

Spain: the nightmare of Mediterranean neoliberalism

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1. Introduction

After a long period of dramatic growth the Spanish economy is now among the group of European countries hardest hit by the economic crisis. The discussion on the reasons for this situation and requisite policy response is intense, with wide variations of opinion. From the conventional point of view, the crisis is mainly a market disequilibrium problem. Others believe that there are structural reasons. In this chapter, taking into account the particularities of Spain's employment model, we present the central topics that, in our opinion, explain the underlying causes and characteristics of the crisis. We also analyse its consequences and the political responses of the government.

In the national arena, the labour market is one of the most significant questions. As in the previous crisis, mainstream economists have identified labour regulation as one of the main reasons for the crisis. Their proposed responses therefore concern labour market deregulation. These explanations and proposals are discussed in particular in Section 4. In the conclusion we point out some lessons learned from the crisis and present some ideas about possible alternatives and future prospects.

2. A foreseeable crisis

Halfway through the past decade, Spanish economy appeared to be successful in many aspects: it was experiencing a decade of sustained growth in production output and employment, women were gradually being incorporated into the labour market and unemployment was going down. However, when the analysis goes deeper than these primary indicators, the situation appears to have been more complex

and disturbing. This is why, against this backdrop of prosperity, there were those who said that despite modernisation and temporary success, Spain's growth model was extremely fragile (Banyuls *et al.* 2009).

Table 1 Selected economic indicators, Spain, 2001–2010

| | GDP (annual change %) | Gross fixed capital formation (annual change %) | Current + capital account (% GDP) | CPI (annual change %) | Government deficit/surplus (% GDP) | General government gross debt (% GDP) | Employment LFS (annual change %) | Unemployment rate (%) ⁽¹⁾ |
|------|--------------------------|--|--------------------------------------|--------------------------|---------------------------------------|--|-------------------------------------|---|
| 2001 | 3.6 | 4.8 | -3.1 | 3.6 | -0.6 | 55.5 | 4.1 | 10.6 |
| 2002 | 2.7 | 3.4 | -2.2 | 3.1 | -0.5 | 52.5 | 3.0 | 11.5 |
| 2003 | 3.0 | 5.9 | -2.5 | 3.0 | -0.2 | 48.7 | 4.0 | 11.5 |
| 2004 | 3.2 | 5.1 | -4.2 | 3.0 | -0.3 | 46.2 | 3.9 | 11.0 |
| 2005 | 3.6 | 7.0 | -6.5 | 3.4 | 1.0 | 43.0 | 5.6 | 9.2 |
| 2006 | 4.0 | 7.2 | -8.3 | 3.5 | 2.0 | 39.6 | 4.1 | 8.5 |
| 2007 | 3.6 | 4.6 | -9.6 | 2.8 | 1.9 | 36.2 | 3.1 | 8.3 |
| 2008 | 0.9 | -4.4 | -9.2 | 4.1 | -4.1 | 39.7 | -0.5 | 11.3 |
| 2009 | -3.7 | -16.0 | -5.1 | -0.3 | -11.1 | 53.2 | -6.8 | 18.0 |
| 2010 | -0.1 | -7.6 | -3.9 | 1.8 | -9.2 | 60.0 | -1.3 | 20.3 |

Note: (1): In 2005 there is a break in the series due to a methodological change.

Source: La Caixa, *Informe Mensual*, Ministerio Economía, *Síntesis Indicadores Económicos*; Banco de España, *Boletín Estadístico*.

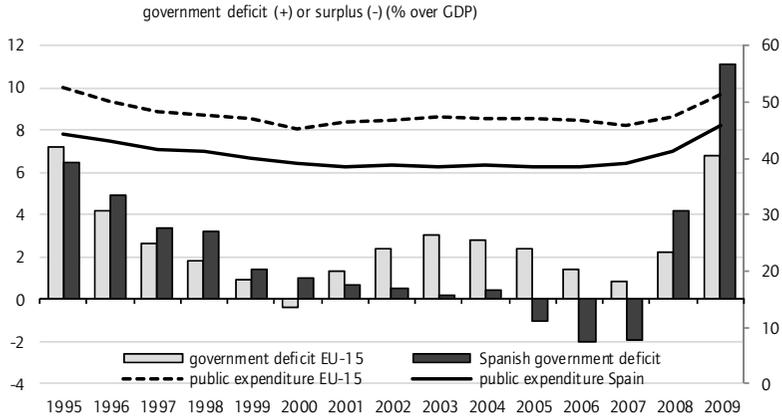
Some reasons for this instability were deeply rooted in the model of development of Spanish capitalism during the Franco era. It was largely a closed economy whose opening up since the late 1970s has been turbulent. Other aspects could be explained by the accumulation of contradictions in Spanish democracy (since 1977), notably the way in whether the internationalisation of the Spanish economy has come about and the contradictory attempt to apply neoliberal policies in a society that was trying to develop a – previously non-existent – welfare state. Other contradictions have arisen during the latest phase of rapid development (from 2004), bringing about an extremely risky situation.

The first major source of problems is the production model. The Spanish economy repeatedly experiences deficits in its external trade (Pérez *et al.* 2004), leading to endemic external debt and hindering job creation. This deficit reflects persistent low competitiveness, mainly in industry, but also disequilibrium associated with dependency on basic inputs (especially energy). This situation was aggravated after EU entry due to the persistence of moderate deindustrialisation. This can be explained by a combination of factors: the small and limited technological development of Spanish companies (making internationalisation difficult), the limited scale of local plants (which has justified their closure when supranational industrial groups have undertaken reorganisation), specialisation in mid- and low-level production (more prone to relocation to countries with lower salaries) and foreign control over the main industrial groups.

Furthermore, large domestic capital owners (especially the financial sector) opted to discard their industrial interests and focus on the financial sector, public works and privatised public services (Recio 2010). Only tourism and some agricultural segments can be considered successful sectors of specialisation in the international arena, but they have not been sufficient to balance out the problems created in manufacturing. Until the beginning of the 1990s the imbalances were tackled with successive devaluations, but since euro entry this option has been unavailable and the latest phase of expansion has led to a growing deficit and increasing indebtedness.

The other big 'failure' of the system is found in the role of the public sector. Historically, Spain was a country with low taxes and a small welfare system. The democratic transition implied substantial changes, with the introduction of a modern tax system and the extension of public services. However, this expansion was always limited by the country's lax mentality towards tax and great tolerance as regards the unofficial economy. Since the early 1990s, a series of tax cuts have been instituted that contrasted with the greater social demand for public health services, education and so on. This was partly linked to the competition between the two dominant parties in the political arena. In this case, the tug-of-war between revenue and spending gave rise to underdevelopment of the public sphere rather than financial deficits. This shortcoming in particular affects the household/family system that has to take on an enormous burden with few resources.

Figure 1 Government deficit and public expenditure, Spain and EU15, 1995–2009



Source: Eurostat and CCOO from IGAE.

The phase of spectacular economic growth from 1994 to 2007 masked these problems instead of solving them and, to some extent, aggravated them. In terms of production, the engine of this growth was undoubtedly construction, above all in the residential sector but also public works. The impact of this industry on all economic activity was unquestionable (Bielsa and Duarte 2011). The nature of this activity, which cannot be relocated, extended its impact across the country, although tourist and urban areas experienced the biggest growth. The enormous building activity boosted employment and tax revenues, but one of its downsides was the explosion of mortgages taken out by households throughout the country.

At first, this led to a financial bubble and severe household indebtedness, not to mention a serious problem of access to housing for lower earners (especially young people). The financial sector played a crucial role in this, taking loans from abroad to transform them into loans for property developers and individual buyers (Naredo and Montiel 2011). This explains why Spain’s external debt has been mostly private debt. Second, it has led to serious environmental degradation, accelerating some existing problems (desertification, energy dependence and so forth). Third, as this is an activity in which government regulation plays a key role in classifying land, this industry became the main agent

responsible for the problems of political corruption, especially at local level. The building boom encouraged an economic mindset of short-term profit based more on property transactions than on the pursuit of technical efficiency, training and improved competitiveness (Lopez and Rodriguez 2011).

Table 2 Employment by activity, Spain, 1994–2007

| | 1994 | 2007 | % of change | '000 (only positive change) | % over total change (only positive change) |
|---|----------|----------|-------------|--------------------------------|---|
| Total activities | 12,207.6 | 20,476.9 | 67.7 | 8515.0 | 100.0% |
| Agriculture, hunting and forestry | 1,064.2 | 856.9 | -19.5 | | |
| Fishing | 82.2 | 48.9 | -40.5 | | |
| Mining and quarrying | 59.4 | 54.1 | -8.9 | | |
| Manufacturing | 2,427.0 | 3,118.9 | 28.5 | 691.9 | 8.1% |
| Electricity, gas and water supply | 90.8 | 106.1 | 16.9 | 15.3 | 0.2% |
| Construction | 1,117.2 | 2,693.5 | 141.1 | 1576.4 | 18.5% |
| Wholesale and retail trade; repair of motor vehicles... | 2,108.9 | 3,211.5 | 52.3 | 1102.6 | 12.9% |
| Hotels and restaurants | 738.0 | 1,443.8 | 95.6 | 705.8 | 8.3% |
| Transport, storage and communication | 712.0 | 1,176.3 | 65.2 | 464.3 | 5.5% |
| Financial intermediation | 329.5 | 509.3 | 54.6 | 179.8 | 2.1% |
| Real estate, renting and business activities | 633.0 | 2,054.0 | 224.5 | 1421.0 | 16.7% |
| Public administration and defence; compulsory social security | 789.6 | 1,241.3 | 57.2 | 451.7 | 5.3% |
| Education | 670.6 | 1,128.0 | 68.2 | 457.4 | 5.4% |
| Human health and social work activities | 616.0 | 1,221.0 | 98.2 | 605.1 | 7.1% |
| Other community, social and personal service activities | 433.7 | 842.1 | 94.2 | 408.5 | 4.8% |
| Activities of households | 334.6 | 770.0 | 130.1 | 435.4 | 5.1% |
| Activities of extraterritorial organisations and bodies | 1.3 | 1.2 | -7.7 | | |

Source: Authors' calculations from LFS. Annual averages.

The growth of the property market also had a complex impact on public policies, which were contradictory. On the one hand, the policy of tax cuts was accelerated under both the conservative Partido Popular and the Socialist Party (reforms of income tax and corporate tax, elimination or reduction of taxes on inheritance and donations, and so on). In the short term, the buoyancy in the property market compensated for the loss of revenue due to tax cuts, but when the property market slumped, tax revenues plummeted. Moreover, with the Socialist Party back in power a new boost was given for the welfare policies that people demanded, not only in traditional matters such as education and health care, but in new areas, and especially in aid for housing and policies aimed at families and dependents. One especially clear example of the increase in spending is found in the budgets in the autonomous regions to which management of social spending had been transferred. Behind this increase there was both the need to improve the standards of public services and the demographic and social backdrop which is discussed below.

The traditional Mediterranean family model is based partly on distinct gender roles that have enabled many reproductive needs to be covered by female household members (although there is increasing evidence that this activity is often combined by many working-class women with unofficial paid employment). This model has partly broken down (Miguélez and Recio 2010) due to the changes that Spanish society has experienced in recent years: an increase in education, especially for women, changes in consumption patterns (which make a single family income unfeasible) and the increasing instability of the traditional family model (growth of the divorce rate and short-term informal relations). In addition, the aging population is giving rise to new care that families alone are unable to sustain. All of this pressure has led to demand for new social policies to support families and the creation of new labour market demand for care workers which, due to families' financial constraints, has generated an 'unofficial market for carers' (Simonazzi 2009).

All this resulted in strong employment growth for years. This employment growth soon required the mobilisation of a large reserve workforce, however, which explains the intense immigration to Spain.¹ This immi-

1. The employment growth has been taken place at the same time that the labour force has increased, with the arrival of immigrants and higher female labour market

gration occurred alongside policies that were fairly lax as regards entry into the country, while labour law within Spain was very restrictive. The result was that at several stages during this process this reserve workforce found itself in a situation of illegality or outside the law, which in turn fostered the growth of unofficial employment. At least this wave of immigration made a quantifiable contribution that enabled companies to cover their labour needs without generating inflationary pressure on wages. It often contributed to a deterioration in working conditions, however, particularly in sectors where unofficial labour is particularly prevalent (especially the care sector, but also outsourcing in construction or services). Population growth also helped to generate demand for increased public services, which also explains some of the policy responses.

The financial system has played a central role in developments. In the crisis of 1975–85 the private banking system was restructured (with generous state support) and was subjected to stricter regulations with regard to reserves. As a result, in the current crisis they have not experienced problems of the same magnitude as in other countries. As an effect of these processes, the private banking system became more concentrated (now there are only two big banks, Santander and BBVA, instead of six, plus two medium-sized banks) and the whole sector has successfully protected itself against the competitiveness of foreign banks. The biggest two banks have engaged in internationalisation (mainly in Latin America and the United Kingdom), reducing their dependence on the domestic market. On the other hand, there is a large group of savings banks, usually with the participation of local governments, mainly geared towards local markets. Both groups based their expansion on the massive use of foreign credit. A large part of these funds, especially in the case of savings banks, was devoted to feeding the real estate and housing bubble. When the bubble collapsed,

participation. Despite the dramatic economic growth the unemployment rate in this period was still high compared to other European countries. This is due to several reasons, three of which are particularly significant. One is job quality. Most of the jobs created in this period are 'bad' jobs, and people that can avoid them continue to look for a better one, remaining unemployed in the meantime. Bad jobs have been taken mainly by immigrants. The second is the high level of flexibility of the Spanish labour market, with a high level of replacement due to the intensive use of fixed-term contracts. Many workers move from employment to unemployment and back again very often. The third aspect is the fact that, despite the significant employment creation, in some activities (some industrial branches, agriculture) there has been slow and continuous employment destruction, and those affected have found it very difficult to find a new job.

savings banks faced major problems. Now they have been transformed into private banks or have been nationalised. It is important to take into account the fact that the problems of Spanish banks were not induced by their foreign activities, as in other EU countries, but rather home-grown, due to the domestic housing credit bubble.

In summary, the background of economic developments before the recession partly contributed to the conditions that dictated how it subsequently progressed: it promoted an economic development model focused on the volatile building industry, mobilised a reserve workforce in a very precarious social situation and weakened the country's tax base in a setting calling for higher spending. The recession has been worldwide, but the Spanish economy had accumulated sufficient features of its own to explain the dramatic situation we are now seeing.

3. Employment crisis and more neoliberalism

From the point of view of employment, the recession in Spain began in the fourth quarter of 2007. Since then, job losses have continued and the unemployment rate has risen to 21.3 per cent. As has happened before, the Spanish labour market has great elasticity when confronted with the vagaries of economic activity. In our opinion, this is due to the role of the building industry. This industry can adapt almost immediately due to its heavy use of temporary employment and the unique nature of each construction project. The construction industry provides an exaggerated example of the process of job destruction: it is directly responsible for 36 per cent of jobs lost since the beginning of the recession and for many of the jobs lost in industry. Some industrial branches unrelated to construction have also shed employment, however, such as the motor industry and some traditional activities.

However, this loss of jobs does not explain all of the increase in unemployment: 25 per cent of it is explained by the arrival of new people in the labour market due to an 'additional worker' effect due primarily to adult women. This is a new feature of the Spanish labour market (in previous recessions the entry of women was lower) and supply factors come into play (job losses affect especially men and, in some groups – for example, people from Morocco – the response to unemployment is the entry of adult women in the labour market).

Table 3 Employment by activity, Spain, 2008–2011

| | Distribution by activity (%) | | % change | Employment destruction | |
|--|------------------------------|---------|----------|------------------------|--------|
| | 2008 Q1 | 2011 Q1 | | in thousands | as a % |
| TOTAL | 100.0 | 100.0 | -11.0 | -3263.9 | 100.0 |
| A - Agriculture, forestry and fishing | 4.2 | 4.3 | -9.3 | -80.5 | 2.5 |
| B - Mining and quarrying | 0.3 | 0.2 | -20.3 | -10.8 | 0.3 |
| C - Manufacturing | 15.1 | 12.7 | -25.1 | -772.7 | 23.7 |
| Manufacture of food products | 2.2 | 2.2 | -11.0 | -49.3 | 1.78 |
| Manufacture of textiles | 0.4 | 0.3 | -39.7 | -34.9 | 1.26 |
| Manufacture of wood and of products of wood and cork, except furniture | 0.5 | 0.4 | -34.9 | -36.9 | 1.33 |
| Manufacture of other non-metallic mineral products | 1.1 | 0.7 | -44.7 | -97.6 | 3.53 |
| Manufacture of fabricated metal products, except machinery and equipment | 1.9 | 1.4 | -35.5 | -137.5 | 4.97 |
| Manufacture of motor vehicles, trailers and semi-trailers | 1.2 | 1.0 | -21.5 | -52.0 | 1.88 |
| Manufacture of furniture | 0.9 | 0.5 | -48.5 | -91.4 | 3.31 |
| D - Electricity, gas, steam and air conditioning supply | 0.4 | 0.4 | 9.5 | | |
| E - Water supply; sewerage; waste management and remediation activities | 0.6 | 0.7 | 3.5 | | |
| F - Construction | 13.1 | 8.2 | -44.1 | -1176.3 | 36.0 |
| G - Wholesale and retail trade; repair of motor vehicles and motorcycles | 15.7 | 16.0 | -9.3 | -299.2 | 9.2 |
| H - Water transport | 4.7 | 5.0 | -5.5 | -52.3 | 1.6 |
| I - Accommodation and food service activities | 6.8 | 7.2 | -5.8 | -80.8 | 2.5 |
| J - Information and communication | 2.6 | 2.7 | -5.4 | -28.4 | 0.9 |
| K - Financial and insurance activities | 2.5 | 2.5 | -12.0 | -62.0 | 1.9 |
| L - Real estate activities | 0.6 | 0.5 | -21.9 | -26.5 | 0.8 |
| M - Professional, scientific and technical activities | 4.3 | 4.6 | -5.4 | -47.2 | 1.4 |
| N - Administrative and support service activities | 4.5 | 5.0 | -0.7 | -6.0 | 0.2 |
| O - Public administration and defence; compulsory social security | 6.0 | 7.9 | 17.3 | | |
| P - Education | 5.7 | 6.6 | 3.9 | | |
| Q - Human health and social work activities | 5.8 | 7.6 | 17.3 | | |
| R - Arts, entertainment and recreation | 1.4 | 1.8 | 14.2 | | |
| S - Other services activities | 2.1 | 2.0 | -17.1 | -74.6 | 2.3 |
| T - Activities of households as employers | 3.7 | 3.9 | -6.3 | -47.0 | 1.4 |

Source: Authors' calculations from LFS.

Table 4 Selected labour market indicators, Spain, 2006–2011

| | % of change | | | | Rates | | |
|---------------|---------------|--------|----------|------------|---------------|-----------------|-------------------|
| | Older than 16 | Active | Employed | Unemployed | Activity rate | Employment rate | Unemployment rate |
| All | | | | | | | |
| 2006 Q1 | 1.7% | 3.6% | 4.9% | -7.8% | 58.0% | 52.7% | 9.1% |
| 2007 Q1 | 1.7% | 2.8% | 3.4% | -4.1% | 58.6% | 53.6% | 8.5% |
| 2008 Q1 | 1.6% | 3.0% | 1.7% | 17.1% | 59.3% | 53.6% | 9.6% |
| 2009 Q1 | 1.0% | 2.3% | -6.4% | 84.5% | 60.1% | 49.7% | 17.4% |
| 2010 Q1 | 0.1% | -0.4% | -3.6% | 15.0% | 59.8% | 47.8% | 20.0% |
| 2011 Q1 | 0.2% | 0.2% | -1.3% | 6.4% | 59.9% | 47.1% | 21.3% |
| Male | | | | | | | |
| 2006 Q1 | 1.9% | 2.6% | 3.7% | -10.0% | 68.9% | 64.2% | 6.8% |
| 2007 Q1 | 1.9% | 1.9% | 2.4% | -5.5% | 68.9% | 64.6% | 6.3% |
| 2008 Q1 | 1.7% | 2.3% | 0.6% | 27.3% | 69.3% | 63.9% | 7.9% |
| 2009 Q1 | 1.0% | 0.7% | -9.2% | 115.6% | 69.1% | 57.5% | 16.9% |
| 2010 Q1 | -0.1% | -1.8% | -5.5% | 16.3% | 67.9% | 54.4% | 20.0% |
| 2011 Q1 | 0.0% | -0.8% | -1.8% | 3.2% | 67.4% | 53.4% | 20.8% |
| Female | | | | | | | |
| 2006 Q1 | 1.5% | 5.0% | 6.7% | -5.9% | 47.5% | 41.7% | 12.2% |
| 2007 Q1 | 1.6% | 4.0% | 5.0% | -3.1% | 48.6% | 43.1% | 11.4% |
| 2008 Q1 | 1.6% | 3.9% | 3.2% | 9.4% | 49.7% | 43.8% | 12.0% |
| 2009 Q1 | 1.0% | 4.6% | -2.6% | 57.1% | 51.5% | 42.2% | 18.0% |
| 2010 Q1 | 0.3% | 1.4% | -1.3% | 13.4% | 52.0% | 41.6% | 20.2% |
| 2011 Q1 | 0.3% | 1.5% | -0.8% | 10.5% | 52.7% | 41.1% | 21.9% |

Source: Authors' calculations from LFS (first quarter).

On the other hand, in the first stages of the recession some traditional feminised sectors continued to create employment (care) and contributed an oversupply of labour.

The response to this social upheaval has varied in accordance with how the process has unfolded and how it has been understood. As for the socialist government, two clearly defined phases can be distinguished. The first, until May 2010, was characterised by considering the crisis as a temporary economic downturn that should simply be overcome using measures dealing with current circumstances. To some extent, demand stimulus was applied: tax cuts (elimination of wealth tax, discount of

400 euros on income tax, aid for those with new-born babies) and expenditure (establishment of a new grant of 400 euros for the unemployed with no benefits, Zapatero's plan for municipal public works and so on). There was confidence that the Spanish economy was stronger than that of other countries, above all because of the banking system.

The government was aware of the need to change the production model and it presented a Sustainable Economy Act which was really a compendium of unrelated measures (from the promotion of renewable energy to the liberalisation of services), but it had no clear roadmap as to how to guide the changes. Adopting these policies did not prevent massive job destruction nor did it serve to change the direction of the economy. Tax relief measures had little effect as they did not focus on the low-income population. Perhaps the measures for maintaining expenditure have worked a little better. In any case, the economic system fell into serious recession by not being able to absorb the collapse of the portentous property bubble. The excess supply that was generated (especially as regards second residences) and the high level of household indebtedness (compounded by rising interest rates in 2008 and job losses) ended up generating a crisis in the financial sector and the collapse of public revenue.

This economic policy approach did not work (Arias 2009). The property crisis has dragged down the rest of the economy. First, it has involved the banking sector, which has had to deal with unpaid debts and assume ownership of a large amount of residential property. Second, the sudden drop in property transactions has led to a sharp fall in public revenues, causing the public deficit to grow rapidly. The Spanish economy's high external debt and the panic created among foreign lenders has fuelled a rise in external interest rates and put heavy external pressure on the Spanish economy. Then there is also the high social cost of millions of unemployed who have lost their homes and are facing unpayable debts. In this context, the government performed a strategic u-turn in May 2010, fully accepting a programme of budget adjustment and structural reforms with a neoliberal bent:

- cuts in public spending, starting with a reduction of 5 per cent in public sector wages, freezing pensions and eliminating the previous tax breaks for employees;

- structural reform of the labour market (September 2010, August 2011) concerning collective bargaining (June 2011), public sector pensions (February 2011) and the financial system, especially savings banks (see Box 1);
- privatisation of other parts of the public sector: lotteries, airports; the reform of savings banks also included converting them into private banks with public money, once their finances had been given a clean bill of health;
- modification of the Constitution (September 2011), including the payment of public debt as the first priority of public budgets and constraining (in 2018) the maximum public structural deficit to 0.4 per cent of GDP.

In addition to these national policies, the autonomous regions have also been active. The latter are now responsible for managing education, health care and social services – these services were transferred from central government without adequate funding – thereby also transferring pressure on public deficits to the regions. Some, such as Valencia and Madrid, have been applying neoliberal management of these services for years, while others, such as Catalonia, have now become completely geared towards neoliberal policies: budget cuts and private management of services are part of the model.

As for the fiscal crisis, on the other hand, no tax reform measures have been put forward that would bring in more revenue to the state budget and reduce the unequal tax treatment that affects the population according to income level and source of income. While labour creates income accounting for less than 50 per cent of GDP, it bears more than 80 per cent of income tax. The experience of the recession indicates that too little has been done to restructure production – of course, this is very difficult (AAVV 2009) – while implementation of the neoliberal agenda has continued. Neoliberal principles have little to offer as regards correcting the weaknesses in the economic model.

Box 1 Structural reforms in Spain

Reform of Labour Act (September 2010)

- Expands the range of causes that justify 'fair' dismissal (the expectation of future losses is considered a fair cause).
- Introduces state aid for firms for compensation for fair dismissals (state will pay 40 per cent).
- Enlarges the potential number of workers with reduced compensation (from 45 days per year worked to 33) for 'unfair' dismissal (unjustified, automatic, without pre-notification).
- Introduces a new scheme of working time reduction.
- More possibilities for individual firms to opt out of sectoral collective agreements.
- Increases redundancy pay for temporary employees from 8 to 12 months.
- Allows employment agencies to operate in more sectors (for example, construction) and to cooperate with public employment services.

Reform of collective agreements (June 2011)

- Introduces a mandatory term to renegotiate agreements when they expire; at the end of this term introduces the mandatory arbitration.
- Introduces mandatory items on internal flexibility in collective agreements.
- Allows firms to opt out of sectoral collective agreements and promotes the extension of company agreements.

New measures on Labour Market (August 2011)

- Expands the training contract (for people without basic qualifications) until the age of 30. This contract includes 20 per cent of time in formal training, and is paid at the minimum wage. At the end of the contract (1–2 years) firms will be subsidised for hiring the people concerned.
- Allows firms to renew temporary contracts with the same employee indefinitely. Formerly, there was a two-year limit.

Social security (February 2011)

- Retirement age will increase from 65 to 67 years old.
- The age of voluntary pre-retirement will rise 61 to 63 years old.
- Maximum pension will require 37 years of contributions (previously 35).
- Pensions will be calculated on the basis of the last 25 years of contributions (previously 15 years).
- Time devoted to maternity (maximum 2 years, 9 months per child) and post-graduate study (maximum 3 years) are included in contributions.
- Revision of the scheme every 5 years.

Financial sector

- Transformation of former savings banks into banks and promotion of concentration.
- Bank capital must be 8 per cent of their total assets (risk weighted); 10 per cent for new savings banks without external owners.
- Creation of a fund (FROB) to finance the restructuring of financial groups by means of credit. The FROB can take temporary ownership of these companies. In the end, they are to be reprivatised.

4. The labour market: eternal reform

One significant feature of the structural reforms being carried out is the change in the employment system. This has been a constant in Spanish history since 1980. Labour market reform is continuing as much because of the varying interpretations of influential academic and social groups, as because of Spain's real problems in this area.

The high unemployment rates in Spain recurrently give rise to a reductionist reading that suggests that unemployment is primarily a problem of labour and that structural reform is necessary to decrease it (Andrés *et al.* 2010; Dolado and Felgueroso 2010). Empirical evidence suggests, however, that the creation and destruction of employment in Spain has much more to do with expansionary and recessionary phases of the business cycle than with existing regulations. Nevertheless, the argument based on alleged rigidities in the Spanish labour market reappears prominently every time the country suffers mass unemployment. This view is held consistently by leading think tanks in the country: the Bank of Spain Centre for Studies, the FEDEA Foundation (funded by big business) and business organisations. The rigidity argument is related to a strict dual view of the labour market (protected permanent employees in one side, temporary ones in the other). This view has been discussed by other authors with a more complex view of the labour market (Prieto *et al.* 2009) based on segmentation, not to mention the current trade union approach to wage claims (Perez Infante 2011). There is also evidence of increasing inclusion of flexibility in collective agreements (CES 2008, 2009, 2010).²

2. The discussion on rigidity in the Spanish labour market is complex. Usually, it centres on the existence of highly protected permanent workers, but the real question is the provision in Spanish law that allows firms to dismiss workers with no need to justify their decision and without any announcement period, although at high cost (45 days per year worked). If firms do justify the dismissals the cost is much lower (and with the reform the dismissal cost in a permanent contract can be the same as in a temporary contract), but employers tend to use the expensive formula because it is more flexible. Other aspects that confer on the labour market a high degree of flexibility are the diversity of collective agreements (at sectoral and territorial level), the extended use of outsourcing, the large proportion of small firms (which are not subject to certain collective agreement items), the lack of professional recognition that gives firms significant flexibility in the use of labour, the tolerance of informality and so on.

The current reform package deals mainly with three areas (Cruz 2010; García *et al.* 2010): individual contracts, labour market brokerage and collective bargaining. In terms of job contracts, the new reform introduces new measures to facilitate job dismissals and layoffs and to make them cheaper, for both groups and individuals, on the assumption that the high cost of this hinders job creation. Among the various provisions in this measure, there is the government subsidy to employers for legal lay-offs that if applied would cover the costs of all kinds of dismissals (apart from unfair dismissal) for up to 12 days per year worked. In terms of brokerage, the most important innovation is that it enables temporary employment agencies to operate in virtually all industries (previously, this was banned in some areas, such as construction) and allows brokerage in the labour market to be outsourced to these agencies. This measure is yet to be developed, but it may have a significant effect.

The most radical change seems likely in collective bargaining. This change is aimed primarily at reducing the valid duration of agreements once they have expired, setting maximum time limits and the mediation of an arbitrator to impose a final solution when there is no agreement. The reform also seeks to promote bargaining at company level and less reliance on negotiated agreements above the industry level. This is potentially a radical change because in a country dominated by small and micro enterprises it opens up the possibility of a labour market in which the only real collective bargaining may take place in a small number of companies. This is a path that once again moves along the lines of encouraging low wages as a basic strategy for profitability and competitiveness. It is a path that Spain has been down in the past and probably explains the way production and society is oriented, which is at the core of the problems in the Spanish economy.

This recession seems to show a new twist in a policy with which Spain has long been associated. The plausibility of this policy rests on the fact that unemployment causes massive social demand for urgent solutions and labour reforms are presented as the first medicine to be taken. Its proponents tend to forget the other features that explain Spain's high unemployment. In fact, they apply the old partial analysis that Keynesians debated over 70 years ago. As a result, they impose measures which, until now, have proved effective only within the framework of a production model characterised by limited technological development and capacity for innovation, low cooperation and low labour recognition.

Perhaps what is new in the current recession is that this model, which has been especially effective in areas of manual employment, is being generalised to the entire labour market.

Overall, the changes that have taken place during the recession reinforce the dominant features of the previous model. No changes are proposed in the structure of production and the focus is being placed on increasing labour market flexibility by means of low wages. It is significant that the reform of vocational training has come to nothing, while reforms are in progress to allow greater wage dispersal. Likewise, the adjustment plans based almost exclusively on cutting costs do not foster employment or solve Spain's social deficits, nor do they help the traditional family model to adapt to new work requirements and demographics.

5. Lessons learned and prospects

The recession in Spain is not merely a matter of cyclical ups and downs. It has tested the fragility of our employment model and the need for profound transformation. It is clear that the measures being adopted – and which the conservative government emerged from the last general election is expected to take – will not entail a radical change compared to the previous situation. Instead, the current situation indicates the persistence of the same model of action and strong dependence on the past. This dependence is due to a number of reasons: the real difficulty in transforming production structures and developing new activities when the existing ones collapse; the persistence and power of economic elites and their ability to impose their interests and block alternatives; the persistence of the analytical approaches used by the most influential academic and professional economists; and the restrictions imposed from outside. Therefore, this is a recession that can be considered the result of neoliberal policies which in Spain gave rise to a spectacular financial-property bubble. Far from leading to a thorough review of these policies they are being reinforced. In the heat of the moment, under pressure from mass unemployment and budgetary problems, the policies adopted reinforce the power of these groups, weaken social and labour rights and put all trust for recovery in an ethereal restoration of confidence and competitiveness.

In this context, European policy does not seem to be mitigating the depth of the recession, either. Devaluation is not an option. For an

economy needing to bring about a change in production, it is not clear what measures can be implemented to carry this out without clashing with European competition policies. The European single market has been guided by countries with very different production structures geared towards exploiting economies of scale. This situation generates large regional inequalities, which are partly at the root of the current problems in various countries. The lack of a policy to make the regions more balanced, coupled with budgetary policy constraints, tends to make recovery more difficult. Only a policy of major public spending in the best-positioned countries is likely to be capable of sparking a recovery.

Furthermore, the advance of neoliberal policies is occurring in the absence of clearly designed alternative proposals. In our opinion, real reforms must include:

- A realistic plan for transforming the production structure and for reform of the skill formation system needed for this change, in order to improve the external equilibrium. This transformation also needs to confront the challenge of environmental sustainability.
- Reform of the tax system in order to fund the necessary welfare system and recovery policies. Reform must also introduce progressive treatment of earnings.
- Reform of labour institutions and company organisation in order to promote decent work in terms of pay, skills, cooperation, working time and so on. A new model must guarantee an adequate balance between working time and private life.
- Recovery of the financial sector in order to reduce the financialisation of the economy.

The absence of a credible project on this basis has allowed adjustment policies to be presented as the only realistic response. In fact, the current recession in the case of Spain also signifies the failure of the ‘third way’ policy that the Zapatero government partly attempted to apply until 2010: the application of a neoliberal policy counterbalanced by the expansion of public services compatible with low tax pressure. When this model collapsed due to the drastic fall in tax revenues (from 38.5 to 31.5 per cent

of GDP), the neoliberal adjustment remained as the only viable answer. Although some social movements and academic circles have presented alternative proposals for action in many areas, they do not have a common focus, unlike their opponent, nor do they fit into a European perspective.

In this context, the short- and medium-term prospects are grim. Potential for changes in production that would lead to a new growth engine to take the place of the building industry is not evident. Nor is there evidence of plans to this end on the part of economic decision-makers. The labour market reforms will lead to increased inequality and falling wages in a country in which they are already low. The public spending cuts are increasing unemployment and precariousness in new industries (especially for employees with a higher education), while slowing down activity and creating worse living conditions and support for families. 'Confidence building' and the need to relaunch the economy are also putting pressure on increasingly necessary environmental protection policies.

It is unclear how the new liberalisation drive will bring about economic recovery. It seems that Spain is on the verge of increasing inequality, expansion of the informal economy, deterioration of public services and sustained recession, closer to the experience of many Latin American societies affected by adjustment plans rather than the Central European model that it has spent years trying to emulate.

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