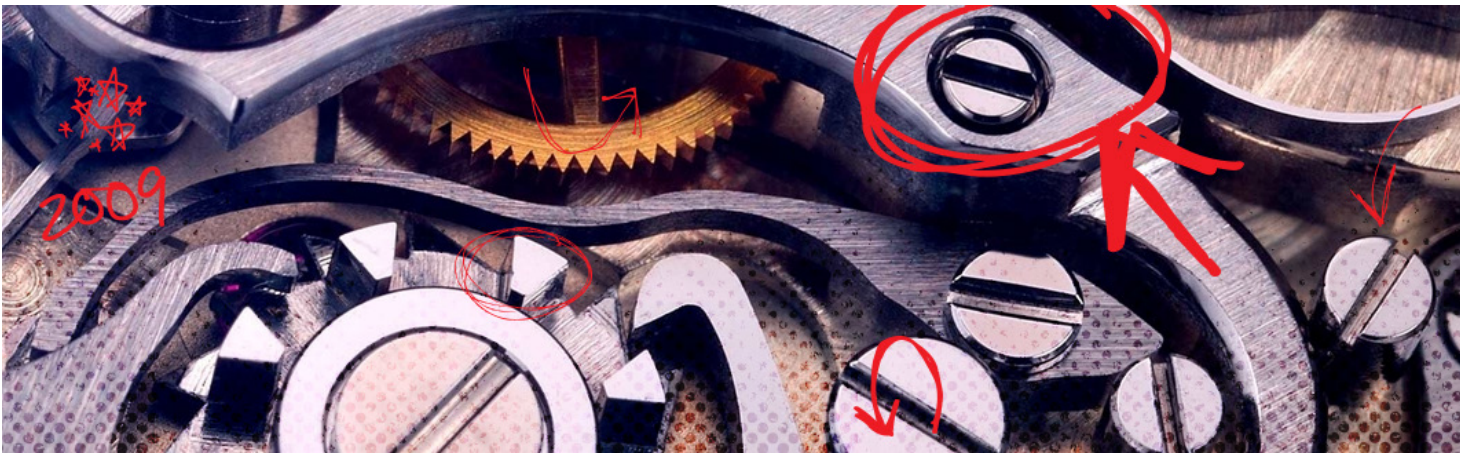


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**For a new impetus  
to job creation in Spain**

June 2013

# For a new impetus to job creation in Spain

As is well known, the Spanish economy is in a state of emergency. Since 2007, 3.8 million jobs have been shed and the unemployment rate has reached 27 per cent. This situation has come about not only because of strong contractionary shocks at the national and international levels, but also as a consequence of the inadequate design of Spanish labour market institutions. The latter becomes clear upon observing how the fall in employment in other countries, with similar or greater declines in economic activity, has been considerably less marked than in Spain.

In the “Manifesto of the 100 Economists” of April 2009 we proposed a series of measures aimed at correcting those problems, which led to a reopening of the debate on the then pressing labour market reform. Since then, there have been three labour market reforms drawn up by two governments of different ideologies. Nonetheless, serious doubts remain as to the degree of progress achieved in improving our labour market institutions. Recently, the Government has promised the European Commission that it will assess the effects of the 2012 labour market reform, and depending on the results, will introduce new measures.

At the same time, the debate on the importance of labour market institutions has been rekindled, because of the poor perspectives for economic growth in Spain in the coming years. For all these reasons, we believe it is necessary to review what has happened since 2009 in the main areas outlined in our previous proposal and adjust its content to the current situation.

## Unemployment insurance and active labour market policies

These are the areas in which least progress can be observed, and this is unacceptable since the risks facing the Spanish economy are much greater than in 2009. Three and a half million workers have been out of a job for more than a year, and a similar number of unemployed have not completed the second stage of secondary education. Without a considerable reinforcement of active labour market policies, a large proportion of those workers run the risk of being sidelined from the labour market for many years.

**It is essential to strengthen the links between active and passive policies.** In 2012, both regular unemployment benefits and welfare subsidies to long-term unemployed were reduced. In the future a change in benefit structure would be desirable, reducing benefit duration in return for a higher initial replacement ratio, as we proposed in 2009. Nevertheless, the current priority is to achieve the reinsertion of the greatest possible number of jobless through improvements in the management of the benefit system. The resulting savings –which could be considerable in the recovery phase– should be devoted to

finance programmes aimed at improving the chances of getting groups at risk of social exclusion into work.

As in other European countries, the objective must be to activate the unemployed from the very outset of their unemployment spell. An efficient strategy requires the design of individualised itineraries and the signing of a contract stipulating the jobseeker's rights and duties. Failure to comply with the latter should lead to the benefit being partially or completely withdrawn, a measure which is currently available but is not applied in a systematic fashion. In addition, the range of suitable jobs should be broadened. And in some cases, the newly-hired worker should, for a certain time, be able to draw his or her salary and part of the benefit entitlement still outstanding. This kind of in-work benefits is already foreseen in the recently created "contrato de apoyo a los emprendedores", but it could be extended to all contracts whose duration exceeds some pre-established threshold.

The above changes require frequent contacts between the Public Employment Services (PES) and the jobseekers, but this is unfeasible without a considerable increase in the resources available for intermediation. Given the current budgets available, the only way to achieve such an increase is through the public-private partnerships involving the PES and registered private intermediaries. The system of intermediation should retain its public nature but the public-private partnerships should allow the PES to concentrate on easy-to-place workers, while the most difficult cases should be referred to the private agencies.

The Government is considering introducing this route from next Fall, but the proposed ceiling for payments for job placements of 66 million euros over four years is tiny compared to the magnitude of the problem. In addition, the proposed rules put too strict a limit on the ability of the regional governments to adapt the terms of any future cooperation with private agencies to the specific needs of their territories, while insufficient attention is devoted to the rules to safeguard the technical solvency and experience of the selected agencies.

**Active policies must be reinforced.** In 2009 we also highlighted the insufficient level and inadequate structure of funding for active policies, and the absence of rigorous evaluations to help identify the most efficient ones. These shortcomings have become even more acute. In 2012, the Government slashed the budget for retraining the unemployed by more than 1 billion euros, with the result that at the moment active policies are limited almost entirely to hiring subsidies in the form of social security contribution rebates. A good example is the recent youth employment plan (A Strategy for Entrepreneurship and Youth Employment), which includes incentives for temporary and part-time contracts with a dubious training component. The use of such subsidies would be justified in the case of young people with no work experience, but they have to be limited to contracts with a clear training component and to groups at risk of social exclusion. Finally, we are missing a national plan to stimulate the return to formal education of the young people who left school prematurely during the boom.

The use of widespread hiring subsidies is not going to reduce the serious risk of structurally high unemployment levels. The active labour market policies must be reoriented to preparing the weakest groups for jobs with a promising outlook when the recovery takes place. Cooperation between the social partners is thus vital, but the management of these policies must be left in

other hands and the success of the programmes must be assessed rigorously by independent experts.

## Modernising collective bargaining

The regulation of collective bargaining is the area in which most progress has been made. Company level agreements may now prevail over those set at higher levels, and it has been made somewhat easier for firms in economic difficulties to opt out temporarily from higher-level agreements. In addition, ultra-activity (the period during which an expired collective agreement remains valid) is limited to one year, and the 2012 reform expanded the areas in which the employer can unilaterally enforce substantial changes in working conditions, including wages.

Nevertheless, there are serious doubts as to the effects of the reforms in this area. In the first place, insufficient time has passed to evaluate its effects, because of both inertia and the calendar set out in the law –for example, the limit on ultra-activity will only start to have effect from next July onwards. Secondly, we do not have sufficiently detailed information about the agreements which have been signed or about the use of opt-outs, nor about the number of collective agreements that could expire as of July. Third, most adjustments have been carried out in companies with firm-level agreements, and as such they could have been put into practice under the previous legislation.

**Greater flexibility in determining working conditions in small and medium-sized enterprises is required.** As far as small and medium-sized companies and potential startups are concerned, there are still considerable obstacles to signing company level agreements or to opting out of higher-level agreements and more reforms are needed. A welcome change would be to strengthen the requirements for the extension of collective agreements by imposing higher thresholds for the representativeness of unions and employers in the scope of the agreement.

## Duality in the labour market

For the past two decades or so, around 30 per cent of employees have worked under a temporary contract, although this rate has declined to 22 per cent since three out of every four workers who have lost their job in the past five years were temporary workers. In economic expansions, the prevalence of temporary hiring fosters a fast increase in employment, but these jobs are unstable in nature and concentrated in low-productivity sectors, and in recessions most of these jobs are destroyed. In the absence of any substantial change, temporary contracts will keep on being the predominant entry route to employment, and when the economy recovers, the temporary employment rate will again rise above 30 per cent, making Spain once more the country with the highest temporary rate among developed economies.

The latest reform and the recently announced youth employment plan have

only made the situation worse. There are currently more types of contracts than four years ago and there is a hodgepodge of subsidies, incentives, and rebates to encourage hiring which make the system significantly more complex.

The successive reforms have also reduced severance pay for unfair dismissal and have clarified the grounds for dismissal for economic reasons. Nevertheless, other measures have raised the costs and the degree of legal uncertainty. In particular, the 2012 reform suppressed the so-called “express dismissals”, and in collective dismissal procedures there has been a substantial increase in the number of formal requirements, while the possibility of nullifying the dismissal on formal grounds has been reinstated. In addition, the cost of mass layoffs, affecting more than 50 workers, and of the dismissal of workers above 50 years old has been raised.

**The menu of contracts must be simplified.** If the real aim is to encourage stable job creation, then the menu of contracts must be redesigned in order to reduce non-wage costs of new hires and to ensure that such costs increase gradually with the worker’s seniority in order to avoid unjustified incentives for job turnover. Three different types of contract would suffice to meet the recruitment needs of Spanish companies. An open-ended, full-time or part-time, contract (the so-called “single open-ended contract”), with two separate schemes for severance payments –corresponding to fair and unfair dismissal– that increase gradually with tenure and whose maximum levels should not exceed the average level in Europe should become the default contract. Secondly, a well designed training contract could serve to get young people into the labour market. And an interim contract could cover most of companies’ occasional needs to replace workers. On the contrary, seasonal recruitment needs could be channelled via temporary job agencies.

**A high degree of legal certainty must be attained in collective and individual dismissal procedures.** In order to maximise the social and economic benefits of the introduction of the single contract, alongside with the suppression of the different types of temporary contracts, a high degree of legal certainty must be reached in dismissal procedures.

Several conditions must be met before Spain can start creating jobs once it exits the recession, such as economic recovery in the rest of Europe, reestablishing the flow of credit to firms and, in the medium term, increased competition in goods markets. However, we believe that it will be very difficult for Spain to get back on a sustained growth path, with new job opportunities for all social groups, unless additional reforms of our labour market institutions, like the ones outlined here, are implemented.

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