

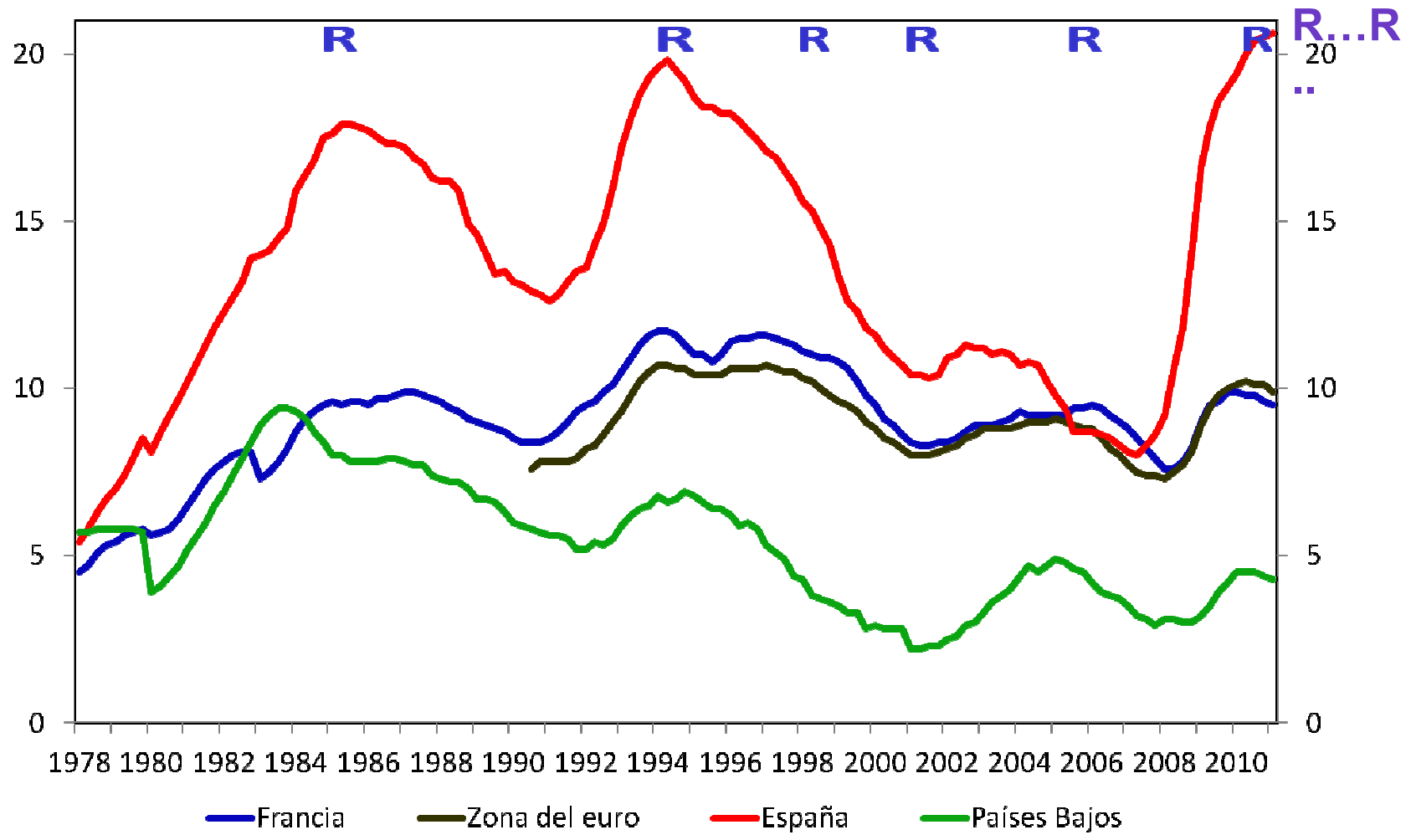
Reforming an Insider-Outsider Labour Market: Lessons from Spain

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<http://dolado.blogspot.com>

Bank of Greece Conference on *The Greek Labour Market during the Crisis*
Nov 27, 2012

The wild ride of Spanish unemployment: Déja vu ?



Background

Minimal macro background

Boom (1996-2007) and Bust (2008-2012...)

- € → Credit boom (low interest rate, easy access) → Credit crunch
- Housing bubble → Bursting of bubble
- High immigration inflow (Δ Labor force: 14% in 12 years)

Weakness symptoms

- Negative TFP growth since 1998
- Large competitiveness loss (Δ ULC 15% 1999-2009)
- Large Current Account deficit (e.g. 10% in 2007)
- NIIP: 96% of GDP; Public debt: 80% of GDP

Minimal LM regulations background

Employment protection legislation (EPL)

- High **severance pay gap** between PC (45 days, unfair), and TC (8 days or 0)
- Dismissal for econ. reasons (20 days) blocked by labor courts
- ***Express dismissal*** (2002) Firms allowed to dismiss at penalty severance pay w/o advance notice and going to court
- Collective dismissals subject to authorization (so: unions)

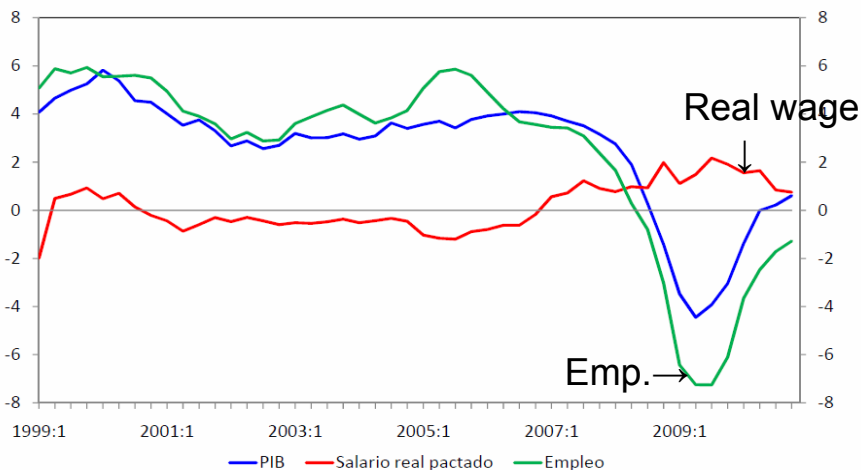
Collective bargaining

- Low affiliation (15%) & high coverage (80%), 10% enough
- Bargaining is **industry-level with regional component**
- Automatic extension to all workers and firms in industry

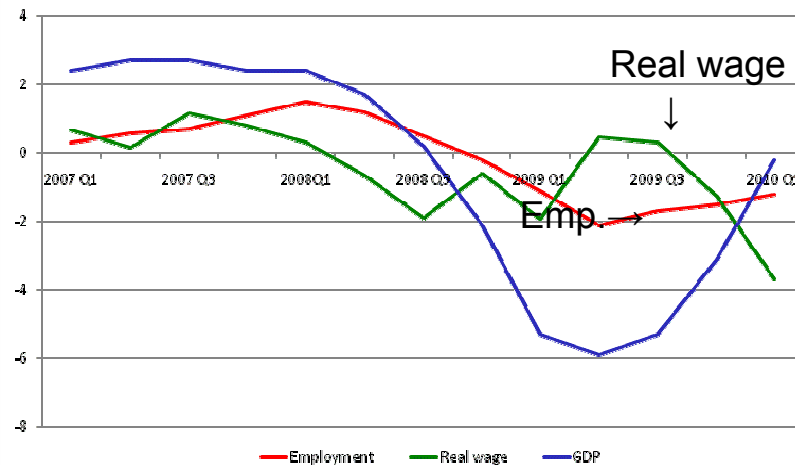
Spanish LM 's prototypical adjustment to recessions

Spain (employment)

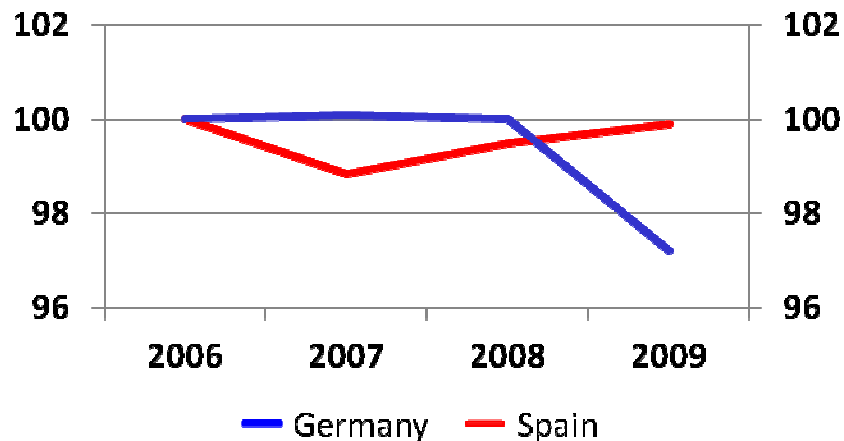
Tasa de variación del PIB, el empleo y el salario real pactado (%)



UK (wages)



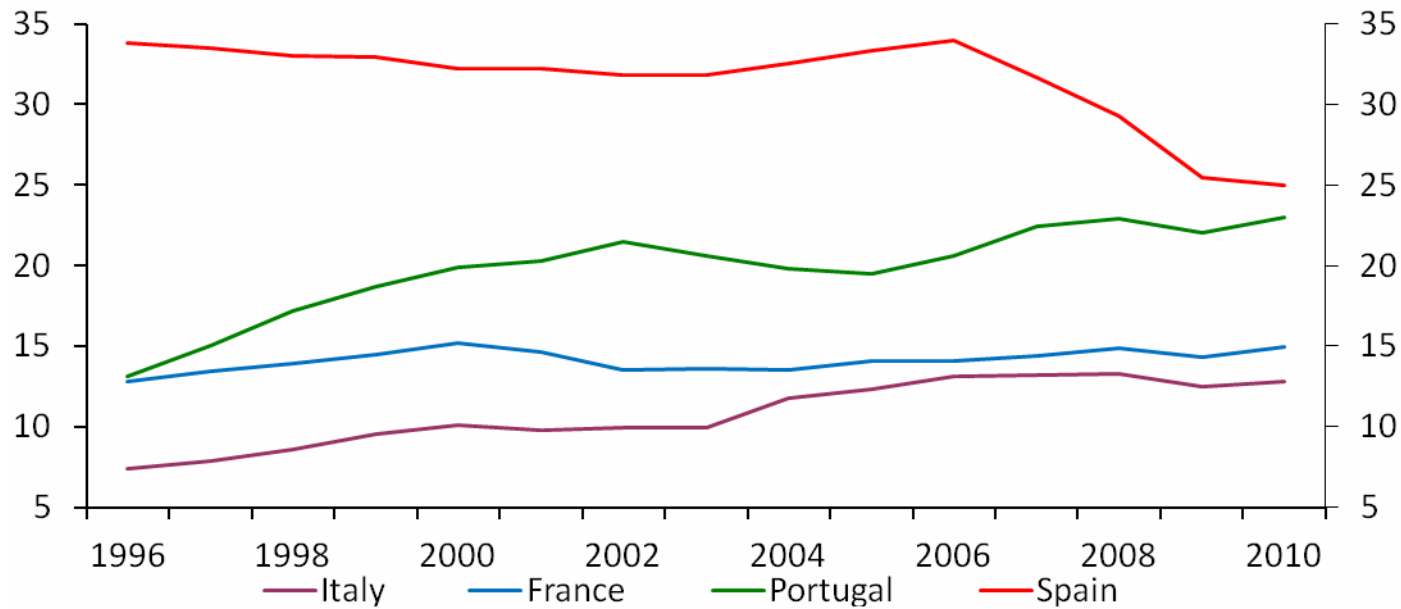
Germany (working hours)



Diagnosis

A Two-tier labour market...

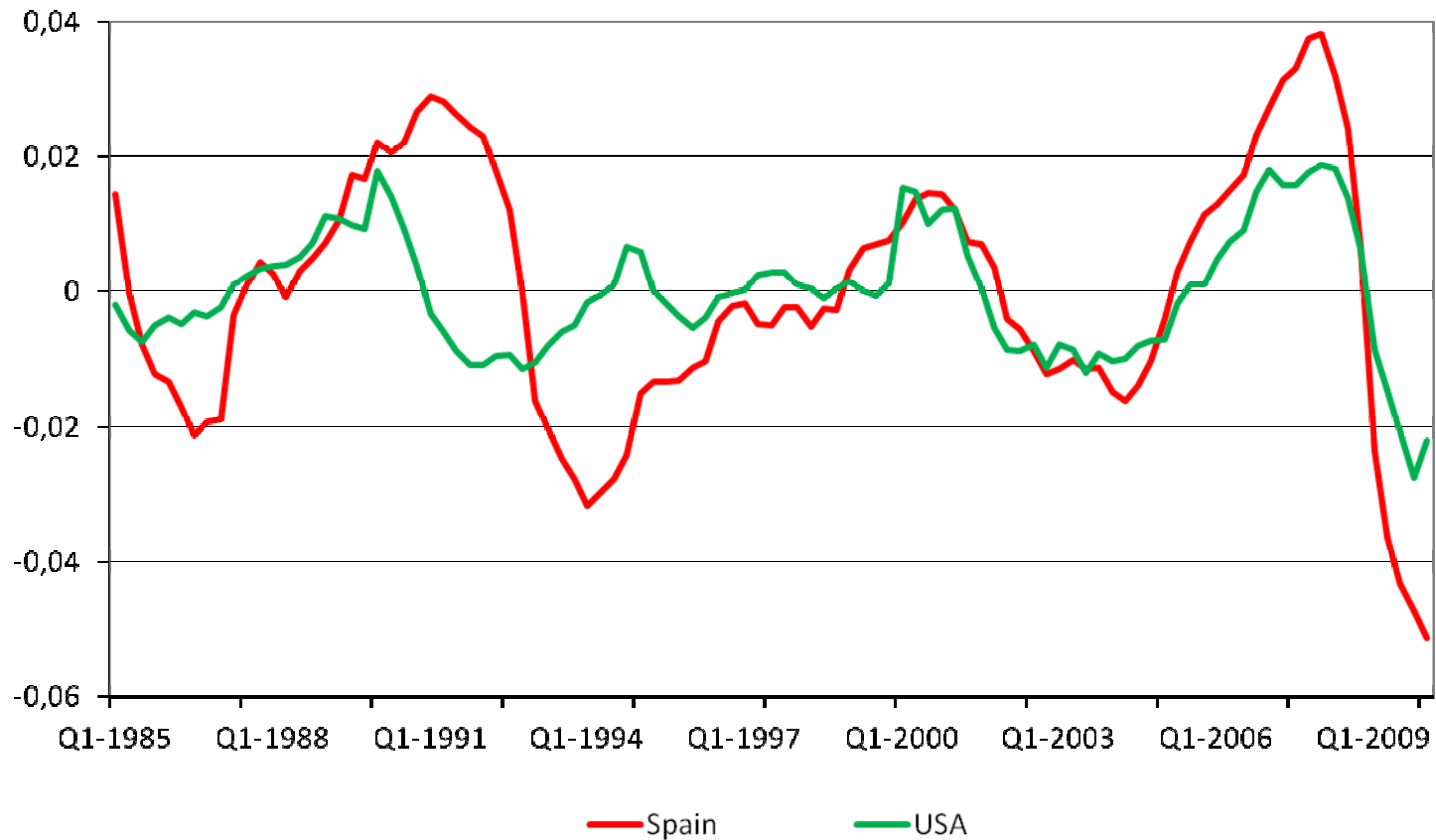
Temporary jobs as a share of employees (%)



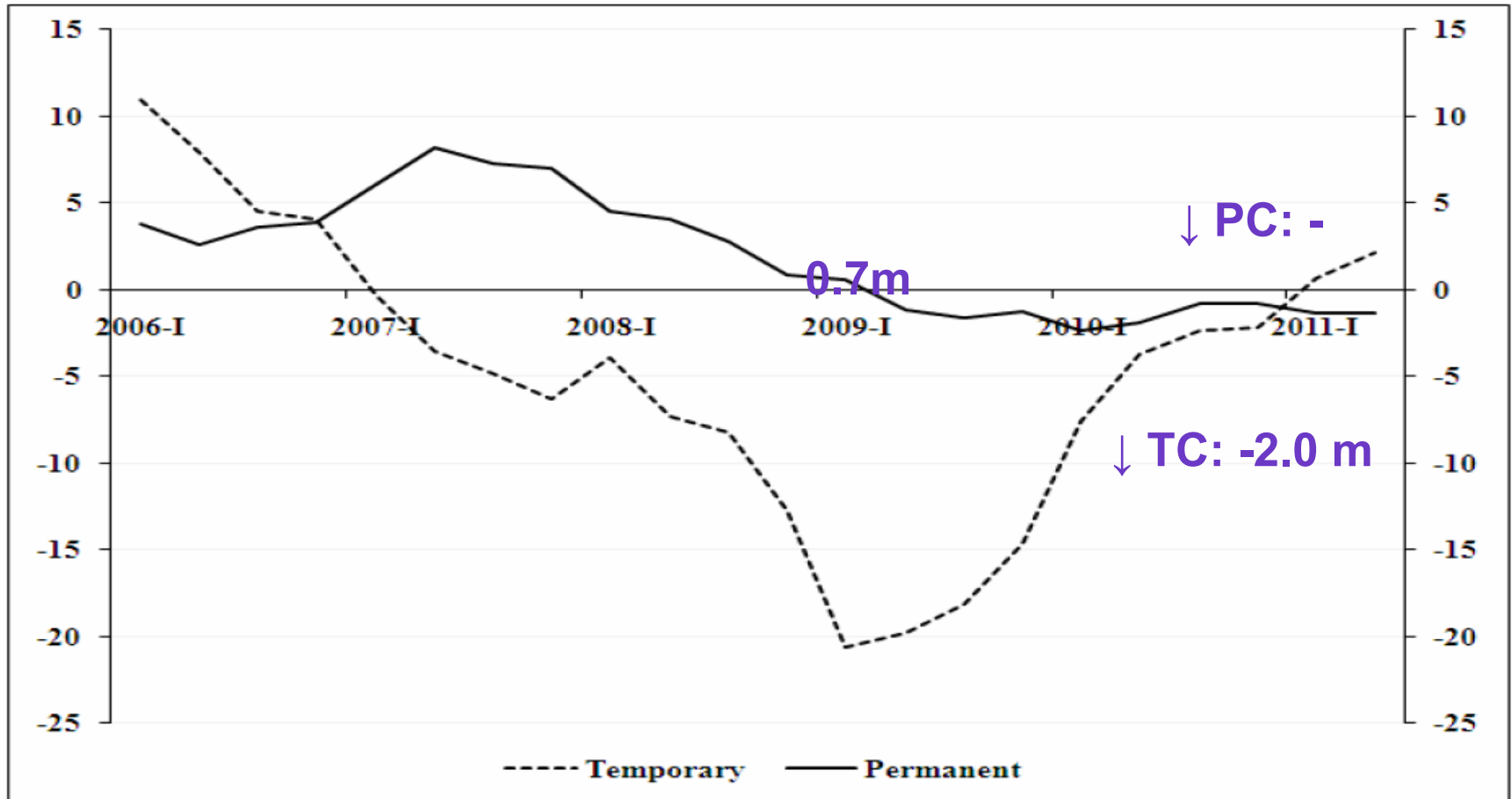
I am going to offer you a contract for 5 minutes and later we will see...

LM flexibility or rigidity ? : Both in excess

Bulimic LM: (HP) Cyclical component of employment



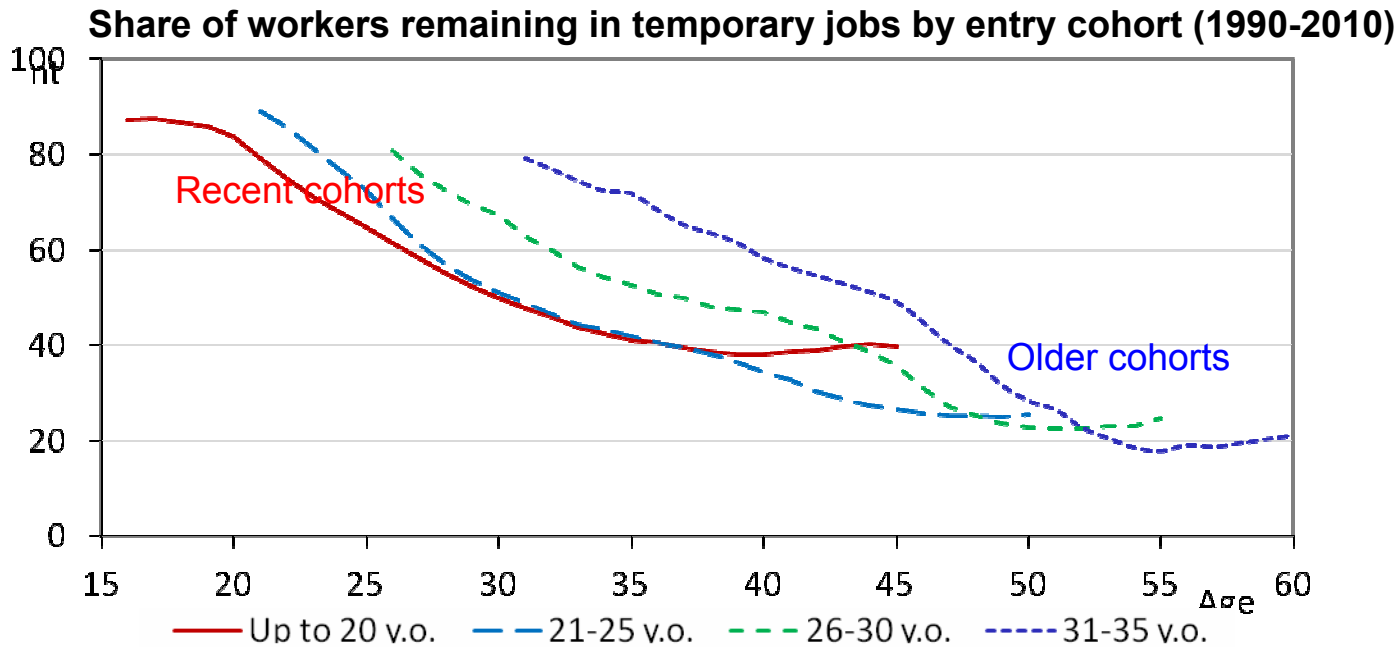
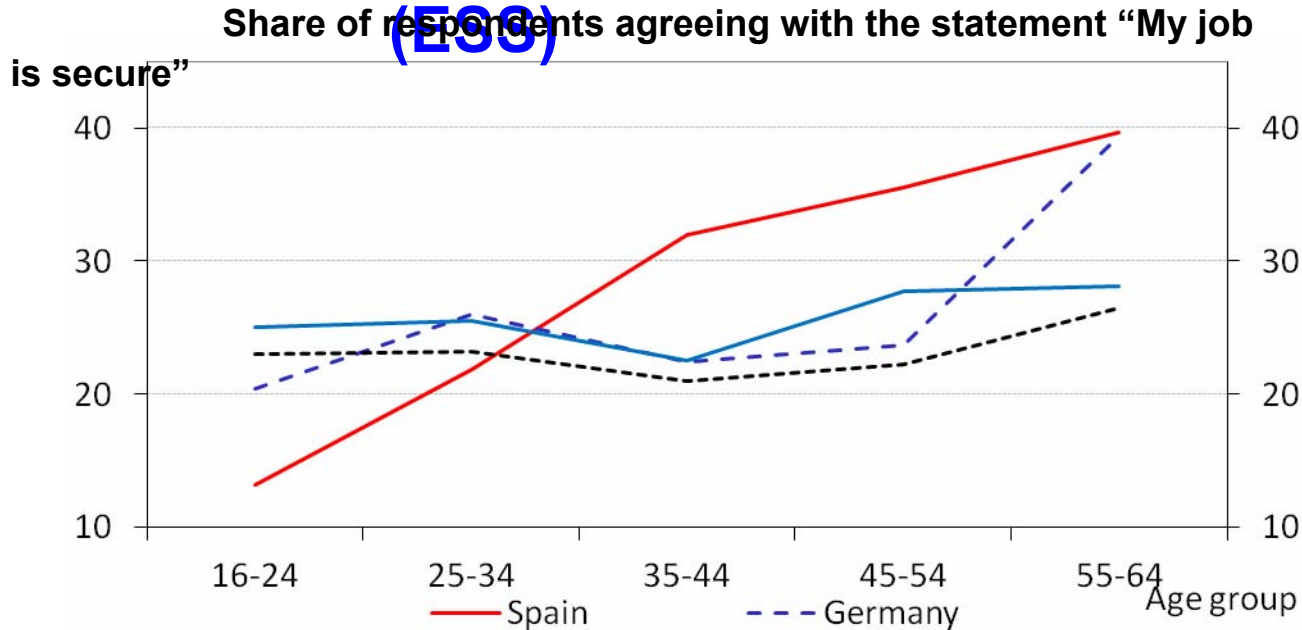
Job destruction by type of contract



Large inequalities (*precariat*)

Unemployment rate (%)	2007	2012-q3 (%Temp., 2007)
Total	8.3	25.0 (31.0)
Natives	6.4	22.4 (26.8)
Immigrants	12.2	37.8 (57.2)
Male	6.4	24.5 (29.5)
Female	10.9	26.2 (33.2)
Youth (<25 years old)	18.2	52.8 (61.2)
LTU>1y. (% unemployed)	23.7	50.2

Perceptions of insecurity by age



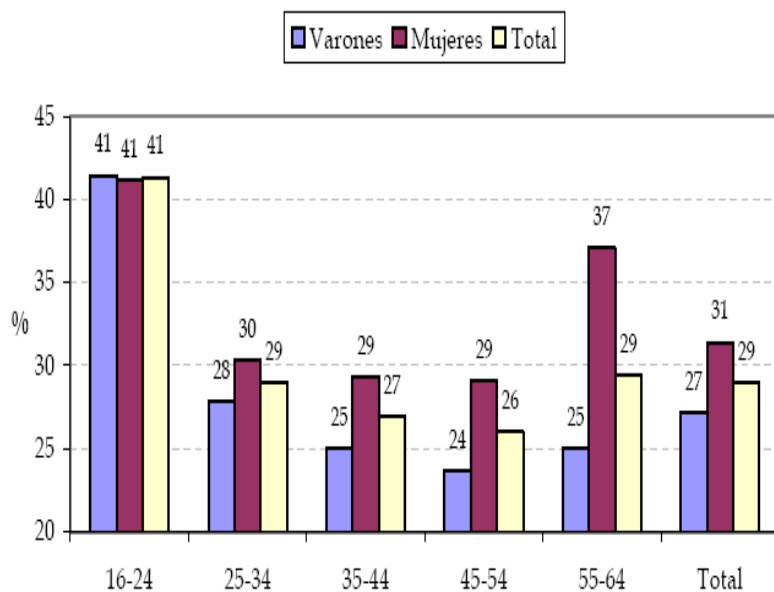
How an insider-outsider model gets entrenched (Rent seeking activities by Unions & Employers Associations)

(I) Trade unions' rents

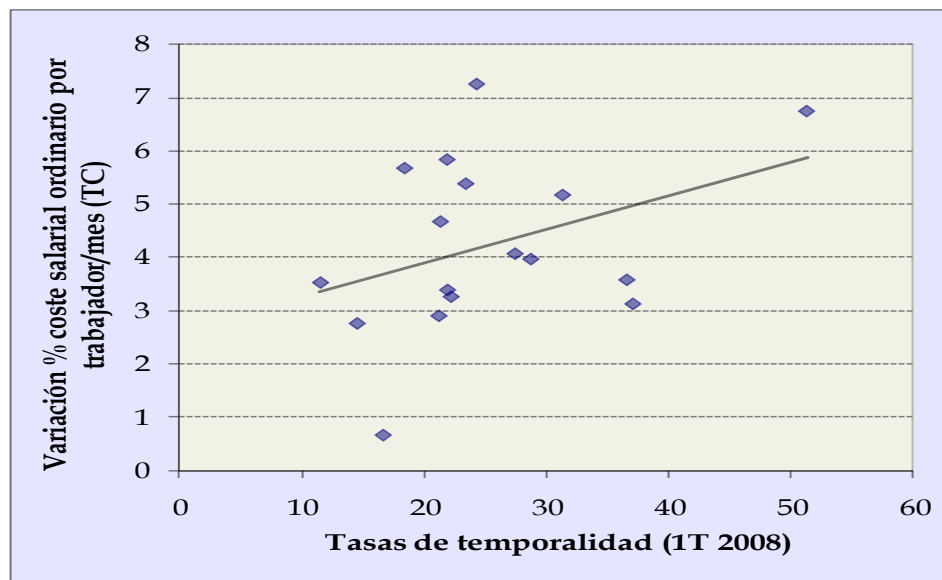
30 % Workers excluded from union elections (temp. & SME < 6)

Buffer effect: Bargained wage growth in t vs. Share of temporary jobs in $t-1$

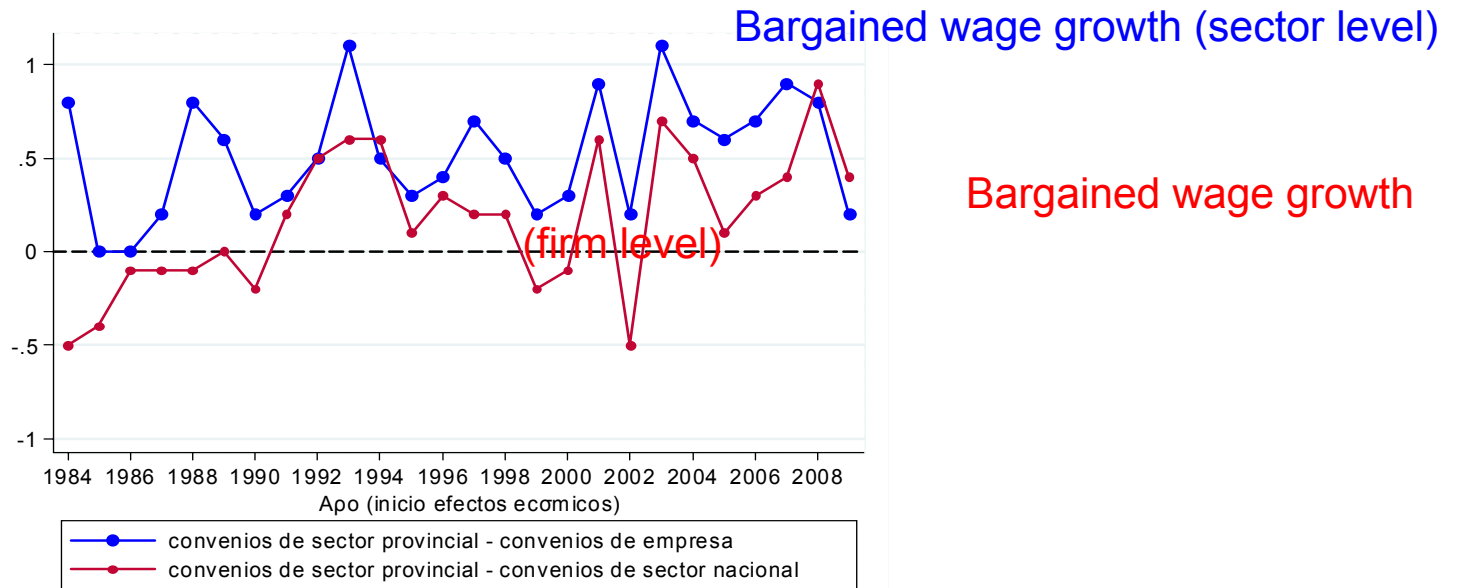
GRÁFICO 7: Porcentaje de trabajadores excluidos en las elecciones sindicales (según sexo y edad)



Fuente: MCVL-2007



(I) *Employers' rents* (barriers to entry)





Unión General de Trabajadores
CASA DEL PUEBLO

← Union

CC.OO.

← Union

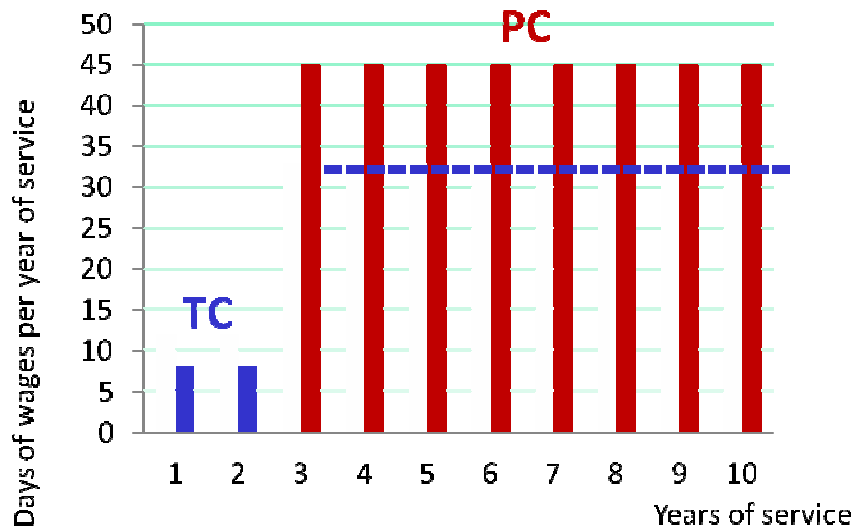
CENTRO SINDICAL
DE FORMACION

aes
EMPRESARIOS DE SANLUCAR

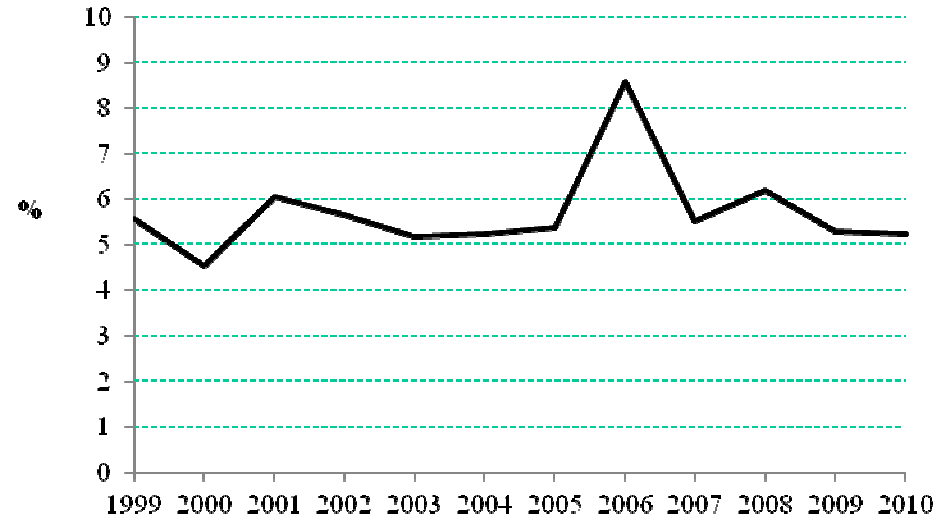
← Employers

Segmentation at work

EPL gap between perms & temps

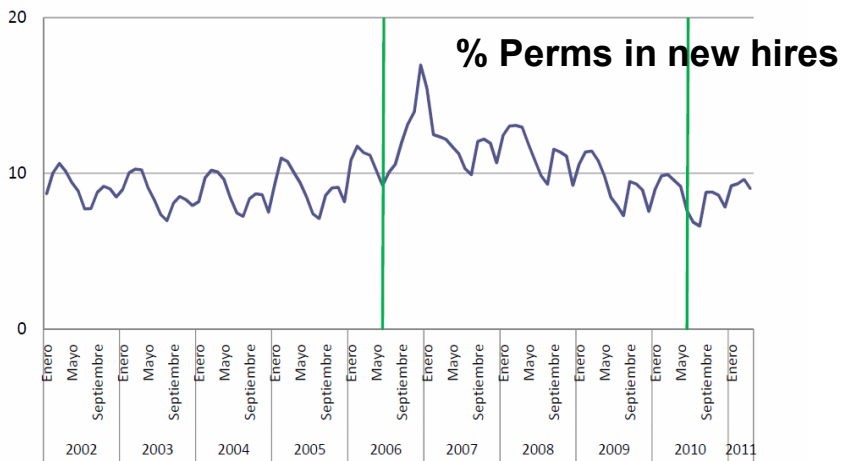


Temp-to-perm conversion rate (1999-2010)



Source: Encuesta de Coyuntura Laboral

Proporción de contratos indefinidos sobre el total de contratos (%)



Housing bubble burst is not the only culprit

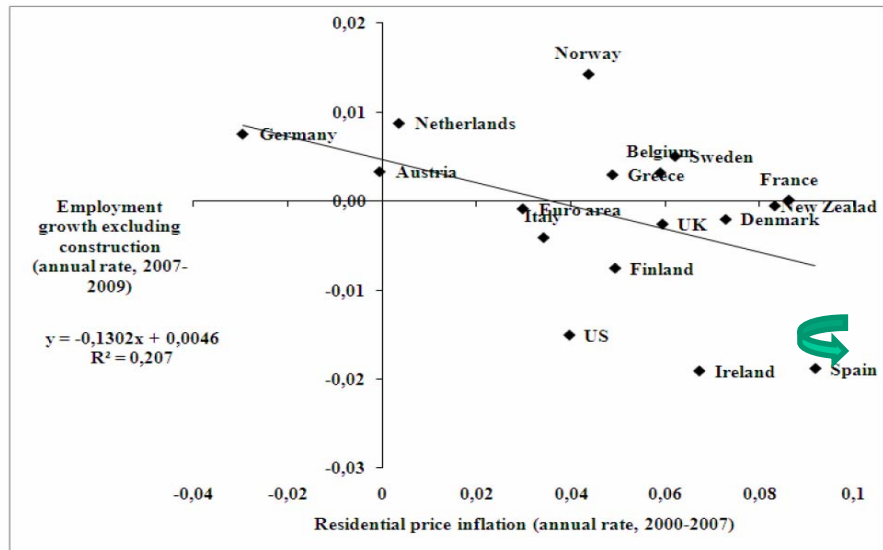
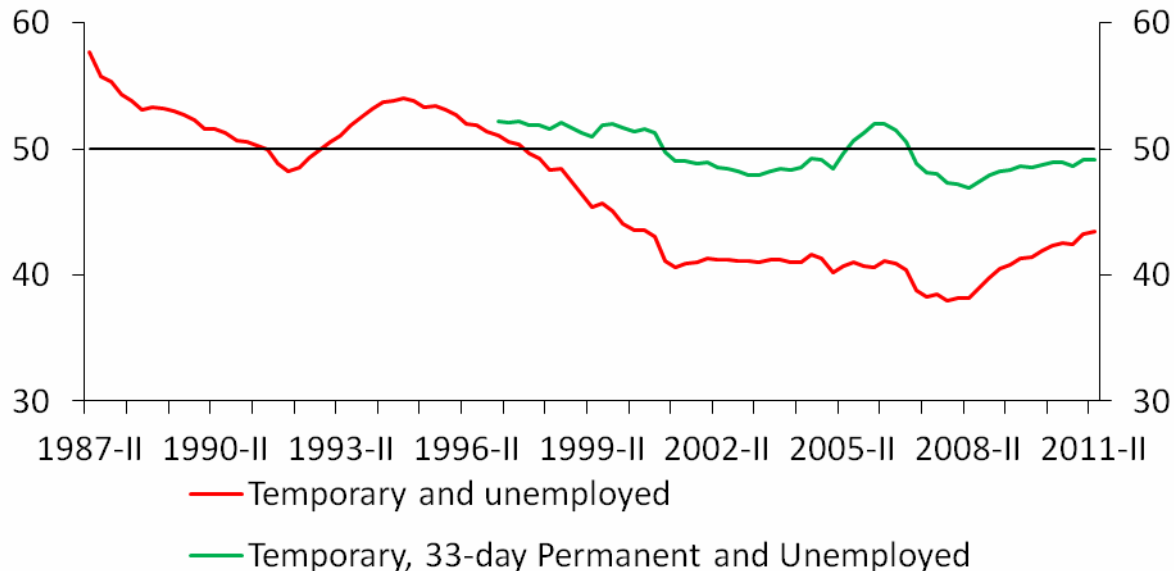


Figure 4: Employment growth (excluding construction) and residential price inflation in EU countries

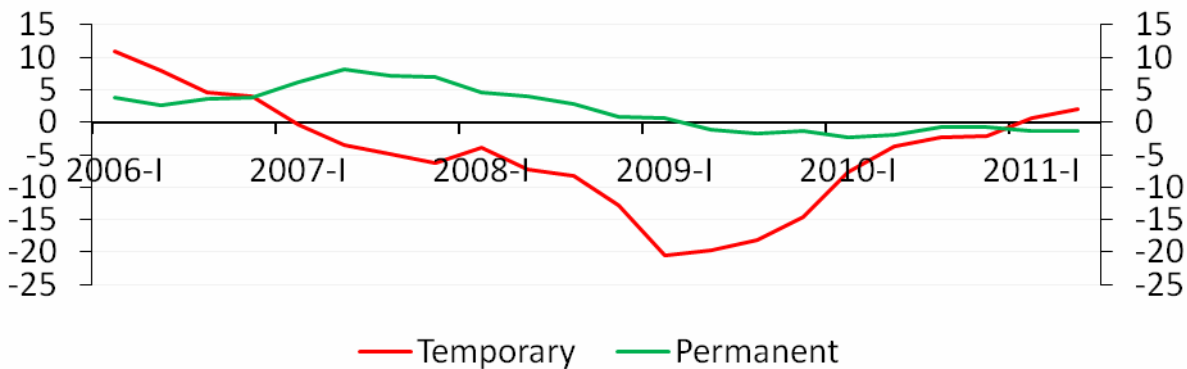
Crisis-induced reforms

Factors inducing support for reform

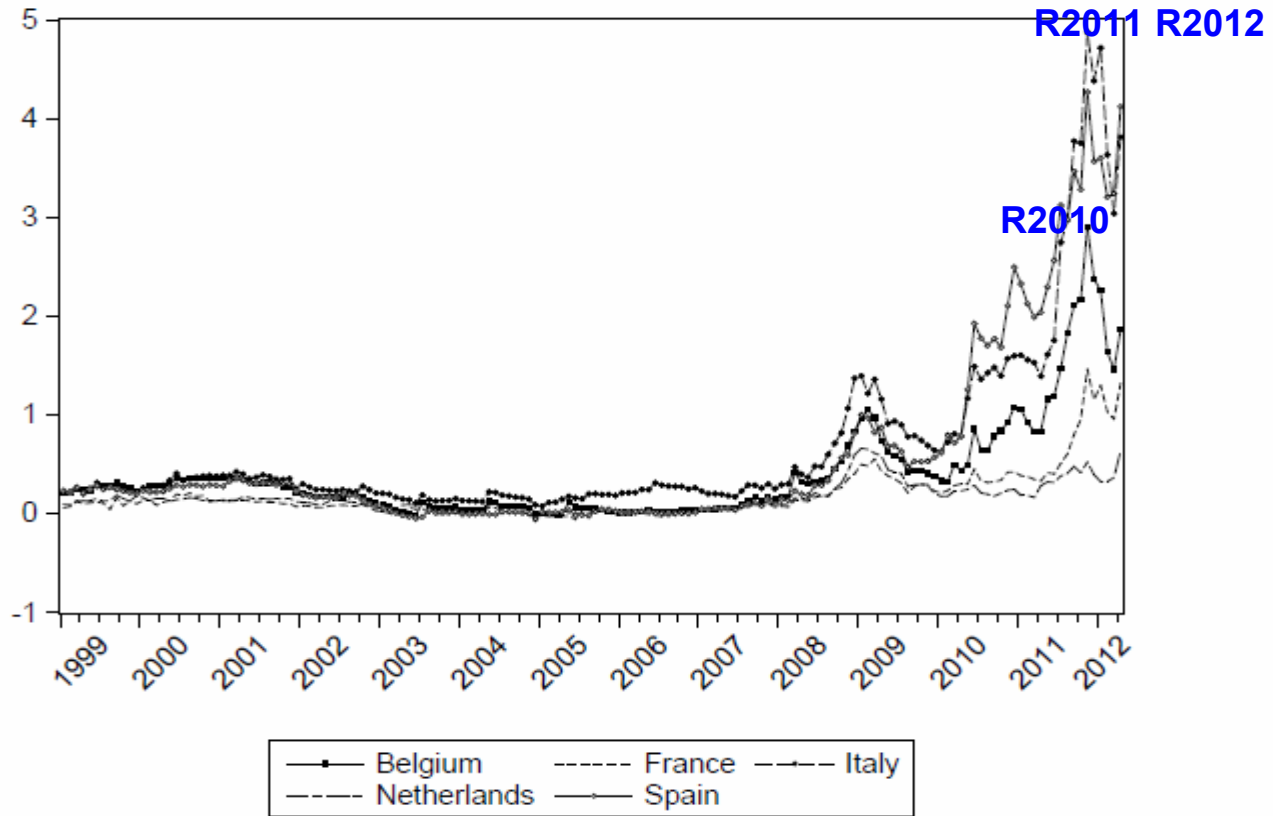
(a) Outsiders as median voters



(b) Growing exposure of insiders



(c) The trigger: Financial market pressure



Content of 2010-2011 LM reforms

EPL

1. **Economic reasons**: Include expected losses or revenue falls (but undefined duration). Advance notice shortened from 30 to 15 days
2. **Penalty severance pay** reduced to 33 days of wages per year of service, without going to court (previously 45 days)
3. **Temporary contracts**: Gradually increasing severance pay from 8 days of wages p.y.s. to 12 days in 2015

Collective bargaining

1. **Firm-level agreements**: Priority vis-à-vis the industry-wide agreement , regarding wages and key working conditions, ***unless undone by industry-wide agreements***
2. **Compulsory arbitration** of non-renewed collective agreements ***unless undone by industry-wide agreements***
3. **Union committee**, not worker committee, become the employer's counterpart for most working conditions,

Assessment

Includes measures that labor unions dislike, but was made more palatable for them by **reducing its scope**, in particular by:

- Leaving the core of the two-tier system in place
- Leaving changes in regulation of collective bargaining in the hands of industry-level bargainers (unions and employer associations)

Introducing **insider-protecting measures**:

- Subsidies for reduced hours in PC (as opposed to dismissals)
- Backtracking on limitations on chaining of temp contracts
- Increasing the chances that workers will challenge individual dismissals in court

**Δu (2010-2011)= 3.2 pp. ; Δn (2010-2011)=
-3.1 pp.**

Content of 2012 LM reform

EPL

1. **Economic reasons:** “Persistent” losses or revenue falls = 3 q. in a row
2. **Unfair dismissal** severance pay unified at 33 days of wages per year of service with a limit of 24 months (v. 45 days and 42 months before)
3. **New contract for entrepreneurs:** No severance pay for 1 year, subsidies
4. **Express dismissal** suppressed (higher chances of going to court)
5. **Collective dismissals:** Administrative approval abolished

Collective bargaining (the big change)

1. **Firm-level agreements:** Priority over industry agreements
2. **Industry agreement opt-outs:** 2 quarters losses/↓revenue
3. **Expired agreements:** Maximum duration of 1 year (prv. ∞)
4. **Wages and working conditions:** Unilateral changes by employer allowed (can be challenged in court)
5. **Contract suspensions and work-time reductions:** administrative approval abolished

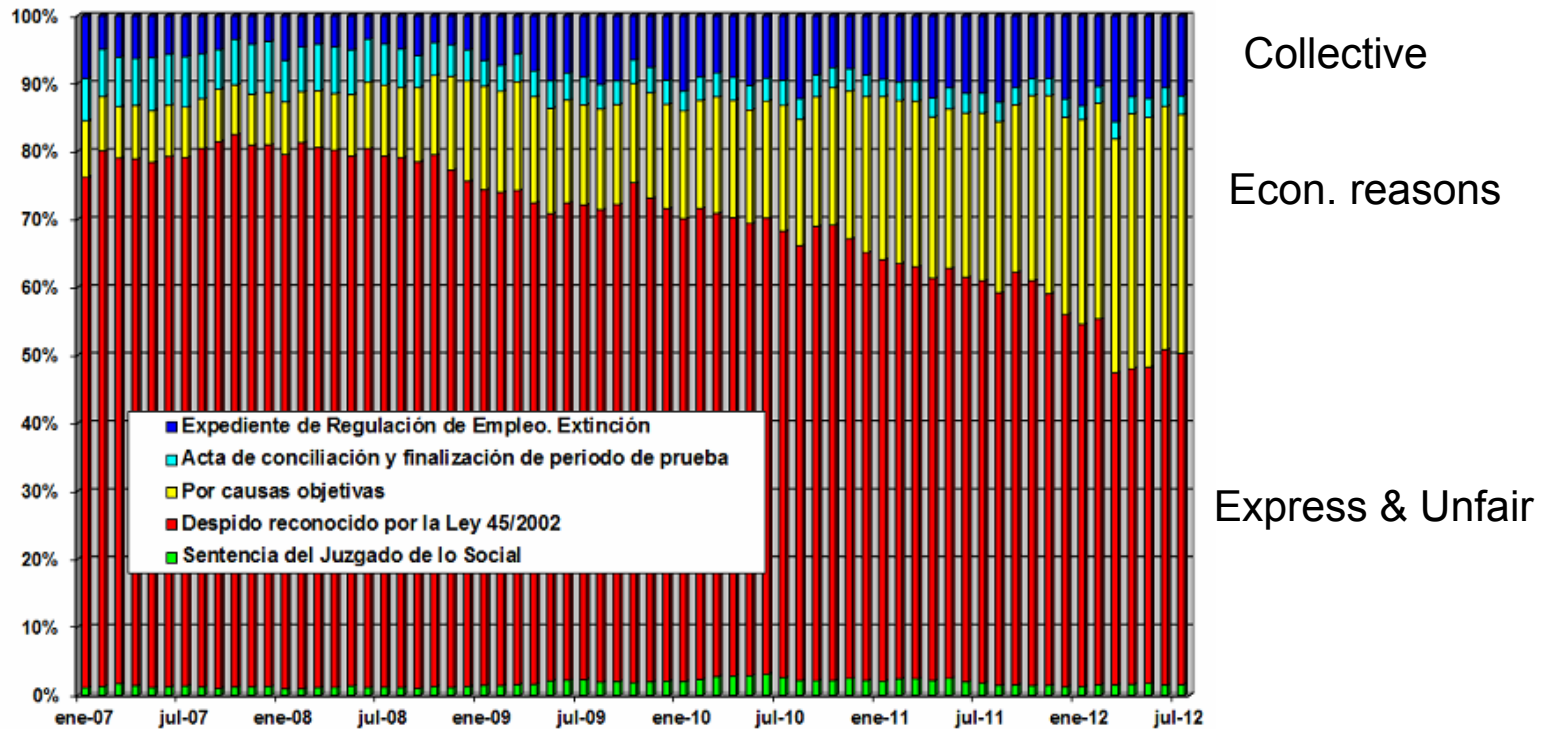
Unemployment benefits: reduction in contributory replacement ratio after 6 months (60% → 50%) but no change in duration, some cuts in assistance benefits

Assessment

- Reducing firing costs in recessions increases dismissals in the short run (credit crunch + private debt deleverage+ public sector consolidation)
- New contract for entrepreneurs does not take off (legal uncertainty)
- Higher proportion of dismissals for economic reasons
- Larger number of court challenges
- ULC adjustment but higher price-cost mark ups

Δu (2012)= 2.5 pp. ; Δn (2012)=-2.9 pp.

Anatomy of dismissal types

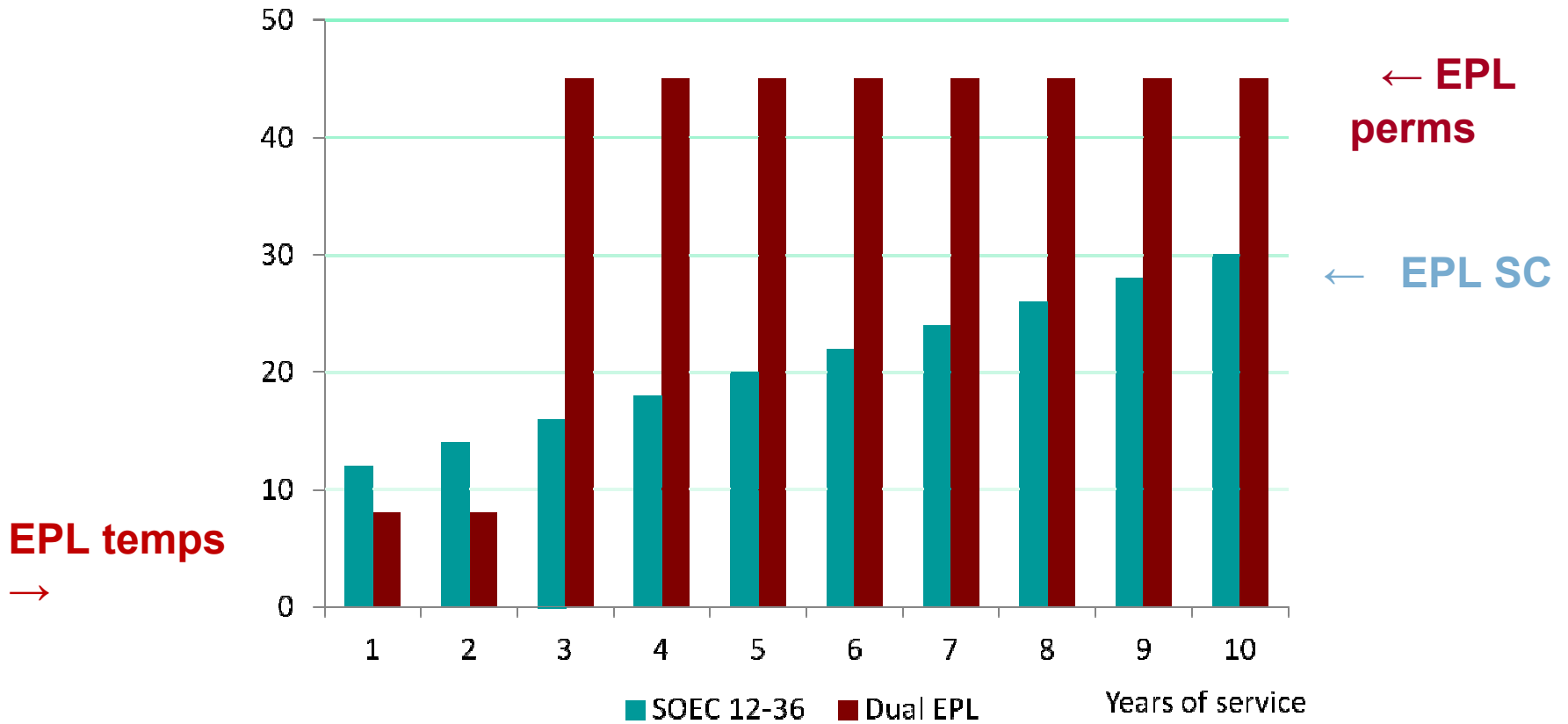


Now what?

- A. Employment protection:** a single, permanent labor contract with severance (p.y.o.s.) increasing with seniority+ Austrian capitalization fund
- B. Collective bargaining:** increase representation requirements for partners, de-indexation, competitiveness guidelines
- C. Unemployment benefits:** increase initial generosity with steeper downward slope, link to ALMP
- D. Active Labor Market Policies:** focus on less skilled workers, assess rigorously their results (cut wasteful job subsidies)
- E. Foster Dual Vocational Training:** current training system does not work

“Single/ Equal opportunity”

Contract



Thanks for your attention