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STUDIES ON
GROWTH WITH EQUITY

A large, tilted yellow rectangle with a subtle wavy texture serves as a background for the word 'SPAIN'. It is positioned in the center-left of the cover.

SPAIN

A white geometric graphic consisting of a large rectangle and a smaller square overlapping its bottom-left corner is located to the left of the text 'GROWTH WITH JOBS'.

**GROWTH
WITH JOBS**

STUDIES ON GROWTH WITH EQUITY

SPAIN

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GROWTH WITH JOBS

INTERNATIONAL LABOUR ORGANIZATION

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FOREWORD

In order to achieve a real and sustainable recovery, macroeconomic and employment goals need to be pursued in parallel. This was highlighted by 51 European Governments, Employers' and Workers' representatives in the Oslo Declaration adopted by the ILO's 9th European Regional Conference in April 2013, which stated that "...structural reform and competitiveness, on the one hand, and stimulus packages, investment in the real economy, quality jobs, increased credit for enterprises, on the other, should not be competing paradigms. It is in our common interest to elaborate sustainable approaches in order to promote jobs, growth and social justice". To that end, the ILO has been analysing the situation in a number of crisis-hit European countries since spring 2013 with a view to investigating and presenting policy options for a sustainable and job-rich recovery.

In different international meetings, including the G20, the ILO has supported and encouraged a comprehensive approach to the social and economic challenges stemming from the current crisis. The general objective is clear: to combine the pursuit of sound macroeconomic goals with the creation and protection of decent jobs and addressing the needs of the most vulnerable. These issues go to the very centre of the conditions needed to achieve a sustainable European currency.

This new ILO report investigates the specific challenges facing Spain in the aftermath of the crisis. The report emphasises that Spain is in the early stages of the recovery process, and that a number of additional measures could be considered to solidify its gains. In order to achieve the objective of "Growth with Jobs", I hope the report, its findings and the discussions and debate it stimulates will provide useful inputs to the national and European debate on employment and social issues.

Guy Ryder
ILO Director-General

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Authors of the report

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The study has been coordinated by Steven Tobin under the supervision of the Director of the ILO Research Department, Raymond Torres and with guidance from James Howard, Senior Advisor to the ILO Director-General.

A preliminary draft of the report was shared with the Ministry of Employment and Social Security of Spain and with social partners, namely Confederación Española de la Pequeña y Mediana Empresa (Cepyme), Confederación Española de Organizaciones Empresariales (CEOE), Confederación Sindical de Comisiones Obreras (CCOO) and Unión General de Trabajadores (UGT).

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TABLE OF CONTENTS

	page
FOREWORD	V
ACKNOWLEDGEMENTS	VII
TABLE OF CONTENTS	IX
LIST OF FIGURES	XI
LIST OF TABLES	XII
LIST OF BOXES	XIII
LIST OF ABBREVIATIONS	XIV
EXECUTIVE SUMMARY AND POLICY RECOMMENDATIONS	1

CHAPTER 1

Economic and labour market performance:

Signs of recovery 17

Introduction 17

A. Macroeconomic trends: A rebound in economic activity 18

B. Labour market performance 26

C. Concluding remarks 38

References 39

CHAPTER 2

Productivity and competitiveness:

Trends, determinants and possible ways forward 41

Introduction 41

A. Factors underlying the trends in productivity and competitiveness 42

B. Tight credit markets: Effects on investments and employment 52

C. Firms' demography and business environment 57

D. Policy considerations 64

References 83

CHAPTER 3**Re-orienting labour market policies****for improved employment and social outcomes 87**

Introduction 87

A. Job quality, poverty and labour market polarization: A growing concern 88

B. The role of labour market policies and public employment services in promoting recovery 103

C. Policy considerations 111

Appendix 1: Summary of key reforms in Spain 135

References 145

CHAPTER 4**Building recovery through social dialogue and collective bargaining**

151

Introduction 151

A. Reviving social dialogue as an enabler of recovery 152

B. Collective bargaining: Recent reform process and preliminary impacts 157

C. Policy considerations 181

References 195

CHAPTER 5**Towards an employment and social strategy for Spain:****Building consensus, complementarities and the role of the ILO 201**

Introduction 201

A. Building an employment and social strategy: Common areas of action 203

B. Implementing an employment and social strategy: The role of social partners and the ILO 209

References 211

LIST OF FIGURES

	page
Figure 1.1 Real GDP growth, Q1 2007 to Q1 2014 (quarterly year-on-year growth rates, percentage)	19
Figure 1.2 Contribution to GDP growth by main component (year-on-year quarterly growth rate, percentage)	20
Figure 1.3 Share of exports to euro area and non-euro area countries (percentage of total exports)	21
Figure 1.4 Contribution to export growth by type of product in 2013 (annual growth rate, percentage)	22
Figure 1.5 Change in gross fixed capital formation as a percentage of GDP (percentage points)	23
Figure 1.6 Public deficit/surplus and debt as a share of GDP (percentage)	25
Figure 1.7 GDP and employment growth in selected countries (growth rate over the period 2008–2013, percentage)	27
Figure 1.8 Employment losses by sector (year-on-year change, thousands)	28
Figure 1.9 Dependent employment losses by type of contract (year-on-year change, thousands)	29
Figure 1.10 Share of long-term unemployment in total unemployment (percentage)	32
Figure 1.11 Percentage change in the total number of operating enterprises and self-employed workers (monthly year-on-year change, percentage)	35
Figure 1.12 Growth rate of employment by industry activity in 2013 (percentage)	36
Figure 2.1 Decomposition of changes in REER between 1999 and 2009 (percentage)	46
Figure 2.2 GDP growth by factor, 2007–2011 (percentage)	47
Figure 2.3 Growth rates of nominal wages in selected countries (year-on-year quarterly growth, per cent)	48
Figure 2.4 Average growth rate of real wages by economic sector (percentage)	50
Figure 2.5 ULC-based REER in selected countries, 2000–2014 (quarterly year-on-year change: Q1 2000 = 100)	51
Figure 2.6 Change in bank credit to non-financial corporations as a percentage of GDP in selected EU countries, 2003–2013 (percentage points)	53
Figure 2.7 Interest rates on loans to non-financial corporations up to €25 million (percentage)	54
Figure 2.8 Access to finance and employment in SMEs, 2009–2011 (percentage points and percentage)	55
Figure 2.9 Enterprise creation	58
Figure 2.10 Survival rates at one and five years after firms' creation, 2009 and 2011 (percentage)	59
Figure 2.11 Employment growth in newly constituted enterprises, 2011 (percentage)	60
Figure 2.12 Labour market effects of a decrease in bank loan interest rates (change in unemployment rate, percentage)	77

Figure 3.1	Number of self-employed, with and without employees, Q1 2008–Q1 2014* (thousands)	94
Figure 3.2	Expenditure in unemployment-related social protection as a share of GDP (percentages)	98
Figure 3.3	At-risk-of-poverty rate by status in 2013 (percentage)	102
Figure 3.4	Expenditure on ALMPs in Spain and selected countries, 2004–2011	104
Figure 3.5	Share of the expenditure by type of ALMP in total ALMP expenditure in 2004 and 2010 and in the change between 2004 and 2011 (percentage)	107
Figure 3.6	Ratio of active to passive labour market policy expenditure, selected countries, 2004 and 2011	109
Figure 3.7	Relationship between PES staff servicing clients directly and the unemployment rate, 2011	132
Figure 4.1	Duration of <i>ultra-actividad</i> in collective bargaining agreements (February 2012–April 2014), as a percentage of collective agreements	172

LIST OF TABLES

		page
Table 1.1	Labour market performance in Q2 2014	34
Table 2.1	Comparative performances between firms with and without PE and VC financing	67
Table 2.2	Policy response to improve SMEs' access to finance across the OECD countries	72
Table 3.1	Incidence of involuntary workers (aged 15–64) in temporary and part-time employment in selected countries (percentages)	93
Table 3.2	Social protection beneficiaries	101
Table 3.3	Estimated costs of implementing youth guarantee programmes in Europe (millions of euros)	130
Table 4.1	Achievements in tripartite social dialogue in Spain – historical overview	153
Table 4.2	Variation of GDP, inflation and wage increases through collective agreements (percentages)	177
Table 4.3	Evolution of the minimum wage in Spain, 2009–2013	179

LIST OF BOXES

	page
Box 1.1	Poverty and inequality in Spain 33
Box 2.1	Unit labour cost (ULC) and real effective exchange rate (REER): Definitions and shortcomings 44
Box 2.2	The regulation of retail trade 61
Box 2.3	The Spanish electricity sector 62
Box 2.4	Starting a business: Spanish regulation in comparative perspective 65
Box 2.5	The role of PE and VC in determining companies' performances 67
Box 3.1	The 2012 labour market reform in Spain 89
Box 3.2	"Economically dependent self-employed": a growing phenomenon in Spain 96
Box 3.3	Re-orienting Spain's suite of labour market programmes: Guiding principles for consideration 116
Box 3.4	Efficient implementation of youth guarantee programmes 129
Box 4.1	Collective bargaining during the crisis 154
Box 4.2	Spanish social partners' views on reforms in collective bargaining 175
Box 4.3	Trends in wages negotiated through collective agreements 177
Box 4.4	ILO supervisory mechanisms on collective bargaining 188
Box 5.1	The case for a national employment strategy: The Irish experience 204

LIST OF ABBREVIATIONS

ASCRI	Spanish Venture Capital Association (abbreviated in Spanish)
ACT	Authority for Working Conditions (abbreviated in Spanish)
AENC	Bipartite Inter-Confederal Agreement on Employment and Collective Bargaining (abbreviated in Spanish)
ALMPs	Active Labour Market Policies
CBA	Collective Bargaining Agreement
CCOO	Confederación Sindical de Comisiones Obreras (Trade Union Confederation of Workers' Commissions)
CEACR	Committee of Experts on the Application of Conventions and Recommendations
CEOE	Confederación Española de Organizaciones Empresariales (Confederation of Employers and Industries of Spain)
CEPYME	Confederación Española de la Pequeña y la Mediana Empresa (Spanish Confederation of Small and Medium-sized Enterprises)
CG	Confederación Intersindical Galega (Galician Unions' Confederation)
CPI	Consumer Price Index
EFBWW	European Federation of Building and Woodworkers
EMU	Economic and Monetary Union
EPA	Spanish Labour Force Survey (abbreviated in Spanish)
EPL	Employment Protection Legislation
EU	European Union
EU-17	European Union of 17 member states
EU-28	European Union of 28 member states
FOGASA	Wage Guarantee Fund (abbreviated in Spanish)
FSC-CCOO	Federación de Servicios a la Ciudadanía de CCOO (Citizens' Service Federation of CCOO)
GDP	Gross Domestic Product
ICO	Instituto de Crédito Oficial
ICT	Information and Communications Technology
IILS	International Institute for Labour Studies
ILC	International Labour Conference
ILO	International Labour Organization
IMF	International Monetary Fund
INE	Instituto Nacional de Estadística
INSEE	Institut National de la Statistique et des Études Économiques
IPREM	Multi-Purpose Public Income Index
IRLE	Labour Relations Institute of the Sagardoy Foundation (abbreviated in Spanish)

ISCED	International Standard Classification of Education
ISTAT	Istituto Nazionale di Statistica Italiano
IT	Information Technology
MARF	Mercado Alternativo de Renta Fija
MEYSS	Ministerio de Empleo y Seguridad Social (Ministry of Employment and Social Security)
NEET	Not in employment, education or training
OECD	Organisation for Economic Co-operation and Development
PE	Private Equity
PES	Public Employment Services
PLMP	Passive Labour Market Policies
REER	Real Effective Exchange Rate
REGCON	Registro y depósito de Convenios y acuerdos colectivos de trabajo
RETA	Special System for Self-employed (abbreviated in Spanish)
R&D	Research and Development
SCF	Supply Chain Finance
SEPE	Servicio Público de Empleo Estatal (Public State Employment Service)
SMEs	Small and Medium-sized Enterprises
SMI	Inter-occupational minimum wage (abbreviated in Spanish)
TFP	Total Factor Productivity
TRADE	Economically dependent self-employed (abbreviated in Spanish)
UGT	Unión General de Trabajadores (General Union of Workers)
UK	United Kingdom
ULC	Unit Labour Cost
UPTA	Unión de Profesionales y Trabajadores Autónomos (Union of Professionals and Self-Employed Workers)
VC	Venture Capital

EXECUTIVE SUMMARY AND POLICY RECOMMENDATIONS

The Spanish economy has started to recover from the crisis, driven mainly by strong export growth ...

The Spanish economy is recovering from both the global financial crisis of 2008 and the sovereign debt crisis that affected the country in 2011. Following ten consecutive quarters of contraction, the economy started to rebound at the end of 2013 and is expected to grow by around 1.5 per cent in 2014. Importantly, the economic recovery has been accompanied by employment gains, with over 200,000 net new jobs created during the first half of 2014.

The economic recovery can be mainly attributed to gains in exports. Indeed, after contracting in 2008 and 2009, exports began to grow in 2010 and with more dynamism in later years. Interestingly, there have been strong gains in exports to non-euro area countries and some emerging countries. For example, in 2013 exports to China and Latin America grew by more than 7 per cent and 13 per cent, respectively.

... but the economic, employment and social repercussions from the crisis remain significant.

Despite these encouraging developments, the recovery remains both incomplete and fragile. Today, the Spanish economy is smaller in size than in 2007 and the average income of Spanish people is 8 per cent lower than in 2007. Moreover, productive investment, at less than 18 per cent of GDP, remains insufficient to sustain future prosperity gains.

Beyond these economic gaps, high unemployment remains the main legacy of the unprecedented recession. Over 4.5 million jobs were lost to the twin crises, or almost one in six of all jobs available in 2007. The unemployment rate, at over 24 per cent, continues to exceed earlier historical peaks. The youth unemployment rate exceeds 50 per cent and ranks the second highest in the European Union, following Greece. Over 60 per cent of jobseekers have been unemployed for more than a year and 42 per cent for more than two years. In early 2014, there were more than 1.8 million jobless households in Spain, one million of which had no income support.

There is therefore a significant risk that many jobseekers will drop out of the labour market. The longer people remain detached from the labour market, the more difficult and costly it is to reintegrate them into employment. This is particularly relevant given that the recovery is being driven by new growth sectors, which requires a shift in skill requirements vis-à-vis pre-crises growth patterns. Also, the twin crises have been accompanied by a significant increase in the risk of poverty, with nearly 20 per cent of the population at risk of poverty in 2013.

Even if the high rate of job creation witnessed in the second quarter of 2014 were to continue, it would still take until 2023 to restore employment to 2007 levels. A complete recovery would take even longer, as more than 200,000 people are expected to enter the workforce over this period.

Therefore, while the report welcomes the recent reductions in unemployment, it also highlights the importance of taking further action to ensure there are sustainable improvements in employment and social conditions. In view of the size of the challenge, a comprehensive employment and social strategy may be called for.

A range of measures could be introduced to help consolidate the jobs recovery. First, actions to nurture enterprise growth and economic diversification.

These could include, first and foremost, enhanced efforts to establish new foundations for growth, in order to avoid the unbalanced patterns that characterized the pre-crisis period. In this regard, the tight bank credit conditions that still prevail represent a major obstacle to the expansion of small businesses, which in turn is constraining productivity gains and the creation of high-quality jobs. Addressing these obstacles is therefore central to laying the ground for sustainable growth which will allow the labour market to recover. The following measures could be considered in this respect:

- *Enhance the functioning of the credit market, especially for small and medium-sized enterprises (SMEs):* The Government has made considerable effort to restore access to credit for Spanish enterprises. However, credit conditions remain overly tight, thereby delaying the job recovery as employment-intensive SMEs mainly rely on bank credit for their operations. Beyond the tight credit conditions that presently prevail, there is scope for improving the links between Spanish banks and SMEs. This would facilitate the transition from very small businesses (which are over-represented in Spain) to enterprises of medium size – which in Spain is the main untapped source of productivity gains and high-quality jobs. As the experiences of Germany and Switzerland show, the achievement of a solid network of medium-sized enterprises depends heavily on the ability of banks to develop long-term partnerships and links with innovative entrepreneurs. The constraints that the current banking system represent can only be partly compensated by non-bank financing – which in any case is still underdeveloped in Spain. Improving supply chain finance is

also a key area of intervention, as only two out of every ten Spanish firms that sell goods receive their due payments within a month, which makes it difficult for firms to survive. This would go a long way in helping Spanish firms to grow. The UK Government has recently invested £15 million in improving supply chain finance and signed an agreement with some large companies that are committed to improving the information flow between customers and suppliers.

- *Ease the administrative and tax burdens on starting and growing a firm:* While the rate of creation of new firms in Spain is on par with the rates in other European countries, the conditions and regulations for starting a business could nevertheless be improved. For instance, the burden of having to deal with all three levels of government adds unnecessary complexity to start-ups. The legislative requirements for starting a business could be streamlined to support the emergence of entrepreneurial activities during a time when the macroeconomic outlook is improving. Recently, in France, legislation (*Loi de modernisation de l'économie*) was eased on a number of fronts for self-employed persons, including by making registration with the national authority easier and introducing tax exemptions for the first three years of operation. It is equally important that administrative barriers to the growth of small businesses are tackled. In this regard, there is room for smoothing tax thresholds by firm size. If these thresholds are too abrupt the growth of viable small enterprises can be impeded. Likewise, in Spain, advice and assistance for entrepreneurs tends to be front-loaded. What is needed is a support mechanism that enables entrepreneurs to acquire the operational managerial skills required to run and expand a business. Training programmes implemented in other European countries – such as Germany and Italy – have proven particularly effective in this regard.
- *Promote productive investment and broaden the industrial base:* Stimulating investment is a necessity for supporting economic diversification and productive employment. Given the relatively low levels of investment in technologically intensive industries, the Government could consider introducing tax exemptions on investments in new technology. Similarly, tax exemptions conditional on employment creation or the adoption of

green technologies could be introduced. Finally, and as endorsed in the G20 meeting in September 2013, the Government could promote policy interventions to foster finance in order to promote long-term investment by institutional investors – including pension funds and insurers. These have long duration liabilities and can consequently invest in assets with a more distant pay-off horizon. In this regard, financial support from long-term lending institutions, such as the European Investment Bank (EIB), could be further leveraged. This entails strengthening the mechanism of co-funding between EIB's funds and public resources. For instance, financial support from EIB – which usually covers up to one-third of total financing needs – could be combined with government credit guarantees with a view to encouraging the participation of private investors in long-term productive investment projects. More fundamentally, the EIB still invests much more resources in low-unemployment countries (even outside the EU) than in crisis-hit areas of the EU. This is an anomaly that needs to be changed urgently. Meanwhile, it would be important to work closely with the Directorate-General for Employment, Social Affairs and Inclusion (DG EMPL) of the European Commission in an effort to enhance the synergies between European Structural and Investment Funds 2014-2020 and national investment programmes. In this regard, adjusting the front-loading of EU funds may optimize the impact and the effectiveness of public support to investment projects.

*Second, a coherent set of measures
to help jobseekers remain in the labour market,
acquire new skills and obtain employment ...*

Important as it is, economic recovery alone will not be sufficient to prevent a major drop in labour market participation rates or the emigration of talented people. It is therefore crucial to support participation and upgrade the skills of jobseekers. The Government has undertaken a number of initiatives in this respect, but sustaining these efforts and tailoring them to meet the evolving needs will be central to recovery efforts. Consideration could therefore be given to the launch of a coherent employment policy, which would include the following elements:

- *Well-designed active labour market policies:* As the economic recovery is still in its nascent phase, it is critical to ensure that workers remain attached to the labour market and retain (and where necessary improve) their skills. This requires improvements in the design of active labour market policies, including better targeting and more frequent contacts with the public employment service and the provision of adequate income support to all jobseekers. Such an approach would provide critical support during periods of structural transformation.
- *Targeted hiring subsidies based on skills needs or duration of unemployment:* The central measures of the 2012 reform included employment incentives targeted towards certain groups (e.g. youth, older workers, women and the long-term unemployed), but the impact of these measures on employment creation has been limited. Efforts are needed to improve the targeting of hiring subsidies. In Belgium, for example, employers who hire workers who have been registered as unemployed for at least a year benefit from reductions in social security contributions. The measure is applied differently for workers in different age groups. For example, by employing a young person aged 27 years or less who does not have a higher secondary diploma, an employer may benefit from up to €1,500 in social security contribution reductions per quarter. In addition, if the young person has been receiving unemployment benefits, the public employment service covers a portion of the worker's pay.
- *Improvements in the design and delivery of training programmes:* Training programmes are essential to the recovery process in Spain. Current programmes have enormous potential, but some improvements, guided by international experiences, could improve their effectiveness. In particular, measures to avoid abuse of the system and address the specific needs of unskilled and long-term unemployed are of the utmost importance. As such, training programmes need to be accompanied by a customized provision of services, which matches the skills of the unemployed to the needs of companies. The recent announcement of a comprehensive plan to reform vocational training practices is a welcome initiative in so far as it would enable effective preparation of workers for reintroduction to the labour market. However, more can be done to include the social partners,

notably employers, in the design and delivery of training programmes to ensure the measures meet the demands of the economy – as has been done in other countries. Sweden, for example, developed an information technology training programme that actively involved employers, who selected relevant training programmes and also provided work experience opportunities for programme participants. The employment rate of participants in this tailored programme was 20 per cent higher than that of participants in regular training. This high comparative success rate indicates that training tailored to the needs of employers results in a higher chance of the unemployed finding work, because there is more certainty that their skills will be relevant. Similarly, in 2013 the Canadian Government announced the Canada Job Grant, which will enable participants to receive the vocational training necessary for available jobs by putting training decisions into the hands of employers. The Government will contribute up to 10,000 Canadian dollars, while employers are required to contribute one-third of the total costs. Grants will be for short-duration training provided via eligible third parties, such as community colleges or private trainers. The programme also includes flexible arrangements, such as the potential for small businesses to count a portion of wages towards the employer contribution, so that businesses of any size may participate.

... notably for youth and jobless households ...

Youth have been particularly affected by the crisis, both in Spain and elsewhere in Europe. In this respect, the innovative proposal for a youth guarantee – and other measures to tackle youth unemployment in Europe – by the European Commission and, in particular, DG EMPL in 2012 was a welcome one. In the case of Spain, the announcement of the implementation plan for the youth guarantee scheme is an important milestone. Importantly, the scheme offers a combination of both education and training opportunities, which is one of the key factors for the success of this type of programme. Implementation could benefit from available knowledge on “what works” in this area – much of which has also been highlighted by DG EMPL – including the following:

- *Ensure effective implementation of the youth guarantee scheme:* During the implementation phase, Spain could bear in mind the lessons learned from other similar programmes, notably by ensuring: (i) a good balance between active and passive policies, combined with personalized public employment services; (ii) greater resources are made available for public employment services, so they are in a position to operationalize the youth guarantee; and (iii) coherence between programmes, through effective collaboration with social partners.
- *Promote the development of apprenticeship programmes:* Considerable efforts have been made to reform the apprenticeship system so that the skills acquired in these programmes are aligned with those needed in the labour market. Yet, the incidence of apprenticeships in Spain is less than half the EU average and the issue of skills mismatch persists. To address future skills needs, the Government could consider working together with employers, trade unions and educational institutions to foster greater use of apprenticeships. Finland provides a valuable example in this respect, as the national apprenticeship programme allows students to complete national vocational qualifications through apprenticeship training. On-the-job training constitutes around 70–80 per cent of the programme and it is complemented with classroom teaching. Key elements of success include the use of individual study plans and the extensive involvement of the social partners in the definition of the training content. As a result, 71 per cent of the participants in the programme are reported as being employed one year after completion. In Estonia, the content of the training to be provided is specified in the employment contract. Apprenticeships are complemented by other active labour market interventions and the quality of the training provided by companies is monitored. An assessment of the programme revealed that 50 per cent of the participants were employed after completion and that 70 per cent of these remained in the company where they completed their apprenticeship.

The high incidence of jobless households should attract more policy attention. Consideration could be given to a special work and income scheme for this group. As in the case of the youth guarantee, this would depend heavily on the availability of an effective public employment service.

... aided by a major overhaul of the public employment service (PES).

Despite various reforms, the PES remains the Achilles heel of labour market policies in Spain. The system is simply not up to the task of providing adequate services to jobseekers. A number of steps could be considered, notably:

- *Reinforce PES by raising the number of qualified counsellors:* To ensure that the most vulnerable people (long-term unemployed, youth and construction workers) receive support, PES staff need to provide individual counselling through customer segmentation and profiling systems and to become coordinators of personalized career plans. To achieve this, the PES should be better resourced so that staff-to-client ratios can be improved. Germany provides a good example of a well-resourced PES capable of providing effective service delivery. In 2011, Germany approved measures that allowed the PES to hire additional case workers. This resulted in a law that mandated a staff-to-client ratio of 1:75 for long-term unemployed under the age of 25, and 1:150 for persons older than 25.
- *Modernize PES methods:* To improve the performance and reach of PES, countries in the EU region have modernized the methods used by PES offices. They have automated processes and implemented IT networks to make services more accessible through social media. This allows a link to be created between PES and other organizations, and also between national and regional PES offices, thus enhancing coordination. It also increases accessibility in hard-to-reach areas. Sweden, for example, has used ICT quite successfully to provide kiosks with video links to PES centres to allow face-to-face counselling in rural areas.

- *Improve PES accountability and transparency in autonomous communities:*
Regional PES offices lack incentives to implement activation methods proactively, because that would require an increase in the proportion of the community's budget allocated to employment services. Some countries in Europe have addressed this issue by increasing the transparency of the actions (or the lack thereof) taken by individual offices, which has the potential to increase regional accountability. For example, in Denmark, a national IT system tracks regional PES progress towards annual goals and minimum activation requirements. The results are then published on the PES website, providing incentives for local politicians and managers to be concerned with the performance of their PES offices.

Third, balanced reforms that facilitate hiring and boost job quality ...

Labour market polarization has persisted in Spain and despite a recent series of reforms the incidence of temporary employment remains stubbornly high. Moreover, the crises have changed the nature of temporary and part-time employment. Indeed, the number of people in temporary employment because they cannot find a permanent job has tended to increase, and involuntary part-time employment is also on the rise, especially among women.

Moving forward, it will be important to ensure that the right set of labour market institutions and policies are in place to help workers move from declining to growing sectors and to assist others in reintegrating into the job market – all while being mindful of the need to encourage hiring, promote quality job creation and ensure adequate protection of workers.

Improving the protection of temporary workers and making the dismissal system more predictable to both employers and workers would be important in this respect. The Austrian severance pay system provides an interesting case in point in this respect.

This is an area where regular monitoring and evaluation of the various reforms already made is critical for tackling emerging gaps – notably the high incidence of temporary and involuntary part-time work – and for devising new measures.

... increase the coverage of collective agreements ...

Preliminary estimates suggest that the proportion of workers covered by collective agreements has declined. There has also been increased recourse to clauses that allow opting out from collective agreements. At the same time, there are indications that companies use a variety of internal and external flexibility options, notably to substantially modify working conditions at the plant level. The limitation of *ultra-actividad* seems to have had little effect so far – particularly because the social partners have found solutions to address the issue. Nevertheless, some important gaps in collective bargaining regulation have emerged after the limitation of *ultra-actividad*, notably when the bipartite partners have not been able to renegotiate the agreements that expired. To improve the coverage of collective agreements and facilitate economic adjustment and the creation of high-quality jobs, the following approaches could be considered:

- *Improve coverage of workers through quality sectoral agreements and coordination guidelines along with minimum standards:* Improving the quality of industry-level agreements could help to avoid erosion of coverage and ensure transparency of working conditions in the labour market – the manner in which this is achieved should be decided among social partners. For instance, in Italy, the recently concluded Pact on Productivity stipulates that sectoral agreements shall guarantee homogenous economic and normative conditions for all industry workers and introduce clear rules for delegation to second-level bargaining as concerns topics that can enhance productivity. Sectoral agreements were also tasked with the duty to ensure that the economic effects are coherent with the general trends in the economy and labour market and with international competition and sectoral developments.

- *Monitor derogations to allow for necessary responses to emerging problems:* The bipartite partners could develop bargaining modalities to ensure that gaps in collective bargaining regulation do not emerge and that effects of derogations are balanced. In analysing how best to avoid gaps and fragmentation of collective bargaining, the bipartite partners could, for example, consider agreeing on coordination of issues between different bargaining levels and monitoring of derogations and modifications in working conditions, for example by sector. In Germany's metalworking industry, monitoring of non-application of collective bargaining clauses and internal coordination guidelines were established in 2004. This has reportedly led to bargaining procedures becoming more professional and more transparent, moderating disputes and stimulating substantive discussions.
- *Ensure effective representation of bargaining parties:* It is important to pay particular attention to appropriate representation in the bargaining process, through employers or employer organizations on one hand, and trade unions on the other. In this sense, as a long-term objective, social partners should consider ways to improve bargaining capacities at the local level.

*... and achieve more balanced
income distribution and avoid further wage cuts.*

On average, wages have fallen in nominal terms since 2012, indicating an even stronger cut in real terms. Likewise, minimum wages – which had increased marginally during the first years of the recession – have remained stable since then, implying there has been a reduction in purchasing power. More workers find themselves working at the minimum wage or less, going from an overall 8.9 per cent in 2008 to 11.3 per cent in 2011. This has had a particular impact on women, whose share in this category in 2011 was 16.4 per cent. Furthermore, public sector wages have also been cut.

There are no clear economic grounds for justifying further reductions in labour incomes. Indeed, cost competitiveness has been broadly restored. Further wage cuts would undermine domestic demand, outweighing any possible benefits that could arise in terms of higher exports. With this in mind, the following options could be considered:

-
- *Wage increases as much as productivity gains permit:* For effective labour market governance, tripartite monitoring of wage and price developments could help wages to connect with companies' productivity curves in the long run and allow for sectoral wage coordination. Monitoring of other key issues, such as changes in working conditions and implementation of collective agreements, could allow for appropriate responses through the bipartite or tripartite partners if any undesired phenomena emerge. In addition, EU-level coordination on wage issues could help to provide a basis for a sustainable competitiveness strategy for the whole union.
 - *Improve data availability and monitor wage and price developments in a tripartite setting:* To ensure that wage negotiations are conducted on the basis of facts, it is important that there is more comprehensive gathering of wage-related data and data on the coverage of workers by collective agreements, taking into account non-application of salary clauses in collective agreements. Further, in addition to data on derogation from collective agreements, which are already being collected, information on substantial modifications of working conditions as carried out by companies would be important to capture a more comprehensive picture of the labour market.

Fourth, ensure adequate social protection ...

The Government has recently taken important steps to address income assistance for vulnerable individuals, notably by extending PREPARA Plan indefinitely (having first introduced it in February 2011 as a temporary measure). There is also the Renta Activa de Inserción, which provides a minimum income for long-term unemployed workers aged over 45 who have exhausted their unemployment benefits or unemployment assistance. However, in light of the fact that the employment recovery will take time, the Government could consider bolstering these efforts to ensure there is adequate social protection for the most vulnerable, notably by: (i) raising benefits of these programmes to attenuate the risks of poverty, especially among jobless households; (ii) considering expanding the eligibility criteria of the Renta Activa de Inserción; and (iii) ensuring there are no gaps in coverage, especially for the disadvantaged.

More fundamentally, social protection – notably pensions and the health-care system – has helped to attenuate the social impacts of the crises. It has also played an automatic stabilizer role. And while some aspects of social protection may require reform, notably to reduce any waste and ensure adequate coverage, there are grounds to maintain the main founding principles of social protection, notably its universality, high coverage and affordability.

*... and finally, a macroeconomic policy
which accommodates the employment and social strategy.*

In some instances, the proposed measures will have fiscal implications. However, a number of recommendations can be accommodated with limited expenditure, simply by shifting resources and changing priorities, e.g. away from subsidies and towards increased emphasis on training. Moreover, spending on labour market policies, e.g. improving PES, can have positive spillover effects on future growth and government resources if they contribute to improved employment outcomes. In this respect, spending of this nature cannot be analysed in isolation.

If need be, new funding could be secured by closing tax loopholes – facilitated by administrative reforms – including addressing undeclared work; and possibly through front-loading resources available from the European Social Fund. More generally, a more medium-term approach to stabilizing public finances that safeguards – and reinforces where necessary – employment and social measures is the best means through which to achieve growth with jobs. Reaching a consensus of this nature will rely heavily on effective social dialogue.

*Tripartite social dialogue
is key to this transformation strategy.*

Reforms achieved through social dialogue can be both fair and comprehensive. Such an approach can increase coherence between economic, employment and social objectives. If Spain is to succeed in the transition to an economy that is more balanced and characterized by quality job growth, effective social dialogue will need to continue to play a prominent role. Some initiatives could be part of this strategy, including:

- *Consider the development of a tripartite employment and social monitoring body:* Careful consideration could be given to creating a clearly mandated tripartite body to lead the process of strategy development, with a view to ascertaining a comprehensive and balanced approach. With the involvement of key parties in the planning stage, implementation can be expected to be more efficient, and commonly agreed results are more likely to be achieved. Further, once the strategy has been launched, the body could assume a monitoring role (e.g. wage and productivity developments) and give further guidelines for strategy implementation, as necessary. In Ireland, an employment strategy was launched in 2012, after a tripartite drafting process. This strategy is already producing clear results.
- *Strengthen the role of the ILO in supporting job-rich recovery:* The ILO could provide Spain with its technical expertise and social dialogue support. It could also provide international comparisons of relevance to the work of an employment and social monitoring body, in cooperation with the European Commission as appropriate.

CHAPTER 1

ECONOMIC AND LABOUR MARKET PERFORMANCE: SIGNS OF RECOVERY

INTRODUCTION

There have been some signs that the Spanish economy is recovering from the financial and economic crisis that first hit the country in 2008. Indeed, GDP growth – while remaining negative – improved throughout 2013 and exports grew faster than in most European countries. Meanwhile, labour market conditions have stabilized since the first quarter of 2013. In particular, job destruction slowed considerably and employment started growing again in a number of industries. Nevertheless, the macroeconomic and labour market situations remained tenuous: strong export performance only partially offset the drop in internal demand and investment, while unemployment, especially among youth, remained among the highest in the advanced economies. Moving forward, efforts are needed to address these issues, otherwise there is a risk that individuals will become permanently detached from the labour market, leading to skills erosion and social exclusion.

This chapter aims to describe the recent developments in macroeconomic and labour market indicators. In particular, section A reviews the trends in aggregate demand and section B presents an analysis of the labour market performance. Finally, section C introduces the rest of the report.

A **MACROECONOMIC TRENDS: A REBOUND IN ECONOMIC ACTIVITY**

GDP growth slowly began to recover in 2013 ...

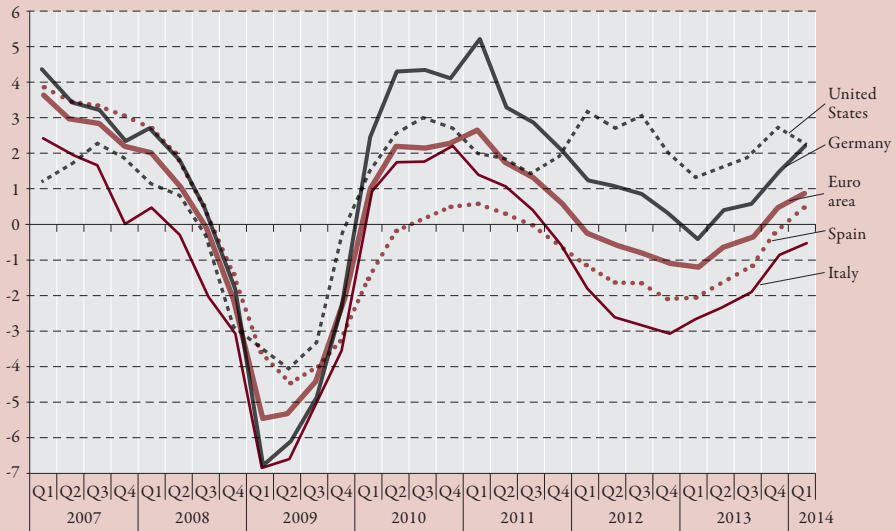
Following the steep contraction of GDP in 2008 – on par with that in other advanced economies – the economic rebound in 2010 and 2011 was much weaker in Spain than in other countries. For instance, while euro area countries grew on average by 1.8 per cent between 2010 and 2011, the rebound in economic activity in Spain was of limited duration and intensity, i.e. GDP grew on average by 0.4 per cent between the third quarters of 2010 and 2011. This left the Spanish economy in a rather vulnerable position when the second recessionary period hit Europe in late 2011. As a result, GDP fell by 2 per cent in 2012 (figure 1.1).

However, the recession slowed considerably during 2013 and reached positive territory at the beginning of 2014. Indeed, the annual GDP growth rate went from –2 per cent in the last quarter of 2012 to 0.5 per cent in the first quarter of 2014. This represents a growth rate just slightly below the euro area average of 0.9 per cent. A number of sectors actually showed some signs of recovery and positive growth, including wholesale and retail trade as well as information and communication activities.

... mainly driven by positive export performances ...

The improvement in GDP growth during 2013 can be mainly attributed to gains in exports, which had already shown a certain degree of resilience during the first phases of the crisis. Indeed, after contracting in 2008 and 2009, export growth has mitigated the negative effect of falling domestic demand and investment (figure 1.2). In particular, exports have recovered more rapidly than in the rest of the euro area, bolstered by external demand from partner countries – notably in the European Union. In particular, the

Figure 1.1 Real GDP growth, Q1 2007 to Q1 2014
(quarterly year-on-year growth rates, percentage)



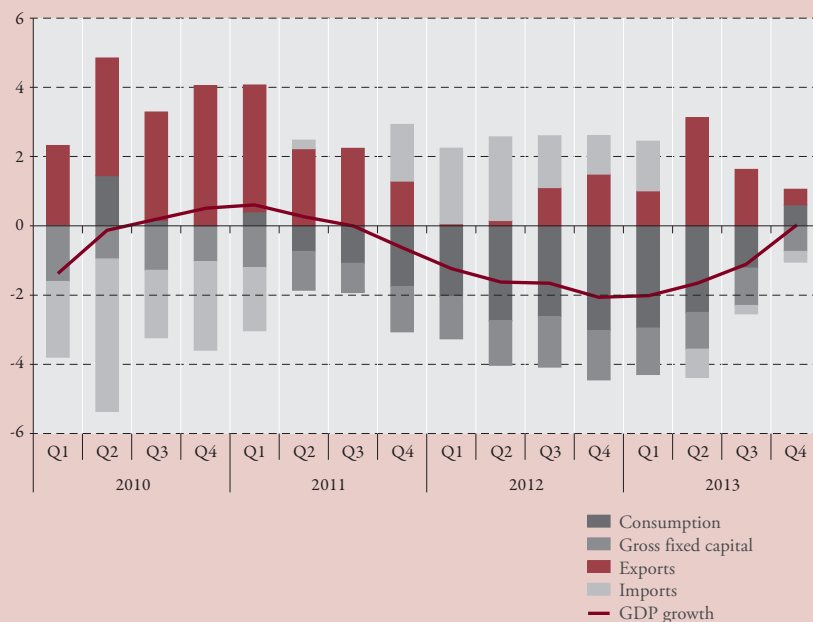
Source: ILO Research Department, based on OECD statistics.

volume of exports of goods and services grew by around 5 per cent in 2013, accounting for 1.5 percentage points of the overall GDP growth in that year. As a result, exports increased from 26.9 per cent of GDP in 2007 to 34.1 per cent in 2013, while imports as a share of GDP slightly declined over the same period. This led to the emergence of a positive external balance in 2012 for the first time since the beginning of the 2000s.

Moreover, Spain has experienced a better performance of its global market share for exports than have other countries, such as France, Germany and Italy. This is true when exports to euro area countries are considered separately from exports to the rest of the world. Indeed, the share of exports that stay within the euro area has slightly increased in nominal terms, from

Figure 1.2 Contribution to GDP growth by main component

(year-on-year quarterly growth rate, percentage)



Note: Following OECD methodology, the contribution of a component to quarterly year-on-year GDP growth has been calculated as the real growth rate of this component weighted by the share of this component in GDP in the same quarter of the previous year.

Source: ILO Research Department, based on Eurostat.

3.5 per cent in 2007 to 3.6 per cent in 2013. During the same period, the share of exports to the euro area decreased in Germany, from 14.1 per cent to 12.3 per cent, in France, from 6.9 per cent to 6.2 per cent, and in Italy, from 5.6 per cent to 4.7 per cent. Similarly, the share of exports to non-euro area countries has remained stable in Spain during the recession, while it has decreased for all the main European international partners (figure 1.3). Moreover, very recent trends suggest that Spanish exports to non-EU countries have further increased and consolidated in emerging markets. In particular, exports to Asian and African countries increased by 4.1 per cent and 12.3 per cent, respectively, in 2013. This has been driven by large increases in exports to fast-growing emerging countries, such as China (+7.7%), Israel (+18.7%), Saudi Arabia (+13.4%), South Africa (+28.9%) and Turkey (+5.4%).

Figure 1.3 Share of exports to euro area and non-euro area countries
(percentage of total exports)



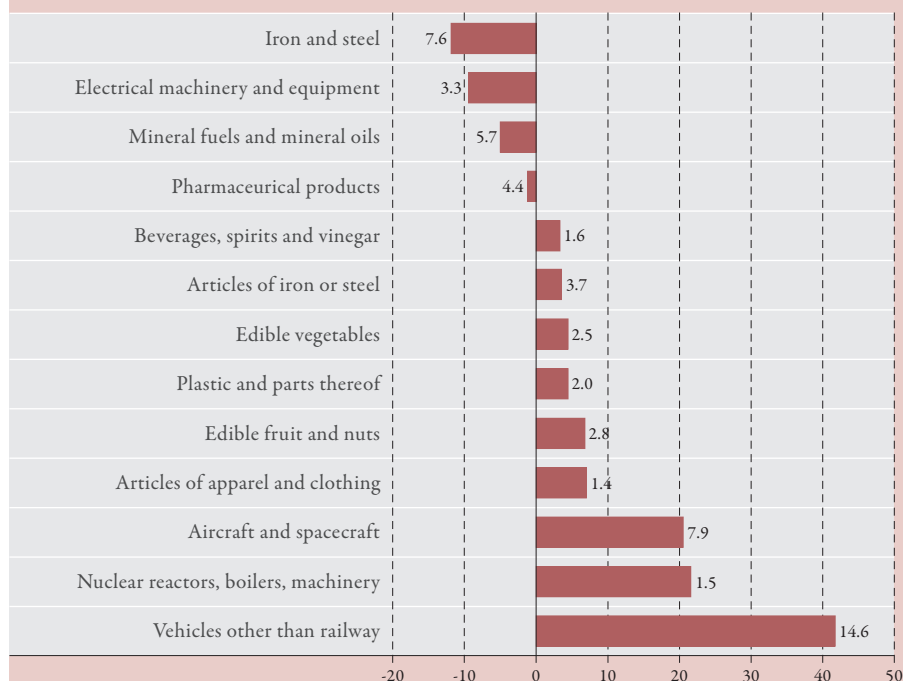
Source: ILO Research Department, based IMF Direction of Trade Statistics.

... concentrated in a number of industries.

The growth of exports in technology-intensive industries accounted for around 80 per cent of total export growth in 2013. In particular, industries producing vehicles, nuclear reactors and other machinery – which together accounted for more than 20 per cent of total exports – contributed to more than 60 per cent of total export growth during 2013. Production of aircraft – although representing around 1.5 per cent of total exports – accounted for another 20 per cent (figure 1.4). These data suggest that Spain has been relatively successful in redirecting its export performance towards relatively high-valued-added products, for which competitiveness from emerging countries is lower. However, the pattern of export growth – being mainly focused on a few technology-intensive sectors – has contributed little, at least for the time being, to the recovery in the overall level of employment (see also figure 1.12 in section B of this chapter).

Figure 1.4 Contribution to export growth by type of product in 2013

(annual growth rate, percentage)



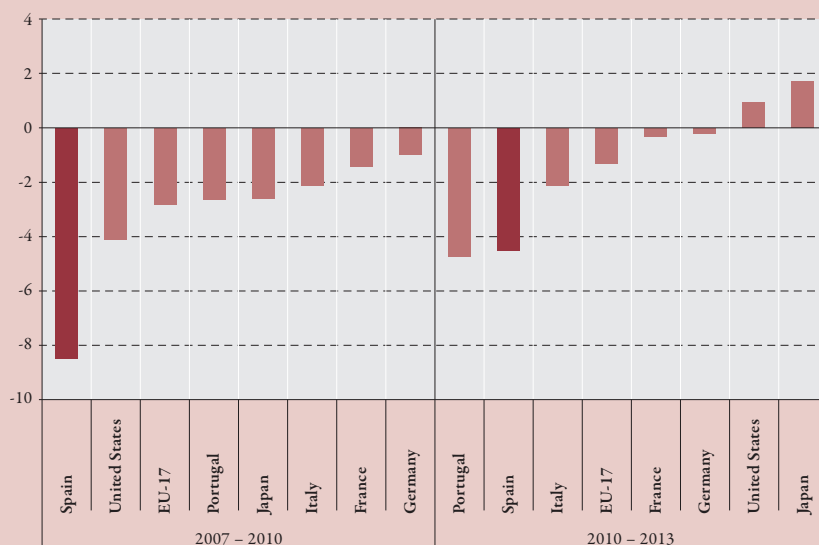
Note: Figures next to the bars represent the share of each product in total exports in 2012.

Source: ILO Research Department, based on the Taric Database of the Spanish Ministry of Industry, Energy and Tourism.

Furthermore, among labour-intensive sectors, export performance has been positive in a number of food-related industries. However, the recent improvements in exports have been partially offset by some reductions, especially in certain capital-intensive export sectors, such as those producing mineral fuels, electrical equipment and iron and steel. Also, industries such as pharmaceuticals and the extractives negatively contributed to export growth in 2013 – although they remain an important component of exports in Spain.¹

¹ Together these sectors accounted for around 10 per cent of total exports in 2013 and between 2008 and 2012 represented almost 20 per cent of total export growth.

Figure 1.5 Change in gross fixed capital formation as a percentage of GDP
(percentage points)



Note: Data are seasonally adjusted.

Source: ILO Research Department, based on Eurostat.

However, investment and consumption remain weak ...

Despite the recent improvements in the economic outlook, gross fixed capital formation as a percentage of GDP declined from 30.7 per cent to 17.7 per cent between 2007 and 2013.² Most of this reduction took place between 2007 and 2010, when gross fixed capital formation as a share of GDP decreased by 8.5 percentage points (figure 1.5). This represents one of the largest falls in investment among developed countries during this period. For instance, among all EU-17 countries investment declined by less than 3 percentage points of GDP. Moreover, since 2010, investment in Spain has fallen by an additional 4.5 percentage points of GDP, compared with a modest decline of 1.3 percentage points in the EU-17 and strong increases in the case of Japan and the United States (1.7 and 0.9 percentage points, respectively, since 2010).

² Most of the fall in investment that occurred in Spain stemmed from a decline in investments in dwellings, which decreased from 40 per cent of total investment in 2007 to 26 per cent in 2013.

Furthermore, household consumption has decreased considerably over the period of the crisis. In fact, average annual household consumption fell by 3.3 per cent, from €18,300 to €17,700 per person (current prices), between 2008 and 2013. This represents one of the highest drops among euro area countries. For instance, in Germany and France, by contrast, household consumption increased over the same period, by 14.3 per cent and 6 per cent, respectively.

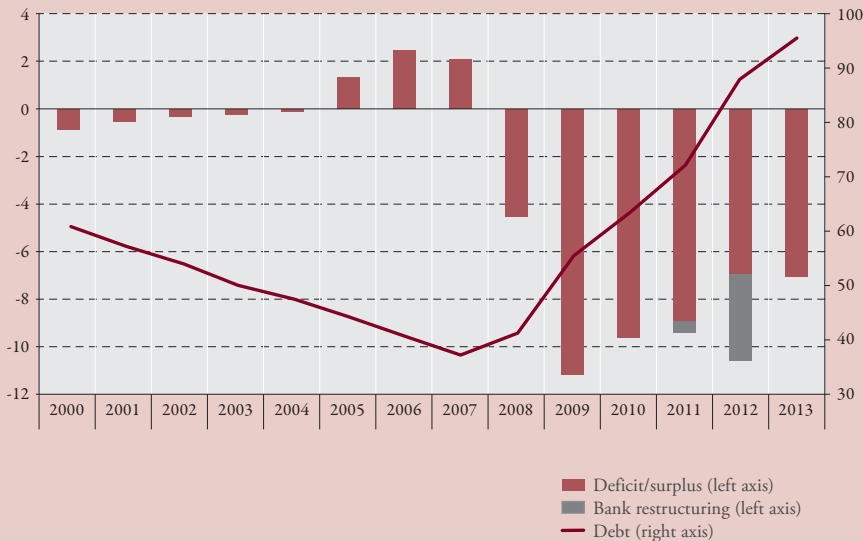
*... and public finances are under strain,
although fiscal deficits have been declining.*

Not surprisingly, public finances have also deteriorated during the crisis, mainly due to the combined effect of increased government spending and reduced government revenues. Indeed, government expenditure increased from 41.4 per cent to 47.8 per cent of GDP between 2008 and 2012. This was mainly due to an increase in expenditure in social protection, which went up from 20.8 per cent of GDP in 2007 to 26.1 per cent in 2011 – see Chapter 3 for additional information. At the same time, government revenues decreased sharply in the first phase of the crisis – from 41.1 per cent of GDP in 2007 to 35.1 per cent in 2009 – and, subsequently, increased slightly to reach 37.2 per cent in 2012. This led to an increase in the budget deficit, as well as a steep rise in public debt, also aggravated by the measures implemented for restructuring the banking system as part of the financial assistance programme (figure 1.6).³

³ Information on the share of public deficit expenses directly attributable to the restructuring of the banking sector was provided by the Ministry of Economy and Competitiveness.

However, the fiscal deficit has steadily reduced since 2010 and long-term interest rates on Spanish sovereign bonds have significantly fallen, especially in late 2013. In particular, the fiscal deficit – excluding financial sector costs – fell from 11 per cent of GDP in 2009 to 7.1 per cent in 2013. These measures have also helped to restore confidence in the financial markets, as the long-term interest rate on 10-year government bonds decreased from 5.05 per cent to 3.79 per cent between January 2013 and January 2014.

Figure 1.6 Public deficit/surplus and debt as a share of GDP
(percentage)



Note: The data on public finances refer to the general government level. Data on bank restructuring was not available for 2013 at the time of publishing.
Source: ILO Research Department, based on Ministry of Economy and Competitiveness and Eurostat.

B LABOUR MARKET PERFORMANCE

The fall in Spanish employment was one of the steepest across European countries ...

The level of employment in Spain increased steadily during the 1990s and the first half of the 2000s. As a result, the unemployment rate was 8 per cent in 2007, the lowest since 1980. In the aftermath of the 2008 financial crisis, however, Spain experienced one of the sharpest contractions in employment among European countries. In fact, between 2008 and 2013, while employment across the EU-27 decreased on average by 2.9 per cent, the fall in Spain was much steeper, falling 8.9 per cent between 2009 and 2010 and a further 7.4 per cent between 2011 and 2013.

Moreover, the contraction in employment significantly outpaced the fall in GDP. Between 2008 and 2013, GDP dropped by 6.8 per cent, while the fall in employment was almost three times as large – one of the steepest among the major economies. In fact, although several countries experienced a similar GDP contraction after 2008, their drop in employment was considerably more contained than that in Spain (figure 1.7).

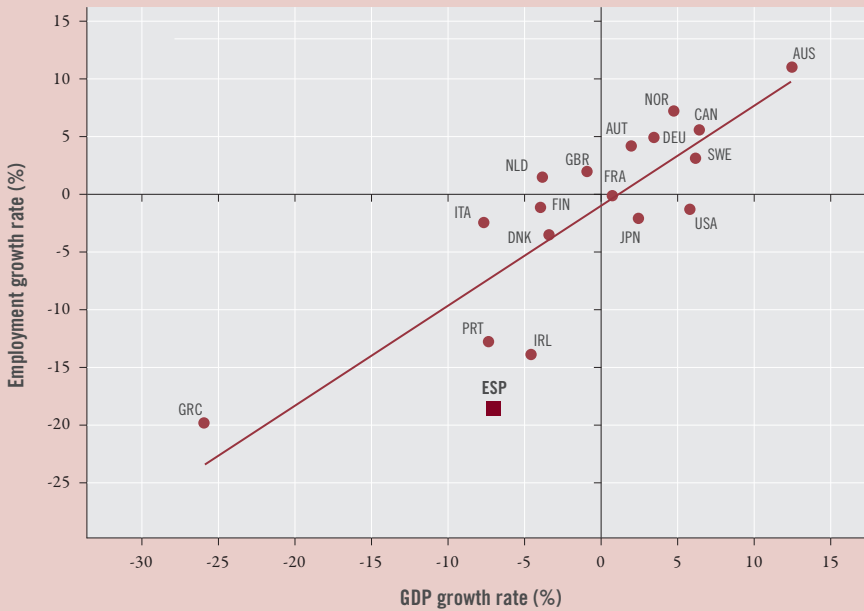
... due in part to the overreliance of the economy on the construction sector ...

The disproportionate impact of the recession on the Spanish labour market can largely be attributed to the pre-crisis pattern of employment creation, which was focused narrowly on the construction sector.⁴ In fact, as the crisis erupted – linked at least initially to a housing bubble and the subsequent financial fallout – the construction sector accounted for the bulk of job destruction: between 2009 and 2011, more than 60 per cent of job losses were in this sector (figure 1.8). In contrast, job losses in the agricultural and service sectors were relatively moderate.

⁴ Between 2000 and 2007, employment in the construction industry grew by 7.4 per cent per year in Spain, against an average of 2 per cent in the EU-17.

Figure 1.7 GDP and employment growth in selected countries

(growth rate over the period 2008–2013, percentage)



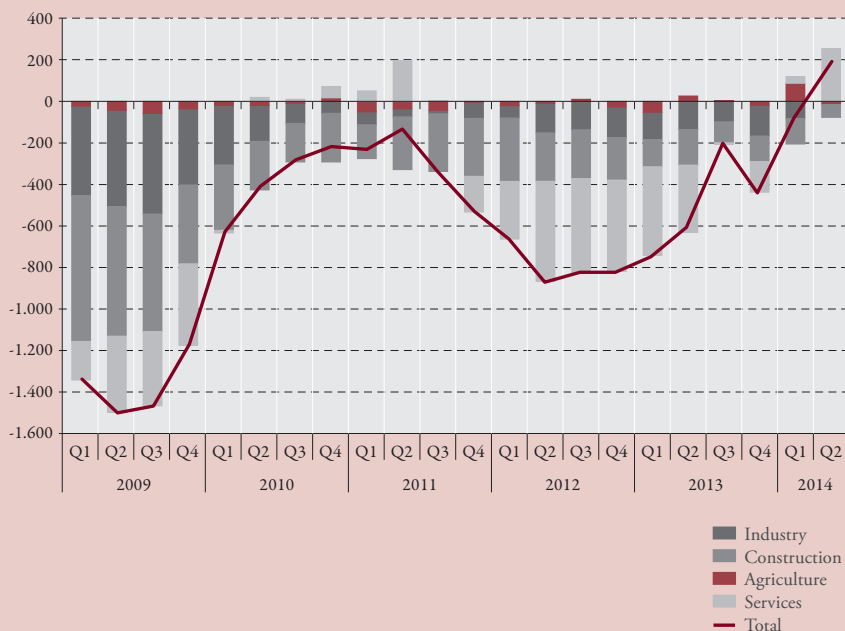
Source: ILO Research Department, based on IMF.

*... with individuals in temporary employment
bearing the brunt of these losses.*

Spanish firms, especially those operating in the construction sector, swiftly adjusted their workforces by reducing temporary employment.⁵ In fact, between 2008 and 2011, around 90 per cent of total job losses were among temporary workers – although they represented less than one-third of total jobs. Job losses among temporary workers slowed down considerably after 2012, and temporary employment started growing again since the last quarter of 2013. In contrast, the incidence of job destruction among open-ended employment increased considerably in the second part of the recession.

⁵ Between 2000 and 2007, temporary employment in Spain increased by 27 per cent. In particular, over the same period, in the construction sector it rose by 60 per cent.

Figure 1.8 Employment losses by sector
(year-on-year change, thousands)



Source: ILO Research Department, based on INE.

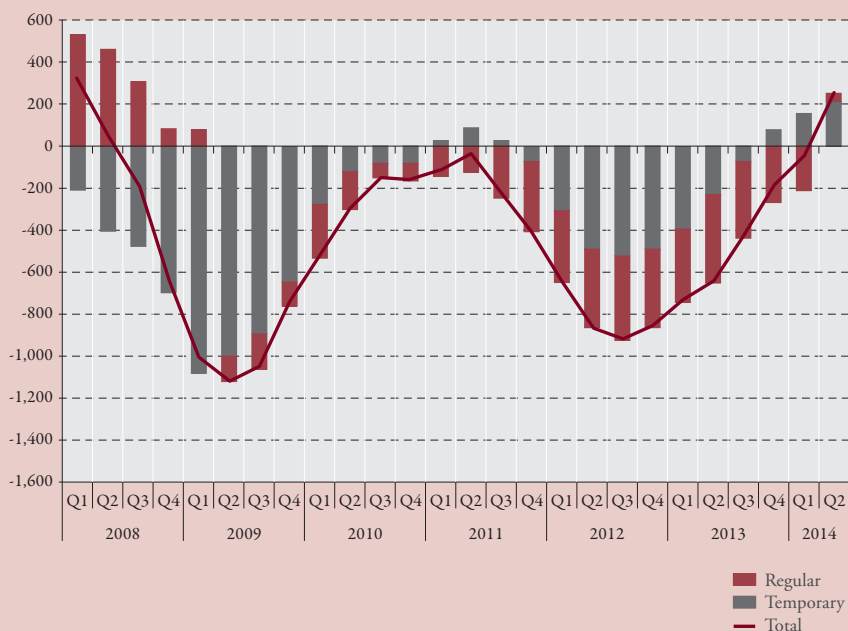
In fact, around three million workers with an open-ended contract lost their job between the first quarter of 2012 and the second quarter of 2014, representing around 60 per cent of the overall contraction in employment over this period (figure 1.9).

The result was a significant rise in unemployment, especially among youth and low-educated individuals ...

Between the first quarter of 2008 and the same quarter of 2011, the unemployment rate increased by 11.5 percentage points to reach 21.2 per cent. It then peaked at 27.1 per cent in the first quarter of 2013.⁶ Subsequently, the unemployment rate has slowly declined, reaching 26 per cent in the

⁶ See ILO (2011) for a description of the labour market trends in the first years of the recession.

Figure 1.9 Dependent employment losses by type of contract
(year-on-year change, thousands)



Source: ILO Research Department, based on INE.

first quarter of 2014. In line with the overall trend, the unemployment rate among women was 26.7 per cent in the first quarter of 2014, up from 11.9 per cent in the same quarter of 2008. During the same period, the male unemployment rate also increased, from 8 per cent to 25.5 per cent.

Meanwhile, between the first quarter of 2008 and the same quarter of 2014, the unemployment rate for low-educated individuals (i.e. those with pre-primary, primary and lower secondary education attainment) increased by more than 20 percentage points, reaching 35.6 per cent in the first quarter of 2014. The unemployment rate among people with middle and high levels of education also increased, but at a slower pace – by 16.8 and 10.1 percentage points, respectively, over the same period. The increase

in unemployment among low-educated individuals has been considerably more pronounced in Spain than in most other EU member states – for instance the unemployment rate for low-educated individuals has increased by 10 percentage points, from 11.4 to 21.4 per cent, in the EU-17 as a whole. This trend is again partially related to the high reliance on employment in the construction sector, where many low-educated individuals were employed in the pre-crisis period.⁷

The unemployment rate among youths (aged 16–24) has more than doubled since the start of the crisis, surging by 34.4 percentage points – from 21.1 per cent in the first quarter of 2008 to 55.5 per cent in the same quarter of 2014.⁸ Only Greece had a higher youth unemployment rate – at 56.7 per cent in the first quarter of 2014 – while the EU-17 average was much lower, at 24.5 per cent. First, in the case of Spain, youth were vulnerable to employment losses given their disproportionate share in temporary employment. In 2008, around 60 per cent of workers below the age of 25 had temporary contracts. Second, many of the Spanish youth were employed in the construction and manufacturing sectors.⁹ As the crisis erupted, temporary employment accounted for the bulk of job destruction, especially in those sectors where youth employment was comparatively more relevant. As a result, the youth unemployment rate doubled by the end of 2010.¹⁰ Finally, skills mismatch seems to be more pronounced in Spain than in other European countries. This has posed additional obstacles to youths attempting to enter the labour market during the recession.¹¹

⁷ Indeed, the number of craft workers in the construction sector – an occupation which is often associated with low levels of educational attainment – dropped by 64.8 per cent between the first quarter of 2008 and the same period of 2014.

⁸ The particularly negative labour market conditions are not limited to youths below the age of 25. Indeed, regardless of the level of education attained, the unemployment rate for workers aged 15 to 39 is consistently higher than the relevant rate for people aged 40 and over.

⁹ The share of early leavers from education among youth increased from 29 per cent to 31 per cent between 2000 and 2008.

¹⁰ Dolado et al. (2013).

¹¹ García (2011).

Despite this, the ratio between youth (aged 16–24) and adult (aged 25 and over) unemployment rates has remained quite stable at around 2.3 since the onset of the crisis. However, this masks the fact that an increasing number of youth have left the labour market since late 2007, regardless of their level of educational attainment. In contrast, the participation rate among adults has remained rather stable, and has even increased among those with the lower levels of education.

*... leading to a significant increase
in long-term unemployment.*

As a consequence of the prolonged economic downturn, the share of long-term unemployed – those unemployed for one year and over – out of total unemployed increased from 19.1 per cent in the first quarter of 2008 to 52.3 per cent in the same quarter of 2014. Most of this increase took place during the first two years of the crisis; the long-term unemployment rate was indeed already close to 40.5 per cent at the beginning of 2011. The incidence of long-term unemployment in total unemployment in Spain is currently one of the highest among the developed economies. For instance, the long-term unemployment rate is on average 48.7 per cent in the EU-28, 44.1 per cent in Germany and 41.5 per cent in France. However, despite the steep increase observed in recent years, it is still lower in Spain than in other comparable countries, such as Greece (71.4 per cent), Ireland (61.4 per cent), Italy (59.1 per cent) and Portugal (57 per cent) (figure 1.10).

Figure 1.10 Share of long-term unemployment in total unemployment
(percentage)



Note: Long-term unemployment refers to those unemployed for one year or more.
Source: ILO Research Department, based on Eurostat.

Moreover, the increase in long-term unemployment has been accompanied by an unprecedented increase in average duration. Between the last quarter of 2007 and the same quarter of 2013, the share of those unemployed for over two years has increased from 8.7 per cent to 31.5 per cent. Importantly, such long periods of unemployment have contributed to increases in levels of poverty and social exclusion (see box 1.1). Moreover, the higher average duration of unemployment has challenged the ability of the social protection system to provide an adequate level and coverage of assistance, especially among the unemployed (see Chapter 3).

As a result of the profound labour market crisis, poverty in Spain has considerably increased. Between 2009 and 2013, the at-risk-of-poverty rate¹² for the whole population increased from 17.3 per cent to 18.7 per cent.

Increases in poverty rates have particularly affected vulnerable groups, such as low-educated and unemployed people (see also Chapter 3). In 2013 the at-risk-of-poverty rate for low-educated individuals was 20 per cent, while it was 8 per cent among high-educated people in the same year.¹³ In addition the share of the population at-risk-of-poverty and social exclusion reached 27.3 per cent in 2013, up from 24.7 per cent in 2009. The same share is also significant among households with very low work intensity¹⁴ – 15.7 per cent in 2013, up from 7.6 per cent in 2009.

Along with poverty, income inequality across the distribution also widened. The Gini index of income inequality increased from 32.9 per cent in 2009 to 33.7 per cent in 2013. At the same time, the share of income of the richest 20 per cent of the population was around 6.3 times higher than the one accruing to the poorest 20 per cent – up from 5.9 times in 2008.

*However, the labour market
has improved over the most recent quarters ...*

In recent quarters the labour market has shown some signs of stabilization, with evidence of job creation. This trend started already in 2013 and has been reinforced in 2014 – especially in the second quarter. In particular, employment increased by 192,400 units between the second quarters of 2013 and 2014 – the first quarterly year-on-year increase since 2008. As a result, the employment rate increased by 1.3 percentage points from 55.5 to 56.8 per cent. In addition, the unemployment rate decreased by 1.6 percentage points, from 26.2 to 24.6 per cent, while the participation rate has also marginally increased. The situation among youth has also shown some

¹² The at-risk-of poverty rate considered is the one with imputed rent. The poverty line is set at 60 per cent of the median income per consumption unit of persons (INE, 2013).

¹³ Low-educated individuals are defined as those with pre-primary, primary and lower-secondary education; while high-educated individuals have obtained first and second stage of tertiary education.

¹⁴ Households with very low work intensity are defined as households in which the members of a working age did so for less than 20 per cent of their total working potential during the reference year (INE, 2013).

signs of improvement. In particular, the youth employment rate increased by 0.1 percentage points in the second quarter of 2014 and the youth unemployment rate fell by 2.9 percentage points in the same period – while youth participation rate decreased by 2.2 percentage points. However, long-term unemployment continues to climb, as the share of unemployed without a job for more than one year rose by 3.8 percentage points between the second quarters of 2013 and 2014 and now represents 62.1 per cent of total unemployment (50.6 per cent among youth) (table 1.1).

Importantly, the job recovery is mostly occurring in the private sector, where 97.8 per cent of the new jobs created in the second quarter of 2014 were located. However, signs of stabilization are emerging also in the public sector. Indeed, after nine consecutive quarters of contraction, the number of public employees has consecutively increased in the first two quarters of 2014 (on a quarterly basis).

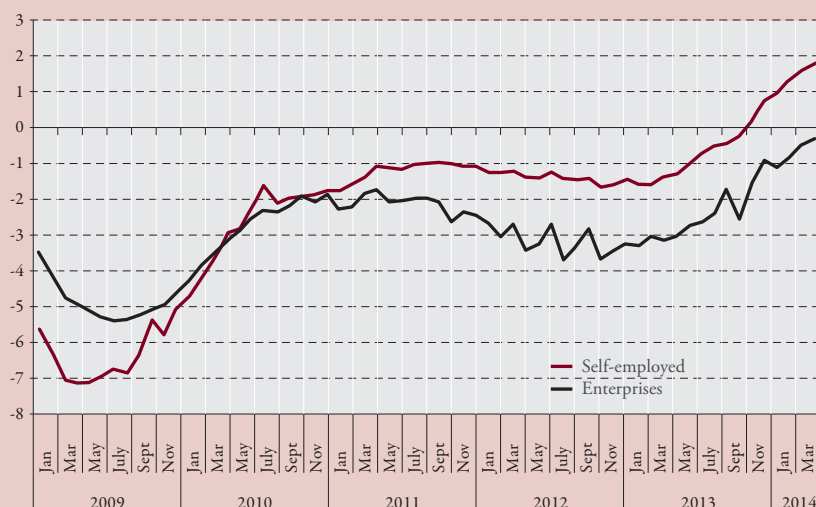
Table 1.1 Labour market performance in Q2 2014

	Q2 2013	Q2 2014		Q2 2013	Q2 2014
Employment rate			Long-term unemployment rate		
16 – 64	55.5	56.8	16 – 64	58.3	62.1
16 – 24	18.2	18.3	16 – 24	48.2	50.6
Unemployment rate			Participation rate		
16 – 64	26.2	24.6	16 – 64	75.2	75.3
16 – 24	56	53.1	16 – 24	41.3	39.1

Note: Data on long-term unemployment significantly differs between INE and Eurostat due to different methodologies used.

Source: ILO Research Department, based on INE.

Figure 1.11 Percentage change in the total number of operating enterprises and self-employed workers (monthly year-on-year change, percentage)



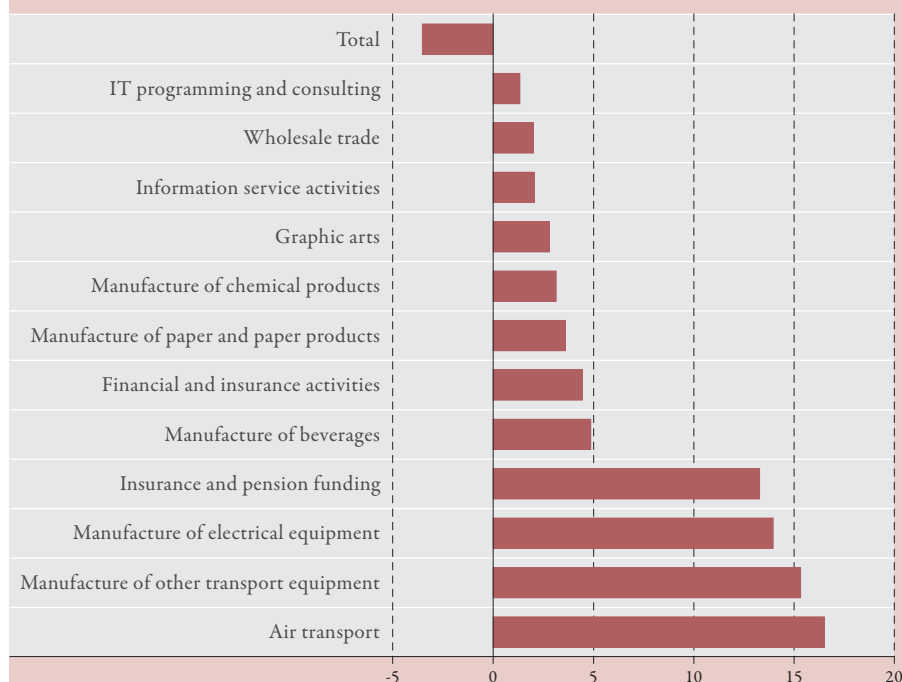
Note: The number of enterprises is taken from the total number of enterprises registered in the General Regime of the Social Security System, excluding those firms registered in the Special Regime for Agriculture and Home Employees. The number of self-employed is taken from the number of workers registered in the Special Regime for Autonomous Workers.

Source: ILO Research Department, based on Ministry of Employment and Social Security.

... while entrepreneurial activities are also rebounding ...

The recent positive trend in employment and unemployment also reflects the improved performance in enterprises and self-employment dynamics. Indeed, the rate of growth in the number of registered firms, after bottoming out in early 2009, has improved considerably, stabilizing at around -0.3 per cent in March 2014. The number of self-employed workers has registered a similar trend, with a slow recovery since 2009 and a return to positive territory in October 2013. In the first three months of 2014, the number of self-employed workers increased on average by 1.6 per cent with respect to the same period in the previous year (figure 1.11) – see also Chapter 3 for further details on the evolution of the number of self-employed workers. These trends are particularly relevant insofar as firm creation is one of the main drivers of the improvements in employment levels observed recently.

Figure 1.12 Growth rate of employment by industry activity in 2013
(percentage)



Note: Figures refer to the year-on-year quarterly growth rate averaged over the year.

Source: ILO Research Department, based on Ministry of Employment and Social Security.

... with employment creation particularly strong in some industries.

Importantly, some capital-intensive industries have reversed the downward trend seen in the first years of the crisis. For instance, between 2009 and 2012, employment in the chemical and manufacture of electrical equipment industries dropped by 17.9 per cent and 18.8 per cent, respectively. However, in 2013, employment in the same industries increased by 3.2 per cent and 14.1 per cent, respectively, so partially recovering the job losses previously recorded (figure 1.12). Similarly, employment in the air transport and the manufacture of other transport equipment industries increased by 16.6 per cent and 15.4 per cent in 2013, respectively. Interestingly, job creation in these two sectors was directly related to increases in their exports (see figure 1.4 in section A of this chapter).

Furthermore, employment in some knowledge-based industries also increased during 2013. For instance, job creation has been especially apparent in activities related to information technology and consultancy – employment in the graphic arts, information technology and IT programming industries rose by 2.9 per cent, 2.1 per cent and 1.4 per cent, respectively, in 2013. Employment also rebounded in other sectors that were particularly hit by the 2008 crisis. For instance, employment in insurance and pension funding rose considerably in 2013 – by 13.3 per cent – and employment in financial and insurance activities increased by 4.5 per cent. Other smaller sectors related to the green economy – such as water management – also experienced considerable employment growth.

C CONCLUDING REMARKS

Some signs of economic recovery have been observed recently. The challenge is to consolidate these trends and to ensure that they lead to gains in job creation. Indeed, macroeconomic stability on its own will not be enough to improve the employment and social outlook. Importantly, well-designed labour market policies, social protection and enterprise support can play a key role in accelerating job creation while simultaneously enhancing competitiveness and achieving fiscal balances in the medium term.

The remainder of this report focuses on these policy levers and concrete suggestions on how to achieve them. In particular, Chapter 2 focuses on Spanish enterprises, highlighting areas that can improve productivity, investment and firm growth and, in turn, quality job creation. Chapter 3 examines the role of active labour market policies, unemployment benefits and measures aimed at supporting workers during this transformation phase. Chapter 4 discusses issues and reforms in collective bargaining, highlighting the role of social dialogue in achieving and undertaking the reforms necessary to promote growth and job creation. Chapter 5 considers the potential role of the ILO and the need to develop an employment and social strategy so as to leverage coherency across these various policy planks.

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CHAPTER 2

PRODUCTIVITY AND COMPETITIVENESS: TRENDS, DETERMINANTS AND POSSIBLE WAYS FORWARD

INTRODUCTION

As Chapter 1 showed, there are signs that the country is recovering from the financial and economic crisis. In order to sustain this momentum, it will be important to address the sources of macroeconomic and competitiveness imbalances that pre-date the crisis. With that in mind, the analysis presented here points to the fact that the issues of tight credit conditions, falling levels of productive investments and the weaknesses of the business environment are central to the debate on productivity and competitiveness in Spain – rather than labour market institutions (as has been argued elsewhere). In particular, this chapter sheds light on the main trends and determinants of competitiveness in Spain in both the pre- and post-crisis periods. The chapter also develops a set of recommendations and proposed solutions to address these imbalances in order to increase productivity and build a job-rich recovery. Section A examines trends in productivity, wages and unit labour cost; section B discusses how credit conditions affect employment and investments in Spanish enterprises; section C analyses enterprise demography and product market regulation; section D concludes with policy considerations based on the analysis and presents a number of examples of best practice.

A FACTORS UNDERLYING THE TRENDS IN PRODUCTIVITY AND COMPETITIVENESS

Leading up to the crisis, productivity growth had stagnated ...

The years preceding the financial and economic crisis were characterized in Spain by the expansion of the construction sector, driven by the booming housing market.¹⁵ This led to extremely rapid economic growth – at their peak, GDP growth rates were higher in Spain than in the rest of the EU-27 – but these high growth rates were associated with stagnant productivity as the construction sector was characterized by low productivity levels.¹⁶ In particular, real productivity per hour worked¹⁷ increased at an average annual pace of 0.5 per cent between 2000 and 2007. This represents the second lowest value in the euro area, just after Italy; and it is well below the EU-17 average of 1.2 per cent.

The lacklustre productivity performance also emerges when looking at the contribution to growth by factor in the pre-crisis period.¹⁸ Indeed, between 2000 and 2007, 49 per cent of total gross value added growth was driven by an increase in the number of hours worked,¹⁹ with non-ICT (information and communication technology) capital providing an additional contribution of 45 per cent. By contrast, only 14 per cent of total growth was related to an increase in the skill composition of the labour force and 12 per cent to increases in ICT capital. The contribution of total factor productivity (TFP)

¹⁵ See, for example, ILO (2011) and OECD (2008).

¹⁶ Additional factors have contributed to low productivity growth, notably a shift in human capital composition and a slowdown of technological change. See Bentolila et al. (2009) for an overview.

¹⁷ Labour productivity per hour worked is defined as real output (gross value added) divided by total hours worked by all persons in employment.

¹⁸ See Mora-Sanguinetti and Fuentes (2012) for a detailed decomposition of productivity growth.

¹⁹ The increase in the number of immigrant workers as well as the rise in female labour force participation have contributed to the increase in the number of hours worked.

– defined as all aspects that cannot be ascribed to either labour or capital and often taken as a measure of technological dynamism – was actually negative (equal to -20 per cent), one of the few cases in the EU-17.²⁰

*... while competitiveness
was hampered by macroeconomic imbalances,
rather than wage developments.*

In addition, Spanish competitiveness in the international arena was hampered in the pre-crisis period by the emergence of macroeconomic imbalances. Indeed, in the years between the Economic and Monetary Union (EMU) accession and the beginning of the recession, Spain experienced a substantial increase in nominal unit labour cost (ULC). This generated a parallel appreciation of the Spanish real effective exchange rate (REER) and a consequential loss of competitiveness in relation to Spain's main international trade partners (see box 2.1 for definitions of the terms and caveats on the use of ULC and REER). A widespread, albeit misconceived, view emerged among policy institutions concerning the fact that labour market institutions – notably employment protection legislation (EPL) and collective bargaining – were among the main drivers behind these trends.²¹ However, while enhancements to EPL and collective bargaining could certainly promote the recovery and boost productivity – issues that will be discussed in Chapters 3 and 4 of this report respectively – labour market institutions were clearly not the main drivers of rising ULC and reduced competitiveness in the pre-crisis period.

²⁰ See EU KLEMS database for TFP computation methodology.

²¹ See, for example, IMF (2014); Mora-Sanguinetti and Fuentes (2012) and Sinn (2011).

Box 2.1

**Unit labour cost (ULC) and real effective exchange rate (REER):
Definitions and shortcomings**

The ULC measures the average cost of labour per unit of output and it is computed as the ratio between total labour cost and real output.²² It therefore represents a link between productivity and the cost of labour in producing output. However, an excessive reliance on the ULC as an indicator of national competitiveness might be misleading. First, the ULC does not account for other relevant production costs, notably the cost of capital. Second, euro area member states trade in a variety of goods and services and thus a simple comparison of their average ULC fails to capture either their different economic specializations or the varying patterns in international demand for these goods and services.²³ Finally, the ULC describes trends in national competitiveness only under the implicit assumption that exchange rates do not have to be taken into account, since all variables are in the same currency in these countries. However, trade to non-euro area member states represents a non-negligible share of total trade which has increased during recent years – for instance, from 29.2 to 36.5 per cent of total trade in Spain between 2007 and 2012.²⁴

Given these limitations in the use of ULC, the REER is often used as an alternative measure of the overall competitiveness of an economy. The REER provides a summary measure of fluctuations in the exchange rates of a country in relation to its trading partners, adjusted for price differentials across these countries. In particular, a decrease (increase) in the REER leads, other things being equal, to an improvement (deterioration) of a country's international competitive position. A REER index is mainly defined by three components: the range of foreign countries covered, their relative weights and the price indices to be compared. Such price indices may represent traded and non-traded goods and services (Consumer Price Index-based REER), other price indices (such as GDP deflator, export unit value or producer price index) or unit labour costs (ULC-based REER). By considering these factors, for example, the Spanish REER is able to take into account both intra and extra EU-17 trade as well as the different trading specializations of individual euro area member states. Of course, caveats on the use of the REER still remain with respect to issues such as the results obtained depending on the trading weights applied²⁵ and the price indices used.²⁶

²² See OECD Glossary of Statistical Terms.

²³ See Wyplosz (2013).

²⁴ Lebrun and Perez (2011) and Mallariopoulos (2010) among others.

²⁵ European Commission (2011b).

²⁶ Lafrance et al. (1998).

In fact, decomposing changes in the REER reveals that the main reason behind the Spanish REER appreciation in the pre-crisis period was the nominal appreciation of the euro in relation to other currencies. This process was common to all euro area member states and it contributed to raising the REER by approximately 10 per cent in all EU-17 economies. An additional reason for the appreciation of the Spanish REER was the above-average inflation rates prevailing in Spain during that period, driven by inflated asset prices, notably the housing price bubble. In particular, inflation accounted for an additional 10 per cent appreciation of the Spanish REER, whereas in other countries it had a very small or even negative contribution to changes in the REER. On the contrary, changes in relative ULC²⁷ – a proxy for the role played by labour market rigidities – contributed to a depreciation of the Spanish REER between 1999 and 2009. All other euro area countries with available information experienced increases in the relative ULC during the same period, except for Austria and Germany (figure 2.1).

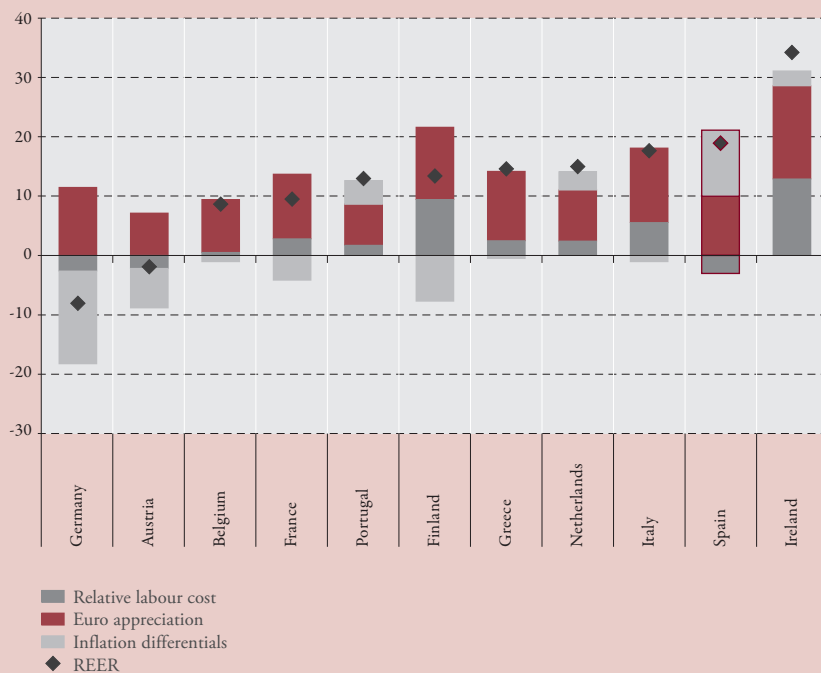
To summarize, nominal wage growth above the EU-17 average in the pre-crisis period in Spain did not reflect labour market institutional inefficiencies or a disproportionate increase in workers' bargaining power, but was actually a reflection of a general euro appreciation and country-specific macroeconomic imbalances. Real wage growth was, in fact, negative in Spain between 2000 and 2007 – equal to -0.9 per cent against an EU-17 average of -0.6 per cent.

On the other hand, the rebound in productivity following the crisis has been driven by the fall in employment ...

Since the beginning of the recession, the trend in productivity has reversed and Spain has registered productivity growth rates well above the EU average. For instance, between 2007 and 2011, real productivity per hour worked has increased at an average rate of 1.7 per cent – the second highest rate in the euro area after Ireland.

²⁷ Relative unit labour cost is measured as the ratio between domestic and foreign labour cost.

Figure 2.1 Decomposition of changes in REER between 1999 and 2009
(percentage)

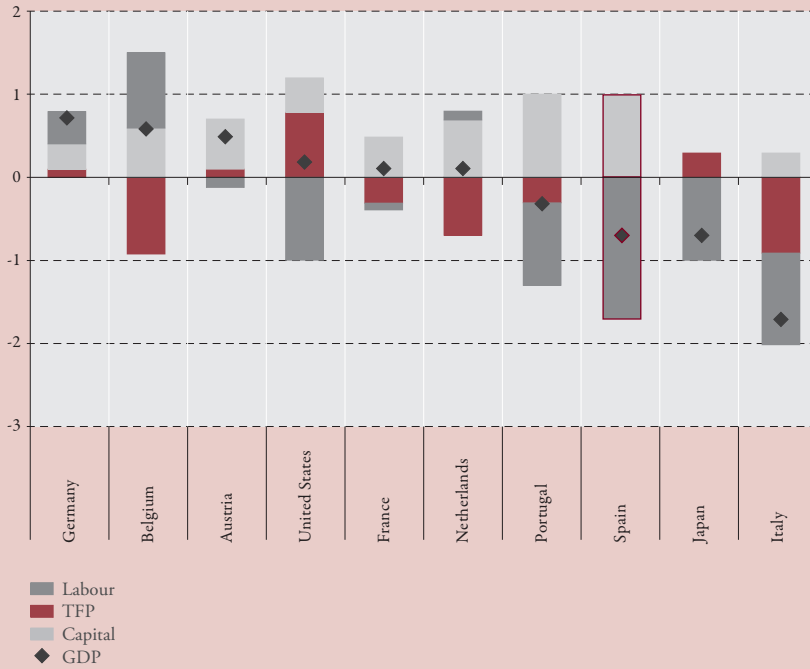


Source: ILO Research Department, based on Wyplosz (2013).

However, the primary driver of this increase in Spain has been the disproportionate fall in employment registered during the crisis (see Chapter 1 for details). In particular, in Spain between 2007 and 2011 an average GDP contraction by 0.7 per cent resulted from a 1.7 per cent fall in labour input, but a capital growth rate of 1 per cent. Interestingly, TFP has registered a zero growth rate both between 2001 and 2007 and between 2007 and 2011, despite widely different performances in overall productivity. In short, the recent increase in productivity registered in Spain is primarily driven by reduced employment.²⁸

²⁸ See also Boldrin et al. (2009); Mora-Sanguinetti and Fuentes (2012) and Timmer et al. (2007).

Figure 2.2 GDP growth by factor, 2007–2011
(percentage)



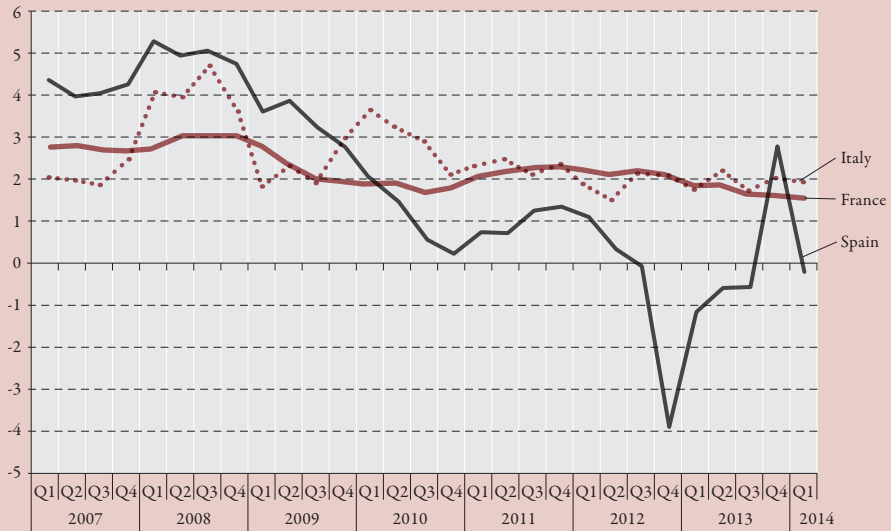
Source: ILO Research Department, based on OECD Statistics.

On the other hand, countries that have seen a relative deterioration of their productivity performances in the recent years have often managed to limit the effects of the downturn on employment.²⁹ For instance, in Germany between 2007 and 2011 productivity grew by only 0.3 per cent, but capital and labour inputs increased by 0.3 and 0.4 per cent, respectively. Similarly, in Belgium, productivity growth has been negative (-0.2 per cent), but labour has increased by 0.9 per cent and capital by 0.6 per cent. Finally, other countries, such as France and Austria, have managed to limit labour input contraction (figure 2.2).

²⁹ This view is shared by IMF (2013).

Figure 2.3 Growth rates of nominal wages in selected countries

(year-on-year quarterly growth, per cent)



Source: ILO Research Department, based on INE for Spain, ISTAT for Italy and INSEE for France.

*... accompanied
by a significant adjustment in wages ...*

Together with employment, wages have also fallen considerably during the recession and the pace of the wage adjustment process accelerated during the crisis. Indeed, nominal wages were higher than in other EU countries during the pre-crisis period due to euro appreciation and inflation differentials – see earlier in this section for the causes of REER appreciation. Nevertheless, with the beginning of the recession, nominal wage growth rapidly passed from an average of 4.1 per cent in 2007 and 5 per cent in 2008 to 3.3 per cent in 2009; 1 per cent in 2010 and 2011; -0.7 per cent in 2012 and 0.1 per cent in 2013 (the latter due to a recent pickup in the last quarter of the year); while negative wage growth reappeared in the first quarter of 2014.³⁰ Taking the evolution of inflation rates during the crisis

³⁰ The negative peak of wage contraction in the fourth quarter of 2012 is connected to a one-off fiscal policy measure related to wages in the public administration. Conversely, the particularly high wage growth registered in the fourth quarter of 2013 was due to the fall in wages registered in the relevant quarter one year previously – rather than a structural increase in the wage growth trend.

into account, wages have experienced negative growth in real terms since 2010.³¹ In other EU member states, wages have followed considerably more stable trends during recent years. For instance, in Italy and France, wages continued to increase at around 2 per cent in nominal terms throughout the recession (figure 2.3).

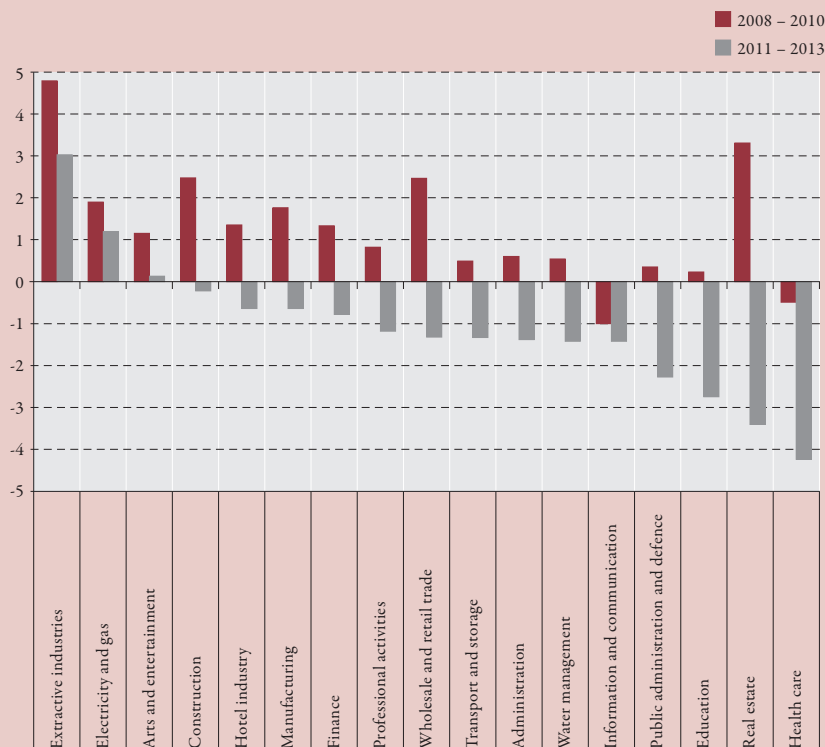
... across the vast majority of sectors ...

Wage adjustment in Spain has been more pronounced in the service sector, due to its greater international exposure (e.g., tourism, IT services) and the impact of wage cuts in the public sector. In particular, between 2011 and 2013, nominal wages for all employees in the economy – both covered and not covered by collective agreements – have decreased at an average of 0.9 per cent per year in the service sector; while they have increased by 1.5 per cent per year in the construction sector and by 1.8 per cent in the industry sector. Taking into consideration only employees covered by collective agreements, differences in wages across sectors appear less pronounced. Indeed, nominal wage increases approved in collective agreements between 2011 and 2013 have been, on average, equal to 1.1 per cent in the service sector, 1 per cent in the construction sector and 1.3 per cent in industry.

In terms of real wages, it appears that, since 2011, almost all sectors have experienced negative real wage growth. Indeed, positive wage growth has been registered only in the extractive and electricity industries and (though only marginally) in the arts and entertainment sector. Workers in all other industries have instead experienced a contraction of real wages. This fall has been particularly marked in public-related sectors – between 2011 and 2013 real wages decreased by 4.2 per cent in health care, 2.7 per cent in education and 2.3 per cent in public administration, while a number of key economic sectors – namely, wholesale and retail trade, professional and scientific activities, transport and storage – have registered average real wage reductions of around 1.5 per cent (figure 2.4).

³¹ Wages of temporary workers had already reached negative growth in nominal terms in 2010.

Figure 2.4 Average growth rate of real wages by economic sector
(percentage)



Note: Data are seasonally adjusted and refer to the total wage cost per worker.
Source: ILO Research Department, based on INE.

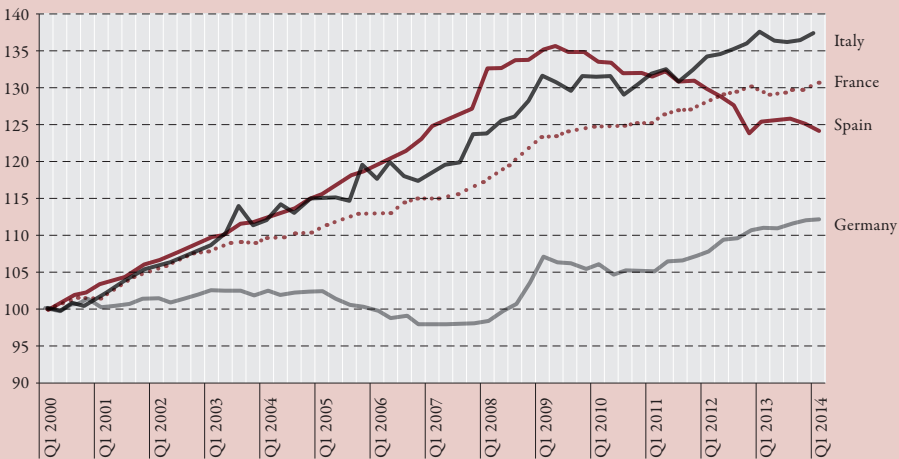
... correcting any cost-competitiveness gaps.

Wage adjustment during the recession has contributed to reducing the cost-competitiveness gaps – as exemplified by trends in REER – that emerged in Spain during the pre-crisis period, discussed at the beginning of this chapter. Indeed, Spanish REER depreciated by 8 per cent between the beginning of 2009 and the beginning of 2014. Over the same period, REER has increased in France by 5.6 per cent and in Italy and Germany by almost 5 per cent. As a result, the Spanish competitive position has improved and the overall appreciation of the Spanish REER since the beginning of the 2000s has been smaller than that in France or Italy (figure 2.5).

To summarize, wages were not the drivers of the Spanish competitiveness gap during the pre-crisis period. Nevertheless, they have adjusted considerably since the beginning of the recession. This has contributed to an improvement in the Spanish external position – translating, for instance, into higher export growth. However, living conditions have deteriorated and the structural drivers of the economy’s competitive imbalances are still in place, limiting the pace of the recovery and threatening the sustainability of long-term growth. These factors relate to the weakness of the Spanish credit market, which is hampering investment and employment (section B), and the poor business environment that restricts firms’ dynamism and competitive potential in the product market (section C).

Figure 2.5 ULC-based REER in selected countries, 2000–2014

(quarterly year-on-year change: Q1 2000 = 100)



Source: ILO Research Department, based on Eurostat.

B TIGHT CREDIT MARKETS: EFFECTS ON INVESTMENTS AND EMPLOYMENT

Spanish firms continue to deleverage ...

Since the beginning of the recession, there is evidence that Spanish firms have deleveraged in order to compensate for the sizeable credit boom of the pre-crisis period. In particular, debt of non-financial corporations declined from 196 per cent of GDP in 2010 to 179 per cent in 2012. However, it remains significantly higher than in the early 2000s and only three countries in Europe – Ireland, Portugal and Sweden – currently show higher levels of indebtedness. As a result of the deleveraging process, bank credit to Spanish companies has contracted significantly. In particular, loans from banks to non-financial corporations decreased from 90 per cent of GDP in 2008 – one of the highest rates in the EU – to 60 per cent of GDP in 2013, with much of the decline occurring after 2010. Survey data on banks³² reveal that weak credit demand has accounted for most of the decline in lending to the private sector. Only Ireland experienced a steeper downward trend in bank credit to non-financial corporations, while most EU countries showed a relatively modest fall (figure 2.6).

... and SMEs also suffer from limited access to credit ...

In addition to the deleveraging process, supply-side factors have also played an important role in explaining the drop in credit to small and medium-sized enterprises (SMEs). Indeed, interest rates on small loans up to €0.25 million – which are those generally required by SMEs – had remained low during the first years of the global downturn, but they started to increase when the euro area sovereign debt crisis erupted. In particular, interest rates on these loans started to increase from 3.9 per cent in 2010 – a value below that registered in Germany during the same period – until reaching a peak of 5.7 per cent in August 2012, and they have remained relatively stable since then – they were equal to 4.9 per cent in June 2014. Yet, starting in 2012, interest rates on similar loans in other euro area countries have fallen

³² Bank of Spain (2013).

Figure 2.6 Change in bank credit to non-financial corporations as a percentage of GDP in selected EU countries, 2003–2013
(percentage points)



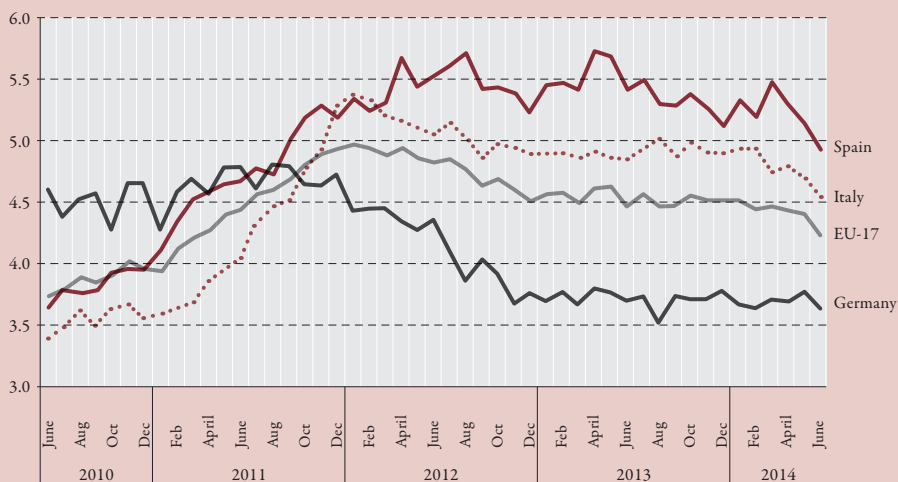
Source: ILO Research Department, based on European Central Bank (2013).

in step with the improvements in risk perception of sovereign bonds (figure 2.7). This has not happened in Spain and, as a result, Spanish SMEs have persistently faced unfavourable credit conditions in comparison with their European counterparts. For example, the share of SMEs that successfully applied for a bank loan decreased from 89 per cent in 2007 to 51 per cent in 2013, compared with 65 per cent in the EU-17.

... all of which has adversely affected investment levels and constrained employment growth, especially among SMEs.

The weak credit position of Spanish companies has negatively affected their ability to invest – see Chapter 1 for aggregate data on investments. In particular, the investment rate of enterprises – defined as investment divided

Figure 2.7 Interest rates on loans to non-financial corporations up to 0.25 million
(percentage)

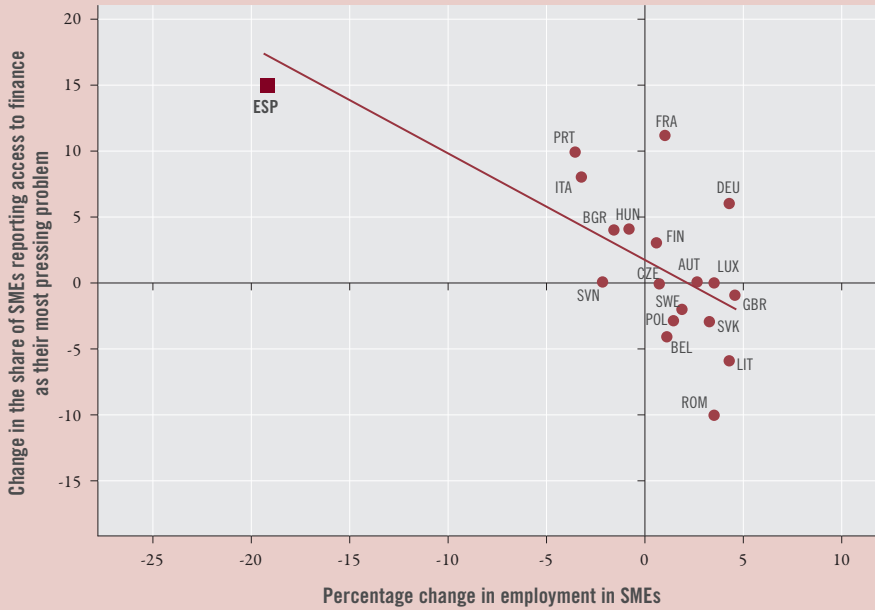


Source: ILO Research Department, based on European Central Bank.

by value added at factor cost – decreased in Spain from 28.8 per cent in 2008 to 15.2 in 2011, the third sharpest contraction in the euro area, just after Greece and Portugal. Similarly, other evidence suggests that investment per person employed within enterprises has decreased from €8,890 to €6,200 between 2008 and 2011 and there has been a shift in the composition of investments made by Spanish companies during the recession. Indeed, Garicano and Steinwender (2013)³³ show that Spanish firms have reduced long-term and productive investments – such as those in R&D and innovation – in favour of short-term investments. This has led to a negative spiral of lower rates of long-term investment, reductions in long-term growth and reduced employment creation.

³³ The authors study the effect of the credit crunch by analysing changes in the composition of investment within Spanish firms before and after the 2008 crisis.

Figure 2.8 Access to finance and employment in SMEs, 2009–2011
(percentage points and percentage)



Source: ILO Research Department, based on Eurostat.

Limited access to finance for SMEs has also aggravated the fall in employment experienced during the recession. Indeed, SMEs often lack the knowledge and resources to access alternative sources of financing, such as private equity and venture capital (see section D of this chapter for further details). Hence, they have been disproportionately affected by credit restrictions and, therefore, more likely to reduce their labour force during the financial and economic crisis. Indeed, between 2009 and 2011, the share of SMEs in Spain reporting lack of access to finance as their most pressing problem increased by 16 percentage points – going from 9 to 25 per cent. During the same period, employment in SMEs declined by almost 20 per cent, representing the sharpest contraction among countries with

available information. In contrast, other countries where the tightening of credit conditions for SMEs has been more limited – such as France and Germany – have managed to restrict the drop in employment (figure 2.8). Consistently, evidence suggests that Spanish firms that were financed in the pre-crisis period by weak banks – i.e., those banks that were bailed-out by the Spanish Government after the 2008 crisis – experienced a sharper fall in employment after the beginning of the recession.³⁴

³⁴ Bentolila et al. (2013).

C FIRMS' DEMOGRAPHY AND BUSINESS ENVIRONMENT

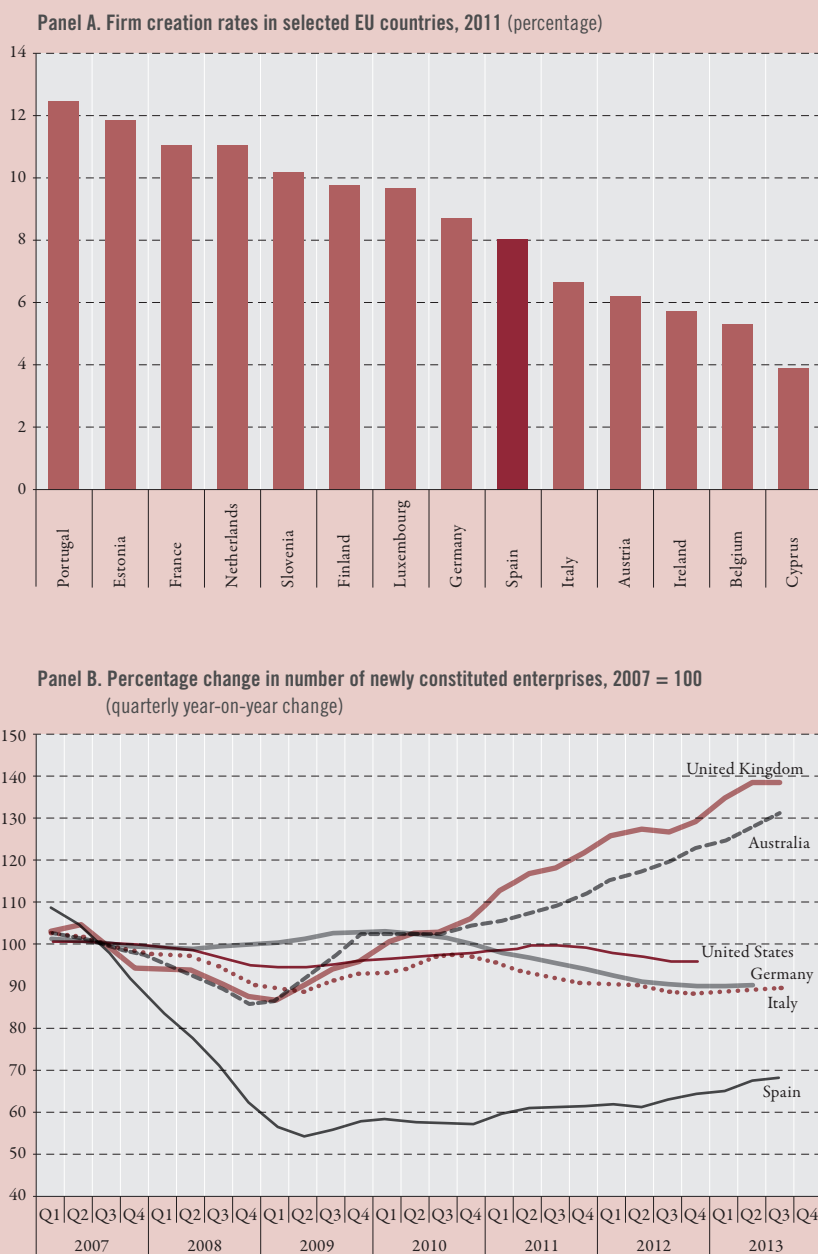
The firm creation rate in Spain is close to the EU average but continues to lag compared with pre-crisis levels ...

The firm creation rate in Spain – i.e., the ratio between the newly established and existing enterprises in any given period – is close to the values reported in other EU countries. Indeed, in 2011, the Spanish firm creation rate was equal to 8 per cent, compared with an EU-17 average of 8.5. Germany had a similar firm creation rate to that of Spain – equal to 8.6 per cent – while higher values were registered, for example, in France and Portugal at 11 and 12.5 per cent, respectively (figure 2.9, panel A). Firm creation rates are higher in Spain in service sectors, such as tourism (11 per cent) and education (12.3 per cent), but lower in manufacturing (5 per cent) and construction (7 per cent) industries. Not surprisingly, the economic downturn has significantly reduced the number of newly constituted enterprises: in 2013, the number of new firms created in Spain was only 66 per cent of the 2007 figure, whereas the United States has all but returned to pre-crisis levels and, in Australia and the United Kingdom, levels have now surpassed those of 2007 (figure 2.9, panel B).

... and the survival rates of new firms are relatively low ...

Despite a comparatively dynamic firm-creation process, one troubling issue facing Spanish enterprises concerns the likelihood of survival of newly created firms. Indeed, while 76.5 per cent of the newly established enterprises continue to operate after one year, only 41.5 per cent survive after five years. The effects of the crisis have been notable, as, in 2009, survival rates after one and five years were equal to 79.2 per cent and 48.9 per cent respectively. As a result, Spain has one of the lowest survival rates among EU countries with available information – after both one year and five years (figure 2.10).

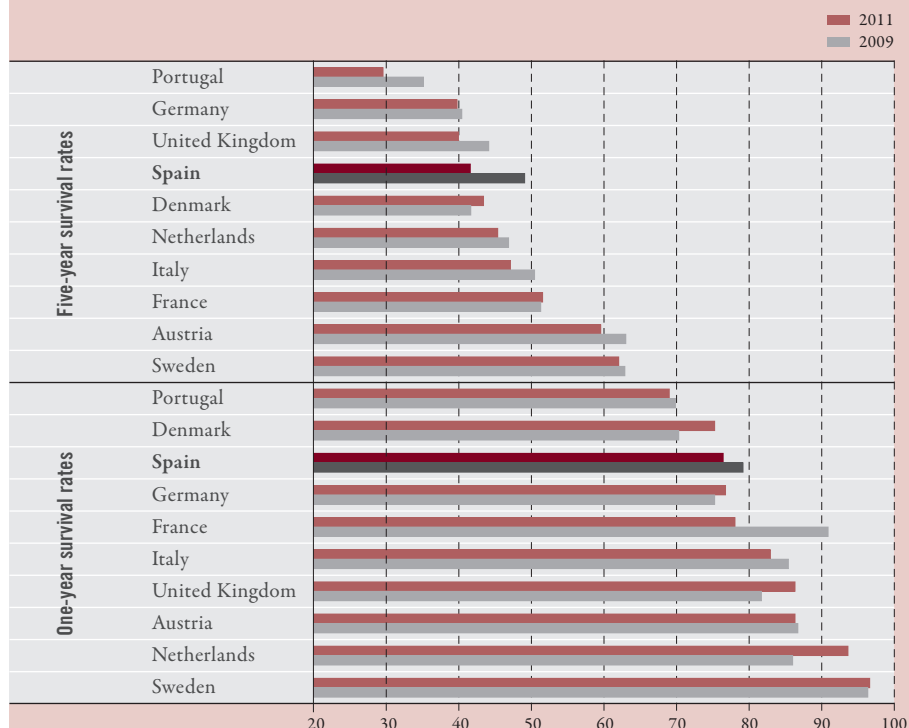
Figure 2.9 Enterprise creation



Note: Creation rates are computed as: Number of newly constituted enterprises in period t / Total number of enterprises in period t .

Source: ILO Research Department, based on Eurostat (panel A) and OECD (panel B).

Figure 2.10 Survival rates at one and five years after firms' creation, 2009 and 2011
(percentage)

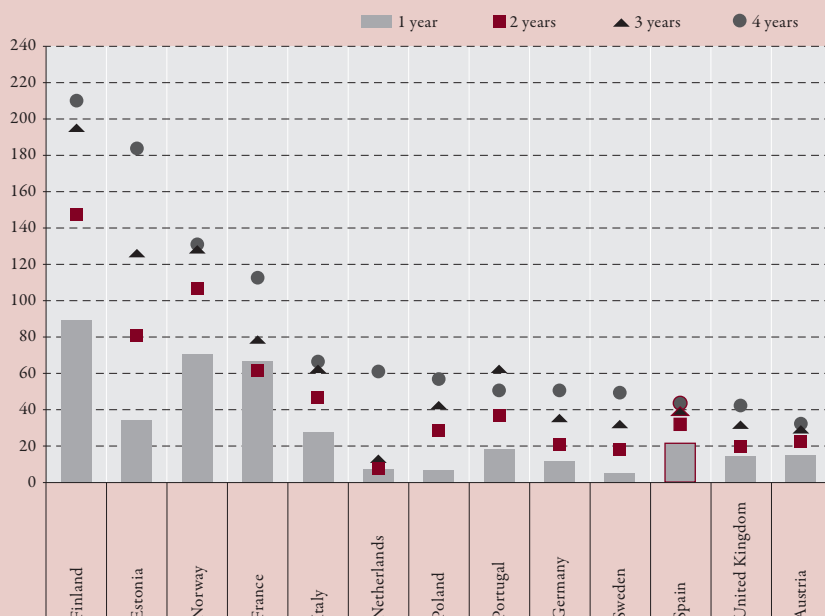


Source: ILO Research Department, based on Eurostat.

*... while there is a major
problem with the expansion of firms ...*

A structural weakness of the Spanish business environment concerns the obstacles encountered by Spanish enterprises in expanding their operations in terms of both scope and size. This is a critical indicator, since the ability to increase the scale of business activity allows newly established firms to take advantage of economies of scale, gain product shares in the international markets and undertake long-term investments, such as those in R&D. Moreover, the ability of new enterprises to grow and prosper is a key determinant for employment creation. In particular, employment creation in Spanish enterprises is equal to 21 per cent of the initial workforce one year after constitution, 32 per cent after two years and 43 per cent after four years. For the purposes of comparison, four years after their creation, German and Portuguese enterprises have, on average, increased their

Figure 2.11 Employment growth in newly constituted enterprises, 2011
(percentage)



Note: Employment growth is computed as: Number of employees in the firm in the year $t + n$ / Number of employees in the firm in year t , where t is the year in which the firm was constituted.

Source: ILO Research Department based on Eurostat.

workforce by 50 per cent, Italian enterprises by 67 per cent and French enterprises by 113 per cent. Scandinavian countries have even higher rates of employment growth, while only the United Kingdom and Austria perform worse than Spain among the EU countries with available information. The data show, in particular, that while employment growth rates in Spain are broadly in line with many other EU countries in the years immediately after firms' creation, Spanish enterprises tend to stop growing from the third year onwards (figure 2.11).³⁵

... which is hampered by lack of competition in the product market.

Inefficient administrative requirements and strict product market regulations may be behind the problems facing firms in growing above a certain

³⁵ See, for instance, López-García and Puente (2007) and López-García and Puente (2012).

threshold. This was the case for the obstacles generated by the wide differences in business legislation that exist across Spanish regions and municipalities. In particular, until recently, firms operating across regions had to comply with each region's legislation, as though they were operating across countries. In order to address this problem, Law 20/2013 has established that firms wishing to expand their business to a new region must comply only with the legislation of the region from which they initially originated. However, other institutional obstacles to firms' growth remain in place. For example, the regulation of retail trade is particularly strict and discourages the development of large surface outlets in favour of small commercial units (box 2.2).

Box 2.2 The regulation of retail trade

The regulation of the retail trade sector in Spain is stricter than in other EU countries and – although important changes have been introduced in recent years – it generates a bias that discourages the opening of large retail outlets in favour of small retail stores. In particular, the OECD index of regulation of retail trade is equal to 3 in Spain – the fourth highest value in the OECD – compared with 2.7 in Germany, 2.5 in France and Greece and 1.8 in Portugal. Additionally, this indicator does not fully take into account the numerous regulations that are in place at the regional and local levels, which have become stricter in recent years.³⁶ Moreover, additional regulations apply specifically to large retail trade establishments. Indeed, until recently, large retail outlets had to obtain a specific second regional permit before being allowed to open. This provision has been cancelled by Law 1/2010,³⁷ which has, however, introduced the possibility for regional governments to define reasons – ranging from urban planning to consumer protection – that require potential entrants to obtain a specific authorization from local authorities. Additionally, some regions have introduced a temporary ban on large retail developments and other regions have in place specific taxes on large outlets. As a result, only 1.4 per cent of retail trade enterprises have more than ten employees in Spain – compared with 4 per cent of total Spanish enterprises in the entire economy. This share also compares poorly with the values registered in other EU countries as, for example, 3.8 per cent of French and 6.7 per cent of German retail trade enterprises have more than ten employees.

³⁶ See Matea and Mora-Sanguinetti (2012) for an analysis of regional legislation on retail trade.

³⁷ This law transposes the EU Services Directive (2006/123/EC) in the national legislation.

Additionally, lack of competition in some sectors that provide key intermediate inputs to the rest of the economy deters the entry of new enterprises and keeps prices inefficiently high. The regulation of the Spanish electricity sector represents a case in point. Indeed, the system initially created an obstacle to the entry of any foreign competitors with the institution of subsidized prices. These subsidies were later cancelled due to the emergence of a large fiscal deficit, generating a substantial rise in electricity prices, which are now among the highest in the EU (box 2.3). Conversely, in the water sector, inefficiently low prices do not reflect the true cost of service provision, environmental costs and water scarcity. Moreover, low prices deter private investment and this has, for example, limited the development of desalination and water recycling industries in Spain.³⁸

Box 2.3 The Spanish electricity sector

The regulation of the Spanish electricity sector has repeatedly been modified during the past decade. Indeed, starting in 2005, electricity prices were kept artificially below market levels and energy companies were compensated by the Government for these losses. As a result, a public tariff deficit of €30 billion emerged. Moreover, competition was prevented by the provision that only Spanish electricity incumbents were allowed to provide the low, regulated tariffs, posing a clear impediment to the entry of foreign enterprises into the market. As part of the efforts to reduce public expenditures during the crisis, different measures were approved in 2012 and 2013 to reform the electricity sector with the help of the European Commission and the International Monetary Fund. As a result, electricity prices – as measured in kilowatts per hour – increased between 2007 and 2013 by 54 per cent for domestic consumers and by 31 per cent for business consumers to well above the EU-27 average.³⁹ This has increased the obstacles faced by Spanish enterprises in attempting to compete internationally.

³⁸ Fuentes (2011).

³⁹ The increases refer to Band DC (2,500 kWh < 5,000 kWh) for domestic consumers and to Band IC (500 MWh < 2,000 MWh) for business consumers.

Finally, regulation in Spain controlling access to certain specific industries remains some of the strictest among OECD economies. In the case of the road transportation sector, this is due to the presence of high entry barriers – the relevant OECD index of product market regulation is equal to 4.5 out of 6. For instance, and in contrast to other EU countries, in Spain the entry regulations also apply to own-account transport. Moreover, the regulator has the power to limit the sector capacity. Finally, there are substantial challenges involved in obtaining road freight haulage licences. In the rail transportation sector, improvements have been made by lowering the entry barriers and, since the beginning of 2013, the incumbent operator has been split into four separate companies and passenger rail services have been fully opened to market entrants.⁴⁰

⁴⁰ OECD (2012).

D POLICY CONSIDERATIONS

This chapter has outlined how Spanish competitiveness imbalances are not simply related to cost competitiveness gaps, but that they rather lie behind structural weaknesses of the macroeconomic environment – from weak credit markets to low investment levels and a poor business environment. As such, a simple return to the pre-crisis growth model would prove insufficient to achieve sustained economic growth and quality employment creation. Following these considerations, the Government has recently approved a number of interventions aimed at both sustaining short-term recovery and at the same time laying the grounds for competitive long-term growth. In particular, in June 2014 a stimulus package worth €6.3 billion was announced with the objective of incentivizing investments in research and development and promoting the reindustrialization of the economy. As part of this same set of measures, the Government announced the intention to lower the corporate tax rate from 30 to 25 per cent. Although these interventions are welcome, additional efforts are needed in order to develop a more fulsome strategy, with employment objectives. This includes improving the quality of the business environment, enhancing the functioning of the credit system and promoting the acquisition of demand-driven skills.

In order to improve business creation even further, administrative regulations can be adjusted ...

Despite the fact that the rate of firm creation in Spain is almost on a par with the EU average, some of the administrative procedures involved in starting a business are placing restrictions on firm dynamism. This would represent an important obstacle at a time when potential entrepreneurs might want to profit from the improving macroeconomic outlook and start a new business. Currently, a number of regulations that must be met in order to start a business in Spain require the extensive involvement of national, regional and local authorities with a high risk of overlapping jurisdictions (see box 2.4).

Bringing Spanish regulation for starting a business into line with EU standards would help sustain the recovery in the short term and also lay the foundation for a more dynamic business environment in the future. A successful experiment along these lines has been implemented in France, where legislation governing self-employment has been eased in order to promote the formation of small-scale entrepreneurial activities. In particular, the Law of Economic Modernization (*Loi de modernisation de l'économie*) has defined the legal status of self-employed (*auto-entrepreneurs*) and introduced a number of administrative and fiscal provisions to support their expansion. In particular, self-employed do not have to register with the national authority

Box 2.4

**Starting a business:
Spanish regulation in comparative perspective**

Starting a business in Spain requires 11 different procedures across the national, regional and local levels,⁴¹ as opposed to nine procedures in Germany, six in the United Kingdom and five in France. Moreover, the average duration of the entire process is 27 days, compared with 15 in Germany, 13 in the United Kingdom and seven in France. As a result, the average cost of the procedure for starting a business amounts to 3.2 per cent of national per capita GDP (€860) in Spain, while this share is equal to 0.9 per cent in France and 0.7 per cent in the United Kingdom.⁴² Moreover, the procedures and costs are particularly concentrated at the lower levels of the public administration. Indeed, up to 87 per cent of the time required and up to 80 per cent of the costs involved in starting a business concern regional or municipal authorities.⁴³ Finally, the conditions for obtaining permission to start a business are also stricter in Spain than in other EU countries. For example, the minimum capital requirement for starting a limited liability company is equal to €3,000 in Spain, compared with €1 in France and Germany and no capital requirement in the United Kingdom and the Netherlands. As a result, the European Commission ranks Spain as the EU country with the highest licensing complexity.⁴⁴

⁴¹ At the central level, firms have to be registered at the Mercantile Register and must obtain an identification number from the Tax Administration. At the regional level, firms have to request a start-up permit and apply to the regional register. At the local level, municipalities need to issue a final licence.

⁴² Agencia Estatal de Evaluación de las Políticas Públicas y la Calidad de los Servicios (2012).

⁴³ Agencia Estatal de Evaluación de las Políticas Públicas y la Calidad de los Servicios (2007).

⁴⁴ European Commission (2011a).

and they also benefit from an advantageous fiscal system. For example, self-employed are exempt from paying the territorial economic contribution for the first three years after creation. Moreover, if their revenue is below a certain threshold, self-employed can benefit from the micro-fiscal tax regime and pay taxes on revenues together with their social contributions. This system has been widely used and, since 2009, around 50 per cent of the newly established enterprises have adopted this legislative form. However, in designing this policy intervention, attention should be paid to ensuring that there is adequate access to social security benefits for this category of workers.

... and the role of venture capital investments could be enhanced.

This chapter has also shown how Spanish companies – particularly SMEs – face significant constraints in accessing traditional credit markets. Supporting the development of alternative sources of financing is therefore another key priority area for sustaining business creation and growth. In particular, greater attention should be devoted to financing innovative SMEs – in particular those in their early stages – with resources from private equity (PE) and venture capital (VC) investments. Investment by PE and VC entities in Spain reached €1.7 billion in 2013, down from €2 billion in 2012 and €5.5 in 2007.⁴⁵ This reduction is mainly due to the drop in investments by domestic entities – while investments by international investors have recovered to their pre-crisis level. Meanwhile, having access to PE and VC financing is crucial for young firms wishing to invest and, in turn, for employment creation (see box 2.5 for details).

The Spanish Government has recently implemented a series of measures to foster the rebound in PE and VC financing. For example, in 2013 the first public fund (FOND-ICO Global) was launched with the aim of attracting new resources by co-financing projects with the private sector. Investors would have to provide between 30 and 70 per cent of the resources needed. Moreover, other measures, such as the creation of national business incubators and the promotion of a network of “business angels”, have recently been advanced.

⁴⁵ Data collected from the Spanish Private Equity and Venture Capital Association (ASCRI) in collaboration with Webcapitalriesgo.

Box 2.5 The role of PE and VC in determining companies' performances

Evidence suggests that having access to PE and VC financing promotes firms' performances along a number of dimensions. Indeed, Spanish companies that received PE and VC financing in 2005 performed significantly better than comparable firms over a three-year period. In fact, between 2005 and 2008, investment has increased by 12.9 per cent in companies with PE and VC financing, while it dropped by 3.3 per cent in those firms without PE and VC financing. Additionally, the former have experienced a significant increase in employment (+10.7 per cent), while the latter saw their employment levels falling by 4.4 per cent on average. When firms in their early stages are considered as a discrete group, the gap in performance is even larger. Between 2005 and 2008 employment surged by 24.7 per cent in early stage companies with PE and VC financing, while it increased by only 6.6 per cent in those firms without PE and VC financing. To summarize, access to PE and VC financing could represent a key comparative advantage for firms in the initial stages of their development (table 2.1).

Table 2.1 Comparative performances between firms with and without PE and VC financing

	All firms		Early stage firms		Firms in expansion stage	
	With PE&VC	Without PE&VC	With PE&VC	Without PE&VC	With PE&VC	Without PE&VC
Employment	10.7	-4.4	24.7	6.6	10.6	-0.1
Intangible assets	33.9	-16.7	23.3	-20.4	19.1	-8.7
Total assets	12.9	-3.3	34.8	-6.6	10.1	-4.9
Revenues	8.4	-7.7	42.5	0.5	6.5	-4.5
Gross margin	8.2	-10.1	36.3	-2.4	6.7	-3.5

Source: ILO Research Department, based on ASCRI (2011).

However, the venture capital industry remains underdeveloped in Spain in comparison to other OECD countries. In particular, non-bank financing represents around 35 per cent of total financing in Spain in contrast to an EU-17 average of 60 per cent. The Spanish Government could therefore consider increasing its involvement by creating further incentives for private investors to start new businesses.

In this regard, the Heznek Program in Israel – the country with the most developed VC industry among the OECD countries – provides a good example. The Heznek Program is based on a system where the Government invests in a start-up company a sum to match the initial investment of a private entity. The peculiarity of the Heznek Program lies in the option given to the investors to purchase the government shares at the initial price at any time within the first five years of the investment. This system may be particularly attractive in the case of Spain. Indeed, the possibility that investors may purchase the Government share within five years maximizes the use of (limited) public resources – that could then be redirected towards financing new start-ups. Given the low survival rates of Spanish enterprises, access to public resources could be made conditional on firms' participation in training programmes to help entrepreneurs identify valuable projects and provide them with the requisite business knowledge – see below for some examples of these training programmes.

Interventions should also support firms' capacity to survive and grow by promoting the acquisition of entrepreneurial skills ...

Spanish enterprises struggle to survive after their creation and rarely grow beyond their original size and scope. Policy interventions could therefore aim to provide organizational and financial support for sustaining the survival and growth of already established enterprises. To this end, one of the key policy priorities concerns providing new entrepreneurs with essential business knowledge and, at the same time, verifying that their business projects are feasible and worth implementing. This would guarantee that only viable enterprises are started, increasing survival rates and reducing the risk of bankruptcy.

Meanwhile, such policy interventions could also take into account the presence of societal groups – such as youths, women, migrants and disabled – that are generally under-represented in entrepreneurial activities. Complex regulation and burdensome administrative requirements have an asymmetric effect on the entrepreneurial potentials of these groups, as they may lack the skills, experience and information needed to overcome these obstacles. Three examples from European countries could be of particular interest in the context of Spain:

- The project *Enterprises* implemented in two German federal states is a training programme aimed at potential entrepreneurs below the age of 27. The programme provides training in four different phases:⁴⁶
 - i) *Orientation*: Young potential entrepreneurs consider which skills are needed to start a business and learn how to obtain legal or financial support;
 - ii) *Planning*: During this phase of the training, potential entrepreneurs receive assistance with the development of their business concept;

⁴⁶ OECD (2013b).

- iii) *Business launch*: Business coaches assist entrepreneurs during the launch of their activity, providing assistance with the practical management of the enterprises and helping them to liaise with clients and suppliers;
 - iv) *Growth and consolidation*: Entrepreneurs manage the business autonomously, but they remain in contact with the training centre so that the sustainability of the project can be monitored and possible means of expansion can be found. A key element of the programme is the strict requirement for advancing through each of its phases. Indeed, only around half of the initial participants successfully complete the orientation phase and only half of those that enter the planning phase develop a commercially viable business project.
- Portugal introduced a set of measures in 2009 to support self-employment among youths (PEACPE). The first pillar of this system includes the activation of two credit lines – MICROINVEST and INVEST+ – that provide youths with guaranteed loans and low interest rates. In order to be eligible, applicants must be first-time jobseekers aged between 18 and 35 with at least a secondary education degree. Projects should aim to create around ten jobs, involve a total investment below €200,000 and be realized within one year. Between 2010 and 2011, these credit lines financed 515 businesses that contributed to the creation of 2,113 jobs. The second pillar of the programme is represented by the possibility for participants to apply for technical support to help with the creation and consolidation of their enterprises. This support is given voluntarily and free of charge for at least the first nine months. The service provides participating entrepreneurs with information and guidance, training in the area of management and consultancy support when business difficulties are encountered.

-
- In Italy, the Government provides support to female entrepreneurs by facilitating access to financial resources, reducing the bureaucratic requirements needed to start an activity and promoting overall gender equity in business (Act No. 215/1992). This is done through a specific Committee for Women Entrepreneurship that provides loans and grants to female entrepreneurs and offers them training, mentoring and legal advice. In order to be eligible to receive the Government support, businesses must have a female head, cooperative associations need to have at least 60 per cent female members and corporations need to have at least two-thirds female management. There is also a size requirement, as participating firms should not exceed 50 employees and an annual turnover of €7 million. Evaluations of this programme show that businesses that received support have a higher probability of survival five years after their creation and are also able to implement investment projects more rapidly.

... and ensuring a well-functioning credit system.

Firms' capacity to survive and expand is naturally also related to their ability to access the credit system, which has been seriously compromised in recent years. In line with efforts made in other OECD countries, the Spanish Government has implemented a series of measures aimed at improving bank credit intermediation. In particular, the stock of guarantees intended for the securitization of funds was increased by 23 per cent between 2007 and 2011 – going from €5.2 to €7.4 billion – and it has been revised upwards ever since. The amount of resources devoted to government export guarantees has also been increased with the aim of fostering firms' internationalization. Moreover, in 2013 the public Instituto de Crédito Oficial (ICO) made credit lines – up to €23 billion – available to banks for lending to SMEs (table 2.2).

Table 2.2 Policy response to improve SMEs' access to finance across the OECD countries

Policy area	Policy response	Countries
Policies to improve bank credit intermediation	Increased amount of government loan guarantees and/or % guaranteed, number of firms eligible, countercyclical loans	Canada, Chile, Denmark, Finland, France, Hungary, Italy, Republic of Korea, Netherlands, Spain , Switzerland, United Kingdom, United States
	Special guarantees and loans for start-ups	Canada, Denmark, Netherlands
	Increased government export guarantees	Canada, Denmark, Finland, Netherlands, New Zealand, Spain , Sweden, Switzerland, United Kingdom
	Credit mediation / review / code of conduct	France, Ireland, New Zealand, Spain
	Bank targets or SME lending, negative interest rates for deposits at central bank	Denmark, Ireland
	Subsidized interest rates	Hungary, Portugal, Russia, Spain , Turkey, United Kingdom
Policies to promote alternative sources of credit	Venture capital and equity funding, guarantees	Canada, Chile, Denmark, Finland, France, Hungary, Netherlands, Spain , United Kingdom
	Increased direct lending to SMEs	Canada, Chile, Hungary, Republic of Korea, Serbia, Slovenia, Spain
	Government co-financing / pension fund co-financing	Denmark, Ireland, Sweden
	Retail bond markets	Germany, Italy, Netherlands, Spain , United Kingdom
Other types of policy	Central bank funding to banks dependent on net lending rate	Japan, United Kingdom
	Business advice, consultancy	Denmark, Finland, New Zealand, Sweden
	Tax exemptions, deferments	France, Ireland, Italy, New Zealand, Spain , United Kingdom

Source: OECD (2013a) and Holton et al. (2013).

Additional measures have aimed at overcoming the current friction in the Spanish credit market by looking for complementary sources of external financing. These interventions have included:

- i) Creation of an alternative bond market for SMEs (Mercado Alternativo de Renta Fija, MARF);
- ii) Easing of admission requirements to regulated and alternative markets;
- iii) Creation of a start-up co-investment fund;
- iv) Agreements with the German government-owned development bank KfW to establish a fund for financing of SMEs;
- v) Launch by the ICO of a new line of funding to support the acquisition by financial institutions of notes and bonds issued by Spanish SMEs; and
- vi) Reduction of 10 per cent of SMEs reinvested benefits.

These measures will undoubtedly help to improve access to alternative non-bank credit for SMEs. However, additional measures may be needed to target firms that face obstacles to their survival and growth due to specific shortcomings in the functioning of the credit system. The Government might, for instance, consider policies that foster the optimization of firms' cash flows. Indeed, in 2012 only two out of every ten Spanish firms that sold goods received their due payments within a month – only Italy performed worse among the EU countries.⁴⁷ Some measures to foster supply chain finance (SCF) will therefore be useful to ease financial restrictions on firms and thereby increase their likelihood of survival. SCF allows buyers to extend their payment periods, while shortening the payment collection

⁴⁷ Federation of Creditreform Association (2012).

period for suppliers. This makes business activity smoother without forcing supplying firms to tap into their own funding sources and credit lines. An efficient SCF system can then optimize the movement of inputs along the supply chain. For instance, the UK Government has recently invested £15 million in improving the flow of SCF and signed an agreement with some large companies that are committed to improving the information flow between customers, suppliers and providers of SCF.

*More structurally, policies
should promote productive investment ...*

Investment levels have dropped significantly in Spain during the recession, challenging the long-term economic prospects of the country. It is therefore crucial to take steps to restore productive investments. This is particularly true in Spain, as investments in the pre-crisis period were mainly concentrated in housing-related activities. While the measures discussed above, which are aimed at ensuring adequate access to credit and improving the quality of the business environment, are necessary steps, they are not sufficient in themselves to restore productive investment. Additional policy interventions could therefore include fiscal incentives for enterprises that invest and institutional investors taking a more active role. Some policy interventions implemented in other EU countries could serve as examples:

- Given the low levels of investment in technologically intensive industries in Spain, interventions could aim to make tax exemptions conditional on investment in R&D. For example, in Italy a tax credit has been introduced on a trial basis for companies that outsource R&D to universities or research centres recognized by the EU. The tax credit is equal to 90

per cent of the additional R&D expenses during that year, based on the average R&D investment in the 2008–2010 period. Although an assessment of this measure is not yet available, the intervention may be particularly favourable for SMEs as they generally lack the resources to conduct autonomous R&D. Similarly, in the United Kingdom, tax incentives for R&D expenditures are higher for SMEs than for large companies – a 225 per cent deduction from taxable income as opposed to 130 per cent for large firms.

- Fiscal advantages for investments could also specifically target employment creation. This is particularly important in Spain, where – as documented in Chapter 1 – the recent signs of recovery are mainly evident in capital-intensive industries and have not yet led to substantial employment gains. For example, in France a “Competitiveness and employment tax credit” (*Crédit d’impôt pour la compétitivité et l’emploi*) was introduced in 2013 in order to encourage investments – from foreign as well as domestic enterprises – and create jobs. In particular, the tax credit would be calculated as a proportion of the company’s gross payroll costs (4 per cent in 2013 and 6 per cent in subsequent years) and it would exclude wages of more than 2.5 times the minimum wage. In this way, the measure aims to benefit low-skilled employees, which have been particularly affected by the recession in France as in many other EU countries. SMEs can receive this tax relief as a cash rebate.
- Similarly, investments in green sectors could support the recovery while promoting sustainable development. Unfortunately, some of the tax deductions originally in place in Spain to promote green investments have been retroactively cut due to increasing pressure on public finances. However, restoring these types of incentives, eventually remodelled in order to maximize their efficiency, would restore investors’ confidence

in the Government's commitment and also bring substantial economic gains. For example in the United States, under the Better Building Initiative launched in 2011, the Government has introduced tax incentives to encourage energy-saving upgrades to buildings with the aim of tripling the amount of private investment. A progress report has shown that, in the first year of implementation, 110 organizations have joined the programme and financial firms have committed US\$2 billion in energy efficiency financing.

- Finally, the Spanish Government might consider some policy interventions to foster long-term finance in order to promote long-term investments. As endorsed by the G20 meeting in September 2013, there is room for promoting long-term investment by institutional investors – such as pension funds and insurers. These have long-duration liabilities and can consequently invest in assets with a more distant pay-off horizon. This is particularly important in Spain, where the Social Security Reserve Fund has recently migrated 97 per cent of its assets into Government bonds and has also increased its cash holdings. As in Ireland, where the National Pension Reserve Fund's mandate has been changed by the Government to invest only in areas of “strategic importance to the Irish economy”, the Spanish Social Security Reserve Fund might focus its future mandate on financing long-term investment.

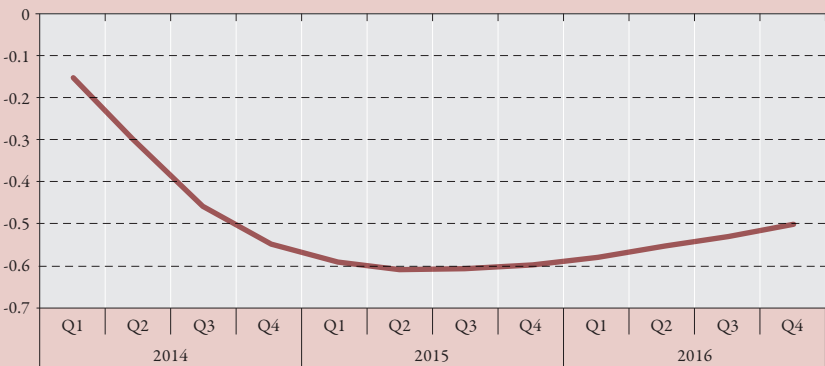
*... while greater access to finance
would help to accelerate the recovery ...*

While there is a need to increase the role of alternative sources of financing in the Spanish economy – such as the PE and VC investments detailed above – an improvement in bank credit conditions would certainly provide immediate amelioration of the macroeconomic situation. This is particularly true for SMEs, since this chapter has shown that they still face tight credit constraints despite improvements in risk perceptions of sovereign

bonds.

In fact, a simulation conducted as part of this report investigated the effects of a reduction of Spanish interest rates by 0.8 percentage points. This would bring Spanish interest rates on loans of up to €0.25 million – the level of loan generally required by SMEs – into line with the EU-17 average. The results of the simulation show how a reduction of interest spreads would increase investment levels – for example, by facilitating firms’ access to credit. This would, in turn, reduce the unemployment rate by an additional 0.6 percentage points, with further gains coming from the consequential increase in private consumption and domestic demand (figure 2.12).

Figure 2.12 Labour market effects of a decrease in bank loan interest rates
(change in unemployment rate, percentage)



Source: ILO Research Department, GEL model.

*... and a more dynamic business environment
would improve and sustain long-term growth prospects ...*

A more dynamic business environment would also provide important support to long-term growth by promoting innovation through enhanced business competition. In particular, studies conducted on Spanish enterprises have shown that new firms are more likely to innovate compared with incumbents⁴⁸ and that replacement of old with new firms increases TFP growth.⁴⁹ Similarly, a business environment dominated by micro- and small enterprises is less likely to promote technological innovation.⁵⁰ In the case of Spain, the literature has shown that large firms contribute more than small firms to TFP growth.⁵¹

Turning to the economic gains offered by greater competition in the product market, estimates suggest that aligning product market regulation in network and service sectors with international best practices would increase labour productivity in Spain by 7 per cent in 10 years.⁵² Similarly, if best practices are adopted in sectors that provide intermediate input to the economy – e.g., electricity – TFP growth would increase over five years by 1.6 per cent in manufacturing and 0.8 per cent in the entire economy.⁵³ Finally, various studies have demonstrated that the relatively restrictive nature of Spanish regulation on retail trade serves to increase inflation and reduce employment.⁵⁴

⁴⁸ Huergo and Jaumandreu (2004).

⁴⁹ Fariñas and Ruano (2004); López-García and Montero (2010).

⁵⁰ Pilat (2004).

⁵¹ López-García et al. (2007).

⁵² Arnold et al. (2009). Estimates refer to levels of product market regulation in 2008.

⁵³ Bourlès et al. (2010).

⁵⁴ Matea and Mora Sanguinetti (2009); Ciarreta et al. (2009).

... coupled with increased
recourse to apprenticeship programmes.

Policies aimed to improve the overall business climate and stimulate productive investment need to be complemented with efforts to develop demand-driven skills. Indeed, educational attainments have improved in Spain during recent decades. However, the labour market is characterized by an elevated degree of skills mismatch, the degree of which has increased during the economic crisis – the skills mismatch index has gone from 12.9 in 2007 to 19.4 in 2012.⁵⁵

The Spanish Government has undertaken considerable efforts in order to reform the training and apprenticeship systems. However, apprenticeships are still underdeveloped in Spain – with less than 1.5 per cent of youths being apprentices against an EU average of 3.7 per cent.⁵⁶ Governments in the EU have implemented a number of policies in order to improve the incidence of apprenticeship programmes and increase their responsiveness to the skills needed in the labour markets.

- In Finland the Government has introduced a programme (*Oppisopimus-koulutus*) that allows students to complete national vocational qualifications through apprenticeship training. Participants can study almost all vocational qualifications and the programme is suitable for both young people and adults. Around 70-80 per cent of the apprenticeship programme occurs at the workplace, where a supervisor is responsible for on-the-job training. This training is complemented with a theoretical formation that takes place in vocational schools or adult educational centres. The assessment of the programme reveals how 71 per cent of the 56,880 participants in 2011 were employed at the end of the apprenticeship. Key elements of success are represented by the fact that apprentices have an individual study plan, where previous work and education experiences are considered. Moreover, the social partners are involved at the sectoral level in order to jointly identify the content of the training. The cost of apprenticeship training is on average equal to €6,000 per trainee.

⁵⁵ ILO KILM Database. The skills mismatch index – also known as index of dissimilarity – captures the differences in the shares of educational attainment of the employed in comparison with the unemployed.

⁵⁶ European Commission (2013).

- Another programme implemented in Estonia – the Scheme for Work Practice in Companies (*Tööpraktika*) – has been particularly effective in improving the matching between trainees and host companies, thus increasing job retention rates. The programme has been launched in 2008 and it consists of providing young students with a short-term work experience – maximum of 4 months – in order to acquire work-related knowledge and improve their employability under the supervision of an instructor. Assessments of the programme show how 6 months after completion, 50 per cent of the participants were in employment and 70 per cent of them were retained by the host company where they completed the traineeship. The programme is also particularly cost effective: after 2 years of completion every €1 invested in the scheme yielded €3 to the society.

Finally, particular attention needs to be given to ensuring that apprenticeships offer a transition mechanism towards more stable forms of employment. Indeed, in 2012 in Spain only 3 per cent of the apprenticeship contracts (*Contrato para la formación y el aprendizaje*) were transformed into permanent contracts at the completion of the training programme. This happened despite the presence of fiscal advantages in place to favour this transition. Indeed, companies that offer a permanent contract at the end of the apprenticeship can enjoy a reduction in the social security contributions equal to €1,500 (€1,800 for women) for 3 years. However, hiring subsidies have been shown to be of limited effectiveness (see Chapter 3 for more information).

Other measures could therefore be implemented in order to enhance the transition from apprenticeship contracts towards more stable forms of employment. In particular, ensuring that apprenticeships are completed would represent the first step for guaranteeing better employability of their participants. Leaving one employer to join another or dropping out the educational and training system represent some of the main causes for non-completion. Measures are thus needed to incentivize apprentices to complete the programme. For instance, in Canada participants that suc-

cessfully complete their apprenticeship are eligible to apply for a specific Apprenticeship Completion Grant worth \$2,000.

Additional measures to limit the abuse of such programmes may also be merited. For example, in Italy legislation has recently been introduced to limit further recourse of apprentices to establishments where at least 50 per cent of the apprentices hired in the previous 3 years had been hired at the end of their apprenticeship (Law 92/2012).⁵⁷ Moreover, the same legislative intervention established that apprentices cannot represent more than 40 per cent of the workforce – 50 per cent in firms with less than 10 employees.⁵⁸ Finally, apprenticeship contracts are formally considered permanent contracts in the Italian legislation. Indeed, they are automatically transformed into open-ended contracts at the completion of the apprenticeship if the parties do not express the intention to terminate the employment relation.

For such a comprehensive strategy to work well, careful consideration will need to be given to how to actively engage the social partners in the design and implementation of these measures, notably their integration and complementarity with other labour market policies (e.g. other training programmes and the role of the public employment services) – issues discussed in more detail in the following chapters.

⁵⁷ This obligation does not apply for firms with less than 10 employees.

⁵⁸ Only permanent employees account for the definition of the workforce.

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CHAPTER 3

RE-ORIENTING LABOUR MARKET POLICIES FOR IMPROVED EMPLOYMENT AND SOCIAL OUTCOMES

INTRODUCTION

With the economy showing some modest signs of recovery, a unique opportunity for the Government and social partners to rebuild the social fabric and stimulate employment growth has emerged. Already, the Government of Spain has implemented a number of measures to enhance employment quality and job creation, but more can be done to develop a more proactive and coherent approach to labour market policy-making.

In particular, this chapter discusses the links between employment policies and social protection measures on the one hand, and employment and social outcomes on the other, and offers a range of policy options based on international experiences. In addition, one of the defining labour market developments in the period leading up to – and during – the financial crisis in Spain has been the persistent division of employment patterns by contract type, i.e. the persistent – and potentially growing – labour market polarization. With that in mind, section A presents labour market trends related to the quality of employment, taking into account recent measures to address the issues. It also examines the role of social protection in the present context. Section B reviews the evolution of spending on labour market policies over the past decade and examines ways to improve their effectiveness. Finally, section C discusses a number of policy considerations, including ways to raise job quality and reduce labour market imbalances.

A JOB QUALITY, POVERTY AND LABOUR MARKET POLARIZATION: A GROWING CONCERN

Spain has historically had a relatively polarized labour market with high shares of temporary employment, often highest in the EU-27. And although temporary employment has declined substantially in recent years, as discussed in Chapter 1, this has been due to the fact that temporary jobs accounted for a disproportionate share of jobs losses during the crisis. The comparatively lower level of protection afforded to temporary contracts by employment legislation meant that as the crisis emerged, the first workforce adjustment that Spanish enterprises made was to dismiss temporary employees. Numerous labour market reforms (see Appendix 1) have since attempted to address this issue in Spain, yet the problem of duality persists (a similar – and growing – divide exists between part-time and full-time employment, although the magnitude of the problem is considerably smaller).

The Government has made considerable efforts to reduce labour market polarization and encourage self-employment ...

Labour market duality has persisted in Spain since the liberalization of the use of temporary contracts in 1984. Since the 1990s, a series of reforms undertaken in 1994, 1997, 2002, 2006 and 2010 attempted to address the high incidence of temporary employment, but with little success.⁵⁹ The most recent reform took place in 2012 and included a series of measures to reduce the incidence of temporary contracts and encourage the creation of permanent jobs (box 3.1).

⁵⁹ ILS (2011a).

In February 2012, the Spanish Government unveiled an ambitious labour market reform through Royal Decree Law 3/2012 on urgent measures to reform the labour market. The reform, the eighth of its kind since Spain became a democracy, was part of a broad economic reform programme. It implemented several measures with a view to modifying the structure of the labour market, mainly through: (i) reforming the collective bargaining system and improving internal firm flexibility, (ii) effectively reducing labour market duality – which has persisted since the 1984 reform liberalized the use of temporary contracts, (iii) enhancing workers' employability through liberalization of regulation of temporary employment firms, and (iv) promoting job creation through a boost to entrepreneurship. Specific measures under each category include:

- *Changing the structure of collective bargaining:* The reform has modified the former practice of individual firms being obliged to comply with industry-wide agreements. Firms now have the option of negotiating a company-level agreement that suits their particular needs. In addition, such an agreement overrides any industry-wide agreement that may be in place. Moreover, an expired agreement has no validity beyond one year after the expiry date. These measures are expected to encourage regular negotiation and give individual firms the flexibility needed to operate in fast-changing economic circumstances. Furthermore, job categories have been more broadly defined, making job duties more fluid and giving firms the means to adapt to changing conditions.
- *Reducing labour market duality:* In order to limit the polarization of the labour market, the 2012 reform reduced the compensation that all workers on permanent contracts receive in the event of unfair dismissal, from 45 days' pay per year worked for a maximum of 42 months to 33 days' pay per year worked for a maximum of 24 months. Furthermore, the reform promotes greater use of permanent contracts by allowing firms more flexibility to adjust working hours in the event of an economic downturn. This way, firms will not have to resort to dismissals as a first option and thus will be incentivized to offer more permanent contracts.
- *Increasing workers' employability:* In order to reduce the high levels of unemployment among young people, the reform modifies the age limit for eligibility to the *contract for training and learning*, which was created in 1995 and further modified in the 2011 and 2012 reforms. The age limit to be eligible for this contract was raised to 30 years, from the previous limit of 25 years. The *contract for training and learning* encourages

The 2012 labour market reform in Spain

young people to undergo training in an activity. They may do so in multiple sectors, thereby broadening their skills set and increasing their chances of finding employment. In addition, temporary employment firms are permitted to act as private employment agencies under the new reform. This aims to meet the high demand for the services of the public employment service, and also shorten unemployment spells and increase the number of people returning to work.

- *Promoting job creation and entrepreneurship:* The reform created a new *permanent contract for entrepreneurs*, through which companies with fewer than 50 employees receive financial incentives to encourage job creation. Companies that hire young unemployed workers under permanent contracts receive a €3,000 tax reduction upon first hire. Moreover, if the new worker had been receiving unemployment benefits, the tax reduction is equal to 50 per cent of the amount the worker was receiving in unemployment benefits at the time of hire. Other financial incentives include discounts in social security contributions for hiring an unemployed worker aged 16 to 30 years or over the age of 45 on a permanent contract, and for hiring a woman in an industry where females are under-represented.⁶⁰ In addition, this *permanent contract for entrepreneurs* allows companies that have not engaged in collective or unfair dismissals in the last six months to extend their trial period for new employees to one year. These measures are expected to encourage hiring of workers, especially those in vulnerable groups, and to address labour market duality. In fact, the increase in the trial period for firms with fewer than 50 employees affected under this contract might have played a role in the latest trends in favour of hiring permanent workers. Longer trial periods allow firms greater flexibility in screening new employees, thereby avoiding potentially inadequate job matches, which increases the incentive for employers to hire under permanent contracts. As smaller firms are more likely to suffer from matching problems, they stand to benefit greatly from the lengthened trial period.⁶¹

Source: Government of Spain (2012a, 2012d).

⁶⁰ Eurostat (2010).

⁶¹ OECD (2013).

Likewise, a number of efforts have been made by different Spanish Governments to encourage self-employment. In 2007, the Spanish Parliament passed a measure called the Self-Employed Workers' Statute (*Estatuto del Trabajador Autónomo*), which established a set of systematic and comprehensive rules and policies governing self-employment. One of the main achievements of this statute was the reduction in the gap in social security rights between the General System of Social Security and the Special System for Self-employed. In fact, social security for self-employed workers was significantly extended by the new statute, in several ways: (i) benefits for the cessation of activities were established, (ii) social protection for temporary sick-leave was introduced, and (iii) benefits for early retirement for self-employed workers were introduced for workers involved in arduous activities. More importantly, the statute introduced the definition of economically dependent self-employed workers (*trabajador autónomo económicamente dependiente*) into the legal framework. This represented an important legal innovation, not only for Spain, but also for Europe. In this regard, the statute establishes that a self-employed worker is deemed to be economically dependent when a single contracting entity accounts for at least 75 per cent of his or her income. In addition, the statute made economically dependent self-employed workers entitled to 18 days of holiday per year, as well as to be covered by insurance against work-related accidents and professional illness.⁶² In addition, unemployed individuals wishing to establish a self-employment venture have several avenues available to them. For instance, unemployed workers who qualify for unemployment benefits may receive their allowance in a lump sum so they can use it to start a business. Financial subsidies on loans, special grants for people with difficulty entering the labour market, and technical and training assistance are all offered to persons wishing to start a business. The stability in the number of self-employed workers might be, at least partly, attributed to these efforts.

Moreover, recent measures (Act 11/2013) were implemented by the Spanish Government to promote self-employment among young people (individuals aged 30 and younger). In particular: (i) social security contributions are

⁶² These rules cover self-employed workers regardless of the sector in which they work, and whether or not they employ other workers.

reduced for a period of 30 months beginning on the date of registration with social security, (ii) unemployment benefits continue to be paid during the pursuance of a self-employment activity for up to 270 days, (iii) unemployed workers can immediately access full unemployment benefits in order to invest in said activity, and (iv) unemployed workers have the option to interrupt the receipt of unemployment benefits for a period of 60 months while engaging in a self-employment activity.⁶³

*... but temporary employment remains elevated
and involuntary temporary and part-time employment
is on the rise ...*

As discussed in Chapter 1, despite recent reforms, the share of temporary employment remains high – in 2013, over 23 per cent of total employment in Spain consisted of temporary jobs. Moreover, the recession has changed the nature of temporary and part-time employment. Indeed, the number of people in temporary employment because they cannot find a permanent job remains high, having continued on an upwards trend: involuntary temporary employment increased from 87.2 per cent in 2008 to 91.7 per cent in 2013 (table 3.1). Moreover, since 2000 Spain has consistently had the highest incidence of involuntary temporary employment in the EU-27. In 2013, the share in Spain was nearly 30 percentage points higher than the EU-27 average, and more than 5 percentage points higher than Portugal (the country with the highest increase in the incidence of involuntary temporary employment among the countries analysed).

Involuntary part-time employment is also on the rise, and it has become a more pressing problem in Spain following the 2008 financial crisis. The share of part-time workers that would rather have a full-time job increased from 36.0 per cent to 63.3 per cent between 2008 and 2013. In comparison, the EU-27 average reached 29.6 per cent in 2013, rising only 4 percentage points since 2008. Importantly, the rise in involuntary part-time employment is not exclusively a Spanish problem. In fact, all countries analysed indicate that this is a growing concern.

⁶³ Government of Spain (2013a).

Table 3.1 Incidence of involuntary workers (aged 15–64) in temporary and part-time employment in selected countries (percentages)

	Involuntary temporary employment (% of total temporary employment)						Involuntary part-time employment (% of total part-time employment)					
	2000	2008	2010	2012	2013	Rank 2013*	2000	2008	2010	2012	2013	Rank 2013*
EU-27	..	59.7	61.7	60.9	61.8	13	..	25.3	26.7	27.6	29.6	14
Austria	17.8	12.5	8.6	8.6	8.1	1	10.8	11.2	11.5	10.1	11.7	5
Germany	16.5	24	24	22.6	21.2	2	12.8	23.0	21.9	16.6	15.9	7
Netherlands	39.6	35.5	31.9	34.2	40.6	4	3.8	4.5	5.7	9.1	9.9	2
UK	46.2	42.5	57.2	58.2	57.2	10	10.0	10.6	16.2	19.4	20.3	11
Sweden	59.1	54.3	59.1	57.4	58.6	11	24.8	26.1	28.1	28.8	29.7	15
France	..	55.9	57.4	56.9	60.2	12	27.0	32.0	31.7	31.4	39.2	19
Ireland	34.1	40.8	62.8	67.7	65.3	15	17.0	13.0	32.5	41.2	43.1	21
Finland	60.1	61.9	65.1	67.3	66.8	17	36.0	27.5	27.9	25.7	26.1	13
Italy	52.3	64.6	67.8	71.2	73.3	21	38.1	41.5	50.5	58.8	63.0	28
Portugal	44.1	81.9	84.2	87.2	86.2	24	31.7	40.8	43.0	47.9	49.4	23
Greece	84	82.5	84.9	86.4	87.7	26	48.4	44.1	54.7	65.0	68.2	29
Spain	93.5	87.2	91.5	91.8	91.7	28	23.7	36.0	50.1	61.3	63.3	27

*1 being the country with the lowest share.

Source: ILO Research Department based on Eurostat.

... yet, there has been some success in keeping the number of self-employed stable in recent quarters.

The number of people engaged in self-employment in Spain has declined, although moderately, over the past six years. The sharpest fall in the number of self-employed happened following the start of the financial crisis in 2008 (figure 3.1). In fact, the number of people registered as self-employed in Spain went from around 3.3 million in the first quarter of 2008 to close to 2.9 million in the first quarter of 2010. The reduction after 2008 was largely due to a drop in the number of self-employed individuals who employ other workers. This number fell by close to 23 per cent between the first quarters of 2009 and 2014. Since 2011, overall self-employment

has remained relatively stable, principally due to gains in the number of self-employed without employees. As of the first quarter of 2014, 71 per cent of self-employed workers were own-account workers and the share increased by 6 percentage points from the same quarter in 2010 – i.e. the number of own-account workers actually increased by 7.1 per cent during this period. As a result, overall self-employment was 13.9 per cent below the figure registered at the beginning of 2008.

Figure 3.1 Number of self-employed, with and without employees, Q1 2008–Q1 2014*
(thousands)



*These series are available only from Q1 2008.

Source: ILO Research Department, based on Eurostat.

Within the realm of self-employment, however, the apparent evolution in the number of “economically dependent self-employed” in Spain is a growing concern, one shared throughout the European Union (box 3.2).⁶⁴ According to the figures from EPA⁶⁵ (survey of the active population in Spain) there were around 271,000 self-employed individuals by the end of 2013 who reported being dependent on one client for most of their income or having an employer that provided them with work (12.3 per cent of the total self-employed without employees).⁶⁶ Like the other self-employment categories, the number of “economically dependent self-employed” decreased during 2009 and 2010. It then reversed its trend and by the fourth quarter of 2013 it had increased by 18.4 per cent. The increase responds mainly to the jump in the number of self-employed that had declared having an employer, which increased by 32.7 per cent between the fourth quarters of 2010 and 2013. Meanwhile, the number of self-employed who were dependent on one client remained relatively stable (falling by 2 per cent during the same period).

With job precariousness on the rise, it is not surprising that spending on unemployment benefits and related assistance has grown rapidly ...

Before the 2008 financial and economic crisis, expenditure on social protection remained relatively stable in Spain. However, as the Spanish economy continued to languish, total spending on social protection increased significantly – from 20.3 per cent of GDP in 2007 to 25.6 per cent of GDP in 2011. In terms of conditional social security expenditures, non means-tested benefits (i.e. benefits that are conditional on non-income characteristics of recipients, such as children’s health, disabilities, age, injuries, unemployment benefits, etc.) increased from 17.6 per cent to 21.4 per cent of GDP between 2007 and 2011. With the exception of Ireland

⁶⁴ European Commission (2011a).

⁶⁵ The authors would like to thank the Ministry of Employment and Social Security for making available the numbers used to carry out this analysis.

⁶⁶ The number of self-employed without employees results from adding three different categories: own-account self-employed, self-employed individuals who are dependent on one client for most of their income, and self-employed that report having an employer. The latter two categories correspond to the “economically-dependant self-employed”.

“Economically dependent self-employed”: a growing phenomenon in Spain

Economically dependent self-employed workers (known as TRADEs in Spain) are defined legally as self-employed individuals who are dependent on one client for most of their income (75 per cent) but offer their services as a self-employed worker.⁶⁷ Because most of their business is from a single source, they usually become subject to the employer's workplace rules without the security that accompanies the status of an employee. Thus, they are somewhere between true self-employment and being an employee, but their working conditions represent in general a deterioration relative to both counterparts.

In contrast to overall self-employment, the “economically dependent self-employed” appear to be a growing concern in Spain, as in most EU countries.⁶⁸ Estimating the exact extent of the problem in Spain is difficult because figures for this phenomenon have not been systematically collected. In 2009, conscious of the difficulty of measuring this phenomenon during the period 2005 to 2008, the Spanish Statistical Service added questions in its survey of the active population (EPA) that would help to measure the number of self-employed working for one client, or virtually one client.⁶⁹ However, these records are currently not open to the public.

In an effort to improve working conditions for this group, the Government of Spain passed the Self-Employed Workers' Statute in 2007, which extends certain rights to TRADE workers (see below) in addition to social security benefits under the Special System for Self-employed (RETA). Later, Royal Decree 197/2009 made the existence of a written contract between the TRADE and their main client an explicit requirement in order for the worker to be recognized as economically dependent and receive the minimum workplace protections granted under the statute. Moreover, this latter reform stipulates the need for TRADEs to register with the Public State Employment Service (SEPE) within ten days of signing the contract. As of December 2013, only 13,000 TRADE contracts have been registered and so only these people are eligible to the extended benefits granted under the 2007 decree.⁷⁰

Accurately defining and measuring economically dependent self-employment represents a key step towards understanding the extent of the problem and finding sustainable solutions for the individuals affected. With this in mind, the European Parliament passed a resolution in December 2013 calling on the Commission, Member States and European social partners to conduct cross-country studies on the issue of dependent self-employment.⁷¹ In response, UPTA (*Unión de Profesionales y Trabajadores Autónomos*) along with social partners from Bulgaria, France, Italy and the European Federation of Building and Woodworkers (EFBWW) is conducting a year-long study, with financial support from the European Union.⁷²

⁶⁷ Economically dependent self-employed workers are workers who perform a for-profit economic or professional activity regularly, personally, directly and predominantly for a natural person or legal body, called the client, on whom they economically depend due to receiving from that natural person or legal body at least 75 per cent of their earned income and income from economic or professional activities (Glossary of the Ministry of Employment and Social Security, available at: http://www.seg-social.es/Internet_6/Glosario/index.htm?ssUserText=E#112345_6).

⁶⁸ European Commission (2011b).

⁶⁹ Information available at: http://www.ine.es/daco/daco42/daco4211/preguntas_epa.pdf.

⁷⁰ Figure provided in the financial newspaper *el Economista* (27 December 2013) and UPTA press release (26 December 2013).

⁷¹ European Parliament 2013/2111.

⁷² Trade Project 2014, tradeworkers.eu

and Greece, Spain had the highest increase in expenditure on non means-tested social protection among EU countries. Yet, in level, Spain has the 14th lowest expenditure as a share of GDP. It is important to note that this increase in non means-tested benefits represented over 70 per cent of the overall increase in benefits. Meanwhile, 28 per cent of the increase in non means-tested social protection was due to unemployment-related non means-tested benefits.

On the other hand, means-tested benefits (i.e. benefits that are conditional on whether the recipient's income is below a certain threshold, such as unemployment assistance) increased from 2.7 per cent to 4.2 per cent of GDP between 2007 and 2011. Importantly, in 2011 Spain registered the third highest expenditure in the EU-27 on means-tested benefits as a share of GDP, right after the Netherlands and Ireland. The increase in means-tested benefits represented only 28.5 per cent of the total increase in benefits, but as much as 43 per cent of this increase was due to growth in means-tested unemployment-related benefits.

Importantly, the increase in total social security expenditure in Spain between 2007 and 2011 was the second highest for all EU-27 countries⁷³ and it can be almost entirely ascribed to an increase in spending on old-age and unemployment-related benefits and services. In particular, between 2007 and 2011, the increase in old-age and health-related expenditures – which together represent over 60 per cent of total social protection expenditure – represented 53.5 per cent of the total increase in social protection benefits. Meanwhile, the increase in expenditures related to unemployment contributed 32.4 per cent to the total increase in social protection during the same period.

⁷³ European Commission (2013a).

Figure 3.2 Expenditure in unemployment-related social protection as a share of GDP
(percentages)



Source: ILO Research Department, based on Eurostat.

Of this increase, 62 per cent was due to the rise in non means-tested unemployment-related spending – basically, expenditure in unemployment benefits – from 1.6 per cent to 2.7 per cent of GDP (figure 3.2). In the four years to 2011, non means-tested unemployment-related spending increased by close to 64 per cent. Over the same period, means-tested expenditure, mainly comprising unemployment assistance, increased from 0.4 per cent to 1 per cent of GDP. This represents an increase of 141.5 per cent during the period, making up for 38 per cent of the total increase in unemployment-related spending.

Spain's expenditure on unemployment-related social protection, however, remained at levels similar to those in other EU countries, and even above. In 2011, total expenditure in unemployment-related social protection per

benefit recipient totalled €9,900 in Spain, which represented barely any change from the 2007 figure – despite the number of recipients having more than doubled in those four years. In comparison, total spending per recipient in the euro area was €10,400 in 2011 on average, and in the same year it was €10,600 and €8,300 in France and Germany, respectively. There is, however, an important difference between types of benefits in Spain. While the amount per benefit recipient was €14,700 in 2011 for unemployment benefits, it was €5,800 for unemployment assistance.

*... but has not been enough to meet demands
as the crisis has prolonged and unemployment duration risen ...*

Due to the deepening of the financial and economic crisis, the number of Spanish citizens that are beneficiaries of social transfers has increased substantially. In particular, the growth in the number of beneficiaries of unemployment benefits increased from an average annual growth rate of 3.3 per cent during the period 2003 to 2007, to 28.8 per cent in 2008, 48 per cent in 2009 and 12.8 per cent in 2010. However, in part due to the weak economic recovery in late 2010 and early 2011 and the increase in long-term unemployment (see Chapter 1), the number of unemployment benefit beneficiaries decreased, by an average annual 3.5 per cent from 2010 to 2013 (table 3.2, panel A). The decreasing trend continued during the first four months of 2014 (latest information available) – i.e. between April 2013 and 2014 the number of beneficiaries of unemployment benefits declined by 11.4 per cent.

In fact, the fast and prolonged increase in unemployment in the country has led to a reduction in the coverage rate despite the increased spending. While the coverage rate⁷⁴ had increased from 59.7 per cent in 2002 to 78.4 per cent in 2010, it was down to 62.3 per cent in 2013 and to 59.2 per cent by June 2014. More importantly, there was an important shift in the composition of unemployment benefit beneficiaries towards the non-contributory⁷⁵ type,

⁷⁴ The coverage rate refers to *tasa de cobertura*, computed by the Ministry of Employment and Social Security as: (Total number of recipients of unemployment benefits)/(Number of unemployed with working experience that have been registered in SISPE [*Sistema de Información de los Servicios Públicos de Empleo*] + Beneficiaries of occasional agricultural subsidies).

⁷⁵ This is *Subsidio de desempleo*, which is a non-contributory unemployment benefit targeted at workers who no longer qualify for contributory benefits, either because they have been unemployed for too long and have exceeded the maximum duration of unemployment benefits, or because of lack of contributions.

suggesting a deterioration of labour market conditions in Spain. Indeed, in stark contrast to the improvement reached between 2003 and 2009 – where the share of non-contributory unemployment benefit recipients decreased from 47 per cent to 37 per cent – in one year it increased 13 percentage points, to reach 50 per cent in 2010, where it remained until 2013. Importantly, by April 2014, the share increased further to reach close to 53 per cent. The reduction in the coverage rate is mainly explained by the number of unemployed whose entitlement to unemployment benefits expired after two years of being unemployed or because a number of individuals who were not eligible to these benefits in the first place (e.g. because they had not attained their minimum contributions) became unemployed. Indeed, as shown in Chapter 1, between the third quarters of 2008 and 2013, the share of individuals that have been unemployed for 25 to 47 months increased by 12 percentage points, reaching 25 per cent of the total unemployed.

Meanwhile, the number of households that do not receive a wage or salary from any type of employment but also do not receive any type of compensation (e.g. retirement pensions, unemployment benefits or unemployment subsidies) has increased substantially during the past two years. The share of these households out of total households increased from 2.7 per cent in the fourth quarter of 2008 to 4.2 per cent in the same quarter of 2013 (table 3.2, panel B). And although the share decreased during the first two quarters of 2014, it remains well above the pre-crisis level. This means that while 0.7 million individuals were living in households with no income when the crisis broke, the number had risen to more than 1.8 million in the second quarter of 2014. Interestingly, the number of beneficiaries peaked in 2010, exactly when the number of households not receiving labour incomes or compensation started to increase rapidly. This would mean that the increase in the number of people not receiving any type of labour income or compensation is likely due, in part, to the fact that a number of beneficiaries of unemployment benefits or assistance have exhausted their right to these contributions.

Table 3.2 Social protection beneficiaries

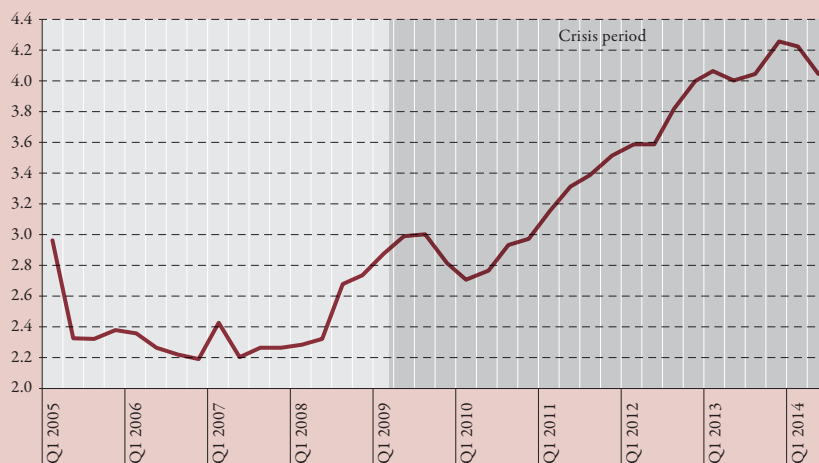
Panel A. Beneficiaries of unemployment benefits

	Contributory	Non-contributory	Total*
2003	630,443	559,918	1,190,361
2004	663,154	559,984	1,223,138
2005	687,033	558,501	1,245,534
2006	720,384	558,702	1,279,086
2007	780,205	575,675	1,355,880
2008	1,100,879	646,186	1,747,065
2009	1,624,792	960,888	2,585,680
2010	1,471,825	1,445,228	2,917,053
2011	1,328,020	1,331,315	2,659,335
2012	1,381,261	1,327,027	2,708,288
2013	1,310,915	1,313,986	2,624,901

* Total does not include beneficiaries of the programme *Renta Activa de Inserción*.

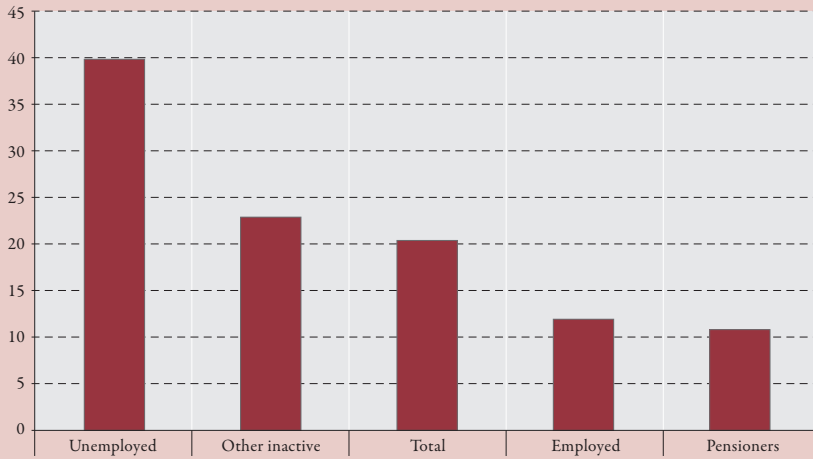
Source: ILO Research Department, based on Ministry of Employment and Social Security.

Panel B. Share of households that do not receive any type of labour market income or compensation (as a percentage of total households)



Source: ILO Research Department, based on INE.

Figure 3.3 At-risk-of-poverty rate by status in 2013
(percentage)



Note: The at-risk-of-poverty rate considered is the one with imputed rent. The poverty line is set at 60% of the median income per consumption unit of persons.

Source: ILO Research Department, based on INE (2013).

... leading to higher risks of poverty, especially among the unemployed.

As a result of these trends, the share of the population at risk of poverty increased from 17.3 per cent in 2009 to 18.7 per cent in 2013 (figure 3.3), affecting particularly the unemployed. While the risk of poverty among employed persons was 11.7 per cent in 2013, this reached almost 40 per cent among the unemployed. The at-risk-of-poverty rate of inactive persons was also high, at around 23.4 per cent in 2013, while this was comparatively low among pensioners – 10.7 per cent in the same year.

Furthermore, the risk of poverty is found to increase with the number of dependent children. The risk of poverty for households without dependent children was 14.8 per cent in 2013, while this was over 23 per cent for households having one or more dependent children. As a result, the at-risk-of-poverty rate for the population below the age of 16 years old was 26.7 per cent in 2013.

B THE ROLE OF LABOUR MARKET POLICIES AND PUBLIC EMPLOYMENT SERVICES IN PROMOTING RECOVERY

ALMPs expenditure as a percentage of GDP in Spain increased between 2004 and 2011 ...

Total expenditure on active labour market programmes (ALMPs) in Spain was €8.5 billion or 0.9 per cent of GDP in 2011.⁷⁶ This represented a substantial growth in spending since 2004 (figure 3.4, panel A). In fact, between 2004 and 2010, ALMP expenditure grew at an average annual rate of 5.2 per cent (or 36 per cent over the period). In 2011, however, the trend reversed sharply, with spending on ALMPs falling by close to 5 per cent in only one year.

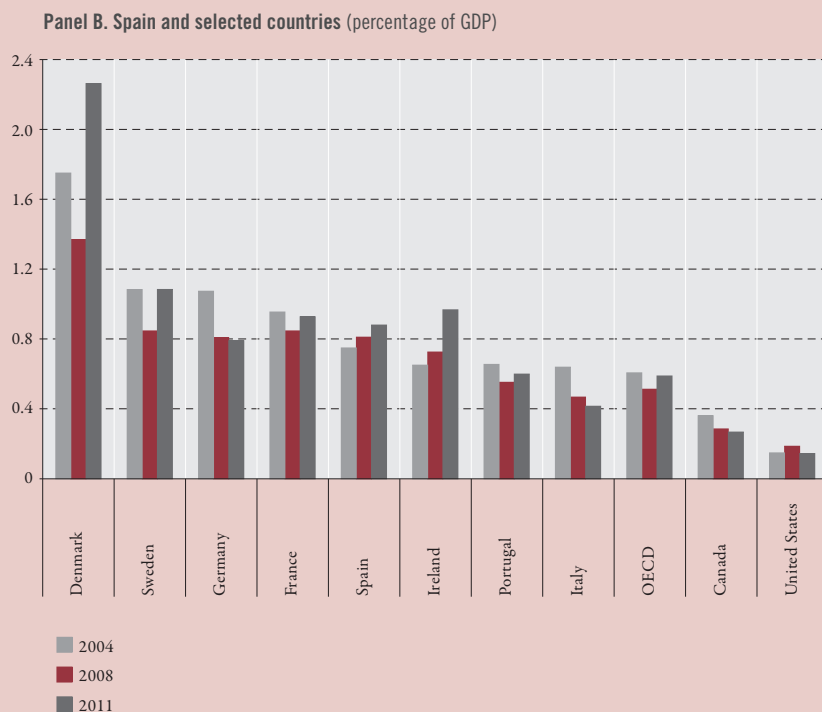
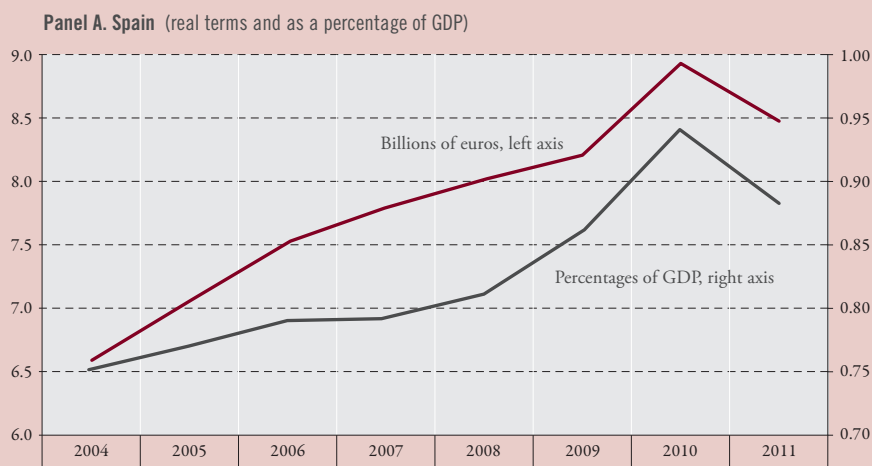
Compared with other countries over the period 2004 to 2011, the increase in ALMP spending in Spain was the seventh highest (as a percentage of GDP) among 27 OECD countries with available information. This is remarkable, particularly considering the significant drop that occurred in 2011. This sustained growth allowed Spain to exceed the average level of spending of OECD countries (0.6 per cent of GDP in 2011) and its European peripheral counterparts, attaining rates similar to those of Germany and France (figure 3.4, panel B). However, Spain's spending on ALMPs remains well below the rates of Denmark and Sweden, which are the traditional examples of countries where ALMPs have been at the centre of labour market policy.⁷⁷

In terms of the evolution of active policies during the crisis, all countries increased their expenditure on ALMPs during the crisis years, albeit at different magnitudes and for different periods of time. Spain's reaction to the crisis through ALMPs seems to have been more moderate than those of other countries. For example, Spain's expenditure on active policies as a share of GDP increased by 0.06 percentage points between 2004 and 2008 and then by another 0.07 percentage points between 2008 and 2011. In comparison, in many countries expenditure on ALMPs was declining before the crisis hit,

⁷⁶ Latest year for which available information on ALMP expenditure exists.

⁷⁷ Malo (2012).

Figure 3.4 Expenditure on ALMPs in Spain and selected countries, 2004–2011



Source: ILO Research Department, based on OECD.Stat.

but then with the crisis they pushed up their ALMP spending. This is the case for Denmark, Ireland and Sweden,⁷⁸ for example, and to a lesser extent for the average expenditure in OECD countries.

*... driven by an increased
spending in start-up incentives and training ...*

The overall growth in expenditure on active measures during the period 2004 to 2010 was driven by a boost given to start-up incentives, which accounted for close to one-third of the total increase in ALMP spending during the period (figure 3.5). Training, public employment services (PES)⁷⁹ and supported employment and rehabilitation policies also experienced a significant increase in funding during the period, which accounted for around 25 per cent, 24 per cent and 22 per cent of the total growth in ALMP expenditure, respectively. Conversely, spending in both employment incentives and direct job creation fell by 3.8 per cent and 0.7 per cent in the six years to 2010.

In terms of the distribution of expenditure by type of policy, however, the bulk of spending on ALMPs in 2010 remained concentrated in employment incentives, which represented close to 28 per cent of the total. Relative to 2004, however, government support to employment incentives had diminished and the contribution of this type of active policy had fallen by over 11 percentage points. In comparison, in the OECD, employment incentives represented 18.5 per cent of total ALMP spending. The prevalence of employment incentives in Spain can be understood as a long-standing attempt to correct the pervasive duality that had persisted since the mid-1980s.⁸⁰ However, these measures were not properly targeted. In 2009, only a restricted subgroup of unemployed male workers between 30 and 45 years

⁷⁸ In Ireland, changes correspond to 2004–07 for the pre-crisis period and 2007–10 for the crisis period.

⁷⁹ It is important to note that in 2011, 20 per cent of the expenditure in PES reported in Spain corresponded to benefit administration and close to 60 per cent to expenses in other services and activities, which includes the budget of institutions that manage placements and related services and ALMPs, but also the budget of institutions that administer the unemployment and early retirement benefits (a single institution, SEPE, is responsible for both).

⁸⁰ During the 1990s, particularly through the 1997 labour reform, specific regulation was enacted (i.e. significant and long-lasting deductions on social security contributions for open-ended contracts, as well as tax incentives) to increase open-ended hiring and reduce fixed-term employment and labour rotation (Toharia, 2008; Cueto, 2006).

of age were not eligible for these incentives. As a result, the impact of this type of measure on employment creation has been minimal in Spain – due to displacement effects and deadweight losses.⁸¹

Training policies and PES also represent prominent shares of total spending on ALMPs, at 21 per cent and 18 per cent, respectively, in 2010. Expenditure on training measures and PES has increased slightly in Spain, but it ranks considerably lower than other active policies, having been given a lower priority than employment incentives. The share of training and PES in total expenditure also ranks low by international standards. In the OECD, training and PES represented 26.2 per cent and 24.6 per cent of total ALMP spending, respectively, in 2011. Finally, spending on start-up incentives remained low, at 13 per cent of total expenditure, despite the major boost given to them.

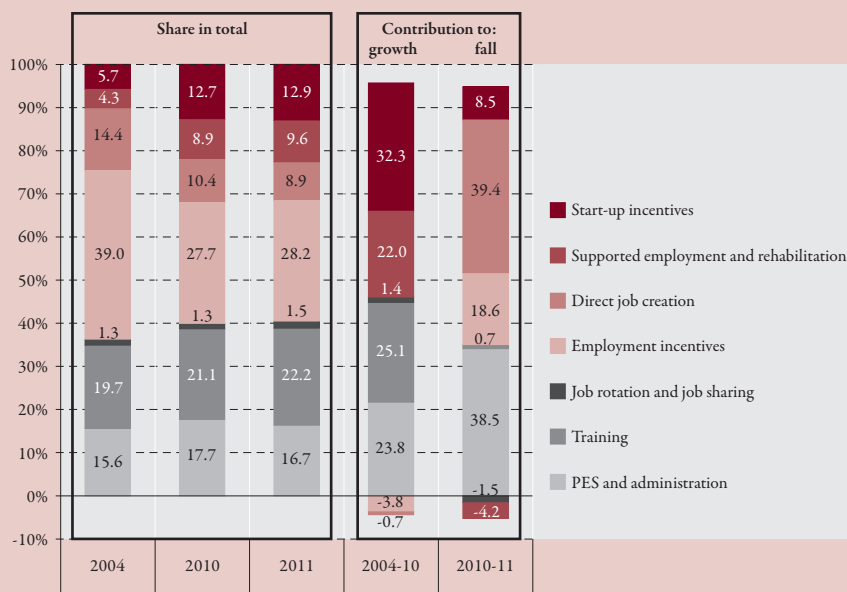
... but expenditures fell significantly in 2011 and 2012.

In 2011, however, the upward trend was interrupted and ALMP expenditure fell by 5 per cent in only one year, with most categories of spending affected. In particular, spending on direct job creation policies fell by close to 19 per cent and public employment services and administration by nearly 11 per cent – together these reductions accounted for the vast majority of the decline in spending (figure 3.5). A number of the fiscal consolidation efforts put in place at the beginning of 2010 are likely to have played a role, notably the measures to limit public hiring (i.e. the Immediate Action Plan – *Plan de Acción Inmediata* – of 2010) and the progressive withdrawal of some rebates on social security contributions (employment incentives).

In addition, there are indications that spending continued to fall in 2012. In fact, according to the budget of the SEPE, expenditure on ALMPs

⁸¹ Cebrián et al. (2011) and García-Pérez and Rebollo (2009).

Figure 3.5 Share of the expenditure by type of ALMP in total ALMP expenditure in 2004 and 2010 and in the change between 2004 and 2011 (percentage)



Source: ILO Research Department, based on OECD.Stat.

decreased by 30.1 per cent, from €7.7 billion in 2011 (whereas unemployment benefit expenditure only declined slightly, i.e. by 1.6 per cent, from €32.7 billion in 2011).⁸² As part of ALMP spending, spending on professional training programmes was cut by 3.4 per cent, and on employment promotion programmes by close to 14 per cent (compared with 2011). Most dramatic was the cut in spending for ALMPs in the “others” category⁸³ – including employment workshops (*talleres de empleo*), craft schools

⁸² The only information available on labour market policy spending for 2012 corresponds to the figures provided by the SEPE regarding its expenditure budget (CES, 2012). These figures differ from those analysed in the rest of this section (e.g. OECD figures) because the latter combine expenditure from SEPE, autonomous communities and the budget from the Department of Labour and Social Security. SEPE's numbers are nonetheless worth considering because SEPE expenditure constitutes the largest share of the pie and so would probably be indicative of the trend to be observed in total ALMP spending.

⁸³ These programmes were run by autonomous communities and, until the cut in 2012, were funded by transfers from the central SEPE.

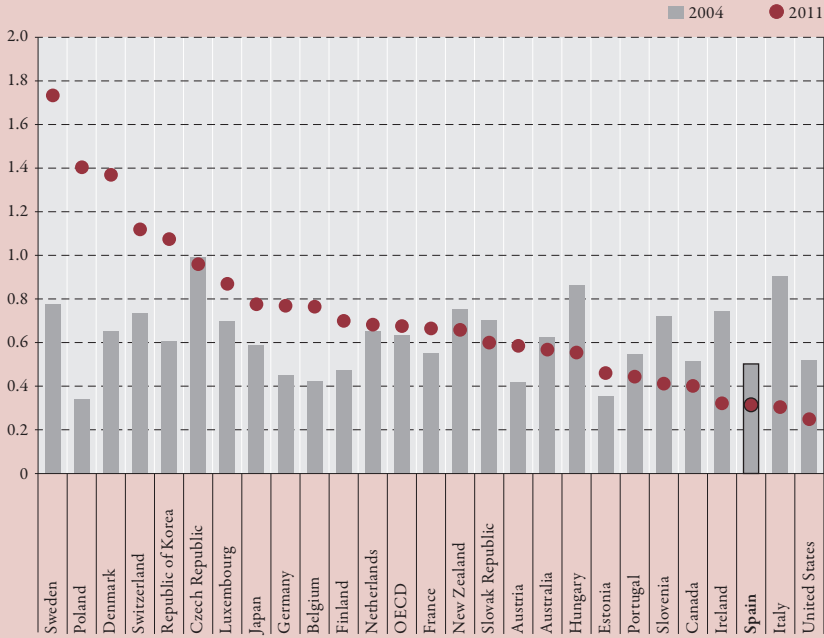
(*casas de oficio*) and workshops at schools (*escuelas taller*). This fell by €2.3 billion (or 58.1 per cent) and largely accounted for the overall decrease between 2011 and 2012 in ALMP spending, according to SEPE.

There is a delicate balance to be found between active and passive labour market policies in Spain ...

Spain faces the difficult challenge of finding the right balance between active and passive labour market policies, in the face of a constrained government budget and high levels of unemployment. Indeed, as section A argued, considerable action is needed to protect the unemployed workers and their incomes (passive support) while at the same time – as demonstrated here – providing them with the necessary assistance to build new skills, find new jobs and remain active in the labour market (active support). This is clear when comparing the amount of funds spent by the Government on active and passive labour market policies. Between 2004 and 2011, expenditure on passive labour market policies (PLMPs) as a percentage of GDP (which was already twice as much the share spent on active policies in 2004) increased by 1.3 percentage points, compared with 0.13 percentage points in the case of active policies. So, although expenditure in active policies has been trending upwards, spending on passive policies has been increasing faster. In fact, even during the sustained period of growth of ALMP expenditure (i.e. 0.19 percentage points between 2004 and 2011), spending on PLMPs grew faster (i.e. 1.65 percentage points). As such, the ratio of government spending on ALMPs to spending on PLMPs decreased in Spain by 0.2 percentage points, from 0.5 to 0.31, between 2004 and 2011 (figure 3.6).

Other countries seem to have opted for different patterns regarding this policy mix. The ratio of ALMPs to PLMPs expenditure between 2004 and 2011 increased in 14 of the 26 countries analysed and in the OECD as a whole, and decreased in the remaining 12 countries, including Spain. It should be noted, however, that Spain's ratio in 2011 was one of the lowest among OECD countries with available information. In fact, by 2011, only the United States and Italy had lower ratios than Spain.

Figure 3.6 Ratio of active to passive labour market policy expenditure, selected countries, 2004 and 2011*



*2011 figure for Ireland corresponds to 2010 data.

Source: ILO Research Department, based on OECD.Stat.

Although the gap between active and passive policies had been widening before the crisis, the faster growth in passive policies relative to active ones can be explained only in part by the rapid increase in the number of unemployed individuals following the onset of the crisis in 2008. While expenditure per unemployed individual increased in the case of passive policies, it decreased in the case of active ones. This suggests there was a transfer of funds from active to passive policies, which might be explained by a composition effect – workers with more seniority entered the unemployment benefit system, thus increasing (passive) spending per unemployed.

Indeed, between 2004 and 2011, expenditure per unemployed individual increased by an average 1.4 per cent per year in the case of passive policies, while it decreased by 5.3 per cent per year in the case of active policies.

Interestingly, during the crisis period, expenditure per unemployed individual for both active and passive policies fell; but the reduction in ALMP spending per unemployed (close to 20 per cent per year on average) largely outpaced the fall in passive spending (close to 8 per cent per year on average). In comparison, in 2004, only the United States and Canada spent less on active policies per unemployed individual than Spain. In the years leading to the crisis, Spain fared comparatively better than other countries, reaching over US\$6,200 (in PPP terms) per unemployed individual in 2007. Yet, Spain was also one of the most affected countries during the crisis. Overall, Spain experienced the second highest fall in ALMP spending per unemployed individual during the crisis period (2007–2011) – only outpaced by Ireland – and the third highest fall when the whole period of analysis is considered (2004–2011) – outpaced by Ireland and Portugal.

Under constrained resources and high levels of unemployment, it is of the utmost importance to get this balance between passive and active labour market policies right. This implies: first, determining when the time is right to start the transition from protection to activation; second, enhancing the effectiveness of active labour market policies; and finally, improving the complementarities between active and passive policies, so that both types of government efforts work for the best. The remainder of this chapter will discuss different ways to achieve this fine balance between the different policies.

C POLICY CONSIDERATIONS

Spain is facing a number of obstacles that are hampering a sustainable recovery. As Chapter 2 discussed, there is an urgent need to establish new foundations for growth in order to avoid the unbalanced patterns of growth that characterized the pre-crisis period. Moreover, tight credit conditions, falling levels of productive investment and weaknesses of the business environment are hampering productivity and competitiveness, which in turn is affecting job creation. Addressing these obstacles is therefore central to laying the ground for sustainable growth that will allow the labour market to recover. Importantly, other types of measures, notably those related to effective labour market policies, such as training, are necessary complements to this strategy.

The right institutional conditions are needed to boost employment quality ...

Evidence shows that enhancing employment quality has the potential not only to improve workers' standards of living, but also to boost economic growth, especially through higher labour productivity. Indeed, stable employment relations have been proven to raise job tenure and the commitment of workers to investing in firm-specific skills, which different studies have shown to be positively linked with labour productivity.⁸⁴ In this respect, boosting employment quality and improving working relations could provide additional advantages in times of crisis. In the case of Spain, there is a high incidence of involuntary temporary and part-time work. This suggests that efforts are needed to ensure that conditions of work are aligned with what the majority of workers want but are currently unable to get. In this sense, having the right set of labour market institutions in

⁸⁴ Davoine et al. (2008); Auer et al. (2005); and Fakhfakh et al. (2011).

place could facilitate adjustment and promote job creation. In particular, the following areas of concern need to be addressed:

Reducing labour market polarization: While there has been some improvement in recent years, the Government has made additional efforts to address the issue of polarization, which persists in Spain. For example, in February 2014, the Government introduced a monthly €100 flat-rate in social security contributions for the first 24 months for every new employee hired under a permanent contract.⁸⁵ This is a welcome initiative, which could be reinforced – building on efforts already under way – without eroding the protection afforded by relevant international labour standards by applying measures implemented in other countries to deal with this issue. For example:

- In 2003, as part of a broader attempt to reform the labour market through social dialogue, Austria modified several aspects of its severance payment system. The new system provided a model in which the unpredictable dismissal costs that employers have to face were replaced by a system of individual savings accounts.⁸⁶ Under this new system, employers have to contribute 1.54 per cent of each employee's salary every month to a severance fund, starting from the second month of employment and continuing until contract termination. Through this system, employees accumulate separation allowances throughout their working lives without losing their entitlements when moving from one job to another. The 2003 reform extended the right to severance payment to all employees, effectively reducing labour market duality.⁸⁷ The recent labour market reforms in Spain have already started to adopt some of the characteristics

⁸⁵ La Moncloa (2014).

⁸⁶ OECD (2010a).

⁸⁷ ILS (2011a).

of the Austrian severance pay system;⁸⁸ yet, the disparity in firing costs between temporary and permanent contracts (24 days' wages versus 40 days' wages) remains high.⁸⁹

Supporting workers in involuntary part-time and temporary contracts: A number of initiatives have been put forward in Spain to promote part-time employment among vulnerable groups, especially youth. Policy-makers recognize the potential benefits of being able to adjust hours cyclically, as opposed to adjusting employment, which is already yielding some positive results (see Chapter 4). However, over the long term, these hiring subsidies run the risk of incentivizing part-time work over full-time employment. Indeed, under the current incentive structure governing part-time employment, employers could also choose to hire part-time workers and have them work overtime instead of hiring permanent full-time employees. In this respect, further efforts to promote part-time employment should focus on closing the benefits gap between full-time and part-time workers, as other countries in the European Union have successfully done (e.g. the Netherlands), rather than providing untargeted financial incentives for hiring on part-time contracts. For instance:

- In Norway, new legislation was approved in June 2013 and implemented in January 2014 aimed at improving the rights of part-time workers. The legislation includes rules that make it easier for employees who involuntarily work part-time to increase their working hours. More specifically, through this legislation, workers in this situation have been given the statutory right to demand extra contracted hours if they frequently work more hours than agreed in their employment contract. However, this

⁸⁸ For example, the 2010 reform introduced a capital-fund component, reducing the one-time cost of dismissal (OECD, 2010b).

⁸⁹ OECD (2013).

demand can be rejected if the employer can prove that the past increase in working hours was due to a specific situation that will not be repeated on a regular basis.⁹⁰

Addressing “economically dependent self-employment”: Spain has made some efforts to measure the extent of the problem of “economically dependent self-employment”, e.g. by adding questions to the labour force survey in 2009. However, for the moment this information is not widely available to the public. Making this information available would enable policy-makers to examine more closely the development and magnitude of the issue in order to find appropriate solutions. Moreover, given the trend increase in this form of employment across Europe, there would be merit in collecting additional information based on the definition provided by the Self-Employed Workers’ Statute to obtain a more exact estimate of the number of TRADEs. In addition, careful consideration should be given to how to improve social protection for these workers and to ensure that the statutory rights already afforded to “economically dependent self-employed workers” are being upheld. For example:

- In 2009, Portugal introduced the concept of a “presumed” employment contract, whereby self-employed workers are considered wage earners and thus entitled to a contract if they meet at least one of the characteristics of dependent employees, as outlined in the revised Labour Code.⁹¹ As a result of Decree Law 65/2012, persons identified as dependent self-employed are also eligible to receive social security benefits, which has been extended to such workers. Moreover, in August 2013, Portugal passed Law 63/2013, which details the procedure to follow when a labour inspector identifies a self-employed worker whose conditions more closely resemble an employment contract. The employer is first given ten days to correct the situation, after which the case is automatically referred to the Authority for Working Conditions (ACT) for trial and recognition of the existence of an employment contract.

⁹⁰ European Industrial Relation Observatory on-line (EIRO), available at: <http://www.eurofound.europa.eu/eiro/2013/08/articles/no1308029i.htm>

⁹¹ The characteristics of dependent self-employed workers can be found in Article 12.1 of the 2009 Labour Code (Government of Portugal, 2009).

Tackling the increase in working poverty, especially for temporary and part-time workers: In 2012, the risk of poverty among workers with temporary or part-time contracts was disproportionately high: three times as high in the case of temporary versus permanent, and nearly twice as high in the case of part-time versus full-time.⁹² Efforts to improve the targeting of the current social security system could help to limit the effects of labour market polarization on working poverty, while rewarding work effort. These could potentially be applied through the tax system. For example:

- Since 2001, France has established a tax credit scheme (*prime pour l'emploi*, PPE) that applies to employed persons with a low income. This includes people earning between 1.3 and 1.4 times the monthly minimum wage. Interestingly, after 2006, the PPE significantly increased for those who work only part of the year and for part-time workers. While supporting households' incomes, this type of measure has strengthened individuals' incentives to return to work and increase their work intensity.⁹³ Similar policies exist in Belgium (*bonus credit d'emploi*), the United Kingdom (working tax credit) and the United States (earned income tax credit).

*... supported by a rethinking of the role
and focus of labour market policies, guided by a number of principles.*

Spain is currently reforming the training and apprenticeship contract to enhance the responsiveness of vocational training to the skills needs of workers. However, there is still great concern whether these changes and the others put forward in relation to active policies will be sufficient, and that they will balance the need for increased employer flexibility that will allow firms to grow and prosper and, when needed, adjust to changing circumstances. Active labour market policies must also provide support to jobseekers to ensure they remain attached to the labour market and are improving their capabilities in order to reduce the detrimental effects

⁹² Source: Eurostat, EU-SILC.

⁹³ Legros (2010).

Box 3.3

Re-orienting Spain's suite of labour market programmes: Guiding principles for consideration

Improve targeting of programmes: Labour market policies in Spain have traditionally been too broad-based in nature; for example, they often simply target a particular age group. Policies and programmes are more effective when they attempt to address a specific challenge, such as a particular barrier to employment – e.g. a skill deficiency. As such, programmes in Spain have had limited effect on employment creation due to deadweight loss and displacement effects. This has been particularly the case for hiring subsidies, which have been a hallmark of Spanish ALMPs since the 1980s.

Increase emphasis on training, together with social partners: Expenditure on training measures has been traditionally weak in Spain; it accounted for only 22.2 per cent of all ALMP spending in 2011, compared with 26 per cent in the OECD, 33 per cent in Germany, 39 per cent in France and as high as 60 per cent in Austria. Instead, despite some modest improvements in recent years, employment incentives or hiring subsidies have been predominant (28.2 per cent in 2011 compared with the OECD average of 20.7 per cent). Yet, it is important to build on the lessons learned from previous training measures, where positive results have often been restricted to certain groups and types of courses.⁹⁴ One reason for this might be the non-specific nature of the courses offered, which do not adequately target workers' or markets' particular needs. The implementation structure of training, offered through training centres, should also be taken into consideration.

Strengthen the link between income support and labour market programmes: ALMPs have the potential to support jobseekers adequately during a period of structural transformation, provided the interaction between passive and active policies builds complementarities between them. Indeed, it has been widely proven that greater coordination between active and passive policies is necessary in order to promote the effective transition of unemployed workers back to the labour market, while preventing the skills erosion and benefit-dependency associated with long periods of labour market detachment.

Improve evaluation practices: Delivery of programmes must be based on what works, which requires strong evaluation mechanisms to be put in place to measure the effectiveness and efficiency of labour market programmes. At a minimum, programmes should have meaningful, measurable indicators which are assessed against pre-established benchmarks. As part of the reform of the active employment policies that started with the 2012 Labour Reform, a leading role has been given to the monitoring and assessment of policies implemented. A system is being implemented gradually, whereby regional programmes will be evaluated based on indicators agreed between the different public employment services and SEPE, and funding will be conditional on performance.⁹⁵

⁹⁴ Arranz et al. (2013); Cueto (2006).

⁹⁵ Government of Spain (2013c).

of long-term unemployment and inactivity. Yet, the effectiveness of these policies could be enhanced further to the benefit of both employers and jobseekers and provide critical support during periods of structural transformation. Therefore, Spain could consider re-orienting its strategy with respect to its labour market programming along the following lines: (i) ensure that programmes are better targeted, (ii) place greater emphasis on training measures that engage social partners, (iii) develop a stronger link between income support and labour market programmes, and (iv) improve evaluation practices (box 3.3).

*Moving forward, efforts to continue
to reduce the emphasis on hiring incentives and improve targeting
in any new initiatives are merited ...*

The central measures of the 2012 reform renewed employment incentives targeted towards certain groups (e.g. youth, older workers, women and the long-term unemployed), but the impact of these measures on employment creation has – at least to date – been limited. Efforts are needed to improve the targeting of hiring subsidies, for example by restricting them to individuals who are facing particular barriers to employment. This should help improve their overall effectiveness and contribute to reducing overall costs and deadweight losses. Some countries have successfully implemented measures of this sort.

- *Target hiring subsidies based on skills needs:* In Belgium, for example, employers who hire workers who have been registered as unemployed for at least a year benefit from reductions in social security contributions. The measure applies to unemployed workers in different age groups. For example, for unemployed youth aged 27 years or less who do not have a higher secondary diploma, an employer may benefit from up to €1,500 in social security contribution reductions per quarter. What is more, if the young person was receiving unemployment benefits, the public employment service covers a portion of the worker's pay.

- *Target hiring subsidies based on duration of unemployment:* A similar policy exists in Turkey, where eligible employers who hire women or unemployed youth aged 18 to 29 years who have been unemployed for a certain amount of time qualify for reductions in social security contributions for the first five years of employment.

... which will free up resources to develop more training measures in conjunction with social partners ...

Training measures have enormous potential in Spain, and some improvements, guided by international experiences, could improve their effectiveness at a time when such programmes are essential to the recovery process. In particular, increasing the effectiveness of training measures to address the specific needs of unskilled and long-term unemployed – for instance, laid-off construction workers – is of utmost importance. As such, training programmes need to be accompanied by a customized provision of services, which matches companies' needs with the abilities of the unemployed. The recent announcement of a comprehensive plan to reform vocational training practices is a welcome initiative in so far as it would enable effective preparation of workers for reintroduction to the labour market.⁹⁶ However, more can be done to include the social partners, notably employers, in the design and delivery of training programmes to ensure the measures meet the demands of the economy – as has been done in other countries:

- Sweden, for example, developed an information technology training programme that actively involved employers, who selected relevant training programmes and also provided work experience opportunities to programme participants. The employment rate of participants in this tailored programme was 20 per cent higher than that of participants in regular training. This high comparative success rate indicates that train-

⁹⁶ La Moncloa (2014).

ing tailored to the needs of employers results in a higher chance of the unemployed finding work, especially since there is more certainty that their skills will be relevant.

- Similarly, in 2013 the Canadian Government announced the implementation of the Canada Job Grant, which will enable participants to receive the vocational training necessary for available jobs by putting training decisions in the hands of employers. The Government will contribute up to C\$10,000, while employers are required to contribute one-third of the total costs. Grants will be for short-duration training provided via eligible third parties, such as community colleges or private trainers. The programme also includes flexible arrangements, such as the potential for small businesses to count a portion of wages towards the employer contribution, so that businesses of any size may participate.
- Another model of this type of training measure exists in Germany, where a large portion of the ALMP expenditure is allocated to vocational training inside and outside the workplace. This integrated system ensures that workers are trained in skills that are needed in the labour market.

*... and provide added assistance
to self-employed individuals to sustain and grow their operations.*

Recent reforms to promote self-employment are a welcome step. However, in order for such policies to have their maximum impact, it is important that enterprises receive the support necessary to expand and create more jobs (see Chapter 2). As such, providing business development counselling and services to start-ups – as well as ongoing support – would be a way to improve outcomes for self-employed individuals.

- An example of this exists in Hungary, where self-employed persons can benefit from concessions on the amount of taxes paid. In addition,

SMEs are exempt from paying social security contributions when hiring unemployed persons belonging to certain categories.⁹⁷ Additionally, self-employed individuals are allowed to deduct certain kinds of investment expenditure⁹⁸ from their taxes. In Argentina, *Programa de Financiamiento Productivo del Bicentenario*, launched in 2010, grants subsidized loans to firms. The loans may be used to acquire land, put towards working capital or used to refinance debt. Loans are primarily granted to ventures that generate employment and result in domestic production. Such measures are expected to encourage more people to create their own self-employment opportunities.⁹⁹

- In 2008, the Republic of Korea launched several start-up initiatives aimed at fostering entrepreneurship and overcoming a cultural aversion to risk-taking through the Korean Institute of Start-up and Entrepreneurship Development (KISED). This public agency is leading the effort to implement programmes through which prospective entrepreneurs can participate in mentorships and receive advice on management and technology at the weekends. In addition, in February 2010 KISED launched an online start-up system that simplifies the procedure of starting a business by integrating all the required steps, such as issuance of bank statements, applications for insurance and proof of local and corporate tax payment registration. As a result of the Republic of Korea's efforts to promote SME growth, the number of confirmed business ventures has risen progressively since 2008, despite the economic recession, from 15,401 in 2008 to 26,251 in 2012.¹⁰⁰

⁹⁷ Persons who have been registered as jobseekers for at least six months, persons who have been unemployed for at least a year and those affected by a collective layoff (OECD, 2010b).

⁹⁸ Spending on fixed assets, intangible assets, renovating real estate, etc. (European Commission, 2013b).

⁹⁹ Ministry of Economy and Public Finance: http://contenidos.mecon.gov.ar/?page_id=2735.

¹⁰⁰ SMBA (2013).

*At the same time, targeted income assistance
for long-term unemployed and low-income families is needed ...*

In Spain, there are currently two national social assistance programmes for low-income and unemployed workers: the PREPARA Plan and *Renta Activa de Inserción*. The Government recently extended the PREPARA Plan indefinitely, having first introduced it in February 2011 as a temporary measure. This plan specifically targets long-term unemployed and low-income families, providing a guaranteed income for six months on the condition that recipients participate in activation measures and job-searching.¹⁰¹ Another programme, *Renta Activa de Inserción*, provides a minimum income for long-term unemployed workers aged over 45 who have exhausted their unemployment benefits or unemployment assistance. Despite these initiatives, a growing number of unemployed workers do not receive any form of income support. This is due to the lack of an efficient information system and a marked emphasis of programmes on workers with longstanding labour market attachments. By extending eligibility – and potentially increasing the level of support – in a targeted manner, efforts to provide support to low-income groups could be enhanced:

Raise minimum transfers of unemployment assistance programmes: In Spain, the effectiveness of public transfers in alleviating poverty has proven to be relatively low. Indeed, according to OECD (2014), the net income level provided by cash minimum-income benefits in Spain was 24.2 per cent of median income in 2011 for a family with two children. This amounts to slightly over a third of the poverty threshold of 60 per cent of median

¹⁰¹ Government of Spain (2013c).

income. When comparing the poverty rates before and after taxes and transfers it is possible to observe that in 2010, social transfers in Spain reduced the poverty rate by 56 per cent, while they contributed to a 70 per cent reduction in the poverty rate of the Netherlands and Norway, 72 per cent in Germany and Austria; 75 per cent in Denmark and 77 per cent in France and Finland. Therefore, raising minimum transfers would also be of paramount importance to ensuring that social assistance effectively helps the most vulnerable groups:

- The American Recovery and Reinvestment Act (ARRA) implemented in the United States in 2009 allocated an estimated \$48 billion to the Supplemental Nutrition Assistance Programme (SNAP) which provides assistance to low- and no-income families in the form of food vouchers on the condition that they register for work, accept available employment, and participate in referred training programmes.

Extend eligibility while targeting social assistance programmes specifically to poor households: Moreover, there is need to provide social assistance to families that are not eligible for unemployment assistance programmes or are unable to find a job before unemployment assistance runs out. Currently, requirements across the unemployment benefits and assistance programmes are quite similar so they tend to extend the duration of benefits for groups that were already eligible – i.e. unemployment assistance covering overall unemployment benefits' beneficiaries that have exhausted their right. This is undeniably an important first step. Yet, for unemployment assistance to effectively address rising poverty, eligibility to these programmes needs to be enlarged to encompass a larger demographic group, yet specifically targeted to those most at risk of poverty. Spain could consider adjusting the eligibility criteria and/or the benefit level of the Renta Activa de Inserción. Right now it is only eligible to those aged 45 and over and who have had

previous access to unemployment benefits or assistance. In this regard, international policy experiences could provide some successful examples:

- A number of countries in Europe have unemployment assistance benefits that are available irrespective of contribution records or previous employment history. In fact, these schemes are often means-tested and thus linked to those unemployed individuals most in need. For example, in Ireland, individuals who do not qualify for unemployment benefits or whose entitlement has expired could be eligible for Jobseeker's Allowance with no limit of time as long as they meet eligibility criteria.¹⁰² The Jobseeker's Allowance does not have a prior employment requirement and therefore is well-suited for tackling youth unemployment. In order to qualify for this means-tested income benefit, participants must be between 18 and 66 years of age, unemployed and actively seeking work.

*... but must be complemented with measures
to sustain labour market attachment and participation.*

A better interaction between social protection and social assistance programmes and ALMPs could also improve the effectiveness of government efforts. Indeed, at a time when the recovery is in its nascent phase, it is critical to ensure that workers remain attached to the labour market and retain (and where necessary improve) their skills. Indeed, making benefits and social assistance transfers conditional upon the participation in training programmes and work activities – if well-targeted – could be especially helpful in Spain given the extremely high long-term unemployment rate and risk of labour market detachment. In line with this, many countries have implemented a number of programmes that have proven successful in increasing living conditions and facilitating the reintegration of workers into the labour market.

¹⁰² Irish Department of Social Protection.

- In Denmark, the ALMPs system is linked to the duration of unemployment, so that the resources directed to participants increase in line with the risk of long-term unemployment. Moreover, participation in offered activation measures (career counselling and requalification, vocational training, etc.) is required in order to remain entitled to both unemployment benefits and social assistance, and the measures are tailored towards the individual's specific employment needs. The Danish ALMP system has proven especially effective at shortening the individual periods of unemployment.¹⁰³
- In 2009, France introduced the *Revenu de Solidarite Active* (RSA) to target the unemployed and working poor. This plan ensures a minimum income for all, while raising incentives to return to work. The basic amount of income support is contingent on household composition and the number of dependent children. Furthermore, beneficiaries must be involved in active job searching, be taking necessary steps towards self-employment, or be participating in prescribed integration activities in order to receive the basic income benefit. RSA has been shown to be successful at alleviating poverty through effective targeting of income transfers.
- Since 2001, Argentina's *Plan Jefes y Jefas de Hogar Desocupados* offers assistance to unemployed households that is conditional on participating in labour-market-related activities. In order to be eligible, the unemployed have to be engaged in activities such as training programmes, community work for up to 20 hours per week or work in a private company. In exchange, the Government provides each beneficiary an income transfer of US\$45 each month – 150 Argentinean pesos, three-quarters of the minimum wage – covering over 1.5 million households.¹⁰⁴ The programme,¹⁰⁵ which has been in place for over a decade, has proved to be effective in providing unemployed workers with incentives to return to the labour market or participate in the conditional activities. Evaluations also show that it has managed to enhance the employability of participants, particu-

¹⁰³ Andersen (2011).

¹⁰⁴ This corresponds to approximately 5 per cent of the total national budget, of which around 80 per cent is allocated to employment measures, such as training and workforce programmes (Cetrángolo and Jiménez, 2003).

¹⁰⁵ Barrientos et al. (2010).

larly among women. Finally, the programme has also successfully contributed to reducing poverty and sustaining living standards, with the poverty rate falling by 3 per cent during the first two years of implementation.¹⁰⁶

Each step of the reform process must take into consideration the acute challenges facing Spanish youth.

As discussed in Chapter 1, youths have been disproportionately affected by the crisis in Spain. There is extensive evidence in the economic literature showing that the conditions of a youth's first job will influence their ability to finding stable, good quality employment over a long time period.¹⁰⁷ In Spain, a special focus on youth, for whom skills erosion is a particular challenge, will be key going forward. In fact, conscious of the importance of providing young people with better opportunities in the labour market, a number of governments in the European Union have implemented policies targeted specifically at youth, such as a youth guarantee programme. Spain has also attempted to join these efforts. Indeed, in December 2013, Spain presented the Strategy for Entrepreneurship and Youth Employment 2013–2016, which is meant to allocate a budget of €3,485 million towards 100 programmes that aim to foster youth participation in the labour market.¹⁰⁸ While implementing the measures proposed in this strategy, Spain could bear in mind the lessons learned by other youth guarantee programmes. Successful examples in this regard include (i) a good balance between active and passive policies combined with personalized public employment service, and (ii) achieving coherency among programmes through effective collaboration with social partners:

- A particular example of this is provided by Finland, which introduced a youth guarantee scheme (*Nuorten yhteiskuntatakuu*) in 2005, spearheaded by the public employment service, which was revised in 2010 and 2013. The current form of the scheme, designed for unemployed youth aged under 25 (or recently graduated under 30), is aimed towards reducing the duration of unemployment by guaranteeing a job, study opportunity, training or other activation measure within three months of registering

¹⁰⁶ *Ibid.*

¹⁰⁷ See for example Liu et al. (2012).

¹⁰⁸ Government of Spain (2013d).

as unemployed with the PES. Within this time, counsellors develop a needs assessment for the unemployed young individual, work with the person to develop a career plan and actively help in the job search process. In 2011, 83.5 per cent of youth participating in this scheme registered successful outcomes within three months of registering with the PES. During the last global crisis, when the counsellor to clients ratio rose to high levels (about 1:700), a boost in PES staff and budget in 2010 lightened the load and ensured that the PES was still able to deliver.¹⁰⁹

- Meanwhile, in the Netherlands, an Action Plan on Youth Employment was adopted in 2009 following an agreement between the Government and social partners. The programme includes a comprehensive series of measures aimed at supporting young people struggling with difficult labour market conditions. This includes initiatives to keep young people in education, creating regional (rather than national) employment programmes to tackle unemployment, job-matching services, creation of traineeship positions and initiatives to prevent labour market exclusion. As part of this programme, employers' organizations committed to creating 25,000 temporary positions specifically dedicated to youth that combine work and training experience. The outcome of this programme has been particularly positive: 10,000 students remained longer in education in both 2009 and 2010, while 30 regional agreements resulted in 29,000 youths being placed in training or employment in 2009 and 38,000 in 2010.¹¹⁰
- In addition, the European Commission has recently launched an effort to promote youth guarantee programmes among EU Member States with partial funding from the European Union. The budget for the initiative is estimated at around €6 billion for the period 2014–2015,¹¹¹ of which approximately €943.5 million have been assigned to Spain, conditional on the country matching this amount euro for euro from its European

¹⁰⁹ Mascherini (2012).

¹¹⁰ European Industrial Relation Observatory on-line (EIRO), available at: <http://www.eurofound.europa.eu/eiro/studies/tn1101019s/nl1101019q.htm>

¹¹¹ Originally it was proposed for a seven-year period, from 2014 to 2020, but it was amended recently.

Social Fund allocation.¹¹² The initiative targets regions experiencing youth unemployment rates above 25 per cent and young people not in employment, education or training (NEETs).

Conscious of the importance of this initiative, the Government of Spain put together the National Youth Guarantee Implementation Plan in December 2013 (requirement of the European Commission for accessing the funds). The Plan was then implemented in July 2014, through Royal Decree Law 8/2014. The National Youth Guarantee in Spain targets young persons aged 16 to 25 years who have not worked during the last 30 days and who have not participated in education or training during the last 90 and 30 days, respectively. Eligible youth need to sign up in an online registry created by the Government specifically for this programme, to participate. Participating youth are eligible for training, vocational training, apprenticeships and school-to-work-transition programmes. They will also be provided with support in job search and other assistance from employment agencies. Moreover, the scheme leverages on existing reductions in social security contributions and tax exemptions to provide incentives to firms to participate. For example, employers hiring youth who are registered in the Youth Guarantee System receive a discount of €300 in monthly social security contributions for a maximum of six months, provided the contract is full-time and permanent and for a minimum of six months.

The implementation of the Youth Guarantee scheme in Spain is a welcome initiative. The scheme offers a combination of both education and training opportunities, which is one of the key factors for the success of this type of programmes according to ILO recommendations (box 3.4). However, delay in implementation may pose some challenges given that interventions of this type often yield the results when put in place within the earlier stages of unemployment as prolonged periods out of employment and the

¹¹² Government of Spain (2013h, 2014c).

labour market weaken the effectiveness of youth guarantees.¹¹³ Moreover, additional resources to tackle the problem of youth unemployment may be merited since the total budget, estimated at roughly €1.8 billion, is far from the €7 billion, or the 0.66 per cent of GDP, the ILO recommends based on the Swedish model (table 3.3).¹¹⁴ Finally, a proper institutional setting (e.g. adequately staffed PES) and clear role of the different government agencies concerned with the provision of youth guarantee services is a prerequisite for successful implementation of the programme. In the case of Spain, a question remains regarding the specific role of the different actors concerned. The Royal Decree Law 8/2014 could be more precise in this regard. Currently, it explains that the central government and administrations of autonomous communities, as well as all other public entities dependent on them, will participate in the application of the scheme in the scope of their competencies. It therefore leaves open to some interpretation how services will be delivered.

¹¹³ ILO (2013).

¹¹⁴ Government of Spain (2014c).

Youth guarantee programmes encompass a set of measures that aim to provide targeted training, education or employment opportunities to young people. There is wide variation in the design and implementation of youth guarantees across countries. Most, however, mandate the PES to provide a job or educational opportunity to candidates that fulfil eligibility criteria. These programmes have an established record in Nordic countries, such as Denmark, Norway and Sweden, where their use first began in the 1980s and 1990s. Due to the success that such programmes have achieved, over the years other countries have begun to adopt them as a means of equipping young people with skills that are useful in the labour market.

Importantly, certain factors need to be carefully considered in their design and implementation for guarantees to achieve their desired aim of reducing unemployment and providing young people with valuable skills (ILO, 2013):

- First, interventions need to be tailored to a specific target group in a timely manner. Measures need to be directed to a clearly defined group and implemented within the earlier months of unemployment. Prolonged periods of unemployment weaken the effectiveness of youth guarantees. Likewise, policies designed for a large group tend to be less effective.
- Second, properly developed institutional frameworks are a prerequisite for successful implementation of programmes. In this regard, PES will need to have adequate staffing (in number and skills), enough funding and be built upon partnerships with employers.
- Third, sound education and training is necessary for young people to participate fully in the labour market. Basic competencies should be developed along with the acquisition of specific skills relevant to the needs of the labour market.

Evidence from countries such as Sweden shows that youth guarantee schemes are an efficient way to tackle youth unemployment and provide skills acquisition if properly designed and implemented. They have the potential to effect significant change at modest costs. In Sweden in 2010, the estimated cost of its Job Guarantee for Young People scheme totalled less than €6,000 per participant youth plus administrative costs (around €600 per participant), an investment that yielded a 46 per cent success rate among participants. Based upon the Swedish example, the ILO (IILS, 2012) estimated what the components of a youth guarantee scheme similar to the Swedish programme might cost in other countries. For Spain, it estimated that implementing a youth guarantee programme would cost around €7 billion (table 3.3).

Box 3.4 Efficient implementation of youth guarantee programmes (cont.)**Table 3.3 Estimated costs of implementing youth guarantee programmes in Europe**
(millions of euros)

	Cost of youth guarantee programme	Administrative costs	Total cost
Euro area	16,821.9	4,264.2	21,086.11
Austria	71.9	18.2	90.08
Belgium	372.1	94.3	466.47
Cyprus	49.6	12.6	62.14
Estonia	104.6	26.5	131.11
Finland	491.0	124.5	615.41
France	2,860.0	725.0	3,585.01
Germany	1,395.0	353.6	1,748.63
Greece	926.4	234.8	1,161.28
Ireland	347.6	88.1	435.71
Italy	3,081.2	781.1	3,862.28
Luxembourg	11.7	3.0	14.71
Netherlands	24.6	6.2	30.84
Portugal	184.2	46.7	230.90
Slovenia	841.7	213.4	1,055.12
Slovakia	83.4	21.1	104.56
Spain	5,617.5	1,424.0	7,041.49

Source: ILS (2012).

Part of the Government's National Youth Guarantee Implementation Plan includes an emphasis on apprenticeships. And while this too is welcome, it is important to bear in mind that – as highlighted in Chapter 2 – for apprenticeships to yield maximum benefits, certain key elements are necessary: (i) apprenticeships should be built around solid partnerships with employers in the private sector who provide well-supervised and relevant training to participants; (ii) apprenticeships need to be compensated with adequate social protection in order to create decent opportunities; and (iii) strong links should also be established between classroom learning and apprenticeship training to ensure relevance in addressing the needs of the labour market.

Source: ILO (2012, 2013); ILS (2012).

*All the above will need to be supported
by a reinforced and more personalized PES.*

The 2012 reform included strategies to improve job search through the creation of a national PES database and allocating public funds based on the results of regional PES activation programmes. This has been combined with efforts in recent years to increase the number of case workers. These are welcome steps, but efforts to renew and better target training measures and to reinforce the provision of personalized counselling to the most vulnerable groups – as discussed above – remain limited or have yet to be fully realized.

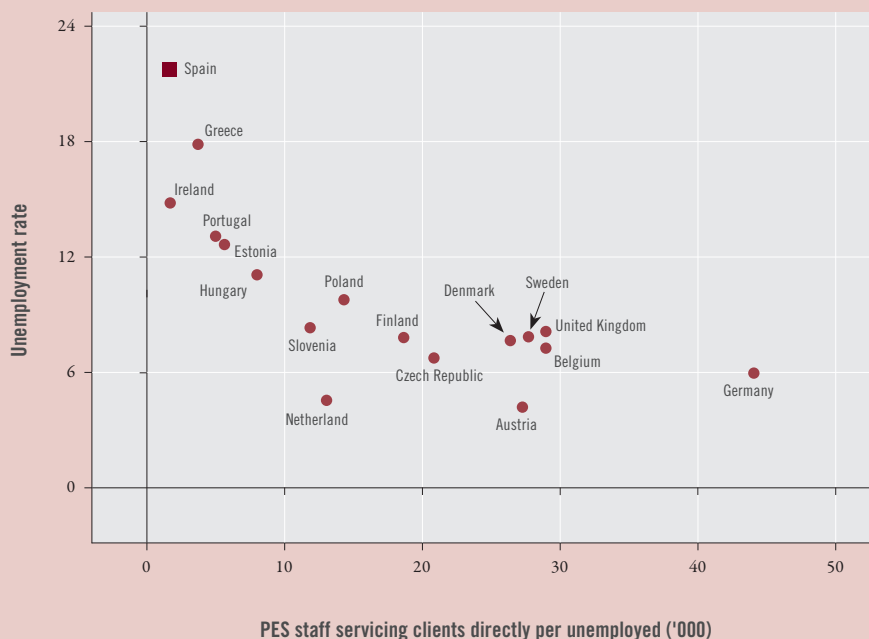
Yet, the country spends considerably less than other countries on service delivery. In 2011, 17 per cent of total ALMP spending was allocated towards PES, compared with the OECD average of 24.1 per cent.¹¹⁵ It is also considerably lower than spending by other major European countries, including Germany (43 per cent), Denmark (29.6 per cent), France (27 per cent), Sweden (26.6 per cent) and Austria (24 per cent). Furthermore, despite the higher level of unemployment in Spain, the allocation of resources dedicated to PES is comparable with levels in countries with significantly lower unemployment rates (figure 3.7). There are also questions regarding the efficiency of the Spanish PES, at least as measured by the number of registered vacancies and the number of successful matches achieved.^{116,117}

¹¹⁵ A word of caution is in order when considering the evolution of the expenditure in this category since a large and increasing part of the expenses reported in Spain corresponds to the subcategories of benefit administration and expenses of other services and activities, which could represent a mixture of both passive and active policies. This is a valid concern in most countries (e.g. France, Ireland, Portugal and, to a lesser extent, Italy). It is less of a concern in countries with a strong PES tradition, such as Denmark, Germany and Sweden, (i.e. the combined category stood at around 20 per cent in 2011).

¹¹⁶ Suarez-Cano et al. (2012); Alujas Ruiz (2008).

¹¹⁷ For example, since 1995, PES in Spain have been gradually decentralized to the autonomous communities, but are still integrated into the National Employment System. Moreover, the 2005 National Reform Programme included the modernization plan aimed at coordinating active and passive labour market policies, as well as allowing for better information sharing between the central and autonomous PESs (Rodríguez Climent and Navarro Abal, 2012). Furthermore, the 2010 reform stated the intent to implement technological, human resources, and organizational improvements that would reinforce PES services, while additionally loosening restrictions on private intermediaries that could lessen the burden on PES offices.

Figure 3.7 Relationship between PES staff servicing clients directly and the unemployment rate, 2011



Source: ILO Research Department, based on European Job Mobility Laboratory and OECD.Stat.

Moving forward, continued efforts to reinforce the PES offices and modernize the methods used in an attempt to improve efficiency will – if combined with the re-orientation of ALMPs discussed above – help to facilitate the movement of workers from unemployment into employment.

Reinforcing PES to better target services to jobseekers: In order to provide support to the most vulnerable (long-term unemployed, youth and workers in construction), PES staff need to provide individual counselling through customer segmentation and profiling systems and to become coordinators of personalized career plans. The labour market challenges Spain faces

require PES workers to take on a more proactive role. To achieve this, PES need to be well resourced to improve staff-to-client ratios. Germany provides a strong example of a well-resourced PES capable of providing effective service delivery. In 2011, Germany approved measures that allowed the PES to hire additional case workers. This resulted in a law that mandated a staff-to-client ratio of 1:75 for long-term unemployed under the age of 25, and 1:150 for persons older than 25.¹¹⁸

Modernizing PES methods: To improve the performance and reach of PES, countries in the EU region have modernized the methods used by PES offices. They have automated processes and implemented IT networks to make services more accessible through social media. This allows links to be created between PES and other organizations, and also between national and regional PES offices, thus enhancing coordination. It also increases accessibility to hard-to-reach areas. Sweden, for example, has used ICT quite successfully to provide kiosks with video links to PES centres to allow face-to-face counselling in rural areas.¹¹⁹

Improving PES cooperation across autonomous communities: A major issue concerning the PES system in Spain has been the lack of coordination between regional and national offices. The Government has attempted to address this problem through the creation of the Single Job Portal in February 2013,¹²⁰ which combines job vacancy listings from the different regions into one national database. However, the portal has yet to become fully functional. Another issue arising from the decentralization of Spain's PES system is the existence of barriers to the creation of more personalized services. Regional offices lack incentives to proactively implement activation methods, because that would require higher expenditure out of the communities' budgets. Some countries in Europe have addressed this issue through methods that increase the transparency of the different actions (or the lack of thereof) taken by individual offices, which has the potential of

¹¹⁸ IILS (2011b).

¹¹⁹ European Commission (2013c).

¹²⁰ Royal Decree Law 3/2013.

increasing regional accountability. For example, in Denmark, a national IT system tracks regional PES progress towards annual goals and minimum activation requirements. The results are then published on the PES website, providing incentive for local politicians and managers to be concerned with the performance of their PES offices.¹²¹

¹²¹ European Commission (2011b).

APPENDIX 1: **SUMMARY OF KEY REFORMS** **IN SPAIN**¹²²

EMPLOYMENT PROTECTION

2010 labour market reform package

- Clearer and more precise wording of the causes for objective justified dismissals by including the case for economic, technical (introduction of new ways of production), organizational and production-related (temporary fall in demand) reasons. In this case, the employer pays 20 days' wages instead of 45 days' wages per year of service. Reductions of working hours are also allowed for economic, technical, organizational and production-related reasons.
- Reduction of the notification period for justified individual dismissals to 15 days, compared with 30 days previously.
- Reinforcement of employment protection legislation for temporary workers, as the severance payment increased by one day per calendar year, passing from eight days per year of service in 2008 to 12 days in 2015.
- Creation of a lifelong individual capitalization fund for workers. Workers will be able to make use of the fund in cases of dismissal or transfer to another area or on reaching retirement.

¹²² Based on Corral and Villarejo (2009); Government of Spain (2007, 2010a, 2010b, 2010c, 2011a, 2011b, 2011c, 2011d, 2011e, 2011f, 2012a, 2012b, 2012c, 2012d, 2013a, 2013b, 2013d, 2013e, 2013f, 2013g, 2014a, 2014b) and ILO, EPLex database.

2012 labour market reform package

- Generalization of the reduction of the compensation that permanent contract workers receive in the event of unfair dismissal from 45 days' pay per year worked for a maximum of 42 months to 33 days' pay per year worked for a maximum of 24 months.
- The minimum notice period that an employer must give an employee in the event of substantial individual modifications to employment conditions reduced from 30 to 15 days.
- The compensation for unfair dismissal for new open-ended contracts cut to 33 days per year worked, while remaining at 45 days for existing contracts.
- The definitions of the reasons for carrying out collective and individual dismissals (i.e. economic, technical, organizational and production-related) have been clarified. The need to present a legal document to justify the appropriateness and reasonability of collective dismissals by a company has been removed.
- Approval by the Public Administration is no longer needed for collective dismissals.
- The firm has to carry out a special training and relocation plan for dismissed workers if a collective dismissal affects over 50 workers.
- Payment of interim wages for the duration of the judicial procedure when an employer opts for severance pay in cases of unfair dismissal has been eliminated.
- Professional categories have been eliminated, leaving a common overall classification for workers by occupations, which homogenously groups professional skills and general content of services provided.

COLLECTIVE BARGAINING/WAGE SETTING

2010

- Public sector wages cut by an average of 5 per cent. High-ranking officials' salaries were cut between 8 and 15 per cent. Those on lower pay were cut between 0.5 and 7 per cent.
- Provisions introduced to allow conditions established in multi-employer agreements to be modified by means of collective bargaining at company level. The conditions that can be modified are salary levels, working hours and working time distribution. Changes must be negotiated in advance within a non-extendable period of 15 days.

2011

- Firm-level agreements were given priority over higher-level agreements on a range of issues related to wages, working time schedules and job organization.
- Expansion of the legitimation to negotiate sectoral agreements to employers' associations that represent at least 15 per cent of total workers in a particular functional and geographical area and to employers' associations representing at least 10 per cent of all employers in the sector if they employ at least 10 per cent of the workers affected.

2012

- Absolute priority of key provisions in enterprise-level agreements over higher-level agreements was introduced.
- "Ultra-actividad" of collective agreements is limited to a maximum of one year, after which the agreement will no longer be valid.
- Derogation from collective bargaining clauses was eased, and possibilities for the employer to unilaterally modify working conditions were expanded.

- The amount of outstanding wages covered by the wage guarantee fund (FOGASA) was reduced from three times the inter-occupational minimum wage (SMI) to twice the SMI. The maximum coverage period was also reduced, from 150 to 120 days.
- The use of collective dismissal in the public sector is allowed.

2013

- For enterprises employing 100 or more employees that apply for collective redundancy procedures, in which they affect workers aged 50 years or older, if the enterprise has made a profit in the previous two years, it will have to compensate the Government in an amount that will depend on the value of the benefits the laid off workers were entitled to and on their social security contributions. As of 1 April 2013, companies can only be forced to compensate the Government if the percentage of workers aged 50 years or older involved in the collective dismissal is higher than the percentage of workers younger than 50 years of age working in the company.

JOB PROMOTION

2011

- Introduction of a training and apprenticeship contract targeted at workers between 16 and 25 years of age without any professional qualifications. The contract duration must be set between one and two years, with an option for a third year under certain circumstances. Some fiscal benefits (100 per cent reduction in social contributions for firms with fewer than 250 employees and 75 per cent reduction for those firms above the threshold) are granted to firms that hire workers aged 20 or more in the period from the entry into force of Royal Decree Law 10/2011, of 26 August, and until December 31, 2013. Firms need to prove a net increase in total workforce and can be granted an additional benefit of €1,500 per year during three years should they transform a training and apprenticeship contract into a permanent contract. The reduction is €1,800 per year for women.

2012 labour market reform package

- Introduction of a new type of employment contract, the Permanent Employment Contract to Support Entrepreneurs, which is available exclusively to firms with fewer than 50 employees that did not make any unfair dismissals in the six months preceding hiring. This contract sets the duration of the trial period to one year. In order to promote permanent employment and encourage the use of such contracts, a series of tax benefits have also been granted, as detailed below.
- Companies with fewer than 50 employees receive financial incentives to encourage job creation. Companies that hire young unemployed workers under permanent contracts receive a €3,000 tax reduction upon first hire. Furthermore, if the new hire received unemployment benefits, the tax reduction is equal to 50 per cent of the remaining amount the worker was to receive in unemployment benefits at the time of hire.

- Other financial incentives include discounts in social security contributions for hiring an unemployed worker aged 16 to 30 years or over the age of 45 on a permanent contract. The incentives are higher when these contracts are concluded with women in sectors where this group is less represented.

2013

- Promotion of self-employment among young people by: (i) a decrease in social security contributions for a period of 30 months beginning on the date of registration with social security; (ii) continued payment of unemployment benefits during the pursuance of a self-employment activity, for a maximum of 270 days; (iii) immediate access to full unemployment benefits, in order to allow investment in said activity; and (iv) the option to suspend the receipt of unemployment benefits for a period of 60 months while engaging in a self-employment activity.

2014

- Reduction of social security contributions (for common contingencies) to a €100 flat-rate contribution for companies and independent contractors who hire a new worker on a stable full-time contract. This measure will remain in force for 24 months (since the signing of the contract for all contracts concluded between 25 February 2014 and 31 December 2014) and applies to all companies and workers.

JOB QUALITY

2007

- Introduction of the definition of economically dependent self-employed workers in the legal framework. A self-employed worker is deemed to be economically dependent when a single contracting entity accounts for at least 75 per cent of his/her income. In addition, the statute made economically dependent self-employed workers eligible to 18 days of holiday per year as well as to be covered by the Social Security for temporary disability, work-related accidents and professional illness.

2011

- Action against undeclared labour: employers which regularized the situation of irregular workers before 31 July 2011 would not be subject to any sanctions. Once the regularization procedure had taken place, any type of contract could be drawn up between employers and employees. After 31 July 2011, a series of sanctions would apply to employers which had not regularized undeclared workers.

2012 labour market reform package

- Companies are allowed to unilaterally distribute working hours irregularly by a margin up to 5 per cent of the total yearly working hours.

2013

- Announcement that the Youth Guarantee Plan would promote the hiring of 1,000 young people with degrees or higher-level professional training certificates to undertake research and development activity.
- The number of authorized complementary hours for part-time contracts was raised to a maximum of 30 per cent of ordinary hours – up from 15 per cent before – and the period of prior notice to work overtime hours was reduced from seven to three days.

SOCIAL SECURITY

2012

- Unemployment benefits after 180 days of receipt have been reduced from 60 to 50 per cent of the contribution base.
- Unemployment subsidies have been eliminated for workers aged 45 and over who have benefited from contributory unemployment benefits for 720 days.
- The minimum age requirement for access to old-age (non-contributory) unemployment subsidies has been increased from 52 to 55 years, and the maximum age requirement has been reduced from 65 to 61 years. The social security contribution base for these workers has been lowered from 125 to 100 per cent of the minimum contribution cap.

ACTIVE LABOUR MARKET POLICIES

2011

- Development of an individual job action plan, the “Personal Employment Agreement”, between the unemployed and the public employment service (PES). An individual and personalized itinerary will be defined for each client. The scheme targets groups identified as priorities (e.g. those aged over 45).
- Strengthening of the human resources of the PES and of the cooperation between private and public employment services. Definition of the objectives of the PES and of the conditions for access to PES services for employers and the unemployed.
- Training on the job to provide young unemployed (18-25 years of age) with little or no working experience through a first internship in a firm. The unemployed must have attained some education qualification (at least second-level secondary education) and will receive a remuneration amounting to at least 80 per cent of IPREM (Multi-Purpose Public Income Index). Firms must sign a collaboration agreement with a PES. A collaboration agreement (which is not labour contract) is signed between the firm and the worker. The internship cannot exceed nine months.

2014

- Introduction of a new vocational training model governed by principles of transparency and free competition and subject to a permanent effectiveness evaluation.
- Approval of the two-year initiative “Employment Activation Strategy”, which will include, among other things, new instruments – such as the framework agreement for collaboration with private placement agencies – and institution of the Single Employment Portal.

PENSIONS

2011

- The retirement age has increased from 65 to 67 years. This change will be applied progressively between 2013 and 2027.
- There will also be an increase in the number of years of social security contributions used to determine the regulatory base of the pension, from 15 to 25 years.
- The legal age of voluntary early retirement has risen from 61 to 63 years.
- A definition of “forced early retirement due to company restructuring” has been introduced for cases in which the termination of work cannot be attributed to the worker. This now applies to workers who: (i) are 61 years of age; (ii) have been enrolled in the public employment service as a job-seeker for at least six months; and (iii) have contributed to the social security system for a minimum of 33 years.

2013

- Elimination of the automatic link between inflation and increases in pension payments starting from 2014.
- The eligibility criteria for receiving non-contributory unemployment benefits for those older than 55 have been tightened. Workers older than 55 whose unemployment contributory benefit has ceased and whose income is null will not be entitled to non-contributory unemployment benefits if they have children younger than 26 years of age and/or spouse whose average income is higher than 75 per cent of the minimum inter-professional wage.

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CHAPTER 4

BUILDING RECOVERY THROUGH SOCIAL DIALOGUE AND COLLECTIVE BARGAINING

INTRODUCTION

The present chapter focuses on the critical role of social dialogue and collective bargaining in the process of building a new sustainable economic growth model for Spain. In fact, the labour market and macroeconomic challenges presented in previous chapters are best addressed through jointly agreed policy approaches. As such, social dialogue provides the institutional means to confront challenges triggered by a crisis, and to facilitate consensus on reform programmes and measures for containing the social costs of a crisis. This, in turn, helps to avert social instability that would otherwise delay the necessary adjustment process.¹²³ Moreover, a well-functioning social dialogue can be the foundation for the changes needed for building a recovery, while divisions in this dialogue put economic and social objectives at risk.

With this in mind, the chapter first examines the important role of social dialogue in Spain and documents recent developments in tripartite relations (section A). Second, the chapter analyses the changes introduced to collective bargaining in recent years, notably as regards the 2012 Labour Market Reform (section B).¹²⁴ Finally, the chapter discusses a number of policy considerations and potential areas to leverage better social dialogue and collective bargaining going forward (section C).

¹²³ North (1990); Rodrik (1999); Lee (1998).

¹²⁴ The discussion in this report on the 2012 collective bargaining reform was informed by a background paper developed by Marleen Rueda, commissioned by the Research Department of the ILO in 2013. This background paper collected quantitative information from public statistical sources and qualitative information from interviews with the Government and social partners at different levels in Spain (Rueda, 2013).

A REVIVING SOCIAL DIALOGUE AS AN ENABLER OF RECOVERY

Spain has a long tradition of tripartite social dialogue ...

Spain has traditionally had a strong practice of social dialogue and from the late 1970s until the mid-1980s, social dialogue was visibly tripartite in nature (table 4.1). It also appears that meaningful social dialogue has often been a function of socio-economic conditions and political will over time.¹²⁵ Since the beginning of the 1990s, this model developed into a bipartite negotiation between the main unions and the employers' organizations, with the Government playing a central coordination role and enacting the results of negotiations between the social partners in the case of an agreement. Where no agreement was reached, the Government sometimes enacted new regulations, possibly including aspects of bipartite discussions.¹²⁶ However, this model needs to be reconsidered in light of the repeated problems encountered in reaching agreements, particularly during the current crisis.

... but the process in Spain has been fragmented in recent years.

Social dialogue has experienced a number of challenges in Spain in recent years.¹²⁷ The first wave of the financial and economic crisis – characterized by the introduction of stimulus packages in 2008 and 2009 – incorporated significant involvement of social partners, yet few results in terms of concluded agreements. With the onset of the sovereign debt crisis in 2010, the strong presence of tripartite social dialogue as part of the policy-making process waned considerably.¹²⁸ This was particularly the case when, in 2010, fiscal consolidation measures were introduced with little or no consultation with the social partners.¹²⁹ In some cases there were considerable efforts to reach tripartite consensus, but either the long tripartite negotiations were unsuccessful or bipartite pacts concluded between the

¹²⁵ Molina and Miguélez (2013).

¹²⁶ Cazes et al. (2012); Hyman (2010).

¹²⁷ Similar developments have taken place in other crisis-hit countries. See Cazes et al. (2012) and Hyman (2010).

¹²⁸ Molina and Miguélez (2013).

¹²⁹ The first fiscal consolidation plan was called Plan for Immediate Action 2010 (*Plan de Acción Inmediata 2010*).

Table 4.1 Achievements in tripartite social dialogue in Spain – historical overview

Year	Agreement or act	Achievements
1980s	National Employment Pact (1982) Economic and Social Pacts (1984; 1985; 1986)	The Inter-Confederal Framework Agreement of 1980–1981 permitted pay increases tied to productivity improvements at the company level from 1981 onwards. The tripartite National Pacts involved the Government, CEOE, CEPYME, UGT and CCOO, with varying compositions.
1990s	National Pact on Continuous Training I and II (1992; 1996)	The tripartite pact modified the institutional, legal and financial framework for continuous training, and involved the Government, CEOE, CEPYME, CCOO, UGT and CIG.
2000–2004	National Pact on Continuous Training III (2000) Pensions Pact (2001)	The Training Pact again involved the Government, CEOE, CEPYME, CCOO, UGT and CIG. The major pensions agreement involved the Government, CEOE, CEPYME, and CCOO, while UGT remained outside the agreement.
2004	Declaration for Social Dialogue 2004: Competitiveness, Stable Employment and Social Cohesion	The Pact provided the general orientation of social dialogue in content and form from 2004. Together with competitiveness, stable employment and social cohesion, social dialogue was to focus on labour market policy, training, minimum wage, employee involvement and collective bargaining reform. The pact involved the Government, CEOE, CEPYME, CCOO and UGT.
2004–2008	More than 20 tripartite agreements signed, including: Agreement on the Social Security Fund reform (2007); Agreement on Corporate Social Responsibility (2007)	The parties involved in these pacts were the Government, CEOE, CEPYME, CCOO and UGT.
2008	Declaration on the Recovery of the Economy, Employment, Competitiveness and Social Progress	The Pact widened the 2004 agenda for negotiations, aiming to boost employment. Issues such as industrial and energy policies were included on the agenda. The Pact involved the Government, CEOE, CEPYME, CCOO and UGT.
2011	Tripartite Economic and Social Agreement for Growth, Employment and Sustainability of Pensions	The agreement covered old age pensions, youth unemployment, ALMPs, collective bargaining, R&D, and industrial and energy policy.

Note: The two main union confederations in Spain are Comisiones Obreras (CCOO) and Unión General de Trabajadores (UGT). The main employers' organization in Spain is the Confederación Española de Organizaciones Empresariales (CEOE), which incorporates the Confederation for Small and Medium Enterprises, Confederación Española de la Pequeña y Mediana Empresa (CEPYME). Confederación Intersindical Galega CIG is the Galician Trade Union Confederation.

two main unions (CCOO and UGT) and employers' organizations (CEOE including CEPYME) were not supported by the Government (box 4.1). The result was the enactment by the Government of two Labour Market Reforms in 2010 and 2012.¹³⁰

Box 4.1 Collective bargaining during the crisis

Despite disagreements at the tripartite level, employers' and workers' organizations maintained their commitment to bipartite negotiations during the crisis, although not always producing comprehensive results on all key areas. In 2010, a Bipartite Inter-Confederal Agreement on Employment and Collective Bargaining 2010–2012 (AENC I) was concluded, with the support of the Government, building on enhancing internal flexibility and allowing negotiated adaptation and restructuring measures through collective bargaining agreements.¹³¹ Based on AENC I, tripartite negotiations were carried out with a view to reforming collective bargaining, but they were not conclusive. In 2010, the Government adopted the reform unilaterally.

Further, in the midst of the aggravated crisis, the bipartite partners concluded a new Inter-Confederal Agreement on Employment and Collective Bargaining 2012–2014 (AENC II) in January 2012. The purpose of this document was to show the Government the common ground between employers and workers on a range of issues affecting the labour market. It included the demand for an organized decentralization of collective bargaining, i.e. within the framework provided by sectoral agreements. However, in the exceptional circumstances, the Government introduced the 2012 Labour Market Reform as it viewed the bipartite agreement as insufficient to tackle the problems of the Spanish labour market. Both employers' and workers' organizations objected to this action.¹³²

¹³⁰ The crisis period saw two major efforts to reform the labour market, namely through the 2010 Labour Market Reform (Royal Decree Law 35/2010 of 17 September 2010) and through the 2012 Labour Market Reform (Royal Decree Law 3/2012 of 10 February 2012). The two reforms were carried out by two successive Governments, with different political compositions. Both reforms focused on almost the same main issues (severance payments, dismissal procedures and collective bargaining), although with different emphasis and nuances (Malo, 2012).

¹³¹ Resolution of 11 February 2010; Banco de España num. 46, 22 February 2010.

¹³² Molina and Miguélez (2013).

The only example of a tripartite pact during the crisis period was the Tripartite Economic and Social Agreement for Growth, Employment and Sustainability of Pensions, concluded in 2011 (see table 4.1). Overall, it is difficult to assess the specific impact of this agreement in the midst of rapidly changing circumstances and the short period of implementation.

These developments led to major challenges in tripartite dialogue and an increase in political and industrial conflict during the crisis. Four general strikes took place within the period 2010–2012. Between 2009 and 2012, days lost due to general strikes increased from 8,500 days to 60,220 days.¹³³ In addition, strikes were organized in specific sectors. As a result, in 2012, Spain was far ahead of the other 16 European Union countries (with available information) with the greatest number of days lost due to strikes (1,290,114) – and second only to France over the period 2009–2012.¹³⁴ Spain also leads the statistics in terms of the percentage of the population that took part in a lawful public demonstration in 2012.¹³⁵

In addition, in March 2014, the ILO Committee on Freedom of Association discussed a case brought by Spanish trade unions against the Government concerning the Royal Legislative Decree 3/2012 on urgent measures for Labour Market Reform (later Act 3/2012) and the Royal Legislative Decree 20/2012 on measures to ensure budgetary stability and promote competition (later Act 20/2012). With regard to Act 3/2012, among the key concerns of the complainants was the fact that the legislation adopted differed in substantial parts from the AENC II concluded between the social

¹³³ ILOSTAT. The general strike of September 2010 concerned the whole economy and was organized by all trade unions to demonstrate against the Labour Market Reform of 2010 and fiscal consolidation policies. The general strike of January 2011, which again involved all of the economy, was organized as a consequence of the Social and Economic Agreement and pension reform by all trade unions except the CCOO and UGT, the two largest confederations, which had signed the said agreement. The general strike of March 2012 concerned all the economy, and was organized to demonstrate against the 2012 Labour Market Reform by all trade unions. The general strike of November 2012 was organized as a protest against the Labour Market Reform and fiscal consolidation policies (Molina and Miguélez, 2013).

¹³⁴ ILOSTAT. The EU countries in question are: Austria, Cyprus, Czech Republic, Denmark, Estonia, France, Germany, Ireland, Latvia, Malta, Netherlands, Poland, Slovakia, Spain, Sweden and Switzerland.

¹³⁵ European Social Survey, 2012. <http://www.europeansocialsurvey.org/>. The survey was carried out from 23 January to 14 May 2013, capturing the number of interviewees who had taken part in a lawful demonstration “in the past 12 months”, thus reflecting participation in lawful demonstrations in 2012.

partners, particularly as concerned rules on collective bargaining. Along the same lines, the specific concern with Act 20/2012 was related to the fact that the legislation introduced changes to areas previously agreed upon by collective bargaining agreements covering public sector employees.

The Committee, while taking note of the extremely difficult economic situation which had compelled the Government to initiate this legislation, emphasized the need for consultation of the most representative workers' and employers' organizations with sufficient advance notice of draft laws and draft Royal Legislative Decrees prior to their adoption. Further, it stressed the importance of ensuring that the essential rules governing the system of labour relations and collective bargaining are agreed, to the maximum extent possible, with the most representative workers' and employers' organizations.¹³⁶

Although tripartite negotiations have experienced a number of challenges in Spain during the current economic crisis, it is important to note that efforts to recover social dialogue have been taken recently. In July 2014, the Government, CEOE, CEPYME, CCOO and UGT concluded a pact on proposals for tripartite negotiations in order to strengthen economic growth and employment. This included the social partners' commitment to build a new model of economic growth, promote employment and expand social protection, especially among those groups most at risk of exclusion.¹³⁷

¹³⁶ ILO (2014a).

¹³⁷ "Acuerdo de propuestas para la negociación tripartita para fortalecer el crecimiento económico y el empleo", <http://prensa.empleo.gob.es/WebPrensa/noticias/ministro/detalle/2277>

B COLLECTIVE BARGAINING: RECENT REFORM PROCESS AND PRELIMINARY IMPACTS

1 RECENT REFORM PROCESS

*Recent reforms to collective bargaining
have focused on increasing firm flexibility and stimulating
collective negotiations ...*

The labour market reforms carried out during the crisis in Spain sought to provide firms with additional tools and flexibility in the employment relationship. In particular, the reform of 2010 made it possible, among other issues, to derogate from multi-employer agreements through enterprise agreements concerning salary levels, working hours and schedules. It also stipulated on mechanisms for representation of workers in enterprises without legal worker representation.¹³⁸ Subsequently, in June 2011, the Government introduced a Royal Decree Law on Urgent Measures to Reform Collective Bargaining.¹³⁹ This reform incorporated changes to the structure of collective bargaining: company-level agreements were given priority on a range of issues. It also modified the procedures and timing for rejecting and renegotiating collective agreements.¹⁴⁰

Traditionally, Spain has been considered to uphold high levels of bargaining centralization and coordination.¹⁴¹ Provincial sectoral agreements as well as national and regional sectoral agreements cover the majority of workers,

¹³⁸ EIRO (2010).

¹³⁹ Royal Decree Law 7/2011 of 10 June (Real Decreto-ley 7/2011, de 10 de junio, de medidas urgentes para la reforma de la negociación colectiva).

¹⁴⁰ Molina and Miguélez (2013).

¹⁴¹ EIRO (2014).

while the remainder are covered through numerous enterprise-level agreements.¹⁴² However, the above-mentioned reforms rendered the collective bargaining system more decentralized, with higher-level collective agreements establishing the criteria for lower-level agreements. Indeed, both employers' and workers' organizations shared this strategy of introducing a system where sectoral collective agreements guide the decentralization process.¹⁴³ The 2012 Labour Market Reform introduced wider-reaching measures in an effort to place greater emphasis on decentralized bargaining levels. The major changes included: (i) priority of enterprise-level agreements on a wide range of issues; (ii) limitation of the automatic extension of working conditions (so-called *ultra-actividad*) in the case of failing to conclude a new agreement; and (iii) broadening the possibilities of non-application of clauses in collective bargaining agreements (CBAs) and change of working conditions at the initiative of the employer.¹⁴⁴

The aim of the changes to collective bargaining since 2010 was to enable companies to adapt to rapidly changing demand by adapting working conditions rather than resorting to dismissals. Another objective was to increase the dynamism in negotiations: since the automatic extension of working conditions would no longer apply, parties would be forced to negotiate a new one within one year from the expiry of the current agreement.

¹⁴² EIRO (2013).

¹⁴³ EIRO (2014).

¹⁴⁴ Beyond collective bargaining, the reform introduced broader grounds for fair dismissal, reduction of severance payment in cases of unfair dismissal under open-ended contracts, new forms of measuring and monitoring absenteeism, incentives for expanding teleworking, and a new open-ended contract with a one-year probation period, targeting SMEs. More detail is given in Chapter 3 of this report.

... giving priority to key provisions in enterprise-level agreements in cases of conflict with agreements at higher levels ...

Building on the June 2011 Decree Law, the 2012 reform introduced an absolute priority for key conditions in enterprise-level agreements in cases of conflict with higher-level agreements.¹⁴⁵ This priority applies to several central issues, including clauses on salary, compensation for overtime, working time and working schedules, including holiday planning, and adaptation to the system of professional classification, and measures to promote work–life balance.

The statutory priority given to enterprise-level agreements cannot be modified by inter-professional or sectoral agreements, which up to the time of the reform set the negotiating structure and the rules for determining the order of priority in cases of conflicts between conventions. This approach is different from what the social partners had requested through AENC II, which stipulated that collective agreements at the level of state or autonomous communities should develop rules of articulation and organization to govern the structure of collective bargaining with a view to favouring its decentralization.¹⁴⁶ Further, a collective agreement at the enterprise level can be negotiated at any time during the validity of higher-level agreements.¹⁴⁷

¹⁴⁵ Royal Decree Law 3/2012 of 10 February 2012, which was proclaimed to Law 3/2012 of 6 July 2012 (Ley 3/2012, de 6 de julio, de medidas urgentes para la reforma del mercado laboral); modifying article 84 of the labour law (Estatuto de los Trabajadores).

¹⁴⁶ II Acuerdo para el Empleo y la Negociación Colectiva (AENC II); Chapter I: “Structure of collective bargaining”. AENC II foresaw that sectorial agreements should promote negotiations at the enterprise level on working time, functions and salaries, being the most appropriate level at which to deal with these matters, at the initiative of the affected parties. It further stated that higher-level negotiations should respect the contractual equilibrium of parties at the enterprise level, and that it is necessary to preserve provincial-level negotiations and enable such agreements to promote the flexibility needed to adapt to changing markets and competition, by their proximity to the enterprise, not forgetting that this level of negotiation provides most coverage to enterprises and workers.

¹⁴⁷ Other countries severely hit by the crisis have introduced similar regulations aiming to promote enterprise-level bargaining. In Portugal, for example, Law 23/2012 promoted decentralization primarily by allowing workers’ councils to negotiate at the plant level where there is a minimum number of 150 employees, after delegation by a union. In Greece, various legislative acts introduced from 2010 onwards aimed at promoting decentralization. Law 4024/2011 stipulated that CBAs could be concluded at the company level with the so-called “associations of persons”. Company-level agreements were temporarily given precedence over CBAs at a higher level, even when leading to less favourable conditions for the workers (the traditional “favourability principle” in Greek labour law was abolished).

*... limiting the automatic extension
of employment conditions
in expired agreements (ultra-actividad) ...*

Moreover, the 2012 reform limited the automatic extension of the terms of collective agreements in the case of failing to conclude a new agreement – i.e. the so-called *ultra-actividad* or unlimited applicability of collective agreements.¹⁴⁸ This means that the maximum duration that wage and working conditions can be enforced after an agreement has expired is now set to one year in the absence of a new agreement, whereas it was previously more or less unlimited. If no agreement can be reached within this period – or no arbitral award issued – workers in question will be covered by a higher-level CBA (if in place).¹⁴⁹

The objective of this change was to stimulate the dynamism of collective bargaining, as allowing previously agreed working conditions to stay in force almost indefinitely through *ultra-actividad* created a sort of temporal inertia. Parties willing to oppose agreements that altered working conditions (for either party) needed simply to opt for a non-negotiating position to maintain previously agreed conditions in a different economic context. With the limitation in *ultra-actividad*, parties need to negotiate a new CBA within one year from the expiry of the current agreement. This could promote a quicker renewal of agreements but may also create gaps in CBA regulation in cases where agreements cannot be reached and there is no higher-level agreement in place. The modification entails a change in the previous power balance between trade unions and employers in the negotiating table.

¹⁴⁸ The term “ultra-applicability” refers to the automatic extension of clauses relating to wage and working conditions covered in collective agreements beyond their expiration date when there is disagreement negotiating a new collective agreement.

¹⁴⁹ Law 3/2012 of 6 July 2012 (*Ley 3/2012, de 6 de julio, de medidas urgentes para la reforma del mercado laboral*); modifying article 86 of the labour law (*Estatuto de los Trabajadores*).

Indeed, the law does not explicitly state what must happen in cases where there is no applicable higher-level agreement to assume the governance of working conditions at the expiry of a CBA.¹⁵⁰ Legal experts disagree on whether in these cases the labour law (*Estatuto de los Trabajadores*) would enter into application, or conditions in the expired CBA would continue to be in force through individual contracts.¹⁵¹ This could lead to important downgrading in working conditions in individual cases, considering that legislation establishes only minimum standards. The new situation places considerable responsibility on the social partners to ensure that coverage gaps in collective bargaining do not emerge in order to avoid a risk of deterioration in working standards. If the partners encounter difficulties in concluding a new agreement, they have the option to extend the applicability of the existing agreement or its specific clauses until a new agreement is reached. Furthermore, they can also use mediation and arbitration in order to reach a conclusion.

*... introducing more possibilities
to opt out from provisions in collective bargaining agreements ...*

The starting point in labour law and labour relations is the binding effect of a CBA on each party during the period of validity of the agreement. Notwithstanding, the 2012 Labour Market Reform introduced more opportunities for enterprises to opt out from specific CBA clauses under certain circumstances. Non-application in this respect covers a broad list of issues, explicitly stated in the labour law.¹⁵² The list includes issues related to working day, work schedule, shift work, remuneration system and pay, organization of work and work functions, and voluntary improvements to social security.

¹⁵⁰ “Once one year has passed from the denouncement of the collective agreement without agreement on a new one or an arbitral award, it will lose, unless otherwise agreed, its validity and the applicable collective agreement of a higher level, *if any*, will enter into application.” Unofficial translation, emphasis added.

¹⁵¹ Arguments have been presented for a safeguard solution in cases where collective bargaining does not yield results: “The ultimate parachute” would then open to incorporate the working conditions, including salaries, of the expired CBA into individual employment contracts. This argument maintains that in these cases, the content of collective agreements would automatically be incorporated into individual contracts with binding effect (Jesús Lahera Forteza, Professor in Labour Law at the University of Complutense, in *El País* 30 June 2013). Importantly, however, this interpretation has been contested as contrary to the spirit of the law, which aims to stimulate collective negotiations and thus not to promote a situation similar to that before the reform. Further, it has been contested as opposing various legal principles (López Aniorte, 2012; Navarro Nieto, 2012; Mercader Uguina, 2012; Goerlich Peset, 2013). Case law on the matter has produced divergent results.

¹⁵² Law 3/2012 of 6 July 2012 (*Ley 3/2012, de 6 de julio, de medidas urgentes para la reforma del mercado laboral*); modifying article 82.3 of the labour law (*Estatuto de los Trabajadores*).

Enterprises can resort to non-application of enterprise-level or sectoral CBA clauses when certain economic, technical, organizational or production-related conditions are met. In particular, economic reasons, for example, are in place in cases of actual or expected financial losses, or persistently declining levels of revenue or sales (defined as two consecutive quarters of falling revenues or sales compared with the same quarters of the previous year). The law explicitly states that non-application cannot result in non-compliance with obligations concerning gender equality; in other words, it cannot lead to a situation where gender equality targets, such as equal pay for equal work, are compromised.

Where a justifiable cause emerges, an agreement on non-application should be concluded between the enterprise and the workers' representatives through a legislated period of consultation. In cases of disagreement in the negotiations, any of the parties can first turn to the dispute resolution mechanism established by the agreement. If this does not result in an agreement, the issues should be brought to designated mediation and arbitration procedures, as foreseen in the CBA in question, or in the final instance to the National Consultative Commission on Collective Agreements (*Comisión Consultiva Nacional de Convenios Colectivos*).

*... and giving wider possibilities for companies
to unilaterally modify working conditions under certain circumstances.*

Furthermore, to promote internal flexibility, the employer is permitted to unilaterally modify working conditions under certain circumstances (*Modificaciones sustanciales de condiciones de trabajo*).¹⁵³ Approved grounds for such substantial modifications in working conditions must exist through economic, technical, organizational or production-related circumstances. Unlike in the case of non-application of CBA clauses, the new modified

¹⁵³ Law 3/2012 of 6 July 2012 (*Ley 3/2012, de 6 de julio, de medidas urgentes para la reforma del mercado laboral*); modifying article 41 of the labour law (*Estatuto de los Trabajadores*).

article 41 of the *Estatuto de los Trabajadores* does not specify the character of the conditions apart from stating that such justifiable conditions are related with competitiveness, productivity or technical organization of work in the company. This is an explicit choice in the legislation, placing more requirements on larger-scale deviations from collective agreements. Following the same logic, conditions are the strictest where they concern collective dismissals (article 51 of *Estatuto de los Trabajadores*). The law provides a non-exhaustive list of items to be considered under “substantial modifications of working conditions”, including working day, working time and schedule, shift work, remuneration system and pay, and organization of work and work functions. Changes can thus be made to working conditions established in employment contracts, collective agreements or previous unilateral decisions by the employer with a collective effect.

When the decision applies to an individual (thus does not fulfil the criteria of collective character),¹⁵⁴ the employer should notify the employee and his or her legal representative 15 days prior to the application of the new working conditions. The individual employee retains the right to terminate the contract and receive compensation if substantial prejudice is proven. The employee may also choose not to opt for termination, and to challenge the change of working conditions in court.

When the planned decision will have a collective effect, as defined in more detail by law, a compulsory period of *bona fide* consultation should precede the application of the new working conditions, including autonomous mediation or arbitration, as necessary.

Finally, in a case where no agreement is reached, the employer can decide to change the working conditions unilaterally, which again can be legally challenged by the workers.

¹⁵⁴ A modification has a collective character when, under a period of 90 days, the modification affects: (a) 10 workers in companies with fewer than 100 workers; (b) 10 per cent of workers in companies with 100–300 workers; (c) 30 workers in companies with more than 300 workers.

2 PRELIMINARY IMPACTS OF THE REFORM

While decentralization of collective bargaining can help improve firm flexibility, there are a number of risks concerning labour market outcomes. One potential risk is the possible disappearance or reduction of coverage at the enterprise level, particularly in small companies, which may have very limited resources and knowledge of collective bargaining. Other concerns relate to a potentially more widespread use of opt-out clauses and the risk of fragmentation of collective bargaining, resulting in a high degree of variation in working conditions within a sector, or even a company. Indeed, this latter concern has been highlighted by the social partners as a more worrying phenomenon than risks related to collective bargaining at the firm level.¹⁵⁵ Fragmentation of collective bargaining may lead to reduced transparency in relation to what rules are being applied, both in the workplace and more widely in the business environment. With a fragmented system, it will be more difficult to monitor the working conditions in place as well as to adapt them as necessary to changing economic circumstances.

Additionally, at the macro level, unstructured and unorganized decentralization has been identified to correlate with lower employment rates. Further, greater wage inequality has been observed to correlate with decentralization of collective bargaining. These are risks that should be carefully considered in the current social context of Spain, as seen in Chapter 3.^{156,157}

¹⁵⁵ Rueda (2013).

¹⁵⁶ According to international empirical evidence, decentralization of collective bargaining can be associated with greater wage inequality (Hayter and Weinberg, 2011).

¹⁵⁷ Cazes et al. (2012).

Regardless, it is difficult to estimate the actual full impacts of the February 2012 reform on collective bargaining in Spain, primarily due to the short time-span of its implementation. However, some preliminary trends are observable nonetheless, and will be discussed in this section.¹⁵⁸

There is a decline in the overall number of CBAs registered per year, although the number of newly concluded agreements has increased ...

The total number of CBAs with economic (wage-related) effects concluded each year, according to official statistical data, has decreased from 2,704 agreements registered up to December 2010 to 1,691 agreements registered up to December 2013. During the same period, the number of enterprise-level agreements concluded went down, from 1,937 agreements registered by December 2010 to 1,181 agreements registered by December 2013, and the number of higher-level agreements fell from 767 agreements registered up to December 2010 to 510 registered up to December 2013. This declining trend was visible from 2007, although the data were not fully comparable to those from 2010 onwards.¹⁵⁹ In interpreting the data, it is important to note that there is an obligation

¹⁵⁸ Before discussing the changes in collective bargaining agreements since the 2012 reform, a word of caution is necessary with respect to the available data. First, data on collective bargaining agreements are gathered during the 18 months after the end of the reference year, thus figures that are available at the end of each year are only provisional and will be confirmed as final after 18 months have elapsed. In this chapter, we have chosen to compare figures for December of each year, thus provisional figures available for each reference year, as final data are not yet available for 2013. Second, various gaps existed in the proper registering of CBAs before 2010, when a new centralized register was established (*Real Decreto 713/2010 de 28 de mayo, sobre registro y depósito de convenios y acuerdos colectivos de trabajo* (REGCON)). However, third, problems occurred also with the new register, notably relating to information gathering through reporting by social partners, leading to a problem of lack of registered data, notably loss of information about the number of agreements with economic affects in the last few years. Further, information on wage levels agreed through CBAs does not capture changes due to non-application of CBA clauses, primarily affecting salary provisions. Due to the problems with statistics, data captured on salary increments and coverage of workers in recent years are not reliable: for example, collective dismissals during the applicability of a CBA or closing of enterprises are not reflected in the statistics. In the construction sector, for instance, covered by a sectoral CBA and 52 provincial agreements, the labour force survey for the second quarter of 2008 showed 2,021,800 employees, while in the same quarter of 2013 only 690,700 salaried employees were registered (decline of 66 per cent) (Rueda, 2013). The only reliable data since 2010 relate to the number of CBAs concluded each year, including revisions of CBAs, renewed agreements and agreements concluded by new bargaining units. Thus the statistics demonstrate the dynamism of negotiations each year, rather than the actual number of agreements in force (as agreements in their second or third year of operations may escape statistics). Finally, it should be noted that the Ministry of Employment and Social Security has identified the need to complement existing information on CBAs with information on the number of CBAs in force each year and the number of workers covered, and is working on completing this information.

¹⁵⁹ Rueda (2013).

by law to register new agreements, while there are gaps in information on the economic effects of agreements in their second and consecutive years of application despite similar registration obligation. This can contribute to the decline in the number of agreements seen in the statistics, and the picture conveyed by these numbers may not fully correspond to the reality on the ground. This problem, however, affects the whole period of 2010-2013.

It can be further observed from available data that the number of *newly concluded* CBAs (with economic effects) has grown after a slight decrease in 2011 (from 605 in December 2010 to 1,025 at the end of 2013). Interestingly, newly concluded agreements in particular increased from 2012 (644 agreements) to 2013 (1025 agreements) – a development that may be related to the inter-confederal agreement of May 2013 adopted in response to the limitation in *ultra-actividad* introduced in 2012 (see discussion below).¹⁶⁰ Agreements concluded by new bargaining units have also increased in recent years.¹⁶¹ In 2011 a total of 260 agreements were negotiated by new bargaining units, while in 2013 the number reached 472.¹⁶² Clearly, most new bargaining units were enterprises, which accounted for almost 92 per cent of the total in 2011 and nearly 95 per cent of the total in 2013.

¹⁶⁰ <http://www.empleo.gob.es/estadisticas/cct/welcome.htm>.

¹⁶¹ New bargaining units are entities that previously had not negotiated a collective agreement on their own.

¹⁶² Figures capture CBAs concluded by new bargaining units in the year in question.

... and there are indications that the level of coverage has declined ...

As explained above, coverage of workers in Spain is established through provincial sectoral agreements, national and regional sectoral agreements and enterprise-level agreements. In relative terms, higher than enterprise-level agreements continue to cover the majority of workers in Spain. Mindful of the delay in obtaining the final numbers, preliminary estimates for 2013 show that only about 7 per cent of workers with CBA coverage were covered by enterprise-level agreements, while higher-level agreements accounted for about 93 per cent of covered workers.

Coverage of workers by CBAs in Spain is dictated by the principle of *erga omnes*, which applies to agreements negotiated following the procedures set out in the *Estatuto de los Trabajadores* (*convenios colectivos estatutarios*). These agreements generally cover all employees in their scope of application, regardless of membership of unions or employers' organizations. While collective agreements negotiated outside this framework (*convenios colectivos extraestatutarios*) also exist, which are binding only on the contracting parties, they make up only a minority of cases. Thus, as per the *erga omnes* legal principle, coverage should in legal terms be high when an applicable agreement is in place. The *effectiveness* of the *erga omnes* principle, i.e. its actual application, has not been assessed.

In data collected by the Ministry of Employment and Social Security, information on the number of workers covered by higher than enterprise-level agreements is based on estimates from the social partners, while company-level agreements provide more reliable information on actual coverage by each agreement. Looking at data gathered on all CBAs registered up to December of each year from 2010 to 2013, a decline in the number of workers covered by CBAs is estimated at roughly 2 million (from about 7.09 million in December 2010 to about 5.04 million in December 2013). Figures presented by companies on the number of workers covered by enterprise-level agreements concluded each year showed that coverage declined by 123,500 over the same period (from about 463,100 in December 2010 to about 339,600 in December 2013).¹⁶³ In total, the proportion of workers covered by CBAs declined by 28.9 per cent (in the case of enterprise-level agreements by 26.7 per cent), but it is important to note that over the same period, according to Eurostat, employment in Spain fell by 10.7 per cent (from 15,275,000 employees in 2010 to 13,645,100 in 2013). In other words the preliminary figures suggest that coverage, as a share of total employment, has fallen from about 46 per cent to about 37 per cent over this period. Caution should be exercised here as these data are preliminary in nature and do not fully capture all revisions of agreements and agreements in their second or subsequent years of application. However, these problems affect the whole period under investigation.

¹⁶³ Other European countries have experienced a decline in the number of CBAs concluded and coverage of workers by CBAs during the crisis. After the recent reforms of collective bargaining, Portugal has so far encountered a major decline in the number and coverage of collective agreements. While nearly 300 collective agreements were registered in 2008 and around 230 in 2010, the number of agreements fell to 170 in 2011 and a mere 85 in 2012. A similar trend was recorded concerning the number of workers covered by collective agreements. In 2012, around 300,000 private-sector workers were covered by a collective agreement compared with 1.2 million the year before. Thus, there seems to be a trend towards more company-level agreements in relative terms, but at the same time the absolute number of enterprise-level agreements has also been reducing. It appears that while the reform measures were successful in terms of reducing the role of sectoral or multi-employer agreements, they did not – at least yet – provide the sufficient boost for enterprise-level agreements (ILO, 2013b).

Despite the data gaps mentioned, the statistics represent a minimum threshold of coverage and thus give some indications *per se*. The numbers appear to also reveal an actual decline in coverage in some cases, particularly due to decline in the number of CBAs or where there are gaps in the implementation of the *erga omnes* principle. A more comprehensive analysis of the developments in effective coverage of employees by CBAs would also need to take these issues into account, and compare numbers of employees actually covered by individual CBAs at a particular moment in time.

... and while bargaining intensity has increased, gaps in CBA regulation have also emerged ...

Most of the agreements that needed to be renegotiated before the end of the transitional period granted by the reform – summer of 2013 – were concluded, but only at the very last moment. Indeed, collective bargaining was reportedly very difficult until an inter-confederal agreement on *ultra-actividad* was concluded on 23 May 2013.¹⁶⁴ Another transitory solution was to extend the duration of existing agreements, in many cases up to December 2013.¹⁶⁵ In fact, by May 2013 the number of workers covered by CBAs registered was approximately 1.7 million, but the number reached about five million by December 2013.¹⁶⁶ It seems that the termination of *ultra-actividad* and social partner response through the May 2013 inter-confederal agreement may indeed have provided increased dynamism in collective bargaining negotiations, as in most cases both employers and workers want to make sure that collective agreements do not expire without a replacement.

¹⁶⁴ Acuerdo de la Comisión de Seguimiento del II Acuerdo para el empleo y la negociación colectiva sobre *ultraactividad* de los convenios colectivos, 23 de mayo de 2013.

¹⁶⁵ Rueda (2013).

¹⁶⁶ Ministerio de Empleo y Seguridad Social (MEYSS), Estadística de Convenios Colectivos de Trabajo; <http://www.empleo.gob.es/estadisticas/cct/welcome.htm>.

There are individual cases, however, where a CBA has expired without any higher-level agreement being in place and where the provisions of labour law have subsequently been applied by the employer. The situation has been challenged in court and case law on the matter has produced divergent results – either maintaining employer decision as legally correct, or rejecting it as contrary to the law.¹⁶⁷ The matter has not yet been handled by the Supreme Court, whose decisions have jurisprudential value and will thereby guide future case law on the matter.¹⁶⁸

The limitation of *ultra-actividad* has in fact put more emphasis on the social partners and bipartite negotiations. In that context, there is a potential danger that one of the bargaining parties adopts a non-negotiating position if the CBA is not its preferred option. As discussed above, a similar phenomenon existed during the period of unlimited *ultra-actividad*, yet with different premises and with a safeguard against deterioration of working conditions. A potential non-negotiating strategy is, in principle, mitigated through the requirement to negotiate in good faith;¹⁶⁹ however, in practice it may be difficult to demonstrate presence or absence of good faith in collective bargaining negotiations. Indeed, the reform process has reportedly led to some diverse views among social partners regarding the collective bargaining process (see box 4.2).¹⁷⁰

¹⁶⁷ See for example the case of Zeta Espacial SA in the confectionary sector, Ruling 360/2013, 11 October Labour Court 2 of Terrassa. The judgment, while not considered to set any judicial precedence, maintained that the labour law enters into application after the expiry of the one-year period of *ultra-actividad*, and thus did not accept the counter-argument that the previous CBA's provisions would "contractualize" into individual employment contracts. Importantly, however, a different approach was taken in the decision of País Vasco High Court; 20/2/2014, Proc. 66/2013: the court ruled that while the previous collective agreement is no longer in force and cannot be reinstated, the employer cannot thereby unilaterally change working conditions by a simple communication to the workers. Instead, the employer should follow the procedure established in Article 41 ET for unilateral modification of working conditions. Such a decision can therefore also be challenged by workers through the recourse available under Article 41 ET (Gabinete de Estudios Jurídicos, 2014). If a higher-level collective agreement exists, but does not cover all working conditions, prior working conditions under the expired CBA are maintained, unless modified by the employer through the procedure under Art. 41 ET. Decisions of País Vasco High Court, 19/11/2013, Rec. 37/2013 and 26/11/2013, Rec. 43/2013.

¹⁶⁸ Another legal debate concerned the effects of *ultra-actividad* clauses in CBAs concluded before the adoption of the reform. According to the judgment in the Air Nostrum case, the "automatic extension" clause in the CBA in question, agreed before the reform, remained enforceable. An appeal process concerns the same case. However, other cases seem to point towards a doctrine of maintaining in force all conditions of agreements which existed prior to the entry into force of Law 3/2012 (Gabinete de Estudios Jurídicos, 2014).

¹⁶⁹ The requirement to negotiate in good faith is expressed in article 89.1 of the *Estatuto de los Trabajadores*. See more about the requirement to negotiate in good faith and the fundamental right of freedom of association in Goerlich Peset (2013).

¹⁷⁰ Rueda (2013).

Looking at new CBAs, the parties have in many cases chosen to include a clause on *ultra-actividad* at their own initiative.¹⁷¹ A study on agreements registered since the launch of the reform up to April 2014 shows that about 46 per cent of the total 4,294 CBAs studied provided for *ultra-actividad* of one year, i.e. aligning with the *Estatuto de los Trabajadores* (figure 4.1). On the other hand, 41 per cent of agreements opted for the traditional concept of *ultra-actividad* (validity until replacement by a new agreement). Another rather popular option was to provide for *ultra-actividad* between 12 and 36 months, which was the case in 9 per cent of agreements studied.

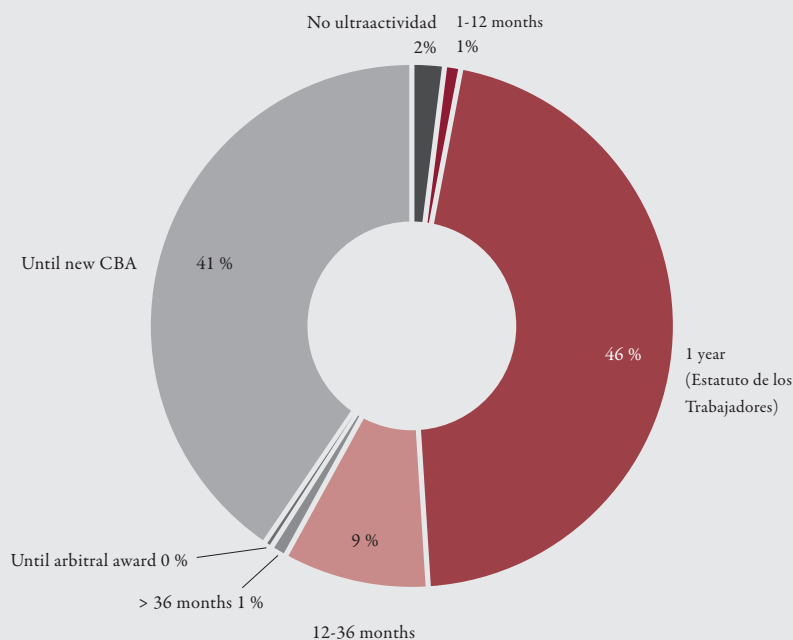
*... and opting out from CBAs clauses has increased,
affecting the role of sectoral agreements ...*

Available statistics indicate that registered non-application or derogation from certain clauses in CBAs has worryingly increased since 2012. In 2012, during the period March–December (immediately following the reform), 748 derogations were registered affecting 29,352 workers. By the end of 2013, the number reached 2,512 and touched 159,550 workers. The first four months of 2014, in turn, already show 988 registered derogations covering 37,874 workers – meaning that in only four months, the yearly level of workers affected by non-application of CBA clauses in 2012 has been surpassed.¹⁷²

¹⁷¹ The inter-confederal agreement of 23 May 2013 confirmed that *ultra-actividad* remained as a choice of the social partners.

¹⁷² Ministry of Employment and Social Security.

Figure 4.1 Duration of *ultra-actividad* in collective bargaining agreements (February 2012–April 2014), as a percentage of collective agreements



Notes: The analysis concerns 4,294 new CBAs published after the 2012 Labour Market Reform entered into force (from 12 February 2012 to 30 April 2014) and those not denounced in REGCON.

Source: ILO Research Department based on Ministry of Employment and Social Security; National Advisory Committee on Collective Agreements (Comisión Consultiva Nacional de Convenios Colectivos).

Importantly, 80 per cent of workers affected by non-application of CBA clauses in 2014 were working in the services sector.¹⁷³ Moreover, the majority of enterprises registering non-application (83 per cent in 2014) were SMEs with 1–49 workers, but large enterprises (250+ workers) accounted for the majority of affected workers, i.e. 53 per cent. It is likely, though, that the occurrence of non-application of CBA clauses is underestimated given that according to CEPYME, small enterprises may not always register non-application. A great majority of registered cases of non-application (92 per cent in 2014) relate to wages and remuneration systems stipulated in the CBAs in question. Furthermore, most derogations were agreed upon by the parties during the legislated period of consultation (91.3 per cent of cases in 2014), showing broad confidence in bipartite decision-making in enterprises. Non-application mostly concerned agreements at higher than enterprise level (96.5 per cent of the cases in 2014). Yet, non-application of enterprise agreements seems to affect proportionally more workers.¹⁷⁴

The possibility for non-application of CBAs is seen as a way to avoid provincial industry-level agreements, which have been blamed for being detached from the reality of enterprises and creating problems concerning the legitimacy of the negotiating parties. Another possibility is, of course, to negotiate enterprise-level agreements that have absolute priority over higher-level agreements. Lately, though, the number of non-applications has increased much faster than the number of enterprise-level agreements by new negotiating entities, and non-application of enterprise agreements seems proportionally more pronounced, as seen above. At the same time, both social partners remain worried about the broader use of non-application and its effects on the articulation of collective bargaining.¹⁷⁵

¹⁷³ The 2014 figures have been gathered for January to April, and they continue the trend of the previous two years. This concerns all figures on non-application reported for 2014.

¹⁷⁴ Looking at CBAs registered in the first four months of 2014, 4.3 per cent of workers were covered by enterprise agreements. At the same time, 11 per cent of workers affected by non-application were covered by enterprise agreements.

¹⁷⁵ Rueda (2013).

... with some indications that companies have also increasingly used the option of modifying working conditions.

Based on available information, the option to modify working conditions at the firm level appears to be increasingly used by companies. For instance, the Labour Relations Institute of the Sagardoy Foundation (*Instituto para las relaciones laborales*, IRLE) has drafted its first observations on the 2012 Labour Market Reform based on responses from 272 participating enterprises, presenting some data on usage of various forms of external and internal flexibility by this sample of companies. The companies mainly represented the service and industry sectors (133 and 132 companies, respectively), while responses were obtained mainly from large companies (234). While the sample is not representative of the Spanish enterprise structure, the survey results present some information of company practices after the reform. According to the information gathered from this sample, almost three out of four companies had used some form of internal or external flexibility since the reform, and mostly a combination of measures. Only 27 per cent of enterprises had not used any adjustment measures or were not considering using them in the subsequent three months from the survey. Over 43 per cent of the enterprises had made use of the option to substantially modify working conditions, about 40 per cent used functional mobility and 37 per cent resorted to lay-offs.¹⁷⁶

¹⁷⁶ Fundacion Sagardoy (2012).

While both social partners are united in their criticism concerning the non-adoption of AENC II as the basis for the 2012 Labour Market Reform, their views on the substance of the reform differ depending on the subject.

The *priority given to enterprise-level agreements* has been viewed by some unions as a way to undermine collective bargaining, given that in Spain most enterprises are small and do not have worker representation. The majority of employers' representatives share the assessment that a collective bargaining model which focuses on the enterprise level does not reflect the reality of the business environment in Spain. At the same time, there is some recognition by unions that there is great need to give new impetus to collective bargaining and move it to the enterprise level, although this in and of itself should not be a means to adjust wages downwards. The end of *ultra-actividad* was assessed to have had limited impact, yet a shift in the power balance towards the employer was recognized by both. However, UGT considers that the end of *ultra-actividad* de facto encouraged non-negotiation.

Making it easier to *opt out* from collective bargaining agreements was welcomed by the employers' organizations. Yet, they recognized the negative impact of non-application on sectoral agreements, and were concerned about the potential consequences of widespread non-application for the coordination of collective bargaining. However, considering that the current provincial industry agreements do not correspond to enterprise realities, opting out remained an important alternative to lay-offs, in their view. UGT confirmed the concerns of more widespread non-application practice, stating that it will require less effort by employers to opt out from an existing agreement than to negotiate a new enterprise-level one. Indeed, both social partners concur that it is likely that sectoral collective agreements will be undermined, and that this will be due to non-application rather than to negotiation of new enterprise-level agreements – agreeing that such a situation would be “a disaster” in the Spanish context. Overall, UGT considers that all main components of the reform served to substantially alter the power equilibrium in collective bargaining negotiations towards the employer, and negatively affected the autonomy of the parties.

Both social partners see modification of the existing provincial agreements as an option, making them appropriate for the enterprise reality. They thus recognize the advantages of industry-level agreements, but would prefer to bargain at a higher level than provincial level, and so attribute the inefficiencies to the current organization of bargaining, rather than to the notion of higher-level agreements itself. Some differences in views between the partners exist as to which bargaining levels would be the most suitable. Employers tend to envisage two bargaining levels: enterprise and central levels, while workers have also tried to organize bargaining at the level of autonomous communities, often involving a group of provinces.

3 TRENDS IN WAGES NEGOTIATED THROUGH COLLECTIVE AGREEMENTS AND MINIMUM WAGES

The reform has gone hand-in-hand with further wage moderation, with greater effect in newly concluded and enterprise-level agreements ...

There is a clear trend of wage moderation during the crisis, with wages starting to decrease in nominal terms from 2012 onwards,¹⁷⁷ although the first years of the recession saw a certain reluctance of wages to adjust to the downturn (box 4.3). This latter inflexibility prompted the decentralization of collective bargaining, carried out through the successive Labour Market Reforms. The greatest wage moderation over the crisis period was realized through newly concluded agreements, as well as through enterprise-level agreements, with the exception of 2012. This implies that decentralization of collective bargaining may indeed have intensified wage moderation during the crisis.

Furthermore, it is likely that real wages are below the levels captured through the data, as wage statistics are not revised in cases of non-application of CBA clauses, and many small companies do not register these data.¹⁷⁸ This is a major issue in moving forward, as little can be done in terms of effective policy decision-making if only incomplete information is available. Suggestions have therefore been put forward on merging collective bargaining data with data from social security and housing databases, possibly also from labour force survey and tax administration data,¹⁷⁹ thereby enabling a more comprehensive gathering of wage-related data.

¹⁷⁷ Wage decreases involved all main economic sectors, with wages falling at -4 per cent at the end of 2012. See Chapter 2 for a detailed analysis of wage growth during the crisis.

¹⁷⁸ Rueda (2013).

¹⁷⁹ Fundación de Estudios de Economía Aplicada (FEDEA), 10 October 2013. <http://www.fedea.net/>

Box 4.3 Trends in wages negotiated through collective agreements

In the early years of the crisis, there was a tendency to maintain agreed wage levels. Despite this, average wage growth as set by collective agreements has followed a downward trend since 2008. The growth in the weighted average wage negotiated through collective agreements was 1.0 per cent in 2012, which is 2.6 percentage points below the 3.6 per cent reached in 2008 (table 4.2). Importantly, wage growth in 2012 was over 1 percentage point below the inflation rate of December 2011, which is the reference usually used for collective bargaining processes.

By December 2013, wage growth negotiated through collective agreements had fallen even further, to 0.58 per cent, despite the pick-up in inflation observed at the end of 2012.¹⁸⁰ In addition, company-level wage increases established through collective agreements were below the level of those set by higher-level agreements (0.42 per cent and 0.59 per cent by December 2013, respectively). This suggests that decentralization of collective bargaining may indeed have had an impact on the decline in real wages.

Importantly, newly signed agreements showed an even more modest wage increase – i.e. 0.4 per cent. Presumably, the limitation of *ultra-actividad* could have contributed to the outcome of lower wage increases through new agreements at the company level (0.26 per cent by October 2013) than through renegotiated ones (0.59 per cent).¹⁸¹ According to the Bank of Spain, these figures could indicate that the 2012 reform could be contributing to wage moderation by collective agreements.¹⁸²

Table 4.2 Variation of GDP, inflation and wage increases through collective agreements (percentages)

	Annual GDP growth	CPI increase (December)	Change in average wages negotiated in collective agreement		
			Overall	Firm-level agreements	Agreement at a different level
2008	0.9	4.1	3.6	3.1	3.7
2009	-3.8	-0.3	2.3	2.2	2.3
2010	-0.2	1.8	1.5	1.3	1.5
2011	0.1	3.2	1.9	1.6	2.0
2012	-1.6	2.4	1	1.2	0.9
2013	-1.2	1.4	0.6	0.4	0.6

Notes: Annual growth rate by December 2013. Note: Data does not include non-application of CBA provisions affecting salaries.

Source: MEYSS (2013) and INE.

¹⁸⁰ Burgeoning inflation at the end of 2012 was a result of increases in administered prices and indirect taxation.

¹⁸¹ Full statistical tables are available in MEYSS (2013).

¹⁸² Banco de España (2013).

Box 4.3 Trends in wages negotiated through collective agreements

During the period 2009–2010 wage increases outpaced the growth of CPI, which according to social partners can be attributed to three factors: (i) multiannual agreements signed before the start of the crisis made it difficult to adjust wages quickly (wages are sticky); (ii) social partners were slow to recognize the extent of the consequences of the crisis; and (iii) employers' organizations were functionally and territorially autonomous at the provincial level.¹⁸³

... minimum wages lost purchasing power ...

Minimum wages in Spain increased marginally during the first years of the recession – going from €728 in 2009 to €748.30 in 2011 – but have remained stable since then, reaching €752.85 in 2013 (see table 4.3). Similar trends have been seen in Portugal, whereas in France minimum wages were constantly increased in order to protect workers' purchasing power parity during the recession. Moreover, when considering minimum wages as a share of mean wages, Spain compares less favourably: the minimum wage in Spain is only 34.7 per cent of the mean wage, the second lowest value in the EU-17, after Estonia.

Further, the proportion of persons working below the minimum wage level or earning the minimum wage (in the category 0–1 *Salario Mínimo Interprofesional*, SMI) increased from an overall 8.9 per cent in 2008 to 11.3 per cent in 2011, while the share of persons earning between the minimum wage and a maximum of twice that amount (1–2 SMI) slightly decreased, from 34.4 per cent in 2008 to 33.2 per cent in 2011. More women find themselves at the 0–1 or 1–2 SMI level than men: 16.4 per cent of women workers in 2011 earned the minimum salary or less (an increase of 2.3 percentage points from 2008), compared with 6.8 per cent of male workers. Similarly, 38.2 per cent of women workers received a 1–2 SMI level wage in 2011, compared with 28.7 per cent of male workers.¹⁸⁴

¹⁸³ Rueda (2013).

¹⁸⁴ Ministry of Employment and Social Security statistics.

Table 4.3 Evolution of the minimum wage in Spain, 2009–2013¹⁸⁵

		2009	2010	2011	2012	2013	2014
Spain	Nominal minimum wage	€ 728.00	€ 738.85	€ 748.30	€ 748.30	€ 752.85	..
	Minimum wage as share of mean wage	35.1	35.3	34.6	34.7
France	Nominal minimum wage	€ 1,321.02	€ 1,343.77	€ 1,365.00	€ 1,398.37	€ 1,430.22	€ 1,445.38
	Minimum wage as share of mean wage	47.9	47.4	47
Greece	Nominal minimum wage	€ 817.83	€ 862.82	€ 862.82	€ 876.62	€ 683.76	..
	Minimum wage as share of mean wage*	50.7	40.4	50.1
Portugal	Nominal minimum wage	€ 525.00	€ 554.17	€ 565.83	€ 565.83	€ 565.83	€ 565.83
	Minimum wage as share of mean wage	43.2	42.8	42.6	43.3	43.12	..

Notes: Data refers to first semester of each year. *Minimum wages in Greece were reduced by law in 2012, with effect in the second semester of the year.

Source: ILO Research Department, based on Eurostat.

... and public sector wages were reduced due to the exceptional economic situation.

In 2010, public sector wages were reduced by an average of 5 per cent, in line with the economic policy objectives. This measure was carried out by the Government through Royal Decree Law 8/2010,¹⁸⁶ which also stipulated that public sector remunerations would remain frozen in 2011. The Royal Decree Law changed the wage clauses of the Agreement for the Public Sector concluded between the Government and the Citizens' Service Federation of the Trade Union Confederation of Workers' Commissions (FSC-CCOO) in September 2009. The Agreement had contained a wage increase of 0.3 per cent for 2010, and a wage revision applicable in 2012 aiming to maintain the purchasing power of personnel working in the public administration.

The situation led FSC-CCOO to file complaints both nationally and before the ILO Committee on Freedom of Association. The Spanish

¹⁸⁵ The minimum salary in Spain in 2009 amounted to €624 per month, paid out 14 times. The statistics divide the 13th and 14th monthly salaries over the 12 months of the year.

¹⁸⁶ Royal Decree-Law 8/2010 of 20 May 2010, to adopt extraordinary measures for the reduction of public deficit (*Real Decreto-Ley 8/2010 de 20 de mayo, por el que se adoptan medidas extraordinarias para la reducción del déficit público*).

Constitutional Court rejected the claim of unconstitutionality, focusing on the method of adoption of the said emergency measures in the exceptional economic circumstances. The ILO Committee on Freedom of Association – whilst highlighting the exceptional circumstances and complexity of the case – considered that collective bargaining was a fundamental right that should be given priority as a means of determining employment conditions of civil servants in the context of economic stabilization. It further stated that if under such stabilization policy, a government considers that wage rates cannot be set freely through collective bargaining, the restriction should be imposed as an exceptional measure, only to the extent necessary, not exceeding a reasonable period of time, and accompanied with adequate safeguards to protect workers' living standards. Furthermore, it underlined the importance of maintaining tripartite dialogue and regretted the absence of genuine consultation in the process leading to the adoption of the law.¹⁸⁷

For a more detailed discussion on developments in wages and unit labour costs in a European context, see Chapter 2.

¹⁸⁷ Case No 2918 (Spain) – Complaint date: 17-Nov-11 – Closed. Definitive report – Report No 368, June 2013. Committee on Freedom of Association.

C POLICY CONSIDERATIONS

This chapter has discussed the crucial role of social dialogue in the recovery process – both at tripartite and bipartite levels. It has also analysed the changes introduced to collective bargaining through the 2012 Labour Market Reform, and the preliminary impacts of those changes. On the basis of the analysis, three main policy considerations can be drawn on improving social dialogue and collective bargaining. First, tripartite social dialogue could benefit from the facilitation of regular and effective consultations as well as from improved coordination between the social partners. Effective consultation and improved quality of inputs to various processes will essentially depend on the availability of key information. Second, mechanisms to mitigate potential gaps in CBA regulation as well as any possible race to the bottom in working standards could improve the quality of decentralization of collective bargaining and help to avoid potentially negative socio-economic effects. This could be addressed, for example, through improved quality of sectoral agreements and appropriate negotiating modalities to avoid gaps. The third policy consideration relates to the key function of wage determination for both bipartite and tripartite social dialogue. Improving available data on wages and possibly initiating a regular wage monitoring system by a tripartite body would enable better linking of wages to productivity while avoiding excessive wage devaluation in times of crisis. Other working conditions could equally be monitored through the same body.

Boosting social dialogue is timely to allow for balanced tripartite decision-making ...

Decision-making on economic and social policies requires the participation of the key actors in the labour market in order to bring about sustainable solutions. In times of crisis, more than ever, such joint action is needed.¹⁸⁸

¹⁸⁸ “Social dialogue [...] is a strong basis for building the commitment of employers and workers to the joint action with governments needed to overcome the crisis and for a sustainable recovery. Successfully concluded, it inspires confidence in the results achieved” (Global Jobs Pact, ILC, 2010). The role of social dialogue and tripartism in assisting countries to overcome serious economic and labour market difficulties and accelerate recovery has been well documented (see Ghellab, 2009).

ILO supervisory mechanisms have equally underlined the importance of social dialogue in times of crisis in Spain, among other countries, in connection with introducing employment policy measures that are in line with the Employment Policy Convention, 1964 (No. 122),¹⁸⁹ and in relation to the principles of freedom of association and collective bargaining laid down in ILO Conventions.¹⁹⁰ Most recently, the tripartite Committee set up to examine the representation alleging non-observance by Spain of the Termination of Employment Convention, 1982 (No. 158) also urged the Government to increase its efforts to strengthen social dialogue in seeking solutions to economic problems that are consistent with International Labour Standards.¹⁹¹

All labour market parties in Spain seem to agree that it is important to appropriately balance the need for flexibility for enterprises on the one hand with security for workers on the other. Yet important differences in the parties' more detailed opinions and approaches have meant that the reform process in Spain has not optimally utilized the possibilities offered by social dialogue to reach common decisions with better prospects of sustainability. Indeed, the only tripartite agreement achieved during the crisis was the 2011 Tripartite Economic and Social Agreement with a short period of implementation.

A process that addresses changes to the economic model involves, by definition, a degree of compromise by all parties. In this process it will be crucial to secure minimum standards of protection to avoid an increase in poverty and a race to the bottom in terms of working standards, as well as to enable companies to adjust their processes to the requirements of the market – as seen

¹⁸⁹ Observation of the ILO Committee of Experts on the Application of Conventions and Recommendations (CEACR) – adopted 2012, published 102nd ILC session (2013); Employment Policy Convention, 1964 (No. 122).

¹⁹⁰ ILO (2014a).

¹⁹¹ ILO (2014b).

in Chapter 2. Moreover, other key elements of a sustainable recovery, including outcomes of training programmes and social protection mechanisms, will improve if achieved and designed through tripartite dialogue. In this context, efforts to promote social dialogue that have taken place recently in Spain are a welcome initiative.¹⁹²

To help social dialogue to produce these necessary outcomes and develop consensus, earlier research has put forward, firstly, the enhancement of internal organization and coordination within social partners, which gains even more urgent relevance due to the fact that EU-level decision-making requires effective and coordinated input from the social partners through the relevant governmental processes. Second, a further institutionalization of tripartite relations has been proposed, building on the already existing structures at national, regional and local levels.¹⁹³ In this sense, appropriate tripartite bodies could be given clearly defined mandates to contribute to social and economic policy-making. In Chapter 5 of this report, the establishment of an Employment Task Force to develop a comprehensive employment and social strategy and monitor its progress is discussed. Yet, it should be noted that further institutionalization alone will not resolve all issues: indeed, the specific commitment to social dialogue requires facilitation of the actual, practical work of tripartite institutions, and valorization of any consensus achieved by them.

Tripartite crisis responses in other countries have included elements of organized and coordinated social partner response, as well as institutionalized social dialogue. For instance:

¹⁹² “Acuerdo de propuestas para la negociación tripartita para fortalecer el crecimiento económico y el empleo”, <http://prensa.empleo.gob.es/WebPrensa/noticias/ministro/detalle/2277>

¹⁹³ Molina and Miguelez (2013).

- In response to the global financial crisis, the Netherlands quickly tapped into its regular national social dialogue mechanisms, and the impending consequences of the crisis were discussed as early as March 2008. When the crisis unfolded, the Government convened a special tripartite crisis team in January 2009 to respond to the challenges through joint action. After an important bipartite compromise, the Dutch social partners agreed in March 2009 to a government package that placed high priority on employment promotion through training, balancing the need for flexibility and security, and limiting enterprise costs. The Dutch Ministry of Labour attributes the successful tripartite crisis response to the long-established practice of regular national social dialogue in the country.¹⁹⁴
- During the current crisis and its aftermath, Portugal applied a tripartite approach in tackling the major challenges facing the country. In May 2011, Portugal entered into an economic adjustment programme through a memorandum of understanding with the European Commission, the European Central Bank and the International Monetary Fund, including financial assistance amounting to €78 billion and covering the period 2011–2014. The conditionality package for financial assistance required the Portuguese Government to introduce a series of reforms in the labour market. These changes were negotiated at the national level with the social partners, through the national Tripartite Commission for Social Dialogue (*Comissão Permanente da Concertação Social*), and led to the adoption of the Agreement for Growth, Competitiveness and Employment (*Compromisso para o Crescimento, Competitividade e Emprego*)¹⁹⁵ on 18 January 2012 with the social partners (excluding Confederação Geral dos Trabalhadores Portugueses (CGTP)). This did not come without problems: one union opted out from the agreement, and social partners also felt that they should have been heard on a wider range of reforms. However, the strong status of the Tripartite Commission, anchored in the Portuguese constitution,¹⁹⁶ enabled the body to play a vital role in the negotiations.

¹⁹⁴ Ghellab (2009)

¹⁹⁵ http://www.portugal.gov.pt/media/424132/compromisso_crescimento_competitividade_emprego.pdf.

¹⁹⁶ Constitution of Portugal, article 92.

*... and to avoid gaps in CBA regulation
and coverage, particularly
to address the situation of SMEs.*

First, with a view to ensuring appropriate responses, there is a need to improve the collection and frequency of data on CBAs and coverage of workers. Existing data sources on social security and collective bargaining could be merged to cover these gaps, as suggested by social partners and research institutions. Other possibilities include expanding the company survey carried out by INE.

Second, mitigating the identified potential risks of decentralizing collective bargaining becomes essential. Analysis of the most recent reforms on collective bargaining has shown that more emphasis has been placed on the role of social partners to ensure – through timely collective bargaining – that such gaps do not emerge. In this new situation, the tripartite partners can benefit from experiences in other countries, with a view to building mechanisms that are specific to the Spanish context.

- *Develop appropriate levels for collective bargaining and establish guidelines for coordination between them:* An interesting example comes from Italy, which also has introduced reforms towards decentralization and flexibility of collective bargaining in recent years. First, a case study from the chemical-ceramic industry in Lombardy, applying second-level bargaining, shows how uniformity with national regulation on general issues and regulation tailored to the local context on specific matters have been successfully combined.¹⁹⁷ Second, more recently in November 2012, a Pact on Productivity was signed between the social partners in Italy during a meeting with the Government.¹⁹⁸ Interestingly, in this pact it was agreed that sectoral agreements shall guarantee homogenous economic and normative conditions for all industry workers and that clear rules of delegation to second-level bargaining as concerns topics

¹⁹⁷ The case examined the Regional Collective Agreement (signed on 24 October 2012) for employees of handicraft businesses in the chemical-ceramic industry of Lombardy (FGB, 2013).

¹⁹⁸ Signatories to this deal included Confindustria, Rete Imprese Italia, Alleanza delle Cooperative Italiane, ABI and ANIA on the employer side; and CISL, UIL and UGL on the worker side. One worker confederation, CGIL, did not join the pact.

that can enhance productivity (such as employment contracts, working time and work organization) would be introduced. Sectoral agreements were also tasked with the duty of ensuring that the dynamic of economic effects is coherent with the general trends in the economy, labour market, international competition and sectoral developments.

- *Monitor derogation from CBAs for better responsiveness:* Another example comes from Germany, whose collective bargaining model is characterized by strongly autonomous labour-market institutions and decentralization. Although its system is different from that in Spain, Germany's experiences in this domain could still be valuable in a wider context. For instance, decentralized collective bargaining and increased opting-out practices in the German metalworking industry led to an interesting development at the industry level: in 2004, control of derogation was transferred to the industry level through the Pforzheim Agreement.¹⁹⁹ This agreement established internal coordination guidelines which reportedly led to more professional bargaining procedures and more transparency, moderating disputes and stimulating substantive discussions.²⁰⁰
- *Develop structures for representation at the enterprise level as a long-term objective:* Any decentralization of collective bargaining to the firm level needs to be accompanied by the support and maintenance of worker representation in the process, particularly in order to ensure that employees benefit when economic conditions improve.²⁰¹ Indeed, decentralization of collective bargaining to the firm level raises the issue of effective representation of both workers and employers. In the case of Germany, as seen above, the decentralization process can lead to a strengthening of worker representation at the local level through new approaches and

¹⁹⁹ The Pforzheim Agreement stipulated that derogations should be decided on by the bargaining parties at the firm and industry levels and companies should make information available. In addition, it instructed that parties at the industry level should be able to conclude derogation agreements.

²⁰⁰ Fondazione Giacomo Brodolini (2013).

²⁰¹ Dustmann et al. (2014).

initiatives to mobilize members and involve them in enterprises, particularly in SMEs.²⁰² Also employers benefit from effective representation in collective bargaining – this is particularly true for SMEs, which form the majority of Spanish enterprises. In addition to the weaknesses in social partner organizations at the local level, negotiations with small enterprises may fail to yield the desired results due to the absence of bargaining procedures, feelings of threat related to the unusual nature of the task and a lack of time and other resources.²⁰³ While efforts are still needed to build more effective social partner organizations at the local level in the longer term, consideration could be given to enhancing structures at a higher level in parallel with ensuring effective worker representation through trade unions. This issue is discussed in box 4.4 in the context of the current international legal framework.

²⁰² Fondazione Giacomo Brodolini (2013).

²⁰³ See the case of France, in Fondazione Giacomo Brodolini (2013).

ILO supervisory mechanisms on collective bargaining

The starting point in ILO Conventions and Recommendations is free and voluntary negotiation, which implies that it should be possible for collective bargaining to take place at any level whatsoever, including establishment, undertaking, branch of activity, industry, regional or national levels.²⁰⁴ The Committee of Experts has held that the parties themselves – the experts on their own particular situation – should be able to choose the level of negotiation or can adopt a mixed system of framework agreements supplemented by local and enterprise-level agreements, if they so wish. The Committee on Freedom of Association has held that the best way to ensure independence of the parties is to allow them to decide on the bargaining level by mutual agreement.

Interventions by the legislative or administrative authorities that have the effect of annulling or modifying the content of freely concluded collective agreements, including wage clauses, are contrary to the principle of voluntary collective bargaining.²⁰⁵ However, as part of economic stabilization or structural adjustment policies and for imperative reasons of economic interest, restrictions on the content of *future* collective agreements introduced by the government can be admissible if they are: (i) introduced after consultations with the social partners; (ii) applied as an exceptional measure; (iii) only to the extent necessary; (iv) not exceeding a reasonable period; and (v) accompanied by adequate guarantees to protect the workers' standards of living.²⁰⁶

The supervisory bodies have not stated any preferences or criteria as to the hierarchy or inter-relationship of agreements at different levels: in practice, organization of issues both in collective bargaining agreements and through legislation is accepted, such as a regulation giving priority to a certain agreement level, for example. The Collective Bargaining Recommendation states that in countries where bargaining happens at several levels, the parties should endeavour to ensure coordination between the levels.

ILO supervisory bodies have, however, on several occasions raised concerns on *effective worker representation* at all bargaining levels. Parties to collective bargaining are employers or their organizations, on the one hand, and workers' organizations, on the other. In principle, only in the absence of workers' organizations can the workers or their representatives participate directly in collective bargaining.²⁰⁷ Recently, in the case of Greece, the Committee of Experts repeated its concerns in relation to worker representation through unions at the enterprise level in light of recent reforms.²⁰⁸

²⁰⁴ Collective Bargaining Recommendation, 1981 (No. 163).

²⁰⁵ These interventions include: the suspension or derogation of collective agreements by decree without the agreement of the parties; the interruption of agreements which have already been negotiated; the requirement that freely concluded collective agreements be renegotiated; the annulment of collective agreements; and the forced renegotiation of agreements which are currently in force.

²⁰⁶ Gernigon et al. (2000).

²⁰⁷ *Ibid.*

²⁰⁸ Observation of the ILO Committee of Experts on the Application of Conventions and Recommendations (CEACR) – adopted 2013, published 103rd ILC session (2014), Right to Organise and Collective Bargaining Convention, 1949 (No. 98), Greece.

*Improve the quality of industry-level agreements
and consider developing bargaining modalities to avoid gaps
and fragmentation ...*

Adopting a structured approach to decentralization could help to improve collective bargaining procedures given the Spanish context, where enterprises are mostly micro, small or medium in size. The present lack of resources, capacity and experience of collective bargaining at the local level suggests that higher-level arrangements should be improved to ease the situation of, in particular, micro and small enterprises. Provincial industry-level agreements have been criticized for their inefficiency and seen as an obstacle to competitiveness. It should be noted, however, that these inefficiencies have often been associated with the provincial rather than the sectoral nature of these agreements. It is important therefore to comprehensively analyse these agreements, their territorial organization and effects with a view to identifying ways to improve their quality.

While making efforts to improve the quality of sectoral agreements, the bipartite partners with support from the Government could simultaneously develop bargaining modalities that will ensure that gaps in CBA regulation do not emerge and that effects of derogations are balanced. As seen in the previous section, over 40 per cent of newly negotiated CBAs introduce unlimited *ultra-actividad* with a view to addressing the issue of potential gaps in CBA regulation. Where possible, the partners could also ensure that a higher-level agreement is always in place to cover such situations. As seen above, cases where a CBA expires and no higher-level CBA is in place have already emerged. It is thus important to pay attention to this possibility with a view to preventing similar occurrences.

More concretely, the bipartite partners in collaboration with the Government could engage in discussions on how to avoid these gaps and fragmentation of collective bargaining by deciding on appropriate bargaining levels, possible needs for coordination guidelines, and organization of issues between the levels. In the German case, for example, coordination guidelines were established so as to control non-application of CBA clauses at levels higher than the enterprise.

New industry-wide agreements based on economically meaningful geographical areas could help to enable a redistribution of issues between agreements at the firm and industry levels, thus contributing to preventing fragmentation and lack of coordination among parties. This approach would, in particular, enable small companies to concentrate their scarce resources on their core business, while issues common to the industry would be agreed at the industry level. Issues such as functional mobility and flexibility of organizational aspects of production could continue to be secured at the higher level, as these aspects have been seen as particularly beneficial when agreed upon at a higher level. Through this, some of the concerns brought forward by the Spanish workers' and employers' organizations could be addressed.

Further, this approach would allow for more coordination, and thus mitigate the risk of fragmented collective bargaining. It could also strengthen collective bargaining by hindering the widespread use of opt-out clauses, and reduce the use of evasive negotiating strategies. Indeed, the existence of opt-out clauses as a means for companies to maintain employment in times of crisis is important, yet their *widespread* use can lead to an unsustainable situation of increasingly varied working conditions in the same sector, or even in the same company. In the German case, as seen above, the metalworking industry developed an industry-level response to mitigate similar problems. In addition, the rather broad conditions upon which companies may choose to substantially modify working conditions could potentially lead to increasing use of this modality, and these derogations could therefore also benefit from monitoring to allow for more general-level responses, as necessary.

It should be noted that with the priority given to enterprise-level agreements, any enterprise-level agreement provisions on key issues such as salary and working time²⁰⁹ would prevail over industry-level agreements. The bipartite parties can, however, freely agree to refrain from negotiating certain issues at the enterprise level and instead adopt conditions established through higher-level agreements.

*... while paying attention to building representation
at the enterprise level in the longer term ...*

Apart from improving the quality and relevance of industry-level agreements and developing appropriate bargaining modalities, the representation structures of workers and employers at the local level would simultaneously need to be improved to enable effective representation at the enterprise level. As seen in the German case, workers' organizations have developed specific tactics to mobilize members at the plant level. Employers' organizations could consider how to improve enterprise-level negotiation capacities in small enterprises. At present, tradition of collective bargaining and resources needed to conduct negotiations are not well established in small enterprises. Therefore it may well be the case that discussions are partially moved up to the industry level, thus focusing on enhancing sectoral CBAs and other bargaining modalities, as discussed above.

*... and engaging in assessment of wider social impacts
of the new collective bargaining model.*

No full assessment is currently available on how the present regulation of collective labour relations helps to generate and distribute productivity gains in a manner that is fair and equitable, or on the extent to which it is able to facilitate adjustment, manage conflict and resolve disputes. It is important that these aspects are assessed in the preparatory phase of any new legislation, and also that they are monitored as new rules are implemented. Further, there is no comprehensive picture available on the evolution of the quality of regulation brought about by CBAs. This relates in particular to basic protection for workers, such as minimum wages, working

²⁰⁹ See the full list of items in section B of this chapter.

hours and occupational safety and health. Monitoring and assessment of these aspects through a tripartite body could help measures to be taken, as deemed necessary, to correct any possible lapses.

Finally, the ability to make informative decisions on wages is a cornerstone of collective bargaining ...

Finally, the ability to undertake more facts-based wage negotiations, with parties enabled to make informed decisions, could be developed through improving wage-related data and by monitoring income developments through a tripartite body. It will be important to monitor wage developments, with a focus on assessing the actual impacts of the recent reforms, to enable wages to be better aligned with companies' competitiveness and productivity gains. The same body could also monitor other developments, such as consumer prices, coverage of workers by CBAs and developments in CBA contents, as referred to above.

Systematic wage monitoring has been recognized as a useful mechanism in other countries:

- In Finland, the Central Statistical Office (*Tilastokeskus*) monitors wage developments in all sectors. The Confederation of Finnish Industries (*Elinkeinoelämän keskusliitto, EK*) produces wage statistics for the private sector, and also feeds data to the Central Statistical Office for use in official statistics. Wage statistics are used to monitor the developments in earnings, wage levels and wage structures in EK, its affiliates and member companies. In addition, wage statistics are needed in collective bargaining, where they are used to estimate the cost impacts of salary increments in various sectors. Furthermore, a tripartite body, the Committee for Income and Cost Development Surveillance (*Tulo- ja kustannuskehityksen selvitystoimikunta, TUKUSETO*), monitors developments in wages, costs and purchasing power at a general level. The Committee drafts

economic surveys and calculations for use in collective bargaining and other economic and social decision-making, and monitors the implementation of CBAs and labour market pacts, making assessments on their effects. It also provides a discussion forum for talks on wage formation and contracting, and monitors the development of Finland's price competitiveness.²¹⁰ A long tradition of tripartite social dialogue, typical of the country, provides the foundations for this interactive model.

- In Austria, wage and price developments are investigated and monitored under the Paritätische Kommission, which was originally established as a time-limited measure in 1957. Paritätische Kommission forms a central body of the Austrian social partnership (*Sozialpartnerschaft*) involving the cooperation of employers' and workers' organizations and representatives of the Federal Government. Paritätische Kommission meets at a high level in plenary, while its work is prepared in four subcommittees, covering: (i) economic and social affairs; (ii) international affairs; (iii) wages; and (iv) competition and price issues.²¹¹ In recent years the role of the Paritätische Kommission has reportedly decreased, but it still represents an institutionalized discussion forum between the social partners and the Government, and continues to monitor price and wage developments.²¹²

In the particular case of Spain, merging data from various sources would provide a more comprehensive picture of wage evolution than is presently available, as the wage effects of opting-out from CBAs are currently not registered and reporting gaps exist. Furthermore, the fact that reporting this data could have an influence in national or industry-level decision-making could increase company reporting, possibly encouraged by trade union advocacy. Also, as mentioned above, the current company surveys carried out by INE could be expanded to comprehensively cover gaps in data, if necessary. The tripartite partners could engage in discussions on which national body would be most suitable for facilitating the coordination of these activities.

²¹⁰ www.ek.fi, www.vm.fi

²¹¹ "Die Sozialpartner Österreich" in: <http://www.sozialpartner.at/default.htm>

²¹² See more information at: <http://www.bmeia.gv.at/aussenministerium/oesterreich/staat-und-politik/sozialpartnerschaft.html>

... and would benefit from euro area-wide coordination.

Further, as stated in earlier ILO research on Spain,²¹³ euro area coordination on wage policies will be important to avoid a race to the bottom in wages. Within the wider group of euro area countries, appropriate ways to link wages to productivity developments could be analysed, with due consideration given to the diverse productivity levels across sectors. In addition, the role of minimum wages as a mechanism for social protection and social cohesion could be investigated in this broader group. Several countries have used minimum wages in their responses to the 2008 crisis, as documented in the ILO/World Bank crisis inventory.²¹⁴ This coordination could help to boost a healthy and balanced approach to improving competitiveness in the euro area and in the European Union more broadly.

²¹³ ILS (2011).

²¹⁴ ILO and World Bank (2012).

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CHAPTER 5

TOWARDS AN EMPLOYMENT AND SOCIAL STRATEGY FOR SPAIN: BUILDING CONSENSUS, COMPLEMENTARITIES AND THE ROLE OF THE ILO

INTRODUCTION

After a severe and sustained recession in Spain, there are positive signs that the economy is finally on the path to recovery. Yet, despite the indications of a turnaround, the employment and social situations remain fragile and merit considerable policy focus moving forward if a number of risks are to be avoided. To this end, this report has identified options for promoting a new, more resilient and balanced productive system capable of creating quality jobs. As a fundamental component of this new economic model, the report has examined the important role of Spanish small and medium-sized enterprises (SMEs) in promoting job creation. In particular, it has discussed a number of limitations and challenges of the current business environment and ways to promote sustainable improvements in competitiveness and productivity (Chapter 2).

Crucially, the report has also emphasized the need to support vulnerable groups during the recovery phase and the central role of active and passive labour market policies as well as public employment services (PES) in helping to secure adequate income support while also encouraging reintegration into the labour market (Chapter 3). However, the report has highlighted the importance of social dialogue and effective collective bargaining for making these policies successful (Chapter 4).

Each of these issues is important in its own right, but, moving forward, a policy framework or labour market strategy may be needed to draw out the inter-linkages between the various pillars and to leverage complementarities in order to lay a solid foundation for a new, inclusive and employment-rich growth model. With that in mind, the present chapter focuses on the way forward, in particular by identifying areas of common concern that could form the basis of an employment and social strategy (section A). The chapter then considers in more detail the critical role that social dialogue could play in this process (section B).

A BUILDING AN EMPLOYMENT AND SOCIAL STRATEGY: COMMON AREAS OF ACTION

The benefits of implementing a comprehensive employment and social strategy that has the full cooperation of all social partners are derived from a combination of leveraging the complementarities among the various policy interventions and making full use of the expertise and information of the different actors. For instance, employers must work closely with training institutions and PES to ensure that the training provided is demand driven, which in turn will increase the likelihood that unemployed people, especially youth, develop relevant work-related skills and find jobs. Similarly, policies to foster firms' productivity are unlikely to achieve significant job creation if they are not associated with investments in education and training that enhance the skills of the workforce. Indeed, all social partners share the objective of designing and delivering better policies for people in Spain. In short, the purpose of an employment and social strategy is to focus on common areas of action – as was the case in Ireland (box 5.1).

Box 5.1

The case for a national employment strategy: The Irish experience

In 2012, the Irish Government launched a multi-year plan to sustain job-friendly growth following the global financial crisis. The aim of the Action Plan for Jobs was to increase the employment level from 1.8 million in 2012 to 1.9 million in 2016 and 2 million in 2020. As part of the plan, the Government monitors progress regularly (four progress reports every year) and sets a new table of actions based on recent developments, following consultations with the social partners.

The policy approach of the Action Plan aims to create employment while enhancing competitiveness. In particular, areas of intervention have included boosting firms' productivity, increasing export intensity and diversity, attracting foreign direct investment and improving start-up and entrepreneurial activities. Specific policy interventions since 2012 have included:

- *Research and innovation:* Identification of key priority areas of research of direct relevance for enterprises and jobs; support for in-company innovation capabilities; launch of an ICT action plan; linking firms' and universities' expertise in key areas of research; encouraging the arrival of foreign young graduates.
- *Cost competitiveness:* Efforts to increase buildings' energy efficiency; reduction of energy costs for enterprises; introduction of a more effective enforcement regime for competition offences; reduction of administrative costs and bureaucratic delays; increased competition in the public transport sector.
- *Exports:* Appointing a marketing resource in international priority markets, including China, South Africa and United Arab Emirates; organizing events and workshops for potential exporters; building awareness of existing in-market resources; prioritizing export-oriented companies in the delivery of services of public governmental agencies.

Since the launch of the Action Plan for Jobs, the macroeconomic and labour market situation in Ireland has considerably improved. In 2013, employment increased by 2.1 per cent (38,000 jobs), with three-quarters of the jobs being full-time in nature. The unemployment rate decreased by 0.8 percentage points during the same period, while labour force participation increased by 0.6 percentage points. Although these improvements cannot be simply correlated with the Action Plan, some additional evidence suggests that the programme has played a notable role in sustaining the recovery. For example, net job creation in companies that are clients of the main governmental agencies – Enterprise Ireland and IDA Ireland – exceeded 11,000 in 2011, the highest value in the past decade and above the target set in 2012. Moreover, 7,000 companies and 10,500 youths participated in JobBridge – the national internship scheme – and 56 per cent of the participating youths progressed to employment at the end of their internship, one of the highest rates among comparable programmes in the European Union.

Source: Government of Ireland (2013, 2014).

An employment and social strategy would be built around a set of common pillars, including, first, creating an environment conducive for enterprise development and growth ...

When discussing the needs of the labour market and the steps required to move towards a new and more crisis-resilient productive model, the tripartite partners in Spain have identified many of the same areas of concern.²¹⁵ In this respect, the social partners are united in their emphasis on the need for research, development and innovation to support enterprise growth. This, according to the partners, calls for greater public and private investment efforts, notably in the areas of technological and green innovation, ICT, renewable energy and SMEs. Further, a widespread view prevails that improvements in the legal framework are needed to encourage productive investment and ensure that the financial system makes credit available to viable businesses.²¹⁶ Also, the need to support the growth and internationalization of SMEs is shared by the partners. It is furthermore recognized that all these efforts require tripartite dialogue with a view to arriving at better solutions.

This report has highlighted the need to promote investment, especially among SMEs, having due regard to economic diversification and the importance of innovation. It has discussed the need to address the bottlenecks in the business environment in order to enable enterprises to grow. The report has also raised the need to find innovative forms of financing for SMEs and the role of the PES in supporting start-ups, with the potential for local actors, such as city councils that could contribute to the agenda, for example, through individualized counselling and business incubator services. In addition to support for start-ups, the report has found that measures to encourage growth and survival of existing companies are of vital importance.

²¹⁵ Central areas for common ground and the need for mechanisms of social dialogue were identified by Ana María Femenia in her study *Estudio sobre diálogo social como parte de la iniciativa "Apoyar la recuperación generadora de empleo en España"*, commissioned by the ILO Madrid office, February 2014 (Femenia, 2014).

²¹⁶ The Council of the EU also acknowledges that weaknesses in the Spanish business environment are delaying economic recovery and job creation.

... second, to ensure adequate support to vulnerable groups while encouraging labour market attachment and reintegration ...

The need to pay specific attention to vulnerable groups, particularly youth and long-term unemployed, is a shared concern. In particular, the social partners speak of the need for a National Agreement on Tripartite Training, to redefine the vocational training system and ensure it is closely linked to the “new production model”. All tripartite partners seem to agree on the need to prioritize specific groups to receive training, namely young people and women. Further, the partners’ consensus equally supports the need for specific support for youth through a youth guarantee. A new vocational training model was very recently introduced by Spain, and the monitoring and evaluation of its outcomes will certainly benefit from a tripartite structure, enabling it to be linked closely to the needs of the labour market.

In this context, this report asserts that a better balance between active and passive labour market policies should be achieved so as to support vulnerable groups and to maintain their labour force attachment. With a view to achieving tangible results, appropriate targeting is central, as is a move away from the use of less effective hiring subsidies. Moreover, increased emphasis on training should be complemented by efforts to ensure that its design and delivery is closely tailored to the needs of the labour market. As such, the relevant strategies should be developed and monitored in a tripartite setting, with involvement of firms at the local level. The vocational training reform recently announced by the Government, and carried out through a process of social dialogue, takes a major step forward in this direction. This report has presented experiences from other countries, including youth guarantees and apprenticeship programmes, and enabling targeted support to young women and men.

*... third, by laying the foundation
for sustained improvements in job quality ...*

Job quality and adequate access to social protection also arise as common concerns of the tripartite partners with regard to self-employed persons, in particular “economically dependent self-employment”, and other forms of precarious employment. This report suggests that better targeting of incentives towards the most vulnerable groups can help to improve the situation of people in involuntary part-time and temporary employment. At the same time, more and better information is needed on the extent of “economically dependent self-employment” and any challenges these individuals are facing with respect to working conditions. In fact, through social dialogue processes, the social partners have identified the need for improved health and safety at work, contributing to the promotion of better working conditions and quality employment for all individuals. Further, reducing gender disparities and the wage gap is seen as a major boost to the new production model, widening the base for workforce and tax contribution, and thereby favouring a job-rich economic recovery. Finally, the importance of finding optimal solutions for reconciling work and family life is emphasized by the partners, who also believe that social dialogue can be used as a basis for identifying policy options going forward.

*... and finally, strengthening links between demand
and supply through public employment services.*

Strong consensus prevails on the need to reinforce the PES. The role of ALMPs is recognized by the partners as a key element in a job-rich economic recovery, but they realize that in order to be effective, the PES needs to be enhanced to give coherence and cohesion to the extension of services by the private sector, guided by a framework of social dialogue.

As demonstrated in Chapter 3, the PES is a key interlocutor between the supply side and the demand side of the labour market, notably in terms of delivering training programmes.

B IMPLEMENTING AN EMPLOYMENT AND SOCIAL STRATEGY: THE ROLE OF SOCIAL PARTNERS AND THE ILO

*An Employment Task Force could be established
to define the parameters of an employment and social strategy
and monitor developments ...*

An employment and social strategy should be born out of consultation with social partners and the public. With this in mind, the Government could consider taking the lead in establishing an Employment Task Force, to be made up of key social partners and also bringing together education and training providers, academics, institutions and other leaders with expertise in labour market and social issues in Spain, in an effort to take a more informed, coordinated approach. In this respect, an appropriate jointly chosen tripartite platform, such as for example the Spanish Economic and Social Council, could chair the Task Force – this would establish a foundation for strengthening social dialogue and reaching out to the public, via consultations on issues, challenges and the way forward.

Once a joint strategy has been developed and launched, the Employment Task Force could continue on a mandate centred on monitoring on-going developments and providing a forum for dialogue with a view to providing continued advice on how best to address emerging labour market and social issues, including that of labour market governance through collective bargaining agreements at appropriate levels. Of particular relevance is the need to monitor wages, prices and working conditions, as discussed in Chapter 4 – potentially through, or in collaboration with, the Employment Task Force.

... with the ILO providing support to the Task Force as requested.

The ILO could collaborate with Spain and the Employment Task Force on the development of a comprehensive strategy, or similarly it could provide inputs for consideration in certain areas of expertise that align with the mandate of the ILO. This includes the appropriate design of institutions to ensure they include pertinent social dialogue structures. As concerns particular strategies for social partners, including those of organizational coordination, the Bureaus for Employers' and Workers' Activities at the ILO could provide avenues for improved dialogue among the social partners.

In the area of enterprise development, international best practices on setting up or enhancing the necessary programmes and structures, including specific measures in relation to vulnerable groups could be shared with constituents. Furthermore, the ILO stands ready to support its constituents in the implementation of the youth guarantee scheme and the attached programmes and services (such as apprenticeships).²¹⁷ For example, a multi-tripartite structure on apprenticeships – including the Government, social partners and educational institutions – could foster the diffusion of apprenticeship programmes and improve the quality of labour market matching. To further support the essential role of social dialogue, discussions could be developed in relation to the transition towards training strategies that respond to the needs of the labour market, and which are designed and monitored through a tripartite structure. This would come to support the newly reformed vocational training system. In addition, a dialogue with the labour inspectorate could be developed with a view to adopt the practical approach to addressing issues such as “economically dependent self-employment”.

What is most important is that there is an opportunity to build upon these common areas of interest together and place quality job creation as the centrepiece of the next phase of the recovery process.

²¹⁷ Cooperation in this area would be essential with the European Commission, which recently launched the EU youth guarantee programme.

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SPAIN: GROWTH WITH JOBS

The aim of the *Studies on Growth with Equity* series is to show how strong and well-designed employment, labour and social protection measures are central – in combination with supportive macroeconomic policy – to building sustainable, job-rich and equitable growth.

The Spanish economy has begun to recover from both the global financial crisis of 2008 and the sovereign debt crisis of 2011 and has made some employment gains. However, the recovery remains both incomplete and fragile. On current trends, it would take at least a decade for the unemployment rate to return to the pre-crises situation. It is therefore crucial to strengthen the employment recovery in order to ensure sustainable economic growth and avoid a further erosion in social conditions. The report points to a number of areas where Government and social partners could take action together to solidify these recent gains and build a new path to more and better jobs.

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