

Els Opuscles del CREI

num. **1**

june 97

Reconsidering Spanish Unemployment

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CENTRE DE RECERCA
EN ECONOMIA INTERNACIONAL
GENERALITAT DE CATALUNYA
I UNIVERSITAT POMPEU FABRA



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Ramon Marimon*

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Published by: CREI
Universitat Pompeu Fabra.
Ramon Trias Fargas, 25-27 08005 Barcelona
Tel. (93) 542 24 98
© 1997, CREI
© of this edition: Ramon Marimon
ISSN: 1137 - 7844
Design: Fons Gràfic
Printed by: Alprès
Legal register: B-24698/97

If one wants to think seriously about the Spanish economy, or merely about the Spanish society, at the end of the Twentieth Century, one must bring to the forefront the problem of unemployment in our economy. I would like to take this unique opportunity, of starting the collection of the "*Opuscles del CREI*" (CREI's Tracks) to offer a reflection, a sort of diagnosis, on the problem of unemployment in Spain.

Since 1982 the rate of unemployment in Spain has not fallen below 15%, reaching the historic record of 24% in 1994. The low rate of employment (employed over the population between 16 and 64 years old) is the most relevant characteristic of the Spanish economy at the close of the Twentieth Century. In other words, Spain differs from other countries because of the fact that less than half of those who could work actually work (44.7% in 1985, 48.1% in 1996); while the European average lies around 60% (60.2% in 1995) with the United States around the 70% mark (73.5% in 1995).

The persistence of the unemployment problem has had, and indeed still has, an enormous social impact. The productive capacity of a major part of a generation (those who today are between 16 and 36 years old) is being wasted. The rate of unemployment among those under 25 has reached the sad record of 45% in 1994 and, for most of them, since they have not had a previous job, there is no unemployment benefit. In other words, even if, for example, in 1993 expenditure in unemployment benefit was 3.3% of the Gross National Product (GNP), many young unemployed were not covered¹. If this problem has not produced an explosive situation it is mainly due to the stabilising role played by an ancient social institution: the family; it plays the role of a social security net, especially for the unemployed young people².

The persistence of the unemployment problem has had another effect that I would like to point out: it has refuted many easily accepted diagnosis, many common views. For instance, having indicated the “inflexibility of the labour market” and the “inadequate macro economic policies” as causes of the problem, we have witnessed several labour reforms and major changes in economic policies without any substantial reduction in the number of unemployed. This has created confusion regarding the roots of the problem, distrust on labour reforms, a certain historical pessimism. In short, just like a person who must live with a chronic patient, Spanish society looks as if it has adapted itself to coexist with the grave problem of low employment, without asking too many questions about its causes. And, as with the chronic patient, it reacts in different ways in front of temporary symptoms of improvement: sometimes with euphoria and others with scepticism.

My aim is, as far as I can, to put the unemployment problem into perspective. This is the only

way to assess the reforms and temporary improvements (or crises). For example, the introduction of different non permanent labour contracts (the temporary contracts of 1984, the part-time and apprenticeship contracts of 1993-94) are liberalising measures that were supposed to stimulate employment. All of these reforms, especially the one frustrated by the general strike in 1988, have been preceded, on the one hand, by tensions and protests and, on the other, by “very optimistic” forecasts about their impact on the reduction of the number of unemployed. However, *ex-post* neither the contracts seemed so “rubbishy”, as they were called (for many they were the way into the labour market), nor was their capacity to generate net employment what it was supposed to be, although as we will see they made the labour market in Spain much more flexible than it is usually considered.

Another example of possible confusion is the recent news about the creation of jobs. In particular, a little over 700,000 non-agrarian jobs have been created over the last two years. Both the previous and present governments have taken advantage of this fact to praise their respective management. Well, a similar figure of new jobs was created in the last two years of the expansive phase of the cycle at the end of the eighties (1989-1991), whereas in two years (1991-1993) more than 700,000 non-agrarian jobs were lost during the last recession. This simply means that with a superficial reading of the facts, any conclusion seems valid and it is not strange that ideological points of view prevail. The task of the economist is not to deny ideological conflict, where one exists, but to know how to learn from historic experience. So, I proceed to do my job and I will return to the present moment at the end of the paper.

Evolution of employment in Europe and Spain

Having a wide perspective, both in space and time, helps to better assess the problem. As it is well known, European economies underwent a process of rapid growth for thirty years after W.W.II. The Spanish economy took off later, but after the 1958 Stabilisation Plan and the subsequent opening up of the economy, it reached a remarkable rate of growth in the period 1960 - 1974, thereby catching up with the more advanced European countries. The high rate of growth of the European economies, including Spain, can be accounted for by capital, in a process of rapid accumulation, and labour. As a result, in the mid seventies the rate of unemployment was very low in Europe (around 3%; 2.5% in Spain in 1974). “The European Welfare State”, by then consolidated in the most advanced countries (even though not really in Spain), seemed to be achieving its objectives.

However, in the mid seventies, after the oil crisis, the pattern of growth of the European economies changes. On the one hand, the rate of growth slows down, on the other hand, more importantly, the contribution of the different factors of growth changes. More specifically, employment does not contribute any longer to output growth. As a result, growth of most European economies over the last twenty years is *based on productivity*. This represents a marked difference with respect to the post-war European growth, as well as with respect to the US economy, where employment growth has continued to be a source of output growth in the last twenty years. The well known result is that while both US and Europe have experienced a similar rate of growth in the last twenty years (an average of about 2.5% a year), the rate of unemployment has

doubled in Europe while remaining low in the United States.

In Spain, the changes of the mid seventies coincides with changes of political regime, and this has resulted in a more acute recession that has lasted until the mid eighties. Even so, considering the last twenty years as a whole, the average 2.2% yearly rate of growth is quite similar to that of the most advanced OECD countries. However, in an extreme example of *growth based on productivity*, the total number of people employed remains practically constant (in fact it decreases from 12,684,000 in 1976 to 12,325,000 in 1996). As a consequence, unemployment reaches record figures in Spain. Two questions arise: “Why is there a generalisation of unemployment in Europe?” and “Why is it practically double in Spain?”. I am going to pay particular attention to the second question (there will be time to answer the first question in a future Track). Another way of asking the same question is “Has employment in Spain evolved *differently* from that of the rest of Europe?”.

The pattern of employment is the *net* result of a twofold dynamic process: the creation of new jobs and the destruction of existing ones. But this creation and destruction of jobs take place in given sectors and industries, for given skills, in given regions, at given moments of the economic cycle, and so on. Hence, even if we speak of a Spanish labour market, supply and demand of employment are determined at more specific levels. At these levels (for instance, sectoral), the Spanish labour market may or may not behave as it does in other countries. Therefore, by asking whether the “growth in employment has been different in Spain”, I refer to whether at a more detailed level, say sectoral, we detect any significant difference between Spain and the rest of

Europe. If we do, then, we can speak of a different behaviour of the Spanish labour market. It may, however, be possible that the evolution of employment “is not different” in the sense that the growth in sectoral employment is the same than in the rest of Europe, but the final aggregate result is different. This could happen if, for instance, the composition by sector were initially different and the different sectors or industries had experienced in different European countries different growth rates in employment.

With F. Zilibotti we break down the “national” components of the evolution of employment, to see how much is accounted for by initial sectoral composition and how much by the cycle. With T. Garcia-Milà we have carried out a similar exercise on the Spanish “regions”. Both studies³, independently, reach the same conclusion: *the evolution of employment is explained up to 80% by the initial sectoral composition*. More specifically, the key sector is agriculture. Countries like Spain within Europe, or regions like Andalucía or Extremadura within Spain initially characterised by a larger share of agriculture, have recorded a lower growth in employment given the high net rate of job destruction in that sector (i.e. the negative growth of this sector).

In order to see to what extent the evolution of employment in Spain follows the average European standard, let us carry out the following exercise: let us start with the sectoral distribution of employment in 1974 and construct a fictitious Spanish economy, called “virtual”, where employment in each sector increase at the average European rate. For instance, let us start with the 1974 true level of employment in the Spanish chemical industry and let it increase every year at the European average rate in the chemical industry to reach a “virtual” level of employment

in the Spanish chemical industry in 1990. The “virtual” Spanish economy (obtained from the consideration of all the different “virtual” sectors) shows the component due to the initial sectoral composition (and that due to the cycle) of the growth in employment in Spain, since the virtual economy is (by construction) identical to the average European one.

The difference between the “virtual” growth and the observed or ‘real’ one is the *differential* component of the country. Table 1 shows both the observed rates of employment and those calculated from this exercise (which was also carried out for other European countries). It is easy to see that, starting with the observed employment rates in 1974, the “virtual” rates in 1990 are not too different from the observed ones. This means that the initial sectoral composition can account for almost all the Spanish unemployment. In part-

Table1. Rates of employment
(employees from the population between 16 and 64 years old)

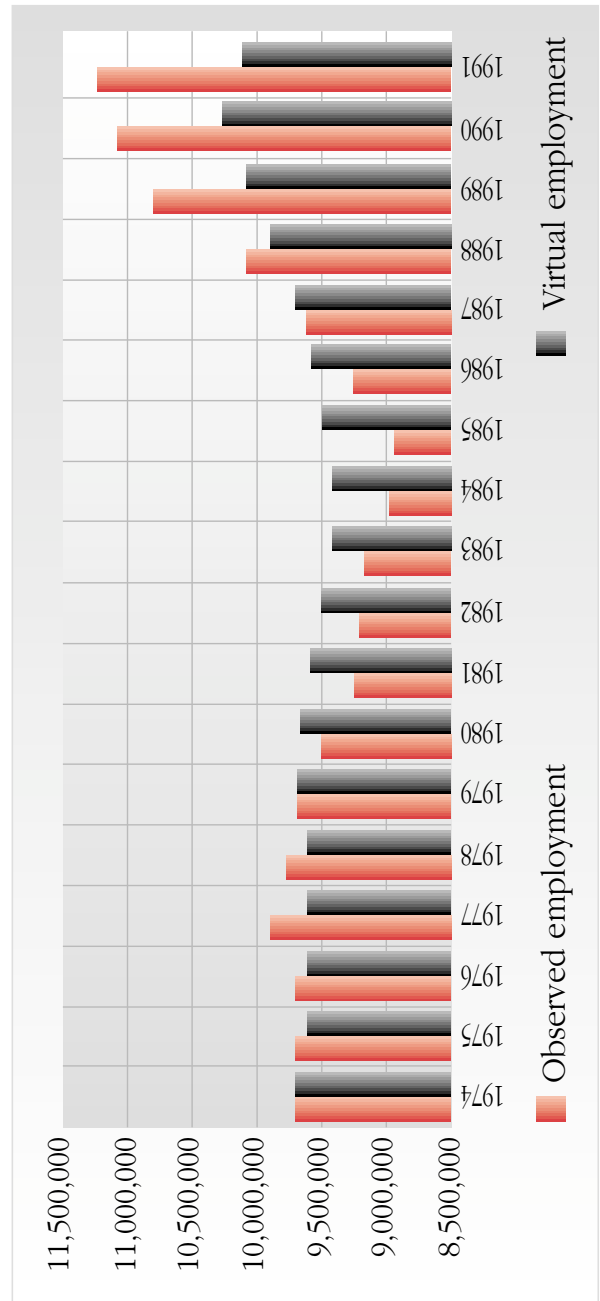
	1974	1990	1990
	Observed	Observed	Virtual
Germany	67.0	65.7	65.3
France	66.0	59.7	61.0
Italy	55.7	54.5	49.0
Great Britain	71.5	72.0	73.1
Holland	55.6	61.1	52.1
Belgium	61.2	57.1	61.6
Denmark	73.9	75.6	76.8
Sweden	75.3	82.1	78.5
Finland	71.6	73.9	73.3
Spain	59.6	49.6	48.5
Average	65.7	65.1	63.9

Source: Marimon and Zilibotti,(1996a), Table 3

ticular, the issue of the low level of employment in Spain turns out to be not just a Spanish peculiarity. Starting with a rate of employment somewhat below the EU average (59.6% versus 65.7% in 1974), if all the sectors had grown at the European average, the rate of unemployment in 1990 would have been 48.5%, a figure far below the European average (65.1%). The observed employment rate is slightly higher than the “virtual” (49.6%). In other words, the rate of growth of sectoral employment has not been sufficiently *different* from the European average for Spain to catch up with Europe. Italy and Holland, two of the countries which were characterised by very low rates of employment in 1974, deviated somehow from the behaviour of the European sectoral growth and obtained “real” rates higher than those calculated for their “virtual” economies. Hence, paradoxically they are much closer to the European average rate in 1990. For instance, employment in the Italian textile sector was not characterised by the huge decrease observed in the rest of Europe.

Figure 1 also gives a clear picture of the behaviour of employment in Spain versus that of Europe. Non-agricultural employment, for instance, only differs from the corresponding “European” employment because of a more marked cyclical behaviour. Hence, in the boom of the late eighties, the employment growth was much higher than calculated for the “virtual” economy. In other words, the average annual growth of non agricultural employment in the late eighties is somewhat higher than it would have been if the different sectors had followed the European standards. These effects are offset by similar ones of the opposite sign in phases of slow growth. This means that non-agricultural employment in Spain is characterised by greater volatility, in this aspect looking more similar to the United Kingdom than to continental Europe.

Figure 1. Evolution of non-agricultural employment.



As we can see, the employment sectoral growth in Spain has been very close to European standards. The only sector characterised by a growth in employment below the European average is agriculture⁴. This seems to reflect the major impact on agriculture of the process of integration in the European Community. In the last twenty years (1976-96) 1,717,000 agricultural jobs have been lost, which corresponds to an annual rate of job destruction of the order of 5%. If we also consider an increase of the working population, by 2,601,000 (an annual rate of growth of 0.9%), it is easy to understand why the rate of unemployment in Spain has reached a level double than the European average, despite the fact that non agricultural employment has increased slightly more than that forecast according to the European standards (see Figure 1).

Indirectly, our calculations also show that the figures on the low level of employment in Spain are plausible. It is quite common to deny the size of the problem and think that if the statistics were to account for the so-called black economy (the “underground” economy), the degree of employment would be substantially higher. This issue has been widely debated and there seems to be a consensus amongst economists on the fact that after the 1995 updating of the 1991 census of the working population should be fairly low⁵. In contrast to this economists’ view, the idea that the ‘mystery’ of the low level of employment mostly lies in our statistics is widely held. For instance, Felipe González replies to Manuel Vázquez Montalban: “I am going to tell you something that will surprise you. If the number of active working people that the Active Working Population Survey is capable of detecting is the real number of active workers in the country (...), ours would be the most competitive country in the world, more than Germany, more than Japan, more than any other country. (...) anyone with common sense knows that we are not the most competitive

country in the world” (see Vázquez Montalban 1996, p. 440). I do not know what figures Felipe González had but I have done those calculations in different ways and for different years and I have never come across a result like his⁶.

To sum up: the historical weight of agriculture, a certain increase in the working population and a “very European” behaviour of non-agricultural employment have given rise to a low level of employment in Spain.

Contrasting with Portugal (and the US) and the problem of inequality

It is important to note that the Spanish experience that we have just described contrasts with that of our neighbour country, Portugal. Portugal has also had a destruction of agricultural jobs⁷ but has managed to maintain very high rates of labour participation (especially by women) so that the level of employment is well above the European average. It is difficult to envision how two countries as close as Spain and Portugal could experience such different performances. The contrast is even greater when looking at the evolution of employment in the different regions of Spain⁸. The regions closest to Portugal, such as Extremadura, have a “very Spanish” employment behaviour, which corresponds to a “very European” behaviour; growth in these regions is based on productivity and this makes them markedly different from regions on the other side of the border with Portugal.

There is indeed a great difference between Portugal and most of the European economies (including Spain): productivity and labour costs increases are much lower in Portugal⁹. For instance, wages in manufacturing in Spain increase by 47% between 1974 and 1988 (at an annual growth

rate of 3.3%), but only 6% in Portugal (an annual growth of 0.4%). As a result, in 1991, manufacturing labour costs in Spain are more than double than in Portugal (2.2% in terms of Purchasing Power Parity). In Portugal a service sector with low productivity and low cost allows the hiring of unskilled workers, who in different times could have worked in agriculture. This is not the case in Spain. In this respect, Spain is more European, and Portugal is more like the US, where unskilled work has persisted over the last twenty years of changing technology and has contributed to the growth of the economy¹⁰.

There is another dimension in which Portugal and the United States are similar and very different from Europe, including Spain: the greater and increasing salary inequality¹¹. While unemployment has been the main problem of the European economies over the last two decades, in the United States the problem is not unemployment itself but the increasing number of “poor workers”. Up to now Portugal has been able to escape from the problem of “European unemployment”. However, it seems that the price paid may well have been a greater inequality (especially between high and average wages, with the latter likely to correspond to a low wage in most European countries).

I have no intention of discussing here the relationship between the problems of unemployment and inequality, issues that look like two sides of the same coin; two sides, one on each side of the Atlantic, or of the Iberian Peninsula¹². I only want to point out that it is a dichotomy western economies seem not able to avoid. Therefore, once we understand that analysing the problem of unemployment in Spain is nothing else than analysing the problem of unemployment in Europe (although in a more pressing way), the fact that

opting for creating more employment may mean having to deal with greater inequality, makes us face a difficult dilemma.

To put it differently, it would be possible to create employment, on the one hand, by making life more difficult for the unemployed (reducing for example their unemployment benefit) and on the other hand, by making it easier to create jobs of low productivity or stability (by reducing non wage costs and dismissal costs). However, it is also easy to see that for many the transition may consist in a move from unemployment to poverty, even though with a job.

As I have already pointed out, Portugal is approaching the “European model”, however, this model is being openly questioned in different European countries (with the United Kingdom traditionally at the forefront). A central characteristic of the so-called “European model” is the lack of sensitivity of labour costs to the labour market conditions. For example, the question “Why is it that the Spain that works is not very different from the more advanced Europe when unemployment in Spain is much more widespread?” can be translated into “Why is it that labour costs, in response to demand pressures, have not adjusted to make it possible to create more employment?”. I therefore go back to the issue of the labour costs (without attempting to fully answer the last two questions).

Labour costs in Europe

When we analyse in more detail the behaviour of labour costs in Europe (excluding Portugal, Greece and Ireland) we see that there is hardly any relationship between relative growth of costs and unemployment¹³. For example, the costs in

the chemical sector in Spain increased more than the European average, and so has employment in this sector. This means that within a European context, where labour costs have grown quite uniformly, it is not possible to state (as we could have thought at the outset) that a relative decrease in labour costs must have a significant stimulating effect on employment. Obviously, this does not mean that labour costs do not affect employment, but rather that the behaviour of wages in a country or sector should have been substantially different from what was observed to have a significant impact on employment.

In other words, labour costs have not been very sensitive to the existence of a huge number of unemployed workers in Spain, and in Europe in general the same thing has happened. Moreover, if the problem had been solely Spain's, surely we would have seen migrations, as in the past, from the poor regions in Spain to other parts of Europe, which has not happened. Immigration in Western Europe comes mostly from North Africa and Eastern Europe¹⁴. Given the economic conditions of these other neighbouring areas, surely a major part of their population could be taken as "potentially unemployed" in Europe. This means that if working population surveys would ask in North Africa or Eastern European countries, "Would you migrate to an EU country if you were offered a stable job at the present average salary corresponding to your qualifications?", and if all those who answered affirmatively were counted as "potentially unemployed", then the problem of unemployment in Europe would go from worrying to alarming. It is difficult to believe that the existing immigration restrictions are what prevents Europe from having a much greater pressure from immigrants. It is more likely that it is a mistake, easily perceived by the potential immigrant, to think that there are jobs for the "potentially unemployed".

However, why is it that labour costs in Europe are not very sensitive to the situation of the unemployed (or possible immigrants)? This is the question that worries the economists (and not only the economists) and on which I would like to comment, even though, as I have already stated, I do not attempt to fully answer it in this publication (the press is full of 'easy answers' to this question!).

The traditional answer is that there is a division between those extracting rent from work and the unemployed, that is between the "insiders" and the "outsiders". Mainly through the mechanisms of collective bargaining (and/or the possible strength that comes from having a contract that guarantees job security), the "insiders" can get wages absorbing most of the productivity gains. As a result, there is a barrier against entry of an unemployed person (an "outsider") who could do the same job as an employed person (an "insider") and who could be willing to do it for a lower wage.

However, although this vision, a little Machiavellian I admit, is quite widespread among economists, it does not seem to have much to do with the evidence I have discussed (e.g. the importance of the sector composition). Moreover, this theory cannot easily account for the fact that, on the one hand, there is quite a lot of movement in employment in Europe (a fact I discuss later on) and, on the other hand, that the net creation of jobs is very slow. In particular, the creation of the low cost and low productivity jobs that have persisted in the US and, at least up to the present moment, in Portugal.

The most recent analysis, more in line with the evidence discussed above, show the importance of technological change in the segmentation

of the labour market between skilled and unskilled jobs¹⁵. In this interpretation the destruction of unskilled jobs, for instance in agriculture, does not have to have a big impact on skilled workers, let's say from an industry with high value added. Whether unskilled new jobs are created, for example in services, will depend on other factors. In particular, generalised measures of the Welfare State (unemployment benefit, work security, minimum salary, etc.) or collective bargaining with a certain universal character, can be determining factors that discourage the creation (or acceptance) of low productivity jobs¹⁶.

An account of how these different elements (technological change, social pressure, etc.) interact must be the object of more detailed historical studies (and of the development of better economic models). From a hypothetical point of view, the following could be a broad explanation for the economic history of Spain over the last twenty years. During the years of instability following the death of Franco, 1975 - 1976, costs rise in Spain significantly more than the European average and in the following years, of recession, 1976 - 1984, labour costs rise to the same extent as productivity, or even slightly more (see Marimon and Zilibotti 1996a). This seems to indicate that "union" pressure together with the existing inflexible contracts, contributed to the behaviour of the labour costs. In turn, this behaviour determined, to a large extent, the fact that Spain moved towards the "European model" of growth based on productivity; an option that was later strengthened by Spain's integration in Europe. Once this "European model" was adopted, the economy could hardly absorb all the unskilled workers coming from agriculture (or those who wished to form part of the labour market). The result is well known: a rapid growth in the economy and in unemployment. Could it have been different?

Job creation and skilled workers

As I have already mentioned, a different way of creating employment is to generate "unskilled jobs", although it entails an increase in inequality. To put it more directly: "Do we want to reintroduce the figure of the shoeshine boy?" (the idea of reintroducing the "sereno", or street night watchman, has already been suggested). Independently of the answer to this question, there is no doubt that the greatest challenge facing western economies is to be able to "create qualified jobs". This ability depends both on supply as on demand. Supply can be stimulated by labour market reforms that tend to make it cheaper "to dismiss workers for economic reasons¹⁷" or by creation of jobs itself. For instance, an interesting proposal is that if an unemployed person, while receiving unemployment benefit, is offered a job, then part of the benefits he would have been paid could be given to the firm to partially cover the non-wage labour costs. The supply of jobs is also determined by factors beyond the control of the labour market: goods market liberalisation¹⁸, opening up and entry in specialised international markets¹⁹, the terms of financing and managerial know-how are all different factors that can stimulate the jobs creation²⁰.

As far as demand is concerned, the main problem is whether it is adequate. In other words, whether workers have the right qualifications or, at least, are able to adequately learn²¹. Unfortunately, Spain is characterised by following exclusively *passive policies*. Being the European country that spends most on unemployment benefit, it is one of the countries that spends less on what is called "active policies", that is to say training, aid to create given jobs, etc.²² Furthermore, up to the recent "demonopolysation" of INEM, as the only manpower agency, lit-

tle had been done to facilitate a match of those looking for work and those offering it (it is still too soon to see the fruits of the “demonopolysation”).

To sum up this point, although intensifying the “active policies” was one of the main proposals of the European Union Council recommended by the *White Paper on Growth, Competitiveness and Employment* (Essen, December 1994), and despite the steps taken in the 1994 reform, it is not surprising that with our unemployment figures so little has been experienced in the field of active policies as well in the field of policies oriented to reduce the cost of job creation (not necessarily the “liberalisation of the labour market”)²³. However, there has been a very important experience in Spain: the introduction of temporary contracts in 1984. I would not like to finish my reassessment of unemployment in Spain without referring to the role of temporary contracts in the job creation in Spain.

The dynamism of the temporary contracts market

It may seem contradictory to speak about *flexibility and dynamism* of a market that has traditionally been characterised by its inflexibility and that has such a high rate of unemployment. However, the introduction of the *temporary contracts* in 1984 and their rapid expansion, to the point that they represented more than 30% of all contracts after 1990, has meant that a distinctive feature of the Spanish labour market is its dynamism. This is so because Spain is the European country where a worker most frequently changes his job. For instance, in 1992, 28% of all workers (i.e. one out of every four) was not working in the same job as the year before, while the

European Community average is just 17%, Germany having the lowest rate with a mere 12%²⁴.

To put it differently, figures on high unemployment not only hide an important number of long-term unemployed people²⁵, but also large movements of people entering and leaving unemployment (see for instance, Alogoskoufis *et al*, 1995). Moreover, in all the other Community countries (except Portugal) most of the workers finding jobs, find permanent jobs, while in Spain the vast majority find temporary ones²⁶. This means that in relation to other European countries, the Spanish labour market, from the late eighties, has two distinctive features: the greater need to create jobs (given the greater destruction of jobs) and the more volatile cycle of employment.

Temporary contracts create a “contractual segmentation” among workers. The “success” they have had certainly shows the need of a flexible contract framework to generate new jobs. But it also shows indirectly that the present framework (including the 1994 reform) does not seem to be the right one: the temporary contract is too temporary (a fixed term) and the permanent one is too permanent²⁷. The greater the need to create jobs makes the job offer more sensitive than in other European countries to these external factors of the labour market mentioned above (cost of capital, etc.).

In short, the “experiment” in temporary contracts has had a global positive effect by making the Spanish labour market more dynamic. It is likely that, without it, the employment sector evolution would have not followed the European standards described above. However, it has also had important side effects. To reduce these effects

cannot be achieved simply by eliminating this type of contract but, as already proposed, by altering the strong dichotomy between temporary and fixed contracts.

Conclusion

The traditional explanations of Spanish unemployment point to the “inflexibility of the labour market” and the “inadequate macro economic policies”. I have tried to offer a different view; consistent with recent empirical and theoretical studies. In particular, I have emphasised how adopting a “European model” of growth based on productivity, when many agricultural jobs had still to be destroyed and new sectors had to be incorporated to the labour market, had only one possible corollary: the explosion of the rate of unemployment. However, to the extent that the process of destruction of agricultural jobs is coming to an end, the Spanish specific fact disappears and therefore, Spanish employment rate should tend to converge to the European rate. Nevertheless, for many, this may seem insufficient: neither the European rate of employment is so high nor the improvement fast enough.

To confront these inadequacies is a problem (or dilemma) for the European Union as a whole, it is not specifically a Spanish problem. It is possible to increase employment by generating low productivity, low cost jobs with corresponding low wages. This policy could be identified with the US's and, at least until very recently, with Portugal's. It is an option which, however, has a known social cost: the increase of inequality among workers.

There is room however, for policies and reforms aimed at stimulating high productivity employment. I am not the only one to point out

the need for more flexible mechanisms of collective bargaining and permanent contracts, nor am I the first to draw attention to the need to pursue policies tending to reduce the cost of creating employment, as well as the so-called “active policies” carried out with a certain success in other countries of the EU. In other words, the “inflexibilities” of the European Welfare State do not encourage the creation (and acceptance) of jobs. But I hope this reassessment has helped to “immunise ourselves against simple-minded solutions”, to be more critical with those who expect “miracles from an increase in flexibility of the labour market”. It should be understood that it is not just a question of “generating employment”, but to use and stimulate as well as possible the human resources of our society.

It may seem surprising that so far I have hardly made any reference to the “other traditional culprit of unemployment”: the “inadequate macro economic policies”. The main reason is that it has not been necessary. I mean that, if the national macro economic policies had played an essential role in explaining the evolution of employment, this should have been reflected in the data on employment. In particular, in the greater preponderance of the “national effects” that, as we have mentioned, play a secondary role, in comparison to the effect of the initial sectoral composition²⁸. This does not mean that the macro economic policies, for instance those concerning the interest rate, are not important. Their effects can be detected when they are particularly perverse and moreover, they constitute the only leeway in the hands of the economic authorities, although in the context of the European Monetary Union, those authorities will lose their national identities. There is obviously, an area in which the economic authorities have a direct effect on employment: in the creation of civil service jobs.

This effect has been felt with the expansion of the civil service jobs in Spain over the last twenty years. The tighter fiscal discipline imposed by the Maastricht Treaty and the Stability Pact, together with the difficulty (or inconvenience) of increasing fiscal pressure, indicate however a reversal of this trend. In any case, this also seems to be a very European problem and we cannot expect that it would modify the tendency of the Spanish employment rate to converge to the European one.

The information on the creation of employment in Spain in the last two years is encouraging and it seems to indicate that the process of convergence to European rates of unemployment may be faster than indicated by the tendencies mentioned²⁹. Spain, together with Great Britain, has maintained rates of employment growth above the European average. It would be tempting to attribute this to a greater “cyclicality” of these economies. But, in contrast to the boom of the late eighties, this increase in employment does not go hand in hand with a strong investment growth, which is a symptom of a greater capacity to create employment (more than likely of less productivity). It seems that, little by little, the Spanish economy is learning to heal its low employment level.³⁰

Foot Notes

** This article was written in October 1996 (see, however, the final footnote of April 1997) and comes from research carried out within the framework of CREI and partially financed by The Secretary of State for the Economy (1994 - 1995). A more detailed account of the problem of unemployment in Spain (as well as the issues on Regional and European integration) can be found in Chapter 2 of Marimon, (1996) and in Marimon, and Zilibotti (1996a). Both of the studies were undertaken in collaboration with Fabrizio Zilibotti and indeed, this article is fruit of this collaboration and many hours of discussion together, although any error or misunderstanding may only be attributed to me. I would also like to thank Giorgia Giovannetti and Andreu Mas-Colell for their comments. CREI is not responsible, in any way, for the opinions expressed herein.*

(1) Social expenditure per capita for unemployment benefit in Spain is 45% higher than the European average (EU12). This means that in Spain 20.6% of expenditure in social protection corresponds to unemployment benefit while the European average (EU12) is 7.3% (data for 1993; Eurostat)

(2) In fact, unemployment affecting whole families is relatively low. For example, in 1994 when the unemployment rate stood at 24.1%, the unemployment rate affecting the head of the family (unemployed family heads /working population) stood at only 5.7% (EPA).

(3) See chapters 2 and 7 of Marimon (1996).

(4) Employment loss is about 3% a year in Europe, and 5.2% in Spain in the 1974 - 1991 period. It is worth noting that growth in services in Spain takes off later than in the rest of Europe and this contributes to the fall in employment up to the mid eighties but also to its rapid growth later.

(5) The rate of unemployment goes from 23.5% to 22.9% at the beginning of 1995, mostly due to the correction of the series of the EPA (working population census). A jump certainly, but 22.9% is still a very high figure. (see Tobaría, L. and J.F. Jimeno, 1994, for a discussion of the statistic problem and the black economy).

(6) For example, if one uses the World Bank Tables and the data from the OECD to calculate the productivity per employee, say in 1990, Spain productivity is 35.9 (in thousands of dollars), Germany's is 48.0 and Japan's is 43.5 (while the US is 38.0). In fact, Spain within the 15 nation Europe lies 11th., slightly ahead of Ireland (34.6) and the United Kingdom (31.9), which is not something totally preposterous for “someone with common sense”, if the specific weight of part-time work in the United Kingdom is taken into account. These differences would not disappear if, as so often argued, there were one million non registered employees in the Working Population Census (a statistic error of 8%). Productivity in this case would be 33.3 and the rate of employment 55.1%, while in the EU it was 62.3% in 1990. Similar results are obtained if the GNP

figures are adjusted by Purchasing Power Parities.

(7) In Portugal agricultural employment goes from 33.9% in 1975 to 11.8% in 1994 (an annual decrease of 4.48%); in Spain the transition is from 22.1% in 1975 to 9.9% in 1994 (an annual decrease of 4.29%, European Commission Data).

(8) See Marimon (1996), Chapter 7.

(9) Not only do wages increase little in Portugal but they also do so below the growth of productivity, again in contrast to Europe; in particular, in the period 1975-1984 when the Spanish labour costs grow above productivity.

(10) It is quite possible, however, that these similarities to the US will change. Portugal is approaching Europe, as Spain did earlier. For example, the latest reforms in Portugal take many aspects of the European Welfare State; in particular, the reform of 1992 introduces very "European" unemployment benefits.

(11) For instance, let $D1$ be the wage level if 10% of the workers get lower wages, $D9$ the level if 90% of the workers get lower wages, and $D5$ the level that divides workers into two even groups, according to whether they earn more or less, then the ratios $D9/D5$ and $D5/D1$ are around 1.6 in most European countries over the last ten years without any tendency towards a greater inequality. However, in Portugal and the United States these ratios lie around 2.0 and show a growing tendency towards inequality over the last ten years. For example, among men in Portugal the ratio $D9/D5$ is 2.13 in 1985 and 2.40 in 1993, and the ratio $D5/D1$ is 1.56 in 1985 and 1.72 in 1993; while in the US, the ratio $D9/D5$ is 1.84 in 1985 and 2.00 in 1993 and the ratio $D5/D1$ is 2.03 in 1985 and 2.06 in 1993 (see 1996 OECD Employment Outlook).

(12) This relationship will be discussed in a future track of F. Zilibotti, based on joint study (Marimon and Zilibotti 1996b).

(13) See Marimon and Zilibotti (1996a).

(14) The rate of growth of immigrant population in Europe is in the order of 0.5%, while the rate of growth of the indigenous populations is around 0.2%.

(15) See, for example, Marimon and Zilibotti (1996b) where a model with these characteristics is developed and the related literature discussed.

(16) Of course it is possible to provide an interpretation based on "insiders" versus "outsiders" for the existence of social measures with a certain universal character: the "skilled workers defend aspects of the Welfare State in spite of the fact that they can prejudice the "poorly qualified unemployed people". This would be a classical interpretation of political economy; majority groups (or influential groups) that defend their interests (see for example, Saint-Paul, 1996)

(17) The 1994 reform was a timid step in this direction. See, for example, Jimeno (1994) who points out that "we still cannot perceive any substantial change in the negotiation and conclusion of dismissals through the courts".

(18) For instance, The McKinsey Global Institute (1994) shows how the restrictions and legal delays have hunted the generation of employment in the cable industry in Spain and Italy.

(19) For example, the Italian textile industry has had a good record in employment thanks to having developed a very flexible production and having opened new markets "on the Italian style".

(20) Very often there is the tendency to look for "the culprit for unemployment" in the labour market, when it can be hidden in many places and as we have seen, may not act alone. For instance, the policy of high interest rates to defend the Peseta within the EMS at the end of the eighties and the early nineties created financing problems to firms even though it stimulated capital imports; overall, however, its net effect on employment does not seem to have been positive (although a more detailed analysis should be made to evaluate the ultimate impact).

(21) The 1994 reform, with its apprenticeship contracts, is yet another timid step in the right direction.

(22) For example, in 1993, 1994 and 1995 expenditure on unemployment benefit represented 3.6, 3.3 and 2.6% of its GNP, while its active policies represented 0.5, 0.6 and 0.7% of GNP respectively. In spite of the fact that active policies are gaining importance, only Greece and some other European countries with high employment (Austria, The United Kingdom, Luxembourg and Switzerland) spend less on this type of policy (OECD 1996 Employment Outlook)

(23) See *Employment in Europe, 1995* for a summary of the "active policies" proposed by the European Union Council.

(24) The information on movement comes from OECD *Employment Outlook and Employment in Europe 1994*. It should be noted that in comparison to other European countries (including Portugal), Spanish workers change their productive sectors less (3% versus an average of 4%). This is another reflection of the difficulty of "absorbing the destruction of employment in agriculture".

(25) In Spain 46% of the unemployed were in this situation for more than a year in 1993, whereas the EU average for the same year was 43%.

(26) For example, in 1994 90.2% of the workers who had been unemployed the year before had temporary contracts, while the European average (EU12) stood at 42.7%. (OECD 1996 Employment Outlook).

(27) This does not mean however that in practice workers with temporary contracts lose their jobs after 36 months. In fact, as García-Fontes and Hopenbayn have shown (see chapters 5 and 6 in Marimon 1996), most of the workers who reach the end of their 3 year temporary contracts continue working: in other words they stabilise their job. However, as they have also shown, the introduction of temporary contracts induced, on the one hand, a strong increase in the movements in the very short term, and on the other hand, given the greater rate of job destruction, has made clear that an increase of more than 30% is needed in the gross creation of employment in order to finish with the rate of employment that existed before the introduction of temporary contracts.

(28) There is a second reason for hardly mentioning the effects of those policies: the studies that have focussed on those policies have not taken into account the basic causes mentioned here, and in my opinion, the importance of inadequate policies has tended to be overvalued. In a future paper, after having considered the basic factors discussed here, I plan to evaluate the "marginal" effect of the macro economic policies in the European countries.

(29) Unfortunately, there is the problem of a statistic gap in the EPA series at the beginning of 1995. As this tends to overvalue the creation of jobs in the following terms, my final optimism "may lose a certain statistic shine".

(30) In revising the article, as it was going to press, I decided to keep the original text even though they are always new events comments that one would like to add. These last months have mostly confirmed my conclusions of the last fall. However, I couldn't ignore the "agreement on labor reform" signed, after a long process of negotiation, by "the heads" of the Spanish business organization, CEOE, and of the Spanish trade unions, UGT and CC.OO." (La Vanguardia, April 9, 1997). My aim is not to provide a detailed account and criticism of the agreement, only to remark how, on the one hand it is a step forward towards resolving the problem of the "contractual segmentation," mentioned in the article, but, on the other hand, without a far sided riding and implementation of the agreement, not much terrain will be covered with such step. The proposed reform offers a new legal framework for part time and training contracts, as well as it limits the applicability the existing temporary contracts (they must have some economic justification); all these are measures that may improve the conditions of entry in the labor market. More important, however, is the introduction of a new permanent contract with lower firing costs and a wider acceptance of economic justifications for dismissals. These, in particular, are the measures that can define how long will be the step of the reform. For example, there is no economic justification to exclude from the new permanent contract those whose age is between 29 and 45 (and are not handicapped) or to only give a transitory status—of four years—to this new contractual form. If this opens the way to a more stable and universal reform, this would had been an important first step. Similarly, the economic justifications of dismissals are, to a large extent, an issue of administrative and legal practices. Even, if as it is expected, the agreement will achieve legal status, it will not

help too much if administrative barriers and a narrow reading of the reform cloud its application. Finally, the agreement also deals with the issue of the collective bargaining mechanism but, as it could have been expected from a negotiation between the "heads" (and as had been predicted by several experts) in this regard the proposed reform is very limited and far from recognizing that the main actors of the process of wage bargaining do not have to be "the heads" (and the trade unions signing the agreement) but the workers and entrepreneurs directly involved at the firm level with minimal external interference. In summary, the new agreement for a reform does not change substantially the parameters of the analysis of the labor market offered in this article, it shows, however, a greater maturity and economic realism of the main players and, as I said, if it is applied with determination (and extended in the near future) can help to accelerate the process of convergence of the unemployment rates, if no more, to European standards.

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