

9. Turning Back before Arriving: The Dismantling of the Spanish Welfare State

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Tomorrow, we approve the reform of the labour market. You will see that it's going to be extremely, extremely aggressive, you know, with great flexibility in collective agreements and we reduce severance payments. Well, you will see, you will see.

Luis de Guindos, Spanish Minister of Economics and Competitiveness, caught by the media whispering in Olli Rehn's ear at a meeting of the Eurogroup, Brussels, 9 April 2012.

1. INTRODUCTION

The management of the economic crisis in Spain and, particularly, the emphasis put on reducing the public deficit, is having a dramatic impact on the structure and running of the Spanish welfare state. The resilience shown in previous decades by social policy institutions has suddenly vanished. Using the excuse of fiscal consolidation, long-range decisions in the area of social policy are being made without much debate and analysis, thanks to the absolute majority obtained by the conservative party (Partido Popular, PP) in December 2011. Although the PP ran in the 2011 elections with a political programme that did not seem to aim to alter the social-policy status quo, the measures taken in the first year of their term of office have overturned many of the bipartisan agreements that built the Spanish welfare state. But already in May 2010, with the Social Democrats in government, reducing the public deficit had become the sole economic-policy objective. In order to understand the meaning and depth of the retrenchment policies adopted we need to look in detail at the main characteristics of the Spanish welfare state before the crisis and its similarities to and differences from the European Social Model presented in Chapter 1. We devote Section 2 to this, focusing on the two major areas of the European Social Model: social policy and labour market institutions. Section 3 reviews how the policies of fiscal consolidation and changes in legislation are affecting the major areas of intervention in social policy and the labour market. Section 4 presents some case studies to illustrate the trends while Section 5 dwells on the impact of such changes, paying particular attention to health and collective agreements. Finally, Section 5 summarizes the major conclusions reached in this chapter.

2. SPAIN IN THE CONTEXT OF THE EUROPEAN SOCIAL MODEL

2.1 The Spanish Welfare State before the Crisis

2.1.1 *The Late Birth but Rapid Rise of the Spanish Welfare State*

Although Spain shares many social-policy features with the rest of the Old Continent, a number of peculiarities of this Mediterranean country are worth mentioning in order to

enable the reader to better understand the trends, dynamics and changes experienced by the Spanish social model during the crisis.

The first distinctive characteristic of the Spanish welfare state is its late development. Like Portugal and Greece, Spain suffered a long and painful military dictatorship, headed by General Francisco Franco, from 1939 to 1977, two years after the dictator's death. As a result, at the beginning of the 1960s, social spending was at a very low level (around 4 per cent of GDP) compared to other European economies, such as Sweden, the United Kingdom, Italy, Belgium or Germany (in which the welfare state represented between 15 and 20 per cent of GDP; Espuelas 2012). In the mid-1970s, in the death throes of the authoritarian regime, Spain began an intensive catch-up process in terms of social spending, which lasted up to roughly the middle of the 1990s, when social expenditure represented around a quarter of GDP (see Figure 9.1). In the late 1970s and the 1980s the most important pillars of the Spanish welfare state developed: social security (comprising mainly contributory pensions) that was fully redesigned at the end of the 1970s; unemployment benefits (in a form quite similar to the current one) that were introduced in 1980; a national health system (universal and funded by general taxes) was put in place in 1986; and access to education has become more and more widespread.

The second idiosyncratic feature of the Spanish welfare state concerns the level and composition of social spending. According to OECD data, in 2007, the year before the crisis started, social spending (including education expenditure) represented 25.3 per cent of GDP, compared to the EU15 average of 28.5 per cent (see Figure 9.2). The bulk of it was absorbed by pensions and other policies targeted at old-age people and people with disabilities (43.4 per cent of total social spending), health (23.9 per cent), education (17.1

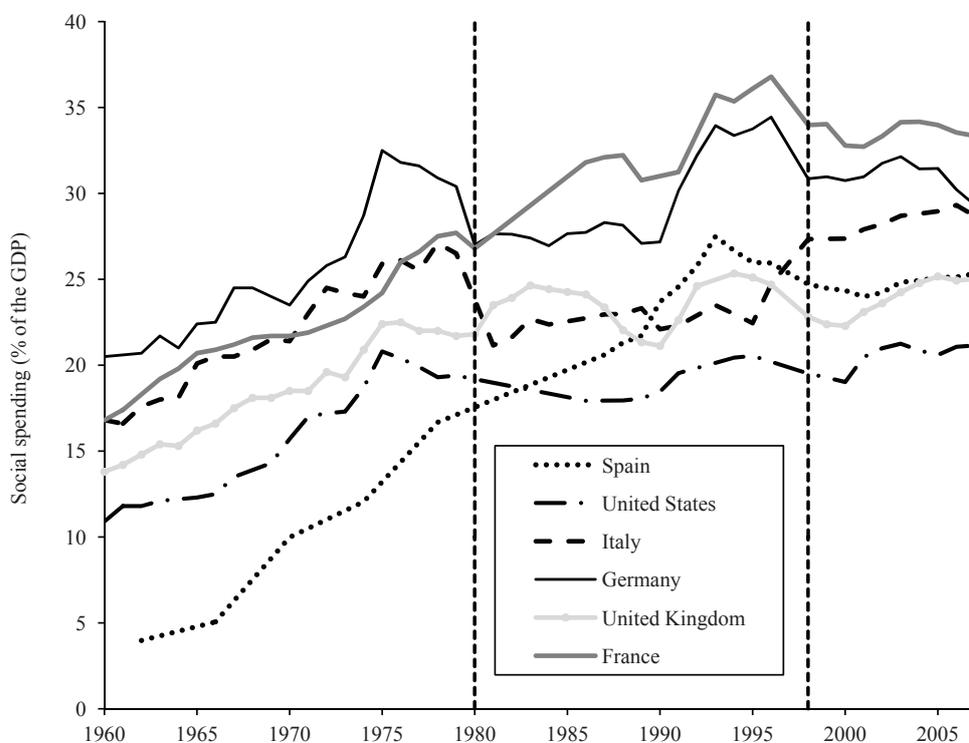


Figure 9.1 Evolution of social spending, Spain, selected EU countries and USA, 1960–2007

Source: Authors' analysis based on OECD (1985), Espuelas (2012) and OECD Statistics database.

per cent) and unemployment benefits (8.4 per cent). Overall, cash transfers, mainly contributory programmes entitlement linked to a claimant's past employment record, represented around 60 per cent of total social spending (a proportion similar to those observed in other EU countries). In this respect, it is worth highlighting that Spain was below the EU15 average in all categories of social spending, with the remarkable exception of survivors' pensions and unemployment benefits. In the latter case, although the replacement rate and duration of benefits was in line with the rest of Europe, the relatively high level of spending was associated with the historically higher incidence of unemployment in Spain. The major 'deficits' were observed in family and housing benefits and, to a lesser extent, in education and old age. Overall, social spending was 89 per cent of the EU15 average. Finally, the education system was organized along similar lines to those observed in other EU countries (free mandatory schooling from 6 to 16 years old provided by both publicly and privately-owned schools, free upper secondary education and vocational training provided by public centres and higher education based on low tuition fees and a system of scholarships for people from disadvantaged social backgrounds). The same applied to the public health care system, organized along similar lines to the British National Health Service: free access at the point of use, low copayments, mainly public production and relatively good-quality services; all of them at a reasonable cost in terms of budgetary resources. In fact, the Spanish national health system has usually been considered the jewel in the crown of the national welfare state (Muñoz de Bustillo and Antón 2011a).¹ In sum, the low-profile Spanish welfare state emphasized contributory benefits and universalistic education and health systems.

In the third place, one of most prominent but still little known characteristics of the Spanish social benefit system is its high degree of decentralization. Over the past two decades, cabinets of different political colours have carried out a rapid 'devolution' of competences from central government to sub-national authorities, which has been particularly intensive in the case of social policies.² In this respect, by the turn of the century, regional authorities managed health, education and part of the rest of social benefits (according to OECD data, 55 per cent of total social spending at the end of the past decade), with municipalities playing a marginal role in this area (less than 4 per cent) and the central state retaining only exclusive competences in social security (pensions) and unemployment insurance. If we do not take into account the latter two categories, Spain's Autonomous Regions are responsible of more than 80 per cent of total social spending. The participation of regions in the social area is almost unparalleled in developed countries, with only Switzerland (46 per cent) and Canada (36 per cent) reserving an important role for regional government. The risk of such a high degree of decentralization is an increase in inequality of access to welfare state services, in terms of both quality and quantity.

The fourth item in this brief dissection of the Spanish welfare state is its financing. Taxation was extremely low in the early 1960s (around 10 per cent of GDP according to the OECD) and the increase in fiscal pressure has developed almost in parallel with the late birth and development of the welfare state. We say 'almost' because the rise in social spending was so vertiginous and concentrated in so few years that there was a certain lag in the development of a modern tax system to keep up with the increase in expenditure. This lag led to recurrent budget deficits up to the mid-2000s. Just before the outbreak of

1 For example, in the comparative evaluation of the efficiency of health systems around the world carried out by the World Health Organization (2000) based on 1997 data, Spain ranked seventh.

2 Although it is common in the literature to use the term 'devolution' to refer to such process of decentralization of social expenditure it can be misleading, as most of the decentralized social protection programs were never part of the competences of regional government, but were developed by the central government.

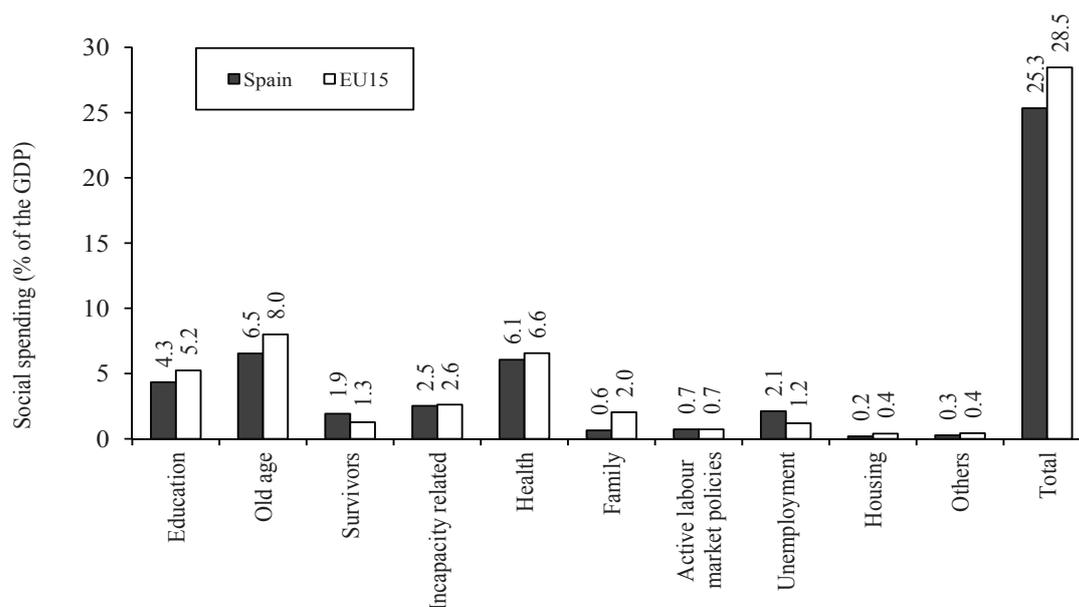


Figure 9.2 Social spending, Spain compared with EU average (% of GDP), 2007

Source: Authors' analysis from OECD Statistics database.

the crisis, in both 2006 and 2007, the Spanish government ran a fiscal surplus of roughly 2 per cent of GDP. Similar to social benefits, tax pressure was lower in Spain than in most of the rest of Europe. In 2007, tax revenues were 37.2 per cent of GDP, around 2 percentage points below the EU15 average, far below the Nordic countries and France, but at the same level as the United Kingdom and Germany.³ The structure of taxation was remarkably similar to that of other European countries, with personal, corporate and wealth taxes representing 30.1 per cent of total revenues; social security contributions 39.6 per cent; property taxes 6.5 per cent; and taxes on goods and services 23.3 per cent.⁴

2.1.2 During the Boom Years Some Initiatives but No Significant Changes in the Spanish Welfare State

As already mentioned, in Spain the most radical and dramatic changes in social policy were accomplished during the 1970s and 1980s. After that, with the exception of the introduction of a modest scheme of non-contributory pension benefits, no major change was carried out in the following 15 years.⁵ The 1992 world crisis and its strong negative impact on the labour market prevented the introduction of any new benefit or social policy, while unemployment benefits and the rest of social security were maintained with only parametric changes.

3 The reader should not ignore, however, that this remarkable performance in the fiscal area was closely associated with the housing bubble that dominated economic activity in Spain from the mid-1990s, coming to an end with the crisis. See Muñoz de Bustillo and Antón (2011b) for a more detailed explanation.

4 The biggest differences in taxation structure are found between the United States, Canada, New Zealand or Australia and continental Europe. Nevertheless, of course, there are differences within the Old Continent, with countries without payroll taxes (Denmark) or a larger role for indirect taxation (such as Portugal or Ireland, where they represented around 40 per cent of tax collected in 2009). See OECD (2012a) for further details.

5 This abrupt halt in the construction the welfare state before reaching the levels attained by other European countries has been considered by some authors (Navarro, 2009) to be one of the most important and detrimental characteristics of the Spanish economy.

In 2004, unexpectedly, the centre-left party who had ruled the country from 1982 to 1996 returned to power.⁶ The new government's social policy was articulated around two elements. On one hand, following a trend initiated at the beginning of the 1990s and largely shared by the two largest political parties, the government continued cutting direct taxes.⁷ Tax rates were reduced significantly, the wealth tax was removed and most regions (of all political colours) minimized inheritance taxes.⁸ These movements were in line with the fashion followed by most of conservative and social democratic parties all over the Old Continent. On the other hand, in the social policy arena, the newly elected government introduced two new relevant programmes: a universal long-term care system to take care of the elderly and people with disabilities and a universal system of early childhood education and care for children under three.⁹

Proposal of universal long-term care

Given that Spanish society was becoming older, the proposal of universal long-term care was important and addressed an important social protection need.¹⁰ Nevertheless, the development of the system faced several shortcomings, even before the crisis. First, long-term care competences were shared by central and regional governments. The former provided only partial funding, while some opposition-controlled regions tried to block the application of the law. Second, the government was fairly shy in implementation because of its reluctance to raise taxes. Lastly, partly because of the different sensitivities of regional governments to the topic and partly because of budget constraints, the system failed to prioritize in-kind benefits (home professional care, day-care centres and nursing homes) over cash benefits. As the number of nursing homes and other centres was insufficient, in-kind professional care was limited (up to 90 hours a month for people with the maximum disability level recognized by the law) and cash benefits for hiring professional caregivers also remained modest (at best, less than 1,000 a month), many families applied for cash benefits for family, non-professional, carers (also modest, below 500 euros, in other words, the family member in charge of the dependent gets 500 euros for taking care of them).¹¹ This was one unintended consequence of the law, despite its original aim of promoting the autonomy of both dependents and their relatives (Ministerio de Sanidad, Servicios Sociales e Igualdad, 2012).

Universal system of early childhood education

The second social policy innovation was the universalization of pre-school education for children aged 0–3, the so-called *Educa3* initiative, launched in 2008, which aimed to enlarge the coverage of early child education and care. Pre-schooling education com-

6 Basically, the disastrous management of the aftermaths of the terrorist attack suffered by Madrid on 11 March 2004 changed voting trends identified by previous polls, in accordance with which the conservative government was going to be re-elected (García-Montalvo 2011).

7 According to Rodríguez Zapatero, the would-be premier of the social democratic government in the period 2004–2011, 'I think that the idea of lowering taxes is leftist' (*El País*, 1 September 2000).

8 To give an idea of this trend, for instance in the case of the income tax, the number of brackets in 1977 was 30 and the top marginal tax rate was 66 per cent. In 1990, there were 16 tax brackets and the top marginal rate was 56 per cent. In 2008, the respective figures were four and 43 per cent. In the meantime, a progressive 'dualization' of income tax has been carried out since the tax was introduced in the later 1970s, with lower tax rates for capital income than for labour. This trend has been particularly acute since the conservatives won the 1996 elections. For a detailed survey of all the changes in the tax system since the return of democracy, see the 2002 monographic issue of the Spanish journal *Hacienda Pública Española* on the history of the tax system in Spain and Del Blanco et al. (2011).

9 Most children aged 3 or over have been in education since the 1980s, even though this is not mandatory.

10 Eurostat projections in 2010 pointed out that the percentage of people aged 65 years old or over will rise from 2010 to 2050 from 16.8 per cent to 31.5 per cent in Spain and from 16 per cent to 27.8 per cent in the EU overall. Therefore, the ageing process in Spain will be faster: an increase of 14.7 per cent points versus a rise of 11.8 per cent in the EU as a whole.

11 According to data from the Ministry of Health, Social Services and Equality, at the end of 2012 around 45 percent of total benefits were in-cash benefits for family carers.

prises two different levels: a lower level, for children aged 3 years old or below and an upper one for kids aged 3–6. The Spanish model is based on education centres, in contrast to other countries, as in Scandinavia, which privilege family support, maternity and paternity leave or other forms of externalization of child care (EACEA 2009). Access to pre-school for 3–6 year olds is free of charge and, according to data from the Ministry of Education, Culture and Sport, has been virtually universal for more than a decade. Regarding pre-schooling from 0 to 3 years-old, access was neither free nor easy. This programme was aimed at easing access to subsidized high-quality care for 0–3 year olds, privileging children from disadvantaged family backgrounds and also building new – and enlarging existing – public care centres for working mothers. This programme was fairly successful because, according to the last available data for the school year 2010–2011, the percentage of children from 0 to 3 years receiving non-parental care was 64.3 per cent (71 per cent in public or private child-care institutions and 29 per cent with professional or non-remunerated child-carers); 28.6 per cent of all children below 3 years of age attended educational centres. As in the case of long-term care, the programme was financed 50/50 by the Ministry and the regions, which leads to non-negligible local differences in access and forms of care depending on the expenditure priorities and financial capacity of the regions. Overall, the Spanish system of early-childhood education and care seemed to perform quite well: high levels of public spending (0.7 per cent of GDP, well above the OECD average), reasonable resources, high and increasing enrolment rates (almost universal from 3 years old onwards and above the OECD average) and offering professional and high-quality care, with good facilities and well-trained staff (EACEA 2009; OECD 2012a; OECD 2012b).¹²

In sum, the economic boom enjoyed by Spain at the turn of the century did not translate into an increase in the level of resources directed towards social protection and education, so that what was behind the crisis was clearly not a spendthrift social policy.

2.2 Labour Market in Spain: Segmentation and Unemployment

Without doubt, unemployment has been a major weakness of the Spanish economy and society. Even at the peak of the growth cycle and strong job growth that lasted for 14 years before ending abruptly with the 2008 crisis Spain was unable to reduce its unemployment rate below 8 per cent (7.95 per cent in the second quarter of 2007). The country experienced a spectacular increase in job creation – 66 per cent – rising from 12.2 million in 1994 to 20.3 million in 2008, accounting for 28 per cent of total employment created in the EU15 during that period. With the arrival of the Great Recession, Spain became the major contributor to job destruction, accounting for 51 per cent of all employment destroyed in the EU15 from 2008 to 2012. Thus the Spanish unemployment rate shot up to 26 per cent, the highest figure ever. This was unprecedented in terms of both speed and depth.

Labour market rigidities are often blamed for these dismal unemployment rates. Reality shows that, to date, measures to remove such rigidities have helped only to facilitate employment destruction in times of crisis.

Table 9.1 summarises the Spanish labour market before the crisis and its role in the European Social Model, and allows comparisons with other countries in this volume.

¹² The high and growing coverage is explained not only by public policies but also by an increasing trend associated with higher and higher female labour market participation, a phenomenon not independent of the abovementioned social interventions.

Table 9.1 Labour market-related elements of the Spanish social model before the crisis, 2007

Elements	Comments and implications
High level of employees with temporary contracts (around a third).	Strategy adopted in 1984 to increase labour market flexibility. It has led to high turnover rates, lower wages, lower access to training, quick and intensive firm adjustments by changes in effective demand and segmentation of the labour market between temporary and permanent workers.
Higher than average level of self-employment (16% in Spain versus the 14% EU average), although decreasing with time.	Explained by the relative lower level of Spanish economic development. In previous recessions, it acted as employment of last resort. Self-employed persons enjoy lower protection levels than employees but also pay lower taxes and social contributions.
Low rate of part-time employment, 11.6% compared to 21.9% EU15 average.	The income restriction of families and individuals is more relevant than the time restriction. Problems of work-life balance. Firms and employees prefer or need full-time arrangements. One-third of part-time employment is involuntary (compared to 25% in the EU15).
Employment protection for open-ended contracts similar to the EU average level.	Although employment protection for open-ended contracts is similar to the EU average, the existence of a high rate of temporary employment leads to a concentration of dismissals on temporary workers. From a comparative perspective employment protection of temporary workers is very high (3.83 in the OECD Employment Protection L indicator, between 0 and 6, compared to 2.28 for the EU15, as usual the termination of this sort of contract does not imply any cost for EU employers), but it is still lower than for permanent workers.
National minimum wage.	Low from a comparative perspective, 35% of average gross wage in 2008 (after 18% rise from the beginning of the crisis).
Low trade union density but high trade union presence in industrial relations, with a high coverage of collective agreements.	This arrangement is the result of the role played by trade unions in guaranteeing social peace and inclusiveness during the democratic transition. The results of collective bargaining and agreements are extended to all workers, not just affiliates (80–90% of employees are covered). High participation in trade union elections.
Important role of social dialogue since the political and economic transition of the late 1970s.	The role of social dialogue is contingent on the balance of power in parliament (higher role when the government does not have an absolute majority).
Diverse levels of centralization of collective bargaining.	Low presence of collective agreements at the firm level (11%). Most collective agreements are simultaneously set at the sectoral and regional (53%) or national level (27%). Because of the relevance of small firms in the country (employing more than half of salaried workers), some authors consider that the system somewhat mimics decentralized bargaining (Pérez Infante 2011).

Note: It is worth mentioning that this policy of raising the minimum wage was accompanied by the creation of a new indicator of minimum income (originally equal to the minimum wage) that would be used as the reference for many social benefits. The value of this indicator would not rise as much as the minimum wage.

Source: Authors' elaboration.

Overall, the Spanish labour market is characterized by high turnover rates, segmentation, a comparatively low minimum wage, high dismissal costs for temporary workers (from a comparative perspective) and EU-average dismissal costs for employees with open-ended contracts which, paradoxically, leads to a high rate of temporary employment. The majority of workers were so far covered by collective agreements, mainly combining the sectoral with the provincial, regional or national dimension, while firm-level collective bargaining was rare. There was a distinct low use of part-time employment, a type of job that seems unattractive to Spanish workers. As a result, average annual working hours were slightly higher than in the EU15, although converging over time. In terms of results, and leaving aside the level of unemployment, Spain before the crisis had slightly lower-than-average levels of wage dispersion, an EU-average gender pay gap and low-paid workers (around 16 per cent).¹³ In terms of the Overall Index of Job Quality¹⁴ developed by Muñoz de Bustillo et al. (2011a), Spain was right in the middle of the EU27 distribution, with a value of 42.2 over 100 in a range going from 25.1 (Romania) to 57.2 (Luxembourg).

It is important to stress that the above-mentioned segmentation of the labour market should not be interpreted, as it is often carelessly done, as two separate realities where one group of workers, those with open-ended contracts, are completely isolated from the ups and down of the market, benefiting from wage and working conditions unrelated to the current situation. Different studies show (Toharia and Cebrian 2007; Muñoz de Bustillo and Anton 2011b) that a high proportion of employees with allegedly permanent contracts lose their jobs regularly.¹⁵ In fact, from 2009 to 2012 permanent employment contributed to 38 per cent of employment destruction, with one year, 2011, taking the whole burden of the adjustment.¹⁶ Furthermore, trade unions, as shown by numerous social agreements, placed employment creation as their major objective and seek explicitly to convert temporary into permanent jobs by means of clauses in those agreements.¹⁷

The regulation of the Spanish labour market has been in a constant process of change since the 1980s. As already mentioned, most of the reforms have been oriented to increase the degree of external numerical flexibility in the labour market. Among other things, such changes have opened the possibility of using temporary contracts in all situations and activities (1984) and the creation of private temporary work agencies, which can act as labour market intermediaries (1992). As a result, before the crisis up to one-third of employees were working under fixed-term contracts. With the crisis, the non-renewal of temporary contracts by private firms and the public sector led to a reduction of the temporary employment rate to 24 per cent. Since the mid-1990s, the existence of what was

13 According to the calculations of Brandolini et al. (2010), the Gini index for full-time equivalent gross earnings in Spain was 0.313 in 2006, somewhat below 0.328 unweighted average of the Gini index for the 24 EU countries whose data were available in the Statistics for Income and Living Conditions (EU25 excluding Malta). According to Eurostat analysis of the Structure of Earnings Survey 2006, the unadjusted gender pay gap for industry, construction and services was 16.1 per cent in Spain and 17.3 per cent in the EU27. In 2007, the proportion of low paid workers (using the OECD definition: the share of employees with hourly gross earnings below two-thirds of the median) reached 15.7 per cent in Spain, in line with the EU average of 16.5 per cent.

14 An aggregate index comprising five dimension of job quality: earnings, intrinsic quality of work, employment quality, health and safety and work-life balance.

15 According to Toharia and Cebrian (2007), 41 per cent of open-ended contracts signed in 2004 were not valid one year later. Along the same lines, Muñoz de Bustillo and Antón (2011a) mention how in 2008 around 42 per cent of people on unemployment benefits had had a full-time 'permanent' contract in the past.

16 The same can be said of the year ending the third quarter of 2013: according to the Spanish Labour Force Survey, out of a reduction of nearly half a million employees, 84 per cent had open-ended contract

17 From 1995 to 2005, the cumulative real wage growth in Spain was of 1.9 per cent, the lowest in a sample of 26 high-income OECD countries, only placed after Japan (-1.1 per cent). For comparison cumulative wage growth was 13.1 per cent in the US, 17.7 in the UK and 29.5 in Ireland (OECD 2007, chapter 3). In order to illustrate the position of trade unions, one can see that, for example, the 2002 Inter-Confederal Agreement on Collective Bargaining is clear in the compromise of the major unions to adjust wage increases to the specific situation of the economy, contributing to the generation employment by a policy of moderate wage growth.

considered a segmented labour market between temporary and permanent employees has been regarded as one of the major problems of the Spanish economy (Muñoz de Bustillo 2007). This led to the establishment of several fiscal incentives for employers to foster open-ended contracts that have proved largely ineffective.

In sum, the Spanish version of the European Social Model before the crisis can be described as a relatively underdeveloped welfare state in terms of relative social expenditure compared with the EU and also underdeveloped family policies and social assistance programmes, with however as in many EU countries universal coverage of health and education, pension and unemployment benefit systems. Regarding labour, the two main characteristics were its historical failure to maintain a low level of unemployment and the highly segmented nature of the labour market as a result of a policy (and business culture) of temporary employment (see Table 9.2).

Table 9.2 Elements of the European Social Model in Spain

Main elements	Spanish conditions
Employment / labour market	<ul style="list-style-type: none"> – Low-profile public vocational training. – Almost nonexistent firm-sponsored vocational training.
Equal opportunities /anti-discrimination	<ul style="list-style-type: none"> - Anti-discrimination legislation passed in the late 2000s, with no information on effectiveness or enforcement. - Unadjusted gender pay gap: 15–18% before the crisis (2003–2007); adjusted gap depends on the methodology, but most studies point out that segregation across jobs and establishments and different remuneration play an important role.
Workers' participation, information, consultation	Included in labour legislation but highly dependent on the sector and level of bargaining. Asymmetry of information, especially at firm level. Key element for an efficient collective bargaining system.
Social dialogue and collective bargaining; social partners' recognition and involvement	<ul style="list-style-type: none"> – Social dialogue between main national trade unions and employers' association on most features of labour market regulation and social protection. – Low trade union density (around 15% of employees). – High collective bargaining coverage (80–90% of employees). – Prevalence of collective bargaining at intermediate level (regional, provincial and sectoral), linked to the very small size of most Spanish firms; low coordination.
Welfare systems/social protection/social inclusion	<ul style="list-style-type: none"> – Low-profile welfare state, which developed very late. – Social spending below EU average in most areas, apart from unemployment (because of the high levels of unemployment). – Mix of universal and contributory benefits: contributory pensions, health care, education and unemployment insurance account for more than 75% of social spending. – Other elements (family benefits, housing policies, etc.) almost nonexistent. – Very decentralized welfare state.
Role of public services and services of general interest	<ul style="list-style-type: none"> – Public provision (and mostly production) of education and health care; marginal role of the state in other social services. – Public postal service and railway transport. – Some presence of public firms in water supply, garbage collection and urban transport.
Involvement of civil society	Very low (inherited from the dictatorship).

Table 9.2 Elements of the European Social Model in Spain (cont.)

Decent wages or fair wages	<ul style="list-style-type: none"> – Statutory minimum wage (around one-third of average earnings; low by EU standards); less than 1% of employees earning the minimum wage, but it is a reference for collective agreements. – Equal pay by law (with unknown application or enforcement). – Extreme moderation of real wage increases before the crisis (unions trying to promote job creation). – EU-average wage inequality: Gini index for monthly gross earnings of 0.313 in Spain versus a simple average of 24 EU countries of 0.328 in 2006 (Brandolini et al, 2010).
	<ul style="list-style-type: none"> – In-work poverty: 10.7% in 2007 (before the crisis), according to Eurostat data. – Low pay (share of employees below two-thirds of median gross hourly earnings in the country): 15.7% versus an unweighted average of 16.5% of the 15 EU countries available in the OECD database in 2007. – Almost nonexistent profit-sharing.
Regional cohesion/development	<ul style="list-style-type: none"> – Higher and higher levels of decentralization during recent decades in nearly all kinds of taxes and policies. – Personal income redistribution by tax and social policy, leading to (not driven by explicit policies) regional income redistribution. – Regional convergence but persistent differences and inequalities.
Social spending as % of GDP	Traditionally low level of social spending (roughly 25% of GDP, including on education).

Source: Authors' elaboration.

3. IMPACT OF THE GREAT RECESSION ON THE EUROPEAN SOCIAL MODEL IN SPAIN

3.1 The Spanish Welfare State in the Crisis: Parametric Adjustments or a Shift of Paradigm?

3.1.1 Broad Figures

It is very difficult to draw a line between changes in the quantity or quality of social services and irreversible and systemic changes in social policy. In fact, it is likely that the accumulation of small-scale changes will lead to dramatic alterations of social rights. In this respect, it is also possible that the effect of the cuts carried out since May 2010 will only be observed in the future. . All this makes the evaluation of the impact of fiscal consolidation on the provision of social services a matter more of art than science at this moment.¹⁸

Apart from the dramatic impact on employment, the Great Recession has had strong budgetary implications (Muñoz de Bustillo and Antón 2013). According to International Monetary Fund data (IMF 2012), in 2007 Spain enjoyed a fiscal surplus of 1.9 per cent of GDP, while in 2008 it incurred a deficit of 4.2 per cent, which climbed to 11.2 per cent in 2009 and came down to 9.4, 8.9 and, predictably, 7 per cent in the following three years with the introduction of measures of fiscal consolidation. Total public spending as a per-

18 Due to the relatively short period of time since the adoption of the cuts and the continuous approval of new cuts – adopted after almost every weekly cabinet meeting – in the following pages we will largely rely for our analysis on media articles and reports and forecasted budgets.

centage of GDP increased during the first two years of the crisis (2008 and 2009), which was associated with both the activation of automatic stabilizers (particularly unemployment insurance), some ad hoc fiscal stimuli (mainly through larger infrastructure investment) and a lower national income (in monetary terms the level of expenditure increased by 7.4 per cent). But the gap in Spanish public finances is explained mainly by the drop in fiscal revenue, which, apart from some temporary and timid tax breaks at the beginning of the crisis, has been associated completely with the decline of economic activity and employment. In fact, successive increases in both direct and indirect taxes have been introduced since 2010 by both the social democratic and the conservative governments. The same trends apply to the actions of regions and local councils.¹⁹

As consolidated data on social spending become available only after some years' delay, in this chapter the information on social spending has been gathered directly from the budgets of the central, regional and local governments (Table 9.3).²⁰ As already mentioned, the Spanish public sector and, particularly, the Spanish welfare state are highly decentralized, which should be kept in mind when interpreting the evolution of public spending during the crisis. The first question to be covered in our analysis is the allocation of budget reductions during the crisis from a territorial perspective. In this respect the smallest reduction is observed in central government. Such a result is explained by two facts: (1) the central administration is in charge of pensions and unemployment benefits, which have not (yet) experienced major cuts during the crisis; (2) the central administration is also the level responsible for roughly 75 per cent of the public debt. In this respect, regions and local governments account for approximately 20 per cent and 5 per cent of it, respectively, although its weight has dramatically expanded during the crisis as a result of a huge drop in public revenues.

Within central government, the reduction of investment in social areas has been tiny (−0.4 per cent). Basically, social spending on all but pensions and unemployment benefits has been cut dramatically. Expenditure on unemployment benefits rose because of the massive job destruction and pension spending grew because of the retirement of large cohorts with higher wages,²¹ and the high life expectancy of Spanish retirees. In contrast, from 2008 to 2012 social contributions plummeted by 10 per cent as a result of the loss of employment.

As stated above, regional governments control more than half of total public social spending and are responsible of roughly 9 out of 10 euros spent on health and education. In addition, jointly with local governments, they have a preeminent role in antipoverty policies. As depicted by Table 9.3, the reduction of public investment in education and health was around 15 per cent, while other social benefits experienced a cutback of almost 20 per cent. This policy will lead to serious reductions in the quality and quantity of the services provided.

Finally, in relation to local governments, we first have to remind the reader that they play a very secondary role in the Spanish public sector and, particularly, in social issues. Nevertheless, they retain some residual competences in education, health and housing. All those areas have suffered major reductions with the crisis, particularly health – a more than 40 per cent cut – and social protection and housing (30 per cent). In practice,

19 Another important element that has contributed to the increase of the Spanish deficit not dealt with in these pages is the cost of the different stages of the bank bailout. According to the Spanish National Competition Commission, in 2010 alone total aid to the financial sector was equivalent to 8.2 per cent of GDP (87.14 billion euros). For the period 2008–2012 (October), the European Commission estimates of aid to the financial sector total a staggering 53.6 per cent of Spanish GDP.

20 For example, OECD data go up to 2009 and Eurostat had only just released information for 2010 at the time of writing.

21 The average new retirement pension in 2012 was 32 per cent higher than the average benefit currently paid by the system.

they also have some role in short-run and emergency ad-hoc social assistance. In this respect local governments, as well as NGOs, have been completely overwhelmed by the increase in the number of families in need of assistance. In this respect, the reform of public administration being discussed at the end of 2013, which aimed at eliminating overlaps, concentrated most social assistance programmes in the hands of the Autonomous Regions. The role of local authorities will thus be limited to that of information and intervention in the very short term. This change has raised concerns among social workers due to the expected problems that such a transfer of social assistance programmes run by local authorities to the Autonomous Regions might bring in a context of serious budget constraints on regional governments.²²

Table 9.3 Change in real per capita public spending during the Great Recession, Spain, 2008–2012

	Central government (2008–2013)	Regional govern- ments (2008–2013)	Local governments (2008–2012)
Total public spending	–1.7	–12.8	–18.7
Total social spending	–0.4	–15.9	–30.1
Health	–19.7	–14.4	–43.2
Education	–41.2	–16.6	–9.7
Social protection and hous- ing	0.9	–19.3	–30.1
– Pension benefits	13.2		
– Unemployment benefits	32.5		

Note: Regional figures are based on forecast budgets. Central and local government figures were computed using budget execution up to 2011 and 2010.

Source: Authors' analysis based on central, regional and local budgets and National Statistics Institute population estimations.

Summarizing, two of the tiers of the Spanish welfare state – education and health care – that were in the hands of regional governments, have experienced significant cutbacks. The other two main programmes – pensions and unemployment insurance – have not been affected in the same way. In fact, because of demographic and labour market trends, overall spending on these policies expanded from 2008 to 2013. The rest of the benefits included in the social package – very modest, as mentioned throughout this chapter – have also experienced severe reductions.

This important adjustment of public spending has translated into the destruction of almost 400,000 public sector jobs (Figure 9.3), reducing the labour force also employed in the services linked to the welfare state and also influencing both the amount and quality of the services provided. According to the Spanish Labour Force Survey, public employment did not start to decrease until the third quarter of 2011, partly as a consequence of the fiscal stimuli used at the beginning of the recession. However, by mid-2013, employment had decreased by 11.5 per cent since the former date and was roughly the same as a decade earlier. This pace of destruction was above the reduction observed in the private sector, making the public sector a major contributor to employment destruction in 2012.

²² In 2010–2011 local authorities contributed 43 percent of the resources devoted to social assistance. Around 7 million people used these programmes, 20 percent more than in the previous year due to the crisis (Prats 2013).

Finally, regarding wages, public employees – and hence most workers in social services – have suffered significant pay reductions. According to data from the National Statistics Institute and the Bank of Spain, for most of the decade before the crisis, public sector wages experienced 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 real wages as a result of the unexpected drop in prices. 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 unilaterally decided a 5 per cent decrease in nominal wages for 2011. This cut was applied progressively, from 0.5 per cent to 7 per cent. While in 2011, and also for budgetary reasons, nominal wages were frozen, the 2012 Christmas bonus of public employees (extra pay equivalent to 7 per cent of the annual wage) was ‘temporarily’ eliminated. In 2013, the central government did not impose a new reduction of nominal wages of public employees. Adding to such a general wage reduction for all public employees, several Autonomous Regions have passed wage cuts for their employees. Among others, we can highlight the cases of Castile-La Mancha (3 per cent and several wage complements in 2011), Catalonia (5 per cent in 2011 through several deductions on bonus payments and one of the two bonuses in 2013), the Valencia Autonomous Community (reduction of specific wage complements for health – 50 per cent – and education employees plus 5 per cent for all public employees) and 3 per cent in Madrid.

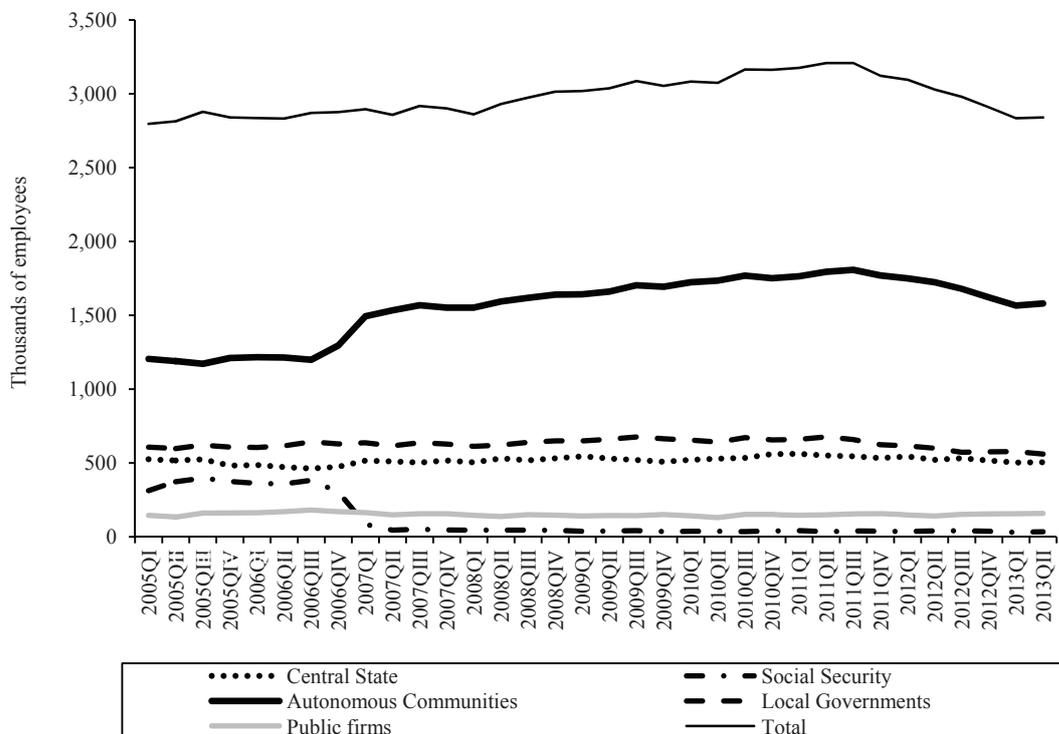


Figure 9.3 Evolution of public employment, Spain, 2005–2013 (thousands of public employees)

Source: Authors’ analysis from Spanish Labour Force Survey.

3.1.2 Policy Measures

After reviewing the evolution of the Spanish welfare state during the crisis, the rest of this section is devoted to describing, with different degrees of detail, the measures and policies implemented by the Spanish government since the beginning of the crisis. Reforms and cutbacks in health care, one of the focuses of austerity measures, are addressed in Section 4 as a case study.

(A) Cash social benefits and long-term care: small but multiple changes

As already mentioned, cash benefits play a key role in the Spanish welfare state, with two main programmes dominating the scene: contributory pensions and unemployment insurance. The former policy represents by far the clearest example of the action of the state in the Spanish economy. In 2007, pension spending represented 9 per cent of GDP (10.8 per cent in 2010), more than a third of total social benefits. For a significant proportion of the old-aged population public pensions represent their main or only source of income, as neither individual nor occupational private pensions are widespread. In addition to their importance as a voting group, the retired population is becoming larger and larger, associated with a low fertility rate and growing life expectancy. This explains why this policy has been mainly spared rather than characterised by systemic cutbacks. However, several important changes occurred during the period that will affect future pension rights:

- Rise of the standard retirement age from 65 to 67 years old, a progressive change to be completed in 2027.
- Restrictions on early retirement.
- Increase in the reference period for computing old-age pension benefits from the past 15 years previous to retirement to the past 25 years.²³
- Rise in the number of years of contributions required for receiving the maximum pension from 35 to 38.
- Contributions will add the same to pension benefits for each year of work, around 2.27 per cent per year above 15 years of contributions, instead of 2 per cent per year from year 16 to 25 and 3 per cent thereafter, the scheme operating from the mid-1990s up to now. This change will penalize people with short working careers.
- Introduction of a sustainability factor, which consists of revising pension policy every five years according to increases in life expectancy. This is likely to imply either further rises of the retirement age or additional reduction of benefits. Due to pressures from the European Commission, to reform and reduce the projected future rise in public pensions, the compromise of reviewing the need for such factor in 2027 included in the pension reform of 2011 will be brought forward to 2013.
- In 2011 and 2012, contrary to a broad political agreement for full indexation supported by most political parties in the mid-1990s that was transposed into law, pensions were adjusted below inflation. In 2011, benefits were frozen by the social democratic government, with the exception of minimum pensions. In 2012, the conservatives raised by 2 per cent pensions below 1,000 euros a month and by 1 per cent the rest of pensions regardless of actual (higher) expected inflation rate. The proposed pension increase for 2014 is 0.25 per cent, whatever inflation might be.

²³ According to estimates by Muñoz de Bustillo et al. (2011b) the impact of this change on take home pension for new pensioners will be around around -10 per cent.

None of the measures listed above are considered systemic, since they do not alter the fundamentals of the pension system in Spain: in principle, the main source of income is likely to remain a defined-benefit public scheme funded on a pay-as-you-go basis. Pensions will be paid later in life but no mandatory contracting of private pension plans has been established. Nevertheless, these changes will mean a reduction of benefits received for most workers (and that is the main aim of the reform). This reduction will particularly affect high-skilled employees (mainly composing the middle class), as they have steeper earnings profiles than low-skilled workers, who, furthermore, will suffer less because they will be protected by minimum pensions and longer working lives as they start to work earlier. Furthermore, the reform aims at strengthening the link between contributions and benefits and to provide incentives for long working careers and the postponement of retirement. Women, who generally have less years' service and more career interruptions might be particularly affected.²⁴ At the time of writing the European Commission is exerting enormous pressure (in exchange for softening the deficit reduction requirements) to approve a second and tougher pension reform aimed at reducing pensions not only for would-be pensioners but for current pensioners as well (as it did in Greece or Portugal, for example). Two of the changes proposed consist, first, of decoupling pensions from future price increases (indexing pensions to the evolution of the ratio between revenue from payroll taxes and pension spending, within certain limits: a minimum increase of 0.25 per cent and a maximum increase of Consumer Price Index + 0.25 per cent) and second, the introduction of a sustainability factor consisting of automatic benefit reductions with increases in life expectancy; if approved, this might jeopardize the central role of any pension system in ensuring an adequate level of income to retirees.

Unemployment insurance has been subject to the smallest cutbacks during the crisis. In fact, in 2009 a new non-contributory unemployment benefit of 426 euros a month was established for those who had exhausted contributory benefits and were receiving training. This temporary measure, under a different denomination and minor changes, has been prorogued by the conservative government. However, in July 2012 the replacement rate of unemployment insurance after the sixth month of unemployment was reduced from 60 to 50 per cent of the previous wage and in March 2013 the conditions for receiving unemployment benefits for those aged 55 years old and over –who enjoyed certain prerogatives – were toughened.²⁵ In any case, the increase in long-run unemployment has reduced the coverage rate of unemployment benefits, from 70 per cent of unemployed workers in 2008 to 48 per cent by the second quarter of 2013, as unemployed workers use up their unemployment benefits. Although, as already mentioned, pensions and unemployment insurance represent the bulk of social cash benefits that have been adjusted, other elements have also suffered cutbacks:

- The Emancipation Basic Income, an income-tested housing benefit for renting houses, targeting people between 22 and 29 years old and which was established in 2007, was abolished at the end of 2011.
- The Minimum Income for Social Integration (the main pillar of welfare benefits in the hands of regional governments) has been extended in duration (and the number of beneficiaries has risen) but the means test for receiving it has been made stricter (Equipo de Estudios de Cáritas Española 2013).

24 IThe acknowledgment of nine months of contributions by each child for working women (obtained by the trade unions in negotiation with the government) can attenuate this effect.

25 The OECD Economic Survey of Spain 2012 suggests the tightening of job search requirements for people on unemployment benefits and reducing its duration (OECD 2012d: 83), so further changes in this direction should not be ruled out.

- Sick leave for public employees has been substantially reduced (Muñoz de Bustillo and Antón 2013).
- The incipient long-term care system has been progressively paralysed, first, by postponing access to benefits among people with moderate disability and, second, by virtually removing the contributions from central government (which supposedly assumes half of the spending) to the system.

(B) Education: spending cuts by both central government and autonomous communities

The significant reduction in spending pointed out in Table 9.3 is the consequence of a combination of measures taken by central government and the Autonomous Communities. Some of the decisions made by the former level of administration have to do with its own competences in the area (basically, scholarships and research and development) and others affect guidelines that the regions, which have also undertaken austerity measures, have to follow on a mandatory basis. The list of austerity measures can be summarized as follows:

- Regarding early childhood education, the aim of universalizing pre-school education for children aged 0–3 years old was abandoned in 2012, after the central government decided to end its contribution to the programme, funded jointly with regions on a 50/50 basis.
- In relation to non-university education, the most relevant measures of ‘rationalization’ have been the following: a rise of 20 per cent in the maximum number of students allowed in a class, a substantial increase in class hours, reduction in the number of substitutions of teachers on sick leave, prohibition of introducing new pay complements and a reduction in the number of professional training modules that schools have to offer.²⁶
- In the case of higher education, central government has passed the following measures: substantial increase of tuition fees (for example, a 65 per cent increase over two years in the Autonomous Community of Madrid), strict limitation on the possibility of hiring new researchers and professors, elimination of university degree courses with few students and reorganization of the number of classroom hours that professors have to assume (which, on average, means a rise in classroom hours).²⁷ In addition, the central government has raised the academic prerequisites for receiving means-tested scholarships for university studies in the course 2012–2013 and plans to elevate them even more next year. It should be highlighted that, whereas tuition fees have risen, access to scholarships for students from economically disadvantaged families is being made harder and harder and, at best, resources devoted to scholarships have been frozen. At the same time, no system of income-contingent loans for financing higher education – repayable by graduates when they get a good job, like the schemes operating in several European countries, such as the United Kingdom – has been created.²⁸ According to some preliminary calculations by Juan

26 To get a rough idea of the magnitude of the cutbacks in non-university education, according to one of the main trade unions (Comisiones Obreras), the decrease in spending in these levels of education between 2009 and 2013 equals to a reduction of more than 60,000 people (Comisiones Obreras 2013).

27 The Ministry of Education, Culture and Sport sets the minimum and maximum increases of tuition fees allowed to regions. However, in 2012, it did not set any maximum and recommended raising fees. As a consequence, while some Autonomous Communities have barely raised fees, others – such as Catalonia, Navarra, Valencian Community, Navarra, Canarias, La Rioja, Castile and León or Madrid – increased them by between 35 and 84 per cent between 2009–2010 and 2012–2013.

28 The reduction in education spending by the central state has also affected scholarships, but, according to the Ministry of Education, Culture and Sport, the cutbacks are focused on grants oriented to favouring students’ mobility, like the Erasmus Programme.

Hernández and José Antonio Pérez, based on the data from two Spanish universities where they work as managers, roughly 12 per cent of current higher education students awarded means-tested scholarships lost their funding and a decrease more than twice as large is expected in the academic year 2013–2014. Overall, over two years, the coverage of scholarships will decrease from 23 per cent in 2011–2012 to 16 per cent in 2013–2014, at the levels of 2003–2004 (Ruiz 2013, and personal communication from the authors). In this respect, real-time evidence is overwhelming. For example, in the largest Spanish region, Castile and León, almost 50 per cent of the applicants for regional means-tested high education scholarships in 2012–2013 who fulfil the academic and economic prerequisites were not awarded the grant because the total amount involved would have gone beyond the budget (González 2013). The combined effect of decreasing family income due to the crisis, higher tuition fees and rising scholarships requirements had placed around 30,000 students (2.3 per cent of total undergraduates) in a situation of default and potential expulsion of their universities. This is especially harmful in a context of high youth unemployment (the unemployment rate of people 20–24 in the first quarter of 2013 was 53.6 per cent) as the alternative to studying is idleness. Finally, it is worth mentioning that mobility programmes, such as Erasmus, have seen their budgets severely cut. For instance, resources allocated to Erasmus students decreased by 60 per cent in 2013 and the number of Spanish exchange students is estimated to have diminished by more than 4 per cent (Ruiz del Árbol 2013). It is very likely that these types of cutbacks hit the middle class in particular, who benefit substantially from this programme.

- It is also worth mentioning that, although the volume of the resources devoted to education by the Spanish central state is small, this spending, which has been substantially reduced, as indicated above, has usually funded initiatives for promoting equality of opportunity, such as plans for introducing ICT in schools or compensatory educational programmes targeted at students with learning problems.

It can be argued that, taken together, these changes will affect the education of Spanish youth in a number of different ways: (a) by demoralizing teachers facing growing teaching loads (both classroom hours and students), lower pay and an intensive campaign of denigration; (b) the cuts in support teachers and the increase in the number of students in classrooms will affect the probability of success of pupils with special needs or coming from vulnerable families, hurting equality of opportunity; (c) the increase in university tuition (in a context of tightening of scholarships requirements) might turn university attendance once again into a privilege only available to better off families; and (d) the limits on hiring in universities and schools will jeopardize the necessary generational change in educational institutions, the new blood essential for improving learning institutions.²⁹

3.2 Significant Changes in the Labour Market: Stimulating Further Destruction and Not Job Creation

Since the approval in 1983 of the first employment code of the democratic era (*Estatuto de los Trabajadores*), there have been more than 50 reforms amending different elements

²⁹ Regarding the campaign of denigration, for example, recently, asked about a general educational strike (the last of many) called for on the 25th of October 2013 against cuts in public education and a proposed reform of secondary education, the State Secretary of Education declared, aiming at confronting parents and teachers, that ‘teachers go on strike because they have a secure job, in contrast with parents that are facing high unemployment rates and major economic difficulties’.

of Spanish labour market regulation. The programmatic aim of most such reforms was to increase labour market flexibility, considered by critics as too rigid, among other things, because of a very generous employment protection law. In fact, the first major reform, passed in 1984, eased the use of temporary contracts regardless of whether the activity performed by the workers was permanent or temporary. As a result, Spain became the EU country with by far the highest temporary employment rate, with one-third of employees on temporary contracts before the crisis.³⁰

With the advent of the crisis, and regardless of the intensive and rapid destruction of employment it produced (proof of the high flexibility of the labour market), the diagnosis of the Spanish unemployment malaise remained unchanged: the lack of labour flexibility resulting from overprotective employment protection laws was supposed to be hindering job creation. Actually, as already mentioned, the strictness of employment protection (measured by the OECD Employment Protection Indicator) of open-ended contracts was in line with the EU average, while temporary workers are overprotected compared to their EU counterparts (severance pay of 8 days per year of service).³¹ Nevertheless, the idea of a segmented labour market, presenting workers with open-ended contracts as insiders and temporary employees as outsiders in Lindbeck's and Snower's (1989) jargon, was simple enough to attract many followers. Consequently, two different reforms were enacted in 2010 and 2012, in the same direction but by different governments (the first progressive and the second conservative) and with different levels of ambition (the second being much more radical). In both cases, the aim was to facilitate 'job creation, as well as the promotion of employment stability' by different actions, including the reduction of the level of employment protection of open-ended contracts, the promotion of part-time employment, the fight against absenteeism and changes in collective bargaining. Table 9.4 summarizes the critical elements of such reforms.

According to Table 9.5, the changes in labour market regulation have failed to reduce the elasticity of employment to changes in GDP to the much lower levels of most European countries: in 2012, the destruction of employment was still three times higher than the fall of GDP. In this respect, after the dismal results in terms of employment destruction of the reform,³² even the defenders of the measure acknowledged that the proper time for easing dismissals and similar measures was not the middle of a recession. The labour reform also facilitated collective dismissals in the administration. In fact, from the third quarter of 2011 to the third quarter of 2013, the Spanish public administration destroyed 90,000 jobs (12.1 per cent of total public employees according to the LFS). Thus, as already mentioned, the public sector became one of the major contributors to the reduction of employment in the country (27 per cent of employment destruction from the last quarter of 2011 to the third quarter of 2013).

The weakening of the position of workers as a result of high unemployment and labour market reform had a negative impact on wages agreed in collective bargaining, with nominal increases in 2012 below price rises. Such an evolution of earnings, together with the increase in productivity has led to a redistribution of income from labour to capital. It could be argued that such a process could enhance investment and thus foster economic

30 As a consequence of the 1984 reform the share of employees with temporary contracts rapidly rose from 10 percent in the mid-1980s to almost a third in the early 1990s, remaining more or less constant since then.

31 In fact, the first major labour market reform after the crisis increased this compensation to 12 days (for contracts starting January first 2015).

32 In fact, orthodox economic theory predicts that easing firing during a recession accelerates job destruction (OECD 2004).

Table 9.4 Main changes in labour market regulation during the crisis, Spain

Measures	Comments
New open-ended contract (<i>Contrato de trabajo por tiempo indefinido de apoyo a los emprendedores</i>) for workers under 30 years old for firms with fewer than 50 employees.	Firms benefit from different incentives, including 50% of the unemployment benefits not exhausted by employees, a lump-sum subsidy of 3,000 euros per employee, other incentives for encouraging hiring of specific groups of workers and a one-year trial period.
Measures to facilitate changes by employers in the working conditions specified in the labour contract or collective agreements. Such changes include geographical mobility, changes in working time, pay, functions, etc.	The mere expectation of future losses is considered cause enough for implementing such changes. This might lead to the deterioration of employment security and working conditions.
Firm-level collective agreements are given priority over national, regional or sectoral agreements.	Potential bargaining problems for small firms (80% of firms with employees have fewer than 6, the required number to have a trade union delegate). This might weak bargaining power and lower wages.
Removal of the requisite of administrative authorization for collective dismissals (<i>Expedientes de Regulacion de Empleo, ERE</i>).	Such a prerequisite acted as an incentive for firms to negotiate collective dismissals, often 'softening' the impact of downsizing the plant and improving the conditions of fired workers.
Changes addressed to facilitate dismissals for economic, technological, organizational or productive reasons with the minimum severance payment (20 days per year).	Reduction in dismissal costs, risk of increasing the rate of dismissals. Lower compensation to fired workers now facing a long period of unemployment (in 2012, 30% of the unemployed had been unemployed for more than two years).
Reduction of redundancy payments for non-justified dismissal.	From 45 days per year (up to 42 months) to 33 days per year (up to of 24 months).
Changes to facilitate dismissal without severance payment in case of justified absenteeism (in the case of sickness, for example).	Increase of insecurity, potential risk of increasing presentism, with undesired social effects and deterioration of working conditions.
Extension of collective dismissals to the public sector (excluding civil servants).	Radical change in the stability of the employment principle, once a basic element of the public employment compact.
Reduction of pay and social benefits (sickness, days off, leaves, etc.) and longer working hours for public sector employees.	Worsening of working conditions for public employees and eventual demonstration effect for private workers.
Freezing of minimum wage.	Possible increase of the incidence of low pay and negative effects on negotiated wages.

Source: Authors' elaboration.

growth but this is unlikely in the Spanish context as the crisis has generated an evident underutilization of capital stock.³³ Therefore, this shift could well make things worse and delay the recovery by further depressing effective demand.

33 According to the Short-term Industrial Survey, in 2013, the expected level of capacity utilization of Spanish industrial firms is 70 per cent.

Table 9.5 Elasticity of employment to GDP, Spain, 2001–2012

<i>Boom</i>	Change (%)			<i>Crisis</i>	Change (%)		
	GDP	Employment	Elasticity		GDP	Employment	Elasticity
2003	3.1	3.8	1.23	2008	0.89	−0.5	−0.55
2004	3.3	3.8	1.15	2009	−3.74	−6.8	1.81
2005	3.6	5.3	1.47	2010	−0.32	−2.3	7.14
2006	4.1	3.9	0.95	2011	−0.42	−1.9	4.54
2007	3.5	3.0	0.86	2012	−1.37	−4.5	3.32
2001–2007	24.4	26.1	1.07	2008–2012	−4.95	−14.7	2.97

Source: Authors' analysis of Spanish Labour Force Survey and National Accounts data.

Social dialogue has been a collateral victim (and often the target) of this policy of labour market liberalization. In sharp contrast to previous reforms, the changes passed during the crisis were made while sidelining the social partners, especially trade unions.³⁴ Both reforms have been confronted by Spanish trade unions with two general strikes (on 29 September 2010 and 29 March 2012) and numerous protests and demonstrations. In fact, in 2012, there were 3,419 demonstrations in Madrid, more than twice the number of demonstrations held in the city in 2010.

The crisis, jointly with the labour market reforms, has also had a significant impact on the dynamics of collective bargaining. These events are further discussed in Section 4.2.

Summarizing, the significant employment destruction related to the crisis and the process of fiscal consolidation, the correlated increase in unemployment and the reform of the labour market have greatly affected the core elements of the labour realm of the European Social Model, weakening the situation of workers vis-à-vis firms. So far, such a reduction of workers' rights has not increased employment, contradicting those who considered that the distinctive feature of the Spanish crisis was its allegedly rigid labour market, arguing that such liberalizing reform was a necessary prerequisite for an early economic recovery.

These changes in the labour market, the growth of unemployment related to the crisis and the employment implications of fiscal consolidation, together with the reduction of resources devoted to social policy and social rights (see Table 9.6) leave the already underdeveloped Spanish version of the European Social Model in a dire situation, with significant adverse consequence in terms of social well-being that is to be addressed in Section 5.

34 In fact, a few days before the enactment of the second labour reform, the major trade union and employers' organization signed a framework agreement for collective bargaining for the period 2012–2014 (II Acuerdo para el Empleo y la Negociación Colectiva 2012, 2013 y 2014) that was shattered by the approved legislation. This agreement included a nominal wage increase for 2012 of 0.5 per cent without revision unless prices increased in 2012 more than 2 per cent, in which case workers would be compensated with whatever exceeded that amount.

Table 9.6 Main changes in the European Social Model, Spain

Main changes	Main developments, changes and dates	Main objectives
Social protection		
<i>Social protection</i>	Reduction of per capita real social spending –particularly, in education and health care (each year, since 2010).	Budgetary purposes/ pressures from the EC.
<i>Pensions</i>	Increase of the retirement age (2010), incomplete indexation of pensions (2011 and 2012), parametric reforms that will reduce benefits.	Budgetary purposes/ pressures from the EC.
<i>Health</i>	Reduction of per capita real spending (each year, since 2010); increase of copayments (2012); rationalization measures and new forms of management (since 2012).	Budgetary purposes/ pressures from the EC, ideological motivations.
<i>Unemployment benefits</i>	Expansion of means-tested unemployment benefits (2009); reduction of the replacement rate of contributory benefits (2012); use of social security reserves for general purposes (since 2012)	Electoral aims and anti-poverty objectives (means-tested benefits); budgetary purposes/ pressures from EC (cutbacks)
<i>Social assistance</i>	Extension of the duration of the benefits, reduction of benefits, differences across regions and municipalities (during the whole crisis).	Anti-poverty objectives (duration); budgetary purposes/ pressures from the EC.
<i>Education</i>	Reduction of per capita real spending (each year, since 2010); increase of class size and decrease in the number of teachers (since 2010 and, explicitly, since 2012); rise in tuition fees (particularly, since 2012).	Budgetary purposes/ pressures from the EC; ideological motivations (tuition fees).
Social dialogue		
<i>Social dialogue</i>	Marginalization of social dialogue. Social dialogue is substituted by unilateral decision of government in a context of an absolute majority in Parliament but fast diminishing support of the population (including its own constituency) and growing social unrest.	Marginalization of trade unions (business organizations often have direct channels of communication with the Conservative Party)
<i>Tripartite consultations/pacts</i>	Tripartite dialogue broken (barely any consultation since 2010); financial constraints on unions and employers' associations (reduction of shop stewards, resources for training courses, etc.).	Budgetary purposes/ pressures from the EC; ideological motivations.
<i>Collective bargaining (institutions/rules, etc.)</i>	Decentralization of collective bargaining (since 2010 and even more since 2012).	Wage cuts / pressures from the EC.
Public sector		
<i>Privatization</i>	Start of privatization of the national lottery, most profitable airports, health care centres and hospitals and companies providing local and regional services.	Budgetary purposes/ pressures from the EC, ideological motivations.
<i>Closures</i>	Hospitals, health care centres and rural health care points, schools, university degrees, (profitable) state-run hotels (especially since 2012).	Budgetary purposes/ pressures from the EC.
<i>Cuts (employment & wages)</i>	Freeze of public employment (very low replacement ratios in social areas), absolute decrease of public workers since 2011; 5 and 7% nominal reductions of nominal wages in 2010 and 2012, respectively; freeze of nominal wages in 2011; further reductions in some regions and for some occupational groups.	Budgetary purposes/ pressures from the EC.

Table 9.6 Main changes in the European Social Model, Spain (cont.)

Main changes	Main developments, changes and dates	Main objectives
Labour market		
<i>Employment and labour market rules</i>	Liberalization of labour law.	Employment creation.
<i>Work contracts</i>	Lower number of contracts.	Simplification.
<i>Hire/fire rules</i>	Lower firing costs. Facilitation of collective dismissals.	Employment creation.
<i>Flexibility</i>	Increase flexibility by facilitating changes in working conditions.	Facilitate internal flexibility as opposed to external flexibility.
Living standards		
<i>Income inequality</i>	Increase in income inequality (Gini index rose from 0.313 in 2007 to 0.340 in 2010).	
<i>Poverty</i>	Relative poverty increased since 19.6% in 2007 to 21.8% in 2010 and larger increase in absolute poverty.	
<i>Minimum wage</i>	Freeze – more or less – of the minimum wage, with a decrease in real terms (since 2010).	Pressures from the EC; ideological motivations.
<i>Low pay</i>	Stagnant around 16% in relative terms and small increase in absolute terms.	
<i>Wage inequality</i>	Slight reduction (Gini index decreased from 0.284 in 2007 to 0.264 in 2011).	
<i>Earnings</i>	Declining share of wages in GDP.	Increase in profitability, fostering jobs and exports
Cohesion		
<i>Regional cohesion</i>	No change but increasing regional tensions because of pressures of pro-independence supporters in a context of economic precariousness.	
<i>Tax policy</i>	Increase of income and corporate and value added tax, re-introduction of a tiny wealth tax, VAT and other indirect taxes (throughout the crisis).	Budgetary purposes, pressures from EC (in case of indirect taxes) and electoral aims (wealth tax).
<i>Social spending</i>	Increase as a percentage of GDP since the beginning of the crisis because of the fall in GDP and unemployment; decrease in real terms since 2010.	Budgetary purpose/ pressures from the EC.

Source: Authors' elaboration from national laws and Muñoz de Bustillo and Antón (2013).

4. CASE STUDIES

4.1 Case Study 1: No Band Aids for the Cuts in the Health National System?

4.1.1 Access to Health Services Key to Wealth Redistribution

Universal access to health services is a core element (probably the core element) of the European Social Model, for a number of different reasons. First, because health has a decisive impact on well-being (Subramanian et al. 2005), and second, there are numerous elements in the provision of health services that make this activity less than suitable

for private provision (Barr 2012). Furthermore those segments of the population that are more economically vulnerable usually suffer from worse health (Cutler et al. 2008). All this makes health expenditure and programmes within the European Social Model one of the most important elements for improving redistribution of wealth and reducing inequalities.

Moreover, during the crisis the importance of maintaining the level and quality of public health services is even greater. This is due mainly to the increase in unemployment and economic hardship which can have a negative impact on health, leading to an increase in the demand for health services. For example, from 2006 to 2010–2011, there was a large increase in the proportion of patients reporting depression and other mental disorders (like anxiety and alcohol-related disorders) and both successful and unsuccessful suicide attempts increased in Catalonia, an important Spanish region, from 2010 to 2011 (Legido-Quigley et al. 2013). As another fairly illustrative issue, according to the National Statistics Institute, life expectancy at birth declined by 0.1 years from 2011 to 2012. Second, the postponement of access to health for economic reasons (unlike the postponement of changing one's cell phone, for example) might have important negative implications in terms of future health, both for the person and for society as a whole. It is for these reasons that we selected the impact of the process of fiscal consolidation on the Spanish National Health System for a detailed analysis.

4.1.2 Cuts in Health Care through Different Channels

By central governments...

Health care cuts in the Spanish National Health System have been carried out through two different channels. First, the central government, which is responsible for regulating the basic decentralized health care system, has taken the following measures aimed at reducing expenditure by transferring part of the financial cost of health care to the users:

- *Increase of 'co-payment' systems.* The increase of drug copayments for patients with income higher than 18,000 euros per year from 40 to 50 and 60 per cent of prices depending on income level (although unemployed and people with low incomes are now exempted and the cost-sharing ratio depends on income), the extension of drug co-payments to pensioners (up to 10 per cent of price with some exceptions and a monthly cap of 18 euros), the introduction of user fees in non-urgent medical transport services, prosthesis and wheelchairs and hospital drugs and the introduction of co-payments for drugs for chronic diseases (breast cancer, leukaemia, HIV and so on) so far dispensed free at hospital pharmacies.
- *Shrinking the list of reimbursed medicines.* The removal of more than 400 medications to treat minor symptoms (from coughs to dermatitis) from the financed medicament list³⁵ and limitation of in vitro fertilization to women with no children and below 40 years of age (excluding lesbian couples and single women).
- *Stricter eligibility.* Establishment of new requirements for foreigners to access public health services, de facto excluding illegal immigrants (who could access the national health system after a reform in 2000) from benefiting from any type of free treatment except for emergency care.

³⁵ There has been a significant increase in the price of the medicines excluded, in some cases of up to 100 per cent, which represents another example of unintended consequences of cuts in public expenditure.

...Relayed by regional governments

In the second place, the central government, itself under pressure from the European Commission, has forced regional governments to reduce public spending to achieve fiscal consolidation. Given that education and health care are in hands of Autonomous Communities and represent roughly half of their budgets, this has translated into severe cuts on both dimensions. Some regions have gone beyond central government guidelines and have imposed policy measures such as:

- *Co-payment again.* Increases in drug co-payments in Catalonia and Madrid, which would add up to the rise set by central government. This measure is pending a Constitutional Court ruling.
- *Outsourcing services to the private sector.* Systemic changes in the organization of health services, particularly in Catalonia, Castile-La Mancha and the Valencian Community, related to the use of new forms of managed care. The main changes include the intensification of outsourcing, including health staff and health care, affecting both primary and hospital care in Madrid, Castile-La Mancha and Catalonia and the use of private finance initiatives for building new hospitals in many regions ruled by conservatives.³⁶ These processes were limited to only a few cases before the crisis.
- *Closing health centres.* Partial or total closure of primary health centres and hospitals, mainly in –but not limited to – rural and sparsely populated areas. The most affected regions are Madrid, Catalonia, Castile-La Mancha, Castile and León, Aragon and the Valencian Community.
- *Cutting wages and increasing working hours.* Apart from this list of very symbolic measures, many regions are trying to reorganize their health care systems in order to save resources by cutting wages and social benefits and increasing the working hours of public employees (Muñoz de Bustillo and Antón 2012).

4.1.3 Shouldn't Rationalization Be Based on a Cost-benefit Analysis?

Reforms needed for sustainability

The adoption of some measures to reorganize and rationalize health care, such as a careful evaluation of which treatments and drugs are cost-effective in order to decide whether they are to be covered by the public exchequer; or the recentralization of drug and medical purchases in order to obtain better prices; or a mandate to prescribe generic pharmaceutical products (or drugs at the same price) can definitely be useful.

Across the board cuts affecting the most vulnerable citizens

However, the core of the measures taken involve either indiscriminate downsizing of the national health system (reduction of public spending across the board, increase in cost-sharing, deterioration of working conditions of health care workers, selective closures of health centres) or ideological motivations (different privatization paths). It is clear that some of the measures described above are likely to have negative consequences for access to health care, particularly among the most vulnerable groups (from people with low in-

³⁶ In private finance initiatives, private investors take on the costs of building health infrastructure – and often the running costs – in exchange for an annual payment for a number of years. Usually, in Spain, health care services continue to be managed by the public sector. However, the new movement involves 'privatizing' health care as well.

comes, who cannot afford other types of health care than public to those with more health problems or those living in remote areas or without appropriate means of transport).

Assessing the long-term impact of change

Some of the measures are likely to have negative budget consequences in the long term. For instance, irrespective of its negative impact on equity, the effectiveness of co-payments is controversial because it might prevent medical examinations and adherence to medical treatments and even, in some cases, can raise long-term health care spending due to a lower attendance of health screening and the postponement of visits to the doctor to later stages of illness (see, among others, Robinson 2002; Gemmill et al. 2008; Corriero et al. 2010; Thomson et al. 2010; and World Health Organization 2010). In this respect, a recent small survey carried out by general practitioners in a Spanish region, points out that the demand for prescribed medicines (that is, an induced demand, as it has to be with drugs explicitly ordered by physicians and funded mainly by the National Health System) has decreased by around 17 per cent with more impact for lower household incomes (FADSP 2013).

Gains not found from outsourcing

Regarding privatization and outsourcing, although Spain is one of the leaders and pioneers in terms of outsourcing and the implementation of new forms of management in health care, there is a lack of academic research on this topic (information is patchy and not available to researchers and there is a no interest on the side of the public administration to evaluate experiences) (Acerete et al. 2011). Drawing on the experience of other countries – particularly the United Kingdom – these new ways of organizing health care, at best, do not seem to show any superiority in terms of equity or efficiency of health care delivery over traditional forms of organisation and, in general, they seem to be more expensive (Pollock et al. 1997 and 2002; McKee et al. 2006). Even the overall beneficial effects of outsourcing non-medical services (for instance, cleaning and catering) are questioned by the academic literature (Davies 2010; Murphy 2002; Guimarães and de Carvalho 2011; Zuberi and Ptashnick 2011).

In brief, and regardless of the hypothetical cost reductions obtained, outsourced cleaning is related to a deterioration of hygiene standards in hospitals (with potential fatal implications in terms of hospital-acquired infections, see Pratt et al. 2007; Henry et al. 2008), loss of control over the specialized training required for cleaning in hospitals, loss of control of staffing levels, higher turnover and absence from work and loss of service delivery flexibility in case of emergency. Last but certainly not least, outsourcing destroys the feeling of belonging to the ward team, an essential element of health care quality.³⁷ Moreover, recently the Spanish media has discovered dangerous conflicts of interest between regulators, contractors and tenderers in some cases.

4.1.4 Long-term Detrimental Effects

Finally, although the impact of most cutbacks is not likely to be observable for a few years, there are some elements that, even on a preliminary basis, indicate that public health care provision is deteriorating in the short run. For instance, in terms of waiting

³⁷ In this respect, after the nurses, cleaners are the workers that have more relation with patients, providing social support, talking to them and providing assistance. Although that is not part of their job description it is considered by many 'as an essential part of their job' (Grimshaw and Carol 2008). This demands have to be coupled with the adverse effects that outsourcing has on employment conditions of workers in public sectors hospital (Grimshaw and Caro 2008; Zuberi and Ptashnick 2011).

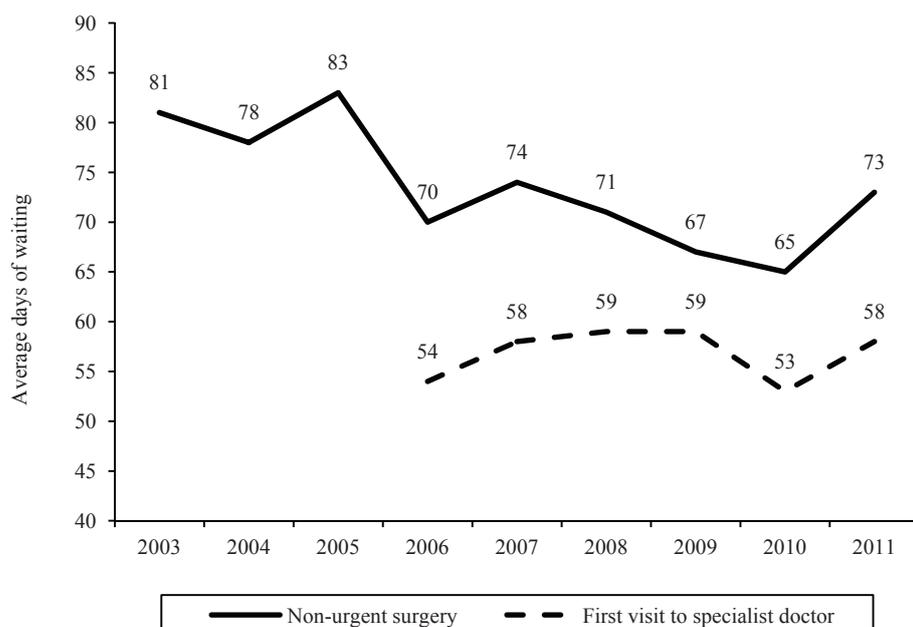


Figure 9.4 Evolution of waiting lists in the national health system, Spain (average number of days of waiting, 31 December 2003–31 December 2011)

Notes:

- Data correspond to 31 December of each year.
- Data on surgical procedures include all Autonomous Communities, while data on visits to specialists comprise only 14 regions.

Source: Authors' analysis from Ministry of Health, Social Services and Equality data.

lists, the declining trend observed since the data were made available has been reversed since December 2010, in tandem with the austerity measures (Figure 9.4).³⁸ According to the official website of the regional health care system, in the hospital complex of Toledo, the flagship health infrastructure of Castile-La Mancha, a central region in which the regional government is applying particularly hard measures, the average waiting times for orthopaedics (one of the specialties with the highest demand) climbed from December 2007 to December 2012 from 107 to 400 days and from 165 to 366 days for non-urgent surgery and first visits to specialist physicians.

All in all, although urgent treatment is given preference over non-urgent interventions, the increase in waiting lists might affect the survival odds and quality of life of patients with complex (and not so complex) pathologies. This is clearly the case for all those 'illegal' immigrants who have lost access to the national health system. Although the number varies according to the source, a large number of immigrants are currently living in Spain without access to the public health system (more than 800,000 according to the NGO Amnesty International; Amnistía Internacional 2013). Although they cannot be denied attendance in case of emergency care, such care is obviously not enough. For instance, Spanish society was disturbed when the media reported that an undocumented immigrant

38 These data are computed and made public by the Ministry of Health, Social Services and Equality and they are controversial. While some Autonomous Communities authorities offer this information with a high level of detail, others refuse to provide them and two apply somewhat different methodologies for computing waiting times, which makes some of their information non-comparable and even induces breaks in their own time series. The last available data, released in August 2013, suggest that the problems are becoming more and more intense: from June 2012 to December 2012, waiting lists for non-urgent surgery increased from 76 to 100 days (32 per cent) and waiting lists for visiting specialists climbed from 53 to 56 days (6 per cent). Unfortunately, there is a break that hinders the establishment of a homogenous series.

from Senegal died of tuberculosis after being wrongly diagnosed with bronchitis and sent home by the emergency services of a hospital in Palma de Mallorca. Although the government is designing an ad hoc possibility to join health insurance for this group, the expected cost (from 64 to 150 euros a month, depending on age) is beyond many of them.

In the face of these circumstances – increases in co-payments affecting the uptake of prescribed drugs by some vulnerable groups, exclusion of undocumented immigrants from the system, increases in waiting lists, increases in the workload of health workers – it seems that cutbacks in this area might have very negative consequences on health.

The process of cuts in health care documented above has been rushed, one-sided and ideologically driven (as opposed to meditated, consulted with the stakeholders and driven by facts and a careful study of the areas in which there could be efficiency gains without jeopardizing the health standards of the population). The result is: (a) a less inclusive health care system, with a sizeable part of the population (mostly undocumented immigrants) excluded; (b) delayed response, which might produce a deterioration of the health of patients; (c) a very dangerous change in the philosophy of the system by which the user is considered partially economically responsible for his or her illness; and (d) the alienation of health workers from the system.

4.2 Case Study 2: Dismantling a Key Element of the European Social Model: Collective Agreements

4.2.1 From Traditional Consensus to Confrontation

At other critical times for the Spanish economy, the government opted for a negotiated strategy for crisis resolution (most famously the *Moncloa Pacts*, signed in 1977 in a crucial economic and political situation, that among other things allowed the resolution of the spiral of inflation by fixing wages to expected and not past inflation. This time, in a no less dramatic context, the conservative government has opted for a confrontational approach, enacting a long ranging labour market reform.³⁹

4.2.2 Collective Bargaining under Attack: Major Changes

In fact, one of the cores of the reform has been the attempt to weaken collective bargaining, based mainly on agreements at the regional and sectoral levels (although with national guidelines). The general rule of collective agreements – covering all workers irrespective of union membership – has allowed for a high rate of coverage, between 80 and 90 per cent depending on the source of information, even in a context of low affiliation. As already mentioned, in the Spanish collective bargaining system, often characterised in the literature as centralized at an intermediate level, collective agreements by sector and regional or provincial level prevail. Therefore, the spatial and economic scope of many agreements is narrow. This bargaining scheme corresponds, at least partially, to the structure of the Spanish economy (Pérez Infante 2011), in which roughly half of all employees work in firms with fewer than 10 workers, where negotiation is likely to be difficult and bargaining power is not balanced. For instance, there is no legal mandate to have union representatives in such establishments.

³⁹ In June 2010, the Socialist Party enacted, also without negotiation with the social partners, another liberalizing labour market reform, although less radical in its deregulatory aims. This reform was contested by the two major Spanish trade unions with a general strike, and also rejected by business organizations, which considered it milder than required by the dire situation of the Spanish economy.

The aim of the reform in relation to collective bargaining was to modify the power relationship between employer and employees, boosting the prerogative of the former to change working conditions:

- Unilateral changes by employers. There has been an increase in the number of causes that allow for changes in working and labour conditions, especially when such conditions are laid down in individual labour contracts under firm-level collective agreements. Employers no longer have to justify how changing working conditions will increase the firm's chances of survival. This new regulation has been contested in court. Recently, the Supreme Court of Catalonia ruled out a 15 per cent reduction in wages by a local firm on the argument that previously the firm had fired 11 workers and that that should have been enough to adjust the decreasing work load of the firm, rendering the wage reduction unnecessary (Blanchar 2013). As this case proves, one of the undesired effects of the reform has been an increase in the workload of the judicial system, as many issues previously resolved at the bargaining table may now be taken to court.
- Reduction in the compulsory nature of collective agreements. The reform allows firms to stop honouring collective agreements when negative events occur. The circumstances included in the new law are actual or forecast losses, a reduction of income or sales for more than two consecutive quarters, changes in the organization and changes in demand. Non-compliance with the collective agreement can affect all aspects of labour relations (wage, working time, working schedule, shifts). If the firm and workers' representatives do not reach agreement on the proposed changes, the issue can be taken to arbitration (which can mean that the agreement is not respected).
- Pre-eminence of collective agreements at firm level. Collective agreements at firm level now have priority over all provincial, regional, sectoral or national agreements.
- Lower coverage after expiry of collective agreements. When a collective agreement expired, its applicability was maintained until a new agreement was signed. After the reform, such periods are limited to one year.⁴⁰ This change has produced a virtual stalemate of collective bargaining in many sectors because firms now have a clear incentive to let collective agreements expire and working conditions are likely to deteriorate.

4.2.3 Enterprise Level Prevailing after the Reforms

The standard literature suggests that firm-level collective bargaining should have differential effects compared with a system with a higher level of centralization of bargaining than the Spanish one: lower wage increases, higher wage dispersion and higher gender pay gaps (Rowthorn 1992; OECD 1997 and 2004b; Blau and Kahn 1999; Aidt and Tzannatos 2002; Elvira and Saporta 2001; Blau and Kahn 2003).⁴¹ Empirical literature on the Spanish economy, which could guide our insights on the likely effects of the reforms, is inconclusive and problematic. Particularly, collective bargaining at the firm level was not the standard option. Therefore, Spanish workers subject to firm-level collective agree-

⁴⁰ For details on the implications of this norm see Alfonso Mellado (2012). A large number of collective agreements ended their post-expiry periods in July 2013.

⁴¹ The same should apply to other type of earnings differentials not related to productivity (by ethnicity, migrant status and so on).

ments were those working in enterprises where employees had strong bargaining power, which made it worth signing an agreement with more favourable conditions than those agreed at higher bargaining level (national, sectoral, regional or provincial agreements). Thus in the case of Spain the existence of collective agreements on top of central agreements seemed to have improved wages and working conditions. In this context, the causal effect of the return to centralization of bargaining is difficult to gather, since one has to disentangle the relevant selection bias. It is even possible that, under such a scheme, the level of centralization was negatively correlated with within-firm wage dispersion, pay increases and gender gaps.⁴² The option just implemented with the 2012 labour market reform precisely turns the system around: collective bargaining at the firm level is the default now, prevailing over all the other possible levels of negotiation. In principle, this is likely to lead to lower pay increases, higher earnings dispersion and larger gender gaps. The experiences of decentralisation of collective bargaining during recent decades in some European countries – such as Sweden or Denmark – seem to have led to higher wage dispersion (Edin and Topel 1997; Dahl et al. 2013).

4.2.4 Direct Effects Already Observed

As already mentioned, due to the particular features of the Spanish labour market and economic structure – particularly, the pervasive importance of micro-enterprises – it is reasonable to assume that the reform will lead to a new design for the negotiation of collective agreements in which workers will have much less bargaining power. Although it is not easy to separate the effects of the recession and the reform, we can already identify several outcomes that are likely to be linked to the changes described above.

No renewal of enterprise agreement leading to social unrest

- Strong evidence suggests that many employers are delaying the signing of new collective agreements, waiting for the expiry of those at a higher level than the firm (July 2013 for many of them). Since collective agreements no longer apply after that date, workers will have to choose between signing new agreements at the firm level with stricter conditions and having no agreement at all and having to find protection under basic labour law (Reuters 2013). According to our calculations based on data from the Ministry of Labour and Social Security and the National Statistics Institute, by March 2012 agreements covering 14.8 per cent of employees had been registered at the Ministry, whereas in March 2013 this figure was 8.3 per cent. According to statistics from the Ministry of Employment and Social Security, those firms that opted out of collective agreements during the first eight months of 2013 accounted for 115,000 workers, whereas the figure for the whole of 2012 was 29,352 (with regard to a somewhat larger number of employees) (Comisión Consultiva Nacional de Convenios Colectivos 2013).
- The reforms have been counter-productive with regard to social peace. According to data from the Ministry of Employment and Social Security, during 2013 there has been a surge in labour unrest with an increase in the number of participants in strikes of 250 per cent and an increase in working days lost of 300 per cent (data

⁴² The only study for Spain that tries to control for selection (even fairly imperfectly, as it used a matching technique based on commonly observable firm characteristics) is that of De la Rica and González (2007), whose results are in line with the standard theoretical literature: decentralized bargaining is associated with higher inequality, lower pay and larger gender gaps.

from January to May excluding the general strikes of 2012 and the strikes in education of 2012 and 2013).

Decline in real wages due to removal of wage revision clauses

- A radical fall in the number of wage revision clauses (a mechanism by which wages are raised a posteriori when actual inflation surpasses expected price increases) in new collective agreements. According to data from the Ministry of Labour and Social Security, the share of workers under collective agreements with indexation clauses fell from 67.3 per cent in 2008 to 34.1 per cent by April 2013. Specifically, in the case of firm-level agreements, the fall was from 54.6 to 17.1 per cent. The lack of indexation will exacerbate the already decreasing trend of nominal wages that started in 2012 (around a 1 per cent decrease in the past year).
- As explicitly intended by Spanish policymakers and the European Commission, the reforms seem to be affecting wages in the private sector, as hourly unit labour costs there fell by -0.1 per cent in the last quarter of 2012. Unit labour costs per worker in the whole economy declined by 5.8 per cent in this period, but this includes public employees and does not consider the effect of longer working hours (Banco de España 2013). At the same time, the 300 collective agreements registered in the first three months of 2013 indicate an average nominal pay increase of 0.5 per cent (2.1 and 1.25 per cent in 2011 and 2012, respectively), whereas the government forecast inflation of 1.6 per cent (Bank of Spain 1.8 per cent and the IMF 1.5 per cent). Therefore, and taking into account that wage revision clauses are declining, data seem to indicate that the decline of real wages will continue.

Wage decreases along with working time increases are having economic effects

- In parallel, some firms, particularly large commercial outlets are profiting from the current economic circumstances to get nominal pay decreases and longer working hours from their employees (Gómez 2013b). This might sound like music to the ears of mainstream policymakers (the sought-after internal devaluation), possibly leading to the recovery of the Spanish economy's lost competitiveness. However, things are not as simple as that, for several reasons. In the first place, the depression of wages is contributing to the further reduction of domestic demand and to the destruction of yet more jobs. Second, real wages have been kept at extremely moderate levels by unions, employers and the public sector (Muñoz de Bustillo and Antón 2011b). That implies that out of the many variables behind the deterioration of Spanish competitiveness with euro-zone countries wages are not a major one (Álvarez and Luengo 2012). In fact, the share of wages in GDP has been deteriorating for a decade (with the exception of the years of the crisis), a trend that implies that prices – and mark-ups – have risen faster than wages and the inflation differential with other countries is entirely unrelated to wage inflation (Figure 9.5). In any case, the decline in the employees' share of national income has clearly accelerated during the crisis, with a fall from 54.4 per cent at the beginning of 2008 to 49 per cent at the end of 2012. Although it is beyond the scope of this chapter to disentangle the causal factors behind this, it is also clear that the 2010 and 2012 labour market reforms, aimed at reducing workers' bargaining power and favouring internal devaluation, are among them, as the decrease has become more intense during recent quarters.



Figure 9.5 Evolution of employees' remuneration as a percentage of GDP, Spain, 2000–2013

Notes:

- Data area adjusted for seasonal and calendar effects.
- The participation of wages in GDP is underestimated because there has been a reduction in the number of self-employed whose income is considered as capital income. In 2001, the percentage of self-employed workers was 20%, whereas this share declines up to 17.6% in 2012. Since 2010, the proportion of self-employment has increased by 1 percent point, so the participation of wages is somehow underestimated during this latter period.

Source: Authors' analysis from National Statistics Institute data.

4.3 Conclusion: The Changing Nature of Collective Bargaining

The reform of the system of collective agreements described here is not the only element of change in terms of social dialogue. It is also symptomatic of the fact that all the key reforms affecting the world of work approved in the past two years have been taken unilaterally by the government, without agreement and often without real consultation with the social partners. A good example of this is the draft of the last pension reform, rejected by the Economic and Social Council, an institution made up of trade unions, employers' organizations and representatives of the third sector.

The changes related to collective agreements in the 2012 labour law reform imply a radical change in the nature of collective agreements (Rodríguez-Piñero Royo 2012), increasing by different means the power of the employer vis-à-vis the employee to set working conditions. These changes will lead to an ongoing process of bargaining that will not be concluded on signing a collective agreement, as working conditions can now be easily and unilaterally changed by the firm, the fixed nature of collective agreements

will cease, running the risk of a never-ending process of bargaining that will not be over upon the signing of the collective agreement and might (as can be already observed) lead to increasing labour conflicts. This may lead – as can already be observed – to increasing labour conflict. In the past, collective agreements had the important role of organizing labour relations between firms and workers, reducing the intensity of labour conflicts and contributing to the normalization of labour relations in Spain after a time of high industrial unrest. The risk is that the weakening of collective agreements might undo such normalization.⁴³ In the end, Spain will have a much more flexible system of collective agreements (it remains to be seen what its impact will be on growth and employment creation), but potentially also a much more uncoordinated, unorganized and confrontational system of labour relations.

5. *QUO VADIS?* EFFECTS OF STRUCTURAL AND PARAMETRIC CHANGES ON THE SPANISH SOCIAL MODEL

The changes in the Spanish social model described above have implications on three different fronts. In the first place, in macroeconomic terms, the policy of austerity promoted by the European Commission and ardently followed by Spanish governments, far from delivering the promised expansion, has driven Spain into a double dip recession, increasing the destruction of jobs and delaying economic recovery. As difficult to believe as it might be for economists at the European Commission, expenditure and tax multipliers are higher than 1, and fiscal consolidation, in a time of recession, is exacerbating the crisis, not solving it (IMF 2012).⁴⁴

5.1 Increased Poverty

The compounded effects of the recession and austerity measures have led to two phenomena that systematically reinforce each other, namely increases in inequality and in poverty (Table 9.7) in a country with comparatively high levels of each.⁴⁵ In this respect, the most relevant facts are the rise of absolute poverty by roughly 65 per cent from 2007 (just before the recession started) and the increase in income inequality by almost 8 per cent during the same period. It is also worth mentioning that, while the evolution of female poverty is similar to that of the overall risk of deprivation, both relative and absolute child poverty rates have increased above average. These events, together with the new barriers to access to education and health, will definitely hamper equality of opportunity in Spain, not only in the short run but also in the future.

5.2 Job Destruction and Unemployment due to Lower Transfers

The increase in income disparities in the crisis, almost unparalleled in the OECD, is associated with the significant rise in unemployment – which has particularly hit low-skilled

43 In words of Rodríguez-Piñero Royo (2012), Professor of Labour Law and a reputed specialist in the area, ‘*collective agreements are not what they used to be.*’

44 More outrageous than the lack of the promised results of the policy of fiscal consolidation is the fact that the economically depressing impact of deficit reduction in a time of crisis has been known for a long time, even within the context of mainstream economics (Almunia et al. 2010).

45 Both inequality and relative poverty had been decreasing since the mid-1980s up to the early 2000s, when this process was interrupted. Since then the Gini index remained roughly constant until the Great Recession (Ayala 2013).

workers – the traditionally weak role of social spending and taxes in redistributing income (which has limited the countervailing impact of taxes and expenditure on the overall evolution of inequality during the recession) and the austerity measures (Ayala, 2013). The impact of this last item is twofold. On one hand, austerity has increased the depth of the crisis and the intensity of employment destruction (both directly and indirectly). On the other, austerity measures have limited the capacity of social policy to counteract through public transfers the fall in family income associated with the increase in unemployment.⁴⁶

Table 9.7 Evolution of poverty, inequality and low pay, Spain, 2003–2011

	2003	2004	2005	2006	2007	2008	2009	2010	2011
Relative poverty (%)	21.7	20.5	20.4	19.8	19.8	19.6	20.8	21.8	–
Absolute poverty (%)	21.7	14.8	13.5	11.4	9.6	11.1	12.8	15.7	–
Female relative poverty (%)	21.9	21.5	21.5	20.9	21.1	20.8	21.4	22.4	–
Female absolute poverty (%)	21.9	15.1	14.0	12.0	9.9	11.4	12.8	16.2	–
Child relative poverty (%)	21.1	23.4	23.5	23.3	24.2	23.3	24.9	26.5	–
Child absolute poverty (%)	21.1	17.0	15.7	13.0	12.5	14.3	16.8	20.5	–
Gini index of net income inequality	0.349	0.328	0.320	0.315	0.313	0.322	0.339	0.340	–
Relative low pay (%)	–	15.8	17.3	17.3	16.6	15.6	16.5	15.8	15.8
Absolute low pay (%)	–	15.8	14.7	10.4	9.5	7.3	7.2	6.5	7.1
Working poor (relative) (%)	10.4	10.3	9.5	10.4	10.3	11.1	12.5	12.2	–
Working poor (absolute) (%)	10.4	7.3	5.9	5.9	5.2	6.9	8.3	9.2	–
Gini index of hourly gross wage inequality	–	0.296	0.291	0.290	0.284	0.275	0.273	0.274	0.264

Notes:

- Relative poverty is computed as the percentage of the population whose household equivalised income is below 60 per cent of the median household equivalised income.
- Child poverty refers to people aged below 16 years of age.
- Relative low pay is computed as the percentage of employees earning an hourly gross wage below two-thirds of the median hourly gross wage.
- Absolute measures of poverty and low pay are computed taking as fixed (in real terms) the relative poverty line of the first available year (2003 or 2004).
- As income data refer to the year before the interview, the calculation of working poor is based only on those individuals who worked full-time for the 12 months of the previous year.

Source: Authors' elaboration from Survey of Living Conditions 2004–2011 microdata.

⁴⁶ As shown in Muñoz de Bustillo and Antón (2011b) during the recession unemployment hit the lower quintiles of the population to a much larger extent.

5.3 Fall in Household Income and Purchasing Power

Whether there is a closer causal relationship between austerity measures and falls in household income and purchasing power remains to be seen, when more and better data are available. A very recent study by Avram et al. (2013), based on the EU microsimulation model Euromod, analyses the impact of the consolidation measures introduced between January 2008 and June 2012 involving changes in cash benefits, public sector pay and direct and indirect taxes. They find that the effect of all these measures (excluding VAT rises) meant a decrease in available household income by 4.3 per cent (somewhat more if VAT changes are considered). This impact is due mainly to reductions in public pay and pensions and an increase in income tax. All these measures were based on a progressive design – that is, the higher income reductions were targeted at the most well-off – which explains why these austerity measures have had more impact on richer households (the VAT changes do not change the results very much).

In particular, whereas people in the first two deciles have seen their income reduced by roughly 5 per cent, the impact on households placed in the top decile has been more than –7 per cent. These results are in line with our presentation of the consolidation measures affecting the Spanish welfare state, presented in Section 3.1.

5.4 Education and Health Costs Affecting the Most Vulnerable

In any case, it is worth keeping in mind that austerity measures in Spain have affected mainly in-kind transfers, such as education and health care, whose effects are not directly observable in today's income data but will definitely have further negative consequences for long-term economic growth, poverty and inequality. Considering that, according to all available analyses, health and education are the two most progressive areas of public expenditure from a distributional perspective (Verbist et al. 2012; Calero and Gil 2012), reducing the resources allocated to these services will have an unequal impact across population groups, affecting more those already hardest hit by unemployment: the weakest and poorest members of society. These changes – very likely to be regressive – might somewhat change the picture conjured up by Avram et al. (2013), according to whom the combined negative effect of tax changes and reductions in pay and cash benefits has been greater on the rich than on the poor. Therefore, the overall picture remains uncertain.

One feature of the welfare state is that, to a greater or lesser degree, depending on its nature, it decouples access to certain goods and services, notably education and health, from people's capacity to buy such services in the market. Reductions in public expenditure and increasing co-payments, however, confront people with the fact that 'nothing is sacred or secure' and that they can no longer rely on not having to worry about their health care or their children's education.

5.5 Impact on Human Capital and Growth

The proximity of the cuts does not allow a full analysis of their economic and social impact, but we can pinpoint some of the potential negative implications in the existing literature and extrapolating from the already discernible short-term effects. First, the austerity measures are particularly eroding investment in human capital and health, which, according to the economic literature, will have negative consequences on future growth (Caselli 2005). Second, cuts are being made across the board, without limiting their impact on the most vulnerable or the youngest. According to Heckman (2006 and 2012), this

is a sure road to widening inequality and reducing productivity in the coming decades, as the first years of life are crucial for fully developing children's potential. Finally, fiscal consolidation has resulted, directly and indirectly, in more inequality of outcomes and opportunities, which, according to mainstream literature, deters growth (World Bank 2006).

5.6 Poor Social Outcomes Losing the Support of the Spanish Population

Ongoing fiscal consolidation also has implications of a different nature, related to the impact of budget cuts, regulatory changes and the transfer of responsibility for many services traditionally part of the welfare state to the private sector. This is likely to affect the chances of survival of the welfare state as we know it. According to opinion polls, the Spanish welfare state broadly has the backing of the majority of the Spanish population. Nevertheless, this approval cannot be taken for granted and is contingent, among other things, on the ability of the public sector to maintain standards. Otherwise, we may see a decline in public support, the exit of those who can afford it to private social protection schemes and the withering of the welfare state, reduced to catering only for those in dire need: in other words, the residual welfare state dreamed about by diehard conservatives. As the late Swedish prime minister Olof Palme put it in a well-known speech at Harvard University in 1984, 'the ground is thus prepared for the disintegration of social solidarity, which in turn encourages tax revolts. The fact is that it is not the weight of the tax burden that causes such revolts, but rather the feeling among taxpayers that they do not get anything for their money. People who derive some benefit from a welfare system are its greatest supporters and therefore pay taxes without feeling exploited' (quoted in Reddy 1990).

As Taylor-Gooby (2011) argues, pressures on the welfare state may increase the feeling of insecurity, so that support for state provision grows, but does so in a climate of more equivocal trust in the capacity of the state to continue to deliver good-quality services, which might adversely affect support for the welfare state. The decisions adopted in almost all areas of social policy may alienate some groups from the welfare state as they grow weary of the government's inability to meet their needs. As this economic cohort of the population is to a large extent the economic base (in terms of revenue) of the welfare state, their alienation from major social programmes may have important implications in terms of a future reluctance to finance policies that largely no longer benefit them. The proposed changes to the national pension system are a good example.

In this respect, apparently innocent measures of ad hoc budget reduction might have important implications for the maintenance of the European Social Model in the long run. Through this indirect mechanism, the parametric reforms of today might show up in radical changes to the welfare state in the future. As we have seen, although some of the measures taken affect the core of the Spanish version of the European Social Model and are not easily reversible – for instance, the dismantling of collective agreements – most of the policy changes involve parametric alterations of many elements of the European Social Model. Perhaps these modifications are not substantial, but, as argued, if they alter the backing and nature of the users and beneficiaries of the Spanish welfare state, they may well bring about structural changes.

The irony of all this is that, since private provision has not proved to be more efficient than public provision in terms of cost containment, (a look at the American health system should be enough to convince sceptics), in the end, future societies might end up spending more and getting less out of it in terms of health, pensions or education. Obviously, what is true for society as a whole might not be true for every social group in it. Thus we would have a future of riskier and more unequal societies.

Table 9.8 summarises the implications of all these policy developments.

Table 9.8 Effects of the changes made to the European Social Model, Spain

	Social effects	Economic effects	Other effects
Inequality	Increase of inequality, linked to labour market issues not independent of austerity, and possible effect on gender gap because of employment cuts in the public sector.	Possible negative effect on internal demand and economic recovery.	Possible social conflicts in the future, with well-known economic consequences described in the literature.
Vulnerability/precarity/poverty	Increase in relative and absolute poverty (mainly linked to labour market issues) leading to worse living conditions.	Possible negative effect on internal demand and economic recovery.	Possible social conflicts in the future.
Wages and low pay	Lower real wages with high unemployment leading to worse living conditions.	Possible negative effect on internal demand and economic recovery and positive effect on employment volume and exports.	Possible social conflicts in the future.
Quality of working conditions and employment	Possible future worsening; changes cannot be discerned yet.	Possibly greater labour market flexibility that increases job turnover and workers' mobility.	Possible lower unionization in future because of the weakening of collective bargaining.
Social coverage	Decreases in the coverage of public health care and education.	Lower future human capital formation and possible public health problems, leading to lower economic growth.	
Public sector's role, quality, etc.	Lower quality of some in-kind benefits (education and health care) because of austerity measures, affecting the users of public services.	Lower future human capital formation, leading to lower economic growth.	Possible lower support for redistribution policies.
Social conflicts, etc.	Increase in strikes, protests and demonstrations linked to workplace conflicts related to labour market reforms and cuts in health and education, which mean lost days of work (and wages) and a deterioration of public services during strikes.	Direct negative effect on economic activity and deterioration of investment climate.	Bad context for future agreements between government and social partners.

Source: Authors' elaboration from national laws and Muñoz de Bustillo and Antón (2013).

6. CONCLUSION

Overall, the measures taken since 2010 under the auspices of the European Commission has led to the implementation of a programme of changes in social and labour policies that has undermined the feeble Spanish welfare state, whose effects in terms of economic recovery have proven deceptive, to put it mildly. The social and political feasibility of these policies is explained by the terrible unemployment figures and the extremely difficult situation of the country, a context that has probably prevented more serious and violent resistance. It can thus be argued that the crisis is being used to implement a programme of downsizing the welfare state that otherwise would have been very difficult to accomplish. Although it has not yet been determined to what extent the increase in unemployment and poverty has to do with the recession itself or with the so-called ‘structural reforms’, it is likely that such reforms have exacerbated the crisis and the situation of the least well-off, both in terms of the delay of the economic recovery and the weakening of the supply and quality of public services, such as education and health.

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