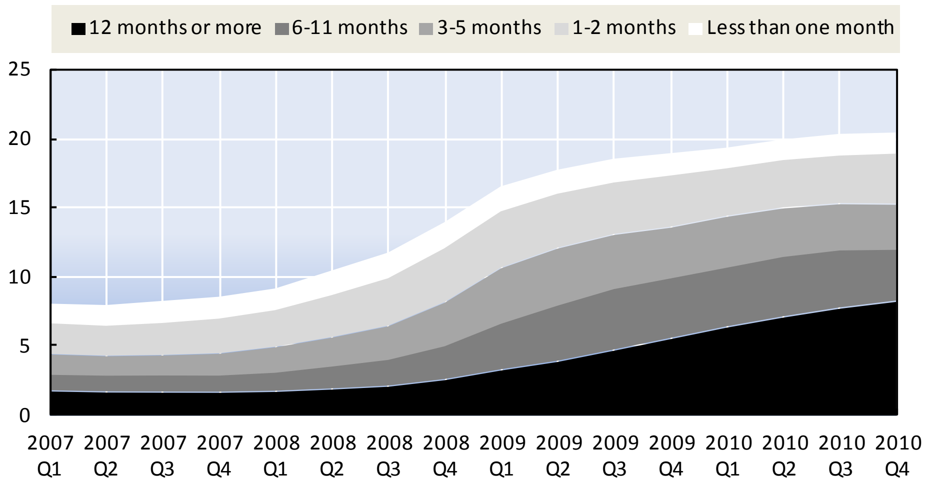
Employment Outlook 2011 – How does SPAIN compare?

The moderate recovery from the 2008-09 recession has not yet managed to ease pressure on the labour market, raising concerns that the currently very high unemployment rates could persist well into next year. Along with the United States, Ireland and Iceland, the surge in Spanish unemployment is unprecedented in recent recessions. In July 2011, the unemployment rate in Spain had reached 21.2%, more than two-and-a-half times the OECD average of 8.2%. New estimates in the *OECD Employment Outlook 2011* suggest that more than 2.2 million new jobs are needed to return Spain's employment rate to its pre-crisis level.

The sharp growth of long-term unemployment is of particular concern. The share of the unemployed who have been out of work for more than 12 months has almost doubled since the start of the crisis, from 21% in early 2007 to 40% at the end of 2010. Currently, around three-quarters of unemployed people, equivalent to more than 12% of the labour force, have been unemployed for more than five months (see chart). Three quarters of long-term unemployed (with more than 12 months of unemployment) are prime-aged workers (ages 25 to 54 years) and almost two-thirds are low-skilled. Long spells of unemployment can reduce employment prospects because workers' skills may degrade over time and employers may prefer to hire candidates with recent work experience.

Evolution of unemployment by duration of unemployment (percentage of the labour force), Spain



Much of the adjustment in the Spanish labour market during the crisis has been on job losses rather than adjustments in wages or working hours. This is consistent with the adjustment patterns observed in previous economic downturns as analysed in the *OECD Employment Outlook 2011*. Indeed, the sensitivity of employment to the business cycle is second only to Poland among the OECD countries for which data are available. One reason for this is Spain's dual labour market, where many workers have temporary contracts, making it simpler for employers to dismiss them when economic conditions worsen. Indeed, since late 2007 almost nine in ten jobs lost in Spain were temporary. Consequently, temporary employment has fallen by one third, compared with a 3% decline for permanent employment. The upside of a dual labour market is that employers tend to start hiring more quickly when business conditions improve than in countries where the use of temporary contracts is more restricted. So far, however, there have been few signs of either permanent or temporary jobs growth, although employment of both groups has stabilised.

Surging unemployment and long spells of joblessness have increased pressure on the income support "safety net" for the unemployed. More than two years since the onset of the crisis, more than 9% of Spain's working age population is receiving unemployment benefits (either unemployment insurance or unemployment assistance). However, the rise in the number of people receiving benefits has not kept pace with the growth of unemployment. Youth, women, those with little or no work experience and the self-employed are most likely to miss out on unemployment benefits when they become unemployed. If unemployment persists at current high levels, more and more of the unemployed will have to rely on other forms of income support as they exhaust their entitlement to unemployment benefits, placing them at real risk of poverty. Social assistance payments, at around 30% of the median wage, are typically much lower than the poverty line, and are among the lowest in the OECD for lone parents.

In response to these challenges, **Spain has embarked on a series of labour market reforms** as adopted in September 2010 and as announced more recently as part of its social and economic tripartite agreement in February 2011. These reforms include: *i)* regulatory changes to address labour market duality (*i.e.* the widespread use of temporary rather than permanent contracts) through adjustments in dismissal costs and procedures; *ii)* measures to promote internal flexibility (*i.e.* adjustments in wages and working hours) instead of external flexibility (*i.e.* redundancies, especially of workers on temporary contracts); *iii)* financial subsidies for firms hiring young people, less-skilled workers, women, and long-term unemployed; and *iv)* measures to improve labour market intermediation and delivery of employment services. These policy measures are welcome as they will contribute to improve the adaptability of the Spanish labour market, while at the same time address labour market duality. At the same time, further progress is needed to strengthen the enforcement of eligibility conditions to recipients of unemployment benefits and promote a more effective activation of the unemployed back to work.

OECD Employment Outlook 2011 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 Mark Keese (tel: +33 1 45 24 87 94 or e-mail: mark.keese@oecd.org) or Danielle Venn (tel: +33 1 45 24 75 01 e-mail: danielle.venn@oecd.org) from the OECD Employment Analysis and Policy Division. For further information: www.oecd.org/els/employment/outlook.