

## CHAPTER EIGHT

### THE STRUCTURING IMPACT OF TWO-TIER DEREGULATION IN SPAIN: CONCLUSIONS

Two-tier deregulation in Spain constitutes a clear example of how institutional change in advanced capitalism can become an important source of social inequality and conflict that has ‘consciousness’ effects and political consequences. Both the impact of policy change on labour market structures and the impact of these structures on socio-political attitudes and behaviour define what could be termed the *structuring* impact of deregulation. The case analysed in this dissertation shows that deregulation in institutionally filtered capitalism is capable of having a significant structuring impact.

In this study two interrelated theses have been defended. *First*, that, in a regulatory context characterised by high dismissal costs and a bargaining system that is unsuited for inclusive unionism, two-tier deregulation is likely to generate horizontal labour market inequalities. That is, persistent patterns of differentiation in the individual labour market opportunities of similar-productivity workers. *Second*, it has been argued that the position individuals occupy within these new structures of inequality can have ‘consciousness’ effects, from which political consequences follow. The likelihood that these ‘consciousness’ effects are actually triggered depends itself on how the potential labour market

interests these structures entail are filtered by individuals' own ideological maps (which are acquired outside the labour market through processes of political socialisation). Individuals' ideological maps, therefore, *mediate* the political effects of labour market experiences in an insider-outsider labour market.

### 1. The Impact of Deregulation on Labour Market Structures

*Part One* of this study has focused on the first step of this causal chain, that is, on the effects of two-tier reform on labour market structures. The argument is simple. A certain policy change (two-tier reform) implemented within a certain regulatory context (characterised by high dismissal costs and non-inclusive bargaining) affected the rent-optimisation strategies of employers and employees, as a result of which a particular form of segmentation (i.e. type-of-contract segmentation) was generated. This argument is based on an understanding of segmentation as having both an *endogenous* and an *exogenous* component. According to this understanding, the endogenous and immediate source of segmentation is the haggling and bargaining between employers and employees over the distribution of the employment rents that are generated in employment relationships. The employment-rent approach defended here, therefore, sees segmentation as always being originated in these rational rent-optimisation strategies of employers and employees. These strategies, however, depend themselves on *exogenous* factors and, crucially, on regulatory ones. Regulation is crucial for segmentation because it has a direct impact on both the *amount* of rents that are generated in employment relationships and on the rent-optimisation *capacity* of both employers and employees. The Spanish experience shows how crucial a factor (de)regulation can be.

Thus it has been argued that two-tier deregulation generated labour market structures of *horizontal* inequality (that is, inequalities in the labour market opportunities of similar-

productivity workers) *because* it had an effect on the rent-optimisation strategies of employers and employees. Drawing on recent contributions in the labour economics literature (see: Güell-Rotllan 2000; Bentolila and Dolado 1994), two mechanisms have been proposed that can explain the segmenting impact of regulatory change in Spain: the *incentive effect* and the *buffer effect*.

The *incentive effect* explains the impact of two-tier deregulation on employers' rent-optimisation capacity. In a context of high dismissal costs for permanent workers, employers use the possibility of renewal of fixed-term contracts as an efficient incentive mechanism. Even in those instances where asset specificity is high (and hence where there should be, in principle, a mutual advantage in maintaining open-ended employment relationships), an appropriate rate of conversion into permanent employment allows employers to elicit further output than the incentive costs the firm and thus proves to be a perfectly efficient incentive mechanism. Of course, the higher the asset specificity of the tasks to be performed, the higher the conversion rate needs to be in order to be an incentive-efficient alternative to efficiency wages in closed employment relationships. The incentive effect, therefore, helps us explain why fixed-term contracts have become the usual means of entry into employment in all occupational classes (fixed-term contracts reduce job-matching costs and create incentives for new employees at no cost to employers). It also explains why entries and conversions into permanent employment are higher among professionals (high asset specificity) and lower among blue-collar and unskilled non-manual workers (low asset specificity) (see *Chapter Three*). It also helps us explain why wage discrimination against fixed-term workers exists in Spain even when the Workers' Statute establishes the equal work-equal pay principle (see *Chapter Four*). The incentive effect means that fixed-term workers are not able to obtain the employment rents that high dismissal costs grant for their permanent counterparts. It also means that fixed-term workers' position vis-à-vis employers is significantly weakened, which intensifies what it has been

called ‘vertical’ antagonism between workers and firms (see *Chapter Five*). The incentive effect can thus explain horizontal inequalities between permanent and fixed-term workers as well as the intensification of vertical conflict between fixed-term workers and employers.

The buffer effect explains in turn the impact of two-tier deregulation on permanent workers’ rent-optimisation capacity. In a regulatory context of high dismissal costs for permanent workers and non-inclusive collective bargaining, an increase in the proportion of fixed-term workers increases permanent workers’ job security and hence their rent-optimisation capacity. *Chapter Three* has shown how the increase in the rate of temporary employment went hand in hand with an increase in permanent workers’ survival probability (i.e. job security). This phenomenon was found both within “service” (i.e. professional) and “labour” occupations. Similarly, *Chapter Four* showed how the increase in fixed-term employment was associated with an increase in permanent workers’ bargaining power and, thereby, with an increase in their wages (i.e. the insiders’ mark-up). In short, it was shown how two-tier reform was also to the advantage of insiders because the buffer effect increased their rent-optimisation capacity vis-à-vis employers. The buffer effect is, therefore, a further source of horizontal differentiation as well as the origin of potential conflict of interests between insiders and outsiders (i.e. ‘horizontal’ conflict).

Crucial for the understanding of the buffer effect is acknowledging that unions are *de facto* insider organisations in Spain. It has been argued, though, that the insider character of Spanish unions is a reflection of their weakness rather than of their strength (see *Chapter Four*). Also it has been emphasised that particular characteristics of the Spanish bargaining system (i.e. its scope and depth, its coordination levels, its inflationary bias and the degree of unions’ competition) are likely to amplify insider effects (see *Chapter Two*). Stronger and more cooperative unions acting in a different bargaining context would have been in a much better position to display inclusive representational

strategies capable of bridging the insider-outsider gap. The existence of this gap, as shown in *Chapter Six*, further debilitates the trade unions because it separates outsiders from the unions' realm (see below).

The buffer and the incentive effects are mutually reinforcing. The buffer effect implies that permanent workers' rent-optimisation capacity is enhanced with two-tier reform. A stronger insider workforce makes employers increasingly reluctant to convert fixed-term workers into permanent ones (because they fear future dismissal costs). Therefore, the buffer effect further reduces fixed-term workers' survival probability in the firm (given that fixed-term contracts have an *expiration* date). Growing insecurity for fixed-term workers implies, in turn, a greater efficiency of the incentive effect. That is, the greater the risk of becoming unemployed, and the greater the job security in permanent employment, the more willing fixed-term workers will be to work harder in order to get their contracts renewed. This further reduces fixed-term workers' employment rents and weakens their position vis-à-vis employers. There is, therefore, a feedback or reinforcing effect between buffer and incentive mechanisms. The evidence provided in *Chapter Three* and *Chapter Four* is consistent with this interpretation. This reinforcing effect of incentive and buffer mechanisms helps us explain why the rate of temporary employment is so high in Spain.

Yet it has been argued that neither the incentive nor the buffer mechanisms act in a linear fashion. At some point the mutual feedback ends. The renewal rate into permanent employment cannot be reduced linearly with the increase in fixed-term employment because if fixed-term workers perceive that they have no renewal prospects the incentive effect disappears. A minimum degree of conversion into permanent employment is thus necessary for the incentive effect to be efficient (see *Chapter Three*). Similarly, at a certain threshold, a further increase in the proportion of fixed-term workers in the firm could actually weaken rather than strengthen insiders' position. At a particular point, insiders will cease to obtain greater employment rents from

outsiders' increasing labour precarity (see *Chapter Four*). Insider unionism is a non-sustainable representational strategy in the long run because it implies the increasing reduction of the unions' constituency and, therefore, their increasing weakness.

Type-of-contract segmentation must therefore reach a sort of equilibrium state. *Chapter Three* has provided evidence that suggests that this equilibrium might have been reached at some point between 1991 and 1993. This is when the segmentation process stabilised with one-third of the Spanish workforce employed on fixed-term contracts and a yearly conversion rate of fixed-term contracts into permanent ones of only around 9 per cent. In this equilibrium state the unemployment rate fluctuated around the 20 per cent level, that is, the same level that led the first socialist government of Felipe González to implement the 1984 labour market reform. The combination of buffer and incentive mechanisms can explain why flexibilisation through fixed-term contracts in a context of high dismissal costs can have a negligible impact on the aggregate unemployment levels, while triggering intense segmenting effects.

In short, *Part One* of the thesis has shown how two-tier deregulation at the macro-level (*input variable*) implemented in a particular regulatory context (*intervening structural variable*) has had a profound impact on labour market structures (*output variable*), acting as a source of labour market differentiation that affects individuals' opportunities for both stable employment and wages. The cogs and wheels of this process have been provided by incentive and buffer mechanisms triggered by the rational rent-optimisation strategies of actors engaged in employment relationships at the micro-level. *Part One* has, therefore, offered a macro-to-micro-to-macro explanation of social change of the kind advocated by Coleman (1986) (see also: Hedström and Swedberg 1998,21-2; Edling 1998,3-6).

The evidence presented in *Part One* of this study shows that two-tier flexibilisation has produced a very significant differentiation of labour market opportunities within the ranks of what are usually taken to represent 'homogenous' occupational

groupings or ‘classes’ of employees. In Spain, workers on permanent contracts in working class occupations seem to enjoy job security levels typical of “service” employment relationships. Conversely, professionals on fixed-term contracts show survival probabilities that one would expect to find in “labour” employment relationships (see *Chapter Three*). In other words, neither working class employees on permanent contracts, nor professionals on fixed-term contracts seem to obtain the employment rents that should correspond to the asset specificity of the task they perform. This poses a problem for standard theories of class (at least regarding the class differentiation of employees).

An example drawn from *Chapter Three* illustrates this point. In 1997, 61 per cent of the workers employed in skilled manual occupations had a permanent contract. This segment of the skilled manual ‘class’ showed an unemployment rate of 6 per cent and an average job-tenure<sup>1</sup> of more than 12 years. Only 10 per cent of these skilled manual workers on permanent contracts feared losing their jobs within a twelve-month period. The remaining 39 per cent of employed skilled manual workers held fixed-term contracts. Fixed-term skilled manual workers showed an unemployment rate of 24 per cent and an average job-tenure of only 14 months. As many as 62 per cent of these skilled-manual workers on fixed-term contracts feared losing their jobs within a twelve-month period. Given these sharp differences by type of contract, does it really make sense to speak of *a* skilled manual class of employees in Spain?

Standard class theories tend to assume what Esping-Andersen has called an institutionally “naked” world of “unfettered markets” (Esping-Andersen 1993,8). This leaves them ill prepared to recognise the crucial role that institutions play in the formation of the actual structure of inequality in advanced capitalism. One could argue that standard class models disregard institutional

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<sup>1</sup> In this example I use average job-tenure figures as reported by those currently unemployed. For the purposes of comparison between permanent and fixed-term workers, the choice between current or last job tenure is irrelevant.

regulation because they focus solely on those essential and constitutive aspects that determine structured inequalities in capitalism. Only by addressing the most important and common features of capitalism, the argument would go, can institutionally naked models and their associated class schemas 'travel' across different institutional settings. Yet it must be noted that if institutional mediation is itself an essential and constitutive aspect of advanced capitalism, institutionally insensitive models can hinder rather than illuminate our understanding of inequality. The Spanish case shows that institutions do indeed matter because they can have a clear impact on labour market structures acting as a mechanism of inequality that has its own logic, one that cannot easily be subsumed within the logic of standard class models. That is why institutionally triggered segmentation poses a problem for orthodox class models.

It could still be argued in defence of standard class models that intra-class heterogeneity is not a new phenomenon and that its importance is always magnified if we take a cross-sectional and static look at the class structure. What matters is the dynamic understanding of class processes. But when the conversion rate into permanent employment is as low as in the Spanish case the dynamic picture still shows segmented professionals and segmented labourers. Moreover, the analysis of the dynamics of segmentation between 1987 and 1997 showed that buffer, incentive and feedback mechanisms have operated within the ranks of all standard occupational categories of employees. These processes of segmentation cannot be explained from within standard class theories that are institutionally blind. Doubts as to the *criterion* validity<sup>2</sup> of standard institutionally-blind class models in the Spanish case are not dissipated.

Perhaps a ten-year perspective is still too close to the ground. From a more distant historical point of view, one could argue, the analysed segmentation processes will only look like 'disturbances'

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<sup>2</sup> On validity see: Marshall (1998) and also: Bailey (1988) and Evans (1992b;1998).



that do not fundamentally alter the general logic of class differentiation of employees in advanced capitalism. From this wider perspective, variations influenced by institutional contingencies should not necessarily have to challenge the general standard class models. This does not seem a particularly compelling argument either. Institutionally generated inequalities do not have to be forever enduring. On the contrary, they might very well be ameliorated in the future. But the amelioration of institutionally-generated horizontal inequalities is not likely to occur 'naturally' as a result of their being subsumed within the logic of (standard) class differentiation. If the inequalities among employees analysed in *Part One* of this thesis are to be reduced in the future it will most probably be due to new regulatory change<sup>3</sup>.

In short, a clear implication of *Part One* of this study is that the differentiation of labour market opportunities within standard occupational groupings of employees questions the accuracy of employer-centred class models that do not account for the crucial segmenting impact of institutional regulation. Standard class models would find it difficult to explain the very significant differences in job security and wages that were found among workers performing the same sort of tasks in Spain. Only by accounting for regulatory exogenous factors of segmentation can this apparent anomaly be explained.

## **2. 'Consciousness' Effects of Type-of-Contract Segmentation**

One way of assessing the impact of institutionally generated horizontal inequalities is looking at their consciousness effects. If inequalities are profound, they should have attitudinal and behavioural consequences.

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<sup>3</sup> In this sense, a particularly interesting question to address in future research is the extent to which the labour market reform implemented in 1997 has reduced segmentation by type of contract in the Spanish labour market (see below).

*Part Two* of this study has analysed the consciousness effects of type-of-contract segmentation. *Chapter Five* has argued in favour of defining 'consciousness' as those attitudinal and behavioural aspects of individuals that have organisational consequences. These are the aspects that provide the link between individual subjectivity at the micro-level and organisational outcomes at the macro-level. *Chapter Five* has further defended the usefulness of differentiating between the industrial and the political realms, and between individuals' attitudes and their behaviour in each of these realms. This approach has proved fruitful.

At a theoretical level *Chapter Five* proposed a simple model to understand how the position that individuals occupy within the new labour market structures generated by type-of-contract segmentation could affect their attitudes and behaviour in the industrial and the political spheres. This model could be called the *ideological-mediation model*. The thrust of the model is that the likelihood that labour market experiences in an insider-outsider labour market have attitudinal and behavioural consequences depends on how the potential labour market interest these structures entail are interpreted or filtered by individuals' own ideological maps, which are acquired through political-socialisation processes that take place outside the labour market. One assumption of the model is, therefore, that individuals are ideologically influenced (or embedded) actors. A further assumption is that ideological maps are simple and not too rationally elaborated and that, perhaps due to their simplicity and lack of rational elaboration, they are fundamentally stable. This of course is a simplification.

The labour market structures explained in *Part One* were, therefore, used in *Part Two* as input variables (macro variables). The question addressed was to what extent labour market experiences in each of the two labour market segments considered could have attitudinal and behavioural consequences (outcome variables) and, crucially, *how* these consequences were triggered. The analysis in *Part Two* has been a search for micro-level

mechanisms that could help us explain the attitudinal consequences of being an outsider in the Spanish labour market.

### *2.1. Type-of-contract segmentation and trade union involvement*

*Chapter Six* dealt with the effects of type-of-contract segmentation on the industrial realm or what was called trade union involvement. The analysis showed that holding a fixed-term contract hinders participation in all union-related activities, regardless of workers' ideological maps and subjective identification with the trade unions. Fixed-term employment thus seems to act as an "objective" impediment for collective action. It was argued that two mechanisms could explain this finding: higher *uncertainty as to the returns* on collective action and, crucially, higher *discipline costs* (i.e. the costs of employers' reprisals). Both mechanisms are direct consequences of the segmentation process.

It was also found that labour precarity associated with fixed-term employment reduces subjective identification with the trade unions. The data showed that Spanish outsiders were frustrated with the existing organisations. Drawing on original qualitative evidence, a subjective mechanism of *dissonance* was identified. This mechanism helped us explain the process of subjective detachment from the trade unions. Qualitative evidence suggested that it was the contrast between the normative ideal of unionism and the existing unions that seemed to provoke outsiders' frustration with the unions. Based on this provisional finding, it was hypothesised that frustration should be greater among workers who, by virtue of their ideological maps, held greater expectations regarding the unions. This dissonance hypothesis was tested on representative samples using quantitative techniques and the results were positive. Labour market precarity seems to have a stronger impact precisely among workers who hold pro-working class or leftwing views. This finding is consistent with the general ideological-mediation model (ideological maps seem indeed to

mediate between labour market experiences and attitudinal outcomes).

Further research was carried out to investigate the extent to which the process of union estrangement could be explained as resulting directly from the perception that unions *only* defend insiders. Yet no evidence was found that outsiders' feelings of defencelessness were positively correlated to the perception that unions defend insiders. The view of unions as insider organisations does not seem to be the dominant source of frustration with the unions. Quite to the contrary, it seems that being disregarded by the trade unions mostly provokes the feeling among outsiders that unions have broken the promise of defending workers *as a whole*. Hence outsiders' frustration seems to be '*sociotropic*'. This is an interesting finding. It suggests that horizontal inequality between insiders and outsiders is not automatically translated into horizontal-antagonism awareness at the level of industrial attitudes. The ideological-mediation model can offer a plausible interpretation of this finding: frustration with the unions among outsiders could mainly take a *sociotropic* form because frustration is higher precisely among those outsiders who, by virtue of their ideological maps, are more likely to share solidaristic values (i.e. leftwing outsiders). It should not, therefore, be surprising that frustrated outsiders see unions as the 'failing authorities' and that they blame the unions for having broken the 'promise' of defending workers as a whole.

In short, the findings in *Chapter Six* show a clear process of union detachment among Spanish outsiders. It has been argued that the erosion of the workers' involvement with the unions represents a debilitating trend of the utmost significance. Trade unionism with low affiliation, as in the Spanish case, draws its strength from its capacity to mobilise workers. If unions cannot present themselves to outsiders as the legitimate representatives of their interests, outsiders will not mobilise and hence unions' power will be significantly weakened. Weaker unions will tend to fall back (even more) on their core constituency of insiders. The obvious risk is that unions eventually become organisations for the

defence of particularistic interests rather than general 'class' interests. In the long run, even insiders could suffer from this debilitating trend. The attitudinal consequences of type-of-contact segmentation could in this way further reduce the chances for inclusive representation of interests (a new reinforcing effect).

These considerations can offer an interpretation of the 1997 labour market reform, not analysed in this thesis. In April 1997, the two main unions, UGT and CC.OO., along with the employers' organisations CEOE<sup>4</sup> and CEPYME<sup>5</sup>, signed a new pact on further labour reform that was hailed by *El País* as "*probably the most important social agreement signed in Spain over the past 15 years*" (EIRR 1997,28; Richards and Polavieja 1997,41). The 1997 reform contained measures to re-organise the institutional setting of collective bargaining, which could counteract insider tendencies and, most importantly, introduced a new type of open-ended employment contract. This new contract combines an unfixed duration with lower termination costs. It is, therefore, permanent in nature, while significantly more flexible (i.e. cheaper to fire) than the old permanent contract. There is little doubt that the pact in itself constitutes a turning point for the trade unions. In agreeing to it, the unions seemed to recognise the connection between insiders' job security and outsiders' precarity in a highly segmented labour market and showed themselves willing to incorporate the concerns and demands of the outsider workforce (see: Polavieja and Richards, forthcoming, 2001). In the light of the previous argument, unions' agreement with the 1997 reform can be interpreted as a clear sign of their realising that insider unionism was not a sustainable strategy in the long run.

The evidence as to whether the 1997 labour market reform has achieved its goal (or might indeed achieve it in the future) is mixed, debatable and inconclusive (see: Richards and Polavieja

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<sup>4</sup> *Confederación Española de Organizaciones Empresariales*, CEOE (Spanish Confederation of Employers' Organisations).

<sup>5</sup> *Confederación Española de la Pequeña y Mediana Empresa*, CEPYME (Spanish Confederation of Small and Medium Enterprises)

1997; Polavieja and Richards, forthcoming, 2001). Analysing the structuring impact of this reform is an obvious path for future research.

## *2.2. The electoral consequences of type-of-contract segmentation*

In short, *Chapter Six* showed that type-of-contract segmentation did indeed have an impact on the patterns of industrial action. *Chapter Seven* investigated whether type-of-contract segmentation also had an impact on the patterns of electoral behaviour. Data availability forced us to restrict the analysis to the general elections of 1996. These elections were, however, politically crucial as they meant the first victory of the conservative *Popular Party* (PP) in contemporary Spanish democracy. Hence the findings regarding the impact of type-of-contract segmentation on electoral behaviour in 1996 are highly relevant from an empirical point of view.

On the assumption that vote intention materialised in actual vote, *Chapter Seven* showed that type-of-contract segmentation did have an electoral impact in 1996 because it favoured both inter-bloc and intra-bloc punishment voting against the incumbent *Socialist Party* (PSOE). In more precise terms, it was shown that in 1996 leftwing and ex-socialist voters who were unemployed as a result of the termination of their fixed-term contracts were *ceteris paribus* significantly more likely to vote both for the *United Left* (IU) and, crucially, for the conservative PP, than their permanently employed counterparts. Moreover, the analysis provided an explanation of the micro-connections that link labour market structures to these electoral outcomes.

*Chapter Seven* showed that labour market precarity associated with fixed-term employment is likely to enhance critical views of the economic order and attitudes favourable to socio-political change. This can be related to the intensification of 'vertical' antagonism. Labour market precarity is also likely to reduce subjective political involvement and provoke feelings of external

political inefficacy. These findings were interpreted as distinctive attitudinal manifestations of *political discontent*. Further analysis showed that the most common form of political discontent among outsiders was the combination of attitudes pro socio-political change and political disaffection. This type of attitude was termed *political frustration*. Indicators of political discontent can account for the observed electoral effects of type-of-contract segmentation. Leftwing outsiders punished the Socialists because they were politically discontent.

*Chapter Seven* also showed that electoral punishment cannot be explained by economic deprivation. Neither household income nor self-assessed personal economic situation can explain the significant electoral impact that being unemployed as a result of the termination of a fixed-term contract had on electoral behaviour in 1996. This is an interesting finding because it questions a recent argument put forward by Maravall and Fraile (1998;2000) and, more generally, a quite common sociological interpretation of Spanish families as institutions that reduce political conflict (see *Chapter One*).

Contrary to what these *familiaristic* approaches would probably expect, *Chapter Seven* showed that the experience of unemployment after precarious labour market trajectories in the flexible segment of the Spanish labour market can trigger punishment voting regardless of family income. It seems, therefore, that uncertainty regarding the future, together with discipline and dissonance mechanisms, can provoke political discontent among leftwing outsiders without a basis in economic deprivation. Political discontent seems to augment the desire for political change. This alone can provoke intra-bloc punishment. Inter-bloc punishment is further favoured by the combination of desire for political change and political disaffection, that is, by political frustration among outsiders. Political frustration reduces the perceived ideological differences between the competing parties and hence lowers the subjective costs of cross-ideological voting. A sort of “*no-one can do it worse*” attitude follows. This attitude favours inter-bloc punishment.

In short, the evidence presented in *Part Two* of this thesis suggests that institutionally triggered labour market inequalities can also have significant consciousness effects. In Spain they did by so by separating workers from the trade unions, and leftwing voters from the Socialist Party.

The Spanish case, therefore, illustrates the extent to which institutional deregulation can have an impact on labour market structures and on socio-political attitudes and behaviour in the industrial and the electoral realms. Advanced capitalist societies are institutionally filtered. Accounting for the structuring impact of institutional deregulation sheds light on the nature of inequality in advanced institutionally filtered capitalism.