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**WAS THE SPANISH LABOR MARKET
REFORM OF 2012 SUCCESSFUL?**

Bachelor Thesis

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I hereby declare on my honors that I wrote this bachelor's thesis independently, and I used no other sources and aids than those indicated.

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Prague, 15.08.2016

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Abstract

This thesis explores the efficiency of the reforms on the labor market of Spain in 2012. The main goal of this work is to evaluate the effectiveness of undertaken reform against its own objectives. Relevance of this topic is that after the Global Financial Crisis of 2008 many country's economic situation significantly worsened. Searching for the way out of the complicated and undesirable economic situation countries applied new reforms and development plans, majority of which didn't contribute into the improvement of country's economy. Concerning this fact, it appears extremely important to analyze measures undertaken by Spain's government and its efficiency. To evaluate the effect caused by the reforms I have analyzed long-term results of it, its influence on the selected indicators and overall unemployment.

Keywords: Global Financial Crisis, reforms, labor market, Spain, analysis, results.

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Introduction

The Global Financial Crisis in the beginning of the 21st century worsened the economic situation in many countries. The financial system underwent a period of high-level stress, which resulted in a crisis of confidence. The fall in aggregate demand and a general economic slowdown has uncovered underlying issues in structure of labor market and highlighted the challenges connected with unemployment. Involuntary unemployment in the same time is acknowledged as one of the biggest problems of modern economies.

Spain experienced one of the largest growths in involuntary unemployment among the European Union countries along with other macroeconomics difficulties. To improve the situation on the labor market Spanish government implemented substantial and groundbreaking reforms. On February 12th Royal Decree Law 3/2012 entered into the force, being an extension of the legal reforms of the previous years, for example in 2010, but more conclusive and firmer in the introduction of certain legal modifications. Main aims were to encourage employment and job creation, increase internal flexibility inside the companies, increase productivity and reduce differences on the labor market, and improve operations of financial institutions and public sector companies.

The goal of this thesis is to evaluate the efficiency of undertaken reform against its own objectives. Relevance of this topic is that after the Global Financial Crisis of 2008 many country's economic situation significantly worsened. These countries searching for the way out of the complicated and undesirable economic situation applied new reforms and development plans, majority of which didn't contribute into the improvement of those countries' economies. Concerning this fact, it appears extremely important to decay measures undertaken by Spain's government and its efficiency.

This thesis will be structured as follows. In the first section will be defined unemployment as it is in official and reliable sources, also its types and situation on the labor market

among the European Union countries. The second section consist of overview of labor market regulations; supply side policies and demand side policies, and European Union approach to tackle unemployment. The third section outlines main historical events and economic development in Spain since it joined European Union until economic crisis in 2008. The forth section focused on the financial crisis 2008 in Spain; key reason for it and main problems it caused. In the fifth sector outlined the reform measures undertaken in 2012, its key aims and early results. In the final, sixth section reviewed and analyzed long-term results of the reform, its effect on the selected indicators in practice and overall unemployment.

1. Defining Unemployment

To get an all-encompassing definition of unemployment is rather challenging, the reason being that it has been defined in several ways, by different economists, and in numerous literature. In order to better analyze this phenomenon, we must first identify who is an unemployed person, and under which conditions do the rules of unemployment apply to a person.

Below is a list of definitions of prominent sources that define unemployed.

Definition of unemployed according to Eurostat:

- “ someone aged 15 to 74 (in Italy, Spain, the United Kingdom, Iceland, Norway: 16 to 74 years);
- without work during the reference week;
- available to start work within the next two weeks (or has already found a job to start within the next three months)”(Eurostat, 2010)

Definition of unemployed according to OECD:

“The unemployed comprise all persons above a specified age who during the reference period were:

- without work, that is, were not in paid employment or self-employment during the reference period;

- currently available for work, that is, were available for paid employment or self-employment during the reference period;

- seeking work, that is, had taken specific steps in a specified recent period to seek paid employment or self-employment.

The specific steps may include registration at a public or private employment exchange; application to employers; checking at worksites, farms, factory gates, market or other assembly places; placing or answering newspaper advertisements; seeking assistance of friends or relatives; looking for land, building, machinery or equipment to establish own enterprise; arranging for financial resources; applying for permits and licenses, etc.” (OECD, 2001)

A wider, more precise definition of unemployed is provided by **International Labour Organization** and it states that:

1. “The "unemployed" comprise all persons above a specified age who during the reference period were:
 - a) "without work", i.e. were not in paid employment or self-employment, as defined in paragraph 9;
 - b) "currently available for work", i.e. were available for paid employment or self-employment during the reference period; and
 - c) "seeking work", i.e. had taken specific steps in a specified reference period to seek paid employment or self-employment. The specific steps may include registration at a public or private employment exchange; application to employers; checking at worksites, farms, factory gates, market or other assembly places; placing or answering newspaper advertisements; seeking assistance of friends or relatives; looking for land, building, machinery or equipment to establish own enterprise; arranging for financial resources; applying for permits and licences, etc.
2. In situations where the conventional means of seeking work are of limited relevance, where the labour market is largely unorganized or of limited scope, where labour absorption is, at the time, inadequate, or where the labour force is largely self-employed, the standard definition of unemployment given in subparagraph (1) above may be applied by relaxing the criterion of seeking work.
3. In the application of the criterion of current availability for work, especially in situations covered by subparagraph (2) above, appropriate tests should be developed to suit national circumstances. Such tests may be based on notions such as present desire for work and previous work experience, willingness to take up work for wage or salary on locally

prevailing terms, or readiness to undertake self-employment activity given the necessary resources and facilities.

4. Notwithstanding the criterion of seeking work embodied in the standard definition of unemployment, persons without work and currently available for work who had made arrangements to take up paid employment or undertake self-employment activity at a date subsequent to the reference period should be considered as unemployed.
 5. Persons temporarily absent from their jobs with no formal job attachment who were currently available for work and seeking work should also be regarded as unemployed in accordance with the standard definition of unemployment. Countries may, however, depending on national circumstances and policies, prefer to relax the seeking work criterion in the case of persons temporarily laid off. In such cases, persons temporarily laid off who were not seeking work but classified as unemployed should be identified as a separate subcategory.
 6. Students, homemakers and others mainly engaged in non-economic activities during the reference period who satisfy the criteria laid down in subparagraphs (1) and (2) above should be regarded as unemployed on the same basis as other categories of unemployed identified separately, where possible.” (ILO)
-

Above mentioned definitions are general, but national criteria of unemployed usually are stated by law and can vary between the countries as regards to age limits, reference periods, lack of income for the specific period of time and criteria for active searching of job, treatment of unemployed and persons searching for the first job.

The Unemployment rate measures the percentage of people in the labor force who do not have jobs and looking for job. A person is employed if he or she has spent a part of last week working at a paid job (W. Wallstad & R. Bingham, 2005). And also there are people who are not included in the work force such as students, retired and disabled people.

1.1. Three main types of unemployment

In order to better understand unemployment, and its many forms, we have to first look at the three main types of unemployment

As mentioned above, unemployment can come in three main types; **Frictional unemployment**, is one that is caused by the time it takes worker to search for another job. Subsequent to leaving a job, a person will need a time to find another one, usually the duration of this search depends both on the education level, and the skill set of this worker. A different job requires different skills and pay different wage, so the worker might not accept the first offer he gets. Furthermore, frictional unemployment is unavoidable in changing economy, when types of goods and services people demand are changing. (Mankiw G., 2003). The second type of unemployment, **Structural unemployment**, arises when supply of labor is higher than demand for it. Reason for it is wage rigidity (wages don't adjust till the level when labor supply equals labor demand.) Wage rigidity happens because of minimum wage laws, the monopoly power of unions and efficiency wage. (Mankiw G., 2003). Last but not least, **Cyclical unemployment**, is related to downturns in economy. With a fall in production and economic output cyclical unemployment will rise. When economy is in its recession and people demand less product, the aggregate demand falls below its equilibrium level. The producers experience decrease in the demand for products, which motivates them to lower their cost of production, as a result demand for labor falls.

An additional type of unemployment that some economists add as a fourth type, is seasonal unemployment. Seasonal hiring patterns, such as winter holiday season and summer vacation season, influence the number of employed and unemployed people (U.S. Bureau of Labor Statistics, 2014).

The relationship between GDP and unemployment has long attracted the attention of economists. Okun's Law is one of the most accepted theories in macroeconomics field and it is repeatedly discussed. Arthur M. Okun (1962) stated that decrease in unemployment rate by one percentage point will lead to increase in output approximately by three %. This

correlation and its accuracy has been studied continuously, coefficient has been re-estimated (Martin Watts and William Mitchell, 1991; Donald G. Freeman, 2001; Farzad Farcio and Stacey Quade, 2003)

Together with GDP unemployment rate represents the level of economic development of the country. At the same time these two indicators are closely related and interdependent. Miskolczi M., Langhamrova J. and Fiala T. in their research “Unemployment and GDP” (2011) are statistically testing the hypothesis that unemployment rate is influenced by business cycle and economic development that is represented mainly by GDP and GDP growth. Using for analysis data from Czech Statistical Office (CZSO) they have proved that GDP growth affects unemployment rate with delay of three quarters and in most cases correlation coefficient between GDP growth and unemployment was negative. This means that when GDP growth raises unemployment decreases afterwards. Furthermore, GDP is widely accepted as one of the strongest predictor for forecasting of unemployment trend.

1.2. Unemployment in European Union

Figure 1.1 shows fluctuations in annual average of unemployment rate in the EU in the period 2006 - 2015. Lowest index of 7 % in 2008 was growing till the highest index of 10.9 % in 2013. Since that moment unemployment rate started to decrease. Eurostat estimates that in February 2016 in European Union countries were unemployed 21,651 million men and women. This result is smaller by 59,000 of people compared with January 2016.

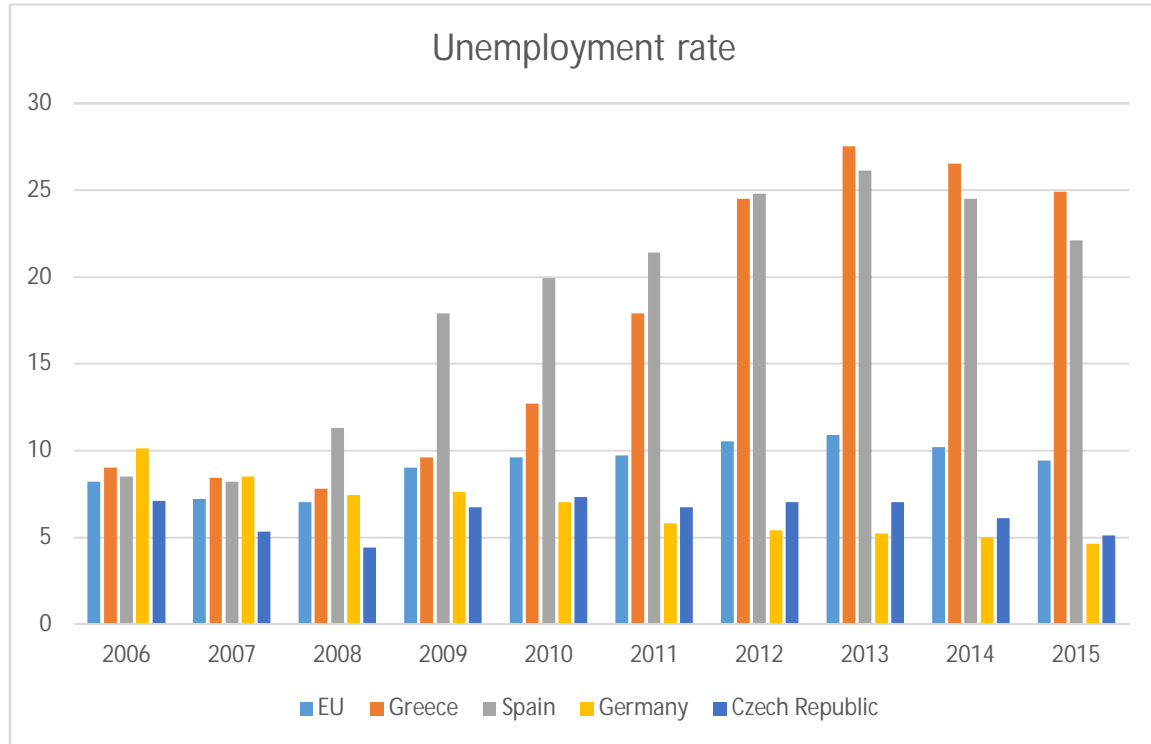
Figure 1.1 Unemployment rate in the EU countries in the period 2006-2015 (in %)



Source: Eurostat

According to Eurostat statistics, the lowest unemployment rates among the Member States of the EU are in the Czech Republic (4.0 %), and Germany (4.2 %), when the highest rates are in Greece (24.1 %) and Spain (19.8 %), as for the beginning of year 2016. Comparing to previous year the unemployment rate fell in 26 EU countries. On the Figure 1.2 I compare unemployment rates of the Czech Republic and Germany (countries, with lowest unemployment rates among European Union currently) to unemployment rates in Greece and Spain (countries, with highest unemployment rates among EU currently) during the period 2006 – 2015. We can see that after The Global Financial Crisis difference in unemployment rates of compared countries significantly extended.

Figure 1.2 Unemployment rate of Czech Republic, Germany, Spain, Greece and EU in the period 2006-2015 (in %)



Source: Eurostat

1.3. Youth Unemployment in European Union

“The youth unemployment rate is the unemployment rate of people aged 15 - 24 as a percentage of the labor force of the same age.” (Eurostat).

Since youth have less experience and smaller competitiveness, comparing to older generation, the process of integration on the labor market is much harder for them especially in time of economic crisis or recession. According to Eurostat, in the year 2008 level of youth unemployment in the European Union was 15.9 % and henceforth it took

raising trend until it reached 23.7 % in 2013. The Figure 1.3 shows annual average youth unemployment rate among all European Union countries in the period 2006 – 2015.

Mainly discussed reasons for youth unemployment nowadays are education (in terms of quality and relevance), inflexible labor market and regulations. Most of young people, considering current state of the labor market, prolonging their studies to postpone participating on the labor market. Other problem arise out of it, – people with higher education will search for a better paid decent job, so more time will be spend for searching.

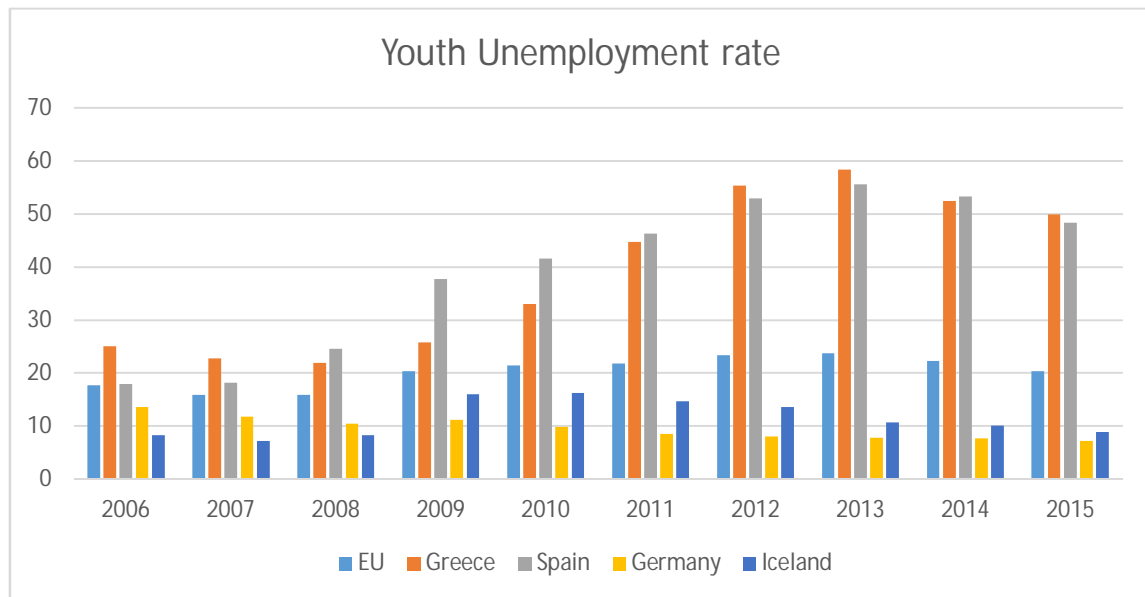
Figure 1.3 Youth unemployment rate in the EU countries in the period 2006-2015 (in %)



Source: Eurostat

In 2/3 of European countries youth unemployment is still above 20 %. According to Eurostat, Spain and Greece are in the worst position among all Member States of European Union. In the year 2015 48.3 % of people less than 25 years old were unemployed in Spain and 49.8 % in Greece. At the same moment in Germany this index was at 7.2 % and in Austria 9.9 %.

Figure 1.4 Youth unemployment rate of Iceland, Germany, Spain, Greece and EU in the period 2006-2015 (in %)



Source: Eurostat

2. Regulations of Labor Market

Regulating the labor market government helps people to outstand economic stagnation. Labor market regulations include both; labor market institutions and labor market policies.

Institution is a government body that influence society, its economy and labor market through laws, policies and practices it creates. Labor market institutions regulate collective bargaining, wage setting, mandatory social benefits, the unemployment insurance system, as well as different aspects of labor legislation (law on minimum wage, employment protection legislation, and the enforcement of the legislation). The labor market policies include different kinds of regulative policies that influence the interaction between labor supply and demand. Basically it is policies that provide income replacement and usually called passive labor market policies, as well as labor market integration measures available to unemployed or those threatened by unemployment. (ILO)

Holmlund B. in his paper “What do labor market institutions do?” made a brief overview and discussion of research on the labor market impacts of minimum wages, unemployment insurance, and employment protection legislation. He argued that research on minimum wage showed that despite considerable effect on wages, there weren’t captured a noticeable effect on employment. The research on unemployment insurance is mostly successful and it involves efficient interaction between search theory and empirical work. This research has established that unemployment insurance “matters for labor market behavior, in particular the duration of unemployment, although there remains substantial uncertainty about the magnitudes of the effects.”(Holmlund B., 2013). Employment protection legislation research indicated reduction in employee turnover, but impact on general unemployment and productivity is not clear.

For reducing unemployment can be used demand side policies or supply side policies. Demand side policies fighting unemployment caused by economic crisis and recession and it consist of fiscal and monetary policies. Effectiveness of them depends on the type of unemployment which they are meant to reduce.

2.1. Demand side policies to reduce unemployment

Fiscal policy

In order to decrease unemployment by fiscal policy government should cut taxes and increase government spending (expansionary fiscal policy). Lower taxes increase disposable income; it leads to increase in consumption and higher aggregate demand. A good example will be cut in VAT in 2008 in United Kingdom by 15%, The Centre for Economics and Business Research (CEBR) reported that cut which took place on 1 December of 2008 has led to remarkable retail spending. As a result of increase in aggregate demand will be increase in real GDP. If firms will produce greater amount of products they will need more workers, so demand for workers will rise and unemployment will fall. Also since demand for goods is higher fewer firms will go bankrupt and less people will lose jobs. It is not surprising that cutting taxes may not always increase consumer spending due to the fact that people can prefer to save money. Also if they know that cut in tax will be reversed soon they will decide to not spend it. Other problem why cut in taxes is being criticized is that it leads to higher government borrowing and for countries with high levels of debt it is not even possible.

Antonio Fatás and Ilian Mihov in their work “The Effects of Fiscal Policy on Consumption and Employment: Theory and Evidence”(2001) compared theoretical predictions of general equilibrium models and their empirical results, such as expansionary increases in in government expenditures with a multiplier larger than one, employment and consumption react differently on expansionary policy. They present data on responses of key macroeconomics indicators to changes in government spending and found that increase in government spending followed by constant increases in consumption and employment.

Monetary policy

Monetary policy is the second tool (first being fiscal policy) by which the government can impact the speed and direction of economic activities. Furthermore, monetary policy does not only impact the level of aggregate output and employment, but also the rate at which prices tend to fall or rise. Friedman, B. M. (2000).

Monetary policy involves cutting interest rates. Lower rates, in turn, makes borrowing more attractive and induces people to spend and invest more. This increases aggregate demand and helps to increase GDP and reduce unemployment. Moreover, lower interest rates reduce exchange rates and make exports more competitive. However, similar to fiscal policy, monetary policy depends on other components of aggregate demand; for example: It will not influence spending in case banks are not willing to lend money.

2.2. Supply side policies to reduce unemployment

Supply side policies deal with more micro-economic issues and make markets and industries operate more efficient. There are few well known policies which are used to reduce supply side unemployment:

Training and education

These events are intended to give people new needed knowledge and skills which enable them to find jobs in developing industries.

Reduce Power of trade unions

In the cases where trade unions are bargaining for wages which firms cannot afford, it can cause real wage unemployment and reducing power of trade unions will help to increase employment.

Employment Subsidies

Firms are getting subsidies or tax breaks for hiring a person which was unemployed for long time.

Improve Labor Market Flexibility

Reducing of restriction on the labor market, for example; making hiring and firing process easier for firms.

2.3. European Union approach to tackle unemployment

In some of European countries like Austria, Belgium and the Netherlands, new training programs have made the way from education to work easier and ensure that young people remain connected to the labor market. (ILO report Eurozone Job crisis: Trends and policy responses, 2012)

Many public policies are working to decrease the natural level of unemployment by reducing frictional unemployment. For example, by developing better employment agencies to help workers to find a job matching their skills, they make a job searching process faster and more efficient. Training programs are designed to ensure that workers from declining industries are gaining skills required in growing industries.

Many of Eurozone (13 out of 17) countries adopted a labor market reforms in order to fight economic problems caused by Financial Crisis. It was done to boost market confidence and business investments, while supporting economic growth and job creation. As it was described in “ILO report Eurozone Job crisis: Trends and policy responses” - Labor market reforms in Eurozone countries went in the direction of either a decentralization of collective bargaining or a loosening of employment regulation. And it took three courses;

- The decentralization of collective bargaining
- The easing of legal protection against individual dismissal

- The modification of requirements and procedures to be followed in cases of collective dismissal

Employment stays one of the main objectives of the Europe 2020, which is European Union's growth strategy. Now part of it consists of European Employment strategy (EES) and its main aim is to create more and better jobs throughout the European Union.

In April 2012 was launched an Employment package which is set of policy documents concentrated on the ways how European Union countries can create more jobs. It supports job creation by; intensify job creation across economy, developing the potential of job-rich sectors and mobilizing European Union funds for job creation. Also it's restoring the dynamics of labor markets and improving European Governance. (European commission)

Also in the same time was created Youth employment package to help member states to fight unacceptably high youth unemployment. It includes a proposed Recommendation to Member States on introducing the Youth Guarantee which ensure that all young people (up to age 25) receive a quality offer of a job, continued education, an apprenticeship or a traineeship within four months of leaving formal education or becoming unemployed. (European commission)

3. History of Spain

“When the men and women of my generation look back over the changes that have taken place in Spain since the end of the dictatorship and the proclamation of Don Juan Carlos in 1975, we tend to focus on two important events that stand out over all others. The first is undoubtedly the approval of the Spanish Constitution of 1978, the founding text of our current democratic system. The other is Spain’s accession to the European Community on 1 January 1986.” (Pertierra, 2006)

Pertierra G., author of “20 Years of Spain in the European Union (1986-2006)”, compares Spain in 1986 to Spain in 2006 - “Twenty years ago Spanish inflation was around 10 % per year, unemployment was over 17 % and GDP was approximately 71 % of the Community average. Today inflation is 3 %, unemployment is under 10 % and Spanish GDP is around 90 % of the average of the EU 15, and almost 100 % of the average of the EU-25. In 1985 Spain had 2,117 km of motorways and dual carriageways; today it has 13,000 km.”

From the undeveloped economy concentrated mostly in agrarian production, with joining European Union the situation in Spain had drastically changed. The access to other European markets boosted the industrial and agricultural modernization of Spain. Moreover, a number of tourists arrived to the country, together with impressive amount of investments. Indeed, in the following four years Spanish real GDP grew at an average rate of 4.4 %, unemployment rate fell from 21.9 % in 1985 to 16.3 % in 1990, employment increased by 3 % annually, which represent more than 1.7 million new jobs between 1985 and 1990. (Leandro Prados de la Escosura, Jorge C. Sanz, 1996)

Even though the economic performance of Spain in the late 1980s was impressive and public deficit remarkably reduced, it still persisted. It appeared that after “peceta” (Spanish currency at that moment) joined the European Exchange Rate Mechanism (ERM), the competitiveness of Spanish products declined up to 30 % from the middle of 1980s to 1993. (Leandro Prados de la Escosura, Jorge C. Sanz, 1996). Also the period from 1990 till

1993 is often characterized by cyclical decline in industry, which appeared as a result of budget deficit. Yet, starting from the year 1994 Spain has entered a new phase of its economic development and stabilization.

From the Table 3.1 we can see that GDP is growing moderately from 1993. GDP annual growth rate is becoming positive and already approaching the average GDP annual growth rate of European Union. To compare, in 1995 GDP annual growth rate in Spain was 2.8 % and in European Union average GDP annual growth rate was 2.75 %. (The World Bank).

Table 3.1 GDP, GDP per capita, annual GDP growth in Spain in the period 1993-1996

	1993	1994	1995	1996
GDP (US dollars in milliards)	523.65	529.12	612.94	641
GDP per capita (US dollars)	19,447.84	19,857.82	20,357.71	20,853.96
GDP Growth (annual %)	-1	2.4	2.8	2.7

Sources: National Statistic Institute (INE), The World Bank (IBRD. IDA)

Nevertheless, structural unemployment, budget deficit and inflation had become the main problems of Spain in the 90's. In the year 1994 Unemployment rate in Spain was 24.3 % and it was close to the level of unemployment in United States of America in 1933 – the highest level of Unemployment in the period of the Great Depression (24.75 %). The reason being that economic decline and GDP annual growth rate was negative at the point - 1 %. (The World Bank)

The Spanish government at the time wasn't trying to fight all the problems. They increased salaries for officials, pensions and infrastructure spending (Olympic Games in Barcelona in 1992, Seville Expo' 92). This stimulating fiscal policy, combined together with increasing demand from the private sector for consumer goods and investment volume led to an "overheating" of the economy, prices became higher than average in Europe. In order to

stabilize prices and constrain growing aggregate demand the Spanish government introduced increased interest rates. Combined with a stimulating fiscal policy, it kept Spanish economy in a difficult position. High interest rates stimulated the inflow of foreign capital, which has led to an excessive appreciation of national currency in the period from 1988 to 1992. As a result, it decreased the competitiveness of Spanish goods and services, and increased the budget deficit. Also in the year 1994 the Bank of Spain (the central bank) was provided with independence. The main responsibilities were to provide development and implementation of monetary policy, without intervention of politicians. As a result, in 1995 a new plan based on the principal of direct inflation targeting began. (Scobie H. M.)

To ensure price stability within Eurozone were adopted Maastricht criteria which countries should meet in order to enter monetary union and adopt the euro as their currency. One of the criteria is meant to determine sustainability of public finances. It measured through the Government deficit as a percentage of GDP, which must not exceed 3 % in the end of preceding fiscal year. The ratio of the annual general government deficit relative to gross domestic product (GDP) at market prices, must not exceed 3 % at the end of the preceding fiscal year. (European Commission). In order to meet these parameters Spanish government adopted a new program of economic and financial convergence. The goal of this program was to comply with Maastricht criteria till 1997. It had to improve the economic situation of the country though reducing expenses, introducing control over government spending and adapting new tax reform as it was required by European Union.

End of 20th century is known for the new trends in the development in Spanish economy. First of all, strict control over government spending was introduced and spending for the military sector decreased. Second, reduction of wages for employees of budget-financed organizations. Third, declination of government spending on social security. All these measures helped to rationalize payments on the government debt. With respect to the unemployment it is important to note that there was an extension of the contract system of employment (mainly temporary contracts). This change allowed increasing employment almost by one third, mostly by low-wage labor.

Before the crisis period Spanish economy almost for fifteen years was in phase of sustainable growth with an annual growth rate around 3 %. Entering Eurozone brought a

positive financial effect; real interest rate declined and it attracted more investments and consumption. Almost 4 million of employable immigrants came to Spain and occupied empty workplaces. Also inflow of low-wage labor force prevented increase in wages and in the same time it expanded consumption. Demand for real estate had also increased in this period significantly.

Spain has achieved significantly important real convergence of its per capita income with the European Union average. From 71 % of the average income of the European Union 15 in the year 1985, it increased to more than 90 % in 2005. So, in terms of income, the disparity between Spain and Europe has been reduced by almost 20 percentage points. The greatest convergence took place in the early years of the membership of Spain in the European Union, between 1985 and 1990 and then when Spain joined the Economic and Monetary Union in years from 1997 to 2005. Also, between 1985 and 2005 happened a significant reduction in the discrepancy of the per capita income of the various autonomous communities in relation to the Spanish average, meaning that the inequalities between the regions have been reduced. (Pertierra, 2006)

Macroeconomic indicators were demonstrating steady pace of development. Already in 2007 GNI per capita in Spain was 32,010 US dollars and GDP per capita was 32,709.4 US dollars, what put Spain on the fifth place among European Union countries. (The World Bank)

An important point is that after introduction of Euro as a national currency in 2002 Spanish economy was growing very fast due to positive dynamics in the construction and banking sector. However, Spanish government did not take in to account that those profits from banking and real estate sectors were possible only in the short-term period. Economic growth in the country was accompanied by an increase in domestic demand for imported goods from Germany, Holland, Belgium and Austria. It led to significant reduction of the competitiveness of the real economy.

4. Economic crisis in Spain

4.1. Reasons of the economic crisis in Spain

Due to the location of the country, warm Mediterranean climate and amount of touristic attractions Spain wanted destination for the vacation. Spanish people understand that tourism sector can earn considerable revenue for the economy. Already in 90th they started to build much more houses and hotels, especially in the regions with better climate conditions. Most of them were intended for foreigners. Demand for the real-estate among Europeans was growing every day; this was causing rise of supply and increase of prices.

Financial crisis of 2008-2009 in opinion of P.P. Yakovlev just aggravated the internal economic imbalances and stressed the inherent weakness in the Spanish economy. During the crisis construction companies becoming bankrupt and announce their insolvency, which means they couldn't repay their debts to the banks. Substantial debts of the construction companies made it clear that significant part of them will be never repaid. Building materials industry suffer from forfeit, real estate agencies are closing and started layoffs, mostly of the immigrants.

4.2. Main problems in Spanish economy caused by crisis

- In the first fourth quarter of 2008 Spain entered the period of recession. It was a result of decline of GDP in the last two quarters. Even though some measures were undertaken, GDP continued to decline and in the first quarter of 2009 GDP growth rate was record low of -1.60 %. (National Statistics Institute).
- Government deficit as a percentage of GDP in 2009 has reached 11 %, instead of the 3 % acceptable by Maastricht criteria. (Eurostat)

- Decline in the amount of foreign tourists. Comparing to the year 2007 number of arrivals of the tourists in 2009 declined by 11.06 %. (The World Bank)
- Amount of people who lost jobs in the period from 2007 to 2009 was extremely high. Total amount of unemployed people went from 1,846,000 in 2007 to 4,154,000 in 2009. Jobless persons in age under 25 in 2007 is 445,000 and in 2009 there were already 847,000 young people without a job. In the year 2007, 378,000 of foreigners were without a job and in 2009 number of unemployed foreigners reached 1,001,000. (Eurostat)

Table 4.1 Total unemployment, youth unemployment and number of unemployed foreigners in thousands in Spain in the period 2007-2009

	2007	2008	2009
Total unemployment in thousands	1,846	2,596	4,154
Youth unemployment in thousands	445	595	847
Unemployed foreigners in thousands	378	599.4	1,001

Source: Eurostat

The crisis spread to all key sectors of the Spanish economy. Since then Spain is considered as one of the problematic countries of the European Union. Combined together with other four European countries within European Union Spain became a part of the group called PIIGS. This group include Portugal, Italy, Ireland, Greece and Spain. All these members of European Union are going through the substantial instability in their economies since 2008. Spain comparing to other members of PIIGS has the lowest debt-to-GDP ratio and it stays the fifth largest economy in European Union. However, its GDP is comparably low and unemployment rate reached enormously high level. Country needed implementation of more active anti-crisis actions.

5. Reforms in Spain

The economic recovery required adoption of significant reforms, which would bring the country out of the crisis. The main task of the government was to enhance GDP growth, which has been declining in the period of crisis, reduce government deficit to 3 % and government debt to 60 % as a percentage of GDP, as it was required by European Union Maastricht criteria.

Since April 2008 government was adopting measures in response to the crisis such as; encourage public works, increase protected housing, encourage recovery and energy efficiency in housing, offer support to those seeking a mortgage and for others looking for credit. Also, the country's local corporations received 8 billion Euro in subsidies through a programme seeking to support employment. In the same time measures were introduced to support financial services sector, together with automotive, telecommunication, energy and others. (Eurofound, 2009)

Main directions in the anti-crisis policies of Spanish government were: measures to support families and companies, to increase employment, to support financial system and to modernization of economy. These reforms were created considering the guidelines of European Union and G-20; taking into account the fact that crisis is spread worldwide, actions have to be undertaken in coordination between world biggest economies. In this sense, Spanish plan to stimulate economy and employment was the first complex anti-crisis plan in the Europe and the most essential anti-crisis programme in the history of the country to that moment. Main goal was to create modern industrial system, increase potential economic growth, labor productivity and competitiveness of Spanish companies. (Sidorenko, 2011)

In addition to acute problem of unemployment, Spanish government faced a problem of increasing debt. From the 2007 level of 35.5 % it reached 52.7 % of GDP already in 2009.

Also, general government deficit became significantly high and reached 11 % of GDP in 2009.

Table 5.1 Government debt as a percentage of GDP and Government deficit/surplus in Spain in the period 2007-2009

	2007	2008	2009
Government debt as a percent of GDP	35.5	39.4	52.7
Government deficit/surplus	2	-4.4	-11

Source: Eurostat

It was decided to take measures to fix critical situation in the country and in the end of 2009 was presented Strategy for a Sustainable Economy, which included 15 new laws that addressed the key aspects of social life. It was focused on improving the competitiveness of the economy by implementation innovation, more efficient use of energy and improving the quality of the educational system. To reduce unemployment, stimulate innovation and technology development were created two State Funds: Fund for Employment and Local Sustainability and Sustainable Economy Fund. (Sidorenko2011)

Among the measures taken by Spanish government in the framework of Strategy for a Sustainable Economy, it is necessary to note Budgetary Consolidation Strategy. Its aim was to reduce the government deficit to 3 % of GDP by 2013, to achieve it the public expenditure in the sphere of the central government had to be decreased. Some taxes were revised: deduction of 400 EURO income tax on individuals was canceled, VAT and capital gains tax increase. One of the ways to reduce expenditures was new pension reform. Retirement age was increased by 2 years (from 65 to 67), the number of years, taken into calculation of the size of pension payments increased from 15 to 25 years and indexation of pensions stopped. Regarding labor market government took measures aimed to support job creation and adapting labor relations to companies' situations while protecting workers' rights. Those proposals include: reforming collective bargaining, measures to foster youth employment and provide training, measures to improve labor intermediation and control of sick leave, measures to progress further in female integration in the labor market and

measures aimed to improve job stability by reducing the segmentation that exists in the labor market.

5.1. Spanish reforms of the year 2012

On February 10, 2012 was approved Royal Decree Law 3/2012, which constituted an extensive reform of labor law in Spain. It was implemented through the law of urgency, published in the Official State Gazette on February 11, 2012 and entered into force on February 12, 2012.

This reform was an extension of the legal reforms of the previous years, for example in 2010, but was more conclusive and firmer in the introduction of certain legal modifications, such as the cost of dismissal, internal flexibility, discharge due to economic or business motives, preference of the company agreement or the duration and effectiveness of collective agreements.

Since labor market is the important segment of the country's economy and reform introduced certain crucial changes to its structure, this thesis is aimed to analyze the reform and its effect on the overall labor market of Spain.

5.2. Key aims of the Royal Decree Law 3/2012:

- **Encourage employment and job creation**

Learning and training contracts. Promotion of the employee trainings on a contract basis, especially for the young population. Maximum age of the participants is 30 years, until unemployment rate will not be reduced to 15 % level. Employee can be trained in the same company where he works. Provision of extended paid leave for educational purposes and creation of a "training account" and a "training check".

Support small enterprises. Introduction of an unlimited contract for young and unemployed workers, called "support to entrepreneurs", which can be used by businesses with less than fifty employees. Contract brings economic benefits such as tax deduction for

the firms and private entrepreneurs who will employ workers under the age of 30 years and providing a bonus in the amount of 3,600 EURO for hiring workers aged 16-30 years and 4,500 EURO for employees older than 45 years (two categories of people for who was hardest to find a job after the crisis).

Part-time employment contracts. To encourage the use of part-time contracts, overtime is allowed to be performed under this type of contract.

Remote work. The former home work contract is replaced by teleworking or remote contract. Companies are obligated to inform employees in case of vacancy opening for onsite job and each remote/teleworking employee is linked to the specific workplace.

Permanent contract. New discounts in social security contributions were applied to inspire the conversion of temporary contracts into permanent ones.

- **Increase internal flexibility**

Functional and geographical mobility. Unification of the companies and employees efforts; changing of the functional responsibilities of employees depending on the needs of businesses within the limits of their qualifications. Greater autonomy for the employer to allocate tasks.

Modifying working conditions. Collective modification is no longer accepted as basic one, now salary and remuneration system can be modified. Notice period of individual modifications is reduced to 15 days, worker has a right to rescind the contract in case of suffering from the damage caused by modification. By prioritizing firm-level agreements flexibility in wage bargaining increased.

Collective agreement. Expands the possibility of the company to disregard the collective agreement of its branch with reference to salaries and other working conditions. The collective agreement of the firm will have priority over sectoral agreements on certain matters, counting remuneration and working time.

Temporary non-application of employment conditions. In case of agreement between employer and employee representatives for economical, technical or organizational reasons employment terms and conditions can be temporary suspend from the use, such as; working day, distribution of working hours, change in shifts, size of salary, performance of work, voluntary improvement in Social Security system.

· **Increase productivity and reduce differences on the labor market**

Collective dismissals. Administrative authorization was no longer required. Reasons for collective dismissals were redefined; continuous fall in profits during three quarters in succession, changes in production methods. Such a motive for dismissal as companies attempt to hold its market position and improve competitiveness is no longer accepted as a reason for collective dismissal. Introduction of training requirements for fired workers and if business if profitable employer obligated to pay tax.

Unfair dismissals. Compensation for unfair dismissal is different in the case contract was signed before 12 February 2012 or after. Compensation for unfair dismissal has been reduced to 33 days' salary per year of service with a maximum of 24 months of wages instead of previous 45 days per year of service with a maximum of 42 months of wages.

Table 5.2 Comparison of compensation criteria before 12 February 2012 and after

	Contract signed before February 12, 2012	Contract signed after February 12, 2012
Number of days salary per year of service	45	33
Maximum number of month salary	42	24

Source: ELLN

Dismissal due to absence from work. If the worker is absent for 20 % of the working days over a period of two sequential months or 25 % over four months, he can be dismissed by the company.

- **Improve operation of financial institutions and public sector companies**

Financial institutions. New rules applicable to dismissals in institution which are set up to regulate and supervise the reformation of the banking sector in Spain now implement all the recommendations prepared by the European Union and the Bank of Spain in this regard.

Public companies. Dismissal of the worker of the high position which provides services in the state public sector now will be compensated only with seven days' salary in cash per year of service, up to a limit of six months' salary.

Temporary employment agencies. Temporary employment agencies will be able to act as employment agencies due to their wide network of branches and a great experience of work in the labor market. (Smith, 2012; ELLN, 2012)

5.2.1. Early results of the Reform

Early results of this reform were not as positive as it was expected. According to the Spanish Labour Force Survey (EPA) and the National Social Security Institute (INSS) around 630,000 jobs were lost during the first year after the labor reform was introduced in the report by the Trade Union Confederation of Workers' Commissions (CCOO) published in October 2013. Trade Union Confederation of Workers' Commissions (CCOO) argues that these changes happened due to the fact that the labor reform had failed and had not fulfilled its objective of facilitating employment creation. In the report was mentioned that initially companies began by dismissing temporary workers. Around 66 % of the workers dismissed in 2012–2013 had an open-ended contract. The report argues that this happened because the labor reform made dismissals easier and cheaper for open-ended contracts. In

addition, the report highlights how the labor reform promoted part-time employment, which also affected job quality.

Table 5.3 Number of employed people, people participating in education and trainings, part-time, full-time, self-employed and temporary employees in thousands in Spain in first Quarter of 2012 and 2013

	2012Q1	2013Q1
Employed people in thousands	17,615.50	16,887.60
People participating in education and training in thousands	6,563.50	6,462.30
Part-time employees in thousands	2,461.70	2,650.80
Full-time employees in thousands	15,153.80	14,236.90
Self-employed people in thousands	2,605.30	2,609.60
Temporary employees in thousands	3,451.70	3,058.0

Source: Eurostat

Analyzing data in the time range from the first quarter of 2012 till the first quarter of 2013 provided by Eurostat we can see that 727,900 people lost jobs. Number of participants in the education and training decreased by 101,200 people, despite the fact that reform had the opposite aim. Regardless of the fact that one of the goals of the labor market reform was to increase job security in the workplace for employees hired on a permanent basis, the results showed strong reliance on the temporary worker, decrease wasn't as significant as expected; 393,700 people. Also amount of people employed on part time jobs increased by 189,100, when amount of people working full-time fell by 916,900. Not significantly increased amount of self-employed persons, by 4,300. In total number of unemployed in Spain in the first quarter of 2012 reached 6,109,000 people.

5.2.2. Changes and addition to the reform of 2012

Measures undertaken by the Spanish government can be divided by three wide-ranging categories, such as; measures to enhance firms' flexibility, measures to reduce duality on the labor market and measures to shrink structural unemployment. Measures introduced in the February 2012 were meant to face first two targets by improving flexibility of the bargaining framework and reducing the hiring and firing cost of permanent workers. To modify duality of the market were introduced inducements to hire permanent workers. Primary youth and small firms were targeted and recently extended to all firms and all workers hired on permanent contract base. More recent reforms are meant to reduce structural unemployment, especially youth unemployment. These reforms include following actions; training programs for the long-term unemployed, amending training of the employed, and a youth guarantee scheme to support young people with education and work opportunities.

6. Long term result of the Labor market reform of 2012

Despite the fact that Spanish government adopted package of significant reforms in 2012 the economic situation in the country leaves much to be desired. According to Eurostat, Spain's state budget deficit in the year 2015 is one of the highest among the EU countries, 5.1 % of GDP. But positive tendency is visible, comparing with previous years. Government consolidated gross debt on the other hand reached 99.2 % of GDP in 2015, far exceeding the permissible level of 60 %. To analyze long term impact of the Spanish labor market it is crucial to trace the development of the main labor market indicators during the years after the reform and how they were impacted by the reform.

6.1. Encourage employment and job creation

To encourage employment and job creation on the Spanish labor market were introduced certain measures, such as transformation of the temporary contracts into the permanent ones, inspire the use of part-time contracts, promotion of the employee trainings on a contract basis, support for the small enterprises and new rules for workers with remote contracts.

6.1.1. Part time contracts

One of the undertaken actions was meant to encourage the use of the part-time contracts; overtime is allowed to be performed under this type of contract. To verify the efficiency of the reform, the changes in the amount of part-time contracts during the years before introduction of the reform and after will be traced, this part presents employment statistics, including an analysis based on socioeconomic dimensions by sex and age.

From the Table 6.1 we can see that total amount of part-time employment contracts during the years of the reform is growing continuously. In the year in which the reform was introduced 2,512,000 people were using part-time contract and after four years, in 2015, this number grew by 261,000 people. In the same time, number of part-time contracts as a percentage of employment shows us significant rise in the first years after introduction of the reform; 14.4 % in 2012, 15.7 % in 2013, 15.8 % in 2014, but fall by 0.2 percentage points in 2015 to 15.6 %.

Table 6.1 Number of part-time contracts and part-time contracts as a percentage of employment in Spain in the period 2011-2015

	2011	2012	2013	2014	2015
Number of part-time contracts in thousands	2,458	2,512	2,667	2,717	2,773
Number of part-time contracts as a percentage of employment	13.5	14.4	15.7	15.8	15.6

Source: Eurostat

6.1.2. Number of part-time contracts by sex

We can see from the Table 6.2 that amount of men using part-time contracts differs significantly from the amount of women using this type of contract. In 2011 number of men working under part time contract was 584,000 and number of women 1,874,000 in 2015 both numbers rise, but amount of men using part-time contract increased by 1.32 times (755,000 men) and number of women increased less significantly, by 1.07 times (2,017,000 women).

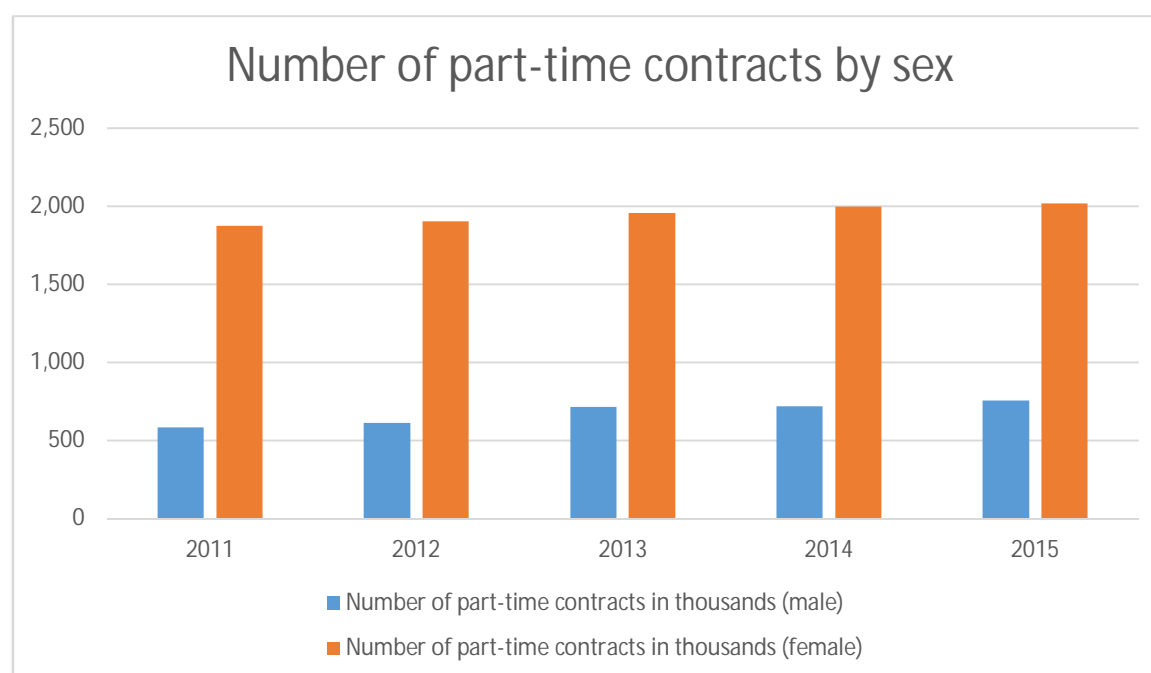
Table 6.2 Number of part-time contracts in thousands by sex in Spain in the period 2011-2015

	2011	2012	2013	2014	2015
Number of part-time contracts in thousands (male)	584	612	712	718	755
Number of part-time contracts in thousands (female)	1,874	1,900	1,955	1,998	2,017

Source: Eurostat

In 2011 in Spain, 3.2 times more women were working under part-time contract than men, in 2015 just 2.6 times more.

Figure 6.1 Number of part-time contracts in thousands by sex in Spain in the period 2011-2015



Source: Eurostat

6.1.3. Number of part-time contracts by age

Analyzing numbers of part-time contracts by age we can see that it has more positive tendency for people aged 25 to 64 years old than for people under 25 years old. It is visible from the Table 6.3 that amount of people on part-time contracts in the age range from 15 to 24 after the introduction of the reform decreased; from 340,000 people in 2011, to just 305,000 people in 2015. On the other side more people from 25 to 64 years old started using part-time employment contracts 1.15 times more in 2015 than in 2011 (2011 – 1,864,000 people, 2015 – 2,146,000 people).

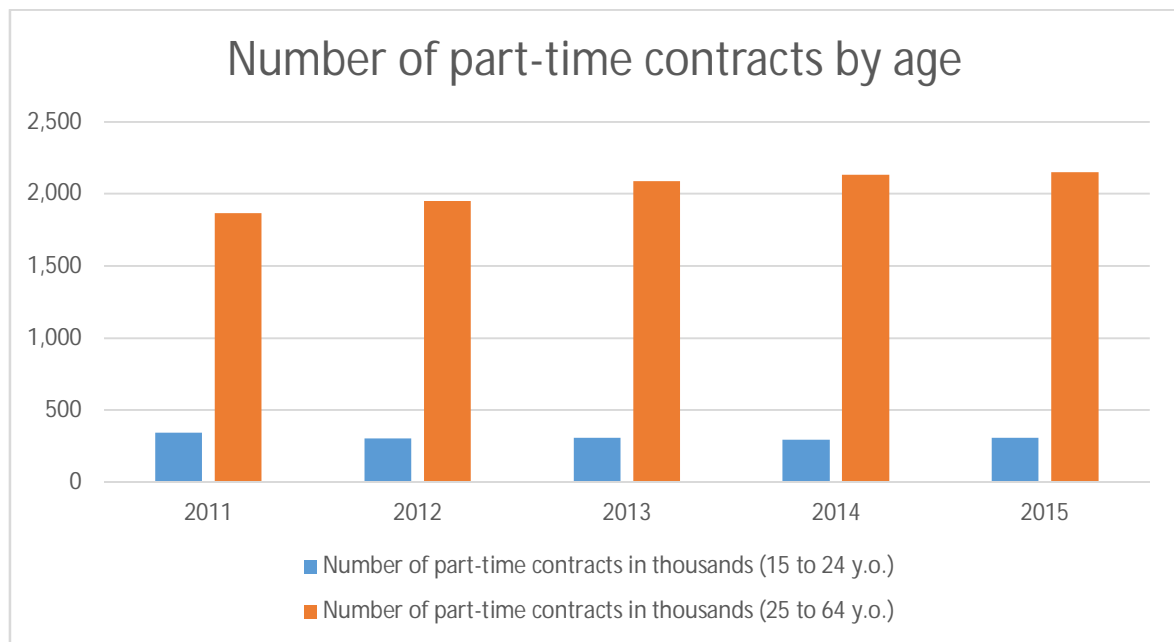
Table 6.3 Number of part-time contracts in thousands by age in Spain in the period 2011-2015

	2011	2012	2013	2014	2015
Number of part-time contracts in thousands (15 to 24 y.o.)	340	302	304	291	305
Number of part-time contracts in thousands (25 to 64 y.o.)	1,864	1,949	2,087	2,130	2,146

Source Eurostat

After the introduction of reform difference between part-time contracts usage by age increased; 5.48 times more people in age between 25 and 64 than in age under 25 were working under part-time contracts and in 2015 7.03 times more.

Figure 6.2 Number of part-time contracts in thousands by age in Spain in the period 2011-2015



Source: Eurostat

6.1.4. Permanent contracts

New discounts in social security system are applied in order to inspire the conversion of temporary contracts into permanent ones. From the Figure 6.4 we can see that temporary contracts are used much wider on the Spain's labor market than permanent. In 2011 amount of temporary contracts was 13,323,069, what makes it 12 times more than amount of permanent contracts – 1,110,163. In the year when reform was introduced number of temporary contracts fell significantly by 16.4 %. But after 2012 number of temporary contracts started to rise and in 2015 it was 15,580,058. Number of permanent contract on the other side increase in the year of introduction of the reform, but it wasn't that significant as in the case of temporary contracts – by 4.36%. But already next year, in 2013, number of permanent contracts fell, and it was even smaller than before the introduction of reform. Last two years, 2014 and 2015, amount of permanent contracts has rising tendency, but the gap between temporary and permanent contracts is still immense, first are used 10.8 times more often than another.

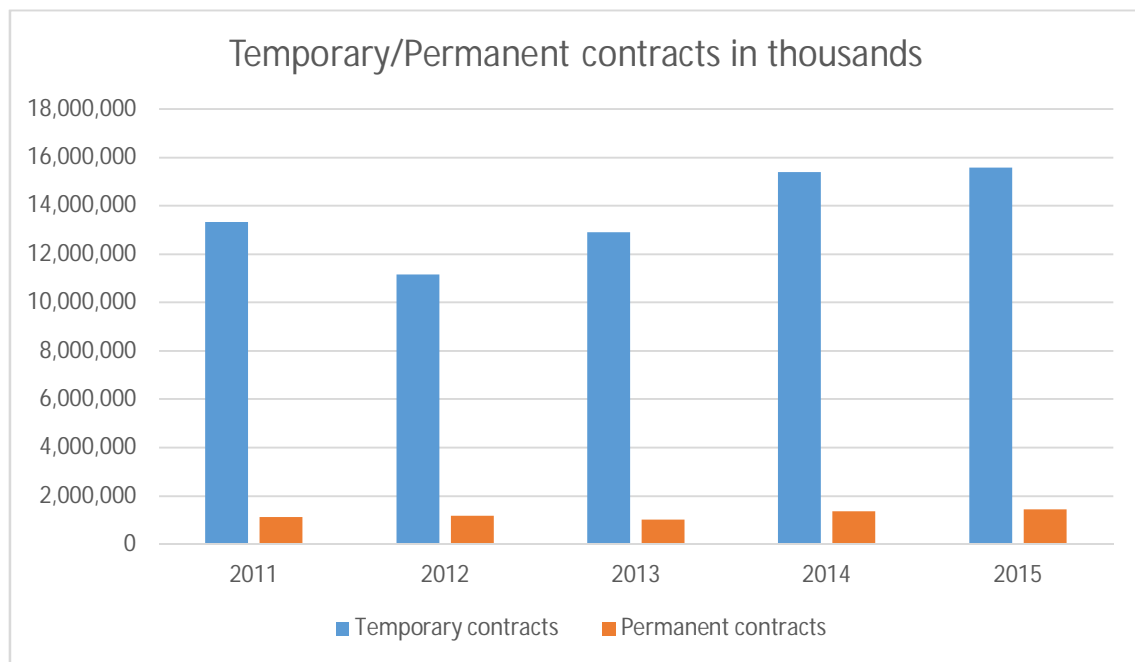
Table 6.4 Number of temporary and permanent contracts in Spain in thousands in the period 2011-2015

	2011	2012	2013	2014	2015
Temporary contracts	13,323,069	11,136,382	12,885,231	15,376,758	15,580,058
Permanent contracts	1,110,163	1,158,566	1,016,743	1,350,331	1,436,904

Source: Ministerio de Empleo y Seguridad Social

Considering that the gap between the number of permanent and temporary contracts has decreased and taking into account that fact that number of temporary contracts in 2015 is 16.94 % higher than in 2011 and number of permanent contracts in 2015 is 29.43 % higher than in 2011, we can assume that in 2015 reform is helping to stimulate the conversion of temporary contracts into permanent ones, however the gap between two remains still large.

Figure 6.3 Number of temporary and permanent contracts in thousands in Spain in the period 2011-2015



Source: Ministerio de Empleo y Seguridad Social

6.1.5. Current trends in temporary contracts

Currently in the year 2016 number of signed temporary contracts is higher than in 2015. In the Table 6.5 we can see change in the number of contracts signed in each month of 2015 and 2016. For comparison I choose months for which statistics is already available, and the same month from the previous year. Because each month differs from another regarding jobs available.

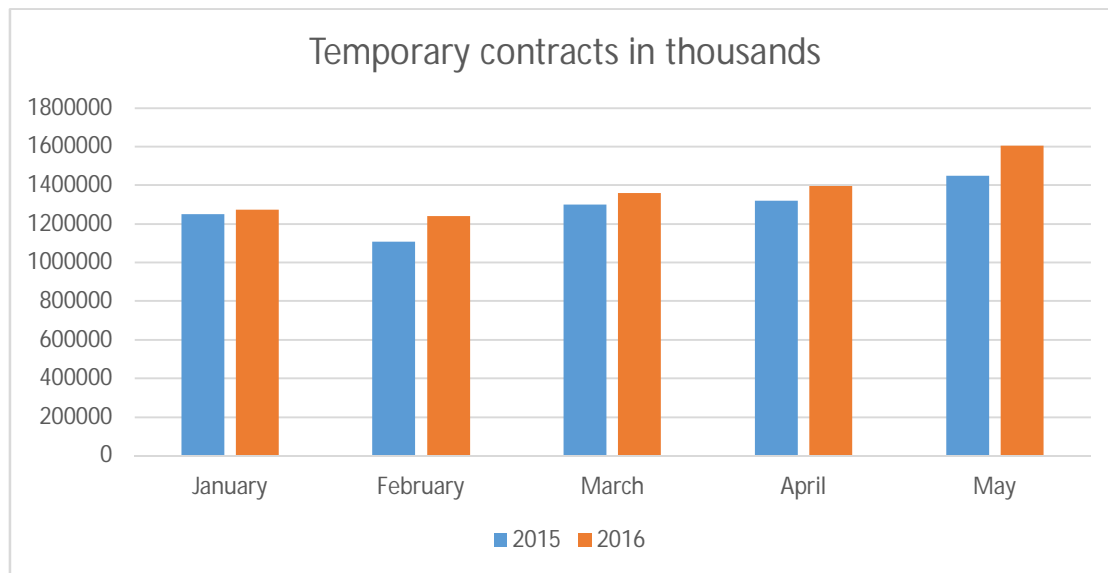
Table 6.5 Number of temporary contracts in each month of 2015 and 2016 in thousands

Year	January	February	March	April	May
2015	1,247,556	1,106,669	1,297,484	1,316,922	1,448,688
2016	1,271,317	1,238,116	1,358,155	1,395,833	1,602,689

Source: Source: Ministerio de Empleo y Seguridad Social

Data from the Figure 6.4 makes it clear that in the year 2016 more temporary contracts are signed in each month than in year 2015. Lowest difference is in January; amount of signed contracts increased just by 1.9 %, and the highest is in February; when amount of signed contracts in 2016 is 11.87 % higher than in 2015.

Figure 6.4 Number of temporary contracts in each month of 2015 and 2016 in thousands



Source: Ministerio de Empleo y Seguridad Social

6.1.6. Current trends in permanent contracts

Currently in the year 2016 number of permanent contracts is higher than in the previous year. Comparing amount of contracts signed in each month of 2015 to amount of contracts signed in each month of 2016 we can perceive a significant positive tendency.

Table 6.6 Number of permanent contracts in each month of 2015 and 2016 in thousands

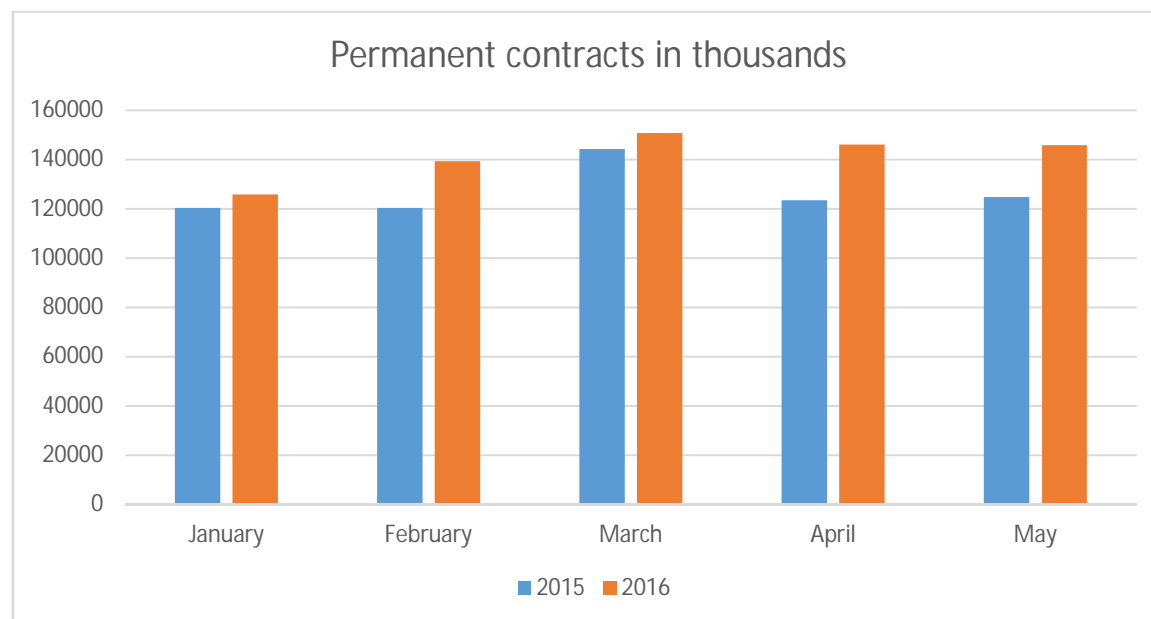
Year	January	February	March	April	May
2015	120,239	120,281	144,291	123,459	124,605
2016	125,612	139,364	150,726	145,896	145,760

Source: Source: Ministerio de Empleo y Seguridad Social

From the Figure 6.5 it is clear that in the year 2016 more permanent contracts are signed in each month than in year 2015. Lowest indicator is in March; amount of signed contracts

increased just by 4.45 %, and the highest indicator is in April; when amount of signed contracts in 2016 is 18.17 % higher than in 2015.

Figure 6.5 Number of permanent contracts in each month of 2015 and 2016 in thousands



Source: Source: Ministerio de Empleo y Seguridad Social

6.1.7. Currents trends in temporary/permanent contracts

Comparing rates of growth of temporary and permanent contracts we can see that difference between them is still significantly high; on average in first 5 month of the year in 2016 were signed 11.9 times more temporary contracts than permanent.

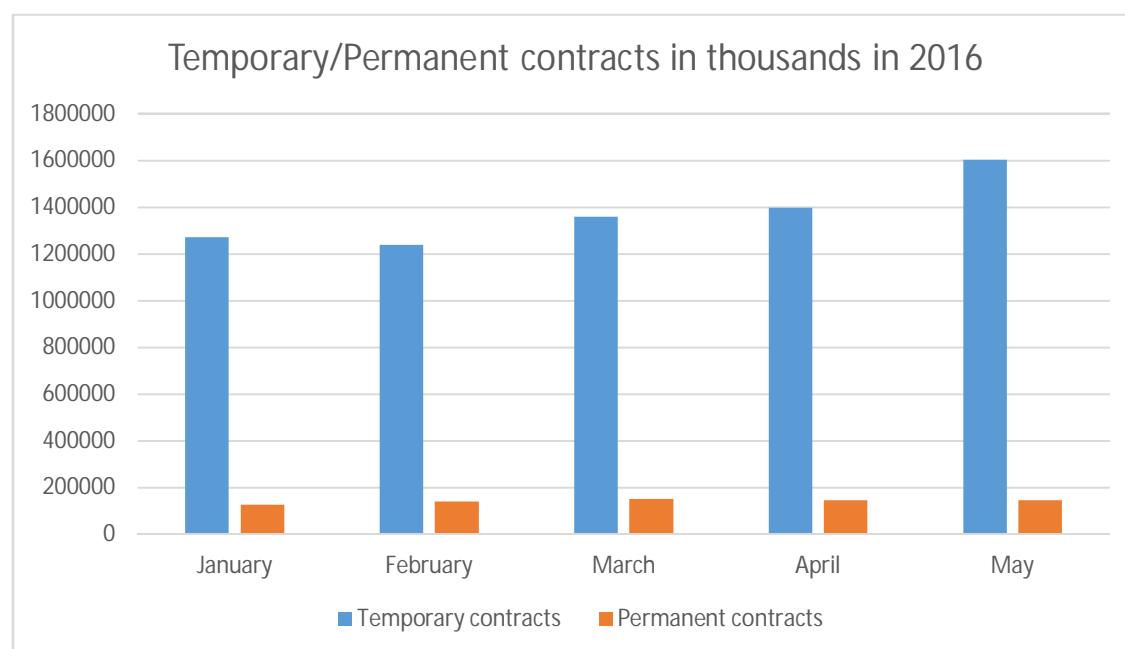
Table 6.7 Number of permanent and temporary contracts in each month of 2016 in thousands

	January	February	March	April	May
Temporary contracts	1,271,317	1,238,116	1,358,155	1,395,833	1,602,689
Permanent contracts	125,612	139,364	150,726	145,896	145,760

Source: Source: Ministerio de Empleo y Seguridad Social

The largest difference is in May, when 10.99 times more temporary contracts were signed than permanent, and in February difference was smallest in the current year, 8.88 more temporary contracts then permanent. Although the positive trend between newly signed contracts is present in first half of 2016, the ratio of growth rates hence the overall ratio of contracts on the labor market remains rather stable.

Figure 6.6 Number of permanent and temporary contracts in each month of 2016 in thousands



Source: Source: Ministerio de Empleo y Seguridad Social

6.2. Increase internal flexibility

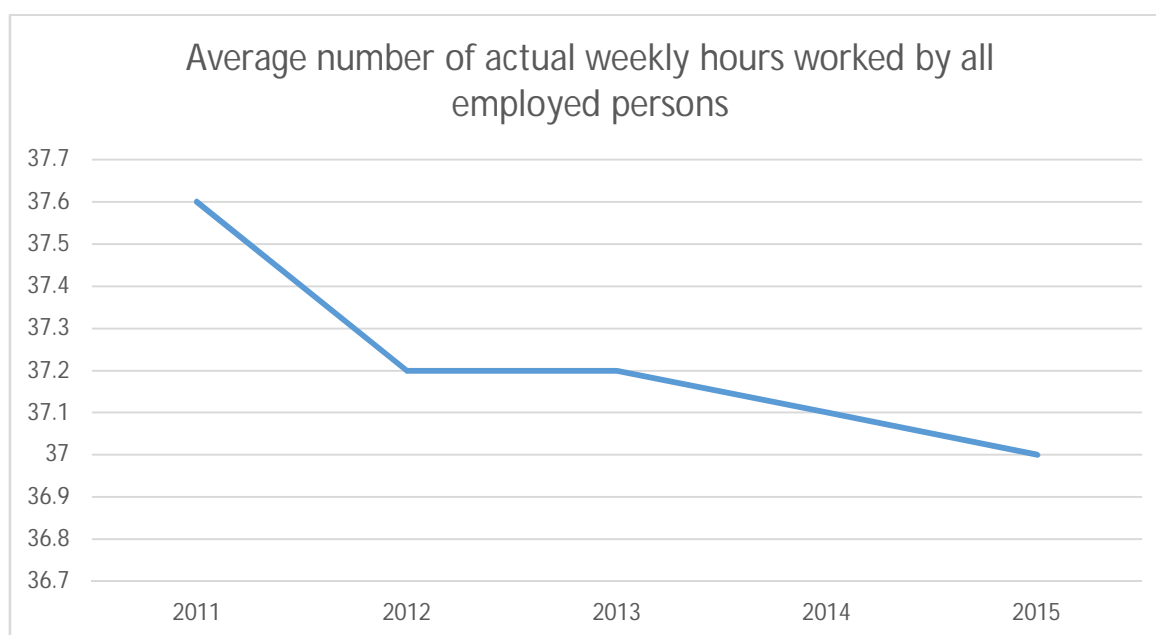
Increasing internal flexibility was one of the main goals of the reform. Purpose of it was to increase flexibility of the labor inside the company and reduce rates of dismissals, unifying efforts of the companies and employees. Each firm faced certain expenses while hiring a new employee, to avoid additional expenses and firing existing employees was decided to improve internal flexibility inside the firm. Undertaken measures related to modifying working conditions, functional and geographical mobility, collective agreements and temporary non-application of employment conditions.

One of the major changes were related to collective bargaining, in order to evaluate its efficiency I will analyze how the number of hours worked and wage progresses changed.

6.2.1. Hours worked

According to data from Eurostat average number of actual weekly hours worked by all employed persons has been decreasing after the introduction of labor market reform; being on average 37.6 in 2011, it decreased in following 4 years to 37 hours per week in 2015. This 1.59 % decrease in amount of hours worked per week can be indication of the fact that implementation of the reform made it easier to bargain working conditions.

Figure 6.7 Average number of actual weekly hours worked by all employed persons in Spain in the period 2011-2015



Source: Eurostat

6.2.2. Working hours full-time

Average number of actual weekly hours of work for people employed with full-time working contract has been increasing after the introduction of the reform, its highest peak was reached in 2013 with indicator 40.9 hours per week. But as we can see from the Figure 6.8 it started to fall in the following years and in 2015 average number of actual hours worked decreased back to the level of 2012 - 40.6.

Figure 6.8 Average number of actual weekly hours of work under the full-time contract in Spain in the period 2011-2015



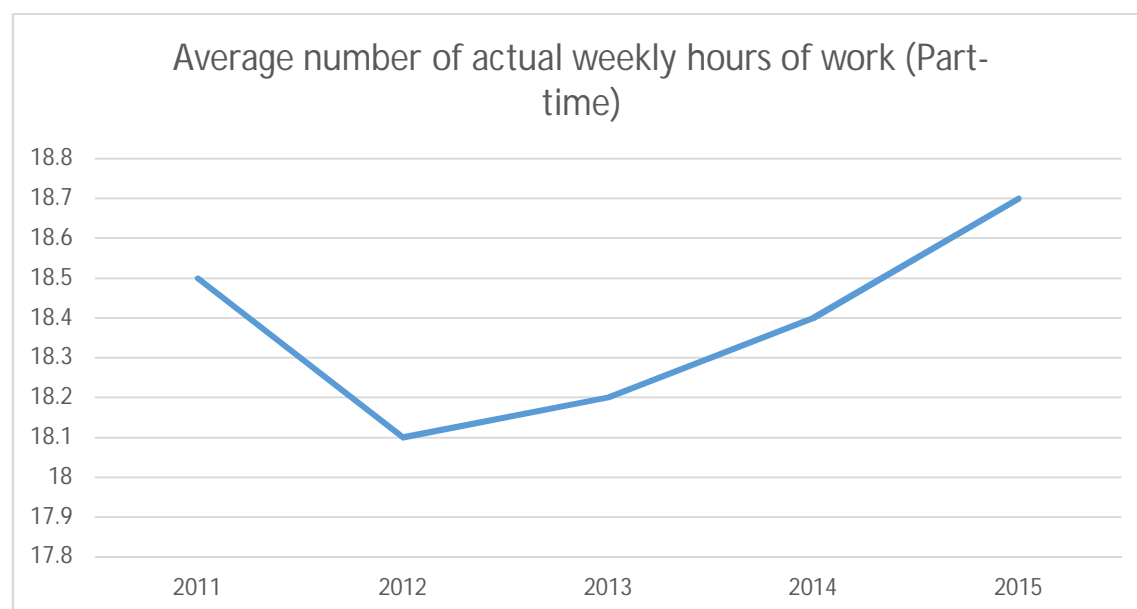
Source: Eurostat

6.2.3. Working hours part-time

Average number of actual weekly hours of work under the conditions of part-time working contract on the other side is decreasing after the introduction of reform. In 2011 average

number of hours worked was 18.5, then after the fall in 2012 (18.1 hours per week) number of hours started to grow and in 2015 to the level of 18.7 hours.

Figure 6.9 Average number of actual weekly hours of work under the part-time contract in Spain in the period 2011-2015



Source: Eurostat

Based on above provided analysis of the changes in the conditions of collective bargaining, specifically of the number of hours worked, we can see the significant decrease in the amount of working hours. Average number of it continuously decreasing, but on the other hand the amount of working hours under the conditions of part-time contracts is increasing. Reason for this can be the fact that other change implemented by the reform was meant to inspire the use of the part-time contracts and allowance of the over-time performing under this type of contract.

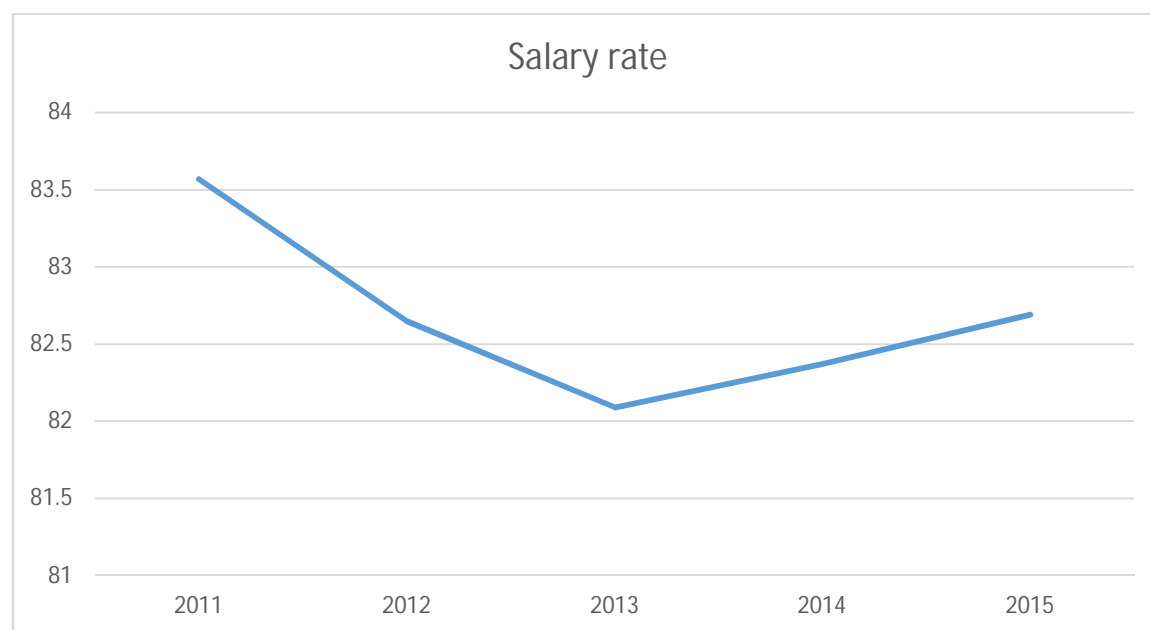
6.2.4. Wage development

To analyze the development of the wages in Spain after the introduction of the reform we will look at the changes of the salary rates. Salary rates are “the rates paid for nominal time

of work, comprising basic wages and salaries, cost-of-living allowances and other guaranteed and regularly paid allowances” (OECD). It is important to note that it excludes overtime payments, bonuses and donations, family allowances and other social security payments made by employers. In many countries salary rates are determined by law or regulation through collective bargaining agreements, since one of the major changes produced by the reform was weakening of collective agreements, in a way that collective agreement on the firm level now have priority over sectoral agreements on certain matters, such as salaries.

From the chart below we can see that salary rate was decreasing during the years 2011 – 2013, and after 2013 it started to grow. In 2015 salary rate was 82.69. The conclusion we can make is that above mentioned changes caused the reduction in the salary rates; right after the introduction of reform salaries first adjusted - fell from 83.57 to 82.09 salary rate, but when economy as whole started to improve, salary rate grew from 82.09 in 2013 to 82.69 in 2015, which is still lower than in 2011.

Figure 6.10 Salary rate in Spain in the period 2011-2015



Source: INE (National Statistics Institute)

6.2.5. Wage development by sex

We can see that on the Spanish labor market is a significant gap between salary rates for males and females. In 2011 salary rate for females was 9.53 % higher than salary rate for males. In the following years indicators for both were decreasing, but decrease for males (2.57 %) was more significant than for females (1.04 %). On the other hand following increase was more significant for males (1.13 %), than for females (0.34 %). Finally males are left with 9.39 % lower salary rate in 2015 than females.

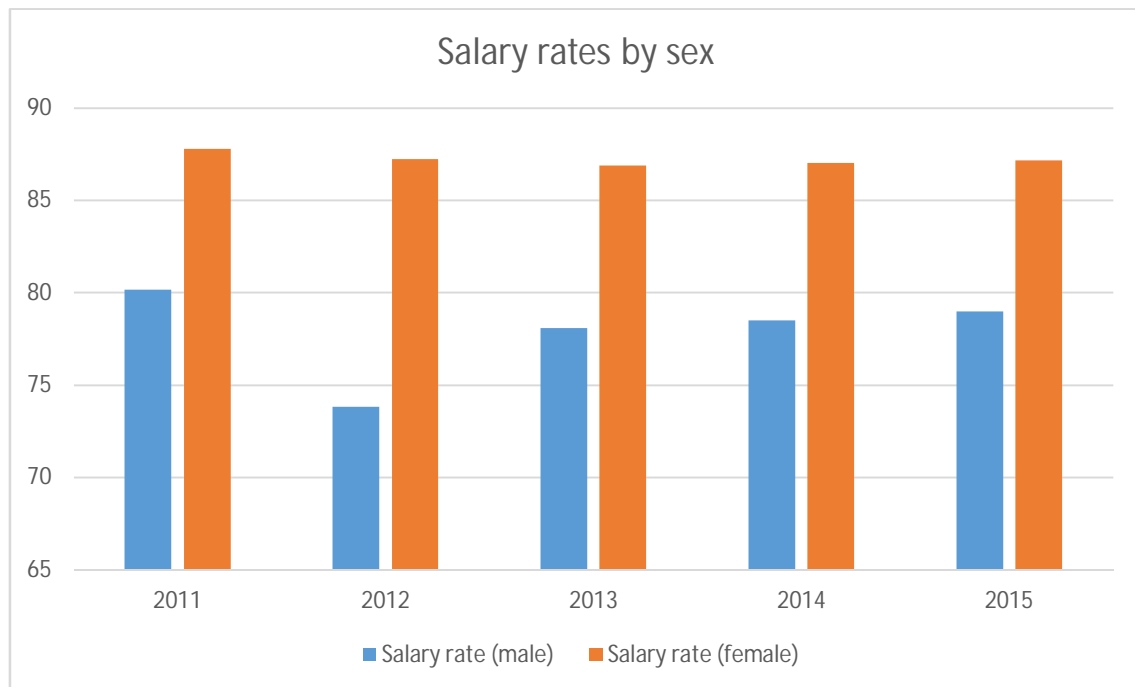
Table 6.8 Salary rate by sex in Spain in the period 2011-2015

	2011	2012	2013	2014	2015
Salary rate (male)	80.14	73.83	78.08	78.48	78.97
Salary rate (female)	87.78	87.22	86.86	87	87.16

Source: INE (National Statistics Institute)

Reason for it can be that the most affected by crisis economic sector was construction, which is mostly occupied with men as a workers. Also data provided by INE shows that women and men usually perform different types of jobs, for example there is a much bigger share of women working in such a sectors like scientific and intellectual technicians and professionals, accounting, administrative and other office employees. Men on the other hand, occupy such a sectors as skilled agricultural, livestock, forestry and fishing sector, craftsperson and skilled workers in manufacturing and construction, installation and machinery operators and assemblers, and military sector.

Figure 6.11 Salary rate by sex in Spain in the period 2011-2015



Source: INE (National Statistics Institute)

6.3. Increase productivity and reduce differences on the labor market

To increase productivity and reduce differences on the labor market Spanish government introduced certain changes to the procedure of dismissals, in particular collective dismissals, unfair dismissals and dismissals due to absence from work.

6.3.1. Strictness of employment protection – individual and collective dismissals (regular contracts)

To analyze changes on the Spanish labor market caused by implementation of the reform will be used data provided by OECD; Strictness of employment protection over the individual and collective dismissals (regular contracts). The OECD indicator measures all

the required actions and costs occurring with the dismissal of one, or more than one persons (collective dismissal). Indicator shows that after the introduction of the reform strictness of employment protection fell and the last available data is from the year 2013. For better understanding is used data starting with year 2008, according to OECD for last 16 years until 2010 OECD indicator of strictness of employment protection, individual and collective dismissals (regular contracts), was stable at 2.36. (OECD, 2013). After the introduction of first reform in 2010 it fell till the indicator was 2.21 and after the introduction of the reform in the year 2012 it fell even more; to 2.05 in 2013. Changes caused by the reform of 2012 are visible just in the data from 2013, because it was applied just to the contracts signed after 12 February of 2012.

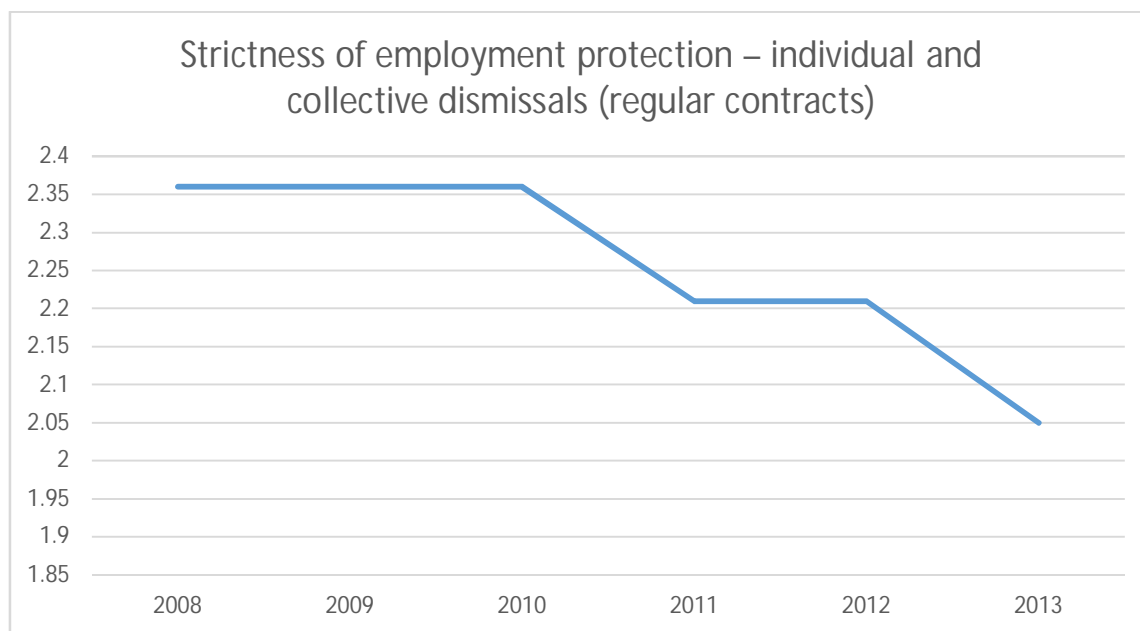
Table 6.9. Strictness of employment protection rate – individual and collective dismissals (regular contracts) in Spain in the period 2008- 2013

	2008	2009	2010	2011	2012	2013
Strictness of employment protection rate	2.36	2.36	2.36	2.21	2.21	2.05

Source: OECD

According to the OECD the simplifying of the dismissal procedure made Spanish economy more flexible. Figure 6.12, based on OECD statistics, shows that the two reforms of 2010 and 2012 considerably reduced employment protection in Spain's economy. Spain deregulated its labor market in order to increase the efficiency and reduce the duality of it.

Figure 6.12 Strictness of employment protection rate – individual and collective dismissals (regular contracts) in Spain in the period 2008- 2013



Source: OECD

6.3.2. Strictness of employment protection – collective dismissals (additional restrictions)

Strictness of employment protection over the collective dismissals and additional provisions measures additional costs and procedures related to the cases of dismissals of more than one worker at same time, comparing to the costs of individual dismissal. From the statistics provided by OECD we can see that strictness of employment protection over the collective dismissals and additional costs related to it weren't reduced by the first reform of 2010, but after the introduction of the reform of 2012 indicator fell to 3.38 in 2013.

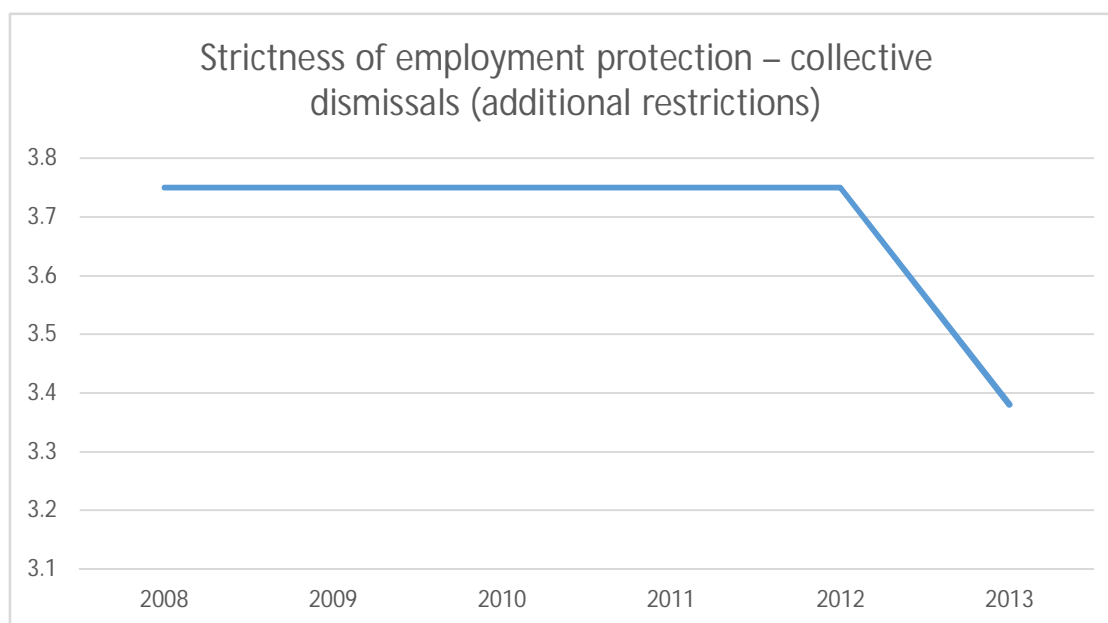
Table 6.9 Strictness of employment protection rate – collective dismissals (additional restrictions) in Spain in the period 2008- 2013

	2008	2009	2010	2011	2012	2013
Strictness of employment protection rate	3.75	3.75	3.75	3.75	3.75	3.38

Source: OECD

Even after the simplifying of the dismissal procedure of more than one person in the same time it still causes additional costs and it is still more protected by law. In 2008 strictness of employment protection over the collective dismissals indicator was 58.9 % higher than over the individual dismissal, in 2013 strictness of employment protection over the collective dismissals indicator was 64.9 % higher than over the individual dismissal.

Figure 6.13 Strictness of employment protection rate – collective dismissals (additional restrictions) in Spain in the period 2008- 2013



Source: OECD

6.4. Improve operation of financial institutions and public sector companies

Various government services are provided by the public sector companies, such as military, police, infrastructure, public transit, public health care, public education and officials working for government. Financial institutions in the same time are institutions or companies which are dealing with monetary transactions, such as loans, deposits, investments and currency exchange. It includes banks, trust companies and insurance companies.

To improve operation of financial institutions and public sector companies Spanish government applied new rules to dismissals in institution which are set to regulate and supervise the reformation of the banking sector in Spain and to dismissal of the worker of the high position in the state public sector, also temporary employment agencies are able to act as employment agencies.

6.4.1. Employed persons in public sector

Studying data from INE we can see that newly applied rules regarding the dismissal procedure in public sector simplified this process and total number of people working fell after the introduction of the reform by 302,000 people from 2011 to 2015.

Table 6.10 Employed persons in public sector in thousands in Spain in the period 2011-2015

	2011	2012	2013	2014	2015
Employed persons in public sector in thousands	3,277	3,112.40	2,937.30	2,925.80	2,975

Source: INE (National Statistics Institute)

6.4.2. Employed managers and directors in public sector

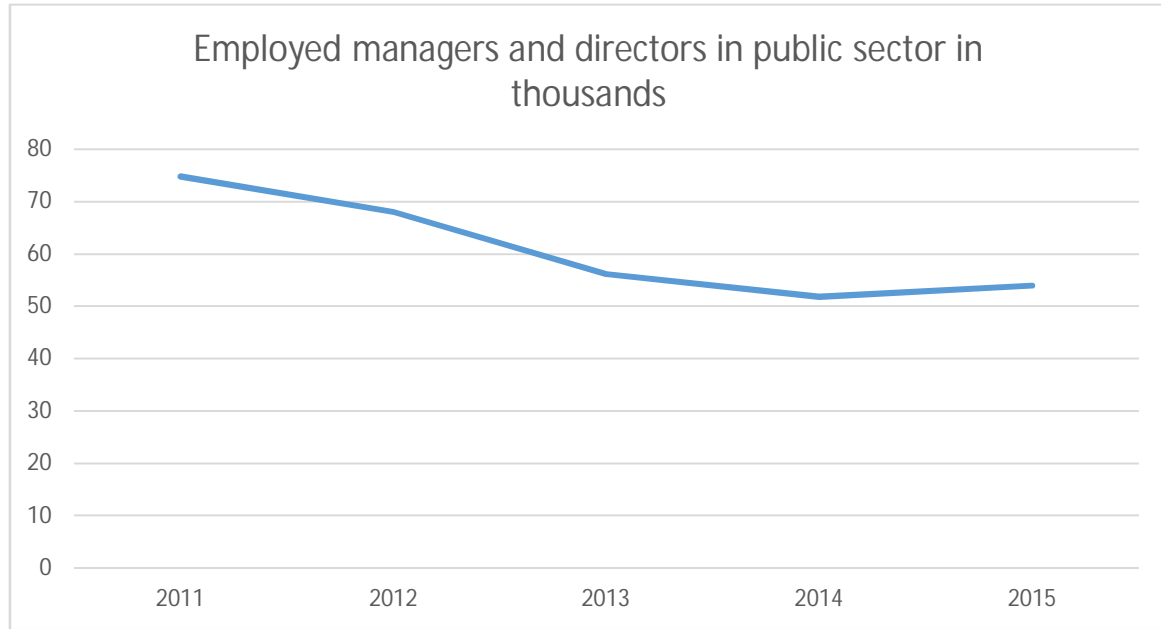
Since changes were related to dismissal of people holding high positions in the public sector companies, it is important to analyze the effect on the number of employed managers and directors. Although there is possibility that the changes are caused by change in classification of individual position, the table 6.12 shows that; number of managers and directors employed in the public sector fell significantly after the implementation of the reform. In 2011 75,000 of managers and directors were employed in the public sector of Spain, in 2015 this number fell by 28 % to 54,000 of people.

Table 6.11 Employed managers and directors in public sector in thousands in Spain in the period 2011-2015

	2011	2012	2013	2014	2015
Employed managers and directors in public sector in thousands	75	68.00	56.10	51.80	54

Source: INE (National Statistics Institute)

Figure 6.14 Employed managers and directors in public sector in thousands in Spain in the period 2011-2015



Source: INE (National Statistics Institute)

6.4.3. Employed managers and directors in public sector by sex

Analyzing changes in employed managers and directors in public sector by sex we can evidently conclude that decline in number of employed females is higher (30.76 %) than in number of employed males (25.76).

Table 6.12 Employed managers and directors in public sector by sex in thousands in Spain in the period 2011-2015

	2011	2012	2013	2014	2015
Employed managers and directors in public sector (male)	42.3	41.7	33.8	31.9	31.4
Employed managers and directors in public sector (female)	32.5	26.3	22.2	20	22.5

Source: INE (National Statistics Institute)

Important to note that in 2015 number of females employed in public sector on high position started to grow, comparing to 2014 indicator is 12.5 % higher in 2015. In 2011 number of employed in public sector companies on the high position males was 23.16 % higher than females, in 2015 gap increased to 28.34 %, but it is smaller than it was in 2014 – 37.3 %.

Figure 6.15 Employed managers and directors in public sector by sex in thousands in Spain in the period 2011-2015



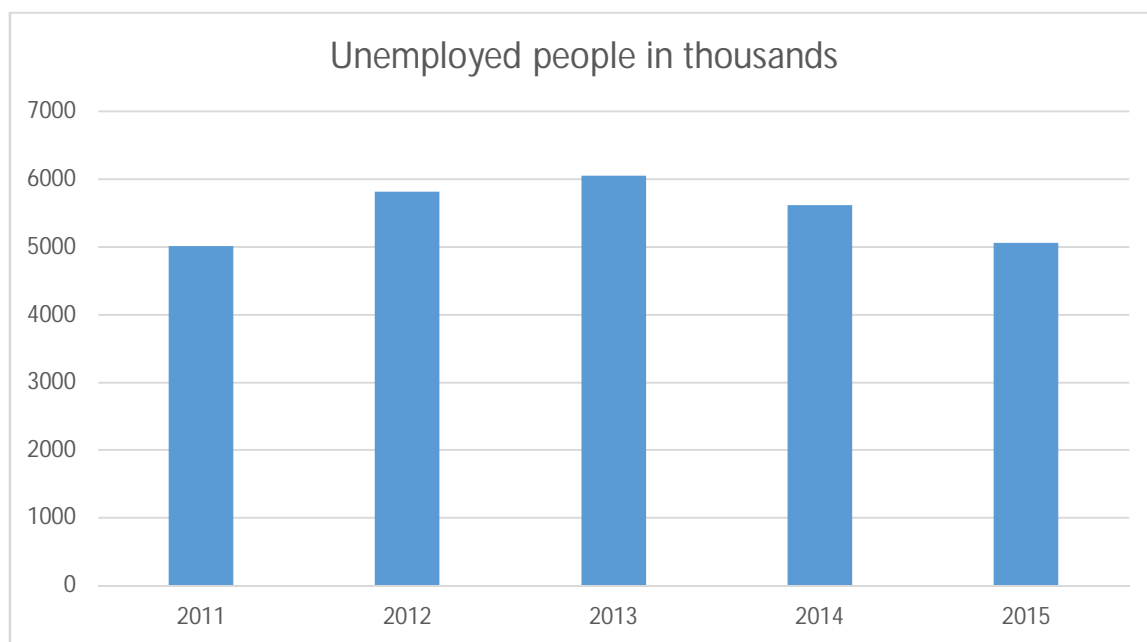
Source: INE (National Statistics Institute)

6.5. Unemployment

Before introduction of reform, in 2011, unemployment rate in Spain was 21.4 %, which makes it 5,013,000 people, and after the introduction of reform indicator was precipitously rising until it reached 26.1 % in 2013; 6,051,000 people. Currently unemployment rate shows tendency to fall. Already in 2014 unemployment rate fell to 24.5 % and in 2015 to 22.1 %. (Eurostat). Latest numbers was reported by the National Statistics Institute (INE) and it shows that in the second quarter of the current year 2016 Spanish unemployment rate

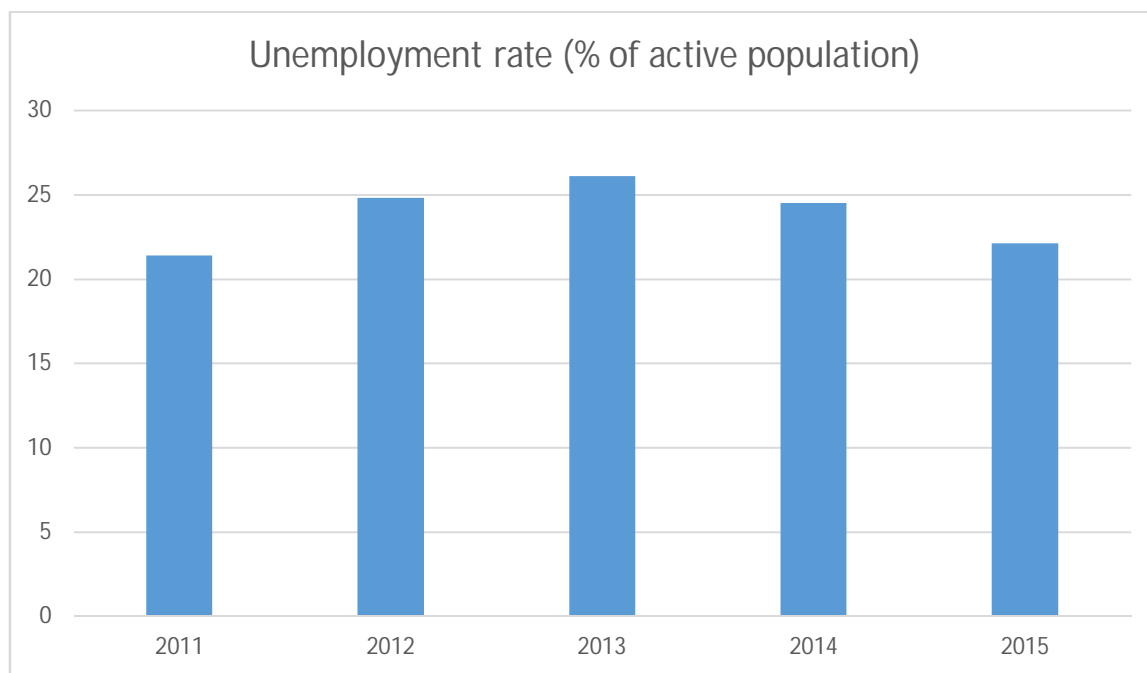
fell to 20 %, 4,574,700 of unemployed people. This indicator is 0.4 percentage points lower than it was expected. Also it is the lowest index since the third quarter of 2010, aided by growing demand for services and tourism.

Figure 6.16 Unemployed people in thousands in Spain in the period 2011-2015



Source: Eurostat

Figure 6.17 Unemployment rate as a percentage of active population in Spain in the period 2011-2015

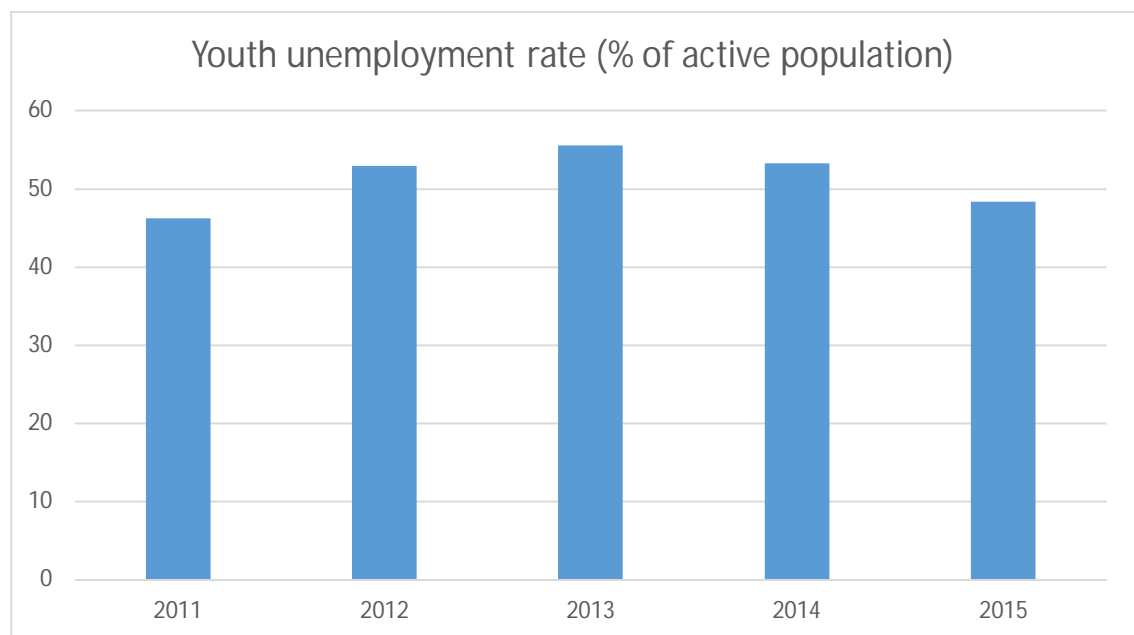


Source: Eurostat

6.5.1. Youth unemployment

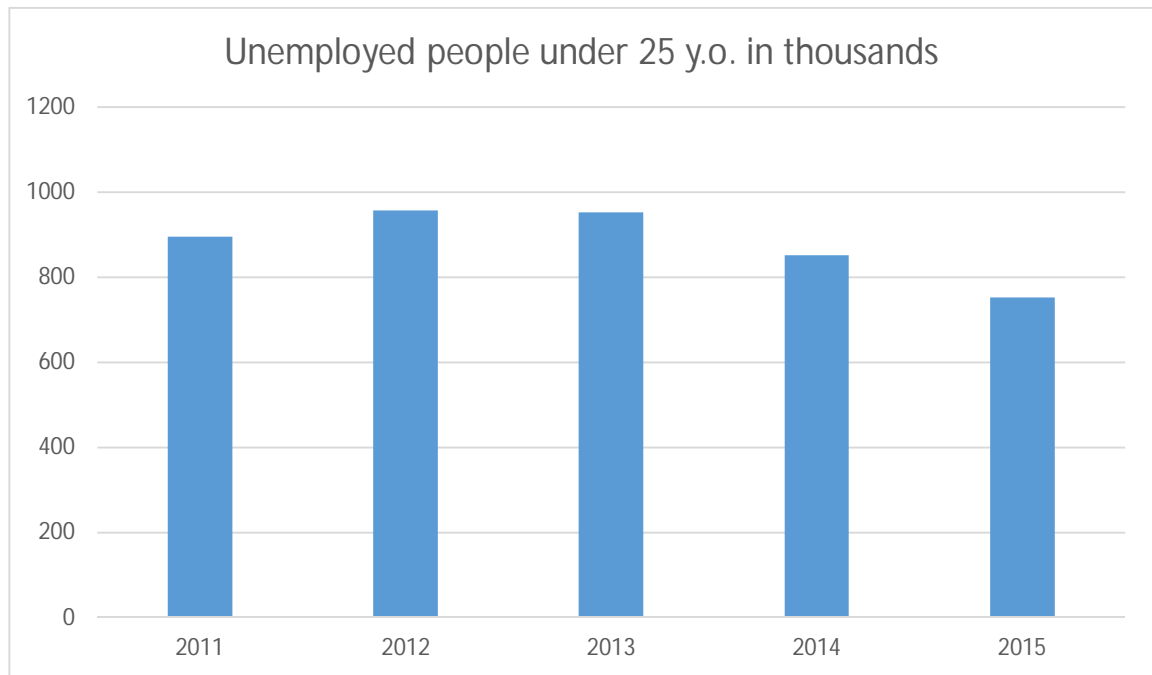
Youth unemployment (persons aged between 15 and 24) stays one of the biggest problems on the Spanish labor market despite of the fact that reducing it was one of the goals of the reform of 2012. Reforms aiming to decrease youth unemployment were implemented in 2012, 2013 and later in 2015. From the Figure 6.18 we can see that starting from the year 2013 youth unemployment rate picked a tendency of decreasing, but it is still higher than it was before the introduction of reform; youth unemployment rate in 2011 is 46.2 % (894,000 people) and in the year 2015 it is 48.3 % (751,000 people). (Eurostat). According to the report of National Statistics Institute (INE, 2016) in the second quarter of 2016 46.48 % of people younger 25 years old are without job.

Figure 6.18 Youth unemployment rate as a percentage of active population in Spain in the period 2011-2015



Source: Eurostat

Figure 6.19 Unemployed people under 25 y.o. in thousands in Spain in the period 2011-2015

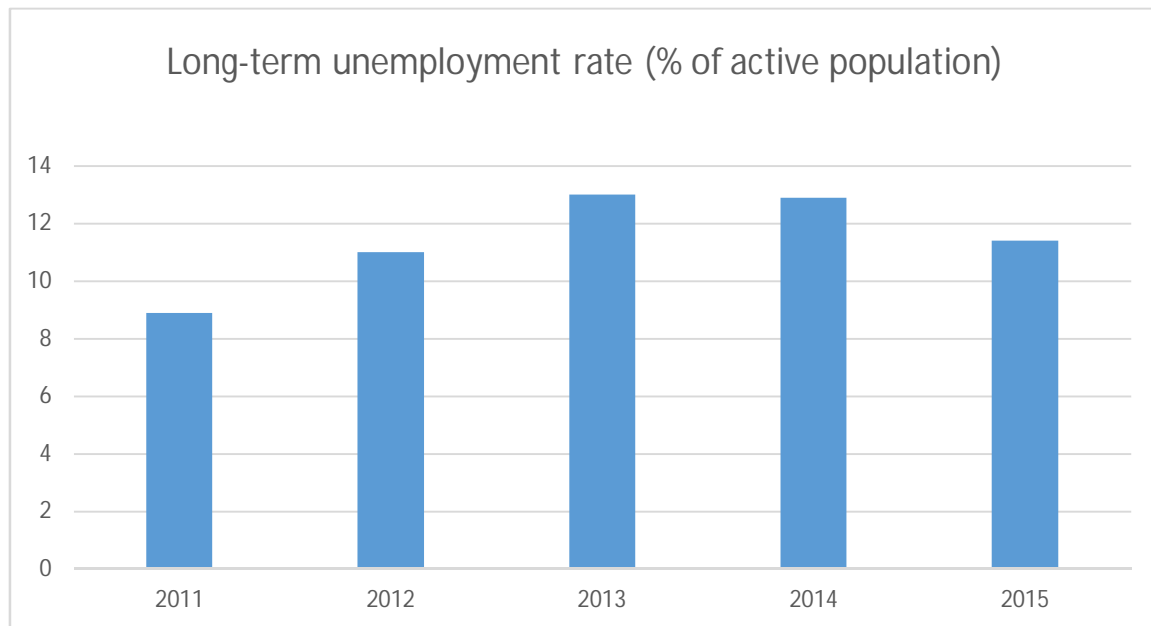


Source: Eurostat

6.5.2. Long-term unemployment

Share of people unemployed for more than 12 month also increased significantly in the following years after the introduction of reform. In the year 2011 8.9 % of total active population was unemployed for more than 12 month, after the introduction of reform in 2012 this indicator started to rise until it hit critical index in 2013, 13 %, and after it was falling. In the year 2015 this index is 11.4 %, what means that 2,609,000 of people are seeking for a job for more than 12 months.

Figure 6.20 Long-term unemployment rate as a percentage of active population in Spain in the period 2011-2015



Source: Eurostat

6.5.3. Unemployment by economic sector

To analyze unemployment by economic sectors I am using data from National Statistics Institute (INE) and only unemployed who quitted their last job 12 months ago are classified by economic sector. From the Table 6.14 below we can see that total amount of unemployed was lower before the introduction of reform and it grew significantly in 2012 and 2013. Since below data includes just people who quitted their job 12 month ago we can conclude that in Spain was high turnover during 2011 and 2012. But already in 2014 number of unemployed started to decrease and in 2015 it was lower than before the introduction of reform by 173,200 people.

Table 6.14 Number of unemployed people in thousands by economic sector in Spain in the period 2011-2015

	2011	2012	2013	2014	2015
Total	20,050.7	23,244.1	24,204.5	22,414.6	20,223.9
Agriculture	922	1,110.7	1,095.7	1,060.2	1,014.3
Industry	968	1,260	1,122	877.7	730.2
Construction	1,762.2	1,717.50	1,349.6	1,014.7	829.2
Services	6,074.4	6,882	6,738.8	5,939.4	5,529.2
Unemployed seeking first job or who have been unemployed for more than 1 year	12,120.9	13,549.6	13,898.4	12,274.1	10,324.4

Source: INE (National Statistics Institute)

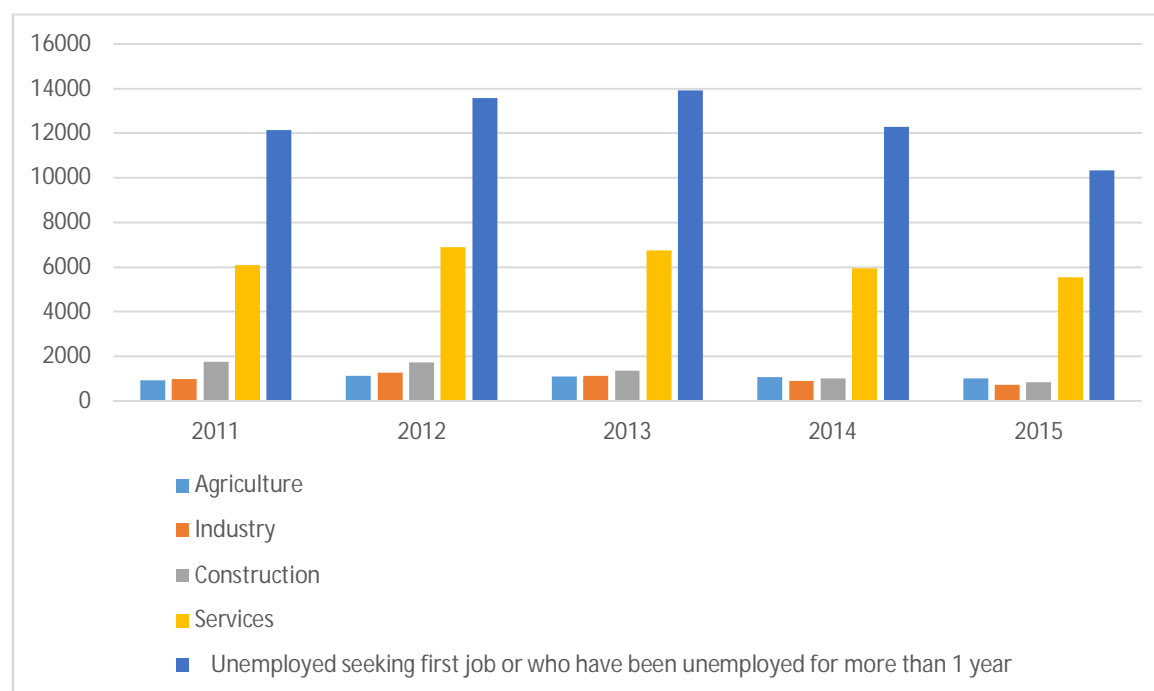
Figure 6.21 shows us that economic sector suffering from unemployment the most includes people who are seeking for a first job or who have been unemployed for more than 1 year. Before the introduction of reform, in 2011, above mentioned economic sector took 60.45 % out of total unemployed, the smallest share took agricultural sector – 4.6 %. In 2015 unemployed seeking for first job and there who are without job for more than 1 year take 51 % of total amount of unemployed, share of agricultural sector is not the smallest one, now it takes 5 % and the smallest one in 2015 is the share of industrial sector, which is 3.61 %.

We can see the significant decline in number of unemployed of each sector in the years from 2011 to 2015; industry 24.56 %, construction 52.94 %, services 8.97 % and unemployed seeking first job or who have been unemployed for more than 1 year 14.82 %, but not in the agricultural sector, where in mentioned time period number of unemployed increased by 10.01 %.

The analyzed data may suggest that the reform influenced more industrial, construction and sector providing services than agricultural sector. It can be explained by that fact that agricultural sector is totally depended on the demand of the products it produces. If overall demand falls, due to the fall in purchasing power of the population in times of economic crisis and high unemployment, agricultural production and need for the worker in this sector also falls.

Unemployed seeking first job or these who have been unemployed for more than 1 year are always these for who finding a job is most difficult, but reform implemented a lot of changes which are meant to help them; learning and training contracts, tax reduction for the firms hiring employees under 30 years old, etc.

Figure 6.21 Number of unemployed people in thousands by economic sector in Spain in the period 2011-2015



Source: INE (National Statistics Institute)

Conclusion

The goal of this thesis was to analyze economic policies of Spanish government and undertaken reforms of the year 2012 aimed to improve situation on the labor market worsened by The Global Financial Crisis in the beginning of the 21st century. Main aims of the reform are to encourage employment and job creation, increase internal flexibility inside the companies, increase productivity and reduce differences on the labor market, and improve operations of financial institutions and public sector companies.

Through the applied measures meant to encourage employment and job creation Spanish government managed to increase the number of part-time contracts and decrease the gap between permanent and temporary contracts. Analysis by sex and age showed that in 2015 2.6 times more females use part-time contracts, and 7.03 times more people in age between 25 and 64 than in age under 25 are working under part-time contracts. Also we can make the conclusion that reform efficiently stimulates transformation of temporary contracts into permanent; before the introduction of the reform temporary contracts were used 12 times more often than permanent, after - 10.8 times.

Unifying efforts of the companies and employees, reform was meant to increase internal flexibility inside the company. Undertaken measure related to modifying working conditions, functional and geographical mobility, collective agreements and temporary non-application of employment conditions. Since one of the major changes were related to collective bargaining and modifying working conditions I analyzed how the number of hours worked and wage progresses changed after the introduction of the reform. Total number of hours worked on the Spain's labor market has a decreasing tendency after the introduction of the reform, interesting is that for the full-time contracts results are also showing a decrease, but for part-time contracts it is the opposite, since 2012 number of hours worked under this type of contracts is always increasing. Wage development shows a significant fall in salary rate until 2013. Starting in 2013 till now salary rate is rising. Studying wage development by sex, we see great gap between salary rates of male and salary rates of female; males' salary rate is 9.39 % lower than females.

To increase productivity and reduce differences on the labor market Spanish government introduced certain changes to the procedure of dismissals, in particular collective dismissals, unfair dismissals and dismissals due to absence from work. Through these changes Spanish government managed to reduce considerably its level of labor market regulation and protection. Strictness of employment protection rate shows the substantial decrease caused by reforms of 2010 and 2012. Collective dismissals procedure was simplified just by the reform of 2012, so changes are visible only in the year 2013. This measures succeeded to make Spanish economy more flexible.

Last aim of the reform was meant to improve operation of financial institutions and public sector companies. Spanish government applied new rules to dismissals in institution which are set up to regulate and supervise the reformation of the banking sector in Spain and to dismissal of the worker of the high position in the state public sector, also temporary employment agencies are able to act as employment agencies. Analyzing data from INE we see that newly applied rules regarding the dismissal procedure in public sector simplified this process and total number of people working fell after the introduction of the reform by 302,000 people from 2011 to 2015. The largest decrease was in number of managers and directors hired. Since changes were related to dismissal of people holding high positions in the public sector companies, number of them fell by 28 % after the introduction of the reform till now.

Suggestions for further research on the impact of the reform on the Spanish labor market is to investigate how other macroeconomics indicators influence labor market development and changes. In particular I see crucial to examine the relationship between labor market indicators and GDP, purchasing power, interest rates and prices. With respect to the aim and the structure of the thesis the he analysis of interaction of these indicators were excluded. I do believe that those factors would help to analyze the impact of the reform much deeper and have better understanding of future development of Spain's labor market.

From the available analyzed data we can conclude that reform is working steadily and efficiently, but Spanish labor market is still suffering from various long-term issues, such as structural dualism, even though gap between permanent and temporary contracts decreased, it is still significantly high and temporary workers are still under low level of protection.

Overall unemployment started to improve after 2013, but not significantly, especially young population is still suffering from difficulties compound with entry to the labor market.

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