Spain's labour market reforms: No solution to its employment problems

Martin Myant and Laszlo Horwitz of the ETUI *in Brussels argue that the Spanish economy, after experiencing one of the largest falls in employment and increases in unemployment of all EU member states, is now showing some signs of recovery*

Since 2010, far-reaching reforms, billed as making the labour market more flexible and efficient, have been implemented. It was claimed by the Spanish government that these so-called 'structural reforms' were the key to reducing unemployment levels. We are now being told that they have been the key to the current recovery. These claims are false. Just because there is some sign of gradual economic recovery does not prove any correlation within specific reforms. To demonstrate their effectiveness would require a demonstration that they have achieved specific stated objectives and, as shown in a recent ETUI Working Paper[1], that has clearly not been the case.

The first point to note is the nature of the decline in employment associated with the 2008 crisis. As shown in Figure 1, this was even more marked than the fall in GDP and started sooner. The labour market appeared to be extremely flexible in the sense that total numbers of employees could be varied very rapidly.

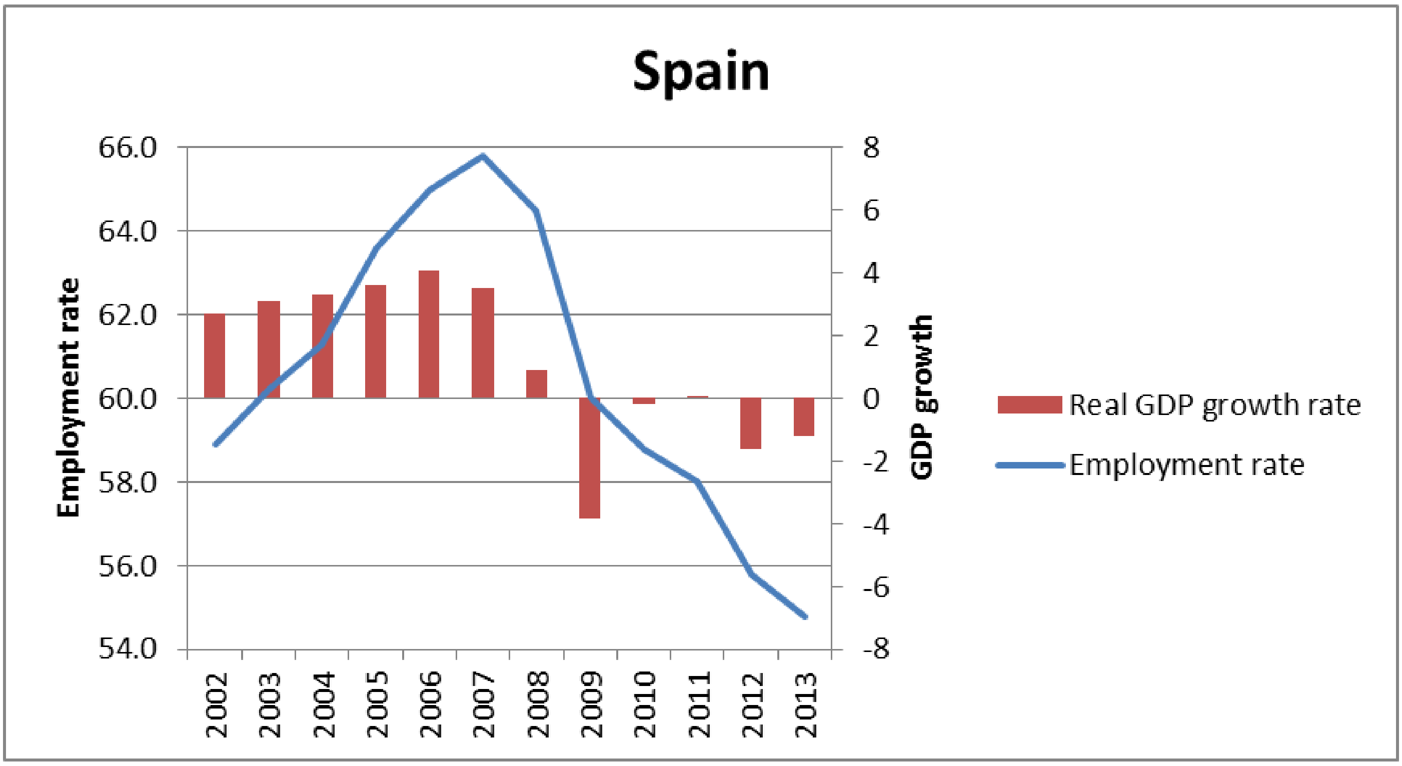

Figure 1 GDP growth and employment rate in Spain. Source: Eurostat (lfsi_emp_a; tec00115), own calculations.

This contrasts with Germany, shown in Figure 2, where the employment rate continued to increase in all years, despite the fall in GDP in 2009. Both have large 'secondary' labour markets with less secure employment. That is not the place to seek an explanation for Germany's higher employment level. The big differences were in sectoral structure – there had been no credit-fuelled construction boom in Germany – and in the ability of German companies and trade unions to negotiate flexible arrangements with reduced working hours for permanent employees. Moving closer to the German experience would therefore seem to require greater, and not less, job security in Spain.

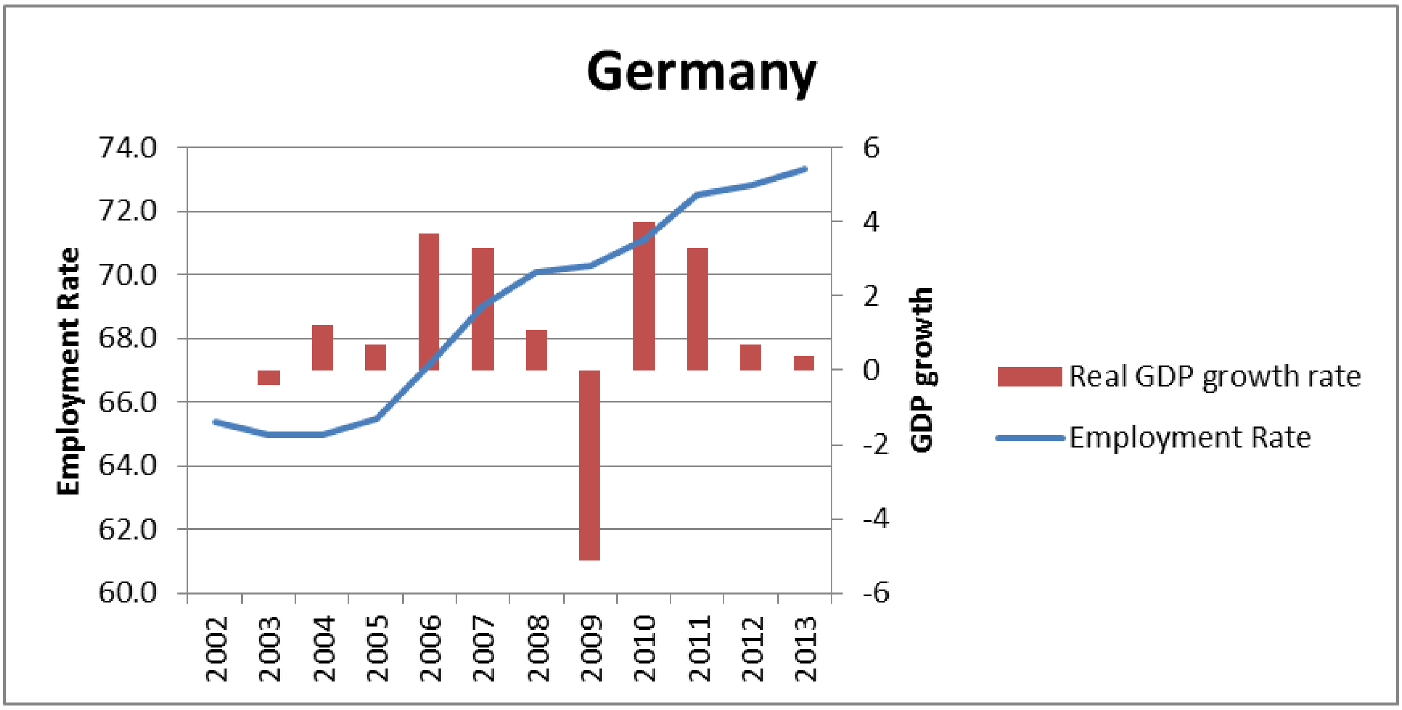

Figure 2 GDP growth and employment rate in Germany. Source: Eurostat (lfsi_emp_a; tec00115), own calculations.

However, a counter-intuitive theory has developed, backed by the Spanish government and international agencies but lacking serious empirical support, that the rapid reduction in employment in Spain followed from excessive employment protection. The EPL index showed Spain's permanent employees marginally better protected than their German counterparts. The argument was that protection of permanent employees led employers to prefer to hire on temporary contracts and these temporary employees, approaching 30% of all employees in 2008, were then quickly dismissed.

Reform measures to reduce protection on permanent employees should then, it was argued, lead to more permanent employees and to more turnover leading to lower long-term and youth unemployment. Reducing the scope and strength of collective agreements should, it was also argued, lead employers to adjust to low demand by reducing hours rather than numbers of employees.

Reforms in 2010 and 2012 were set to achieve these aims. The EPL index was reduced well below the German level and collective bargaining coverage fell from 59% in 2008 to 41% in 2013. Employers also had powers to opt out of agreements such that their strength was significantly enhanced relative to that of employees.

So how did the employment law changes affect employers' behaviour?

1. The first results show that they did not use their new power to reduce working time. Hours worked per week of full-time employment, falling after 2008, increased again from 2012. The contrast is particularly clear for construction, shown in Figure 3. The implication is that employers were happier to employ less people with longer working hours and had little interest in, or need for, negotiating arrangements for shorter working hours.

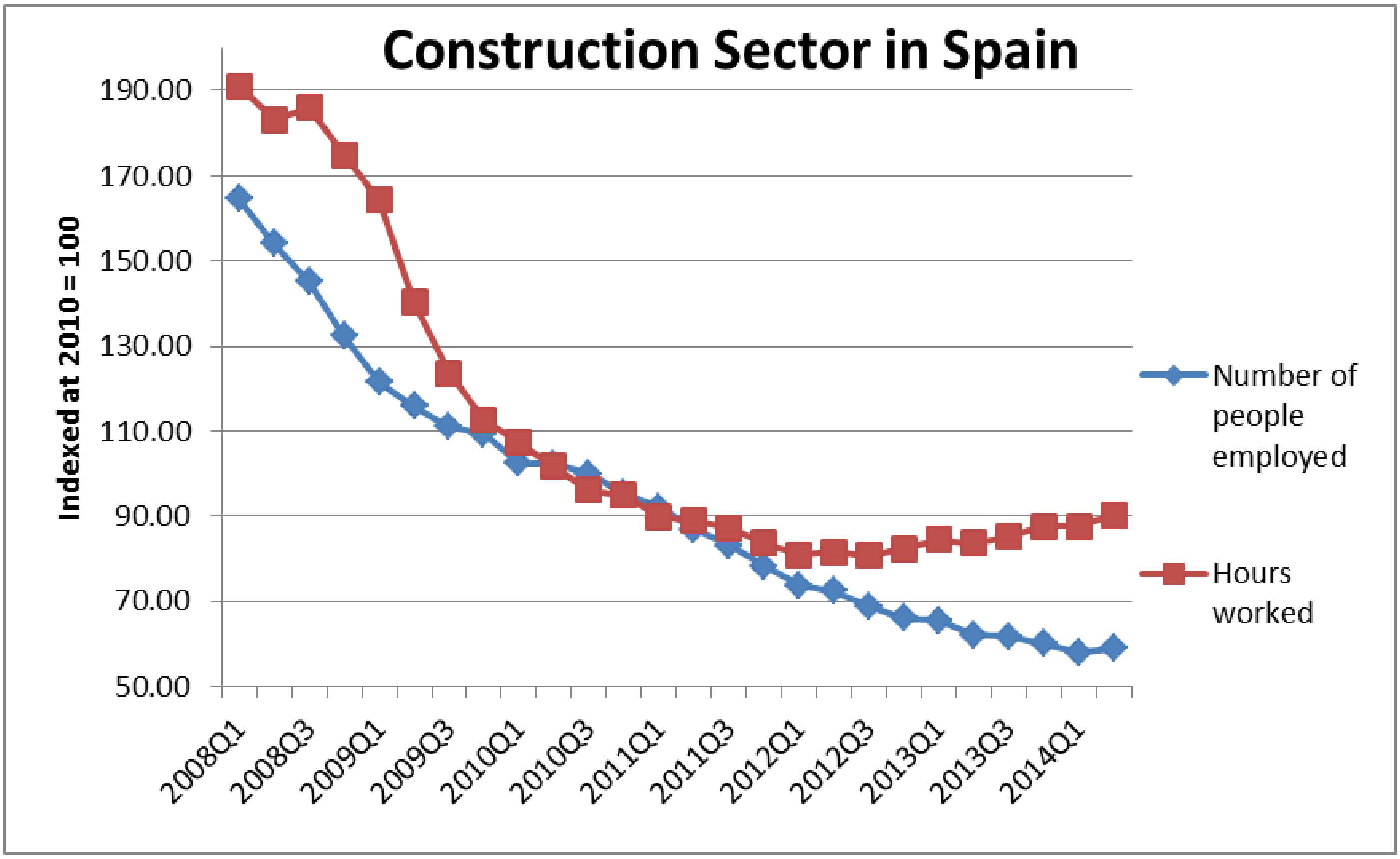

Figure 3 Absolute hours worked compared to number of people employed. Source: Eurostat (ei_isbu_q), own calculations.

2. There was no shift towards permanent rather than fixed term contracts. The share of the latter fell because they were indeed the first to be dismissed. The key indicator to follow is the share of temporary contracts in new contracts issued and here there were fluctuations but, if anything, an increase in the share of temporary contract, as shown in Figure 4. The proportion of contracts signed, it should be noted, does not indicate the proportion of jobs as some may relate to several contracts during a year.

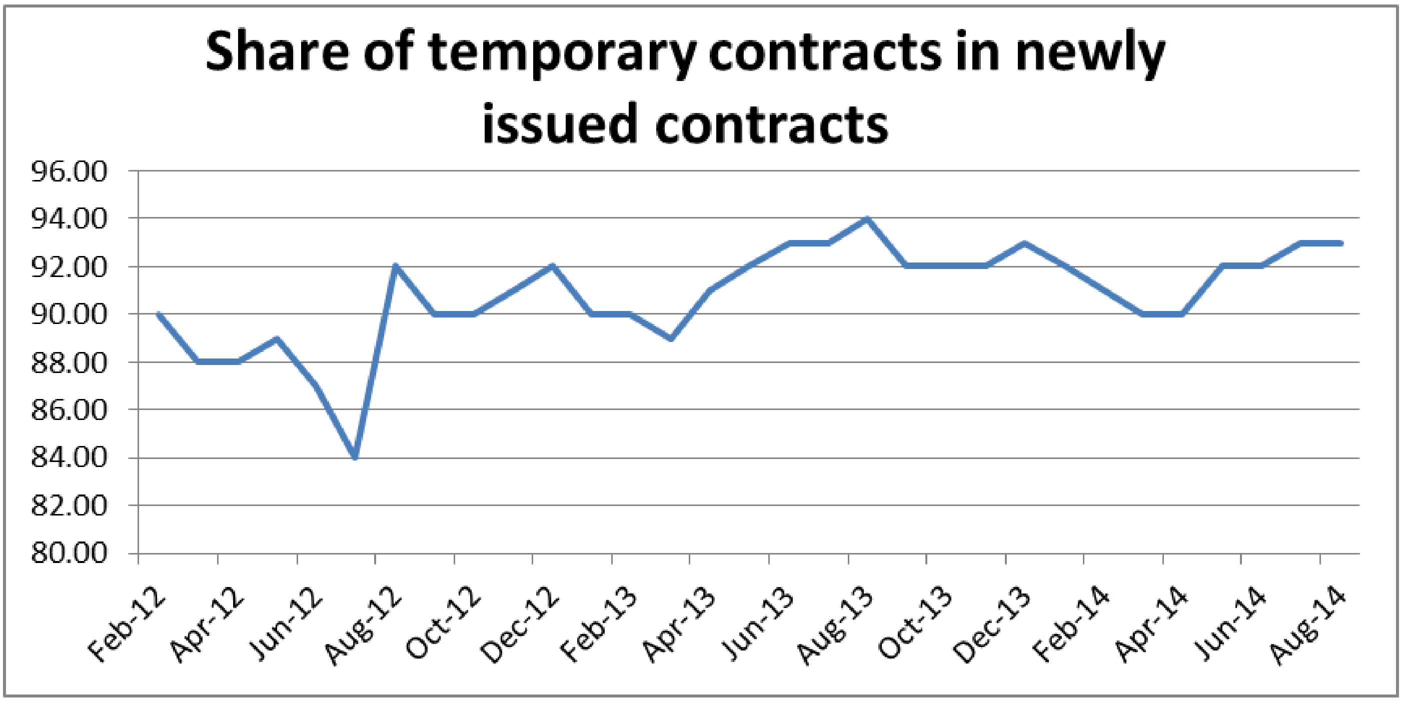

Figure 4 Share of temporary contract in newly issued contracts in Spain. Source: SEPE (http://www.sepe.es/contenidos/que_es_el_sepe/estadisticas/datos_avance/contratos/index.html), own calculations.

3. Nor were there any breaks in the upward trends for long-term and youth unemployment. Figure 5 shows Spain's remarkable comparative performance in the former of these.

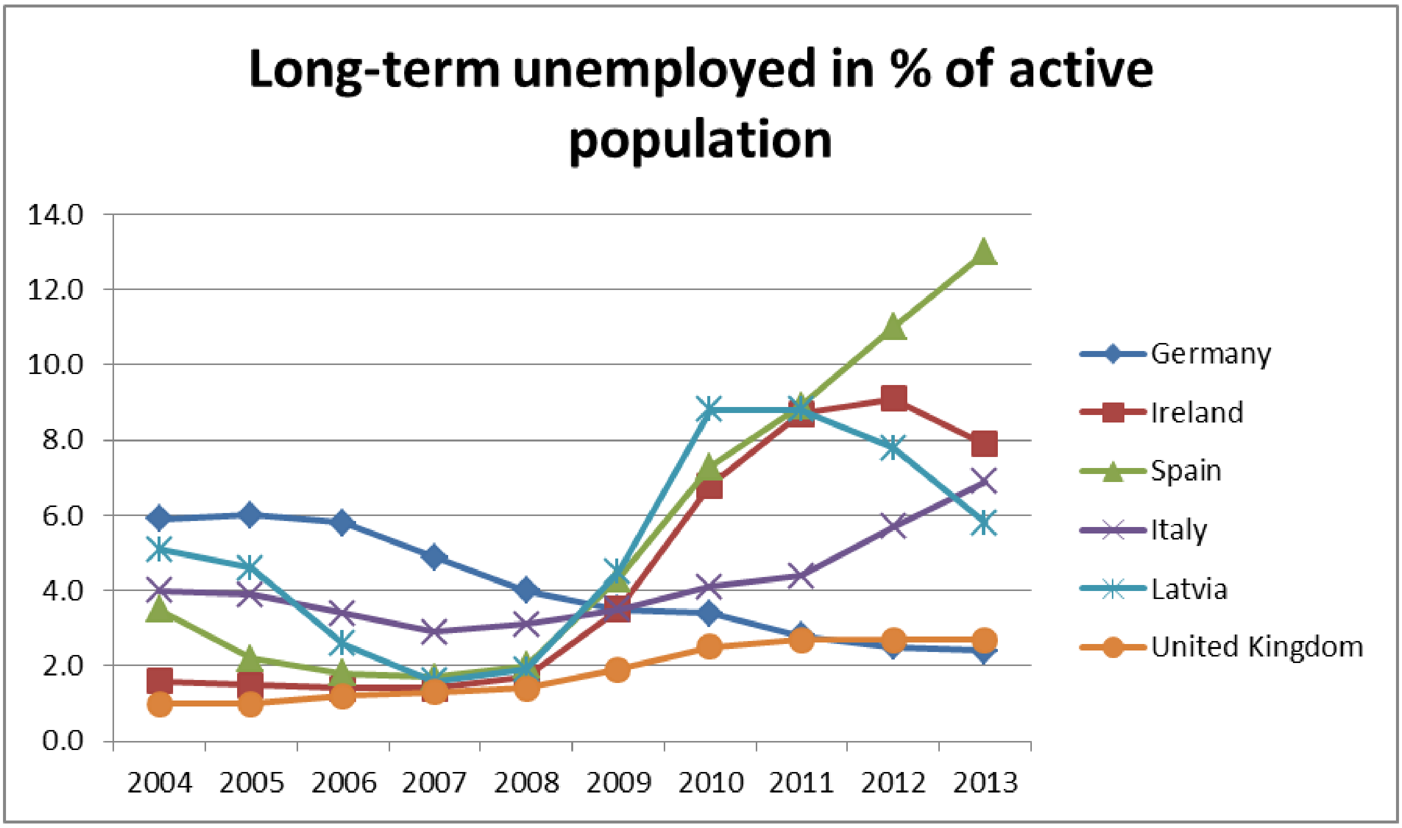

Figure 5 Long-term unemployment as a share of active population in six countries. Source: Eurostat (une_ltu_a), own calculations.

So what has happened with recovery from 2013?

1. There have been increases in exports, but these have not followed from wage reductions. Export success is concentrated into higher-wage sectors and ones in which wages have increased. Thus 46.4% of export growth by Spain in 2013 came from technology-intensive industries, namely vehicles other than railway, nuclear reactors and other machinery as well as aircraft. The remarkable link between exports and high wages is presented as a key finding of a recently published European Commission report[2]. Reductions in wages from 2010, billed as improve ng competitiveness, were therefore irrelevant to any export recovery which depended on high-quality products produced by better paid workers.
2. There has been economic growth, but its causes lie not in labour market reform, but in increases in exports, in investment (albeit still well below pre-crisis levels) and, above all, in household consumption following an increase in average private sector pay. AMECO figures show growth in GDP in 2014 of 1.14% and growth in employment of 1.13%. Creation, or protection, of employment places continues to lag behind economic growth. Total hours worked increased more slowly, due to a small shift towards part-time work.
3. Economic recovery has been associated with a quite remarkable shift towards temporary employment. Table 1 shows the net increases in employment in different categories, taken from Labour Force Surveys. It appears that over 80% of the net employment increase since 2013 has been from temporary contracts.

Table 1 Numbers in employment in Spain in thousands

	2013Q1	2015Q1	difference
All in employment	16,888	17,317	429
employees	13,923	14,335	412

Employees on temporary contracts	3,058	3,390	332

Source: Eurostat

So, to conclude, the Spanish labour market has been extremely flexible in terms of the total number of people working. It has been less flexible in terms of hours worked per employee. Reforms that were introduced in 2010 and 2012 did nothing to encourage more employment on permanent contracts. Nor did they do anything to encourage more flexibility in employment forms within firms. Their only effect was to increase the power of employers and the result has been an increase in insecure forms of employment.

Spain's economy grew by 1.4% in 2014. At that rate it will pass the pre-crisis level only in 2019. Employment will recover to the 2008 level in 2027. This slow recovery has nothing to do with labour market reforms which have simply served to worsen conditions for people facing precarious employment.

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[1] Horwitz, L., M. Myant, Spain's labour market reforms: the road to employment – or to unemployment? ETUI Working Paper, 2015.03.

[2] http://trade.ec.europa.eu/doclib/docs/2015/june/tradoc_153502.pdf

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