

STEEP DROP IN SPAIN'S UNEMPLOYMENT

The European labour market is improving but slowly – with the notable exception of Spain. Since 1995, progress in overcoming employment problems has been greatest here. To be sure, in relative terms Spain had also started from the worst position, and – at 13½% – it is likely to register once again the highest unemployment rate in Western Europe in 2000. Compared to 1995, however, this would mean a decline by 9½ percentage points, a record achievement. The increase in employment may be close to one fifth. Only Ireland will have enjoyed an even greater surge.

The labour market improvement is broad-based. Employment in the manufacturing sector is likely to rise by one fifth between 1995 and 2000 and in the construction sector by close to one third. Job growth in the service sector continues to be rapid. The activity rate of the working-age population has been on the rise since the mid-nineties, almost entirely due to the higher participation of women. The primary reason for the remarkable improvement of the labour market is strong economic growth, persistently above the EU average, as well as moderate wage

claims and cuts in non-wage labour costs. In addition, the 1997 labour market reform has reduced the high level of employment protection legislation, facilitating dismissals. The introduction of a new permanent job contract with reduced severance payments has improved employment prospects for the targeted groups, especially the young. Although the different types of contracts now in existence also promote part-time job creation, fixed-term employment has remained widespread.

Spanish unemployment figures continue to be exaggerated by the official statistics, as seen in the increasing shortage of skilled and even less skilled workers. About half of those registered as unemployed are assumed to be employed in the underground economy. The EU Commission puts the share of the underground economy in Spanish GDP at 10% to 23%. O.E.K.

