Centre international de formation européenne

A Transitional Flow Matrix Analysis of the Spanish and UK Labour Market – A Dynamic Look at Europe's Two Speed Economy

Masters of Advanced European and International Studies

Anglophone Branch

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Submitted June 2016 - Berlin

Word Count – 16,821 (excluding references)

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Executive Summary

This thesis highlights labour market opportunity differences faced by workers in the United Kingdom (UK) compared to the typical experience faced by those in Spain. Spain and the UK have been selected as the predominant focus of this thesis, as a way to synthesise the broader problem of the European "two speed economy", into a smaller and more understandable examination of migration patterns between European labour markets.

The Spanish economy today is delicately balanced and still recovering from the aftermath of the global financial crisis, boasting one of the weakest labour markets in Europe with an unemployment rate of ~25% or approximately ~5.5 million people. At the same time never before has Europe's workforce been more mobile, with the ability to migrate abroad to seek rewarding employment opportunities. This thesis demonstrates that Spanish unemployed are utilising their mobility in search of better working environments with mass emigration currently being undertaken.

In Europe the destination of choice for Spanish emigrants is the UK, with ~250,000 Spaniards migrating there in the past 6 years alone. However is an unemployed Spanish worker significantly more likely to gain employment in the UK than they are back home? And thus is this mass emigration justified? A traditional assessment of employment statistics would say yes, but as this thesis illustrates in the conceptual framework; standardised labour force statistics can be deceptive.

This thesis evaluates the hypothesis that *Spanish emigration is occurring with such historically large numbers of individuals moving to the UK seeking work because of the significantly stronger labour market and employment opportunities in the UK; relative to Spain.*

Primarily this paper undertakes a quantitative transitional gross flow matrix methodology which is Markovian in Nature, enabling an assessment of the outflows of unemployment and stability within employment in each labour market. This methodology allows this thesis to demonstrate whether or not the health of the Spanish and UK labour markets are changing in a way which is not immediately revealed through a standardised assessment of labour force statistics. Additionally, a qualitative secondary comparative analysis is undertaken to supplement the primary methodology, which expressly focuses on the structural differences and different labour market policies of Spain and the UK.

Through a systematic description of the literature, conceptual framework, quantitative transitional flow analysis, and qualitative comparative analysis this thesis concludes that both the UK and Spanish labour markets are relatively similar. According to the transitional flows matrix results this paper finds that there are several minor differences between the labour market in the UK compared to Spain. The qualitative structural comparative analysis suggests that the UK labour market is more flexible than Spain and; additionally the UK has greatly benefited from undertaking its "great

modernisation" labour reform processes last decade. Spain on the other hand has a structural problem in relation to a high proportion of the work force being on fixed term contracts. However whilst differences exist, this paper contends that they are hardly significant enough to justify the narrative that the UK labour market is strongly growing or intrinsically superior to that of Spain.

The results conclude that Spain exhibits some small signs of improving trends. Nonetheless, whilst the UK appears relatively stronger, the results suggest that the UK has plateaued in the sense it does not appear to be strengthening or worsening over the past 6 years, and these results are broadly similar in Spain. Given the results, this thesis cannot prove its hypothesis to be true.

Finally, this thesis offers some insights into the current economic policy debate by suggesting that it may be worthwhile exploring the possibility of breaking away from a "one size fits all" policy approach when it comes to employment within the European Union (EU). The consideration of dual EU employment policies and greater flexibility for individual EU member states may be necessary to overcome the unique conditions that vary according to member states.

Acknowledgments

After an intensive 9 month period of studying throughout the CIFE program, the submission of this thesis represents an important milestone in my academic and career progress. Coming from Australia has meant that many of the EU institutions, policies and customs were all completely new to me and required and thus required a period of intense learning. Writing this thesis has had a big impact on myself and I would like to reflect on the people who have supported and helped me complete it.

I would first like to thank my parents whom supported my decision to move from Australia to Europe in order to undertake this program; and I would additionally like to thank them for the proof reading and editing they helped with. Secondly I would like to thank my thesis advisor Laurent Baechler, for all the research advice and support he has given this thesis over the last 9 months, as well as all the help he has given me in the final drafting stages. Finally I would like to thank my friends in the CIFE program, for always ensuring that CIFE has been a fun learning environment. I would also like to give a negative mention to the UK BREXIT result, which has meant I have had to make several last minute edits on the final day of submission.

Many thanks for helping me complete my thesis; you helped provide me with the tools and direction I needed to complete this piece of work.

Kind Regards,

Anders Sangkuhl

24th of June, Berlin

Introduction

In the academic study of labour markets it is broadly accepted that "*the labour market plays a critical role in distributing income, governing life chances and defining personal identity*" (*Kirby, 1985*). Therefore it is not surprising that a country's labour market is perhaps the major preoccupation of all levels of government economic policy.

In the period immediately preceding the 2009 global financial crisis unemployment worldwide rose dramatically. While each individual country and continent fared differently, depending on individual circumstances, amongst developed countries, the continent of Europe undoubtedly fared the worst and in particular Spain.

Spain, like many other developed countries worldwide experienced an unprecedented period of growth in the early and mid-2000's. In particular the value of housing market stocks in Spain underwent a period of phenomenal growth, which in turn led to a flourishing domestic construction and housing investment sector. Like the property boom in the United States of America, this boom was largely underpinned by banking sector de-regulation and increased lending for property investment purposes, which further fed property price rises (*Royo, 2009*).

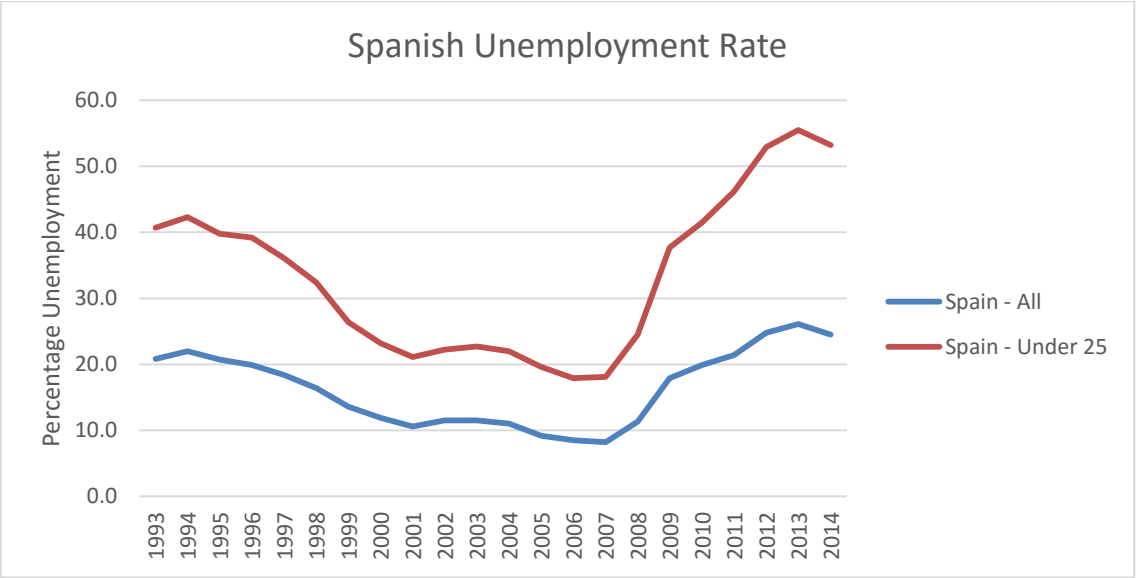
This housing market boom significantly increased tax revenues for the Spanish national Government; which was a timely occurrence given that Spain up until the early 2000's had been facing several structural problems within their economy including a ballooning trade deficit and declining productivity against almost all major trading partners (*Francisco, 2011*). As such, the increased tax revenues from the housing market boom allowed the Spanish government to smooth over structural problems by significantly increasing government spending on a raft of public sector initiatives and projects, which subsequently increased the overall Spanish employment rate.

This all ended in 2009 when the reality of the global financial crisis became evident and the unsustainable property boom Spain undertook was laid bare; almost all Spanish growth was underpinned by private sector spending related to the property market, or increased public sector spending underpinned by the property market tax revenues (*Francisco, 2011*).

As a result Spain suffered immediate and substantial economic write downs and a significant jump in unemployment as both the private and public sectors struggled to adjust to the reality of economic conditions. In 2009, 2010 and 2011 Spain entered recession several times and experienced a rapid deterioration of economic and labour market conditions. Faced with mounting budgetary pressures the Spanish Government was forced to implement a raft of public sector spending cuts, in turn feeding the rapid economic decline. This period of instability culminated with Spain facing the real possibility of bankruptcy and loan defaults from international creditors as well as the small chance of potentially exiting from the Eurozone altogether. As result, emergency rescue loans or a "bailout

package" from the European Central Bank was provided to Spain in 2012 to help stabilise the quickly deteriorating economic situation.

Figure 1 – Spanish Unemployment Rate



Source: OECD 2015 Employment data

Today in 2016 Spain has experienced a form of economic and financial stabilisation, however the economy remains precariously balanced and Spain's labour market conditions remain in dire straits, with approximately ~5.5 million people recorded as looking for work and with little improvement in the net unemployment rate over the past 4 years. As shown in figure 1, this situation is significantly magnified for young people.

Faced with these labour market conditions, the prospect of finding work in Spain remains seemingly low and what jobs are available are highly competitive. This situation has been well voiced by politicians and media commentators, who paint a depressing story of the Spanish unemployed whom have hit hard times; many of which have remained long term unemployed for a period of more than 3 years. The media has coined the now famous term the "Spanish lost generation", broadly defined as young Spanish workers and in particular university graduates, whom whilst well qualified have no job experience and thus struggle to gain employment, or are forced by necessity into taking jobs which they are overqualified for. It is not uncommon to hear stories of Spanish graduates with double degrees, doing menial or unskilled jobs such as cleaners or waiters. Even those Spanish whom have found jobs are faced with little to no bargaining power during contract negotiations, often leading to stagnated career prospects and/or pay conditions (*Signorelli, 2015*).

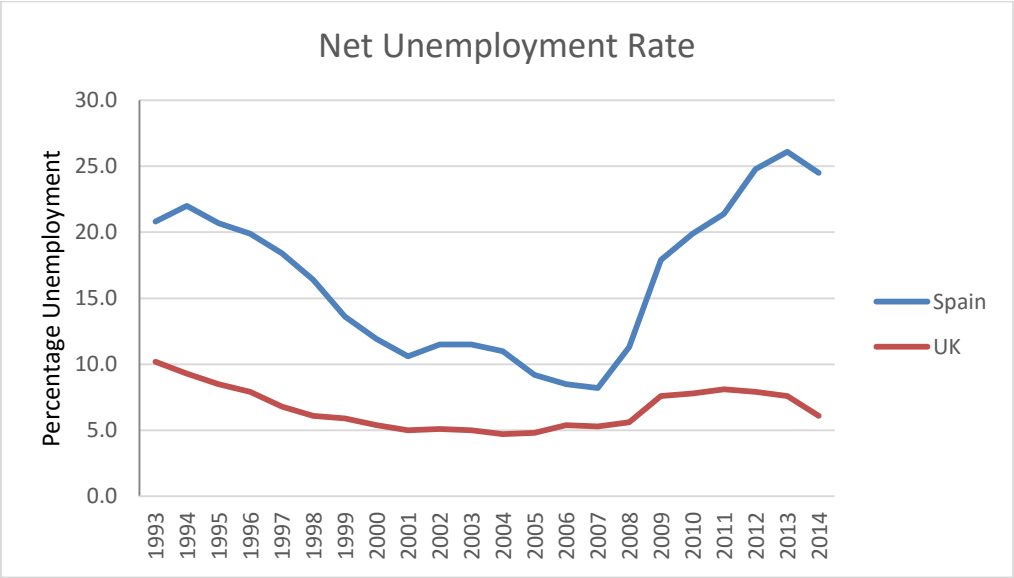
Faced with these labour market conditions, it is altogether unsurprising that unemployed Spaniards empowered with the freedom of work and movement within Europe are leaving Spain in droves, in

search of meaningful well paid work. So where do these Spanish emigrants search for work and why?

The situation in the United Kingdom

In modern times, the UK economic and labour market conditions have remained structurally superior to many European states including Spain. As shown in figure 2, the unemployment rate within the United Kingdom has remained significantly lower than Spain for a period of more than 20 years.

Figure 2- Spain and UK Unemployment Rate



Nonetheless, like almost all developed countries worldwide the UK also experienced significant economic turmoil in the aftermath of the GFC. Similar to Spain, the UK experienced rapid growth in the domestic property and construction market, as well as a financial boom where the profitability of banks reached staggering levels, especially in the global financial hub of London. Similarly to Spain, this allowed the UK government spending to increase, significantly boosting an already strong labour market and contributing to the UK's unemployment market falling to historic lows of approximately ~5% for almost a decade between 1999 – 2008.

In late 2008, the size and scale of the GFC became apparent in the form of paralysis in the UK's financial markets and the exposure of the banks (several of which were large multinationals based in London) to bad debts. Faced with the impending collapse of several of the world's biggest banks including the Royal Bank of Scotland and Lloyds, the UK government was forced to intervene and underwrite or "bail out" the banks. During 2009 the UK economy underwent its first recessionary period since 1990; as a result the UK labour market (like the rest of Europe) underwent mass layoffs as private sector spending economy wide contracted sharply.

Stimulatory spending and central bank quantitative easing measures were undertaken almost immediately by the UK Government and central bank authorities with mixed success. Nonetheless, the UK labour market continued to shed jobs over the next three years, peaking in 2011 with an unemployment rate of 8.1%.

Today in 2016 the UK has almost fully recovered, undergoing consistently small, positive GDP growth as well as consistently lowering its unemployment rate over the last 3 years. Whilst to not downplay the severity of the GFC; compared to its European counterparts the UK economy has fared comparatively well. It is almost certainly this reason why the UK has remained the destination of choice for Spaniards seeking emigration and improved workforce opportunities.

Figure 3 - The UK and Spain – Two Countries Seemingly alike

Key Indicators	Spain	UK
Population	46.5 Million	64 Million
Population Growth Rate	-.27%	-1.77%
Life Expectancy	82 Years	81 Years
Infant Mortality (per 1000)	1.3	3.8
Total National GDP Value (US $)	1.41 Trillion	2.95 Trillion
GDP per Capita (US $)	$33,169	$39,709
Real GDP Growth %	1.4%	2.6%
CPI	-.15%	1.5%
General Government Debt	118%	117%
Taxes on Average Worker (%)	41%	31%
Government Revenues Per Capita	$12,834	$15,345

Source: OECD 2014 Data

Spain and the UK – Representational of the two-speed economy of Europe?

One of the key motivations for the selection of this thesis topic was a desire to understand the presence of a perceived “”two speed economy” within Europe and what affect that may be having on migration patterns.

The “two speed economy” of Europe, refers to the different levels of economic growth and development exhibited by the different members of the EU. For example the original EU member

states such as Germany and France have traditionally always exhibited far higher and more consistent levels of economic growth than some of the southern European economies such as Spain, Portugal or Greece, and this is especially true in the aftermath of the global financial crisis *(Piris, 2012*).

The countries classified in the “slower economic speed”, such as Spain; have experienced significantly higher unemployment rates which have additionally been accompanied by large government account spending deficits and higher levels of migration to other economically stronger EU member states. The countries classified in the “faster economic speed” such as Germany or the UK, have remained relatively strong and in some cases have even experienced problems with inflation, as a result of generally strong economic conditions making them a desirable destination for job seekers.

This problem of a “two speed economy” in Europe has been intensified due to the common monetary union which exists without a common fiscal policy. As such, it is increasingly hard for policy makers within the EU to construct and implement common macro-economic and employment policies which can simultaneously achieve economic success for both the “fast” and “slow” economic regions of Europe (*Piris, 2012*).

Therefore, the reason Spain and the UK have been selected as the predominant focus of this thesis, is done to as a way to synthesise the broader problem of the European two speed economy, into a smaller and more understandable examination of migration patterns and structural differences between the EU labour markets.

As such, the findings of this thesis may have implications for EU employment and economic policies as it may be worthwhile exploring the possibility of breaking away from a “one size fits all” policy approach when it comes to employment within the EU. The consideration of dual EU employment stimulatory policies may be necessary to overcome the economic reality that several EU member states are experiencing unique conditions that vary significantly according to different member states.

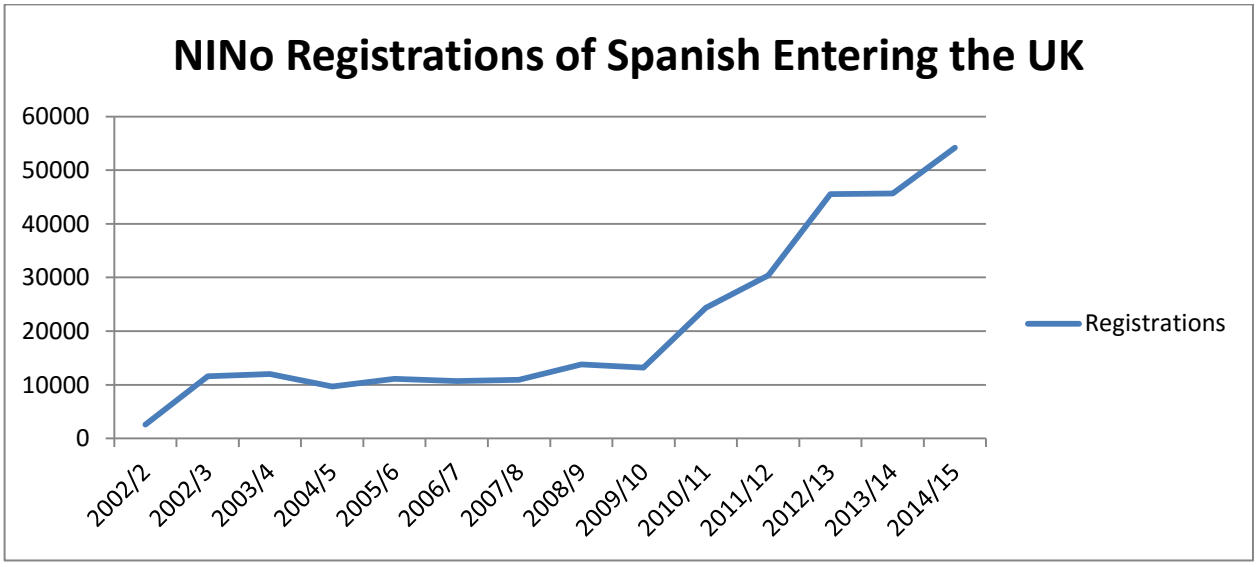
Key Point:

- Spain and UK selected by this thesis to demonstrate “two speed economy” of European economic and employment conditions.
- In recognising the unique differences between EU member states it may be necessary to depart from “one size fits all” policy approaches.

Emigration rates Spain → UK

Perhaps the best official gauge of immigration of Spaniards seeking work in the UK can be found within the UK Government Department of Work and Pensions whom are charged with maintaining the National Insurance number (NINo) registration database. The NINo number is a government identification number which is compulsory for non-UK citizens whom wish to work within the UK or claim welfare benefits. However, it is worth noting that the actual rate of Spanish in the UK may be moderately higher due to the fact that many foreign workers in the UK only apply for a NINo registration after having gained a job offer. Therefore it is plausible to assume there are also some Spanish unemployed peoples residing in the UK, whom are not included within these statistics. Nonetheless, the NINo registration data serves as a useful proxy for determining immigration trends into the UK.

Figure 4 – NINo Registrations



Source: UK Department of Work and Pensions 2015 data

The relationship shown in figure 4 is clear; in the later part of 2010, roughly one year following the GFC, Spanish immigration rates to the UK increases significantly. This rate of growth is nothing short of remarkable, after averaging only ~10,000 immigrants a year, the rate of immigration to the UK from Spain undergoes a phenomenal growth rate of 85% between 2010 and 2011 alone. More telling is the fact that these exponential rates of growth appear to show little sign of slowing. In the most recent release of NINo data release in August 2015 the rate of emigration from Spain to the UK reached at an all-time high of 54,203 for the year. Taking 2010 as the base year, this equates to a rise of 412% in only 5 years.

It is worth noting that this situation is being replicated across a range of other EU and non-EU countries including France, Germany, Denmark, Sweden the USA, Australia, Canada and New Zealand. Whilst these rates of emigration aren't at the same level taking place in the UK, the trend is

clear, Spanish unemployed are utilising their mobility in search of better working environments (*Llenoart, 2014*).

It is within this context that this paper seeks to assess the plight of the Spanish and UK labour market today. This paper seeks to answer the question as to whether or not an unemployed Spanish worker is significantly more likely to gain employment in the UK than they are back home, and thus whether or not the current migration rates are justified. Principally, this paper seeks to undertake a thorough assessment on the health of these two countries labour markets and more importantly, whether or not the health of these labour markets is changing in a way which is not immediately revealed through a standardised assessment of labour force statistics.

Why is this topic important?

A well-functioning labour market anywhere in the world needs to be able to adjust to changes quickly in order to remain competitive and healthy. Healthy labour markets are a precondition for the economic and social development of countries, and therefore a dynamic understanding of labour markets and the transitional flows underpinning them is essential for economic policy development (*Schekatt, 1996*). As such, a comprehensive understanding of the conceptual framework which underpins this niche school of labour economics is of significant importance to this thesis.

Additionally this topic is important because on a micro-level emigrating to another country is a significant decision, lives are uprooted and transported to a new environment, potentially forever. Furthermore, on a macro-level the large scale emigration of Spanish peoples is of significant concern, the magnitude of significant proportions of the working age population leaving Spain should not be trivialised. Whilst the social and economic consequences may not be immediately felt in Spain, in the medium to long term the prospect of continual large scale emigration will undoubtedly cause severe problems for Spain's economy, which could be faced with an ageing population and a lack of a working age and locally skilled workforce. Additionally, the social consequences of losing significant portions of younger people to large scale migration is harder to measure, but equally has lasting effects on the psyche of Spanish society.

Furthermore it is widely acknowledged within the political and media landscape that Europe is facing a two speed economy primarily separated by geographical location, with richer northern European states leaving the southern European states behind, as they struggle to remain competitive in the globalised economy. However according to the contemporary literature very little transitional labour flow analysis has actually taken place contemporarily in Europe on this issue. Many studies simply rely upon a traditional representation of the unemployment rate and other economic statistics in order to represent this divide (*Mitchell and Muysken, 2011*).

Transitional labour flow analysis can be used to answer a wide range of pressing economic issues. In a related contemporary study Dixon (2007) used a labour flow analysis to determine whether flows into unemployment represent impacts of locally specific shocks, or issues felt by the whole economy. To answer this question Dixon used a principal component labour flow analysis, in an attempt to uncover any cyclical patterns felt across all states (*Dixon, 2007*). Dixon concluded that most of the large variations in the data were regional specific. This finding has re-enforced the view of this thesis; that Europe is comprised of several unique regions and economies which are separated by vast distances and to a degree; workforce opportunities.

Following on from Dixon's study this thesis seeks to disaggregate a key indicator of the health of any economy, its labour market and then seeks to analyse the perceived "two speed economy" of Europe which is often well voiced by mainstream media and political groups. The findings from the transitional flow matrix analysis will add real and relevant implications to policy advice by demonstrating whether or not labour market policies should be regional specific or nationwide in order to have the greatest affect. In this manner a transitional gross matrix analysis is a useful alternative method compared to simply looking at the net changes in the unemployment rate.

To add further contemporary policy relevance, this paper will seek to link the results of the transitional flow analysis to the recent policy debate over the European Union's resolve in achieving consistent member state budget surplus's and an ever increasing monetary and fiscal union.

Key Point:

- Spanish emigration to UK has increased at rapid rate and shows no sign of slowing
- Approximately ~250,000 Spanish have immigrated to the UK in the last 4 years alone.
- Topic is important as it is represents the growing divide within Europe's "two speed economy".

Hypothesis

As outlined above, this thesis is specifically interested in the large numbers of Spanish emigration into the UK; particularly as the rapid amount of emigration occurring shows no signs of abating.

Therefore, this thesis seeks to propose the following hypothesis as an explanation for the current migration phenomenon which is currently occurring:

- *Spanish emigration is occurring with such historically large numbers of individuals moving to the UK seeking work because of the significantly stronger labour market and employment opportunities in the UK; relative to Spain.*

Whilst this hypothesis may seem obvious: Spanish individuals moving to the UK are doing so because of the relatively superior economic conditions, this may not necessarily be the case. There are a range of other factors which may contribute to such large levels of migration such as; lifestyle factors, education opportunities, cultural factors and family ties.

This thesis has proposed this hypothesis in response to the contemporarily unique phenomenon of mass economic migration between EU member states based on the employment prospects and relative strength of different EU member state's individual labour markets[1]. This thesis contends that this current labour migration phenomenon between developed member states contains enough merit to warrant detailed further evaluation.

Importantly this hypothesis can be methodically tested and is falsifiable. If it becomes apparent through the qualitative and quantitative methods of evaluation used within this thesis, that the UK's labour market is not superior to Spain's, then this hypothesis will be able to be judged false. In this case, this thesis may be able to conclude that the large scale migration occurring is misplaced if migrants are undertaking the journey purely for reasons of gaining greater employment opportunities.

If this hypothesis is found to be true, and the UK truly does have a far superior labour market where the probabilities of gaining employment are high, then this thesis may conclude that the migration patterns being undertaken are both understandable and justifiable.

It may also be the case, that the qualitative methods undertaken in this paper are unable to conclude decisively either way, in which case elements of deductive reasoning may need to be undertaken by this thesis in order to interpret the results.

[1] These changing EU labour migration patterns and unique labour market conditions between different EU member states are illustrated in detail in the following sections of this thesis.

Conceptual Framework Part 1 – A brief qualitative analysis of the structural differences in the Spanish and UK Labour Markets

This section contains a short qualitative analysis of the structural differences of the Spanish and UK labour markets according to the academic literature. Whilst the introduction above, touched on some of the similarities of the two labour markets, this section will specifically focus on the contemporary academic literature which assesses the structural components of each of the Spanish and UK Labour markets and how they differ from each other.

Spain – Unique Structural Conditions

Up until the global financial crisis the Spanish labour market experienced consistent wage growth and improved conditions and benefits for employees largely due to a sector-wide bargaining approach which was led by the union movement and was highly successful (*Montalvo, 2012*). These collective agreements usually contained a strict schedule for wage increase, which led to consistently high wage growth which outstripped productivity gains in the labour force.

Additionally, the majority of Spanish employees on permanent contracts were entitled to relatively generous severance and redundancy entitlements such as 30 day termination notices, followed with 45 days of severance pay, per year of employment. In practise this meant that if an employee had been working for ten years at a company and then had their contract terminated; they would be paid out a total of 450 days at full pay, as well as the 30 day notice period (*ILO, 2014*). The combination of these entitlements, and other minor benefits had the collective achievement of making it extremely hard and expensive for employers to terminate permanent full time employees' contracts.

Furthermore, Spain has a unique labour market structure which utilises a relatively high amount of fixed term contracts (almost 30% of the entire labour force), which can be terminated at short notice with an absence of severance payments and benefits (*Wolfl and Sanguinetti 2011*). As such, if employers had to make the choice between terminating a permanent employee or a fixed contract employee, a fixed contract employee was almost always the logical choice to be let go.

Prior to the crisis, the Spanish economy had a structural dependence on labour intensive employment, in part due to the Spanish construction boom and in some manufacturing industries, which unfortunately, compared to international standards displayed relatively low productivity (*Leschke and Watt, 2010*). The vast majority of employees in these industries were employed on fixed term contracts.

In the aftermath of the Global Financial Crisis this unproductive and labour intensive workforce was particularly vulnerable to negative economic shocks, as employers found it far easier and cheaper to fire staff on fixed term contracts, as opposed to full time employees. As almost 30% of the Spanish

labour force were employed on fixed term contracts, this affected a large proportion of the Spanish population, and especially young people, which is why Spanish youth unemployment remains one of the highest in Europe (*OECD, 2014*). As such, it is fair to characterise the Spanish labour market as relatively flexible, but only largely in the sense that it is quite easy to fire fixed term employees at short notice.

However, in the aftermath of the global financial crisis the need for some structural reforms were apparent (*Schomann, 2014*). In 2012, after much negotiation the Spanish government completed labour reforms which gave employers greater flexibility in setting individual work conditions and wages, contrary to the past sector wide bargaining approaches. Spanish employers were given strengthened negotiating powers to "opt out" of collectively agreed contracts, and upon the expiration of existing collectively bargained contracts these contracts would not automatically renew, meaning employees would often default back to an individual contract with lower pay, conditions and benefits.

Furthermore, employers were given more flexibility in redundancy and severance payments and unfair dismissals regulations were amended in favour of greater flexibility and less benefits. This had the effect of reducing an employee's severance entitlements from 45 days per year of service, to 20 days per year of service. Additionally, termination notice periods were reduced from 30 days to 15 (*Horwitz and Wyant, 2015*).

Whilst Spanish full time employees had their redundancy and severance entitlements reduced, those who were on fixed term contracts for the first time were given an increase in redundancy entitlements, thus attempting to reduce the large discrepancy between permanent and temporary Spanish employees. Additionally, the government reforms in 2012 made it illegal to extend temporary workers contracts more than once, thus preventing employers from continuously extending temporary employee's workplace contracts without moving them onto a permanent contract (*Clasen et al, 2012*).

In addition to these reform measurements, the Spanish government enacted the "Contrato de Emprendedores" policy which was aimed at promoting an increase in permanent contract employment by allowing employers to claim tax benefits if they hire a new employee on a permanent contract who was previously in receipt of unemployment benefits (*Horwitz and Myant, 2015*).

The academic debate on whether these reforms have been successful is unresolved. Some argue that in 2013 for the first time, the Spanish labour market has undertaken successful first steps and shows some signs of improvement (albeit small); thanks to the 2012 government reforms (*Anderson et al, 2014*) and the promotion of labour market liberalisation policies. This assessment is supported somewhat by the slight improvement in Spanish official unemployment figures which peaked at 26.1% (2013), before falling to 24.5% (2014), and to 24.2 % (2015).

However others argue that the Spanish labour market structural reforms taken in 2012 undoubtedly failed. Proponents of this view claim that the Spanish structural problem of a high proportion of fixed contract workers suffering from no benefits and limited protections actually still exist and that inequalities between permanent employees and fixed contract employees have not been reduced (*Horwitz and Wyant, 2015*). Moreover, the 2012 structural reforms have also had the added effect of additionally reducing security for permanent employees, which has structurally weakened the bargaining power of all employees in the Spanish labour market.

Key Point – Unique Structural Elements of Spanish Labour Market

- Prevalence of inflexible collectively bargained agreements led by the union movement.
- Ranked 33rd in global labour force competitiveness.
- Generous severance entitlements for permanent workers.
- Low labour force productivity.
- 30% of Spanish employees on fixed term contracts with little protections or benefits.
- Labour intensive industries such as construction particularly at risk to negative economic shocks.

UK – Unique Structural Conditions

Ever since the prime ministership of Margaret Thatcher from 1979-1990 the UK has had broad bipartisan support for successive liberalised and de-regulated labour market policies. The Thatcher government in the 1980's undertook significant labour market reforms which sizeably reduced the power and influence of trade unions and their ability to enact collective bargaining agreements. The effect of these policies was a general increase in labour market flexibility and a broader deregulated labour market framework which remains in place today.

Throughout the 1990's the structural reforms of the labour market continued in what is now known as the "great modernisation" period of the UK labour market. These policy reforms were focused on attempting to catch up to the labour productivity rates displayed in other major advanced economies such as the US and Japan (*UKCES, 2014*). The end result was a gradual shift away from the labour intensive industrial industries which had previously strongly featured within the UK labour market, towards a more service based economy which placed a strong emphasis on tertiary education. Upon its completion, the period of "great modernisation" was largely successful at bringing the UK's labour market productivity in line with other advanced economies (*UKCES, 2014*).

The UK labour market has structurally remained this way today with a decentralised wage bargaining system remaining prevalent, whereby an individual workers bargaining power is dependent on their individual skill set. Additionally, the UK has one of the least generous social security nets for those

whom are unemployed (*Clasen et al, 2012*). As such, most of the social security policies which can be broadly entitled “welfare to work” programmes, are focused on moving unemployed individuals into employment in as quick a time as is reasonably possible.

This labour market flexibility in the UK, has been credited by some as saving the UK economy from the worst effects of the global financial crisis (*UKCES, 2014*) as the UK labour market was already a predominantly serviced based economy with a non-labour intensive workforce in the areas of manufacturing, therefore in the post crisis period mass job losses did not occur rapidly or substantially. Additionally, there is some evidence that employers directly negotiated with employees to prevent unemployment by individually negotiating less working hours for companies’ workforces, in order to prevent job losses from occurring (*UKCES, 2014*). The success of this flexibility is somewhat re-enforced with the evidence that even at the height of the crisis within the UK, the official unemployment rate only reached 8%, before completely recovering only a few years later.

However not all academic commentators agree that the UK’s labour market flexibility has benefited the UK’s structurally. Some make the point, that although the UK’s official unemployment rate has remained buoyant throughout the global financial crisis, this has been at the expense of high-quality well-paid permanent jobs, which have been replaced by temporary low paid jobs, which are often part time (*Myant and Piasna, 2014*). Proponents of this view argue that the UK’s labour market flexibility made it relatively easy during the financial crisis for employers to cut back the hours of employees and move full time employees into part time roles. Myant and Piasana (2014) contend that the majority of the UK labour market flexibility lies in the hands of the employer at the expense of UK employees.

Key Point – Unique Structural Elements of UK Labour Market

- Went through “great modernisation period” in time of UK economic strength
- Limited social security benefits
- Deregulated market framework
- Focus on individual flexibility
- Ranked 10th in global labour force competitiveness
- Strong focus on liberalisation of employment policies
- Prevalence of decentralised wage bargaining system

Comparative structural differences

The two major structural differences between the UK and the Spanish labour markets appear to primarily exist in their employment flexibility and the timing of the labour market reform processes undertaken by their respective national governments.

First, prior to the global financial crisis, it is quite clear that Spain was operating a two-tiered employment contract system. On the one hand, permanent Spanish employees on collectively bargained agreements had received generous benefits and scheduled wage increases that were above productivity levels. And on the other hand fixed contract employees had limited benefits and protections, and were able to have their employment contracts terminated quickly in times of negative economic shock. Additionally, the high proportion (30%) of the Spanish labour market on fixed term contracts left these individuals particularly exposed to negative economic shocks (*Anderson et al, 2014*). The structural situation within the UK labour market is slightly different, with the vast majority of employees on individual negotiated employment contracts, without collective bargaining input. As such, the UK labour market appears to have entered the global financial crisis with greater flexibility than Spain.

Second, the UK labour market undertook the majority of their liberalisation and flexibility reforms in the period known as the “great modernisation”, when the UK was able to transition it’s economy away from labour intensive sectors towards service based employment which normally requires a higher level of educational qualifications from individuals. The decision to undertake these reforms when economic conditions were strong has meant the UK was provided with significant time and resources to adjust their labour market productivity. Undertaking these reforms during a period of good economic conditions prior to the global financial crisis meant these changes could be absorbed and adapted to without the UK suffering any significant economic or employment shocks.

In contrast, the Spanish labour market undertook almost no structural labour market reforms until after the global financial crisis. By then the reforms ushered in 2012, were at the height of the Spanish unemployment crisis when the Spanish economy had little capacity to absorb major structural reforms, and as such the negative effects of reforms were highly magnified. Whilst today the Spanish labour market appears slightly more flexible than in the past, it is clear that this has come at the expense of employees previous entitlements.

Moving on from structural differences to qualitative methods of assessment

Having identified some of the contemporary structural differences which are prevalent between the UK and Spanish labour markets, it is now worth turning the focus of this thesis's attention towards the primary qualitative method of assessment. It is hoped that undertaking a thorough qualitative evaluation will go some way to measure the underlying health of these two countries labour markets and to address the hypothesis of whether the large employment migration currently taking place is justified or warranted. To do this, requires an in depth appreciation of labour force statistics and transitional flows.

The importance of labour force statistics on how a national economy is performing is probably best reflected in the constantly reoccurring process of intense media and political scrutiny which immediately follows any publication of the net changes in official employment figures. These net changes can be used as a rapid judgement on whether a particular government's economic policies are working. For example it is generally common for any rise in official unemployment rate even if relatively minuscule to be publically deemed as a failure by economic commentators, whereas any fall in the unemployment rate is generally seen as a success (*Herbert and Leeves, 2003*).

A simple assessment of the net changes of labour market statistics is simple and easy to understand, and undoubtedly provides several important functions. Nonetheless, most of the analysis offered on net changes in the labour market, cannot really inform commentators on how dynamic the labour market actually is and more importantly whether or not these dynamics are rapidly changing (*Franzis et al, 2005*).

Take for example the following hypothetical scenario, the UK's unemployment rate falls from 5% to 4.5%. Immediately the media would deem such a fall an economic success, and politicians would quickly point to such a fall as an example of successful economic policies. Whilst this may be the case, when viewed in isolation it is nevertheless a superficial understanding of what may be happening within the labour market.

For example the fall in the unemployment rate could alternatively be due to a variety of other factors. A current weakness in labour force statistics is that workers are only classified as "unemployed" if they are in fact actively searching for work. If an unemployed person becomes disillusioned with their job search having unsuccessfully applied for jobs for a long period of time, they may simply give up and stop seeking work altogether. This would in fact exit them from being classified as unemployed, as they have left the job market altogether. Lots of people exiting the job market altogether is actually a sign of economic weakness; not strength.

It is for these reasons that this thesis will undertake an encompassing empirical assessment of labour force statistics in order to produce a dynamic encompassing view of the current Spanish and

UK labour markets. The primary methodology this thesis will construct is a standard tool in labour economic theory; a transitional flow matrix which will enable us to see the transitions between labour stocks of the labour force.

This transitional flow matrix will give us the depth and ability to assess the health of the economy by answering key questions such as: How hard is it for an unemployed person to gain employment compared to a year ago? Are those who are unemployed flowing into employment, or are they leaving the workforce all together? Should a rising unemployment rate actually be viewed as a good thing? These questions will be answered in a coherent approach of inquiry within the conceptual framework 2 of this thesis.

Conceptual Framework Part 2 – A look at the primary quantitative methodology of this paper – Transitional gross flows analysis

Unlike the introduction sections above, which look at the factual occurrences and structural differences of the Spanish and UK labour markets; this section introduces some of the theoretical aspects of labour economics and how they have changed over time. Additionally, this section provides a background literature review which specifically focuses on the main quantitative methodology off this paper; a transitional flow analysis.

Conceptual framework

Theoretically labour economics was once a field which was primarily built upon Marshallian conjecture to explain wages being the immediate drivers of movements in the labour force (*Perry, 2007*). This theory has moved on to labour transitions being explained by "search theory", where workers are constantly searching for new and better jobs, while firm's are seeking to "match" their vacant positions with these searching workers (*Nickell and Layard, 2000*).

This matching theory can be thought of as similar to a production function in economics, whereby inputs can be thought of as job vacancies and job searchers, all of whom are competing in a situation of "market tightness" (*Perry, 2007*). A criticism of the "production function of job vacancies theory" is its lack of understanding of the flows between employment and unemployment in an equilibrium framework. This "production function of jobs vacancies" has been the subject of a large amount of literature and leads on to the primary focus of this paper; transitional labour flows.

Conceptually transitional labour flow analysis allows for the examination of economic adjustments which are not immediately revealed by the net changes of employment and unemployment. It is common for levels of employment to remain stationary over time periods, even though large transitional flows may actually be taking place into and out of employment (*Foster and Gregory, 1984*). Therefore, a simplistic assessment may indicate that official employment statistics are consistent, however utilising a transitional flow matrix may uncover large changes in employment stocks.

For example, the unemployment rate of a country may stay steady at 8% year after year, however significant amounts of workers may have moved from part time employment to full time employment, thus the economy could be doing quite well. However these transitions are not immediately revealed through an assessment of the net change in unemployment rate alone. It is for this reason, that this thesis contends that a careful analysis of these employment transitions has tremendous implications to show that flows are often much larger (or smaller) than net changes may suggest (*Schekatt, 1996*)

and it is these unrevealed changes which this paper is seeking to focus on to paint a broader picture of the health of the UK and Spanish labour markets.

Academically, transitional labour flow analysis is a modern school of analysis which has been put forth as a consistent encompassing framework which recognises the foundation of microeconomics while at the same time providing the ability to see long term trends within macroeconomic behaviour (*Sheckatt, 1996*). Historically labour flow analysis was a completely neglected field of study until the late 1970's, when several prominent economists including Holt (1979) argued that transitional labour flows theory provides the ability for researchers to differentiate within empirical studies, different labour market theory outcomes (*Clark et al, 1979*). Contemporarily transitional labour flows have become gradually more and more important within economic models and are used to explain the behaviour of imperfect macroeconomic labour markets using a microeconomic foundation to give strengthened insights.

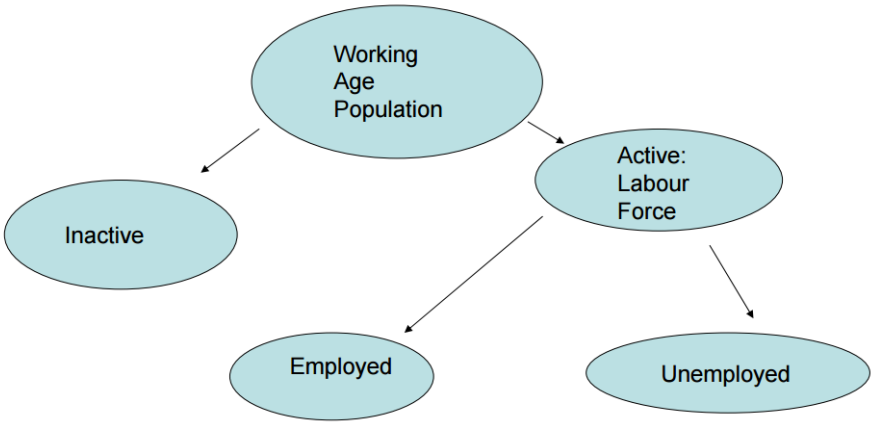
Nonetheless, outside of academia and some sectors of the public and private sector such as banking or economics, transitional gross flow assessments are often ill understood and un-utilised (*Holland et al, 2011*). The effect of this is that there can be an information lag or disconnect on how political and news commentators perceive the health of a country's labour market and what is happening in reality. Conceptually this paper wishes to inject a more comprehensive analysis into the economic debate surrounding the assessment of labour markets, and in the case of this paper apply it to the mass migration currently occurring between Spain and the UK.

In relation to this research paper, at present European labour markets can be largely characterised by rates of high job creation and employment stability in some states, but employment weakness and large flows out of employment in others (*Lane, 2012*). As outlined above this phenomenon is commonly referred to within the media as the two speed economy of Europe. Conceptually this is particularly interesting and relevant today, as never before has Europe's people had greater access to freedom of movement between countries, allowing them to migrate in search of work opportunities.

Building on this previous theory, this thesis seeks to develops an empirical analysis to better understand the dynamic flows of the stocks of the different employment categories: Employed (E), Unemployed (U) and Not in the Labour Force (N) (inactive)[2], these classifications are displayed in figure 5 below. This transitional flows approach is based upon a specification of these three different potential labour classifications, and then a realistic representation of the flows between these classifications over time.

[2] These labour market states are further explained in the methodology section.

Figure 5 – Employment Classification used within a Transitional Flow Matrix



Source – University of Ulster

Other researchers in this field, which this paper seeks to build on include Dixon, Freebairn, and Lim (2005) who have set out a well organised systematic framework for analysis between net flows of different labour market stocks. Using this framework, and using an analysis of over 30 years, an important finding of their research was that the participation rate of a countries working population is negatively correlated with the unemployment rate (*Dixon et al, 2005*). Although these authors primarily assessed net flows within their study, as opposed to the transitional gross flows assessment which will be undertaken in this thesis; there is still a considerable amount of overlap in some of the methods used, and as such their findings will be kept in mind when analysing the transitional flow results.

Following on from this study into the field of transitional gross flows, Franzis et al (2005) laid out a straight forward case study where they used raw basic gross flows statistics produced by the American Bureau of Labour Statistics, and transformed the statistics to a standard 3x3 transitional employment matrix model. Franzis et al (2005) argued that this is an effective and encompassing way in which to analyse labour force dynamics, however there is the potential for several classification errors to take place, especially within the data collection process, and the way in which specific surveys are conducted. Nonetheless, taking these classification errors into account, these authors conclude that this matrix methodology is a highly effective method to accurately display transitions between employment classification stocks.

Similarly Borland (1996) conducted a transitional flow analysis in which he highlights the potential pathways that labour stocks can flow are in part dependent on the existing present state of an individual within a specific labour classification. For example an individual within the unemployment category is several times more likely to flow into the employment category, than someone whom is currently not economically active and is presently outside of the labour market. Borland (1996) then goes into some detail in explaining the implications and benefits of understanding the present state theory of an individual whilst using a transitional flow analysis in academia and policy development.

The transitional flows matrix model proposed within this thesis and on which the ensuing empirical analysis will be based is essentially derived from and displays similar characteristics as a theoretical Markov chain. The theory behind a Markov chain is that past events represent a statistical context for determining the probabilities of future events and while it is impossible to forecast with complete certainty any event within the future, it is possible to predict to a degree the statistical probability of a future event coming to fruition (*Ross, 1970*). Specifically, assessing how Markov chains fluctuate over time periods and analysing any long term trends which may evolve, gives researchers a basis for determining the future probability of events occurring. It is these statistical probabilities and how they are changing that this thesis is particularly interested in in relation to the Spanish and UK labour markets, and thus will form the empirical analysis within this thesis.

As can be seen the theory of transitional labour flow analysis has changed significantly over time and contemporarily it is emerging as a fundamental model which is commonly used in labour force studies. This thesis aims to take into account and build upon the existing theory, especially in relation to Markov chains when assessing the development of long term trends within the Spanish and UK labour markets. In the methodology section of this paper, special care will be given to take in statistical error minimising techniques in order to produce a model which is both capable and accurate, and builds upon existing labour economic practises.

Key Point:

- Transitional flow matrixes are a key tool used in labour economics
- Transitional flow matrixes can reveal trends that are not displayed in official unemployment statistics
- Relatively new tool for economists, yet becoming more common
- Transitional flow analysis finds its foundation in Markov and probability theory

Quantitative Methodology

The transitional flow matrixes created within this thesis are a stochastic process containing finite and countable state variables with the ability to present stationary transitional probabilities, where each present state is independent of any past event (*Ross, 1970*). In simple terms, the transitional flow matrixes created in this section will produce results which display an accurate representation of past transitions of the Spanish and UK labour markets, whilst also providing trends from which this thesis can then calculate the probability of future transitions occurring, to infer the relative health of the underlying labour market.

As mentioned above, this paper has identified three relevant possible labour market states: Employed (E), Unemployed (U) and Not Economically Active (N). Workers flow between these states from time period to time period as jobs are created or lost within the Spanish or UK economies. In order to build our transitional flow matrix it is important to recognise that a change in the labour market categories within an economy is influenced by the changes in the other employment stocks. For example the unemployment level is influenced by the flow into and out of the unemployment stock in the current quarter, as compared to the previous quarter as well as the other stocks. In economic notation this can be displayed as (*Demiralp et al, 2010*):

$$Ut = Ut - 1 + (NU + EU) - (UN + UE)$$

Where:

Ut= *"Unemployment" in the current time period.*

$Ut - 1$ =*" Unemployment" in the previous time period.*

NU=*flows from "Not in the labour force" to "Unemployment".*

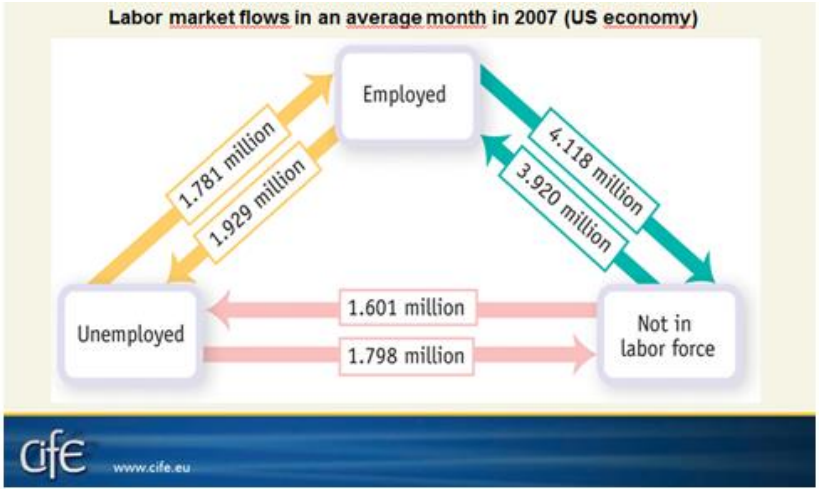
EU=*flows from "Employment" to "Unemployment".*

UN=*flows from "Unemployment" to "Not in the labour force"*

UE=*flows from "Unemployment" to "Employment"*

These different individual transition flows are perhaps best explained through graphic representation, as outlined below, in an example of the labour market flows in the US economy (CIFE, 2016).

Figure 6 – Labour Market Flows – US Economy



Source: CIFE Economics Lecture (2016)

In order to construct a matrix our original equation above must be manipulated to allow us to see the percentage change of the stock as a whole, as it is this percentage figure which gives us the transitional probability of an employment transition event occurring. With some minor algebraic manipulation, we can now see the equation as it will be inputted into excel when conducting our matrixes:

$$\Delta Ut = (NU + EU) - (UN + UE)$$

This new equation allows us to compute the changes in the unemployed stock as derived from the movements within the other states. Using this method for all three states, and the possible transitions that could occur within those states, we divide the flow element in the matrix by the initial state (t-1). This allows us to build our 3x3 transitional flow matrix in excel which can be seen below.

Figure 7 – Transitional Flow Matrix

	Status Current Period		
Status Last Period	Employed	Unemployed	Not Economically Active
Employed	EE	EU	EN
Unemployed	UE	UU	UN
Not Economically Active	NE	NU	NN

This matrix represents all 9 classifications an individual can be assigned in across time periods.

After computing our 3x3 transitional flow matrix, we are able to see the likelihood of a shift between labour states over the present quarter (t) and the previous quarter (t-1). For example if the shift

between “not economically active to employment” (NE) is .07, then we can conclude, that last month 7% of those who were not in the labour force, have now entered into the labour force, and into a job. If NE rises to .09 (9%) in the next month, then we could say that the labour market is improving as more people outside of the labour force are flowing into employment. Again it is clear to see the underlying Markov principles within this method, that being; how past events are a pretext for determining future events.

Using this method this paper will conduct a transitional flow matrix for every calendar quarter back until 2009 (The date of when Eurostat started officially reporting transitional flows data separately to other labour force statistics). Twenty two matrixes (this equates to approximately ~6 years of data) will be created for the UK, which remains the destination of choice for Spanish emigrants. These results will then be compared to the twenty two matrixes of the Spanish labour market. In this manner, we can paint a picture over time of the flows occurring in the Spanish and UK labour markets, and more importantly, whether these flows are changing over time and if they are getting better or worse.

In terms of potential data errors within this analysis, measurement bias has been identified as a potential problem which is often prevalent in other transitional flow matrixes. It is essential to reduce potential measurement bias so that this thesis can have integrity and trust in the results it produces. In the academia of transitional labour flow economics, Meyer (1988) when conducting a similar analysis outlines several methods which can be used to reduce measurement error bias. The findings from Meyer’s paper are applicable to our transitional gross flows matrix as the underlying methodology is similar. Meyer outlines several possible measurement errors and correction methods to use if these errors do take place. While finding no evidence of such errors within this thesis transitional gross flow matrix, precautionary methods have still been taken to understand the limitations of the data itself, in order to minimise the risk of any potential measurement errors arising.

It is worth noting that the data provided by Eurostat actually makes it possible to conduct transitional flow matrix iteration for every member state of the EU individually, which if completed would form an extremely detailed analysis, which goes beyond a simple assessment of just the Spanish and UK labour markets. Whilst this would be extremely useful information, conducting such a comprehensive breakdown is beyond the scope of this research project, and would require significant time and resources. Nonetheless, this thesis would like to highlight this area as a potential future research project which could lead to a closer inspection of the broader two speed economy of Europe.

As can be seen above, this paper has constructed a transitional labour flow analysis matrix, and it is hoped that upon completion of each matrix analysis, it will be possible to produce an informative and dynamic picture about the state of the Spanish and UK economy as explained by transitional labour

flows[3]. Upon completion of the results of the transitional flow matrixes, it is hoped that our brief qualitative assessment of the structural differences between the Spanish and UK labour markets will support and help us interpret the results from our transitional flow matrix assessment. Upon the completion of these results, the hypothesis of this thesis will be able to be tested.

[3] See appendix for the detailed results of the transitional flows matrix.

Data

The transitional flows and labour force data used within this paper primarily comes from labour market statistical official quarterly data produced by Eurostat and published in March 2016. The data itself is derived from the Labour force survey, which is published on a quarterly basis. The labour force survey covers a sample of 33 countries, comprising non-EU countries of Norway, Switzerland, Iceland, Macedonia, Turkey, as well as the 28 member states of the EU.

The labour force survey is directed at private households within Europe and is conducted primarily through personal interviews with respondents aged between 15- 74. The Eurostat labour force survey produces raw data, based on respondent's answers of people moving between labour categories. The labour market survey uses a sample of independent observations, meaning each individual respondent will only be covered at most only once during a calendar year, to reduce the potential double counting of respondents. This reduces any systematic bias which can be present with long standing survey participants. The surveys are undertaken on a quarterly basis with approximately 1.8 million surveys being completed with sampling rates of between 0.2% and 3.33% across various countries, making it the most comprehensive and representational labour force survey in Europe (*EuroStat, 2016*).

As outlined above, there are 3 categories that an individual respondent can be allocated into:

- Employed- Defined as working at least one hour during the previous week in paid employment. (E)
- Unemployed- Actively seeking work, and available to work but not actually employed. (U)
- Not economically active - Not employed, and not actively seeking to look for employment. (N)

Aside from labour market classification the labour market survey additionally asks a range of questions including the respondent's country of nationality, country of birth, marital status, dependent child, degree of urbanisation, level of education or training completed, occupation and the number of hours worked (*EuroStat, 2016*). In order to gain estimates representative of the entire population, the results from the labour force survey are expanded and weighted against a benchmark distribution of the population by factors such as gender, state and age.

Known Weaknesses in the Data

The labour force survey currently excludes citizens not staying in private accommodation, for example people staying within hostels, hotels, student residencies and hospitals are not included within the survey, which is a common practise within labour market surveys. Nonetheless, there is a strong argument that peoples not living in private accommodation, for example people whom are

living in hostels, public housing estates, caravan parks, homeless shelters etc are highly more likely to be unemployed than people whom are living in private residences (*Dixon, 2001*). As such, a potential criticism of the Eurostat labour force survey is that it may under represent the level of unemployment.

Another common criticism of the labour force survey is that a person can be “employed” even though they are only working as little as one hour a week; it is highly likely that most people working these very small amounts of hours are in fact underemployed (*Wilkins and Wooden, 2011*). Nonetheless the labour force survey is under the obligation to report time spent in the workforce, regardless of duration. Even one hour spent in work contributes to the European economy and is thus included within the definition of “employed”, even if that person may in fact be underemployed and wanting to work more hours than they have access to.

The data this paper is using is not seasonally adjusted. This means there may be certain trends which are evident annually across the data when observing specific quarters. For example compared to other quarters of the year, the December quarter is usually a highly variable month because of the increase in seasonal temporary Christmas employment. As such, this paper must be careful to observe and acknowledge effect of events which occur at the same time every year (ie Christmas sales), and therefore close scrutiny must be undertaken when observing certain quarters to make certain that any abnormal changes are truly representational of the changes which have taken place, and are not in fact regular seasonal occurrences.

Empirical Observations and Results

This section unpacks the matrix results for both the UK and the Spanish labour markets and offers a brief assessment on some of the curious and attention grabbing results. But before the empirical observations of the transitional gross flow matrixes are discussed, it is vital to first gain an understanding of what information it is the matrix results are exactly displaying. Additionally, the entire results of all the matrix's completed within this thesis are attached in Appendix 1.

Figure 8 – Example of Matrix Empirical Results – Spain 2015 Q2

	Status Current Period		
Status Last Period	Employed	Unemployed	Not Economically Active
Employed	94.69%	3.33%	1.98%
Unemployed	17.87%	69.99%	12.14%
Not Economically Active	3.03%	6.28%	90.69%

Figure 8 by way of example, shows the transitional flows for the entire Spanish labour market for the second quarter of 2015. The most obvious standout from the results is that the vast majority of people remain within their labour market classification from the previous quarter. For example in E→E 94.69% of Spanish people whom were employed in the first quarter of 2015, remain employed in the second quarter of 2015 and the same is true from U→U (69.99%) and N→N (90.69%). Intuitively these results make sense, as the vast majority of employed people, remain employed in the next time period, unless they retire, or are fired or quit from their employment.

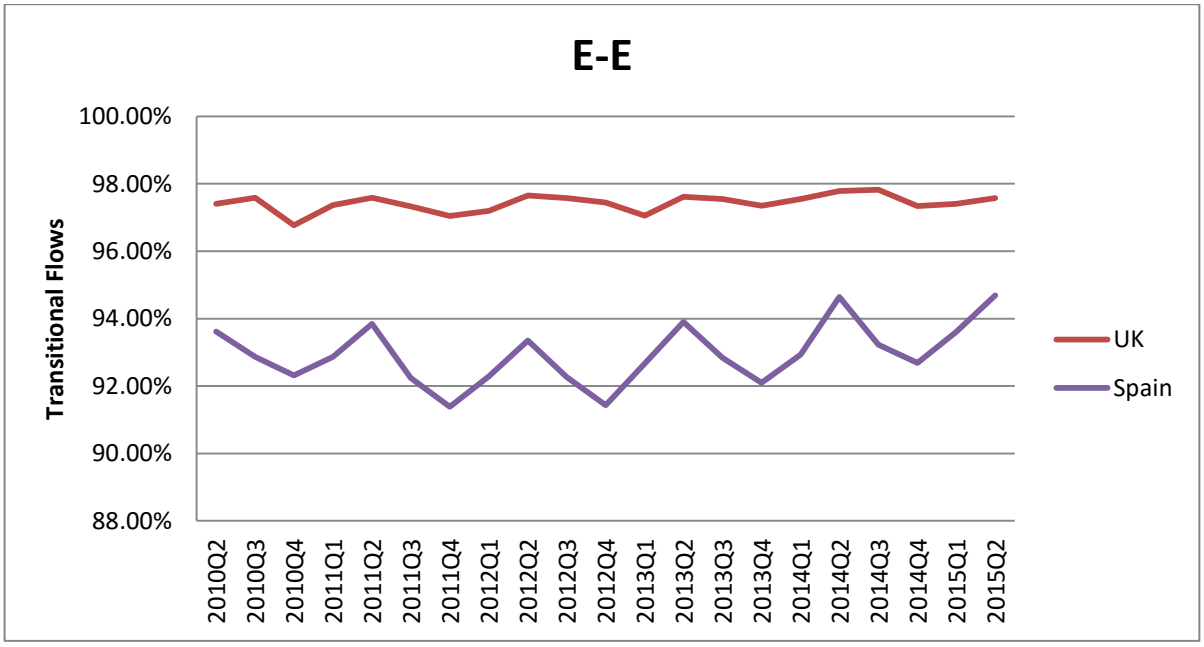
Another point of interest is that the highest amount of movement out of one labour classification and into another is those who are unemployed, which is unsurprising; as most people who are unemployed are looking to move into employment. The ease and manner at which those who are unemployed leave unemployment (or stay) is of interest to this paper. As can be seen in the U→E classification (17.87%) of those who were unemployed last quarter in Spain have now entered employment. This is a positive sign for those who were lucky enough to find a job, however within U→N (12.14%) of the Spanish Labour market left the workforce altogether, after perhaps becoming disenchanted and suffering labour market fatigue from a cycle of constant job searching and rejection.

These example observations above, illustrate the usefulness of conducting a transitional flow matrix, to unearth movements in labour markets that might not have otherwise been obvious from a simple assessment of the official unemployment rate.

Now that we have a brief understanding of the qualitative methodology used within this paper, it now possible to conduct the 22 individual matrix iterations for both Spanish and the UK labour markets, and to evaluate the transitional flows over time to give an insight into some longer term trends which

may exist. However, it is important to remember that all of these results are aggregate and are representative of the national average of Spain and the UK and thus ignores the regional specifics and distribution of job opportunity by geography and broad trends within certain industries.

Transitional Assessment 1 – Stability within Employment

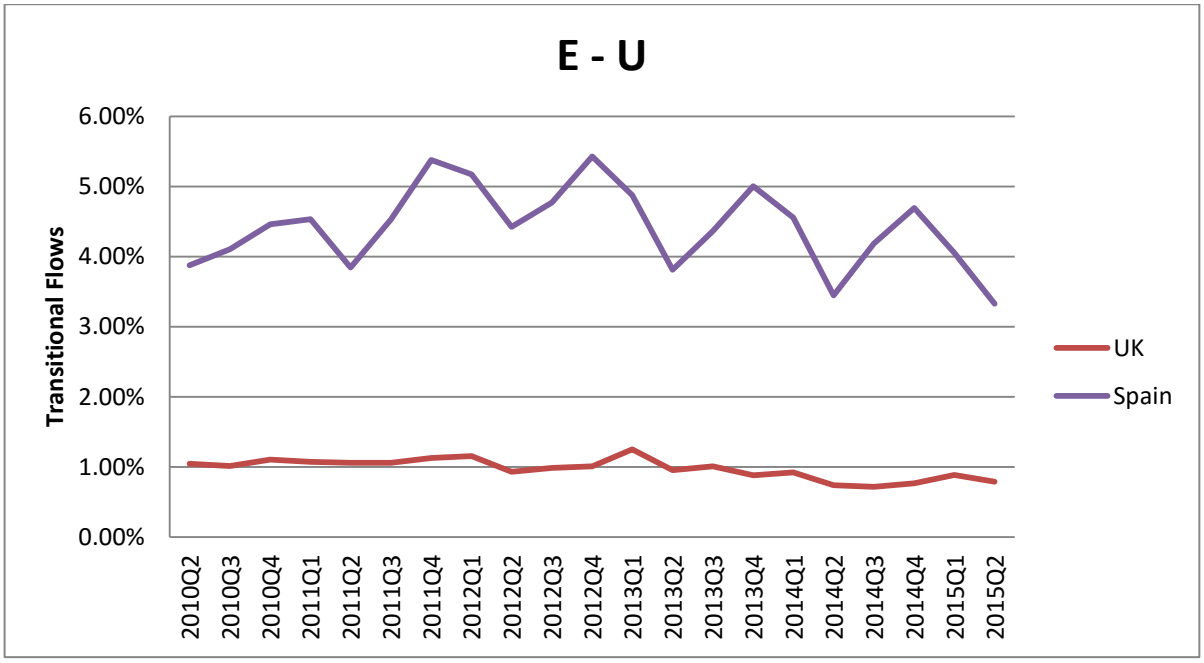


UK – From our first transitional flow assessment it is clear that on average only ~2% of the UK labour market transitions out of employment between time periods, which tells us that the UK is remarkably stable when it comes to employment, which is a vital sign of economic strength.

Spain – The Spanish Labour market has a significantly higher proportion of transitions out of employment at an average of ~6.5% each time period. Additionally, it seems apparent that Spain has some cyclical employment issues occurring each year, which appears to peak in the 2nd quarter of each year, before reaching a low point in the 4th quarter. From this reoccurring trend, we are able to interpret that it appears the Spanish labour market undergoes some form of cyclical employment each year.

Key Finding - What is clear within our first assessment is that the UK labour market provides much more stability within employment when compared to Spain. As stability within employment is a key measurement of economic strength, this first transitional flow analysis strongly supports the hypothesis of this thesis, that the UK labour market is fundamentally stronger relative to Spain.

Transitional Assessment 2 – Movements from Employment to Unemployment



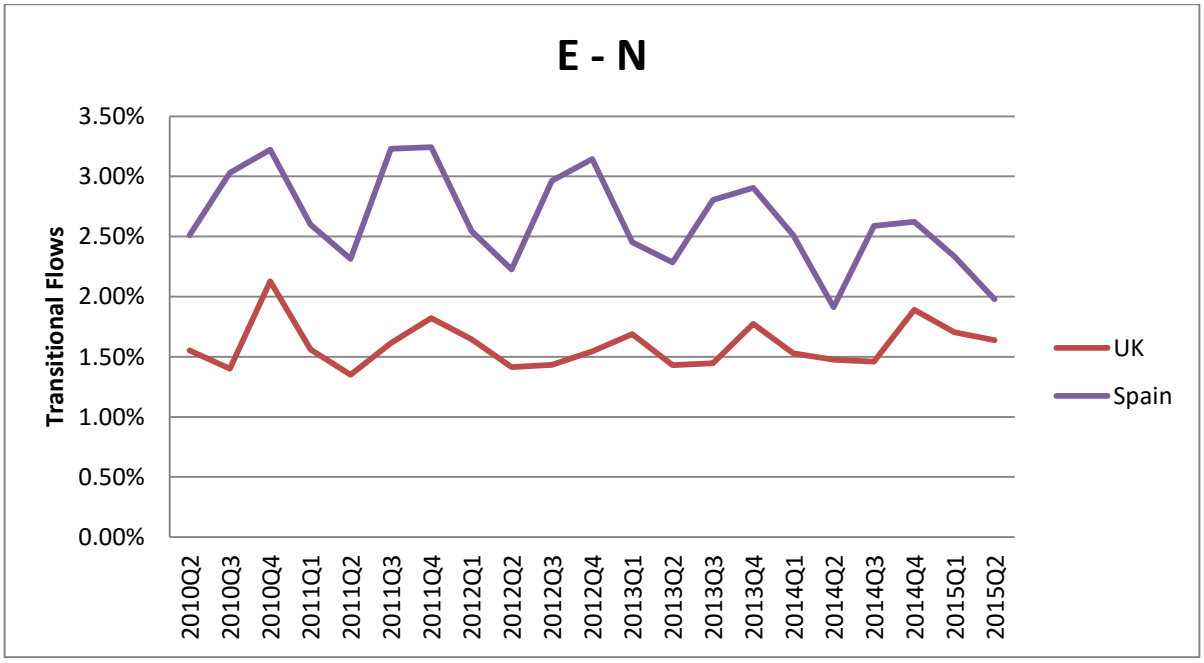
UK - Within our second transitional flow assessment it is remarkably clear to see that the UK labour market demonstrates considerable stability of approximately ~1% in the amount of employed people becoming unemployed over each time period. Such a small amount of transitions into unemployment is a sign that the UK employment market remains very strong.

Spain – The Spanish labour market displays a relatively high amount of transitions from employment to unemployment of approximately ~4.5%. One positive for the Spanish labour market is there does seem to be a slight decrease in the amount of transitions into unemployment which are occurring each year, which may be a sign (although small) that the Spanish labour market is becoming slightly more stable.

Additionally, it is clear that cyclical seasonal employment patterns also are present in the Spanish labour market.

Key Finding – The UK labour market remains significantly more stable in employment than Spain. Additionally, the Spanish labour market undergoes significant cyclical employment patterns, which the UK does not experience. Again, this finding of transitions into unemployment supports the hypothesis that the UK labour market is superior relative to that of Spain.

Transitional Assessment 3 – Movements from Employment to Not Economically Active



UK – In this third transitional assessment the UK has remained relatively stable in the amount of employed people leaving the labour market altogether across time periods.

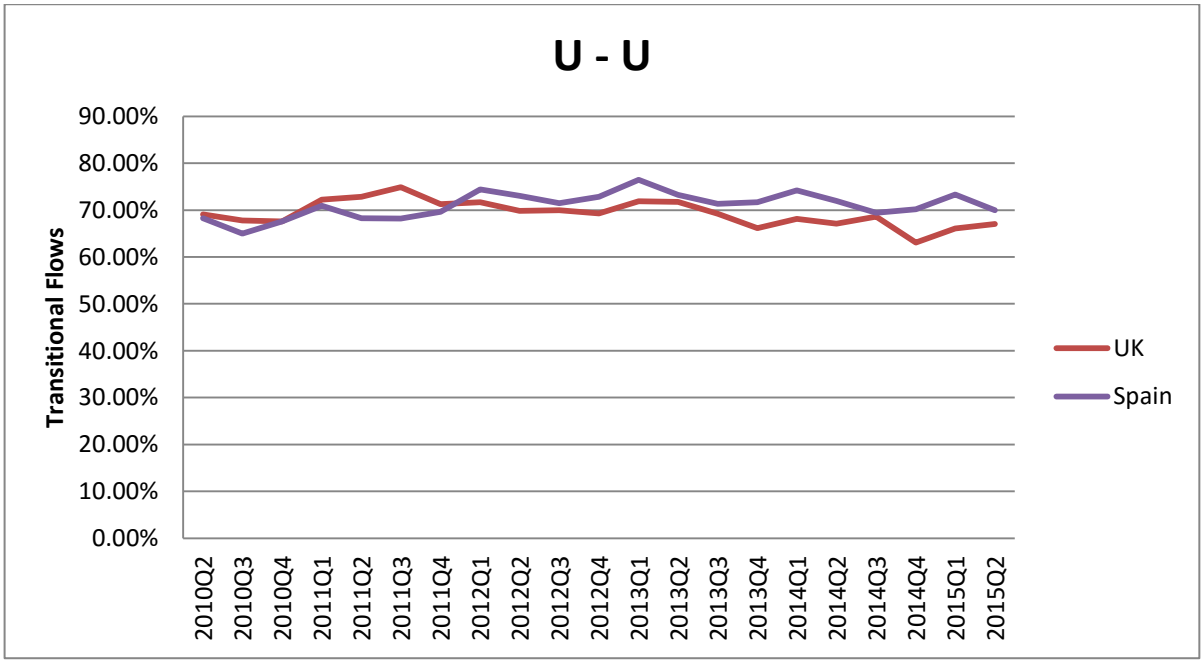
Spain – In a positive sign for the Spanish labour market, there is a clear trend of less people transitioning out of employment and leaving the labour market altogether. This trend is clearly defined over the last 5 years and may demonstrate an improving Spanish labour market. Additionally, Spain again displays significant variability due to seasonal employment.

Key Finding - Spain has demonstrated a clear trend over the last 5 years of significantly less transitions out of employment and exiting the labour market, which demonstrates an improvement for the economic employment conditions for Spain. If this trend continues Spain and the UK's labour market transitions will converge.

The UK labour market has remained relatively stable in transitions from employment to exiting the labour market which is a positive economic signal for labour market conditions within the UK. Nonetheless, the Spanish labour market is also showing small signs of improvement and is producing a trend of convergence similar to that of the UK trend line.

These findings do not appear to either support or contradict the hypothesis of this thesis; rather the results from transitional assessment 3 appear neutral.

Transitional Assessment 4 – Stability within unemployment

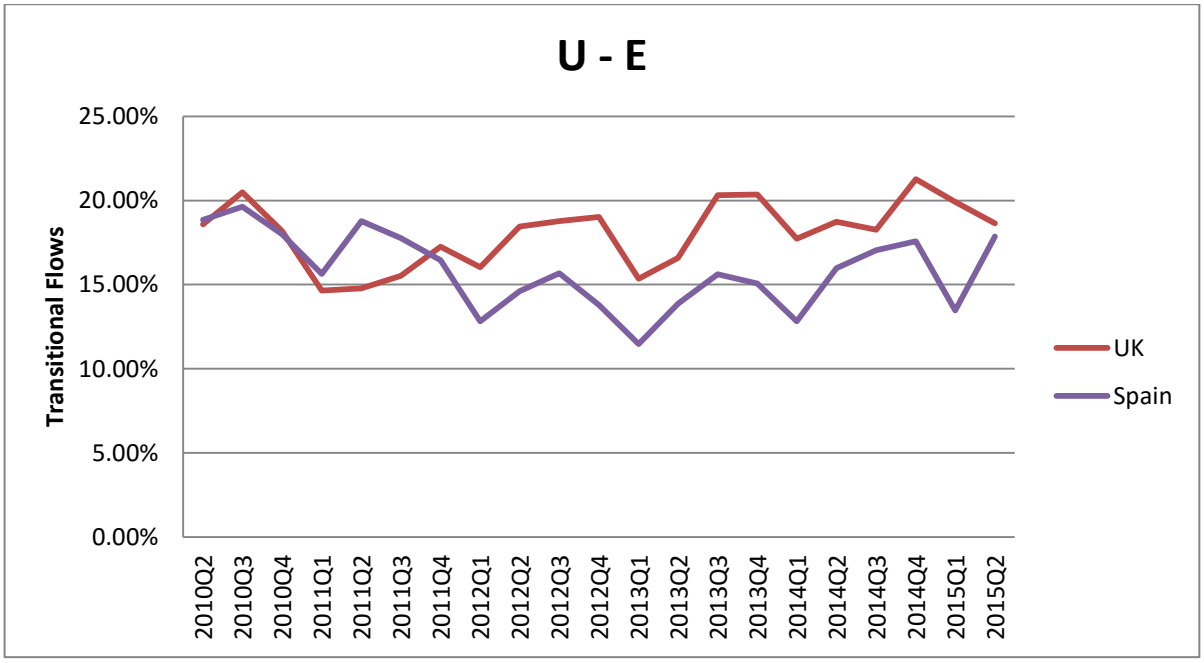


UK – The UK labour market has remained remarkably stable with approximately ~70%) of unemployed peoples remaining unemployed across time periods. Whilst it is positive that 30% transition out of unemployment each quarter, it is worrying that almost 70% of UK remain unemployed across time periods.

Spain – The Spanish labour market has also remained consistently stable with approximately~70% of respondents remaining unemployed across time periods.

Key Finding – The Spanish and UK labour markets in this instance are remarkably similar. If you are an unemployed person in the UK or in Spain you have roughly the same chance of ~30% of leaving unemployment across time periods. This finding somewhat differs from our hypothesis which is that the UK; with a presumable much stronger labour market should have a much higher proportion of people transitioning out of unemployment than what would occur within the Spanish labour market.

Transitional Assessment 5 – Movements from Unemployment to Employment

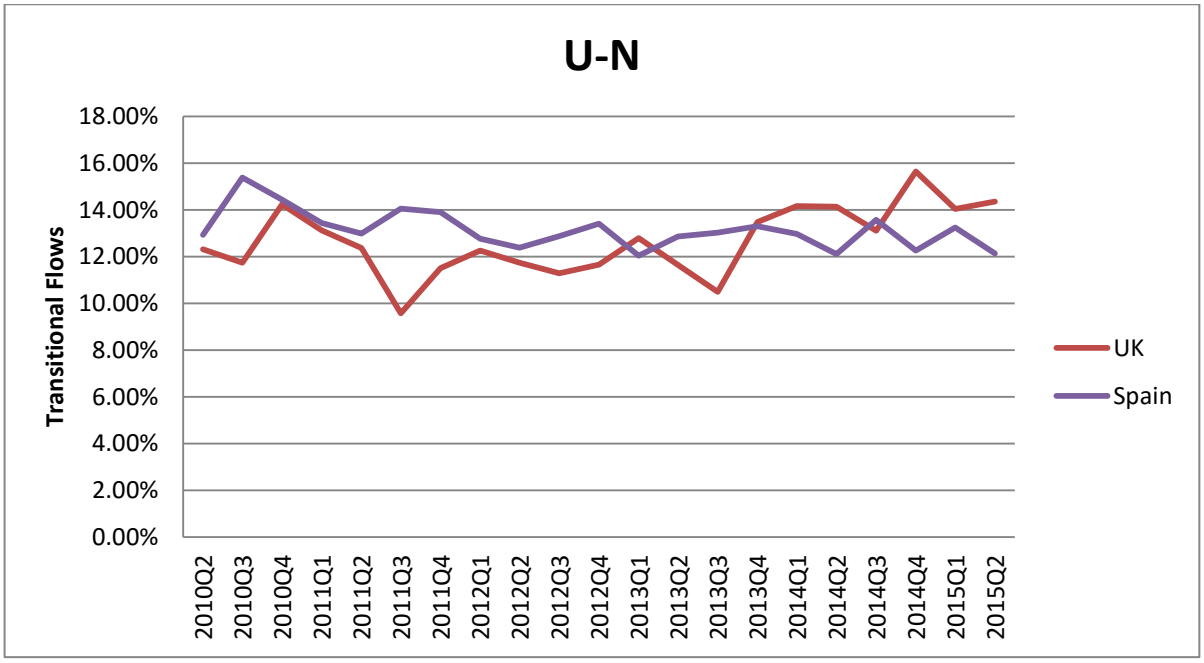


UK – The UK labour displays an average of approximately ~18% transitions from unemployment to employment over the 5 year time period. This is a relatively strong indicator of almost 1 in 5 unemployed people transitioning to employment over time periods.

Spain – The Spanish labour market displays an average of ~15% transitions from unemployment to employment. However, in the last 3 years of data there is a slightly positive upwards trend of more Spanish unemployed transitioning into employment, which a positive sign for economic employment conditions within Spain.

Key Finding – The ability for an individual to transition from unemployment to employment in a labour market is perhaps the best indicator of the economic strength of a countries labour market. In this instance, both the UK and Spain demonstrate a relatively similar amount of transitions from unemployment to employment, although the UK does demonstrate slightly higher transitions than Spain. Nonetheless, in the last three years there is a definite improvement in the Spanish labour market, which again is on track to converge with the UK, which again is a surprising finding contrary to this thesis's hypothesis.

Transitional Assessment 6 – Movements from Unemployment to Not Economically Active



UK – The amount of people leaving unemployment and becoming economically inactive in the UK across the last 5 years is approximately ~13% across time periods, however in the last 2 years this has experienced an upwards trend. This is a sign of weakness for the UK labour market as it indicates a significant number of people are giving up looking for work altogether and are exiting the workforce and the situation is becoming worse with an approximate 2% increase in transitions from 2013-2015.

Spain – Spain has also averaged approximately 13% of transitions from unemployment to becoming economically inactive across the time period. This is a surprising finding, as one would assume that the situation in Spain would be significantly worse than that of the UK, due to the large amount of Spanish unemployed people becoming potentially disenfranchised from their job search activities.

Key Finding – Overall Spain and the UK display similar amounts of transitions from unemployment to becoming economically inactive, although surprisingly across 2015 the situation actually became worse in the UK than in Spain for the first time in 5 years, contrary to the hypothesis that conditions would be worse in Spain than the UK.

More broadly, these specific transitions of U→N are mildly alarming for the health of both countries' labour markets. If large amounts of peoples (13%) who are unemployed are leaving the workforce altogether each time period they are not counted in the official unemployment rate next time period. This is one of the known weaknesses of the official unemployment rate that people whom are classified as economically inactive are not included in the next official unemployment rate because they have given up looking for work altogether, which could lead to the conclusion that the official

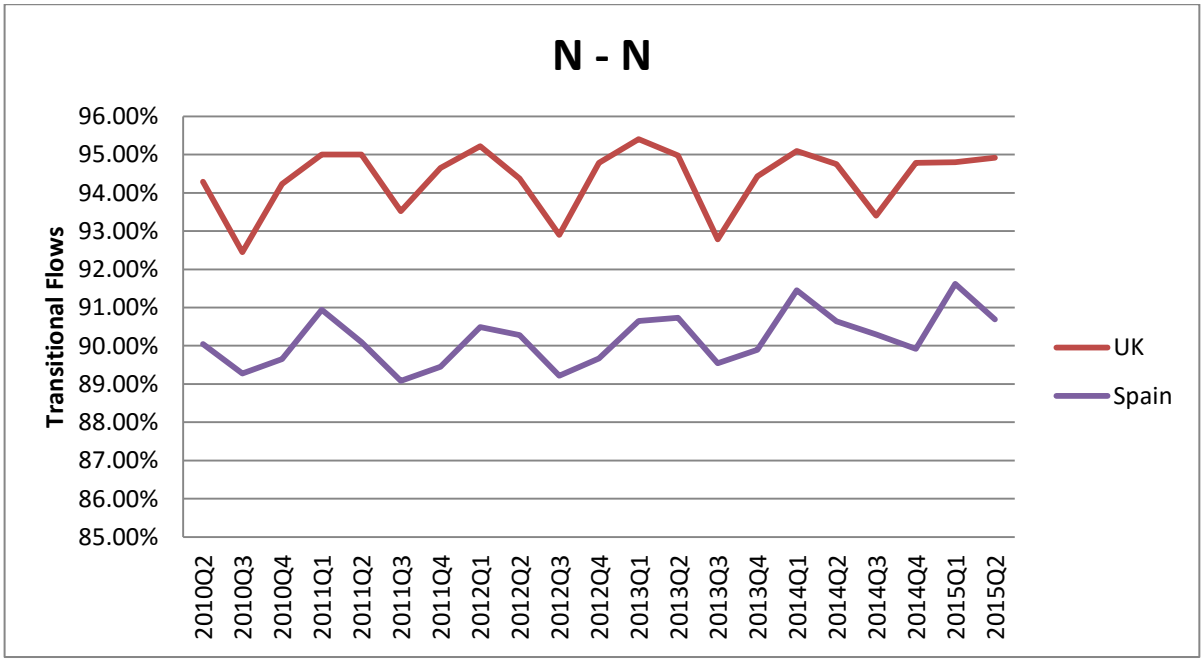
unemployment rate pay be a potentially inaccurate statistic. This suggests that hidden unemployment could be a problem which may be understated within from media commentary (*Mitchell, 2001*).

If the high percentage of U→N was drastically reduced, meaning that more people stayed in unemployment looking for jobs, rather than giving up searching and leaving the workforce altogether, then it is clear that we would not see the labour force participation rate drop. The fall in the labour force participation rate (from which the unemployment rate is derived) almost always "hides" the true figure of unemployment. Had the labour force participation rate not fallen, then it is highly likely that the unemployment rate would rise.

As outlined above, this statistical problem essentially stems from the statistical measurement of how a individual is defined within employment statistics. Someone who leaves the labour force after becoming disenchanted with their employment prospects is not included in the unemployment rate as their present labour market state is (N). This little understood problem is made worse by superficial media commentary which labels declining unemployment rate that U→N produces as an "good result", when really the opposite is the case; a transfer from unemployment into hidden unemployment with falling participation rates is usually always a bad result (*Mitchell and Muysken, 2003*).

To summarise, overall Spain and the UK display remarkably similar trend lines in this transitional flow assessment, and in fact this finding is directly opposed to my hypothesis, as in the last 3 years the UK labour has actually performed worse than the Spanish labour market.

Transitional Assessment 7 – Stability within Not Economically Active



UK – The UK has remained somewhat consistent over the time period with approximately 94%~of those whom were not economically actively remaining so into the next time period. This is an extremely high proportion and is somewhat disconcerting for those who are not economically active, as it appears they have an extremely high chance of remaining so.

Additionally, there seems to be some level of cyclical seasonal variability occurring in the third quarter of each data interval.

Spain – The Spanish labour market has maintained an average of ~90% of those whom are not economically active, remaining so over time. Similar to the UK, Spain also seems to undertake some level of seasonal variability within the data.

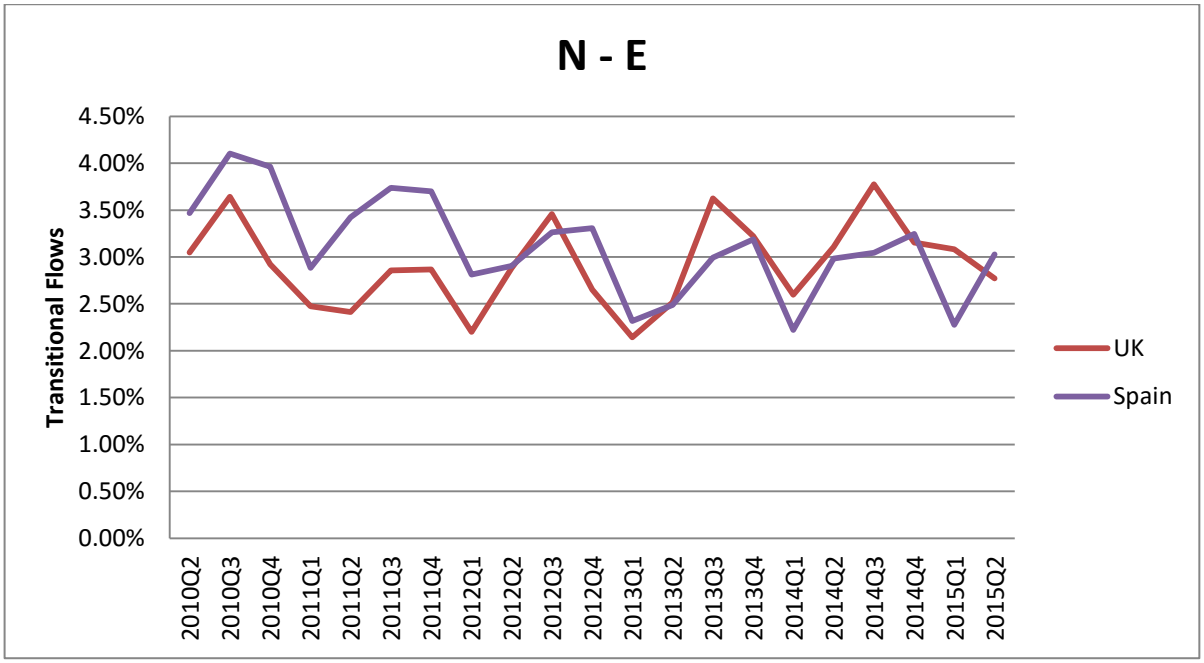
Key Finding – The key finding in transitional assessment 7 is the relatively large difference between the UK and Spanish labour markets. Someone who is not economically active in Spain has a far larger chance of re-entering the labour market by initiating a job search than someone does in the UK. This is somewhat contrary to our hypothesis; that those within the UK should find it easier to re-enter the labour market, given the UK's relatively favourable labour market conditions.

However, it is important to note that these observations which display an approximately ~5% differential may be somewhat explained by the economic conditions which currently exist within the Spanish labour market. With many in the Spanish working age population unable to currently find a job, many whom find themselves not economically active may seek to re-enter the workforce as soon as is reasonably possible when they see conditions improving. However, those within the UK whom

are not economically active may more likely to be in that situation due to factors related to lack of educational qualifications or social problems, as opposed to cyclical factors (like those present in Spain).

Nonetheless, whilst the cyclical conditions present in Spain may go some way in explaining part of the ~5% differential between the UK and Spain, the fact remains that Spain displays a lower percentage of stability between N→N, and therefore a person who is not economically active in Spain has a far larger chance of re-entering the labour market by initiating a job search than someone does in the UK. Again, this finding is somewhat contrary our hypothesis.

Transitional Assessment 8 – Movements from Not Economically Active to Employment



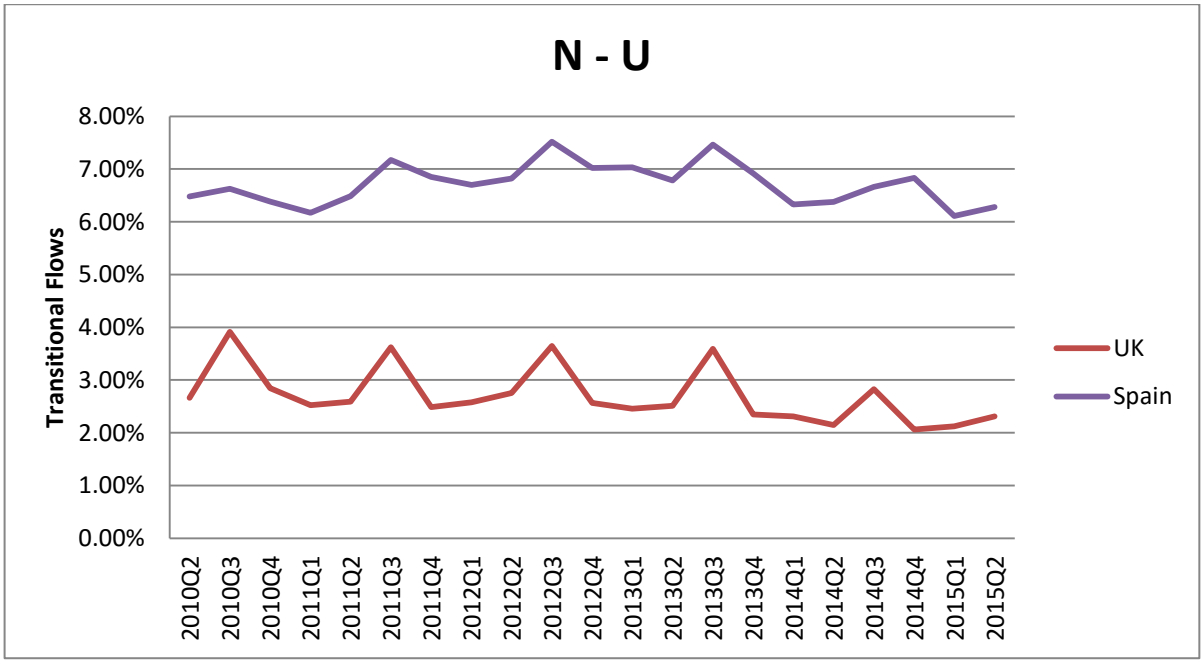
UK – The UK has a consistently low number of approximately ~3.3% re-entering the labour market and leaving the classification of not economically active, by regaining employment.

Spain – Similarly Spain has an average of ~3.3% of those classified as not economically active regaining employment in the subsequent time period.

Key Finding – Both the Spain and the UK labour markets have relatively low amounts of people transitioning into employment. Whilst these low numbers are disappointing, they are somewhat understandable if we consider that an economically inactive individual would usually re-enter the labour market by first becoming unemployment whilst they look for a job and then transition into employment.

There appears to be little difference between the UK and Spanish labour markets in this instance, again contrary to the hypothesis that the UK would be consistently stronger in this regard.

Transitional Assessment 9 – Movements from Not Economically Active to Unemployment



UK – The UK labour market displays a remarkably low amount of transitions from not economically engage to unemployed at approximately ~2.8%, and is actually slightly trending lower.

As discussed above, most people whom are not economically engaged re-enter the labour market, they do so first by becoming unemployed (the mere act of looking for working), and then transitioning into a job. So in this instance, a large amount of people transitioning into unemployment is actually a good thing, as it shows that people have some confidence in their increased chances of gaining employment.

Spain – The Spanish labour market surprisingly averages approximately ~6.6% of those whom are not economically engaged re-entering the labour market by becoming unemployed. Again, it is important to note that this measurement is actually a sign of economic strength.

Key Finding – Surprisingly, Spain is significantly higher than the UK in this key measurement. As a non-economically engaged person in Spain, is far more likely to re-enter the labour market by first becoming unemployed than a person in the same situation in the UK labour market. This is a surprising finding and directly contradicts the hypothesis of this thesis that the UK has a significantly stronger labour market than Spain. It may be the case that those whom are not economically engaged in the UK are significantly disenchanted with their ability to re-enter or find employment in the work force, and this has led to the situation where the vast majority of non-economically engaged UK people remain so for lengthy time periods.

Interpretation of the Transitional Flow Analysis Results

The biggest standout from the entire 9 transitional flow results is their broad similarities in the trend of transitions which are taking place. It would be fair to say, that on the whole there are far more similarities been the UK and Spanish labour markets, than there is remarkably large differences. At first glance this is somewhat contrary to the hypothesis that the UK has a far superior and buoyant labour market and warrants further detailed inspection.

Support for Hypothesis

One area in which the results are generally been consistent with this thesis's hypothesis has been that of stability within employment or E→E. Stability within employment not only has economic implications, but is related to several public health policy issues, as job security has long been identified as being one of the biggest factors affecting mental health (*Artazcol et al, 2004*). In this area, the UK has remained remarkably stable, with an average E→E of approximately ~98%.

Statistically this result is significantly higher than Spain, which has an average of approximately ~93.5% of respondents remaining within employment across time periods. Additionally, Spain clearly has periods of cyclical employment growth and then subsequent employment shedding, which appears to peak in the 2nd quarter of each year, before reaching a low point in the 4th quarter. Whilst a level of cyclical employment is present across all global labour markets, it's prevalence within the Spanish labour market is of some concern as it represents almost approximately ~2% of the entire Spanish employed population. Such a large dependency in cyclical employment is generally considered to be an undesirable trait in labour economics.

In contrast the UK labour market appears to not suffer cyclical employment issues and boasts an impressive amount of stability within employment. Such a small amount of peoples exiting employment status across time periods indicates that many may be doing so voluntarily (retirements) or are only entering unemployment for a short time period, perhaps whilst in-between jobs. This finding broadly supports the hypothesis that the UK labour market provides much more stability within employment when compared to Spain, and therefore does indeed demonstrate a higher quality and relatively strong labour market.

At this point, it is worth mentioning again that for the sake of simplicity this thesis has set (E→E) to encompass both full time (FT) and part time (PT) employment. This thesis would like to highlight this area for potential further research as other possible transitions do exist between FT→PT and PT→FT, and such trends could have interesting policy implications and may uncover other. Whilst such a detailed analysis is beyond the scope of this thesis, some labour market commentators in the comparative analysis section of this thesis, argued that whilst the UK managed to avoid the worst effects of the global financial crisis, this may have been at the expense of high quality full time jobs,

which in fact transitioned in to part time jobs, potentially hiding the issue of underemployment within the UK labour market. This may be an interesting area of future research.

Another key element of the transitional flow analysis which supports the hypothesis of this thesis are the results from transitional flow from E→U as shown in transitional flow analysis 2, in which the UK displays far less flows into unemployment than Spain (approximately ~1% vs 4.5% respectively). Whilst, these results are somewhat expected and unsurprising given the results seen in E→E, it is still worth mentioning again that an employed Spanish person is almost 4 times more likely to flow into unemployment, than an employed person in the UK labour market. Whilst some of the Spanish flows of E→U are undoubtedly due to the cyclical phenomenon observed, such a small amount of transitions into unemployment is a sign that the UK employment market remains very strong, and the Spanish market relatively weak. The combination of these two findings strongly support the hypothesis of this thesis, that the UK labour market remains more robust and superior to that of Spain.

Broad UK labour market statistical advantage – but is it enough?

Whilst the transitional results above go some way in strongly supporting our hypothesis, it would be fair to broadly characterise several of the other transitional flow analysis results from this thesis as being broadly consistent with the notion that the UK has a stronger labour market than Spain but not at a great enough magnitude to strongly support this thesis's hypothesis. Specifically, the transitional results 3, 4, and 8 all display the characteristics in which the UK labour market appears relatively greater than the Spanish one, but only to a small extent.

The hypothesis of this thesis is that the UK labour market is *significantly stronger* than the Spanish one. If this hypothesis is shown to be true it would go some way towards justifying the record breaking historical trends of Spanish migration towards UK. However, whilst the results from transitional 3, 4, and 8 all display relative small signs of UK supremacy, it is worth asking the question if this relatively small gap in the results is enough to justify the migration patterns which are occurring. It would be true to say that several of the UK transitional flow matrix's did not display significantly or consistently higher readings for long periods of time, and in fact in some cases it appears that the UK and Spanish labour markets are experiencing remarkably similar outcomes to the point of convergence.

In all of these results, one could argue that whilst the UK labour market certainly remains better placed than the Spanish one, the differences in transitional flows between these labour markets are minute and perhaps even statistically insignificant. This thesis would place the results of transitional flows 3, 4 , and 8 into the category of weak support for the hypothesis, meaning that whilst these results do not go against our hypothesis, it would be hard to mount a particularly strong case to a

potential Spanish migrant that they should enter the UK labour market based on these statistics alone.

Challenge to Hypothesis

Popular media often paints the UK labour market as one of the best performers within Europe, and there is a broad perception the UK economy has a skilled labour shortage. Nonetheless, several of the transitional flow matrix analysis conducted within this thesis seems to disagree with this perception, especially in light of the high outflows U→N as revealed in transitional flow 6.

This is not to say that the UK labour market is particularly weak, however questions as to its relative strength compared to Spain have to be asked; as for the first time in 2014/15 more unemployed peoples (approximately ~15%) in the UK left the labour market altogether than occurred in Spain (~14.5%). This contradicts the hypothesis of the UK having superior labour market conditions, if there is more people becoming disenfranchised with their unemployment status and leaving the workforce altogether in the UK, this is hardly a sign of economic strength which could justify the international migration of a Spanish job seeker.

Additionally, in both the UK and Spanish labour markets the relatively high (~15% per quarter) transitions of unemployed peoples leaving the labour market altogether is concerning. Without the high amount of U→N taking place in both the UK and Spain (which lowers the overall participation rate), the official unemployment rate would have almost certainly risen considerably, which as mentioned above, suggests that the issue of hidden unemployment may potentially be a large issue, which may be underreported or is unknown to policy makers and economic commentators.

Furthermore our hypothesis of relative UK labour market strength is brought into question through the results of transitional assessment 5, which shows the beginning of a convergence trend of U→E at approximately 18% for 2015. This result is particularly important as a key indicator of the health of an economy is the prospect of an unemployed person gaining a job. Whilst the UK labour market was almost 4% statistically higher for a period of 4 years, there is a definite statistical resurgence of Spanish labour market employment prospects, to the point now where an unemployed person has almost an as equal likelihood of transitioning into employment in the UK as they do in Spain.

With this upwards trend of U→E now converging it may be worthwhile to question whether the UK labour market warrants its reputation in the media as the preferred destination for economic job seeking migrants. A Spanish unemployed person should question the relevance of moving to a country where their probability of entering employment is relatively similar to their likelihood of gaining employment in their home country. Nonetheless, other factors may also be present, which may also play a role in enticing economic migrants from Spain to the UK. For example, this thesis has no ability to discern between the quality of jobs on offer. It may be the case that jobs in the UK

offer better benefits and conditions than those offered in Spain, and to that extent the UK labour market may still remain a destination of choice for job seekers. Additionally, it may also be possible that Spanish migrants may emigrate to the UK only when they having successfully gained employment there. Nonetheless, whilst this information is beyond the scope of this thesis, these areas all have the potential to be interesting topics of future research.

Additionally, the measurement of N→N adds further weight to the argument that the UK labour market should not be considered fundamentally superior to that of Spain. A somewhat surprising finding has been that within the UK approximately 94%~of individuals whom were not economically active remain within this category into the next time period. This is compared to the Spanish labour market which has maintained an average of ~90% of those whom are not economically active, remaining so into the next time period.

Whilst the Spanish results are also not necessarily positive; relative to other labour markets around the world; however they are still significantly higher than within the UK, meaning that someone who is not economically active in Spain has a far larger chance of re-entering the labour market by initiating a job search than someone does in the UK. This also suggests that individuals whom are not economically active within the UK may be significantly more disenfranchised with their ability or chances of re-entering the labour market, which is a somewhat disappointing finding, and disconcerting for those individuals whom find themselves within this category within the UK. Again, the results from N→N are surprisingly contrary to our hypothesis.

Finally, continuing on from our results in N→N it is somewhat unsurprisingly that the results of N→U in Spain are considerably higher than in the UK. Whilst it may seem somewhat counter intuitive to consider that people moving into this category is actually a positive economic outcome, this is in fact the case. Normally the first act of re-entering the labour market requires an individual to first make the decision to actively search for a job and thus becoming unemployed, so in this circumstance transitional flows of N→U should actually be considered as a positive labour market attribute. In this regard, Spain has actually performed significantly higher than the UK labour market (~6.6% vs ~2.8% respectively).

Significantly higher flows of individuals moving into unemployed status shows an extent of economic resilience, as previously disenfranchised and marginalised workers now consider the economic conditions of the labour market have improved enough to warrant the beginning of a new job search. Given this, it is highly surprising for the UK to be exhibiting significantly lower amounts of transitional flows than the Spanish labour market, and again this finding directly contradicts the hypothesis of this thesis.

Figure 9 – Summary of Transitional Matrix Findings

	Supports Hypothesis	Neutral	Contradicts Hypothesis
Transitional Flow Matrix	1, 2	3, 4, 8	5 ,6, 7 ,9

Summary of Findings

At this point it is worth re-stating the hypothesis of this thesis, which is:

- *Spanish emigration is occurring with such historically large numbers of individuals moving to the UK seeking work because of the significantly stronger labour market and employment opportunities in the UK; relative to Spain.*

Objectively if one was to quickly assess the official labour market statistics within the UK and compare them to those of Spain, the obvious and logical conclusion would be that the UK labour market is clearly superior with an official unemployment rate of only ~6.1% compared to the Spanish case of ~24.5%. For this reason, it seems perplexing that the transitional flow analysis in this paper cannot strongly agree with this hypothesis.

This is not to say that the Spanish labour market is superior to that of the UK, however the transitional flows which are occurring suggest more similarities than differences, and in some cases appear to directly contradict our hypothesis. These findings support the view that UK labour market is experiencing generally similar labour market trends to the Spanish labour market, and there are relatively few discernible differences apparent, with many of apparent differences appearing comparatively marginal.

On the whole, according to our transitional flow results the Spanish labour market does appears to be showing some small signs of broad improvement, however nothing spectacular. Similarly, the UK market whilst relatively stronger, has more or less remained consistent over the past 6 years; not drastically worsening at present, but in the same respect not becoming significantly stronger either.

So the important question remains as to how Spain and the UK can have such significantly different official rates of unemployment, yet display broadly similar transitional flows?

Using some deductive logic this thesis can only offer the following explanation: it may be the case that the mass unemployment due to structural factors which occurred in Spain immediately after the global financial crisis has now led to the Spanish labour market reaching a new employment equilibrium, which has largely stayed the same over the past 6 years (albeit with some small improvements). Furthermore, the UK labour market has also remained relatively stable over the past 6 years, and whilst stronger than the Spanish market, it does not show any discernable trend which could justify the historically high amounts of emigration which is occurring.

Transitional flow analysis is very good at discovering trends which are occurring which may not be immediately evident from an assessment of the official unemployment statistics. However, disappointingly in this case, many of produced results show a plateau within both the UK labour

markets and Spanish labour markets, with neither market displaying substantial unanticipated trends. Both labour markets appear to be relatively consistent at present.

The UK has constantly been regarded by Spanish media commentators and politicians as a state where jobs are plentiful, in part being responsible for the encouragement of the mass emigration of Spanish peoples leaving their home country in search of better employment prospects. Nonetheless, in broad terms this thesis can conclude that the UK labour market does display some characteristics of a stronger employment market relative to Spain, particularly in the measurement of employment stability. However, the Spanish labour market also shows some small signs of improvement and surprisingly some of the produced results are equal to or even better than the UK. Whilst intuitively one would assume that there should be large disparities immediately apparent when analysing our results; surprisingly the biggest stand out has been the limited variability between the two groups apart from some individual results.

Given this, this thesis cannot conclusively substantiate the hypothesis that the current emigration rates to the UK are justifiable based on the quantitative evidence produced. There is nothing in this analysis apart from stability in employment that specifically stands out to show a drastically superior UK labour market when compared to Spain. As such, this thesis cannot prove our hypothesis correct.

In closing this paper has assessed the proposition that the UK labour market is superior to Spain, and has shown that the UK labour market does not necessarily deserve all the credence afforded to it by local media and policy makers as it is currently experiencing a similar stagnation and general plateauing of employment trends as are also being faced by the whole of Europe and that many of the differences displayed are only marginal.

Key Point:

- Results do not prove hypothesis to be true
- Both Spain and UK displaying similar trends
- UK in better relative position, however does not display drastically superior transitional trends
- Spanish migrants should re-think their decision to leave Spanish labour market if they are doing so purely in the expectation of superior UK job prospects

Policy Recommendations

This section seeks to offer some insights into the current economic policy debate by making some policy recommendations which are based on the results from the labour flow analysis conducted by this thesis.

Spanish Labour Market Policy

The labour market inflexibility within Spain has undoubtedly contributed to some of the large and persistent structural unemployment problems Spain is currently facing. Whilst recent measurements have been taken to reform Spain's labour market with a preference towards moving the Spanish labour market away from the heavy reliance on temporary contracts, this thesis is of the opinion that more should be done.

The past and existing employment contract disparities within Spain have created a two tiered labour market, with permanent employees enjoying several generous benefits, and temporary contract holders relatively few. This thesis recommends these labour market reforms continue with a final aim of creating a labour market where employment conditions are as equal as possible. The aim of continuing with labour reforms is to make labour conditions as flexible as possible, to encourage Spanish businesses to begin employing again with ease as conditions gradually improve in the Spanish economy.

However, this thesis would strongly recommend against any reform measurements which attempt to reduce the disparity between permanent contracts and temporary contracts, by simply reducing the rights and conditions of permanent contract holders. Whilst this would "even up the playing field" so to speak, the broader ramifications of reducing all employment conditions within a labour market are almost certainly negative.

Additionally, there should be a focus on introducing measurements which help shift Spain away from the high proportion of workers whom are employed in the seasonal employment work which occurs every year within Spain. This is important as such a relatively high prevalence of seasonal work within Spain is not a positive sign of labour market strength.

In this regard, there may be a role for government policies to provide an incentive for employers to keep employees employed for longer time periods after the seasonal work itself has finished. For example, one practical reform which could be taken is to pay perhaps 50% of the value of unemployment payments which the seasonal worker would have started claiming upon their seasonal work finishing, and instead using this money as a direct subsidy for employees to keep staff on for longer. This reform measurement would also not affect the Spanish government's budget, as they would only be subsidising employers with money which would have otherwise been used as

paying as unemployment payments. Similar reform measurements like this could also be further explored.

Key Point:

- Equalisation reforms which reduce the inequalities between permanent and temporary contracts should continue.
- Reforms should continue to focus on flexibility and productivity.
- Policies should encourage seasonal workers to transition to becoming employed on permanent basis.

UK Labour Market Policy

Of the results produced within this paper it was relatively surprising to find that the transitional flows within the UK, were remarkably similar to those of Spain. Nonetheless, there were some key differences which could be improved through UK government policy.

One surprising finding within the UK was the stability and steadiness (95%) of those within the category of not in the labour force (N→N, transitional flow 7). To have such a large percentage of the labour market remaining not economically active across time periods is highly concerning; as it represents a portion of the workforce which is completely disenfranchised with their ability to find work or to even enter into attempting to find work. This finding is also replicated to a smaller extent in transitional flow analysis 4 (U→U). If a person remains out of the labour market or unemployed for long periods of time, their ability to re-enter the workforce at a later point in time becomes significantly harder.

In order to address this problem, this thesis recommends the UK government improve incentives for encouraging people whom are long term economically inactive into some form of job search or training. The most widely used policies advocated by economists in this regard is “welfare to work” programs which would require working age UK citizens whom are in receipt of social security payments to be required to undergo some form of educational training or internship to help re-engage them with the labour market and to provide them the educational skills they need to become employed and re-engaged. Whilst several of these programs exist within the UK already these programs are specifically targeted towards the unemployed. This thesis recommends that it is as equally important to introduce welfare to work programs which target those who are not are not economically active.

Additionally, the UK labour market was lucky in the sense that it undertook the majority of its liberalisation and flexibility reforms in the period known as the “great modernisation” when economic conditions were strong. This provided the UK with the ability to absorb and adjust their labour market productivity from a position of economic strength; and without suffering significant adverse employment shocks.

This thesis recommends that UK government policy makers should remain proactive in this regard. Policies should consistently be introduced which focus on maintaining the UK’s high levels of labour productivity and high levels of education relative to other major advanced economies.

Key Point:

- UK “welfare to work” programs should be expanded to encourage greater educational training and labour market re-engagement.
- These programs should specifically target those in the UK whom are classified as long term “economically inactive”.
- Gradual labour market reforms aimed at improving productivity and skills training should continue to be pursued whilst UK economic conditions are strong.

European Union Labour Market Policy

This thesis has shown that within the EU there remains several key structural labour market differences between individual member states. However, the results from this thesis also indicate that no member state is completely economically isolated from the rest of Europe, as the UK shares several labour market characteristics as those experienced in Spain.

Currently the primary EU employment policy is the European Employment Strategy or EES. The primary aim of the EES is to create more and better quality jobs across the EU by establishing a common set of employment objectives and policies across all individual EU member states. The EES target objectives are set for the entire EU by the European Commission and then consulted with national governments before being adopted by the European Council. The EES forms part of the EU 2020 growth strategy and horizon 2020 objectives, and its implementation is monitored by the European Commission.

Broadly it would be fair to classify the EES as a “one size fits all policy”, in the sense that there is not a large degree of scope to drastically alter the direction of the entire EES policy strategy to suit individual member’s employment and labour market situations. Whilst there is some scope for individual member states to participate in the EES consultation process with the European Commission, the EES is unlikely to entirely change to suit one member’s unique situation. This is because the primary aim of the EES is to coordinate individual member states employment policies and to create consistent employment strategies across the EU.

Yet, the sometimes vastly different and yet sometimes similar labour market conditions which exist across EU member states, demonstrates the tough job the EU has in designing or implementing any “one size fits all” labour policies which could be collectively applied to member states. Whilst this thesis thinks the EES is a good policy strategy, this thesis also recommends that there should be greater flexibility for individual member states to temporarily opt out of “one size fits all” policies to manage their individual unique situation in times of labour market distress, such as experienced in Spain.

For example, some elements of EU regulation may unintentionally restrict individual member state’s own ability to support their labour markets. A good example of this could be the “Stability and Growth pact” of the EU which places pressure on individual member states in the economic position of Spain to enact austerity measures.

In terms of the general health of the European labour markets, from a policy perspective a considerable argument could be put forth on the grounds of this transitional flow analysis that now is not the time for austerity measures with the aim of putting budgets into surplus. A policy of increased stimulated public spending could improve the labour flow transitions into employment and thus

strengthen the Spanish economy. Similar studies have shown such policies have well documented labour market benefits (*Neumark and Troske* 2011).

Given this dilemma, this thesis recommends that the EU be flexible in helping to facilitate the ability of individual member states to specifically tailor solutions to fit their individual unique labour market situations, even though this may require flexibility in other EU regulations and directives.

Key Point:

- EU policies should move away from a “one size fits all” approach and instead focus on creating flexibility.
- EU policies should ensure that during emergencies EU member states are not constrained in their ability to construct individually tailored solutions to their unique labour market situations.
- The austerity measurements currently enacted in part due to EU pressure could be temporarily relaxed.

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Appendix – Result Tables

UK - Raw Euro Stat Data

UK	2010Q2	2010Q3	2010Q4	2011Q1	2011Q2	2011Q3	2011Q4	2012Q1	2012Q2	2012Q3	2012Q4	2013Q1	2013Q2	2013Q3	2013Q4	2014Q1	2014Q2	2014Q3	2014Q4	2015Q1	2015Q2
EE	28,020	28,235	28,321	28,431	28,449	28,389	28,336	28,403	28,464	28,662	28,890	28,893	28,878	28,937	29,178	29,423	29,537	29,742	29,852	29,943	30,010
EU	301	293	324	314	309	309	330	338	272	290	299	373	283	300	264	279	224	218	235	273	243
EN	447	405	623	456	394	471	532	481	412	421	458	503	423	429	532	461	446	444	580	524	504
UU	1,717	1,635	1,695	1,757	1,780	1,853	1,925	1,877	1,813	1,747	1,789	1,769	1,795	1,696	1,674	1,553	1,458	1,372	1,267	1,191	1,190
UE	462	494	456	356	361	384	466	420	479	469	491	378	415	498	515	404	407	365	427	359	331
UN	306	283	357	319	302	237	311	321	305	282	301	315	291	257	341	323	307	262	314	253	255
NN	13,948	13,705	13,669	14,017	14,128	13,913	13,871	14,066	14,128	13,862	13,826	13,947	14,088	13,796	13,776	13,958	14,000	13,859	13,855	13,991	14,078
NE	451	540	424	365	359	425	420	325	431	516	387	313	373	539	470	381	459	560	461	455	411
NU	394	580	413	372	385	539	364	381	412	544	374	359	372	534	342	339	317	419	301	313	343

UK - Data which has been put through our excel equation to compute transitional flow matrix

EE	97.40%	97.59%	96.76%	97.36%	97.59%	97.33%	97.05%	97.20%	97.65%	97.58%	97.45%	97.06%	97.61%	97.54%	97.34%	97.55%	97.78%	97.82%	97.34%	97.41%	97.57%
EU	1.05%	1.01%	1.11%	1.08%	1.06%	1.06%	1.13%	1.16%	0.93%	0.99%	1.01%	1.25%	0.96%	1.01%	0.88%	0.92%	0.74%	0.72%	0.77%	0.89%	0.79%
EN	1.55%	1.40%	2.13%	1.56%	1.35%	1.61%	1.82%	1.65%	1.41%	1.43%	1.54%	1.69%	1.43%	1.45%	1.77%	1.53%	1.48%	1.46%	1.89%	1.70%	1.64%
UU	69.09%	67.79%	67.58%	72.25%	72.86%	74.90%	71.24%	71.70%	69.81%	69.94%	69.31%	71.85%	71.77%	69.20%	66.17%	68.11%	67.13%	68.63%	63.10%	66.06%	67.00%
UE	18.59%	20.48%	18.18%	14.64%	14.78%	15.52%	17.25%	16.04%	18.44%	18.78%	19.02%	15.35%	16.59%	20.32%	20.36%	17.72%	18.74%	18.26%	21.26%	19.91%	18.64%
UN	12.31%	11.73%	14.23%	13.12%	12.36%	9.58%	11.51%	12.26%	11.74%	11.29%	11.66%	12.79%	11.64%	10.49%	13.48%	14.17%	14.13%	13.11%	15.64%	14.03%	14.36%
NN	94.29%	92.45%	94.23%	95.00%	95.00%	93.52%	94.65%	95.22%	94.37%	92.90%	94.78%	95.40%	94.98%	92.78%	94.43%	95.09%	94.75%	93.40%	94.79%	94.80%	94.92%
NE	3.05%	3.64%	2.92%	2.47%	2.41%	2.86%	2.87%	2.20%	2.88%	3.46%	2.65%	2.14%	2.51%	3.62%	3.22%	2.60%	3.11%	3.77%	3.15%	3.08%	2.77%
NU	2.66%	3.91%	2.85%	2.52%	2.59%	3.62%	2.48%	2.58%	2.75%	3.65%	2.56%	2.46%	2.51%	3.59%	2.34%	2.31%	2.15%	2.82%	2.06%	2.12%	2.31%

Spain- Raw Euro Stat Data

Spain	2010Q2	2010Q3	2010Q4	2011Q1	2011Q2	2011Q3	2011Q4	2012Q1	2012Q2	2012Q3	2012Q4	2013Q1	2013Q2	2013Q3	2013Q4	2014Q1	2014Q2	2014Q3	2014Q4	2015Q1	2015Q2
EE	17,448	17,401	17,360	17,328	17,275	17,165	16,877	16,738	16,570	16,369	16,137	16,057	15,982	15,918	15,854	15,915	16,032	16,166	16,211	16,436	16,519
EU	722	769	839	846	708	843	993	938	785	846	958	845	649	748	861	780	584	726	821	712	581
EN	468	568	606	485	426	601	599	462	395	526	555	425	389	481	500	430	324	449	459	410	345
UU	3,150	3,025	3,098	3,335	3,359	3,303	3,481	3,935	4,138	4,095	4,240	4,605	4,600	4,315	4,258	4,404	4,267	3,901	3,808	4,000	3,811
UE	870	914	825	735	924	861	822	678	828	898	803	691	871	945	895	761	948	958	954	735	973
UN	597	716	662	632	639	681	695	675	702	738	781	725	807	788	790	770	718	763	665	723	661
NN	10,876	10,660	10,744	10,906	10,796	10,579	10,613	10,744	10,696	10,476	10,498	10,675	10,688	10,558	10,608	10,829	10,973	10,856	10,893	10,994	10,935
NE	419	490	475	346	410	444	439	334	344	383	387	273	293	353	376	263	361	366	393	273	365
NU	783	791	765	740	777	852	813	795	808	883	822	828	799	880	816	749	772	801	828	733	757

Spain - Data which has been put through our excel equation to compute transitional flow matrix

EE	93.62%	92.86%	92.32%	92.87%	93.84%	92.24%	91.38%	92.28%	93.35%	92.27%	91.43%	92.67%	93.90%	92.83%	92.09%	92.93%	94.64%	93.22%	92.68%	93.61%	94.69%
EU	3.87%	4.10%	4.46%	4.53%	3.85%	4.53%	5.38%	5.17%	4.42%	4.77%	5.43%	4.88%	3.81%	4.36%	5.00%	4.55%	3.45%	4.19%	4.69%	4.06%	3.33%
EN	2.51%	3.03%	3.22%	2.60%	2.31%	3.23%	3.24%	2.55%	2.23%	2.96%	3.14%	2.45%	2.29%	2.81%	2.90%	2.51%	1.91%	2.59%	2.62%	2.34%	1.98%
UU	68.23%	64.98%	67.57%	70.93%	68.24%	68.17%	69.65%	74.41%	73.01%	71.45%	72.80%	76.48%	73.27%	71.35%	71.65%	74.20%	71.92%	69.39%	70.17%	73.29%	69.99%
UE	18.84%	19.63%	17.99%	15.63%	18.77%	17.77%	16.45%	12.82%	14.61%	15.67%	13.79%	11.48%	13.87%	15.63%	15.06%	12.82%	15.98%	17.04%	17.58%	13.47%	17.87%
UN	12.93%	15.38%	14.44%	13.44%	12.98%	14.06%	13.91%	12.76%	12.39%	12.88%	13.41%	12.04%	12.85%	13.03%	13.29%	12.97%	12.10%	13.57%	12.25%	13.25%	12.14%
NN	90.05%	89.27%	89.65%	90.94%	90.09%	89.09%	89.45%	90.49%	90.28%	89.22%	89.67%	90.65%	90.73%	89.54%	89.90%	91.45%	90.64%	90.29%	89.92%	91.62%	90.69%
NE	3.47%	4.10%	3.96%	2.89%	3.42%	3.74%	3.70%	2.81%	2.90%	3.26%	3.31%	2.32%	2.49%	2.99%	3.19%	2.22%	2.98%	3.04%	3.24%	2.28%	3.03%
NU	6.48%	6.62%	6.38%	6.17%	6.48%	7.17%	6.85%	6.70%	6.82%	7.52%	7.02%	7.03%	6.78%	7.46%	6.92%	6.33%	6.38%	6.66%	6.84%	6.11%	6.28%