

Labour force participation during Spain's latest recession

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The recent crisis has affected Spanish labour force participation through various channels. The improvement in macroeconomic conditions has underpinned more favorable labour market trends, however, it remains difficult to say whether or not these will be transient, or signs of permanent improvement.

The latest recession has had a strong impact on the Spanish labour market. The labour force growth rate has slowed down and eventually declined throughout the crisis and up until the slight improvement in the second quarter of 2014. The underlying forces behind this trend include changes in working-age population, as well as patterns in discouraged workers and students. Recent decreases in working-age population can be explained by the shrinking population of Spaniards born in Spain, together with the decline in the foreign population since the start of the crisis, fuelled by migration in search of employment. As regards discouraged workers, they have been on the rise throughout the crisis, but have decreased recently, reflecting that individuals are interpreting the economic situation as more conducive to finding a job. Finally, there has been an increase in the number of people taking up official studies in response to the crisis. Nevertheless, it is difficult to determine whether or not the current improvement in these trends, as well as labor force participation in general, will be permanent.

Introduction

The impact of the recession on the Spanish labour market has not only manifested itself in the dismal trends in employment and unemployment, but also the general patterns of labour force participation and even population seem to have been affected. Indeed, Spain's total population has begun to shrink, in contrast to the steady increase it had been experiencing, driven by an influx of immigrants, in the run up to the crisis. Spanish society had come to regard this increase

as a new and irreversible trend, and one that even brought Spain closer into line with more developed countries.

At the same time, employment's relatively late response –only since 2013– to improvements in a wide range of macroeconomic indicators has sparked renewed interest in labour force participation trends in the Spanish labour market. This article summarizes recent developments in some of these trends, and offers, based on the latest available information, some conjectures on their likely trajectory in the immediate future.

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Changes in labour force participation and the working-age population

The data from the labour force survey² (EPA) show a drop in the number of people in employment since the third quarter of 2012 (particularly males). This trend has only slowed in the most recent figure available for the second quarter of 2014. The drop has caused concern, given the uncertainty as to whether it is a short-term symptom that will pass once the second recession of the current crisis ends, or the manifestation of more profound and permanent transformations in Spain's labour market.

As Exhibit 1 shows, the negative impact of the global financial crisis caused a gradual slowing of the labour force growth rate after the third quarter of 2008. The labour force peaked in the third quarter of 2012. Since then, it followed an unbroken downward trend until the upturn in the second quarter of 2014 – the last quarter for which data are available.

There are significant differences for the sexes, however (Exhibit 1). In the case of males, the labour force has clearly shrunk since the third quarter of 2008 –the quarter in which Lehman Brothers went bankrupt. The trend for women has followed the overall trend more closely, as the

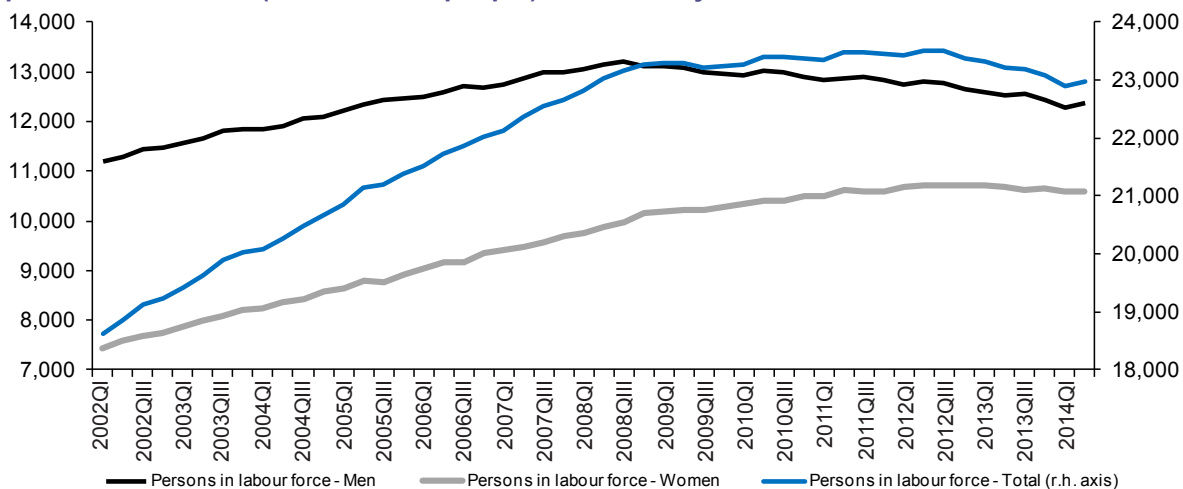
The main factor underlying the contraction in the labour force since 2011 has been the change in the population aged 16 to 64 years.

increase in the number of women joining the labour force slowed with the onset of the recession, and has more or less levelled off since 2012 at around 10.6-10.7 million women.

These changes in the labour force may have two types of direct causes: on the one hand, the number of people entering or leaving the labour force, within a given population size; and on the other, changes in the size of the population. As the National Statistics Institute (INE, 2014) has highlighted, the main factor underlying the

Exhibit 1

Spanish labour force (thousands of people). Total and by sex



Source: EPA.

² All the data given in this article is drawn from the “Encuesta de Población Activa” [Labour Force Survey] (EPA), unless stated otherwise.

contraction in the labour force since 2011 has been the change in the population aged 16 to 64 years. Thus, while the population aged 16 or more living in households peaked in the fourth quarter of 2011 at 38.88 million, and had dropped to 38.53 million in the second quarter of 2014, the population aged 16 to 64 peaked in the fourth quarter of 2009 at 31.1 million, dropping to 30.3 million in the second quarter of 2014, contracting by 834 thousand people.³

Disaggregated by sex, the number of males aged 16 to 64 has been declining since the fourth quarter of 2008, while the number of women in this age group has been declining since early 2012 (Exhibit 2). Thus, broken down by sex, the change in the population of males aged 16 to 64 matches the overall trend more closely (both falling sharply since late 2011) than is the case for women (the number of women aged 16 to 64 stabilised with the recession and dropped from mid-2012 onwards, while the number of women in this age group in the labour force did not stabilise

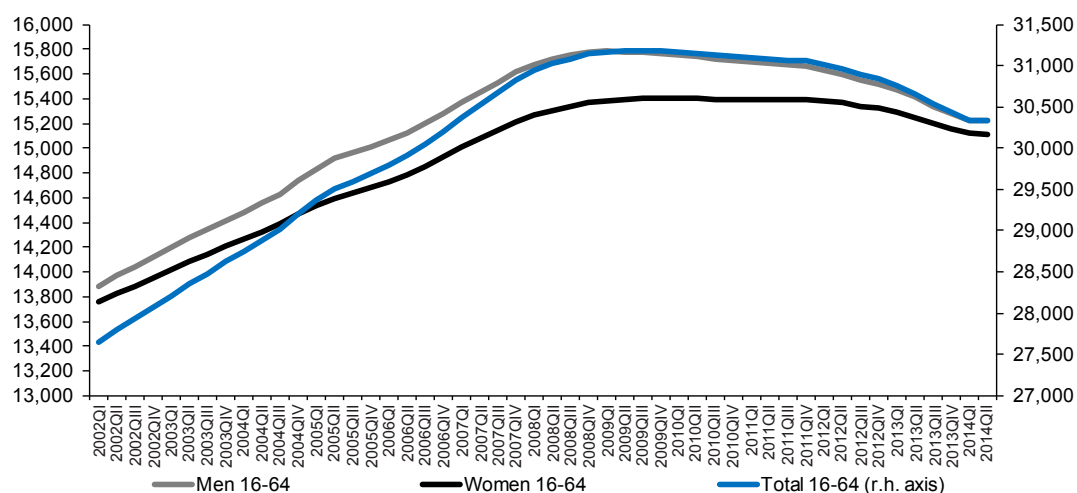
until 2012 and has been declining somewhat since 2013).

In short, when the analysis is focused on the main range of working-ages (16-64 years), labour force participation among males follows the overall population pattern, and while the process seems to be similar in the case of women, it has occurred later and had a smaller impact. This confirms the very different patterns in the way in which the current recession is affecting men and women in the Spanish labour market.⁴

Another relevant issue is the composition of the trend in the working-age population by country of origin, combined with nationality. This combination makes it possible to understand the changes in terms of three categories: Spaniards born in Spain; Spaniards born outside of Spain; and non-Spaniards. This allows a much more detailed view of what is happening to be obtained than if we analyse nationality alone (Spaniards *versus* foreigners), as nationality can change, whereas

Exhibit 2

Population aged 16 to 64 years (thousands). Total and by sex



Source: EPA.

³ Comparing the same period (Q4 2009 with Q2 2014) the decline in the total population living in households was 184.9 thousand people.

⁴ A more extensive analysis of this issue focused on employment and unemployment can be found in Malo (2014).

place of birth cannot. Given the recent scale of naturalisations in Spain, not taking this fact into account could give a distorted view of international migrations, the composition of the population, and the performance of the labour market.⁵

The EPA data for the population aged 16 to 64 show that there were approximately 25.9 million Spanish-born Spaniards between 2005 and the onset of the crisis, dropping to approximately 25.5 million at the end of 2013. However, the number of Spaniards born outside Spain has almost doubled since 2005 (when there were 600 thousand). Thus, the slight rise in the number of Spanish nationals of working-age actually conceals two contrasting trends and shows that the increase rests solely on the rise in the number of Spaniards born outside Spain (basically, individuals who have become Spanish by naturalisation). The population of working-age foreign nationals stood at around 3 million in 2005 (10% of the population aged between 16 and 64), peaking at 4.4 million in the third quarter of 2009 (15.1% of the population aged between 16 and 64), and dropped to around 3.7 million in late 2013 (around 13% of the population aged between 16 and 64). Thus, there are more foreign nationals in this age range than in the pre-crisis years, but the number has actually been declining since shortly after the crisis. Given that, by definition, naturalisations draw on the pool of foreign nationals, the foreign community seems to show two different dynamics, depending on whether they obtain naturalisation or not: if they are successful, they tend to remain in Spain, while those of working-age who do not obtain nationality, either because they do not want to or are unable to, have declined in number during the recession (due to both fewer arrivals and more departures). The recently observed contraction of the population aged 16 to 64 is therefore related to the conjunction of the decline in the foreign population since the start of the crisis with the

shrinking population of Spaniards born in Spain. And these two trends have not been offset by the sustained growth in the population of Spaniards born outside Spain.⁶ The patterns have been analysed by sex and found to be very similar, with the proviso that the drop in the foreign population aged 16 to 64 since the end of 2009 has been sharper among men than women.

How can these trends be expected to develop in the immediate future? The change in the number of Spaniards born in Spain is closely linked to the ageing population (fewer births and an increase in the population aged over 65 relative to the 16-64 age group). Consequently, on this side, the changes in the trend will take place relatively slowly. However, the size of this group may also change as a result of migrations abroad, a process that has affected young people during the crisis. This phenomenon of Spanish migration

The phenomenon of Spanish migration abroad seems to be a matter of great concern to Spanish public opinion. According to the German Federal Statistics Office, registered migration of Spaniards to Germany rose by 45% between 2011 and 2012. That said, comparisons with other countries' figures for inflows of foreign nationals from Spain are much higher than those from Spanish sources.

abroad seems to be a matter of great concern to Spanish public opinion. The data published by the INE on the census of Spanish nationals resident abroad allows a certain amount of analysis of new registrations during the crisis. Table 1 shows these new registrations in three countries: Germany, France and the United Kingdom. The data are shown disaggregated in three age groups, to clearly separate out what is happening to the

⁵ Foreign immigrants have different employment patterns and labour market outcomes than Spaniards (see, for example, Garrido *et al.*, 2010). If the fact that naturalisation affects immigrants' outcomes is taken into consideration (Amuedo-Dorantes *et al.*, 2013), using the customary division by nationality, (Spaniards, Spaniards with dual nationality, and non-Spaniards) a heterogeneity is introduced that, depending on the issue concerned, may seriously distort the analysis.

⁶ A large share of them previously foreign nationals rather than children of Spaniards born abroad.

Table 1

New registrations in the census of Spanish residents abroad (selected countries)

	Germany			France			United Kingdom		
	< 16	16 to 64	65+	< 16	16 to 64	65+	< 16	16 to 64	65+
2008	5,229	2,665	193	4,921	5,823	1,242	3,118	4,043	76
2009	2,635	2,856	212	3,553	6,068	1,226	1,945	4,176	162
2010	2,139	2,944	276	3,117	7,513	1,482	1,920	4,729	235
2011	1,947	3,433	189	3,293	9,068	1,175	2,020	5,352	169
2012	2,102	4,239	250	3,354	8,638	1,177	2,193	5,994	201
2013	2,821	5,510	265	3,907	8,163	1,091	2,742	6,837	187

Source: WTO.

working-age population (aged 16 to 64). In both Germany and the United Kingdom, these new registrations by individuals of working-age have grown steadily year after year. New registrations in France, however, rose fairly rapidly until 2011, and then declined in subsequent years. However, the figures remain well above their pre-crisis levels. The number of people these figures represent, while not insignificant, does not seem to tally with society's concern. However, this source underestimates these flows, as, for example, comparisons with other countries' figures for inflows of foreign nationals from Spain are much higher than those from Spanish sources. For example, the pattern of inward migration of foreign nationals shown by German sources suggests a more significant process. According to the German Federal Statistics Office (Statistisches Bundesamt), registered migration of Spaniards to Germany rose by 45% between 2011 and 2012. This phenomenon is not exclusive to Spain, as the same source shows that migration registered from Portugal and Greece increased 43% in the same year, and that from Italy by 40 percent.

This simple analysis reveals that the sources available to analyse the problem of migration relating to the crisis have their limitations and that different (national and international) sources need to be treated with caution in order to determine the true scale of the phenomenon. There is also the issue that it is not only a question of the number

of people leaving the country during the crisis, but whether this process affects key sectors of a modern economy (such as the scientific system), or if it will result in a definitive loss of human capital if the migration becomes permanent, etc. In short, analysing the outflows of working-age population caused by the crisis requires a more specific detailed analysis.

As regards the trend in the population of Spanish nationals born outside Spain, there is nothing to indicate that the pattern of a gradual increase is going to change in the immediate future (nor are there any planned legal changes in this respect).

Finally, the mobility of the foreign population should not be underestimated. When their main motivation is to find better job opportunities and living standards, individuals who have already moved from one country to another are more likely to do so again, whether this means returning to their country of origin when conditions have improved, or moving to another country. The bursting of the property-market bubble brought job creation in a wide range of low-skilled jobs to an abrupt halt. And it was precisely such positions requiring little or no prior qualifications or training to which foreign migrants had been attracted in large numbers during the boom. It should not be forgotten that migration prefers to move towards places and sectors where jobs are being created

rather than countries or regions affected by unemployment.

Labour force participation

Labelling individuals who are inside or outside the labour force as “active” and “inactive” seems to contrast those who are doing “something” with those who are “doing nothing.” These terms, however, should be understood merely in a technical sense, where inactivity means not performing paid work and that the individual does not intend to form part of the labour market.

However, it is a well known fact that many transitions into employment take place directly from so-called inactivity without passing through unemployment. For this reason, many authors have highlighted the importance of “grey areas” between situations of activity and inactivity, in particular between inactivity and unemployment.⁷

In reality, in relation to activity, the only category that can be determined with true clarity in static and dynamic terms is employment. The remaining categories are basically defined in terms of what happens when an individual is unemployed. The international definition of a person in employment is defined as someone who has worked at least one hour⁸ in the reference week, which is usually that prior to the interview. An employed person is considered to be in the labour force. But an unemployed person is also in the labour force. An individual is considered unemployed if he has not worked even an hour in the reference week, but

has actively sought work⁹ or is available to take up work within a given space of time (normally two weeks). If at least one of these conditions is not met, the individual is counted as inactive or outside the labour force. Thus, inactivity is a residual category where individuals who are not counted as either in work or unemployed end up.¹⁰

Thus, apart from the effect of changes in the population, the situations underlying trends in labour force participation are full of nuances. Of particular interest are two categories of inactivity that might be expected to evolve in correlation with the intensity and duration of the crisis: discouraged workers and students.

Discouraged workers are unemployed persons who have given up looking for work and so are classified as inactive. If this phenomenon is sufficiently widespread during a crisis, it can even lead to a decrease in the unemployment rate as discouraged individuals drop out of the labour force. However, this decrease needs to be viewed negatively as it would be the result of extremely adverse labour market conditions. This discouragement is usually associated with long-term unemployment and therefore with a worsening of the personal and social problems associated with joblessness.

Exhibit 3 shows how the number of inactive persons classified as discouraged workers clearly increases, but before what is usually considered the official “start” of the crisis (the shock caused by the collapse of Lehman-Brothers, in the third quarter of 2008). For both men and women, the

⁷ In this regard, Garrido (1998) proposes a measurement of the “employability” of families and more recently (Garrido, 2010) a proposed measurement of the concept of unemployment to address the problem of the similarity between unemployment and certain types of inactivity. On the similarity of situations of unemployment and inactivity in the United States, see, for example, Jones and Riddell (1998).

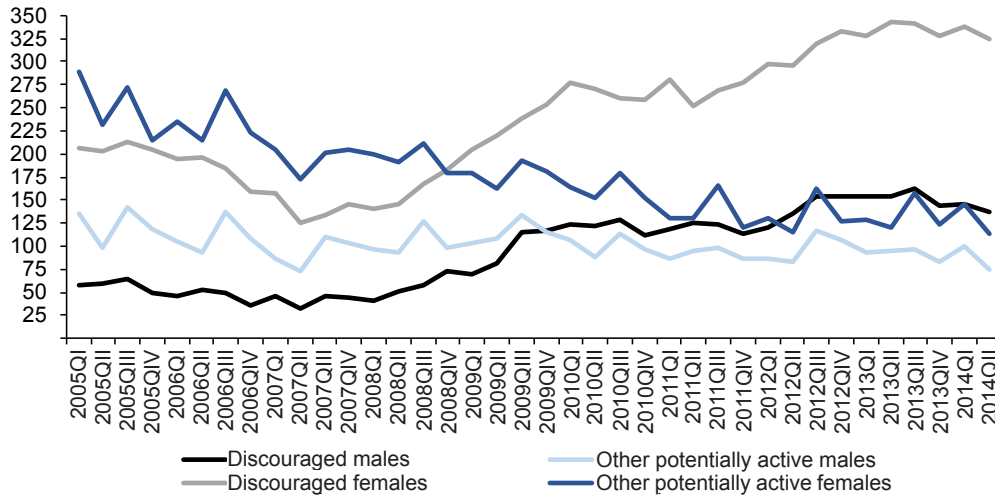
⁸ Being employed is defined very broadly, including being self-employed, a wage or salary earner, having any type of contract, or even no contract at all. However, it does not include doing housework, as this is not a paid activity (if it were, it would be classified as domestic service).

⁹ Defining what is meant by actively looking for work is not trivial. The usual approach is to ask the respondent to list the ways in which they have looked for work and, subsequently, apply an external definition as to whether this is an active search or not. International definitions usually consider the search to be active if a number of search methods are mentioned in the last four weeks.

¹⁰ There is also the “population counted separately” category. This includes people undertaking obligatory military service (conscription) or a civil social activity that is of the same obligatory nature as military.

Exhibit 3

Thousands of potentially active people who are inactive (discouraged job seekers and other types of potential activity)



Source: EPA.

turning point toward the increase in the number of people giving up looking for a job took place in the second quarter of 2007. This is significant, as it was in the second half of 2007 that the signs that the property boom was running out of steam first began to emerge (Toharia and Malo, 2009; García-Serrano, 2012). Consequently, since the first signs of the economic problems were detected, many individuals (particularly women) became inactive as they became discouraged by their unsuccessful job search. Since then the upward trend has only slowed (women) or stabilised (males) with the intermediate stage of “green shoots” between the two dips of the recession of the latest crisis and the last quarters for which data are available.

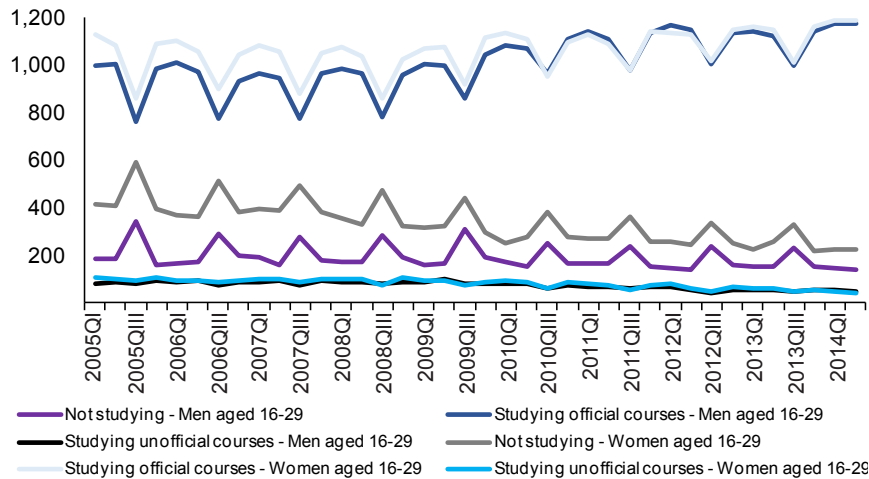
Thus, the change in the numbers of people who have given up looking for a job is not related to the length of the crisis, but has more to do with individuals' perceptions of its intensity, particularly in the case of women. In this regard, the decrease seen in the last few quarters would mean that individuals are interpreting the economic situation as more conducive to finding a job.

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As regards the number of students, the total may change during a crisis along several routes: it may increase, due to the lower opportunity cost of staying in education rather than finding work; it may decrease, because the crisis reduces household incomes and restricts access to post-compulsory education; and it may increase as a strategic response so as to boost both the range of possible occupations in the future and potential productivity in the face of greater competition for the jobs that exist during a crisis and even in the early stages of the post-crisis expansion.

Exhibit 4 shows how the number of people enrolled in official studies increased with the crisis between men and women aged 16 to 29, the increase being somewhat more marked in

Exhibit 4

Thousands of people aged 16 to 29 by educational attainment and sex

Source: EPA.

the case of men.¹¹ Therefore, the trend matches both what would be expected from a decrease in the opportunity cost of studying and continuing to study in order to be better equipped when job opportunities arise. The drop (more pronounced in the case of women) in taking exclusively unofficial studies when the crisis arrived is also noteworthy. It could be said that individuals do not simply take more studies of any kind, but persist and look for those studies whose content is recognised by the labour market. This would lend further support to the idea that studying during the crisis is more closely related to an effort to be better equipped vis-à-vis the labour market and not simply to fill up one's time at a juncture when it is extremely difficult to find work.

Therefore, it is highly likely that with the arrival of the expansion and after an initial stage of stiff competition for the first jobs available, this higher uptake of official studies reverts to the pre-crisis

situation. That is a matter of considerable concern given Spain's high levels of early school leaving during the economic expansion.

Conclusions: What can be expected?

Will the labour force continue to grow as the latest data observed in the second quarter of 2014 suggest? Is it a transient increase or a sign of a permanent improvement? Taking all the information discussed here as a whole, individuals at least seem to judge the change as more conducive to the job search (as revealed by the number of men and women who have given up looking for a job).

The fact that there has been an increase in labour force participation against the backdrop of a general trend in the population aged 16 to 64 apparently driven by long-term processes¹² could

¹¹ This picture is consistent with the decrease detected in the early school leaving rate during the crisis (Serrano, 2013). Nevertheless, the usual figures for early school leaving are fairly sensitive to changes in calculation methods (Fernández Macías *et al.*, 2010).

¹² The Instituto Nacional de Estadística [National Statistics Institute] (INE) publishes projections of population, activity, and labour-force participation for the period up to 2020 on its website (<http://www.ine.es>). Although as of the time this article was written, these projections had not been updated with the same population figures as recently used to update the EPA, they offer an overview of the downward trend in labour-force participation for males aged 16 to 64 and a gradual increase in the female participation rate in this age group. The result for the population aged 16 to 64 as a whole is a slight increase in the labour-force participation rate up to 2020.

be judged a sign of the solidity of this increase. However, looking at the so-called “green shoots” period, it would have been possible to arrive at the same conclusion: the number of people giving up their job search stopped rising, with a trend in the population aged 16 to 64 that was almost more favourable than at present. And yet this apparently good set of circumstances did not take hold or leave a permanent trace.

However, it should not be forgotten that the general trend (beyond the cyclical changes) in the labour force is powerfully shaped by the process of the ageing of the population as a whole and the capacity to create jobs for the population aged 16 to 64.

The drop in the number of foreign nationals as the recession worsened was a reminder that international migratory flows can shift rapidly and powerfully with the economic cycle. In turn, the institutional form given to these migratory flows (the possibility of obtaining Spanish nationality) also affects this trend.

In the case of Spaniards born in Spain, the decline in their numbers aged between 16 and 64 (apart from long-term population ageing) has also been potentially affected by this group's outward migration. Quantifying the scale of the process (which has surprised and worried society in Spain and in other countries in similar situations, such as Portugal or Italy) requires analysis of its own that goes beyond the scope of this article. The scarcity, fragmentation of national data sources and their inconsistency with those of other countries is a considerable obstacle to this analysis. It also makes it difficult to know whether the outflow is only affecting certain cohorts of young people and their level of academic attainment, and to identify whether it is a process that will be reversed with the economic cycle, or if, rather, it will leave a permanent mark on the size of these population cohorts.

However, even if we imagine that this migration is significant for some cohorts of today's young

people, the impact on the total working-age population may be relatively small if the change in the economic cycle is confirmed. If this change were to happen, it would slow the exit of young people from Spain and of the foreign population resulting from the lack of job creation here. Thus, the generational impact could be significant, even if the population change is small. On the other hand, although the process is finally relatively small scale and basically short-lived, it may leave a mark on the quality of key sectors for the Spanish economy (such as the science and technology system) if the outward migration during the crisis were to be concentrated in these sectors.

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