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Labor Market Conditions in Spain

Submitted by:

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Overview of Economic Conditions in Spain

In 2004, the Spanish economy saw a steady growth of 2.7%, which translates to two percent more than the previous year, and 7 percent greater than 2002. The current rate of economic growth is higher than at any point in the past three years, but has not yet reached the level of growth found in the late 1990's, when the economy grew at above 4%. Nonetheless, Spanish GDP growth continues to surpass even that of its European neighbors (which stands at 1.6%).

A smaller decrease than expected in the external sector and stability in internal demand have served to pull the GDP upwards in the final quarter of 2004 by a rate of 2.7% with respect to the previous year. Unlike in previous years, when only the construction sector drove economic growth, 2004 saw a growth in the capital goods sector by some 5.8% (as opposed to 1% the previous year). Low interest levels and record gains by Spanish businesses have led to increased investments, further spurring the current growth levels.

Despite these positive signs, the Spanish economy has yet to recover much of the losses suffered in the first years of the 21st century. During these years, the foreign trade crisis and a deterioration of Spanish exports, coupled with the appreciation of the Euro and decreased demand among central European countries, led to significantly slower growth than at the end of the 1990's. Spain's commercial deficit stood at €46,486.6 million in November 2004, some 35.8% greater than just one year prior. Much of this is due to the fact that exports grew by 5% while imports grew by 11.5%, a loss of ground that evinces Spain's significantly decreased economic competitiveness.

With regard to price growth, the inflation rate dropped one tenth of one percent to 3.1% from December 2004 to January 2005. Nonetheless, there continues to be a 1% discrepancy between Spain's rate of inflation and that of the rest of the European Union, further weakening its international competitiveness.

It seems that even the recent economic growth cannot be interpreted as a sign of any emerging "new economy" in this country. For example, Spain still lags in internet usage (9.2 out of 100 citizens compared to 10.9% in OECD countries); in general, spending on R&D has dropped in the past decade, and stands considerably below the OECD average. The overall effect is one of low growth in the areas that would position Spain for significant future economic development.

Employment: Improved Figures but Continuing High Unemployment Levels

Spain's 2004 unemployment figures were the best since 2000: the Survey of the Economically Active Population conducted in the fourth quarter of 2004 showed a 0.8 percentage-point drop in the unemployment rate relative to the previous year (from 11.2% to 10.4%). About 120,000 Spaniards moved out of unemployment in 2004, reducing the total number of unemployed to two million. Within those figures we see a significant drop of 6.4% in the number of households in which all members were unemployed.

There has also been a growth in job creation, though at a slower rate than in 2003; 461,000 new jobs were created in 2004, as opposed to 487,000 the previous year. All in

all, Spain's working population has passed the 17 million mark, some 50.25% of the total population, the highest in Spain's history.

The emergence of women as a significant sector of the job market has been one of the factors that has led to the employment boom. The percentage of employed women now stands at 45% of the working age female population – a record. The number of female workers grew by 4.7% last year (the male population grew by 1.5%). It is worth noting, though, that the unemployment rate among women, however, continues to be double that of the male population (14.4% to 7.5%).

One of the most important contributors to employment development has been the industrial sector. In past years, this sector suffered a significant deterioration of employment. In 2004, this trend was finally reversed. Having seen increases in unemployment and a drop in employment in 2004, the industry saw a 3.5% drop in unemployment and 1.6% growth of employment. These figures, along with the previously mentioned growth of the capital goods sector are evidence of the current Socialist government's shift in priorities from consumption and construction to production. Nonetheless, construction continues to be the most dynamic sector: the one with the greatest job creation and the greatest drop in unemployment.

Table 1. Principal Job Market Indicators (%)

	2000	2001*	2002*	2003*	2004*	Dec. 2003*	Dec. 2004*
Unemployment Rate	14,1	10,5	11,3	11,3	10,8	11,2	10,4
Men	9,7	7,5	8,1	8,2	7,9	8,2	7,6
Women	20,5	15,2	16,3	15,9	14,9	15,6	14,4
15-24 years old	26,1	21	22,3	22,8	22,0	22,9	21,3
Part-time Workers	8,1	8,1	7,8	8,0	8,5	8,2	8,5
Rate of Temporary Work	32	31,7	31	30,6	30,6	30,7	30,9

*According to the new EPA calculation methods (see below).

It is important to note that the weak spot in the Spanish labor market continues to be temporary employment; the growth in employment has not translated into a decline in the temporary employment sector. To the contrary, temporary employment grew from the fourth quarter of 2003 to 2004, from 30.7% to 30.9%.

All in all, the employment situation in Spain remains among the worst in the OECD; it is characterized by low participation, exaggerated use of temporary workers (30.9% at the end of December 2004), and only limited availability of part-time work (about 8.5% of workers at the end of the same period). And more often than not, it is women and children at the losing end of these situations.

Statistical Changes in the 2001 Employment Calculations

In January 2002, the Survey of the Economically Active Population changed its definition of unemployment in order to better reflect the standards used in the Eurostat figures. For one, in order to be considered unemployed, a worker can no longer simply register with the unemployment office and wait for a phone call; they must actively be in contact at least

once a month. In addition, the National Statistics Institute has reworked their estimation of the population between ages 25 and 49 to account for the fact that, though this is the group has the highest proportional employment, they are also the population with the highest nonresponse rate to the survey. Lastly, the survey has begun to take into account immigration, which has significantly altered the size and make-up of the Spanish population in the last decade (for more information on this please see our last report.)

The most significant of these three changes is the new definition of unemployment. Some calculations estimate that – due to this new definition – between 400,000 and 500,000 people are no longer counted as *unemployed*, but are, instead, now considered *economically inactive*. Consequently, the rate of unemployment from December 2001 dropped from 12.8% to 10.3%. In May of 2002 the INE created a comparison between the levels of participation, employment and unemployment under the two methods of calculation; the table below highlights the differences.

Table 2. Rates of Participation, Employment and Unemployment (in percentages) according to the old and new methods of calculation (4th quarter 2001).

	Previous Method of Calculation	New Method of Calculation	Difference
Both Genders			
Rate of Participation	51.80	53.90	+2.1
Rate of Employment	44.42	46.80	+2.4
Rate of Unemployment	12.96	10.50	-2.5
Men			
Rate of Participation	64.19	66.56	+2.4
Rate of Employment	57.55	60.56	+3.0
Rate of Unemployment	9.08	7.48	-1.6
Women			
Rate of Participation	40.36	40.76	+0.4
Rate of Employment	32.23	33.80	+1.6
Rate of Unemployment	18.66	15.16	-3.5

Source: INE.

Unions and the new Socialist Government

The unexpected victory of the Socialist Party (PSOE) has led to radical change in the Spanish political, social and labor landscape. Under the previous government, labor unions were forced to focus their efforts on combating conservative reforms, a battle that reached a head in June 2002 with a 24-hour general strike.

The rise of the new party re-opened the lines of dialogue between labor and government. In June 2004 the Socialist government, the leaders of the national business organizations, the CEOE and the CEPYME, and leaders of the national trade-union federations, the

CCOO and the UGT, signed a declaration on “Social and Labor Competitiveness, Stability and Cohesion.” Among the priorities outlined in this document are:

- Education and Training
- Infrastructure and Public Investment
- Research, Development, and Innovation
- Industrial and Environmental Policy

Now it is up to all sides to see if the good intentions of this declaration, to seek -- “higher levels of economic development, quality of work, social welfare, territorial cohesion and sustainability” -- can be realized in practice.

Wages: Recent Recovery of Buying Power

The second half of the 1990’s saw little increase in the nominal wages of Spanish workers, but owing to a significant drop in inflation (from 4.7% to 1.8% from 1995-1998), workers’ *real* wages made some gains. The rising rate of inflation since 2000 has reversed this trend, however; in 1999, the average hourly wage grew by 2.6% while the consumer price index grew by 2.3%, but in 2000 growth was at 2.3% in the face of a 4% rise in inflation, leading to lessened buying power for the average Spaniard. Nevertheless, in the past few years wages and inflation have grown at similar rates, with both at 4% by the end of 2002. In fact, in 2003, wages grew by 4.9% while inflation was at a relatively low 2.9%. For the first time in almost half a decade, buying power grew for the average worker.

Poverty and Income Distribution

The rate of relative poverty, measured by counting those whose incomes are under 25% and under 50% of the average monthly income, hardly changed between 1994 and 1996. This led to a slight increase in severe poverty (under 25% of the average income) and a slight drop in poverty (those under 50% of the average income).

Table 4. Households under the poverty line of 25% and 50% of the average monthly income

	1994	1995	1996
Under 25%	2.6	3.0	2.7
Under 50%	18	17.6	17.5

Source: Ana Arriba and Luis Moreno “Spain: Poverty, Social Exclusion and Safety Nets”, CSIC, documento de trabajo 02-10.

Table 5 (below) highlights the distribution of disposable income among people covered in the first section of the European Community Household Panel survey.

Table 5. Distribution of Household Income by [Tenth Percentiles] (%)

Tenth	1993 (%)
1	2.6
2	4.5
3	5.6
4	6.7
5	7.7
6	9.0
7	10.4
8	12.5
9	15.6
10	25.5

Rate of Union Participation and the Role of Worker's Committees

It is difficult to find current statistics that speak to the number of Spanish workers who belong to unions. The figures that exist between 1981 and 1993 show a 107.2% increase, though one has to take into account the extremely low levels of unionization at the beginning of the 1980's (a mere 8.3%). Since 1993 there has been stagnation in union growth, though not at the levels seen in other western countries.

Regardless, statistics are not a good indicator of the level of support that unions have among Spanish workers. In this country, workers demonstrate their support for unions not through signing up themselves, but through voting for union-affiliated representatives to worker's committees and other liaison appointments. Furthermore, while in many countries these committees are seen as "secondary options" when it comes to worker-management relations, in Spain these committees serve as the primary vehicle for enacting the agendas associated with unions, such as negotiating salaries and declaring strikes. The make-up of these committees and representatives serves as a more realistic indicator of the support Spanish workers have for unions.

It is estimated that 70% of businesses have worker committees or worker representatives, and that about 75% of workers participate in elections to determine their representatives. In April 2003, 38.9% of committee members were affiliated with a Workers Commission (CCOO) union, followed closely by 36.5% who were members of a union affiliated with the General Workers Union (UGT). The tables below, then, reveal the significant presence that unions have in the Spanish workplace.

Table 6. Rate of Union Participation (%)

1981	8.3
1982	9.6
1983	10.1
1984	9.9
1985	10.3
1986	9.8
1987	10.3
1988	10.8
1989	11.2
1990	12.1
1991	14.1
1992	16.0
1993	17.2
2000	17.0

Table 7. Results of Spanish Union Elections (% of committee members by union)

Election Year	U.G.T.	CC.OO.	Other Unions ₁	Non-Union
1978	21,7	34,4	25,75	18,12
1980	29,3	30,9	24,04	15,77
1982	36,7	33,4	17,79	12,09
1986	40,9	34,5	17,78	7,6
1990	42,0	36,9	17,3	3,8
1995 ₂	34,7	37,8	27,5	-
1999	36,8	37,9	25,3	-
2001	37,4	38,4	24,2	-
2003	36,5	38,9	24,6	-

₁ None of these groups reached the 10% national share of representatives needed to be considered a "major union."

₂ As of 1995, no distinction is made between "Other Unions" and "Non-Union."