

Labour market reforms in Spain and their impact on labour market flexibility

Diploma thesis

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Brno 2015

Acknowledgement

I would like to express my sincerest gratitude to my parents and grandparents for supporting me and encouraging me throughout my whole studies and a special thank you to my supervisor, doc. Ing. Lubor Lacina, Ph.D., for his highly valuable advices, time, and effort he dedicated to me while writing this thesis.

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Abstract

VOJČE, Barbora. *Labour market reforms in Spain and their impact on the labour market flexibility*. Diploma Thesis. Brno 2015.

This thesis deals with the labour market reforms in Spain that were adopted in order to increase the labour market flexibility and decrease the extraordinarily high unemployment persisting in Spain over decades. The thesis focuses especially on the latest labour market reform adopted in February 2012, which is considered the most impactful one, especially regarding dismissals and their cost. After introducing the main characteristics of the Spanish labour market including, among others the historical circumstances that have led to the current situation, an analysis of several labour market indicators is performed, aiming to find out whether the objectives of the 2012 reform were fulfilled or not. Furthermore, the thesis investigates the performance of the German Hartz reforms adopted in 2003-2005 and attempts to quantify the cost of potential application of their measures on the current Spanish labour market situation. This provides a valuable insight useful for the proposal of recommendations to improve the Spanish labour market.

Keywords

Spanish labour market, unemployment, flexibility, rigidity, labour market dualism, insider-outsider theory, Hartz reforms

Abstrakt

VOJČE, Barbora. *Labour market reforms in Spain and their impact on the labour market flexibility*. Diplomová práce. Brno 2015.

Tato diplomová práce se zabývá reformami španělského pracovního trhu, které byly přijaty s cílem zvýšení flexibility a snížení neobyčejně vysoké nezaměstnanosti přetrvávající ve Španělsku po několik desetiletí. Práce se zaměřuje především na poslední pracovní reformu přijatou v únoru 2012, která má podle odborníků největší dopad na pracovní trh, regulující především propouštění zaměstnanců a náklady na to vynaložené. Nejdříve jsou popsány hlavní charakteristiky španělského pracovního trhu včetně historického sledu událostí vedoucím k jeho nynější podobě. V praktické části se pomocí analýzy několika indikátorů pracovního trhu zkoumá, zda byly stanovené cíle této reformy splněny nebo ne. Práce se také zabývá popisem a zhodnocením efektivnosti německých Hartz reforem přijatých v letech 2003-2005 a pokouší se vyčíslit náklady spojené s možnou aplikací nástrojů těchto reforem na dnešní španělský trh práce, což později slouží jako inspirace při navrhování vhodných doporučení na vylepšení španělského trhu práce.

Klíčová slova

Španělská reforma pracovního trhu, nezaměstnanost, flexibilita, rigidita, dualita pracovního trhu, teorie insider-outsider, Hartzovy reformy

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1 Introduction and objectives

1.1 Introduction

Since 2008, Spain has been struggling with serious economic problems that were triggered by the crisis originating from the United States sub-prime mortgage market. The crisis revealed the structural defects of the Spanish economy that persist since the times of dictatorship of the General Francisco Franco who ruled the country for nearly forty years. Regarding the labour market, its main defects are the excessive protection of workers with indefinite contracts and poorly adjusted labour policy which resulted in the labour market rigidity and dualism.

Prior to the crisis, there was a decade of construction boom that was artificially boosting the country's economy with domestic and foreign investment and easy access to bank credit. In these times the unemployment was significantly reduced from 20% in 1997 to 7.9% in 2007. However, this was expectedly hardly sustainable in the long-run and with the upcoming world financial and economic crisis the property bubble burst and culminated in bankruptcy of many businesses and financial institutions and an extreme increase in unemployment reaching almost 27% in the first quarter of 2013. The real-estate sector experienced the largest drop in the history, leaving hundreds of thousands of buildings already completed or under construction abandoned.

Since 2010 the Spanish unemployment remains beyond 20%, creating serious financial and social differences between its inhabitants. Nevertheless, when observing the unemployment's development, it is obvious that since the beginning of the democracy the unemployment has almost always been very high even in times of economic booms. This was mainly present due to the labour market rigidity and excessive dualism, with temporary contracts forming around 30% of the total. There have been many labour market reforms attempting to increase employment and flexibility and to lower the labour market dualism that were adopted every few years. These were however considered ineffective by many economists, given that the given problems remain. The last of them was adopted in 2012 and is considered the deepest labour market reform in the history of Spain. This thesis deals with this latest labour market reform from 2012 and its impacts on the Spanish economy.

1.2 Objectives

The main objective of this thesis is to describe and evaluate the up-to-now performance of the Spanish labour market reform adopted in February 2012 and to propose recommendations for its improvement. First of all, I am going to familiarize the readers with the nature of the Spanish labour market, the historical economic and political circumstances leading to it, and the labour institutional environment with its main players influencing its execution. After describing the 2012

reform, the fulfilment of its 9 objectives that were stated by the Ministry of Labour and Social Security before its implementation will be examined in the practical part, analyzing the behaviour of several labour market indicators. The main objective of the thesis is based on the assumption that the reform has not been fulfilling its objectives properly, given that the unemployment has still been very high even after the reform entered into force.

The partial objective of the thesis is to introduce the German labour market reforms Hartz I-IV adopted in years 2003-2005 and to evaluate their impact on the German economy. Furthermore, I will attempt to evaluate the possible application of the German labour market model into the current conditions of the Spanish labour market and to quantify its costs.

The literature review relating to Spain together with the examination of the Hartz reforms as well as of the potential application in Spain will help me in proposing adequate recommendations for improvement of the Spanish labour market.

Aiming to successfully fulfil the objectives, I will attempt to answer a series of the following **research questions** throughout the thesis:

1. What are the main problems of the Spanish economy?
2. What causes the high unemployment?
3. Were the Hartz reforms effective in Germany?
4. Was the Spanish reform from 2012 effective?
5. Are the principles of the German labour market reforms Hartz I-IV applicable to the Spanish economy and what would be the costs and benefits of this application?
6. What are the possible improvements of the Spanish economy?

2 Methodology

In order to comply with the thesis' objectives, the following steps are going to be taken. First of all, a literature review is needed in order to provide information for the successful proposal of improvements. I am going to gather information from relevant scientific studies, monographs, and articles about:

- History of the Spanish labour market
- Labour institutional environment
- Unemployment compensation
- Shadow economy
- Spanish labour market reform from 2012
- German labour market reforms Hartz I-IV from 2003-2005

In the practical part, several relevant labour market indicators regarding each of the Spanish reform's objectives will be analyzed in order to reveal whether these have been fulfilled or not. The evaluation of the indicators' development will mainly concern annual, quarterly, or monthly data provided by Eurostat, OECD, INE, the Spanish Ministry of Labour and Social Security, and so forth, starting in 2008 up to the last available data, i.e. 4Q 2014 or the first months of 2015.

To fulfil the partial objective of this thesis, I will calculate the costs of each country's unemployment benefits and subsidies and quantify the results of the application of German model into the Spanish current circumstances.

3 The Spanish labour market

3.1 Economic and labour market history

As a proper introduction to this thesis, it is essential to get familiarized with the political and economic development of Spain. To understand the reasons that have led to the recent situation and the political dealing with the crisis, it is crucial to observe the evolution at least since the times of dictatorship of the general Francisco Franco up to now.

3.1.1 Franco's era (1939-1975)

The dictatorship of the general Francisco Franco lasted almost 36 years. At the beginning there were 11 years of autarky that resulted in severe economic reversal and lack of goods in the market. The situation improved in 1959 with the introduction of the so-called Liberalization and Stabilization Plan and Spain quickly became the second fastest growing country in the world after Japan. Foreign investment, tourism, and emigrants' remittances were the main factors to help the growth. This 14 years period of prosperity was called "the Spanish miracle" (Mateos, 2003).

Labour relations in the Franco's era

During Franco's era the labour market became very rigid. The lack of syndical freedom was the most important determinant of labour relations. In 1940, the Spanish Trade Union Organization (*Spanish: Organización Sindical Española*) was established with the purpose of organizing workers, technicians, and employers within one vertical structure. It was the only legal trade union in the country. Strikes were forbidden and claimed as a "crime of sedition". Firing a worker became very expensive and difficult. Franco had a very interventionist policy towards the labour market. The principles of his policy were full employment for men, even at the expense of low wages or inflation, almost no right to work for married women, and no unemployment benefits (Sola, 2014).

3.1.2 Democracy (from 1975)

After Franco's death in 1975, three years of political transition into democracy came with the King Juan Carlos as a new head of state. The labour unions were legalized again together with the workers right to strike. In order to ensure the smooth political transition, the so-called Workers' Statute (*Estatuto de Trabajadores*) was approved in 1980, establishing two main institutional features of the Spanish labour market – high protection of employment against dismissal and occupational or geographical mobility, and the prevalence of collective bargaining at industry or regional level for setting wages, working hours, and other working conditions (Bentolila et al., 2008).

Development of labour market dualism

Bentolila, Dolado, and Jimeno (2012a) who carried out a case study, concluded that due to the oil crisis in 1973 that increased the unemployment rate to 20%, there was a need to flexibilize the labour market. This was done through the labour reform adopted in the 1984, implementing a broader use of temporary contracts. The duration of such contracts varied between 6 months and 3 years. The severance pay was only 12 days of wage per year of service (p.y.o.s.), compared to 20 days' wage p.y.o.s. for permanent contracts with a maximum of 12 months' wages in case of fair dismissals, and 45 days' wage p.y.o.s. with a maximum of 42 months' wages in unfair dismissals. Given that the reasons for a fair dismissal were very limited, not specified, and hard to prove, the collective dismissals required administrative approval, and even the internal flexibility was constrained due to the regulations on geographic and functional mobility of employees, it is no surprise that the temporary contracts became soon after their implementation very popular. The labour market split in two spheres – workers with indefinite contracts, whose job was stable and secured, and workers with temporary contracts with basically no security. In the early 1990's, the level of temporality¹ was around 35%!

3.1.3 Construction boom

Since 1994, series of countervailing labour reforms were triggered in order to decrease the incidence of dualism. The use of temporary contract was restricted and the severance pay for permanent employees was gradually reduced. These were however ineffective and the level of temporality remained around 30% (Iglesias, 2006).

In 1999, Spain entered the common monetary union together with other eleven European countries.² For a decade (1997-2007), the Spanish economy was one of the most flourishing among them, experiencing around 3.9% real GDP growth rate, Spain was using the same currency like the rest of EA-12, enjoying the same low interest rates, and opening new investment opportunities.

According to Bardhan et al. (2011), the huge expansion of the real-estate market started in 1997, fuelled mainly after 1999 by the inflowing foreign investment mainly from Germany and the United Kingdom. Spain was able to create almost **6 million new job opportunities**, which was almost two times more than in other large European countries like Germany, France, or Italy. From 2000 to 2009,

¹ Level of temporality means that total employment is broken down by type of work contract (in the main job) to temporary or permanent contract.

² EA-12 (Euro Area) is a group of twelve countries which first joined the common monetary union and adopted Euro as a common currency of the European Union in January 1999. These countries were Germany, France, Italy, Spain, Netherlands, Belgium, Finland, Luxembourg, Ireland, Austria, Portugal, and Greece that joined them in January 2001.

around **5 million new housing units** were constructed, increasing the stock of former 20 million units.

The property bubble was fed with banking sector by credits of individuals and developers. During this period, family **indebtedness** exceeded 100% as they were purchasing houses using long term loans commonly used for 40 years and the house prices nearly tripled due to this huge demand. Banks, attracted by the vision of huge incomes, contributed significantly to both demand and offer, providing generous credits at low interest rates to both parts. Another problem was the **decreasing competitiveness** with nominal labour costs increasing faster than productivity (Bernardos, 2009).

A peculiarity of the Spanish economy, as illustrated in the figure 1, is that despite several economic expansions the unemployment has always been very high. Rodríguez-Rata (2011) argues that apart from the labour market rigidity and dualism, which could be considered as the biggest contributors to the negative situation, there are various reasons that can justify the ubiquitous unemployment, such as the change of social status of women, inexistence of suitable mechanisms of economic regulation, historical change of international economic framework, decrease of exports due to the world recessions, and price increase of labour and raw materials. In the second quarter of 2007, the **unemployment rate reached its 36 years minimum with “only” 7.93%.**³

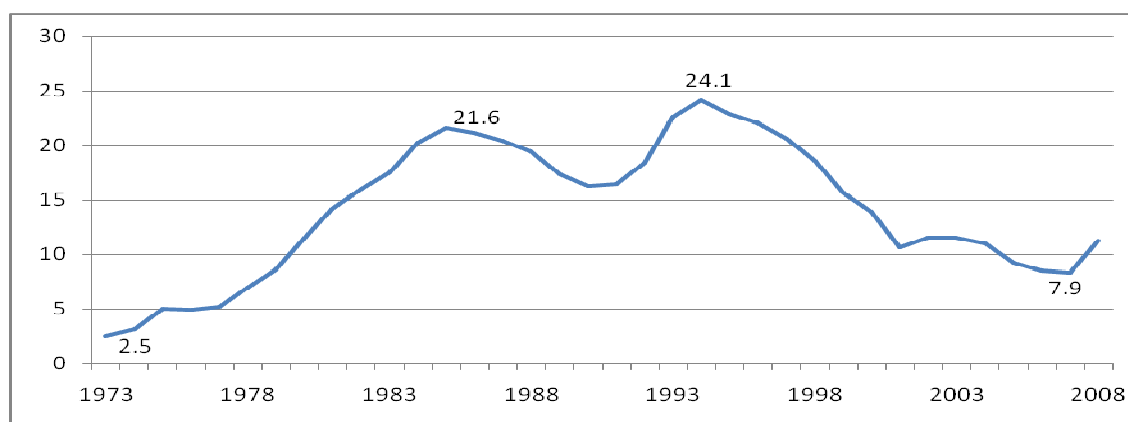


Fig. 1. Unemployment rate (1973-2008)

Source: ILO

3.1.4 After 2008

In 2008, the burst of the Spanish property bubble, intensified by the economic shock coming from the United States mortgage market to all over the world, caused that the Spanish economy collapsed like a house of cards. Bernardos (2009) noted that in 2008 the banking sector registered increasing difficulties in obtaining

³ In 1978 the unemployment was 7%.

a foreign credit and dramatically increased the requirements for the loan applicants. This on one hand notably affected the developers and other businesses that had money invested in real-estate and on the other hand significantly reduced the demand for it.

Initiated by the construction and other related sectors, thousands of companies bankrupted and the unemployment skyrocketed astonishingly. According to INE, in the first quarter of 2013 the **unemployment reached a recording number of 26.94%** which, in absolute values, was more than 6.27 million people. This has been **the highest unemployment rate registered in the modern democratic history of Spain.**

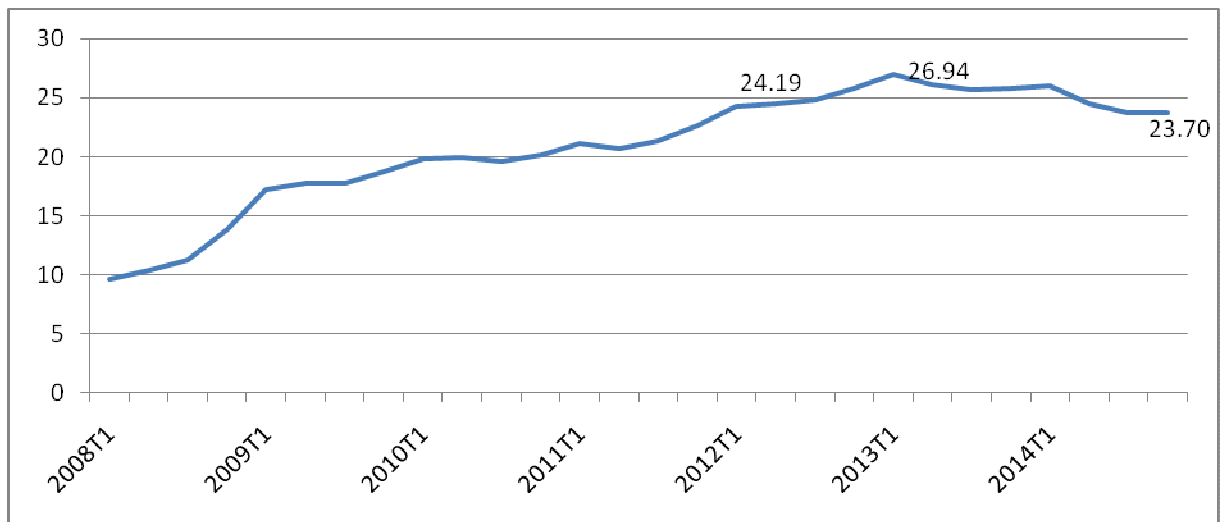


Fig. 2. Unemployment rate (2008-2014, quarterly data)
Source: INE

3.1.5 Partial conclusion of the economic and labour market history

The Spanish economy has several structural problems that were disguised by the construction boom and revealed after its burst. These are discussed in the study of Köhler and Calleja (2013) and summarized in the following text. In this part of the thesis it is possible to answer the first research question, i.e. **what are the main problems of the Spanish economy?**

On the first place it is the **rigid labour market** and present **dualism** that highly protects permanent workers against dismissals while there are almost no right for the temporary workers. The situation worsened also due to the **decreasing competitiveness** during the construction boom, given that the nominal labour costs increased faster than productivity.

Furthermore, it's the **excessive inclination of the market towards construction and tourism**, sectors with low value added and employment quality. In addition, the economy is **lacking the innovation capacity and internationally competitive industries**. The lack of monetary autonomy that facilitated access to

cheap money during the boom led to **excessive credit** and speculative growth of many financial institutions and savings banks via the real estate sector. This brought extremely high indebtedness among individuals, as well as companies, banks, and the state treasure.

A very serious problem is the **excessive bureaucracy** in the state administration. Spain has 17 autonomous communities that have many competences but no clear financial basis. This has led to an enormous growth in bureaucracy and space for corruption but has not improved the public services.

Another factor facilitating the growth of **corruption** was the municipalities' financing through licenses and building permits, which has now run dry but its political-administrative legacy will long restrain further economic and social growth.

The extraordinarily **polarised size of enterprises** is worsening the country's competitiveness. According to INE, 95% of all Spanish companies had fewer than 10 employees in 2012. There are few competitive large companies and almost non-existent stock of medium-sized companies, which would be necessary in terms of efficient competition and innovation.

Köhler and Calleja (2013) indicate further structural weaknesses of the Spanish economy, such as the **overwhelming tax system inducing shadow economy, underdeveloped occupational training, and huge energy waste.**

3.2 Labour market institutional environment

In this subchapter, the institutional environment of the Spanish labour market is going to be described. An inherent part of every developed economic system is a set of legislative measures that protects and promotes interests of all economic agents, in this case workers, employers, and government. This part of the thesis explains the fundamental problems typical for the Spanish labour market such as the insider-outsider divide, which is closely related to the labour market dualism. Furthermore, the main characteristics of collective bargaining and its main players will be introduced, as well as their approach to the insider-outsider theory.

3.2.1 Employment protection legislation

As stated by Barone (2001), the employment protection legislation (EPL) stands for "the entire set of regulations that place some limits to the faculties of firms to hire and fire workers, even if they are not grounded primarily in the law, but originate from the collective bargaining of the social partners, or are a consequence of court rulings." Among others, EPL includes rules favouring disadvantaged groups in the society, conditions for using temporary or fixed-term contracts, and training requirements – in case of hiring; and mandated pre-notification periods, severance payments, and redundancy procedures – in case of firing. There are various institutional arrangements that stipulate the employment protection, such as the labour

legislation, private market, collective bargaining arrangements, or the court interpretations of legislative and contractual provisions.

The quantification of countries' EPL is provided by OECD in order to measure and benchmark the EPL strictness (the so-called OECD Employment Protection Legislation Index). The OECD compiles indicators on the basis of the codification of 21 elements of legislation that can be divided in three main aspects – the protection of workers in case of individual dismissal, specific requirements for collective redundancies, and temporary forms of employment. It applies that strict EPL diminishes labour turnover and tends to reduce both job separations but also hiring rates. Hence, a strict EPL may be an important factor of high long-term unemployment rates (Europe 2020, n.d.).

3.2.2 Insider-outsider labour market

As a direct result of inappropriate distribution of EPL, an economic phenomenon called insider-outsider labour market arises. The insider-outsider theory of employment, developed by Lindbeck and Snower (2000), explains the existence and persistence of unemployment and “examines the behaviour of economic agents in markets where some participants have more privileged positions than others.” The “insiders” are incumbent workers who enjoy more favourable market opportunities than “outsiders”. The reason is the labour turnover cost that firms incur when replacing insiders by outsiders. The main obstacle for an outsider is the cost of hiring, training, and firing, but it can also be the insiders' attempts to resist competition with outsiders by refusing to cooperate with them, or afflicting outsiders who struggle to underbid the wages of insiders.

Figure 3 indicates how insiders use their advantageous position to push their wages above the market-clearing level. However, firms do not fire them because it would be too costly. Hence, even though the outsiders would be willing to work for lower wages, they do not achieve to be employed, hence the unemployment persists.

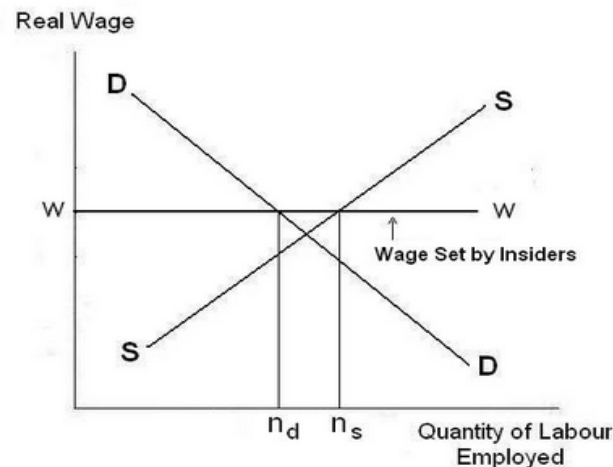


Fig. 3. Insider-outsider model

Source: University of Toronto, retrieved from

<http://www.economics.utoronto.ca/jfloyd/modules/ewio.html>

The insider-outsider divide applies to a number of cases – employed versus unemployed, workers on permanent versus temporary contracts, formal versus informal sector, skilled versus unskilled workers, and so forth.

3.2.3 Labour market dualism

The theory of labour market dualism is closely linked to the insider-outsider labour market. Piore (as cited in Crutchfield et al., 2006) explains that an economy can be divided into two sectors, primary and secondary, sometimes called formal and informal. Job stability and quality are essential differences between these two sectors.

Jobs in the **primary sector** are considered being “better” than in the secondary one, generating higher added value. Primary sector workers usually have better education and higher social status. They receive higher salaries while having better working conditions, more job security, stability, health benefits, pensions, training, and possibility of internal promotion.

On the other hand, the **secondary market** is characteristic for its short term employment offering, low wages, poor work conditions, and low or no job security and stability. Workers are usually unskilled with low education and can be replaced quickly. In this sector, there is basically no vision of job promotion. Given all these negative conditions, the moral and the motivation of workers in the secondary market are, expectedly, also very low.

Labour market dualism in Spain

As a job in the secondary market is much easier to terminate, it is obvious that in the times of recession or crisis, workers in the secondary market are those who

suffer the most. Given that the Spain's expansion in 1997-2007 was boosted by the construction sector that offers mainly temporary jobs, it was precisely the workers from secondary sector who suffered the most. According to the Spanish newspaper *El País* (2015), in 3Q 2007, which is considered the "best" year in terms of the Spanish unemployment, 2,773,100 workers were employed in the construction sector. Seven years later, in 4Q 2014, only 1,030,400 workers kept working in this sector. Hence, almost 1,750,000 construction workers were fired in this period.

According to Bentolila et al. (2012a), Spain, from historical reasons (see sub-chapter 3.1), is characterized by the dual nature of its labour market, i.e. there is a discrepancy between the level of EPL on primary (using permanent contracts) and secondary (with temporary contracts) market. Compared to other European countries, there has been registered more frequent use of temporary contracts, mainly due to their ease of termination and low severance pay in comparison with the highly protected permanent contracts, bearing high severance pay and hardly demonstrable fair dismissal. Within the last decade, the incidence of temporary employment oscillated around 28 %, meanwhile the average number for EA-19⁴ was usually oscillating around 15% (Eurostat). Sadly, the workers on temporary contract are those who fluctuate between employment and unemployment, much more than those working with indefinite contract.

3.2.4 Collective bargaining

Colosi and Berkeley (2006) claim that collective bargaining is a negotiation process between employers and workers. At national level, the employers are represented by employers' associations and the workers by labour unions (trade unions). The aim of this process is to determine the conditions of employment, such as wages, working hours, conditions, promotions, etc. In this part of the thesis, the country specific roles of both labour unions and employers' associations are going to be described. As discussed by Bentolila et al. (2012a), the collective bargaining setting in Spain exhibits the following features:

- low affiliation, between 15-20%;
- high coverage, around 80% of workers;
- an intermediate degree of coordination;
- proceedings mainly at the industry level;
- automatic extension towards all workers and firms within the bargaining scope;
- frequent wage indexation rules applying to around 65% of employees;

⁴ EA-19 is formed by the current 19 countries of the eurozone (2015). These countries are Austria, Belgium, Cyprus, Estonia, Finland, France, Germany, Greece, Ireland, Italy, Latvia, Luxembourg, Malta, the Netherlands, Portugal, Slovakia, Slovenia, Spain, and Lithuania, that entered on the 1st of January 2015.

- frequent social pacts between the bargaining partners with guidelines for wage increases;

3.2.5 Labour unions

Apart from the smaller regional ones, there are two major national labour unions in Spain – the social democratic **UGT**⁵ (*Unión General de Trabajadores* – General Workers’ Federation) and the post-communist **CCOO**⁶ (*Comisiones Obreras* – Confederation of Workers’ Commissions). Both of them encompass 11 industrial federations in all important branches and regions, with more than 1 million members in each one (Köhler and Calleja, 2013).

Bentolila et al. (2012a) claim that the affiliation to labour unions in Spain is very low (around 15-20%), because the industry-wide collective agreements are automatically extended to all workers regardless of affiliation status. If a labour union covers more than 10% of the total number of worker representatives in a given industry, it is considered “highly representative” and is allowed to participate in all bargains in the relevant domain.

Worker representative elections are held every four years. But how representative are the labour unions? According to Bentolila et al. (2012a), there are certain groups of workers that are not allowed to participate in firm-level elections. This concerns the following:

- firms up to 5 employees;
- workers employed for less than one month;
- workers on lease from temporary work agencies;
- unemployed workers;

According to Dolado et al. (as cited in Bentolila et al., 2012a), in 2007 these criteria excluded around 30% of all employees and 41% of workers aged 16 to 24. This can be supported by the already mentioned fact that 95% of all Spanish firms in 2012 employed up to 10 workers (Köhler and Calleja, 2013).

3.2.6 Employers’ associations

On the other side of the collective bargaining process there are employers represented at national level by the **Confederación Española de Organizaciones Empresariales** (CEOE). Founded in 1977, it is a private non-profit organization whose primary purpose is the protection and representation of business interests before the government and the society in general. It integrates around two million businesses and freelancers from all sectors, which are linked to CEOE through more

⁵ For more information about UGT see http://www.ugt.es/ugt/default_eng.aspx

⁶ For more information about CCOO see http://www.ccoo.es/cscceo/Conoce_CCOO>About_us

than 4,000 grassroots associations, as well as it integrates directly to 197 territorial and sectoral organizations at regional and provincial levels. It achieves that companies are represented by the double track of the sector they belong and the territory in which they are located. Small and medium enterprises (SMEs) have their national representative body in the *Confederación de la Pequeña y Mediana Empresa* (CEPYME) associated with CEOE.⁷

3.2.7 Active labour market policies

Spain, compared to EU-15, has very low level of expenditures on active labour market policies per unemployed worker. Estrada et al. (2011) argue that there is a big space for improvement in this field. A particularity of the country is that it puts a significant importance on rebates on social security contributions, while spending insufficient resources on training. Actually, the contracts with rebates formed nearly 10% in 2008, which was five times more than the European average.

Another important shortcoming of the Spanish ALMP is the insufficient development of mechanisms for assessment and result-based management, which leads to its low efficiency. According to the Employment Plan (2014), the central government coordinates and funds the decentralized ALMP system. It designs a set of active labour market programs and then provides the regions with resources, regardless of the programs' effectiveness or the regions' success in their implementation.

Besides, the current ALMP lacks modern communication and information technologies in the matching process between firms and workers that are already widely used in many other European countries.

3.2.8 Partial conclusion of the Spanish institutional environment

As argued by Bentolila et al. (2012a), besides dual EPL (bigger protection of permanent workers than of the temporary ones) the institutional setting of collective bargaining reinforces the Spanish labour market dualism. Even though the workers' affiliation is more frequent at the industry level, the trade unions can bargain on wages for the whole economy. Regarding the employer associations, it is mainly in control of large companies. In collective bargaining, those use their power to regulate and limit the competition by imposing wages and working conditions that extend to all firms, regardless of the representativeness of the union within the industry. The wages adjust quickly to the inflation due to the prevalence of wage indexation rules. In consequence, wages do not react to the actual needs of the market and become very rigid.

According to Lindbeck and Snower (2000), the insider-outsider theory helps to clarify the existence of labour unions. An insider's main interest is to maintain his secure job. Labour unions have the ability to increase labour turnover costs.

⁷ See CEOE at http://www.ceoe.es/es_corporativo.html?cat_id=164&#

They are also able to ensure other tools of rent-seeking which are only feasible if the workers are in unison, such as strikes, picket lines or work-to-rule activities. When an insider becomes outsider, he is excluded from the decision-making process of labour unions, which implies that the **labour unions work for insiders**.

It is now possible to answer the second research question - "What causes the high unemployment?" It is mainly caused by several factors that make the labour market very rigid. First, the divide between easily terminable temporary and highly protected permanent jobs set in the EPL, second the automatic extension of collectively bargained industry-wide agreements that impedes individual firms to flexibly adapt to the fast-changing environment, and last but not least are the inefficient ALMP that are obsolete and not result-oriented. These main factors cause excessive sensibility of the labour market when facing asymmetric shocks.

3.3 Shadow economy in Spain

The labour market rigidity that has been present in Spain for decades gave rise to the shadow economy, which can be divided into two categories:

- **Undeclared work**, meaning that firms do not declare work in order to spare the fiscal costs that a legal contract would bear. This accounts for roughly two-thirds of the shadow economy.
- **Underreporting** - reporting of only a part of the firms' income. This is especially present in businesses that deal heavily in cash (bars, shops, taxis).

According to the study of A.T. Kerney (2013), a big part of the economic activity in Spain in 2013 was performed within the area of shadow economy, forming more than **€190 billion**, which corresponds to **18.6% of the national GDP**. This is very close to the EU-27 average (18.4%), it is however significantly higher than other big European economies, such as Germany (13%), France (9.7%), or United Kingdom (9.9%).⁸ The sectors reporting the highest numbers of shadow economy in Spain are construction, manufacturing industry, and wholesale and retail sector. The size of the shadow economy correlates strongly to economic cycles, being more present during economic downturns. Firms skew to the shadow economy mainly because of the big tax burden, intense immigration flow, overwhelming regulation, and lack of ethic.

As announced in the Spanish newspaper *El Economista* (2014), **5% of Spaniards admitted that they work without contract**. In a society, the work without contract produces problems of inequality among citizens and impairment of rights of those workers hired without contract, as well as discrepancies in official economic statistics such as GDP, unemployment, etc. Jiménez and Martínez-Pardo

⁸ There are many studies dealing with this topic that display different numbers, varying between 18-30%, depending on the method used for its calculation.

(2013) argue that the undeclared work hinders tax collection, undermines the social security protection system, and encourages the unfair competition.

There are various actions adopted by governments when fighting against the shadow economy – dissuasive, based on the detection and punishment of the default, and incentive, which focus on fostering the transfer of undeclared work towards the declared one, trying to increase the social commitment to the official economy. The incentive actions comprise preventive, curative, and actions promoting greater citizen involvement.

3.4 Unemployment compensation

As Spain is struggling with an extraordinary high unemployment, it is important to clarify how the government deals with the situation of workers who have lost their jobs. There exist three ways of financial aid in unemployment – unemployment benefits, welfare benefits, and extraordinary aid (citapreviainem.es, 2014).

3.4.1 Unemployment benefits

These benefits are paid to an unemployed worker in case he has contributed to the social security while working. In citapreviainem.es (2014), which is the official web page of the Public Employment Service, states that in order to receive unemployment benefits, two requirements must be fulfilled, i.e. to be officially registered as unemployed in the labour office and to have accumulated social security contributions during at least 12 months (360 days) in the last 6 years. A worker then receives **70% of his previous net salary during the first six months, and consequently, from the seventh month he receives 50% of the previous net salary**. Regarding part-time jobs, the benefits are proportionally reduced, depending on the monthly amount of hours. There are some lower and upper limits of those benefits:

- Lower limits – €497 per month for unemployed workers without children and €664.74 with at least one child.
- Upper limits – €1087.18 per month for those without children and €1242.5 with at least one child.

For how long can the unemployment benefits be received? This depends on how many days a worker contributed during the last 6 years. The minimum amount of worked days in order to receive the benefits is one year (360 days). Table 1 represents the scheme of received unemployment benefits that vary by length of contribution.⁹

⁹ See unemployment benefits at <http://www.citapreviainem.es/prestacion-por-desempleo/>

Days of contribution	Days of benefits
360 - 539	120
540 - 719	180
720 - 899	240
900 - 1079	300
1080 - 1259	360
1260 - 1439	420
1440 - 1619	480
1620 - 1799	540
1800 - 1979	600
1980 - 2159	660
from 2160	720

Tab. 1 Length of benefits receiving according to the length of contribution
Source: Cita previa INEM, retrieved from <http://www.citapreviainem.es/prestacion-por-desempleo/>

3.4.2 Unemployment assistance

Assistance or allowance is a subsidy for unemployed workers who receive no unemployment benefits for not having contributed enough, or because they have already exhausted them and still have not found any job. Their income cannot surpass 75% of the minimum salary, i.e. cannot be higher than 486.45 € per month.¹⁰ The subsidies are 426 € per month corresponding to 80% of IPREM, which is a Multi-Purpose Public Income Index, an indicator used to calculate the grant of subsidies, aids, scholarships, and so forth. In 2015 it corresponds to €532.21 per month, €17.75 per day (iprem.com.es, 2015). The subsidies can be received between 6-30 months depending on the duration of contribution into social security and family circumstances.

Aimed for several groups of persons, they are distributed in the form of family allowances (for those with children aged younger than 26, spouse, or disabled children, who are dependent on them), allowance in case of insufficient contribution (for those who have contributed during less than 12 months in the last 6 years), and allowance for unemployed workers aged 45 and above and 55 and above (citapreviainem.es, 2014).¹¹

¹⁰ The minimum wage valid from the 1st of January 2015 is 648.6 € per month.

¹¹ See welfare benefits at <http://www.citapreviainem.es/prestaciones-ayudas-por-desempleo/>

3.4.3 Extraordinary aid

In *Cita previa INEM* (2014) states, that this kind of aid can be provided to workers who have exhausted all unemployment benefits and subsidies and their income is not superior to 75% of the minimum salary, i.e. 486.45 € per month. They are provided by several programs – the “*Plan Prepara*”, the “*Renta Activa de Inserción*” (RAI), and the “*Programa de Activación*”.

The “*Plan Prepara*”¹² consists of allowances of up to 450 € that can be provided only once for 6 inextensible months. The Council of Ministers agreed that this plan will remain in force until the unemployment rate is lower than 20%. An unemployed worker undertakes to receive training to qualify for other job opportunities. However, the lack of budget for training caused that only less than 6% of the unemployed achieve to find a job thanks to the Plan, which eventually became a social assistance with brief sessions of labour orientation.

The “*Renta Activa de Inserción*”¹³ (RAI) is an aid for unemployed workers in economic need who have great difficulties to re-enter the labour market. It is aimed to long-term unemployed workers aged 45 and above, returned emigrants (Spaniards who emigrated and returned to Spain) aged 45 and above, victims of gender or domestic violence, persons with disability equal or superior to 33%. The aid is 426 € and can be received up to 3 times for maximum 11 months each time.

The “*Programa de Activación*”¹⁴ is a new program valid from 15th January 2015 to 15th April 2016 that provides economic aid of 426 € per month during a maximum period of 6 months to long-term unemployed workers who, apart from fulfilling the general requirements to receive aid, are in a difficult family situation. The worker is committed to actively seek for job and is not allowed to refuse any suitable job offer proposed by the labour office. This program is aimed to help to more than 400,000 unemployed workers at the cost of €1,000-1,200 million.

3.5 Labour market reform from 2012

Bentolila et al. (2012b), claim that since the 1980's, 7 important labour market reforms (1984, 1994, 1997, 2001-2002, 2006, 2010, and 2011) and 52 additional minor legal changes were adopted aiming to reduce the EPL gap between permanent and temporary workers. They attempted to do so by either restricting the use of temporary contracts, or slightly reducing the severance pay for permanent contracts, while simultaneously increasing it for the temporary ones. Those reforms proved to be ineffective, taking into consideration that the dualism and high unemployment remained present during almost 3 decades (since 1984 the use of temporary contract oscillated around 28%).

¹² See Plan Prepara at <http://www.citapreviainem.es/plan-prepara-ayuda-400-euros/>

¹³ See Renta Activa de Inserción at <http://www.citapreviainem.es/renta-activa-de-insercion/>

¹⁴ See Programa de Activación at <http://www.citapreviainem.es/nueva-ayuda-parados/>

In February 2012, the Council of Ministers approved the newest labour market reform, elaborated by the right-wing government presided by Mariano Rajoy from People's Party (*Partido Popular*, PP).¹⁵ The reform consists of 17 measures that affect mainly the labour contracts and dismissals. It promotes flexicurity, which consists of flexibility of the labour market accompanied by high social protection of unemployed workers and effective system of active labour market policies. As stated in the official publication of the Ministry of Labour and Social Security (2012), the measures of the reform aim at fulfilling the following **objectives**:

1. Lay the foundations for the creation of stable employment so that the economic growth rapidly leads to job creation.
2. Bet on quality employment to break the dualism.
3. Support freelancers and SMEs providing greater flexibility and adaptation.
4. Stop in the short-term the massive job destruction offering alternatives to dismissal as a last resort.
5. Implement effective mechanisms of internal flexibility in companies to promote job retention.
6. Modernize collective bargaining to bring it to the specific needs of companies and workers.
7. Recognize new individual right of workers to training.
8. Increase opportunities for unemployed workers with particular attention to young and long-term unemployed.
9. Combine the efforts of all those who can collaborate in finding a job.

3.5.1 Content of the reform

The Royal Decree Law 3/2012, on urgent measures for the reform of the labour market,¹⁶ published on 11th of February 2012 in the Official State Gazette and brought into force on 12th February 2012, includes a set of measures grouped into five chapters and oriented to:

- promote the employability of workers, reforming aspects of job placement and vocational training (Chapter I);

¹⁵ Partido Popular is a conservative Christian democratic political party in Spain. It is one of two major political parties in Spain together with the Spanish Socialist Workers' Party (*Partido Socialista Obrero Español*, PSOE). PP was founded in 1989 and alternately gained and lost the elections versus PSOE. In 2011, PP won a clear victory with 44.6% of votes ("Spain Country Study Guide", 2012).

¹⁶ See BOE, Real Decreto-ley 3/2012 at <http://www.boe.es/boe/dias/2012/02/11/pdfs/BOE-A-2012-2076.pdf>. This document serves as a source for the entire subchapter 3.5.

- promote indefinite contracts and other forms of labour with special emphasis on promoting the recruitment by SMEs and of youth (Chapter II);
- encourage internal flexibility within the company as an alternative to the destruction of jobs (Chapter III);
- promote labour market efficiency as it is linked to the reduction of labour dualism, with measures that mainly affect the extinction of employment contracts (Chapter IV);
- amendments to the Regulatory Law on Social Jurisdiction (Chapter V);

A comprehensive overview of the new measures contained in each of the five chapters of the Royal Decree Law is described in this subchapter.

3.5.2 Chapter I: Measures to promote the employability of workers

Labour intermediation

The reform authorizes temporary work agencies to act like private recruitment agencies, in case these have a wide network of offices distributed in all territory and a broad experience in the labour market. The state labour offices did not prove to be effective enough. On the other hand, the private temporary work agencies dispose of good knowledge and easier access to the market.

Vocational training

Having more than **50% of youth unemployment** in 2012 (up to 25 years), Spain is leading the list of EU countries in this matter, followed by Greece, Portugal, and Italy (elmundo.es, 2012). With the purpose of increasing the young workers' possibilities of employment, the reform fosters vocational training through the modification of the contract for training and learning (*Contrato de Formación y Aprendizaje*). The contract can last between 1 and 3 years, but can be modified according to the firm's needs, if not inferior to 6 months and superior to 3 years. The maximum age to access this contract is 30 years, which holds until the unemployment rate decreases below 15% (before the reform's adoption it was up to 25 years). After exhausting the training period, the worker may use this type of contract in other sectors in order to improve his employability. He may receive training in the company, if it has appropriate facilities and personnel. In case the worker is hired with a permanent contract after the completion of his training, the company obtains a reduction on the social security contributions of 1,500 € per year (1,800 € for women) during 3 years.

3.5.3 Chapter II: Promotion of permanent contracts and other measures to promote job creation

Indefinite Contract to Support Entrepreneurs

This type of indefinite contract (*Contrato de apoyo a los emprendedores*) promotes hiring by freelancers and SMEs of up to 50 employees. The trial period is extended to 1 year. Firms that hire the first worker with this contract obtain tax deduction of 3,000 € in case this worker is under 30 years old. Additionally, firms that hire a recipient of unemployment benefits receive a tax deduction in the maximum period of 12 months, equivalent to 50% of the benefits that would otherwise belong to the worker. In this case, the worker can optionally receive 25% of the benefits along with his salary, or keep the whole amount of benefits for the future in case of job loss.

Regardless of the above mentioned tax incentives the firm obtains significant deductions on the social security tax in case of hiring unemployed workers for at least 3 years. The deductions vary from 3,300-4,500 € in 3 years depending on the worker's age and gender (young between 16 and 30, women underrepresented in given sector, workers older than 45 who are long-term unemployed), with the basic subsidy amounting to €1,000 in the first year, €1,100 second, and €1,200 third year.

Part-time contract

This contract was partly modified by the reform, stating that the part-time workers may work extra hours. These will be summed to the social security tax base. The modification facilitates a better harmonization with the studies and personal and family life.

Telework

Employees working at distance have the same rights as the employees working in the workplace. Additionally, the employer must ensure effective access of these workers to continuing vocational training in order to facilitate their professional development.

Bonuses for converting into permanent contracts

Firms up to 50 employees that transform the contracts of internship, relief, and substitution of early retired workers into permanent ones will receive a bonus of €500 per year (€700 for women) during 3 years on social security.

3.5.4 Chapter III: Measures to promote internal flexibility in companies as alternative to job destruction

This chapter deals with enhancing the **working flexibility within a firm regarding tasks, working time, hours, location, and salary**. This way, the reform tries to strengthen the mechanisms of the working conditions' adaptation to the specific circumstances of each firm's environment. These modifications can be only executed if occurs at least one of the following objective reasons that are related to competitiveness, productivity, or technical or work organization of the firm:

- **Economic reasons** – in case of negative economic situation such as the existence of actual or anticipated losses or persistent decline in income or sales. It implies that the decline is persistent if it occurs in two consecutive quarters.
- **Technical reasons** – changes of means or instruments of production.
- **Organizational reasons** – changes in working systems and methods of the personnel or in the manner of production organization.
- **Production reasons** – changes in demand for the products or services that the company intends to place on the market.
- **Force Majeure**.¹⁷

Through a collective agreement or, failing that, through an agreement between firm and workers' representatives, the **firm can introduce a series of changes**, such as:

- Professional classification system – the reform has removed the reference to “professional categories” and now refers to “professional groups” only, in order to provide firms with more flexibility in terms of changing workers' functions.
- Irregular working time distribution – even without a collective agreement, the firm may still unevenly distribute 5% of the working day throughout the year.
- Functional mobility – worker can be entrusted with tasks that are inferior or superior to his profession. If superior, the worker receives appropriate remuneration, and if inferior, he receives the original one.
- Geographic mobility – worker, if relocated, receives a compensation of both own expenses and those of his dependent family members.
- Substantial modification of working conditions – such as working hours, time and time distribution, shift work regime, remuneration system, and functions.
- Suspension of contract – is a temporary cessation of contract performance by either party to a contract for specific reasons defined in its terms and conditions.

¹⁷ Force Majeure is an event that is a result of the elements of nature, as opposed to one caused by human behaviour.

- Reduction of working hours – can be understood as a temporary reduction of between 10 and 70% of working hours.

In case the worker feels uncomfortable with the firm's decision, he has the right to rescind the contract and receive a compensation of 20 days' wage p.y.o.s. during maximum 12 months. If he does not opt for the contract rescission, he may challenge it before the labour court. The judgement declares whether the measure is justified or unjustified and in the latter case, it recognizes the worker's right to be reinstated in his previous conditions.

It is worth mentioning that the previous reform adopted in 2010 forced the firms to prove the concurrence of any of the causes mentioned above and to justify thereof the reasonability of the decision to terminate the contract in order to help to improve the firm's situation or prevent its negative development (noticias.juridicas.com, 2010).

Collective bargaining

One of the basic problems of the Spanish labour market lasting for several decades is the automatic extension of the industry-wide agreements, as mentioned by Bentalila et al. (2012a). In this part, the reform gives **priority to the agreements established at the firm level over the industry-wide agreements**, in order to alleviate to firms in difficulties. At the firm level, it applies for one firm's agreement, a collective agreement of a group of firms, or a plurality of firms related by organizational or productive reasons, that are identified by name in their scope of activity. These agreements can influence:

- quantity of base salary and wage supplements, including those related to the situation and results of the company;
- payment or compensation for overtime work and the specific remuneration of shifts;
- working hours and time, time distribution, regime of shifts, and the annual holiday planning;
- adaptation of the job classification system to the firm level;
- adaptation of the aspects of recruitment procedures to firm's agreements;
- measures to promote the reconciliation between work, family, and personal life;
- other matters having collective agreements at sectoral, state, or regional level;

A firm level agreement can be in effect for a maximum period of two years, and if a new one is not brought into force after this period, it will be replaced by a superior level (sectoral, state, or regional) agreement.

Measures to support contract suspension and working hours reduction

Firms are entitled to a bonus of 50% of the employer's social security contributions in situations of contract suspension or temporary reduction of working hours due to economic, technical, organizational, production, or Force Majeure reasons. Firms can only receive the bonus in case they undertake to save the affected workers' employment during at least one year after the end of the suspension or reduction. The bonus duration cannot be superior to 240 days per worker.

3.5.5 Chapter IV: Measures to promote labour market efficiency and reduce dualism

This chapter, considered the most impactful of the whole reform is devoted to the individual and especially collective dismissals, facilitating the termination of contracts and reducing its costs. These measures were adopted to increase the labour market efficiency and to reduce dualism.

As noted by Rodríguez (2013), before the reform was adopted, the so-called "**express dismissal**" (*despido expreso*) introduced by the reform in 2001-2002 and supported by a modification in the 2006 reform, was commonly used to terminate contracts. If the firm recognized that the dismissal was unfair, it was not obliged to bring it before the labour court, sparing the salary it would otherwise have to pay to the worker during the process. Having to pay only the compensation for unfair dismissals, many firms preferred to approach it this way. In the last few years, around 70% of the dismissals were made through the "express dismissal", making it almost free. Firms often opted for firing workers who spent least time in the firm in order to pay the littlest money possible, notwithstanding the workers' skills and abilities. The Real Decree Law 3/2012 eliminated this way of dismissal, aiming to reduce the workers' insecurity and restoring so the trust in jurisdiction.

Although the chapter IV deals mainly with permanent contracts, it is initiated reforming the conditions of the temporary ones. The change consists of the temporary suspension of the effect of the article embedded in the reform from 2011 that states that workers who have worked 24 months of 30 in one firm automatically acquire the status of permanent workers in that firm.

Collective dismissal

A collective dismissal is understood when the firm's decision affects a number of workers equal or greater than:

- 10 workers in the firms with less than 100 employees,
- 10% of the total number of workers in firms with 100-300 employees,
- 30 workers in firms with more than 300 employees.

It is no **longer obligatory for firms to get an authorization** when terminating the contracts collectively due to economic, technical, organizational, or production reasons. It is worth mentioning that the fair dismissals caused by one or more of the former objective reasons are compensated by **20 days' wage p.y.o.s.** This was already approved in the Real Decree-Law in 1995.¹⁸ The collective dismissal must be preceded by a period of consultation with the legal representatives of workers, not exceeding 30 calendar days or 15 days in the case of firms with less than 50 employees. Such consultation period shall cover the possibilities of avoiding or reducing collective redundancies and of mitigating the consequences.

When a firm that is not in bankruptcy proceeding initiates a collective dismissal that includes **workers aged 55 or above**, it is mandatory to pay the contributions to finance a special agreement in respect of these workers in the terms provided in General Law on Social Security.

When the collective dismissal takes place in a firm that is not in bankruptcy and it **affects more than 50 employees**, the firm must offer an outplacement plan through authorized relocation firms. This plan, designed for a minimum period of 6 months, shall include measures of vocational training and guidance, personal attention, and active job search. Firms that proceed to collective dismissals that affect **workers aged 50 years or above** are now required to carry out a financial contribution to the Treasury.

Unfair dismissal

When the **dismissal is declared unfair**, the firm, within 5 days from the notification of the judgement, may choose between reinstatement of the worker or payment of compensation equivalent to 33 days' wage p.y.o.s., with a maximum of 24 monthly instalments, prorated per month the periods shorter than one year.

In case the **firm opts for reinstatement**, the worker has the right to receive the salaries he ceased to receive from the date of dismissal to the date of judgement notification. If the **firm opts for compensation**, the worker starts or continues to receive his unemployment benefits. According to an article in *El País* (2012), before the reform was adopted the compensation for unfair dismissal was 45 days' wage p.y.o.s. with a maximum of 42 monthly instalments.

FOGASA

The Wage Guarantee Fund (*Fondo de Garantía Salarial*, FOGASA) is a "self administrative body attached to the Ministry of Labour and Social Security with legal personality and ability to act for compliance with the purposes set in the article 33 of the Workers' Statute."¹⁹ Its main purpose is to ensure the wage claim of workers in case of a firm's insolvency or bankruptcy.

¹⁸ See the labour reform from 1995 at http://noticias.juridicas.com/base_datos/Anterior/r28-rdleg1-1995.t1.html#a51

¹⁹ See FOGASA at <http://www.empleo.gob.es/fogasa/definicion.html>

FOGASA is funded by the firms' monthly contributions per each employed worker to the social security. When legally terminating a contract in firms with less than 25 employees, a compensation of **8 days p.y.o.s.** is paid to the worker by FOGASA, prorated per month the periods shorter than one year. Before the actual reform it paid 40% of the legal compensation corresponding to the worker (*Real Decreto-ley 1/1995, 1995*).

3.5.6 Amendments to Regulatory Law on Social Jurisdiction (Chapter V)

The final chapter of the reform deals with jurisdiction, competences, procedural actions and rules, legal remedies, and enforcement of judgements. Taking into consideration that these measures concern executive power and do not introduce any major changes in labour legislation, they will not be analyzed.

3.5.7 Summary of the reform

Table 2 represents a brief overview of the most important changes brought by the previously described labour market reform adopted in 2012.

Matter of change	Measure
Temporary work agencies	Can intermediate labour.
Contract for training and learning	Maximum age for this contract is 30, until the unemployment rate stands below 15%. Social security reduction for up to 3 years.
Indefinite contract to support entrepreneurs	Intended for firms with less than 50 employees. Trial period of 1 year. Hiring tax incentives and rebates on social security.
Transformation to indefinite contracts	Social security rebates when converting contracts of internship, relief, or substitution of early retired workers into permanent contracts in firms with less than 50 employees.
Internal flexibility	Modification of working tasks, time and time distribution, hours, location, salary, or temporary suspension of contract. No justification of firms.
Objective reasons	Specification of economic, technical, organizational, and production reasons to modify, suspend, or cancel the contract.
Collective negotiation	Priority to firm level agreements (valid for maximum 2 years) over the industry-wide agreements. Possibility to opt-out when occurrence of objective reasons.
Temporary contract	Re-instatement of maximum period of 24 months of 30 within one firm with temporary contract.
Dismissals	No need of previous administrative authorization.

Unfair dismissal	Reduction of compensation for unfair dismissal from 45 to 33 days' wage p.y.o.s. with maximum 24 monthly instalments.
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Tab. 2 Summary of the reform's most important changes

3.5.8 Evaluation of the 2012 reform

After the reform's approval, many opinions on its topic arose from different sources, some of them very contradictory. According to the newspaper *El País* (2012), the CEOE (employers' association) claimed that it was a step forward and highlighted it as absolutely essential for the modernization of the labour legislation.²⁰ On the other hand, the labour unions (UGT and CCOO) subjected the reform to strong criticism, arguing that workers' rights had never been so suppressed before. The unions convened a general strike and many manifestations took place across all the country.²¹

There are various approaches to the reform in different economic studies. Dolado (2012) and Lahera (2012) agree that there is a significant shift in bargaining power away from workers and towards employers. However, this creates a certain asymmetry between the initiation and termination of contracts, skewing more toward flexibility on the termination side and lacking the same initiative on the hiring side. Hence, it is not sure whether the reform will induce bigger use of indefinite contracts. Something similar is argued by Bentolila et al. (2012b) who say that the reform has a greater impact on regulating the termination of a labour contract than on hiring, changing substantially the legal regime of layoffs, facilitating the extinction and reducing costs.

Dolado (2012) argues that it is essential to enhance productivity growth in order to restore internal demand and employment growth. He approves the reform claiming that with the relaxation of collective bargaining it can finally restore the so necessary wage adjustment in the rigid labour market. Regarding collective dismissals, there has been an OECD study of the reform (2013) that proposes that the discretionary role of courts to invalidate dismissals should be further reduced, restricting it only to cases of discrimination and prohibited grounds in order to settle more equality of individual and collective dismissals.

Dolado (2012) indicates that another important shortcoming of the reform is the insufficient action in the suppression of dualism. The EPL gap has been reduced but is still large – 12 days' wage per year of service for temporary contracts in 2015 versus 20 days' wage p.y.o.s. (fair dismissal) and 33 days' wage (unfair dismissal) for indefinite contracts. The OECD study (2013) suggests further convergence of firms' costs of termination for permanent and temporary contract,

²⁰ For more information about the opinions of different political parties and social partners see http://economia.elpais.com/economia/2012/02/10/actualidad/1328890369_084261.html

²¹ For more information about the manifestations see

http://economia.elpais.com/economia/2012/02/19/actualidad/1329646121_782015.html

given that even after the massive destruction of temporary contracts since 2008, they still held for around one quarter of all used contracts in 2012.

Regarding the one year trial period for firms with fewer than 50 employees, OECD (2013) recommends to broaden its application to all firms. Currently firms with more than 50 employees find the trial period too short (6 months for licensed technician and 2 months for the rest of employees) and use the temporary contract in order to achieve more flexibility. On the other hand, Dolado (2012) and Lahera (2012) promote the use of a single open-ended contract, the so-called Equal Opportunities Contract (EOC), and at the same time the abolition of temporary contract. The characteristics of EOC would be no ex-ante time limit and smooth increase of severance payment with seniority. Unlike the current regulation of permanent and temporary contracts, EOC would provide a sufficiently long entry phase and at the same time a smooth rise in protection as job tenure increases.

As a defect of the reform can be considered the lack of changes in unemployment insurance, and only limited changes in active labour market policies (ALMP). The reform establishes many subsidies, which however have a negligible impact on job creation due to their large deadweight losses and substitution or displacement effects. These subsidies were already present in 2009, with Spain having 32% share of ALMP in them, versus 16% as OECD average. Dolado (2012) argues that it should be invested more in training than on subsidies which will prove too costly in terms of the planned reduction in the Government budget.

Meanwhile the reform announces measures to promote training of employees it barely modifies the training programs for the unemployed and does not ask for a thorough evaluation of the ALMP effectiveness. However, it does break up the monopoly of labour unions and employer associations as the only beneficiaries of subsidies for training programs, which was a situation that led to many fraudulent practices in the past. According to OECD (2013), a further integration of active and passive labour market policies is necessary in order to improve the labour market.

3.5.9 Partial conclusion of the labour market reform from 2012

To conclude, the announced reform from 2012 provides internal flexibility and flexibility on the termination side, relaxing the rules for dismissals and lowering the firing costs. However, it fails to enhance flexibility on the hiring side, and therefore to foster job creation, because it lacks necessary improvements of the active and passive labour market policies, such as training of the unemployed and shorter and higher unemployment benefits. Even though the reform can be considered as an improvement, the authors of relevant monographic studies presented above assume that it may require further actions in order to fulfil its objectives.

3.6 Conclusion of the Spanish labour market

In this chapter were introduced the important facts about the Spanish economy, with a special focus on its labour market. At the very beginning it was necessary to

present the historical sequence of events that were important for the creation of the today's Spain. Many things changed since the times of Francisco Franco's dictatorship. However, some aspects of the labour market, such as the one-sided EPL and ineffective setting of the social dialog that lead to the labour market rigidity still remain. Precisely the social dialog between trade unions and employers' associations, together with the economic theories of labour market division (insider-outsider theory, labour market dualism), shadow economy as a consequence of wrong labour market setting, and inefficient active labour market policies were explained in the part dealing with the Spanish institutional environment. Furthermore were introduced the different kinds of financial support in unemployment provided by the State Public Employment Service (SEPE). The last part of this chapter dealt with the Spanish labour market reform from 2012. Although the reform tries to improve the labour market efficiency and to give incentives to hiring on permanent contracts, the main changes brought by the reform are related to both individual and collective dismissals, reducing its costs, clarifying the causes of fair dismissals, and giving more rights to the employers' side. Whether this reform has been performing effectively will be analyzed in the practical part of this thesis.

4 Hartz reforms

4.1 Introduction to the Hartz reforms

Until here I have described the aspects of the Spanish labour market that are essential for this thesis. Its partial objective is to describe and analyze the German labour market reforms adopted between the years 2003 and 2005, the so-called Hartz reforms, in order to compare the results of these reforms with the Spanish reform adopted in 2012. In this part of the thesis I will introduce the Hartz reforms, describe the historical circumstances that led to their implementation, present the changes implemented through them, and evaluate whether these have been fulfilling their purpose or not.

4.2 What led to Hartz reforms creation?

After the unification of West and East Germany in 1990, the country was struggling with serious structural problems for more than a decade (see figure 4). According to Michnová (2014), the main reason is considered the establishment of monetary union, with 1:1 exchange rate of East and West Deutschmark in order to equalize the living standards and to avoid massive migration from the East to West. However, the situation in East Germany was very different from the one in the West. Used to the centrally planned economy, East Germany's main characteristics were low productivity, obsolete production systems, and bad working culture. By the unification, the wages in East Germany rose, but many structural problems arose with them, such as increasing unemployment and inflation, low GDP growth, and negative balance of payments.

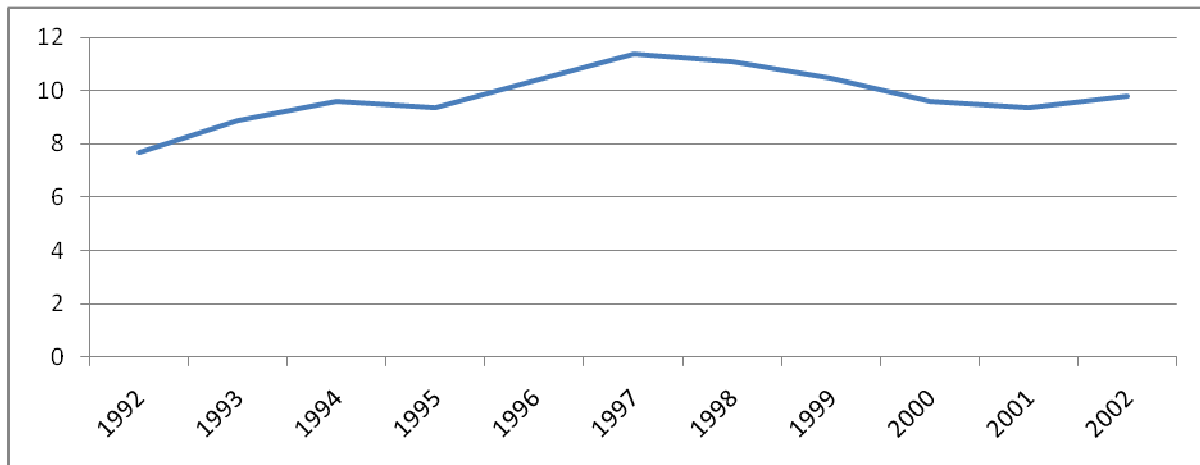


Fig. 4. Unemployment rate in Germany (1992-2002)

Source: Destatis, Statistisches Bundesamt²², retrieved from

<https://www.destatis.de/EN/FactsFigures/Indicators/LongTermSeries/LabourMarket/lrab001.html>

As mentioned by Jacobi and Kluge (2006), the country tried to solve its problems by transferring financial aids and subsidies to East Germany. But the unemployment in East Germany kept rising and so the dependence on federal subsidies and transfer payments. Peculiarity of the German social system is that the duration of unemployment benefit payments was unlimited, given that the unemployment benefits based on the previous salary (67% with and 60% without children) were paid during 32 months, and thereafter the unemployment assistance was paid without time limits, in amount of 57% (53%). As the government budget was tightening and the social security system ran the risk of financial collapse, increasing pressures were made on the government to halt this worsening situation and to bring appropriate measures to improve the German economy.

Finally in February 2002, the German chancellor Gerhard Schröder designated a group of independent professionals whose purpose was to design an efficient package of labour market reforms (Michnová, 2014).

4.3 Hartz reforms formation

Fahr and Sunde (2009) indicate that the Hartz commission, named after its chairman Peter Hartz (at the time personnel manager at Volkswagen), came up with a series of comprehensive modifications of active and passive labour market policies. The proposal consisted of 13 innovation modules that were then implemented in the so-called “Laws for a modern provision of services in the labour market” (*Gesetze für moderne Dienstleistungen am Arbeitsmarkt*). Known as Hartz I-IV, these consisted of four laws that were subsequently implemented during the

²² There is different evidence of unemployment related to different sources (e.g. ILO or Federal Employment Agency, etc.)

period of 2003-2005. First it was Hartz I and II in 2003, then Hartz III in 2004, and finally Hartz IV in 2005. According to Jacobi and Kluge (2006), the cornerstones of the reforms were to:

- Increase effectiveness and efficiency of labour market services and policy measures.
- Activate the unemployed by enforcing the principle of “rights and duties” (*Fördern und Fordern*).
- Foster employment demand by labour market deregulation.

4.4 What was necessary to change by the reforms?

First of all, it was essential to reorganize the former labour institutions. Secondly, to make the formerly rigid labour market more flexible by modernizing collective agreements, where more decision-making power would be given to employers and at the same time to decrease the worker’s protection from dismissal. Thirdly, there was a need for adoption of flexible forms of employment, such as temporary and part-time jobs. With the population getting older, it was necessary to adjust the labour market policy with more engagement of productive population, especially young, mothers, and older workers. Finally, in order to enhance the motivation of unemployed workers, there was a need for change of unemployment benefits policy (Michnová, 2014).

4.5 Hartz I

The first Hartz law was adopted the 1st January 2003 and contains a set of measures aimed at improving the performance of placement services and policy programmes such as vocational training and subsistence payments. Its instruments are described in the following text.

Staff Services agencies (PSAs)

PSAs (*Personal Service Agenturen*) are special subsidized temporary employment agencies that serve for a quick labour intermediation. According to Votrubová (2006), the main aim of a PSA is to integrate workers to the labour market, increase their productivity, and chances of hiring on indefinite contract. It does so by providing customer firms with temporary personnel. The worker is employed by PSA and is “lent” to firms that need more labour. In the time the worker does not work for any firm, he attends requalification and other trainings that are provided by PSA. When fulfilling the requirements, it can be run by a private company. Votrubová (2006) indicates that the reform ordered to every State Employment Agency (*Agentur für Arbeit*) to establish at least one PSA, but after the change of law the 1st January 2006 this obligation ended.

Notification obligation and financial support deduction

This instrument is devoted to persons who will soon end their studies of current job. These persons have the obligation to notify (*Meldepflicht*) this to the Employment Agency at least 3 months before the planned end or up to 3 days from the dismissal notice. The time between the notification and the end date shall be used for a new job search and eventually for a further training (Michnová, 2014).

In case the worker fails to comply with the notification obligation he might be penalized by a deduction of the financial support he receives (*Sperrzeit*). This applies also for workers who refuse an offered job placement, lost their job because of their undue behaviour, or do not collaborate with the Employment Agency in finding a new job. Depending on the gravity of the breach, the deduction may be from 1 to 12 weeks of financial support (Michnová, 2014).

Support for further education

The support for further education (*Förderung der beruflichen Weiterbildung*) is aimed to unqualified workers who may lose their job because of the lack of qualification. The workers then receive an education voucher (*Bildungsgutschein*) and are free to choose the provider of education. The Employment Agency pays the related costs such as the training itself, travel, accommodation, food, and childcare (Michnová, 2014).

4.6 Hartz II

The second Hartz law adopted 1st January 2003 introduced the so-called Minijobs and Midijobs, which are low-paid jobs with no or reduced taxes and insurance payments. It also established a special program of entrepreneurs, known as the “Ich-AG” (Me, Inc.). These new forms of employment are aimed to fight against unemployment as well as to decrease the level of shadow economy within low-paid jobs. It also gave rise to job centres which should improve the matching between the unemployed and firms with vacancies (Fahr and Sunde, 2009).

Minijob

Minijob or “450 Euro Job” is a special part-time form of employment with a maximum monthly payment of maximum €450. It is very popular especially within households, but also within commercial businesses. For “Minijobbers” (workers with a minijob contract), the minijobs are exempted from taxes and social security contributions. However, if the monthly income exceeds €450, the worker is obliged to pay the social security contributions (Michnová, 2014).

According to the official website of Hartz reforms,²³ the employer has to pay the social security flat fee in amount of 12% in private households and 25% in com-

²³ See Hartz II at <http://www.hartz-iv-iii-ii-i.de/hartz-ii.html>

mercial businesses, which contains taxes and pension and sickness insurance. A worker can have a minijob as a supplementary income or can have more minijobs at the same time, but then he has to pay taxes and social security contributions.

Midijob

Midijob is similar to Minijob but with higher income level, which is situated between 450 and 850 € per months. Regarding worker's social security contributions, the income falls into the so-called *Gleitzone*, where the contributions gradually increase from zero to full contributions according to the given *Gleitzone*.²⁴ The advantages of Midijobs against Minijobs are full unemployment benefits,²⁵ sick pay, higher pension benefits, and maternity allowances ("*Der 850 Euro Job*", 2014).²⁶

Ich-AG (Familien-AG)

Translated by Jacobi and Kluge (2006) as "Me, Inc.", this form of self-employment was especially designed for unemployed persons who wanted to start their own business. The self-employed could receive one of the two following subsidies from the Employment Agency. The so-called *Existenzgründungszuschuss* (ExGZ) was provided for a maximum period of 3 years. In the first year the self-employed received €600 per month, in the second year €360, and the third year it was €240. During the subsidy receiving, the self-employed could not exceed the income of €25,000 per year. *Familien-AG* was similar to Ich-AG, but with the possibility to employ a relative.

The other subsidy for self-employed was *Überbrückungsgeld* (ÜG), which was provided for only 6 months and there were no income limits. With this subsidy it was possible to employ not only a family member. The difference between ExGZ and ÜG indicated by Michnová (2014) were that the latter was assigned as a transition allowance to more qualified applicants who were able to reach higher incomes sooner. In case of ExGZ it was more likely a slower business expansion with lower incomes.

According to the study of European Monitoring Centre of Change (2013), these two subsidies were merged the 1st of August 2006 in the so-called *Gründungszuschuss* ("start-up premium"). The conditions to achieve this subsidy is to receive unemployment benefits during at least 150 days prior to the day of the start of the business, work on the business at least 15 hours per week, show sufficient knowledge to run the business (eventually to do a training), and prove the economic sustainability of the activity. Meanwhile the applicant keeps receiving his unemployment benefits, he gets a grant of €300 for social security during the first

²⁴ See *Gleitzone* of Midijobs at <http://www.jobmensa.de/ratgeber/arbeitsmodelle/850-Euro-Job>

²⁵ A worker can receive unemployment benefits after contributing to the social security for at least 12 months from two years.

²⁶ Maternity allowance paid by the State Health Insurance is €13 per day.

six months, and if after this period he proves full time business activity and initial success, the €300 for social security are provided to him for another 9 months.

4.7 Hartz III

The third Hartz law that came into effect the 1st January 2004 was aimed at restructuring and reforming the federal employment agencies and their local employment offices into modern providers with agency model. Their names were changed from Federal Labour Institution (*Bundesanstalt für Arbeit*) and local Labour Institution (*Arbeitsamt*), to Employment Agency (*Bundesagentur für Arbeit* or local *Agentur für Arbeit*) (Fahr and Sunde, 2009). The goal was to modernize their services, making them more transparent, easier, faster, and more flexible. Following the law proposal, there is one headquarters located in Nurnberg, 10 regional offices, 156 local Employment Agencies (*Agentur für Arbeit*), and finally 304 Jobcentres. They are now based on results, having to fulfil given quantitative goals, and benchmarking themselves. The Jobcentres were changed into customer-oriented one-stop-centres, where the unemployed find all the information and care (Michnová, 2014).

Among the changes brought with Hartz III are also subsidies for firms who employ workers who have difficulties to enter the labour market. Another measure was the creation of jobs subsidized from the state investments. However, this measure was cancelled in April 2012 because of its rather negative impact on the later transition to a non-subsidized job, and replaced by the so-called *Ein Euro Job* (described in chapter 4.8 Hartz IV)

As a job protection, the Hartz III also modified a subsidy for workers who may lose their job because of firm's lower income, the so-called *Kurzarbeit*. Instead of dismissing them, their working hours are reduced and the Employment Agency pays the difference. In the meantime it assists the given workers with a new job search, provides them with trainings, and eventually with consulting in case they start their own business (Michnová, 2014).

4.8 Hartz IV

The last Hartz law that became effective on 1st January 2005 is the most debated package. According to Ochel (2005), the main characteristics of the reform are the significant reduction of duration and amount of unemployment benefits, the combination of unemployment and social assistance, stricter sanction if acceptable work is refused, and the expansion of jobs in community service (*Ein Euro job*).

As already mentioned, prior to the reform the unemployment assistance for long-term unemployed was relatively generous, amounting to 53% (57% with children) of the previous net salary. Ochel (2005) indicates that with Hartz IV, the unemployment assistance for long-term unemployed (*Arbeitslosenhilfe*) and social assistance (*Socialhilfe*) were merged into a single subsidy called *Arbeitslosengeld II*

(ALG II). This should lead to a bigger transparency of transfers and lower administrative costs.

ALG II is meant for unemployed workers who have already exhausted their unemployment benefits (ALG I) or have never had the right to receive them because of insufficient contribution to the social security. ALG I is a regular unemployment benefit that is received during a maximum period of 12 months (24 months for unemployed aged 58 and above) and is in the amount of 60% (67% with children) of the previous net salary. After ALG I comes ALG II, comprising €399 per month in 2015, which should cover basic needs such as food, clothes and shoes, energy, transport, but also leisure and culture.²⁷ Housing and health care are not included, and if needed it is paid as another financial assistance.

Both unemployment benefits are based on a principle of “rights and duties” called *Fördern und Fordern*. The Employment Agency concludes a contract with the claimant about the obligations he has to fulfil to improve his job situation. The claimant is bound to take his own responsibility and actively seek job. This implies that he shall even accept jobs that he considers worse than the previous one, more distant, with worse working conditions or lower salary. In case he refuses the acceptable work, training, or community service, he is penalized in form of reduction or entire elimination of received unemployment benefits (Ochel, 2015).

ALG II is also compatible with low income employment, i.e. when the claimant earns up to €100 he receives full ALG II, if he earns €100-800 he gets 20% of ALG II, and in case he earns €800-1200 (€1500 with children), he receives 10% of ALG II.

Hartz IV further introduced the so-called *Ein Euro Job* which is an instrument paid from public resources aimed at reintegration and increase of employability of unemployed workers who receive ALG II and have difficulties to enter the labour market. With *Ein Euro Job* these workers have the possibility to increase their incomes by working 15-30 hours per week in community services, such as gardening, maintenance of greenery, or street cleaning, with 1 or 2 € salary per hour. This form of employment usually last 6-9 months (can be repeated), and serves for the worker's adaptation to everyday work life (Michnová, 2014).

4.9 How effective were the Hartz reforms?

The four Hartz laws described above aimed at lowering the unemployment and increasing the flexibility of the German labour market. They are considered the most impactful labour market reforms in the German history. To what extent were the reforms effective is described in the below text.

²⁷ See Hartz IV at <http://www.hartziv.org/regelbedarf.html>

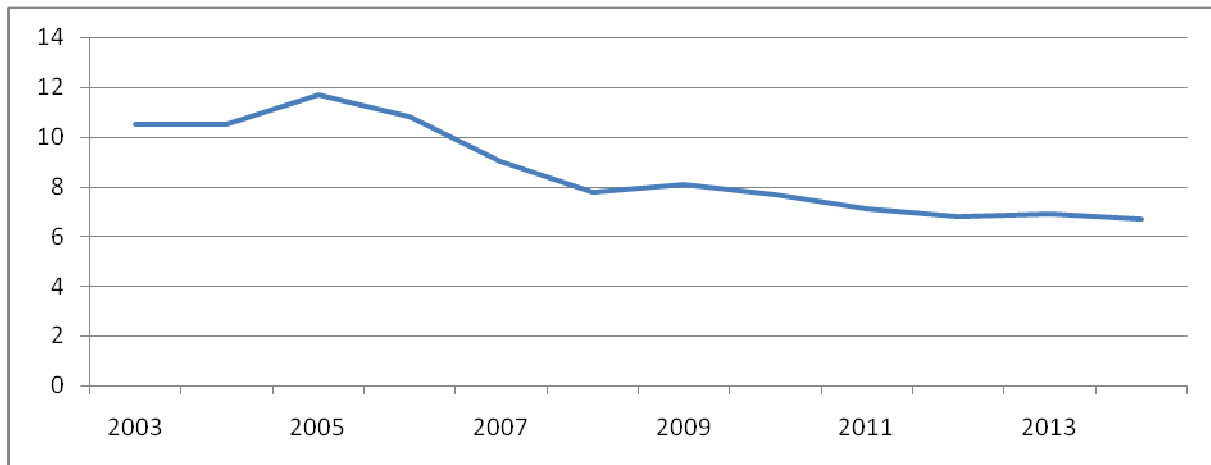


Fig. 5. Unemployment rate in Germany (2003-2014)

Source: Destatis, Statistisches Bundesamt, retrieved from

<https://www.destatis.de/EN/FactsFigures/Indicators/LongTermSeries/LabourMarket/lrab001.html>

Economic consequences of the reforms can be considered positive due to the modernization of collective bargaining that led to a greater flexibility as well as to an increasing productivity. The wage costs in the period 2000-2012 increased €1.9 per hour, meanwhile the average wage costs increase in EU-27 in the same period was amounted to €3.2 per hour. These two factors, increasing productivity and stagnating wage costs, restored Germany's international competitiveness.

The introduction of low-paid forms of employment was essential for the integration of workers with difficulties to enter the labour market. These forms of employment became very popular, taking into consideration the study of *Institut Arbeit und Qualifikation* (IAQ, 2014) indicating that in the year of their implementation (2003), 6.1 million workers were employed with low-paid contract, and in 2013 it was 7.7 million workers. The increase in popularity also applies for part-time jobs, which used 3.9 million workers in 2000 and 7.5 millions in 2013.

The increased motivation that should be obtained by the introduction of Hartz IV, notably reducing the unemployment assistance and imposing sanctions on those who reject an acceptable job or training, contributed to the decrease of long-term unemployed (more than one year). According to Michnová (2014), the long-term unemployed formed 33.1% of all unemployed in 2002 and only 4.6% in 2012.

The reforms also successfully modified the labour market policy with a special focus on older workers (55-65 years old), although it will be necessary to focus on this group of workers in the future due to the population aging. Their share on total unemployment decreased from 18.5% in 2001 to 7.8% in 2012.

Regarding *Kurzarbeit*, which is the temporary salary compensation when reduced working hours in times of lower demand, it was especially used in 2008 and 2009 with the hit of the crisis. Meanwhile in other European countries (especially

Spain) the crisis led to a massive increase in unemployment, Germany invested more than €5 billion in 2009 into this instrument, saving 321,000 workers from losing their job (Michnová, 2014).

According to Michnová (2014) the country's GDP in the past was mainly driven by the positive balance of payments meanwhile the domestic demand was modest due to the stagnating wage increase. Nowadays the German exports do not contribute to GDP as much as in the past, but on the other hand, the domestic demand and investment does contribute increasingly. This should be supported by the fact that in January 2015 was introduced the official minimum wage of €8.50 per hour (*"Germany approves first-ever national minimum wage"*, 2014).²⁸

A problem of the German economy is the increasing labour market dualism caused by the expansion of alternative forms of employment such as low-paid and temporary work, accounting for 13.3 million workers in 2013, which is almost one third of the total dependent workers (IAQ, 2014). The alternative forms of employment were supposed to increase the possibilities of employment for workers with difficulties to enter the labour market (long-term unemployed, low-skilled). In this aspect the reform was successful. However, there are some limitations regarding the quality of given jobs and the upward mobility of workers in alternative employment (Eichhorst, 2015).

Another aspect of the German labour market that goes hand in hand with the low paid job is the increasing number of workers whose income is not sufficient to cover their living needs and have to receive subsidies from the Employment Agency. Michnová (2014) claims that the number of these workers increased from 23.12% in 2007 to 29.79% in 2013.

To conclude, the Hartz reforms can be considered successful in increasing Germany's competitiveness, decreasing unemployment, and making the labour market more flexible. Nevertheless, the expansion of alternative forms of employment also deepened the social divide among workers in these employments and regular full-time employees, which will have to be solved in the future.

4.10 Partial conclusion – Hartz reforms

In this part of the thesis, the Hartz reforms implemented in Germany during the years 2003-2005 were described. They were adopted because of the worsening situation of unemployment in the German labour market since the reunification of West and East Germany. The reforms, comprising of four laws aiming at modernization of the formerly rigid labour market were supposed to increase the efficiency of labour market services and policy measures, activate the unemployed workers with the system of "rights and duties", and to deregulate the labour market in order to enhance employment.

²⁸ See more about the minimum wage in Germany at <http://www.bbc.com/news/business-28140594>

The first Hartz law was focused on labour intermediation through temporary work agencies, enhancing further training for workers, and imposing the notification obligation of workers who will soon find themselves without job. The second Hartz law introduced new forms of employment such as Minijob, Midijob, and the support of self-employed – Ich-AG. Hartz III mainly changes the organizational structure of the labour market institutions, making them more transparent, faster, and more efficient. It also presented subsidies for firms which employ worse employable workers, and increased the protection of workers in times of lower demand, whose working hours were reduced with the Employment Agency funding the difference between the original and reduced salary. The most discussed reform is the fourth Hartz law that significantly cut the unemployment benefits for long-term unemployed and imposed sanctions on workers who refuse offered job.

The answer to the third research question (“Were the Hartz reforms effective in Germany?”) is yes. The reforms were considered successful, given that the unemployment decreased significantly and the country restored its competitiveness on international level. There is however an increasing divide among workers with low-paid or temporary jobs and regular full-time jobs, which will present a serious social problem in the future.

The description and analysis of Hartz reforms was important for the comparison between them and the Spanish reform introduced in 2012 that will be performed in the practical part, fulfilling so the partial objective of this thesis.

5 Practical part

The empirical part of this thesis is devoted to evaluating the impacts of the Spanish reform from 2012 on the country's labour market. It will be realized through the analysis of labour market indicators regarding each of the reform's objectives.

In order to perform the analysis, the relevant data from several statistical institutions (OECD, INE, Ministry of Labour and Social Security, State Public Employment Service) will be used. The evolution being examined will start in 2008, the year of the beginning of the world financial and economical crisis and especially the year of economic turnover in Spain.

According to the official publication of the Ministry of Labour and Social Security (2012), the reform's measures aim to fulfil these nine **objectives**:

1. Lay the foundations for the creation of stable employment so that the economic growth rapidly leads to job creation.
2. Bet on quality employment to break the dualism.
3. Support freelancers and SMEs, providing greater flexibility and adaptation.
4. Stop in the short-term the massive job destruction offering alternatives to dismissal as a last resort.
5. Implement effective mechanisms of internal flexibility in companies to promote job retention.
6. Modernize the collective bargaining to bring it to the specific needs of companies and workers.
7. Recognize new individual right of workers to training.
8. Increase opportunities for unemployed workers with particular attention to young and long-term unemployed.
9. Combine the efforts of all those who can collaborate in finding a job.

5.1 First and second objective

- Lay the foundations for the creation of stable employment so that the economic growth rapidly leads to job creation.
- Bet on quality employment to break the dualism.

The first two objectives of the reform attempt to enhance employment growth with a special focus on hiring on indefinite contracts and so reduce the labour market dualism. The main instruments to fulfil them meant to be the new indefinite contract to support entrepreneurs, a better regulation of part-time contracts

that should enhance their use, but also the modification of employment protection, which should provide less risk to employers when hiring new workers.

Hiring rates

	2008	2009	2010	2011	2012	2013	2014	2015
Permanent	11.39%	9.41%	8.55%	7.74%	9.87%	7.78%	8.09%	9.30%
Converted	41.28%	39.79%	40.16%	41.73%	29.61%	35.45%	30.99%	31.56%

Tab. 3 Average share of permanent registered contracts over total registered contracts, and share of converted registered contracts over total permanent registered contracts (2008-2015)

Source: Ministry of Labour and Social Security

Note: Data for 2015 correspond to the months of January and February

Since 2008, the share of permanent contracts over total contracts was steadily decreasing, with a significant increase in 2012. In 2013 the hiring on permanent contract was very similar to the one in 2011 even though the situation on the labour market was more severe, and since then the ratio grew again. The data for 2015 are available only for the first two months of the year, with over 1.2 million total contracts and roughly 120 thousand indefinite contracts signed in February. It is possible to deduce that without the reform the hiring rates on permanent contract would be lower.

Regarding the indefinite contracts that were converted from the temporary ones, although there was a deep decline in 2012, their share is slightly increasing again over time. Since 2012, there have been in average 34,000 converted contracts per month.

The statement that the hiring rate has improved over time can be backed by figure 6, which shows the number of workers being employed during less than 3 months in their actual job. Despite the dip in 2013, the polynomial trendline indicates that the number of new hires has been increasing since then. These data provide clearer evidence on the hiring evolution because they show how many workers have actually worked after signing the contract. The last data are from the fourth quarter of 2014 with almost 1.1 million workers employed less than 3 months in their current work.

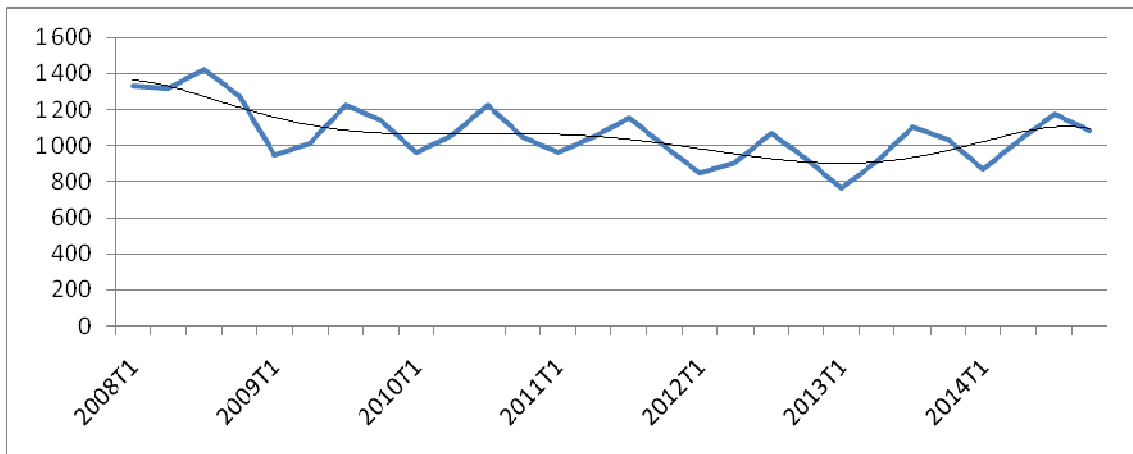


Fig. 6. Workers employed in their current job for less than 3 months (2008-2014, quarterly data)
Source: INE

Part-time contracts

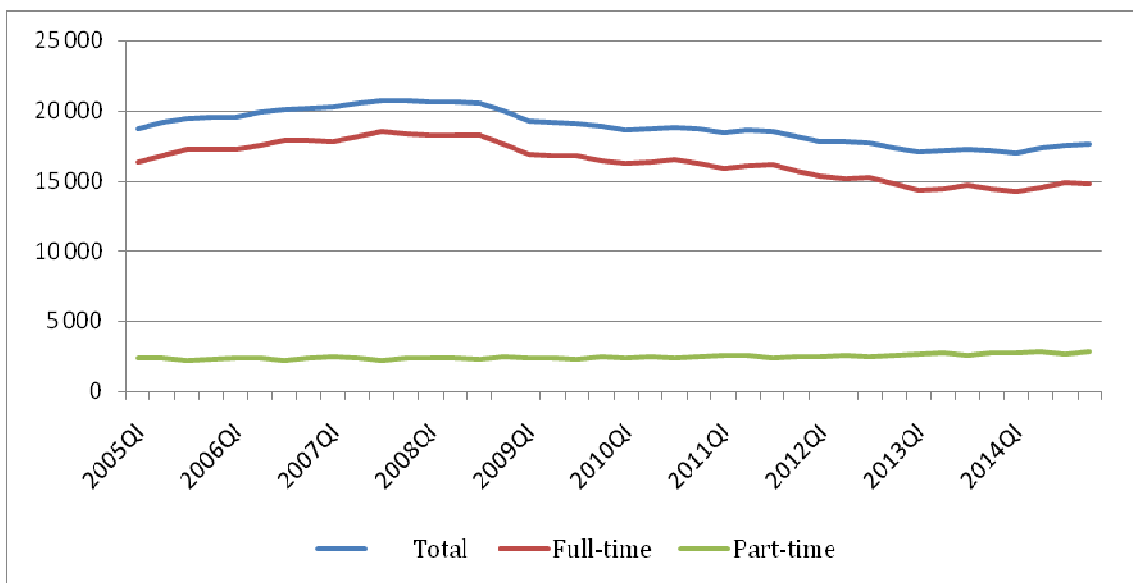


Fig. 7. Employment by working day type of contract
Source: INE

Meanwhile the employment with full-time working day decreased when the crisis began and is in line with total employment evolution, the part-time contracts remained stable over time and from Q1 2012 their use increased by 13%, from 2.5 million to 2.8 million in Q4 2014.

The table 4 indicates the total part-time contracts registered over time. In 2012, the hiring on part-time contract increased significantly, compared to the amount in 2011 by 12%. Their use gained a greater importance since then and in 2014 there were roughly 20% more registered part-time contracts than in 2012.

However, the share of indefinite part-time contracts over total part-time contracts (indefinite and temporary) is oscillating around 11%, although slowly increasing again, after a drop in 2013.

2008	2009	2010	2011	2012	2013	2014	2015
4 251 635	3 952 913	4 246 916	4 453 587	4 983 116	5 247 266	5 924 813	860 641

Tab. 4 Registered part-time contracts (2008-2015)
Source: Ministry of Labour and Social Security

Incidence of temporary employment

The level of temporality has been much higher in Spain than in the rest of Europe. In the last quarter of 2014 it was 24.3%, which is around 10% higher than the EU-28 average and in Germany. There was a big drop in temporality level since 2008 (-5%) due to a huge job destruction in the construction and related sectors after the boom burst, because the workers in these sectors were mainly hired on fixed-term contracts.

The large use of temporary contracts is justified by the labour market rigidity with an excessive protection of workers on indefinite contracts, in which presence the firms prefer to opt for the temporary ones, and thus assuring a greater flexibility for them. This has however a very negative effect on productivity growth, in particular, if the likelihood of contract conversion is small, because the firms do not invest in temporary workers.

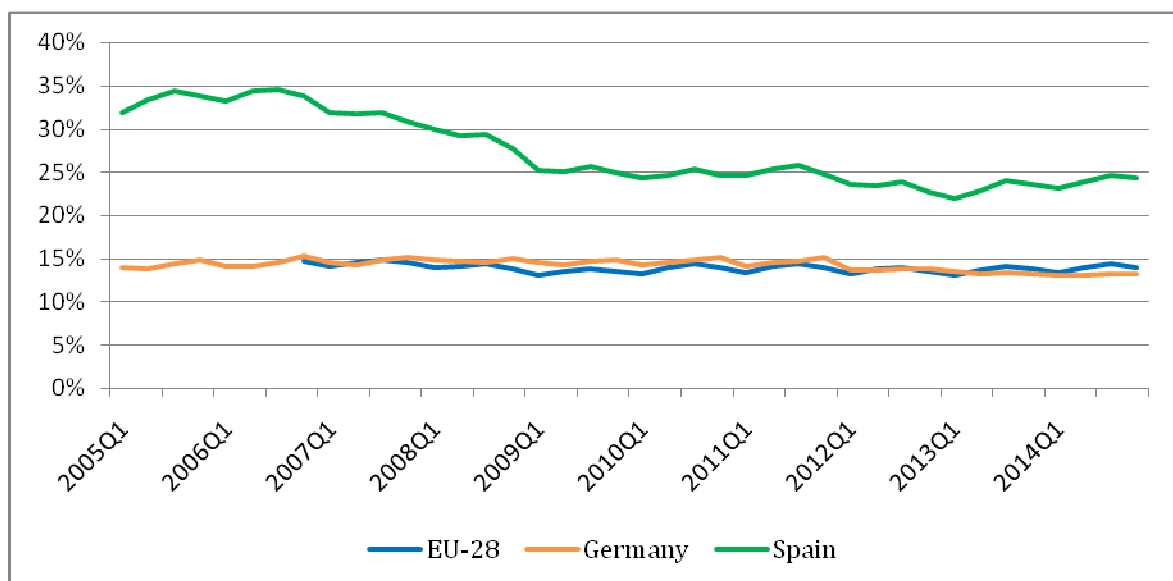


Fig. 8. Incidence of temporary contracts, EU-28, Germany, Spain (2005-2014, quarterly data)
Source: Eurostat

Employment protection legislation

EPL	2008	2009	2010	2011	2012	2013	OECD 2013
Individual and collective dismissals on regular contracts	2.66	2.66	2.66	2.56	2.56	2.28	2.29
Individual dismissals on regular contracts	2.22	2.22	2.22	2.08	2.08	1.95	2.04
Collective dismissals (specific requirements)	3.75	3.75	3.75	3.75	3.75	3.13	2.91
Temporary contracts regulation	2.17	2.17	2.17	2.17	2.17	2.17	2.08

Tab. 5 Employment protection legislation (with OECD average comparison), 2008-2013
Source: OECD
Note: Scale 0-6 (the higher index the stricter EPL)

Table 5 indicates that the subsequent reforms adopted in 2010, 2011, and especially in 2012 were steadily weakening the employment protection of indefinite contracts, meanwhile the temporary contracts remained untouched. The most decreased EPL factor over time was the one concerning specific requirements for collective dismissals. However, it is still stricter in Spain than in the OECD average and much stricter than the regulation on temporary contracts.

The reform approximated the Spanish levels of employment protection to the OECD average values, which might suggest its good performance, significantly reducing the rigidity of its legislation on dismissals. Nevertheless, the timing of the

reform was unfortunate, as explained in the study of European Commission (n.d.) indicating that weakening of EPL during an economic downturn may result in larger job destruction not compensated by larger job creation and so resulting in higher unemployment in the short run. A fact that underpins this theory is that the unemployment kept rising significantly after the adoption of the reform. In the medium term, lowering the EPL levels should however be compensated with stronger job creation flows.

5.2 Third objective

- Support freelancers and SMEs, providing greater flexibility and adaptation.

This measure concerns primarily the new contract to support entrepreneurs (*Contrato de apoyo a los emprendedores*) that has one year trial period and significant reductions on social security contributions (3,300-4,500 € in 3 years). The use of this type of contract is analyzed in the following text.

Contract to support entrepreneurs

Regarding the new indefinite contract to support entrepreneurs that is applicable by firms of up to 50 employees, more than 270,000 contracts were signed since February 2012 when it was launched, with major use in the regions of Madrid (28.1%) and Catalonia (22%). The workers aged less than 30 years represent 37% of total, those aged 30-45 correspond to 38%, and those above 45 years stand for 25% of total workers under this contract. Two thirds (64%) of the contracts were signed by workers with high school studies, and the remaining part is almost equally distributed between those with elementary school (17%) and those with university degree (19%).

Figure 9 represents the evolution of the contract to support entrepreneurs, which oscillates around 8,000 contracts per months forming around 7% of total indefinite contracts. It also indicates that since its implementation it has been more used to hire men, although the subsidies are higher for hiring women (€100 more per year). However, this trend is diminishing (Randstad, 2015).

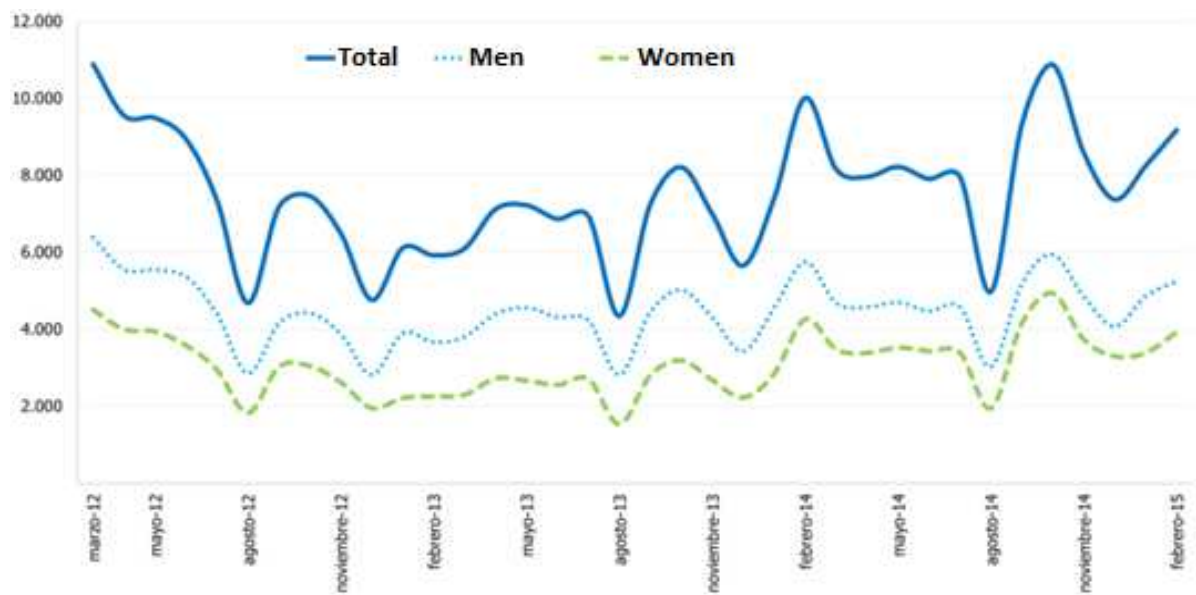


Fig. 9. Monthly evolution of the contract to support entrepreneurs (2012-2015)

Source: Randstad, retrieved from <http://www.randstad.es/nosotros/sala-prensa/Documents/los-contratos-de-emprendedores-registran-su-mejor-anio-con-un-aumento-del-17-por-ciento.pdf>

Regardless the reform, it is worth mentioning that in September 2013, the government introduced a special flat rate for freelancers that comprises reduced monthly social security contributions. Originally, it was meant only for freelancers up to 30 years, but it was extended for all freelancers regardless their age. With a regular fee for 2015 being €264, the freelancers up to 30 years under this regime pay only 20% of the regular fee during the first 6 months (€55), the following 6 months 50% (€134), and 70% the next 18 months. Those older than 30 years receive the same reduction, only for a maximum of 18 months. The main requirement for this regime is no prior registration as a freelancer for the last five years (infoautonomos.com, 2015).

According to the latest official publication of the Ministry of Labour and Social Security from August 2014, almost 270 thousand persons took advantage of this regime (europapress.es, 2014).

5.3 Fourth and fifth objective

- Stop in the short-term the massive job destruction offering alternatives to dismissal as a last resort.
- Implement effective mechanisms of internal flexibility in companies to promote job retention.

These objectives of the reform should be ensured by the change in collective bargaining system (analyzed as the next objective) and by the possibility of firms to modify the working conditions regarding salary, working hours, time, tasks, or location in the occurrence of economic, technical, organizational, and production reasons.

Overview of the Spanish population

To see if these measures had any effect, first of all it is important to analyze the evolution of the total, active, employed, and unemployed population.

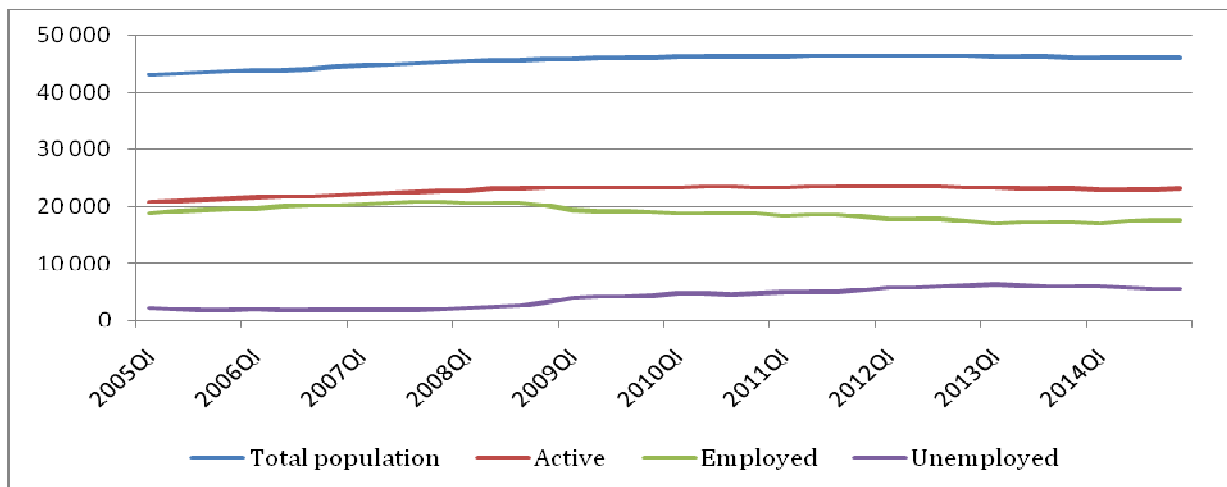


Fig. 10. Total, active, employed, and unemployed population (thousands, 2005-2014, quarterly data)

Source: INE

According to the last information from INE (4Q 2014), Spain has 46 million inhabitants, with around 42 million of Spaniards and over 4 million foreigners. The rate of active population amounts to 50%. As already known from the Spanish history (chapter...), the increase in active (and total) population during the years of the economic boom (1997-2007) was mainly driven by the immigrant inflow but also due to higher women's participation rates. With the start of the crisis, many foreigners who lost their jobs left the country as well as the Spaniards, which is the reason why the total population declines over time.

From Q1 2012 when the reform was adopted, the unemployment kept rising from 5.67 million unemployed workers (24.2%) to its peak in Q1 2013 with nearly 6.28 million (26.9%) and then started to decrease to the current 5.46 in Q4 2014 (23.7%).

To be accurate, there is different information provided by INE and by the Ministry of Labour and Social Security. The former obtains the data from a Labour Force Survey (LFS) conducted every quarter, with a sample of 200,000 inhabitants. The information of the latter comes directly from the State Public Employment Service (SEPE) that runs a database of registered unemployed on a monthly basis.

The data from the LFS are usually higher because many respondents express their desire to work but never register in SEPE.²⁹ Meanwhile according to INE there were 5.46 million unemployed in 4Q 2014, those registered in SEPE amount to 4.5 million in the same period. To complete the overview of the unemployment, figure 11 presents the monthly values collected by SEPE. In March 2015, there were over 4.45 registered unemployed, which is 7.17 less than in the same month of 2014 (-10.34 men and -4.20 women). There were 9.53% less unemployed up to 25 years and 6.94 less unemployed aged 25 and above, compared to the same month of the previous year.

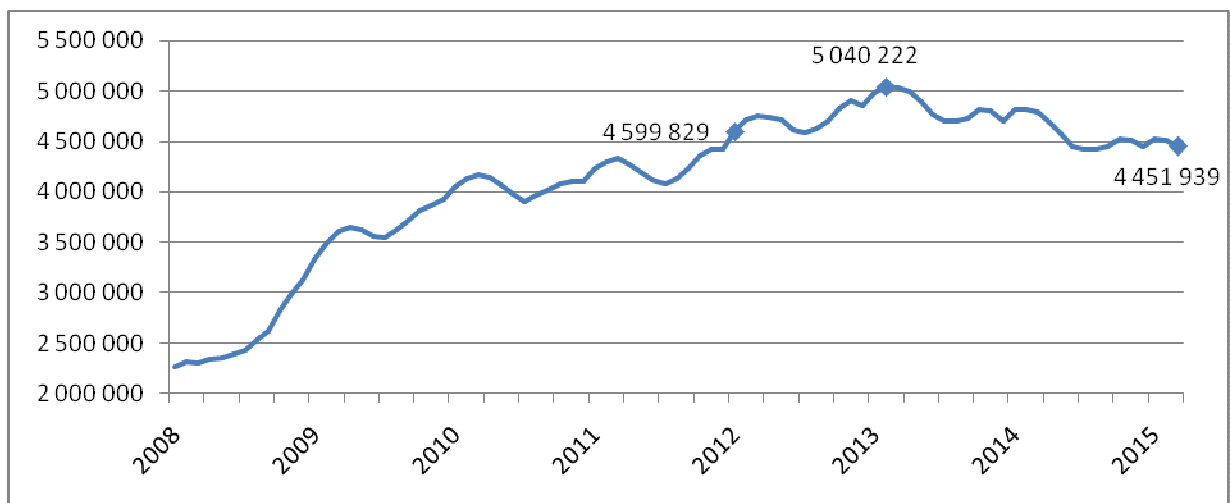


Fig. 11. Unemployed registered in Employment Public Services (2008-2015, monthly data)
Source: SEPE, Ministry of Labour and Social Security

Cyclical unemployment

As already known regarding the different countries dealing with economic crisis, the Spanish economy, unlike the German one, tries to solve the problems during downturns by layoffs. In Germany, the labour market that became more flexible mainly due to the Hartz reforms, allow firms in troubles to freeze or cut wages or reduce working hours. The same was aimed by the reform from 2012.

Figure 12 illustrates the employment evolution, which was in line with the business cycle, experiencing around 1% lower rate until 2010 when the set of 3 consequent labour reforms started to be effective. However, until 2012 the employment growth was still developing mostly according to the economic cycle, this time with 0.5% lower rate in average. Since the first quarter of 2012 when the reform offered alternatives to the dismissals, the volatility of the business cycle was finally not producing major job destruction, and since the first quarter of 2013 the two rates split off with positive evolution of both.

²⁹ See the article in 20 Minutos at <http://www.20minutos.es/noticia/947346/0/epa/inem/parados/>

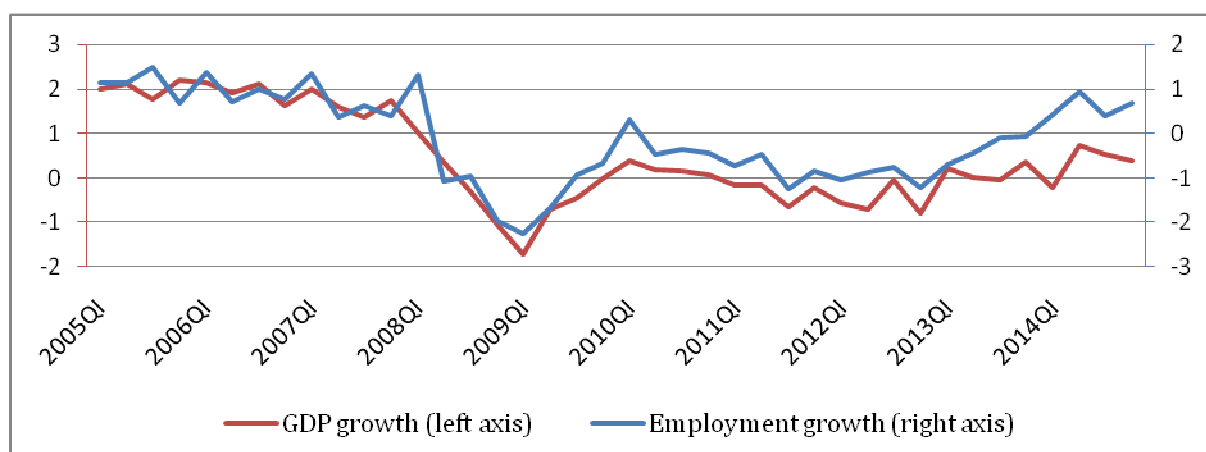


Fig. 12. GDP and employment growth, seasonally adjusted (2005-2014, quarterly data)
Source: INE

Causes of workers' arrival into unemployment benefits system

Table 6 indicates that the arrivals of workers into unemployment benefits system due to individual dismissals for objective reasons increased significantly in 2012, as expected after the reform's modification of dismissals and better specification of the objective reasons. In the same period, the registers from collective dismissals also increased for the same reason. As the reform supports suspension and partial unemployment as an alternative to dismissal, this measure seems to be widely used since its implementation. The most common reason of workers' initial of the benefits receiving (in 54% of cases in average) is the termination of temporary contract.

Year	Total	Individual dismissal for objective reasons	Collective dismissal	Suspension and partial unemployment	Temporary contract termination
2008	2 236 753	87 293	37 781	40 405	1 379 358
2009	2 557 901	148 704	75 610	379 062	1 213 536
2010	1 935 370	141 774	70 373	180 409	980 607
2011	1 916 929	191 143	79 016	169 345	982 735
2012	2 092 795	284 368	96 566	306 358	985 531
2013	1 845 197	282 932	101 787	278 471	846 762
2014	1 483 412	191 203	56 544	134 539	810 893
2015	120 692	15 680	4 576	6 473	70 390

Tab. 6 Selected causes of arrival into unemployment benefits system (2008-2015)
Source: Ministry of Labour and Social Security

Employment regulation

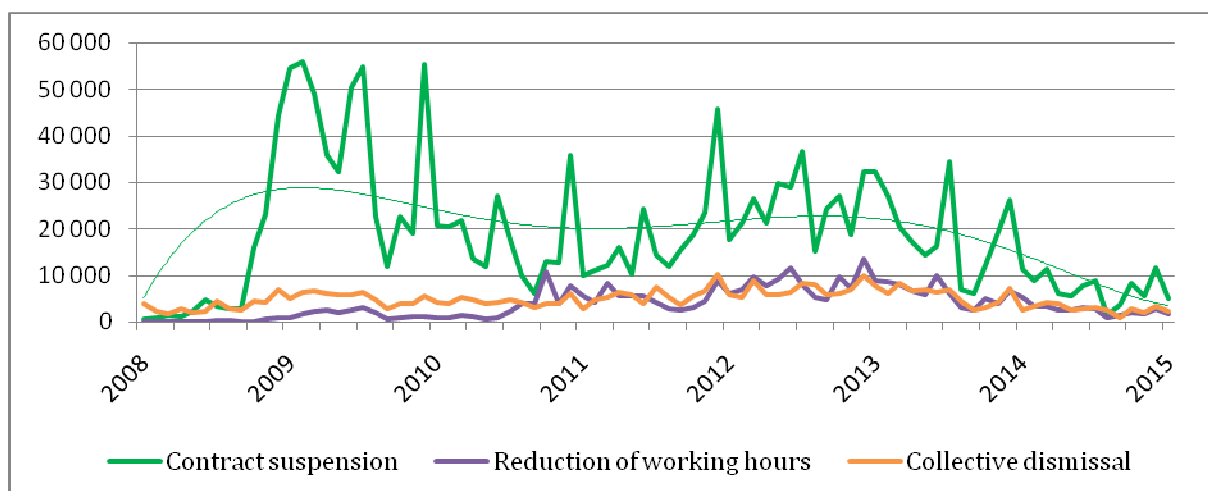


Fig. 13. Workers affected by different types of employment regulation including collective dismissals, (2008-2015, monthly data)

Source: Ministry of Labour and Social Security

Among the alternatives to the job destruction promoted by the reform were the contract suspension and the reduction of working hours. Figure 13 indicates that the use of both measures was well induced in 2012, lowering the use of collective dismissals despite the relaxation of these as well.

In average, the working hours were reduced to around 2,500 additional workers each month in the period of 2008-2011, but since 2012 this number reached more than 5,600. That is more than twice wider use of working hours' reduction. Hence, the working hours were reduced to over 175,000 workers in 2012-2013. Regarding contract suspension, its average values remain stable, mainly because of the wide use in 2009. The use of collective dismissals has been flat over time, increasing in 2012 due to the better specification of their application favouring the firms with economic, technical, organizational, and production problems. However, the offered alternatives to job destruction, such as employment regulation measures and bargaining system improvement, significantly tempered the massive work termination that could have been produced.³⁰

Labour costs and productivity

Regarding labour costs, the reform should provide wage flexibility in times of economic downturns in order to preserve jobs, enhance their creation, and to restore the country's competitiveness. The figure 14 indicates that the labour costs de-

³⁰ The OECD preliminary assessment of the reform (2013) indicates that the reform is estimated to have reduced inflows onto unemployment benefits due to collective dismissals by roughly one third until July 2013.

creased from 2009 to 2014 by almost 7%, while the labour productivity has been increasing over time.

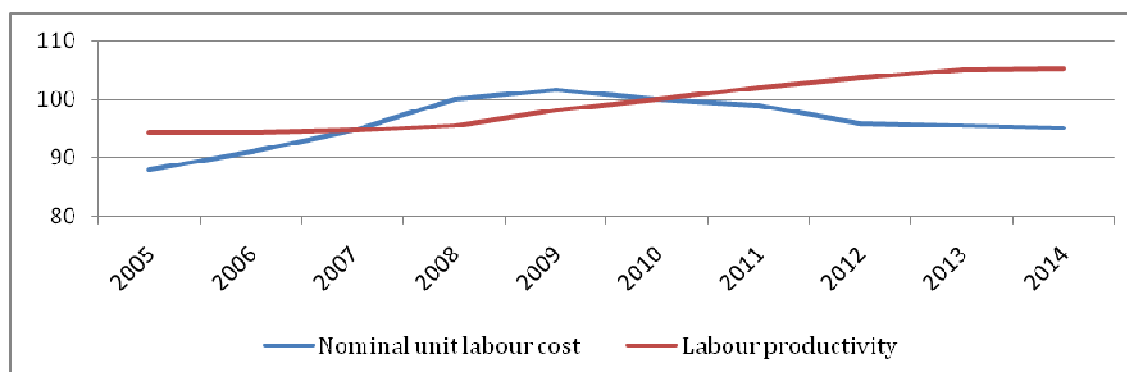


Fig. 14. Evolution of unit labour costs and labour productivity per person (2008-2014, 2010=100)

Source: Eurostat

The decrease in labour costs is not accountable only to the reform. Wage moderation was especially important in the public sector. According to the newspaper *Cinco Días* (2015), in 2010 the then Prime Minister José Luis Rodríguez Zapatero approved the wage cut of civil servants by 5% and the wages have been frozen since then. Another wage cut was approved in 2012 by Mariano Rajoy, when one of the two bonus payments of civil servants, that are equivalent to one month's salary, was abolished.

Change in working hours

Table 7 shows that the total effective hours worked per week were slightly reduced over time (-0.3 since 2012). Meanwhile the hours worked in the private sector reduced over time, in the public sector they increased.

	2008	2009	2010	2011	2012	2013	2014
Total	34,7	34,3	34,3	34,4	34,1	34,1	34,1
Public sector	30,2	30,5	30,8	31,2	31,4	31,9	31,8
Private sector	34,3	33,9	33,7	33,7	33,2	32,9	33,0

Tab. 7 Average effective hours worked per week, total, public, and private sector (2008-2014)

Source: INE

Figure 15 illustrates the number of workers who have worked less hours due to employment regulation, increasing during 2012-2013. This suggests that the internal flexibility has been enhanced and used especially over 2013 as a substitution to dismissals. Thus, over 60 thousand workers, mainly from the manufacturing sector, worked less hours in the first quarter of 2013, which was the quarter with the highest unemployment.

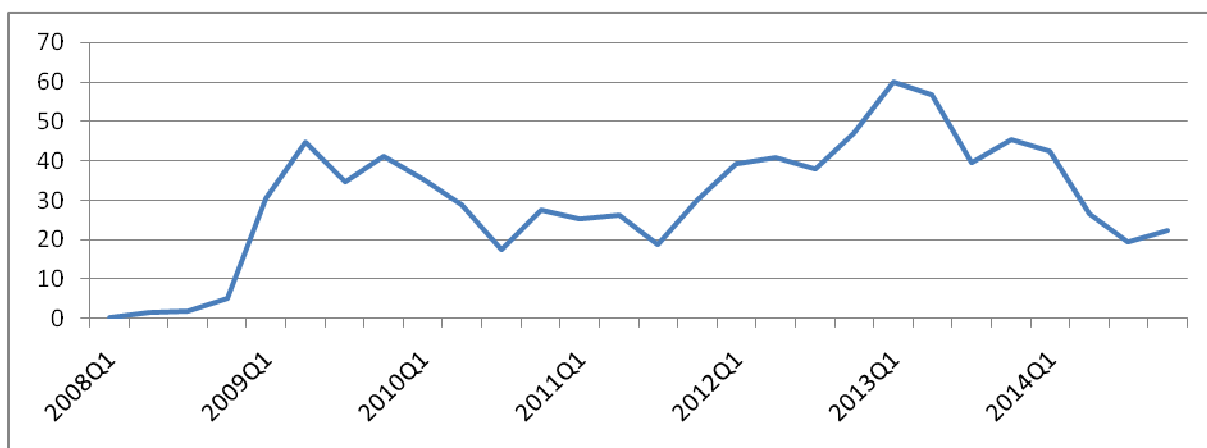


Fig. 15. Employed who have worked less hours due to employment regulation (thousands, 2008-2014, quarterly data)
Source: INE

5.4 Sixth objective

- Modernize the collective bargaining to bring it to the specific needs of companies and workers.

The reform aims at modernizing the collective bargaining system to better deal with the specific needs of firms and workers and to foster the ongoing dialog among them. This should have been provided by the introduction of the applicative priority of firm-level agreements over higher-level agreements. Firms that have justifiable objective reasons (specified by the reform) have the possibility to temporarily opt-out of the collective agreements.

Opt-out of collective agreements

In order to make the labour market more flexible, the reform enables firms that have economic, technical, organizational, or production problems to temporarily opt out of the collective agreements that otherwise apply automatically to all firms in a given sector or region.

Since the reform's implementation, over 5 thousand firms used the opt-out affecting 268 thousand workers, especially in terms of salary amount, which was present in around 90% of the derogations, but also in terms of remuneration system and working hours. Concerning the firms that opted out of the collective agreements, around 80% of them were firms with less than 50 workers, and mostly from the service sector.³¹ The majority of opt-outs was agreed in the period

³¹ According to the statistics of the Ministry of Labour and Social Security (2015), in the period of 2005-2014, around 97.8% of all firms in Spain have employed less than 50 workers, and around 75% of them have been registered in the service sector.

of consultation, which is the first and easiest step in the opt-out process comprised of the negotiation between the employer's side and the workers' representative without involving a third party. Regarding the scope of the agreement, implying either firm or higher-level agreements (sectoral or group of firms), again more than 90% of the non-applied collective agreements concerned higher-level agreements. The amount of opt-outs and their smooth approval suggest that this measure of the reform helped many firms to remain in the market and so to preserve jobs.

	2012	2013	2014	2015
Opt-outs	748	2,512	2,073	354
Agreed in consultation period	n/a	90.7%	95.8%	90.1%
Affected firms	687	2,179	1,831	336
Affected workers	29,352	159,550	66,203	12,795

Tab. 8 Opt-outs of collective agreements (2012-2015)

Source: Ministry of Labour and Social Security

Note: Data for 2015 correspond to the first two months

Affiliation of new units to collective negotiation

The number of agreements signed by new units joining the collective negotiation has increased since the reform's implementation. As obvious from the table 9, in 2011 there were 264 agreements of new units and in 2014 they were already 566, more than twice than in 2011. Over 90% of them were agreements applying to a certain firm. Another phenomenon observable from the table 9 is that meanwhile the agreements concerning a group of firms have increased in their amount since 2011 (from 4 in 2011 to 17 in 2014) there has been a decrease in the number of sectoral agreements (from 19 in 2011 to 13 in 2014).

The wider use of agreements on the level of firm or group of firms within new units joining the collective negotiation suggests that the reform increased the possibility of firms to properly adapt to the market and to unpin from the often ineffective bargaining system.

Agreements of new units	2011	2012	2013	2014	2015
Total	264	338	661	566	41
Firms	241	323	624	536	41
Group of firms	4	11	20	17	0
Sectoral	19	4	17	13	0

Tab. 9 Monthly development of the collective agreements made by new units affiliated to collective bargaining (2011-2015)

Source: Ministry of Labour and Social Security

Note: Data for 2015 correspond to first 3 months

5.5 Seventh objective

- Recognize new individual right of workers to training.

Before the reform, there was a very little emphasis on the training of workers, especially among those with temporary contracts. In order to enhance the labour productivity, the reform recognizes the workers' right to permanent training. At the same time it promotes the professional training for those who have to deal with technical modifications in their work. However, any specific steps to enhance the training of both employed and unemployed were taken by the reform.

In 2014, the active population with higher education accounts for almost 40%, those with medium education (high school and equivalent) present 54% of the total active population, and workers with less low education form less than 10%.

It is important to mention that on 23th of March 2015, a new reform of professional training system was approved, aiming to promote a stable and quality job creation and to achieve a more efficient and transparent system management. According to the document of the Ministry of Labour and Social Security that promotes the reform (2015), the current training offer does not contribute to increment employability, the training content does not adapt to market needs and the rare competition among the training providers limits the offer and makes it more expensive.

Training of unemployed

According to INE (2015), in 2014 over 15% of unemployed workers had only basic education or less, nearly 40% of them reached only the first stage of secondary education, i.e. two academic years that are usually taken by pupils aged 12-14. Over one fifth (23%) finished the secondary education and another 23% reached higher education.

The study of Asempleo agency (2015) claims that in 2014 only 16.7% of the unemployed participated in courses during their unemployment, with higher participation among the qualified workers, who prefer the permanent education and update of their skills and knowledge. Higher educated workers have also higher probability to find a job, which was confirmed by the fact that with the increasing dynamics of the Spanish economy, almost one quarter (23%) of the higher educated unemployed found work in 4Q 2014.

Training of employed

In 2014, around 11% of the employed workers participated in training courses in roughly 475,000 firms. Unlike the large firms, which train their workers in 93% of the cases, only 26% of firms with less than 10 workers offer this possibility to their workers (Asempleo, 2015). Table 10 indicates that both the number of training groups and participants attending them have been increasing together with the

number of firms that provide their workers with training. Meanwhile women constantly form around 43% share of total participants and unqualified workers around 21%, the share of workers aged 45 and above has been steadily increasing. Also the share of courses conducted online almost doubled, forming 11% of the total in 2013 against 5.8% in 2008.

	2008	2009	2010	2011	2012	2013
Training groups	328 159	432 882	538 394	616 204	667 928	700 724
Participants	1 997 546	2 421 153	2 771 069	2 986 493	3 176 789	3 224 182
Firms	190 892	278 769	360 894	408 895	435 662	456 716
Women (%)	43.7	43.1	42.4	41.6	42.8	43.6
>45 y.o. (%)	20.4	22.4	23.9	25.4	27	28.7
Unqualified (%)	22.1	21.5	20.9	21.5	21.5	21.6

Tab. 10 Training in firms (2008-2013)

Source: Fundación Tripartita

Training of young

The reform introduced the new contract for training and learning (*Contrato de Formación y Aprendizaje*) that meant to enhance the employability of young workers through a proper training in firms in exchange for significant rebates on the social security contributions (up to 100%). The use of temporary contract on training more than doubled from 2012 to 2014. In February 2015, 11,247 new training contracts were signed, which was 6 times more than in February 2012.

The use of temporary contracts on internship experienced a drop in 2012 but since then it returned to the level of 2008. In 2014, the newly registered temporary contracts on internship were over 50% higher than in 2012.

	2008	2009	2010	2011	2012	2013	2014	2015
Training	78 986	61 527	59 047	60 022	60 584	106 101	139 864	24 199
Internship	62 793	43 289	47 536	51 545	41 675	48 481	62 618	11 496

Tab. 11 Registered temporary contracts on training and internship (2008-2015)

Source: Ministry of Labour and Social Security

It is worth mentioning that in November 2012 a new legislation giving rise to the dual professional training was approved. Following the example of German dual studies, it aims at providing students with professional qualification, combining the process of learning and training in both firms and training centres in order to promote their larger integration into the labour market (fundaciontripartita.es, 2014).

5.6 Eighth objective

- Increase opportunities for unemployed workers with particular attention to young and long-term unemployed.

The following analysis of the SEPE budget provides an important insight to the Spanish dealing with unemployment. Furthermore, a special attention must be paid to young and long-term unemployed workers, that became the most outstanding groups in terms of difficulty in finding a job.

SEPE budget

The subsequent initial budgets of the State Public Employment Service, illustrated in the table 12, indicate that the rebates on social security contribution were dramatically reduced after 2012. This might be due to the ongoing critique of the Spanish attempts to increase employment by excessive rebates and insufficient spending on training. However, the amount paid on rebates has steadily increased again, forming around 30% of the total ALMP. The spending on professional training has increased by 13% in 2015.

	2012	2013	2014	2015
Total budget	34 719	30 917	33 917	30 246
Unemployment compensation	28 805	26 994	29 429	25 002
ALMP	5 760	3 765	4 041	4 712
Professional training	-	1 635	1 605	1 806
Rebates on social security contribution	2 600	1 004	1 222	1 500
Modernization of employment services	30 000	30 000	15 000	100 000

Tab. 12 Selected elements of initial SEPE budget (2012-2015)

Source: SEPE, Ministry of Labour and Social Security

Regarding 2013, although the initial budget exhibits significantly lower number than other years, the worsening labour market situation caused its increment by more than €5bn, with €4.5bn spent on unemployment compensation and €707 million on ALMP, mainly on social security rebates.

The resources destined to ALMP for 2015 are 16.5% higher than for 2014, while the unemployment compensation is 16% lower, mainly due to the positive employment evolution.

An important shortcoming of SEPE is its obsolete structure that desperately calls for its restructuring. The resources for its modernization were finally notably increased in 2015, after the important cut the year before. Nevertheless, these resources for the latest year have already been modified in the meantime, decreasing by over €41 million, so their actual amount has been €58.36 million.

One of the pillars of flexicurity is the efficiency of the active labour market policies. However, these were only briefly mentioned in the reform, not describing any specific measures to foster the poor system of ALMP provided by SEPE. Moreover, due to the lack of micro data there has been basically no proper evaluation of ALMP in the past.

Long term unemployed

Figure 16 indicates that meanwhile all groups of unemployed for less than 2 years have decreased since 2013, the number of long-term unemployed for more than 2 years increased from 1.55 million in Q1 2012 (27.4% of total) to 2.39 million in Q4 2014 (43.7%). This is due to the conversion of unemployed from groups of shorter duration to the longer ones, but also because the longer they are unemployed, the harder is for them to reintegrate to the labour market. According to the Ministry of Labour and Social Security data, since the last quarter of 2013 there have been more unemployed receiving welfare benefits (received after the exhaustion of unemployment benefits) than those receiving unemployment benefits.

Over three fifths (61%) of the total unemployed were long-term unemployed (more than 1 year) in 4Q 2014. Observing these data, it can be assumed that the reform have not improved the situation of the long-term unemployed, whose integration to the labour market will require further endeavour.

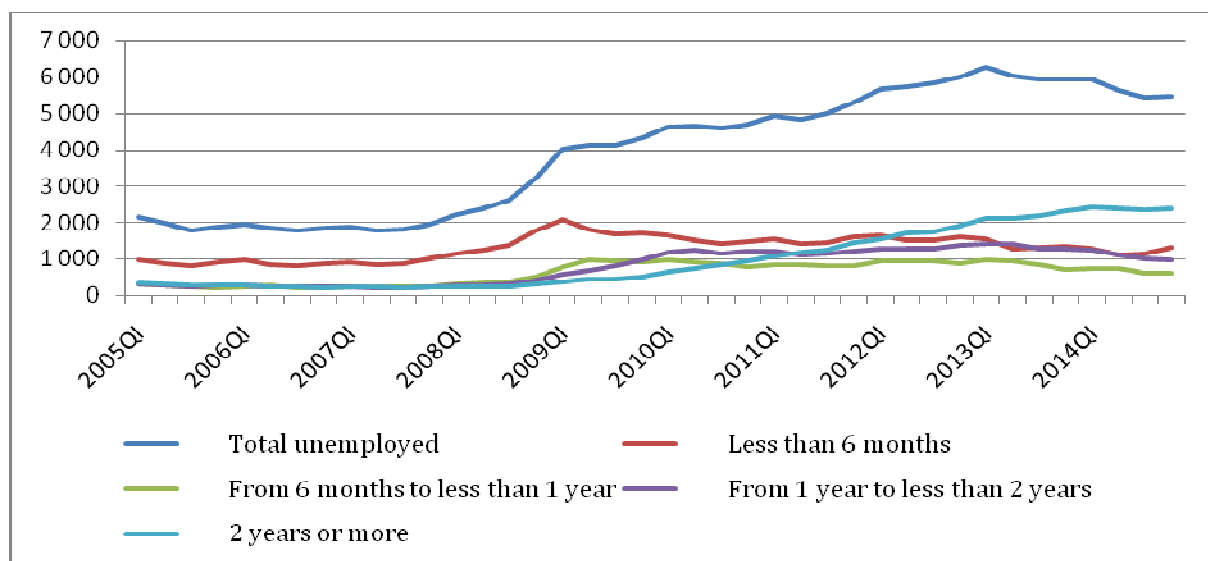


Fig. 16. Unemployed by time searching for a job (thousands, 2005-2014, quarterly data)
Source: INE

Young unemployed

As already known, the youth unemployment rate in Spain is the highest among EU countries. Since the implementation of the reform, the rate increased and then decreased again. In 4Q 2014, the rate returned to the values of 1Q 2012, only by 1.2%

lower in average (48.6%). The best development in this period experienced the unemployed aged 16-19, whose unemployment rate decreased from 71.4 to 67.3 (-4%). The rate of those aged 20-24 slightly increased (1.2%) and of those aged 25-29 decreased only by 0.6%.

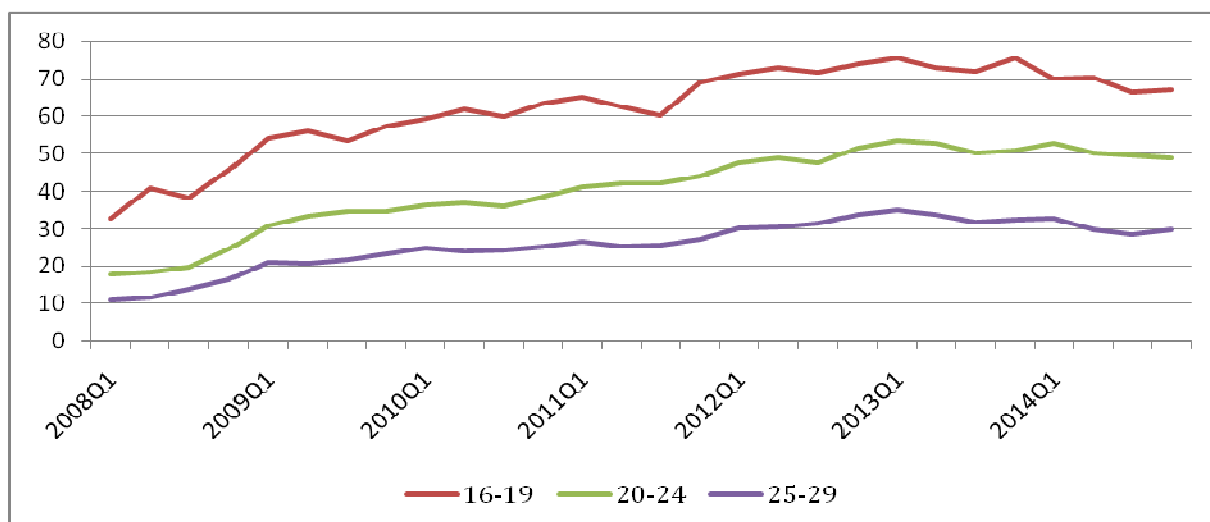


Fig. 17. Rate of unemployed aged 16-29 (2008-2014, quarterly data)
Source: INE

5.7 Ninth objective

- Combine the efforts of all those who can collaborate in finding a job.

This objective refers to the public-private collaboration in fighting against unemployment. In 2014, there were 3,140 temporary work agencies, with 80 of them having the official authorization from SEPE to allocate workers. Over 2.6 million workers signed the contract for availability in 2014, which is 31% more than in 2012. This is more than 16% of all registered contracts in 2014.

On the other hand, the allocation of unemployed workers through SEPE in 2014 was insignificant. According to the study of Aempleo agency (2015), only 2% of the total registered contracts were intermediated by SEPE in that year. The weak performance of SEPE in job intermediation reveals its inner inefficiency.

2008	2009	2010	2011	2012	2013	2014
2 207 585	1 691 013	1 957 564	2 062 536	2 023 400	2 232 649	2 662 170

Tab. 13 Registered contracts for availability by temporary work agencies (2008-2014)
Source: Ministry of Labour and Social Security

5.8 Evaluation of the Spanish reform impacts

After the reform's approval, the unemployment kept rising until Q1 2013, mainly due to the worsening economic situation. However, after this quarter the employment growth finally turned to positive values and according to the last information from INE (4Q 2014), the unemployment rate was 23.7%.

The hiring on permanent contract has been steadily increasing, although still very low, amounting to 9.3% of all registered contracts in the first two months of 2015. Concerning the new indefinite contract to support entrepreneurs for firms up to 50 employees, over 270,000 contracts were signed since its adoption in February 2012. Meanwhile the full-time employment was affected by the crisis, the number of workers with part-time jobs remained stable and during the last 3 years it increased by 13%. Since 2012, the number of annual registered part-time contracts increased by roughly 20%. **The reform relaxed the law concerning part-time contracts, which has had positive impacts on its use.** However, the share of indefinite part-time contracts has only been around 11% of the total. Regarding the incidence of temporary employment, it is still much higher than in the EU-28 average, being slightly below 25% in 4Q 2014, while the average level of temporality in EU-28 was less than 15%. Despite the reform's attempts to enhance hiring on indefinite contracts and thus to reduce dualism, the results prove that the **share of temporary contracts over total has still been very high.**

Regarding the employment regulation, the Spanish EPL reached in 2013 similar values as the OECD average, although the legislation on collective dismissals is still stricter. The **alternatives to dismissals, such as working hours reduction and temporary contract suspension, helped to preserve jobs** especially in 2012-2013. In this period, around 600,000 workers registered at the State Public Employment Service (SEPE) in order to receive unemployment benefits due to contract suspension. The use of working hours reduction more than doubled since 2012, applying to over 175,000 work contracts in 2012-2013. The overall effective working hours per week decreased only slightly (0.3 hours), decreasing by 0.7 hours in the private sector, and increasing by 0.6 hours in the public sector. The increased use of alternatives to dismissals positively influenced the employment growth with the relation to GDP growth, splitting for the first time the two rates with employment growing faster than GDP. From this overview can be assumed that these measures helped to save jobs to 775,000 workers over the period of 2012-2013.

The downward wage rigidity was one of the problems that fostered the job destruction at the beginning of the crisis. The labour costs stopped increasing in 2009 and have decreased by almost 7% since then. This is however not fully accountable to the reform, because there were two significant wage cuts in the public sector since 2010. The labour productivity on the other hand grew over time and in 2014 it was almost 10% higher than in 2008. **Wages adjusted to the economic situation and increasing productivity have contributed to job preservation and recent job creation.**

Regarding the collective bargaining, for the first time in history the reform gives priority to firm-level agreements over the higher-level ones. This influenced the collective agreements of newly affiliated firms, whose number more than doubled from 2011, amounting to 566 agreements in 2014. Also the number of agreements of group of firms increased from 4 to 17, while the number of new registered units concerning sectoral agreements decreased from 19 to 13. The firms with economic, technical, organizational, and production reasons were by the reform allowed to opt-out of the collective agreements. Since then, over 5,000 firms applied the opt-out affecting almost 267,000 workers, mainly in order to deal with the salary increase. The opt-outs were in most cases agreed at the first stage, in the period of consultation, which suggests their smooth adoption. **Giving more freedom to firms when dealing with different economic circumstances proved to be a successful step.**

Although the reform aims to foster the training of workers, it does not propose any specific steps on how to do it. According to INE, more than half of the unemployed have low education, which presents a big disadvantage for them when looking for a new job. It was statistically proved that the higher educated unemployed workers have larger probability to find a new job, given that 23% of them found work in 4Q 2014. However, only 16.7% of the unemployed participated in training courses in 2014, with bigger share of higher educated people, who are more prone to learn. Despite the increased number of participants on trainings in firms, it has still been only around 11% of all employed workers. However, on 23th of March 2015 was approved a new reform of professional training system that aims to promote a stable and quality job creation. Concerning the training of young, the reform promotes the contract on training and learning, which gives more possibilities for young (up to 30 years old) to gain experience in firms at the exchange of a significant social security contribution reduction. The use of the contract on training more than doubled since 2012 with nearly 140,000 contracts registered in 2014. Thus, **on one hand the reform did not ensure the ongoing training of neither employed nor unemployed workers, but did foster the possibilities of work experience for young.**

The long-term unemployed present a big threat given that their reintegration to the labour market tends to be more difficult than for the short-term unemployed. The analysis indicates that the share of long-term unemployed (over 1 year) increased over time and in 4Q 2014 this group represented 61% of the total (3.35 million). Another problematic group of unemployed are the young workers whose unemployment is still around 50%. After the reform's approval, the youth unemployment increased and decreased again like the general unemployment and in 4Q 2014 it was only slightly lower than in 1Q 2012. Hence, **the reform did not enhance employment growth for neither long-term nor young unemployed.**

Regarding the reform's objectives, it fails to enhance the hiring on indefinite contracts as promised and it has not achieved to reduce the use of the temporary ones. Its only measure to support freelancers and SMEs is the new indefinite contract to support entrepreneurs, which is a poor action to provide greater flexibility

and adaptation to them. The relaxation of dismissals led to their increase especially over 2012-2013. Nevertheless, the alternatives to dismissals such as temporary contract suspension and reduction of working hours were also widely used in this period. The priority to firm-level agreements over higher-level agreements and the possibility to opt-out of collective agreements have improved the rigid and ineffective system of collective bargaining, despite applicable only by firms that have economic, technical, organization, or production problems that are defined by the reform. The last two objectives, i.e. to foster worker's training and to increase opportunities for long-term and young unemployed, are considered ineffective, given that the reform did not have almost any effect on it, and relating the long-term unemployed, their share of total unemployed even increased. A very important shortcoming is the lack of proper ALMP measures that would equilibrate the dismissal relaxation. The principles of flexicurity have this way been adjusted only on one side, increasing flexibility, but not accompanied with a further improvement in labour market policy efficiency, neither a high social protection of unemployed workers.

At this point I am able to answer **the fourth research question, whether the Spanish reform from 2012 was effective. Unfortunately, the answer is no.** Despite the few measures that proved to have positive effects, the majority of the steps adopted by the reform were unsuccessful and there is a need for further labour market adjustment.

6 Economic estimation of Hartz reforms implementation on the Spanish labour market

In order to fulfil the partial objective of this thesis, I attempt to calculate the costs of the application of the German labour market model created by Hartz reforms into the Spanish labour market situation. For this purpose, it is necessary to gather the budget planning of three institutions – the German Federal Employment Agency (*Bundesagentur für Arbeit*, BA), the Federal budget (*Bundeshaushalt*), and the Spanish State Public Employment Service (*Servicio Público de Empleo Estatal*, SEPE).

In 2014, BA disposed of nearly €65 billion for its labour market policies, with €33.44bn of it coming from its own budget and €31.4bn coming from the Federal budget. The money provided by the Federal budget is mainly destined to pay out ALG II to its recipients, consisting of the unemployment assistance for long-term unemployed and the social assistance that were merged together by the Hartz IV law. To pay out ALG I, i.e. the regular unemployment benefits for short-term unemployed (up to 1 year), the resources of BA are used. On the other hand, SEPE's budget for 2014 was €33.9bn to pursue the labour market policy.

The specific planned expenditures on unemployment benefits (UB) and assistance (UA) for 2014 in both Germany and Spain are illustrated in table 14.³² The number of German UA recipients comprises of unemployed workers (2 million) and employed workers who receive the subsidy because their incomes from employment are not sufficient for their living expenses. Furthermore it contains the so called *Sozialgeld*, which is an allowance for not-able-to-work persons who live with the UA recipients, mainly children below 15 years.³³ BA also pays out the contributions for accommodation and heating, forming €3.9bn in the planning for 2014, which are however not taken into consideration in this calculation.

Regarding the Spanish side, the UA recipients refer to those assigned to receive unemployment assistance, because they have already exhausted or have not had the right to receive unemployment benefits, and to those receiving the *Renta Activa de Inserción* (RAI) aimed to workers with great difficulties to re-enter the labour market.

Table 14 indicates that the Spanish costs of both UB and UA per capita are higher than in the German case, with €2,791 higher annual benefit and €390 higher annual assistance.

³² The unemployment benefits and assistance include contributions on social security, health insurance, pension fund, and care insurance.

³³ There is a special child allowance paid out through BA from the Federal budget that is not included in this calculation but amounts to more than €33bn.

	Germany	Spain
Total unemployment benefits (UB)	14 718 800 000	21 041 318 860
Recipients of UB ³⁴	862 617	1 059 799
UB per capita	17 063	19 854
UB per capita difference		2 791
Total unemployment assistance (UA)	19 200 000 000	8 387 910 950
Recipients of UA	4 387 178	1 483 178
UA per capita	4 376	5 655
UA per capita difference		1 279

Tab. 14 Planned expenditures on unemployment benefits and assistance in Germany and Spain for 2014

Source: Haushaltplan 2014 in Bundesagentur für Arbeit; Haushaltplan 2015 in Bundeshaushalt-info; Información económica financiera in SEPE

According to SEPE, there were 4,575,937 unemployed workers in Spain in 2014, of which 1,059,799 received unemployment benefits, 1,221,390 received unemployment assistance, and 261,788 obtained RAI. That means there were over 2 million unemployed workers who have exhausted their benefits (assistance) or have never received them. In Germany, ALG II (UA) is paid to all unemployed (or employed) in need for assistance. Applying the German labour market model, 3,516,138 unemployed Spanish workers who were not receiving UB would receive UA. Multiplying this number by the annual German UA per capita, the cost would be €15.39bn for this group of unemployed. At the same time, the cost of UB would be almost €3bn lower despite the higher number of its recipients, due to the lower UB per capita.

Given that in reality the Spanish 2014 budget for UB and UA was €29.43bn, the total cost needed to use the German model of UB and UA would be over €4bn higher (13.73%). Achieving this increase, more than 2 million additional unemployed workers who received neither benefits nor allowances in 2014 would be covered.

Spanish UB recipients per German UB per capita	18 083 308 724
Spanish registered unemployed (without UB recipients) per German UA per capita	15 387 989 345
Total	33 471 298 068
Spanish real budget for UB and UA	29 429 229 810
Difference from real budget	4 042 068 258

Tab. 15 Costs of German labour market model application on the Spanish case from 2014

³⁴ Unemployment benefits in Spain can be received for up to 2 years depending on the previous duration of employment. In Germany, they are received only for a maximum period of one year.

Thus, the **answer to the 5th research question** of this thesis (“Are the principles of the German labour market reforms Hartz I-IV applicable to the Spanish economy and what would be the costs and benefits of this application?”) is **yes, they are applicable at the expense of additional €4bn increment of the Spanish State Public Employment Service’s annual budget.**

7 Recommendations

In the following text I describe several measures aimed at improving the Spanish labour market situation. This chapter also answers the **sixth research question: What are the possible improvements of the Spanish economy?**

7.1 Equal Opportunities Contract

In order to end up with the labour market dualism, I favour the proposal of several authors mentioned in this thesis who suggest the complete elimination of temporary and indefinite contracts (except for internship contract for students and replacement contract for maternity or sickness leave) and replacing them with the so called “Equal Opportunities Contract” (EOC). This contract would be indefinite, having a steady increase in severance pay with the job tenure. The first year, the severance pay could amount to 11 days’ wage and be increased every year by 2 additional days with a maximum of 31 days’ wage in the 11th year. Thus, a contract with 10 years of tenure would bear 200 days’ wage severance pay, which is the current amount received for a fair dismissal and at 20-years-tenure it would reach 510 days’ wage. EOC would lower the financial risk for employers when hiring new workers, encouraging them to hire in a legal way. With additional measures, such as training of workers, effective collective bargaining, and internal flexibility, EOC could achieve increasing productivity in a much larger scale than with the current indefinite and temporary contracts.

7.2 Further facilitation of contract modification

I recommend envisaging further steps to facilitate contract changing in order to enhance the internal flexibility. The current conditions that allow contract modification through collective bargaining imply objective causes, lasting at least two consequent trimesters. I believe that a firm in worsening financial situation that needs to adjust to the market conditions quickly should be allowed to **change contracts after 3 months** instead of the current six months. Especially the use of measures such as working hours reduction, time distribution, and functional mobility should be promoted in order to prevent firms from the necessity to dismiss workers, or even to temporarily suspend the contract, when finding themselves in negative circumstances.

7.3 Restructuring the State Public Employment Service

Regarding the current functioning of SEPE, many structural changes are necessary to improve it. I suggest taking the example of the German Hartz III aimed at restructuring and modernizing the services offered by the employment offices in order to make their services more transparent, flexible, easier, and faster. The system

and allocation of resources should be **result-based and regularly evaluated**, with mid-term objectives and elaborated strategy pursued by all labour offices, paying special attention to those that would lag behind. Furthermore, the transparency is one of the important elements that must be enhanced in order to reduce corruption, which is one of the main problems present in the Spanish administration.

For a better execution of labour market policies, I strongly recommend the **modernization of communication and information technologies** that would increase efficiency and speed up operations. This applies to all Spanish public administration, given its excessive bureaucracy and constant competences transfer that slow down its processes.

Furthermore, the **public-private cooperation** of SEPE with temporary work agencies **should be further fostered**, given that the agencies proved to be much more efficient in workers' allocation than SEPE.

7.4 ALMP improvement

7.4.1 Training

Regarding passive LMP, the system of unemployment benefits and subsidies seems to be fair to me, given that the length of their provision is conditioned by the length of the previous contribution to social security and is limited by time. However, ALMP call for further improvements. Despite the reform's promises to improve the dysfunctional ALMP in order to increase opportunities for the unemployed, it offers no specific action to achieve that. First of all, SEPE should attempt to **increase resources for professional training** for both employed and unemployed and to less rely on social security rebates.

As pointed out in my research, only 16.7% of the unemployed participated in training courses in 2014. This number is desperately low, given that more than half of the unemployed have low education. In order to increase their opportunities, the unemployed should be provided with **adequate training that matches the firms' needs**. To find them out, the State Public Employment Service (SEPE) should require firms to answer a regular questionnaire that would provide sufficient information about their requirements for new hires. Also an ongoing monitoring of vacancies characteristics is essential to assess which courses should be offered. At the same time, the participation of the unemployed on trainings should be mandatory with possible benefit cut when rejected, following the example of the German "*Fördern und Fordern*" principle ("rights and duties").

I believe that there should be a **bigger offer of online courses and webinars** because their cost per head is much lower and they provide more flexibility to the participants, whose number is not limited by space. All job searchers should have unlimited access to online courses and webinars. The participants should be examined after the completion of each course and good results would enable them to access other courses that are sometimes difficult to enter due to an excessive de-

mand. The courses should be evaluated by participants in order to assess their quality and real impact, eliminating those with bad results, which would increase providers' competition and efficiency.

7.4.2 Job assistance

Graduated and students finishing their studies who search for their first job should be provided with **particular job assistance** that would start already during the last few months of their studies. Unemployed for longer than 6 months should also get special job assistance. A job assistant together with the job searcher would work out an **action plan** based on the searcher's preferences, skills, abilities, and weaknesses. The action plan should be always in coherence with the actual needs of firms and focused on job searcher's weaknesses' correction.

7.4.3 Rebates on social security contributions

The current scheme of rebates on social security contributions applies to promote employability of young, long-term unemployed, and women (contract to support entrepreneurs and contract for training and learning). However, there is no deeper control of their execution, which might lead to the employers' misuse of these rebates and hired workers' dismissal as soon as these rebates period ends.

To prevent this, I suggest an **ongoing evaluation** of such rebates' provision in order to find out whether these really help to improve the workers' employability. The rebate should be granted only if the worker stays employed for notably longer time than the rebate's duration and its amount should gradually decrease in order to smooth the transition into a regular non-subsidized regime. In case of rebates' misuse, they should be fully returned, which would foster the employers' moral when applying for them.

7.5 Severance pay reform

Paying severance pay creates a huge financial burden for firms. In order to alleviate them, the severance pay could be transformed into employers' **monthly payments into individual saving accounts in employee funds** that invest on the capital market. Similar system was adopted in Austria by the severance pay reform in 2003 (Hofer, 2007). The employer pays 1.5% of the gross wage into an account that is set up after the first month of employment relationship. In case of contract termination, the worker can opt for a cash payment, further investment in the same employee fund, or transfer into the new employer's fund. Thus, the worker can accumulate his severance pay during his working life, which serves as a form of saving for retirement. Upon retirement, the money can be provided as a one-time cash payment, or it can be paid regularly as an annuity.

This way, the severance pay does not depend on the job tenure, type of contract, neither on the way of job termination. At the same time, firms are not sub-

jected to the risk of liquidity problems when dismissing a bigger amount of workers.

7.6 Legal certainty

The constant changes in legislation (not only in labour law) contribute neither to the country's economic and political improvement nor to the certainty of its inhabitants. If there are going to be any structural changes, whether in labour legislation or other spheres, there should be a strong emphasis on its future good functioning without necessary changes in the short/mid-term. The adoption of three subsequent labour market reforms in 2010, 2011, and 2012 are typical example of unsuccessful law implementation. The adopted legislation should be relatively simple, understandable, and stable.

At the same time, the law enforcement must be fast and effective, which implies well-functioning judicial system. With this assumption, the employers (and others, especially in politics and administration) would not be so prone to shadow economy, fraud, and corruption.

7.7 Controlled access to finance

To excessively hinder access to finance in times of crisis only worsens the situation on the market. According to the latest biannual survey on access to finance conducted by the Spanish Central Bank, the share of SMEs having difficulties to access credit declined from 25% in 2012 to 17% in 2014. This is a big improvement given their average share in eurozone was 13% in 2014 (bde.es, 2015).

On the banks' side, I recommend controlling the assigned credit together with the value growth of companies on stock market in order to avoid another disproportionate boom. Banks should always ensure their credit provision with a series of requirements for the credit applicants that must be fulfilled, even in times of expansion. On the other hand, in times of economic downturns the access to finance should not be dramatically restricted to avoid even deeper recession.

It is worth mentioning that even though banks evict the households that have stopped paying their mortgage, these households are still obliged to pay the mortgage back (elpais.com, 2015). Since the beginning of the crisis, this has contributed to the increasing inequality among Spaniards and the deterioration of their social conditions. So far the government has not taken any measure to help the citizens in need and limit the power of banks. These are those who, despite the initial liquidity problems, have benefited with the crisis. I believe that this privilege of banks to require the mortgage payback even after taking the debtor's pledge should be eliminated because there is no rational reason to perform such action.

8 Discussion

In the discussion part of the thesis, the recommendations I proposed in the previous part are going to be critically compared with relevant authors' opinions.

First of all, there is a big controversy regarding the Equal Opportunities Contract (EOC). While Dolado (2012) eagerly promotes it claiming that it's a perfect tool to end up with the dualism, González et al. (2015) argue that this contract has not yet been implemented anywhere and instead of decreasing the dualism it would only erase the numbers of temporary workers in the statistics while dramatically decreasing all workers' rights that have already been fairly decreased by the subsequent reforms in the past few years. González et al. (2015) indicate that the labour market dualism present in Spain is caused by the misuse of temporary contract, where the employers conclude them even for jobs whose nature is not temporary and then terminate them despite not having any reason for it. This action is illegal, but since there are no legal instruments to control it, the employers keep doing it since it became available in 1984. Instead of implementing the EOC, they suggest restoring the legally adequate use of temporary contracts.

I believe that if the severance pay is set properly in terms of sufficient workers' protection and amount paid in time, provided as monthly payments into employees' saving accounts (as suggested in my other recommendation), EOC could be a stimulating tool to increase workers' and employers' security and productivity.

Regarding the omnipresent fraud and corruption, Outrata (2015) supports my recommendation of legal certainty and effective law enforcement by an argument that the range of public services is not as important for a country's economic prosperity as the legal certainty of its inhabitants and the minimization of government's restricting of entrepreneurs. At the same time, Köhler and Calleja (2013) have the same opinion on the need to simplify the excessive bureaucracy and constant competences transfer in public administration that lead to lack of transparency, and to control the provided resources.

When proposing recommendations, I decided not to recommend the German *Kurzarbeit*, because I agree with the arguments of Sánchez published in El Confidencial (2013). There are various reasons why the German *Kurzarbeit* would not succeed in Spain. First of all, the share of employment in large companies in Spain is twice smaller than in Germany (17.8% vs. 33% in 2012). At the beginning of the crisis, 76% of the *Kurzarbeit* beneficiaries worked in the manufacturing sector, given that German GDP is mainly driven by exports. This means that *Kurzarbeit* is designed for industrial economy where the drops in demand are inherent to the economic system, and are only temporary, so for the companies it is convenient to apply *Kurzarbeit*. In Spain (as already mentioned in the subchapter 3.2.3), around 1.75 million dismissed workers previously worked in the construction sector, which was neither internationally competitive nor sustainable in the long-run, and the firms expectedly preferred to dismiss their workers than to keep paying them

half of the salary. Furthermore, it is only meant as a temporary substitution of part of the salary, but in the case of Spain, the high unemployment is persistent. Last but not least, the collective bargaining in Germany is highly centralized for each industrial sector which allows the labour reforms to adapt immediately to each firm's needs, while the Spanish collective agreements amounted to 3,016 with 75% of them on the firm-level. Hence, the German Kurzarbeit would not be successful in Spain because the characteristics of the countries' economies are simply too different.

Ensuring social protection for all unemployed in Spain, more than €4bn per year would be required to pay out the allowances. A question, whether this would be sustainable, arises. Benoit and Duarte (2014) indicate that Spanish debt will reach 100% of GDP in 2015, borrowing other €242bn. According to the study of the BBVA bank (as cited by Amigot, 2014), the maximum sustainable indebtedness of Spain amounts to 123.45% of its GDP. Hence, the debt is still situated in sustainable values. However, even though the Spanish Central Bank (*Banco de España*) is optimistic in the economic forecast for this year, promoting an increasing GDP growth, Spain will have to try hard to pay the debt back in the future. I believe that in such situation the probability of paying more on unemployment compensation is low.

The same applies for the funds required to restructure and modernize labour offices and to improve ALMP. However, the amount of resources necessary for these actions is far lower and is indispensable for the improvement of the poor functioning of SEPE. The necessity to foster ALMP was urged by UGT (2015), one of the two major labour unions in Spain that emphasized that ALMP should not put too much weight on the provision of rebates on social security contributions for the private sector and should rather invest more into the modernization of services provided by labour offices to improve training and employability and facilitate the permanent integration of the unemployed.

In the past few years, many reforms were adopted in Spain. Apart from the many reforms relating to the labour market there were the reform of pensions, reform in the banking sector and in the public sector, the energy reform, and educational reform among others. It would be an interesting topic for the future master's thesis to evaluate the impacts of these reforms on the Spanish economy.

9 Conclusion

In this thesis I described the main characteristics of the Spanish labour market. The objective was to evaluate the labour reform from 2012 and find out whether this has been successful or not. A partial objective was to calculate the costs of the application of German labour market model into the current situation in Spain. Analyzing several labour market indicators, I evaluated each of the reform's nine objectives.

At the beginning I stated a series of research questions that were answered throughout the thesis and helped to fulfil the objectives. To answer the first question, the **main problems of the Spanish economy are** the labour market rigidity and excessive dualism, ineffective ALMP, low competitiveness (labour costs increasing faster than productivity during the construction boom), high indebtedness of private sector, excessive inclination of the market towards construction and tourism, lack of innovation capacity and internationally competitive industries, excessive bureaucracy in the state administration, corruption, extremely polarised size of enterprises (95% of all firms had fewer than 10 employees in 2012), overwhelming tax system, presence of shadow economy (20% of GDP), and huge energy waste.

The second question asks **what causes the high unemployment**. It is caused by extreme labour market dualism (nearly 25% of all workers had temporary contracts in 2014), the automatic extension of collective agreements that impedes firms to quickly adapt to the fast-changing environment, making the labour market very rigid, and the poor ALMP that provide insufficient training for unemployed and instead relies on rebates on social security contributions.

The labour market reform from 2012 helped to slightly improve the rate of hiring on indefinite contract, it relaxed the conditions of part-time contracts, which had positive impact on its use, as well as it established the new indefinite contract to support entrepreneurs that has been concluded by more than 270 thousand workers since then. However, the level of temporality remains one of the highest in EU (24.3%).

The alternatives to dismissal such as reduction of working hours and temporary suspension of contract helped to preserve almost 800 thousand jobs over 2012-2013. At the same time, the nominal wage has decreased due to the wage adjustment in both public and private sectors, accompanied by increasing productivity. This helped to improve the country's competitiveness.

Concerning the collective bargaining, the reform gave priority to firm-level agreements over the higher-level ones. Its positive influence was observed mainly in new firms joining collective bargaining, whose number more than doubled since 2011. At the same time, firms with economic, technical, organizational, and production problems were allowed by the reform to opt-out of the collective agreements whose force otherwise automatically extends to all sector or region. Since its application, over 5 thousand firms opted-out affecting almost 268 thousand work-

ers, mainly to deal with the regular salary increase. This step of the reform was considered successful.

Despite the reform's claims to improve workers' training, it does not propose any specific measures to achieve that. The participation of the unemployed on trainings was less than 17% in 2014, which is an alarming number given that more than half of them had low education. The system of training is obsolete, with rare competition of providers that does not ensure quality training and makes it more expensive, and there is no continuous evaluation on its efficiency. The only group of workers whose training situation was improved were the young up to 30 years old, given that the use of the promoted contract on training and learning more than doubled since 2012.

The share of long-term unemployed significantly increased over time and at the end of 2014 they represented 61% of the total unemployed. The youth unemployment remains very high as well (around 50%). The reform did not ensure any effective measures to improve the situation of both problematic groups.

An important shortcoming of the reform is the insufficient change of ALMP measures that would equilibrate the liberalization of dismissals. Given that the principles of flexicurity are flexible labour market, high social protection of unemployed workers, and effective ALMP system, only the first measure was improved. There are still over 2 million workers that already do not receive any benefits, hence the second pillar of flexicurity ensuring their social protection has not been met. The spending on ALMP consists of inefficient training procedures and excessive spending on rebates on social security contributions.

Hence, the **answer to the research question, whether the Spanish labour market from 2012 was successful, is unfortunately no**. I considered the reform unsuccessful due to its unsatisfactory measures that have not sufficiently helped to improve the situation on the Spanish labour market.

Furthermore, I researched the Hartz reforms implemented in Germany in 2003-2005 and their impact on the German labour market. According to the relevant literature, the **Hartz reforms successfully decreased unemployment and restored the country's competitiveness**. However, nowadays there is a significant number of workers with low-paid or temporary jobs, leading to **increasing social differences**, presenting an important problem that will have to be solved in the future. I conducted an experiment aiming at calculating the costs of potential implementation of the German model of unemployment compensation into the current labour situation in the Spanish market. The results indicated that the annual cost per one short-term unemployed in Germany in 2014 was €2,791 lower than in Spain, as well as the cost per one long-term unemployed, which was €390 lower. With these numbers, increasing the Spanish SEPE budget by additional €4b would ensure social protection to more than 2 million long-term unemployed that were already not financially covered in 2014. Thus, the answer to the research question, whether the German **Hartz reforms are applicable to the current Spanish labour market situation is yes, at additional cost of €4bn**.

In the sixth chapter of my thesis I answer the last research questions asking for **improvements of the Spanish labour market**, proposing a series of measure that I believe would improve the current situation in the Spanish labour market. These measures concern the elimination of indefinite and temporary contracts and implementation of a single open-ended Equal Opportunities Contract (EOC) with increasing severance pay with the job tenure, which would definitely end up with dualism.

Additionally, I propose further enhancing of internal flexibility by modifying the contract after only 3 months duration of objective problems instead of the current six in order to faster adjust to market needs.

I believe that the State Public Employment Service should invest in its modernization, becoming result-oriented, faster in processing, and transparent. There is a big need to improve its communication and information technologies. As the temporary work agencies proved to perform better in workers' allocation than SEPE, I recommend deepening the public-private cooperation of these partners.

Regarding ALMP, I suggest ensuring adequate training for both employed and unemployed that would match the firms' needs and its continuous evaluation. It would be advisable to shift the training towards online courses and webinars, because they provide more flexibility to the participants at lower unit cost. Young and long-term unemployed should get particular job assistance with elaborated action plan focusing on their preferences and weaknesses' elimination. The rebates on social security should be granted with the condition of worker's employment for notably longer than the time of rebates' duration and permanently evaluated to find out their effectiveness.

In order to alleviate employers' when paying the severance pay, I recommend their regular deposit into individual saving accounts in employee fund that operates on the capital market. In case of contract termination the worker can choose to withdraw the account or further invest in the same employee fund or transfer into his new employer's fund. The severance pay would not depend on job tenure neither on the way of job termination, and would avoid possible liquidity problems for employers.

The last two recommendations comprise legal certainty with stable, simple, and understandable legislation and effective judicial system, and controlled and appropriate access to finance in times of both economic booms and downturns.

In the discussion part are then critically evaluated some proposed measures regarding their possible impact and viability.

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