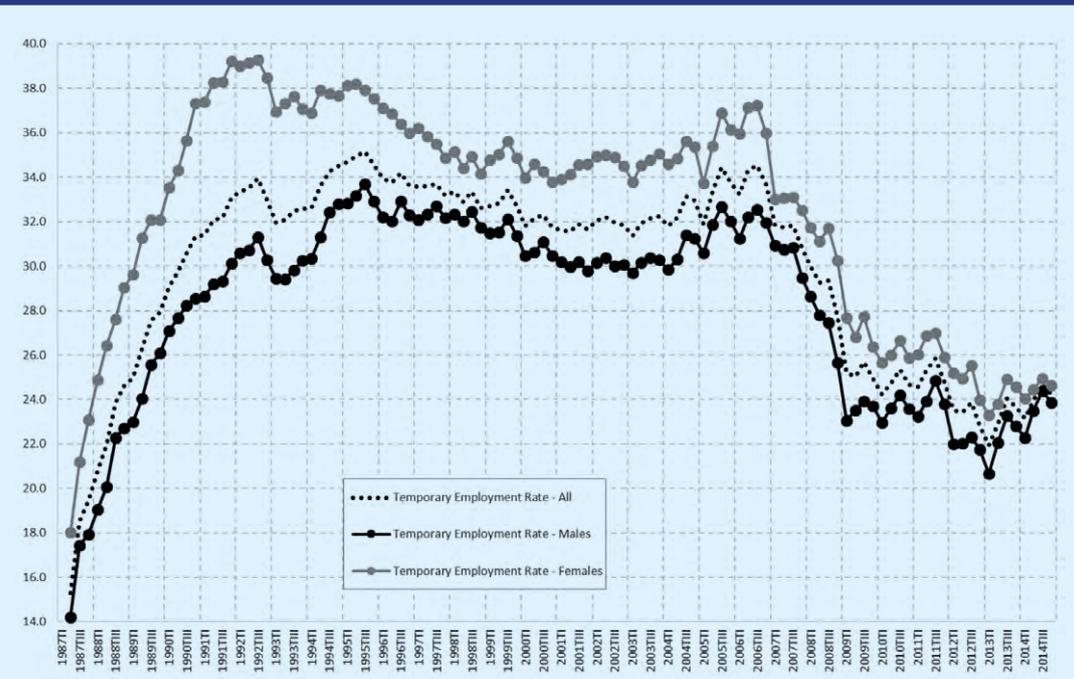
What is the rationale behind the widespread use of temporary contracts? There are different reasons, but some of them are remarked upon by all analysts: the relatively wide gap in severance payments between temporary and open-ended contracts; the lack of incentives to use alternative adjustments in wages and/or working hours; and significant inertia for firms at individual level using a well-known flexible employment contract instead of other legal options. The final result is a combination of flexibility for firms with important negative side-effects for some workers (especially low-skilled workers and young people) and even for the whole economy (for example, low aggregate productivity).

In Spain, some seasonal activities (such as tourism) and or per-task activities (such as construction) have a higher share of total employment; however, they are not the main reason for the high reliance on temporary contracts. In fact, temporary contracts are more widespread in Spain than in other countries irrespective of the sector, industry or occupation (Toharia, 2005; Felgueroso and Jiménez-Martín, 2009a).

The social debate about a new labour market reform in 2012 had focused again on closing the gap between temporary and open-ended contracts, and simplifying the labour contracts system in order to deter fragmentation of the labour market and to increase the productivity of firms. All experts and the new government elected in December 2011 considered that changes in

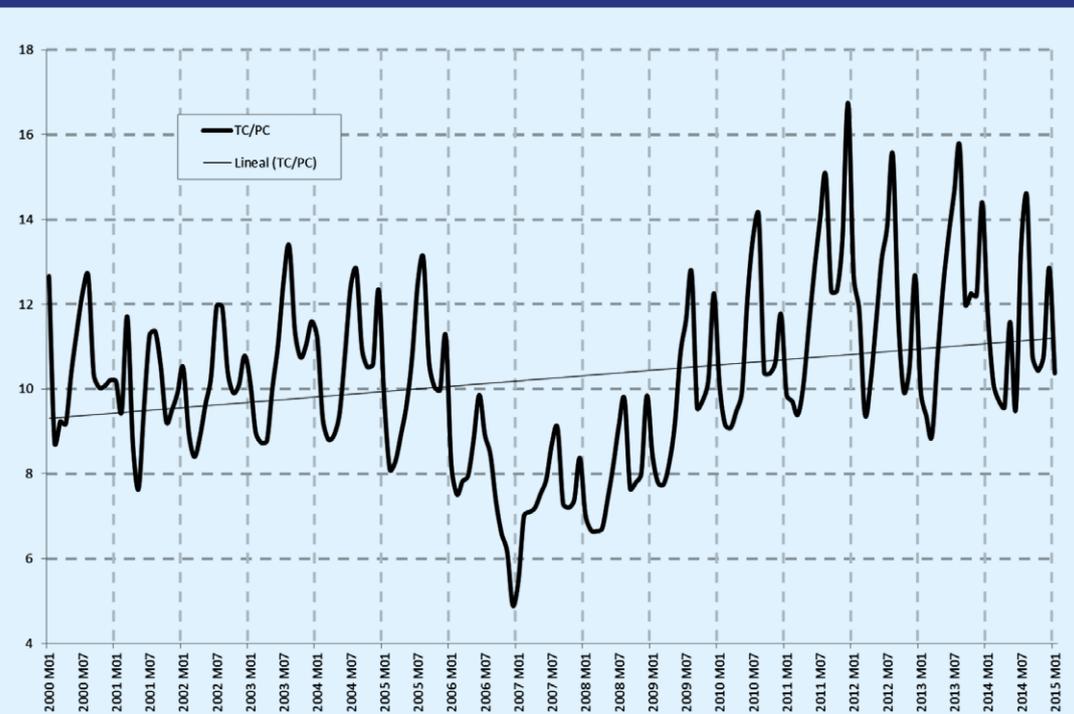
5. In 1997 and 2006 the legal labour market reforms were the result of an agreement between employers and unions, but in the other cases the legal changes were implemented by the government after unsuccessful negotiations between employers and unions.

Figure 1.3 Temporary employment rate by gender in Spain



Note: The temporary employment rate is defined as the share of workers with temporary contracts in total wage and salary workers.
Source: Spanish Labour Force Survey.

Figure 1.4 Monthly ratio of new temporary contracts (TC) to new open-ended contracts (PC)



Source: Register of Contracts (Spanish Public Employment Service) and author's calculations.

collective bargaining were key elements of a new labour market reform to deter employment adjustments and ease rapid adjustments of wages and working hours.

In February 2012, a new labour market reform was enacted.⁶ The main changes focused on dismissals and collective bargaining. As described above, changes in the area of dismissals were related to a (supposedly) clearer definition of dismissals on economic grounds in order to make severance payments for fair dismissals the new reference for future dismissals (20 wage days per year of seniority, with an upper limit of 12 months). In addition, unfair severance payments were decreased for all open-ended contracts (from 45 to 33 wage days per year of seniority, with a corresponding fall in the upper limit from 42 months to 24). The new changes in collective bargaining regulation provided more internal flexibility to the firm. In other words, these changes should have helped the firm to adapt wages and working hours to the business cycle.

Figure 1.4 shows that for newly hired workers, temporary contracts are predominantly used, as has been the case in the past. Considering the whole period beginning in 2000 until January 2015, the ratio of new temporary contracts to new open-ended contracts has a long-term trend that is fairly stable at around 10–12. However, there are four different sub-periods:

- Between 2000 and 2006, the ratio of new temporary contracts to new open-ended contracts was stable at around 10 per month.
- In 2006 there was a clear decrease in this ratio. In fact, this was the result of an increase in new open-ended contracts because of a labour market reform providing financial subsidies for the hiring of persons on open-ended contracts and the conversion of temporary contracts into open-ended contracts.
- From 2007 to mid-2010, the ratio increased from the minimum reached in January 2007 (when the number of new temporary contracts was “only” around five times the number of new open-ended contracts) up to slightly above 10. This sub-period covers a period of intense employment destruction. In terms of stocks, there was a huge decrease in temporary contracts (as figure 1.3 shows), but in terms of relative flows of hires by contract type, there was a sustained increase in the use of temporary contracts.
- From the second term of 2010 until the end of 2014, the ratio stabilized again to around 12. This figure is

6. See Malo (2012a) for a short description of the main changes in dismissals and collective bargaining introduced by the labour market reform of 2012.

slightly above the trend before the crisis (10–11) and there is a higher dispersion around the new trend. The latest labour market reform implemented in February 2012 does not represent a significant change in this pattern (in terms of a simple before–after comparison).

Although the legal reform has been effective for a short time and only under unfavourable economic conditions, these data highlight that the segmentation pattern in Spain has most probably not been modified at all by this reform.

1.1.3 The dynamics of employment during the crisis: A tale of two contracts?

Figure 1.5 shows the evolution of hires and separations by contract type in Spanish firms.⁷ Before the crisis, the hiring of workers on temporary and open-ended contracts grew steadily, but so did separations. As the number of hirings was greater than the number of separations, the employment stock of temporary and permanent workers increased.

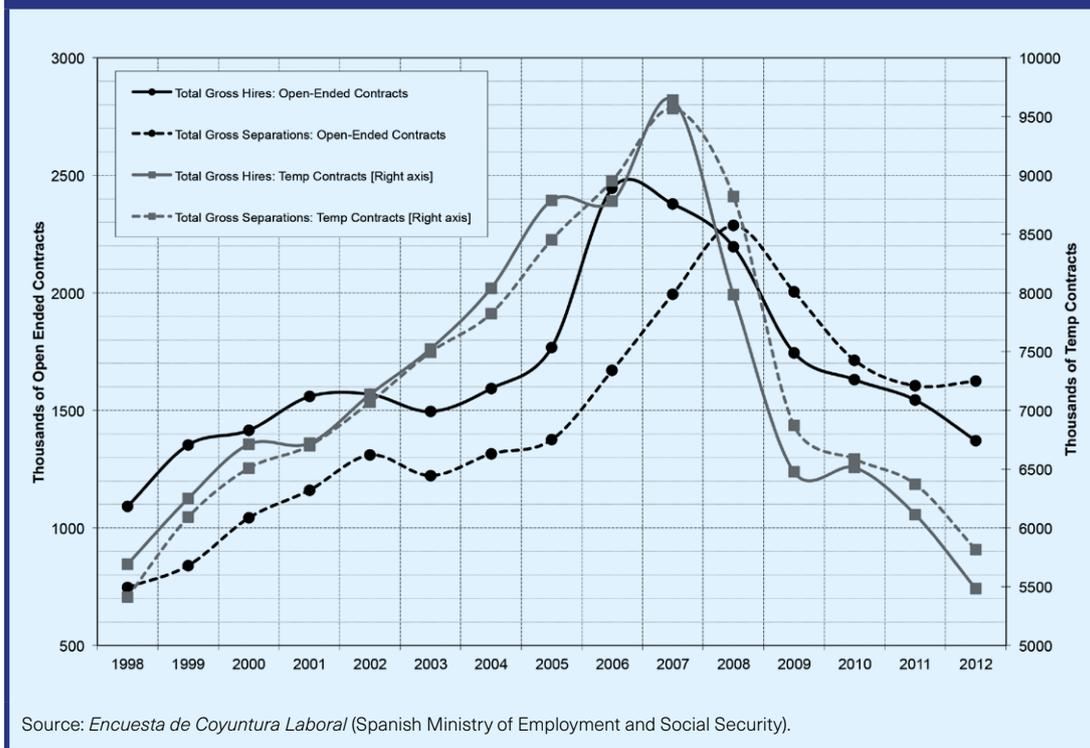
The peak of new open-ended contracts occurred in 2006, when a labour market reform was enacted as explained above. However, the flow of separations of workers on open-ended contracts increased until 2008. Although separations clearly decrease later (during the crisis), the flow of hirings of workers on open-ended contracts is always less. Therefore, the net impact on the stock of workers with open-ended contracts is negative.

On the other hand, for temporary contracts, the peak in hirings and separations is in 2007. Later, there is a sharp fall in both, but the decrease in hirings is larger and more intense. In fact in 2012, the flows of hirings and separations were at the same levels as at the end of the 1990s. As the numbers were much larger for temporary contracts and their net decrease was faster, the result has been a huge decrease in the stock of temporary employment, and consequently a clear fall in the temporary employment rate (see figure 1.3).

Figure 1.5 shows a typical pattern of employment adjustment in crisis. Although dismissals and early retirement

7. Data included in figure 1.5 are estimated using a homogeneous methodology for hirings and separations which comes from the ECL (*Encuesta de Coyuntura Laboral*), while the Register of Contracts (figure 1.4) only provides information on new contracts. The ECL was a representative survey of Spanish firms, excluding firms in agricultural activities (and, by construction, also excluding Public Administration). This survey was eliminated in 2013 as part of the budget adjustment at the Ministry of Employment and Social Security.

Figure 1.5 Gross flows of hirings and separations in Spanish firms by contract type



increase with the crisis, in fact the total flow of separations usually decreases. However, the flow of hirings (the inflow into the labour market) decreases even more. Therefore, from a flow perspective, the most striking feature to evaluate the depth and severity of a crisis is the blockade of the entry into the labour market. Why? Because workers at the margin of the labour market can only find a job when the flow of hirings increases.

These workers at the margin of the labour market, i.e. all groups entering the labour market for first time (mainly young people) and those with relatively higher rotation rates (such as immigrants or low-qualified workers) are the ones who are most affected by crisis.⁸ Of course, some features of the Spanish labour market can enhance the problems of these workers at the margin. In this vein, the easy use of temporary contracts facilitates hiring when there are slight improvements in the business cycle or even when facing temporary and small positive shocks. However, at the same time, any reversal of the business cycle may rapidly increase separations of temporary workers.

1.2 Regulation of contractual arrangements

1.2.1 Employment protection legislation for open-ended contracts⁹

In order to understand the differences between temporary and open-ended contracts, key characteristics must be described, such as severance payments and legal procedures for dismissals, but also the practice of the legal regulation concerning dismissals. For example, according to the OECD indicators for the “strictness” of labour market regulation, Spain has had relatively strict regulation concerning temporary contracts over the last decade and the severance payments for dismissals on economic grounds have not changed in the last two decades.¹⁰ However, de facto, on the one hand Spain has very permissive regulation concerning temporary contracts, and, on the other hand, the reference for dismissal costs is the severance pay related to unfair dismissals. The key to the differences between the wording and the practice of the law on dismissals is related to the strategic use of legal regulation by firms and workers.

As in most European continental Labour Law, the key to Spanish Labour Law is the fair reason for dismissal,

8. Malo and Cueto (2014).

9. This section partially follows section 2 of Malo (2011).

10. Malo and González-Sánchez (2010), especially chapter 2.

Table 1.1 Monetary costs, requirements and procedures for dismissals in Spain before the labour market reform of February 2012 (synthesis)

	Monetary costs (Number of days wages per year worked in the firm)	Procedures (requirements and time periods)
Individual dismissal*	Misbehaviour (disciplinary grounds) Fair: 0 Unfair: 45 (maximum: 42 months of salary)	<ul style="list-style-type: none"> Letter explaining dismissal reasons Advance notice is not required "Express dismissal". After Act 45/2002, when the employer accepts the dismissal as unfair in 48 hours after presenting the dismissal letter and provides the worker with severance payment for unfair dismissal, the employer will not have to pay any additional amount, even if the worker files a successful suit for unfair dismissal
	Economic dismissal ("objective grounds") <ul style="list-style-type: none"> Fair: 20 (max. 12 months of salary) Unfair: <ul style="list-style-type: none"> Ordinary indefinite contracts: 45 (max. 42 months of salary) Indefinite contracts for employment promotion (created in 1997): 33 (max. 24 months of salary) 	<ul style="list-style-type: none"> Letter explaining dismissal reasons Advance notice: 15 days (Act 35/2010). The employer can replace the advance notice with the corresponding wage "Express dismissal". After Act 45/2002, when the employer accepts the dismissal as unfair in 48 hours after presenting the dismissal letter and provides the worker with severance payment for unfair dismissal, the employer will not have to pay any additional amount, even if the worker files a successful suit for unfair dismissal Act 35/2010 Act (labour market reform of 2010) introduced new wording for economic grounds in order to facilitate fair economic dismissals
Collective dismissal	Expediente de Regulación de Empleo (ERE) Minimum: 20 Maximum: Not fixed by law	<ul style="list-style-type: none"> Definition: Dismissals on economic grounds affecting at least: <ul style="list-style-type: none"> 10 workers in firms with less than 100 workers 10 per cent in firms between 100 and 300 workers 30 in firms with more than 300 workers There is a mandatory bargaining period between the firm and workers' representatives (bargaining issues include severance payments and the number of dismissals) Public Administration must give previous authorization to the collective dismissal (in cases of agreement between firms and workers the authorization is straightforward). The firm can apply for authorization even in cases of disagreement

* Individual economic dismissals can affect different workers at the same time below the threshold of collective dismissals (ERE).

Source: Malo (2012a).

based on the ILO Termination of Employment Convention, 1982 (No. 158). Fair reasons are considered to be misbehaviour of the worker (dismissal on disciplinary grounds) or to economic grounds. Workers with an open-ended contract may file a suit against their employer in cases of dismissal alleging unfair dismissal. When the firm does not offer a fair (disciplinary or economic) reason for the dismissal, the dismissal is considered as being unfair (in Spanish, *improcedente*).

Tables 1.1 and 1.2 show a synthesis of the monetary costs of dismissal according to legal regulation before the reform launched in February 2012 and after this reform (respectively). In Spain, as in many other countries, the procedure and requirements are different when the economic dismissal affects only one or "few" workers (less than 10 per cent of the total staff) and when it affects a significant proportion of the working staff (10 per cent or more of the total staff).

The severance payment for fair dismissals on economic grounds is 20 wage days per year of seniority (with an upper limit of 12 salary months). Before the reform of 2012, the severance payment for unfair dismissals on

economic grounds was 45 wage days per year of seniority for ordinary open-ended contracts (with an upper limit of 42 salary months) or 33 wage days per year of seniority (with a maximum of 24 months) for open-ended contracts launched in a labour market in 1997 to promote open-ended contracts. After the legal reform of 2012, the upper limit for unfair dismissals became 33 wage days per year of seniority (with a maximum of 24 salary months), but only for seniority obtained after the implementation of the labour market reform (previous seniority was paid according to the old legal rules).

However, the true reference for severance payments for economic dismissal in Spain has never been 20 wage days per year of seniority, but 45 (or 33 in the case of the open-ended contracts launched in 1997), because of the strategic use of the legal regulation by firms and workers.¹¹ When a firm dismisses a worker, the firm recognizes (immediately, at mediatory administrative offices or at labour courts before a sentence) that the dismissal is

11. This strategic use is deeply rooted in the practice of Spanish Labour Law (Malo, 2005; García-Martínez and Malo, 2007; Malo, 2012a).

Table 1.2 Monetary costs, requirements and procedures for dismissals in Spain after the labour market reform of February 2012 (synthesis)

	Monetary costs (Number of days wages per year worked in the firm)	Procedures (requirements and time periods)
Individual dismissal*	Misbehaviour (disciplinary grounds)	<ul style="list-style-type: none"> • Letter explaining dismissal reasons • Advance notice is not required • The procedure for dismissals according to Act 45/2002 Act ("express dismissal") has been abolished
	Economic dismissal ("objective grounds")	<ul style="list-style-type: none"> • Letter explaining dismissal reasons • Advance notice: 15 days (Act 35/2010). The employer can replace the advance notice with the corresponding wage • The procedure for dismissals according to Act 45/2002 ("express dismissal") has been abolished • The RDL 3/2012 (labour market reform of 2012) introduced a new and even more precise and detailed wording for economic grounds in order to facilitate fair economic dismissals. This definition includes an explicit threshold of 9 months of decline in firm income and sales
Collective dismissal	Expediente de Empleo Regulación de Empleo (ERE)	<ul style="list-style-type: none"> • Definition: Dismissals on economic grounds affecting at least: <ul style="list-style-type: none"> – 10 workers in firms with less than 100 workers – 10 per cent in firms between 100 and 300 workers – 30 in firms with more than 300 workers • There is a mandatory bargaining period between the firm and workers' representatives (bargaining issues include severance payments and the number of dismissals) • Previous authorization from Public Administration is no longer required

* Individual economic dismissals can affect different workers at the same time below the threshold of collective dismissals (ERE).

Source: Malo (2012a).

unfair. The firm then pays the highest severance payment, but the case is closed (almost) immediately. A worker who does not accept this recognition and chooses to continue with litigation will not obtain any more from the judges, because the compensation is fixed by law and labour courts can not alter severance payments (they can only qualify the dismissal as fair or unfair).

The strategic use of dismissal regulation results in a sort of "equilibrium" situation between employers and workers. Employers had the benefit of a quick method to dismiss workers (dismissals were finished in two days), but paying the cost of an unfair dismissal (45 or 33 wage days per year of seniority) was much more than the cost of a fair dismissal (20 wage days per year of seniority). Workers suffered a lack of legal protection against unfair causes of dismissal (in fact the cause of the dismissal was no longer relevant as the firm recognized that the dismissal was unfair), but they obtained a substantial increase in severance payments (from 20 to 45 or 33 wage days per year of seniority).¹²

Beyond the significant increase in the monetary cost of the dismissal, a negative side-effect of this strategic use of the dismissal regulation is that unfair dismissals have become the rule rather than the exception, when the wording of the Spanish Labour Law is based on a basic principle: no dismissal without a fair cause. Therefore, the strategic use of the dismissal regulation resulted in a distorted use of legal norms.

The reform launched in February 2012 (following the 2010 labour market reform) introduced a more precise definition of economic grounds. The explicit objective was making the fair severance payment for economic dismissals (20 wage days per year of seniority) the new reference and putting an end to the distorted use of the legal regulation of dismissals. It is too soon to consider whether the reform provides the right incentives for firms in order to mitigate labour market segmentation (Malo, 2012b).

12. The available data strongly support this interpretation. See wide empirical evidence in Malo and González-Sánchez (2010) and Malo (2011).

1.2.2 The gap in firing costs and labour market duality

For long time, the gap in firing costs in Spain has been ranging from 12 wage days per year of seniority for temporary contracts to (usually) 45 wage days for open-ended contracts; in other words the marginal increase in severance payments when changing from a temporary to an open-ended contract was 33 wage days per year of seniority.

As this gap is considered an incentive for the widespread use of temporary contracts, the labour market reform implemented in 2012 tried to close this gap from 33 days to only 8 days (20 days for open-ended contracts and 12 days for temporary contracts). At the same time, many authors claim that this gap is so wide that it is a barrier against converting temporary contracts into open-ended contracts. This is the main argument of the proponents of the single contract as a measure to fight dualization in the labour market.¹³

Nevertheless, according to other authors (Toharia, 2005; García-Serrano and Malo, 2013), the decrease in the use of temporary employment will be slow. In the past, the easy use of temporary contracts has created incentives for job segmentation à la Piore, especially in big firms.¹⁴ Therefore, firms have adapted their whole production process to the existence of a group of workers in low-paid and high-rotation jobs, hired through temporary contracts, while using open-ended contracts for high-paid and low-rotation jobs. This result originally related to the easy use of temporary contracts and the gap in firing costs. In this interpretation, the distinction of bad and good jobs in Piore's segmentation theory is visible through the different contract types (temporary and open-ended). As this type of segmentation is the result of an adaptation of job organization within the firm, once this segmentation exists, a sudden decrease in the gap in firing costs¹⁵ will have a slow impact on the use of temporary contracts because changing the organization of work is costly. The change would be easier in small firms where allocation of tasks to jobs is much less clearly defined. In fact, the labour market reform implemented in 1997 decreasing the firing costs of open-ended contracts and providing financial incentives for conversions of temporary

contracts into open-ended contracts was mainly used by small and medium-sized firms. However, at the same time, big firms increased their relative reliance on temporary contracts (Malo and González-Sánchez, 2010). Therefore, from this perspective, measures to close the gap in firing costs should be viewed from a long-term perspective, but decreasing the share of temporary contracts would be slow and would require a transformation of job organization inside firms.

1.2.3 Changing the institutional design to fight segmentation by contract type¹⁶

In the Spanish debate on tackling the dual structure of the labour market, some academic researchers have recommended the implementation of a "single contract".¹⁷ Although there are different versions of this idea, all of them focus on a new open-ended contract with severance payments which increase with tenure. All new contracts should follow this model. Therefore, temporary contracts would disappear (with the main exception of interim contracts and hirings with temporary work agencies). The key to the single contract is not only eliminating any significant gap in firing costs (zero by definition under a single contract scheme), but including "small" marginal increases in severance payments relating to tenure. The goal is to eliminate the incentive for employers to rotate workers in the same jobs on temporary contracts (given the lower firing costs) exclusively because of the higher firing costs associated with hiring workers on open-ended contracts.

At first sight, this innovative type of contract would be able to combat the widespread use of temporary contracts and decrease the aggregate rotation of workers (García-Pérez and Osuna, 2014), as long as the use of temporary contracts by firms was exclusively related to firing costs. However, if the firm uses "bad" jobs as a buffer against the business cycle (Toharia, 2005; Malo and González-Sánchez, 2010; García-Serrano and Malo, 2013), it is not clear how the single contract would decrease the rotation of workers in "bad" jobs.

13. Felgueroso and Jiménez-Martín (2009a).

14. For a detailed presentation of this explanation of contract type segmentation as a segmentation à la Doeringer-Piore, see García-Serrano and Malo (2013) and Toharia (2005).

15. A simple table on the evolution of the gap in firing costs is presented in ILO (2011, Table 4.2). For a detailed discussion, see García-Serrano and Malo (2013).

16. Adapted from the conclusion section of García-Serrano and Malo (2013).

17. The most important proposal for a single contract is the so-called "Manifiesto of 100 economists" (FEDEA, 2009). A lot of material on the debate about the single contract and segmentation of the labour market is collected in: <http://www.crisis09.es/propuesta/>. A detailed explanation of the proposal is found in Felgueroso and Jiménez-Martín (2009b). A quantitative simulation about the impact of the single contract is provided by García-Pérez and Osuna (2014). A more sceptical approach to the single contract is presented in Malo and González-Sánchez (2010, sections 3.6 and 3.7) and García-Serrano and Malo (2013).

These workers would have low seniority in any case; thus, their severance payments would be relatively low and their dismissal inexpensive. For this group, the incentive created by the single contract in smoothing increases in severance payments would not really be useful. On the other hand, in order to be hired as a civil servant or under an open-ended contract in the Public Administration, one must successfully pass exams to prove qualifications and guarantee equal opportunities. The only way to set out a single contract in this sector would be to apply these types of exams to all jobs, which is not feasible under the current procedures of all Spanish Public Administrations. Therefore, additional legal changes would be necessary to eliminate duality in the Public Administration using the single contract. Finally, as in the past Spanish firms overcame legal changes in contract regulation in order to have a “flexible buffer”, additional legal caveats should be introduced with respect to the use of temporary work agencies. To sum up, if job segmentation à la Piore is predominant, then the potential of a single contract to fight dualization of the labour market is rather limited, as the current segmentation by contract type would be mainly replaced by segmentation by seniority.

A “mixed” Austrian system for severance payments has also been considered. In fact, the labour market reform of 2010 included a seed to develop this system. First, all workers would contribute a specific percentage of their wages to a fund in order to (partially) finance future severance payments (if needed). The total severance payment would be the same (20 wage days per year of seniority); however it is split into 2 parts – 8 days to be covered by the fund and 12 days to be paid directly by the employer at the date of dismissal. As temporary contracts have a severance payment of 12 wage days per year of seniority, the gap in firing costs would be closed (as the other 8 days have been paid ex-ante by the firm, this cost should not affect the dismissal decision). As in the Austrian system, workers might choose not to recover the part covered by the fund, adding contributions from future jobs.¹⁸ Combining a severance account system and a traditional severance pay system, the marginal cost of an additional dismissal for the firm is positive and the firm will internalize the externalities of dismissal. Nevertheless, the implementation of this system was halted in 2011 by a group of experts created by the government, trade unions and

18. The Austrian system is often called “the Austrian bag”, as the contributions are a sort of bag of the worker’s resources and the recovery can be postponed even until retirement. In fact, the system was conceived as an additional pillar for the Austrian pension system (Koman et al., 2005).

employers’ organizations. The main reason was that the new contribution would increase labour costs and require rearranging all employers’ contributions, which was considered extremely difficult during the recession and probably only feasible in a future expansionary period. In fact, the legal changes implemented in 2010 as a starting point for a mixed Austrian system were fully eliminated by the labour market reform launched in 2012.

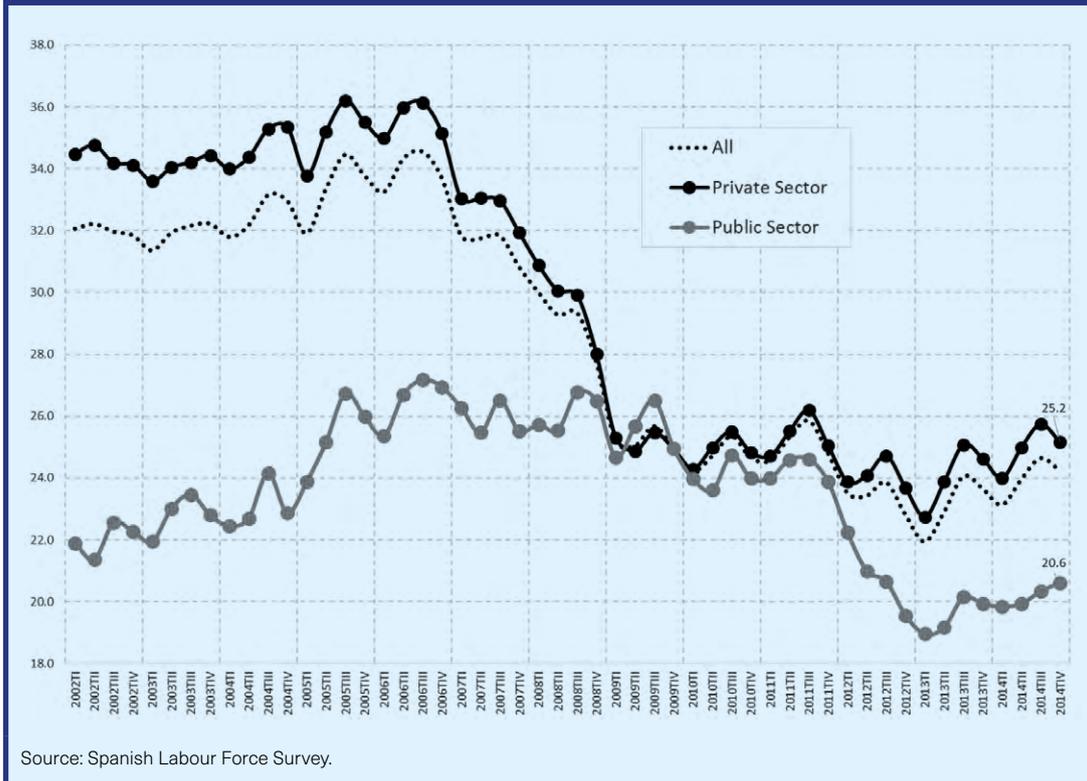
1.3 Contract typology

1.3.1 Private and public jobs: More on temporary contracts

Usually, the reasoning concerning the use of temporary contracts is closely related to the behaviour of firms and their incentives for using different types of contracts. However, figure 1.6 shows that the public sector in Spain also relies heavily on temporary contracts. In fact, before the crisis there was a noticeable increasing trend in the public sector contrasting with the evolution of the share of temporary contracts in the private sector. The impact of crisis on the share of temporary contracts was clearly negative and intense for the private sector, while it was much smaller and delayed in the public sector. The decrease of the share of temporary contracts in the public sector began with the second wave of the crisis in 2011, ranging from 24 per cent to 19 per cent in the first quarter of 2013. Afterwards, during a period of improvement in macroeconomic indicators throughout 2013, the share of temporary employment increased to 20 per cent.

In the debate about measures to improve employment quality and fighting the negative impacts of temporary contracts, the issue of the importance of temporary contracts in Public Administration is usually not taken into consideration. For example, recommendations such as closing the gap in firing costs or the single contract do not affect the incentive to use temporary contracts in Public Administration. As Malo et al. (2011) explain, there are strong incentives for Public Administration (especially at local level) to use temporary contracts in order to exercise more control over hiring of workers and because of the timing of employment programmes at the local level (with a strict year basis). In addition, interim and temporary employment relationships are the most common way for workers to enter into key public activities such as education and health. There are formal systems whereby interim jobs and fixed-term vacancies are allocated to those who have failed some of their exams to become civil servants such as

Figure 1.6 Share of workers with temporary employment contracts in total wage and salary workforce, by sector



Source: Spanish Labour Force Survey.

teachers or nurses. As a result of these temporary contracts, experience is obtained which is then considered in the next round of civil service exams. Therefore, in education and health these temporary contracts have become a sort of long probationary period towards becoming a civil servant (equivalent to an open-ended contract in the private sector).

Fighting the spread of temporary employment relationships in Public Administration would require a careful analysis of incentives and how they interact with decisions on how to provide and fill vacancies in the public sector.

1.3.2 Beyond temporary contracts: Flexibility and non-standard employment

In Spain, flexibility of employment refers to the use of temporary contracts. In recent decades, labour market reforms have tried to promote other forms of flexibility, mainly in working hours and other types of contracts.

The irregular distribution of working hours is only used in very specific industries (such as the automobile industry) through collective agreements. A sort of intermittent open-ended contract (the so-called *contratos*

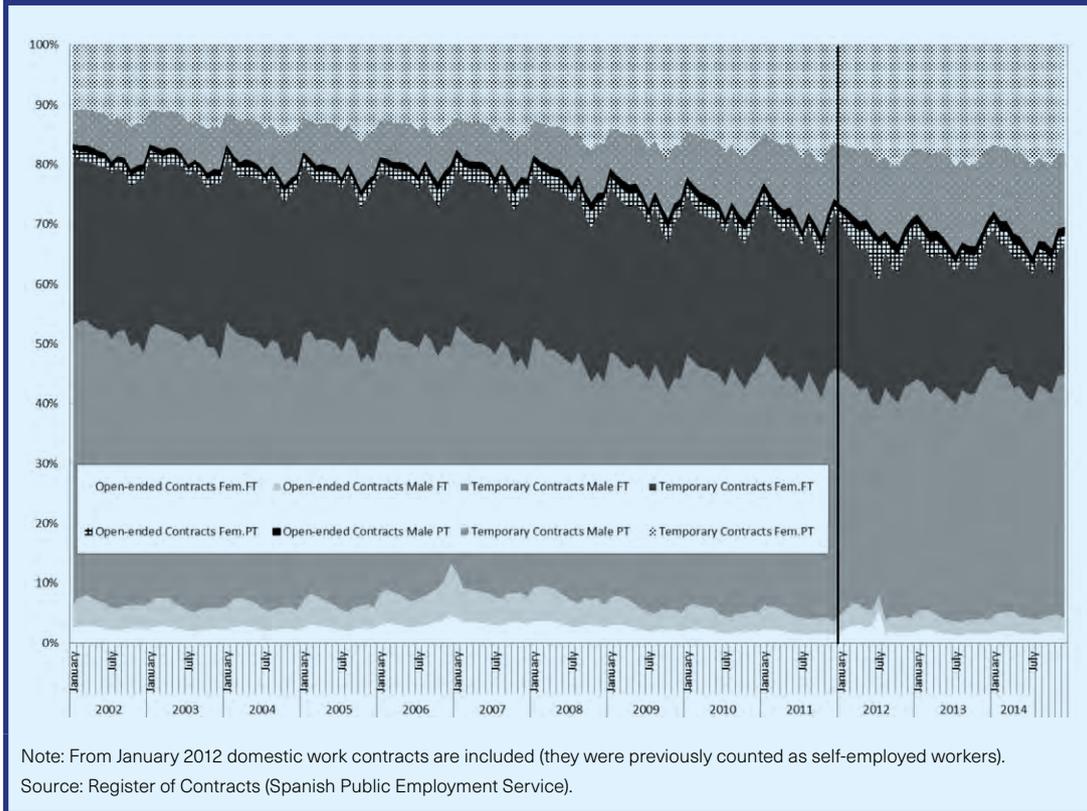
fijos discontinuos) is used in some regions for tourism and agricultural activities.¹⁹

Recently, however, two other forms of flexibility (meaning non-standard employment) have increased: part-time contracts and dependent self-employment.

In Spain, the use of part-time contracts has been much lower than in other Western countries, and, as in other countries, it is mostly women who are employed using part-time contracts. For example, before the crisis in the second trimester of 2006, the part-time employment rate in Spain for females (males) was 22.8 (4.4) per cent, while in the EU-28 it was 30.7 (7.0). In the second trimester of 2014, the same rate in Spain for females (males) was 26.0 (8.1) per cent, while in the

19. These contracts were designed for sectors with high seasonality but are clearly in use all year round. For example, they are widely used in the tourism sector in the Balearic Islands and for agriculture in Murcia. The contract may be active or inactive. When it is inactive, the worker receives the corresponding unemployment benefit (if not working in a different sector). When the inactive period ends, the contract can include a mandatory recall to the worker, but often the contract only states that the worker may be recalled by the firm. In that case, the contract (and all associated rights such as wage complements, for example) will resume.

Figure 1.7 Distribution of the flow of new contracts (FT: full time; PT: part time) by type and gender. Solid shades correspond to FT contracts



EU-28 it was 32.4 (8.9). Therefore, the gap with respect to the EU-28 still exists but has decreased.²⁰

In the past, this difference related mostly to the lack of incentives to use this type of contract by firms (temporary contracts were so easy to use to obtain flexibility that part-time contracts were not really attractive for employers to increase flexibility) and by individuals (opportunities to use part-time contracts to accommodate family or studies were scarce), as explained in Cebrián (2000). The extension of the use of part-time contracts is recent. The most direct cause is probably the reform of 2012, because of some legal changes promoting the use of part-time contracts, especially open-ended part-time contracts. Figure 1.7 shows that flows of new part-time contracts are larger after implementation of the 2012 legal reform. However, there was an additional legal change in the same sense. Because of a change in the legal regime of domestic workers, in this statistical recount they are counted as new contracts and not as self-employed workers as they previously were. This methodological change partially affects the flow information provided in figure 1.7 as it was mostly related

to the legal regularization of many women previously working as domestic workers. However, the increase in the flow of part-time contracts is also related to the increase of temporary part-time contracts for men (which have grown slightly since the beginning of the crisis).

To sum up, although the statistical information is “noisy”, the increase in the use of part-time contracts has probably been accelerated by the 2012 reform, but it has also been a response to the management of working time during the crisis.

Some forms of self-employment are also sometimes considered as non-standard employment or at least “de facto” close to flexible contracts.

There are two different perspectives on self-employment: that of the firm and that of workers who are their own bosses. Of course, both are complementary; however, firms can use self-employment to divert business risks to the worker, not using the legal contract for an employment relationship but a trade contract between two different “firms”. This is the case of dependent self-employment, where self-employment is a “legal disguise” for a labour relationship. It is difficult to find reliable estimations of the importance of dependent self-employment. In

20. These rates are the rates of part-time employment of 15–64-year-olds from Eurostat (Labour Force Survey).

2009, the Spanish Statistical Office (INE, *Instituto Nacional de Estadística*, in Spanish) included a set of questions on this issue following recommendations from Eurostat. The result was that there were in fact 209,900 dependent workers, although they were originally classified as self-employed (151,700), cooperative members (42,000) and family workers (16,300).²¹ From 2009 onwards, these “de facto” dependent workers have been reclassified as wage and salary workers in the public releases of the Labour Force Survey, but, to the author’s knowledge, neither the Spanish Statistical Office nor Eurostat have published estimations of the size of this “correction” since 2009. In any case, the size of the estimation for 2009 shows that it is not a negligible reality. In fact, dependent self-employed workers (in Spanish, *Trabajadores Autónomos Económicamente Dependientes*, or TRADE)²² have had a distinctive legal status since 2007, and in 2009 a new regulation requiring a formal contract as TRADE was enacted. These workers must register their TRADE contracts in the public employment services in order to be recognized as a TRADE and receive the legal protection offered by law to this type of self-employed worker (a minimum of 18 days of uninterrupted holidays, obligation of a written agreement of working-time schedule, etc.)²³.

1.3.3 Is non-standard employment a voluntary state for workers?

In addition to the aggregate negative effects of a high share of temporary employment, it is important to consider whether, from the individual’s perspective, the temporary work is voluntary or not. As temporary employment is only one type of non-standard employment, this question may also be asked to workers in other forms of non-standard employment such as part-time work and some groups of self-employed workers.

Figure 1.8 shows the evolution of the share of involuntary temporary and part-time employment in Spain. Temporary work was mainly involuntary before and after the crisis (for both genders), but involuntary part-time work dramatically increased with the current

crisis (and more so among males). It is probable that during the recession more and more people accepted temporary and part-time jobs as their only work option, because of the lack of opportunities during this period. New rules provided incentives for wider use of part-time contracts in the last two labour market reforms of 2010 and 2012.

The distinction between voluntary and involuntary self-employment is not as clear as it previously was; however, this issue can be approached by considering that the lack of entrepreneurial drive to start a business may be an open door to future business failure (because of a lack of a “vocational” choice for self-employment). Figure 1.9 shows the rates of opportunity- and necessity-driven self-employment from 2005 to 2013. From 2010, there is a decreasing pattern of opportunity-driven self-employment and an increasing trend in necessity-driven self-employment. The increase in necessity-driven self-employment is not surprising during a recession. International literature on opportunity versus necessity self-employment shows a higher failure of new businesses created by necessity instead of a true entrepreneurial initiative (Block and Sandner, 2009; Furdas and Kohn, 2011; Giacomini et al., 2011). There is no empirical evidence available for Spain, although some researchers have found that self-employed workers with longer unemployment spells in their labour market histories (probably a proxy for necessity self-employment) have shorter self-employment spells and a higher probability of failure (Muñoz-Bullón and Cueto, 2011). Considering the international evidence, recent policies implemented in Spain promoting self-employment should include preventive measures for the relatively high failure rates of these new businesses in the near future.

1.4 Specific groups

1.4.1 Young people

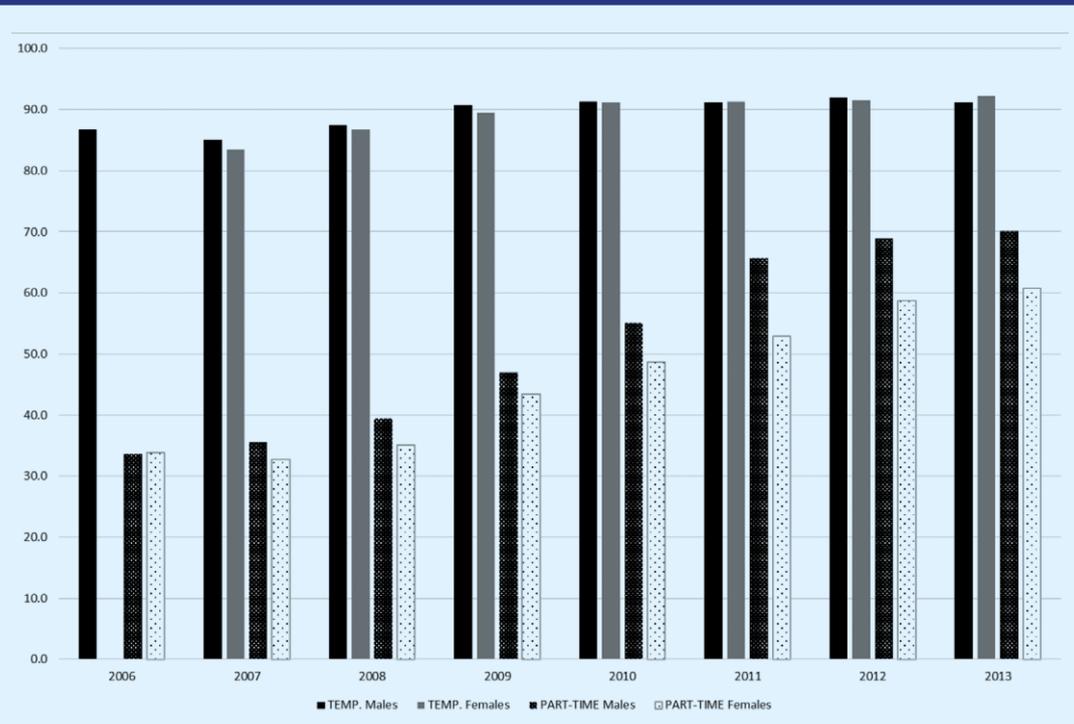
As stated before, the “blockade” to entry into the labour market mainly affects those workers *at the margin* of the labour market. Typically, they are workers entering the labour market for first time or at the very beginning of their working careers (i.e. young people and migrants) and those with higher job rotation rates (such as low-qualified workers and, again, migrants). Workers losing their jobs with the eruption of the crisis, however, also find themselves at the margin. For example, workers with long job tenure dismissed by firms closing down usually have many problems being rehired (and even more so if they are relatively older).

21. The sum is not exactly the total due to rounding.

22. According to the Spanish regulation of self-employment (*Estatuto del Trabajador Autónomo*, Self-employed Workers’ Charter), a dependent self-employed worker has one client accounting for at least 75 per cent of their total income.

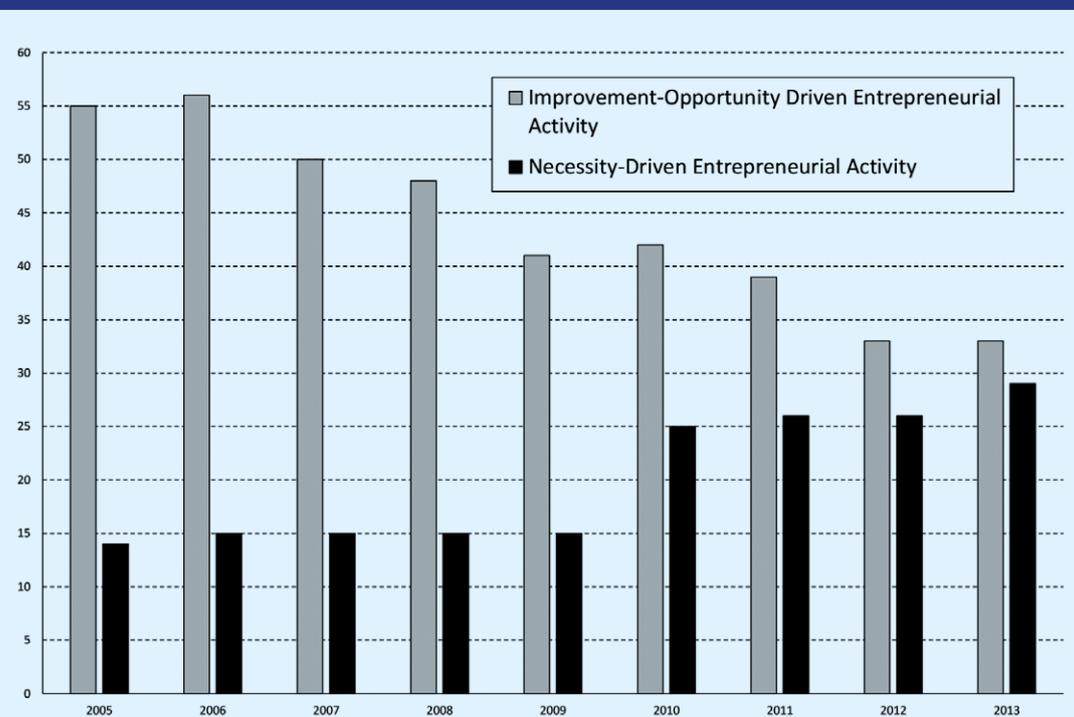
23. In December 2013, only 13,000 TRADE contracts were registered at the Public Employment Service (ILO, 2014), which is a poor result.

Figure 1.8 Share of involuntary temporary and part-time employment in Spain



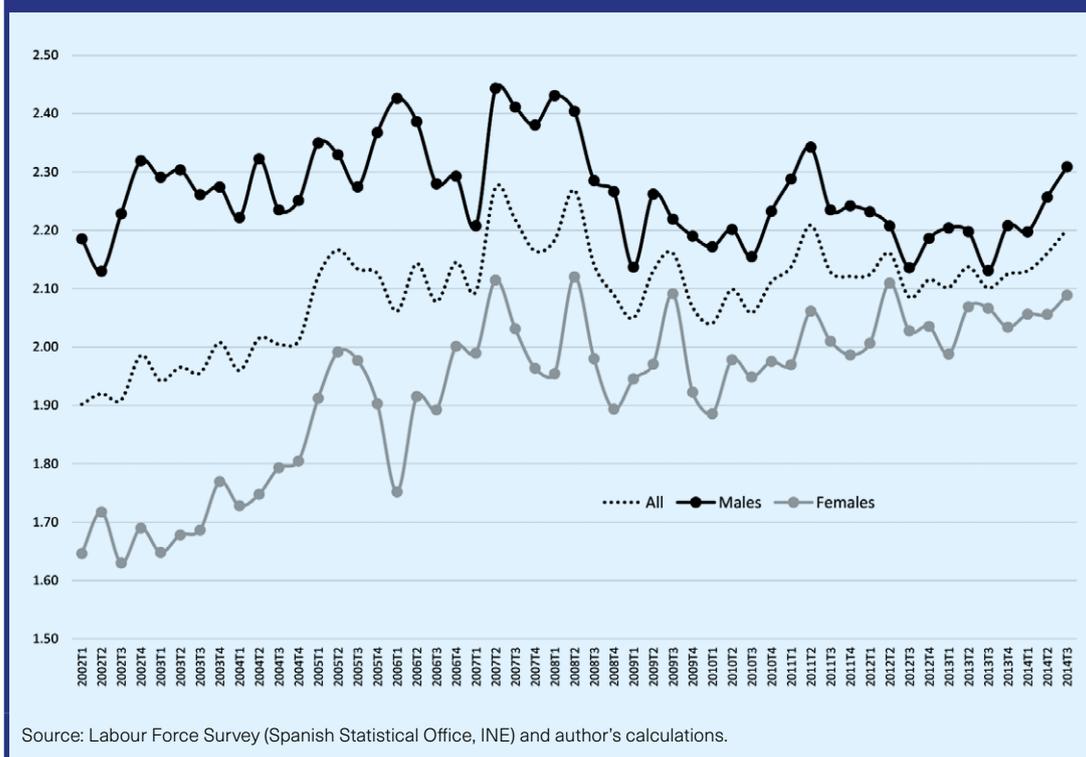
Source: Eurostat (Labour Force Survey).

Figure 1.9 Rates of opportunity-driven entrepreneurial activity and necessity-driven entrepreneurial activity



Source: Global Entrepreneurship Monitor (GEM) (<http://www.gemconsortium.org/visualizations>).

Figure 1.10 Ratio of unemployment rate of young people (aged 16–24) to unemployment rate of working-age population (aged 16–64)



Source: Labour Force Survey (Spanish Statistical Office, INE) and author's calculations.

In Spain, the debate has been focused very much on young people. The main reason for the widespread social concern is the much higher unemployment rate among young people, which rose to 52.4 per cent in the third trimester of 2014 (for those aged 16–24). The average unemployment rate for working-age people (16–64 years of age) in the same trimester was 23.8 per cent. Figure 1.10 shows the relative size of the unemployment rates of young people (aged 16–24)²⁴ with respect to those of working age (16–64 years of age). The unemployment rate for young people is around double that of the working-age population and the proportion is higher for males than for females. For males, this proportion was more or less the same before and after the crisis, although there was a slight decrease with the arrival of the crisis. For females there was an increasing trend, which slowed just before the crisis. During the crisis, therefore, the problem of youth unemployment was larger in terms of people affected by unemployment, but in fact the problem of young job-seekers remained somewhat similar with the arrival of the crisis.

24. In Spain, the minimum working age is 16.

1.4.2 Forever young? Employment over the life-cycle and educational level

The explanation behind this relative stability is the evolution of employment rates by generation. Figures 1.11–1.16 show the evolution of the employment rate by generation (defined in five-year birth cohorts) for males and females, and in the two extremes of educational level (university studies and basic studies).²⁵ During the crisis, the male employment rate decreased at least 15 percentage points for all the generations younger than 45 years of age at the beginning of the recession, and even more for the youngest generations. The impact of the crisis has gone much further for young people (even conceding that the evolution of the employment rates of younger generations is really bad). In fact, the generation born between 1976 and 1980 suffered a decrease in their integration into the labour

25. These employment rates have been calculated using the micro-data of all available trimesters of the Spanish Labour Force Survey from 1976 onwards. The methodology for aggregation is the artificial cohorts methodology. These figures correspond to Spanish born in Spain, in order to follow a homogeneous group. In any case, it should be noted that this sub-population will presumably have better results than immigrants (as other analyses show). On the methodological issues see Malo and Cueto (2013, 2014). Figures 1.11–1.16 correspond to Figures 2, 3, 4, 6, 7 and 9 from Malo and Cueto (2014). Explicit permission to include these figures here from Begoña Cueto is sincerely acknowledged.

market when the crisis occurred: the employment rate for this generation rose above 80 per cent when they were around 26–30 years old, and then the crisis created an evolution pattern in their employment never seen before, with decreases in their employment rate to the same extent as when they were around 22–26 years old.

Only generations born before 1961 (who were around 50 or more years old when the financial crisis erupted) followed the expected pattern of an inverted U in their employment rates.

For females (figure 1.12), the evolution of the employment rate shows the long-term changes in working careers of women in Spain. While employment rates were very low during the career years of older women (reaching around 30 per cent at the best period of their working lives), the pattern moves generation by generation towards an inverted U (as is the case for males). The evolution of the employment rates of women born from 1970 onwards is similar to that of men, but with a drop of around 10 percentage points. The impact of the crisis is also visible, especially for the generation of women born in 1976–1980 (which is similar to that of men), but during the crisis period for the other generations there was less of a decrease than for men.

There are huge differences in relation to educational level. Women and men with a university education have working careers with extremely high employment rates in the central part of their lives (figures 1.13 and 1.14). Women with university education, even those from older generations, have much higher employment rates than those corresponding to all women. In any case, the inverted U pattern shows women's employment rates around 10–15 percentage points lower than those of men. The crisis did affect women and men with university education, especially the younger generations, but the shape shows more of a slowdown in the expected growth of their employment rates over their life cycle. However, for those with only basic studies (either women or men) not only are their employment rates always below the corresponding generations of those with university education, but the impact of crisis is much larger, especially for men born in 1956 or later. The impact on the working histories of younger generations of men is simply catastrophic (less so for younger generations of women).

In summary, this generational analysis shows that young people have suffered a differential negative impact, however the worst results are concentrated among those with a low educational level, especially men, regardless of their age. Although the focus of labour market policy has recently moved towards young people (because of the push from the European Union to Youth Guarantee Programmes), the most significant challenge probably relates to workers with a low educational level and also to people who were around 26–30 years of age when the crisis hit the global economy, as they suffered a sudden and abrupt interruption in labour market integration. This last problem is probably linked with the widespread use of temporary contracts, which created a sort of extended probationary period of workers to the age of around 30.²⁶ The crisis has had a significant effect on integration into the labour market, creating many uncertainties for generations that are now around 32–36 years old. Regarding those usually defined as older workers (over 45 years of age), the above analysis also explains why they now make up half of the total number of unemployed people in Spain. It is noticeable how those with a lower level of education have lower (and decreasing) employment rates when they became older. Their unemployment spells are longer and the probability of them re-entering the labour market is low. As the Labour Force Survey is mainly designed (and used) as a cross-sectional survey, those people with longer unemployment spells have a higher probability of being sampled and counted as unemployed (Arranz and García-Serrano, 2014c). Of course, this is not an undervaluation of the problem of older people suffering long-term unemployment, but a qualification in order to understand why, although the evolution of the employment rate for older generations is better than for generations below 45 years of age when the crisis arrived, there is a relatively high share of older workers in total unemployment.

26. Malo and Cueto (2013) present a similar generational analysis for the evolution of the share of temporary contracts. They find that only generations of workers with a university education have shares of temporary contracts below 10 per cent when they are 30–32 years old.

Figure 1.11 Employment rate of males (all) by generation over the life cycle

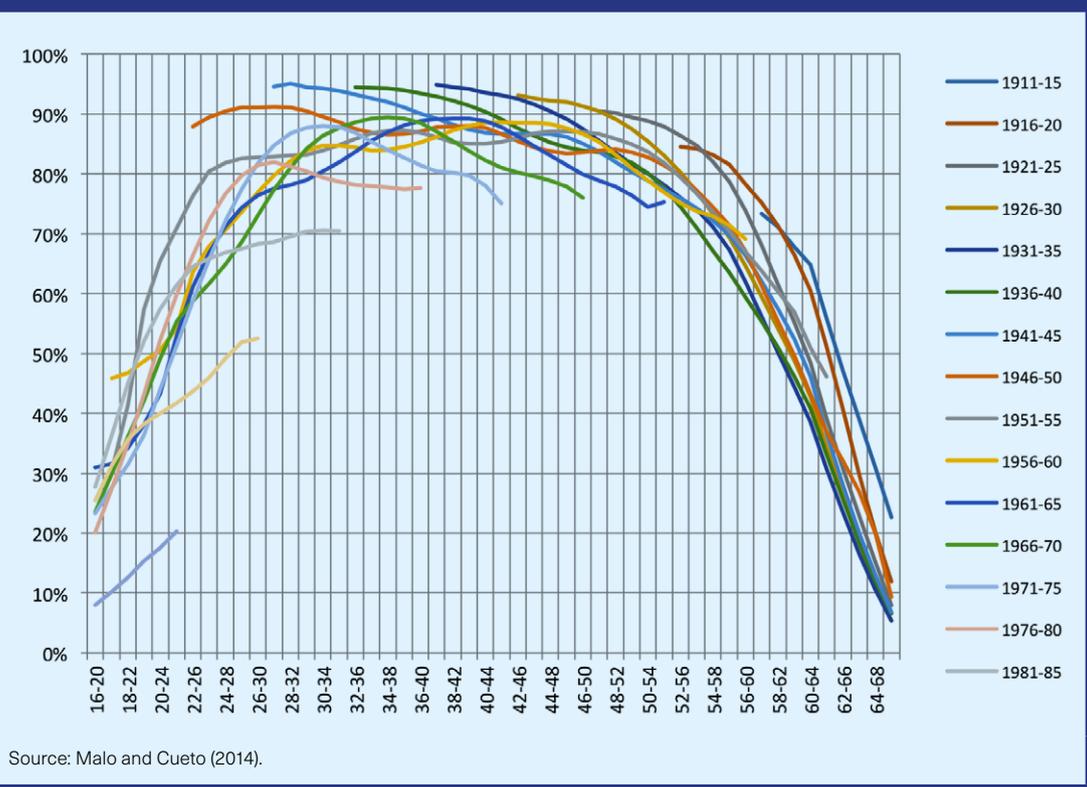


Figure 1.12 Employment rate of females (all) by generation over the life cycle

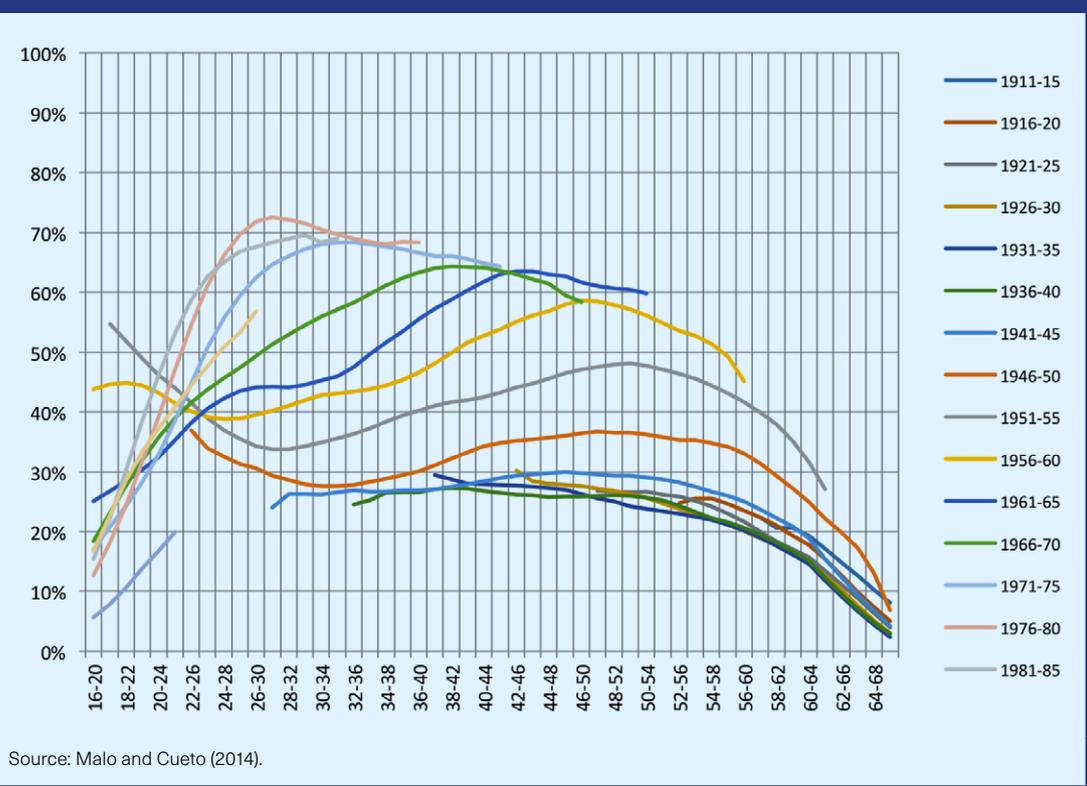
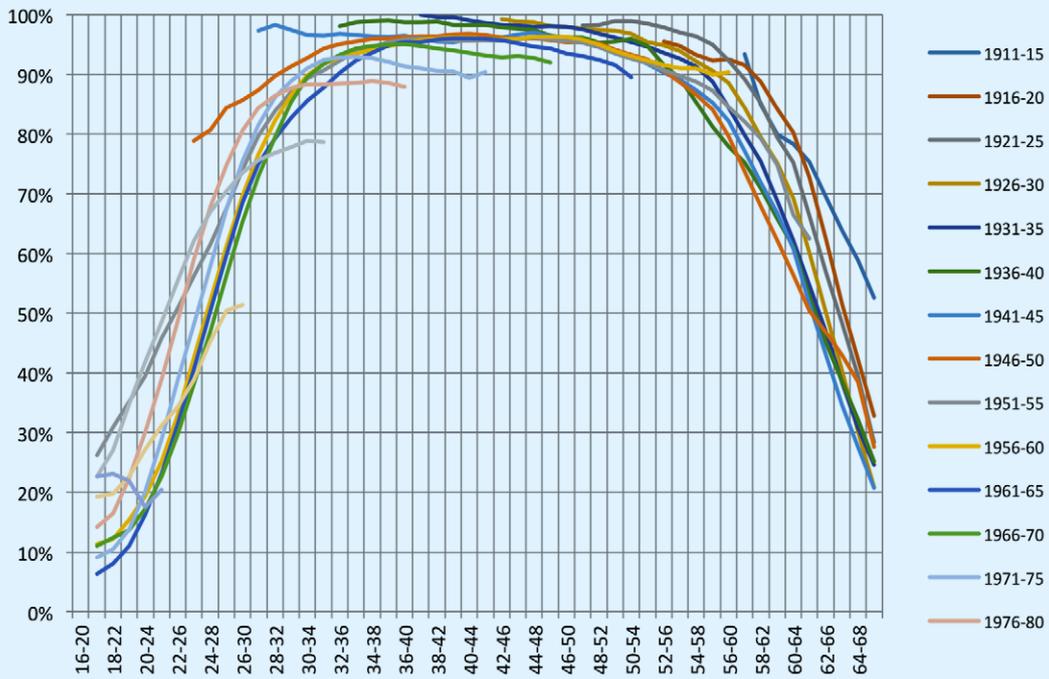
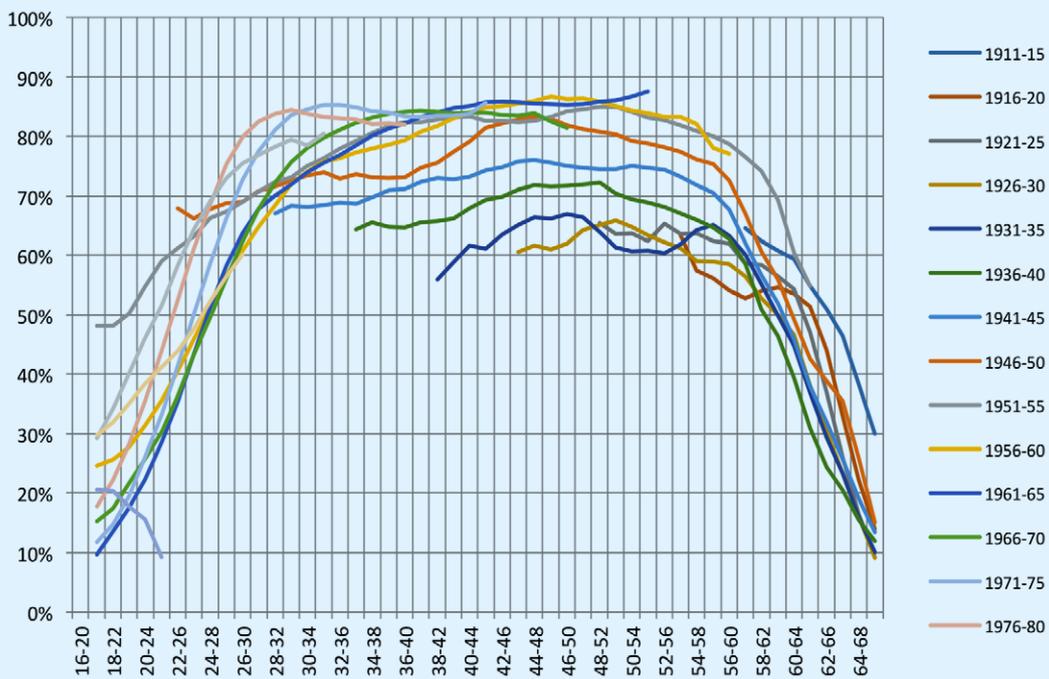


Figure 1.13 Employment rate of males with university education by generation over the life cycle



Source: Malo and Cueto (2014).

Figure 1.14 Employment rate of females with university education by generation over the life cycle



Source: Malo and Cueto (2014).

Figure 1.15 Employment rate of males with basic education by generation over the life cycle

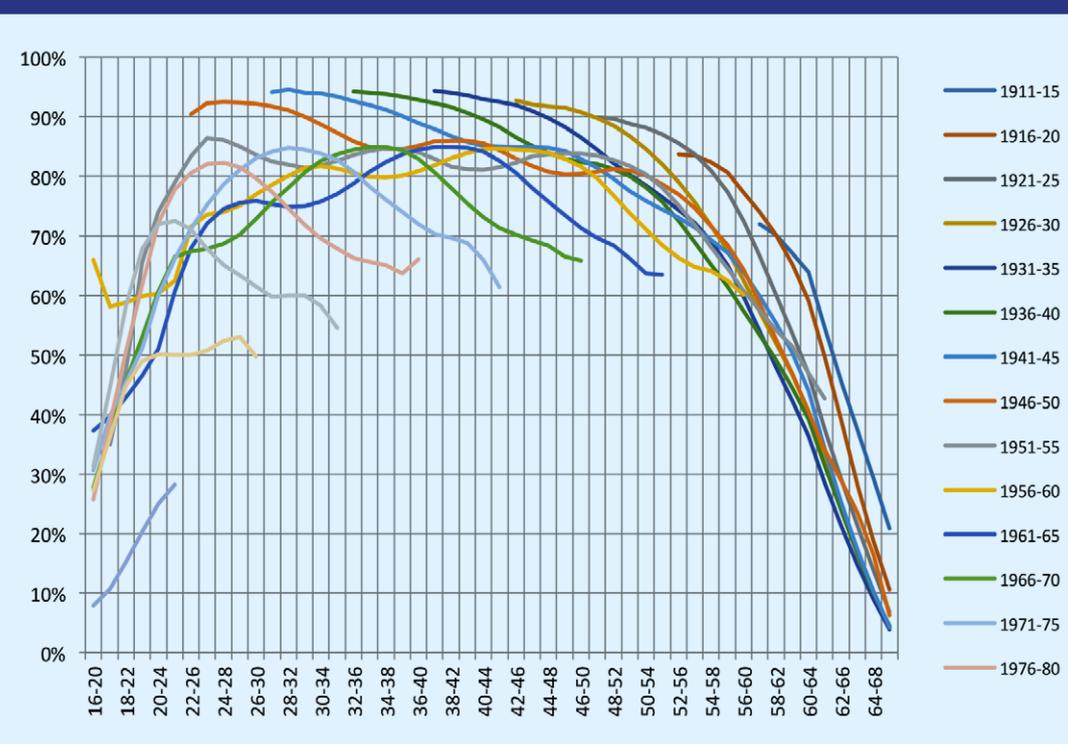
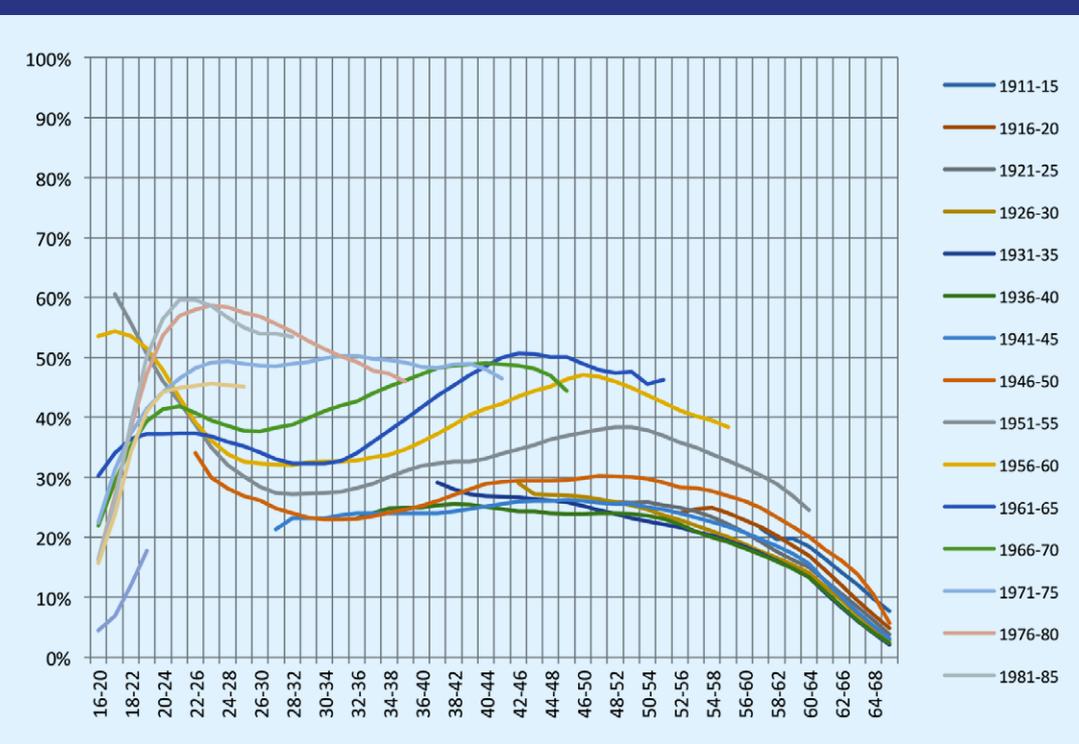


Figure 1.16 Employment rate of females with basic education by generation over the life cycle



1.4.3 Are young people emigrating?²⁷

There is widespread concern in Spain about young people migrating abroad because of the severe labour market crisis. It is not easy to calculate the magnitude of this migration process, and who exactly is migrating.

The data sources are scarce and, according to specialists, incomplete. The data published by the Spanish Statistical Office (based on the Census of Spanish nationals resident abroad) allow a preliminary quantitative analysis of new registrations during the crisis. Table 1.3 shows these new registrations in three selected countries: Germany, France and the United Kingdom. Focusing on those of working age (16–64 years of age), in Germany and the United Kingdom, new registrations have grown steadily year after year. New registrations in France, however, rose rapidly until 2011, and then declined in the remaining years. The figures remain, however, well above their pre-crisis levels. Although these figures are not negligible, they do not correspond to society's concern. The explanation is that these flows are underestimated. Other sources, such as the German Statistical Office (*Statistisches Bundesamt*), estimated that inward migration of Spaniards into Germany rose by 45 per cent between 2011 and 2012. This phenomenon is not exclusive to Spain, as the same source shows that migration registered from Portugal and Greece increased 43 per cent in the same year, and that from Italy by 40 per cent.

This simple analysis reveals that statistical sources available have significant limitations. In any case, it is not only a question of the number of people leaving

the country during the crisis, but whether this process affects key sectors of a modern economy (such as the scientific system), or if it will result in a definitive loss of human capital if the migration becomes permanent.

1.4.4 Immigrant workers

In general, immigrant workers share similar obstacles upon entry into a new labour market to young people and low-qualified workers. On the one hand, they arrive in a new labour market and begin a social and integration process. On the other hand, even some highly qualified immigrant workers must wait for long periods of time in order to have the educational credentials obtained in their countries of origin recognized in Spain. Both of these circumstances mean that immigrants experience relatively high job rotation and are affected by the blockade of job entry into the Spanish labour market. Over the crisis period, immigrants suffered higher unemployment rates than native workers (with a more negative impact on male immigrants; Garrido et al., 2010) and they have had a larger decline in their employment rates, especially male immigrants (Malo and Cueto, 2014). In fact, the available figures of employment and unemployment are not a reliable representation of the problems of immigrant workers, as the immigrant population in Spain has decreased because a significant share of them are no longer in the Spanish labour market because they have moved on to another country or returned to their country of origin (Malo, 2014).

Table 1.3 New registrations in the census of Spanish residents abroad (selected countries)

	Germany			France			United Kingdom		
	< 16	16–64	65+	< 16	16–64	65+	< 16	16–64	65+
2008	5 229	2 665	193	4 921	5 823	1 242	3 118	4 043	76
2009	2 635	2 856	212	3 553	6 068	1 226	1 945	4 176	162
2010	2 139	2 944	276	3 117	7 513	1 482	1 920	4 729	235
2011	1 947	3 433	189	3 293	9 068	1 175	2 020	5 352	169
2012	2 102	4 239	250	3 354	8 638	1 177	2 193	5 994	201
2013	2 821	5 510	265	3 907	8 163	1 091	2 742	6 837	187

Note: The years shown are those in which the registration was actually made.

Source: National Statistical Institute (INE).

27. This section is based on Malo (2014).

Social protection and social assistance for jobseekers

2

2.1 Unemployment insurance and assistance

2.1.1 Main features of the unemployment compensation system

In Spain, when workers lose their jobs there are two different levels of income maintenance: unemployment insurance and unemployment assistance.

Unemployment insurance strictly relates to previous contributions, and, therefore, to labour market experience and previous wages.²⁸ Unemployment assistance is also linked to previous experience in the labour market, but, in this case, the total amount of the subsidy is not related to the level of previous contributions. Unemployed workers can apply for unemployment assistance when their labour market experience is below the minimum threshold for unemployment insurance (12 months) and when they have exhausted unemployment insurance. Table 2.1 shows the exact formulae for the maximum duration of unemployment insurance and assistance.

The exact amount of the unemployment insurance benefit relates to the so-called regulatory basis of the worker. This regulatory basis is the mean of the regulatory bases of the last 180 days (i.e., 6 months) for contributions for injuries and professional illnesses. Of course, these regulatory bases are closely linked with wages. In fact, in gross terms, it can be said that unemployment insurance is a proportion of the latest wages.

The structure of unemployment insurance consists of two levels: in the first 180 days unemployed workers receive a benefit of 70 per cent of the regulatory basis per month; and for the 181st day onwards the benefit is 50 per cent of the regulatory basis per month.²⁹ In any case, these amounts must be between the minima and

maxima stated by law, and they depend on family burdens.³⁰ The insurance is then “corrected” by a means-tested feature based on the number of dependent children, through these thresholds. Table 2.2 presents the description of the minima and maxima thresholds, in terms of the IPREM.³¹

The amount of unemployment assistance is means tested³² and it is calculated as 80 per cent of IPREM (€426 per month in 2014).³³ Before 2012,³⁴ this total amount was adjusted according to family burdens for those aged 45 or more: 107 per cent of IPREM for those with two children, and 133 per cent of IPREM for those with three or more children. Therefore, the size of the subsidy has been decreased for those workers over 45 years old with larger family burdens.³⁵

February and July). Before this change, for the 181st day onwards the benefit was 60 per cent of the regulatory basis.

30. “Family burdens” means having children. Here, “children” means sons and daughters up to the age of 26 years old living with their parents and without any sort of income greater than 75 per cent of the minimum wage.

31. In Spanish, *Indicador Público de Renta de Efectos Múltiples*. The IPREM is an indicator used by the Spanish Public Administration as an income reference for grants, public financial subsidies, unemployment benefits and subsidies, etc. The government updates this indicator on a yearly basis, although the IPREM has remained constant since 2010 (€532.51 per month). Originally, the income reference was the minimum wage. In section 3 the difference between the IPREM and the legal minimum wage is discussed.

32. In general, applicants must have an income less than 75 per cent of the legal monthly minimum wage. The incomes of the rest of the family members are also included in this calculation.

33. This amount has not changed since 2011.

34. Real Decreto Ley 20/2012 (Act relating to the labour market reform of 2012).

35. Although published data do not allow the number of potential beneficiaries affected to be estimated, beneficiaries of unemployment assistance due to exhaustion of unemployment insurance benefits and over 45 years old were around 10 per cent of all beneficiaries of unemployment subsidies during the crisis (around 130,000 individuals). It is probable that only a few of them have two or more dependent sons or daughters below 26 years old. In any case, the problem is closer to the intensity of the problem than to the size of the population affected (which is an additional reason for not eliminating the adjustment by family burdens).

28. Workers can obtain unemployment benefits in situations of temporary layoffs or where there has been at least a one-third reduction in working hours, according to the terms of an ERE (in Spanish, *Expediente de Regulación de Empleo*). See Malo (2011, section 3.1.4) for details.

29. This structure was launched on 14 July 2012, and is one of the legal changes of the labour market reform implemented in 2012 (in

Table 2.1 Potential duration of unemployment insurance and assistance in Spain for wage and salary workers (synthesis)

Unemployment insurance		Unemployment assistance (means tested) for those exhausting unemployment benefits or without enough contributions to obtain unemployment benefits			
Number of months contributing to unemployment insurance in the last 6 years [C]	Unemployment benefits (months)	With family burdens ^a		Without family burdens	
		Below 45 years	45 years or more	Below 45 years	45 years or more
		3	–	3	3
4	–	4	4	–	–
5	–	5	5	–	–
6–11	–	21	21	6	6
12–17	4	18	24	–	–
18–35	$2 \times \text{Int}(C/6) = 6,8,10$	24	30	–	–
36–71	$2 \times \text{Int}(C/6) = 12,14,\dots,22$	24	30	–	–
72	24	24	36	–	–
Specific programmes for social assistance					
Above 55 years	–	Up to legal retirement age			
Special subsidy for seasonal agricultural workers ^b	–	6 months for those 16–51 years old 10 or 12 months for those 52–59 years old 12 months for those 60 years or more			
Active Income for Social Integration	–	11			
Other ^c	–	18			
Plan PREPARA	–	6			
Extraordinary Programme for Activation ^d	–	6			

Note: $\text{Int}(C/6)$ corresponds to the integer number of the result of dividing the amount of months paying unemployment contributions (C, which is equal or greater than 12) by 6. This expression corresponds to two requirements of unemployment insurance: the maximum duration should be an even number; and six additional months of unemployment contributions correspond to two additional months of unemployment insurance.

^a See footnote 29 for definition.

^b Applicable in only two regions (Andalusia and Extremadura).

^c "Other" includes other groups with access to unemployment insurance such as Spanish migrants coming back to Spain, ex-prisoners, and persons with disabilities with partial or total incapacity to work.

^d New subsidy agreed by the government and social partners, launched on 15 January 2015, effective until 15 April 2016. The programme is for long-term unemployed workers with family burdens, and without access to any other subsidy or minimum income programme.

Source: Labour Guide of the Ministry of Employment available at: www.empleo.gob.es/es/Guia/index.htm.

Table 2.2 Minima and maxima for unemployment benefits in Spain, 2014

		Unemployment benefits (€/month)
Minima	Without family burdens	80% of IPREM + 1/6: 497
	With family burdens	107% of IPREM + 1/6: 664.74
Maxima	Without family burdens	175% of IPREM + 1/6: 1 087.20
	With 1 child	200% of IPREM + 1/6: 1 242.52
	With 2+ children	225% of IPREM + 1/6: 1 397.83

Source: *Guía Laboral*, Ministry of Employment and Social Security.

The Active Income for Social Integration (in Spanish, *Renta Activa de Inserción*, RAI) is unemployment assistance for special categories of persons without access to other unemployment assistance benefits. The RAI is focused on unemployed workers 45 years old or more, registered for at least one year in public employment offices (i.e. long-term unemployed) with total incomes below 75 per cent of the minimum wage. Access to this special programme is also granted to persons below 45 years of age but who satisfy the rest of the conditions, people with disabilities and victims of domestic violence. For Spanish migrants returning to Spain the condition of being registered at least one year in public employment offices is waived. The most interesting feature of the RAI is that it combines active and passive policies. In fact, this programme is defined as a set of active measures (for example, training activities and specialized labour market mediation) towards specific groups of hard-to-place unemployed workers jointly with income maintenance (with the same amount of the rest of unemployment assistance).

In two Southern regions (Andalusia and Extremadura) there is a special subsidy for seasonal workers in agricultural activities. Although it is a subsidy, it is related to the number of previous working days but it is also means-tested. The potential duration of the subsidy depends on the age of the beneficiary: from 16 to 51 years old, 6 months; from 52 to 59 years old, 10 or 12 months (depending on previous contributions); and for those 60 years old or more, 12 months. The amount of this subsidy is the same as the rest of the unemployment assistance calculated with respect to the IPREM.

2.1.2 Two waves of changes over the recession

The current recession has not affected the general structure of passive policies; however, some details have been changed. The reasons for changes have varied during the crisis: until 2011 changes attempted to respond to the intensity of the crisis in some industries and the long unemployment durations jointly with the exhaustion of unemployment insurance; later, changes attempted to moderate public expenditure.

The first stage of changes began with extraordinary budgets to fund the sudden increase in unemployment. With regard to unemployment insurance, workers affected by temporary layoffs and reduction of working hours through an ERE (a Spanish institution providing a short-time work scheme) have been allowed to extend

de facto their benefits period, because under some limits these partially unemployed workers do not exhaust their right to further unemployment insurance. The rationale behind this was to promote this temporary adjustment instead of dismissals, an adjustment pattern typical of some business sectors such as the automobile industry.

Possibly one of the most notable changes in the first part of the recession has been a special subsidy created for those exhausting other unemployment insurance and assistance benefits. This subsidy was launched in August 2009 and was defined as a transitory programme for unemployment protection and social protection. The amount of the subsidy was the same as other types of unemployment assistance. This programme expired on 15 February 2011, was prolonged later and was finally replaced by another programme with similar inspiration known as “Plan PREPARA”. This new programme was focused more on labour market mediation and training, and included a means-tested subsidy.³⁶ The objective of the programme was to improve the capabilities of low-skilled workers in industries with high levels of temporary contracts (such as construction, retailing or hospitality) and with very few qualifications useful in other industries or in better jobs.

Since 1 January 2010, a new regulation has been in force that facilitates the replacement of the unemployment insurance by a lump-sum transfer. Although this option existed before the crisis, the conditions are now not as limiting (39/2010 Act) and the focus is on young unemployed persons (up to 30 years of age for unemployed men and 35 years of age for unemployed women), especially when they present a project for a business start-up. However, for young people this is possibly a limited measure. First, as they are young, they have a limited work history with relatively lower wages and, therefore, the amount of the lump-sum will not be enough to start a new business as self-employed (as Act 39/2010 states). Second, using the lump-sum to fund masters, postgraduate programmes or any sort of official educational course in general is not considered.

Finally, unemployment insurance has been extended under some conditions to self-employed workers. The new legal regulation was enacted in August 2010 and was applicable from November 2010 onwards. These benefits cover self-employed workers with an involuntary end to their economic activity and with previous

36. This subsidy is 75 per cent of the IPREM. It is therefore lower than the “normal” unemployment assistance (80 per cent of the IPREM); however, the subsidy of the Plan PREPARA is 85 per cent of the IPREM for those with family burdens.

contributions of at least 12 months, and they are linked to existing contributions for labour accidents and professional illness risks.³⁷ The potential duration of these benefits ranges from 2 to 12 months depending on the number of months of previous contributions, although for those between 60 and 64 years old there will be an increase in potential duration (but with the same maximum of 12 months).³⁸

The second stage of changes, tightening conditions for passive policies, began with a legal change in effect since 1 January 2010, promoting a more active search by job-seekers. According to the new regulation, unemployed workers cannot reject an offer of work (according to their qualifications and individual characteristics) or enrolment in training programmes, otherwise they will lose their unemployment compensation.

The reform of 2012 deepened this trend, eliminating the increase in unemployment subsidies for those above 45 years of age with larger family burdens, and calculating the second part of the unemployment benefit as 50 per cent of the regulatory basis instead of 60 per cent. Both changes have previously been explained. To the author's knowledge, there is no estimation of the impact of these measures on the total public expenditure for passive labour market policies.

In December 2014, the government and the social partners agreed to implement a new subsidy for long-term unemployed workers with family burdens and without access to any other subsidy. It is the so-called extraordinary programme for employment activation (*programa extraordinario de activación para el empleo*). The amount of the subsidy is 80 per cent of IPREM. This programme tries to respond to the worrying trend of long-term unemployment and to provide additional coverage for long-term unemployed workers with family burdens and without other sources of income. The maximum period for this subsidy is six months. In order to encourage a smooth transition to employment, this subsidy is compatible with new employment for five months. As the employer will receive the subsidy

37. The new unemployment contribution is mandatory for those self-employed workers under mandatory contributions for labour accidents and professional illness (around one million persons at the time of enactment of this new measure). The rest of the self-employed workers can voluntarily pay the unemployment contribution linked to the payment of the contribution for labour accidents and professional illness (at the enactment of this measure, around 500,000 self-employed workers were paying voluntarily for the contingency of accidents and professional illness).

38. Details available at the Spanish Social Security website: http://www.seg-social.es/Internet_1/Trabajadores/Trabajadoresdelmar/ProtecCese/178916

when hiring these workers, de facto this possibility is a significant decrease of wage costs of these workers. The government's estimation of potential beneficiaries is around 400,000 unemployed from 15 January 2015 to 15 April 2016. Following the experience of the Plan PREPARA, this extraordinary programme includes activation activities designed and guided by the public employment service.³⁹

2.1.3 Expenditure on unemployment and on passive policies

Table 2.3 shows the evolution of expenditure on passive labour market policies in terms of GDP, together with total expenditure on active labour market policies. The last row shows that total expenditure has increased from 2.24 per cent of GDP before the crisis to 3.61 per cent during the crisis period (until the last available year, 2011). This increase is mainly related to increases in expenditure on passive labour market policies, especially unemployment insurance and assistance. Expenditure on unemployment insurance has increased on average from 1.04 to 1.91 per cent of GDP, while expenditure on unemployment assistance moved from 0.35 to 0.66 of GDP (respectively in both cases 2004–07 and 2008–11). The other two measures where expenditure increased during the crisis are partial unemployment benefits (related to short-time working) and bankruptcy compensation, both closely related to the recession.

Expenditure on active labour market policies has also been increasing during the crisis⁴⁰ but not to the same extent as expenditure on passive policies. In 2010, the relative size of the expenditure on passive measures was 4.1 times the expenditure on active measures. These figures show the massive effort made in terms of payments of unemployment benefits linked to the enormous increase in levels of unemployment. In fact, the share of expenditure on unemployment benefits in total labour market policies was around 65 per cent from 2005 to 2007, and in 2008 it increased to 70.5 per cent and in 2009 rose to 80.3 per cent (including the additional extraordinary budgets passed by the government).⁴¹

39. The legal regulation of the extraordinary programme for employment activation (in Spanish) is accessible at: <http://www.boe.es/boe/dias/2014/12/20/pdfs/BOE-A-2014-13249.pdf>. At the deadline for this report, no statistical information is available on this programme.

40. Details of this process will be discussed later in the report.

41. In 2009, extraordinary budgets were passed to increase the initial estimates for expenditure on unemployment benefits. See Malo (2011) for details.

Table 2.3 Expenditure on (total) active and passive labour market policies (total and programme categories). Percentages with respect to GDP										
	2004	2005	2006	2007	2008	2009	2010	2011	Average 2004-07	Average 2008-11
Active measures (10-70)	0.75	0.77	0.79	0.79	0.81	0.86	0.94	0.89	0.78	0.88
Categories 20-70 only	0.63	0.65	0.66	0.67	0.67	0.70	0.77	0.74	0.65	0.72
Passive measures (80-90)	1.50	1.46	1.44	1.46	1.89	3.00	3.16	2.88	1.47	2.73
Passive (80-90)/ Active (20-70)	2.38	2.25	2.18	2.18	2.82	4.29	4.10	3.89	2.25	3.78
80: Out-of-work income maintenance and support	1.46	1.42	1.39	1.40	1.82	2.94	3.11	2.84	1.42	2.68
81: Full unemployment benefits	1.43	1.39	1.36	1.37	1.78	2.83	2.97	2.68	1.39	2.57
811: Unemployment insurance	1.07	1.04	1.02	1.03	1.41	2.27	2.13	1.84	1.04	1.91
812: Unemployment assistance	0.36	0.35	0.34	0.33	0.37	0.55	0.85	0.85	0.35	0.66
82: Partial unemployment benefits	0	0	0	0	0.01	0.05	0.04	0.04	0.00	0.04
83: Part-time unemployment benefits	0	0	0	0	0	0	0	0	0.00	0.00
84: Redundancy compensation	0	0	0	0	0	0	0	0	0.00	0.00
85: Bankruptcy compensation	0.03	0.02	0.03	0.03	0.03	0.06	0.10	0.12	0.03	0.08
90: Early retirement	0.04	0.04	0.05	0.06	0.07	0.06	0.04	0.04	0.05	0.05
100: Total	2.25	2.23	2.23	2.25	2.69	3.86	4.10	3.77	2.24	3.61

Note: 0 means nil or less than 0.005.

Source: OECD.

2.1.4 Evolution of beneficiaries of unemployment insurance and assistance

Figure 2.1 shows the evolution of the number of beneficiaries of unemployment insurance and assistance from 1984-2014. The relative importance of the special agricultural subsidy and the active income for social integration (RAI) is rather small in the current recession. Nevertheless, the RAI has shown an increasing trend over the last decade and not only with the arrival of the current crisis.

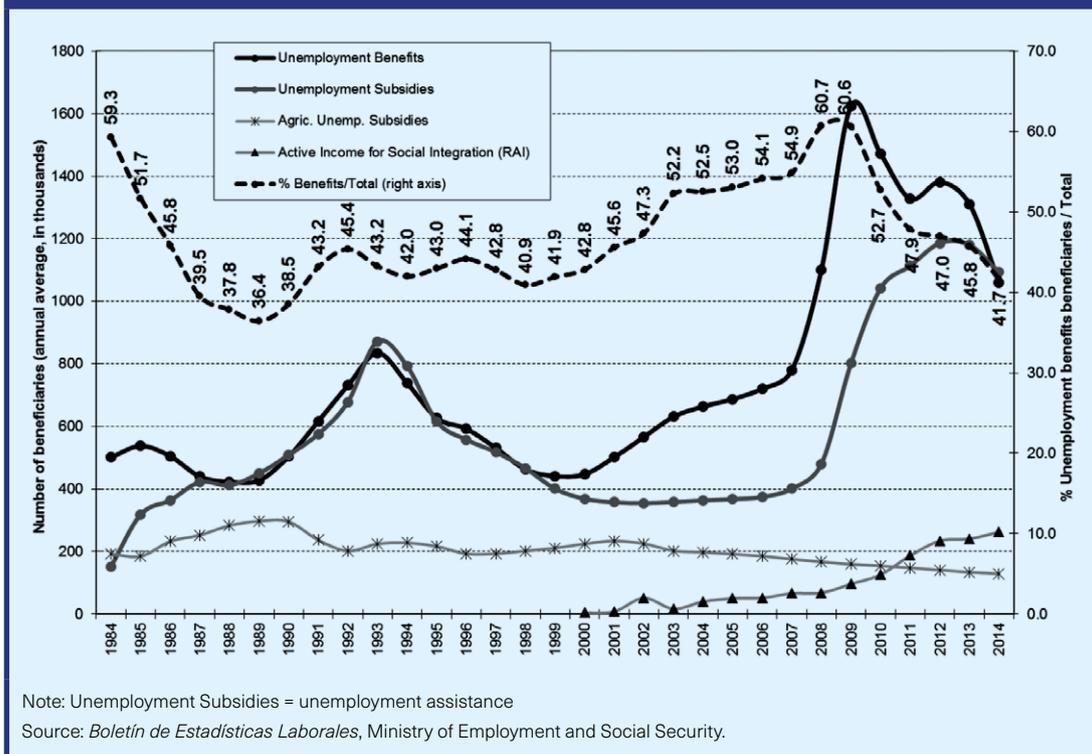
In terms of unemployment benefits, most beneficiaries receive unemployment insurance, and its importance increased during the crisis, especially in the first two years (2008 and 2009). From 2010 to 2014, the number of beneficiaries of unemployment insurance decreased to around the same number as those receiving unemployment assistance. For 2013 and 2014 the number of beneficiaries of unemployment assistance also decreased. Although there was a relative improvement in

macroeconomic conditions in Spain at that time (ILO, 2014), presumably the exhaustion of all benefits and subsidies by long-term unemployed workers (around 50 per cent of all unemployed workers, according to the Labour Force Survey) is the reason for the decline observed.

There is an additional remarkable feature in figure 2.1. There was a significant increase in unemployment insurance beneficiaries during the whole of the last decade, a period of high economic and employment growth, mainly due to termination of temporary contracts. Nonetheless, there was no corresponding increase in unemployment assistance; therefore, the increase in the number of beneficiaries of unemployment insurance corresponds to employment spells of at least one year.⁴² Other databases confirm this high recurrence of

42. As shown in table 2.1, access to unemployment benefits is related to employment spells lasting at least one year (or accumulated contributions up to one year although with interruptions, which can be important to workers with temporary contracts).

Figure 2.1 Beneficiaries of unemployment insurance and assistance, 1984-2014



unemployment insurance, for example, Toharia (2008) with Social Security records. In this vein, Rebollo (2012) shows the high probability of being rehired by the same firm after receiving unemployment insurance and Arranz and García-Serrano (2014b) show the interplay between unemployment compensation, the widespread use of temporary contracts, and the layoff–rehire process.

Before the crisis, therefore, firms and workers developed a strategic use of unemployment insurance as a complementary income rather than a substitute income, decreasing wage costs for the firms (as a sort of “indirect public subsidy”) and providing a flexible adjustment to the business cycle. This practice however, becomes increasingly difficult in a deep recession: workers have shorter potential periods of unemployment insurance (or only unemployment assistance, which is much lower) and the burden on the public budget of such behaviour is no longer affordable because of the implementation of “austerity” policies.

Nevertheless, this complementary use of work incomes and unemployment insurance and assistance is implicit in some other features of the Spanish labour market. In this vein, the discontinuous open-ended contract (the so-called *contrato fijo discontinuo*) provides a seasonal open-ended contract. This contract has an “active” period and an “inactive” period. During the active

period, the worker has a job, but this period is interrupted by the inactive period, when the worker receives unemployment insurance or assistance. This contract is mainly used in some regions in the tourism industry and in seasonal agricultural activities. On the other hand, workers on ERE (the Spanish institution for short-time work schemes) work reduced hours and receive part of their wages through the unemployment benefits system. In both situations, unemployment income support has a role as a complement to instead of a substitute for working incomes.

2.2 Minimum income

In Spain, the last safety net is a set of different regional minimum income programmes.⁴³ These programmes were launched in the 1990s, when social service competencies were transferred to the autonomous communities. The first programme came from the Basque Country, following the French experience of the national programme *Revenu Minimum d’Insertion*. The Basque programme, and others implemented later

43. The Spanish Ministry for Health, Social Services and Equality compiles annual reports on the basic facts of the regional minimum income programmes. The reports for 2011 to 2013 can be downloaded at: <http://www.msssi.gob.es/ssi/familiasInfancia/inclusion-Social/serviciosSociales/RentasMinimas/home.htm>

Table 2.4 Minimum income programmes in Spanish autonomous communities (2013): Minimum and maximum transfers per household, and annual total expenditure per family and per person

	Minimum amount per household and month	Maximum amount per household and month	Annual total expenditure by household	Annual total expenditure by person	Beneficiaries		
					All	Males	Females
Andalusia	400.09	645.30	1 796.25	632.78	158 146	112 739	45 407
Aragón	441.00	621.26	3 107.06	889.84	25 266	12 643	12 623
Asturias	442.96	730.88	4 844.26	2 177.85	27 148	15 325	11 823
Balearic Islands	425.70	776.57	3 115.25	944.31	7 426	2 642	4 784
Canary Islands	472.16	658.54	3 485.01	1 712.44	11 938	6 737	5 201
Cantabria	426.01	664.64	3 211.30	1 569.53	9 557	4 888	4 669
Cast-La Mancha ^a	372.76	741.78	2 074.02	469.05	5 735	3 048	2 687
Cast-León	426.00	692.26	4 491.90	1 774.65	26 253	13 168	13 085
Catalonia	423.70	645.30	5 314.54	2 119.95	62 643	31 957	30 686
Ceuta ^b	300.00	420.00	1 363.28	401.37	1 396	767	629
Extremadura	399.38	665.63	1 521.55	602.91	3 195	1 959	1 236
Galicia	399.38	665.64	3 252.32	1 500.17	24 459	12 467	11 992
Madrid	375.55	532.51	4 317.94	1 339.83	63 746	32 888	30 858
Melilla ^c	387.18	645.30	3 002.48	722.84	2 405	1 227	1 178
Murcia	300.00	682.00	2 447.40	871.11	6 858	3 492	3 366
Navarra	548.51	962.10	3 955.87	1 180.16	31 750	17 335	14 415
Basque Country ^c	662.51	941.06	5 841.70	3 199.89	136 058	62 189	73 869
Rioja ^c	364.90	372.76	2 581.37	2 581.37	2 212	1 236	976
Valencia	385.18	621.26	1 989.86	750.75	31 382	15 766	15 616
Total	7 952.97	12 684.79	61 713.38	25 440.78	637 573	352 473	285 100
<i>Average</i>	<i>418.58</i>	<i>667.62</i>	<i>3 248.07</i>	<i>1 338.99</i>			

Note: Ceuta and Melilla are autonomous cities in Northern Africa.

^a The maximum corresponds to a family with five members.

^b Total expenditure includes complementary transfers for medicines, basic furniture and transportation costs to vocational courses.

^c Expenditure includes two programmes (the minimum income programme plus other complementary transfer programmes related to specific social problems, such as housing).

Source: Spanish Ministry for Health, Social Services and Equality. Tables 7 and 8 of the report on regional minimum income programmes for 2013: http://www.msssi.gob.es/ssi/familiasInfancia/inclusionSocial/serviciosSociales/RentasMinimas/Docs/Informe_2013.pdf

in many autonomous communities, was expressed as a twofold right: the right to have a minimum income and the right to social inclusion.⁴⁴

These programmes have evolved over time. The Basque programme is now almost a basic income programme (without many social inclusion activities). Other programmes have evolved as social inclusion measures (as in Madrid, for example), while others have remained as a residual measure against poverty and social inclusion activities are not really generalized. In fact, the use of

44. See Arriba (2014) for a survey of these programmes during the crisis and for the changes during the last decade.

minimum income programmes as income transfers is common knowledge, but very few people know about the social activities towards social inclusion included in these programmes.⁴⁵

Table 2.4 shows that the average minimum transfer was €418.58 per month (–0.5 per cent with respect

45. Even in the reports on regional minimum income programmes compiled by the Ministry for Health, Social Services and Equality, the only information included on social activities of beneficiaries is a mere description of the corresponding legal regulation at the regional level. However, the information on the income transfers goes far beyond a description of the legal regulation, providing different types of statistical information.

to 2012⁴⁶). This minimum is always below the legal minimum wage for 2013 (€645.30 per month; see table 3.3), with the exception of the Basque Country, where it is almost equivalent. In any case, on an annual basis, expenditure by family and by person is rather low in general. The total number of persons under these programmes reached 637,573 in 2013 (an increase of 14.5 per cent with respect to the previous year), and there are more males than females. On aggregate for Spain in 2013, total expenditure on minimum income programmes increased 21.75 per cent with respect to 2012. In 2013, expenditure on minimum income programmes was on average 0.4 per cent of the total budget of autonomous communities.⁴⁷ With regard to how these programmes respond to the challenges of the crisis, all of them have increased the number of beneficiaries and the total budget allocated to them. However, the design of the programmes has two worrying shortcomings (Arriba, 2014). First, there is a wide dispersion of the minimum amounts (corresponding to households with only one member), as shown in table 2.4. Second, the increase in the income transfer with the size of the household is very rigid and these increases are not related to the increasing needs of larger families or to the economies of scale when increasing the size of the household.

2.3 Interactions between unemployment compensation and other income support programmes

2.3.1 “Pre-retirement”: Unemployment compensation, severance payments and retirement pensions⁴⁸

This is a strategic use of unemployment compensation jointly with severance payments and/or special agreements with Social Security in order to fund a “de facto” early retirement without eroding the future retirement pension. The practice of pre-retirement (in Spanish, *pre-jubilación*) begins with the dismissal of an older worker relatively close to the retirement age, but without some of the requirements to apply for a retirement pension or if applying, the pension would be relatively low (compared with previous wages or with the pension to be obtained if working until the retirement age).

As these older workers usually have high seniority, if they are dismissed by the firm, they have access to the maximum potential duration of unemployment insurance (two years), and after exhaustion of benefits they have access to the subsidy for people 55 years of age or more (which continues until they can apply for a retirement pension). Therefore, they can obtain income support until retirement age.

The problem is that when the worker moves from unemployment insurance to unemployment assistance, contributions for pensions decrease dramatically and, therefore, future pensions will be lower. However, the right to the same future pensions may be sustained if these workers have enough resources to contribute complimentary amounts directly to Social Security (through a legal instrument called “special agreement”, in Spanish, *convenio especial*).

Therefore, the key to this strategic use of unemployment compensation is how to finance these additional contributions to Social Security. In some cases, there are public programmes to cover these situations (always with the explicit agreement of the worker) in sectors most affected by the crisis. Aside from public programmes, another solution is severance pay. When the firm wants to dismiss an older worker, the firm makes an offer of a higher severance payment including the coverage (total or partial) of the special agreement with Social Security. This strategy is typical of large firms and on many occasions it is agreed upon through a collective dismissal. In this vein, Serrano-García (2009) remarks that pre-retirement is a common solution in collective agreements on dismissals, especially for workers 52 or more years old.⁴⁹ This type of agreement needs enough funding from the firm and, therefore, it is typical of firms with profits (or, at least, enough liquidity) but trying to restructure their activity or their business.

The final result is a sort of joint funding of mass layoffs for restructuring industries with a mix of private and public funds. Firms pay additional severance payments and the public sector pays for unemployment insurance (and unemployment assistance) as a sort of early retirement pension because these workers do not want to find a new job.

It is very difficult to quantify the relevance of pre-retirement beyond cases funded by public programmes, because these people who receive a more generous severance payment are unemployed and they cannot be

46. All comparisons with respect to 2012 data are from the report for 2013 of the Spanish Ministry for Health, Social Services and Equality (see link at the bottom of table 2.4).

47. Excluding the Basque Country, this percentage is 0.3 (Arriba, 2014).

48. This sub-section follows section 3.1.5 in Malo (2011).

49. The current unemployment subsidy for workers above 55 years of age replaced a previous subsidy for workers above 52 years of age. This change was introduced by the labour market reform of 2012.

distinguished from the rest of the unemployed workers. From a legal point of view, the “pre-retired” workers are unemployed and they are receiving unemployment insurance and later unemployment assistance. In fact, however, they are part of the inactive population (because they do not seek jobs and they are not available to accept a job offer), and the available surveys of the labour market do not allow the size of this problem to be estimated.

2.3.2 Disability benefits: An indirect way to early retirement?

In the international literature on disability benefits and labour market participation, the seminal article by Parsons (1980) remarked on how disability benefits were used by American males as an indirect way to early retirement. The Spanish literature on this topic mainly follows the same line, analysing the incentives to use disability benefits by older workers. Empirical evidence shows a negative effect of receiving any sort of benefits or subsidies on the labour market participation of persons with disabilities, paving the way for an interpretation of using disability pensions by older workers to exit from the labour force. However, other authors interpret this negative effect not as the causal impact of the replacement rate but of the design of the income transfers system. There would be a sort of “benefit trap” related

to a marginal tax rate of 100 per cent on new labour income and/or restrictions and legal uncertainties as to how to make transitions from disability pensions to work and how to make both income sources compatible. Even people receiving partial disability pensions (defined as compatible with work) have on average low labour market participation rates (Malo et al., 2011).

In any case, there was only a clear use by Public Administration of the disability pension to restructure the agricultural sector and some traditional industrial sectors by the end of the 1970s and early 1980s (López and Calvo, 1989). The legal requirements have not been changed since then, but there is a general statement that it is harder to meet the medical and legal requirements to qualify for a disability pension (Malo, 2004).

Table 2.5 shows that beneficiaries of disability pensions constitute 2.3–2.4 per cent of the working-age population (in levels, around 900,000 people). The evolution of the ratio of beneficiaries with respect to the working-age population has a slow increasing pattern, which disappeared in 2013 and 2014. In any case, the increase from 2005 to 2012 (the peak of the ratio series) is 0.15 percentage points. Considering that around 80 per cent of all beneficiaries are over 45 years old, these figures are not negligible but they do not seem to show a strategic use of disability pensions as a way to exit from the economically active population.

Table 2.5 Disability pensions and working-age population in Spain (2005–14)

	Disability pensions (thousands)	Working-age population (thousands)	DP/WAP (%)
2005	832.79	36579.4	2.28
2006	859.78	37142.8	2.31
2007	888.78	37833.1	2.35
2008	906.83	38390.2	2.36
2009	920.86	38651.0	2.38
2010	933.73	38760.1	2.41
2011	938.49	38842.3	2.42
2012	943.30	38815.0	2.43
2013	935.22	38638.6	2.42
2014	929.48	38514.6	2.41

Sources: Disability pensions: *Boletín de Estadísticas Laborales* (<http://www.empleo.gob.es/estadisticas/bel/welcome.htm>), Spanish Ministry of Employment.

Working age population: Spanish Labour Force Survey, Spanish Statistical Office (<http://www.ine.es>).

3.1 Basic facts

3.1.1 Wages and wage distribution

There is a wide consensus that in Spain, after the fall in income differences in the second part of the 1980s (mainly because of an unprecedented increase in social expenditure), income inequality does not fall as much during expansions as it increases during recessions, but the latest crisis has increased income inequality much faster than in the last four decades (Ayala, 2014). As in other countries, the evolution of income inequality is related to changes in the redistributive policies implemented by governments and in wages distribution. At the international level, Spain suffers from a lower redistributive intensity of public policies, especially with respect to other European countries such as France or Germany (Ayala et al., 2013). In the second part of the latest crisis, austerity policies have intensified this shortcoming through severe limitations in the public budget devoted to health, education and social protection.

On the other hand, the extremely difficult situation in the Spanish labour market has affected income inequality. While in other recessions the increase in the unemployment rate did not substantially affect income inequality, in the latest crisis the rapid increases in unemployment and long-term unemployment have worsened the incomes of households with lower incomes (Ayala, 2014).

With regard to the evolution of wages in Spain, average wages increased over time until the first part of the latest crisis: the mean daily wage was €58 in 2005 and €61.80 in 2010, in constant euros of 2006⁵⁰ (Arranz and García-Serrano, 2014a). Of course, this evolution was affected by changes in employment composition, especially by the fall of the construction sector and the impact of the global financial crisis. On the one hand, the share of male workers between 16 and 30 years of

age was lower in 2010 compared with 2005, especially in low-skilled jobs (Arranz and García-Serrano, 2014a). On the other hand, average labour market experience and seniority increased as employment destruction was mostly concentrated on temporary workers at the beginning of the crisis. All of this was exactly the opposite during the expansion years prior to the crisis.

In terms of monthly wages and for a larger part of the workforce, table 3.1 shows a similar time trend for mean and median real gross wages,⁵¹ as mean (median) wage increases until 2009 (2010) and decreases from 2010 (2011) onwards. At the bottom of the wage distribution, the decrease in wages has been more severe and began two years earlier for the first decile (just when the crisis erupted). The wage decrease began in 2009 for the second decile and in 2011 for the third to the sixth deciles. For the rest of the deciles, there was only one year of wage decrease (2012), although at the top there was also a very small decrease in 2013 (–0.08 per cent). For the period coinciding with the analysis of Arranz and García-Serrano (2013) – i.e., from 2006 to 2010 – the evolution pattern is similar as they also find a small decrease in real mean (daily) wages for the top deciles in 2010.

However, table 3.1 shows that decreases for the top deciles continued until 2012, and even until 2013 for the highest decile. In any case, the adjustment in real wages has been much more intense for the lowest deciles. While for the highest decile real wage losses from 2009 to 2013 are –4.1 per cent, for the first decile real wage losses from 2007 to 2013 are –27.1 per cent. In addition, all dispersion indicators collected at the bottom of table 3.1 show an increase in wage inequality, with one exception, $d90/d50$, which remains stable around 1.9. This means that the increase in wage inequality is not related to internal movements above the median, but because of a relative increase in the distance of workers below and above the median.

50. Because of the limitations of the database (*Muestra Continua de Vidas Laborales*, from Social Security records), these figures do not include any adjustment for part-time versus full-time contracts. This database also excludes the majority of civil servants.

51. This table has been extracted from the following press release of the Spanish Statistical Office: <http://www.ine.es/prensa/np874.pdf>. The table corresponds to the information obtained through the Labour Force Survey combined with administrative records from Social Security to estimate the wage deciles.

Table 3.1 Mean, median and deciles of real gross monthly wages from 2006 to 2013 (euros at 2006 prices)

	2006	2007	2008	2009	2010	2011	2012	2013
<i>Mean</i>	1 572.6	1 598.9	1 658.6	1 701.7	1 693.4	1 643.6	1 611.7	1 605.5
<i>Median</i>	1 338.4	1 371.5	1 394.1	1 434.3	1 442.9	1 407.4	1 375.4	1 374.5
d10	474.2	488.1	468.6	464.9	444.3	414.5	370.7	356.0
d20	800.7	829.1	830.8	821.2	822.5	770.9	731.9	697.6
d30	1 006.0	1 031.9	1 040.8	1 050.0	1 051.6	1 007.4	977.1	947.7
d40	1 144.2	1 171.2	1 184.7	1 209.6	1 212.2	1 169.0	1 151.7	1 132.7
d50	1 270.4	1 300.9	1 319.6	1 353.3	1 361.6	1 325.1	1 300.2	1 291.1
d60	1 418.5	1 451.2	1 474.8	1 525.5	1 535.5	1 498.1	1 468.1	1 463.4
d70	1 629.4	1 657.0	1 678.5	1 752.9	1 765.1	1 719.2	1 692.9	1 700.1
d80	1 960.3	1 987.6	2 005.1	2 100.0	2 110.1	2 044.9	2 007.2	2 031.0
d90	2 447.8	2 500.4	2 520.0	2 642.3	2 617.5	2 541.1	2 483.9	2 504.6
d100	3 573.7	3 571.3	4 062.8	4 096.9	4 012.0	3 942.9	3 932.9	3 929.8
<i>d90/d10</i>	5.2	5.1	5.4	5.7	5.9	6.1	6.7	7.0
<i>d90/d50</i>	1.9	1.9	1.9	2.0	1.9	1.9	1.9	1.9
<i>d50/d10</i>	2.7	2.7	2.8	2.9	3.1	3.2	3.5	3.6
<i>d70/d30</i>	1.6	1.6	1.6	1.7	1.7	1.7	1.7	1.8
<i>d100/d10</i>	7.5	7.3	8.7	8.8	9.0	9.5	10.6	11.0

Source: INE, Spanish Statistical Office (Labour Force Survey with linked Social Security information) and author's calculations.

Apart from a genuine fall in real wages, the decrease in real gross mean wages may be linked to different causes: an increase in part-time work (as wages are normally paid on a monthly basis) which would mean a decrease in mean working hours; and/or an increase in low-wage jobs.

As shown in section 1, part-time work increased during the crisis, especially with the labour market reform of 2012. In fact, unions have remarked that such an increase hides a decrease in wages per hour, as workers would work more than their agreed hours through fear of losing their jobs.

In the first part of the crisis, temporary employment – largely composed of low-paid jobs – decreased.⁵² Some analyses actually showed an increase in wages at the beginning of the crisis, due to a composition effect: as so many low-wage workers were losing their jobs, the mean wage was increasing.⁵³ However, since 2010, real gross mean wages have been decreasing for both types of contracts, for both full-time and part-time contracts (table 3.2).

To sum up, the most plausible conclusion is the existence of a direct decrease in real wages (an “adjustment”) even before the labour market reform of 2012, probably reinforced by the new possibilities of using part-time contracts. In fact, this simple descriptive analysis is in line with previous literature on Spain (using different definitions for wages) showing that the most common pattern for wage distribution moves is counter-cyclical.⁵⁴ In other words, dispersion decreases during expansions and increases in downturn years.

Of course, these changes in aggregate wage inequality have not been uniform across different characteristics of the labour force. With respect to the crisis, wage differentials linked to experience in the labour market have increased only marginally (and concentrated on the top deciles of the wage distribution) while those strictly related to seniority decreased (Arranz and García-Serrano, 2013). A key variable related to seniority is the contract type. Table 3.2 shows that wage adjustment has been much more intense for workers with temporary contracts. While mean real wages decreased –4.4 per cent for permanent workers from 2009 to 2013, for

52. In fact, the economic crisis decreased the total amount of wage and salary workers (according to Social Security records).

53. Pérez-Infante (2012).

54. See Arranz and García-Serrano (2013) for a survey of this line of research Spain and in other countries.

Table 3.2 Mean, median and deciles of real gross monthly wages from 2006 to 2013, by contract type (euros at 2006 prices)

	2006	2007	2008	2009	2010	2011	2012	2013
All	1 572.6	1 598.9	1 658.6	1 701.7	1 693.4	1 643.6	1 611.7	1 605.5
Perm.	1 748.9	1 753.6	1 813.0	1 840.2	1 831.5	1 796.0	1 759.2	1 759.2
Temp.	1 211.2	1 243.5	1 278.3	1 281.3	1 267.0	1 191.0	1 140.7	1 101.3
Full time								
Perm.	1 854.6	1 867.3	1 936.6	1 981.1	1 974.0	1 938.8	1 909.2	1 926.7
Temp.	1 355.2	1 383.8	1 436.8	1 478.6	1 463.5	1 421.6	1 402.8	1 377.3
Part time								
Perm.	658.7	665.2	662.6	674.7	667.8	668.9	619.9	643.9
Temp.	608.7	614.9	621.2	646.1	607.5	564.1	528.7	539.9

Source: INE, Spanish Statistical Office (Labour Force Survey with linked Social Security information) and author's calculations.

temporary workers the decrease over the same period was –14.1 per cent. In addition, part-time workers have suffered a larger decrease in real wages, either permanent or temporary: the decreases were –4.6 per cent for part-time permanent workers and –18.2 for part-time temporary workers,⁵⁵ while for full-time workers they were –2.7 and –6.9, respectively.

Therefore, workers under non-standard employment contracts (especially temporary contracts) have suffered two forms of adjustment to the economic downturn: larger employment losses and falling real wages.

Unlike what happened in other Western countries, returns to education have had a decreasing long-term trend in Spain.⁵⁶ This may be explained generally as the result of increasing numbers of young people with university degrees, together with the extension of over-education,⁵⁷ the difficulty of comparing the quality of university degrees, and the widespread use of temporary contracts increasing the rotation of workers.⁵⁸ However, with the arrival of the crisis, the wage premium for university graduates increased again.⁵⁹

55. In this last case, the decrease in real wages is from 2009 to 2012.

56. From the 1980s, returns to education sharply increased in the US and the UK, while in continental Europe returns were smaller or even non-existent (Nickell and Bell, 1995; Carneiro and Lee, 2011). See a survey of different articles on the Spanish case in Felgueroso et al. (2011).

57. Over-education can be defined as the gap between the skills of workers (labour supply) and the jobs they receive (labour demand). Felgueroso et al. (2011) find that a significant share of the fall in returns to education corresponds to this educational mismatch of young workers with university degrees.

58. Felgueroso et al. (2011).

59. See Carrasco et al. (2014) and Arranz and García-Serrano (2013).

3.2 Minimum wage

Table 3.3 shows the evolution of the minimum wage in Spain. Before the crisis, there was a sustained increase in the nominal minimum wage. After the crisis there have been two times when the nominal minimum wage did not increase: in 2012 and in 2014 (although the nominal increase from 2012 to 2013 was very small). However, in real terms, the minimum wage has been decreasing since 2010. Only in 2014 was there a slight increase in real terms (because of the small decrease in prices⁶⁰).

Until 2004 the minimum wage was not only the bottom wage of the whole economy, but also the reference point for many public benefits. In fact, the dynamics of the minimum wage were severely conditional upon economic policy and public budget needs. A new indicator for public benefits was created (the so-called IPREM⁶¹), in order to leave the role of the minimum wage exclusively as a reference for the wage-setting process and as the minimum threshold of wage distribution.

It is interesting to compare the evolution of the monthly minimum wage in real terms with the monthly mean wages for the first decile of the wage distribution. Table 3.4 shows this comparison not only for all workers but also for full-time workers. The evolution is very worrying, as from 2010 onwards, the mean wage for full-time workers is below the minimum wage. This gap

60. For 2014, the evolution of prices has been considered until October.

61. In Spanish, *Indicador Público de Renta de Efectos Múltiples*. The IPREM is an indicator used by the Spanish Public Administration as an income reference for grants, public financial subsidies, unemployment benefits and subsidies, etc. This indicator is updated by the government on a yearly basis.

Legal regulation		Minimum wage (current euros)			Real minimum wage (euros at 2006 prices)			
Act	Entitlement date	Per day	Per month	Per year	Per day	Per month	Per year	Real change (%)
R.D.1426/2002	1-I-2003	15.04	451.2	6 316.8	17.09	497.5	7 176.2	2.0
R.D.1793/2003	1-I-2004	15.35	460.5	6 447.0	16.92	492.7	7 108.1	-0.9
R.D.Ley 3/2004	1-VII-2004	16.36	490.8	6 871.2	17.51	525.2	7 352.4	6.6
R.D.2388/2004	1-I-2005	17.10	513.0	7 182.0	17.70	531.0	7 434.5	1.1
R.D.1613/2005	1-I-2006	18.03	540.9	7 572.6	18.03	540.9	7 572.6	1.9
R.D.1632/2006	1-I-2007	19.02	570.6	7 988.4	18.50	555.1	7 771.8	2.6
R.D.1763/2007	1-I-2008	20.00	600.0	8 400.0	18.70	560.9	7 852.3	1.0
R.D.2128/2008	1-I-2009	20.80	624.0	8 736.0	19.50	585.0	8 189.9	4.3
R.D.2030/2009	1-I-2010	21.11	633.3	8 866.2	19.44	583.2	8 165.0	-0.3
R.D.1795/2010	1-I-2011	21.38	641.4	8 979.6	19.08	572.4	8 013.3	-1.9
R.D.1888/2011	1-I-2012	21.38	641.4	8 979.6	18.62	558.7	7 822.0	-2.4
R.D. 1717/2012	1-I-2013	21.51	645.3	9 034.2	18.48	554.3	7 760.2	-0.8
R.D. 1046/2013	1-I-2014	21.51	645.3	9 034.2	18.64	559.1	7 828.0	0.9

Source: Spanish Ministry of Employment (*Boletín de Estadísticas Laborales*) and author's calculations.

	D10 All	D10 Full time	Minimum wage	D10FT - MW
2006	474.20	575.10	540.90	34.20
2007	488.10	607.50	555.10	52.30
2008	468.60	612.40	560.90	51.50
2009	464.90	589.30	585.00	4.30
2010	444.30	579.70	583.20	-3.50
2011	414.50	545.10	572.40	-27.20
2012	370.70	511.80	558.70	-46.90
2013	356.00	484.00	554.30	-70.30

Source: INE (Spanish Statistical Office), *Boletín de Estadísticas Laborales* (Spanish Ministry of Employment), and author's calculations.

has been increasing every year, and in the latest available year (2013) the difference is €70.30 (13 per cent below the minimum wage for 2013). Therefore, the minimum wage is losing its role as the lowest reference for wage setting.

3.3 Tax wedge

During the crisis, Spain has suffered a severe and deep fiscal crisis, going from a public surplus of +2 per cent with respect to GDP in 2007 to a deficit of -11.1 per cent in 2009. In June 2012, Spain received a partial bailout from the European Union for the financial

system. As a result, almost all taxes have increased in order to fight the financial burden of the public deficit and to attend to the tight calendar for fiscal adjustment.

According to the OECD,⁶² Spain was ranked 14th of the 34 OECD member countries in this respect. As shown in table 3.5, an average worker in Spain faced a total tax burden on labour income (tax wedge) of 40.7 per cent in 2013, which is above the average of the OECD (35.9 per cent). This is the result of the importance of social security contributions of employers, as Spain is clearly above the average for this dimension of the tax wedge

62. <http://www.oecd.org/spain/taxingwages-spain.htm>

Table 3.5 Tax wedge by main components in the OECD for 2013

Countries	Income tax	Employee SSC	Employer SSC	Total tax wedge	IT/TW (%)	Employee SSC/TW (%)	Employer SSC/TW (%)
Belgium	22.00	10.78	23.03	55.8	39.4	19.3	41.3
Germany	16.04	17.12	16.16	49.3	32.5	34.7	32.8
Austria	12.57	13.98	22.56	49.1	25.6	28.5	45.9
Hungary	12.45	14.40	22.18	49.0	25.4	29.4	45.2
France	10.42	9.85	28.65	48.9	21.3	20.1	58.6
Italy	16.31	7.19	24.29	47.8	34.1	15.0	50.8
Finland	18.35	6.20	18.57	43.1	42.6	14.4	43.1
Sweden	13.70	5.32	23.91	42.9	31.9	12.4	55.7
Czech Republic	8.80	8.21	25.37	42.4	20.8	19.4	59.9
Slovenia	9.44	19.04	13.87	42.3	22.3	45.0	32.8
Greece	7.07	12.95	21.54	41.6	17.0	31.1	51.8
Portugal	13.06	8.89	19.19	41.1	31.8	21.6	46.6
Slovak Republic	7.14	10.21	23.78	41.1	17.4	24.8	57.8
Spain	12.75	4.89	23.02	40.7	31.4	12.0	56.6
Estonia	13.04	1.49	25.37	39.9	32.7	3.7	63.6
Turkey	11.60	12.88	14.16	38.6	30.0	33.3	36.7
Denmark	35.82	2.74	0.00	38.2	93.7	7.2	0.0
Norway	18.93	6.90	11.50	37.3	50.7	18.5	30.8
Luxembourg	15.09	10.95	10.96	37.0	40.8	29.6	29.6
Netherlands	14.34	14.21	8.39	36.9	38.8	38.5	22.7
OECD (35.9%)	13.31	8.26	14.29	35.85	37.1	23.0	39.9
Poland	5.93	15.26	14.37	35.6	16.7	42.9	40.4
Iceland	25.87	0.44	7.14	33.4	77.3	1.3	21.3
Japan	6.68	12.16	12.81	31.6	21.1	38.4	40.5
United Kingdom	13.26	8.47	9.76	31.5	42.1	26.9	31.0
United States	15.42	6.97	8.94	31.3	49.2	22.2	28.5
Canada	13.68	6.62	10.76	31.1	44.0	21.3	34.6
Australia	21.80	0.00	5.61	27.4	79.5	0.0	20.5
Ireland	13.28	3.61	9.71	26.6	49.9	13.6	36.5
Switzerland	10.22	5.88	5.88	22.0	46.5	26.8	26.8
Korea	4.61	7.52	9.29	21.4	21.5	35.1	43.4
Israel	8.38	7.50	4.78	20.7	40.6	36.3	23.1
Mexico	7.52	1.22	10.48	19.2	39.1	6.3	54.5
New Zealand	16.89	0.00	0.00	16.9	100.0	0.0	0.0
Chile	0.00	7.00	0.00	7.0	0.0	100.0	0.0

Note: In the last three columns, figures in red are above the average.

Source: OECD (<http://www.oecd.org/spain/taxingwages-spain.htm>), and author's calculations.

(56.6 per cent when the OECD average is 39.9 per cent). On the other hand, despite the general rise in taxes, the share of income tax in Spain's total tax wedge is below the average, probably because the focus of the fiscal adjustment has been on indirect taxes (such as VAT).

The importance of the social security contributions of employers is worrying as this is a key component of labour costs and, potentially, may affect hiring of workers.

With regard to the evolution of the tax burden on labour incomes, for a single average worker, labour-related taxes increased by 2.1 percentage points from 38.6 to 40.7 per cent between 2000 and 2013. Between 2009 and 2013, there was an increase of 2.4 percentage points. The corresponding figures for the OECD were a decrease of 0.8 percentage points from 36.7 to 35.9 per cent between 2000 and 2013 and an increase of 0.8 percentage points between 2009 and 2013.

Considering an average worker who is the sole earner in a household of a couple with two children, the tax burden increased by 2.5 percentage points from 32.3 to 34.8 per cent between 2000 and 2013, almost all of which occurred between 2009 and 2013. The corresponding figures for the OECD were a decrease in the tax wedge of 1.3 percentage points from 27.7 to 26.4 per cent between 2000 and 2013. Between 2009 and 2013, there was an increase of 1.4 percentage points.⁶³

3.4 Wage-bargaining system⁶⁴

3.4.1 Who bargains?⁶⁵

In Spain, the main wage-setting mechanism is collective bargaining. The majority of workers are covered by agreements at sectoral-province level.⁶⁶ A key feature of Spanish collective bargaining is the *erga omnes* (for

all) principle. According to this legal principle, the agreement between the most representative unions and the employers' organization in a specific sector applies to all workers and firms in the sector.⁶⁷ Therefore, the key is how unions and employers' organizations obtain the status of "most representative".

The representativeness of a union is obtained by union elections. A union is "most representative" when it obtains (at least) 10 per cent of workers' representatives. This percentage is calculated for the whole country and for all industries (including Public Administration). The legitimacy to bargain collective agreements arises from elections, which can only be called in firms with six or more workers. Those workers with at least one month of seniority (regardless of their labour contract) can vote for the different lists (usually one per union, but occasionally "independent" lists also turn up) that have to contain as many persons as delegates to be elected. The finally elected delegates are then picked from the different lists using a proportional system. 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 (therefore, usually no single union has a monopoly right of representation).

To participate in collective bargaining above the firm level (for example, at the industry or regional level) the bargaining parties have to fulfil the basic criterion of representativeness. The threshold of 10 per cent excludes de facto the independent representatives and it is only easily obtained by the national trade unions (CCOO and UGT) and at the regional level by some unions such as ELA/STV in the Basque Country and CIG in Galicia. Therefore, UGT and CCOO dominate the industry-level agreements in Spain, although some regional unions participate actively in their respective regions. At the firm level, electoral representatives can bargain the collective agreement. At this level the minimum threshold of 10 per cent is not applied, and the result is that the representation of workers includes a variety of unions and independent representatives. At any rate, UGT and CCOO also have very high representation at the firm level.

The responsibility for calling union elections rests on the unions themselves. As the process is very difficult to control in small firms, in many small firms union elections are never called. Therefore, the percentages of representativeness for collective agreements above

63. Figures on the evolution from 2000 to 2013 are from the OECD's country note for Spain on taxing wages (<http://www.oecd.org/spain/taxingwages-spain.htm>).

64. A detailed introduction to the legal features of Spanish collective bargaining is the following: http://www.empleo.gob.es/es/sec_Trabajo/ccncc/descargas/GuiaNegociacionColectiva_2014_CCNCC.pdf

65. This paragraph is based on Malo (2006).

66. Spain consists of 17 autonomous communities ("regions") plus two autonomous cities (Ceuta and Melilla on the coast of the Northern African continent). Autonomous communities are usually divided in different provinces, with the exception of Asturias, Cantabria, La Rioja, Madrid, Murcia and Balearic Islands. The province is an administrative organization formed in the nineteenth century and only occasionally does it define an articulated economy. Nowadays, very few administrative decisions are taken at province level. The main levels of administrative organization are municipalities, autonomous communities and the central government.

67. There are some exceptions to the *erga omnes* rule, but they do not change the reasoning explained in the main text.

the firm level mainly show the results for medium and large firms.⁶⁸

The historical evolution of the union elections (Malo, 2006) shows that two unions, UGT and CCOO, have always been the most representative unions by far. Other unions have only obtained the status of “most representative” at the regional level.

For the employers’ organizations there is a similar criterion of representativeness, but there is a legal caveat on adequate means to measure the representativeness threshold (10 per cent, as with unions) because there are no “employers’ elections”. The usual means to prove the condition of most representative are the following (Rivero, 1993): tax census, Social Security registration, industrial statistics, official communication of employer organizations in their own affiliation, etc. Therefore, the definition of most representative employers’ organizations is poor and ambiguous. Moreover, in bargaining practice the “social renown” of the employer organization is used as the measure of representativeness.

3.4.2 Union elections in practice

At first sight, the concept of representativeness is a clear and democratic way for all workers and employers in the Spanish industrial relations system to express their preferences and to use their vote to support or deny the proposals of unions and employers’ organizations.

However, the system of union elections has key differences with respect to political elections and, therefore, preferences of workers (and employers) may be distorted in the process of choosing representative unions and employers’ organizations.

First, elections are only occasionally called in small firms and even in medium-sized firms. As the economic fabric in Spain is mainly composed of small- and medium-sized enterprises, there is a risk of not representing a huge number of workers (and employers).

Second, workers with a higher rotation rate will have fewer incentives to vote. Even in cases where they are rehired by the same firm, they might be unemployed on the day of the union elections. Those workers moving

68. In addition, the labour market reform of 1994 exacerbated this problem. Before 1994, union elections took place every four years and lasted three months, and there was a national public declaration of the winner. Since the 1994 reform, the elections have not been subject to time constraints and there is no official declaration of results. As the number of representatives to be elected depends on the size of the firm, unions have fewer incentives to call elections in small firms, because the incentive of the national declaration of the official winner no longer exists (Malo, 2006).

among firms cannot sanction previous bad behaviour of their representative of the past elections in the next election. All these workers will be detached from the electoral process and their preferences will not be taken into account by the unions competing in elections. Although the active right to vote seems to be very wide (workers with at least one month of seniority can vote), in fact the role of union elections as a vehicle to express preferences is very poor for workers with a high rotation rate.

Temporary workers are probably the most affected by this problem of the system of union elections. Although temporary workers constitute around one-third of all wage and salary workers, they are mostly concentrated in small- and medium-sized firms and they have a much higher probability of abstention in union elections. In fact, the empirical analyses by Malo (2006) show that this overrepresentation of temporary workers in small- and medium-sized firms, where union elections are only occasionally called, is the institutional explanation of the role of outsiders that temporary workers play in the Spanish labour market,⁶⁹ and why their preferences are not well mirrored by unions in collective bargaining (especially above the firm level).

3.4.3 Bargaining at different levels

Bargaining can take place at different levels: firm/plant-level bargaining between a single employer and worker representatives; industry-level bargaining between the respective employers’ association and workers’ association resulting in sectoral agreements, whose geographical scope might be the whole nation but is usually the province; and national economy-wide bargaining (which was only used in the 1980s).

Bargaining takes place between worker representatives (elected in union elections) and the employer (at firm level) or the most representative employers’ association (at levels above firm level). The initiative for the process

69. Some authors (Bentolila and Dolado, 1994) have argued that Spanish unions do not represent temporary workers because the vast majority of affiliates are workers with an open-ended contract. This is a mistake, as in the system of union elections, affiliation is not important in order to represent workers above the firm level. Other authors have argued that temporary workers are not represented by unions because they are not the median voter in union elections (Jimeno and Toharia, 1993). However, no union could ignore one-third of the potential electorate. As explained above, in fact temporary workers are not one-third but a much lower proportion of the effective electorate. Malo (2006) estimates that even after correcting for the selection bias of being in a firm where elections are called, the mean predicted probability of voting for temporary workers is 52 per cent, while for permanent workers it is 77 per cent.

Table 3.6 Collective agreements by scope level (agreements, firms affected, covered workers and average agreed wage increase) with effects in 2011, 2013 and 2014

2011	Agreements	Firms	Workers	Agreed Wage Change (%)
TOTAL	4 585	1 170 921	10 662 783	2.29
Firm level	3 422	3 422	9 289 95	1.97
Above levels:	1 163	1 167 499	9 733 788	2.32
Firms' Group	99	954	181 667	2.04
Sector:	1 064	1 166 545	9 552 121	n.a.
Province	895	777 512	5 455 261	3.37
Autonomous Community	82	92 222	817 958	2.15
Inter-Aut. Comm.	1	400	9 000	2.40
National	86	296 411	3 269 902	1.97

2013	Agreements	Firms	Workers	Agreed Wage Change (%)
TOTAL	2 688	977 058	7 090 195	0.53
Firm level	1 957	1 957	5 08 735	0.11
Above levels:	731	975 101	6 581 460	0.56
Firms' Group	63	299	95 256	0.46
Sector:	731	975 101	6 581 460	n.a.
Province	434	382 129	2 047 582	0.59
Autonomous Community	166	288 793	1 689 899	0.74
Inter-Aut. Comm.	1	320	3 000	0.60
National	67	303 560	2 745 723	0.44

2014	Agreements	Firms	Workers	Agreed Wage Change (%)
TOTAL	1 728	723 724	4 755 972	0.57
Firm level	1 255	1 255	3 35 952	0.45
Above levels:	473	722 469	4 420 020	0.58
Firms' Group	42	236	164 923	0.49
Sector:	431	722 233	4 255 097	0.58
Province	279	270 437	1 425 170	0.74
Autonomous Community	102	196 660	886 890	0.60
Inter-Aut. Comm.	1	320	2 000	1.00
National	49	254 816	1 941 037	0.45

NOTE: This table corresponds to agreements not necessarily registered in 2011, 2013 and 2014, but with economic effects in these years (whenever they were included in the Register of Contracts). Figures for 2011 are fully definitive. Figures for 2013 correspond to a preview of definitive information. Figures for 2014 cover agreements registered until December 2014 (and with effects in 2014).

Source: Collective Bargaining Statistics (<http://www.empleo.gob.es/estadisticas/cct/welcome.htm>).

may be taken by any of the parties. Thus, the parties themselves are the ones who decide the level of bargaining. The most representative unions (CCOO and UGT) and CEOE (the main representative employers' association) encourage sectoral agreements where their ability to impose organizational objectives is greater than at firm/plant level. It is clear that the *erga omnes* rule provides incentives for this behaviour.

Table 3.6 shows the relative importance of the different bargaining levels in Spain. As indicated above, the bargaining level covering most workers has been the sector-province: 51 per cent in 2011, 29 per cent in 2013 and 30 per cent in 2014. Although the data for 2014 are not fully definitive, it is probable that the sector-province is no longer the most important bargaining level. Remarkably, the province-sector agreements are losing

their central position, but not in favour of firm-level agreements as they are somewhat less important in terms of workers in 2013 and 2014. The biggest beneficiaries of the declining share of workers covered by sector-province agreements are sector agreements at national and regional (autonomous community) levels.

The level of bargaining is also related to different increases in agreed wages. Past literature on wages in Spain shows that wages are higher in firms where a firm-level agreement applies than in firms where there is no agreement, but at the same time wage increases are lower compared to wages in firms with higher levels of collective bargaining.⁷⁰ Table 3.6 confirms that agreed wages increase at a lower percentage. In addition, inside sector agreements there are significant differences: the highest increases are for province scope agreements, while the lowest increases correspond to national agreements (regional agreements are between them, closer to the province increases).

Looking at the whole picture, sector-national and firm agreements have the most moderate increases and the highest increases are at the intermediate level (sector-province). It is difficult to resist identifying this pattern with the well-known hypothesis proposed by Calmfors and Driffill (1988) on extreme decentralization and centralization obtaining similar (and “better” for employment at an aggregate level) results, while intermediate levels of decentralization would have drastically different results (and “worse” for aggregate employment). In any case, as a preliminary result, Spanish collective bargaining is not moving towards a higher relevance of decentralization but towards higher levels of centralization (at sector-national and regional levels), which would improve coordination among the strategies of the different social partners. Nevertheless, new evidence should be collected for a longer period of time (and with definitive figures) before it could be said that this is a new trend of Spanish collective bargaining.

3.4.4 Indexing on agreed wages

An important debate in Spain on collective bargaining and wages has been the impact of indexing wages in agreements. In many agreements an indexing clause with retroactive effect was included in order to correct the agreed wages with respect to unexpected changes in

inflation. Since 1978 (and as a result of Moncloa Pacts), in order to reach an agreement on wages, expected inflation was used in collective bargaining instead of past inflation. The expectation of inflation was calculated by the government and used by the social partners at all levels of collective bargaining. Originally, this change was introduced to fight inflation and it was successful. However, in the mid-eighties some governments tried to use the announcement of expected inflation as a political device, announcing expectations that were “too low”, or at least that was the judgement of the unions. As a result, and although formally expected inflation continued to be used in collective bargaining as a reference to set wages, unions also focused on indexing wages, correcting prediction errors with subsequent payments to correct losses in real wages. This process was even more important when the euro was launched because of the absence of any announcement of the expected inflation. In this situation, the social partners used the expected growth of money for the whole Eurozone. As this was a fixed percentage (2 per cent), indexing became a significant way to correct the inadequate role of this figure as predictor of the expected inflation in Spain (usually above 2 per cent until the crisis). From a theoretical perspective, this wage-setting process is potentially inflationary. Some authors argue that the inflationary impact was partially compensated for because in agreements including indexing the agreed wages were lower than in agreements without indexing (Pérez-Infante, 2012). Nevertheless, Izquierdo and Jimeno (2008) explain that even the inflationary effect predominates because of the macroeconomic impact of indexation increasing the average inflation rate in the long term.

Unfortunately, the information on agreed wages in official statistics is not totally reliable, as not all statistical reports (*hojas estadísticas*) of the agreements include the agreed variation in wages and/or the agreement on wage indexation (if any). In any case, the existing information (compiled in table 3.7) shows that revisions after indexation were significant. In fact, before the crisis the retroactive impact of indexation totally compensated for the real losses of earnings of workers because of an effective inflation above the agreed wage increases. However, with the arrival of the crisis, Spain has had periods with very low or even slightly negative inflation. In addition, the first year of the crisis was a situation where firms were heavily affected by the financial shock and inflation was very close to zero, but the indexation agreements including this forecasting error had to be paid to the workers. Employers alleged that this compensation for past wage losses was in fact an increase in wages when the firms were in a very problematic situation

70. As this is only a comparison of mean wages, many distinctive features may affect this differential. For example, in large firms collective agreements usually include more non-wage complements (as social grants), agreed working hours are lower than in agreements at sector level, etc. (Pérez-Infante, 2012).

Table 3.7 Agreed wages and revised wages by indexation in collective agreements

	All		Firm level		Above-firm levels	
	Ag. wage	Rev.wage	Ag. wage	Rev.wage	Ag. wage	Rev.wage
2002	3.14	3.85	2.69	3.62	3.19	3.88
2003	3.48	3.68	2.70	2.94	3.58	3.77
2004	3.01	3.60	2.61	3.14	3.06	3.65
2005	3.17	4.04	2.94	3.61	3.19	4.09
2006	3.29	3.59	2.92	3.15	3.34	3.65
2007	3.14	4.21	2.70	3.57	3.20	4.28
2008	3.60	3.60	3.09	3.09	3.65	3.65
2009	2.25	2.24	2.17	2.17	2.26	2.25
2010	1.48	2.16	1.26	1.99	1.50	2.18
2011	1.98	2.29	1.63	1.97	2.02	2.32
2012	1.00	1.16	1.17	1.48	0.98	1.13
2013	0.51	0.51	0.24	0.24	0.53	0.53
2014	0.57	0.58	0.42	0.42	0.58	0.59

Note: Revised wages include the impact of indexing agreements when they have retroactive effect, they are included in the text of the agreement and they are recorded in the statistical report of the agreement provided to the Public Administration. In 2010, 2011 and 2012, when the agreement only included a revision in terms of the change in the consumer price index, but there was no further communication of the application of indexing agreements, the agreed wages were revised assuming 1 per cent of inflation.

Source: Collective Bargaining Statistics (<http://www.empleo.gob.es/estadisticas/cct/welcome.htm>).

and wage moderation was required. On the other hand, there was uncertainty about the desirability of applying indexing agreements in a deflationary context.

Table 3.7 shows that in 2008 and 2009 agreed and revised wages were equivalent. Since 2010, revised wages have again been above agreed wages, but the correction mechanism for missing information (see the note to table 3.7) probably explains part of this increase.

Finally, it is important to note that agreed wages are not always the wages received by workers. The last two labour market reforms have widened the scope for exemptions with respect to agreements above the firm level, and these exemptions have been used after the labour market reform of 2012. Otherwise, it would be very difficult to explain the evolution of wage distribution analysed at the beginning of section 3.

3.4.5 The reform of 2012: Internal flexibility and wages

Legal changes to collective bargaining in the last labour market reform implemented in 2012 focused heavily on promoting “internal flexibility”. This political objective consists of implementing adjustment mechanisms for

firms beyond dismissals. Internal flexibility includes redistribution of working hours, changes to working conditions, and wage adjustments.

The impacts of these legal changes on wages are those affecting the structure of collective bargaining (altering the relevance of the different bargaining levels) and the possibility of getting out of an above-firm-level collective agreement.

The labour market reform of 2012 changed the regulation on opting out of the sectoral collective agreement in order to obtain more moderate working conditions (usually lower wages) for a specific firm. However, the procedure remains relatively long and complex, with different stages in case of non-agreement (Malo, 2012b).

In a complementary way, firms may use another new feature of collective bargaining at the company level as “de facto” opting out with respect to sectoral agreements not following the long and complicated legal procedure. After the reform of 2012, the firm-level agreement superseded sectoral agreements regarding wages, working hours and, in general, working conditions. Therefore, firms negatively affected by a sectoral agreement can reach a collective agreement at the firm

level and be able to adjust wages and other working conditions to their specific circumstances (if workers' representatives agree, of course). The expected result of these legal changes was a high recourse to this negotiated opting out, including bargaining with workers. However, the (few) available data show that this procedure has not been used as much as the non-application of collective bargaining above firm level.⁷¹

Another legal change affecting collective bargaining that was very controversial was the end of the so-called *ultra-actividad*, or the application of a collective agreement beyond the deadline to sign a new one when there is a disagreement between the parties. Obviously, *ultra-actividad* gave incentives to both parties to reject any proposal below previous agreements. The explanation is that disagreement leaves everything unchanged. The legal change of the 2012 reform consisted of defining a strict time limit (two years) on the period during which collective agreements can be in force. Beyond this limit, workers will be covered by collective agreement at the next higher level (for example, sectoral or inter-sectoral agreements). Although a lot of conflicts were predicted by unions because of the end of *ultra-actividad*, in fact conflicts have been scarce and rather limited (ILO, 2014). Presumably, this change will reduce the inertia of wages at the macro level, but it is too early to appreciate any impact on agreed wages.

With regard to the expected impact on wages of the whole set of changes in collective bargaining, firms will probably have a wider range of ways to adjust when facing crises other than either the termination of contracts or dismissals. Therefore, wages (and in general, working conditions) will change much more frequently than in the past. This will be a very significant novelty for Spanish industrial relations and, therefore, unions and employers will need some time to adapt to the new rules. It is noticeable that the intention of the 2012 labour market reform was to increase flexibility in wages and working conditions in order to have lower levels of dismissals and lower rotation for temporary workers. In other words, the increase of internal flexibility should discourage firms from using external flexibility, otherwise the increase in the variability of wages (and then in family incomes) would be an open door to more risks, especially for low-wage workers. Of course, whether this rebalancing of internal versus external flexibility is successful or not is an empirical issue to be evaluated in the near future with sufficient accurate statistical information.

71. ILO (2014, chapter 4).

3.5 Wages in the public sector

While workers in the private sector set their wages through collective bargaining, wage bargaining in the Public Administration is not allowed. Bargaining in the Public Administration is usually about the organization of staff and about different wage complements and this can, therefore, indirectly affect the wages of civil servants.

Nevertheless, the Public Administration can also hire workers using the general legal rules of the Workers' Charter. They are the so-called *personal laboral fijo*. They have open-ended contracts and collective wage-bargaining rights.⁷² Finally, public firms hire workers using the same legal regulation of private firms (including collective bargaining).

As the wage bill of the public sector is one of the most important items of the public budget, in the last three decades the wages of these workers have been frozen at different times. Over the crisis this happened again jointly with wage cuts:

- In mid-2010, public sector wages were cut by an average of 5 per cent (8–15 per cent for high-ranking officials to 0.5–7 per cent for workers at lower wage levels).
- In 2011, wages in the public sector remained at the same nominal levels after the wage cut of 2010.
- In 2012, monthly nominal wages remained at the same level but one of the two extra payments was suspended *sine die* (which in fact is a decrease of around 1/14 of annual wages).⁷³
- In 2013 and 2014, nominal wages remained constant (with the traditional 12 monthly payments plus two extra payments per year).
- A public announcement from the government stated that in January 2014, public workers would receive a quarter of the extra payment suspended in 2012.

Of course, this evolution of public sector wages is only significant when compared with the evolution of wages in the private sector. Table 3.8 shows the evolution of the mean wage of workers in the public sector compared

72. As explained in section 1, the Public Administration can also hire on a temporary basis. Some of these temporary contracts are subject to Administrative Law and their wages are decided upon by the Public Administration. Again, unions can bargain about their working conditions and indirectly affect their wages.

73. In Spain (and also in Portugal), annual wages are divided into 14 payments. The two extra payments are received in June and December. In the private sector, usually these two additional payments are equal to the monthly wage, while in the Public Administration they are lower because some wage complements are excluded from the calculation of the two extra payments.

Table 3.8 Real mean monthly wages in the public and private sector, by working time (euros at 2006 prices)									
	2006	2007	2008	2009	2010	2011	2012	2013	2009–12 (%)
All	1 572.6	1 598.9	1 658.6	1 701.7	1 693.4	1 643.6	1 611.7	1 605.5	-5.3
Public sector	2 151.4	2 183.7	2 297.4	2 364.1	2 302.5	2 204.1	2 117.4	2 173.2	-10.4
Private sector	1 444.1	1 469.3	1 521.5	1 540.8	1 531.5	1 491.7	1 472.2	1 452.8	-4.4
Full time									
Public sector	2 231.3	2 267.1	2 372.1	2 469.3	2 392.0	2 294.6	2 210.6	2 269.7	-10.5
Private sector	1 577.4	1 602.7	1 669.8	1 710.5	1 705.3	1 682.9	1 681.6	1 680.7	-1.7
Part time									
Public sector	1 010.7	1 005.3	1 021.1	1 000.7	960.4	920.2	836.0	852.2	-16.5
Private sector	592.4	602.4	612.1	625.1	610.2	591.8	553.3	576.2	-11.5

Source: INE, Spanish Statistical Office (Labour Force Survey with linked Social Security information) and author's calculations.

Table 3.9 Real mean monthly wages in the public sector, by type of public employer (euros at 2006 prices)			
	2011	2012	2013
All workers in the public sector	2 204.1	2 117.4	2 173.2
Central public administration	2 150.1	2 070.2	2 178.0
Regional public administration	2 347.5	2 209.2	2 260.8
Local public administration	1 888.7	1 846.9	1 913.6
Public firms	2 100.7	2 258.8	2 234.8

Source: INE, Spanish Statistical Office (<http://www.ine.es/prensa/np874.pdf>).

with the private sector. For the whole period, mean wages in the public sector were above those of the private sector. Although there is a positive wage premium in many occupations in the public sector, on average seniority and educational level are higher for workers in the public sector in Spain (Malo et al., 2011). For both sectors real wages fell from 2010 onwards,⁷⁴ although the decrease is larger in the public sector: from 2009 to 2012, -10.4 per cent in the public sector and -4.4 per cent in the private sector.⁷⁵ As shown in table 3.8, this difference between sectors remains the same for full and part-time workers.

Table 3.9 shows the evolution of real mean wages for the four main components of the Spanish public sector: central public administration, regional public administration, local administration and public firms. Real wages decreased in 2012 and increased in 2013, with the exception of public firms, where the opposite happened. The regional (autonomous communities) public administration paid the highest wages for the three years shown and the local public administration always paid the lowest wages.

74. The increase for the public sector (full-time workers, in fact) is related to the recovery of the two extra payments in 2013 whereas only one of these was received in 2012. Although table 3.8 shows an increase in full-time public sector wages in 2013, this so-called increase relates to the fact that in 2012, full-time public sector workers lost one of the extra wage payments, and in 2013 both extra payments were received, which is more of a recovery than an increase.

75. The comparison excludes 2013 because of the once-for-all increase in wages in the public sector mentioned above. In any case, including 2013 the percentage change is also larger for public sector workers.

Active labour market policies (ALMPs)

4

4.1 Basic facts

4.1.1 Participants

In terms of participants (table 4.1), and excluding labour market mediation by the public employment services (PES), the main component of active labour market policies (ALMPs) in Spain are training programmes. These programmes represent more than 50 per cent

of all programmes for all persons, and even reached 76.6 per cent of all programmes in 2011, although by gender, there were lower percentages of women participants in training programmes than men (with the exception of 2008 and 2009). The evolution of the levels of participation during the crisis has been increasing for both genders, but especially for women in the latest available year (2011).

Table 4.1 Number of participants (entry flows) in ALMPs in Spain, 2008-2011

	2008	%	2009	%	2010	%	2011	%
All	2 102 856		2 472 529		3 157 243		3 640 094	
Experimental programmes for labour integration	44 569	2.1	97 005	3.9	102 205	3.2	436	2.8
Training	1 162 538	55.3	1 483 916	60.0	2 134 897	67.6	2 788 186	76.6
Job rotation and job sharing	86 925	4.1	88 556	3.6	98 588	3.1	114 845	3.2
Employment incentives	504 213	24.0	427 484	17.3	385 666	12.2	185 377	5.1
Supported empl. and rehabilitation	36 664	1.7	40 307	1.6	50 281	1.6	51 922	1.4
Direct job creation	197 271	9.4	226 005	9.1	255 152	8.1	270 300	7.4
Start-up incentives	70 676	3.4	109 256	4.4	130 454	4.1	129 028	3.5
Males	599 536		737 688		724 850		2 115 482	
Experimental programmes for labour integration	17 985	3.0	43 424	5.9	45 837	6.3	45 743	2.2
Training	239 869	40.0	329 991	44.7	284 677	39.3	1 724 075	81.5
Job rotation	14 581	2.4	17 000	2.3	21 071	2.9	28 999	1.4
Employment incentives	190 048	31.7	171 096	23.2	157 493	21.7	92 506	4.4
Supported empl. and rehabilitation	21 573	3.6	22 416	3.0	28 299	3.9	29 706	1.4
Direct job creation	83 870	14.0	99 023	13.4	125 244	17.3	132 980	6.3
Start-up incentives	31 610	5.3	54 738	7.4	62 229	8.6	61 473	2.9
Females	855 661		958 944		856 574		1 519 058	
Experimental programmes for labour integration	26 584	3.1	53 581	5.6	56 368	6.6	54 693	3.6
Training	281 121	32.9	383 485	40.0	277 581	32.4	1 061 737	69.9
Job rotation	72 344	8.5	71 556	7.5	77 517	9.0	85 846	5.7
Employment incentives	314 165	36.7	256 388	26.7	228 173	26.6	92 871	6.1
Supported empl. and rehabilitation	14 983	1.8	17 891	1.9	21 976	2.6	22 210	1.5
Direct job creation	113 401	13.3	121 525	12.7	126 734	14.8	134 146	8.8
Start-up incentives	33 063	3.9	54 518	5.7	68 225	8.0	67 555	4.4

Note: The sum of males and females does not always correspond to the total as, according to the Ministry of Employment and Social Security, in some cases original sources do not include the gender of participants.

Source: *Anuario de Estadísticas Laborales 2012*, Spanish Ministry of Employment and Social Security (<http://www.empleo.gob.es/estadisticas/ANUARIO2012/welcome.htm>).

Table 4.2 Expenditure of ALMP programmes in Spain, as a percentage of GDP (percentages)										
	2004	2005	2006	2007	2008	2009	2010	2011	Average 2004–07	Average 2008–11
10: PES administration	0.12	0.13	0.13	0.13	0.13	0.17	0.17	0.15	0.13	0.16
11: Placement	0.03	0.03	0.04	0.02	0.02	0.04	0.03	0.03	0.03	0.03
12: Benefit admin.	0.02	0.02	0.02	0.02	0.02	0.03	0.03	0.03	0.02	0.03
20: Training	0.15	0.17	0.16	0.15	0.17	0.19	0.20	0.20	0.16	0.19
21: Institutional training	0.10	0.09	0.09	0.09	0.10	0.10	0.09	0.09	0.09	0.10
22: Workplace training	0.01	0.01	0.01	0.01	0.02	0.02	0.04	0.05	0.01	0.03
23: Integrated training	0.03	0.05	0.05	0.04	0.05	0.06	0.05	0.05	0.04	0.05
24: Special support for apprenticeship	0	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01
30: Job rotation and job sharing	0.01	0.01								
40: Employment incentives	0.29	0.30	0.32	0.27	0.22	0.21	0.26	0.25	0.30	0.24
41: Recruitment incentives	0.28	0.24	0.25	0.20	0.14	0.12	0.15	0.13	0.24	0.14
42: Employment maintenance incentives	0.01	0.06	0.07	0.07	0.08	0.09	0.11	0.12	0.05	0.10
50: Supported employment and rehabilitation	0.03	0.02	0.02	0.06	0.07	0.07	0.08	0.09	0.03	0.08
51: Supported employment	0.03	0.02	0.02	0.06	0.07	0.07	0.08	0.08	0.03	0.08
52: Rehabilitation	0	0	0	0	0	0	0	0	0.00	0.00
60: Direct job creation	0.11	0.09	0.08	0.08	0.09	0.10	0.10	0.08	0.09	0.09
70: Start-up incentives	0.04	0.06	0.08	0.09	0.11	0.10	0.12	0.12	0.07	0.11
Active measures: 10–70	0.75	0.77	0.79	0.79	0.81	0.86	0.94	0.89	0.78	0.88
Only categories 20–70	0.63	0.65	0.66	0.67	0.67	0.70	0.77	0.74	0.65	0.72

Note: 0 means nil or less than 0.005.

Source: OECD.

Financial subsidies for employment (mainly through discounts in Social Security contributions for hiring workers from specific groups such as people with disabilities, or related to the promotion of open-ended contracts to fight labour market duality) show a decreasing trend in levels of participants from 2008–11, being 24 per cent in 2008 and 5.1 per cent in 2011. For males and females, the trend is the same.

Finally, the third most important active policy is job creation, which also has a decreasing trend in number of participants but at a slower pace than employment incentives. Again, the pattern is very similar for males and females.

4.1.2 Expenditure on ALMPs

According to table 4.2, expenditure on ALMPs (as a percentage of the GDP) shows a similar pattern to that of number of participants but it not is coincident. The most important programme by far is Employment incentives, with a peak in 2006⁷⁶ of 0.32 per cent of GDP and a valley in 2009 of 0.21 per cent. Comparing the average before and during the crisis, these programmes have decreased by 0.06 percentage points (from 0.30 to 0.24 per cent of GDP). The second most important programme is training, ranging from 0.15 per cent of GDP in 2004 to 0.20 per cent in 2011. Expenditure on training increased from 0.16 per cent of GDP before the crisis to 0.19 per cent during the crisis. Direct job creation remained around 0.09 per

76. In 2006 there was a labour market reform consisting of a redesign of employment incentives for open-ended contracts introduced in 1997 and reformed in 2001 (Malo, 2011; see Appendix on labour market reforms).

cent of GDP before and after the crisis. Finally, start-up incentives clearly increased in rank to the third position during the crisis, reaching 0.11 per cent of GDP on average. During the crisis there was a decrease in expenditure on employment incentives (−0.06) at the same time as an increase in training (+0.03), start-up incentives (+0.04) and supported employment and rehabilitation programmes (+0.05).

As a summary, the last row of table 4.2 shows the total expenditure on all ALMP programmes increasing from 0.65 per cent of GDP for 2004–07 to 0.72 per cent for 2008–11, i.e. an increase of 0.07 percentage points.⁷⁷ Therefore, the crisis has brought a rebalance of expenditure on ALMPs from the dominance of employment incentives to a new landscape where training has almost the same importance and the rest of the programmes have a more balanced share of total expenditure. This reshaping of expenditure on ALMPs is closely related to explicit political choices, except for additional increases in employment incentives during the first years of the crisis and the rest of the programmes.

4.1.3 ALMPs and the labour market reform of 2012⁷⁸

From 2012 onwards, employment incentives probably became more relevant again because of the implementation of new incentives related to new contracts implemented with the labour market reform of 2012. At the same time, the new wave of budget cuts implemented in 2012 onwards also affected funding for training and therefore the pattern shown in table 4.2 nowadays is probably markedly different.

In addition to employment protection legislation and collective bargaining, a third component of the 2012 labour market reform is related to ALMPs: hiring incentives, training and labour market mediation.

Employment incentives had a significant role in the labour market reform of 2012. The most important incentive measure was a new contract to be used by small firms and the re-definition of the training and apprenticeship contract (in Spanish, *contrato de formación y aprendizaje*⁷⁹). The details of these financial

incentives (in terms of decreases in Social Security contributions) are lengthy, and their financial burden is not negligible. This is problematic, as assessments of the various hiring incentives schemes implemented in 1997, 2001 and 2006 show that, for the most part, these hiring incentives carry a high deadweight effect.⁸⁰

Regarding training, the labour market reform provides a “training right” for workers, however the efficacy of this component of the reform depends on further legal definition. In addition, the redefinition of the training contract is only a new age threshold for access and new financial incentives.⁸¹

Measures on labour market mediation are related to temporary work agencies. The reform allows these agencies to become private placement services, i.e. private labour market intermediaries, for any type of vacancy (and not only for temporary jobs). There were no measures concerning public employment services.

In summary, ALMPs had a secondary role in the labour market reform of 2012. This is worrisome because the core of the reform is related to decreasing severance payments for open-ended contracts, especially for those with high levels of seniority, and therefore a higher probability of dismissal (*ceteris paribus*). If the labour market reform reaches its objectives, labour mobility will increase on average in the long term⁸² and then ALMPs will be even more necessary than before the reform. Finally, considering the context of fiscal austerity, it is difficult to understand the relevance of hiring incentives, as there is a wide consensus among experts that they are mostly deadweight.

4.2 Training programmes

Apart from training and vocational education provided by the educational system, training courses and programmes are mostly divided into two main branches. First, training for employed workers is mainly organized by the so-called *Fundación Tripartita para el Empleo* (Tripartite Foundation for Employment).⁸³ Second,

77. There is a difference with respect to the sum of the different programmes because of rounding.

78. See Malo (2012a).

79. Since the 1980s, Spain has had different types of apprenticeship contracts (sometimes called “training contracts”). All of them combine work and training at the firm for young workers. In any case, in the past the importance of all these apprenticeship contracts has been rather small in Spain (Abellán and Felgueroso, 2005).

80. Toharia (2008); Arranz et al. (2013).

81. In the past, the training contract (and also the apprenticeship contract) was scarcely used and did not provide much training for young workers.

82. Unless a dramatic (and unexpected) decrease in labour mobility occurs because of internal flexibility (through wages and working hours) and a huge (and also unexpected) increase in seniority of temporary workers (because of the partial closing of the gap in firing costs).

83. “Tripartite” obviously means that unions, employers’ organizations and Public Administration act as the trustees of the foundation. The organization is decentralized at the regional level (by autonomous community).

training mainly for jobseekers is organized at regional level (by autonomous community), through public centres of the autonomous community or under collaborative agreements with unions, employers' organizations, non-governmental organizations, municipalities, private educational organizations, etc.⁸⁴

This organization of training classifies training into three main categories:⁸⁵

- “Demand” training (*formación de demanda*), which consists of training organized by firms (jointly with training permits⁸⁶). In this case the initiative for organizing training comes from the company.
- “Offer” training (*formación de oferta*), provided by the Public Administration, social partners or other organizations through an annual public tender. Funding comes from autonomous communities. They are usually, but not exclusively, directed at unemployed workers.
- Programmes combining training and employment. This category includes Workshop Schools (*Escuelas Taller*), Craft Centres (*Casas de Oficios*), and Employment Workshops (*Talleres de Empleo*).

Training courses are free for jobseekers if they are registered at the PES. Most courses recommended to jobseekers by the PES are not mandatory; however there are some courses which are mandatory only for some specific programmes, mostly related to special unemployment assistance such as the Activation Income for Insertion (RAI, *Renta Activa de Inserción*) or the Plan PREPARA for long-term unemployed persons who have exhausted other unemployment subsidies.

As participation is usually voluntary, there is a sort of “creaming effect” (Cueto and Suárez, 2011): although the majority of jobseekers registered at the PES have a low educational level on average, those following training courses usually have at least a secondary level of education. Therefore, jobseekers who would benefit the most from training exclude themselves. Of course, the explanation may be related to the characteristics of courses (not suitable to these jobseekers because of

teaching methodologies, for example), with characteristics of people (i.e. stuck to declining sectors or discouraged because of the lack of suitable opportunities), etc.

With regard to the impact of training courses on employment and re-employment probabilities, there have been very few evaluations done. As a matter of fact, the PES (and, in general, Public Administration) evaluation is understood to be a strict follow-up of the programme, compiling exhaustive information about the use of resources, satisfaction of trainees and integration rates of trainees. Rarely is counterfactual evaluation developed and almost all such evaluations are rare collaborations between scholars and the PES. The few evaluations of this type apply quasi-experimental methodologies, and they find small impacts of training courses on employment probabilities (along with similar studies in other European countries).⁸⁷ In any case, international evidence shows higher impacts on the probability of employment or re-employment in the long term.

Some impact evaluations have found that training programmes decrease the total unemployment rate and the rate of long-term unemployment, while increasing the exit rate from unemployment to employment of long-term unemployed persons.⁸⁸ The corresponding elasticities are -0.163 , -0.231 and 0.094 , respectively.⁸⁹ This can be interpreted as an increase of 1 percentage point in participants in training courses decreases total unemployment rate and long-term unemployment by around 0.2 percentage points and the exit rate from long-term unemployment by almost 0.1 percentage points. Therefore, these effects are positive but rather small, although also in line with other international studies.

Beyond these quantitative results, there is also an institutional problem with training courses for jobseekers. “De facto” they are considered as a separate measure with respect to the whole process of labour market mediation. As jobseekers self-select their courses (with the exception of the RAI and Plan PREPARA), the provision of training is not based on the needs of the jobseekers, but rather on increasing the size of the menu of

84. On an annual basis, there is a public tender under the Intersectoral and Sectoral Training Plans. The regional PES then organizes the agreements with the winner of the tender. The result is a sort of menu of different training courses to be offered to jobseekers at the PES. In any case, in some cases employed workers can also apply for these training courses.

85. Following Real Decreto 395/2007. The three categories described are the most usual organization of statistical information in all reports on training in Spain.

86. A training permit is a worker's leave paid by the firm in order to receive training.

87. See, for example, Mato and Cueto (2008), Cueto and Mato (2009) Cueto et al. (2010), Ramos et al. (2009) or Cansino and Sánchez (2011).

88. Davia et al. (2001) and Alujas and López-Tamayo (2006).

89. These elasticities are calculated by García-Serrano (2000) using the results of Davia et al. (2001). Alujas and López-Tamayo (2006) estimate an augmented matching function with data from a longer period and they do not find any significant impact of training for jobseekers.

courses. Here, the competencies of the staff responsible for labour market mediation is of importance. Usually labour market mediation is understood as attending to the workers, but the match between workers and jobs requires knowing where the vacancies are, and what types of businesses are growing in the local economy. The PES (especially at regional and local levels) should evolve to become information networks (Álvarez, 2008). With this perspective it is clear that individualized counselling, mediation and training are only steps of the same process. This is the reason the choice of courses should be under individualized guidance, especially for jobseekers with low educational levels (now, mostly self-excluded from courses). According to Rocha (2010), the PES works as a tuned engine to make public tenders of training programmes, to award them to organizations fulfilling the administrative requirements, and to control the expenditures of the budget of the programmes. The objective of the PES seems to be to have a wide menu of training programmes and courses, but there are few incentives to worry about how useful they are for jobseekers. The trend towards increasing the menu of courses should be counterweighted through (counterfactual) impact evaluation of the courses. In other words, it is not a matter of having more courses, but the right ones.

4.3 Employment incentives

The eligibility criteria for employment incentives are linked with specific characteristics of workers and/or the type of contract. These financial incentives have been mainly related to discounts in social security contributions for open-ended contracts, although some incentives for temporary contracts exist. This type of ALMP has been very important in Spain since the labour market reform launched in 1997 to promote open-ended contracts and fighting the dualization of the labour market. In addition to national policy, some autonomous communities have had additional employment incentives at the regional level.

Again, evaluations are not abundant. However, a clear result emerges from different authors with different methodologies:⁹⁰ the impact of employment incentives is non-existent or very small (and for specific groups). In particular, the impact of the use of employment incentives on the share of temporary contracts at an aggregate level is negligible. In other words, the effort in terms of

expenditure has been deadweight (and with large displacement effects). The rationale for this result is related to the scope of employment incentives: when they do not discriminate and all (or almost all) workers can be hired using employment incentives there is no aggregate impact,⁹¹ but when employment incentives are highly focused on very specific groups there is a significant impact.⁹²

In fact in mid-2000 policymakers became conscious of the problem of generalized employment incentives, and the new wave of employment incentives launched in 2006 (the hard core of the labour market reform of 2006 to promote open-ended contracts) was very focused on more specific groups and took into account some past lessons learned about the design of these incentives. Later, with the arrival of the crisis, there was a generalized statement that employment incentives were exhausted, and they were refocused on groups with lower prospects of being hired (such as low-skilled young people or workers over 45 years old). For this reason, the launch of a generalized employment incentive called *Tarifa Plana* (flat rate) in February 2014 was highly surprising to labour market analysts. This new employment incentive is applicable to any worker, regardless of their employment history, qualifications, or wage. This was to promote hiring on open-ended contracts, and included discounts in the company's contributions to social security for two years applicable to all open-ended contracts from 25 February to 31 December 2014, conditional on an increase in net employment at the company.⁹³ Contributions of the company are at the flat rate of €100 per month for full-time contracts and from €50 to €70 per month for part-time contracts depending on working hours. Similar to the old employment incentive measures implemented in the last two decades, the risk of deadweight or displacement effects is also present in the "flat rate". The conditionality on increasing employment may be an instrument to avoid deadweight or substitution effects, but this type of conditionality was also part of some of the hiring incentives of open-ended contracts in the past, and they were not enough to eliminate these problems.

91. Toharia (2008); Arranz et al. (2013).

92. As is the case for employment incentives for specific contracts for people with disabilities (Malo et al., 2010).

93. There is an explicit methodology used to calculate the increase in net employment. The reference to measure the increase in net employment is the daily average number of workers in the company over the 30 days before the contract was signed. Every 12 months the net employment increase is re-examined as it needs to be maintained for three years or the corresponding amounts should be repaid.

90. Davia et al. (2001); Toharia (2008); García-Pérez and Rebollo (2009); Arranz et al. (2013); Cueto (2006); Cebrián et al. (2011); Méndez (2013).

4.4 Specific target groups

4.4.1 Youth Guarantee in Spain

Due to the support of the European Union, the most important specific programme in Spain is probably the Youth Guarantee. The Spanish Youth Guarantee follows the recommendations of the European Union regarding eligibility requirements and the main organizational outline of the Guarantee.

This programme is, however, in its first stages and has not been implemented yet. All that currently exists is the register of applicants. The following paragraphs are therefore only a subjective discussion about the challenges and the expectations about different aspects of the programme.

First, the programme is devoted to young people between 16 and 24 years old, and 16–29 years old for people with disabilities. In general, the threshold age of 24 is rather limited, as in Spain integration into the labour market is a longer process, as the generational analysis of the employment rate in section 1 showed. Extending the programme to 29 years of age for everyone or integrating it with another programme for people above 24 years old should probably be considered. Presumably, the latter option is more feasible.

Second, good practices in Nordic countries (mainly Sweden and Finland) show that integration and coordination of the official vocational training system, non-formal training and validation procedures are crucial. In Spain, dual training (combining education and on-the-job training or apprenticeship) is relatively new, therefore the Youth Guarantee Programme may be an opportunity to develop dual training in a more flexible training and vocational education. In some autonomous communities (Catalonia and the Basque Country), such flexible systems are emerging around the *Centros Integrados* (centres with a special emphasis on dual training and lifelong learning). In these regional experiences, the role of the regional Public Administration supporting this strategy was crucial.⁹⁴

Third, the experiences of the European Nordic countries are based upon a personalized guidance to beneficiaries.⁹⁵ Because of the magnitude of unemployment in Spain and the small number of specialists in personalized counselling (even considering the special initiatives developed from 2010 onwards), this is a

worrying obstacle for the successful development of the Guarantee in Spain.

Fourth, although the Spanish Youth Guarantee Programme mentions that the Programme will transform policies fostering coordination of Public Administration at different levels and includes new measures, the set of measures seems to be more of a collection than a structured strategy with additional incentives or qualifying requisites for young people (but much too similar to pre-existing measures).⁹⁶ Again, international experience shows that the Youth Guarantee brings new motivation to the implementation of active policies, but it is not a panacea.

Fifth, the evaluation to be included in the implementation plan of the Youth Guarantee is alarmingly close to a traditional monitoring and follow-up. Even when pilot projects are mentioned, nothing is said about a counterfactual evaluation. The cost of a counterfactual evaluation of a large programme such as the Youth Guarantee is not low. However, the Youth Guarantee has enough importance for this type of impact evaluation to be designed at least for pilot projects.

Sixth, the total amount of resources to be potentially allocated to this programme is rather low considering the available calculations at the international level.⁹⁷ Possibly, this is the rationale to use existing measures as a point of departure, adding a qualification or a particular item for beneficiaries of the Youth Guarantee.

Finally, at this moment everything is open, and, therefore, all the challenges and potential problems described above can be addressed.

4.4.2 Self-employment promotion

Since 1985 there has been a programme of promotion of self-employment consisting of obtaining the whole unemployment compensation (only at the contributory level) as an anticipated single payment if the jobseeker uses these resources to start a business. At the descriptive level, two-thirds of beneficiaries of the programme in 2003 were still self-employed in 2007

94. See Olazarán and Brunet (2013) for a regional comparison of the new strategies on vocational education and training.

95. <http://www.eurofound.europa.eu/pubdocs/2012/42/en/1/EF1242EN.pdf>

96. http://www.empleo.gob.es/ficheros/garantiajuvenil/documentos/plannacionalgarantiajuvenil_en.pdf

97. For 2014 and 2015, the European Commission provided a budget for the youth guarantee programme in Spain of €943.5 million, conditional on the country matching this amount euro for euro from its European Social Fund (ILO, 2014, pp. 125–126). The total would then reach €1,887 million; however the estimated cost of a youth guarantee programme according to the Swedish experience would be around €7,000 million for Spain (ILO, 2012, p. 48), far from the resources allocated to this programme.

(García-Serrano and Toharia, 2008). There are no evaluations using a control group, but an aggregate analysis shows a rather small impact on the aggregate unemployment rate (Mayor et al., 2015), probably because this programme is not the main channel considered by individuals aiming to be self-employed workers.

Additional measures to promote self-employment have been launched by the current government, including some special initiatives for young entrepreneurs. There has not been enough time to have a clear picture of the impact of these initiatives even at a descriptive level. Notwithstanding, at an aggregate level, the number of self-employed workers has increased in Spain during the latest year.⁹⁸ This is a positive feature of the recent performance of the Spanish labour market, but caution should be exercised because of the possibility of a business only being started as a haven from unemployment, when international literature remarks upon the low likelihood of success of this sort of business venture.

4.4.3 Programmes for long-term unemployment

With respect to employment incentive programmes (and other measures such as start-up businesses) employers receive larger incentives for hiring long-term unemployed workers. Apart from this type of qualification affecting long-term unemployed workers, there are two programmes where the long-term unemployed are specifically targeted: RAI and Plan PREPARA.

From a legal perspective, both of these programmes are defined as unemployment assistance, but they explicitly state that income support needs to be accompanied by activation measures. This was outlined in section 2 on unemployment insurance and assistance, and is mentioned again in this section, where it was explained earlier that these are the only two programmes where attendance at training courses is mandatory. In both programmes, activation measures are the key component to re-employment. The Plan PREPARA specifically includes the design of a personalized itinerary for activation, together with an individualized follow-up on the progress of beneficiaries. The PES would, however, need many more resources than are currently available (amidst the application of a sustained fiscal adjustment) to achieve this. Some basic (although limited) information on the follow-up of the programme has been published;⁹⁹

98. See ILO (2014, Figure 1.11 and corresponding comments).

99. As at July 2012, there were 500,859 beneficiaries of Plan PREPARA, 61.3 per cent of whom had finished the programme, and less than 8 per cent of whom had participated in retraining

however no counterfactual evaluation has been undertaken. In fact, the programme was partially changed in 2012 because of the limited success of job insertion of the beneficiaries of the programme amidst the economic crisis. All qualifications to the programme try to improve the activation features of the Plan PREPARA.

4.5 Public employment services

The Spanish Public Employment Service is a decentralized organization. There is a national office covering the whole country (SEPE, *Servicio Público de Empleo Estatal*), which retains very specific functions (such as the management and control of unemployment benefits and the compilation of statistical records) and also has a coordinating role, and the autonomous communities have their own regional PES. The decentralization of the PES and the takeover of the management of ALMPs by each autonomous community has been a slow process, taken at a different pace by each autonomous community. Some communities therefore have a very long tradition of managing their PES, whereas others only have limited experience. The main guidelines for ALMPs are established by the Ministry of Employment and the SEPE. Regional authorities are responsible for implementing ALMPs within the budget allocated by the government. The most usual conflicts relate to the criteria according to which resources are allocated to the regional PES. Recently, the degree of compliance with the Annual Plan of Employment Policies of the previous year has become one of the criteria for allocation of resources.¹⁰⁰

The main functions of any regional PES on active measures are labour market mediation and training programmes. As the latter have been described above, the focus will now turn to mediation.

The first step for labour market mediation in the PES is the application of the jobseeker. Part of the application process is an in-depth interview in order to obtain information for the mediation service and to provide the jobseeker with accurate information about vacancies, or any shortcomings in training they might have.

courses. According to information available at: <http://www.lam-oncloa.gob.es/NR/rdonlyres/EEF65741-3DAB-40E5-B7D6-D9C4553CEFBA/211343/PLANPREPARA.pdf>, the insertion rate was 30 per cent and only 18 per cent had a job for more than two months. All of these figures are only observed data and have not been compared with a similar group who have not participated in the programme. This is a key obstacle to stating whether the programme has been a success or a failure, although an insertion rate of 30 per cent seems rather low.

100. "Orden Ministerial" ESS/2198/2013 (<http://www.boe.es/boe/dias/2013/11/26/pdfs/BOE-A-2013-12412.pdf>).

After the first registration and the interview, the jobseeker must renew their registration every month (four weeks). Failure to re-register resulted in the jobseeker being deleted from the records of the PES. During the crisis (especially from 2010 onwards) there was an explicit strategy to develop personalized advice for jobseekers and a specific budget was even allocated to this end (Malo, 2011).

In order to understand the importance of labour market mediation compared with the rest of the activities of the PES, table 4.2 showed the expenditure on ALMP programmes in terms of GDP. While expenditure on PES administration as a whole increased on average during the crisis from 0.13 to 0.16 per cent of GDP, expenditure on placement services remained on average at 0.03 per cent. The labour market reform implemented in 2010 (and later legal changes in 2011) tried to promote individualized counselling for jobseekers in public employment services. This measure supported an existing trend in regional public employment services in order to improve mediation by increasing the number and quality of counsellors, and providing a better quality mediation service to employers. The 2012 labour market reform has not devoted any attention to expanding this interesting feature of the previous labour market reform. As fiscal austerity is highly focused on the public budget of autonomous communities, this development of labour market mediation will likely be left aside in favour of the more urgent need to manage the payment of unemployment benefits, which is the heaviest burden for labour market policies because of the magnitude of the unemployment problem in Spain. Under these conditions, it is difficult to imagine how to increase the number of PES staff per unemployed person to international levels.¹⁰¹ However, at the same time, many jobseekers will only have a chance in the hostile Spanish labour market if labour market mediation and the performance of the PES are improved.¹⁰²

4.6 Social partners and active labour market policies

The Spanish industrial relations system provides for the participation of the main unions and employers' organizations in different aspects of the design, implementation and follow-up of active policies. They participate in negotiations on these policies at national, but above all, at regional level. First, they have a prominent role at the Tripartite Foundation, which is mainly devoted to training for workers (instead of unemployed persons). Second, they participate in the annual public tender for training courses.

Traditionally, the social partners have been key actors looking to modernize training and collaborating actively in the transformation of training programmes for jobseekers and employed workers. However, there has been a sort of "stagnation" of the whole system. On the one hand, the objective of the training course system (and of unions and employers' organizations as part of this system) seems to be the provision of a wider menu of training courses, but as there are no counterfactual evaluations, decisions on courses are taken based on observed insertion rates of beneficiaries, evaluations of satisfaction, costs per student, etc. In other words, ineffective courses may continue to be offered as they give the appearance of being effective. Although it is not commonly known that the aggregate impact analyses find the impact of training courses on aggregate unemployment to be relatively low (as shown in previous sections) or that counterfactual evaluations reveal a relatively small impact of training at micro-level in the short term, there is widespread feeling among jobseekers that the courses offered are only occasionally useful. On the other hand, recent scandals involving the diversion of funds received for training have added to the weak results of social dialogue over the crisis, causing a worrying mistrust of the main social partners and how they manage training programmes.

In the near future, while it is crucial to restore trust in the social partners, it is also crucial to attend to the transformation of the organization of training courses so that they are more useful to jobseekers and employed workers. Tripartite negotiation with respect to this transformation would be very helpful to restore trust in this important area.

101. ILO (2014, Figure 3.7).

102. ILO (2014) identifies Spain's reinforcement of the PES as crucial in order to be more effective at targetting services to jobseekers, to modernize PES methods, and to improve PES cooperation across autonomous communities.

Box 1. Evaluations of active labour market policies in Spain

This box contains a summary of the main results of evaluation studies for ALMPs quoted in the main text. Evaluations of ALMPs based on control groups (counterfactual impact evaluations) are not common in Spain, mainly because of the lack of accurate databases. Nevertheless, there have been some fruitful collaborations between researchers and different Public Administrations, which have allowed for this type of evaluation to be undertaken with suitable data.

Results from aggregate impact analyses (often referred to as macroeconomic evaluations) are also included. The results are organized according to the different programmes (for example, in the meta-analysis of the effectiveness of European ALMPs by Kluve, 2010). The same research is quoted more than once when different programmes are evaluated in the same article or report.

1. Job search assistance and monitoring

According to Kluve (2010), in Europe these active policies have a positive effect in the short run and they are cost-effective.

In the case of Spain, Ramos et al. (2009) have estimated positive impacts of specific programmes of this type in Catalonia (*Itinerarios Personales de Inserción*). The data cover individual beneficiaries of this policy in 2005 and the authors checked their status in the labour market two years later. They applied Propensity Score Matching (PSM) to data from administrative registers. The treatment group had an increase of 6 percentage points in their probability of employment two years later over non-treated individuals. Information provided on the definition and quality of the dependent variable is scarce.

2. Training

In Europe, training programmes are effective, especially in the long term (Kluve, 2010).

In Spain, there are aggregate impact analyses showing a positive effect, mainly for the period 1987–95 (Davía et al. 2001; García-Serrano, 2000). An increase of 1 per cent in the number of trainees decreased the unemployment rate and the long-term unemployment rate by around 0.2 per cent, and the outflow rate from unemployment (and long-term unemployment) to employment fell around 0.1 per cent.

Arranz et al. (2013) updated the above aggregate impact analysis (based on Toharia, 2008) focusing on transitions from unemployment to employment instead of numbers of unemployed persons and covering the period 1987–2010. They did not find significant or robust impacts of the number of participants in training courses on different transition rates, with the exception of the transition rate from temporary to permanent employment. The size of the impact in this case, however, was rather small.

With regard to microeconomic evaluations of training programmes (mainly for unemployed workers), the following evaluations have been undertaken:

- Mato and Cueto (2008) applied PSM to training courses for unemployed workers launched in a Spanish region (Asturias) in 1995. They collected information for 1997 and 1998 on the labour market status of trainees and individuals from a control group. They found that 20 months later, there was a higher probability (around 20 additional percentage points) that treated individuals had found a job. A repetition of the exercise 32 months after the training course showed that this positive effect remained, although it was smaller (around 10 percentage points). They presented their results by gender, and men obtain better results than women.

- Cueto and Mato (2009) applied PSM to training courses for unemployed workers launched in a Spanish region (Asturias). They used two control groups and they found that participation in training courses increased the probability of employment by 8–9 percentage points. They found a significant creaming effect (i.e. selection for training may be more important than the training course) and evidence of a locking-in effect for trainees.
- Cueto et al. (2010) evaluated the impact of training courses on unemployed persons in Catalonia in 2005. The dependent variable was finding a job in the next eight quarters. They applied PSM to data from administrative registers and they provided separate results for training courses with different durations. They found positive impacts on the probability of employment of the treated group of up to 10 percentage points. They found that the duration of the training course was relevant to the size of the treatment effect: for the shortest course the increase was 2 percentage points, for courses with medium duration the effect was 6 percentage points, and for the longest courses the impact reached up to 9 percentage points. They estimated impacts for different groups of workers, finding that women and older workers had better results, especially for long training courses. Men and young people showed smaller positive impacts, especially for short courses (related to a strong locking-in effect just after these training courses).
- Ramos et al. (2009) evaluated the impact of training courses for unemployed people in Catalonia in 2005, using PSM. Their dependent variable was labour market status two years later. They estimated an increase of almost 6 percentage points in the probability of being employed two years later. Information provided on the definition and quality of the dependent variable is scarce.

With respect to targeted training programmes, the following two counterfactual impact evaluations were undertaken for Workshop Schools (*Escuelas Taller*) and Craft Centres (*Casas de Oficios*):

- Cansino and Sánchez (2011) applied PSM to evaluate the impact of this programme targeted at jobless young people. Youngsters following the programme found a job in a shorter time (between 448 and 471 days less than the control group). Calculations for the treated group included the amount of time spent in the programme. Data came from the province of Seville for the period 1997–99.
- Ramos et al. (2009) also evaluated the same programme in Catalonia in 2005, also using PSM. Their dependent variable was the labour market status two years later. They did not find any significant impact on beneficiaries of the training programme with respect to the control group. Information on the source of the database in general and the dependent variable in particular, is very limited.

3. Private sector employment incentive programmes

European evidence provided by Kluve (2010) shows that these incentive programmes could be effective in the short term; however unless they are well targeted, they have displacement effects.

The following are evaluations of hiring incentives programmes in Spain (mainly for open-ended contracts):

- Davía et al. (2001) presented an aggregate impact analysis of hiring incentive programmes on the unemployment rate and the outflow rate from unemployment to employment (for total unemployment and long-term unemployment).

→

Their econometric estimations do not show statistically significant results in general for this programme; but when they are significant, they are not robust to different econometric specifications.

- Arranz et al. (2013) also presented an aggregate impact analysis, but focusing on transition rates. They found that employment subsidies for permanent contracts have a small positive effect on transitions from unemployment to employment, and from temporary to permanent employment (especially after the 1997 labour market reform). However, the size of these effects on transitions suggests that the impact on aggregate stocks of permanent and temporary employment is not important. They interpret that these employment subsidies for permanent contracts had substantial deadweight and substitution effects, and they suggest targeting this policy to specific groups.
- García-Pérez and Rebollo (2009) applied a methodology based on triple difference-in-differences estimators to measure the impact of regional wage subsidies to foster permanent contracts. They found that the outflow into permanent employment (from either temporary contracts or unemployment) improved only minimally on aggregate. Only middle-aged women have a significant increase (67 per cent) in the outflow from temporary into permanent contracts. Concerning the outflow from unemployment into permanent contracts, the authors only found significant increases for young people: 10 per cent for females and 4 per cent for males.
- Cebrían et al. (2011) presented a microeconomic evaluation of hiring subsidies for permanent contracts using duration models. The covered period was 2005–09. They found that new subsidised permanent contracts were more unstable than new non-subsidised permanent contracts; however, subsidised conversions from temporary into permanent contracts (in the same firms) had the longest durations.
- Méndez (2013) applied a methodology based on difference-in-differences to the longitudinal data from the Labour Force Survey. His objective was to evaluate the impact of the 1994 and 1997 labour market reform on permanent employment. The employment incentives for permanent contracts were one of the main components of the 1997 labour market reform, which also included changes in severance payments and other regulations of the labour market; however, the author implemented an empirical strategy to distinguish the change in legal regulation and the implementation of employment incentives for permanent contracts. The author did not find a significant impact of the employment incentives on the conversions of temporary into permanent contracts. Nevertheless, for some specific groups the increase in the probability of finding a permanent contract clearly increased with the 1997 labour market reform. For older men and middle-aged women this probability increased around 60 per cent. The results also show that the average

duration of temporary contracts later converted into permanent contracts with employment subsidies decreased after the 1997 reform for some groups, especially for middle-age women (around 7 months on average) and young people (2–3 months). The author interprets these results as a use of temporary contracts replacing permanent contracts as an entry port to the labour market.

On targeted employment incentives for specific groups, Malo et al. (2010) analysed the impact of this type of programme when focused on people with disabilities. They applied PSM and they found a positive and significant impact. The largest impact on employment stability is for subsidized conversions of temporary contracts into permanent contracts in the same firm.

With regard to the promotion of self-employment, there is an evaluation of the lump-sum payment of unemployment benefits to launch a new business by Mayor et al. (2015). It is an aggregate impact analysis. The authors found a relatively small impact (an elasticity of 0.3) on the aggregate unemployment rate. They interpret their results as a significant deadweight effect of this policy in terms of the promotion of self-employment. They did not analyse the probability of survival of these new businesses.

4. Direct job creation programmes

These programmes are often not effective, and may actually decrease the chances of participants finding a private sector job (Kluve, 2010). They could nevertheless provide a safety net for some target groups.

In Spain, there are some estimations of the aggregate impact of direct job creation programmes:

- Davia et al. (2001). Aggregate impact analysis. Econometric estimations did not show statistically significant results in general for this programme; but when they are significant, they are not robust to different econometric specifications.
- Arranz et al. (2013). Aggregate impact analysis focusing on transitions. They did not find a statistically significant effect of direct job creation programmes on any transition rate, with the exception of the transition rate from unemployment to employment; however, this effect is not robust to different econometric specifications.

5. Others

Ramos et al. (2009) presented a PSM evaluation of Employment Plans (*Planes de Empleo*) in Catalonia. These plans are sets of measures to improve the employability of unemployed workers. Data are for 2005, and they checked the labour market status of individuals two years later. The authors found that beneficiaries of plans increased their probability of employment two years later by almost 18 percentage points. This is a substantial effect, showing the importance of integrated packages of initiatives for unemployed people. Information on the source of the database in general, and the dependent variable in particular, is very limited.

Conclusion

During the crisis, most labour market measures in Spain have been driven by the urgency to respond to the different stages of the crisis. The end of the speculative bubble was rapidly followed by the eruption of the global financial crisis. The sudden and huge employment losses were soon followed by the fiscal crisis and the risk of default, and very soon thereafter, fiscal adjustment under a tight calendar emerging from difficult negotiations among the Eurozone countries.

Changes in labour market policies have moved from short-term protective measures (mainly automatic, such as unemployment benefits) to “austerity policies” summing up the fiscal adjustment through wage cuts in the public sector and other reductions in public spending. In the meantime, the social debate has been mostly focused on, first, the labour market reform, and later, the fall in real wages.

The debate surrounding the 2012 labour market reform was monopolized at the beginning by the proposal of the “single contract”, not focusing on the employment level but rather on the duality of the labour market and employment quality. As this proposal has not been considered in either of the two latest reforms in 2010 and 2012, however, the issue remains on hold, together with the debate on job quality and working conditions. The centre of the debate has been replaced by collective bargaining changes and the impact on wages, finally arriving at the current situation of widespread concern about the worsening situation of those at the bottom of the wage distribution. The problems of young people have also been important in the social and political debate, and public authorities have embraced the promotion of a Youth Guarantee from the European Union because of the increasing social concern to prevent a “lost generation”. The analysis in the different sections of this report shows that the policy response to the challenges of the crisis remains sketchy, mainly focusing on different aspects of employment protection legislation and collective bargaining. That Spanish society is weary of the insistence on labour market reforms is not surprising, but national and international institutions and experts still insist on implementing new reforms

to improve specific outcomes of the labour market (fighting dualization of the labour market, increasing wage flexibility, moving collective bargaining towards firms, etc.). The resistance of Spanish society to such additional reforms is understandable because of the expectation, for example, of increasing dismissals when decreasing severance payments, of real earnings losses because of wage flexibility amidst the economic crisis, of less favourable working conditions when promoting collective bargaining at firm level during a crisis, etc. Nevertheless, almost no countermeasures in terms of social protection have been launched alongside the legal changes of the labour market reform.

In any case, the challenge is not only attending to the details and unexpected interactions of different aspects of employment protection legislation and wage setting. A broad and consistent perspective on the outcomes in terms of the welfare of workers and efficiency of the economy could be adopted at a time when new forms of precarious employment are emerging, such as dependent self-employment and some forms of part-time work. Promoting adjustment through wages and hours, rather than through downsizing could lead to better outcomes in the Spanish context, but it might also have some negative effects on low-wage workers. Such externalities could be taken into account in the formulation of new rules regarding wage-setting institutions and unemployment benefits. As unemployment compensation is the main instrument of Spanish social protection for income maintenance, changes in unemployment insurance and assistance must be carefully considered beyond the short-term needs of the fiscal adjustment, as even small changes can drastically affect the welfare of low-income households. The Youth Guarantee is a good initiative if it is used to increase coordination and flexibility of the educational system, training courses and public employment services, defining the first step towards a structured strategy for lifelong learning. Section 4 has shown that ALMPs are at a crossroads and are in need of a deep redesign. Labour market mediation services must continue their modernization process, moving towards an information

network model where personalized counselling will be crucial. Counterfactual impact evaluation is only occasionally applied, when it is a transparent tool that could be used to estimate the causal impact of different measures, especially training courses, and it is more than a permanent follow-up of some key indicators. The use of information from this type of impact evaluation (jointly with other information, of course) must be much more common and not the exception when selecting and making decisions on training courses. Beyond these training courses, some programmes are so expensive and important (such as the Youth Guarantee) that at least in pilot projects counterfactual impact evaluation has to be applied.

Coordination at different levels of Public Administration and negotiation with and between the social partners must be improved. Social partners and the government could rebuild social dialogue around the following priorities: First, a clearer way to obtain representativeness for employers' organizations above the firm level would be advisable. Isolated strategies such as direct conversations between the CEOs of the biggest Spanish firms and the government break the role of social partner of the main representative employers' organizations and undermine their role as players in social dialogue. Second, new pathways to improve participation of temporary workers in the elections of unions are needed. Third, dialogue in small- and medium-sized firms must be promoted, otherwise the recent changes in collective bargaining regulation could end in the individualization of labour relations instead of promoting firm-level agreements. Last but not least, the social partners and the PES should look for a new approach to training courses for jobseekers that is centred on the needs of the individuals rather than on the menu of courses available, with a high degree of social transparency in order to recover trust in the efficacy of this tool for the activation of jobseekers, especially for those with the lowest educational levels.

Nevertheless, even the best set of ALMPs cannot alone solve the entry blockade into the labour market. The Spanish economy also needs a stronger economic fabric, growing and resilient firms, and demand-side policies. The very recent proposal of the European Commission of a new fund to promote investment is a step in this direction. The crisis has shown that adjustment to an external shock, in the absence of a flexible exchange rate, occurred through the labour market. An alternative could have been to coordinate economic policy at the level of the European Union and avoid painful massive unemployment and reductions in wages.¹⁰³

103. For a detailed presentation of this line of reasoning, see Blyth (2013), ILO (2013, chapter 5) and Malo (2013).

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