ICADE Business School

Flexibility of the labor market and its effects on unemployment and society.

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Objective

The main reason for choosing the subject is to know the reasons for the unemployment, historically high that Spain has suffered in its recent history, but above all what it would be necessary to change to improve the social conditions of the Spaniards. In addition, we want to demonstrate the idea that flexible labor regulation is favorable to workers, and contrary to what is believed, overprotective labor markets end up causing ironically the opposite effect for which they were originally proposed, and therefore the most vulnerable people are the most affected. As is happening in Spain, most of the social indicators point to poor conditions for our society, mostly due to the lack of employment that has persisted and persists in our country. To this end, the effects of an insufficient flexible working environment in the population will be explained in this paper.

Introduction

One of the questions that macroeconomists and labor economists have asked to themselves the most during the last half century was why there are such marked international differences in unemployment rates. The fact is that, apart from the cyclical fluctuations that makes unemployment increase in recessions and decline in expansions, each country has a labor regulation that causes such differences in the medium and long term, once the cyclical component has been eliminated.

This idea has given a large number of research projects that has tried to associate, through international comparisons, the evolution of the unemployment rate with indicators of labor institutions, such as employment protection legislation, regulation on collective bargaining and their practices, the coverage, duration and generosity of unemployment benefits, or the impact of active labor market policies.

In this paper, will be study the impact of the regulation on unemployment and to know why Spain has historically had an unemployment level well above the rest of the countries of Europe and the rest of the World. The ultimate goal of this study is to know if one of the main causes of our level of unemployment is due to the labor regulation and in which direction we should go so that this scourge does not occur as seriously as it is happening at the moment.

We are aware that there are many variables that affect the level of unemployment in Spain. Obviously, labor regulation plays a very important role for the level of unemployment in any country and hence we are interested in this path. An inefficient regulation has dire consequences for the population, since there are large numbers of citizens without income. But unemployment is also affected by the country's productive model, spending on Research and Development, the education of its citizens.

It is true that in the case of Spain there are many factors to improve and that affect unemployment. Spain has one of the highest levels of school failure in Europe, with around 19% of the population between the ages of 18 and 24 without a high school graduate in 2016.

Our companies in Spain are characterized by being too small and having a relatively smaller number of large companies compared to other European countries. Large companies are the best positioned to endure economic crises. On the other hand, the smaller the company, the greater the danger of disappearing and thus of destroying employment. According to the Ministry of Industry, Energy and Tourism 99.9% of Spanish companies were SMEs, that is, less than 250 employees and invoiced less than 50 million euros. In contrast, in the EU-28 large companies account for 0.2% of the business sector, twice as much as in Spain. 95.8% of Spanish companies are micro-enterprises compared to 92.4% in the EU-28.

In addition, as there are not a large number of large companies, spending on innovation in Spain is among the lowest in Europe. Without technological innovation, our companies are at a disadvantage in order to be truly competitive in an increasingly globalized world, which requires an ever-better product, at lower costs and faster.

Although there are other variables such as those previously mentioned, many organisms and specialists point out the inefficiency of our labor regulation. Since the beginning of the crisis until now, where unemployment has been climbing from 8% to 26% in only 5 years, the government, national and international organizations have not given up emphasizing as a main cause of our high unemployment level the rigidity of our labor regulations.

That is why this will study and see if the Spanish labor market really is as inflexible as important institutions affirm. In addition, this paper will aim to highlight the defects of regulation and that would have to change so that our country would definitely end up being the worst in labor matters.

On the other hand, it will be studied the social consequences of having an extraordinarily high level of unemployment. It will be shown if, indeed, our labor regulations are designed to protect the weaker or, if, instead, produce the opposite effect. It will be demonstrated in this section, if what they say from unions and leftist political parties, whether greater protection for the worker, achieves the desired goal, or, on the contrary, causes more harm than good in society.

Methodology

Reports from the most prestigious agencies at the global and national levels, such as Eurostat, the World Bank and the OECD, will be used to evaluate and analyze the Spanish labor system and how it behaves. In addition, the study will be based on information that can be collected from public organizations in Spain and prestigious private bodies at the national level.

In particular, indicators that are directly related to the labor legal framework will be used, without going deeply into jurisprudence, and comparing the results with the rest of the European countries and thus knowing the magnitude of the seriousness that concerns the problem of having a High level of unemployment. The report seeks to break down the legal framework in depth, but will also use other variables that may affect the labor market, although to a lesser extent, and thus have a better overall idea of the problem.

Labor flexibility and its effects on the labor market

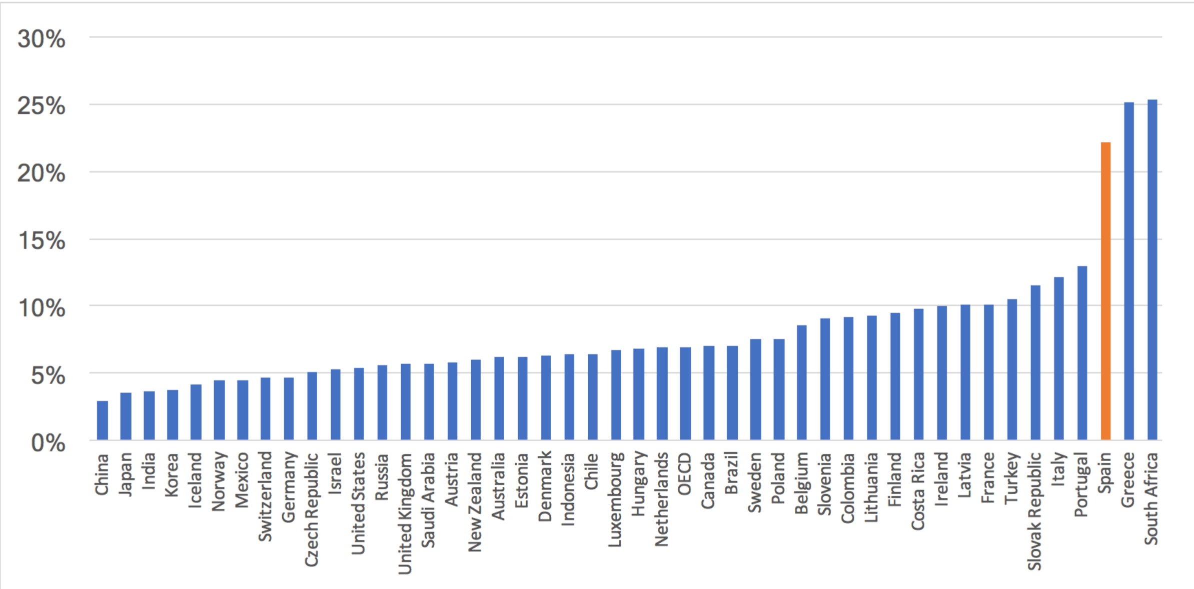
This first section will illustrate the variables that are completely related to the labor market. We will see its comparison with the other countries of the European environment and will analyze the possible causes and consequences that can be derived.

Unemployment Rate

his will be the most important variable in our study, which measures the proportion of active people who are unemployed. Just looking at graph 1.1, we can realize the magnitude of the problem that exists in Spain. Especially in comparative terms, our country is among the worst placed in the countries analyzed by the OECD in the "Employment Outlook 2017". In particular, Spain is on the pole, being the 3rd country among the 47 analyzed with higher unemployment. It is a key indicator of how our labor market works and irrefutable proof that something is wrong in our country.

There is no absolute variable that affects the performance of our labor market. As explained above, investment in R & D is fundamental to the competitiveness of any country and create new jobs. On the other hand, the educational level of a society is crucial for the good development of the companies and a low level of education directly provokes a greater inequality and due, among other factors, to the greater difficulty to find a good job or even to be able to find it in first place. In addition, establishing efficient rules of the game for the good development of companies is another fundamental factor that any country needs to be truly competitive and boost employment.

Graph: 1.1 Unemployment rate, 2015 (%)



Source: OECD (2017), OECD Employment Outlook, Chapter 1, OECD Publishing, Paris.
Share of persons in the labour force (15-64 years) in unemployment (%) (2015)

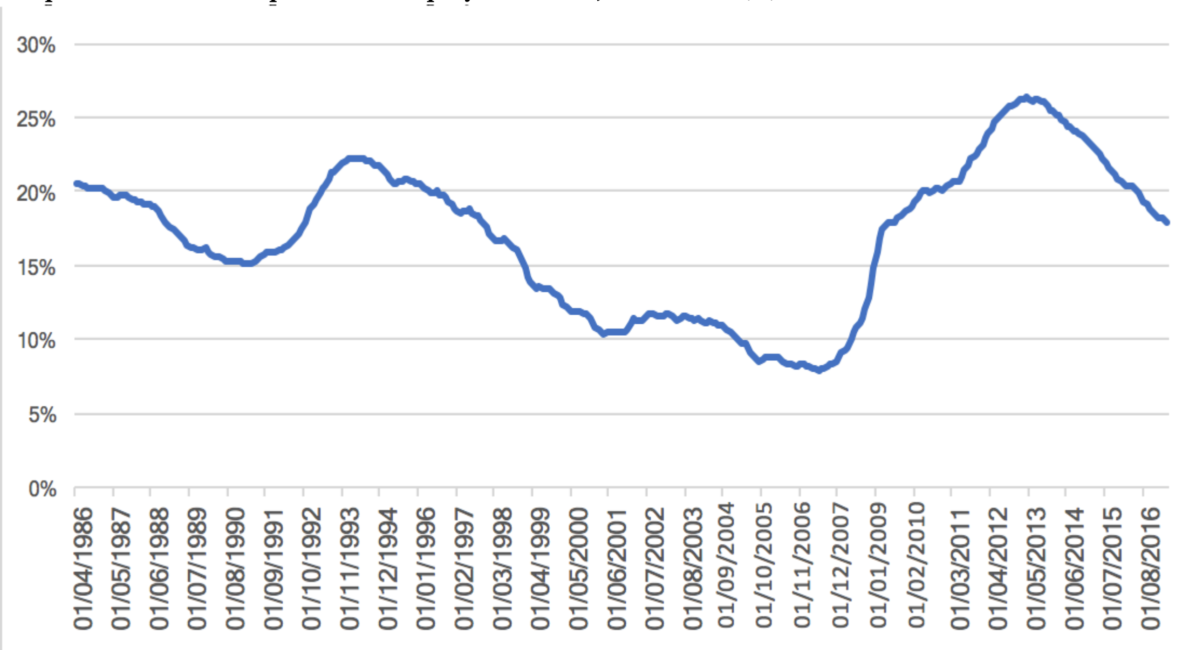
Along with the above, and in the opinion of the author, the most important factor that affects the good performance of the labor market is the good regulatory design of the same market. A market that is regulated efficiently will find a way to adjust and adapt satisfactorily in times of economic crisis, without the need to incur excessive redundancies. There are many countries in the world that are better off in terms of employment and unemployment, even though education levels, investment in research and development, taxes, and business regulation are much less attractive than those in our country.

At the end of this report we will expose these variables that affect the labor market, without entering into the labor regulation itself. The problem lies in the fact that Spain obtains, in all the previous variables, a negative result both in absolute and negative terms. If these indicators were in a better position, Spain could allow a more protective and less flexible regulation without incurring high unemployment rates, but having too many variables with negative effects on the labor market, we cannot allow labor regulation Inflexible and overprotective with the worker. It is a question of balance.

Fortunately, and thanks to the economic growth that Spain is experiencing, unemployment is at the date of completion of this project, (Q2 2017) below 18%, when 4 years ago it was above 25%. But at the time of the OECD report, where unemployment is compared in 2015, Spain suffered from unemployment of 22.2%. Not only was it the third country with the worst result of the 27, but it is extraordinarily far from the average of the OECD countries, which was at enviable levels, with only 7%.

Together with Spain, South Africa with 25.3%, Greece with 25.1%, Portugal with 12.9% and Italy with 12.1% are the worst placed among the countries analyzed. On the other hand, the best placed countries are China (2.9%), Japan (3.5%) India (3.7%), South Korea (3.7%) and Iceland (4.2%). These are the levels of unemployment in which Spain has not been found in many decades, and since the entry into democracy of our country in the late 1970s, when a new regulatory framework for employment was created, Spain has had an average unemployment rate of 18% and barely fell from 8% unemployment in 2007, just before the crisis, as shown in Graph 1. 2. This shows that this situation is not a temporary or an exceptional case, but it comes in the DNA of our country. In order to improve this situation, Spain would need a comprehensive reform of all the variables mentioned above, but especially that directly affects the good performance of the labor market, i.e., to increase flexibility and increase efficiency so that companies can adapt much better than now, in times as difficult as with the economic crisis of 2008.

Graph: 1.2 Historical Spanish Unemployment Rate, 1986-2016 (%)



Source: Eurostat Statistics

Low Employment Rate

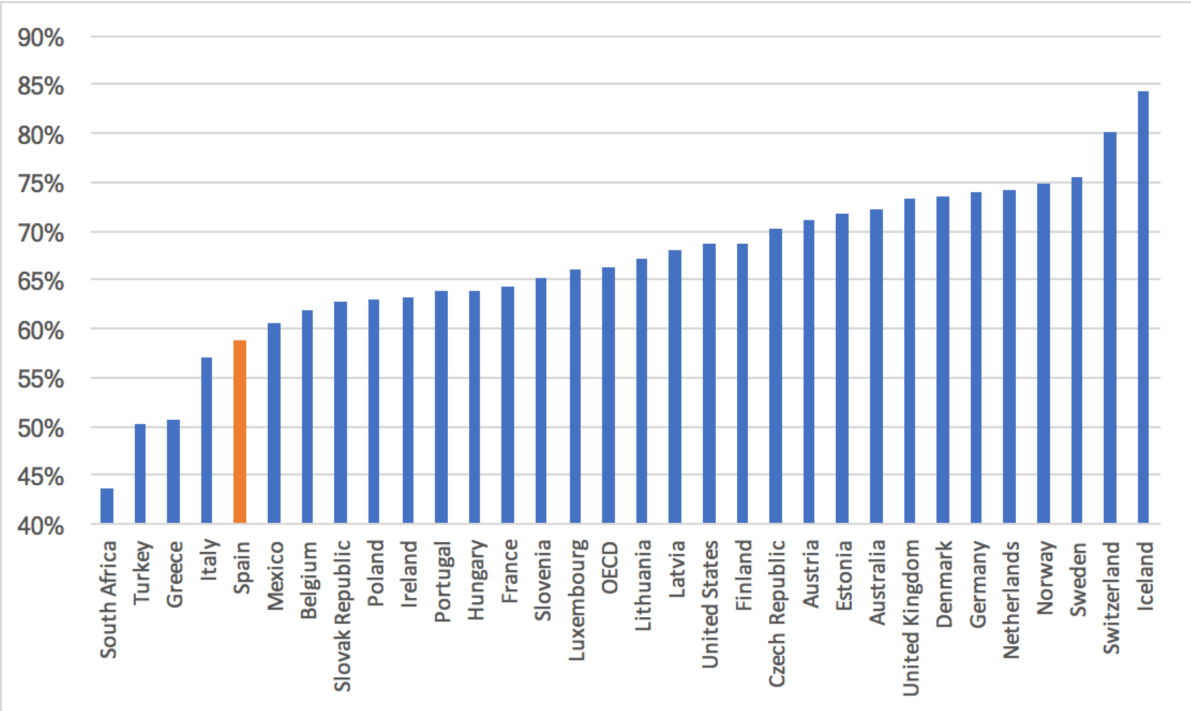
The best situation for a country, in terms of employment and wealth is to have a lot of people working on jobs. There are countries where a larger proportion of the population is willing to work and the labor market needs to be ready to absorb more workers. As shown in Graph 1.3, the OECD statistics detail the proportion of working-age people (15-64 years) who were working in 2015, and Spain again does not come out very well. It is not surprising that, in a country with an unusually high unemployment rate, it has a low level of employability in its population.

Of the 46 countries analyzed by the OECD, Spain is in the 40th position with the lowest employability ratio, with only 58.7% of the population working in 2015. Countries such as Italy, India, Saudi Arabia, Greece, Turkey and South Africa are the countries with the lowest ranking, with levels above 50%, less South Africa where only 43.7% of the working-age population is working.

Among the best located countries, we have met with great purchasing power and low employability like Iceland, Switzerland and Sweden with ratios of 75.5%, 80.2% and 84.2% respectively. The difference with Spain is therefore abysmal, where there is between 16% and 25% difference from the best. If Spain had the same level of employability as these countries, there will be practically no unemployment.

The average level of the OECD reaches 66.4% of employability, a difference of 7.7% and for which the country would need at least 5 years to reach.

Graph: 1.3 Employment Rate for selected countries, 2015 (%)



Source: OECD (2017), OECD Employment Outlook, Chapter 1, OECD Publishing, Paris.
Share of working-age population (15-64 years) in employment (%) (2015)

Earnings Quality

Not only must we take into account the percentage of employees and unemployed that exists in a country to be able to know entirely whether it is a good system or not. It is also necessary to know the degree of quality that workers and unemployed have.

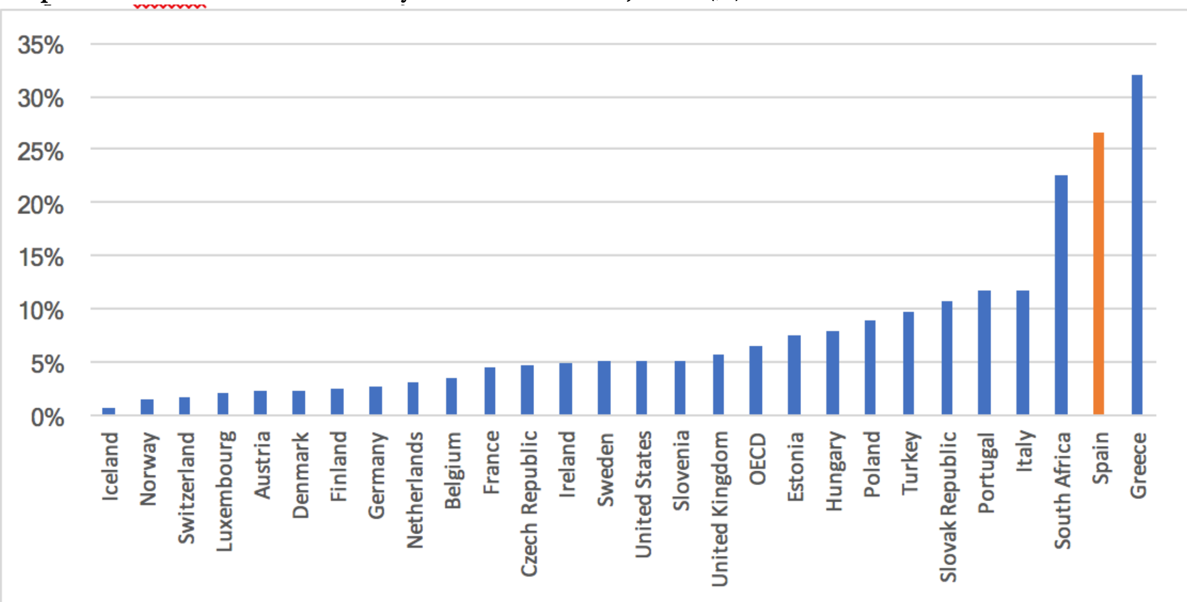
Therefore, another variable to analyze to know in depth our labor market and how it develops is, therefore, the amount of money that workers earn. According to the OECD, Spain is in the average of countries in income adjusted to inequality. For the year 2012, Spanish workers earned on average 16.6 dollars per hour, when the OECD average stood at 16.5 dollars. In advance, we could conclude that our country does not have a bad indicator in this section, but if we really compare with the countries around us, we are still below the average, but not too much. We will see that it is the norm that practically all the countries of central and northern Europe have better indicators than we do. For this indicator, Spain surpasses all the Asian and European countries of the East and South.

In terms of salaries, Spain is not so bad and we will see that it is one of the few indicators that is really positive in relation to the labor market.

Labor Market Insecurity

Another aspect to analyze to know the quality of our workers is the level of insecurity that our workers have in monetary terms when they lose their jobs. Specifically, the following index would be defined as the expected monetary loss associated with being unemployed in relation to previous earnings. That is to say, the percentage of money that would stop winning if they were dismissed or resigned to their work without having another available.

Graph: 1.4 Labor Market Insecurity selected countries, 2013 (%)



Source: OECD (2017), *OECD Employment Outlook*, Chapter 1, OECD Publishing, Paris.
Expected monetary loss associated with becoming and staying unemployed as a share % of previous earnings (2013)

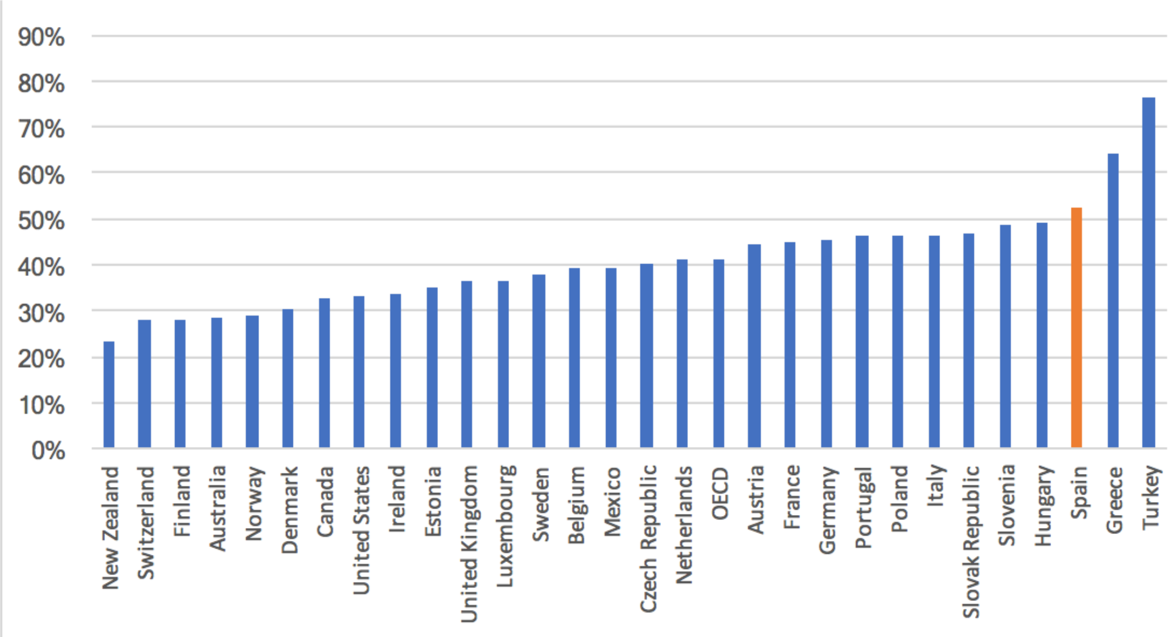
In particular, Spain is again surprising, being the second country, behind only Greece with the highest level of job insecurity among the 44 countries analyzed for this indicator, for the year 2013. The Spaniards expect to lose almost 26.6% of the profits in Case of loss of employment. Greek workers would even reach 32%, while the OECD average would be at only 6.5% expected loss, a much lower percentage than Spanish. To deepen the analysis and really know the magnitude of the problem, there are only 7 countries out of 44 that have percentages above 10%, compared to 26.6% in Spain. A catastrophic situation for our country and again demonstrates that the Spanish labor market is seriously ill.

Job Strain

Another qualitative variable of the labor market is to know if the workers are comfortable and comfortable in their work position, or in contrast, they are in a position of stress. To this end, the OECD report shows that Spanish workers are not at all comfortable. Spain leads again the list of the worst situated and by 2015 the percentage of workers who experienced a situation of labor tension reached 52.6% of the total. This is an alarming Graph, which translates into a deterioration of the welfare and quality of life in the personal and in a lower productivity for the companies, as they do not have motivated and comfortable workers when it comes to doing their work.

As shown in Graph 1.5, Spain ranks 4th among the 33 countries analyzed by the OECD, only surpassed by South Korea, Greece, and Turkey with 53.7%, 64.4% and 76.2% respectively. The OECD average is more than 11 points below 41.4% and the best countries are New Zealand with 23.3%, Switzerland and Finland, both with 28%, practically half that in Spain.

Graph: 1.5 Job Strain for selected countries, 2015 (%)



Source: OECD (2017), *OECD Employment Outlook*, Chapter 1, OECD Publishing, Paris.
Share of workers in % experiencing job strain (2015)

As Spain does not have an efficient labor market, in times of high levels of unemployment, the worker is in a weaker position in order to negotiate their conditions, since they do not have an easy-to-reach labor substitute. If the labor market were more efficient, and therefore the level of unemployment was at levels close to the OECD, of around 7%, workers would find much more bargaining power and ability to improve their quality of work, either by changing to a better job, or struggling without fear of losing their jobs, or at least not staying in excess in an active job search in the event of a dismemberment or resignation.

In addition, companies would be forced to improve the quality of their employees' work by forcing their own labor market. If a company has a greater difficulty finding workers of a certain profile for their company, it will have to improve the conditions to attract more staff. In addition, it will have greater interest in caring for the existing workers and not lose a scarce human capital.

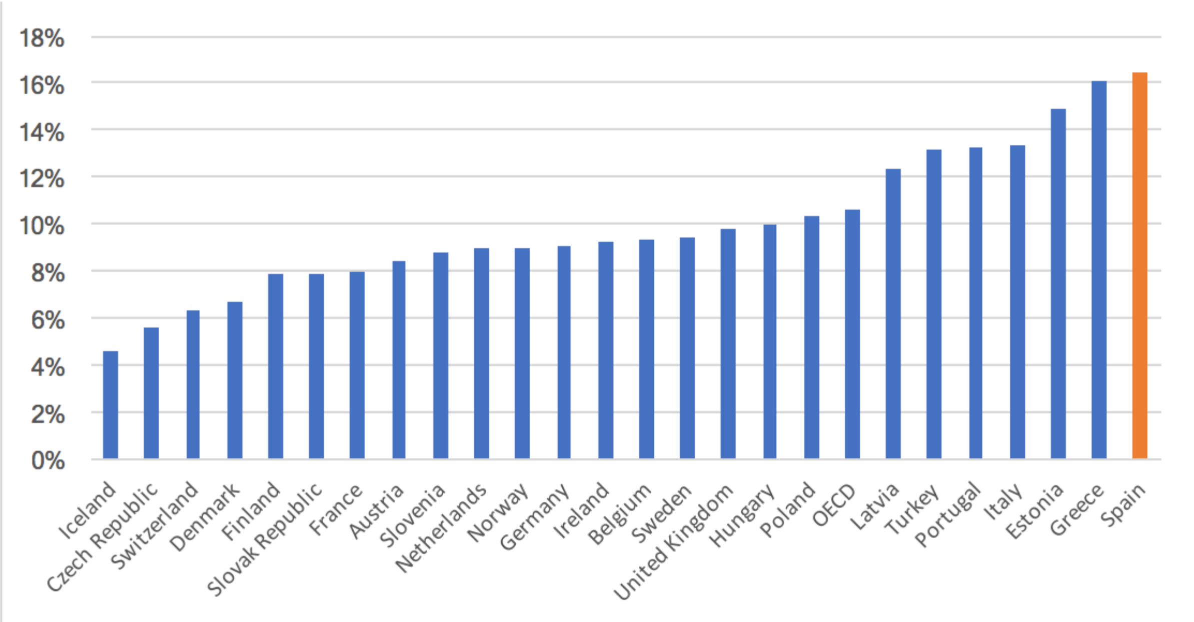
Low income rate

To add more drama to the issue, Graph 1.6 shows the conditions of the lowest paid workers. In particular, the index used by the OECD seeks the proportion of the working-age population that earns less than 50% of the median of disposable income of households, and concludes that Spain was in 2013 in the country with the highest proportion of people in this index among the 37 countries analyzed. Specifically, 16.5% of workers earned less than 50% of disposable household income.

Greece would be next in the list with 16.1% of its working age population in these conditions, followed by the United States with 15.7%. The OECD average is almost half the Spanish percentage, with "only" 10.6%. Among the best located would be, Iceland, Czech Republic, Switzerland, Denmark and Finland with less than 8% of population in this situation.

A dramatic indicator that shows that Spain and its labor market leaves hundreds of thousands of workers in labor poverty. What ends up proving that in the Spanish labor market is the worst of its environment, with a labor market that cannot absorb a great amount of demand, that does not know how to adjust efficiently in times of crisis and that the lucky ones with work have to endure terrible conditions in many cases, with insecurity, malaise and wages that in many cases barely enough to live.

Graph: 1.6 Low Income Rate for selected countries, 2013 (%)



Source: OECD (2017), *OECD Employment Outlook*, Chapter 1, OECD Publishing, Paris.
Share of working-age persons (18-65 years) living with less than 50% of median equalized household disposable income (2013)

Gender Gap

Fortunately, not all indexes are as bad as the previous ones, since this report shows that the wage inequality in Spain is not among the worst among our colleagues. In 2014 the gender pay gap was 37.4% for men, a Graph which, although quite negative, we are not among the worst in the class, with the OECD average being 39%.

This does not imply that Spain has yet to greatly improve this aspect of our labor market, but we would be entering into a reduction of gender inequality with policies that probably have little or nothing to do with the flexibility and efficiency of the labor market.

Labor Market Flexibility Indicator

In order to analyze correctly how a country reaches a situation as catastrophic as the current situation in Spain, it would be necessary to analyze how the labor regulation was placed before the reforms carried out by the PSOE and PP governments in 2010 and 2012 respectively. To this end, the World Bank's "Doing Business" report issued in 2008 using the 2006 and 2007 data will serve as a reference. This report details, in different variables, how easy it is to do business in almost every country in the world.

The idea behind is to make known that a regulation that facilitates the good business of the companies leads to economies much more advanced and rich, and that later it is transformed into a greater social welfare.

One of the sections of the many that he analyzed in his report of the year 2008 was the "Employment of Workers", which serves to know how easy it is to hire employees for the companies. Unlike the previous rankings, which we compared with countries in our environment and the OECD, the World Bank report compared 178 economies worldwide and ranks Spain in the 154th position of ease of employment of workers. In the first places of the ranking, there are countries like the United States (1st), Singapore (2nd), Australia (8th) and Denmark (10th), all with very low unemployment levels of 4.7%, 2.1%, 5.7% and 6.3% respectively, for the fourth quarter of 2016, compared to 18.7% in Spain.

Just knowing this index, we come to the conclusion that something we do wrong in this country. When analyzing how this index has been composed, it can be seen that it is composed of different sub-indices such as hiring difficulty, rigidity in schedules, difficulty in dismissal, rigidity of employment, non-wage labor cost and dismissal cost.

The first 4 indexes are percentages from 0 to 100, which 0% would mean less rigidity or difficulty, in contrast, 100% shows extreme rigidity and difficulty. The World Bank rated Spain with 78% difficulty in hiring, 60% in rigidity of schedules, 30% in difficulty of dismissal and 56% in rigidity of employment.

When a prestigious organization demonstrates that a country like Spain has designed a disastrous hiring system, which has rated 70 out of 100, it is not surprising that unemployment rises to levels we have seen in recent years. If, moreover, it adds that before the crisis, Spanish companies had a great rigidity in employment and in schedules as the report states, which causes companies cannot adapt as they should in times of greater economic difficulty, but the difficulty of dismissal is relatively low (30/100), the end result is the high level of unemployment in the following years to the report.

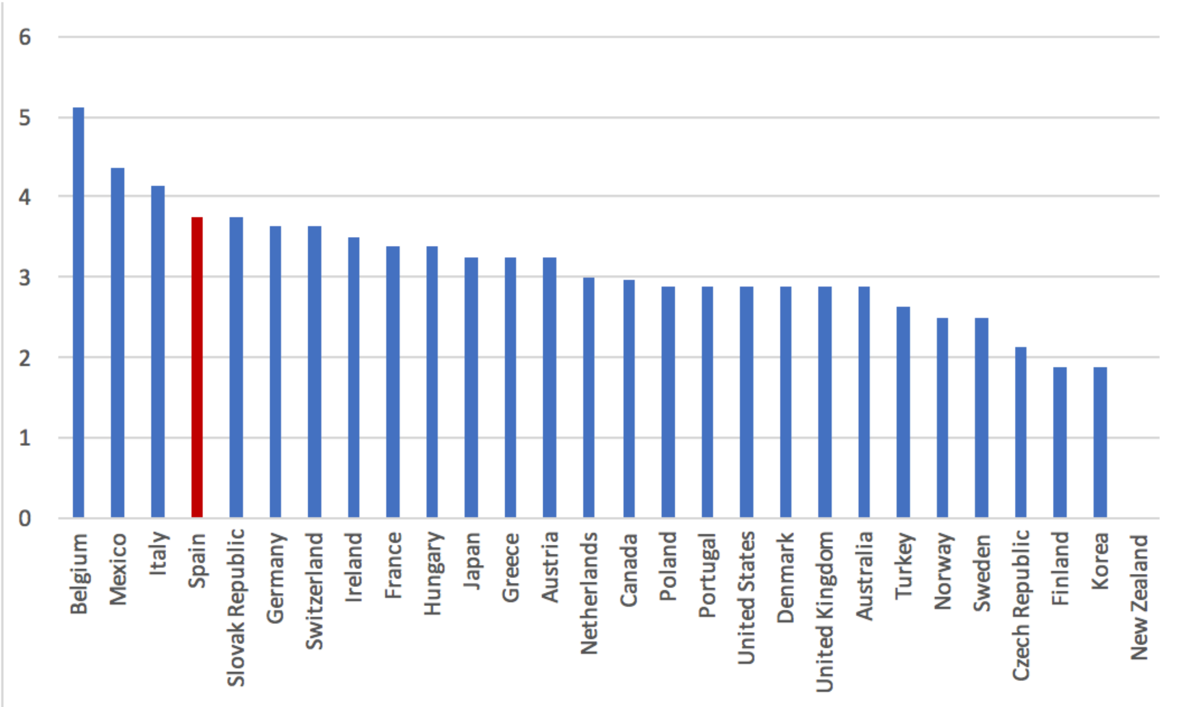
On the other hand, although it will be analyzed in detail below, the non-wage labor cost (contributions to social security), reached 33% of the salary in 2007. The wage cost in Spain is high, both at absolute levels as relative. Although it is a relevant indicator, it is not the most important one in our study, it is also difficult to modify due to the high public deficit and the growing aging of our population, which is transformed into a higher cost in pensions, which is Financed through contributions to Social Security. However, it will be demonstrated that a higher cost in Personal Income Tax and Social Security, limits the growth of employability.

Finally, the cost of dismissal, which will also be analyzed in another section, is one of the highest in our environment and was 56 weeks of salary. All this makes Spain lead the world ranking as one of the worst labor regulations, according to the World Bank.

Unfortunately, the report has stopped classifying the countries with this index and it is not possible to obtain the last classification for 2016, and thus to know how they have affected the last labor reforms of 2010 and 2012 in this index.

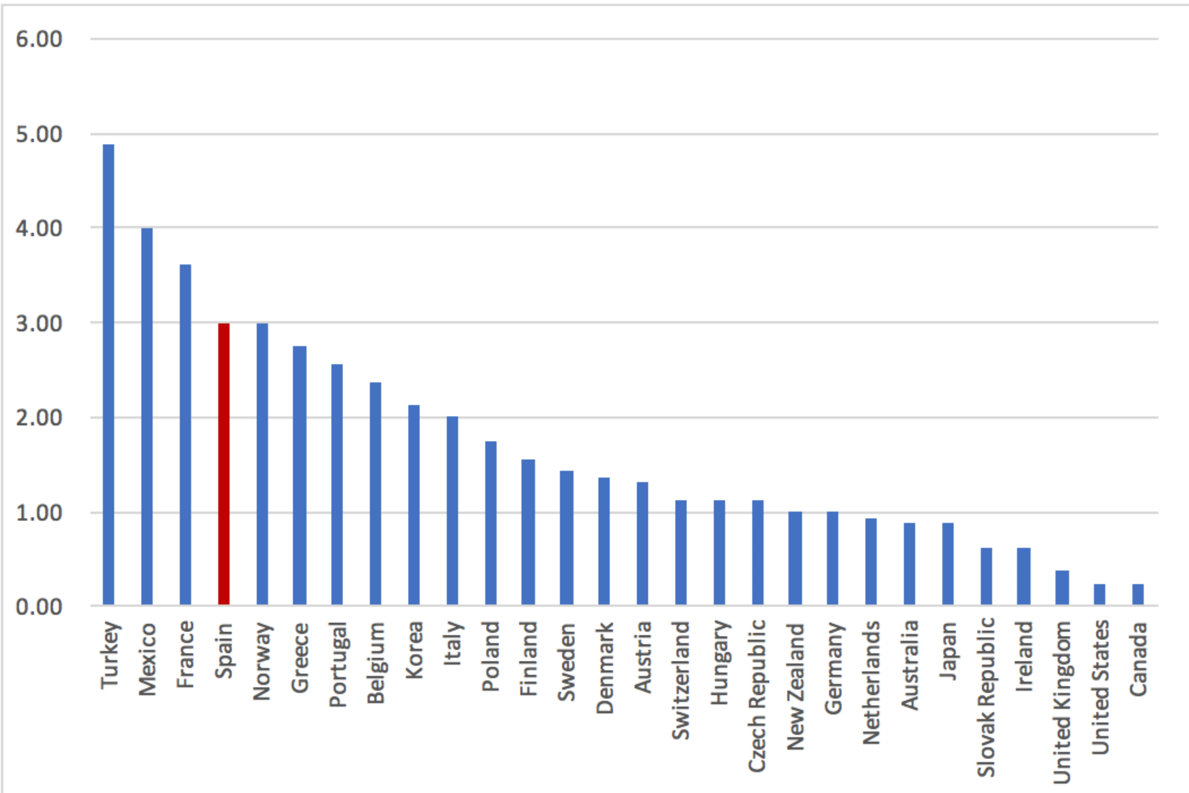
From other sources, more precisely from the OECD, employment protection is shown in the following 3 Graphs. This index is defined as *"the measure of the procedures and costs involved in dismissing individuals or groups of workers and the procedures involved in hiring workers on fixed-term or temporary work agency contracts."*, being 0 total flexibility and 6 total strictness. Must be mentioned that the OECD inform that the indexes of labor protection does not involve the whole labor market flexibility but just a portion of it.

Graph 1.7 Strictness of employment protection – collective dismissals



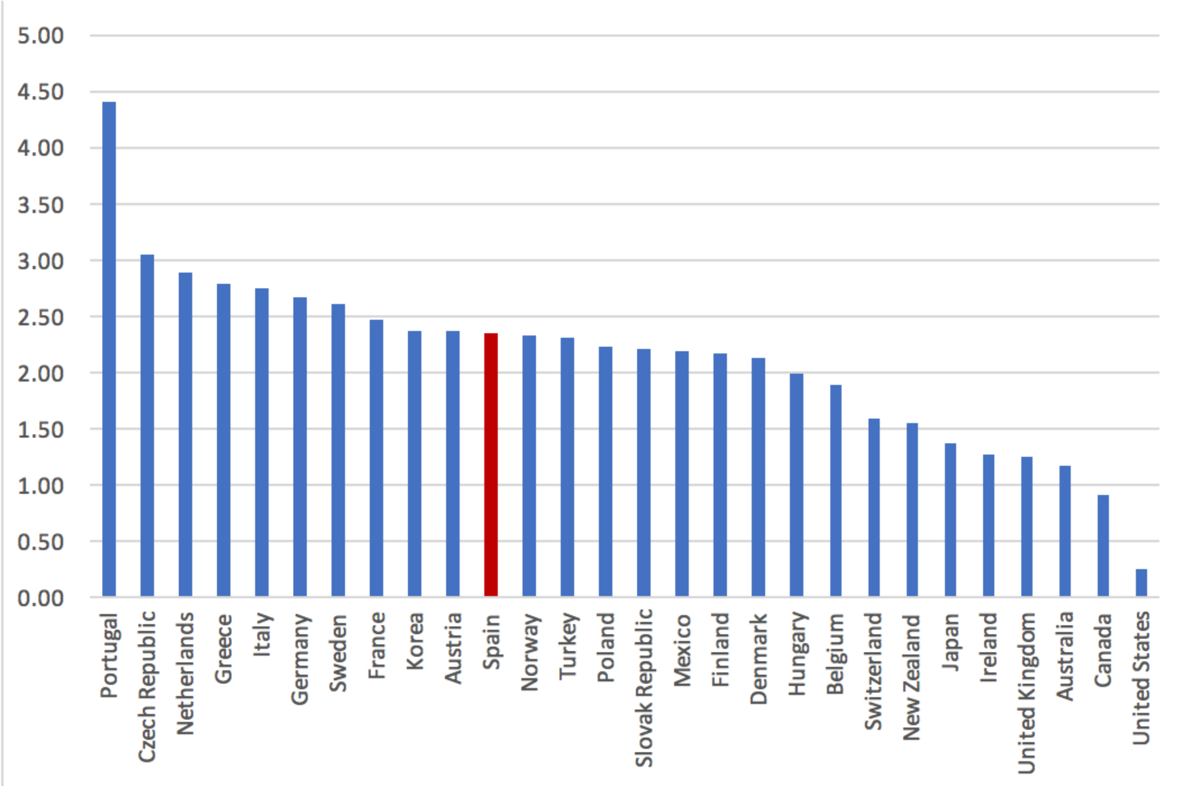
Source: OECD Data

Graph 1.8 Strictness of employment protection – temporary contracts



Source: OECD Data

Graph 1.9 Strictness of employment protection – individual dismissals (regular contracts)



Source: OECD Data

Regarding collective dismissals, Spain is the 4th highest strict country of them all, the same is said when talking about strictness on temporary contracts. On the other hand, for individual dismissals, Spain declines to positions closer to the average, although it remains above average. This is another prove that our country has a strict labor regulation and must be solve in order to improve out employment rates.

Spanish labor duality.

In Spain, there are a great variety of labor contracts for different purposes. The problem lies in its confusion and complexity due to the great variety, besides the labor protection that each one has and that has created in Spain a technical tangle for entrepreneurs and a dual protection for workers.

Currently in Spain as in the rest of Europe, two types of highly differentiated contractual modalities are used predominantly. One is the temporary one, which is characterized by a fixed duration and a minor protection, and another is the indefinite or fixed, which protects the worker much more and has no fixed duration. The essential problem does not come in having two models as the temporary and the indefinite but in the great difference the two of rights between. In the indefinite contract, the protection is much greater and it is very expensive to dismiss and relax conditions. On the other hand, in the temporary protection is smaller and less expensive, so that entrepreneurs first opt for this type of contracts when they hire new staff, and when the employer has the confidence that the worker is the ideal and conditions Allow the company to change to an indefinite contract.

Likewise, the average wage of a temporary worker was 36.6% lower than that of an indefinite worker in 2014, which means that temporary workers are much more likely to risk poverty and social exclusion than the indefinite ones. Therefore, the workers choose to choose this contractual modality.

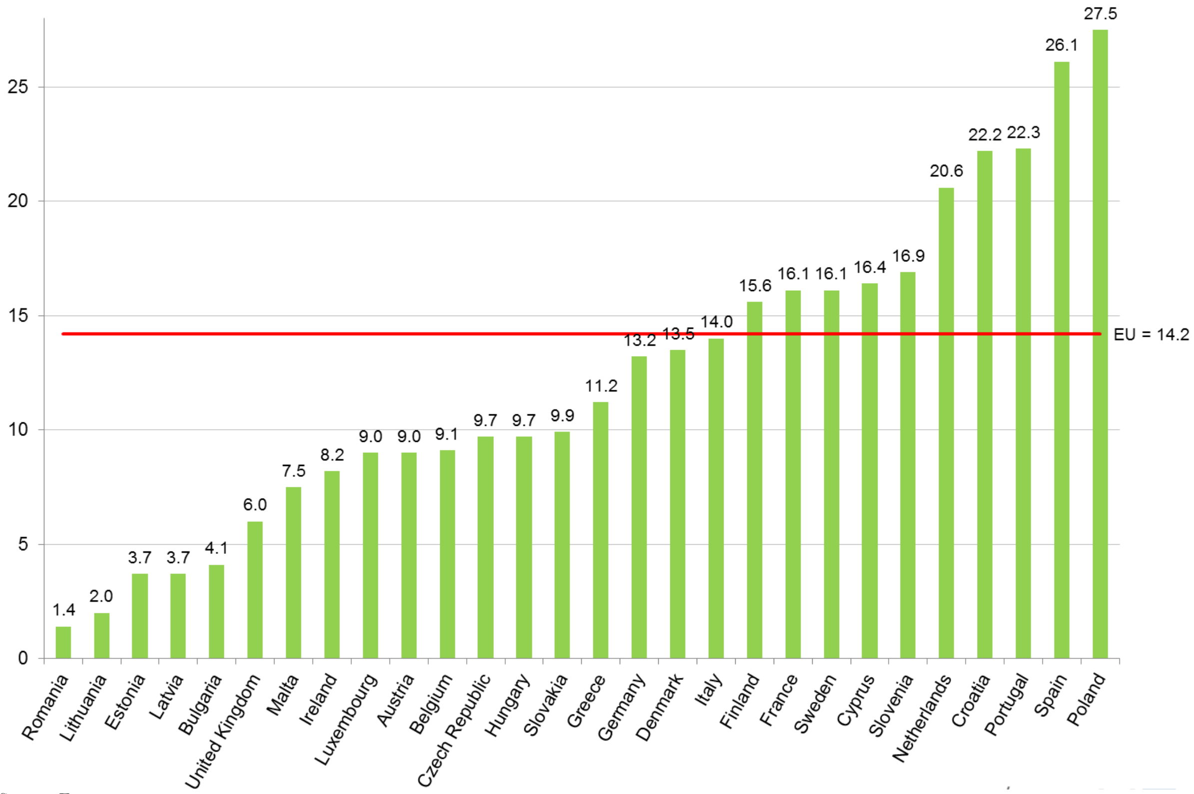
If it is added that, in times of crisis, the first to lose their jobs have been workers who had a temporary contract is created in Spain that, for a large group of people, risk of poverty increase considerably. Compared with the European average, Spain is among the countries with the highest proportion of temporary workers, which increases the inequality and insecurity of workers. Hence the name of work duality. Specifically, and as shown in Graph 1.10, Spain was the second EU-28 country with the highest proportion of temporary workers in 2016, with 26%, just ahead of Poland.

One characteristic that is repeated in many countries with a high level of unemployment, is to have high rates of temporality at the same time. Among the 14 countries with the highest proportion of temporary workers are almost all countries with higher unemployment rates than the European average. These are Greece, Italy, Finland, France, Croatia, Portugal and Spain. That is why it is important to reduce the unemployment rate, making labor regulation more flexible, not only for a greater proportion of the population to obtain work, but also for other workers to have a higher quality of work.

The labor reform of 2012 changed some aspects in the contractual modality and especially reduced the protection of the indefinite contracts. The idea was and still is to reduce the rights and privileges they have with undefined workers, who know how to handle much better in the labor market, because in this type of contracts, training and qualification is higher than in contracts and reducing the inequality between the less and the most protected and thus also reduce the risk of certain groups to risk poverty and exclusion. The idea, therefore, is to equalize rights between the two contractual models while at the same time making the two more flexible, thus reducing the likelihood of an increase in unemployment while reducing inequality and duality.

With this report, among other things, we want to show that a more flexible labor model is not therefore a deterioration of rights and an increase in job insecurity, but rather the opposite, rather an improvement of labor and social inequalities, And a reduction in the risk of poverty and social exclusion.

Graph: 1.10 Share of temporary employees aged 15-64 in the EU-28 Member States, 2016 (%)



Source: Eurostat.

Collective Bargain

For a country where the average unemployment rate since the beginning of democracy has been around 17-18%, and being one of the largest in comparison with other European countries, it is a clear sign of a poor economy. In 1980 a new labor law was created and the new statute of workers was born. Since then, there have been a number of changes, but as the experts say, none has been a major draw, or even the last major labor reform in 2012. Therefore, different international organizations like the IMF, OECD and the European Commission do not Stop recommending greater reform efforts, especially for our work framework.

As in other European countries, Spain uses a very important tool for negotiation between companies and workers. This tool is called a collective agreement and is used to form agreements and regulate the conditions and rights of workers. In return, also a series of obligations are agreed that the worker needs to comply. Here, for example, wage and working hours, and other specific conditions are agreed for each sector or company. The agreement in collective agreements is bound by the parties and has the status of law.

There are two types of collective agreements, the company, which is much more specific and take into consideration the characteristics and particular situation of the company to define the rules between workers and employers. On the other hand, in the agreements by sector, the conditions are established for a greater number of companies. Companies, especially those that are going through economic problems, will prefer the agreements of company, being able to negotiate much better the particular conditions for its workers.

Thanks to the labor reform of 2012, companies could give priority to business agreements, that is, they had much more room for maneuver and internal flexibility to adjust wages and hours, instead of following higher collective agreements, such as Regional, which, as its name indicates, are obligatory for an entire region, regardless of the conditions and particularities of each company, much more general and did not meet the specific needs of each company.

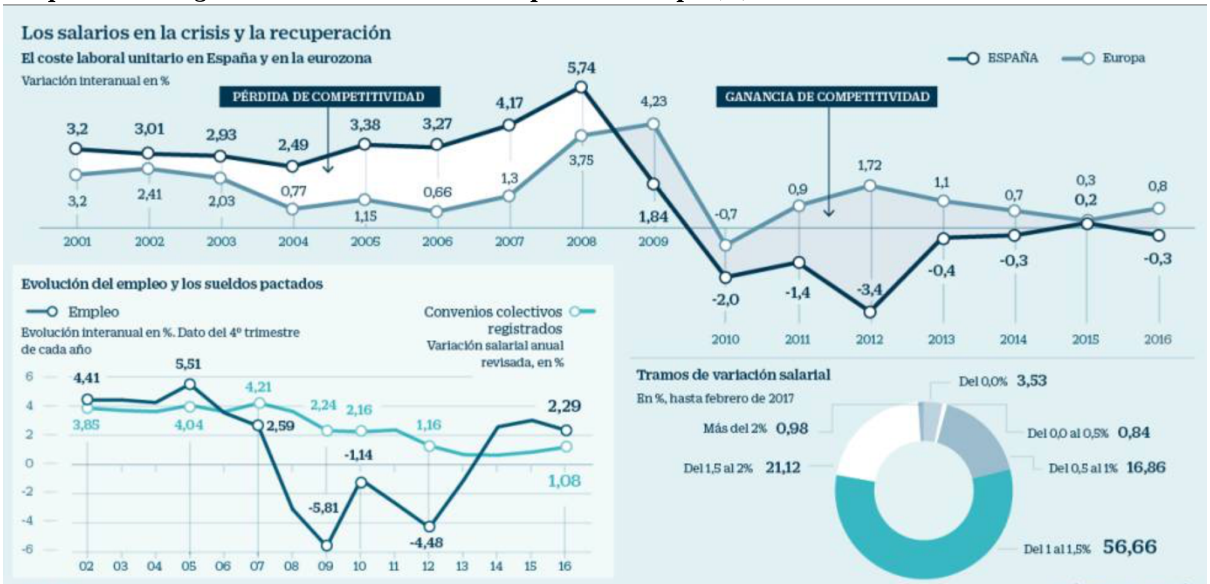
In addition, they limited to one year the ultra-activity of the agreements. This means that, when the collective agreement expires, normally after one year, the agreements cease to apply. Formerly, ultraactivity was very common due to the lack of agreement between union and employer representatives, so that companies and workers governed by collective agreements maintained rights and obligations, and there was a lack of adaptation to the economic environment. So before 2012, companies had very difficult to adjust via wages and days and were forced to lay off staff to improve their productivity.

On the other hand, they permitted the withdrawal of collective agreements and under certain conditions, a unilateral reduction of wages by the employer. And the coverage of regional collective bargaining has fallen from 91% of private wage employment in 2009 to 39% in 2014, individualizing much more the working conditions for each company.

All these changes increased the bargaining power of employers over workers, generating greater internal flexibility, which allows companies to adapt much better to a more adverse, competitive and changing environment via working conditions and not layoffs.

The peculiarity of the Spanish labor system, especially before the labor reform of 2012, 4 years after the start of the crisis, is the adjustment via layoffs, since it is very difficult for companies to adjust via working hours and wages. As shown in Graph 1.11, while Spain destroyed jobs for many, the remaining wage earners who were covered by collective bargaining agreements were able to raise salaries.

Graph: 1.11 Wages and labor cost variation Spain vs Europe (%)



Source: INE.

For example, in 2009, the second year of the crisis, while the country was destroying employment at rates of around 6%, collective agreements signed salary increases of more than 2%, clearly a total incoherence in economic and labor terms, and Which did not allow companies to adjust and reduce costs, and caused a lost potential of competitiveness needed in times of crisis. So, the companies had no choice but to fire or close, further worsening the country's economic situation. But, in addition, this system increases in the worst moments the inequality between people, since people who lost their jobs, who normally were already in a worse work and economic situation, stopped receiving income from work. On the other hand, the remaining workers, who on average had a higher purchasing power due to their better qualification, increased their purchasing power even more with salary increases. An absurdity.

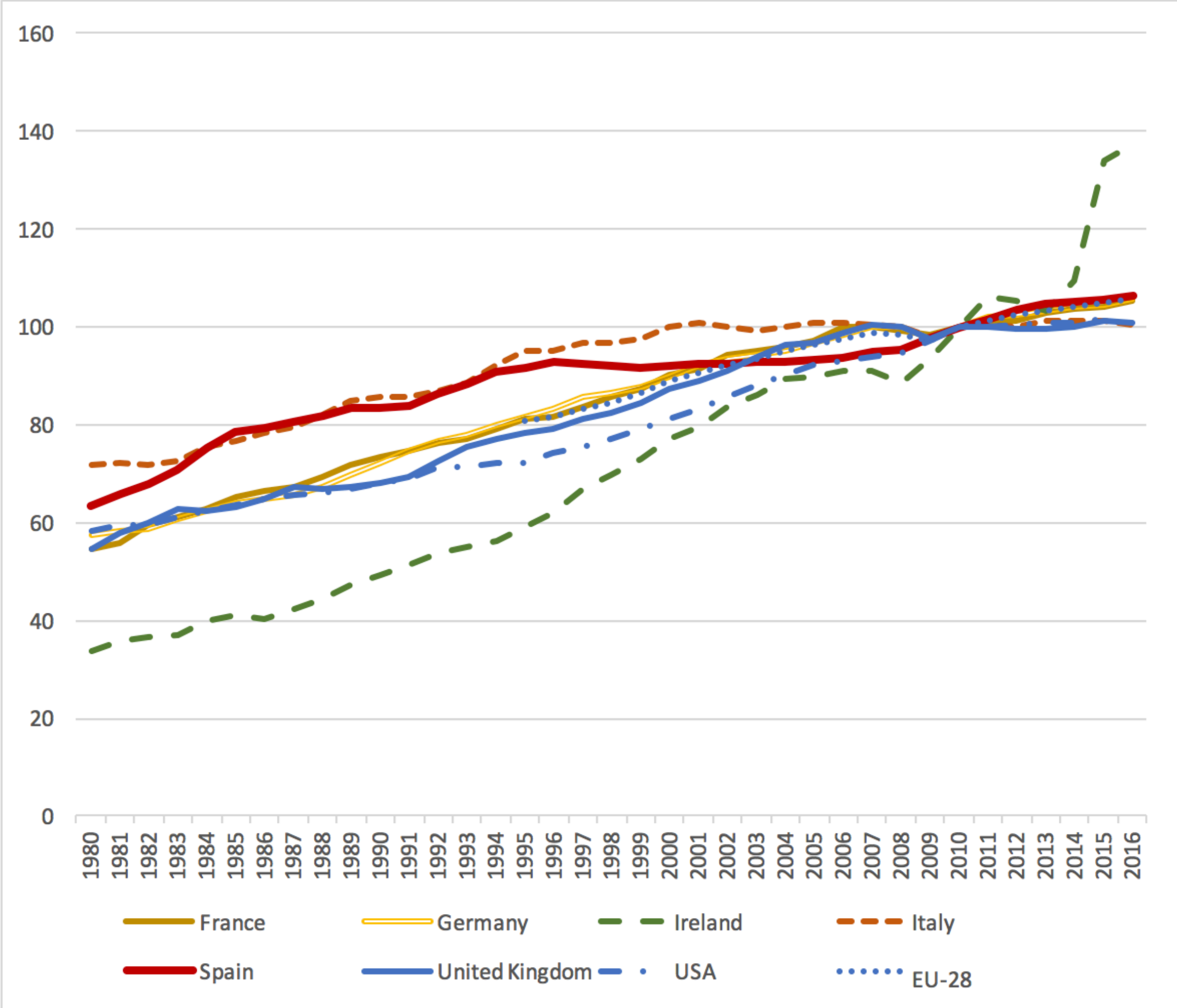
In the following years, the same formula continues, but the destruction of employment, as well as increases in salaries for 2010 and 2011. But thanks to the reform of the PP in 2012, which in a nutshell allowed the downturn of collective agreements with a scope greater than one to be individualized for the company for a better salary adjustment and working days, the salary increase was halved, stabilizing around 1% in 2012 and beyond. In contrast from 2013 onwards, the evolution of employment was a gradual but steady improvement. Destroying less and less employment, until reaching positive increases of employment in the year 2014.

Productivity, inflation and wages.

For the well-being of people, both wages and other working conditions are fundamental factors. But they also have a relevant role in the productivity of companies and have the function of mitigating the effects of eventual economic crises and reductions in economic activity. A flexible labor framework allows workers to be compensated for their productivity, to encourage their training, and to guide workers towards more productive occupations. Historically, Spain has not helped to achieve these objectives due to the regulation of its labor market.

One of the great problems of Spain is due to the greater protection of fixed workers, workers with a long antiquity are reluctant to change, preferring not to lose the privileges acquired during their years as a worker. This causes many of them prefer stagnation to training and personal development. When the more experienced workers choose not to be ambitious, there is a risk of losing a very large productive potential. Also, the smaller transition of these workers from less productive companies to companies with greater productivity, limits that the really productive companies grow at a faster pace.

Graph: 1.12 Productivity variation, Base 2010 = 100 (%)



Source: OECD Data
GDP per hour worked is a measure of labour productivity. It measures how efficiently labour input is combined with other factors of production and used in the production process. Labour input is defined as total hours worked of all persons engaged in production.

In Graph 1.12, you can see how before 2010, where it is set as reference date 100, Spain stands alongside Italy up scale. This shows that Spain has hardly increased its productivity since 1980 and we have lost positions with respect to other countries, which like Germany, France, the United States or Ireland have increased their labor productivity with much greater force than our country. This is due to the fact that the regulatory framework favors excessively inefficient sectors and loses business opportunities in more productive sectors, reassigning few resources in much more productive areas. Thus, wages do not show a significant relationship with productivity.

Since the economic crisis and due to the increase in redundancies, Spain has been able to increase its productivity compared to the rest. As can be seen in the graph, Spain is above the rest of countries, less than Ireland, since 2010.

On the other hand, Ireland was the country that has increased its productivity since 1980, from a base of less than 40% to almost 140% in 2016. All this thanks to an ambitious economic reform in the late 1980s and Is now one of the most liberal countries in economic terms in the world, and propelled the Irish economy with economic growth of over 7% from 1994 to 2007[1].

[1] Own calculation from OECD data

The wage increases must be linked to increases in productivity, either through greater efficiency in costs or income. At a time when wages are not tied to productivity, the risk of generating inefficiencies increases. When firms raise wages above productivity improvements, they need to generate spending cuts that often result in a reduction in employment.

The Spanish wage system has been based mainly on increasing wages according to the inflation given to, according to the unions, the workers did not lose purchasing power. The problem comes when inflation is not equal to the productivity of the company, causing a loss of competitiveness and causing labor imbalances. In addition, adjusting wages via inflation causes a greater inflationary effect, so that from international organizations it is advised to link wages with productivity and not with changes in prices.

Taxes on labor

Another very important aspect that affects the evolution of employment is the taxes collected by the State for work. These are basically two, the personal tax or income tax in Spain, and the contributions that both companies and workers' pay to Social Security.

An OECD study has analyzed all of these taxes for a given salary. Since in each country the sections for taxes and wages are different, the average salary of each country was taken. In Spain, the IRPF and social security contributions by the worker are clearly below average, but the contributions made by companies are well above average. But the important thing is the entire tax, which in the end is what both the worker and the employer receive and pay.

Graph 1.13 shows how Spain taxes 3.5 percentage points more than the OECD average for work, and contributions to the Employer's SS are especially high. Belgium, Germany, Hungary, France and Italy are the OECD countries with the highest labor costs, paying more than 45% of the total salary. In the Belgian case, the tax burden reaches 54% of the average labor cost. Chile, New Zealand, Mexico, Switzerland and Israel maintain the lowest tax burden on payrolls.

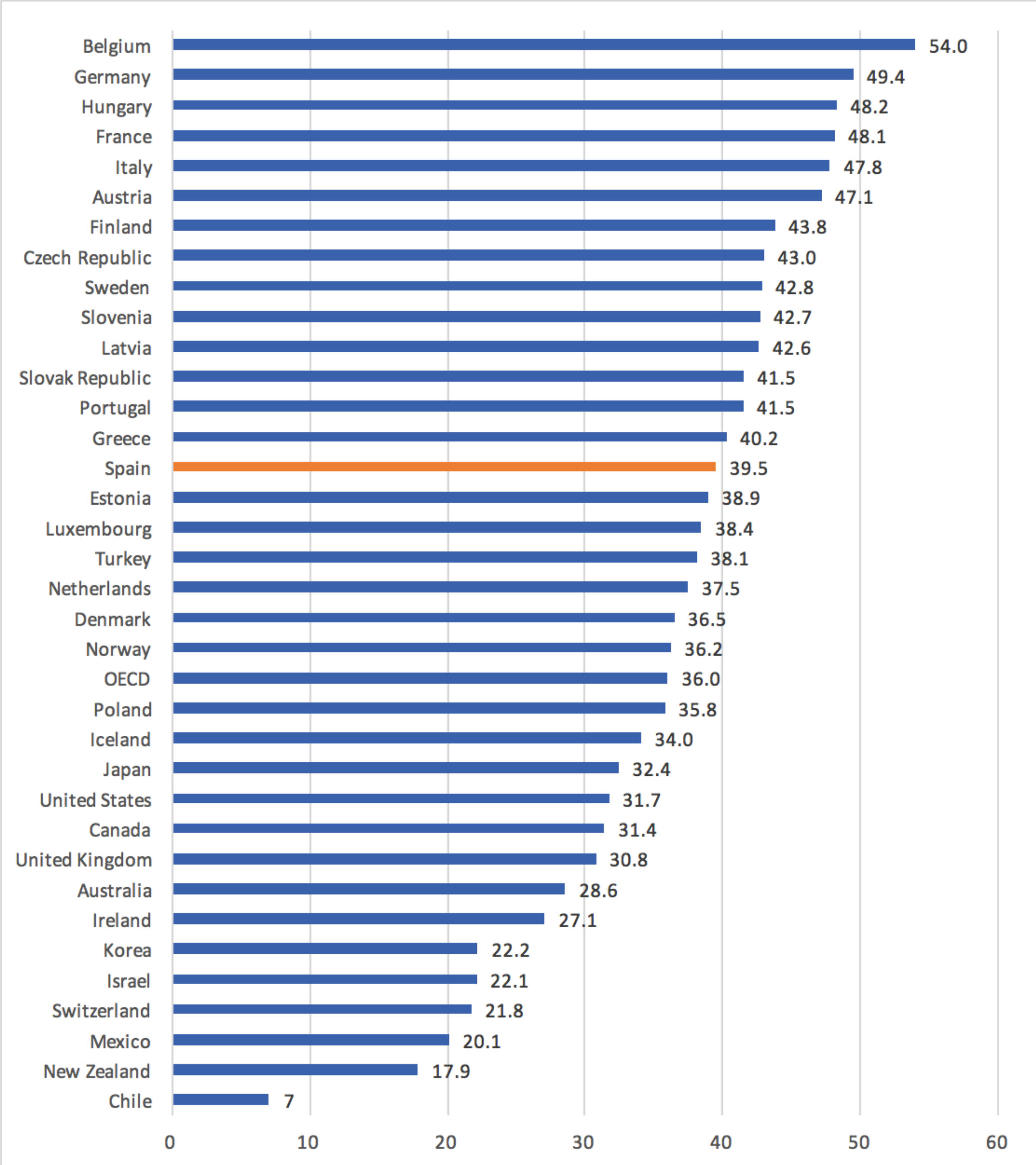
The average labor cost in Spain is 40% of the total contributed by the company. The OECD established an average salary of € 26,710 gross per year, which translates to € 2,226 per month. Taking into account that in Spain, the total workload is 39.5%, the worker at the end acquires only 1,346 euros and the state takes 880 euros in taxes per month.

The question is, because Spain has a higher tax burden to work than the average of the OECD, causes us to have a higher level of unemployment? Or, does Spain have a higher tax burden on labor because it has historically had a high level of unemployment and therefore a potential reduction of income?

Although a high tax burden on labor can discourage hiring, countries like Germany and Belgium have a higher tax burden on employment than Spain and unemployment is currently low. So we can conclude that the high tax burden, even being able to discourage hiring and work, in Spain are not the cause of a historically high unemployment.

However, as we can see from the unemployment ratio, there is a positive correlation between labor taxes and higher levels of unemployment in the world. Of the 35 countries that make up the OECD, 14 are below average and 21 above and therefore have a higher tax burden on labor. Of these 14, no country exceeds 7% unemployment and with a mean unemployment of 4.8% and average labor taxes of 25.9%. By contrast, the 21 countries with above-average OECD tax rates at the beginning of 2017 had an average unemployment rate of 8.4 per cent and an average labor tax burden of 42.8 per cent, almost twice as much as before. For example, countries with unemployment equal or above 10% such as Greece, France, Turkey, Portugal, Spain and Italy and another 3 countries with unemployment above 8%, Lithuania, Czech Republic and Finland.

Graph: 1.13 Tax on wages 2016



Source: OECD *Taxing Wages* 2017.
Average tax wedge for a single person at 100% of the average wage (AW) in the private sector, no children.

But there are also countries with a high tax burden, much higher than the OECD average and extremely low unemployment. Belgium with 54% unemployment has a 7% unemployment, Germany with 49.4% has unemployment of 3.9%, Hungary with 48.2% has unemployment of 4.3%, Austria with 47.1% has a unemployment of 5.7% and The Czech Republic with a 43% tax burden, 3.4%. What taxes mean are not the most important factor when assessing the unemployment problem, but it does affect significantly, as we have proven.

Even so, Spain would have a potential for improvement, reducing these taxes and thus encourage recruitment and employment. Given that the greater tax burden is on companies, the right thing would be to reduce it to these. The problem comes when analyzing the S.S. Spanish. Pension spending is increasing and is expected to grow much more due to the increase in pensioners and the higher cost per pensioner, so there is scarcely room to reduce this tax, since S.S. Would incur a larger deficit.

This leaves Spain with few options. If we want to stimulate employment by reducing taxes on labor, S.S. Spanish would need to reduce costs, lowering the cost per pensioner, a measure difficult to take. It could also increase the requirements for a pension, especially raising the retirement age, reducing both costs and increasing income. Pension spending is increasingly unavoidable, due to the aging of the Spanish population.

However, encouraging employment by reducing the tax burden on it is a very difficult task and the possible positive effects would not be of sufficient magnitude to alleviate the problem of Spain's unemployment. The most viable option would be, therefore, to make the labor market more flexible, making labor recruitment more attractive to companies.

If in Spain there was a significant improvement in employment, thanks to new labor reforms that would improve labor flexibility and definitively eliminate historically high unemployment and reduce the structural unemployment typical of our market, S.S. Would raise much more and give more room for a possible lowering of taxes on labor in the future while increasing pension expenditure, thus improving the quality of life of the most disadvantaged.

Pension spending is not only made up of the retirement pension, but also the orphans, widows, disability and disability pension, which are the most vulnerable in our society to risk poverty and social exclusion. If Social Security could not improve its income, mainly from work, it would limit or reduce a possible improvement in the quality of life of this sector of the population. That is why it is vital to improve the regulatory framework in relation to work.

Spanish labor reform and recommendations

In 2015, the OECD made a report with recommendations on economic reform policies. And Spain recommended a series of reforms needed to boost its economy and improve employment.

- Improve access to higher education and ensure that partner education programs are tailored to the needs of the labor market.
- Strengthen active employment policies.
- Make wages more responsive to economic conditions and those of companies.
- Reduce the employment protection gap between indefinite and temporary contracts.
- Reduce entry barriers in the non-manufacturing sectors.

A total of 3 recommendations on 5, are improvements for our work system. This is not to say that the other recommendations are equally important, but it highlights the fact that Spain has a legislative problem in very clear labor aspects.

International organizations such as the OECD gave their approval to the labor reform in Spain, and that according to the body itself, has facilitated the reduction of labor costs via wages and hours worked, boosting by two the reduction thanks to this reform, improving The competitiveness of companies and thus avoiding further destruction of employment.

Another very positive effect of this reform has been the boost of indefinite contracting, which, according to the OECD, "has increased by around 30% on average", but not so much temporary contracting.

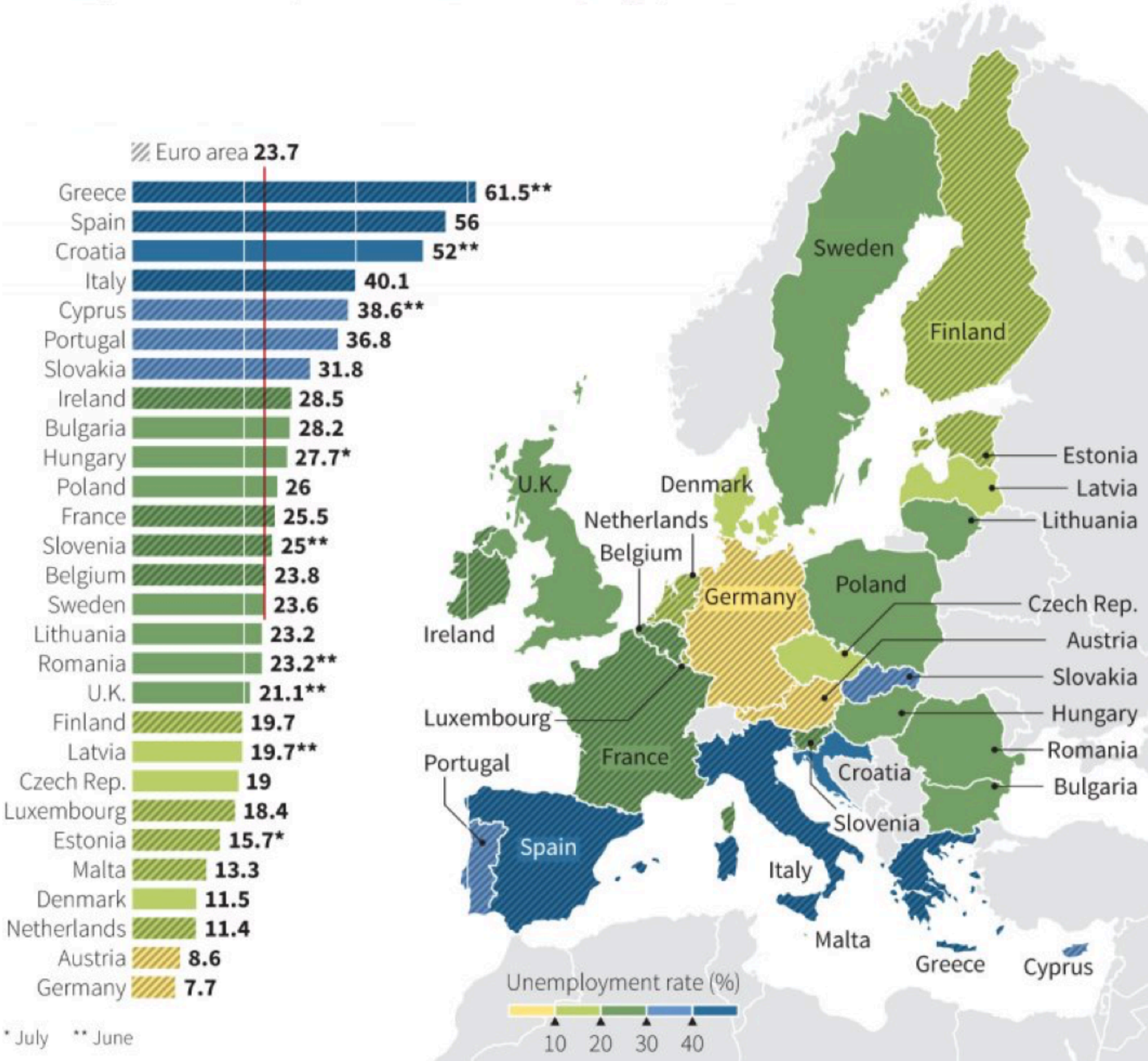
Thanks to the labor reform, the costs of dismissal were reduced considerably, especially in the indefinite ones. Of course, less protection, and therefore lower costs for companies, leads to greater use of this type of contract. We remember that, workers who are hired indefinitely, usually have a higher average salary, so all that is to enhance and activate this recruitment model is to improve the situation of society.

The labor reform broadened the reasons for dismissals because it facilitated, among others, dismissal for economic reasons, and established a cost of 20 days per year worked with a maximum of 12 monthly payments. For example, in 2010, after 3 years of crisis only 8% of the layoffs were considered for economic reasons. How is it possible that in a country in recession, where millions of jobs were destroyed, only 8% was due to economic reasons? A situation that made no sense at all, which led companies to have to fire their employees at the highest possible cost, since it was considered an unfair dismissal, even if the company was losing economic activity.

Companies now had a greater facility to lay off at a lower cost. For unfounded dismissals 45 days to 33 and a maximum of 24 monthly payments instead of 42. In addition, it abolished the administrative authorization for collective redundancies.

Spain was the only country in Europe that forced companies to apply for this authorization and which caused the cost of collective redundancies to rise to almost unheeded levels. But another problem came with the elimination of this authorization, since it prevented the dismissal from being brought to trial. Now, even if the layoffs are agreed, it can always be challenged judicially, which causes that the courts are overloaded.

Graph: 1.14 Youth unemployment rate seasonally-adjusted, August 2013 (%)



Source: Eurostat statistics.
The youth unemployment rate is the number of unemployed 15-24 year-old expressed as a percentage of the youth labour force.

The labor reform also eliminated the so-called "express dismissal", which the employer himself could claim dismissal as inadmissible and pay the maximum possible compensation, even if considered as disciplinary, but lacking evidence, but which greatly facilitated dismissal, since Eliminated the possibility of going to court.

However, as will be seen below, Spain remains one of the countries with the highest layoff cost. This means that our companies will continue to be at a disadvantage compared to our European counterparts, and will probably continue to have problems in future economic crises. Spain, therefore, still has room to continue improving in this respect, and international organizations like the OECD recommend to Spain to create new reforms to approach the average of the other countries in relation to costs for dismissal.

On the other hand, the OECD recommends definitively attacking another of the labor shortages that Spain has, youth unemployment (under 25 years), which reached 55% in 2013, according to data from the same organization. In 2016, youth unemployment in Spain was 44.5%, the highest 3 of the 36 countries analyzed by the OECD, while youth unemployment in the 19 countries of the Eurozone, had in the same year 20.9% Of youth unemployment, and the OECD average 13%. This clearly justifies this recommendation.

Eurostat's graph 1.14 justifies this recommendation, since in 2013 the worst for the labor market in Spain, youth employment reached 56% of the total. A catastrophic result.

The legal uncertainty, is also, other aspects to improve. The interpretation of the new laws brought about by the labor reform of 2012 has caused problems between the executive and the judiciary and has led the government to improve the clarity of some sections of the norm to limit its interpretation. As, for example, with collective redundancies, which a large number of judges declared the nullity of collective dismissal and therefore readmit the workers.

In addition, to improve the test periods for large companies, in order to approach the OECD average, and to improve active employment policies. In any case, international organizations like the OECD positively value the labor reform and believe that it has led to saving the destruction of many jobs since its implementation in 2012.

After having analyzed, the main changes of the labor improvement, it is surprising that these changes have not occurred much earlier in the history of Spain. And although labor reform has significantly improved our labor market, it still has aspects to improve. As, for example, the costs of dismissal, which, as we will explain later, are among the costliest for companies compared to our European partners. It is also surprising that, before 2012, there was no easy dismissal for economic reasons, which the labor reform brought with it, which increased the difficulty and cost of dismissal, when this should be the most justified cause of dismissal for the proper functioning of a company. It is not surprising that during the crisis, Spanish companies could not adapt and many of them lost competitiveness or even close because they could not cope with the high costs.

Nor is it difficult to think that most of the layoffs were carried out with temporary workers (56% of total layoffs), due to the lower protection and cost involved and, as we commented in this study, causes in our country the so-called labor duality.

When we know that Spain has a much higher ratio of micro-enterprises than the rest of the EU countries, I only have two possible answers, or Spanish entrepreneurs are very unambitious when it comes to growing with the rest of Europeans, or There is something in our country that makes them more difficult to grow than the rest of companies abroad. I would decant for the second course.

Recall that micro-enterprises are the most vulnerable during adverse economic cycles, but at the same time, those that really influence the creation and destruction of employment in our country. We have a labor regime so unfavorable for them that it is not difficult to miss a situation as pessimistic as the one we have in our country, with unnecessary administrative obstacles, high costs, and unfavorable legislation that does not facilitate a rapid adaptation of companies at times of crisis.

Redundancy Cost

Another important aspect that affects our labor market is severance pay. These occur when the company terminates the contractual employment relationship with the worker and as compensation the company is required to pay such compensation. This cost for the company depends very much on the type of contract, since the indefinite workers have greater protection in this section than for example the temporary workers. In addition, according to the type of dismissal in which there has been rescission of contract, the amount to be contributed to the worker can vary greatly.

For temporary contracts, since 2015 compensation is in the 12 days per year worked. For undefined workers, compensation amounts to 20 days per year worked and 12 months maximum, however, if it is established that the dismissal is inadmissible, it will amount to 33 days per year worked and a ceiling of 24 monthly payments.

Some experts recommend the reduction of workers' severance pay in both contractual models (temporary and indefinite), thus solving two problems. First, the high dismissal costs hinder and limit adjustment via wage costs in times of crisis. When a company has economic problems, such as when it reduces its business activity in times of crisis, and does not require so many workers, if it also needs to allocate more money to shed unnecessary workers, it is not very difficult to conclude That the company will be in a very vulnerable situation and that it may even entail its closure because it cannot cope with such high costs.

Therefore, a higher cost for dismissal means an increased risk of bankruptcy for the company. An increased risk causes Spanish companies to anticipate this cost and to provide more money for the future. This money, therefore, is not producing any value for the company, limiting further growth of the company, and therefore losing recruitment opportunities.

But not only high dismissal costs could limit further hiring in the future. Current wages would also be reduced by the mere fact that dismissal costs are calculated with the wages received by the employee. The less the wage, the lower the severance cost. If firms want to reduce the risk mentioned above, they would only need to reduce the wage costs with which compensation is calculated.

A solution very employed by employers when it comes to hiring new employees is to use the temporary contract modality. The cost of layoff is significantly lower compared to undefined employees. Therefore, if we want to reduce the contractual duality between these contracts, an easy solution would be to further reduce costs by dismissing the indefinite.

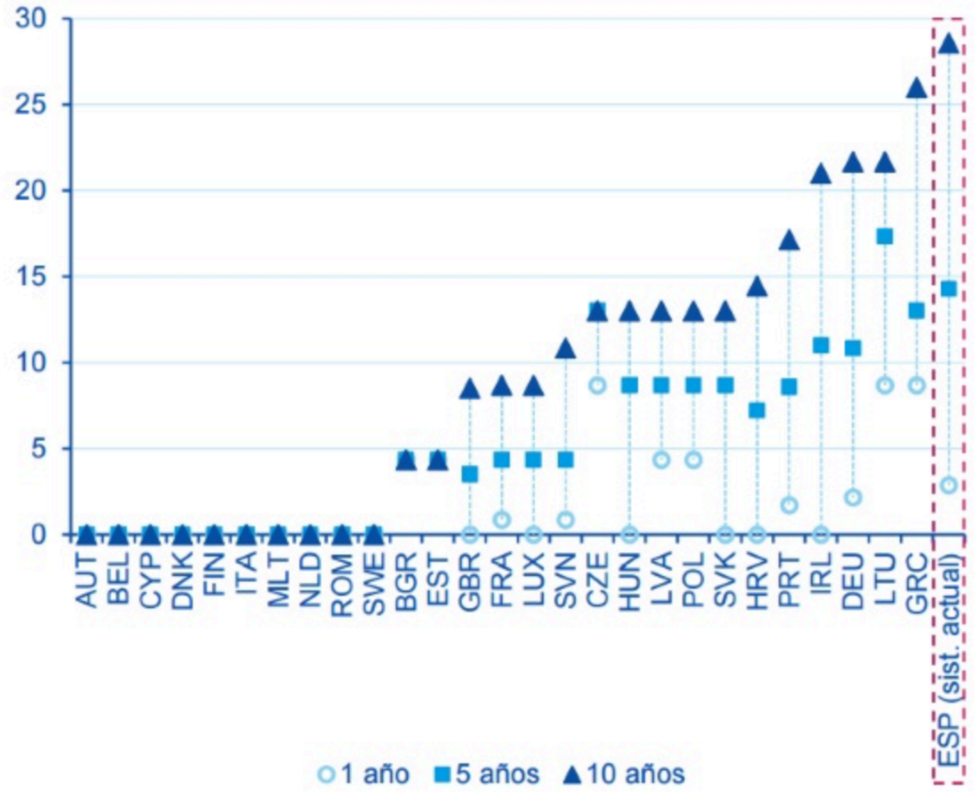
It is not difficult to understand, then, that layoff costs limit corporate productivity and recruitment potential, but also reduce a potential increase in employee salaries.

Graph 1.14 shows different EU countries and their respective costs of compensation for dismissal, which is cheaper than the unfair or void. It is not surprising to see that the countries with the highest unemployment rate are Spain in the first place and then Greece, the two countries well characterized by having an exorbitant unemployment. In contrast, we can see that 10 countries do not even contemplate any cost in case of dismissal, and all but Italy, are characterized by having quite low unemployment. The average unemployment of the latest data obtained for the beginning of 2017 of these 10 countries is 6.4%. In contrast, Spain and Greece had 17.8% and 23.2% respectively unemployment, 2.7 times more unemployment in Spain and 3.6 times more in Greece.

In Spain a worker with one year of experience, has a relatively low layoff cost and around the average, with about 3 weeks of salary. This is explained by the problem of the contractual duality of our country, since workers with 1 year of experience in the company are characterized by having a temporary contract, and dismissal costs much lower than the fixed contract. The problem comes when experience increases and indefinite contracts become more representative. With 5 years of experience, Spain is the second country with the highest records and the company should pay about 14 weeks of compensation, this is more than 3 months for every 5 years worked. Do not forget that it is always spoken in the case of a dismissal, where the company has full justification to dismiss the employee for objective, economic or organizational reasons.

The situation gets much worse for the company the more seniority the worker acquires in the company. In the case that the worker has spent 10 years working the compensation is catapulted to almost 30 weeks of salary, this means that for workers with more than 10 years dismissed properly will be entitled to compensation for something more than half a year of your salary. Spain is the country with the highest dismissal cost among those studied by BBVA. This is a big cost for any company, and more if we talk about collective redundancies, when it is assumed that the company is in a very vulnerable situation and has to take care of this great cost.

Graph: 1.15 UE Justified Redundancy Payment, 2015 (Weeks of Salary)



Source: BBVA Research from World Bank *"Doing Business"* Report
Redundancy payment with justified reasons depending on years worked with the company

Therefore, Spaniards are included in 3 categories. The first is unemployed with unemployment benefits or not, but definitely without much income. Then we would meet temporary workers, with low and medium salaries, but with low protection. And then with the extremely protected, the indefinite, with salaries and with very high indemnities. It is not surprising, as will be explained below, that Spain is among the European nations with greater inequality and risk of poverty.

But if this data does not convince to recognize that a high cost by dismissal is positively correlated with a high level by unemployment, perhaps to know that the unemployment in 2015 in the Europe of the 28 and 19 respectively for the same dates was of the 7.8% and of 9.3% while in Spain it was 22%

Spain, therefore, needs to eliminate or even reduce as much as possible the costs of dismissal if it wants to improve its unemployment situation in the future, so that it stops penalizing the hiring and wages of the workers. In addition, it would reduce contractual duality in Spain.

In addition, behind the idea of a lower or even null cost for dismissal, also lies in a shorter duration as unemployed. Entrepreneurs in Spain are reluctant to hire permanent employees as they pose a greater risk to them, as explained above. And, therefore, the main advantage would not only be a greater hiring and growth of our companies, but a lower risk for citizens to remain a large period as unemployed. This would empower workers to negotiate their working conditions, as they would be less afraid of not being able to find a job to replace. And the entrepreneurs would be less afraid to grant better working conditions, to be able to dismiss more easily and at a lower cost.

Variety of labor contracts

Another recommendation would be to reduce the number of contracts and create increased compensation. There are experts who prefer to reduce the number of contracts to one, the so-called "single contract." Other experts, such as BBVA, prefer to reduce their number to three. One temporary, another indefinite and another of learning as a bridge to the indefinite. Most of them agree that the compensation would have to be reduced and that the application of increasing compensation as the seniority increases. This would help the transition between temporary and indefinite and would help reduce contractual duality by reducing the risk of high costs for new hires.

In Spain, there are currently 4 contract modules, the famous temporary and indefinite are two of them, but we also find the practice and training and learning. They do not seem many until you enter each of them and you realize that there are up to 42 subtypes. It is here where lies the problem of the large number of contracts and that brings head to the entrepreneur and responsible of HR.

However, the large number of contracts is not Spain's biggest problem in labor matters, but it should be tried to simplify as much as possible and facilitate hiring in all aspects, also in this. Even so, the idea of increasing compensation could significantly improve the problem of Spanish duality by reducing the cost of dismissal in the first months of the employment relationship.

Shadow Economy

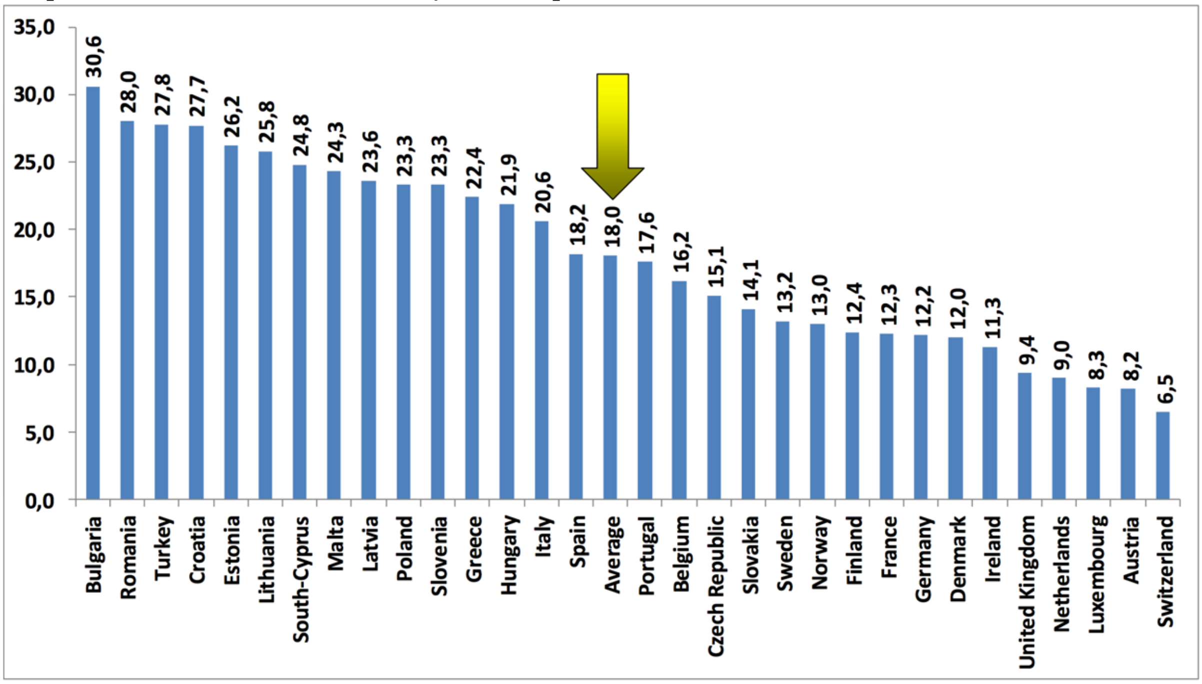
Another indicator that the Spanish labor system does not work as it should, is the large amount of submerged economy that exists in our country. Although the submerged economy is not entirely affected by the labor system, it is one of the factors that could affect the most. We could define Shadow Economy as that all economic activity that is not registered by the State and for which it stops receiving potential income in taxes. This activity may be illegal at first, such as drug trafficking or could have a legal origin but does not conform to state requirements or the state is not aware of the transaction.

To analyze the shadow economy in our country and compare it with the rest of the countries, the study by Friedrich Schneider and endorsed by Eurostat will be used.

Spain in this case is not very badly stopped, but unfortunately still above the average of the 31 countries in Europe analyzed in the study. By 2015, Spain had 18.2% of shadow economy compared to 18% of the average. What is clear after seeing Graph 1.16 is that countries with the highest level of shadow economy have either a lower level of wealth or a high level of unemployment. There is no country of those exposed here that have a high level of wealth and at the same time a low level of unemployment, and that they have a shadow economy level above the average.

Therefore, there is a direct relationship between a high level of shadow economy and a lower level of wealth, such as Bulgaria, Romania, Estonia, Lithuania, Cyprus, Latvia, Poland, Slovenia and Hungary. Excessive unemployment, are far below in terms of wealth and purchasing power.

Graph: 1.16 Size of Shadow Economy for European Countries (% of GDP)



Source: Friedrich Schneider Study

On the other hand, the countries with the highest level of unemployment are among those with the highest level of shadow economy. Countries like Turkey, Croatia, Greece, Italy and Spain have in common a very high level of unemployment (above 10%) and to be above average in this ranking. Portugal, which has an unemployment rate of 9.8% is just 4 tenths below the average in the submerged economy. Among the "luckiest", with a shadow economy level below 10% are Switzerland, Austria, Luxembourg, the Netherlands and the United Kingdom. All of them are well known for having a very low level of unemployment (none surpasses 6%) and a high purchasing power.

Fortunately, there is a downward trend since the start of the study in 2003. In that year the average of the 28 countries initially studied reached 22.6% compared to 18% in 2015. Spain has followed the same trend, when in 2013 there was a 22.2% illicit economy compared to 18.2% in 2015.

The study also showed that in times of economic crisis this level is increasing. Generally, the 28 countries of Europe increased the level of illicit economy from 19.6% to 20.1% for the years 2008 and 2009. And they could not recover that level until 2012 when it dropped to 19.3%.

If Spain wants to reduce the illicit economy with greater speed, it would only need to improve the efficiency of our labor market. A more flexible labor law would improve the two aspects that directly affect the shadow economy, which is the level of unemployment and wealth. This improvement would be reflected in a higher tax collection, and a better quality of life for citizens.

Labor fraud and irregular employment

As explained in the previous section, one of the problems we have in our country is the large amount of submerged economy that exists. These include irregular jobs, which have not stopped growing since the economic crisis. It is a completely logical process for both parties, employers need to reduce costs desperately, and opt for the path of illegality and "voluntary deregulation." On the other hand, the unemployed desperately need to find a way to deposit money into their current accounts, knowing the worst conditions offered, since irregular employment is not insured in case of an accident, they do not contribute to social security and lose the opportunity to receive future unemployment benefits or contribute to a better retirement.

What is clear is that none of the parties are interested in being in this situation. The company risks that an inspector open the file and have to pay a fine, in addition to the lack of motivation that creates in the employee to be in worse conditions than it should and therefore a lower productivity.

But all this problem has its origin due to a bad labor regulation, that moves the labor and wage adjustment to the irregular market. Many companies that are in danger of disappearing, decide, as a lifesaving measure, to contract out of employment, this allows you to hire a considerable lower cost, as they save a lot of money in taxes, in addition to being able to pay a Lower salary to, for example, Minimum Wage Interprofessional, which was established for the year 2017 of 707.60 euros with 14 paid, which is almost 10,000 euros per year.

Everyone knows or has known cases of relatives or friends who have had to resort to "black" work in order to have a relatively decent life, and not necessarily should be considered guilty for not contributing to the welfare state. To the same extent, employers resort to this extreme measure in order to survive, and to blame them would be an error and lack of empathy. Although, it is true that there will always be workers, and especially entrepreneurs who, without need and for simple greed and ability, use the excuse of the crisis to be able to get rid of paying more taxes.

It is surprising that, in the case of Spain, having GPD growths higher than the average in European countries, it has had an average unemployment rate of 18% since 1980. Clearly, something in Spain is failing. It is also equally surprising that, with an alleged large number of unemployed, there has been no social chaos in Spain. All this indicates that there really is a bad labor regulation that is very harmful to society, as well as a large irregular labor market.

Proof of this are the irregular jobs surfaced since 2012 by the PP government in its fight against labor fraud. Some 430,000 jobs have surfaced to be exact until 2016, according to the Minister of Employment and Social Security, Fatima Báñez. For us to realize what the magnitude of the problem is to compare in number of new affiliates with the number of irregularly shaped workers in a year.

In 2014 and 2015 the number of irregular jobs was 82,300 and 86,100 people respectively, and therefore became part of the lists of Social Security. For these two years, the number of persons affiliated to Social Security was 417,500 and 533,200 for the years 2014 and 2015 respectively. This means that 20% and 16% respectively of new affiliations could come from illegal employment. It should be borne in mind that the calculation of new social security affiliates is based on the average affiliation in the whole year and on non-outreach employment. Since, in the case of irregular employment, the contractual relationship could have lasted only a few more months, so the percentage of irregular employment over the total number of new members is not really so high. However, it is still a very high rate if we consider that are forced rates of new affiliations and non-voluntary, which would also have occurred thanks to the economic recovery and is very close to the average level of economy that we have in our country, which stood at 18.2% in 2015 as explained above.

On the other hand, and due to the duality of work, 265,700 undue temporary contracts have also emerged, which should have been transformed into indefinite ones. This is not only due to the inability of employers to know when they have to change the type of contract to the worker, but of inconvenience that the company has to hire an indefinite worker, which as we know, has a greater Protection and cost of dismissal than the temporary.

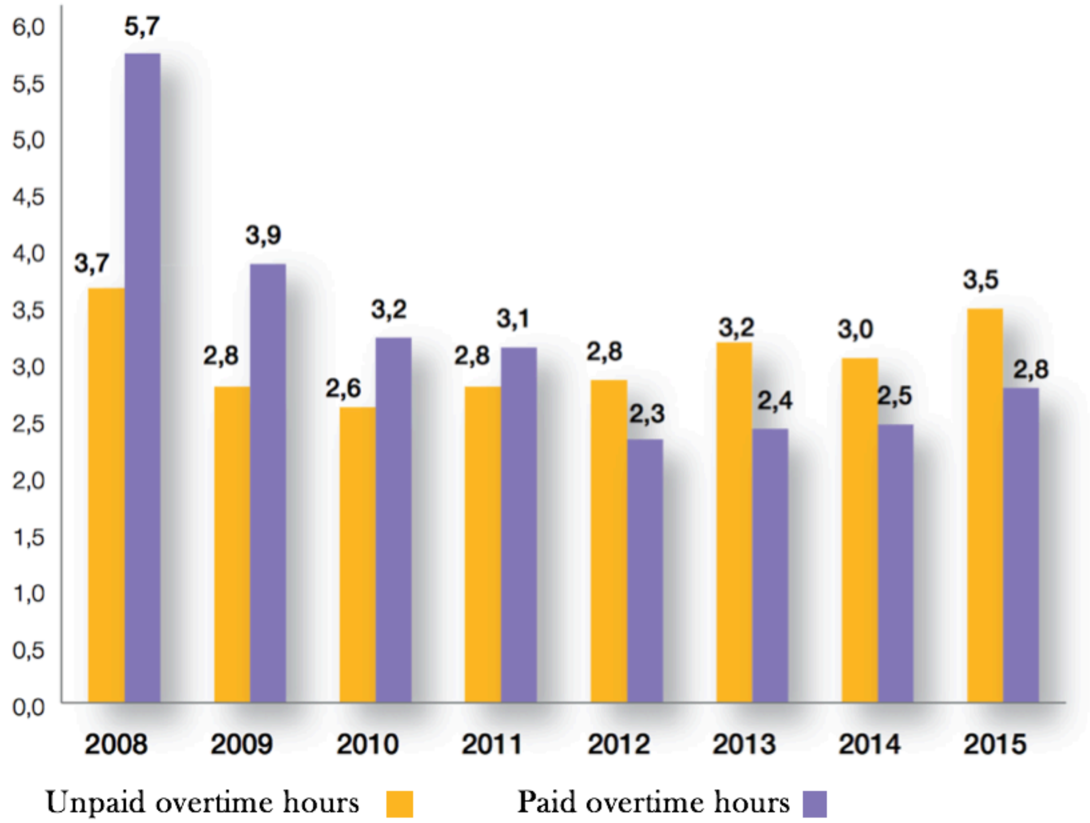
Unpaid Overtime

Another problem that has a high level of unemployment is unpaid overtime. In Spain, there is a large number of workers doing more hours than they would be accrued by contract, but the problem not only ends here, because, according to a report by CC.OO. States that, in 2015, 56% of overtime worked in Spain does not end up finally reflected in the current account of the worker.

Although this organization may seem unreliable as it is not in a totally independent position and there are risks of upward bias, we have not been able to find more reliable and official sources of government agencies or intergovernmental organizations with which to verify this data. Therefore, the reader is advised to take this information with caution.

Although the report states that there has been a general decline in overtime since the onset of the crisis, the percentage of unpaid work has increased considerably.

Graph 1.17 Overtime worked hours paid and unpaid in Spain, 2008-2015 (Millions of hours)



Source: CC.OO. Paper '*Cuadernos de acción sindical*"

As Graph 1.17 shows, since the beginning of the economic crisis in 2008, the total weight of unpaid overpaid hours has only risen, and since 2012 these have been higher than the paid ones. However, total overtime decreased considerably until 2013, when they rose again, continuing this trend until 2015. In any case, the total number of overtime dropped from a total of 9.4 million hours in the Year to 6.3 million hours, a total decrease of 33%.

According to this report, the job profile of the person who performs unpaid overtime is composed of a man, with an indefinite contract and full time, in a technical, professional or managerial position, working in the private sector and mainly in the services sector.

The good side of this news, if it has one, is that this type of job profile occurs in employees with a high level of security and salary level, and, therefore, would not be given mainly to the weaker workers and with greater Risk of job insecurity. Another interesting fact to highlight is the fact that there are hardly any employees who work paid hours and others without remuneration. According to the union, 1% of wage earners had both paid and unpaid overtime. Therefore, it depends a lot on the values and culture of the company when it comes to remunerating the overtime of its workers.

However, even by the lack of comparison with other countries, it is still a key indicator that we are doing things wrong and that something has to change when in our country there is a large number of unpaid overtime, increasing the precariousness of work Our workers.

Reduction of wages via new contractors.

Another of the effects caused by the lack of labor flexibility in companies, which is characterized by not being able to adjust wages and days efficiently, and therefore causes the most used option is the dismissal of the worker, especially the temporary- , Is the fact that the new hires get a much lower remuneration on average than the employees already integrated in the labor market.

According to a report by the Bank of Spain that analyzed INE data, new employees earn 24% less than workers who were already employed for the period 2006-2015. Obviously, this difference in remuneration has been aggravated during the crisis. The labor system then causes the new entrants to obtain a lower remuneration than they should due to the mere fact of a regulatory problem that does not allow the salary adjustment to the workers already inside the organization and those transacted to the new entrants.

In addition, this causes double wrong for people who are unemployed and who see their salary expectations of the future diminished, gaining almost a quarter of salary less than their peers. If it is known that the weakest and least prepared, are precisely those who form the largest group of unemployed, our labor regime produces another impediment to achieve a higher quality of life.

Another side effect is the reduction of the transition of workers between companies. Both the workers and the most productive companies are reduced their productive potential due to the lack of labor movement of the workers. If the employee, not being totally happy in his place of work, decides to stay for the simple fact of obtaining a higher salary remuneration due to his seniority and discards the opportunity to be able to work in a job where his capacities would be increased to a greater extent and Skills, thus increasing job satisfaction. On the other hand, the company loses that growth potential by not being able to capture the best quality human capital and lose that growth potential. Is this one of the multiple reasons that produces in our country is one of the lowest percentage of large companies compared to our environment?

Not even “mileurista”

In line with the above, and due to the salary adjustment in Spain, mainly in the new incorporations, the number of people receiving less than 1000 euros in the year 2015 amounted to 47% of the total of workers according to the union of Técnicos de Hacienda (Gestha). These are just over 8 million wage earners in the country. Of these 8, almost 6 million (34.4%) would not reach the Minimum Interprofessional Salary, which was almost 650 euros per month in 14 payments in 2015. This implies that the risk of poverty for this part of the population Considerably.

The effect of the crisis, therefore, not only resulted in a considerable destruction of employment, but also reduced the remuneration of many workers, since in 2007 the percentage of workers with a wage less than 1000 euros was almost at 40% of all wage earners and taking into account the inflationary effect, which causes a deterioration of purchasing power, further exacerbates the situation of these people.

On the other hand, the number of people who earn more has increased in 2014 and 2015 by 136,000 people. The report says that this group of people earns the same as the 5.7 million people who charge less of our country, which is causing an increase of the inequality in 3.8% since 2007.

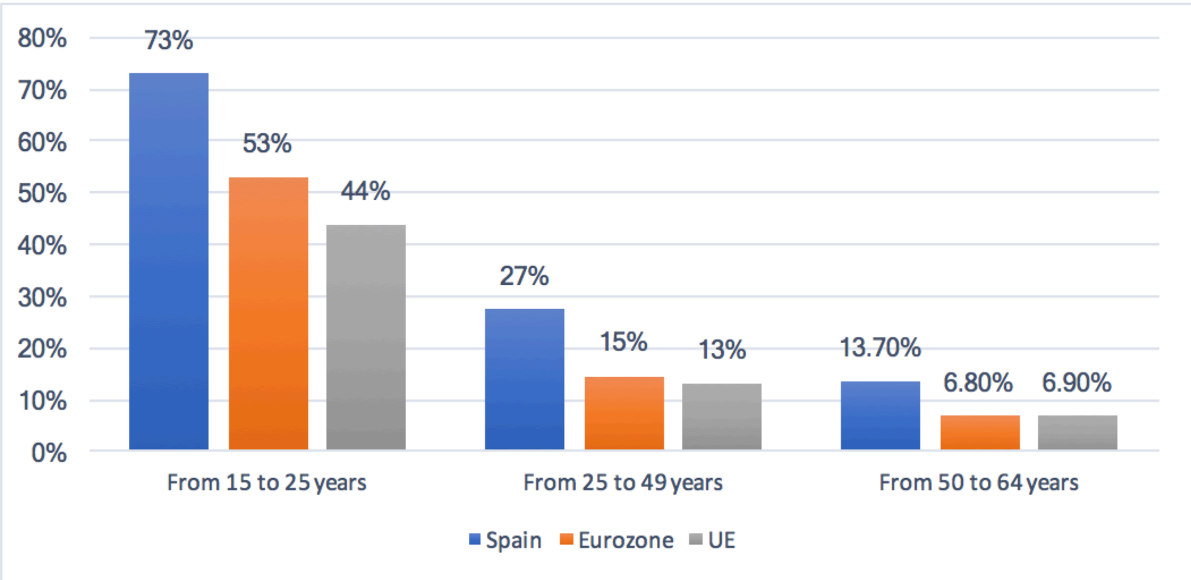
Youth Temporary

The great temporality that exists in our country is well known. Labor temporality is a characteristic of the Spanish system and is due to the contractual duality that we have already explained. Due to the great protection and costs that exist in indefinite contracts, which causes in companies a problem of internal flexibility, organizations tend to reduce risks by hiring new employees in the form of temporary contracts, much less protected and allowing a greater Room for maneuver for adjustment.

This results in Spain being the second EU country with the highest percentage of young temporary workers (under 25 years). According to the European Statistical Agency, Eurostat, 73% of workers under 25 years of age do so as a temporary. This Graph has only climbed since the beginning of the crisis. In 2007 it reached 62.7%, climbing more than 10 percentage points until 2016.

For comparative purposes, in 2016, the EU of 28 and the Eurozone had 44% and 53% of youthful temporality respectively, which highlights that Spain not only has a great problem of unemployment, but, in turn, the existing employment is not among the best in our environment. And we do not just talk in terms of salary but contractual.

Graph 1.18 Share of temporary employees in the EU by age group, 2016



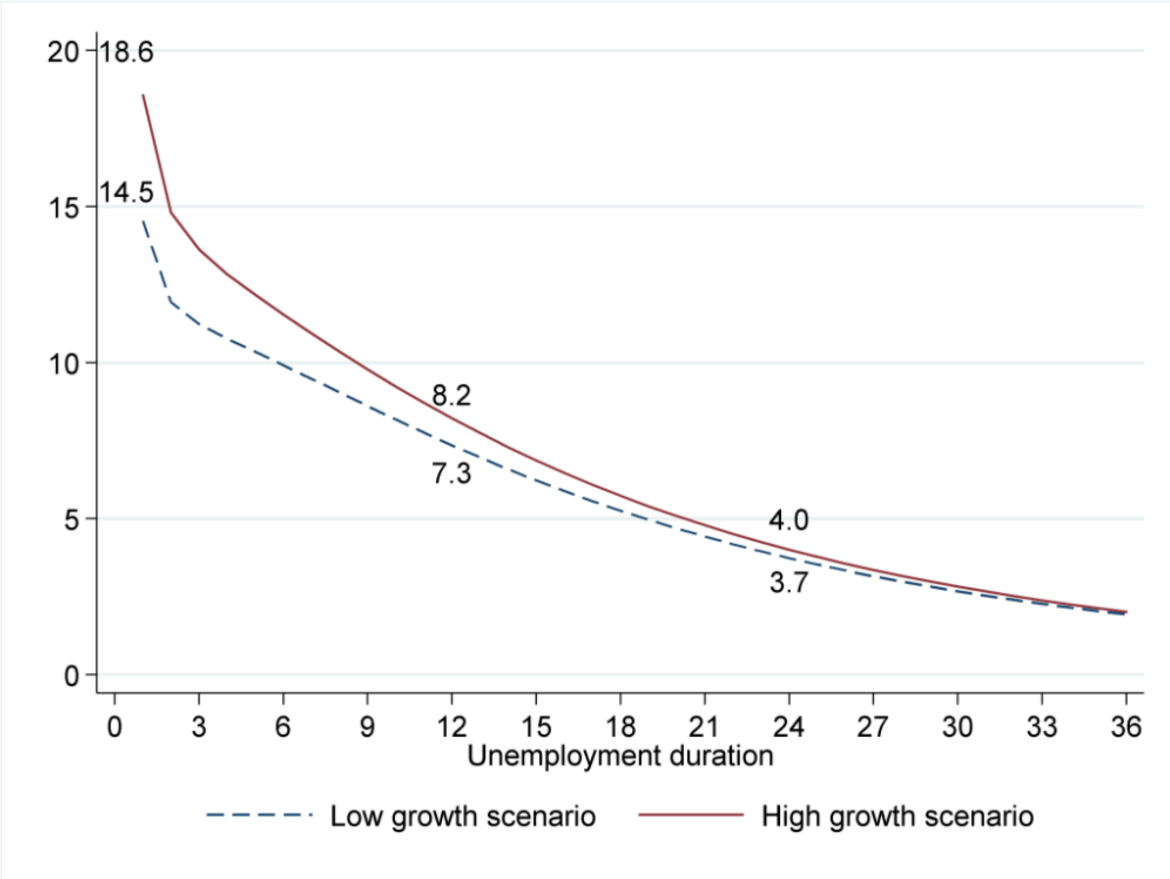
Source: Eurostat

This leaves the young Spaniards in a very dangerous situation, since even those who are more prepared are, with a higher level of education than their predecessors, have to endure a higher level of unemployment, a greater temporality and a lower salary.

Long-Term Unemployment Rate

A very familiar index among both economists and non-economists is the ratio of long-term unemployed and very long-term unemployed among the total unemployed. These unemployed are characterized by having been more than a year or two respectively, without employment and therefore have an added difficulty in finding employment again. In addition, these unemployed are usually composed of the most vulnerable people in our country and have a low profile in educational qualification. Since companies are interested in well-trained workers with previous and recent work experience, they will be much less interested in this profile of workers. This will deepen their misfortune in remaining longer without income, and causing an increase in the structural poverty of any country.

Graph 1.19 Unemployment Duration depending on the economic cycle



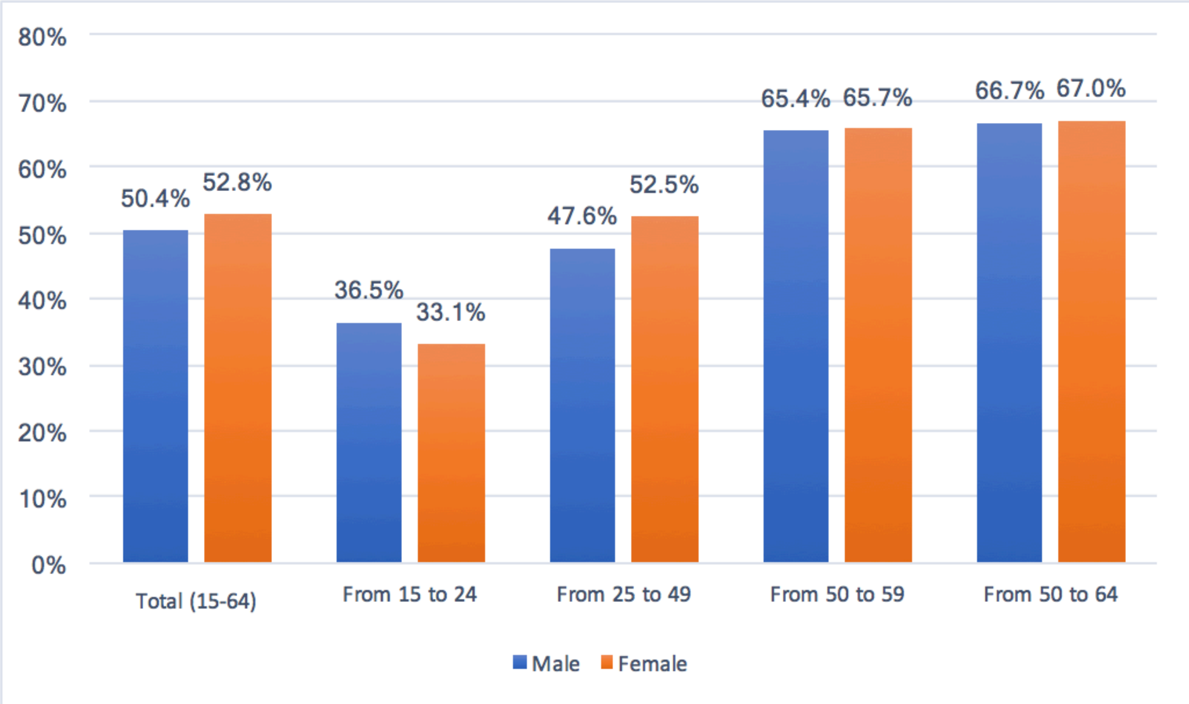
Source: Bentolila, S, JI García-Pérez y M Jansen (2017)

First, in Graph 1.19, two lines detail the unemployment exit rates according to the time you have been unemployed, and if the economy grows at a greater or lesser pace. Clearly, they show mainly two particularities, one is quite obvious and proves that the long-term unemployed, have a lower average monthly exit rate than if they have been unemployed for a short time. The exit rate of the unemployed with a duration of 12 months is 8.2% if the economy was growing strongly and creating many jobs, and for very long unemployed, that is, with more than two Years in unemployment is 4% and decreasing. This means that the probability that an unemployed person will find employment after a few weeks is more than double that for a long-term unemployed, and more than 4 and a half times for the very long-term unemployed, since the rate Unemployment rate is slightly more than 18% when you have been actively seeking employment for a few weeks.

In addition, the longer you are in unemployment, the effect of economic growth will become more neutral, this means that if you have been unemployed for a long time, it does not matter that the country is growing and creating employment, your options for finding one will be as low as if the country were growing slightly.

That is why it is very important to have an efficient working model and do not create high levels of structural unemployment. According to the INE, in the year 2015 in Spain about 51% of the unemployed in Spain had been unemployed for more than a year, equivalent to about 11% of the active population, more than 2 million people in our country. 2 million people who will hardly find jobs again and are very likely to be at risk of poverty. This means that, in Spain, it will cost a lot to fall from the threshold of 10% unemployment and would need to be growing strongly for many years to match them with European levels of around 5%. This may explain why Spain historically, even in times of greater prosperity of democracy, has almost never fallen by 10%. The lowest level of unemployment occurred in the second quarter of 2007, with just under 8% of unemployment, even with growth of around 4% of GDP, after 14 years of economic growth, of which 11 years were very strong growth, with Rates higher than 3%.

Graph 1.20 Long-term unemployment rate by group age and gender, Spain, 2015 (% of total unemployment rate)



Source: Labor Force Survey (LFS), Eurostat

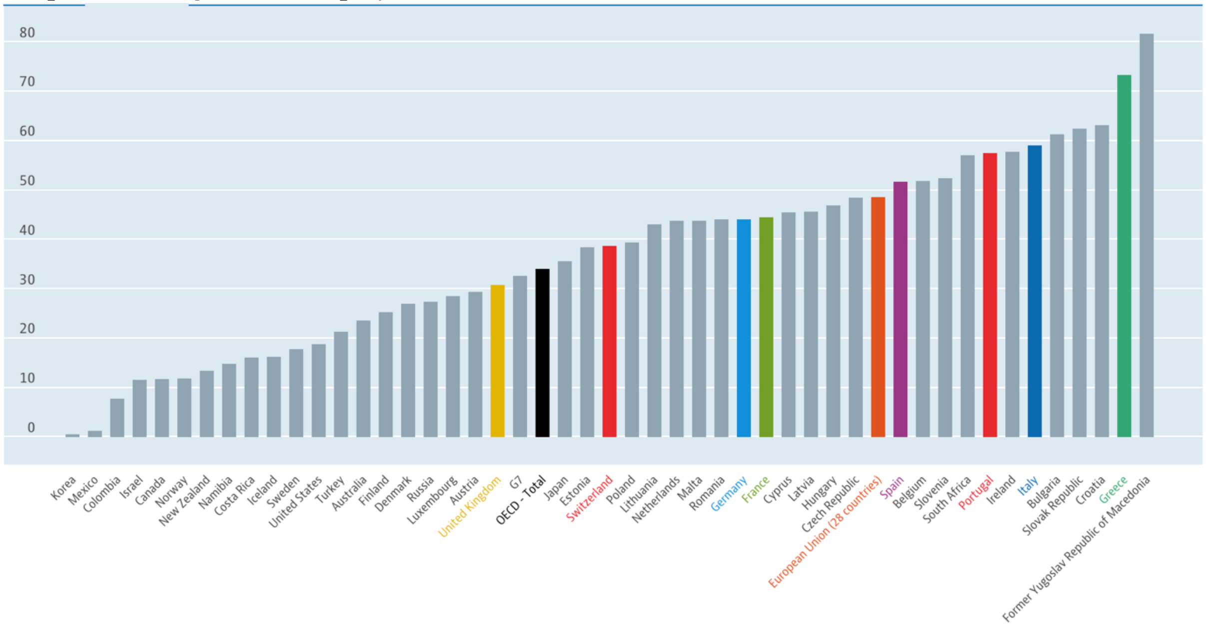
Further proof that Spain needs to make its labor market much more flexible. If it does not, it will remain a machine to create inequality and poverty. In addition, it caters with the most vulnerable, as the proportion of long-term unemployed in the age range of older 50 is the highest of all ages with 67% by 2015. This age range is characterized for their lack of training and training recycling making it a highly vulnerable group. One solution would be to create active employment policies that enhance long-term employment.

Unfortunately, this group not only has a more difficult return to employability, but the Labor Force Survey (EPA) also confirms that, in times of crisis, our labor market destroys much more employment in the collective over 55 years. Between 2007 and 2016 the total number of unemployed grew by 143%, while it rose by 322% for this age group, more than double.

This would not only demonstrate that the Spanish model not only promotes faster growth of the long-term unemployed in this age group, but also have a more difficult return to employment as explained above. Hence, it is defined as a risk group.

In addition, this age group is the one that has the highest purchasing power, and therefore the one that contributes more to the Social Security due to its higher salaries. Thus, every unemployed person over 55 years of age ceases to contribute 7,743 euros annually. Causing scarcity of resources and having to incur fiscal deficits, increasing the country's indebtedness and needing to make cuts in public spending.

Graph 1.21 Long-term unemployment rate evolution from 2007 to 2015.



Source: OECD Data

If we compare our long-term unemployed ratio with that of the rest of the OECD countries, as shown in Graph 1.21, Spain, with 51.6% of long-term unemployed, is well above the OECD with 33.8%, and somewhat above the European Union of 28 with 48.5%

A very important feature is that countries with low levels of long-term unemployed are in turn those with a much lower unemployment rate. Of the 20 countries below the OECD average, only 3 have high levels of unemployment. These are Colombia with 10.5%, Namibia 28.1% in 2014, and Turkey with 11.9%.

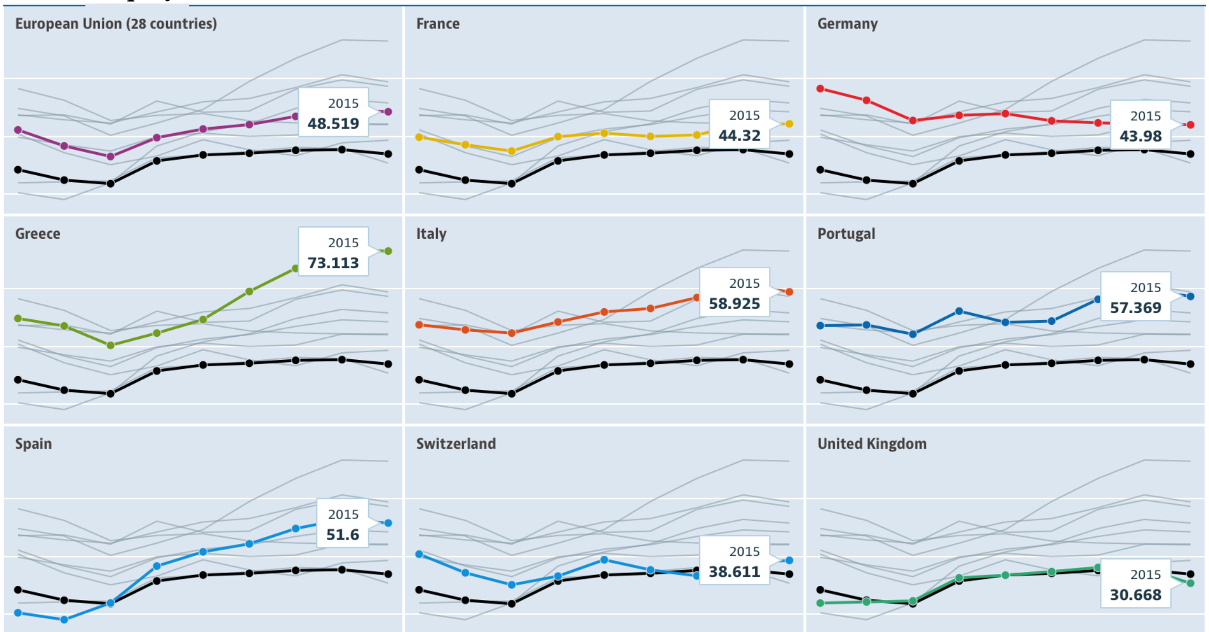
On the other hand, if we analyze the countries with the highest long-term unemployment ratio, those above the EU average of 28, we find that, of the 12 countries, 7 countries have high unemployment levels above 10%. This confirms that there is a positive correlation between high levels of unemployment and long-term unemployment. If in a country where there are high levels of long-term unemployed, the risk of poverty and social exclusion increases exponentially, but if the unemployment rate is high in that country, the effect is doubly pernicious because of the increase in both relative terms as absolute in the total population, as we condemn more people to the lack of resources and a total despair of prosperity.

The ideal would be to have neither high level of unemployment nor high levels of long-term unemployment. It is not a utopia, since countries like South Korea, Mexico, Norway, Canada, Denmark or Austria have succeeded. There are also countries that only have high levels of unemployment, but low levels of long-term unemployed like Turkey or Colombia, minimizing the pernicious effects of economic crises on the sector of the weaker population. Or countries with low levels of unemployment, but with high rates of long-term unemployment such as Belgium, Ireland, Bulgaria or Slovenia where, in absolute terms, few people are at risk of social exclusion.

But at a time when a country has the misfortune to have high levels of unemployment and high levels of long-term unemployed, it condemns a large number of the population to the most absolute poverty.

That is why it is essential to create an efficient labor regulatory environment so that, in times of economic crisis, the labor market favors greater protection for the weaker ones, self-regulating, and not as it does now, where weak labor regulation expels the most disadvantaged, Creating greater poverty and an increase in social cost.

Graph 1.22 Long-term unemployment rate evolution from 2007 to 2015. Base Black line = OECD (% of total unemployment rate)



Source: OECD Data

Another interesting analysis is the evolution of the long-term unemployed in the different countries of our environment during the crisis. The more peripheral countries like Portugal, Spain, Greece and Italy have not been able to bear well the effects of the crisis. As we know, these countries are characterized by high levels of unemployment and high levels of long-term unemployed, well above the OECD and the EU of 28. Fortunately, Spain is close to the EU of 28 and is not the worst situated, which does not mean that it still has a big problem, when more than 2 million people make up the long-term unemployed in Spain.

If you look at Chart 2.6, the evolution of this indicator has been very different according to the country. Both Switzerland and especially Germany have reduced the percentage of long-term unemployed of their economy during the crisis, demonstrating a strong strength of their labor market. UK, has risen slightly from the start of the crisis but is the only one of the 8 that is even below the OECD average and also has an admirably low unemployment rate of 4.7%.

By contrast, Europe's peripheral countries are the worst-off, with high unemployment and long-term unemployed, above the EU average of 28 and during the 2007 crisis they have increased considerably. Recall that to be considered long-term unemployed two years must pass so we should look at 2009 to be faithful to the evolution of this index. Spain is the country that increased the percentage of long-term unemployed highest, since in 2009 it was even in the OECD average with 23%, almost triple until reaching 51.6% Greece rose from 40% to 73%, Italy from 44% to 59% and Portugal from 44% to 57%.

Why have some countries maintained and even reduced their share of long-term unemployed, while others have greatly increased it? Is it possible, with a legislative change in the labor framework, to reduce the harmful effects of a crisis on employment? We know that both Switzerland, Germany and the United Kingdom have much more flexible labor legislation that favors greater adaptation for companies to deal with difficult times.

This shows that Spain has a problem and probably derives from a poor and poorly designed work system. Spain has a tremendous potential for improvement by reforming our labor framework which would not only improve unemployment ratios but also the malicious effects on the weaker population and thus boost economic growth.

Negative effects of weak labor regulation in society

In the case of Spain, the existing labor regulation was created with the intention of protecting the most vulnerable in a contractual relationship between worker and employer. Since the end of the dictatorship and the return of trade unions in the workplace has increased the labor protection of workers, but paradoxically, instead of protecting the most vulnerable, in many cases has ended the opposite effect. As we have seen, an inflexible regulation such as the Spanish one, where it is adjusted through employment, especially temporary employment and not through wage reduction or adjustment through reduced working hours, creates a large population without private sector income. Fortunately, the welfare state protects these people from economic neglect, with unemployment and pensions. But in cycles of economic recession, which is when public resources are most needed to protect these people, public revenues are damaged and reduced, which greatly limits the scope of public administrations to increase such protection.

For this reason, due to the limitations of the Spanish welfare state, an efficient labor regulation is an imperative to minimize the possible damages to the families and people most vulnerable in times of crisis.

But it is not only that the welfare state is limited in protecting a population in times of economic crisis, but the Spanish labor system precisely causes the most vulnerable people in our country and those most in need of social protection are The most affected are, for example, low-skilled people, immigrants, the disabled, young people and people over 55 years of age and who have even had less purchasing power and are more difficult to return to the labor market, as they pass To be more easily stopped long-lasting. Another obstacle that leads to an increase in inequality, poverty and social exclusion in our country.

Not only is it important to alleviate this root problem with a flexible and efficient labor regulation, because of the damage it causes to society with an increase in poverty and inequality, but reducing it is a difficult and very expensive task for public coffers.

Therefore, in this section we will demonstrate and analyze the effect that the crisis has had on the Spanish population and demonstrate how the most vulnerable population has been most affected. We will analyze in our country and in the countries selected the indices of economic inequality and risk poverty.

Unemployment and salary according to your level of education and contractual modality

In order to demonstrate that the pernicious effects of an economic crisis affect the most disadvantaged worker a lot, increasing the inequality and risk of poverty, we analyze how unemployment has evolved according to the level of education that has that employee, in other words, the level of qualification That person has.

In Spain, people who just have that, or do not even have ESO? They saw unemployment rise from 9% unemployment in 2007 to 32.7% in 2013, the worst year for unemployment in Spain. On the other hand, the upper secondary workers but not tertiary workers, that is, those who only had the baccalaureate degree increased from 6.8% to 23.2%. On the other hand, the most prepared workers with university or higher education, in 2007 had a level of unemployment of 4.8% and in 2013 increased to almost 15%. It means not only that the lower your qualifications and level of education the probability of finding employment is considerably reduced, but that in times of crisis, less skilled employment will be more affected than skilled employment. We see that workers without a secondary education increased by 23.7 points, while those who had high school saw their unemployment rate increase by 16.4 points, and if you had a college or more, the increase will be 10.2, less than half Skilled workers. This means that the effect of the crisis affected much more to the weakest in Spain.

According to INE sources, in 2014 contracts with a temporary duration obtained an average salary of 15,680.55 euros, 31.4% lower than the average, which stood at 22,858.17 euros. In contrast, the indefinite contracts obtained an average salary of 24,746.47 euros. In addition, university graduates obtained on average 35,493.89 euros and workers without any degree some 14,384.24.

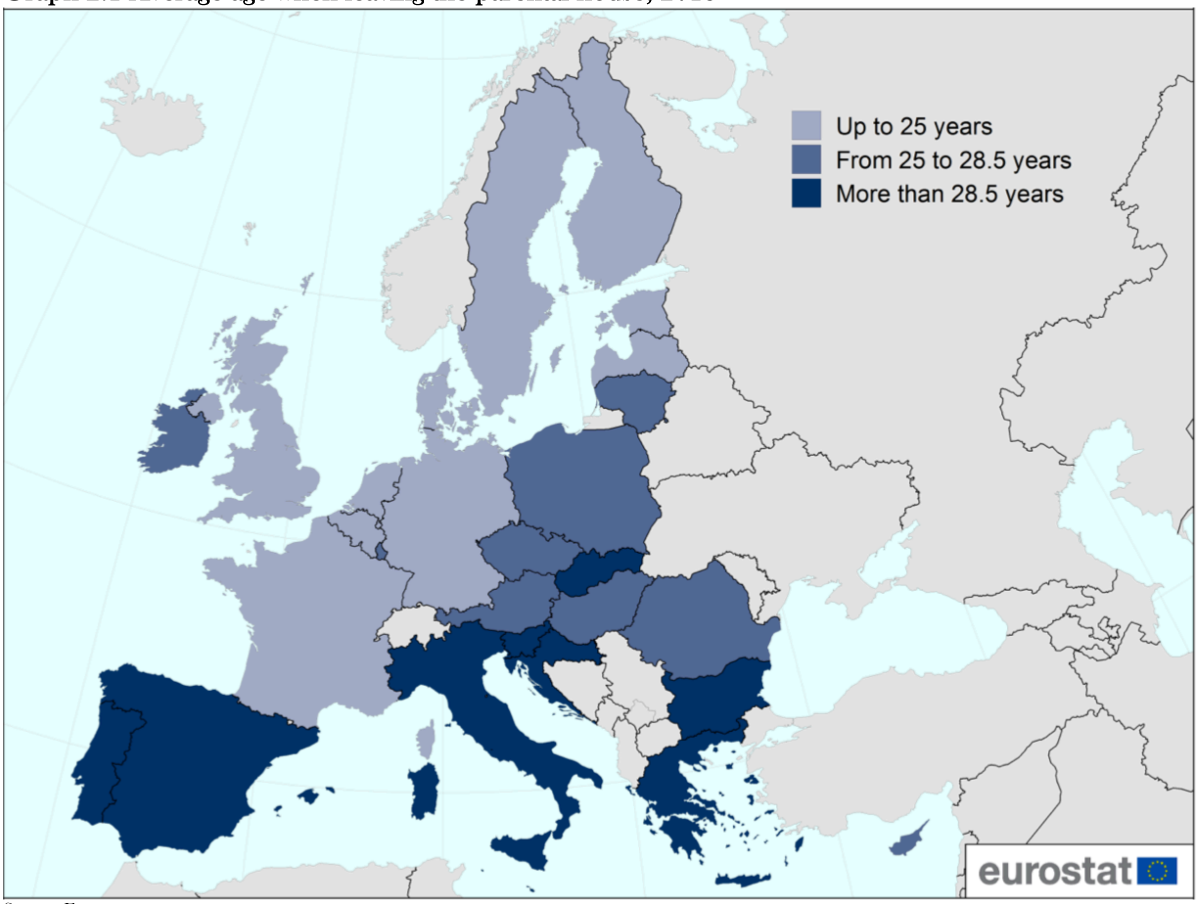
It is vital, therefore, that the labor model changes so that the weakest are not the most disadvantaged in terms of employment, since currently, people with temporary contracts and people without studies have been the most harmed and where it has risen more Unemployment. That is, the current regulation does not protect the weakest but vice versa.

Emancipation

It is not surprising then that the young Spaniards are one of those who take the time to emancipate themselves and have a totally independent life.

According to Eurostat itself, the average emancipation age of Spaniards is 28.9 years, when the European average is 26.1 years by the year 2013. We might think that this is due to our Mediterranean culture and our attachment to the family, and probably We would be right, but at the same time it is a characteristic that is repeated in the countries with the highest level of unemployment. For example, countries such as Portugal, Greece, Italy, Slovakia and Croatia, where unemployment is higher than the European average, have an age of emancipation that is even later than Spain, although among the worst countries like Bulgaria and Malta Unemployment is very low with rates of 6.4% and 4.1% respectively, but possibly the cultural effect causes a great weight in the emancipating effect on society, among other factors.

Graph 2.1 Average age when leaving the parental house, 2013



Source: Eurostat

On the other hand, the countries with the lowest level of unemployment are those that emancipate at an earlier age, although it is also linked to the Nordic culture, since countries such as Sweden, Denmark, Finland, the Netherlands, France, Germany and the United Kingdom Are the countries with a lower age of emancipation. All of them except France and Finland have an extremely low level of unemployment around 5% less Finland and France, where about 9% of the labor force is unemployed.

The difference of the 8 countries with lower and higher age of emancipation is over 7 years, where the average age 8 countries with a lower age of emancipation is 22.7 years, while the average of the 8 countries an older age Emancipation is almost 30 years.

It is therefore difficult to decide whether a higher age of emancipation is given by the culture of the regions, or if it is therefore due to the level of unemployment, since the more Mediterranean countries are also characterized by a higher level of unemployment. Even so, there is a direct relationship between a high level of unemployment and a later age of emancipation, although the cultural effect is also present.

Increased inequality between communities during the crisis

The effect of the crisis has also been noted in inequality between communities. If historically, wealth and wages between communities were very unequal, in adverse economic effects, these increases. The poorest communities in Spain have not been able to withstand the inclemencies of the crisis as well as the richest, increasing the difference between GDP per capita and therefore wealth. A report from INE shows how different communities have varied their share of their GDP per capita to total national GDP per capita.

The communities that have increased their weight of GDP per capita in 2016 compared to the beginning of the crisis have been the Basque Country, with 6.1% more (126.6% to 132.7%), Madrid with 4.2% more (132.3% to 136.5%), and Catalonia with 1.6% more (117.7% to 119.3%), communities that were already well before the crisis before the crisis. Other communities with a higher GDP per capita than Navarre, Aragon, and Rioja, also increased their per capita weight, although very slightly.

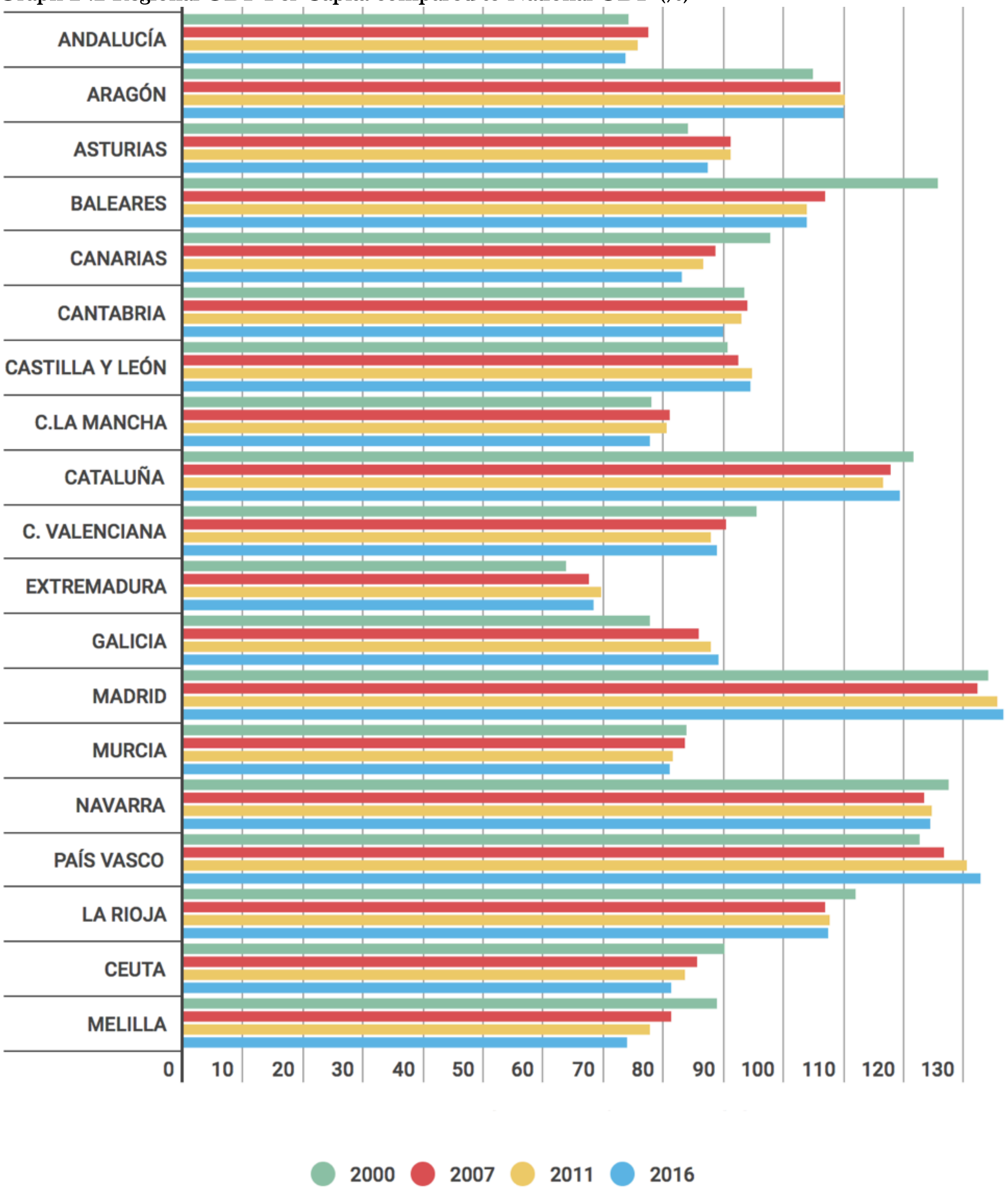
Although there are three exceptions in the study, since Galicia improved from 85.7% to 89.1%, a difference of 3.4 points, being still clearly below the average and being community number 11 of 17 with better GDP per capita and also surpassing the Two autonomous cities of Ceuta and Melilla.

In contrast, the poorest communities have seen their share of GDP per capita reduced to the national level. Ceuta, Melilla, Andalusia, Murcia Canarias, Asturias and Castilla la Mancha were the most punished during the crisis, all of them below the national average. Being Melilla with 7.5%, Canary Islands with a reduction of 5.7% and Ceuta with 4.3% the most affected. They follow Cantabria with 4% less, Asturias with 3.9% and Andalusia with 3.7%.

In summary, of the 7 autonomous communities that were placed in 2016 above the average only 1, the Balearic Islands saw reduced their weight in GDP per capita with the Spanish average since the beginning of the crisis in 2007, in exchange of the 10 autonomous communities and the two autonomous cities, only 3 communities (Castile and Leon, Extremadura and Galicia) increase if weight and the rest saw it reduced, thus increasing interterritorial inequality.

Another further demonstration that excessive and unobtrusive regulation is much more detrimental to the most disadvantaged and vulnerable areas and people in Spain.

Graph 2 .2 Regional GDP Per Capita compared to National GDP (%)

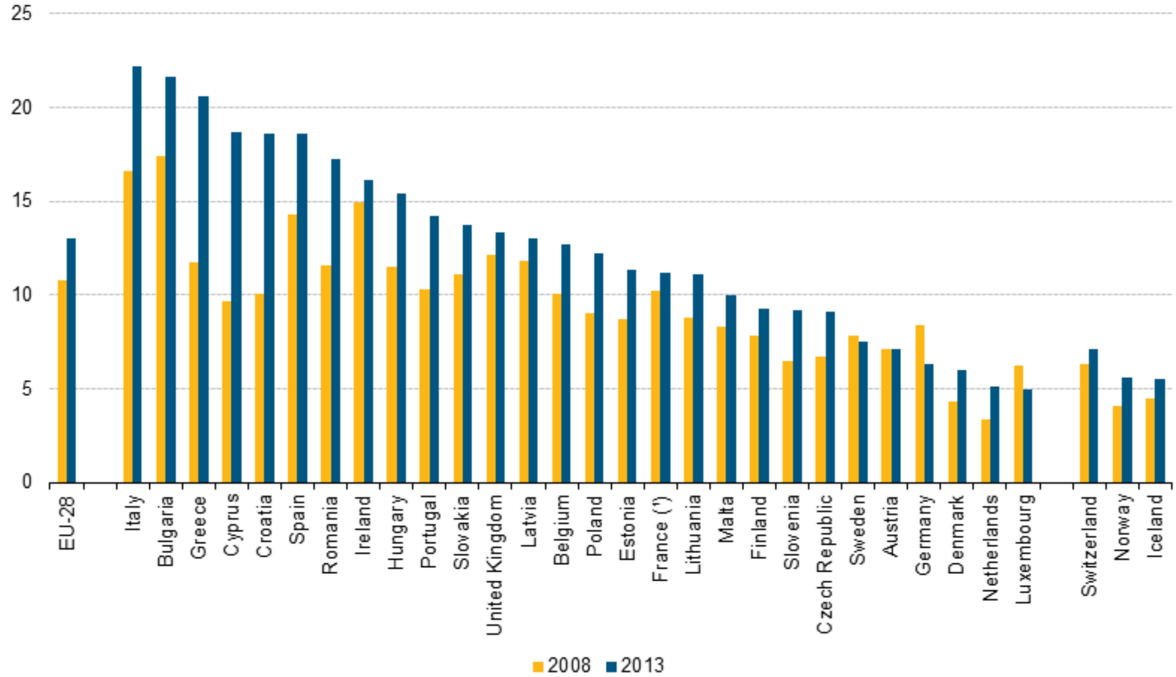


Source: INE

Young people neither in employment nor in education or training

It is extremely important for the prosperity of a society to create a model makes the best outputs of them. That is either having them working or studying. I high amount of people doing absolutely nothing would be detrimental to the rest of the nation's citizens. Unfortunately, Spain is again one the worst with a high amount of people without a job, studying or training.

Graph 2.3 Share of population neither in employment nor education or training (%)



(¹) 2013: break in time series.
Source: Eurostat

As shown in the Graph 1.3, Spain has around 18% of its population in the situation, being the 6th with the highest amount among the 31 countries in the year 2013. This is 4 points more than before the beginning of the crisis in 2008. Spain has a lot of work to do but as well as a lot of potential to improve its situation and change to a better society. It is as well a common symptom on high unemployment rates countries, since Italy, Greece, Croatia, Portugal and Slovakia, countries with high unemployment are above the average in this index.

The inequality and risk poverty in Spain.

One of the great evils of humanity is inequality and poverty on our planet. National and international organizations and governments strive to reduce these evils with social welfare policies and higher taxes to those who receive more income to redistribute this wealth to the weakest in society.

Not all inequality has to be necessarily negative, each person with his effort and knowledge has the legitimacy to earn more money than another person who has worse abilities, less knowledge and less effort. Although it is difficult to choose the optimal point of inequality, it is clear that this should not be very high. But a tool that never fails is the comparison of this index between countries and see who has greater and lesser inequality.

Inequality can come for different reasons, lack of education, globalization and technological progress or poor redistribution of wealth by the welfare state. But a very important factor is the lack of efficiency of the labor market. It is not therefore exorbitant to think that one of the main causes of inequality and poverty is the high level of unemployment that Spain has. If due to the lack of employment opportunities, large numbers of people fail to earn income over a long period of time, they will be at risk of poverty and inequality will increase.

Because of the contractual duality, in Spain two groups live together, the first one has an indefinite contract, very protected and better paid. The second group with temporary contracts that are poorly protected and less paid. Although the first group is much larger than the second group, the average number of temporary staff in Spain is much higher than if we compared it with our European colleagues.

If we add that in Spain has a widespread problem with high levels of unemployment, we create a dangerous cocktail that produces a greater level of inequality and poverty than it should.

Therefore, we can conclude that there are two ways to alleviate this problem.

1. Increased job opportunities.
2. Redistributive wealth policies.

Although the two are necessary, the second creates greater distortions, it would be penalizing those who are more productive in a society to give it to the less productive. Therefore, the best solution that is in the hands of the government would be to create a much more modern and flexible work model that would help companies to grow strongly and then create more jobs and quality.

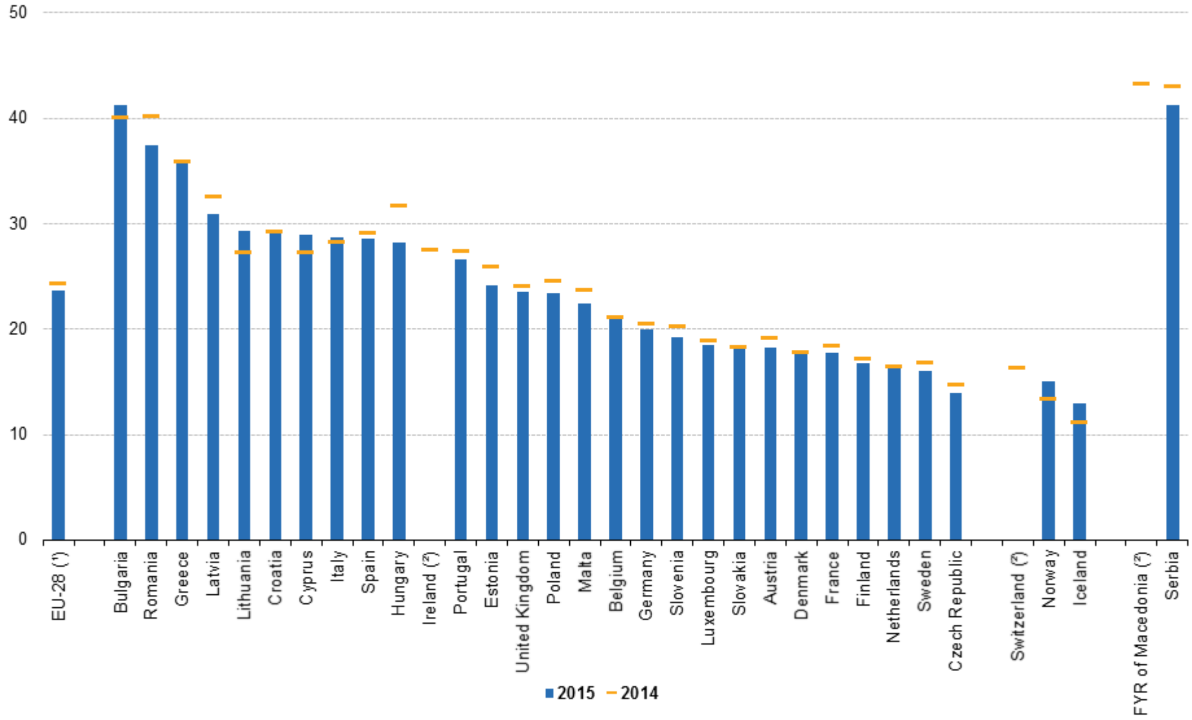
A study of "BBVA research" from the year 2016 but using 2010 data on inequality in Spain concluded that, in Spain, inequality is not caused by the richest 1%, but the problem is given by the inequality between Rents, school failure and the unemployment wage gap. But above all, they concluded that 80% of inequality is explained by unemployment.

As confirmed by their study, the problem is not so much the inequality of wealth that is found at rather low levels, but more because of the inequality of human capital and income, which is among the worst in our environment. Only 3 of the 20 developed countries analyzed by BBVA are in the worst position of human capital inequality. They are Portugal, Italy, Greece and then Spain. All of them with alarmingly high levels of unemployment. If we compare the inequality after taxes and transfers Spain would be in the 6th place. What this means is that the welfare state, with its redistributive effect of income, although this situation improves, is not enough to alleviate the effect of inequality.

This means that our labor model is the main cause of inequality in Spain, a model that does not work, although it was created with the idea of protecting the weak part of the contractual relationship between company and worker. Precisely our model of work provokes the opposite of what was originally thought, which was to defend and improve the quality of life of workers, especially the most vulnerable. The best weapon to alleviate the inequity of inequality is therefore the improvement of our labor laws that flexibilizes the labor market and allows companies to reduce the risk of hiring and adapt better in times of crisis. If, instead, Spain chooses to regulate and further tighten the labor rigidity of our market with the excuse of protecting the most vulnerable, will end up causing the situation to worsen even more.

Graph 2.4 shows a comparison of the risk of poverty among EU countries out of 28 in 2014. The risk of poverty is measured in relation to the median 60% of people's annual disposable income. Any person below 60% will be reflected as at risk of poverty and social exclusion.

Graph 2.4 At risk of poverty or social exclusion rate, 2014-2015 (%)



(1) 2015: estimate.
(2) 2015: not available
Source: Eurostat

At this time, Spain had an unemployment rate of around 25%, and in turn the risk of poverty was one of the highest with about 30% of the population. The EU-28 average was close to 25%, leaving Spain in very bad shape, being the 7th and 9th highest risk of poverty and social exclusion in the Union, for the years 2014 and 2015 respectively.

It is not necessary to emphasize that the least developed countries of the Union, along with those with the highest level of unemployment have the highest ranking. Bulgaria, Romania and Greece lead the ranking with rates higher than 40% and 35%. Although Bulgaria and Romania have unemployment rates close to 6%, they have the lowest per capita levels in the Union at € 6,600 and € 8,600, respectively, when the Euro Zone has a GDP per capita of € 31,600 by 2016. In Greece and Spain, with 16,300 euros and 24,000 euros respectively, and very high rates of poverty and social exclusion risk, have the added problem of very high unemployment levels, with unemployment of 23% and 18% by 2016.

On the other hand, countries with a very low level of unemployment and high levels of wealth are among the best placed in this index. Countries such as Iceland, Norway, Switzerland, the Czech Republic and Switzerland have the lowest rates, all of which have low levels of unemployment, ranging from 2% to 6% and very high levels of GDP per capita with higher rates to 46,000 euros, minus the Czech Republic that has a GDP per capita very similar to that of Greece with 16,500 euros. This shows the positive relationship between the level of unemployment and the risk of poverty and social exclusion.

In Spain, inequality is not only explained by a lack of efficiency in the labor model, but it is certainly one of the most important factors, which, instead of helping to alleviate this problem, causes the opposite. Therefore, if we want to improve the quality of life of the weakest in our society, Spain does not need an improvement in the redistribution of wealth, it needs to increase employment opportunities and this can be achieved with an improvement in labor regulation. As a Chinese proverb says, *"Give a man a fish and you feed him for a day, teach him how to fish and you feed him for a lifetime."*

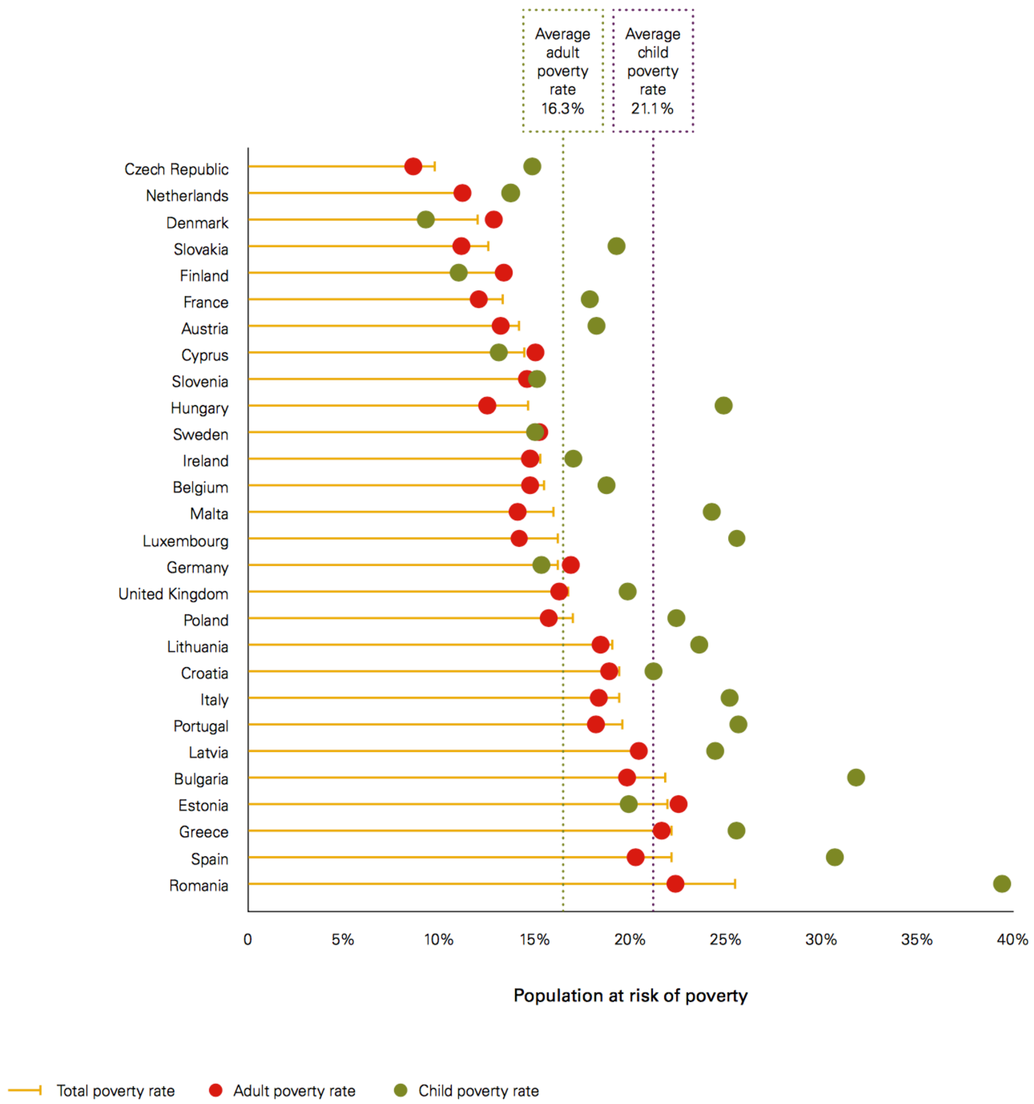
Child Poverty

Another aspect to highlight about poverty in our country comes when we analyze the risk of child poverty. It is defined as the percentage of young people under the age of 18 living 60% below the median income after transfers. The latest UNICEF study using Eurostat data for the year 2014 highlights how Spain is the third country among 28 European countries studied with the highest child poverty.

Only Romania and Bulgaria recorded worse data in the study with child poverty ratios of around 40% and 33%, respectively. In Spain, slightly more than 30% of those under 18 would be at risk of poverty, a sad result that, when compared to the best on the list, such as Denmark, Finland and Cyprus, which do not exceed 15%, leaves in very bad place to Spain and practically our country doubles the percentage. On the other hand, 21.1% of those under 18 years of age in the 28 countries analyzed are at risk of poverty about 10 points less.

It is not surprising that the same body confirms that one of the causes that affects the increase in child poverty is unemployment. Regarding the risk of poverty as a whole, UNICEF confirms that Spain is in second place at risk of poverty for its population, only behind Romania and a position ahead of Greece. Specifically, more than 20% of the population is at risk of poverty.

Graph 2.5 Population at risk of poverty in the EU by age group, 2014 (%)



Source: UNICEF

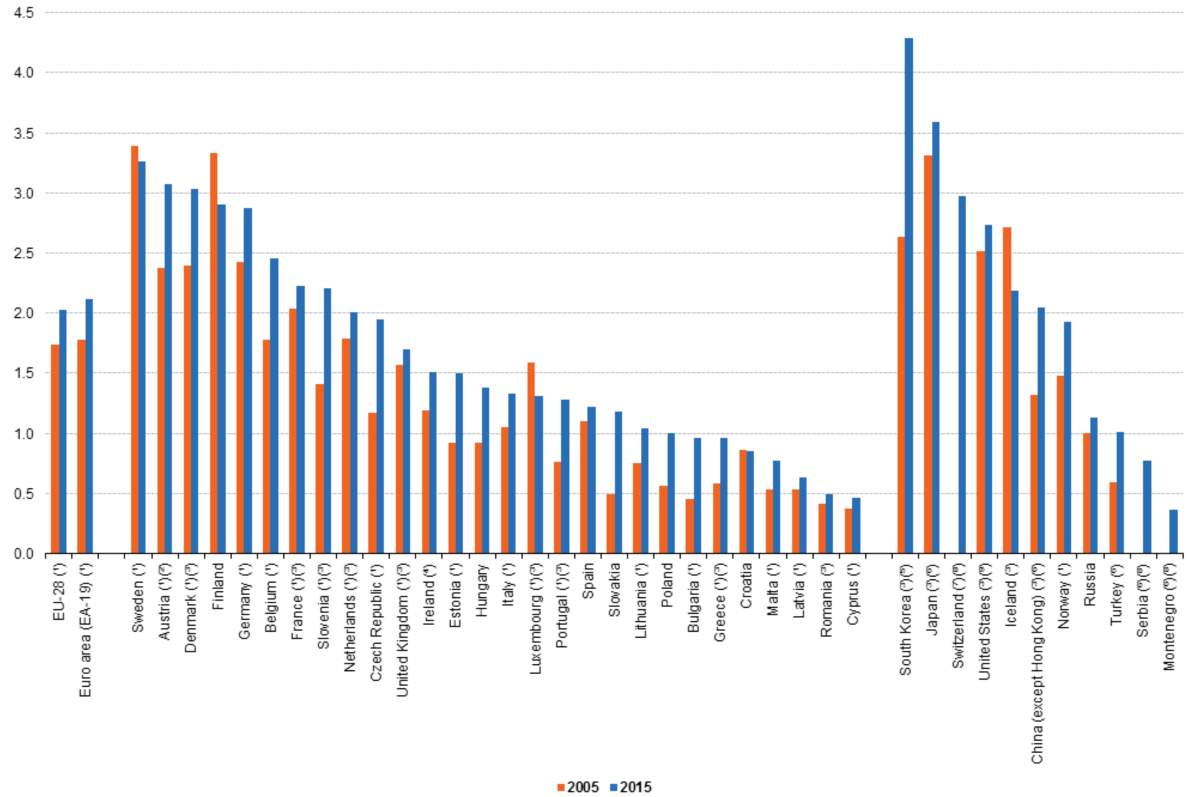
Other variables that have an impact on the labour market

We already know that the level of unemployment can be affected by a multitude of variables. For the Spanish case, it will be explained briefly what are the other variables that affect the unemployment. The purpose of this small section is not to imply that all the evil that affects employment is exclusively due to the already proven poor labor regulation. Other aspects such as spending on research and development, education, and business regulation are equally important for the good performance of the labor market and economic growth.

Low spending level on Research and Development

First, a comparison of Spain's R & D expenditure with respect to EU-28. Graph 3.1 shows how Spain is once again among the worst, with R & D spending close to 1.1% of GDP compared to 1.66% of EU-28 for 2005. That is, Spain is in Competitive disadvantage by spending almost 50% less in this section than our European counterparts and which translates into a lower competitiveness of our companies and a lower contracting.

Graphic 3.1: Gross domestic expenditure on R & D, 2005 and 2015 (% of GDP)



Note. When definitions differ, see http://ec.europa.eu/eurostat/cache/metadata/en/rd_esms.htm.
(1) 2015: estimate or provisional.
(2) 2005: estimate.
(3) Break in series.
(4) 2014 instead of 2015. 2014: estimate.
(5) 2005: definition differs. 2014 instead of 2015.
(6) 2014 instead of 2015.
(7) 2012 instead of 2015.
(8) 2005: not available.
(9) Definition differs. 2013 instead of 2015. 2013: estimate.
Source: Eurostat

However, due to the economic crisis, companies and the government have reduced their spending under this heading, since in 2008 it was somewhat higher than 1.3% (Source OECD), while in 2015 it fell to

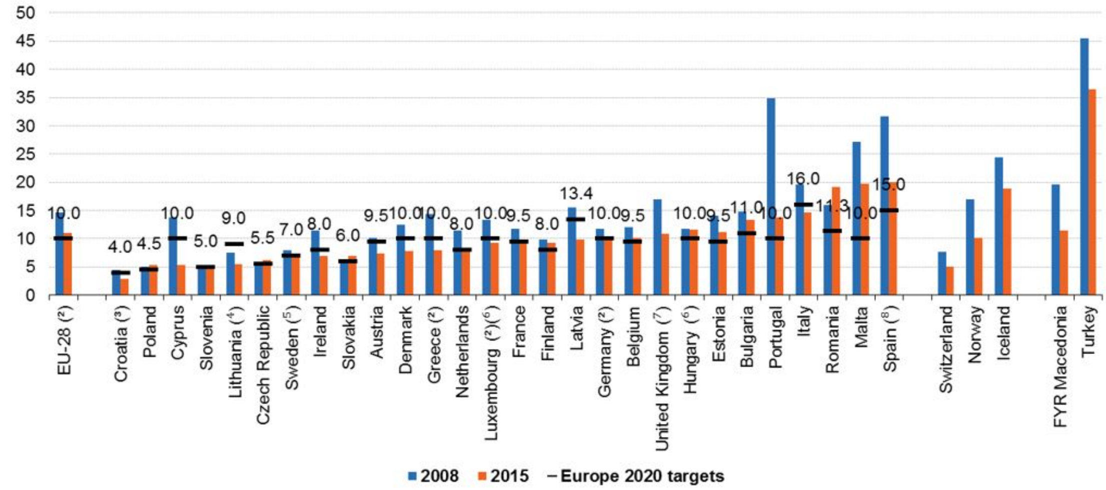
1.22% of GDP. Meanwhile, the strategy of the rest of European countries was the opposite to increase even more R & D spending to levels close to 2% in 2015, further increasing the gap between Spain and the rest of the EU-28.

As a reference, the countries with the worst labor performance, such as Greece, Italy, Portugal, Spain, Croatia and Turkey, we see that all are below the average in spending, except France that spends more than average in R & D. Therefore, higher R & D spending implies a lower level of unemployment in the country. As countries with higher spending lead the ranking with unemployment, such as Sweden, Austria, Denmark, Germany, South Korea, or Japan, with always below average levels. There is only one exception, since Finland is one of the countries with the highest spending, but suffers from a higher level of unemployment, with 9.3% in 2015 (Source OECD).

Early leavers from education

It is no secret that a prepared society, having obtained at least minimum degrees of education and a large percentage with higher education is synonymous with a developed country. The more people and better educated a society is, the more potential companies will be able to obtain from that human capital and in what will become a creation of greater value and rapid growth of companies, which will be transformed in the medium and long term into a Greater employee creation for the country and better well-being for all.

Graph 3.2: Early leavers from education and training, by country 2008 and 2015



(1) All countries: break in time series in 2014 (switch from ISCED 1997 to ISCED 2011).

(2) Target: less than 10 %.

(3) 2015 data with low reliability.

(4) Target: less than 9 %.

(5) Target: less than 7 %.

(6) Break in time series in 2015.

(7) No target in National Reform Programme.

Source: Eurostat

In addition, it is fundamental for the student and the future worker to be the best prepared, because the more prepared you are, the easier you will be to join the job market. Having said that, we are evaluating how Spain stands in this area, using reports from the European statistical agency "Eurostat".

Spain, again leads the ranking of the worst in another index, being one of the worst school failure in Europe. Specifically, in 2008, just at the beginning of the crisis, our country was the third with a higher level of school failure with about 32% of the population between 18 and 24 years old without having obtained a high school diploma or ESO in Spain, and only surpassed by Turkey and Portugal, countries already analyzed in our report to have high rates of unemployment. The average in the European EU of 28 for 2008 was somewhat less than 15%, less than half that of Spain.

Fortunately, and as one of the few positive points in the report, our country has considerably reduced the level of school failure, rising to 20% by 2015. This may be due to greater awareness by the population that without Minimum studies are not possible to have a quality job, in addition to European pressure and the government's effort to improve this index. In addition, with a high level of youth unemployment in our country, many have opted to continue studying, not finding a job.

Even with all this, having reduced by more than 10 points in a few years, we remain the leaders, as the EU average has gone from around 15% in 2008 to about 10% by 2015. Placing Spain for this year as the second country with the highest rate of school failure and only behind Turkey.

Poor Business and Economic Regulation

It is so important for the good development of employment, an efficient economic freedom for companies to develop, hire and create value to society, and that regulation itself to work is also favorable.

If businesses do not have an economic freedom that creates enough confidence, they will grow at a slower pace by not risking their business. When companies have high confidence and the economic model that the country has is good, it will attract more companies and foreign investment, in addition to creating and growing faster the country's own. On the other hand, extremely regulated economic models that limit the good performance of the companies, slow the development and wealth of the country, and limit potential growth in employment. That is why it is so important to create a powerful economic freedom and thus improve the welfare of citizens.

In order to analyze this aspect, we are based on two reports, one from the World Bank and another from the Spanish Employers (CEOE), which have presented their reports for 2017 and analyze the economic freedom that Spain and other countries have worldwide.

The Doing Business 2017 report classifies countries by their ease of doing business, specifically takes into account all kinds of regulation around companies and that directly affect the good development of them. Therefore, lower qualification results in greater social well-being and quality of life thanks to the creation of wealth.

Without major surprises, Spain is locally among the 32 OECD countries analyzed. Exactly Spain is ranked 23. If we filter out the total of 190 countries, our country would be in the 32nd place. It is not a bad position globally, but if we compare with our European partners or the OECD, the thing changes a lot, since being below average will never be a sign of tranquility and of being doing things as it should be.

This report analyzes different variables such as the ease of opening the business, building permits, obtaining electricity, registering property, obtaining credit, protecting minority investors, paying taxes, cross-border trade, contract compliance and insolvency resolution. Almost all these variables have in common the direct contact with the public administration and its regulation.

Our country is especially wrong, handling the opening of a business, building permits and obtaining electricity licenses and Property Records. On the other hand, where it is best located is in cross-border trade, protection of minorities and compliance with contracts.

Secondly, the Spanish CEOE has stressed that Spain is increasingly worse off than in previous years and advocates for in-depth reforms to improve. Specifically, Spain ranks 49th out of a total of 159 countries and down to 2008 levels. The score gained from 2014 leaves Spain with a score of 7.38 out of 10, and only outperforms others European countries such as Switzerland (4), Ireland (5) and the United Kingdom (10) with France (position 57), Italy (69), Iceland (76) and Greece (86) Scores above or fenced to 8.

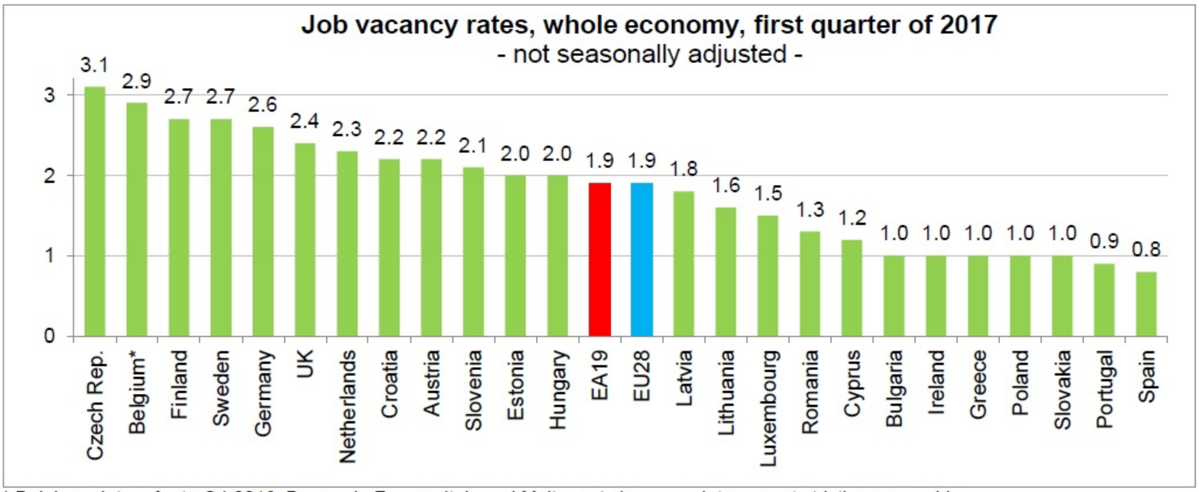
It is very common to find the richest and most developed countries among the top of the list, something that changes when we go to the last. In the last positions and that do not surpass the 5 of score we find South American and African countries like Venezuela (3.29), Libya (4.58), Rep. Of the Congo (4.8) and Argentina (4.81).

In the opinion of the employers, this score hurts the economic potential and is mainly due to the excess power of the public administration, which raise the operating expenses of companies and notes that Spain has a restrictive regulation in business, labor, fiscal and trade.

Output: Low Job Vacancy Rates

If we add up all the deficient variables explained above, it is not surprising to have a low level of vacancies in the labor market. But the surprising thing is to know that, the last Eurostat data for the first quarter of 2017 on vacancies in Europe, indicate that our country is the lowest ratio of job vacancies there are with respect to our European colleagues.

Graph 3.3 Job Vacancy Rates, Q1 2017 –not seasonally adjusted-



* Belgium: data refer to Q4 2016. Denmark, France, Italy and Malta: not shown as data are not strictly comparable.

Source: Eurostar

Job vacancy rate = (number of job vacancies) / (number of occupied posts + number of job vacancies).

As we can see in the table above, Spain obtains another sad index with only 0.8% of vacant positions compared to 1.9% of the EU average of 28 and the euro zone. It is too low even if we know that at this time we have been growing at levels above the EU for more than 3 years and creating around half a million jobs a year, and yet we have not been able to improve such an important index like this.

As our country has the lowest percentage of vacancies, it shows the high competitiveness of employees to acquire any job, which forces them to be more prepared to run as a candidate. In addition, it demonstrates the small strength of our labor market to create jobs and what will be transferred in jobs of worse quality as we explained above.

Conclusions

After analyzing the Spanish labor market thoroughly and comparing it with other European models, Spain is in the dilemma between transforming its labor regulation towards a more flexible model or staying in the current model, which, as we have seen, is a potentiator of Labor and social precariousness.

Almost all the indicators summarized in this project have resulted in some nefarious results, even putting Spain among the worst in Europe. It is indisputable that the labor market must be relaxed and contrary to what is believed, the biggest beneficiaries will be the workers themselves, especially the most vulnerable in society, as we have seen, and with the current system have been the most Affected by the economic crisis.

It would, therefore, be a mistake to return to extra regular and overprotect the workers for thinking that this would help them solve the crisis better. The Spanish unemployed are not only many, but also in a very vulnerable position to have a high risk of remaining unemployed as a long-term unemployed. Many might think that if our legal framework protects the worker, they should be comfortable to be protected by regulation apparently very beneficial to the worker, but nothing further from the reality, Spanish employees are among the least productive, most dissatisfied, Unequal and unsafe conditions throughout Europe.

It is impossible to avoid an economic crisis, but it is necessary to facilitate the adjustment to the maximum to the companies and thus assure a fast and a strong recovery so that it is transferred later in a greater growth of the employment. Since, with the current model, the only solution has been and continues to be, although with some improvements, a job destruction to improve the productivity of companies and that wage and day wage adjustment has come mainly from new hires, **which** are currently obtaining a considerably lower remuneration.

Nobody wins with the current model, neither unemployed nor workers and prolongs the agony of the unemployed in their search for employment. Greater labor flexibility would mean that in times of crisis, unavoidable labor adjustments would affect a larger number of people in an equitable and balanced way, but to a much lesser extent. The result would be lower inequality, lower unemployment and a lower cost to society by encouraging a better economic recovery.

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