

# 13. Those were the days, my friend: The public sector and the economic crisis in Spain

**Rafael Muñoz de Bustillo and  
José-Ignacio Antón**

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## 1. INTRODUCTION

After more than a decade leading employment creation in the European Union (EU), in 2008 Spain was hit by the international financial crisis, which quickly turned into a severe economic recession. The advent of the international turbulence added to the bursting of the housing bubble and the end of easy and cheap credit in an economy with a large current account deficit. The consequences have been devastating: GDP experienced a fall of 4 per cent from 2008 to 2010, employment declined by more than 10 per cent and, in the context of a growing labour force, unemployment climbed from barely 8 per cent in 2007 to 22 per cent by the end of 2011.

After some initial countercyclical measures in line with Keynesian prescriptions, in the middle of 2010 the Spanish government changed the course of its economic policy and embarked on a process of fiscal consolidation, a move partly associated with pressures from the European Central Bank and the ‘international financial markets’.

The aim of this chapter is to describe in detail the main features of the Spanish public sector, particularly those related to employment and how the economic crisis and the subsequent spending cuts have affected both the level and quality of employment and the provision of public goods by the state. With that aim, the chapter unfolds as follows. After a brief presentation of the main features of the Spanish public sector in Section 2, Section 3 focuses on the characteristics of public sector employment. Section 4, the core of the chapter, deals with the implications of the crisis and the process of fiscal consolidation for the delivery of public services, employment and industrial relations in the public administration. Section 5 illuminates this process by means of two case studies centred on two of

the sectors most affected by the spending cuts: health care and education. The final section summarizes the main conclusions.

## 2. OVERVIEW OF SPANISH PUBLIC SECTOR EMPLOYMENT

The first defining characteristic of the Spanish sector is its smaller size compared to European counterparts. With public spending of 38.4 per cent of GDP in 2006, just before the crisis, Spain had one of the lowest levels of government expenditure in the EU. After the increase in public spending relative to GDP associated with the fall in national income and the rise in both discretionary expenditure and that linked to the action of automatic stabilizers the level of government spending climbed to 45 per cent, still below the 50.3 per cent EU average. This helps to explain why public employment represents 13 per cent of total employment in 2005, before the crisis, slightly below the OECD average. This figure was one of the lowest in the EU, similar to the Netherlands and the Czech Republic and above only Germany, Slovakia and Austria.

The second idiosyncrasy of the Spanish public sector is the intense and rapid decentralization of the public sector from the central government to the regions (*Comunidades Autónomas*).<sup>1</sup> This process has resulted in an abrupt reduction in employment in the central administration over the past two decades, mainly in favour of the regions, which manage a significant part of welfare state services, such as education and health care. By the end of this process, Spanish regional governments contributed almost 56 per cent of total public employment compared to slightly over 18 per cent on the part of central administration and social services and 21 per cent on the part of local authorities.

According to data from the Spanish Labour Force Survey (LFS), public employment played a very minor role in the employment growth experienced in Spain in the decade prior to the crisis: from the second quarter of 1996 to the second quarter of 2008, public employment rose by 31 per cent, whereas the number of people employed in the private sector increased by more than 65 per cent. During the crisis, from the second quarter of 2008 to the second quarter of 2011, while private sector employment decreased by roughly 10 per cent, the number of public employees experienced a growth of 10 per cent. This explains why the public employment ratio went from 14.4 to 17.6 per cent during this period. Since then, the impact of the measures taken to reduce public expenditure has led to a reduction of 3.6 per cent in total public employment (second quarter of 2012).

A last important feature of public employment in Spain is its unequal

distribution across Spanish territory. In some regions, such as Catalonia or the Balearic Islands, public employment is well under the average, while in others – notably in Extremadura – it contributes roughly to a quarter of total employment. In fact, unsurprisingly, on average, less-developed regions – in terms of per capita GDP – have higher rates of public employment. The reason behind such unequal incidence of public employment across all regions is the existence of universal social rights in areas such as health or education that warrant the public provision of certain services independently of the market and the level of regional economic development.

### 3. CHARACTERISTICS OF PUBLIC SECTOR EMPLOYMENT

#### 3.1 Work Contracts

Theoretically, most employment in the public sector should be permanent as, traditionally, public employees are *funcionarios* (civil servants) who join the public sector by an open process of selection based on competitive examinations. In practice, a sizeable proportion of public employees – around a quarter – have fixed-term contracts. In fact, due to the downward impact on employment of the economic crisis, and the reliance of firms on the non-renewal of temporary contracts as a mean of adjustment (Muñoz de Bustillo and Antón 2011), by 2011 both public and private sector had similar rates of temporary employment (24 and 25 per cent, respectively).

From a gender perspective, in the public sector, in sharp contrast to the private sector where the share of men and women with fixed-term contracts is similar (especially after the crisis), women have a higher rate of temporary employment. In 2011, male public employees had a temporary employment rate of 18.5 per cent compared with 29 per cent of their female colleagues (thus, 55 per cent higher among women). This difference was even greater during the first year of the crisis, when one-third of women in public employment had a fixed-term contract. The adjustment process pursued in the public sector and involving non-renewal of temporary contracts thus hurt more women than men. As a result, women are underrepresented in the group of public sector employees with the highest employment protection, civil servants. The higher female temporary employment rate is partly explained by the high use of fixed-term contracts in education and health, activities with a high female presence.

### 3.2 Job Quality

Using data from the 2006–10 waves of the Quality of Work Life Survey (QWLS), comprising information (35 variables) on overall job satisfaction, wage, work organization, work environment, labour relations, working-time arrangements, health and safety conditions and training opportunities, we find that public employees show a higher level of overall satisfaction and higher satisfaction with working-time arrangements, even after controlling for different covariates. Other differences worth mentioning are the following: (a) better training opportunities for public employees;<sup>2</sup> (b) lower satisfaction with work organization among public sector workers, although the difference is explained mainly by observable characteristics; (c) lower satisfaction among the same types of employees, with variables related to work environment, such as air conditioning or space; (d) differences in labour relations are tiny, particularly when controlling for observable characteristics; and (e) in terms of health and safety conditions, public employees seem to experience a higher level of risk at their job, while, at the same time, they report being less satisfied with health and safety conditions and equipment than their private sector counterparts. We might conclude that, on average, public sector employees enjoy better working conditions in terms of working time and flexibility, and training. Therefore a reduction in public employment will have a negative impact on the overall level of job quality.

### 3.3 Gender and Age Distribution

Due to the increase in women's labour force participation over the past two decades, women have constantly gained share of total employment in both the private and public sectors. Nevertheless, this tendency has been slightly stronger in the public sector than in the private one: according to LFS data, in the former, the share of female employment went from 34 per cent in the second quarter of 1987 to 54.1 per cent of total employment in the second quarter of 2011, while in the latter – excluding self-employment – during the same period, the share of females evolved from 27.1 to 45.5 per cent. Women have accounted for more than half of total public employment since 2003.<sup>3</sup> Furthermore, around 21 per cent of total female employment is in the public sector (compared to 15 per cent in the case of men). This fact has important implications when discussing the impact of fiscal consolidation on public employment: it is likely that an overall downsizing of public employment is having a higher than average impact on women.

Public employment is also idiosyncratic in terms of age distribution, having an older workforce, with a higher proportion of workers from 45

to 49 years old compared to 30 to 34 years of age in the private sector. The difference is particularly significant at both extremes of the age range, with a very low proportion of public employees below 25 years of age (2.6 compared to 7.2 per cent in the private sector) and a much higher proportion of older (55 and over) workers: 18.3 per cent in the public sector compared to 9.5 per cent in the private sector. These differences are explained by the higher rate of dismissal of older workers in the private sector (probably related to their higher wages and declining productivity) and by the higher educational requirements and longer process of selection (*oposiciones*) of public employment.

### 3.4 Pay

The structure of pay in Spanish public administration and the differences from the private sector are studied using the Continuous Sample of Working Histories 2009 (CSWH 2009), an administrative register based on social security records.

First, we address the issue of the differences in average pay, dispersion of earnings and incidence of low pay between public and private sector workers. According to the database mentioned above, in 2009 the mean and median wages in the public sector were roughly 16 and 31 per cent higher, respectively, than in the private sector, while the dispersion of hourly pay was substantially lower among the former, as suggested by the standard deviation and the Gini and Theil indexes (Table 13.1). The different percentile ratios show that the source of this lower dispersion is not in the lower part of the earnings distribution: in fact, all the ratios presented in the table are fairly similar or even smaller in the private sector (for example,  $p50/p10$ ), with the exception of  $p90/p50$ , indicating that the differences in dispersion against the private sector have to do with the upper part of the wage scale, that is, the differences in terms of earnings within each sector between employees with high and those with medium earnings. Using the well-known additive decomposability of the Theil index, it is possible to determine that more than 99 per cent of total wage dispersion is associated with within-sector inequality, that is, the average gap between public and private sector employees plays a marginal role in explaining earnings inequality in Spain.<sup>4</sup> Therefore, as long as pay inequality is lower among public employees, in principle, and without knowing the distribution of job cuts across the earnings distribution, one can speculate that an overall downsizing of public sector jobs will contribute to increasing wage inequality. Finally, the incidence of low pay, in terms of both monthly and hourly wages, is higher in the private sector (almost 30 and 20 per cent, respectively) than in the public sector (roughly, 10 and 13 per cent, respectively).

Table 13.1 Main descriptive statistics of hourly gross earnings, private and public sectors, Spain, 2009

	Private sector	Public sector
Mean hourly gross earnings (€)	11.900	13.900
Median hourly gross earnings (€)	9.100	11.900
Standard deviation of earnings (€)	16.700	10.400
p90/p10	4.240	4.300
p90/p50	2.220	1.900
P50/p10	1.910	2.260
Gini index	0.357	0.315
Theil index	0.285	0.185
% of low-paid employees (gross monthly earnings)	28.600	10.700
% of low-paid employees (gross hourly earnings)	19.600	12.600

Source: Authors' analysis from the Continuous Sample of Working Histories 2009 with tax information.

Second, using the same data source, we explore the earnings gap between public and private employees. Particularly, we explore which part of the gap is not explained by differences in the basic observable characteristics of the workers. In order to do so, we apply the well-known Oaxaca–Blinder decomposition (Oaxaca 1973; Blinder 1973). This strategy requires selecting a reference group whose returns to human capital endowments are considered standard. Since from a theoretical perspective it is more appropriate to refer to –earnings gap as a public sector wage premium rather than unfavourable treatment of private workers, private employees are chosen as reference. With this methodology the total gap can be decomposed into a gap explained by characteristics ( $\Delta^{\text{explained}}$ ) and another unexplained by such endowments, or due to differences in returns to them ( $\Delta^{\text{unexplained}}$ ). The first component refers to earnings differences observed if both types of worker had the same characteristics and public sector employees were paid like their private counterparts, whereas the second has to do with the differential observed if workers employed by private firms had the same observable endowments as employees holding public jobs.

In addition, using the same strategy, we explore in which sectors male–female wage gaps not explained by differences in productivity are narrower. In this case, it is reasonable to consider that the reference group, which defines the returns to observable characteristics considered as standard, are male workers.

The results of the decomposition of the hourly gross wage gap between public and private employees indicate an earnings differential in favour of public sector employees of 19.4 per cent on average, 17 per cent among men and 29.5 per cent among women; 31 and 65 per cent of such differentials are not due to observable characteristics and can be attributed to more favourable treatment for public sector employees. As long as most hiring in the public sector is regulated by rigid, public, open and often widely known administrative procedures – for example, competitive examinations – the room for discriminatory practices against women in the sector is smaller, which can explain why women in the private sector face a much larger disadvantage than their male counterparts.

This finding is complemented by the results of the decomposition of the gender pay gap in both types of employment (see third and fourth columns of Table 13.3, below). The gap in the public sector is roughly 19 per cent and it complies entirely with differences in returns to observable characteristics, while the differential rises to more than 31 per cent in the case of private firms, 23 percentage points of which are not associated with human capital and firm characteristics but differences in returns to such observable endowments. Therefore, although the unexplained gender differential in the public sector is definitely wide, it is below the level of the gap in the private sector, giving some support to the theoretical explanation suggested above based on the smaller likelihood of discrimination in the public sector. Therefore, as long as the gender gap is narrower in the public than in the private sector, an overall cut in public employment – even if equally distributed between sexes and sectors of activity – is likely to result in greater earnings differentials by sex.

A further step is to study how these average gaps evolve across earnings distributions, a task that can be accomplished by applying the Machado–Mata decomposition (Machado and Mata 2005), an econometric technique based on quantile regressions that allows the gap not explained by human capital and other observable characteristics to be computed. Although the details of this technique are not presented here for brevity, we refer to the main results: (a) the public sector wage premium decreases along the wage distribution and is higher for low-skilled than for high-skilled workers, for which the premium is even negative. For example, after controlling for observable characteristics, the wage premium is null at the 90th percentile (around –13 per cent for men and +11 per cent for women); (b) the disadvantage faced by women is larger in the private sector across practically the whole earnings distribution; this gap is wider at the lower and upper tails in the private sector, while it is roughly steadily decreasing along the earnings

distribution of public sector employees. This applies to both the raw gap and the differences detected after controlling for observable characteristics, suggesting that cuts in public employment will contribute to achieving not only worse distributional outcomes but also worse results in terms of equality of opportunities, as long as employment in this sector, where gaps not explained by human capital characteristics are lower (and, hence, equality of opportunities might be considered greater), is downsized.

#### 4. FROM THE FINANCIAL TO THE FISCAL CRISIS: THE IMPACT OF THE CRISIS ON THE SPANISH PUBLIC SECTOR

##### 4.1 General Overview

As we have argued elsewhere (Muñoz de Bustillo and Antón 2011), the government has followed two very distinctive types of economic policy during the present economic crisis. In the first stage of the crisis the government applied the classic Keynesian recipe, compensating for the decrease of effective demand that followed the financial crisis, the bursting of the construction bubble and the credit crunch, with an increase in public expenditure. Simultaneously, the drop in GDP and the heavy reliance of the tax system on the taxation of revenue related to the construction industry led to a significant drop in public revenues of 6 percentage points from 2007 to 2009. As a result of the combined impact of both tendencies (see Figure 13.1), the public balance went from a surplus of 1.9 per cent in 2007 to a deficit of 11.2 per cent in 2009.

In 2009, the financial crisis suddenly evolved into a debt crisis and the concerns of the government turned from fighting the drop in effective demand to adopting whatever measures were necessary (and demanded by EU institutions, the IMF and the international financial markets) to reduce the public deficit up to 4 per cent of GDP in 2012 and 3 per cent in 2013. The combined impact of the actions taken on the expenditure and revenue sides enabled a reduction of the public deficit by almost 3 percentage points in two years, but also led to a sharp reduction of demand at a moment when the public sector, together with exports, was the only actor capable of sustaining and improving the effective demand needed to pull the economy out of virtual stagnation.<sup>5</sup> In 2011, public consumption decreased by 2.2 per cent, while exports – the only component of aggregate demand with a positive contribution to GDP – increased by 9 per cent. In spite of this harsh programme of fiscal consolidation, the deficit at the end of 2011 reached 8.5 per cent of GDP, far above the 6 per cent



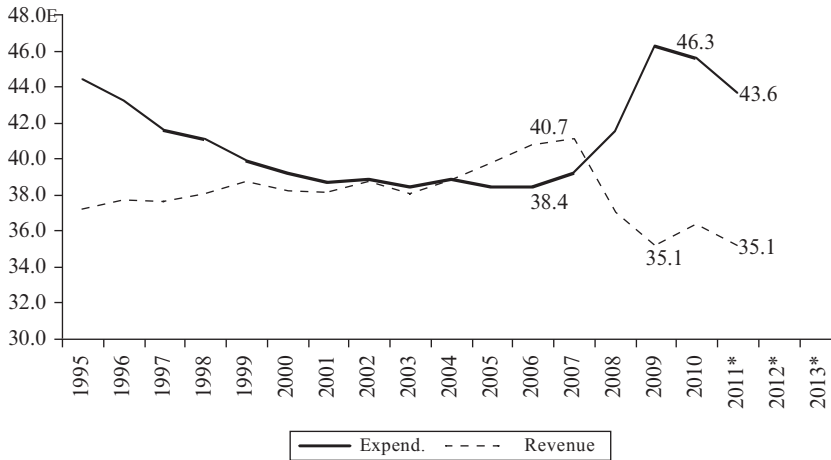
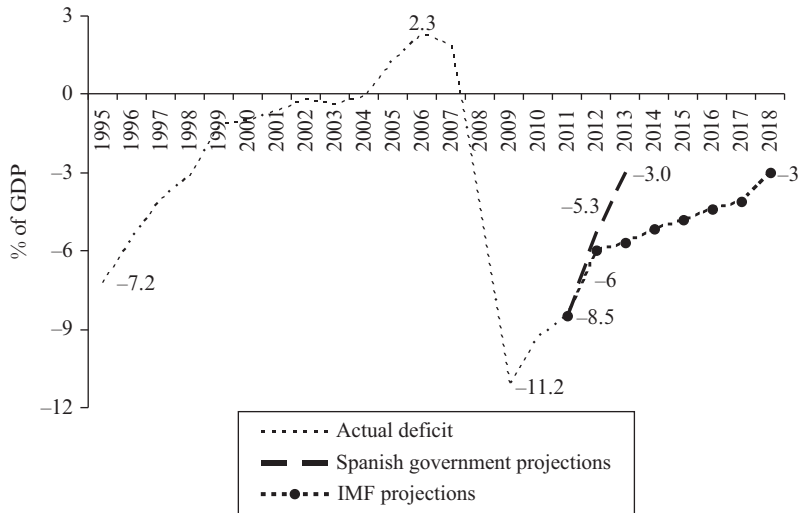


Figure 13.1 Public budget balance, revenue and expenditure, Spain, 1995–2011

target. According to the Bank of Spain, 90 per cent of the deviation from the target was associated with tax revenues, as a result of the stagnation of the economy, since public spending was even lower than budgeted despite the unexpected increase of the interest rate paid on public debt issues (Banco de España 2012). Nevertheless, the European Central Bank and the European Commission have, so far, shown no mercy, not taking into consideration ‘mitigating circumstances’ and have severely reprimanded Spain’s ‘misbehaviour’ and lack of compromise and seriousness and have argued that fiscal consolidation is indispensable. In response, the government has renewed its compromise with austerity and has promised to make additional cuts in order to achieve deficits of 5.3 per cent in 2012 and 3 per cent in 2013 (Figure 13.2). According to the IMF, it is unlikely that such adjustment is feasible in the current context of depression and considers that the 3 per cent objective could be accomplished only by 2018. This process of fiscal retrenchment planned by Spanish authorities entails that all regions in 2012 must achieve a fiscal deficit of, at most, 1.5 per cent of their regional GDPs (against an estimate of over 3 per cent in 2011). Such reduction of the deficit means a reduction of the budgeted expenditure for 2012 of more than €14 billion. In addition, at the end of April 2012, the central government passed a law on budget stability stating that, from 2020, all public administrations will have to present a zero budget deficit, irrespective of economic conditions, and that the central government will be able to take the control of regional administrations if they do not meet central fiscal objectives.



Sources: Authors' analysis of expenditure, revenue and budget balance data from Eurostat (1995–10), Bank of Spain database, forecast budget balance data from the Spanish government (2012–13) and the IMF (2012–18).

Figure 13.2 Public budget balance, actual deficit and projections, Spain, 1995–2018

## 4.2 Allocation of Spending Cuts

Spain is a much more decentralized state than most developed countries. According to OECD statistics, public spending in Spain was roughly 46 per cent of GDP in 2009, of which 51 per cent was accounted for by the central state, 35 per cent by the autonomous communities and 14 per cent by local governments. Therefore, in order to assess how the reduction of spending is affecting the different areas of the public sector, one needs to look at the budgets of the various components.<sup>6</sup> In Spain, the central state is responsible for some public goods (defence and in part, security forces and justice) and part of social spending, mainly pensions and unemployment benefits. Regional governments or autonomous communities have competences in health and education, among others, thereby concentrating a very important share of public social expenditure. Finally, local governments administer local public goods (water supply, street lighting, garbage collection and so on) and in some cases (large municipalities) in some autonomous communities local government provides some types of social assistance and childcare facilities. In

*Table 13.2 Evolution of central state budget during the crisis, Spain, 2008–2012 (annual real rate of growth)*

	2008	2009	2010	2011	2012
1. General public services (justice, defence, security, etc.)	8.6	-0.8	-2.8	-11.5	-9.2
2. Social protection (pensions, employment, housing)	3.6	10.3	7.6	-6.1	-3.9
Unemployment	4.9	24.6	56.1	-4.5	-5.5
3. Health	1.5	4.6	-1.6	-11.1	-6.8
4. Education	13.9	2.2	1.6	-10.8	-21.9
5. Culture	4.1	0.8	-8.7	-6.2	-15.1
6. (2–5) Social expenditure	3.8	11.2	12.1	-6.0	-4.3
7. Economic affairs (infrastructure, R&D, agriculture, industry, etc.)	4.2	-1.4	-1.0	-19.6	-17.0
8. General expenditure (including debt)	2.9	1.6	12.9	-29.3	13.8
Total	3.8	5.3	7.2	-15.0	-1.3

*Note:* The annual rate of growth is computed as the difference between nominal rate of growth and rate of growth of the consumer price index (CPI). All figures correspond to authorized spending.

*Source:* Authors' analysis of data from the Spanish Ministry of Budget and Public Administration ([www.sggp.pap.meh.es/sitios/sgpg/es-ES/Presupuestos/](http://www.sggp.pap.meh.es/sitios/sgpg/es-ES/Presupuestos/)).

each case, figures come from the different budgetary information available when writing this chapter.

#### 4.2.1 Central state

In keeping with the evolution of the Spanish deficit presented above, central state budget data (Table 13.2) reflect an increase in real total expenditure in almost all categories until 2009 (except defence). In contrast, after the economic policy turnaround in May 2010 from expansive fiscal policies to immediate fiscal consolidation, the budget was severely cut: in 2011, total spending was reduced by 15 per cent and social spending decreased by 6 per cent, with cuts even affecting unemployment benefits and pensions. The 11 and 10 per cent declines in health and education spending, respectively, are in principle less relevant, as long as competences in these areas are in the hands of regional governments, so state action in these fields is limited to regulation and some research institutes. In 2012, although central government spending is planned to diminish

only by 1.3 per cent, the budget also reflects relevant decreases in all areas except for general expenditure, because of the increase in the transfers to regional and local administrations and debt service.

#### **4.2.2 Autonomous Communities**

As already mentioned, regional governments in Spain play an important role in terms of public spending, particularly in social areas, as they have assumed competences in health, education and social exclusion, among others. According to the authors' one-by-one analyses of regional budgets from 2009 to 2012 several conclusions can be drawn. First, regional budgets for 2009, elaborated in 2008, the year in which employment and economic activity began to decline, were clearly expansive and in most cases the growth of social spending was similar to the overall increase in budget resources. In the second place, cuts began in many autonomous communities in 2010, but they were not generalized and, in many cases, they did not affect social expenditure and education. However, all budgets were reduced in 2011 and almost the same applied to 2012.<sup>7</sup> In this case, resources allocated to social protection, health and education not only experienced reductions but also, in some regions, the cuts were even larger than in total expenditure. Although it is difficult to summarize the budget information of 17 regions, some examples might be illustrative: even without taking into account the additional cuts that regions are currently accomplishing in order to adapt to the lower transfers from central government, between 2010 and 2012, 12 out of 16 regions cut their budgets by more than 10 per cent, another two by less than 10 per cent, two increased the budget and the remaining one (Asturias), which is in the middle of a political crisis, is currently preparing the budget for 2012. Social spending was reduced in all the 16 regions (excluding Asturias, which will follow a similar pattern), with 10 of them imposing cuts of 10 per cent or more. Regarding health and education, the pattern was very similar: all the regions on which data are available reduced their spending from 2010 to 2012 in these areas, with 10 and 13 regions reporting cuts of more than 10 per cent in health and in education spending, respectively. In sum, regional governments, which are responsible for around 35 per cent of total public spending and most in-kind welfare benefits, have implemented contractive fiscal policies since 2010, with social areas (social protection, health and education) being affected along similar lines to total budget resources. Moreover, as already mentioned, the central state budget for 2012, approved at the end of June, involves lower transfers to regional governments, thus imposing additional spending cuts (and tax rises), which most autonomous communities are working on right now. Nevertheless, there are even more clouds on the horizon: according to

most predictions, even with all these measures, Spain is not likely to meet the deficit target and new cuts might be necessary.

### **4.2.3 Local governments**

The evolution of the local administration budget in Spain from 2008 to 2011 reveals that fiscal adjustment has affected local budgets in a similar fashion to other levels of government. From 2008 to 2009, local budgets were expansive, but that trend reversed from 2009. From 2009 to 2011, local public spending fell by 11.3 per cent, with a reduction in health spending by 29 per cent (it is not possible to calculate the change in the other kinds of spending because of a change in the classification of local spending from 2009 to 2010). From 2010 to 2011, local budgets were decreased by 12.1 per cent, with reductions of 12 per cent in social protection, 6.6 per cent in health and 14.3 per cent in education spending. Overall, the figures discussed above suggest that the crisis has also negatively affected the resources of municipalities and councils.

Three messages arise from this subsection, necessarily riddled with budgetary statistics: first, after a very brief Keynesian interlude, all Spanish administrations followed contractive fiscal policies; second, the aim was to accomplish fiscal consolidation mainly by spending cuts; and third, social spending was not safeguarded from such reductions: in fact, in most cases, the spending cuts have affected social areas in a similar way to – if not more than – total expenditure.

## **4.3 Impact on Pay, Employment and Working Conditions of Public Employees**

### **4.3.1 Impact on pay**

According to data from the National Statistics Institute and the Bank of Spain, for most of the decade before the crisis, public wages experienced a negative evolution in real terms (a decrease of 7 per cent between 1996 and 2003) or were stagnant (from 2004 to 2006), with a 1.1 per cent increase in 2007 and a 0.6 per cent decrease in 2009. Once the crisis began, only in 2009 can we see a significant increase in the real wage, the result of the unexpected drop in the CPI. The following year, 2010, the government announced a token wage increase of 0.3 per cent agreed with the trade unions in September 2010, but then unilaterally decided a 5 per cent decrease in nominal wages for 2011. This cut was applied progressively, from 0.56 to 7 per cent.<sup>8</sup> In 2011 and 2012, and also for budgetary reasons, nominal wages were frozen.

During the same period (2010–11), according to data from collective agreements, private real wages remained virtually stagnant. As a result

of these dynamics, the estimated earnings differential in favour of public employees (19 per cent in 2009) would be around 9 per cent in 2011, less than half the original differential, wiping out most of the unexplained gap – in other words, not corresponding to differences in human capital – estimated at 12 percentage points. Furthermore, as the nominal wage reduction of public employees has been progressive and the wage premium is lower for high-skilled public employees, it is safe to conclude that for the higher quintile, on average, the gap might even be negative now.<sup>9</sup>

Adding to such a general wage reduction for all public employees, several autonomous regions have passed wage cuts for their employees, for example, Castile-La Mancha (3 per cent), Catalonia (3 per cent annual summer bonus in 2011 and 2 per cent annual Christmas bonus plus another 2 per cent in 2012) or the Valencia Autonomous Community (reduction of specific wage complements for health – 50 per cent – and education employees). The former region also approved a reduction of working time in 2012, with a proportional reduction of wages for temporary public employees (excluding education and health) of 25 per cent. The same policy will be applied by Catalonia, in this case by 15 per cent, to temporary public employees working in ‘non-essential services’, affecting around 7,000 people, most of them in low-skilled jobs and already with low wages.

#### **4.3.2 Impact on employment**

The start of the debt crisis and the change from an expansionary to a contractive fiscal policy affected not only the wages of public employees, but also the level of public employment. While in 2008 public sector recruitment amounted to almost 36,000 jobs a year, in 2011 the number was reduced to slightly over 15,000. In 2010 and 2011 the replacement rate (percentage of vacancies, mostly as a result of retirement, covered by new public employees) was reduced to 10 per cent. In December 2011, the new conservative government announced that, irrespective of the number of retired public employees, there will be no new hirings in the public sector in 2012, with the exception of the armed and security forces, education and health, where only 10 per cent of retired workers will be replaced. As already mentioned, in less than one year public employment decreased by 3.6 per cent, and the trend is expected to continue in the near future, often involving termination of the contracts of temporary public employees

During the crisis, numerous reports have been published questioning whether there are too many public employees in the public administration. Although as shown by Navarro and Tur (2009), such reports often do not bear close examination, the idea has caught on with the public, and the reduction of public employment has become a commonplace when discussing possible strategies of fiscal consolidation.

### 4.3.3 Impact on working conditions

In order to analyse the evolution of working conditions among public workers during the crisis we have estimated three different models using the data of the 2007 and 2010 waves of QWLS mentioned in Subsection 3.2. For reasons of space, only the main results of the analyses are summarized here.

1. With the crisis the working conditions of public employees have deteriorated in nine out of 35 of the attributes considered: satisfaction with wage, stress, physical effort, sex, age, ethnic and disability discrimination, the existence of bullying at the firm and satisfaction with working time flexibility. The remaining attributes show no change, except in overall satisfaction and self-fulfilment, with a positive change.
2. Such variations are not driven by compositional effects. After controlling for human capital endowments and sectoral features there is not only a deterioration in most of the above-mentioned working conditions, but in some cases where no change was detected without controls (monotony and satisfaction with job stability) a worsening is observed after controlling for workers' observable characteristics.
3. The crisis affected both private and public working conditions in roughly the same way, that is, the evolution of working conditions in the private and public sectors has been roughly similar and deterioration of some job features has been common.<sup>10</sup>

More recently, after a string of working-time increases by various autonomous communities, at the end of 2011 the national government decreed an increase of 2.5 hours of the weekly working time of public employees, from 35 to 37.5. This 7.1 per cent increase in working time was equivalent to a reduction of the hourly wage of 6.6 per cent, further eroding the existing wage premium at the turn of 2012. However, that is not the only change in working conditions taking place at the time of writing. For example, among the measures approved by the new conservative government on 30 December 2011, we find the elimination of public administration contributions to employees' complementary pension funds (0.3 per cent of all wages). In the same spirit, the regional government of Madrid has decided to eliminate the wage supplement that regional employees receive in the case of sick leave. According to national legislation, when on sick leave, from the fourth to the fifteenth day workers receive 60 per cent of their wages. Hitherto, the regional government had supplemented the amount up to 100 per cent of the wage. From 2012 the regional government has dropped the supplement (except in the case of work accidents or maternity). A

similar policy has been ‘temporarily’ adopted for 2012 by the government of the Basque Country, the Valencia Community and Galicia.<sup>11</sup> Galicia will reduce the number of *moscosos* (days that can be freely used by public employees) from nine to six per year. In March 2012 the government of Catalonia approved a non-negotiated plan to unilaterally change working conditions (geographical reallocation, changes in working time and so on), affecting 45,000 public employees. Finally, in April 2012, the national government decreed an increase in the classroom hours of university (under some circumstances) and non-university teachers.

#### 4.3.4 Impact on social dialogue

Social dialogue in the public administration was one of the first casualties of the second stage of the economic crisis. In 2009, conscious of the difficult public finance situation, the major trade unions signed an agreement fixing the wage increase of public employees at a token 0.3 per cent for 2010. As mentioned earlier, six months later the government unilaterally broke the agreement and applied an average 5 per cent nominal wage reduction to all public sector employees. This policy was accompanied by a general and harsh public opinion campaign questioning the job performed by public employees, their ‘unjustifiable’ (‘privileged’) working conditions and their surplus number. All these elements further worsened the relations between the social partners in the public sector. In order to counter these attitudes, the major trade unions have launched several campaigns to defend the role played by public employees in modern societies. The reduction of public expenditure and other reforms have been met by an unprecedented number of strikes and demonstrations: 2011 witnessed a series of demonstrations in defence of public services and public employment in general or in defence of specific groups of public employees, such as teachers, health professionals and so on. These rallies, national and regional, started with the public employees’ strike on 8 June 2010, and include a general strike against the labour market reforms and the reduction of public expenditure on 29 September 2011. In 2012, the campaign has continued, culminating in a general strike on 29 March.

The unions have also been the target of an intensive public opinion campaign, picturing them as parasites on the labour market and public spending and the cause of many of the problems in the labour market. The focus of this campaign has been their lack of representativeness of the workforce and their dependence on public subsidies.<sup>12</sup> It really does not matter that these claims can be proven false. For example, trade unions received €16 million from the public administration (the same amount as employers’ organizations), which makes up only 4 per cent of their budget, while 90 per cent of employees participate in union elections (a turnout



much higher than in general, regional, local and European elections). What is important is that the campaign has had an impact on public opinion, sharply reducing the level of trust in workers' representatives, and weakening their role in the public sector and society more generally. For instance, according to data from the Latinobarometer, the share of the adult population reporting no confidence in trade unions rose from 22 per cent in 2004 to 42 per cent in 2010.<sup>13</sup> Furthermore, the president of the employers' organization himself recognized, in an interview in a national newspaper, the existence of a public opinion campaign against trade unions (*El Mundo*, 4 March 2012).

Finally, as part of the package approved by the central government on 30 December 2011 and probably as a consequence of the public opinion campaign mentioned above, subsidies to trade unions, employers' associations and political parties are to be reduced by 20 per cent in 2012. This process of revising the role of social dialogue in public administration and the reduction of public expenditure has also affected the number of public employees that benefit from full release from their duties in public administration in order to perform trade union duties full-time. Under Spanish law, members of works councils and union delegates have the right to use a certain number of hours (from 15 hours per month in firms with up to 100 employees to 40 hours in firms with more than 751 workers) for union activities. In turn, these hours can be accumulated (if laid down in the Collective Agreement) for a single person who can be fully 'liberated' (*liberados sindicales* in the argot) from his or her usual work for the firm and thus work full-time for the union. In the past, different levels of public administration have reached agreement with the trade unions to increase the number of union hours in order to increase the role and participation of unions in different institutions. For example, in the region of Castile and Leon the number of hours granted per delegate was 45, while in Madrid it was 70. The need to reduce public expenditure and the often confrontational (in the sense of non-passive) attitude of the unions to such reductions has led to a reversal of the previously positive stance on the part of the public administration with regard to the role of the trade unions in public administration affairs.<sup>14</sup> As a result, different administrations have unilaterally limited the number of these union hours to the legal minimum (reduction of 35 per cent in Galicia in health and education, 63 per cent in Castile-La Mancha, 70 per cent in the Balearic Islands and 66 per cent in Madrid, for example).

#### 4.4 Summary and Implications

Concluding this section, Table 13.3 presents a summary of the main measures taken to reduce the public deficit as well as their implications both

Table 13.3 *Main public sector policy changes, Spain, 2010–2012*

Policy change	Declared aim	Level affected	Impact on public employment	General
5% wage cut for public sector employees in 2010 Wage freeze in 2011 Wage freeze in 2012*	Fiscal consolidation through the reduction of public expenditure Reduction of public deficit	S, R, L	Reduction of wages. Further decreases in 2012 in selected autonomous communities (3% in Castile-La Mancha, 25% for temporary employees in Valencia Community – with proportional reduction in working time, etc.)	The increase in public sector wages is one of the variables considered when negotiating collective agreements in the private sector. The reduction + freeze of public wages will influence downwards private sector wage agreements
Virtual freeze of new hiring. Replacement rate of 10% only in police, education and health, 2012*	Fiscal consolidation through the reduction of public expenditure Reduction of public deficit	S,R,L	Reduction of public employment Increase in the workload of remaining public employees	Likely reduction of quality of public services: longer waiting time, higher number of students per class, phase out of some local services, etc.
Increase of working time of public employees from 35 to 37.5 hours per week*	Reduction in labour costs Reduction of public deficit	S, R, L	Reduction of hiring, longer hours, lower take-home pay for some workers (in health, for example) through a decrease in overtime pay Deterioration of work–life balance Reduction of public employment hourly wage premium	

Elimination of the contribution of the public administration to occupational pension plans*	Fiscal consolidation (0.3% of total labour costs for the public administration in 2011)	S, R, L	Reduction of social benefits of public employees	Likely reduction of the quality of education
Increase in classroom hours of non-university teachers and number of students per class*	Reduction of hiring and public deficit	S, N	Longer class hours, less time for other teaching-related tasks, less personalized attention to students	
Reduction of other benefits related to sickness leave and other social programmes	Fiscal consolidation of the autonomous regions	R	Reduction of social benefits of public employees	
Reform of pension system	Reduction of future expenditure on pensions	N	Raising standard retirement age by 2 years (from 65 to 67)	
Freeze of minimum wage in 2012*	To reduce labour costs and facilitate employment	N	Stringent requirements for full pensions	Increase in the number of low wage workers as real minimum wage will be reduced
Delay until Jan. 2013 of approved (Equality Law of 2007) increase in paternity leave to 4 weeks*	Reduction of expenditure	N		Deterioration of employment conditions
Non-renewal of youth emancipation subsidy for new claimants*	Reduction of public deficit	N		Step back in gender equality fight Deterioration of work-life balance Young people planning to leave the parental home (the subsidy consists of €210 per month to pay the rent) Means tested

Table 13.3 (continued)

Policy change	Declared aim	Level affected	Impact on public employment	General
Moratorium on the 2-year limit on temporary employment in the same job	To facilitate the permanent employment of temporary workers in the same firm during the crisis	N		Probable increase of temporary employment Reduction of employment turnover
Moratorium of one year for new claimants of the System of Attention to Dependent Persons affecting all claimants with moderate dependency*	Reduction of expenditure public deficit	N		Around 150,000 people with moderate (type III) dependency
20% reductions of subsidies to trade union, business associations and political parties*	Reduction of expenditure public deficit	N		Reduction of the funds available to trade unions for their activities
Temporary increase of income tax rates on labour from 0.75 % points to 7% points (over €300,000)*	Increase of revenue	N	Further reduction in disposable income to be added to wage cuts of 2010 and wage freeze of 2011–12	Reduction in take-home pay
Temporary increase of income tax rates on capital from 2% points to 6% points (over €24,000)*	Reduction of public deficit	N		
This increase adds to a previous increase from 19 to 21%				

Labour market reform*	To increase labour market flexibility Reduction of labour costs	N	The procedure for collective dismissals in public administration will not require previous approval of the labour authorities; it will be enough to show insufficient budget for 3 consecutive quarters	Reduction of redundancy payments, deterioration of working conditions, increase in the capacity of firms to change agreed working conditions, increase of the leverage of firms <i>vis-à-vis</i> workers, facilitation of dismissal in case of absenteeism, etc.
General reduction of expenditure in all sectors	Reduction of public deficit	N	Increase in workload of remaining public employees	Deterioration of public services, especially infrastructure, education and health. Phase-out of selected public services targeted on minorities
Increase in health-care copayments*	Increase of revenue Reduction of expenditure Reduction of public deficit	N, R		Reduction in the access to health care, regressivity of user charges, eventual negative effects on health
Increase by 33% in class hours of university teachers who do not actively carry out research work*	Reduction of expenditure Reduction of public deficit	S, N	Longer class hours, less time for research and administrative tasks	Likely reduction of the quality of education
Increase in university tuition fees*	Increase of revenue Reduction of public deficit	N		Reduction of high education students

*Note:* \* Measure taken by the new conservative government in office since December 2012. S: Sectoral; N: National; R: Regional; L: Local.

*Source:* Authors' elaboration.

for public employees and for society as a whole. As can be seen, so far the adjustment has lain heavily on public employment, through a reduction in hiring, covering only a small part of the vacancies produced by retirements and quits, a reduction of wages and other social benefits previously enjoyed by public employees and an (uncompensated) increase in weekly working hours. As a result, in future the Spanish public sector will have fewer employees, with lower salaries, worse working conditions and longer working hours. Considering the important role that standard economic theory gives to incentives, it can be concluded that the deterioration of what is called in Spain *la función pública*, together with a deterioration of the public image and prestige of public employees, will probably have a negative impact in terms of the quality of public services, as well as the future capacity of public administration to attract well-qualified employees. In the short run, with a high unemployment rate and low hiring in the public sector, that might not be a problem, but a selection problem might arise should the conditions of the labour market improve in the future. Furthermore, and regardless of the incentive issue, the reduction of employment and other expenditure related to the provision of goods and services by the public sector (maintenance of infrastructure, medical equipment and so on) might directly affect the amount and quality of the goods and services produced, with obvious negative implications in terms of the well-being of the population and the future growth of the economy, as many of the services provided (notably, but not only, health, education and R&D) are related to both well-being and growth. This is especially worrying in a country such as Spain, where the welfare state is relatively undeveloped. Section 5 describes in more detail the impact and implications of the adjustment in expenditure in the areas of education and health.

Obviously, the above-mentioned problems would disappear if the Spanish public sector really were overstaffed and spendthrift. However, as shown above, comparative analysis does not back this up. Even after the abrupt and sudden increase in social expenditure as a percentage of GDP, as a result of both the increase in social expenditure (mostly explained by the increase in unemployment benefits, from 2.1 per cent in 2006 to 3.7 per cent three years later) and the reduction of GDP (3.7 per cent from 2008 to 2009), both due to the crisis, Spain dedicated 25 per cent of GDP to social expenditure in 2009 (most recent available data), well under the 29.7 per cent EU27 average. This difference can be found in all categories of social expenditure (excluding unemployment).<sup>15</sup> As for the alleged profligacy of the welfare system, it is important to underline that the administrative costs of running the system are also relatively low: 0.51 per cent of GDP compared to 0.87 per cent in the EU27, 1.18 per cent in Germany and 1.49 per cent in the Netherlands.

In some cases, the pay and working conditions of public employees can be favourably compared to those in the private sector. At this point, it is convenient to remind the reader that this feature, which is often considered a privilege of these workers, can also be interpreted as the result of a policy of fair wages and decent working conditions in the public sector, initiating a process by which such standards might be followed by the private sector in the near future. This is especially obvious in areas such as work–life balance, where the public sector often sets the standards that later on (either through the passing of legislation, by agreement between the social partners or by imitation) are adopted by the private sector. In this respect, it is useful to remember that, in the past, previous interventions in favour of public employees in fields such as pensions or health insurance were extended later on to all employees.

As already mentioned several times, it is likely that new adjustments in both wages and public sector jobs will be made in the near future if, as expected, Spain cannot meet the deficit target in the middle of the current economic recession.<sup>16</sup>

## 5. CASE STUDIES: THE IMPACT OF THE CRISIS AND THE ADJUSTMENT OF PUBLIC EXPENDITURE ON EDUCATION AND HEALTH

Not taking pensions into account, health and education are the two major service delivering activities of the public sector. In 2008, before the crisis, the two added up to 43 per cent of social expenditure and a similar percentage of total public employment. Moreover, competences in both areas have been transferred to the autonomous regions, making room for a range of policy responses in the wake of the crisis. Finally, in both cases we are dealing with essential public services with a profound impact on well-being, growth and inequalities. As there is no real time information on the impact of most of the cuts made in social spending, the bulk of the evidence presented in the case studies is based on new information appearing in a range of Spanish media. (For reasons of space, such sources are not detailed below but a file with all the media news is available from the authors upon request.)

### 5.1 Case Study 1: Adjustment in the National Health System

Since 1986, the basic structure of public health care has remained largely unchanged. It is organized as a national health service (NHS), providing universal assistance funded by general government revenues. It covers a

wide set of health-care treatments and only dental care is subject to significant restrictions. In contrast to most OECD countries, the Spanish NHS is free, with copayments limited to prosthetics, spectacles, hearing aids and drugs (40 per cent, with exemptions for pensioners, chronic patients and those on a low income) until 2012. Whereas the Spanish NHS largely involves public provision of health services, the past decade has witnessed a considerable increase in the importance of publicly financed but privately produced health care, through different forms of managed care. The relevance of these new forms of health care varies widely across regions, being present to a large extent in Catalonia and in those autonomous communities with conservative governments during the past decade, particularly Madrid and Valencia. With a few exceptions, doctors working in public health care are salaried employees, paid a lump sum fixed by decree and several supplements (based on the number of patients and exclusive dedication to public health practice, among other things). From a comparative perspective, Spain allocates fewer resources to health care than the EU27 average (7.4 versus 8.4 per cent of GDP in 2009), and much less than core EU countries, such as France (9.4 per cent) and Germany (9.7 per cent). In fact, if we discount the statistical impact of the crisis and the fall in GDP, which automatically generates an increase in relative expenditure on health, the weight of public expenditure in GDP has shown remarkable stability during the 2000s, even in a period of high population growth associated with massive immigration flows.

There are two different sources of pressure on the NHS. The first is unrelated to the economic crisis, although the current economic situation has often been used as an excuse to press for reforms largely independent of the contemporary economic situation. This perspective questions whether a system of organization based mainly on public provision of medical services, by public employees, in public hospitals and health centres, is an appropriate model in terms of efficiency and cost compared to models based on managed care. The second source of pressure is directly related to the public revenue cuts (from taxes and, mainly, central state transfers) suffered by autonomous governments as result of the crisis, the level of administration in charge of the health system, which has led to systematic underfinancing of the different regional health systems and the development of a so-called 'health-care deficit'. This lack of sufficient finance has led to (a) a debate about alternative ways of financing the system and reducing the demand for health services, notably the introduction of new copayments; and (b) the reduction in the budget allocated to health services, and the corresponding deterioration of the system and worsening of working condition of health-care employees.

Regarding the first issue, the introduction of 'new' forms of managed



care, the lack of transparency and the few available studies on the cost and performance of the publicly funded and privately run hospitals do not allow us to present a proper evaluation of this process. In any case, it is important to stress that these changes are not backed by previous analyses of the costs and benefits of these reforms, and even less by public discussions. On the contrary, faith in the benefits of market forces is the main driver. The empirical evidence on the performance of these new ways of organizing health care shows, at best, no improvement in terms of equity or efficiency of health-care delivery over traditional forms of organization and, in general, they seem to be more expensive.<sup>17</sup> In this respect, regions such as Catalonia, Madrid, Castile-La Mancha and Valencia Community, among others, are increasing their utilization of these new ways of organizing health services, whose benefits, even in terms of cost, are far from proven, without proper scrutiny and public discussion.

Regarding cuts in health services and spending themselves, there are also several lines of action. First of all, after a fierce public campaign conducted by employers' organizations, many economists and several politicians, patient cost-sharing mechanisms in health care have been reinforced. In this respect, the Catalan government under the conservative-nationalist party *Convergència-i-Unió* has approved the introduction of a new copayment in 2012 of €1 per prescription (with exceptions for those on a low income or patients suffering from chronic diseases) and, in April 2012, the central government announced new cuts of €7 billion in health spending, passing a package of measures that included the raising of drug copayments for those earning more than €18,000 per year from 40 to 50/60 per cent of the price, depending on income, applying the same system to prostheses and non-urgent health transport services and extending the cost-sharing system to pensioners (up to 10 per cent with some exceptions and a monthly cap of €18). Although it is outside the scope of this study to analyse the advantages and disadvantages of copayment, it is worth mentioning that it has proven to be inefficient as a mechanism of cost containment for different reasons related to the doctor-induced nature of demand for health services, information imperfection and regressivity arguments (Robinson 2002; Thomson et al. 2010). In addition, within the same set of measures, new requirements for foreign population to access public health services have established, *de facto* excluding illegal immigrants (who have been able to access the NHS since a reform carried out in 2000) from benefiting from any type of treatment except for emergency care.

In relation to the second issue, we focus mainly on the case of Catalonia, a region that made early and radical cuts in the regional

health system. In 2011, the regional government passed a reduction of 6.5 per cent of the health budget. Nevertheless, the budget for 2011 included expenditures already made in 2010, so deducting such expenditures the reduction amounted to more than 15 per cent (Colom et al. 2011), leaving the health budget for 2011 in real terms at the level of 2003. The effects of these cuts detected so far include the following: (a) a freeze of renovation work or construction of new hospitals and health centres; (b) a moratorium on patients' right, recognized in 2007, to have surgery with a maximum delay of six months for 14 of the most common surgeries; such limits have been kept only for heart conditions and lumbar hernias; (c) closure of hospital wings and surgery rooms; particularly, 40 health centres and half of the intensive care units of two major hospitals were closed down during the summer (almost 11 per cent of total primary care centres) and the eight biggest hospitals of the Instituto Catalan de la Salud (ICS) were closed during Christmas (five days); and (d) after a long period of reductions of surgery waiting lists, during 2011 waiting lists increased by 42 per cent. Together with these measures, the Catalonian government is planning to sell seven hospitals and rent them back from the future owners, in what in fact is a decapitalization of the health system. An estimated 3,000 temporary health sector employees have lost their job.

All these measures are being taken regardless of the lack of convincing arguments and success stories in favour of the advantages of these types of reform (see above). Furthermore, as exemplified by a recent scandal concerning one hospital in Catalonia, this trend could lead to segregation of patients in the public system between those who can afford private health insurance and receive preferential treatment and those who rely exclusively on the public system, generating new inequalities in health care. In this respect, recently, in one privately run public hospital (La Seu d'Urgell in Lleida, Catalonia), patients were offered the possibility of skipping the surgery waiting list using their private health insurance. In those cases, the patients were operated on in the same place, by the same surgeons but in the afternoon or evening when the surgery was closed.

In other regions similar measures are being taken. For instance, in Galicia, apart from the reduction of resources devoted to health care, which has led to an increase in waiting lists, new hospitals are planned under the private finance initiative (PFI) and the process of acquisition and maintenance of medical technology is going to be contracted out, with both elements implying larger costs for the exchequer than traditional ways of managing health care.

## 5.2 Case Study 2: Impact of Fiscal Consolidation on Education

As in other dimensions of the welfare state, according to Eurostat data for 2008, relative public spending on education in Spain is below the EU average, with public spending in this area of 4.6 per cent of GDP, compared to 5.1 per cent for the EU27 and as much as 7.8 per cent in Denmark. This deficit is associated with lower-than-average spending on secondary and college education. The main problems of the Spanish educational system are school failure (youth not finishing mandatory secondary education), early school leaving (those not completing upper secondary education), the scant development of the vocational training system and the lack of appropriate educational itineraries for those who experience difficulties in the lower levels of schooling (Muñoz de Bustillo et al. 2009). One last feature concerns the increase in the number of foreign students since the mid-1990s, with foreigners accounting for roughly 10 per cent of non-university students (around 15 per cent in some regions).

The main measures taken up to now involve several lines of action. First, most regions (particularly Catalonia, Valencia Community and Castile-La Mancha) have implemented several changes that have severely affected the working conditions of public workers. Among others, we might mention the following: reduction in the number of teachers (in many cases, by converting full-time positions into part-time ones, which implies a reduction of total teaching hours, or establishing a moratorium in most regions on new hiring through public exams), pay decreases (by reducing specific regional wage complements), cuts in the replacement rates of sick benefits, removing the right to holiday pay for temporary workers in education, not covering temporary vacancies due to sick leave, diminishing subsidies to trade unions and limiting the number of education employees working full-time for trade unions to the minimum established by law, increase in teaching hours (one or two weekly hours depending on the region). Second, at the end of 2011, the just-elected conservative government decided that only 10 per cent of new vacancies, mainly associated with teacher retirements, would be covered. Third, in April 2012, the central government announced an additional €3 billion cut in resources devoted to education, which involves the following measures: an increase in the number of students per classroom in primary and secondary education, an increase in minimum classroom hours for non-university teachers, non-substitution of teachers on sick leave for the first two weeks, reduction of the budget devoted to teacher training, complete freeze on the expansion of the education of the under-threes, reduction of Erasmus scholarships and grants for learning foreign languages abroad,

absolute prohibition on hiring new staff by universities, increase in university tuition fees from 15 to 25 per cent of total cost of tertiary education and increase in the number of teaching hours by 33 per cent for university teachers not actively involved in research work.

## 6. CONCLUSIONS AND POLICY ISSUES

Throughout this chapter we have pursued a double aim: first, to provide a detailed description of the Spanish public sector, with a particular focus on its employees and, second, to describe the impact of the crisis on the public sector.

The first issue that should have been made clear in these pages is that the size of the public sector in Spain, in terms of both spending and employment is smaller than in most EU member states. This feature, apart from an evident political choice, reflects the late development of the welfare state in Spain.

Second, we have characterized public employment in comparison to private sector employment. The most remarkable features of the former have to do with a higher presence of women and older workers, higher pay (and a lower gender wage gap) and better working conditions in terms of working-time arrangements.

The third message conveyed by this chapter has to do with the particular response to the crisis of the Spanish authorities and its consequences for the public sector. After a brief episode of expansionary fiscal policy, in 2010 the government embarked on fiscal consolidation at the urging of the EU authorities under the auspices of the German government. This process has mainly involved spending cuts across the board. This untidy process of spending reductions has led to a deterioration in the working conditions of public sector employees, not only through pay cuts (which might have made the public employment wage premium disappear) but also longer working hours, less employment stability, reductions in sick pay entitlements and larger workloads as a consequence of firings and non-substitution of workers on sick leave, among other things.

Fourth, despite the obvious limitations of the available data, overall, it can be said that the policy of fiscal consolidation is seriously affecting employment in key areas of the public sector. According to Spanish doctors' media statements, cuts are, to a large degree, indiscriminate and not driven by careful study of their impact and the areas in which greater inefficiencies are present. As shown throughout the chapter, and exemplified in the two case studies, the core areas of the welfare state are being affected, with significant consequences for the well-being of the

Spanish population. One important element explaining the so far relatively low level of social conflict in the face of an unemployment rate of 23 per cent is the compensatory role played by social expenditure, both monetary benefits and the public coverage of important needs (such as health care and education, including higher education). Reduction in the level or quality of these public services in a context of high unemployment would certainly have a significant impact on both well-being and social peace. The growing number of demonstrations and strikes exemplifies this risk.

At present, the outlook is not encouraging. Both central and regional governments, ruled by the same party and under pressure from the European Commission, seem strongly committed to continuing the contractionary fiscal policy, which is beginning to undermine the fundamentals of the already underdeveloped Spanish welfare state. The reasoning guiding this policy seems to be what some qualified observers, such as Paul Krugman (2010), have called the 'confidence fairy', that is, the hope that an improvement in a country's fiscal position will raise agents' expectations and confidence to such levels that this *a priori* contractionary policy will foster economic activity. In any case, the next few months are likely to be crucial: the government has committed itself not to exceed a fiscal deficit of 5.3 per cent of GDP at the end of 2012, irrespective of the fact that the deficit at the end of 2011 was 8.5 per cent, far above the planned 6.6 per cent. In sharp contrast to popular beliefs, as shown by comparative data, the Spanish public sector is neither overstaffed nor profligate, at least in the core areas of the welfare state. If national and European authorities continue to prioritize fiscal consolidation Spain might soon cross red lines in the maintenance of its social policy and become caught in a dynamic of deterioration and retrenchment of its far from mature welfare state, with significant implications in terms of well-being and growing inequalities.

The suicidal policy we have described is frequently presented as the only alternative. That is certainly not the case. A slower pace of deficit reduction so as not to exacerbate the crisis; a more active role on the part of the EU in the development of alternative sources of funding for member states (see, for example, Varoufakis and Holland 2011); fiscal reform to increase public revenue, including tough measures to combat fiscal fraud and evasion; a thoughtful review of public expenditure aimed at discovering inefficiencies and waste; a negotiated restructuring of core public services with the same aim but with the complicity of public employees and trade unions (who often have a better knowledge of where the inefficiencies are and whose cooperation is, in any case, a prerequisite of successful reform) are some of the courses of action needed to reconcile the maintenance of a

welfare state which is backed by most of the population and coping with the crisis. These things are not just important in themselves but mutually reinforcing.

## NOTES

1. In 1975, roughly 90 per cent of public spending corresponded to central administration, while in 2005 the spending of regional and local administrations comprised almost 50 per cent of the total (Alcaide 1985; OECD Statistics Database).
2. For example, according to the LFS 2009, 10 per cent of public employees enrolled in in-house training in the past year compared to 4.1 per cent of private employees.
3. Furthermore, the percentage of women in private employment has also increased in recent years because the crisis has predominantly affected male-dominated sectors, such as construction and industry.
4. The Theil index of the complete earnings distribution is 0.265, with within- and between-group components of 0.263 and 0.002, respectively.
5. This outcome was confirmed by the IMF (2011: 22), who estimate that the fiscal consolidation carried out in Spain cost the country over two points of GDP growth in 2011, most of it due to the reduction of public spending.
6. Unfortunately, consolidated data – which include the public sector as a whole avoiding the double accounting of internal transfers – are available only up to 2009.
7. Only the budget of the Canary Islands included a tiny increase in public spending (1.4 per cent), but after the approval of the central government budget in March 2012, like most regional administrations, this autonomous community had to make additional spending cuts.
8. Real Decreto-ley 8/2010, de 20 de mayo, por el que se adoptan medidas extraordinarias para la reducción del déficit público (Royal Decree-Law 8/2010 of 20 May by which extraordinary measures for the reduction of the public deficit are taken).
9. This figure is a rough calculation, not taking into account the possible wage drift of public and private employees.
10. The crisis has brought with it a relatively modest improvement in the position of public sector employees in the case of physical effort and satisfaction with health and safety. The only dimensions where there has been a deterioration of working conditions of public workers relative to their private sector counterparts are satisfaction with heating and with working time.
11. In the case of Galicia, the administration will not pay any wage for the first three days of sick leave and will supplement the social security payments only from the twenty-first day (with the exception of maternity leave, sickness due to work or work accidents).
12. According to the Quality of Working Life Survey 2010, union density 18.9 per cent in 2010 (31.5 per cent in the public sector), a figure in line with countries such as France.
13. A survey carried out by Simple Logica (a Gallup partner) a week before the general strike showed roughly 48 per cent of those interviewed against the mobilization and approximately 45 per cent in favour. Furthermore, two-thirds of those surveyed did not agree with the labour market reform, the main reason for calling the strike.
14. As examples of union resistance to the cuts, one might mention the strike by public employees in June 2010, a general strike in September 2011 and a string of strikes and demonstrations in particular sectors, notably health and education in certain regions.
15. The higher relative expenditure on unemployment, 3.67 per cent compared to 1.72 per cent in the EU27, is explained by the higher rate of unemployment in Spain, 18 versus 9 per cent in the EU27 in 2009.
16. Such a possibility was suggested by the Concluding Statement of the IMF Mission

- (2012 Article IV Consultation with Spain) of 14 June. In their own words, 'To give assurance that the envisaged savings will materialize, future public wage cuts . . . could be legislated now and only cancelled if the targets are hit.'
17. See, among many others, McKee et al. (2006) and, on the British experience, Pollock et al. (1997, 2002) and Gaffney et al. (1999a, 1999b). On the Spanish case, see Martín-García and Sánchez-Bayle (2004), Puig-Junoy and Ortún (2004), Sánchez-Bayle and Martín-García (2004) and Martín-García et al. (2005).

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