Employment, non-employment and unemployment: Portugal and Spain 1973–1993

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1. Introduction

This article is a study in contrasts: it addresses the remarkable disparities in the employment and unemployment experience of two countries that in general show considerable parallelism in political, economic and social features and developments: over much of two decades Portugal has been among the best, Spain the worst, employment performers in Western Europe (1).

Employment: During the "decelerated growth" period, which affected the whole of Europe from the mid-1970s, the Spanish economy *lost* a fifth of all jobs in the first ten years and then during the cyclical upswing regained them, ending up with a practically unchanged number of people in employment; by contrast, in the European Community (EC) as a whole, employment *grew* marginally during the same period; in even sharper contrast, Portugal *increased* its employment by about a quarter.

Table 1:

Employment
(Millions, rounded)

	Portugal	Spain
1974	3.7	12.9
1985	4.1	10.4
1991	4.6	12.6
1992	4.6	12.4

Source: OECD

Non-employment: In the last boom year – 1991 – half the population of working age in Spain was non-employed – either "inactive" or "unemployed" (about 5 million more than in 1973), against over a third in OECD Europe and not much more than a quarter in Portugal. The counterpart of such low employment, as found in Europe and particularly in Spain, is not only high unemployment but a large hidden labour supply.

Unemployment: This had been economically negligible before "deceleration", but rose – at varying rates – everywhere to a peak in 1985, and then, during the extended recovery period of the economic cycle of the 1980s declined everywhere: but at their lowest points, the Spanish unemployment rate was nearly *twice* that of the EC and *four times* that of Portugal: in the EC 8.7 per cent of the whole labour force was looking for work (1990), in Spain 16.3 per cent (1991), and in Portugal 4.1 per cent (1991). In 1993, Spain with 22.7 per cent and the EC with 11.3 per cent were back and indeed above their 1985 peaks, but Portugal with 5.1 per cent showed not much more than half its peak rate.

Table 2:

Unemployment rates (%)

	Portugal	Spain	EC
1964–1973	2.5	2.8	2.4
1974–1983	6.6	9.4	6.0
1985	8.8	21.5	11.0
1990	4.7	16.3	8.4
1991	4.1	16.3	8.7
1992	4.2	18.4	10.3
1993	5.1	22.7	11.3
(1994)	(6.0)	(23.8)	(12.0)

Source: OECD

The disparity between the two countries in their capacity to create employment and to contain unemployment is so pronounced as to demand analysis and interpretation. To attempt this, some well-established, to an extent complementary or overlapping, approaches will be pursued here. We shall use them as our framework for the analysis of the disparities between Spain and Portugal, but shall find that within it we cannot account for them fully and shall have to advance additional, not necessarily economic, factors and seek explanations in the inter-action of sociological, institutional and more traditional economic variables.

For that reason we prefer to think of the way specific employment and unemployment characteristics emerge across the concept of an "employmentsystem" to the conventional concept of a (mechanistic) "labour market". We see it as more than a market, where demand and supply rule fully: it is a market operating in a complex of political and social relationships and institutional features, a context in which behaviour does not exclusively exist of logical-empirical, but also of normative-affective choices and is in part shaped by the existence (or non-existence) of institutions. Kurt Rothschild, Amitai Etzioni, Egon Matzner, Maria João Rodrigues and Marinús Pires de Lima are among those who think in such categories (2). A recent EC White Paper speaks of employment systems as the whole complex of issues made up by the labour market and employment policy, but also as encompassing education and training systems and social protection (3).

2. Growth and Employment

It is plausibly suggested that changes in the rate of economic activity determine the level of demand for labour, with an appropriate time lag which, because of the relative "rigidity" of labour markets, can be quite long.

So in view of the degree of *functional* integration of Spain and Portugal into the European economy which was already very high in the early 1970s and, given the strength of international transmission mechanisms, the weak growth experienced by Europe could not but affect negatively the Spanish and Portuguese growth and employment performances.

What is, however, a most important element relevant to these disparities is the fact that *specific* rates of change in the growth of Gnp and *specific* rates of change in growth and use of capital investment are not uniquely correlated with *identical* rates of change in employment or unemployment. Portugal's much more favourable record suggests that, in spite of the growing internationalisation of the world economy, even small countries have *some* room for policy manoeuvre.

2.1 Differential Employment Elasticity

What we might call the *employment elasticity* of Gdp and of investment growth and the *unemployment elasticity* of capacity use of fixed capital were in a decisive period more favourable in Portugal than in average Europe and much more favourable than in Spain: comparable levels of economic activity had in Portugal a greater capacity for the creation of employment:

The higher employment elasticity of growth between 1983 and 1990 is in Portugal and Spain, as in all-Europe, *to a certain extent* due to a reduction in working time and the growth of part-time work (both of which meant that more labour was needed to get the same amount of output), the relative shift towards the service industries (which often are more labour-intensive than industry), and active labour market programmes and policies.

Table 3:

Output and employment growth

	Average annual output growth	Average annual employment growth
	1973–1979	
Spain	+ 2,2%	– 1,0%
Portugal	+ 3,1%	+ 2,4%
EC	+ 2,4%	– 0,2%
	1979–1986	
Spain	+ 1,7%	– 1,3%
Portugal	+ 2,0%	+ 0,9%
EC	+ 1,6%	– 0,1%

Source: OECD

2.2 Capacity Utilisation and Unemployment

The deceleration decade shows also distinct differences in the employment, or rather *unemployment elasticity* of the degree of capacity utilisation of capital equipment: lower levels of utilisation would be a consequence of lower levels of demand for goods and services and would – as one might expect – lead to higher unemployment.

In the four largest countries of *OECD-Europe* the link between capacity utilisation and unemployment in this period is what might be expected (4).

In *Spain* 1974 and 1976 capacity utilisation falls sharply, accompanied by only a modest rise in unemployment; from 1976 to 1985 unemployment continues to rise steadily and without interruption, even though there are no further pronounced changes in the degree of capacity utilisation (5). This implies continuing relatively strong rises in labour productivity. In Spain the adjustment to weaker output growth after 1976 was largely borne by employment (and unemployment). The maintenance of productivity growth was in sharp contrast to OECD-Europe (6).

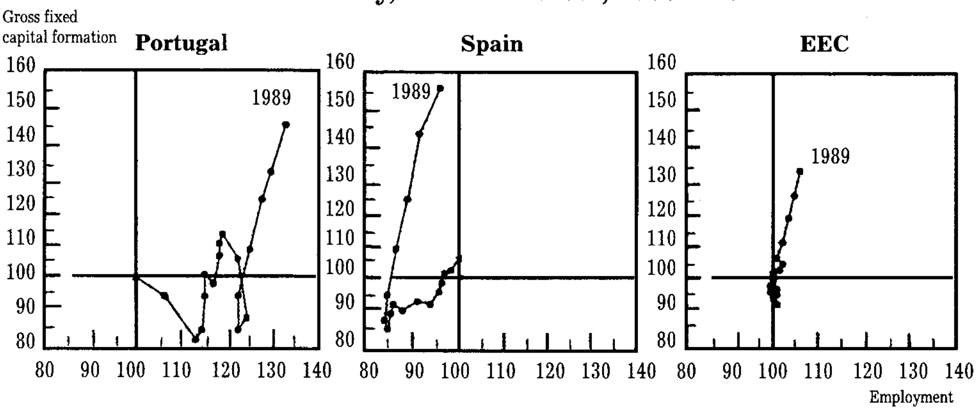
In *Portugal* unemployment continues to rise until 1979 as capacity utilisation first declines and then increases; after that, unemployment stabilises broadly, *irrespective* of capacity utilisation which first increases and then decreases (7).

2.3 Investment and Employment

Actively and passively associated as cause and effect with growth of demand is the growth of fixed capital formation: this shows clear differences between periods and countries as to rates of growth, but also as to employment-creating capacity – what we could call the *employment elasticity of investment.* (The diagrams show this for the main period of deceleration). What emerges is that increases in investment are associated with much higher increases in employment in Portugal than in Spain or indeed in the rest of Europe.

Diagram 1:

Investment and Employment, 1973–1989
Total economy, volume indices, 1973 = 100



Source: OECD Economic Surveys: Portugal, 1990/1991

To sum up our findings so far: the high *employment elasticity* of growth of output and investment and the low *unemployment elasticity* of capacity use of fixed capital in Portugal are important elements in its relatively good employment and unemployment record: the employment content of economic activity is high. At the same time it implies very modest growth of labour productivity, of approximately 1 per cent per year from nearly 7 per cent in the 1960s – this in a country whose *level* of productivity, and so of incomes, was in European terms relatively low to start with, and implies a marked degree of "underemployment" in many sectors of the economy.

The development of employment is mirrored only to some extent by the development of unemployment: Spain's originally very high decline in employment is associated with very high growth of unemployment. But its later very high *increase* in employment led to only a modest decrease in *unemployment.* In Portugal gains in employment coincided with rising unemployment and, later, employment gains with *falling* unemployment. In the EC as a whole nine million net employment posts were created between 1983 and 1990 but unemployment fell by only 1.3 million people.

2.4 The causes of differential employment elasticity

What explains the specific employment content of growth and the associated development of unemployment is, firstly, the fact that employment elasticity is linked to the *character* of investment and of production: in Portugal much of it was, in the long upswing phase, *capital widening* i. e. output- and employment-boosting (not least in public services, including human and physical infrastructure). Employment creation outweighed employment losses in some other lines of. production, linked to *capital deepening* i. e. cost and employment cutting, so that employment gains were markedly greater than in other European countries, particulary than in Spain.

It is also linked to the high degree of relatively *labour-intensive* products made and exported: Portugal's "revealed comparative advantage" can be shown to lie in such products. However, this does not further Portuguese economic policy regarding modernisation, catching-up and convergence implicit in the Maastricht accords on economic and monetary union of 1991.

It is, however, possible that Portugal has been able partly to escape from this dilemma by appropriate timing: while over part of the 1980s, the time of a slack labour market, the emphasis in its investment has been away from "sunset" (capital-intensive) industries, Portugal has geared its strong investment push of the last few years (including foreign direct investment and funds from the EC and EFTA), a time of increasing tightness of the labour market, less to extending capacity; its structural policies have been accompanied by rapid modernisation of the production apparatus (8). According to surveys, investment for extension fell from 63 per cent of the total to 41 per cent between 1988 and 1991 while the proportion for replacement and rationalisation increased from 31 per cent to 52 per cent. This is now increasing Portugals efficiency in international competition (9).

Greater labour intensity/employment elasticity of production and investment in one country, as in Portugal vis-à-vis Spain, is clearly not a question of national traits in entrepreneurial or management behaviour, but results to an extent from the relative costs of labour and capital.

Relative factor cost is partly government policy induced. High payroll taxes such as employers' and employees' social security contributions, by raising the *cost* of labour, discriminate against the *use* of labour and in favour of the use of capital. So does also the provision of finance for capital investment at preferential rates, which in Spain is a tradition inherited from the socio-economics of the Franco regime, in its policy of forced accumulation of capital. There is also the fact that in the later 1970s and early 1980s interest rates were very low, or even negative, everywhere.

So there was distortion of relative factor costs against the signals of Spain's relative factor endowment and empirical evidence exists that in Spain the demand for labour is rather sensitive to changes in real and relative labour costs. The resulting relatively capital-intensive production and investment mix is an important element in the unsatisfactory employment and unemployment experience of Spain in part of the period here under review. Conversely the fall in the relative cost of labour in the early 1980s contributed to the subsequent reversal i. e. a reduction of the capital/labour ratio, and the rise in employment after 1985.

The lowering of the relative cost of investment capital has clear social costs, but it also has economic benefits in terms of faster capital accumulation and less "overmanning". Obviously countries must strike a balance in their economic and social policies. It would appear that, in contrast to Spain, postrevolutionary Portugal tended to prefer the *social efficiency* of high employment and low unemployment to a – possibly narrowly-perceived – *economic efficiency* of more rationalised production.

3. The real wage gap

We must now look at a complementary approach. Much of the discussion concerning the reasons for the low rate of creation of employment and the high rates of unemployment in Europe in the deceleration period has in mainstream economics and politics been conducted across the concept of the "real wage gap". Basically this is concerned with changes in compensation per employee set against changes in output per employee; when growth of compensation exceeds growth in productivity, a wage gap arises i. e. the share of profits in value-added declines in the individual enterprise and as a proportion of national income; to optimise profits – the *ultima ratio* of economic activity in market capitalism – entrepreneurs are led to keep only the most profitable output and the most profitable workers: they will tend to curtail output and reduce the labour force and investment (10).

Whatever investment *is* undertaken will tend to be concentrated on cost and labour-saving (capital deepening). In this sense it is competitiveness on foreign and domestic markets, insofar as it depends on relative unit costs, that in a small or middle-size open economy is an important determinant of employment and unemployment over the medium term: the level of real unit labour costs corresponds to the wage share in output (11). If productivity rises fast enough, profitability *and* real wages can rise but, in any case, wages and profits compete in this neoliberal theoretical model. The existence of "wage flexibility" can help to maintain or regain higher profitability.

In this context it is interesting to note that in 1987, while labour costs per employee were in Spain about three quarters of the EC average, and in Portugal only one quarter, the level of unit labour costs (which are more significant in the context of competition) were almost the same in both countries (12). For the whole period of the 1980s and early 1990s percentage increases in Portugal were high by European standards and approximately twice those in Spain and matched changes in compensation per employee. In 1992 and 1993 the increase slowed appreciably in both countries, as in all-Europe, but maintained the differentials (13).

Consequent on contractive decisions is that reduced investment will continue to have a further negative impact on economic growth and associated employment – contributing to a vicious circle and delaying and weakening the cyclical move into a period of renewed growth and recovery of profitability ("hysteresis").

When the wage gap falls – or disappears entirely – an opposite sequence is set in motion. In 1983, when recovery from the recession associated with the second oil price shock appeared to be on the way in Europe, the OECD saw the difficulties of the preceding recession related to the fact that "in many countries the share of real national income going to profits had declined" in part associated with a rise in the share of labour in value-added (14); in 1986 they documented and welcomed the fact that there had now been a reversal of the real wage gap "that had opened up in the 1970's: "labour's share of national income has fallen consistently since OPEC 2, in some cases to levels below those prevailing in the early 1970 (15). The OECD uses the concept of the wage gap intermittently in its work on Portugal, but consistently as key variable and explanatory factor for the high unemployment in Spain.

3.1 The wage gap in Spain

In the last years of the Franco regime, pent-up expectations of a greater share in the fruits of the "economic miracle" came to the fore and underground trade union action strengthened with the growing signs that modification or the demise of the regime was in sight; at the same time, out-migration put additional upward pressure on wages. In the two post-Franco years of 1976 and 1977, with employees expecting a "democracy dividend", wages and labour costs in the non-agricultural sectors increased: the real wage gap in industry is estimated to have increased by 22 per cent between 1975 and 1979 (16).

From the Moncloa Pact of 1977 on, the labour movement showed great consensual and social solidarity in moderating wage claims; by the end of the 1970s the wage gap started to decline but the rate of labour-shedding and of the increase in unemployment continued; between 1980 and 1985 real wages growth averaged 4 per cent a year, but productivity growth 3.2 per cent; by 1985 the gap was roughly back to its 1975 level: the net shedding of labour and the rise in unemployment came to an end. By then, 2.3 million jobs had been lost. Unemployment now stood at 21.5 per cent, double the EC rate.

The recovery of growth of output, investment and employment by the mid-1980s is compatible with the "wage gap" approach. What cannot be explained within this model is why, so many years after the *elimination* of the wage gap, there are now three million people unemployment, fifteen times the number in 1964, before the wage gap had begun to appear, or nearly twelve times the number in 1971, before it began to widen.

The implications of the basic "wage gap" theory are clear: it is "excessive" wage claims that are responsible for, and explain the extent of unemployment as workers "price themselves out of the market and out of jobs"; thus unemployment is really "voluntary". These are well-known claims of our times. There are, however, a number of considerations that lessen the usefulness of the approach for analysis and for policy prescription.

3.2 Qualifications of the wage gap model

1. *Wage costs* incurred by the employer go far beyond actual wages and importantly include employer' contributions with respect to social security.
2. The size of entrepreneurial profits does not only depend on the extent of labour's share of value-added: it also depends on changes in the country's terms of trade, which deteriorated sharply in both Spain and Portugal in the wake of the oil and raw material price shocks: there was simply less left to share out between "capital" and "labour", and profits fell as well as real wages! The terms of trade became much more favourable in both countries after the mid-1980s.
3. In a survey of the Spanish economy of 1982, the OECD appears to have retreated from a "strong" to a "weak" real wage gap theory: the high level of wages is "not unrelated to the fall in employment over the last few years" (17).
4. Arguably the most important limitation of a "strong" wage gap theory is that the record shows that increases of the wage gap do not *automatically* and *inevitably* lead to employers taking contractive action. An example: pay, which had been relatively low in Spain, a fact closely linked to the socio-economic base of the Franco regime – a low wage, high profit economy with great capital-accumulative power – had already been rising rapidly from the mid-1960s, associated with the massive growth in output and the development of social and political changes, and even more in the early 1970s, by which time the real wage gap in the non-agricultural sector widened appreciably, *without* the negative effects on employment predicted by the "strong" wage gap theory. The rises in wage claims were "acceptable" because greater mass purchasing power translated into greater demand for Spanish products, profit margins had been very high to start with and, most important of all, business expectations of continuing buoyancy of the domestic and world markets were high. Enterprises did not want to risk labour shortages. In fact employment, output and investment continued to increase alongside growing wages and a growing wage gap.

The different reactions by Spanish enterprises to the profit squeeze in the early and in the later 1970s, namely continued expansion up to, and then contraction after 1975, and the experience of Portuguese businesses in the late 1980s when profits were squeezed but expectations remained high – would suggest that, with regard to the consequences of changes in the profit shares of enterprises, we are certainly not facing a technological datum, an "iron law" of economic nature, but a *discretionary position* taken by entrepreneurs as to what is an "acceptable" level of unit profits and as to whether an increase in the number of units sold, and so higher total profits, are feasible – though this position may very well be forced upon them by the nature of the existing socio-economic system and the short-termism within which it tends to operate. Even so, various considerations clearly enter into it to a very much greater extent than is allowed for by pure "wage gapists".

3.3 Portugal and the wage gap

The Portuguese wage gap record was not all that different. In the first two years after the Revolution, post-Revolution aspirations and expectations outran the (largely unchanged) pre-Revolution productive potential of the economy: real wages received by employees and also employers' contributions to social security and real wage costs rose by more than a fifth. They soon started to fall again until 1979 – unemployment peaked in 1979 – and then after a modest increase continued to fall until 1985 (between 1980 and 1985 real wages fell by an average of 0.3 per cent a year); linked to an austerity programme and wage cuts, real wages received by employees were back to their pre-Revolution level; by 1985 they were close to 6 per cent below it, but employers' wage costs were still 7 per cent above 1973 levels.

As a consequence of the government-engineered period of contraction in economic activity, the share of profits in national income had increased between 1982 and 1984 by way of the fall in real wages and an increase in productivity; profit improvement continued from 1985 through favourable developments in the European economic environment, in the terms of trade and in productivity. In 1988 the profit share remained unchanged; since 1989, there has been some fall but, faced with rising competition, mainly from Europe, business accepted a "sizeable squeeze on profit margins" (18).

It is notable however that, irrespective of rises and falls in the share of profits in the national income in this period, employment grew with few interruptions between 1973 and 1991 respectively and unemployment rose only in line with the increase of the labour force in the first period and was stable and then declined in the second period (19): the *wage gap* approach would have predicted stagnant or falling employment and strongly-growing unemployment.

The OECD comes close to accepting the irrelevance of the wage gap in the explanation of employment and unemployment developments in Portugal, when it raises the question whether perhaps "the cost of labour which has varied widely during the past ten years has little influence" on the demand for labour (20).

3.4 The wage gap, the NAIRU and the NAWRU

A sophisticated and for a time fashionable offshoot of the wage gap approach suggests that it is the level of unemployment which makes compatible the shares in national income that employees and employers claim. Governments use unemployment to slow down the rise in wages and in inflation, and in inflationary expectations. So what is of central significance is *that level* of unemployment that does not lead to rising inflation, the "non-accelerating inflation rate of unemployment" (NAIRU) and the "non-accelepating wage rate of unemployment" (NAWRU). Only if it is above that level can the existing rate of unemployment be improved. The *hysteresis* effect implies that during recent years this unemployment level – also known as the *equilibrium* or *natural* level – has actually increased in Portugal and certainly in Spain. According to a recent article Spanish unemployment grew strongly because the NAIRU grew strongly.

An earlier study had applied the approach to unemployment in Spanish industry and found that wage claims, as well as the rise in the price of imported industrial inputs and tax policy were responsible for the marked rise in the NAIRU and so for the marked rise in unemployment (21).

Using the NAIRU approach for Portugal and comparing the three contributory factors to the rise in the NAIRU which the study found important for Spain, we do not see a clear picture, but get some pointers: on the one hand Portugal experienced a heavier price rise for imported inputs (most of all, oil) than Spain, and thus a stronger deterioraton in the terms of trade; on the other hand, tax policies (mostly regarding the burden of social security) were more favourable in Portugal, for employers' contributions were a very much lower proportion of total wage costs. Thirdly: the respective "union/salary pressure" is difficult to measure, but after 1975 it does appear to have been less pronounced in Portugal than in the Spain of the transition period, partly because of union disunity and also the shift to "defensive" demands aiming at the protection of jobs, and so to have had a weaker impact on raising the NAIRU.

In the later 1980s, as Portugal progressively achieved near-full employment, the Ministry of Finance and the Bank of Portugal concluded that during 1989, 1990 and early 1991 (when unemployment had fallen to around 4 per cent), the rate was below "sustainable levels" (22) – the NAIRU unemployment level had been breached. One can assume that the minimum "sustainable" level is lower than that of Spain.

We conclude: both the growth/employment and the wage/employment approach have merit in interpreting *some* of the facts of Spanish and Portuguese employment and unemployment in the period under review here – they do *not* provide a full explanation and certainly do not explain the extraordinary extent of the employment and unemployment contrasts between the two countries: for this one will have to dig deeper.

4. The supply of labour: the labour force

We have looked at explanations for the differential demand for labour in Spain and Portugal. We shall now turn to the factors determining its supply, and see whether perhaps a stronger supply of labour in Spain was responsible for the much stronger appearance of unemployment. In 1974 and 1975 the Portuguese population of working age and the labour force grew three times as fast as that of Spain due to political factors, namely decolonisation; during the rest of the 1970s, growth was marginally slower and throughout the 1980s marginally faster. Demographic factors give us only the potential size of the labour force: not all persons of working age desire paid work. There is a notable contrast in "participation rates" which in Portugal are traditionally well above European rates (1991 about 74 per cent and 67 per cent respectively) and in Spain where they are much lower – 59 per cent (23).

However, whatever the changes in the absolute size of the labour force, large and continuing shifts occurred whithin it. In both countries the male contingent grew only modestly – and sometimes declined over the whole period, while the female grew quite fast. Furthermore, the rural labour force declined, leading to a considerable and continuing growth of the labour supply in the urban sector (that was – after 1973 – no longer relieved by outmigration). The move of labour from low productivity to higher productivity sectors had an important impact on overall economic growth. Depending on the state of the labour market, part of the population of working age withdraws from the labour force: they are "discouraged", they have no expectations of finding jobs and so no longer look for them. In 1991 their numbers were proportinately much higher in Portugal than in Spain but including them in the count would have raised the unemployment rate only marginally in Portugal and left the Spanish rate substantially unchanged. The number of involuntary part-time workers is also proportinately higher in Portugal.

The facts are that over this period the population of working age grew consistently faster in Portugal than in Spain, while the labour force is very flexible in both countries in response to changes in economic activity.

4.1 A Portuguese labour force miracle – or mystery?

In the period 1973 to 1979 (the two peak years of the economic cycle preceding and following the first oil price shock) the unemployment experiences of Spain and Portugal ran parallel: from economically negligible levels the rates rose (at first slightly more in Portugal) to comparable 8.6 per cent and 8.2 per cent respectively, both higher than the European average. But under the statistical surface the real situation was quite different, due to a labour supply shock from outside the *economic,* though from inside the *political* Portuguese system: with decolonisation, the population of working age potentially available for *civilian* employment jumped by at least half a million or a sixth.

The above rough estimate is quite within the limits of credibility, in view of the numbers of additional working age people that can be identified: between 250,000 and 350,000 *retornados* between the ages of 16 and 64, between 150,000 and 160,000 men who were demobilised from the armed forces with the end of the colonial wars and around 150,000 would-be outmigrants, frustrated by the deterioration of the labour marktes of core Europe.

According to the National Statistics Institute (INE), the "declared" labour force had increased by approximately 440,000 over this period while the number of unemployed increased by approximately 265,000, suggesting that about 180,000 (24) new jobs had been created (an increase of 14 per cent) at a time when in Europe employment was flat and in Spain *fell* markedly (by about 2 per cent a year). In 1986 the situation was summed up as follows: "Over the past twelve years (to 1985) the increase in the number of unemployed has been slightly below the increase in the labour force: from a book-keeping standpoint, unemployment can thus be entirely "explained" by the influx of labour due to decolonisation and the decline in emigration" (25).

Between 1979 and 1985, when unemployment peaked in Portugal, Spain and all-Europe, Spain continued to shed labour though at a reduced rate, and in Portugal and in all-Europe, employment rose marginally (26).

4.2 The role of migration

Labour supply to the domestic market was much influenced by the outflow and reflow of labour across country borders. Although migration rates differ considerably between Spain and Portugal, and between the various subperiods under review, the changing patterns do not seem to be related in any meaningful way to the great differences in the development of employment and unemployment of the two countries.

4.3 The "underground" or "informal" economy

It has been suggested that the – by now traditional – position of Spain at the top of European unemployment rates is an optical illusion in view of the extent of the underground economy. However, while there is evidence that Spain's underground economy is much larger than that of the European core countries there is *no* evidence that is so much greater than in Portugal as to explain Spanish unemployment rates being four times the Portuguese rates. New calculations based on EC criteria suggest that Portugal's unofficial economy is equivalent to 15 per cent of official Gdp (27). For Spain, recent studies suggest an unofficial economy of 25 per cent of Gdp (28).

5. Portugal's low unemployment – an illusion?

Are the very low rates of Portuguese unemployment merely a *statistical* phenomenon? Labour statistics have certainly had a bad press. However, starting with 1974, there has been steady improvement and the OECD and the EC have for a long time been instrumental in having the relevant data collected in a consistent and compatible manner in member countries or have adjusted them to this end.

The INE also publishes figures of the number of unemployed persons *em sentido lato* – as against those *em sentido restrito* (29) – which include those persons who are not actively seeking work during the reference period: in fact, they thus catch some or all of the "discouraged" workers and are slightly higher than the ones generally used by the OECD and in this article. The difference, which is slight between 1974 and 1982, jumps in the "austerity" year 1983 and then falls steadily to 1990: as the labour market improves, the number of "discouraged" workers declines.

There is *some* official underestimation of unemployment: the CGTP trade union estimate of the 1991 unemployment rate is 4.6 per cent (30) as against the 3.9 per cent of the Ministry of Employment and 4 per cent of the INE. The UGT trade union federation estimates the rate as 4.8 per cent (31).

It is sometimes claimed that low unemployment in Portugal is really a mirage, in view of the many underemployed, underproductive and underpaid people in agriculture and other occupations. Underemployment, underproductivity and underpayment certainly exist on a wide scale, but the underemployed do have jobs, the underproductive do produce, the underpaid do have an income. Even if in terms of a material contribution to social production, the difference between unemployment and underemployment may not always be significant: but it is vast in terms of human dignity and self-respect.

Even though there are statistical discrepancies, they are not of an order that would more than marginally affect the huge disparities between Spain and Portugal.

6. Historical legacy in economic development

Various factors suggest themselves as having been economically detrimental to Spain, but turn out to be widely mirrored by the Portuguese experience. There were in the first place the economic costs of Spain's transition to parliamentary democracy, which have been well documented (32): but Portugal's "transition", while very different, was hardly economically costless (33); the weaknesses related to Franco's socio-economic regime of bureaucratic capitalism that persisted have been described as "providing limits" to the maintenance of faster growth and the institutional structures as "creaking at the seams"(34); but such a picture would easily fit the socio-economics of the Salazar regime as well; in Spain, past growth created economic problems which would have "erupted even in the absence of the oil crisis" (35); and in Portugal they did erupt – aggravated by the political problems of the colonial wars.

In Spain as in Portugal the vital issues of increasing conflict between the needs of a dynamic economy and the political need to keep fundamental structures in place could not be addressed during the favourable international economic conditions of the early 1970s, because solutions would have shown themselves ultimately incompatible with the maintenance of the socioeconomics, indeed the very existence of the dictatorial regimes; so they had to be addressed with much greater economic and social costs in the unfavourable international conditions of the mid-1970s: the very existence of the structures which were unsuited to a less bureaucratic, more market oriented, capitalism, made adjustment, when it finally became unavoidable – and politically feasible – inefficient and not fully effective.

The defective structural features inherited from the dictatorial regimes had been superimposed on the burdens resulting from an earlier legacy: the "delayed industrial capitalism" and associated economic and social peripherality with regard to the "core" of Europe (36).

In Spain, there had been sustained growth of industry (including construction), whose output quadrupled in real terms over 15 years against a trebling of *overall* economic growth (37) and had by the mid-70s contributed 39 per cent to Gdp at current, and 46 per cent at constant 1964 prices and employment 37 per cent of the total workforce.

However, industry had not "matured" to that of the economic core of Europe in terms of structure, stage of development, pattern of output and proficiency of management. There was a high proportion of industries that come early in the industrialization process and which were facing only slowly-growing domestic and world demand. They were also facing heavy competition from newly-industrialising developing countries and to a certain extent from eastern Europe, both with their relatively low labour costs. The combined weight of steel, ship-building, textiles, clothing and footwear contributed 28 per cent to total Spanish industrial production, compared with 14 per cent in Germany, France and the UK. This handicap however also affected Portugal, where industrial output had trebled against total output doubling, and by 1973 51 per cent of Gdp at constant prices originated in industry while it employed 36 per cent of the labour force (38). The weakness in both countries was exacerbated by the way these very industries had been officially favoured in the main expansion phase. In Portugal, under the Caetano regime (just before its demise), the development of the Sines project of a port and heavy industrial complex added a further white elephant to that part of the industrial sector whose relative weight other European countries were at that time trying to reduce.

There existed also a dual structure of many very small enterprises (beside some very large ones) which did not always have assured markets outside the originaly highly protected home market, and were neither technologically nor managerially well suited to adjust smoothly to constantly changing, and, from the later 1970s, severely straitened world demand conditions. They were often unable to finance themselves out of their own resources and in the capital markets had to depend on a complex system of privileged channels favouring the politically and socially well-connected.

Here again we recognise the Portuguese experience also. An OECD survey adds the following "severe structural problems" which predate the 1974 Revolution – an underdeveloped infrastructure, widespread illiteracy, a large inefficient agricultural sector, and an archaic tax system – to the important impediments to the rapid modernisation of the Portuguese economy that the Revolution introduced (39).

While many factors imply difficulties in adjustment to a harsher economic climate after the mid-1970s – additional to those experienced in "core" Europe – they do not appear to differ enough between Spain and Portugal to explain the disparities. So with so much parallelism, what gave Portugal the edge? We suggest it was that, when in the key phase of the second half of the 1970s Portugal did finally modernise and restructure, it was done - in contrast to Spain – after a *ruptura:* it did at least not have to attempt to dismantle the economics and the politics of the Estado Novo with the previous ruling oligarchy – of the "forty families" – still in the driving seat of the economic system (even so, much of the bureaucracy of the old regime remained in place).

7. Portugal: some special features

Having discussed both the supply of and the demand for labour, it is now time to quote two groups of explanations for the Portuguese employment/unemployment experience that have been advanced:

1. The OECD concludes that the Portuguese labour market shares certain structural and institutional characteristics with several of the countries whose performance is "relatively good".

a) Unemployment compensation is very meagre.
b) Non-wage labour costs are fairly low as a proportion of total gross wages: 22 per cent in 1986 compared with 30 per cent or more in the majority of European countries that perform less well, and 32 per cent in Spain.
c) The sensitivity of wages in relation to changes in the unemployment rate is relatively high (as wage equations attest).

Some of this was due to unions holding back in defence of jobs (there were several tri-partite social agreements in the 1980s), to employers being commercially squeezed and to the regular (planned?) underestimation of future inflation levels at the time of wage negotiations. As to the technique of wage-cutting, some of it occurs as a consequence of bonus cuts when business is bad. An OECD survey (40) reports that in 1988 bonus payments amounted to nearly 12 per cent of total labour costs in Portugal, while in the largest European countries that proportion was about 4 per cent. A further technique for holding back or lowering wages was the widening of the gap between nominal and real wages, as prices rose in response to the regular, pre-anounced, devaluation of the escudo, a principal means for restructuring the economy until 1990.

A comment may be in order here: wage flexibility cannot be a oneway street. After restrictive periods there has been some catching-up. Most importantly: *in the long run* virtually all productivity growth is transmitted into wage increases. What enhances wage flexibility is an uneven pass-through of productivity gains (41).

A 1992 study confirmed that substantial long-run wage flexibility exists in Portugal, "likely due to the marked degree of employment rigidity" (42). This suggests a "virtuos circle": because employees appreciated that their jobs were secure, they accepted *temporary* wage moderation – which in turn made jobs more secure.

In earlier reports the OECD refers to a further number of factors specific to Portugal which – in the recession phase – alleviated the deterioration in the labour market: among them a temporary fall in the female participation rate and a temporary decline in the labour force; a revival of employment in agriculture; virtually no redundancies; the non-payment of wages and social security contributions in some ailing enterprises. These factors meant that the decline in activity was reflected in a fall in the labour force and in slack capacity rather than higher unemployment (43).

2. In her study of the Portuguese "employment system", Maria João Rodrigues discusses the difficulty the economic and social system had in coming to terms with the post-1974, post-Revolutionary, salary relations: the right to strike, restrictions on dismissals, the imposition of salary limits, the reduction in the working week, the emergence of now legal trade unions and collective agreements.

She concludes that for a very short time the economic and social system "accommodated" the new salary relations which led to an erosion of the profit rate, cutbacks on recruitment and so worsening of unemployment. Later it "rejected" and circumvented it in different ways and different periods by way of strong rises in inflation, a proliferation of limited-term contracts, the use of clandestine labour and a cheap labour policy (44). One can add: including the use of child labour and, more recently, of illegal immigrants.

While accepting much of the above analyses which are compatible with the earlier part of this article, one has to add the specific action of the Portuguese state in its entrepreneurial and job-protection role as a crucial explanatory factor for the relatively good Portuguese employment and unemployment experience in the period under review.

7.1 Portugal: employment and the public sector

Whereas everywhere in Europe (45) and not least in Spain (46), considerable public employment was created, the Portuguese government consistently, both directly and by way of the extensive nationalised sector clearly played an outstandingly important role in creating and maintaining employment and in limiting unemployment over much of the last fifteen years, particularly in the difficult decolonisation years of 1975 and 1976. The jobs were created in the civil service, in nationalised enterprises, notably banking, insurance, transport and communications, and in the educational and health sectors. A very large number of "retornados" were Portuguese civil servants *overseas* and therefore became automatically part of the Portuguese civil service of the *"Continente"*.

In addition, the worker self-management of about 800 smaller and medium-sized enterprises – a (temporary) unofficial public sector – was also frequently motivated by the will to protect and provide jobs. Land seizures, land reform and the large-scale intake of repatriates reduced the net loss in agricultural employment. Overall, state employment increased from about 200,000 in 1968 to nearly 400,000 in 1978 and over 500,000 in 1983 (47). In many cases the acquisition of state control after 1975 was specifically used as an instrument to bail out ailing firms and support employment. To take later examples, during 1986–87 a 10 per cent rise in public sector employment more than balanced a decline elsewhere in the economy and in 1989 job creation was strong, propelled by hirings in the public sector (48). The other side of the coin is that not only in agriculture but also in industry and services there is considerable "underemployment".

8. Deregulation of the labour market: the crucial contrast

With near-general agreement on the importance of labour market flexibility as a condition for solving the employment/non-employment/unemployment problem, what is disputed is the degree of regulation or deregulation that is required and is compatible with efficiency and equity. The extremes are indicated by the continental-type "modified" model which tended to focus on wage-claim moderaton and skill-enhancement, and the Anglo-American-type "radical" model which tended to focus on reduced employment protection and modest unemployment benefits, as well as wage inequality (49). In fact Portugal and Spain chose diametrically opposed approaches: arguably this determined their diametrically opposed records in the employment field. (The EC White Paper steers an uncertain middle course, though basically favouring a high-skill, high-productivity, high-wage labour scenario as giving the best chances of competitiveness (50)).

Following much advice from the OECD and neo-liberal economists inside and outside the country, successive Spanish governments from the late 1970s applied with decreasing strictness labour legislation that had been intended to prevent the layoff of workers, and from the 1980s they began to dismantle the whole job protection system that had been one part of the tacit "social contract" the Franco regime had imposed on Spanish labour: employment security had been granted in compensation for not only the scant human and political rights, but also the imposition of a low-wage, high-profits economy. The ending of this system in the post-Franco era came in response to the widely-held and strongly-propagated view that only freedom of enterprises to "hire and fire" – as it is often crudely expressed – could lead to new employment to balance the massive employment losses of the period (51).

As the results of the reforms were hardly encouraging, the idea took hold that even more severe reduction in job security for those employed and a worsening of unemployment benefit conditions were indicated in order to open opportunities for the non-employed, the latest instalment of the "reforma laboral" being instituted at the end of 1993 and the beginning of 1994, delayed for some considerable time by the strenuous resistance of the main trade unions, which culminated in a general strike on 27 January 1994, organised by the Socialist-inspired UGT and the Communist-inspired CCOO. The strike does not seem to have held up the measures. Years of negotiations for a social pact had been to no avail because the unions felt that no *quid pro quo* was offered in exchange for their giving up cherished employment protection rights and accepting drastic pay restraint. The sharp contrast between laid-off workers receiving high redundancy payments and others having to leave without compensation explains why the employers' organisation wanted to further deregulation, while the unions considered that it had already gone too far.

Over the same time a very different development had taken place in Portugal: for a decade and a half, there was no decisive change in the legislation and the practice that had been introduced after the Revolution that made it virtually impossible to lay off workers with permanent contracts in the public and the private sectors. Only in February 1989 came an important reform of labour legislation which simplified dismissal procedures and eased conditions as regards the termination of individual contracts and collective dismissals.

The different timings of the "liberalisation" and "deregulation" measures of lay-offs of workers makes the experience in Portugal and Spain and the significance for employment creation and unemployment containment wholly different: in Spain it occurred in the very period of the most pronounced slow-down of economic activity with its destructive impact on labour conditions and work opportunities: one cannot doubt that the increasing ease with which lay-offs could be made on *falling* labour markets contributed to the fast and excessively high growth of unemployment (52) – even though dismissals could still be expensive for enterprises in terms of relatively high redundancy payments. (These were strongly reduced at the turn of 1993/94.) Fixed term contracts – avoiding "jobs for life" – were useful, but became of real significance to employment creation only when the labour market turned up, as it did in the second half on the 1980s, and even then did not prevent the protracted decline of male jobs. In Portugal workers' jobs were much more strongly protected in these very years of greatest economic difficulty and protection was only reduced at a time of a *rising* labour market. The flexibility welcomed by enterprises in their changing economic conditions was provided by fixed-term and part-time contracts, that were introduced quite early on and had by 1991 amounted to 22 per cent of total employment.

By way of Employment Promotion Programmes and other legislation, temporary work contracts were made available and attractive to employers from 1984.

Various "non-standard" forms of employment (part-time, temporary, training, subsidised), while offering *some* paid work, created particularly in Spain a dual labour market of jobs that are relatively secure, tend to provide reasonable incomes and favourable career prospects, and others without these attributes: in a wider context, "precariousness" for the employee is set against "flexibility" for the employer, and trade unions are concerned that such non-standard jobs may at times not represent additional work places so much as the substitution of – often lower paid – *precarious* for *secure* employment. In fact, we observe in both countries, as in some parts of Europe, the trend that an increase in the *quantity* of employment is in part associated with a decrease in the *quality* of employment. Many of the non-standard jobs created in the late 1980s, and lost again in the 1990s, were taken by women in the services sector. By 1991, although the female participation rate had increased, the male rate declined by seven percentage points. By then limited-term contracts amounted to 32 per cent of all jobs in Spain.

While some governments are pushing further down the deregulation road, it is interesting to note that much informed opinion is turning against it, especially when one focuses not only on unemployment levels, but on the phenomenon observed in most industrialised countries of the growing number of "inactive" men, many of whom were doing unskilled and low-paid work in manufacturing and who, having lost their jobs, leave the labour force and disappear from the unemployment statistics (53).

In Spain – with its decreasing job protection – the male population of working age has grown by about two million in the last twenty years, but the male labour force has not grown. The number of non-employed men (inactive and unemployed) has risen by about 3 million to more than one-third of the male population of working age. Nearly two million women have newly joined the labour force but the number of non-employed women also rose by more than one million.

In Portugal – with considerable job protection over most of this time – the male labour force grew, though not quite as much as the population of working age, unemployment stayed under control and male non-employment accounted for less than one-fifth of the male population of working age.

There ist no specific reference to Portugal and Spain, but the draft policy conclusions of an OECD study now circulating among governments, but not to be published before June 1994, seems to negate the Spanish approach: they do emphasise the need for greater flexibility of labour markets to increase employment but suggest that the highly deregulated Anglo-American (and, by implication, Spanish) labour markets are not the answer and point to the side effects of American hipe-and-fire labour markets – rising wage inequality and in-work poverty as well as male inactivity which are economically and socially dangerous (54). As to wage inequality and low-wage job creation, the European Commission suggests that two possible consequences have to be avoided: to "exploit workers in a weak position in the labour market" and to inhibit the development of the high value-added, knowledge-based jobs which will be the key to future competitiveness (55).

As to another key aspect of deregulation, the much-trumpeted lowering of unemployment benefits and reducing the period of benefit for the purpose of getting people off the unemployment register, it is suggested that once male unemployment rates are replaced by non-employment rates, the simple correlation between benefits and joblessness breaks down. It does not appear to affect total joblessness, only how that joblessness is allocated between unemployment and "inactivity": men are simply pushed into being "inactive" by shorter-duration benefits as they no longer register and thus are removed from the active labour force and the unemployment statistics but still remain without jobs. (56).

9. Summary and conclusion

We have analysed the situation in the period of "deceleration" from 1973 to the end of the latest cyclical upswing in 1991. Growth rates began to decline with the onset of the latest recession, and with them employment, and unemployment began to increase in Spain and Portugal, as indeed in most of Europe: unemployment rates are forecast to reach (by 1994) nearly 24 per cent in Spain, 12 per cent in the European Union and 6 per cent in Portugal: the differentials remain substantially unchanged and Portugal remains one of the few countries in which the structural element of unemployment has disappeared, leaving only the conjunctural. Spain remains the country with the highest unemployment and the highest non-employment, and Portugal among the lowest unemployment countries in the EC.

Spain: The conventional models chosen here, applied to Spain, account for some of the unbroken ten-year-long loss of employment and rise of unemployment. More may be accounted for by the severe handicaps imposed by inherited structural weaknesses (many of them politics-related) under which the economy and economic policy-making were operating. One additional contributory effect is the "success" Spain has had in lowering inflation: contractive macro-policies can have an important impact on raising unemployment. In the conventional approach, high inflation, low growth and high unemployment are linked. There is, however, another view which is in fact borne out by the experience of Portugal and Spain, namely that in less-advanced countries a positive inflation differential during their catch-up phase can be compatible with the maintenance of external competitiveness and so of employment growth (57). On the other hand, strong disinflationary policies (as in Spain) can contribute to the growth of unemployment. Portugal has stepped back from facing down inflation regardless and so it has the much better employment/unemployment record.

Gradually neo-liberal precepts of decreasing national regulation of markets – including labour markets – had been applied, and removed ever-more-important parts of the employment protection system. This led to a sharply-defined dual labour market.

The losses in employment incurred by Spain in the ten years to 1985 were made up in the subsequent years but unemployment, though falling, never returned to its earlier low levels, although the presumed causes of this unemployment had been eliminated many years before. The social costs of unemployment were by no means compensated by economic gains. The poor record of investment over the same period left the Spanish economy at first less ready fully to grasp the opportunities of the international economic upswing. A warning may be in order: markets are undoubtedley useful, but too much – or the wrong kind of – labour market deregulation can damage not only your social but also your economic health.

Interestingly, the UN World Economic Survey issues a similar warning (though in a different context), suggesting that overall "the pendulum may have swayed too far in the direction of market orientation" and that over-reliance on market forces could be self-defeating (58).

In 1990, S. Bentolila, of the Bank of Spain, and O. Blanchard of MIT, published a study of the unemployment experience of Spain in which figure *economic* (but not the *socio-political*) explanatory variables similar to those used in this article. They conclude with a question mark and warn that "the very different employment experience of Portugal" (not covered in their study) "should give pause to anybody inclined to blame the Spanish experience *only* (our italics) on the legacy of dictatorship and an archaic production structure'; they suggest the desirability of a systematic comparison of the two countries (59). In discussing the paper, R. Layard of the London School of Economics commends it but is "not sure that we yet know (or ever will) why Spain's unemployment is so extraordinarily high' and is also struck by the Portuguese contrast, when otherwise economic and political factors seem to run parallel (60).

Portugal: To an even greater extent than in Spain, conventional, purely economic, models do not to any great extent account for the – by European standards – spectacular capacity of the Portuguese economy and polity to create employment and the equally striking related, but by no means identical, ability to keep down and then to reduce unemployment – in spite of labouring under inherited structural deficiencies comparable to those of Spain and under deteriorating economic conditions comparable to those of all-Europe. We suggest that it is based on the use governments made of the public sector and the modest amount of deregulation of the labour market.

So what led to a much more favourable model of flexibilising the labour market? We suggest that the missing explanatory link is located in the societal, political and institutional *context* created (and to date not fully eliminated), by the revolutionary experiment of the mid-1970s, a brief, but evidently formative, phase for public consciousness, social responsibility and social solidarity. The turbulent period had afforded a rare oportunity for creative social and political reflection, interposed as it was between two models of capitalism, the bureaucratic capitalism of the Estado Novo and the increasingly deregulated market capitalism of contemporary European neo-liberalism. Arguably such a favourable context does not exclude "market forces" as highly important elements in the creation of wealth, but helps to promote the functioning of markets in a more socially responsible and desirable way. It is not quite clear how such a socio-economic context had emerged in Portugal: to what extent it was brought about by conscious action and to what extent it arose spontaneously (61).

This context has been steadily weakened by constitutional and other changes as political power increasingly shifted from "post-Revolutionary" to "neo-liberal" social forces. The change found its clearest expression in the consistent progress of privatisation and an associated labour "shake-out" and in a major project of labour legislation – the "Pacote Laboral", which weakened employment protection. This issued from a PSD (conservative) government that obtained an absolute majority in Parliament in the 1987 elections which allowed it to "dispense with concertation" (62). The way this project was brought forward was one of the reasons for the general strike in 1988, which was supported by both trade union federations which up to then had not seen eye to eye – the originally communist-oriented CGTP and the UGT, the latter created in 1978, which had originally been close to the Socialist Party.

The general strike was clearly no flash-in-the-pan, but reflected the way dialogue and concertation had been weakened in recent years(63): industrial action, which had peaked in 1980/1981 in terms of the number of strikes, the number of people participating in them and the number of working days lost, and then fallen to its lowest level in 1988/1989(64), started to increase again and was by January/February 1992 back to its peak level (65). The views of the trade unions are expressed in lengthy interviews that J. Luis Judas of the CGTP and V. Hugo Sequeira of the UGT gave in 1988 (66).

So things are clearly changing under domestic neo-liberal imperatives and the imperatives of post-1992 European "convergence" at a time of recession. But, for the period here under review, we can point to the direct and consequential impact of the very weight of a public sector which after 1974 included many economic activities that in other European countries would be considered to belong more appropriately to the private sector, and to the use Portuguese governments of differing persuasions made of it in the employment context during some crucial phases. In various ways government legislation and direct and indirect intervention in the labour market had made labour-shedding difficult and at times virtually impossible.

It must be noted: both features, an extensive public sector and intervention in markets to create and maintain jobs, appeared incompatible with what – after the brief "socialist" phase – soon and increasingly became an undoubtedly market capitalist socioeconomic system, and both were strongly criticised by influential opinion and advice given both inside and outside Portugal as making or keeping the economy "rigid" and "inefficient".

What had made the Portuguese public sector special in the context of the maintenance of existing, and the creation of new, employment in a period of weak and fluctuating economic activity and uncertain prospects, was the longer-term perspective that public enterprises could afford, and were encouraged, to take.

They were to maintain employment and investment in the downswing phases of the medium and longer-term economic cycle in the confident expectation of the subsequent upswing, when the retained skilled and general workforce and increased productive capacity could allow the well-equipped enterprises to make fuller use of the new opportunities than the enterprise starved of human and physical resources. Such greater steadiness of public sector enterprises may well have had a similarly steadying impact on private business. Of course the public sector could not ignore the economic calculus in the long run – and there was a price to be paid for, as well as a social benefit to be had from, labour-hoarding even in the short run – but the economy was able partly to escape the damaging short-termism found in the policies of much of private business, a short-termism that may be, to a large extent, inherent in the socioeconomic system.

From such a perspective the priority Portugal appears to have given to "social efficiency" (higher employment, lower unemployment, capital-widening investment) over *economic efficiency* (capital-deepening, productivity-enhancing and job-cutting investment) appears in a fully positive light: *over the longer term* social efficiency can further economic efficiency.

The moral: Allowing a strong positive role to government as to the extent and character of investment and as to the labour market appears to run counter current economic and political thinking: the flavour of our time is "non-intervention" and "deregulation". However, an experience highly relevant to our concerns here – *hysteresis* – suggests that certain (negative) economic phenomena, such as high unemployment, do not – or do not fully - disappear, even when their causes have disappeared. Thus unemployment which has fallen sharply in Spain since 1985 (though more lately at a diminishing pace), is still about ten times as high as it was in 1973 when the wage gap began to build up and it remains disturbingly high by European standards. It is structural and not just conjunctural, and this although the Spanish real wage gap, held responsible for the unemployment, disappeared several years ago.

The moral could well be that to fight unemployment effectively it is best not to allow it to get out of hand in the first place: this is exactly what Portugal (in contrast to Spain) has done by taking government action to hold back excessive labour-shedding and by capital-widening investment in critical years of the period here under review, as against the capital-deepening which only *appears* more cost-effective in recessionary or slow-growth conditions.

Forgoing (in earlier phases) investment in physical and human skill capital – more, scrapping existing productive capacities and making previous work experience obsolete as a consequence of unemployment – may be an important reason for the hysteresis effect, for the persistence of high unemployment after its fundamental causes have gone.

In view of the complex interaction between employment, investment, training and growth and competitiveness, an application of the hysteresis concept suggests to us that the unemployment that was allowed to build up in Spain to such high levels in the first ten years of deceleration of growth – in the name of narrow and short-term criteria of efficiency – has caused the country's heavy unemployment *now:* by contrast, Portugal has little unemployment *now* because it had kept unemployment moderate *then.*

Notes

(1) In general data on employment, unemployment, Gdp growth, etc., are taken or calculated from various issues of the following regular publications of the Organisation for Economic Cooperation and Development (OECD), which have the virtue of being based on the "best" available national sources, but where possible are made internationally and inter-temporarily consistent. Where figures conflict as between different years of the publications, the latest available are used, on the optimistic assumption that they become more accurate as additional information becomes available. OECD Economic Outlook (quoted as Ec O), twice yearly; OECD Employment Outlook (Emp O), annual; OECD Economic Surveys Spain (ES Sp) and OECD Economic Surveys: Portugal (ES P), both approximately annual. All are published by OECD, Paris. Additional data are taken from various Eurostat publications and the Anuário de Estatísticas Sociais (Lisbon 1992).
Data based on additional sources are sometimes not fully compatible.

(2) See Rothschild, Kurt, Arbeitslose: Gibt's die? (Marburg 1990) and Theorien der Arbeitslosigkeit (Vienna 1988); Etzioni, Amitai, The Moral Dimension (New York 1988); Matzner, Egon; Streeck, Walter, Beyond Keynesianism (Aldershot 1991); Ro-

drigues, Maria, O Sistema de Emprego em Portugal (Lisbon 1988); Pires de Lima, Mariús, Relações de trabalho, estratégias sindicais, e emprego (1974–1990) in Análise Social 5 (1991). See also Brassloff, Wolfgang, Emprego e Desemprego em Portugal, no Contexto Europeu, Brotéria 5 & 6 (November & December 1992).
(3) European Commission (1993) 11.
(4) OECD ES P (1986) Diagramm 17.
(5) OECD ES SP (1986) Diagramm 14.
(6) Ibid., 58 and OECD Ec O (July 1991) Tables 17, and R19.
(7) Ibid.
(8) OECD ES P (1991) 24; OECD ES P (1992) 98.
(9) The whole problematic is addressed and placed in its wider sociological context by Brassloff Audrey, Portugal 1992 and All That, ACIS, (Autumn 1991) 25–37.
(10) In OECD ES Sp (1984) 14, the "real labour cost gap" is defined as "the difference between the growth in real labour cost per employee and prodcutivity growth adjusted for terms of trade changes", and "real labour cost" as "compensation per employee (average earnings plus social security contributions paid by the employer) divided by the private consumption price deflator, whereas real wages are calculated on the bais of average earnings only". A technical annex shows the way the real wage gap is calculated.
(11) OECD Emp O (1991) 59.
(12) 89 per cent in Spain and 87 per cent in Portugal. This is found in Nolan (1994) Table 4.4.
(13) OECD Emp O (1993) Table 1.4.
(14) OECD Ec O (July 1983) 9, 47.
(15) OECD Emp O (1986) leading article.
(16) OECD ES Sp (1986) 53.
(17) OECD ES Sp (1992) (1982) 30.
(18) OECD ES P (1992) 76.
(19) OECD Emp O (1991) Table 2.5.
(20) OECD ES P (1986) 38.
(21) De la Dehesa (1992); Dolado (1985).
(22) OECD ES P (1992) 75.
(23) OECD Emp O (1993) Table I.
(24) Pires de Lima (1991) Annex Table 2.
(25) OECD ES P (1986) 39.
(26) OECD Ec O (1991) Table 17.
(27) Expresso (1994).
(28) El País (13 February 1994).
(29) Anuário (1992) Table 6.
(30) CGTP personal communication to WB, 30. June 1992.
(31) Personal communication to WB 15 June 1992.
(32) E. g. Brassloff, Wolfgang, After the Spanish Economic Miracle: the Nature of the Crisis 1973–1983, in: Proceedings of the Fifth Conference of Hispanists in Polytechnics and other Colleges (September 1983) 53–77.
(33) See Robinson, Richard, Contemporary Portugal (London 1979) Chapters 6 and 7; Rodrigues, Maria (1988) Chapter III; Corkhill, David (1993).
(34) Merigó, E., Spain, in Boltho, Andrea (ed.), The European Economy. Growth and Crisis (1982) 554 ff.
(35) Ibid.
(36) Structural issues are discussed in special sections of OECD ES Sp (1981, 1982 and 1984), and in OECD ES P (1976), 8 ff. and (1991), 32 ff.
(37) Baklanoff (1978).
(38) Baklanoff (1978) Tables 8.1 and 8.5.
(39) OECD ES P (1991) 32.
(40) OECD ES P (1992) 94.
(41) OECD ES P (1993) 64.
(42) OECD ES P (1992) Annex.

(43) OECD ES P (1986) 34 ff.; OECD ES P (1988) 18 ff.
(44) Rodrigues (1988) 86, 94.
(45) European Commission (1993); Balls (1994) 127 f.; Glyn, Rawthorn (1994) 189 f.
(46) The setting-up of the autonomous regions has produced a marked increase in bureaucracy.
(47) Corkhill (1993) 36.
(48) OECD ES P various issues.
(49) Balls (1993) and Goodhart (1993) discuss some of the issues of labour market flexibility.
(50) European Commission (1993).
(51) In OECD ES Sp (1984) it is formulated thus: "removal of existing labour market rigidities and greater reliance on market forces is ... desirable. This will require ... increased flexibility in the hiring and firing of workers".
(52) See OECD ES Sp (1982) 11: "In industry ... the fall in employment gathered speed partly due to the reduced cost of dismissals for companies following the establishment of the Workers' Statute" (of March 1980).
(53) Balls (1993).
(54) Goodhart, Balls (1994) and Balls (1994).
(55) Employment Observatory (1993) 17.
(56) Balls (1993) 26.
(57) Larre, Torres (1992) 174 ff.
(58) UN (1992) 3.
(59) Bentolila, Blanchard (1990) 234 ff.
(60) Layard (1990) 271 ff.
(61) Matzner, Streeck (1991) Part 4 discuss "contexts" generally.
(62) Pires de Lima (1991) 925.
(63) Silva (1994) 38.
(64) Pires de Lima (1991) Appendix.
(65) Personal communication from CGTP to WB, 30 June 1992.
(66) Seara Nova, February-March 1988. This issue also has relevant articles by Torres, M., O Liberalismo Autoritário e a Legislaçáo Laboral, and Salgado Zenha, F, Consenso ou Ruptura? Sequeira, V, doubts whether the new labour legislation is in the spirit of the democratic order established on the 25 April 1974, 31 f., while Judas, J, speaks of the government being a class government that defends the interests of the bourgeoisie, 23 ff.

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