A crisis inside the crisis: Spain under a conservative neoliberalism

Josep Banyuls and Albert Recio

1. Introduction

After a long period of growth, which started in 1994, the Spanish economy entered into a deep structural crisis in 2007. The discussion of the reasons for this situation and the requisite policy response has been intense, with wide variations of opinion. From the conventional point of view, the crisis is mainly a problem of ‘market disequilibrium’. Others believe that there are structural problems related mainly to the weakness of the structure of production. The eruption of the international financial crisis led to the end of a model centred on construction and tourism as its growth drivers, with no other activities looming on the horizon to replace them. The fall in production was reflected in the labour market in unprecedented unemployment rates and an increase in poverty and inequality that opened a social divide that will be difficult to close.

Besides the breakdown of the production system the state of the public sector must be added as a driver of the crisis, although its role has changed over the years. From 2008 to 2010 the policies implemented by the Social Democratic government focused on two basic objectives. One was to alleviate the problems of the financial system; the second was to mitigate the negative effects of recession with regard to job losses by increasing expenditure and employment in the public sector. But these mildly expansive measures were abandoned, and at the beginning of 2010 the period of austerity started, with the implementation of deep expenditure cuts. The new path sped up exponentially in 2012 with the advent of the conservative government. They implemented more austerity measures and a radical ‘reform’ programme, with the clear aim of dismantling the welfare state and the public sector, as well as dramatically transforming labour regulation.
Austerity not only reduces public services, but also closes the door to a new productive model. The spending cuts in education and in research and development, as well as the ending of local development policies are among the obstacles preventing the development of new productive sectors. It is hard to believe that new activities, which will create jobs in the future, can develop without the support of public policies. On the contrary, these reforms reinforce an obsolete production model based on low wages and precarious employment, limiting the possibility of change to a new productive model and reproducing all of the problems which have traditionally affected the Spanish economy.

Analysis of the measures implemented and their impact reveals their incapacity to resolve the structural weaknesses of the Spanish economy and the ways in which they have added new social and economic problems to the existing ones. For this reason we can speak about ‘a crisis inside a crisis’: the implemented measures reinforce inequality, competitiveness based on low wages and employment informality, as well as strengthening emphasis on the family as ‘welfare state provider’, thus making solutions to the current situation even more difficult. In this chapter we focus on these topics. First, we analyse the background of the current situation and the problems in the productive structure. We then go over public policies and how they are exacerbating the problems. In Section 4 we introduce the effects of the crisis on the labour market. Finally, in the Conclusions, we point out some lessons learned from the crisis and present some ideas about possible alternatives and future prospects.

2. A foreseeable crisis

Before the advent of the crisis, the Spanish economy appeared to be successful in many respects: it had experienced a decade of sustained growth in production output and employment, women were gradually being incorporated into the labour market and unemployment was going down (Table 1). However, when the analysis is taken deeper than these primary indicators, it becomes clear that the situation was more complex and, indeed, disturbing. This is why, against this backdrop of apparent prosperity, there were voices saying that, despite modernisation and temporary success, Spain’s growth model was extremely fragile (Banyuls et al. 2009; Banyuls and Recio 2012).
Some of the 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 which 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. This is consistent with the wage share of national income. Between 2000 and 2010, apart from some upturns, the wage share declined slightly, from 50 per cent to 48 per cent. But this coincided with a significant increase in employment, a factor that, all other things being equal, is likely to cause a rise in the wage share in national income.

Table 1  Selected economic indicators, Spain, 2003–2013

<table>
<thead>
<tr>
<th>Year</th>
<th>Real GDP growth rate-volume. % of change on previous year</th>
<th>Current + capital account (% GDP)</th>
<th>Government deficit/surplus (% GDP)</th>
<th>General government gross debt (% GDP)</th>
<th>Employment rate LFS (2nd quarter)</th>
<th>Unemployment rate LFS (2nd quarter)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Spain</td>
<td>Euro area</td>
<td>Spain</td>
<td>Euro area</td>
<td>Spain</td>
<td>Euro area</td>
<td>Spain</td>
</tr>
<tr>
<td>2003</td>
<td>3.1</td>
<td>0.7</td>
<td>-2.5</td>
<td>-0.3</td>
<td>-0.3</td>
<td>48.8</td>
</tr>
<tr>
<td>2003</td>
<td>3.1</td>
<td>0.7</td>
<td>-2.5</td>
<td>-0.3</td>
<td>-0.3</td>
<td>48.8</td>
</tr>
<tr>
<td>2004</td>
<td>3.3</td>
<td>2.2</td>
<td>-4.2</td>
<td>-0.1</td>
<td>-2.9</td>
<td>46.3</td>
</tr>
<tr>
<td>2005</td>
<td>3.6</td>
<td>1.7</td>
<td>-6.5</td>
<td>1.3</td>
<td>-2.5</td>
<td>43.2</td>
</tr>
<tr>
<td>2006</td>
<td>4.1</td>
<td>3.3</td>
<td>-8.0</td>
<td>2.4</td>
<td>-1.3</td>
<td>39.7</td>
</tr>
<tr>
<td>2007</td>
<td>3.5</td>
<td>3.0</td>
<td>-9.6</td>
<td>2.0</td>
<td>-0.7</td>
<td>36.3</td>
</tr>
<tr>
<td>2008</td>
<td>0.9</td>
<td>0.4</td>
<td>-9.2</td>
<td>-4.5</td>
<td>-2.1</td>
<td>40.2</td>
</tr>
<tr>
<td>2009</td>
<td>-3.8</td>
<td>-4.4</td>
<td>-4.8</td>
<td>-11.1</td>
<td>-6.4</td>
<td>54.0</td>
</tr>
<tr>
<td>2010</td>
<td>-0.2</td>
<td>2.0</td>
<td>-3.9</td>
<td>-9.6</td>
<td>-6.2</td>
<td>61.7</td>
</tr>
<tr>
<td>2011</td>
<td>0.1</td>
<td>1.6</td>
<td>-3.3</td>
<td>-9.6</td>
<td>-4.2</td>
<td>70.5</td>
</tr>
<tr>
<td>2012</td>
<td>-1.6</td>
<td>-0.7</td>
<td>0.5</td>
<td>-10.6</td>
<td>-3.7</td>
<td>86.0</td>
</tr>
</tbody>
</table>

Note: (1) In 2005 there is a break in the series due to a methodological change.
Source: EUROSTAT, Banco de España, INE.
The first major source of problems is the production model, with interconnected weaknesses on various levels. One of them is low productivity, which has been decreasing for years. This is largely due to a production model in which the importance of labour-intensive sectors has increased. In times of economic growth (except for 1961 to 1974) increases in productivity in Spain have been lower than in the other EU15 countries (Fina 2001). In times of crisis, productivity has increased more than elsewhere in the EU15, but this is a passive increase due to the high job losses and not due to the incorporation of technology or improvements in production efficiency. These trends are structural but during the last expansive phase it was more visible, and the Spanish economy was one of the economies in which productivity increased least in the period 1995–2009 (Meager and Speckesser 2011).

Related to the production structure weakness are the balance of payments problems. The Spanish economy repeatedly experiences deficits in its external trade (Pérez et al. 2011), 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 implemented 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) discarded their industrial interests and focused 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 major ‘failure’ of the system is the public sector. Historically, Spain has been a country with low taxes and a small welfare system.
The democratic transition led to substantial changes, with the introduction of a modern tax system and the extension of public services. However, this expansion has been limited by the country’s lax mentality towards tax and great tolerance of the unofficial economy. Since the early 1990s, a series of tax cuts have been instituted that are at odds 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.
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 to property developers and individual buyers (Naredo and Montiel 2011). This explains why Spain’s external debt has been mainly private debt. Secondly, it has led to serious environmental degradation, accelerating some existing problems (desertification, energy dependence and so forth). Thirdly, as this is an activity in which government regulation plays a key role in classifying land (for development), 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).

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 corporation 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 to 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 particularly 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 in Spanish society in recent years: an increase in education, especially for women, changes in consumption patterns (which make a single family income inadequate) and the increasing instability of the traditional family model (growth of the divorce rate and short-term informal relationships). In addition, the aging population is giving rise to new care needs that families alone are unable to sustain. All of this pressure has led to demands 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 immigration 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,

¹ Employment growth has occurred while the labour force has been increasing, with the arrival of immigrants and higher female labour market participation. Despite the dramatic economic growth the unemployment rate in this period was still high compared with 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 frequently from employment to unemployment and back again. 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.
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 1975–1985 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 competition from 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 massive resort to 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, 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. Public policies: The road to conservative neoliberalism

Since the beginning of the crisis public policy has undergone a major change. It was only during the first period of 2008–2010 that there was
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a timid attempt at a Keynesian response, but in May 2010 Rodríguez Zapatero’s Socialist government adopted a clear shift towards austerity and neoliberal reforms, which have intensified as the situation has worsened. Today it is evident that structural changes have been initiated that depart radically from the model implemented in the democratic transition (1977). In a broad sense reforms are especially noticeable in the labour market and welfare policies. They are considered, in many respects and by most people, to constitute a significant loss of social rights and signify a clear transfer of power to the financial elite.

Transformations have been provoked by strong ruling groups who, in the crisis, have found a framework suitable for implementing their proposals. This framework is delimited by the problems generated by the crisis itself, particularly the dramatic rise in unemployment and the rising government debt (caused by the collapse in tax revenues), as well as the requirements and conditions imposed by the European Union, which are largely consistent with the interests of local elites or those that share the same political vision. Next we focus on the main changes that have taken place during the crisis.

3.1 The turnaround of 2010

At the beginning of the crisis the Spanish public sector had a low level of debt and a fiscal surplus (Figure 1), but in a short time this situation changed with the collapse of public revenues, which fell from 38 per cent to 31 per cent of GDP. This was due mainly to the high dependence of the Spanish economy and revenues on the construction and real estate markets. We must also reckon with the fact that since 1994, successive governments had implemented reforms and tax cuts and these have undermined tax collection. The aid to the financial sector, estimated at 20 per cent of GDP, has also helped to exacerbate the deficit.

To understand these changes it is necessary to consider additional political factors. On one hand, there was the electoral collapse of the Socialist Party, which enabled the conservative Partido Popular to achieve an overall majority in the general election and in the majority of the autonomous regions (Catalonia was an exception, won by the conservative-nationalist CiU party, which holds positions very similar to the Partido Popular in economic and social aspects). The electoral collapse of the socialists was prompted largely by their delay in recognising the importance of the crisis, their inability to control the financial sector and,
above all, the sudden change of policy and their uncritical acceptance of the dictates of the European Union and the IMF. In May 2010 the government adopted a drastic adjustment programme (reductions in public sector wages, pensions and public spending), followed by a labour reform, a pension reform, generous bailouts to the struggling banks and the introduction into the Constitution of an article that gives absolute priority in public spending to the payment of the public debt. This opened the doors for the victory of the Conservative party, giving it the capacity to control virtually every major resource of political power (government, parliament, autonomous regional governments, Constitutional Court). This accumulation of power has enabled the Conservatives to implement many of their most radical propositions without hesitation. On the other hand, we have the Spanish institutional model of territorial organisation, in which the management of most social policies (education, health care, social services, employment services and so on) depends on the Autonomous Communities. In the process of transferring the services responsibilities from the central government to the regional governments, however, more services have been transferred than economic resources. When public deficit problems have arisen, the central government has branded the regional governments as resource wasters.
and has forced them to make significant budget cuts. Thus, the burden of adjustment has fallen disproportionately on social policies.

Overall, the changes can be summarized in three main areas. First, crucial cuts in public spending that have directly affected almost all welfare policies: education, health care, social services, active employment policies, culture and scientific development and research policies. These cuts have led to both a reduction of public employment (Figure 2) and a clear deterioration in living standards.

Secondly, the implementation of many of these ‘retrenchment’ policies has entailed substantial changes in the functioning of public services, with a shift towards the privatization of public management and a transfer to large private operators. In part, this was already present in Spanish society. For example, a part of the school system is controlled by private companies (mostly related to different parts of the Catholic Church), which receive direct subsidies from the state. The same situation occurs in the health care system. With the reforms, this model has become more deeply rooted, boosting privatization.

Figure 2  Employment trends in public sector and business sector, by sex, Spain, 2007–2013

Thirdly, and from our point of view a key aspect, there is the medium- and long-term impact of the measures being implemented in areas that directly affect the welfare of society, the operation of the labour market and a (possible) future growth model. The budget cuts and the changes in the public service provision model are likely to strongly affect Spanish society.

3.2 ‘Structural reforms’ in education and training

The reforms undertaken by the government directly affect all the phases of working life, as described by Anxo, Bosch and Rubery (2010). Due to their recent introduction, however, the effects cannot yet be fully evaluated. A first area of transformation is found in the education system. Spain has long been characterised by educational deficits, reflected in a lower rate of people with higher qualifications and a high level of school dropouts. The main gap is in vocational training. Paradoxically, the percentage of people with higher education is higher than or as high as many of neighbouring countries. The school dropout rate has a clear social component and affects working class young people in particular. In recent years this process has been aggravated by the influx of people from other countries who were basically ‘ghettoised’ in state schools, while the private sector (with public funding) in effect engaged in ‘social screening’ (by various means, from the imposition of additional fees to direct discrimination).

The budgetary cuts applied by all the autonomous regions have a primary effect of further weakening the resources of the public school system, introduced mainly in working class areas. The implementation of the cuts is far-reaching and ranges from closing special educational provisions (such as groups with students with learning problems), eliminating support staff and reducing materials to the elimination of grants for extracurricular activities or replacing some qualified teaching staff with student teachers. Other major cuts have occurred in the policies affecting pre-school nurseries (for children 0–3 years). The universities have also suffered the serious effects of public funding cuts in three radical measures: an increase in entrance fees by around 100 per cent, a reduction in students’ scholarships (raising the exam result threshold for access to the scholarships) and an increase in teaching hours (and the related laying off of temporary staff). The argument put forward to justify such measures is that there are too many university students, leading to
poor performance; higher fees are supposed to promote better educational achievement.

In this general context of cuts, the Popular Party approved a new education reform in 2013. One of the reform’s main objectives is to restore the teaching of the Catholic religion as a central element of the school curriculum, in response to strong pressure from the ecclesiastical hierarchy (while at the same time eliminating ‘citizenship education’). The most radical change is the introduction of new evaluation and selection mechanisms. These are aimed at classifying the school-age population and diverting schoolchildren whose academic performance is poor to low-level vocational training cycles from an early age. The model reflects the traditional perception of Spanish elites that society should be hierarchical and that it is not worth devoting much effort to improving the overall level of education. This seems to tie in with the economic vision that slashes spending on research, even though the unsustainability of the old productive model, with its focus on construction, is evident.

A second area of transformation concerns entry to the labour market. The high level of youth unemployment justifies the adoption of specific measures. The large number of temporary jobs and the long process of integration into the work environment, culminating at around 30 years of age, characterised the last period of economic expansion. This situation can be explained in part by the generalisation of temporary jobs to most of those entering the labour market, in all sectors. Furthermore, there are also labour market segments in which companies only hire young people under insecure conditions, such as retail, entertainment, fast-food outlets. In recent years this trend has been reinforced as the public sector has also increasingly opted for temporary employment.

The assumption on which the new measures proposed by the government rest is that youth unemployment is explained by young people’s lack of adequate training and work experience (ignoring the fact that some young people had jobs before the crisis). Thus the plan of action is based on lower wages and reduced labour rights for young people, the idea being that they will be motivated to seek training. The most innovative element of the plan is that it effectively extends young people’s job insecurity until 30 years of age. This is done by allowing companies to link work-experience contracts (with wages two-thirds of the minimum wage) which are designed for young people without training, with training contracts, designed for young people that are recently qualified. It is
sufficient for the young person to change jobs within the same company for another ‘new’ contract to be issued.

In the same way, this measure is applicable to anyone under 30 years of age, whenever they end their formal education. The plan also includes the introduction of a dual training contract (25 per cent working time in the first year, 15 per cent later); training can be done in the company, in a temp agency or in the form of online virtual training. The plan is supplemented by generous subsidies in the form of cuts in firms’ social contributions. Although some autonomous regions are considering the German-style vocational training development proposals, the general context of the cuts does not encourage the thought that there will be a real leap forward in the field of vocational training.²

3.3 ‘Structural reforms’ on the labour market

Undoubtedly the biggest change occurred with the labour reform passed in March 2012. In many ways the reform deepens what was already introduced in previous reforms in terms of making individual and collective dismissals easier (García et al. 2010; Fernández and Martínez 2013).³ The main novelty is the creation of a new type of contract that makes possible free dismissal during the first year, the liberalization of collective redundancies and the application of the same to the public sector (except for civil servants). The reform also confers important rights on companies with regard to internal flexibility and collective bargaining. The new framework grants individual companies enormous control over the implementation of collective agreements and changes in working conditions. In Table 3 we summarize the main changes introduced by the last two reforms.

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2. The significant budget cuts in active employment policies which have been centred on occupational training policies and the promotion of local development also give rise to skepticism.

3. The discussion of 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. If firms do justify the dismissals the cost is much lower (and with the reform the dismissal cost with regard to a permanent contract can be the same as in the case of a temporary contract), but employers tend to use the expensive option because it is more flexible. Other things that provide a high degree of labour market flexibility include 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 provisions), the lack of professional recognition that gives firms significant flexibility in using labour, tolerating informality and so on.
Table 3  **Main aspects of latest two labour reforms, Spain, 2010, 2012**

<table>
<thead>
<tr>
<th>Aspect</th>
<th>2010 Reform</th>
<th>2012 Reform</th>
</tr>
</thead>
<tbody>
<tr>
<td>Individual fair dismissal</td>
<td>Increased grounds, maintains compensation 20 days per year worked (of which 8 days are subsidised by the state)</td>
<td>Increases the grounds for dismissal includes a drop in sales and future losses</td>
</tr>
<tr>
<td>Individual unfair dismissal</td>
<td>Reduces compensation for new contracts from 45 days per year (maximum 48 months) to 33 days per year (maximum 24 months) Void dismissal due to formal errors</td>
<td>Generalises 33 days per year compensation (maximum 24 months) to all contracts Eliminates interim wages</td>
</tr>
<tr>
<td>Collective dismissal</td>
<td>Introduces the option of temporary adjustment of hours</td>
<td>Eliminates public control of the procedure; companies can implement it unilaterally; extended to public sector</td>
</tr>
<tr>
<td>Temporary contracts</td>
<td>Introduces 12 days compensation per year worked Reduces the possibility of chaining contracts</td>
<td>New contract for SMEs with 1 year trial and free dismissal; chaining fixed-term contracts possible; generalises training and trial contracts (425 euros/month) for young people up to 30 years of age</td>
</tr>
<tr>
<td>Temporary employment agencies</td>
<td>Expansion of new sectors (construction) Ability to act as employment brokers</td>
<td>Possibility for temporary work agencies to work as private but public funded labour market intermediaries*</td>
</tr>
<tr>
<td>Internal flexibility</td>
<td>Increases the grounds for internal flexibility Company not required to comply with collective agreement</td>
<td>Unilateral right of company to change working conditions (mobility, timetable, etc.) if the employee does not accept it, fair dismissal</td>
</tr>
<tr>
<td>Collective bargaining</td>
<td>No change</td>
<td>Companies unilateral right to withdraw from collective agreement New time limit (one year) for collective agreement after expiry</td>
</tr>
</tbody>
</table>

* Delay in applying this reform mainly due to lack of funds to finance these private agencies, but the model is already established (and is manifest in the dismantling of public services in various autonomous regions).
The most far-reaching change that has been brought about and may result in a radical transformation in working conditions concerns collective bargaining. Labour relations in Spain are complex. One aspect that should be highlighted is the low level of union membership and a production structure dominated by small businesses and temporary employment. Another is the regulation that grants a right to collective bargaining, at least to some extent. This applies in particular to sectoral agreements which, to date, were mandatory in all companies in a sector, whether they had union presence or not. This explains the high level of collective bargaining coverage despite the low level of trade union membership.

Pre-crisis labour legislation had conferred substantial social representation on the large unions and the Ultra-Actividad standard (which meant that the previous agreement is used as a floor for a new agreement and the agreement remains in force until a new one is negotiated) encouraged the maintenance of collective bargaining (Pérez Infante 2011). Although the fragmentation of negotiating spaces (both company agreements and sectoral agreements co-exist and may be national, regional, provincial or local) led to varying employment conditions between employees of different companies, sectoral agreements generated at least a basis of common social rights and established working conditions above the legal levels required by the Workers’ Statute (which only sets the statutory minimum wage and statutory working hours).

This is the framework that the current labour ‘reform’ is destroying with a series of measures that, in practice, encourage the fragmentation of labour relations: company agreements take precedence over sectoral agreements; companies can unilaterally opt out of agreements; in companies with no union representative it is possible to negotiate with three employees chosen ad hoc (an excellent opportunity for companies to choose their counterparts in negotiations); and the economic effects of collective agreements cease one year after expiry.

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4. An indication of the substantial nature of the reform is seen in how the reform was carried out. A month before its approval, the unions and the employers had signed a labour relations framework agreement, by which the unions hoped to limit the negative impact of the reform and trusted that the government would accept the agreement with the social partners. The government adopted the reform unilaterally, applying an emergency administrative mechanism (Legislative Decree) and ignoring any bargaining proposals (except those from other conservative parties that resulted in even more radical changes in some instances).
Figure 3  Collective bargaining coverage in the private sector, Spain, 2003–2013

Note: * Data for 2013 refer to October.
Source: Ministerio de Empleo y Seguridad Social, authors’ figure.

Figure 3 shows the dramatic fall in collective bargaining coverage over the past few years. Before the crisis, the percentage of private sector employees covered by collective agreements was 85–90 per cent. Within

This figure has some methodological aspects that we should take into account. Data refer to the total collective agreements that have economic effects during the year. Some of them agree in this year and other where agree previously but still are in force in the current year. In Spain collective agreements are “private” agreements between actors, and it is not compulsory to communicate immediately to the labour authorities. Sometimes social actors delayed long time (could be more than a year) the information to the Labour Office. Due to it, figures are continuously updated and, as far is the year, more accurate is the information. In this sense, figures referred to 2013 are dramatic but we need to take this prevention. Also, the information about the number of employees covered by a collective agreement is from the social partners, and is not comparable with LFS figures. Social partnerst not always know accurately the number of people involved in a sector.
only one year, 2011–2012, it dropped from 89 per cent to 76 per cent. It is important to note the soaring unemployment rate during the same period of time: the 89 per cent coverage in 2011 referred to 11.9 million workers in the private sector, while the 76 per cent coverage referred to 11.2 million workers; in other words, the number of people working in Spanish private sector companies covered by collective agreements fell by 20 per cent in the space of only one year. Though the data for 2013 presented in Figure 3 are provisional it is fair to assume that this downward trend has continued at a similar pace. It must be kept in mind that, when a collective agreement expires, the Workers’ Statute is applied. The low level of the minimum wage (643 euros per month) leaves plenty of room for companies to implement wage cuts.6

The change in the collective bargaining model has three potential effects, which in some cases are already beginning to take shape. First, it promotes a wage devaluation (which contributes to weakening domestic demand).7 It also favours greater differentiation between working conditions at different companies. Finally, it signifies a direct attack on the unions, which can be removed from any regulatory capacity in sectors and companies with low membership.

The reforms have also directly affected the public sector. This sector has always been known for offering work-friendly conditions as regards stability, work balance and so on. Although public sector employees have already been the subject of unilateral pay cuts in recession situations (1993, 2010 and so on), the ‘reforms’ have now lowered public sector working conditions to the level of those in the private sector, with the exception of civil servants. This is accompanied by plans for outsourcing and closures, among other things. For example, significant budget cuts in research have resulted in collective dismissals, layoffs and status reductions (giving way to part-time jobs, for example) for many workers. This particularly affects the working conditions of people with higher

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6. There are more and more cases of collective agreements in which companies impose pay cuts and worse working conditions. For instance in the collective agreement of large retailers wages have been frozen until 2016, a compensatory wage for working on Sunday has been eliminated, working time has been increased by 26 hours and working on Sunday is compulsory. Significant wage cuts have been reported from various important manufacturing and service companies.

7. From 2011 to 2013 the nominal wage increase agreed in collective agreements fell from 1.98 per cent in 2011 to 0.56 per cent in 2013 (Ministerio de Empleo y Seguridad Social, Boletín Estadísticas Laborales). Real wages per employee fell, on average, by 1.4 per cent a year from 2010 to 2013 (European Commission 2013).
education, who now see the traditional career model under threat. Since the public sector has always been more ‘female-friendly’ than the private sector, this change is particularly relevant in gender terms.

3.4 ‘Structural reforms’ in the pension system

Major changes have also been made in the process by which an individual withdraws from the labour market, for example, as regards retirement conditions and pensions. Although Spanish spending on pensions is already well below the European average (9.2 per cent of GDP compared with 11.2 per cent), demographic forecasts and the higher pensions that those retiring in the next few years will receive were taken as an excuse to review the system. In 2011 the Socialist government approved a reform with the following main features: gradual extension of the retirement age from 65 to 67; lengthening of the contribution period which results in receiving the maximum pension (from 35 to 37 years); lengthening of the period of computation to calculate the pension (from 15 to 25 years); tougher voluntary early retirement conditions (only for workers at least 61 years of age in cases of collective redundancy and 63 in other cases) and replacement contracts (a formula by which older workers reduced their working hours to 25 per cent and in return the company hired a full-time worker). These last two measures seek to hinder the process of early withdrawal from the labour market, but also create new difficulties for employment adjustment processes and generational renewal.

In 2013, before the pension changes of 2011 had come into force, the conservative government launched a debate on the need for new ‘reform’. The justification cited was the budget deficit of the social security system and, once again, demographic forecasts. In fact the current social security deficit is explained simply by the decline in employment and wages and their effect on social security contributions. This deficit is being met by a reserve fund created in the past to deal with adverse circumstances. A group of 12 experts (nine of whom are directly connected to the insurance sector) were tasked with producing a report whose proposals will form the basis for the new system. The basic idea is to adjust annually the amount of benefits according to the current level of social security contributions, which in practice represents a proposal to cut benefits.8

8. The formula proposed by the expert committee and introduced in the new legal draft means that annual pensions can increase (or decrease) according to the sum of the growth of
The new proposal offers no debate on the fairness of the pension system and the possibility of financing it from resources other than social security contributions. Neither does it explore demographic issues such as immigration or the role of the labour market (employment and wages). It simply introduces a new emergency debate. The changes have not been passed yet, but meanwhile the government has laid down that until 2019 pension increases will be only 0.25 per cent per year, justifying a further cut in social spending and opening the way to stagnation of private pensions.

Overall, mass unemployment has been used as justification for education, labour and pension changes which together will only heighten economic insecurity among the majority of people. They represent a substantial transfer of power and income to business owners and direct the exit of the crisis towards a permanent internal devaluation strategy. The growing inequalities between social classes and between groups of workers are spreading widely. We expect the next attack will come on unemployment benefits, which many mainstream economists consider too generous (although only 60 per cent of the unemployed are receiving unemployment benefit). The government has launched a propaganda campaign accusing many unemployed people of combining benefits with hidden jobs in order to justify the next round of cuts.

3.5 A package of conservative reforms

Amidst budgetary restrictions, reforms with a substantial social impact have been introduced in many key areas. The most important concern health care, justice, social services, housing, research and culture. In many of these areas, spending cuts have a direct effect on services and employment. For example, substantial research cutbacks are causing serious problems in the functioning of universities and research centres. This is a perverse departure given that technical change and innovation are one of the bases of competitiveness. Research cutbacks are in sharp contrast, for example, to continuing major financial support for the banking sector and car scrappage schemes.

8. (cont. from p. 57) contributions minus the growth of new entrants minus the growth of mean pensions plus 0.25 per cent of the surplus of pensions over expenditure. In fact it is a procyclical formula because in years of depression pensions will fall.
But the changes go beyond spending cuts to include systemic modifications. This is clearly the case with regard to health care. The government introduced changes to the health care model in April 2012. The most important is the discontinuation of universal health care, introduced in 1986. Illegal or irregular immigrants are now entitled only to emergency care. People over 26 years of age who have not yet paid social security contributions and other minor groups will no longer have access to some health care benefits or only under certain circumstances. Furthermore, the co-payment ratio in medicines has been increased and extended to pensioners – who were previously exempt – medical transport and prostheses.

Also, more than 400 medicines have been excluded from social benefits – including many used to treat everyday illnesses – while, to add insult to injury, the government is refusing to implement the genuine reform that most health experts suggest to reduce spending, namely central purchasing of generic medicines by auction and direct supply. In parallel, many regional governments, which manage the bulk of health care, are introducing an intensive and partial or total privatization programme in the health care system. This is a shadowy process in which a number of coincidences between the interests of public managers and private holdings have been observed and more than one case of corruption has been exposed. On the whole, the measures will put increased pressure on lower incomes and reinforce a segmented health care model characterised by social discrimination.

The administration of justice is also under attack from ‘reformers’. Leaving aside the various changes introduced in the organization of the Consejo General del Poder Judicial (General Council of the Judiciary), aimed at facilitating control of the entire judicial system by the government, one major element that affects people’s daily lives is the introduction of an expensive system of court fees generating costs that are unaffordable for most people. This has had a huge impact on people’s ability to obtain recourse to the courts to combat abuses suffered in all areas, including employment, the financial system, housing rights and so on. Lawyers have already observed a significant reduction in resort to the law, in the context of what they consider the development of a justice system exclusively favouring the rich.

Something similar has happened with housing, one of the most serious problems associated with poverty. Housing was one of the main ele-
ments of the speculative asset bubble and its bursting has left thousands of people with serious debt problems and facing eviction. While in other areas the government has fallen over itself to introduce ‘reforms’, in this instance it has acted only in response to the powerful social movement of those that have been evicted. But only tentative steps have been taken, in part imposed by the European Union, and the overall situation has not been addressed. Indeed, new regulations have been passed on rental properties that make it much easier to evict tenants (eviction is now automatic if the tenant is one month behind with the rent, as is the tenant’s entry in a public register of debtors) and to implement frequent rent reviews.

Last but not least are the changes to social services concerning dependency benefits (for elderly and severely disabled people). The law passed in 2008 tried to address the problem of aging and to improve the balance between family care and personal life, especially for women, who continue to shoulder the principal care-giving burden. Although the reform was inadequate – the highest benefits were given to women caring for relatives at home – it paved the way for a new approach and to some extent favoured the development of employment in the sector. The new policy, however, follows the same line as the one proposed in health care: to cut benefits, introduce co-payment for services and eliminate the social security coverage to which family caregivers were hitherto entitled. Once again, care-giving is officially regarded as a ‘family matter’, above all for females (Torns and Recio 2012).

The policy of cuts is not merely a temporary adjustment in anticipation of better times. Rather the government has taken the opportunity offered by the crisis – ‘never let a good crisis go to waste’ – to pursue as many ‘conservative’ policy aims as it can, for example, opening up new business opportunities – in health care, education and insurance – to private financial interests. The changes it is implementing form part of an overall project to diminish social rights, further empower financial capital and implement conservative ideology. This is at the expense of, among other things, scientific and technological development, the promotion of a more cooperative and productive economic system and the elimination of social barriers, not to mention the fact, for example, that many privatisations end up mired in political corruption, still one of Spain’s endemic problems.
4. Labour consequences of the crisis

The most prominent impact of the crisis is rising unemployment (Figure 4) and massive job destruction, which was particularly dramatic in 2008–2009 (mainly related to the bursting of the construction bubble) and 2012 (directly related to public sector ‘adjustment’ and labour market changes) (Lago Peñas 2013; Recio 2013). In 2013 the unemployment rate was over 26 per cent, in some regions more than 30 per cent and for young people between 16 and 19 years of age a horrendous 65 per cent or more. The situation becomes even more disturbing if we take into account the growing number of people simply giving up active job search, swelling the ranks of the discouraged.

Besides the high unemployment rate, since 2012 more than 50 per cent of unemployed people have been in this situation for longer than a year. In addition to the stigma attaching to unemployment and the personal demoralisation that goes with it the unemployed also suffer from low incomes; in Spain unemployment benefits are time limited and social protection is low. The system is based on a contributory benefit which establishes the right to receive an income equivalent to 70 per cent of the
basic wage for the first six months and 50 per cent thereafter (previously 60 per cent, but reduced in 2012) in the proportion of one month’s benefit for every four months’ contributions (with a minimum contribution period of 12 months and a maximum of 24 months’ benefit). On expiry, people can access a contributory benefit for a maximum of 24 months, equivalent to 66.6 per cent of the statutory minimum wage. This is not a universal benefit but is granted to people based on their particular circumstances (age, family status).

As a consequence, the share of unemployed people without benefit has grown rapidly (Figure 5). In response the government established a new

\[ \text{Figure 5} \quad \text{Percentage of unemployed people receiving unemployment benefit, Spain} \]

Source: INE, INEM.

9. The quantification of people receiving unemployment benefits is subjected to dispute (Figure 5). One formula for this calculation is the ratio between unemployed individuals receiving any type of benefit and the number of people registered as job seekers in employment offices (to which we should add temporary agricultural workers receiving a special unemployment
benefit of 400 euros for unemployed people without income in 2010. This is not universal either and depends on the current level of unemployment. In this context an increasing number of unemployed are left without benefits, thereby opening the way for growth of informal employment.

The crisis has also changed the gender pattern of unemployment and the labour force. Analysing the origin of unemployment, for men the economic crisis has reduced the active population and employment opportunities, which means that the upsurge in unemployment is basically explained by the disappearance of jobs. For women, the labour force has increased significantly and jobs are not being destroyed with the same intensity. The unemployment rate of reference persons (heads of household) has grown at a much faster rate compared with previous crises, in which the highest unemployment rate increases were recorded among partners and daughters of the reference person (Toharia 2003).

This has major implications for incomes and for labour mobilisation. In previous crises the job of the head of household cushioned the shortfalls in the unemployment protection system, when other members of the family were unemployed. At the same time, lower levels of debt and higher levels of household income, compared with the present situation, made it possible to ‘navigate’ the labour market under better conditions. In the current crisis, however, the very high level of household debt is accompanied by major job destruction among heads of household, thus forcing a more intense integration into the labour market by other members of the family unit, all in a context in which job opportunities are practically non-existent.

During the first phase of the crisis, there was a substantial influx of new female workers to the labour market. These newcomers were mainly women over 30 years of age, which indicates a change in family roles in search of employment. This situation has reversed since 2012, when the persistence of massive unemployment started to generate a dominant ‘discouraged worker effect’, with the result that exits from the labour market

9. (cont. from p. 62) benefit). In this case, the coverage rate during the last quarter of 2012 was a little over 60 per cent. However, if we consider the number of unemployed people receiving any unemployment benefit in relation to the (higher) level estimated by Eurostat this indicator goes down to 50 per cent for the same period.

10. Among immigrants the trends differ somewhat. The decrease in the immigrant male active population is higher compared with the Spanish population. Among women, the immigrant active population is falling, while among the Spanish population it is rising substantially.
– which had already been taking place among young people – helped to reduce the unemployment rate. Emigration – mainly among recent immigrants – has also had an effect, in addition to less intense job search. All these trends are substantially modifying the characteristics of the labour force in Spain, as well as the dynamics of household labour market strategies. The substantial increase in workers in a vulnerable position in the labour market makes it much easier to implement more backward-looking labour management practices and is creating a growing group of marginalised workers. At the same time, the traditional emphasis on the family as ‘provider of welfare services’ has resumed perforce, in a context in which the public sector in no longer providing basic services. All in all, there is a notable risk that this dynamic will become deeply entrenched in the social structure, especially if the more regressive measures are sustained or even intensified, thus consolidating a marginal workforce and marked and widespread social regression.

The high unemployment rates and limited coverage of unemployment benefits have a direct consequence on incomes and well-being. But workers are also being affected by the crisis. Besides the increase in insecurity and deteriorating working conditions, wages have decreased dramatically (ILO 2013) (see Figure 3 in the chapter authored by Schulten and Müller). According to Eurostat, the ‘in work at risk of poverty rate’ data show that in 2007, 10.7 per cent of the employed had an income lower than the poverty level, and in 2011 this percentage was 12.3 per cent. The causes of this trend are to be found in the wage moderation negotiations that took place at company level, the collective wage bargaining reform that has allowed a substantial fall in negotiated wages and wage cuts in the public sector.

The final effect of all those trends is falling income. Job destruction, low social benefits and diminished coverage, wage moderation in both the public and private sectors, the freezing of the statutory minimum wage, pensions and withdrawal of social assistance, as well as price increases have entailed a significant loss of household income, with a sharp fall in disposable income (Consejo Económico y Social 2013). According to survey data, disposable income has declined more than 10 per cent since 2007 and income inequality has greatly increased. The Gini index has increased by almost 10 per cent and the difference in income between the 80th and 20th percentiles has risen by almost 30 per cent since the beginning of the crisis (Fundación Foessa 2013).
5. Conclusions

After nearly seven years of economic crisis, Spanish society remains in a dire situation. In our previous papers in the Dynamo project we highlighted the weaknesses and contradictions of the Spanish employment model. Specifically, we noted that the model’s dynamics were marked by a certain opposition between a neoliberal economic policy orientation and a strong social demand for social democratic measures of the kind that had led to the expansion of public services. The Socialist Party, ruling from 1982 to 1986 and from 2004 to 2011, reflected this contradiction, with its neoliberal economic orientation and progressive social policies (although limited by insufficient resources). Although the 1986–2004 conservative governments introduced substantial regressive elements, circumstances forced them to retain part of the acquired social rights. Maintaining a balance between these two contradictory dynamics was possible for a time because of a favourable international situation and the influx of resources from outside. The latter helped to unleash the huge speculative bubble that supported much of the expansion cycle. At the same time, it undermined alternative development possibilities. When the crisis and the end of the model became apparent, the result was disastrous for social democratic policies.

The combination of a doggedly conservative government, in both economic and social matters, the pressures emanating from the European Union and the accumulation of problems (especially those of external debt and fiscal crisis) has given rise to a neoliberal-conservative programme. This is reflected not only in the policy of budgetary cuts but also in major ‘reforms’ that tend to further weaken the social position of workers and unions, and to promote the policy of handing over public policy to economic interests. In part this represents a resumption of the old Mediterranean model, as many of the cuts are aimed at shifting social burdens onto families, especially women, to fill the gaps opened up by the lack of public provision. The fact that the reform programme does not provide impetus for technological change and product innovation reflects the conservative elite’s attachment to instigating a new speculative cycle, as manifest in the various measures taken in urban planning, including a new coastal law, the granting of residence permits to homebuyers, city-casino projects and so on).

This inward economic colonisation is devastating for many Spanish people, who are experiencing developments with a certain helplessness,
exacerbated by the apparent impunity with which corruption is proliferating. The most tangible short-term results include the maintenance of a very high unemployment rate and rising inequalities and poverty; expansion of the informal economy; deterioration of public services; and sustained recession; which is closer to the experience of many Latin American societies affected by adjustment plans rather than the Central European model that Spain has spent years trying to emulate. The ‘new’ model that the current government is promoting is reinforcing an obsolete production model based on low wages and precarious employment, limiting the possibility of change and reproducing all the problems that have traditionally afflicted the Spanish economy. It represents a resumption of a growth path based on low prices and wages, a model superseded by central and eastern Europe in the 1990s.

Spain is suffering under a bankrupt economic model without expectations of change, but rather of further shock-waves, on top of those that have already occurred, such as the mass evictions and VIP scandals that provide glimpses of an ongoing social despoliation. Furthermore, the advance of neoliberal policies is occurring in the absence of clear alternative proposals. Although there are important social movements against government policies (such as 15-M, Foro Social and PAH, the group concerned with mortgage problems) they focus on specific issues. There is no clear alternative to austerity and neoliberal policies. Neither the opposition parties nor the trade unions have offered substantial plans for new development paths. In the absence of a credible political alternative to the neoliberal policy of cuts and labour market deregulation the latter can be propagandised as the ‘only realistic answer’ to the crisis.

The desperately needed turnaround will be very difficult, if the orientation of EU policy does not change. And this is without even considering what might happen if economists’ worst predictions regarding the ecological crisis come true. Spanish society requires long-term strategic proposals that, in our opinion, should include the following:

– A realistic plan for transforming the production structure and for reforming the skill formation system needed for this change, in order to improve the external balance. This transformation also needs to confront the challenge of environmental sustainability.
– Reform of the tax system in order to fund an adequate welfare system and recovery policies. Reform must also introduce progressive treatment of incomes.
Reform of labour institutions and company organisation in order to promote decent jobs 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 control over the financial sector in order to halt the financialisation of the economy.

There is no evidence that accumulating austerity and neoliberal measures will drive an economic recovery. The balance of power between labour and capital has changed dramatically in favour of the latter. Political reforms have eroded the effective civil rights of the majority of people. Troika pressures continue to demand more ‘reforms’ in the same direction. Spanish economy and society are trapped, at least in the medium term, plagued by stagnation, massive unemployment and stark inequality in a country that has returned to ‘exporting’ workers. Spain is to some extent experiencing a return to the past, experiencing the adjustment policies that affected Latin American countries some years ago. We need different ideas and different policies, at both national and European level. If they are not forthcoming it is likely that Spain will face a long period of social stagnation, suffering and uncertainty: a deep crisis within the crisis.

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All links were checked on 28.07.2014.