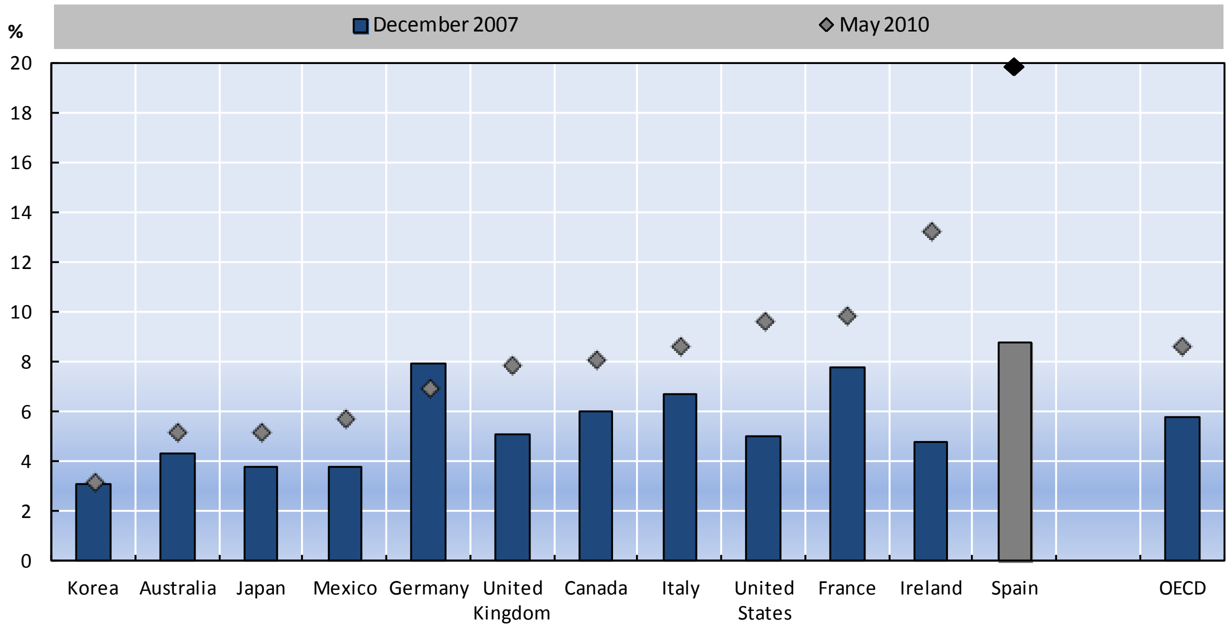
Employment Outlook 2010 – How does SPAIN compare?

Since the global economic crisis began at the end of 2007 more than 2.5 million workers have joined the ranks of the unemployed in Spain, out of a total of 4.6 million workers in the Euro area as a whole. This implies that more than 50% of the new unemployed in the Euro area during the crisis are Spanish. The unemployment rate increased by 11.1 percentage points, the sharpest increase in OECD countries, to reach 19.9% in May 2010. In addition, more than one in four unemployed workers are jobless for more than one year, which represents a large pool of hard-to-place people at growing risk of losing contact with the labour market.

Unemployment rates in December 2007 and May 2010 in selected countries

Percentage of the labour force



Note: Final month available for the United Kingdom is March 2010.

Source : OECD Main Economic Indicators.

The employment responsiveness to the output decline was much larger in Spain than in most other OECD countries. While GDP felt in real terms by 4.5 percentage points from its highest level (in the first quarter 2008) to its lowest level (in the third quarter 2009) over the 2008-2009 period, less than the OECD average of 5.8 percentage points, employment dropped by 8.6 percentage points over the same period as compared to 1.6 percentage points on average across OECD countries. In large part, this reflects the fact that Spain suffered strong reversals in the housing sector: the same pattern is shared by Ireland and the United States, where the housing and/or financial markets were also strongly affected by the 2008-2009 recession.

Average hours per worker and wages did not adjust so as to mitigate the employment impact of the recession. The sharp decrease in employment also reflects the fact that in Spain the labour market has mainly adjusted to the decline in output via a reduction of employment rather than via a combination of employment shedding and hours reductions. By contrast, in Germany, as well as in countries such as Korea, Norway, Australia and the Slovak Republic, more than 95% of total labour input adjustment has come from a reduction of average hours per worker. In Spain, average hours actually rose slightly during the recession. Moreover, real hourly wages continued to rise as well regardless of the large build up in unemployment.

Employment protection legislation, as it is shaped in Spain, does not help smoothing cyclical fluctuations in economic activity. Despite several reforms over the past fifteen years dismissal costs for workers on regular contracts remain high in Spain and have encouraged a massive use of temporary workers. About 30% of the workforce was on temporary contracts in Spain before the crisis. And during the downturn, workers holding these contracts have borne the brunt of job losses, as firms have adjusted to the sudden decline in demand by simply not renewing these contracts. Temporary employment dropped by 8% in 2008 and by 18.4% in 2009, constituting the primary – if not the only one – adjustment margin for employers, while regular employment rose by 3% in 2008 and slightly decreased (by 0.9%) in 2009.

The recovery is in sight, but broad-based labour market reform is necessary to reduce very high unemployment. The last OECD projections indicate that GDP growth is expected to stabilise this year and grow by 1% in 2011. But the economic outlook is gloomier than for most OECD countries whose total output is estimated to grow at 2.8% in 2011. Unemployment rate is expected to fall slightly, although will still be ten percentage points above the OECD average in 2011. To curb the expansion of the public deficit to 7% of GDP in 2011, the government approved in May a fiscal consolidation package. Most of the temporary fiscal measures put in place in 2008 and 2009 are to be withdrawn in 2010. To make the most of the recovery, improving the functioning of the Spanish labour market is, therefore, crucial and broad structural reforms are needed. To this end, the Government presented in June a comprehensive labour reform that intends to reduce the labour market duality and to increase firms' ability to better adapt to the economic situation.

Although the government proposal still needs to go through parliamentarian discussions in the coming months before its final approval, the recent labour decree is a step in the direction of a more inclusive labour market. The major drawback of the current stringent dismissal regulations is that they discourage employers from hiring on permanent contracts and workers from moving from one job to another as they would lose their acquired rights to severance payments when changing employers. By clarifying the grounds for justified dismissals, the decree should make it easier for employers to adjust their permanent workforce to business needs which, in turn, should help reduce excessive recourse to temporary contracts. The reform is also intended to increase the internal flexibility of firms by making it easier for employers to use working hours and wages (through the opt-out clause) as adjustment margins in case of business difficulties. In addition, the future development of a capitalization Fund for workers -that can be used in case of dismissal, geographic mobility, training and retirement- other than funding part of the severance payment (by an amount not yet decided) should encourage workers mobility since these accounts – and thus the rights acquired while working – will be transferable from one employer to another. In a context of high unemployment, strong labour market duality and large regional imbalances, these provisions are welcome. Yet, changing employers and workers behaviours may take some time, and the high complexity of employment regulations and wage setting systems in Spain will not help. More should be done to help the large pool of jobseekers to return to employment and avoid that the long-term unemployed lose contact with the labour market.

Re-employment assistance to job-seekers needs to be reinforced through better coordination and further training measures more oriented towards firm's needs. The labour reform opens the door to private agencies to contribute to labour intermediation, in collaboration with the Public Employment Services (PES). This should in principle improve the low PES' placement rates. However, it would be important to quickly define the provisions under which private agencies will operate and set strong incentives for them to support the reintegration into employment also of the long-term unemployed and other hard-to-place jobseekers.

OECD Employment Outlook 2010 is available to journalists on the **password-protected** website or on request from the **Media Relations Division**. For further comment on Spain, journalists are invited to contact Stefano Scarpetta (tel: +33 1 45 24 19 88 or e-mail: stefano.scarpetta@oecd.org) or Ana Llena Nozal (tel: +33 1 45 24 19 77 e-mail: ana.llena-nozal@oecd.org) or Anne Saint-Martin (tel: +33 1 45 24 85 90 or e-mail: anne.saint-martin@oecd.org) from the OECD Employment Analysis and Policy Division. For further information: www.oecd.org/els/employment/outlook.