While the 2009 contraction in Spain’s GDP was similar to that of the EU region as a whole, the recovery has been slower than in other EU countries. In addition, the labour market impact has been much sharper than in most other advanced economies: as of the first quarter of 2011, the unemployment rate stood at 21.3 per cent – 13 percentage points higher than in 2008, representing the most dramatic increase among advanced economies. Moreover, youth and workers with temporary contracts have been disproportionately affected by this jump in unemployment.

Labour market and social developments in Spain since the onset of the global recession have highlighted a number of areas of concern, notably low productivity growth and an expanding share of temporary workers. Against this backdrop, since 2008 Spain has introduced a comprehensive series of reforms to employment legislation, labour market policies and benefit systems in an effort to address the impact of the crisis and ensure that the country’s institutional setting supports a more balanced growth and investment pattern. In particular, since 2010 and partly in the framework of the Social and Economic Agreement of 2011, a wide range of measures were adopted in the following areas: labour market reforms; job creation incentives and training; pension benefits; and social dialogue.

Labour market reforms

As part of these reforms, Spain embarked on an extensive series of amendments to employment regulations that address a number of long-standing structural issues. These include regulatory changes to address labour market duality, particularly the widespread use of temporary versus permanent contracts, through both adjustments in dismissal procedures and measures to promote internal flexibility (such as adjustments in wages and working hours) instead of external flexibility (such as redundancies, especially of workers on temporary contracts). In addition, social security contributions were cut for firms hiring young people, less-skilled workers, women, and the long-term unemployed. Measures were also adopted to improve labour market intermediation and delivery of employment services.

With respect to dismissal procedures, the required notice period for fair dismissals was reduced to 15 days from 30 days, and this can be replaced by paying corresponding wages. The period is lower than the average among 21 EU countries with available information. For unfair dismissals (not justified on economic or personnel grounds) the notice period remains at two days. In addition, for permanent workers, the severance pay for unfair dismissals remains at 33 and 45 wage days per seniority year, depending on the type of open-ended contract. For fair dismissals of permanent workers, severance pay remains unchanged at 20 wage days per seniority year.

The new definition of “fair dismissal on economic, technical, organizational or production grounds” was clarified. With the new definition in place, there are early indications of a small increase in fair dismissals on economic grounds: between June 2010 and March 2011, the share of dismissals due to economic reasons rose 9 percentage points from 17 to 26 per cent (figure 1). The new regulation also has made it possible to terminate a worker’s employment due to persistent absenteeism, i.e. in the case that the rate of absenteeism exceeded a certain threshold.

Figure 1. Economic dismissals relating to permanent contracts as a share of total (%)

Source: ILO based upon national sources.
senteeism of the total enterprise workforce exceeds 2.5 per cent. Before the adoption of the reform, this rate was set at 5 per cent.

The Government introduced measures to reduce one-time costs in the dismissal of permanent workers. Instead of employers paying the total amount of severance pay at dismissal, a certain number of days’ wages per year may be financed through a worker capital fund. The employee may be able to defer this portion of severance pay to a future date under certain conditions. Under this system, workers could access the money paid through the fund in a number of ways, such as carrying forward to a new employer, withdrawing at retirement or receiving in the form of a lump sum after dismissal. A number of details regarding the fund and its application have yet to be determined, and a tripartite expert panel is in the process of bringing the new fund into operation. Until the final details are established, part of the severance payment for dismissal of people with permanent contracts (eight days per year of service) will be funded through existing institutions.

In addition, severance payments for temporary workers, including those hired through temporary work agencies, will increase gradually from eight to 12 days per year of service by 2015. As a result, the severance pay gap at the time of dismissal (on fair grounds) between workers with open-ended and temporary contracts will effectively disappear in 2015, providing the part of the severance pay covered by the worker capital fund remains at eight days.

The new law also introduced measures to limit the use of temporary jobs to undertake a specific task to a maximum of three years, extendable to four years by industry collective agreement or by sector-wide collective agreement. Following this period, if the worker continues to perform similar duties, the contract must be converted to an open-ended one.

In an effort to promote internal flexibility, the 2010–11 labour market reforms helped give firms more leeway in adjusting hours versus employment. In particular, the reforms eased the conditions for opting out of higher-level collective agreements at sectoral or regional level. In addition, the Government introduced temporary social security rebates for firms that hire vulnerable workers on a part-time or short-term basis if combined with training initiatives.

Measures to improve labour market intermediation and delivery of employment services have been strengthened. The Government launched the Extraordinary Plan in 2008 for labour market intermediation, vocational training and labour market integration. This included hiring 1,500 employment counsellors in public employment services, subsidies for job seeking and labour mobility, and individualized attention to beneficiaries of the transitory programme for unemployment protection and social integration. The plan has been extended until the end of 2012 and supplemented with the hiring of another 1,500 employment counsellors in 2011. Likewise, the labour reform’s regulation of private placement agencies effectively promotes cooperation between the public and private sectors in the handling of labour disputes.

Job creation incentives and training

The labour market reform establishes a rigorous and selective system of incentives for hiring targeted at two main groups: youth under 30 years of age with special employability difficulties and long-term unemployed older workers aged 45 or above. For the hiring from either of these two groups there is an annual reduction in social security contributions of €800 and €1,200, respectively. Contribution reductions for hiring disabled people, victims of gender-based violence and workers above 59 years old are maintained. Other incentives include: for hiring unemployed youth, elimination of social security contributions for the duration of the contract; and for temporary contracts for youth under 30 years or long-term unemployed workers, a reduction in social security contributions of between 50 per cent (SMEs) and 75 per cent (large enterprises) per full working day.

In February 2011, the Government adopted exceptional measures to assist the transition to stable employment, known as the “Action Plan”, with a time horizon of 12 months. Apart from the incentives to hire on a part-time basis as a step towards stable employment, professional retraining is provided to workers who have exhausted unemployment benefits and subsidies (time horizon of six months) under the well-known programme for professional requalification (PREPARA in Spanish) that has replaced the PRODI programme introduced in November 2009. Additionally, labour market orientation and training were provided to low-skilled unemployed people who are young or are long-term unemployed as well as workers formerly employed in the construction sector.

Pension reform

Spain also has taken considerable steps to address the long-term financial sustainability of the pension system in response to the challenges posed by an ageing population. Recent amendments, based on agreements between the Government and social partners as well as recommendations of the Toledo Pact Parliamentary Commission, include a step-by-step delay in the retirement age from 65 to 67 between 2013 and 2027 and changes in a number of key parameters defining pension receipt and benefit calculations (box 1).

Significantly, the new pension reform calls for a five-yearly review of the parameters to allow for adjustments to changing circumstances. For instance, the retirement age could be altered to take into account developments in life expectancy.

Social dialogue and collective bargaining

The political process of reform attaches great importance to effective social dialogue, although this has
Box 1. Changes to the pension system

- A gradual increase from 35 to 37 years in the contributions required for full pension benefits.
- The requirement that workers contribute for 38.5 years if they are to retire at the age of 65.
- The percentage of full pension received by a worker will be proportional to the number of years contributed, starting at 50 per cent for careers of 15 years up to 100 per cent for careers of 37 years.
- Full pension benefit entitlements will be based on the last 25 years of earnings instead of 15, although this will be introduced gradually.
- Restrictions on early retirement.
- Allowing maternity leave, given certain conditions, to be counted as time at work.
- A reduction in the subsidies for early partial retirement.

not always been straightforward to achieve, as was the case during the 2010 labour reforms. However, the more recent reforms, particularly with respect to the pension system, were the result of extensive social dialogue and are widely considered to be comprehensive and fair.

In Spain, collective bargaining takes place at the sectoral level with sectoral agreements binding for all employees under their scope. As of 2007, about 81 per cent of public and private sector employees were covered by collective agreements. Two important features of the Spanish collective bargaining system are a pay review clause that allows correction in wages when actual inflation exceeds expected inflation, and an opt-out clause that allows firms facing financial difficulties to opt out of collective agreements if certain strict criteria are met.

In June 2011 there was a reform of collective bargaining with a series of goals: to improve its organization, introduce more dynamism and agility and adapt the system to current circumstances.

The main elements of the reform are: strengthening the role of enterprise-level collective agreements; establishing a minimum notice period for ending agreements and maximum periods for negotiating new agreements; reinforcing the procedure for resolving extrajudicial labour conflicts especially through arbitration; reinforcing the role of the parity commission; new regulation of “ultra-activity”;7 and reinforcing the role of trade unions vis-à-vis works councils.

Increasing productivity

The Government and social partners have made important strides over the past two years in embarking on a number of reforms to promote the ongoing structural transformation of the Spanish economy and labour market. Indeed, the reforms of 2010–11 are significant achievements in their own right.

The reform of employment protection legislation should help reduce labour market duality and improve labour productivity through reallocation of workers across sectors. Also, as Spanish firms with a high share of permanent workers tend to be more productive than those with lower shares, the reform is expected to increase productivity significantly.8 The training measures could help raise labour productivity as well. Looking ahead, coherent policies addressing the overall set of factors behind the low level of competitiveness could accelerate the return to growth and the creation of productive employment. That could include educational and skills policy, and building incentives to diversify economic development away from excessive concentration on construction and tourism.

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1 OECD (2010).
2 IILS (2011).
3 Bagüés, Fernández-Villaverde and Garicano (2010).
5 Dismissal for “persistent absenteeism” is permitted for absence from work, even justified and intermittent, that amounts to 20 per cent of the working days in two consecutive months, or 25 per cent in four discontinuous months within a period of 12 months, if the rate of absenteeism of the total workforce exceeds 2.5 per cent during the same periods.
7 “Ultra-activity” refers to a collective agreement remaining valid after its expiry when it has not been renewed.
8 Dolado and Stucchi (2008).
References:


