

Employment and Unemployment in Spain

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Themes

- Employment in Europe has been a constant theme of labour market research and policy
- The objective is to increase employment of persons (not necessarily hours) –to 75% by 2020 (for 20-64 age group, “Europe 2020” programme)
- Needed to pay for pensions of an ageing population and other public financial needs

Spain's performance

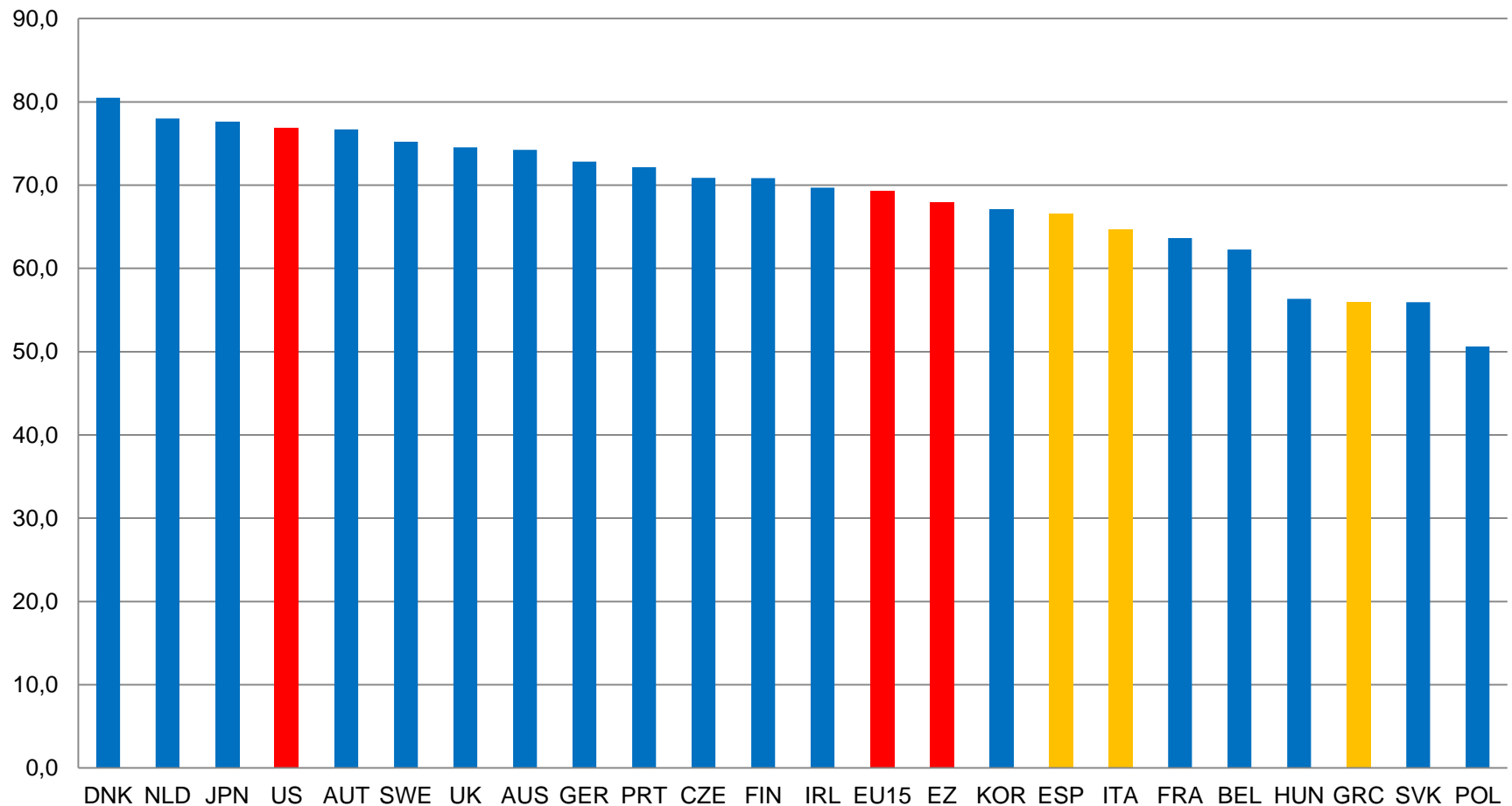
- Spain benefited from EU membership and reached the Eurozone (EZ) average per capita income, about 30,000 USD per year on a PPP basis
- Yet, it is failing in the employment objectives of the EU.
- And it is the worst performer in Europe with respect to unemployment

Female labour market

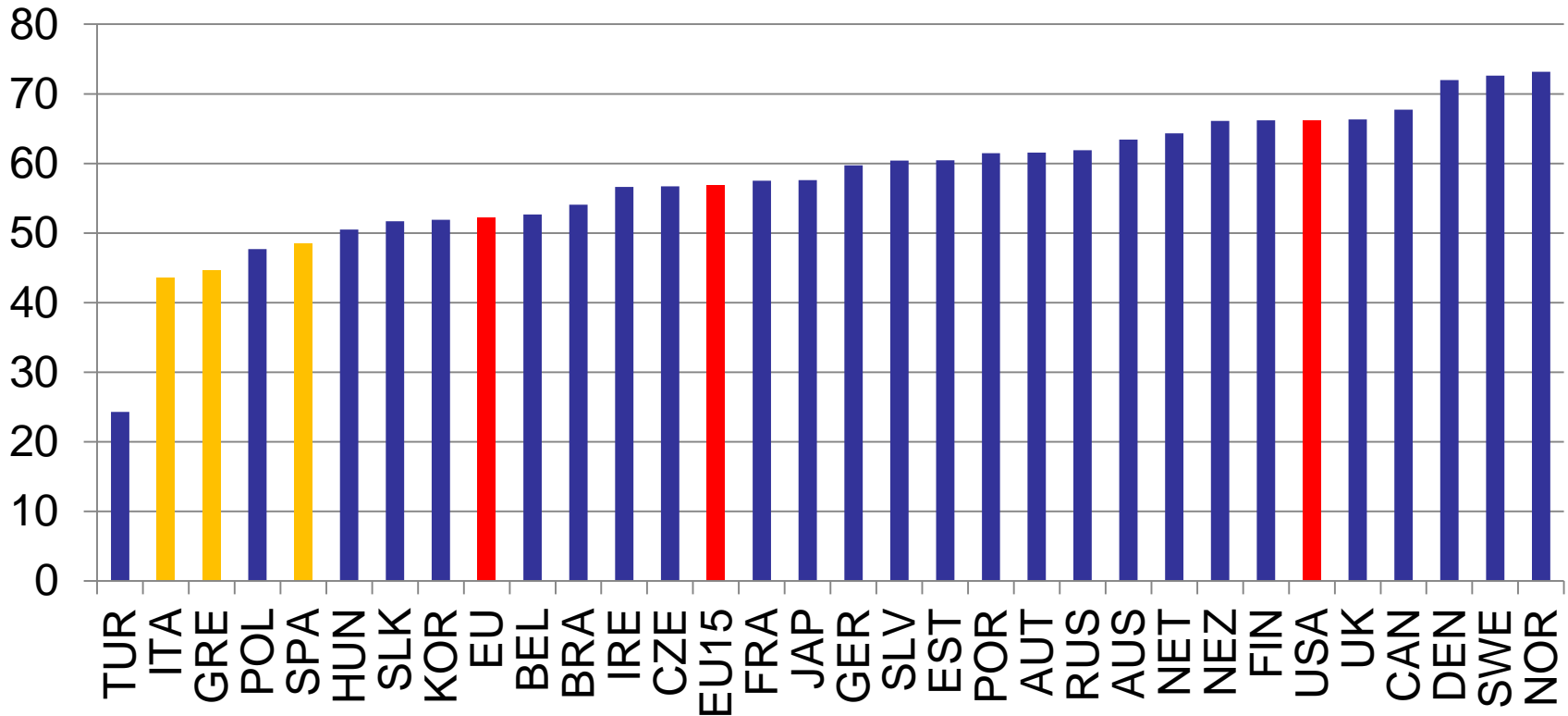
- Female market failing more than male
- Female employment extremely low, just like Greece and Italy
- Female unemployment performance worse than male
- Main unemployment problem is volatility, but for women also permanently high level

Total employment in OECD, ages 15-64

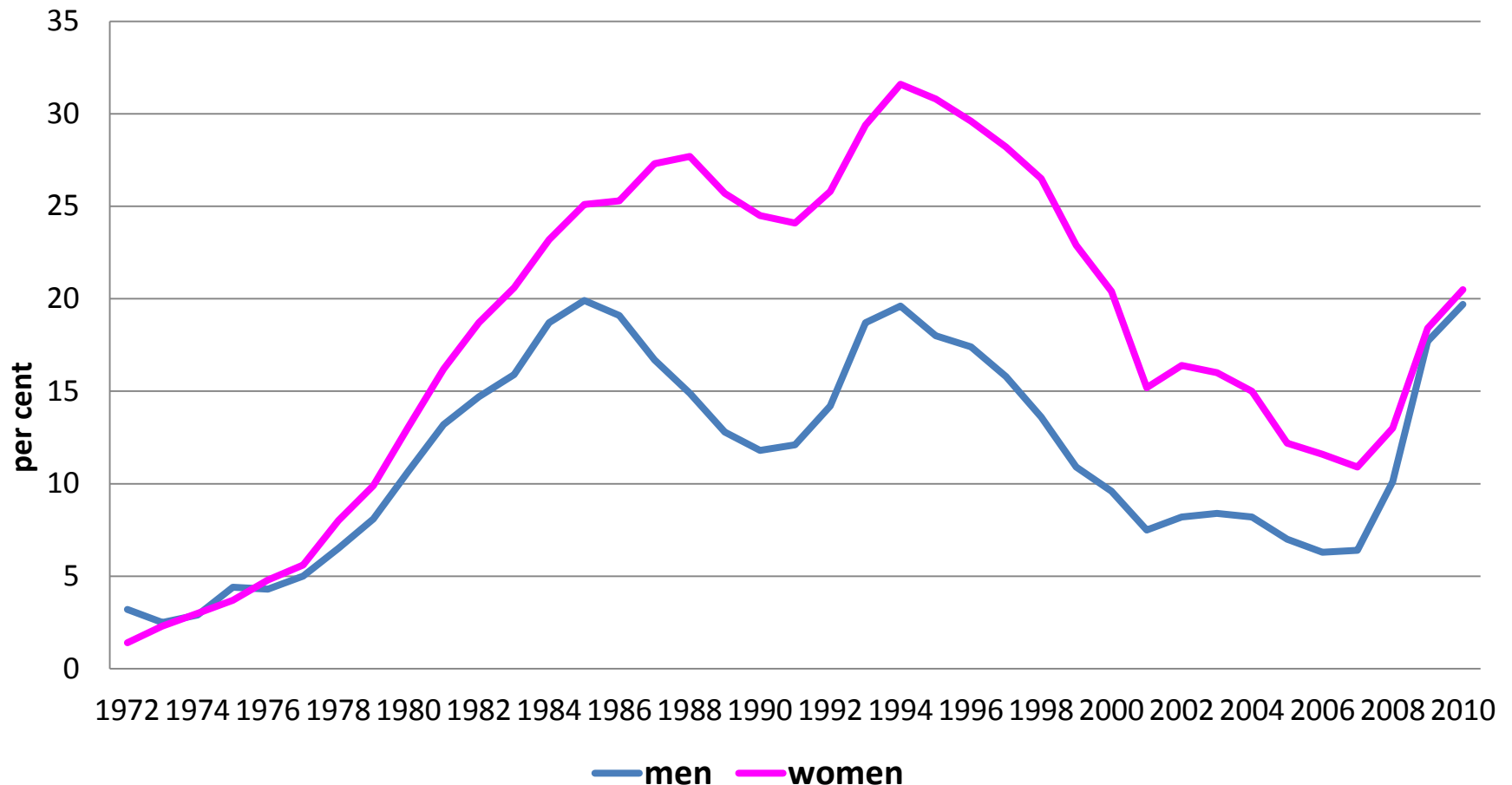
Employment as % of working age population, 2007



Female employment, 15-64, average 2000-07



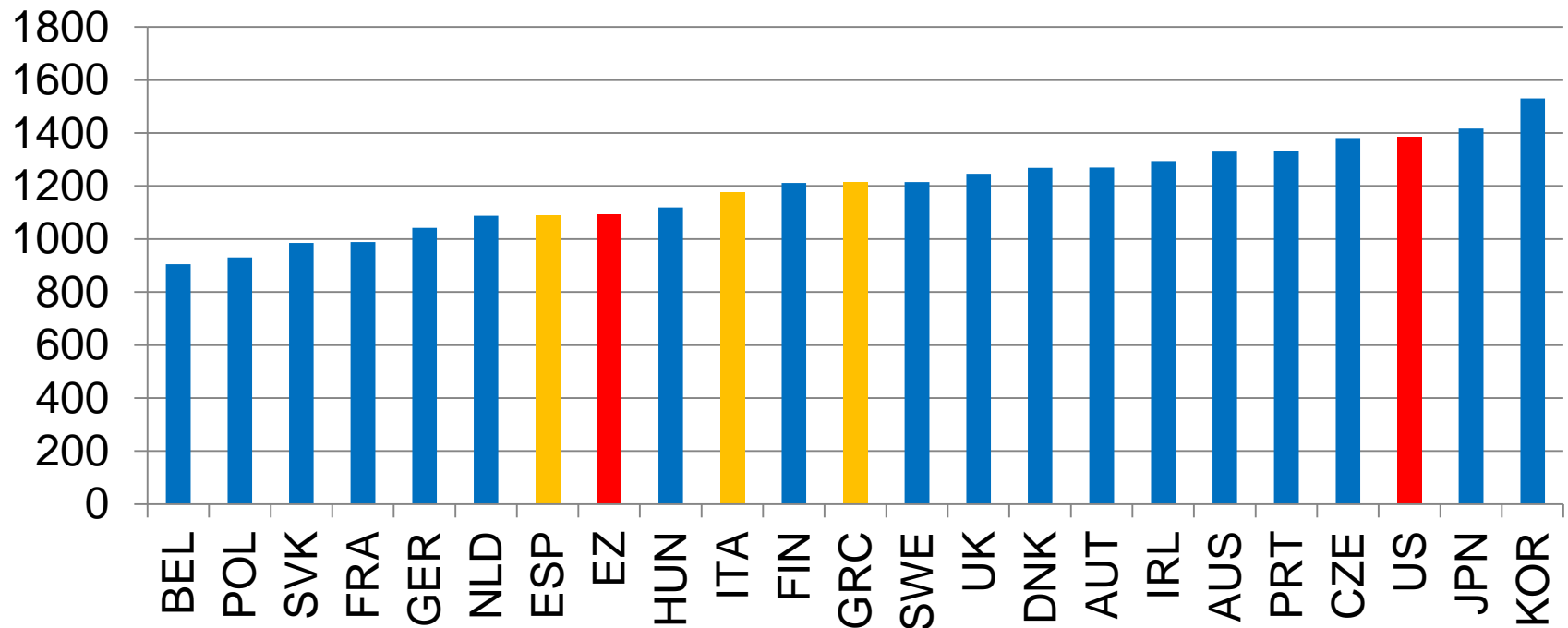
Unemployment in Spain, 1972-2010



Diagnosis of Spain's employment problem

Despite low employment, Spanish workers do not work long hours

annual hours of work per person of working age,
2007

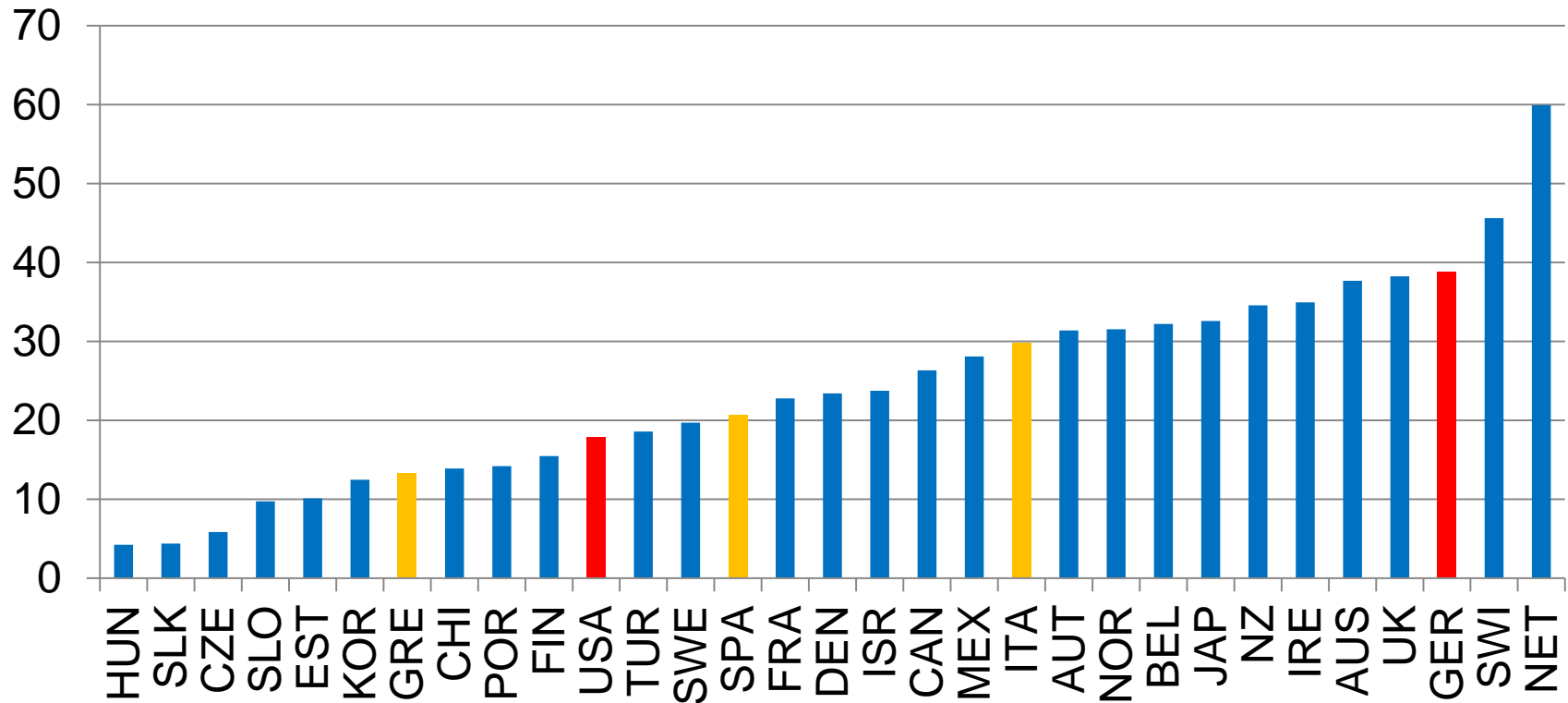


On hours of work

- In Italy and Greece hours of work are more than in Spain
- Italian and Greek workers work very long hours (by European standards)
- In Netherlands and Germany hours of work fall short of hours in all three Southern countries
- But employment targets are met because of short hours by employed workers

Not enough part time work

fraction of women who work part time



Part time work

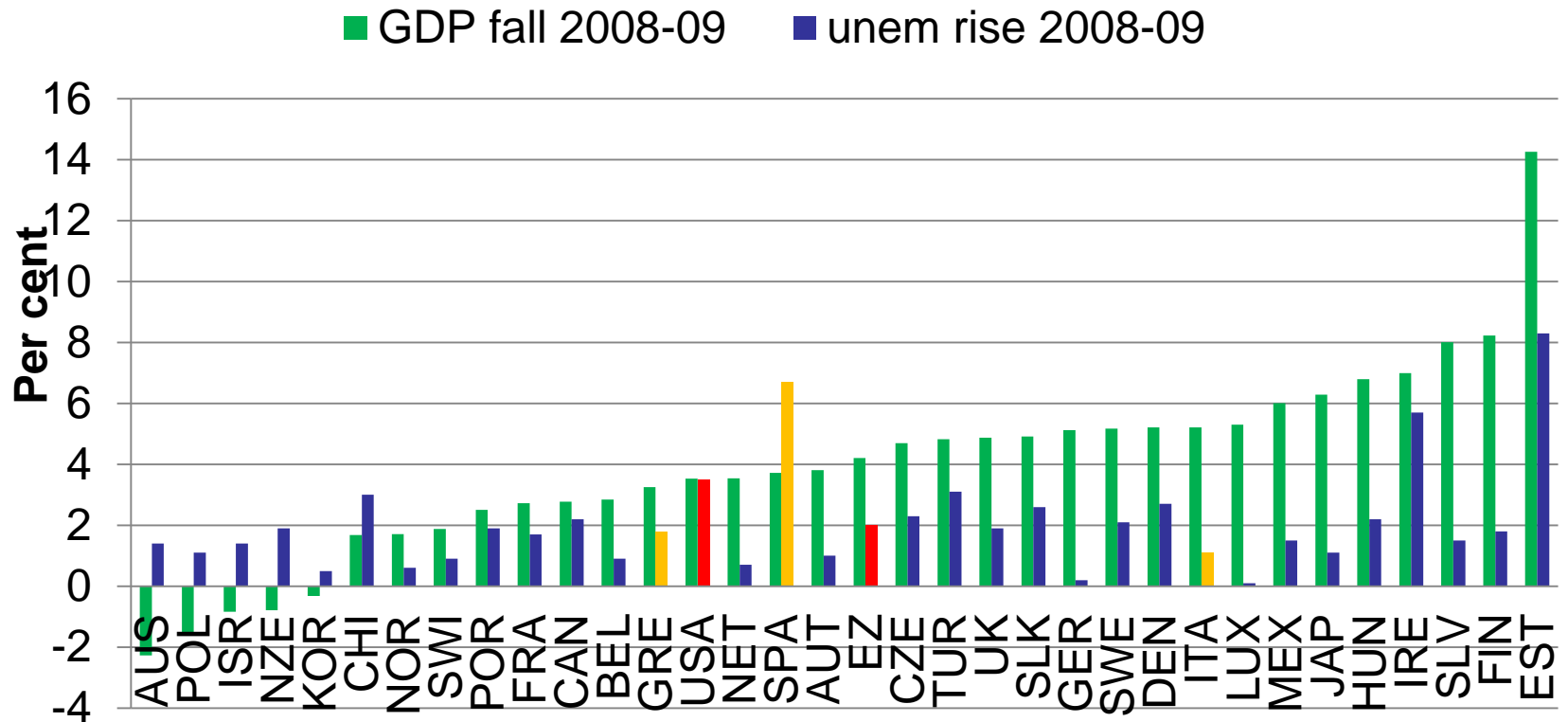
- Greek and Spanish workers work full time: hours of work are enough to meet EU targets but fail because of absence of part time work
- Especially poor results for married women with children
- Also very poor provision of childcare facilities by the state
- Need to improve in this dimension – regulation of part-time work?

Spanish labour market

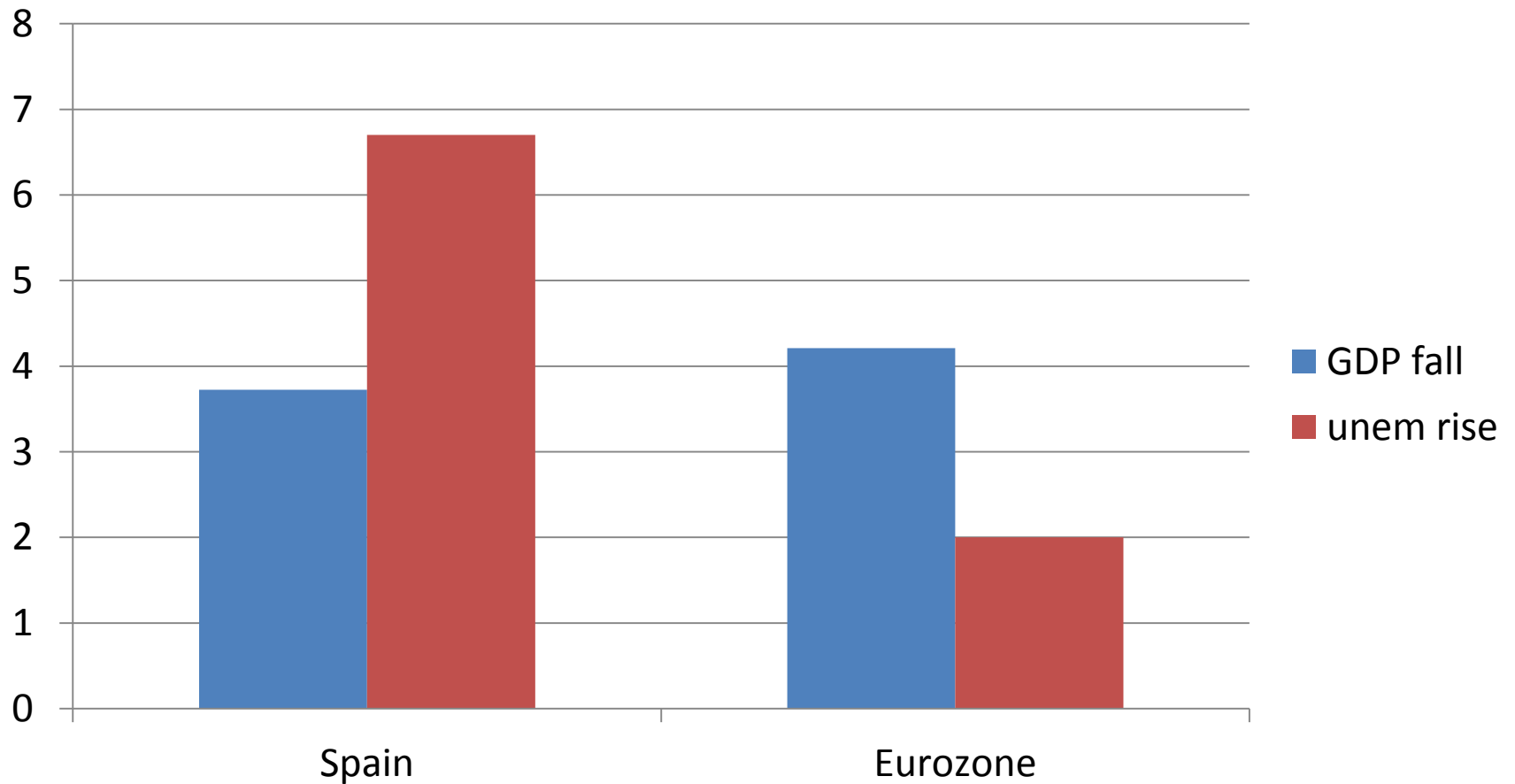
- Low employment, low hours, high unemployment
- Especially for women
- Despite high standard of living

Current recession

Is GDP fall only to blame for rise in unemployment?



Spain and Eurozone compared

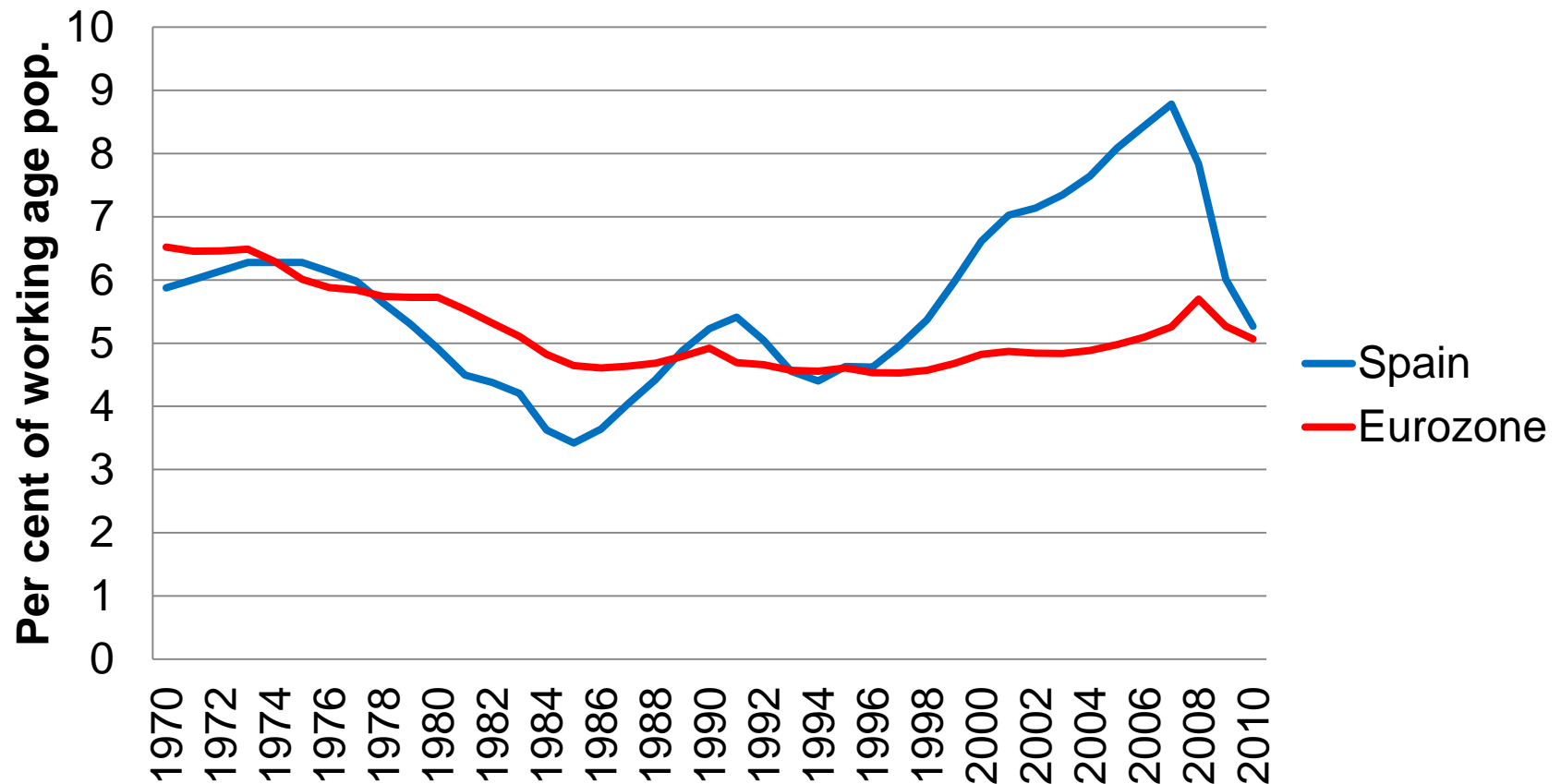


Spanish woes

- All countries with very minor exceptions managed to keep unemployment rise below GDP fall
- In Spain unemployment increased by much more than GDP fall: rise in unemployment 6.7 points, fall in GDP 3.7 points

Is the construction sector to blame?

Employment in the construction sector



Building bubbles

- Employment in the construction sector up to 1996 follows same patterns as Eurozone
- In 1996 it takes off, increase by 4 percentage points in 11 years
- Quick return to Eurozone level by 2010, 3.5 fall in 3 years

Compare like for like

- If we put both unemployment and the construction sector on comparable basis, e.g., as fractions of total employment, then
- Unemployment up by 16 points (even more for men)
- Construction employment down by 4.2 points
- Numbers don't add up!

Clear message

- Clear message is that in Spain there is an institutional structure in the labour market that leads to excess employment volatility
- It affects women more than men
- Young workers even more

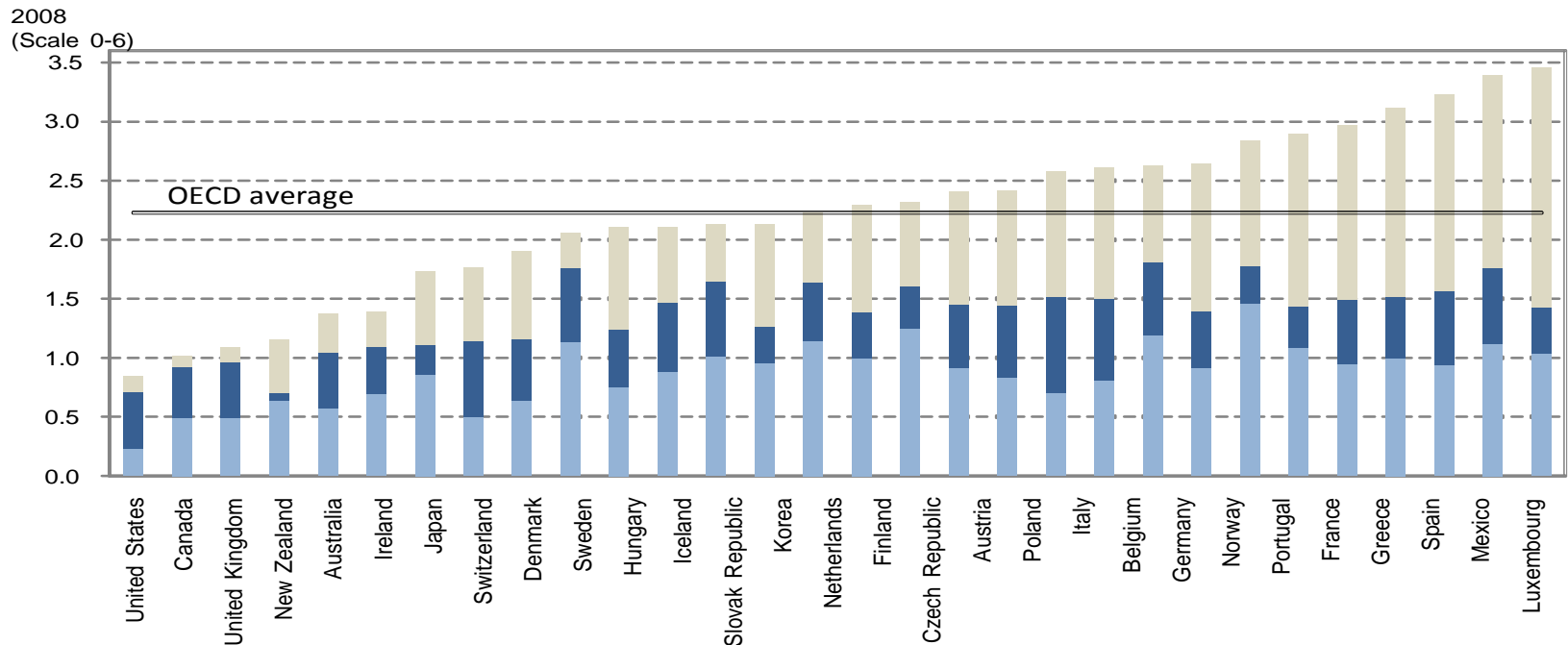
Institutional structure

OECD indices: Employment Protection

Figure 1. **Strictness of employment protection, 2008^a**

- Protection of permanent workers against (individual) dismissal
- Specific requirements for collective dismissal
- Regulation on temporary forms of employment

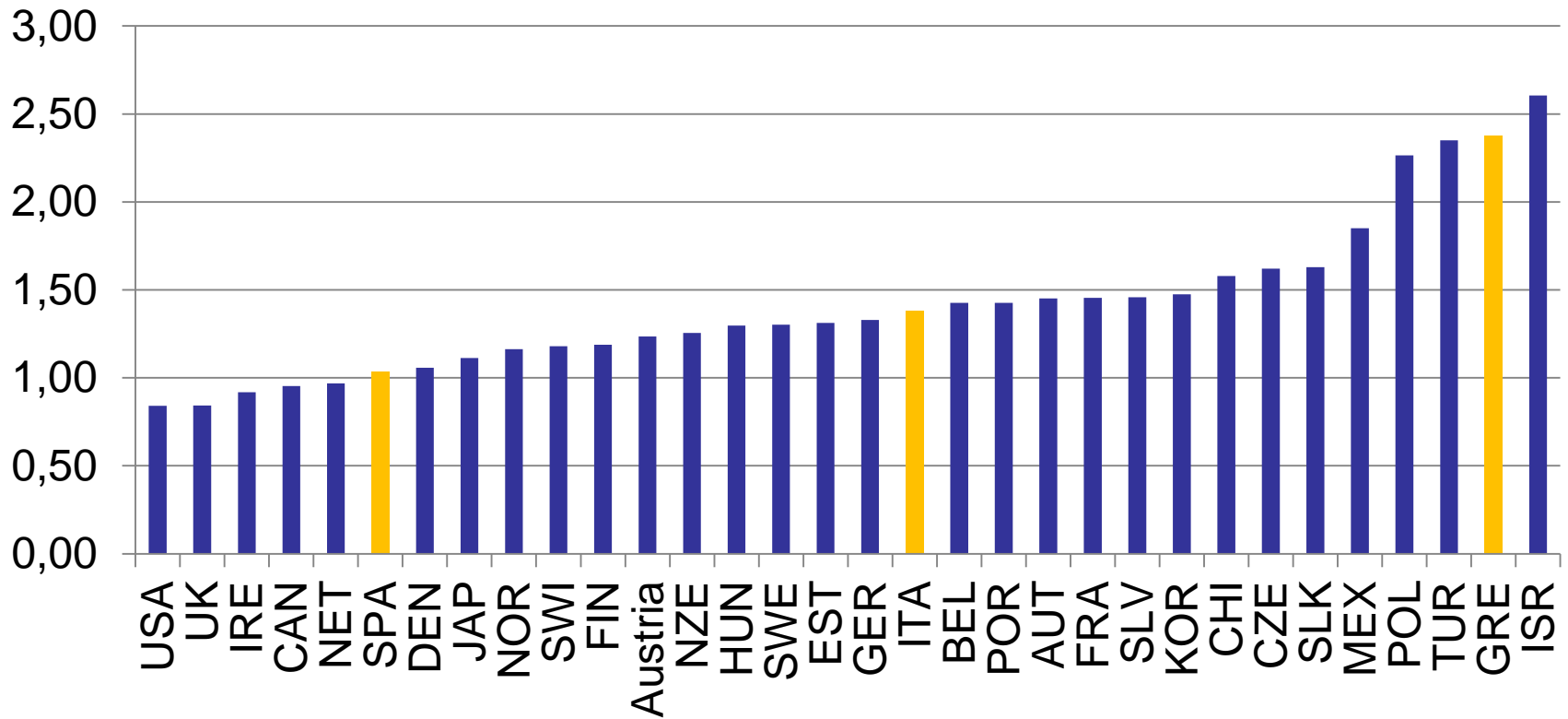
A. OECD countries



Employment protection

- Spain the most regulated labour market in Europe (with the exception of Luxembourg)
- Regulation is not only in legislation but also in trade union agreements
- It applies to permanent employees but also various other forms of regulation apply to temporary contracts

Summary product market regulation, 2008



Product market regulation

- Product market regulation is not high, following reforms since 2000
- Doing business in Spain should be no constraint that causes the labour market problems

Taxes and subsidies

- Burden of taxation is at about average of European Union
- Income subsidies to unemployed, both short-term and long-term, also at about the average of the EU, a bit higher
- “Employment friendly” social subsidies (such as subsidised health and care centres) low by European standards, as in Italy

Employment contracts

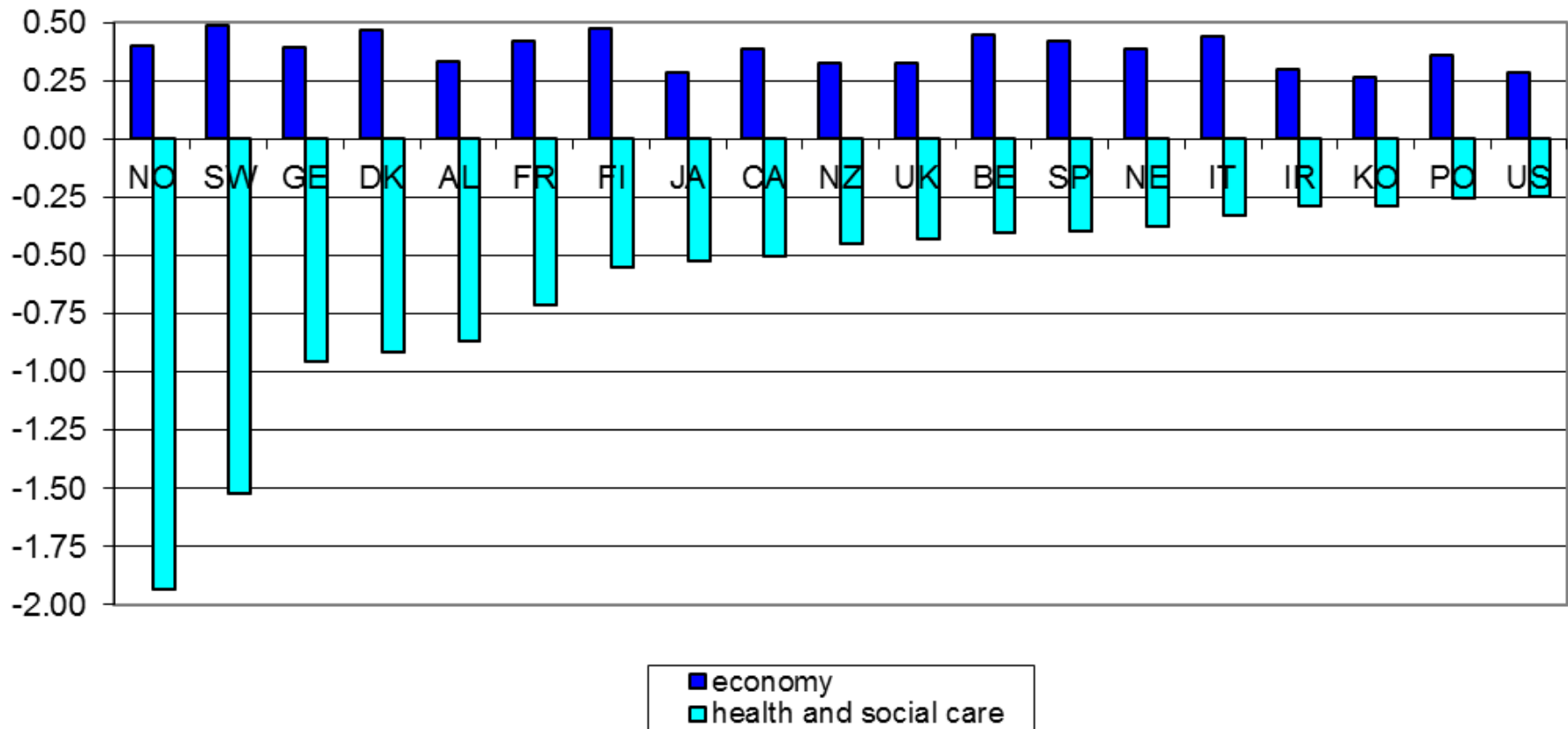
- Spain still has dual structure of contracts: older male workers have too much protection at high wages
- Employers too cautious about offering this type of contract to new employees
- Could cause a lot of volatility in times of uncertainty. Employers rotate employees to avoid getting tied in to long-term contracts
- Need reforms to bring the two types of contract closer to each other

How do Scandinavians achieve high employment?

Taxes and subsidies

- Scandinavians (Sweden as example) achieve high employment despite high taxes
- Because they subsidize certain jobs – mainly health and social care, also education

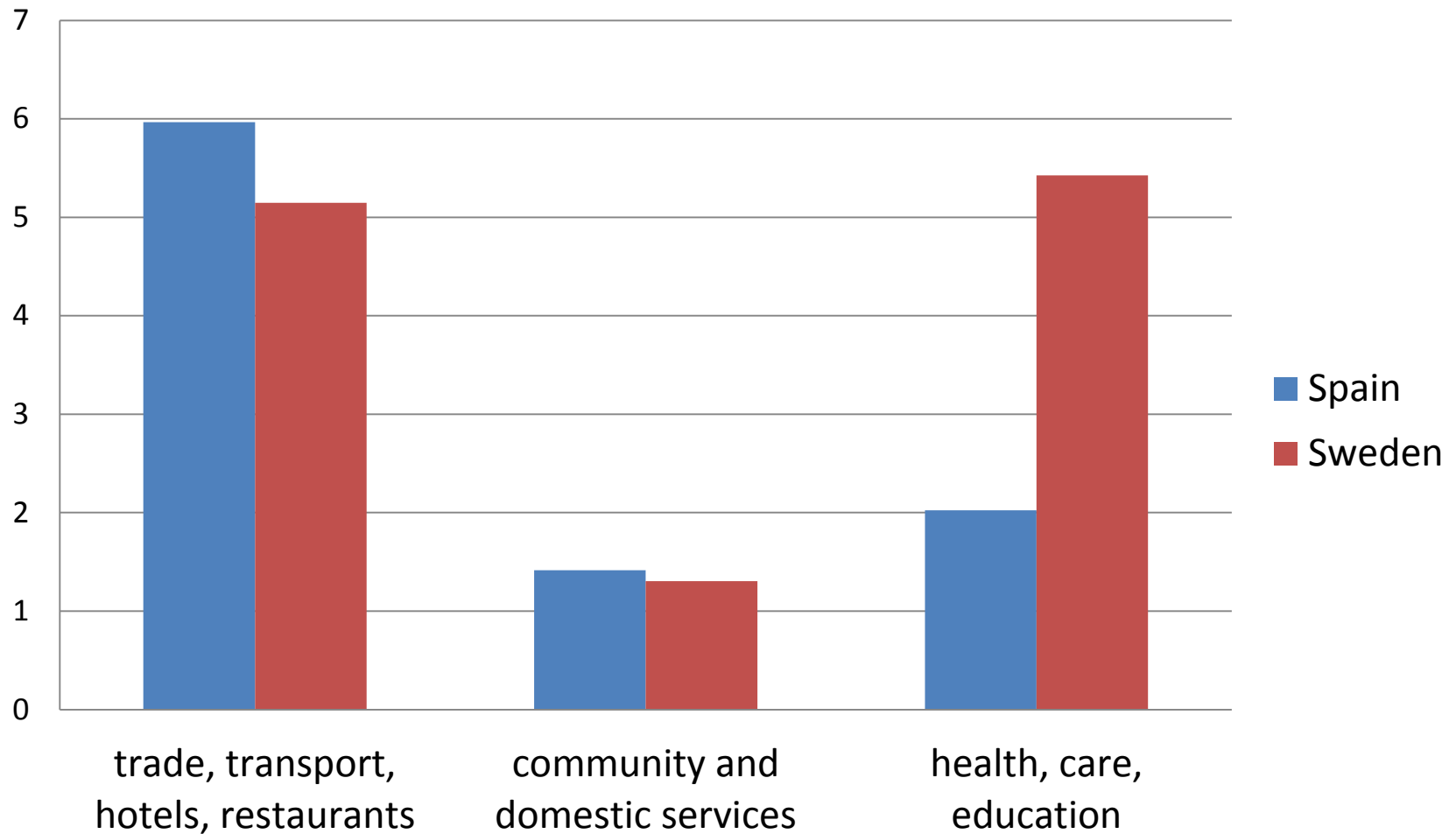
The tax wedge, 1994-2003



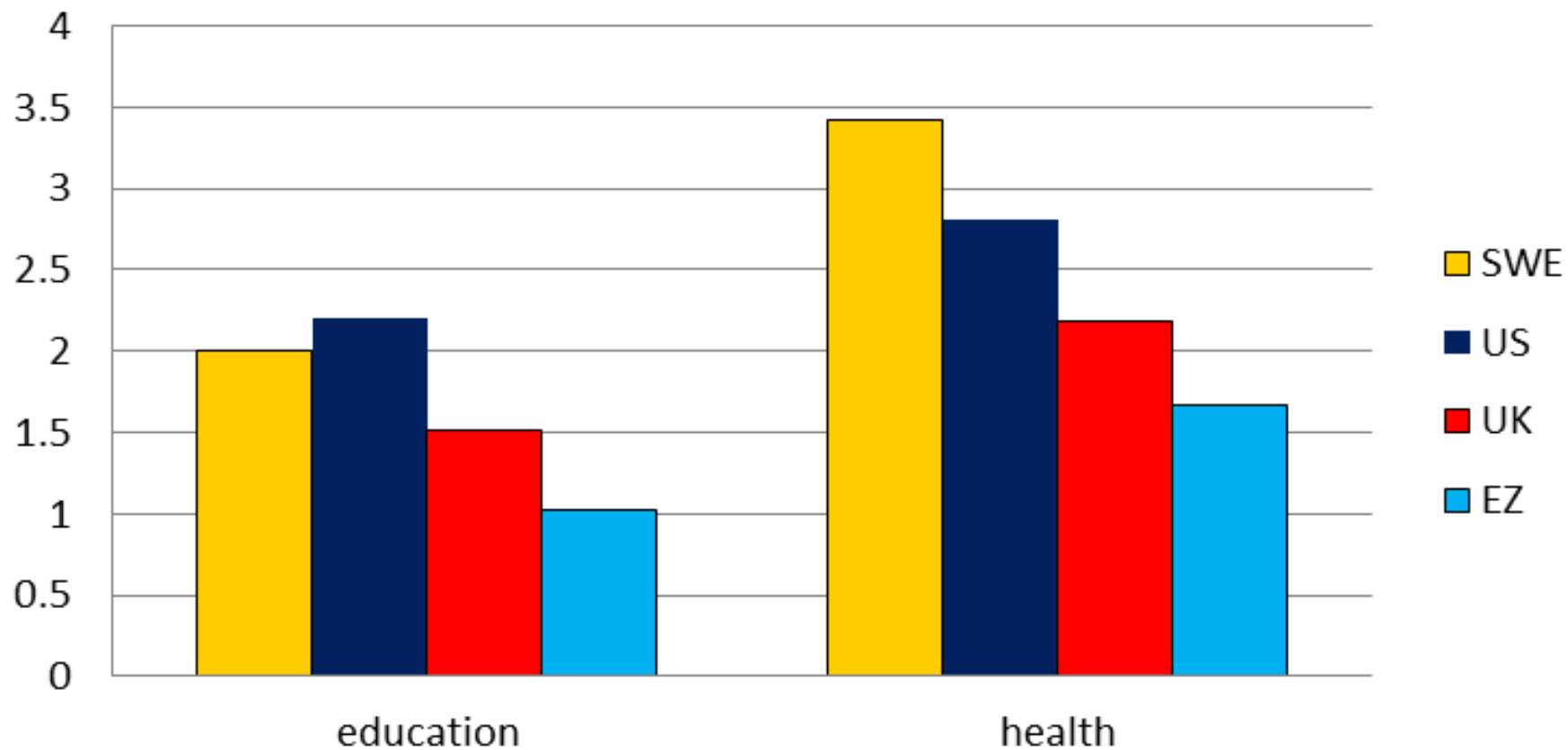
Implications

- The effect of the tax is to reduce employment, especially in service sectors that can substitute with self-help (home services, retailing)
- The effect of the subsidy is to increase employment in the subsidized sectors
- The net effect on most countries is negative
- In the Nordic countries, because of the large subsidies, the net effect on employment is positive

Weekly hours, Spain and Sweden, 2000-07



Weekly hours of work, 2000-07



How do the Anglo-Saxons (and Germany) do it?

Lessons from comparisons of this recession with previous ones

- Britain in the 1980s recession: very poor performance, unemployment kept increasing at constant job vacancies
- Britain in the 2008 recession: much better performance, unemployment increased because of drop in job vacancies
- In 1980s Britain had serious structural problems, in 2008-11 it didn't. Thatcher-Blair reforms changed the labour market

Main reforms

- Shift from public sector employment to private sector
- Reduced power of trade unions to control employment and wages
- Reduced duration and entitlement to unemployment benefits, put more emphasis on active support policies
- Reduced inflation expectations by making Bank of England independent
- Allowed immigration to relieve bottlenecks

Germany

- Germany before 2005: not doing too badly, not as bad as Britain in 1980s. But not good enough either
- Big improvement after 2006: unemployment falling at virtually constant vacancies
- Reforms of 2005 (Hartz I-IV) improved structural conditions in the labour market

Main reforms

- Similar to Britain's, encouraged private sector activity, reduced labour regulation
- Toughened criteria for unemployment compensation, shifted emphasis to active measures such as training
- Targeted wage subsidies for unemployed and disadvantaged groups
- Start-up subsidies especially for unemployed

United States

- US in 1980s recession: a flexible economy hit by recession. No structural problems
- US in 2008-11: more like a rigid economy, vacancies rising, productivity rising but unemployment not falling
- Large QE programmes appear to have small effects on job vacancies but unemployment not responding

Reasons?

- Not clear yet why but some factors likely to prove important
- Extension of duration of unemployment compensation created more long-term unemployment (no active measures to help unemployed back to work)
- Housing market problems reduced mobility of labour (can't sell house and move)
- Firms still accumulating liquidity – fear of another banking crisis?

Conclusions

- Spain's performance in the labour market very poor – not justified either by the fall in GDP or the size of the construction sector
- Regulation of labour still very high, the highest in the EU
- Regulation and tax-subsidy policies not employment-friendly, especially for women

Conclusions II

- Scandinavian option: increase taxes but encourage business creation in a free market. Use revenue to subsidise employment in health and social care
- Anglo-Saxon option: labour markets operate better and achieve higher employment if they are liberalised, and excessive regulation of product markets is removed

Conclusions III

- Unconditional unemployment compensation should be of short duration (not more than a year)
- Targeted wage subsidies or other “active” support for long-term unemployment help the transition to work and are necessary to offset the negative income impact of short duration benefits