Reforming labour markets in bad times: An assessment of the Spanish experience

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DIRECTORATE GENERAL ECONOMICS, STATISTICS AND RESEARCH
1. Main changes in labour market institutions and economic situation
2. Aggregate Impact on wages and employment
3. Changes in wage determination
   - Collective bargaining
   - Internal flexibility
4. Changes in employment flows
   - Changes in job creation/destruction by contract type
5. Conclusions
Collective Bargaining: Towards higher decentralization and higher wage flexibility

- Priority of firm-level agreements
- Extension of working conditions in which the employer may make unilateral changes as long as they remain above the minimum conditions of collective agreements
- Ease on the application of opt-out clauses from collective agreements
- Ultra-activity (automatic extension of collective agreement conditions while another agreement is being discussed) limited to 1 year
Employment: Lower EPL gap between permanent and temporary workers

- Reduction of the cost of unfair disciplinary dismissals (from 45 days per year worked up to 48 months to 33 days per year worked up to 24 months)
- Extension and clarification of the conditions for objective dismissals to be applied (20 days per year worked up to 12 months)
- Increase in the termination costs of fixed term contracts (from 8 days per year worked in 2012 to 12 days per year worked in 2015)
- Suppression of the administrative approval of collective dismissals

A new permanent contract was introduced for firms with less than 50 employees with one year trial period and social security rebates
IT WAS APPROVED IN THE MIDDLE OF A SEVERE CRISIS IN THE SPANISH ECONOMY
THAT INCREASED UNEMPLOYMENT ABOVE 25%
FIRST IMPACT OF THE REFORM WAS OBSERVED ON WAGES
WAGE MODERATION HAS GONE FURTHER WAGE DETERMINANTS WOULD INDICATE

\[ \Delta W = \alpha + \beta \cdot CPI_{t-1} + \lambda \cdot \Delta U_t + \omega \cdot Prod_t \]

Source: NA data from 1981Q1 - 2014Q4
LEADING TO A SIGNIFICANT RECOVERY IN EXTERNAL COMPETITIVENESS

Relative Unit labour cost Spain vs Euro Area (1999=1)

- Relative Wages
- Relative Productivity
- Relative ULC

Graph showing the relative unit labour cost for Spain compared to the Euro Area from 1999 to 2014.
AND UPWARD SURPRISES IN EMPLOYMENT HAS BEEN OBSERVED

\[ \Delta E = \alpha + \alpha_{\text{crisis}} + \beta \ast GDP \]

\[ \Delta U = \alpha + \alpha_{\text{crisis}} + \beta \ast GDP \]

Source: NA data from 1981Q1 to 2014Q4
Collective agreements showed a much lower association with past inflation in 2012/13.
DESpite changes in the structure of collective bargaining are not yet observed

Disperssion in agreed wages remains relatively low
BUT REAL WAGE RIGIDITY SEEMS TO HAVE DECREASED
AND MEASURES TO INCREASE FIRM´S INTERNAL FLEXIBILITY HAVE ALSO CONTRIBUTED TO WAGE MODERATION

**Opts-outs and other flexibility measures by firm´s size in 2013**

Source: WDN3 Survey
OVERALL, A HIGHER WAGE SENSITIVITY TO UNEMPLOYMENT IS ESTIMATED AFTER 2012

Wages are very mildly pro-cyclical in Spain and, usually they are still less responsive to the situation in the labour market in recessions (Font et al, 2015) But, we may be starting to see some additional wage sensitiveness after 2012
HOWEVER, NOMINAL WAGE RIGIDITIES ARE BECOMING MORE RELEVANT FOLLOWING THE DECREASING TREND IN INFLATION

Source: Social Security registers data. Full-time job stayers workers of the private sector of the economy
IS IT EASIER TO ADJUST WAGES AFTER THE REFORM?

**Firms’ perceptions about the possibilities to adjust wages in 2013 with respect to 2010**

- Lower entry wages
- Lower incumbent wages

**Why is it easier to adjust wages?**

- Reforms of labour laws
- Enforcement of laws
- Unions behaviour
- Workers attitude

**Source:** WDN3 Survey

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**Other labour conditions**
IMPACT ON EMPLOYMENT: REFORMS HAVE DECREASED EPL IN SPAIN

Some caveats
FIRMS TEND TO PERCEIVE AN EASINESS IN THE POSSIBILITIES TO MAKE LAY-OFFS

Firms’ perceptions about the possibilities to adjust wages in 2013 with respect to 2010

Why is it easier to lay-off under economic reasons?

Source: WDN3 Survey
DESPITE LOWER EPL AND ADVERSE CYCLICAL CONDITIONS JOB DESTRUCTION DID NOT INCREASE AFTER 2012 REFORM

Evidence from microdata
WHILE TURNOVER ON TEMPORARY CONTRACTS REMAINS HIGH

Note: Probit estimates including personal (sex, age, educational attainment), job characteristics (tenure, sector of activity, occupational category and working-time arrangement) and GDP growth. Source: Linked-LFS microdata from 2005Q1 to 2014Q4
AND EMPLOYMENT CREATION REMAINS SUBDUED

[Graphs showing job creation rate and GDP, and job creation rate of temporary contracts and GDP]
CONCLUSIONS

- 2012 LM reform fostered wage moderation in the middle of a deep crisis in the Spanish economy

- Wages could be starting to react more closely to economic conditions
- A decrease in real wage rigidities seems to be observed.
- Increasing relevance of nominal wage rigidities
- Higher decentralization in CB is not yet observed

- Wage moderation contributed to a recovery in employment, after a very pronounced adjustment in the initial phase of the crisis. This recovery is one of the main drivers of recent pick-up in internal demand

- Job destruction of permanent workers has moderated markedly
- Although turnover on temporary contracts remains high
- And job creation remains low

- Even in a very adverse economic context, structural reforms pay-off!!!
CONCLUSIONS

Looking forward, Spanish labour market confronts two main challenges:

• Reduce the high unemployment rate
• Need of higher productivity growth

➢ It is crucial to confirm higher wage flexibility is not a temporary phenomenon and the design of EPL is no longer an obstacle to efficient hiring/firing decisions. Additional measures could be needed to ensure these goals.

➢ Higher decentralization should be observed in collective bargaining to increase wage sensitiveness to the specific economic situation of firms

➢ Higher wage flexibility is needed to mitigate employment volatility reducing excessive labour-shedding after negative shocks

➢ And, together with an effective reduction in EPL gap between permanent and temporary workers, it should allow firms to modify their hiring (and firing) patterns, reducing the incidence of temporary contracts on job turnover
THANKS FOR YOUR ATTENTION
LONG-RUN EFFECTS OF THE LM REFORM IN WAGE BARGAINING?

Is opting-out easier in 2013 than in 2010?

Firms’ perceptions about the possibilities to adjust other labour conditions in 2013 with respect to 2010

Source: WDN3 Survey

Back
ALTHOUGH MORE DATA ARE NEEDED ON CHANGES IN THE DISMISSALS PROCEDURE

Higher possibilities to dismiss on economic conditions are observed although not clear evidence on the impact on dismissal costs and on the share of favorable sentences to firms (Jimeno et al, 2015)
LFS MICRODATA CONFIRM RECENT REDUCTION IN JOB DESTRUCTION OF PERMANENT CONTRACTS

Note: Probit estimates including personal (sex, age, educational attainment), job characteristics (tenure, sector of activity, occupational category and working-time arrangement) and GDP growth. Source: Linked-LFS microdata from 2005Q1 to 2014Q4