

# **LABOUR MARKET AND SOCIAL SECURITY IN SPAIN**

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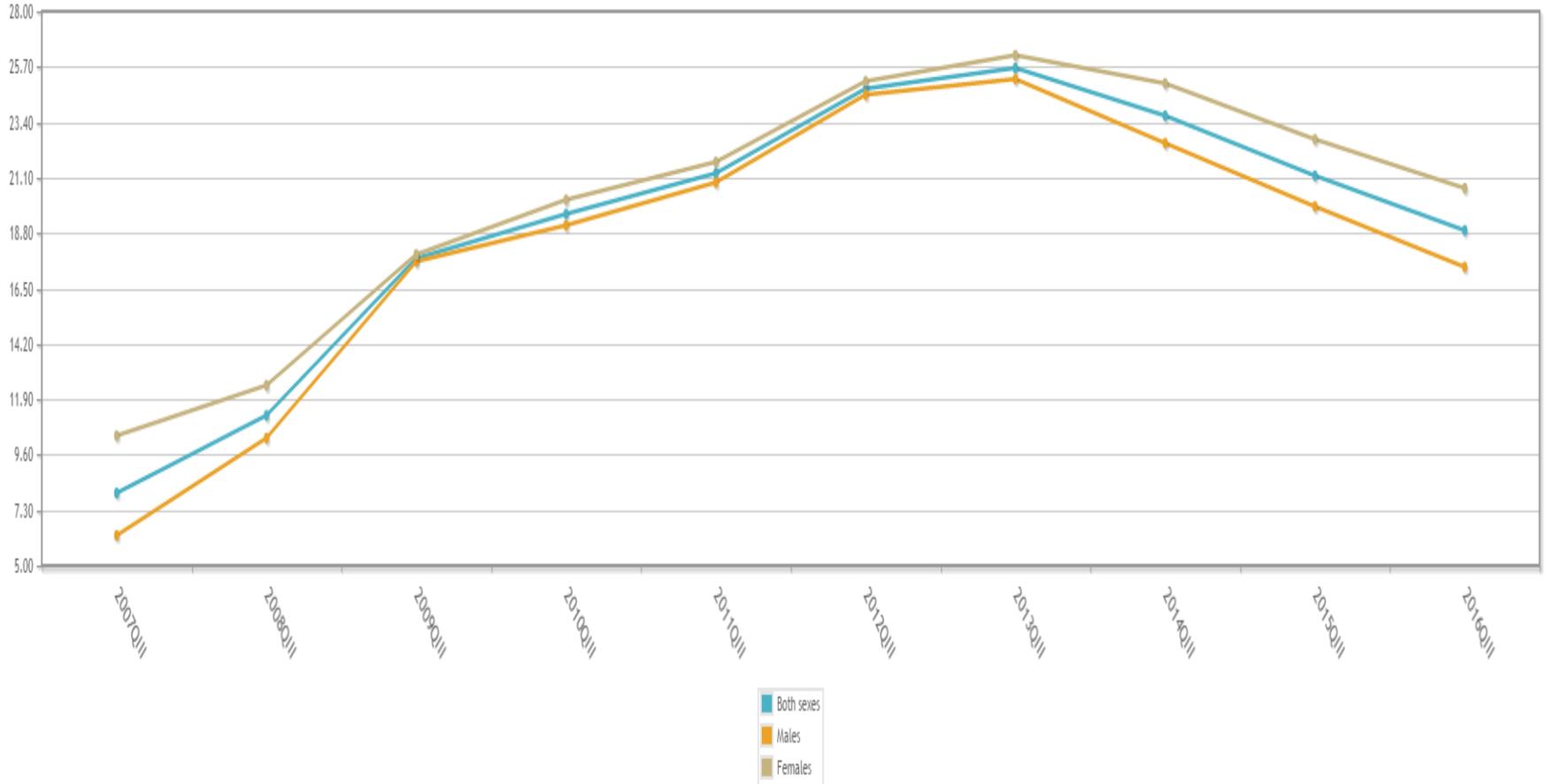
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# **1. LABOUR MARKET**

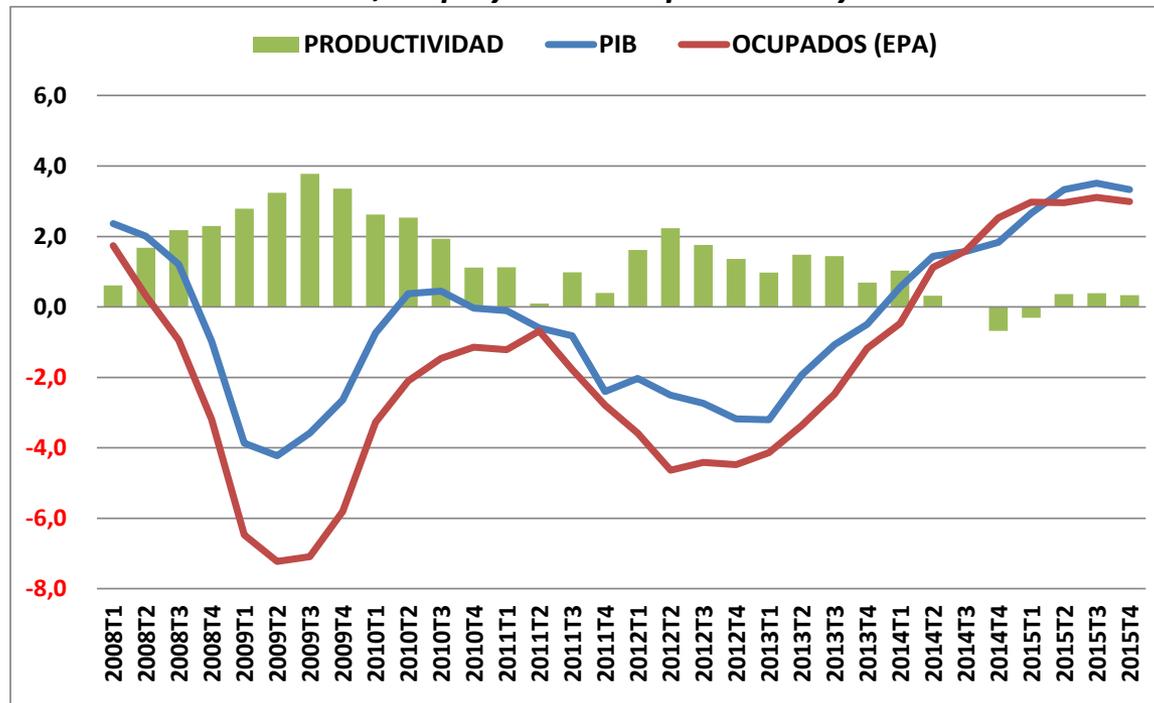
**Very high unemployment:  
strong regional differences, same Labour Law**

# Unemployment rates by sex

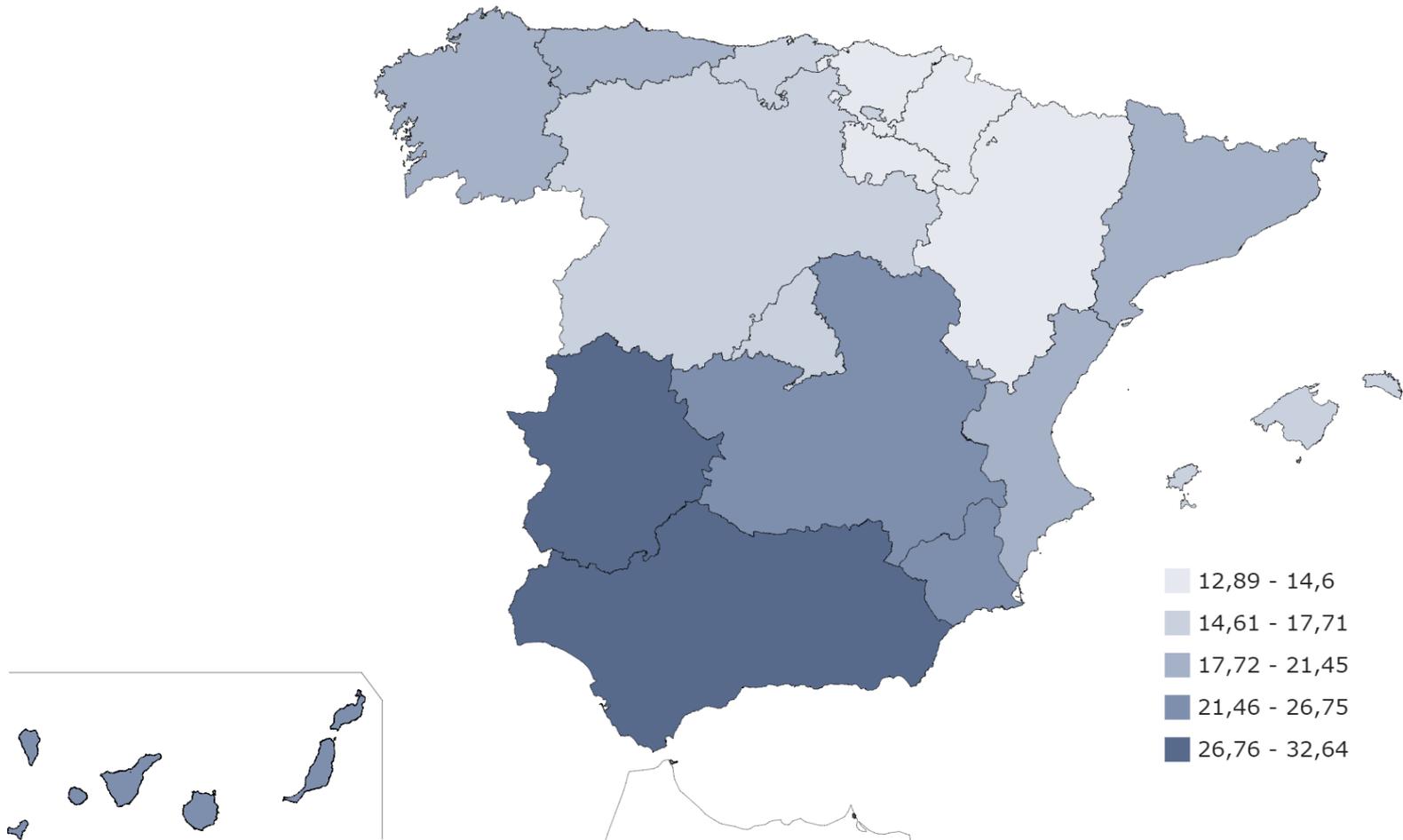
Unemployment rates by sex and age group  
Economically Active Population Survey, Census 2011 (CEAPS), Sex, Total



### GDP, employment and productivity

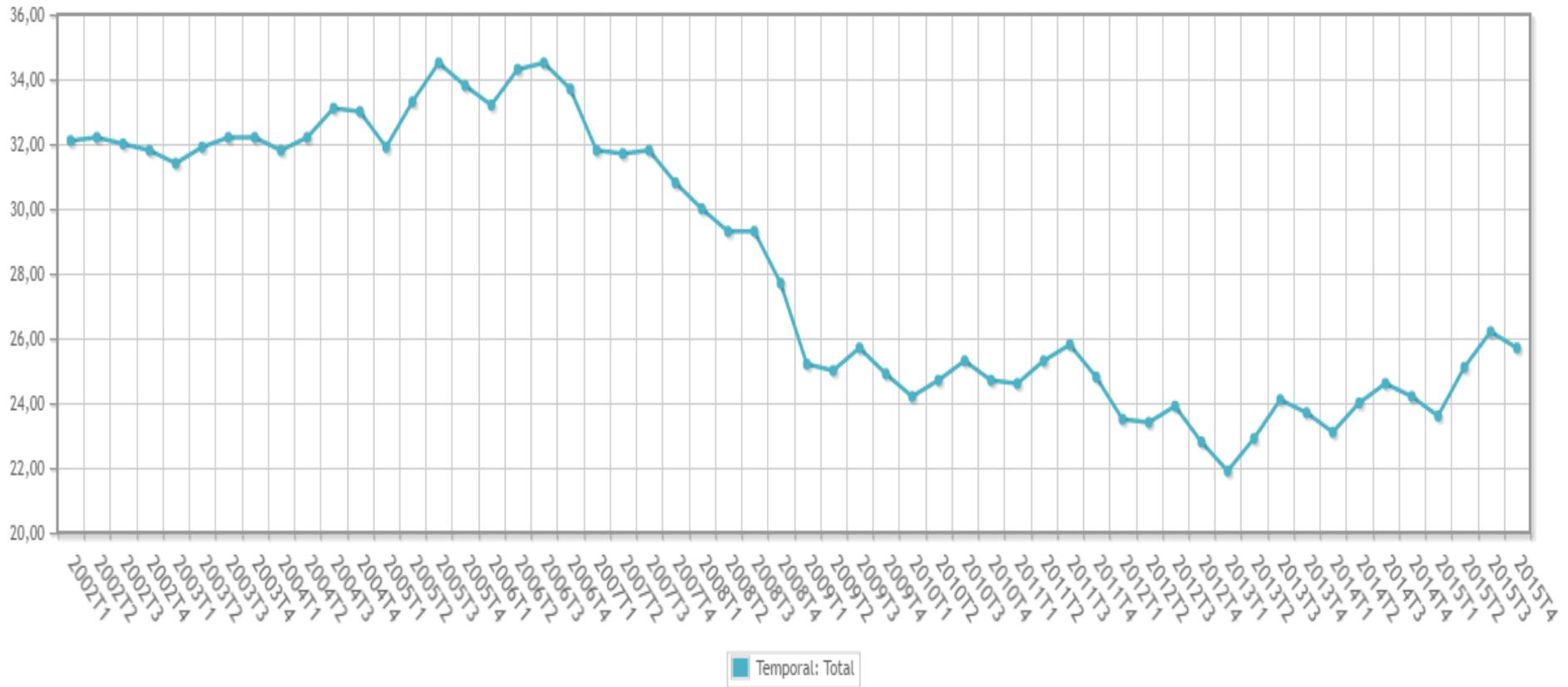


South: 30% unemployment  
North: 15% unemployment

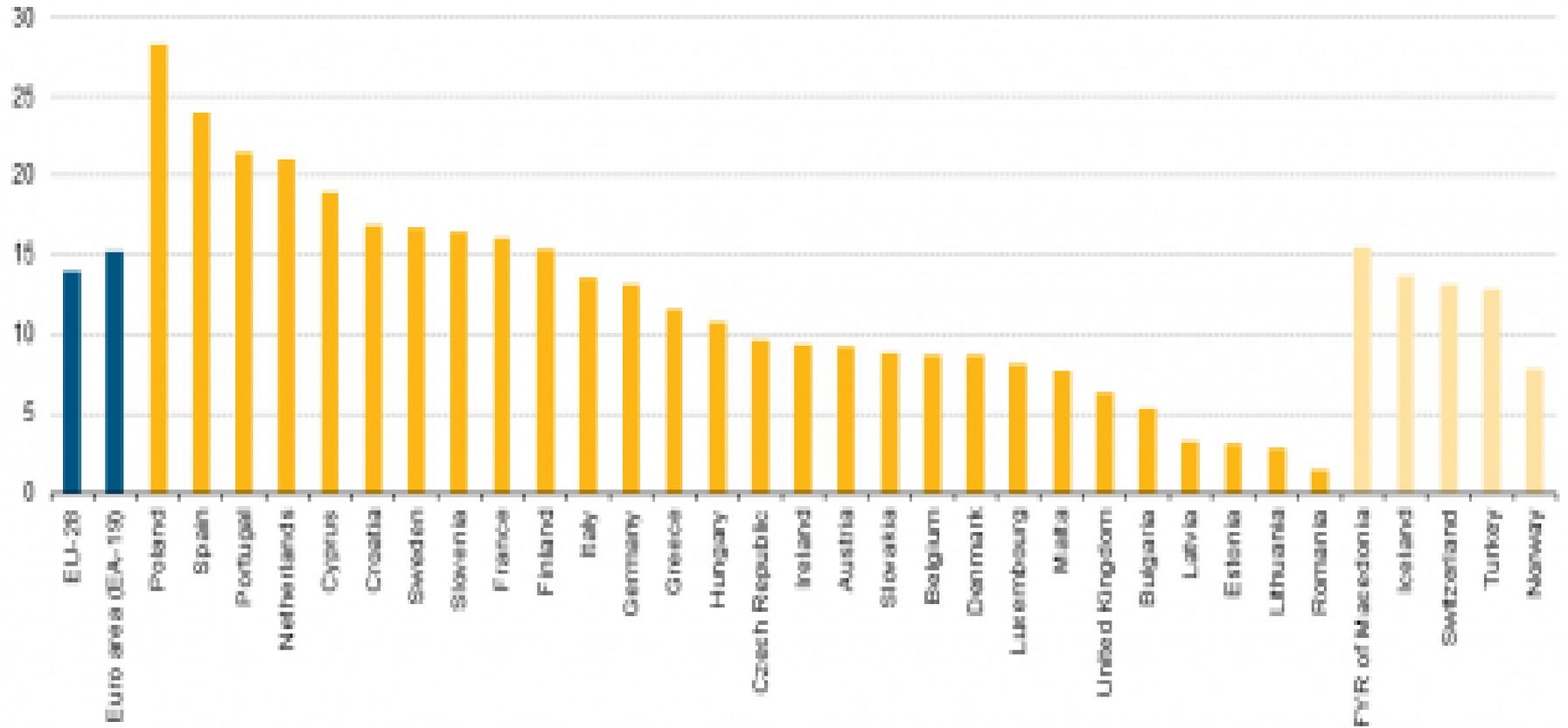


**A dual labour market:  
abuse of temporary employment**

# Temporary employment rate



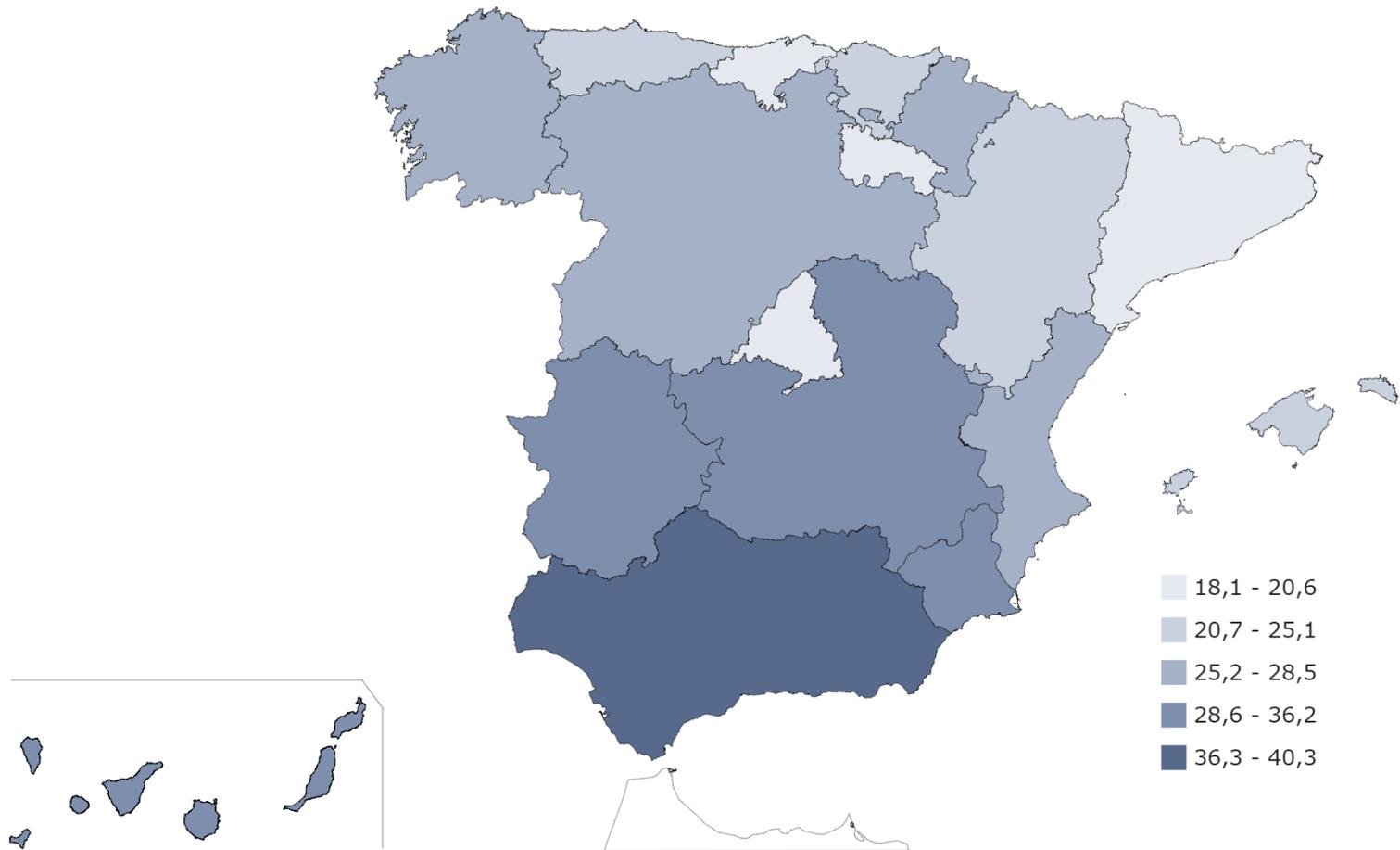
# Temporary employment rate in Europe



# Temporary employment rate (by region)

South: 40%

North: 20%



# Job protection

## □ Termination costs.

- *Fixed-term contracts.*
  - ✓ **12 days** of salary per year worked.
- *Permanent contract.* [→2012 reform: Easier firing]
  - ✓ **0 compensation** if the dismissal is justified on serious breach of contract by the employee.
  - ✓ **20 days** of salary per year worked (+ 15-day-notice), when the firm has a redundancy cause.
    - 2012 reform ‘clarifies’ causes for economic dismissal.
      - A lower level of ordinary revenues or sales during three quarters.
  - ✓ **33 days** of salary per year worked, when dismissal is unjustified.

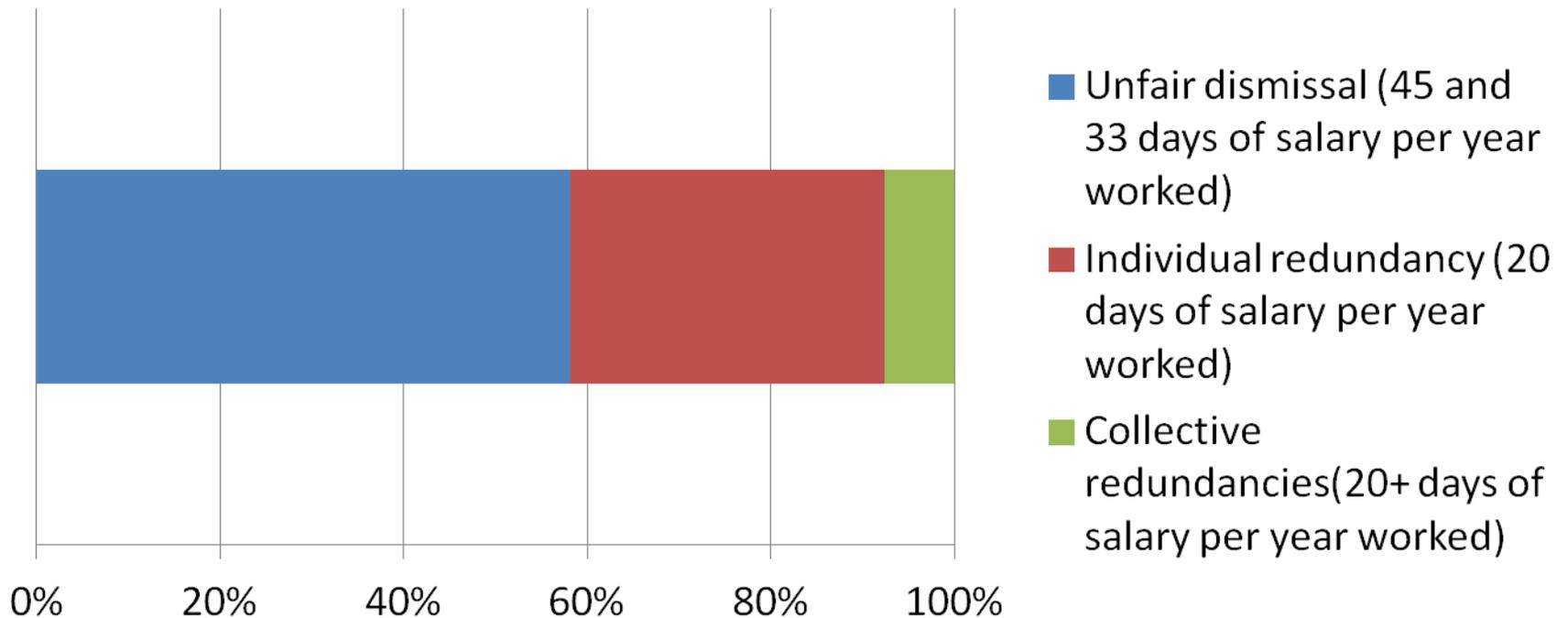
# *Job protection: Example*

□ We want to know Marta's termination cost after 10 years of work.

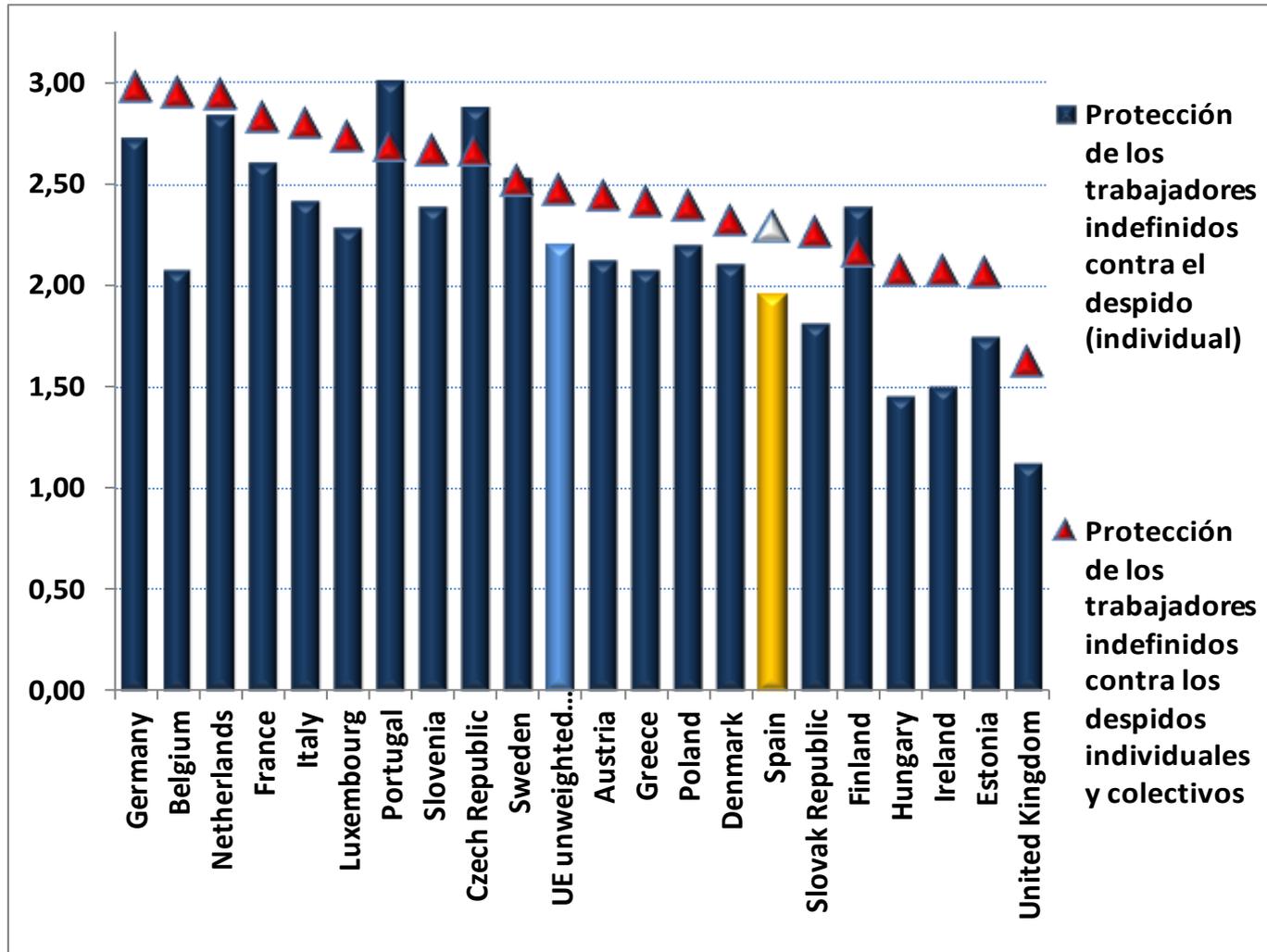
- Marta's length of service (seniority) is 10 years.
- Marta's annual gross salary: EUR 36,500.
  - ✓ Daily salary: EUR 100.
  
- Redundancy compensation (fair dismissal):
  - ✓  $20 \times \text{daily salary} \times \text{length of service (in years)}$ .
  - ✓  $20 \times 100 \times 10 = \text{EUR } 20,000$ .
  - ✓ Notice: 15 days = EUR 1,500.
  - ✓ TOTAL: EUR 21,500
  
- Unfair dismissal compensation:
  - ✓  $33 \times \text{daily salary} \times \text{length of service (in years)}$ .
  - ✓  $33 \times 100 \times 10 = \text{EUR } 33,000$ .

# High Frequency of unfair dismissal for permanent employees

Data from 2015 (unemployment benefit applicants)



# OECD Indicators of Employment Protection 2014



# Strict legislation on fixed-term contracts

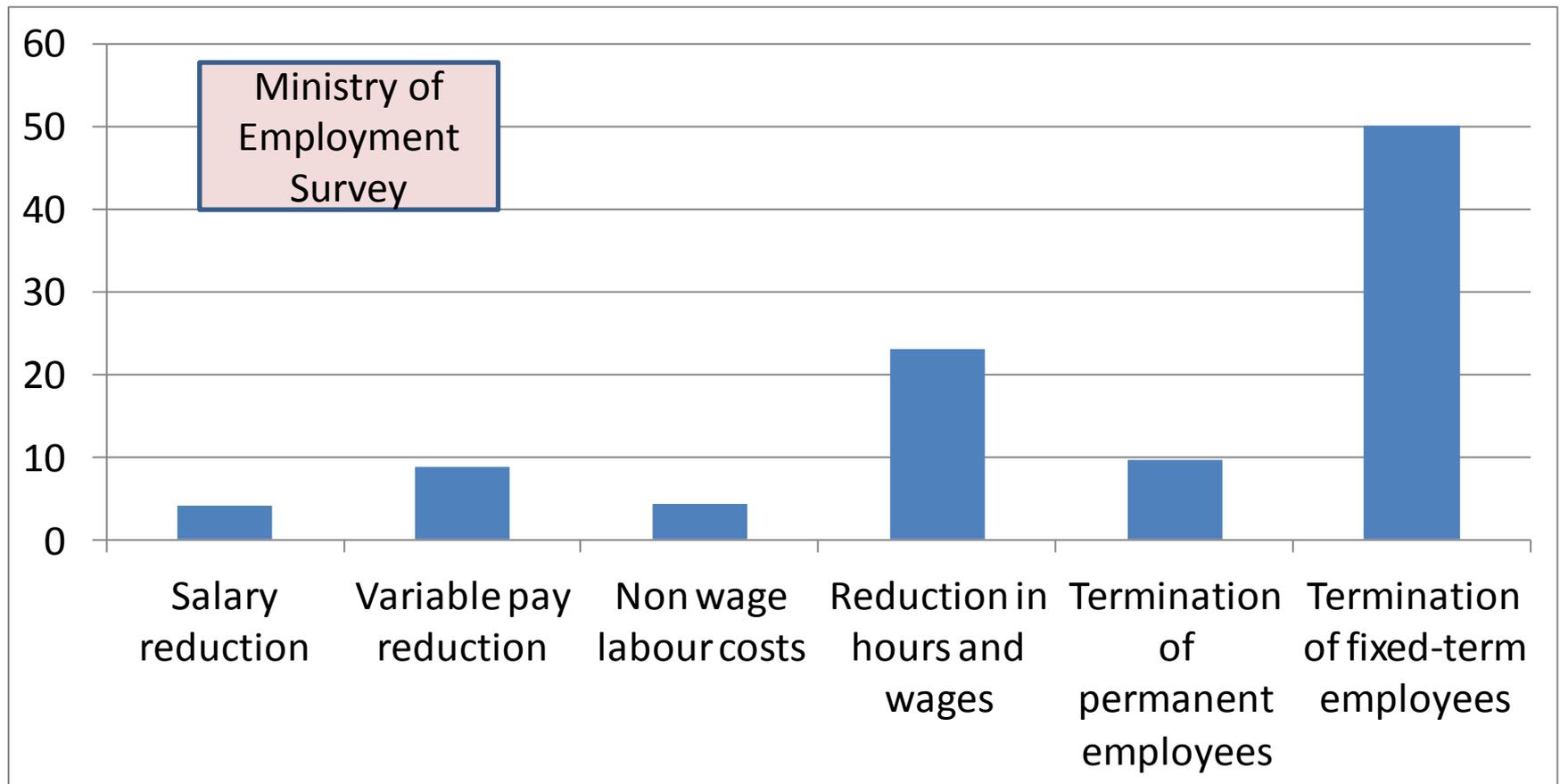
- ❑ The high number of fixed-term contracts is not the result of a lax legal framework.
  - ❑ On the contrary, Spanish legal regulations are quite strict.
    - It requires a cause for the fixed-term contract: only temporary work may be filled through fixed-term contracts.
  - ❑ Enforcement problems: courts / labour inspectorate.
    - No restriction of abusive practice.
- ➔ CULTURE OF TEMPORALITY**

**(Lack of) internal flexibility**

# Internal flexibility as a substitute for numerical flexibility?

- 2009-2010: timid reforms to promote hour/wage reduction instead of redundancies.
- 2012: reform to promote internal flexibility (substantial modification of working conditions).
  - More intense internal flexibility through company imposition (no negotiation with workers).
    - From negotiated internal flexibility to imposed internal flexibility.
      - Irregular distribution of 10% of working hours.
      - Wage adjustment due to (a simple) benefit reduction

# Faced with a downturn in demand, which of the following cost saving measure would you adopt?



**Collective bargaining:**  
**towards a devalued collective bargaining system?**

# Main features

- ❑ Coverage rate is high, around 80 percent.
- ❑ Most workers are covered by sectoral collective agreements, rather than by agreements negotiated at company level.
- ❑ Collective agreements have general efficacy.
  - Regardless of employer or employee membership with the signatory parties.

# Recent trends (2012 reform)

## □ Decentralization.

- Company level bargaining is given priority:
  - ✓ Legal prevalence of company level agreements on salaries, hours.
  - ✓ Deviation agreements at company level.
- The end of sector-level bargaining?
  - ✓ 87% employers have less than 10 employees.
  - ✓ Fall of bargaining coverage.

## □ Collective bargaining agreement's "ultraactivity" (extension beyond expiration) is limited to just one year.

# Practical outcomes

- ❑ Technical drawbacks in the reform have caused the Supreme Court to step in and limit the reach of the termination of collective agreements.
- ❑ Sectoral collective agreements continue to be the rule.
  - In the most recent survey, when asked about the reason for not having a company level agreement, 73% companies answered that the sectoral agreement was adequate to their needs.
  - The second reason suggested was either that the employees lacked employee representatives (especially small companies).

## **2. SOCIAL SECURITY**

# Two major social problems in Spain

## □ High unemployment.

- Structural problems.
- The impact of the economic crisis.
  - ✓ Unemployment rate (2013): **27%** (6.2 million unemployed).
  - ➔ 2016: **19%** (4.3 million unemployed).
    - *Youth unemployment: 42%*

## □ Rising poverty.

- The number of people at risk of poverty is steadily growing.
  - ✓ At-risk-of-poverty rate (2015): **22%**
  - ✓ Particularly intense in case of *children (30%)*, the *unemployed (45%)* and *workers (working poor, 14%)*.

➔ *How are these two problems tackled by the Social Security system?*

# Basic overview on the Spanish Social Security System

## □ Continental social insurance model.

### ▪ **CONTRIBUTORY SCHEME** (a compulsory social insurance scheme).

✓ It provides for earnings-related:

- Pensions (retirement, invalidity, survivors).
- Incapacity for work benefits (sickness), maternity et al.
- Unemployment benefits.

✓ Financing through SS contributions.

✓ Almost 90% of total SS spending.

### ▪ **NON-CONTRIBUTORY** (means-tested) **SCHEME**.

✓ It modestly covers old-age, invalidity, and provides low family benefits and unemployment assistance.

✓ Financing through general revenues.

✓ 11% of total SS spending.

# **Unemployment protection**

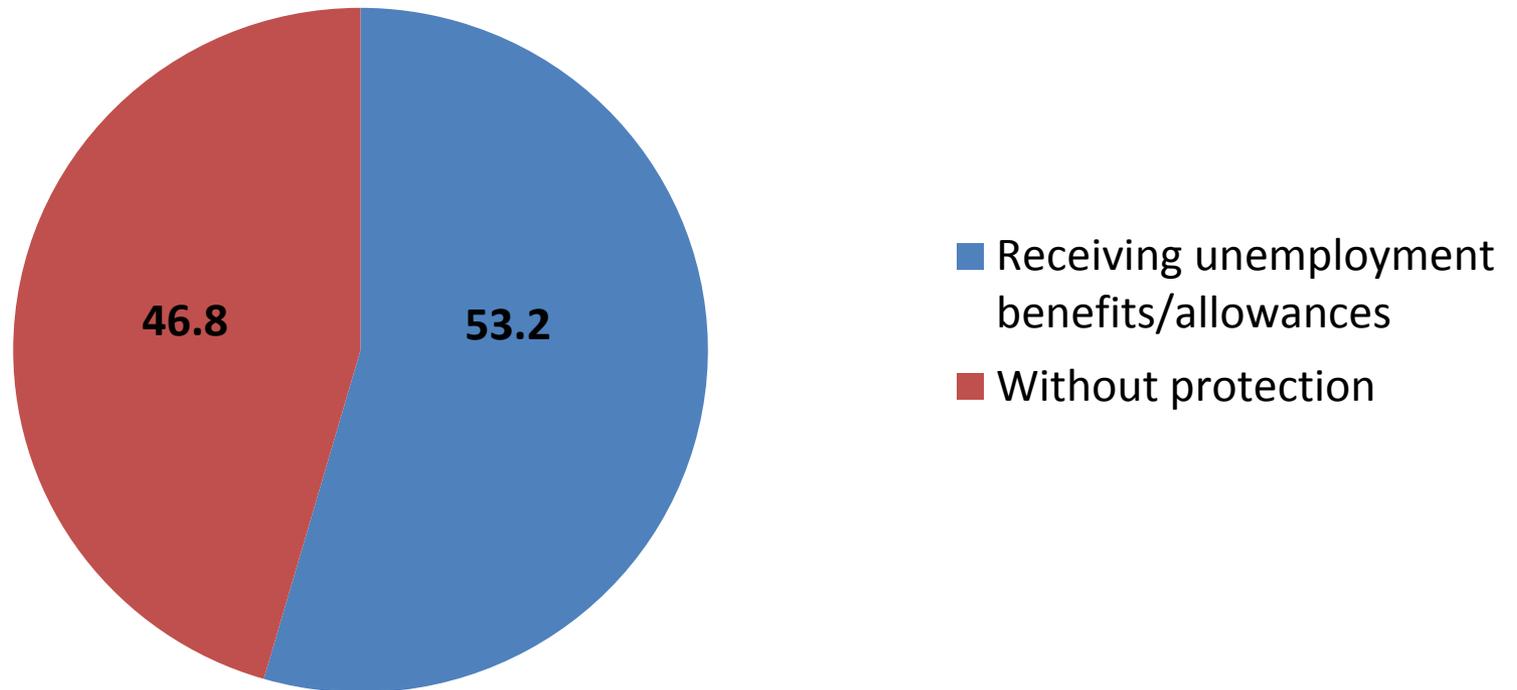
# Unemployment protection: **MAIN FEATURES**

- Two levels of (ordinary) protection:
  - **Social insurance** (unemployment benefit).
    - ✓ Minimum contribution period → 360 days within the last 6 years.
    - ✓ Maximum duration of benefits → 2 years
  - **Social assistance** (unemployment assistance).
    - ✓ Different types of allowances.
      - Common qualification condition → Lack of income from any source.
    - ✓ Limited duration (maximum 18 months), exception aged 55+.
    - ✓ Amount → 426 euros per month.
- ❖ Extraordinary (and failed) assistance programs.
  - ✓ Aimed at guaranteeing minimum income to those that have exhausted ordinary benefits.

# Unemployment protection: **MAIN PROBLEMS**

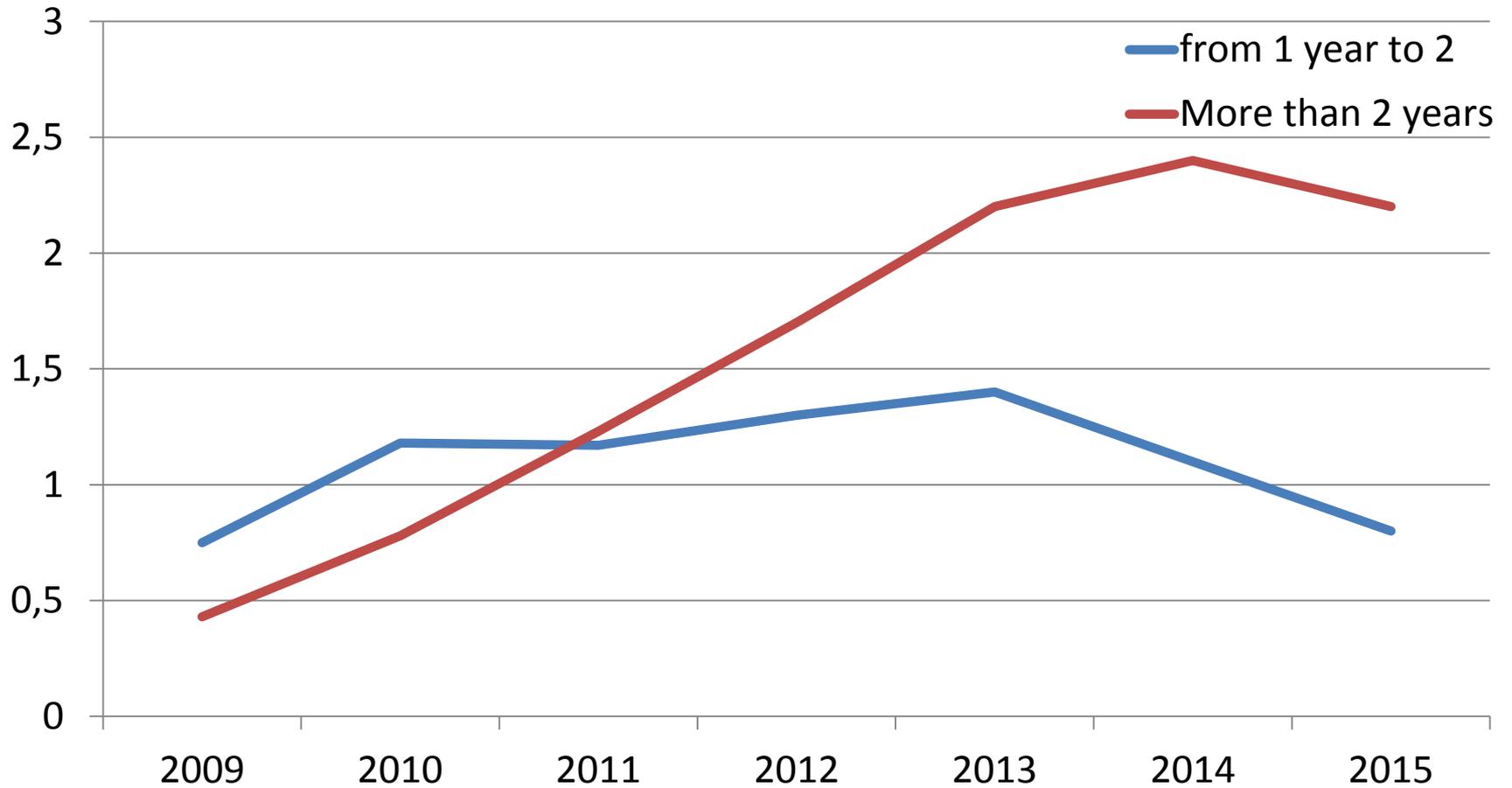
- ❑ **High unemployment → high public expenditure.**
  - Unemployment benefits represented 3.1% of GDP in 2010.
- ❑ **Inefficient active labour market policies.**
  - Focused on employment incentives.
- ❑ **Low numbers receiving unemployment coverage.**
  - Factors:
    - ✓ Long-term unemployment.
      - It represents 60% of total unemployment (4.8 million).
    - ✓ Reforms (cuts) in welfare and benefits.

## Registered unemployed with/without protection (%)



# Unemployed by time used in searching for a job (millions)

[Source: INE]



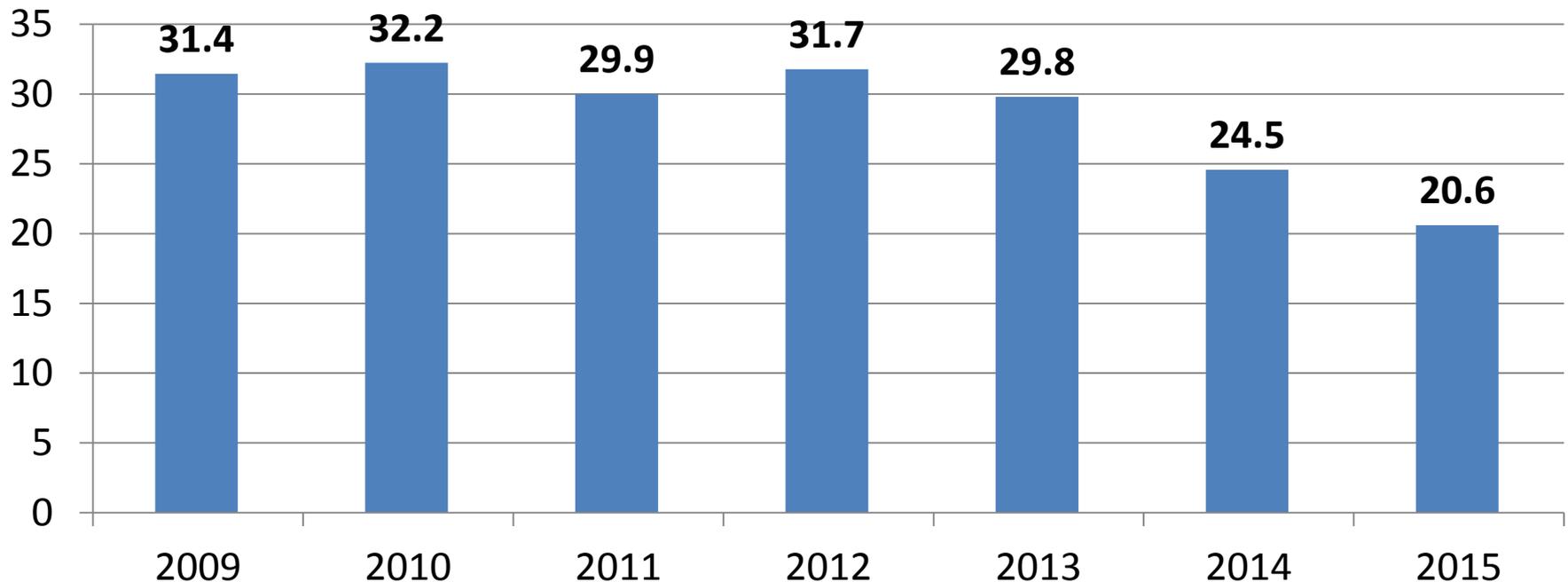
# Unemployment protection: REFORMS/CUTS

## □ Recent reforms/cuts in unemployment protection.

### ▪ *Cuts in unemployment benefits.*

✓ 2012-2013 → Not big, but effective changes in terms of expenditure reduction

**Public unemployment spending (billion euro)**



# Unemployment protection: **REFORMS/CUTS**

## ■ **Youth guarantee.**

✓ In accordance with the EU Council Recommendation 2013.

– Long list of (preexisting and ineffective) measures.

○ Target age: 16-29.

○ Emphasis on favouring entrepreneurship.

➔ **POOR RESULTS:**

➔ Only 17% of potential beneficiaries (1.3 million) are registered.

➔ Beneficiaries? How many? In what terms?

# Pensions

# Pension system: MAIN FEATURES

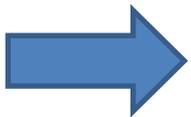
- ❑ PENSIONS (old age, disability, survivorship) represent 80% of total SS spending:
  - A **defined benefit public pension system** based on a pay-as-you-go financing method (1<sup>st</sup> pillar).

	Beneficiaries	Average pension (€)
CONTRIBUTORY SCHEME	9,371,760	899
NON-CONTRIBUTORY SCHEME	453,492	374

- ✓ Gender pension gap: 38%
- 2<sup>nd</sup> and 3<sup>rd</sup> pillars (not SS) are not relevant.

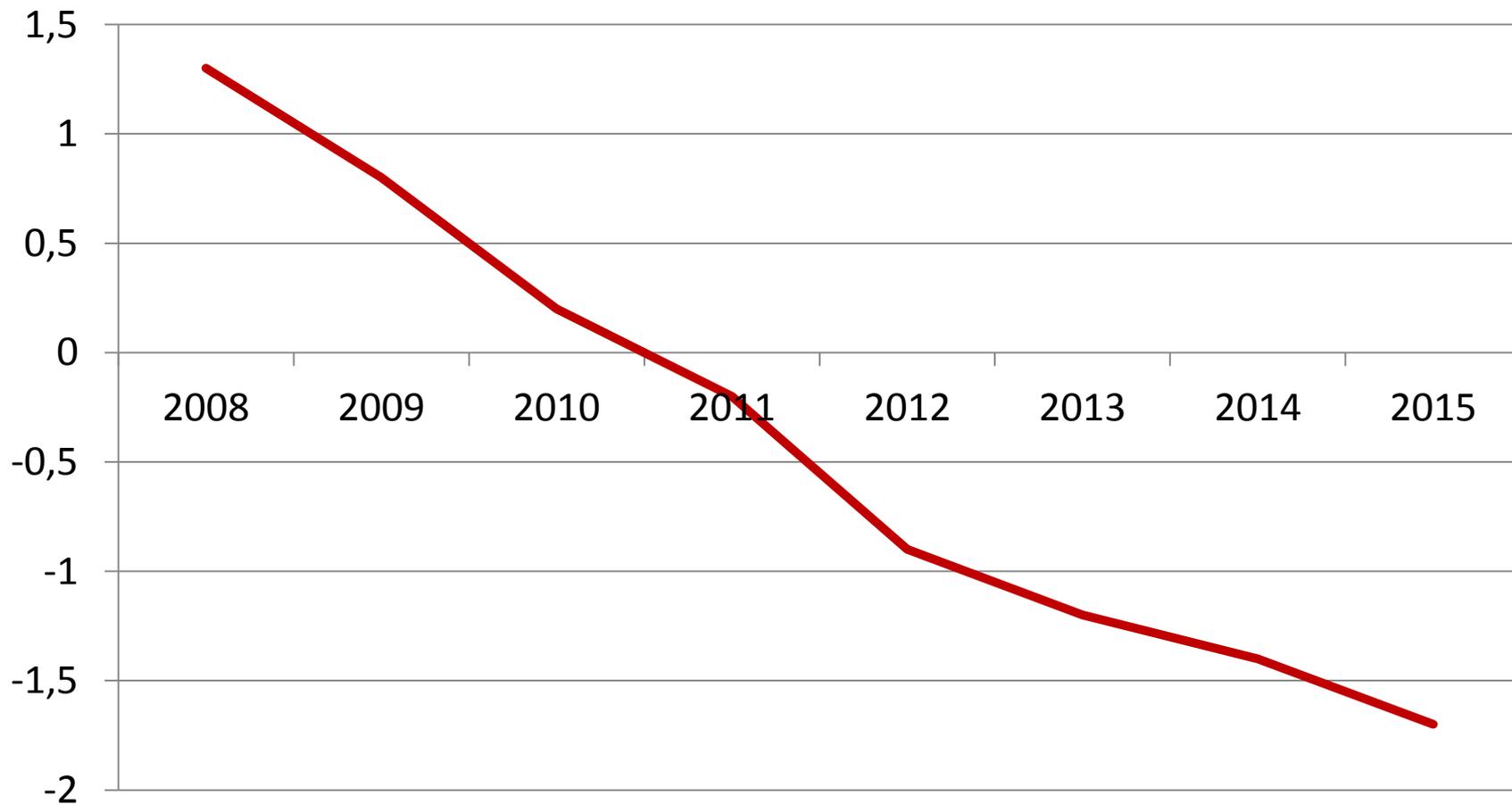
# Pension system: MAIN PROBLEMS

- ***Economic problem.*** The aftermath of the economic crisis.
  - The loss of 3.5 million jobs (and SS contribution drop) had an impact on financial condition of Social Security.
  - Recovery in employment level (+3% in 2016)
    - ✓ BUT precarious and low paid jobs (contributions: +1.8% in 2016).



**SERIOUS BUDGET IMBALANCE**

# SOCIAL SECURITY 2008-2015 (%GDP)



# Pension system: MAIN PROBLEMS

## □ *Demographic risk.*

- *Ageing population.*

- ✓ High (and increasing) life expectancy.

Life expectancy at 65 years old:

	2014	2049
Men	19	22.9
Women	25.2	28.8

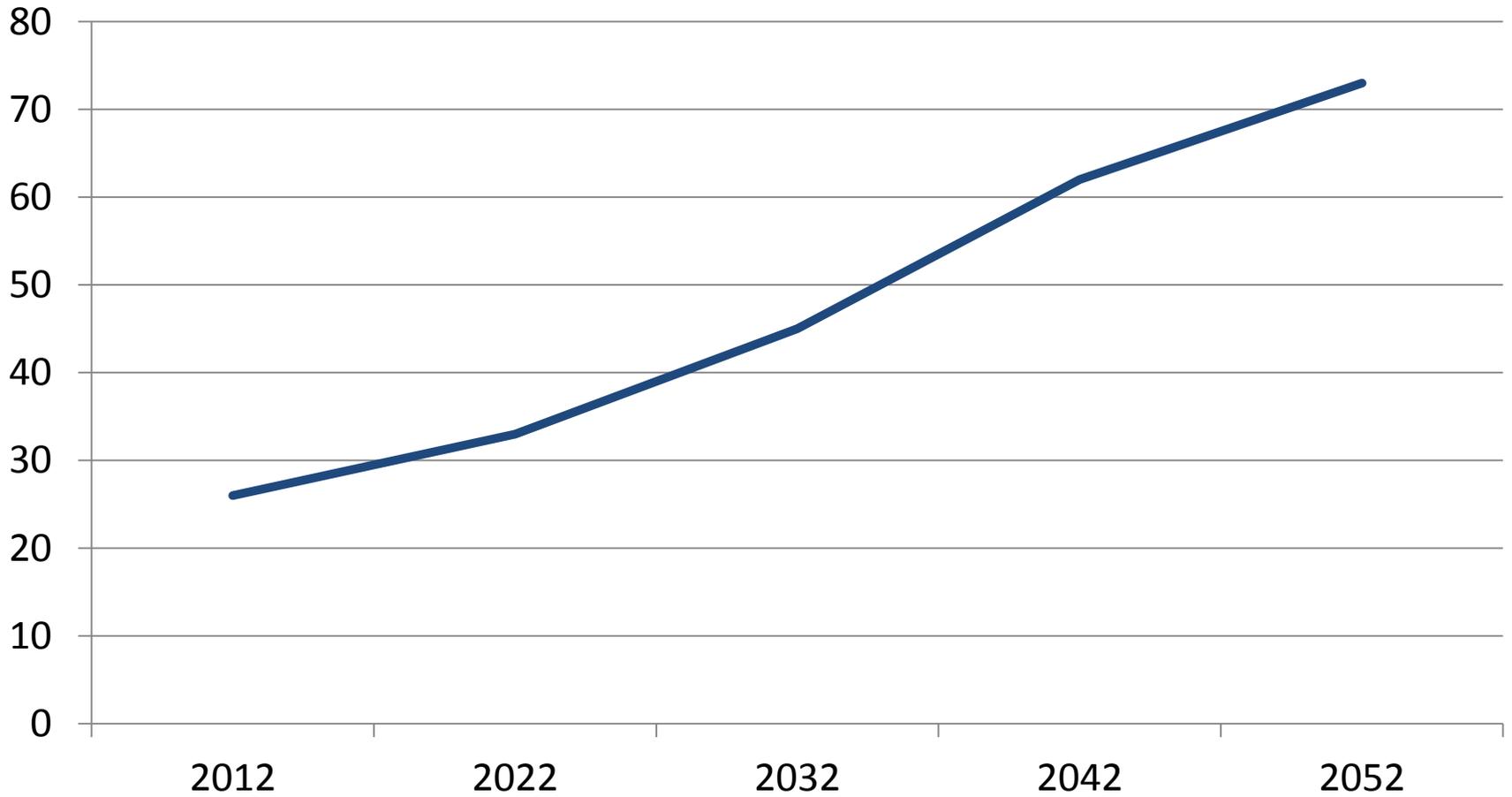
- ✓ Baby boom generation (1958-1977) is approaching retirement.

- *Very intense increase of elderly.*

- ✓ Aged 65+ will account for 39% of total population in 2050.
- ✓ Old-age dependency ratio: from 25 to 73% in 2050.

# Projected dependency ratio

[Older than 64 years old (%)]



# Pension system: RECENT REFORMS

## 2011: a 'typical' parametric reform

- ❑ Based on political (Pact of Toledo) and social agreement.
- ❑ It strengthens contributory principle.
  - *A new regulation of pensionable age.*
    - ✓ Increasing statutory retirement age (65→67), except for workers with long careers.
  - *Calculation of contribution period: more proportionality.*
    - ✓ Extended period of reference (from 15 to 25 years).
- ❑ New regulation to be implemented gradually (until 2027).



*SUSTAINABILITY:* (Arguably) effective.

*ADEQUACY:* (Moderately) restrictive.

# Pension system: RECENT REFORMS

## 2013: a systemic reform?

- ❑ *A new index for pension revaluation.*
  - New complex (pension adjustment) formula:
    - ➔ Delinked from any standard of living indicator.
    - ➔ Aimed at guaranteeing financial equilibrium.
- ❑ A new **sustainability factor** (beginning in 2019)
  - SF links initial amount of retirement pension to changes in life expectancy.



**SUSTAINABILITY:** 'Effective' in the long run.

- In 2050 pension expenditure will be 3.4 p.p. GDP lower.

**ADEQUACY?** Very restrictive.

- Replacement rate will drop -32% (EC Ageing Report 2015).