

## Chapter 3

### The Spanish labour market: current developments, structural trends and labour market policies

Recent Spanish labour market developments have mainly been marked by employment's considerable momentum

- According to the Spanish Labour Force Survey, between 2019 Q4 and 2023 Q4 1.28 million jobs were created in Spain, 783,000 of them in 2023, and the employment rate (proportion of the population aged 16-64 in employment) rose by 2.2 pp, from 63.7% to 65.9%.
- Employment has grown with considerable heterogeneity across sectors, occupations and regions.
- Employment has grown more in the public sector than in the private sector. In 2019-2023 the number of salaried workers in the Spanish public sector increased by 340,000, at an average annual growth rate of 2.4%, compared with 1.7% in the private sector.
- The recovery in migratory flows has contributed considerably to employment's recent strength. Foreign nationals accounted for 54% of the 1.06 million new persons employed in 2022-2023.
- Compared with the considerable buoyancy of the number of persons employed, hours actually worked have grown considerably less and hours worked per person employed have decreased.
- In contrast to employment, labour productivity has barely increased. This, coupled with growth in compensation per employee, has driven the rate of growth of unit labour costs higher than that observed in the euro area as a whole.

The labour market is showing signs of tightness, despite the unemployment rate in the Spanish economy remaining excessively high

- The unemployment rate was 11.8% at end-2023, the lowest since 2008, but still double that of the EU-27.
- A considerable portion of the cross-country differences in unemployment rates are related to the very institutions and policies that have a direct impact on the functioning of the labour market.
- Firms perceive labour shortages as one of the main constraints on their productive activity.
- The reasons for the labour market tightness vary across sectors and occupations.

A new wave of technological change will prompt a shift in the division and organisation of labour. Productivity will be boosted, but to the detriment of employment in certain sectors and occupations

- The development of robotics and artificial intelligence (AI) could make it possible to automate productive tasks across all occupations, including those requiring a higher level of professional qualification.
- Labour demand has so far increased relatively more in occupations that are potentially more exposed to robotics and AI developments.
- Exposure to new technologies and their degree of complementarity with human work will determine which workers will be displaced and which will benefit from further increases in productivity.

- Complementarity with robotics and AI will foreseeably be greater for workers who understand how these new technologies work and who are able to provide added value to the tasks carried out by robots and algorithms. Conversely, those workers who are limited to a small number of tasks – whether routine, manual or otherwise – are likely to be displaced by the new technologies.
- Demographic shifts are profoundly changing the composition of the working population by age group and will continue to do so in the future.
- Demographic and technological changes interact with each other, meaning that the economic impacts of these two structural processes will be closely interrelated.
- The ageing of the Spanish working population has a negative impact on the rate of growth of the aggregate employment rate and productivity and, therefore, on potential economic growth.
- Population ageing also shapes labour demand through changes in household consumption patterns and the emergence of new activities related to the “silver economy”.
- Migration flows, the extension of working lives and education and labour market policies may help to reduce some of the adverse effects of population ageing.

**The high unemployment rate and the technological and demographic change under way mean that labour market policies need an overhaul**

- Labour market policy must be considered in its entirety. The ability of each instrument to efficiently meet its goals rests on the extent to which it complements the others.
- Active and passive labour market policies are a cornerstone of the welfare state. However, these policies have proven to be largely ineffective.
- The level of coverage/protection that passive policies afford the unemployed has been relatively low in Spain compared with other European economies. However, the unemployment benefit replacement rate is fairly high by international standards.
- When set against the unemployment rate, both the extent to which the unemployed participate in active policies and the amounts spent on such policies are low compared with other developed countries.
- In the light of the technological and demographic changes currently under way, which will lead to major shifts in the sectoral and occupational structure of employment, it is crucial to improve the performance of active and passive labour market policies.
- Other aspects of the institutional framework of the Spanish labour market should also be reconsidered to enable a smoother adjustment of labour supply and demand.
- Longer working lives should be encouraged by doing away with certain aspects that, in practice, serve to drive older workers out of the labour market.
- Collective bargaining should allow for a degree of flexibility to cater to firms’ individual circumstances.
- The regulations governing termination costs must ensure that workers are adequately protected, while at the same time facilitating mobility across sectors and occupations.
- The working week follows a downward secular trend and is set to continue declining.
- Any reduction to the statutory working week should take into account the considerable heterogeneity across the different types of firms and sectors and its effects on employment.