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Labour segmentation and precariousness in Spain: theories and evidence

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Introduction

Spain is a country with strongly marked contrasts in the labour market. Since the economic crisis of the 1970s until today it is the European country that has experienced the greatest fluctuations in the volume of employment. During periods of recession, unemployment rates have been among the highest worldwide, but conversely, during recovery periods, employment growth has been very intense. It is also the European labour market with the greatest use of temporary employment. As a result of these conditions, many significant labour reforms have been implemented and, consequently, the Spanish economy can in some ways be considered as a laboratory of their impact.¹ It is because of this that the debate on the functioning of the labour market in general, and on segmentation in particular, has been especially intense in Spain during these years.

The segmentation approach arrived in Spain, as in many other places, from the hands of heterodox economists (in a broad sense) and it had a strong echo among labour sociologists. In the early 1980s, neoclassical economists in academia and leading economic think tanks (particularly the Spanish Central Bank and the research services of large banks) ignored this approach. Those were times when the official debate revolved around the rigidity of labour markets and the economy. In Europe, the discussion was about Eurosclerosis (Krugman and Wells, 2006), which portrayed Europe's poor performance compared with the USA in terms of its 'generous' unemployment protection systems and strong trade union bargaining power. In Spain, owing to the absence of these aspects at the beginning of democracy, rigidity was attributed to the persistence of laws and practices inherited from the Franco regime. The situation changed in 1987

when, for the first time, the Labour Force Survey published information on the level of temporary employment and estimated the temporary employment rate at 17.7 per cent. Suddenly, Spain had gone from being a country with rigid employment to being one of the most advanced countries in terms of the use of flexible forms of employment.

The official explanation of unemployment had necessarily to be revised, and with this change, the concept of segmentation (in its most simplistic version of duality) eventually became the reference point for new discussions. As we shall see, the interpretation of segmentation by neoclassical economists is completely different from the heterodox view developed by Jill Rubery (Rubery, 1978; Rubery, 1992; Rubery and Wilkinson, 1994) and other members of the International Working Party on Labour Market Segmentation (IWPLMS) (Wilkinson, 1981; see Chapter 1). This approach suggested alternative lines of analysis based on a more wide-ranging analysis of segmentation and an appreciation of the influences of national models of employment (Bosch, Lehnndorff and Rubery, 2009). For the conventional approach, at least for the mainstream neoclassical economists, markets work reasonably well in terms of competitive balance, and employment problems are essentially caused by the interference of extra-market institutions that generate inadequate incentives and create discrimination and inefficiency. Therefore, the main recipe against unemployment is to carry out structural reforms of labour market institutions, which lead to some extent to a competitive behaviour of unemployment itself.

For heterodox economists, unemployment is a macroeconomic problem generated by the normal functioning of capitalism, labour market segmentation is in part a product of company policies, and the specific problems of each country cannot be interpreted only as a result of their local institutions but also in terms of their interaction and positioning in the global economy (e.g. Recio, 1994; Rubery, 2007; Wilkinson, 1981). Drawing on the key ideas developed by Rubery about labour market segmentation, this chapter discusses how this debate has materialised in Spain, and how the empirical evidence vindicates the heterodox approach. Spain is a particularly interesting case to consider these different points of view due to its high unemployment rate and the huge amount of reforms that have taken place in the labour market's regulatory framework. We begin by addressing the main lines of argument of the neoclassical approach to explain labour market problems in Spain. We then offer an alternative perspective rooted in the structural and historical characteristics of the Spanish National Employment Model based on a broad set of empirical evidence. The chapter closes with some brief conclusions.

The conventional approach 'discovers' segmentation

In the economic crisis of the 1970s, Spain experienced a high rate of unemployment and, for the first time, there was a theoretical debate about its causes. The explanation offered from the neoclassical economics perspective was articulated around the idea that unemployment originated in problems of labour market rigidity caused by the existing institutional framework (Bentolila and Jimeno, 2003; Malo de Molina, 1983). The rigidity stemmed from the persistence of many labour norms inherited from the Franco period, as well as from the concessions made to trade unions during the political transition (Dolado *et al.*, 2002). Reviewing the debates of those years, the arguments used to explain unemployment were articulated around five issues:

- 1) *Labour market rigidity* associated with difficulties for businesses to make quantitative adjustments of their workforce, thereby impairing the speed of response to economic shocks. This rigidity materialised in difficulties in flexible hiring, in dismissal and in limits on work organisation;
- 2) *Wage rigidity and excessively high wages* as a result of Spain's collective bargaining model (involving bargaining at the sector level, not company level) and the existence of minimum wages set by collective agreement at levels higher than the statutory national minimum wage, as well as social contributions;
- 3) *Malfunctioning of labour intermediation* (that is, inefficient active labour market policies) and problems of availability of sufficiently skilled workforce;
- 4) *Overly generous unemployment subsidies* that discouraged the search and acceptance of job vacancies by unemployed people and maintained real wages at too high a level; and
- 5) *Supply-side shocks*. Although the origin of shocks was changing, the argument ultimately relied always on the idea that the collective bargaining model prevented the fall of real wages against shocks. The main causes of shocks that were identified were a rising active population (without a corresponding reduction in wages), falling total factor productivity (again without lower wages), rising interest rates (in the context of the 1970s crisis) and production costs out of balance with wages that did not diminish sufficiently to sustain the stimulus to investment.

These five explanations were not attributed equal importance. Factors such as labour rigidity, the collective bargaining model, which generated wage rigidity, and social subsidies (overly generous) were highlighted as having a greater

responsibility in generating high unemployment rates, as well as some personal characteristics (lack of training), which discouraged the acceptance of positions and kept wages high. Yet the two central arguments that were raised at that time and that persist today from the conventional perspective were, and still are, the problem of quantitative rigidity and the low flexibility of wages (Andrés *et al.*, 2010; FEDEA, 2012). Unemployment benefits have been gradually losing importance as a cause of unemployment, given the evidence of their low coverage.

Hence, arguments were gradually closing in around the two aforementioned aspects, quantitative rigidity and wage rigidity, and continue to this day. The economic policy proposals derived from these approaches have always presented themselves, both in the crisis of the 1970s and today, as the inevitable course of action, as the only way out of the various crises experienced by the Spanish economy. Underpinning them there is always a blind belief that businesses fail to create employment because the labour market cannot afford it. The problem, it is claimed, is not in the characteristics of the production structure, nor in the demand of goods or the management strategies. It is in regulation – a regulation that allows wages to be excessively high (above productivity) and forces businesses to experience great difficulties in the quantitative adjustment of the workforce (Dolado and Jimeno, 1997).

This explanation faced an important test when, in 1984, labour legislation was reformed and the use of temporary contracts without requiring a justification was legalised. In 1987, the Labour Force Survey included, for the first time, information about the kinds of labour contracts, and temporality was placed over 17 per cent, a much higher value than the usual rate in Europe. In subsequent years, the percentage share continued to grow as numbers in total employment also increased until it reached an average rate of around 33 per cent, right up to the 2008 crisis. In terms of ease of temporary hiring and of employment sensitivity regarding economic activity, employment in Spain was shown to be very flexible, and labour market rigidity became a difficult argument to sustain as an explanation of continued high rates of unemployment (Figure 7.1). Neither could excessive unemployment benefits be sustained as an argument, given that during the 1980s, the percentage of unemployed people who received subsidies was placed at around 25 per cent.

By the early 1990s, it was clear that the neoclassical economics explanation was in need of repair. It was at that moment when the defenders of rigidity as the cause of unemployment ‘discovered’ the idea of labour market segmentation, in its most radical version of dualism, but limiting its causes to the stylised impact of labour market regulations. In this reformulated approach, dualism in labour markets emerged simply from the adaptation of businesses

Figure 7.1 Temporary and unemployment rate (%) in Spain, 1987–2015

Source: OECD.stat.

to a rigid institutional market (Bentolila and Dolado, 1994). The introduction of flexibility stemming from the labour contract with the 1984 reform had been a reform ‘on the margin’, it was claimed, because employment protections for workers with permanent contracts remained untouched. In this way, businesses faced the dilemma of making permanent contracts with a high cost of dismissal or temporary contracts at no cost.² The majority of businesses opted for the second option and this accounted for the growth of temporary employment. Permanent employees saw their bargaining position strengthened, because now they not only enjoyed the protection of the law, but they also had the protective cushion of temporary employees. When businesses faced a drop in demand, the adjustment would be applied exclusively or mainly to the temporary workers.

The next step of the argument relied on the idea that unions represented solely permanent workers and, therefore, they could push for foolish wage increases, or resist downward adjustments, because if these increases generated workforce adjustments they would be applied to temporary workers rather than their members. The Spanish labour market behaved as a dual market with *insiders* protected by the law and by trade unions and *outsiders* outside

protections and subject to market forces. This implied not only a high segmentation in terms of employment and wages, but also important macroeconomic effects (Jimeno and Ortega, 2003: 107). On the one hand, there was an inflationary pressure, derived from collective bargaining, which only took into account stable employment. On the other, businesses' preference for hiring temporary employees affected the training of human capital and favoured specialisation in low-productivity activities.³ Overall, these studies represent an adaptation to the Spanish case of the initial neoclassical economics analysis of Lindbeck and Snower (1988, 2001), which sought to incorporate some of the ideas of Piore's dualism (1980).

However, unlike Piore's work, the revised studies of Spanish neoclassical economists implied a shift in the causes of labour segmentation. Instead of highlighting the demand factors and the business strategies at the origin of segmentation in response to both the problems generated by the control of the workforce and the functioning of the diverse product markets, they point to labour regulations and unions as the main causes of segmentation. This argument ignores that segmentation is visible in countries such as the USA, with high labour deregulation and a low union presence. It also has an enormous political burden, since it tries to make permanent adult workers, and the unions that represent them, responsible for the dualisation of the labour market, shifting from a capital–labour conflict to a conflict between workers.

This analysis has been used to justify the 1994 labour reform, launched as a response to the 1991–94 economic crisis, as well as the following reforms of 1997, 2002, 2010 and 2012, which cut severance payments and made the procedures for dismissal easier. Despite these series of reforms, the argument has been persistent. The discourse is promoted by influential organisms of economic opinion (particularly Fundación de Estudios de Economía Aplicada (FEDEA), the research service of the Spanish Central Bank, and that of the Banco Bilbao Vizcaya Argentaria (BBVA)) and by mainstream economists from the Universities who have always considered these labour reforms insufficient. The current policy recommendation for eliminating segmentation is to introduce a single contract with a dismissal compensation growing proportionally to the number of years worked.⁴ This is an idea for which they have gathered important international support, especially from the Organisation for Economic Co-operation and Development (OECD) and International Monetary Fund (IMF). However, it is not clear whether this measure would change the massive use of short-term employment in an economy with a high degree of seasonality in key sectors (especially in those depending on tourism). What would be achieved, however, would be the disappearance of the statistical indicator of the percentage of temporary employment, which shows the poor quality of employment in Spain.

The contradictions of the conventional view

The conventional view reduces labour market segmentation to a mere response of businesses to the institutional framework (in the case of Spain, to the contractual arrangements) and as such ignores the main achievements of institutionalist labour economics. From an institutionalist approach, developed for decades as an alternative to the mainstream economic orthodox thinking, segmentation is a result of business policies oriented to resolve the complexity of conflicts and problems faced by companies, both in the management of labour activity and in the product market, and not just a simple problem of regulation.

As noted by Rubery (1992, 2007), the segmentation approach places the employment practices of businesses and their determining factors at the centre of the analysis in order to explain employment conditions and labour inequalities. The role of the employer is therefore central in accounting for the level and characteristics of employment, and is a key factor in shaping the dynamics of employment structure. Therefore, from this perspective, and in contrast with the conventional approach, the core factors that shape labour market dynamics are on the side of demand. This contrasts with the neoclassical economics approach to which individual decisions in human capital investment, job search and wage demands are reflective of, and somehow account for, labour demand.

Another notable aspect of the segmentation approach is that segmentation is present both within an economy and between economies, with different forms and manifestations. The determining factors change over time and are specific in each case, so that in practice we find a wide variety of situations, without any tendencies toward 'natural' convergence of employment models, neither within a society nor between societies (Bosch, Lehnendorff and Rubery, 2009). A good example is the case of the European Union, in which the various processes of integration (monetary, trade and so on) have not resulted in a convergence of labour market patterns. In this dynamic, key importance is attributed to institutions and strategies of social actors. Both are crucial in shaping the diversity of labour market structures.

Obviously, the focus of orthodox economics does not consider all these aspects. The analytical reductionism that it applies in the case of Spain leads it to explain segmentation in the exclusive terms of permanent and temporary contracts, overlooking aspects of the real functioning of the labour market which in other approaches are relevant. A quick review of key aspects of the Spanish labour market that are easily detectable empirically raises clear questions for the conventional explanation, as follows.

- The choice of an explanatory variable of labour inequalities – for example, the type of contract – suggests significant results in terms of labour duality. For instance, in terms of wages, people with permanent contracts have higher wages than temporary workers. But the same result can be achieved by choosing a different explanatory variable. One can, for example, build a dualist explanation of the Spanish labour market based on the gender variable and construct a plausible theory of a dual market in terms of gender. Age (and seniority) could also be suggested. However, these forms of differentiation are not explainable in the terms of the proposed model.
- Disaggregation by sector shows substantial diversity in the use of temporary employment and the strategies that explain their use. For instance, in the sector where use of temporary employment is highest – construction – its use corresponds in part to the functioning of professional markets where skilled workers change employers fairly frequently while maintaining a certain professional career. However, in hospitality, another sector with a high temporary rate, this is instead due to the seasonality of tourism.
- A detailed analysis of the evolution of the relationship between temporary and fixed-term employment offers paradoxical results that contradict the conventional model. In the 1991–94 crisis, the adjustment was higher among permanent employment contracts than temporary contracts because it was basically an industrial crisis and, in many businesses, insiders did not have any ability to ‘unleash’ adjustments on temporary workers (Alba and Alonso, 1997). Conversely, the period of expansion prior to the 2008 crisis shows a fall in temporality rates in most sectors. This was due largely to collective bargaining where in many cases unions decided to moderate wage demands in exchange for transforming temporary employment into stable employment (contrary to the behavioural assumptions of insider–outsider models). There is no evidence that there was strong growth of wages in this expansive period as suggested by the orthodox theory. The increase in temporary employment in this period was primarily due to the explosive growth of employment in construction and the strong growth of temporary employment in the public sector.
- The huge adjustment of temporary employment in the first phase of the 2008 crisis is explained by its rapid impact in the construction sector. As the crisis has progressed, job destruction has also impacted many permanent jobs (Banyuls and Recio, 2015).
- The various reforms that have delivered lower costs and easier dismissal procedures have not altered employers’ preference for temporary employment (Toharia, 2005; Toharia, 2011). As we explain in the next section, temporary employment is a resource that is part of a larger and

more complex raft of labour management practices, which aim to minimise labour costs and contribute to a dismantling of Spain's industrial relations model.

An alternative view of segmentation: new and old dynamics

Although rather discreet, labour market segmentation theory had already entered the debate on the Spanish labour market long before the analysis was reformulated into crude dualistic terms. A mandatory starting point is the contribution of Lluís Fina and Luis Toharia in the 1980s (Fina *et al.*, 1989; Fina and Toharia, 1987), which addressed the causes of unemployment during that period. For them, the analysis of the Spanish labour market could not be separated from the analysis of the characteristics and dynamics of the production structure and business policies. The depth of the crisis and the rise in unemployment during the 1980s was largely the result of opening up the Spanish economy to internationalisation, with massive job losses in outdated and over-sized industries. After the sharp rise in unemployment in those years, its continuity over time is largely explained by a truncated process of modernisation. On the one hand, parts of the traditional sectors (agriculture, retail, some small industrial activities) with high levels of informal employment were modernised and yet Spanish businesses at the time lacked the capabilities and structures to generate stable, decent quality, formal jobs. On the other hand, the public sector was insufficiently developed, although its growth during the 1980s played an important role in the consolidation of an educated middle class.

The Spanish labour market has always been strongly segmented (Recio, 1999). Leaving aside the public sector, with its specific labour system, a central difference exists between big business and the huge mass of small and medium-sized enterprises (SMEs). In the former, internal labour markets were developed, while in most SMEs a system of highly personalised labour relations prevailed. The collective bargaining system implemented in 1959 reflected this duality with the combination of enterprise agreements, particularly in the large firms, and sectoral agreements, in which the working conditions of SMEs were established and where union presence was practically non-existent. This resulted in a significant wage differentiation. In addition to this, sectors with a high level of seasonal employment (tourism, agriculture) or temporary employment (construction) have for many years exerted a strong weight in the production structure, and other areas of the economy have generated important and persistent spaces for the informal economy where the work is mostly performed by women (e.g. domestic service, clothing industry, some industrial activities,

small assemblies and so on). All of this accounts partially for the high level of temporary employment showed by the Labour Forces Survey (LFS) in 1987 that questioned the alleged rigidity of the Spanish labour market. Rather than a dual market, we have faced for many years a series of interacting labour segments that offered varying degrees of labour protection, remuneration and rights. At the peak are situated the major energy and finance companies (along with some of the large, successful industrial companies) and at the base small businesses and sectors characterised by high labour turnover.

The transformations that took place in subsequent years have only strengthened this differentiation due to both the effect of the legislative changes that have facilitated the deregulation of working conditions and the substantial organisational changes adopted by large companies. In these processes we can detect two parallel dynamics: firstly, the expansion and remodelling of secondary markets; and secondly, changes in the conditions in which domestic markets operate towards greater individualisation of working conditions and increased flexibility.

The extension and complexity of secondary markets: temporality and outsourcing

Changes in regulation have fuelled the growth of employment precariousness, but it is a considerably more complex process than suggested by conventional analysis which simply states that the high volatility of temporary employment is caused by an excessive protection of permanent employment. In the previous section we have already noted some of these aspects, such as the high concentration of temporary employment by sectors, which is partly owing to the different degree of variability in demand. But there are other issues to be considered. The use of temporary and part-time employment is due in many cases to a business strategy to minimise labour costs, and to consider such contracts as an adjustment mechanism. For instance, a fall during the summer of employment in the education sector is a recurring fact, caused by the massive use of discontinuous fixed-term contracts in the sector. However, such contracts are also a clear control mechanism, since employers can reward appropriate worker behaviour with a succession of temporary contracts.

The extension of part-time employment is also due in large part to this time management logic in all those activities where activity peaks predominate on certain days or hours, as is the case in retail, hospitality, leisure activities and care services for the elderly, among others (Recio *et al.*, 2015). The minimisation of working time has become part of the dominant model of personnel management (O'Reilly and Fagan, 1998; Sandor, 2009), especially as the commodification of service activities has demonstrated the importance of time constraints in many

activities (Rubery *et al.*, 2015). The extension of temporal flexibility is one of the forces which promotes the extension of short-term employment and the spasmodic use of the workforce as an adjustment variable. Some studies show, in addition, that temporary and part-time contracts are also a mechanism to intensify work effort (Moreno *et al.*, 2014; Pinilla, 2004).

These contractual forms are often presented as an employment form that favours the reconciliation of work and home life and as a pathway for women's entry into the labour market. However, their expansion is concentrated in the services most affected by irregular and unstable working-time patterns and characterised by very low levels of wage income. Often it is not only the problem of too few hours of work and little income, but also too few hours during anti-social and undesirable times or even, which is probably worse, at varying schedules at the employer's demand (particularly in retail and hospitality).

We should also take into account the intense immigration experienced in Spain during the last phase of economic growth. This fuelled a segment of secondary, unregulated and informal employment, which is totally beyond the control of unions or public bodies (Recio *et al.*, 2006). Elderly care is probably the sector where this type of employment is most expressive, although the presence of migrant workers employed in such conditions is also important in agriculture, construction and hospitality.

The other motor of change is the outsourcing of productive activities, which has notably progressed, although it is governed by different organisational patterns in each sector. Compared to the model of the large, vertically integrated companies, today most large companies are characterised by organising production around a huge national and international network of suppliers and auxiliary companies that perform substantial functions in the production process (Alonso and Fernández, 2012; Grimshaw and Rubery, 2007; Harrison, 1997; see also Chapter 4 in this volume).

This transformation has occurred following different routes. A general trend has involved business strategies to outsource those activities considered ancillary or secondary (e.g. cleaning, maintenance, catering, security, logistics, assembly) to companies that specialise in these tasks (Aguilar, 2001). A second trend has involved the unbundling of the production process and subcontracting a wide range of activities to outside companies (this can be seen in sectors such as the automotive or the civil construction sector) (Banyuls and Lorente, 2010; Recio, 2007). A third trend has taken place in sectors where, paradoxically, there has been a growing concentration and centralisation of activities at all stages of the production process – especially those activities concerning retail and design – while other phases are outsourced to companies over which strict control is exercised in all that affects the production cycle (quality, delivery deadlines and

so on); we witness this pattern most notably in the food and textile industries (Castillo, 2005a). The fourth trend highlights the process of privatisation and the outsourcing of public services, generated by policies designed to dismantle monopolies and, it is claimed, to generate greater productive efficiency among private enterprises (Recio Cáceres, 2014). These four processes converge in a way that has favoured the configuration of large enterprise networks with a smaller labour core, but with a capacity to influence the employment relations and productive activities of a far wider production space. In many cases, the networks of production replicate themselves with an ever-growing number of tiers of contracting generating production chains that can result in activities carried out under conditions of informality (Castillo, 2005b).

The conventional argument that justifies this reorientation is that of efficiency and flexibility. Greater efficiency is explained by the advantage of labour division and specialised knowledge. Flexibility regards the consideration that we are facing increasingly volatile markets, rendering the traditional stock-adjustment model undesirable. Smaller-sized, less-integrated companies would have a greater ability to respond to this variability, through the reconfiguration of their own production network and, in turn, each one of these specialised companies could reconfigure its activity by placing themselves in other parallel networks. However, there is evidence that calls these arguments into question. On the one hand, it is found that large business groups end up being established in the field of ancillary services offering a very extensive range of activities, which contradicts the argument of the effectiveness of specialisation. On the other, neither does the flexibility of the overall production network seem clear as a mechanism of adaptation to the economic changes. For instance, in a sector highly disaggregated, such as construction, the current crisis has exposed the inability of the sector's production network to adapt to demand sinks or to move to other activities. At any rate, what is interesting is to observe what the impacts of these policies are on working life. Here we illustrate three issues.

In the first place, outsourcing is almost always a path to reduce wage costs, given that in most cases, external companies operate in labour frameworks where wage conditions are inferior. This becomes evident in the case of ancillary activities where in several countries in which studies were undertaken collective agreements provide for lower wages or are absent altogether (Dube and Kaplan, 2010; Havard, Rorive and Sobezck, 2009; Prieto *et al.*, 2011; Lethbridges, 2012). There are many reasons that account for this: the greater difficulties of union organisation related to the fact that employees in these sectors are often isolated spatially; the competitive pressures that these companies hold before their customers, which lead them to exert downward pressures

on labour conditions; and the social valuation of these jobs where outsourced can often be conflated with meanings about 'low-skilled', 'simple' and unimportant activities, which have a damaging impact on these workers' bargaining capacity.

But this same situation can be seen in the subcontracting of activities of other kinds. In some cases, outsourcing allows subcontractor companies to operate in collective agreements more appropriate to their own interests or even to differentiate the collective agreements of each of their plants (Castillo, 2013). For instance, in the motor industry one supplier firm can have different collective agreements depending on the area in the country in which it is located (using territorial collective agreements) or the specific product manufactured (using sector agreements) (Banyuls and Lorente, 2010). In other cases, as in the construction sector, the enormous fragmentation of the production process, and constraints on the use of time in each one of the different teams, opens the way for a low ability to control labour conditions and leads in many cases to the breach of certain labour conditions (Bosch and Philips, 2003; Recio, 2007).

In the second place, the chains of production have been found in certain situations to generate greater control over labour. Workers in subcontractor companies are likely to be subject to a double hierarchy: that of their employer and that of the client organisation to which they are contracted. As the detailed case studies in Rubery's work with her Manchester colleagues show, this may involve the sharing of workspace with client managers, or strict controls by the client over product and service quality, or direct client influence over staff deployment and discipline (Marchington *et al.*, 2005). This has an impact on labour process issues such as work rhythms, control of safety conditions and other issues (Castillo, 2005a).

This 'double' direction effectively shifts part of the conflict at the heart of the employment relationship to an external actor, which is outside the negotiating frame of subcontracted worker and employer and sets the interface with customer demands (Moreno *et al.*, 2014). A particular and especially interesting case is represented by the use of temporary work agencies, because in this case the worker is completely under customer orders. In Spain, working conditions depend on the collective agreement that prevails in the company where one works. The temporary work agency only has secondary control over their labour activity – most importantly, to 'reward' workers with new contracts in case of good behaviour. And yet regarding job security and bargaining for workers' labour conditions, agencies are relatively helpless. When, after a strong trade union mobilisation, a legal reform required the equalisation of the wages of agency employees with employees in the client organisations, the market response was the creation of new service companies. These companies assumed

the labour activity of a part of the production process, had their own collective agreement (or were cooperatives) and favoured wage discrimination in the sense that bargained wages are usually lower than those formerly paid by temporary work agencies. Moreover, in some cases this new organisational form results in the appearance of 'false' self-employed workers who are tied to the service company through individual negotiation and do not enjoy the protections enshrined in labour law.⁵

In the third place, subcontracting opens up a process of continuous pressure on working conditions, since it frames the necessity of adaptation in seemingly 'objective' terms whereby the subcontractor must adjust working conditions in order to avoid losing the contract; in other words, it shifts the blame outside the sphere of union influence. It is a kind of pressure that has similarities with that affecting employees of core companies, especially those operating internationally, which practice a similar strategy of fragmentation of units (plants) that must compete among themselves (Banyuls and Haipeter, 2008; Korczynski, 2004). The automotive sector is illustrative; it has combined internal flexibility with increased subcontracting (inside and outside the plants) focused around enhanced production specialisation and reduced labour costs (Banyuls and Lorente, 2010). At upper levels, activities with higher added value are carried out and as the pyramid descends, pressure for cost reduction is more intense. In the lower rungs, activities with less added value are carried out by a less-qualified workforce subject to worse working conditions. Greater labour instability, more deregulated labour relations and more intense work are elements that have facilitated cost reduction. Ultimately, the uncertainty to which the matrix company is subject shifts to the ancillary company and, in turn, to its workers. Different studies (Banyuls and Haipeter, 2008; Recio *et al.*, 1991; Martínez and Pérez, 2000) show that the use of subcontracting, network structures with the purpose of increasing production flexibility leads to increased labour flexibility across the entire network and a worsening of employment conditions.

The transformation of stable jobs

Increased use of outsourcing and continued high reliance on temporary employment contracts have not left intact the conditions faced by workers with permanent contracts of employment. Considering all permanent workers as a homogeneous collective is a mistake since it loses sight of the substantial differences that can be detected according to the size and type of organisation. The most important changes have occurred in large companies, since in small firms there remains a more personalised and informal management system. A great

variety of labour management practices have been introduced in recent years, aimed at transforming employment conditions and increasing the individualisation of employment conditions under the stated goal of the flexibilisation of labour conditions (Pérez de Guzmán and Prieto, 2015). Permanent jobs today are, in many cases, rather different from those 20 years ago, something that has also been strengthened by the generational renewal of staff.

Among the new management practices, the introduction of time flexibility measures and of new remuneration systems oriented to the individualisation of labour relations stand out powerfully. Although these processes have been in great part introduced through collective bargaining, in practice they have allowed companies an important degree of freedom in labour management and they have favoured increased wage differentiation. In some large companies, two-tier wage scales have come to be introduced for incumbent and newly recruited workers and, although this is illegal, in practice it has resulted in the gradual reduction of salaries for new employees. In some sectors, such as finance, the use of individual incentives is so widespread that it is customary to perform unpaid overtime to meet performance targets for the salary bonus. As for professional markets, traditional recruitment policies have been replaced by more competitive processes in which some applicants end up being excluded or relegated to precarious underemployment (Oliva *et al.*, 2012).

Analyses of collective bargaining show that all these policies have resulted in a sustained pattern of wage moderation (Gutiérrez Calderón, 2011; Sanabria, 2013). In addition, unions have prioritised job creation and reduction of precarious employment rather than real wage gains and within corporations different units and plants have increasingly had to compete via cost concessions to maintain employment and investment from the centre. The 2012 labour reform, by introducing mechanisms that break the collective bargaining model, opened new potentialities for employer policy and practice. The legislation grants privileged status to the company agreement and therefore provides new ways for companies to detach themselves from the conditions collectively agreed at sector and regional levels. This offers new opportunities to the myriad small and medium-sized businesses with scarce union representation for introducing labour conditions *à la carte*, and of generally increasing wage inequality and differences in labour conditions. While it is still early to assess the net impact of this reform, preliminary analyses provide a fairly clear result – that the deregulation far from generating greater equity in the labour market has resulted in wage cuts in precisely those sectors that already had the lowest wages (Lago, 2015).

Conclusions

The interpretation of labour market segmentation solely in terms of duality has turned into the key reference point of the main international organisations for employment policy and of the academic world. It promises both a powerful analytical model (underpinned by neoclassical economics rigour) and clear recommendations for policy. It suggests that reduced precariousness and visible inequalities in the labour market are achieved by eliminating the excessive protections enjoyed by core segments of the workforce. In one sense, these models extend to the labour market the simplistic assumption that perfectly competitive markets lead to the maximisation of collective welfare. In the case of Spain, a country affected by high shares of people in temporary employment and unemployment, this model has become a persistent axis of the public debate.

In our analysis of this debate, this chapter has identified the shortcomings of this approach and raised doubts about the stylised temporary–permanent duality of the Spanish employment model. Detailed scrutiny of the Spanish labour market reveals enormous diversity of working conditions, and not just a proliferation of non-standard jobs, in a way that is far more complex than the portrait presented by the orthodox approach. Employees with stable contracts in outsourced sectors experience labour conditions similar to those of temporary employees. Even temporary employment itself has a different meaning, depending on the context in which it has emerged. There are significant differences for stable employment and what it means by type of business, productive network position or productive sector. These differences have implications for wages, careers, working conditions and working hours. Also, internal labour markets have been weakened but differences persist between companies. Diversity is also present in temporary employment and in the secondary market, both characterized by a remarkable diversification of situations. For example, some professional markets facilitate mobility, while other spheres of the economy are characterised by perfectly bounded secondary markets – such as youth employment in fast-food chains and the textile industry and related informal spaces where immigration policy plays a crucial role. Analyses using cluster methods (Prieto *et al.*, 2011) or working life data (Miguelez and Lopez Roldan, 2014) show that we face an increasing picture of social diversification and a continuum of increasing inequalities, far away from a stylised dual market model.

The analytical question is not only to determine the character of labour market segments, in Spain and elsewhere, but also to understand their dynamics. Contributions from comparative labour market segmentation theory explaining the changing patterns of national employment models (Bosch *et al.*, 2009)

are far more useful in explaining contemporary labour market transformations than the orthodox economics approach. The Spanish case shows clearly that labour market trends cannot be understood as the mere result of a handful of labour regulations. Therefore, we consider the institutionalist approach of segmentation more appropriate for analysis, since it shows the plurality of factors involved in shaping labour markets, and crucially the importance of business strategies in shaping labour segments. At a general level of analysis, the situation of labour market segmentation reflects the nature of Spain's production system, its positioning in the world economy, and the productive and social options of Spanish elites. These options have for many decades generated a societal lock-in around low wages and precarious labour conditions rather than promoting a high-skill production model in technology and quality production. To a great extent, deregulation policies do nothing but help to maintain this model.

We end with a response to the current policy proposal in Spain for a single employment contract as a means to eliminate duality. The orthodox approach needs to recognise that, firstly, various labour reforms to cut protections for permanent employment have not generated the desired change and, secondly, the early effects of the 2012 reform seem to go in the opposite direction by in fact worsening labour conditions of so-called 'outsiders'. This is a predictable outcome based on a reading of the labour market segmentation approach associated with Rubery's work and members of the IWPLMS: in deregulated labour markets, where individual entrepreneurs have greater power, greater differentiation of labour conditions occurs. Imagining a world with inclusive development that generates better labour conditions for everybody requires a radical rethinking of interventions from a global perspective that encompass macroeconomic, institutional and organisational change.

Notes

- 1 Since 1984 until the present, more than 50 labour reforms have been implemented in Spain. The major reforms, judged by the significance of their change, took place in 1984, 1992, 1994, 2002, 2010 and 2012.
- 2 From 1984 to 2001 fixed-term contracts were without economic compensation. In 1997, a labour market reform placed some limits on the length of the fixed-term contracts. In 2001, the government established a small dismissal cost for this type of contract: 8 days' pay per year of tenure. In 2010, this compensation was increased in some cases to 12 days' pay per year of tenure.
- 3 This connects with another one of the reform proposals that was implemented during these years: the necessity of reducing wages and of making them flexible, with a change in the collective bargaining model. The proposed line is that there must be a shift

towards a negotiation model that is decentralised, individualised and at the company level, not the sectorial level.

- 4 This proposes that a single employment contract should replace the several types that currently exist. The objective is also to reduce the costs and simplify the process of dismissal. Currently, individual dismissals of permanent employees can be legally justified by economic or similar reasons and in this case the compensation is 20 days' pay per year of tenure (with a ceiling of 12 months' pay). The single contract proposes to remove the need to justify dismissals and that the value of the compensation would be incremental according to tenure.
- 5 Temporary work agencies pay their employees the same wage as those of employees directly employed by the customer firm. 'The "new service companies" are subcontracted to carry out a part of the production process and pay wages according to their own collective agreement. The most extreme case is the extensive use of "cooperatives", in slaughterhouses and in construction, where employees become "self-employed" and do not have labour rights' (Allepuz, 2000).

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