

## Round Table

# HIGH-LEVEL SEMINAR ON LABOR MARKET EXPERIENCES

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## Structural inefficiencies of Spanish Labour Market



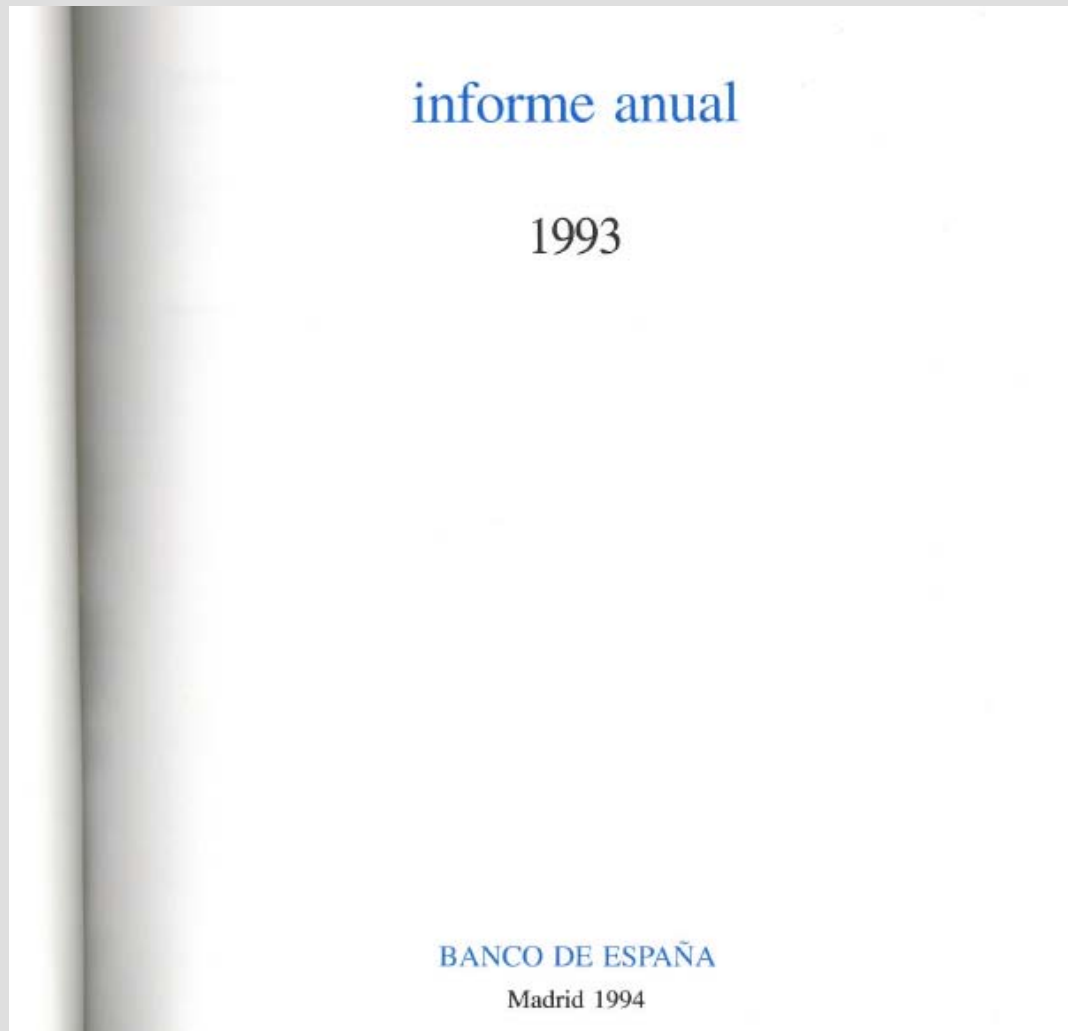
***“...De la regulación y funcionamiento del mercado de trabajo en el pasado reciente, hay que destacar una serie de impedimentos a la flexibilidad, que imponen costes de ajuste muy elevados. Tal es el caso de:***

- *Los costes derivados de la contratación laboral que frenan la creación de empleo,...*
- *de los obstáculos a la movilidad en el empleo,...*
- *de la inadecuada estructura del sistema de negociación colectiva,...*
- *de las normas que pretenden garantizar la estabilidad en el empleo, sin atender a las condiciones económicas objetivas, ...*
- *y finalmente, de la ineficiente intermediación en el mercado de trabajo”*

***“... In connection with the regulation and workings of the labour market in the recent past, a series of obstacles to flexibility, which impose very high adjustment costs, should be highlighted:***

- *Employment costs which prevent greater job creation...*
- *barriers to job mobility,...*
- *the shortcomings of the collective bargaining system ...*
- *rules that seek to safeguard job stability, without due regard to objective economic conditions ...*
- *lastly, inefficient labour market intermediation ”*

## *Structural inefficiencies of Spanish Labour Market*





# Factors masking structural inefficiencies in recent past

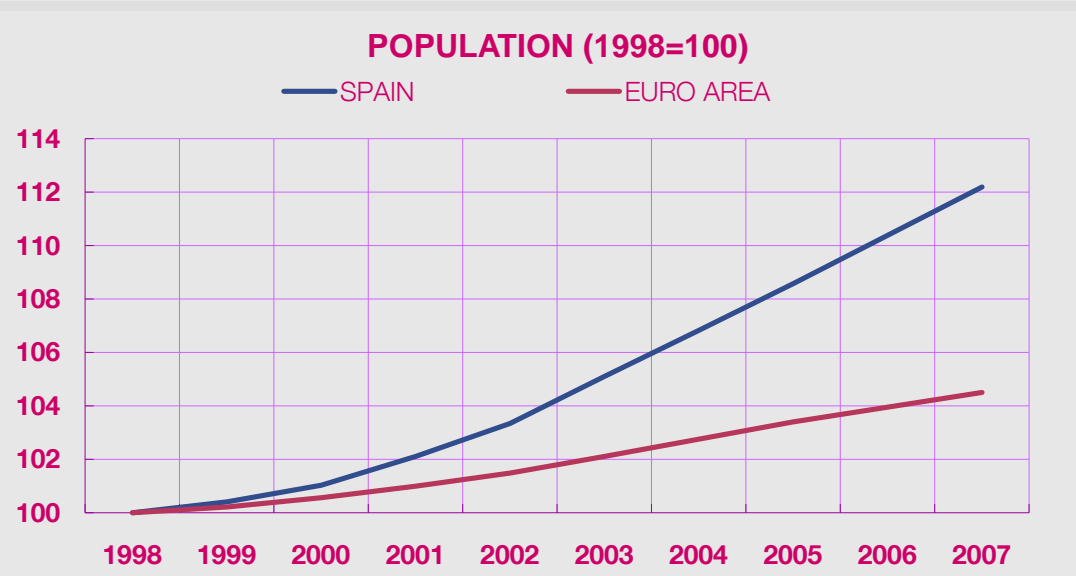
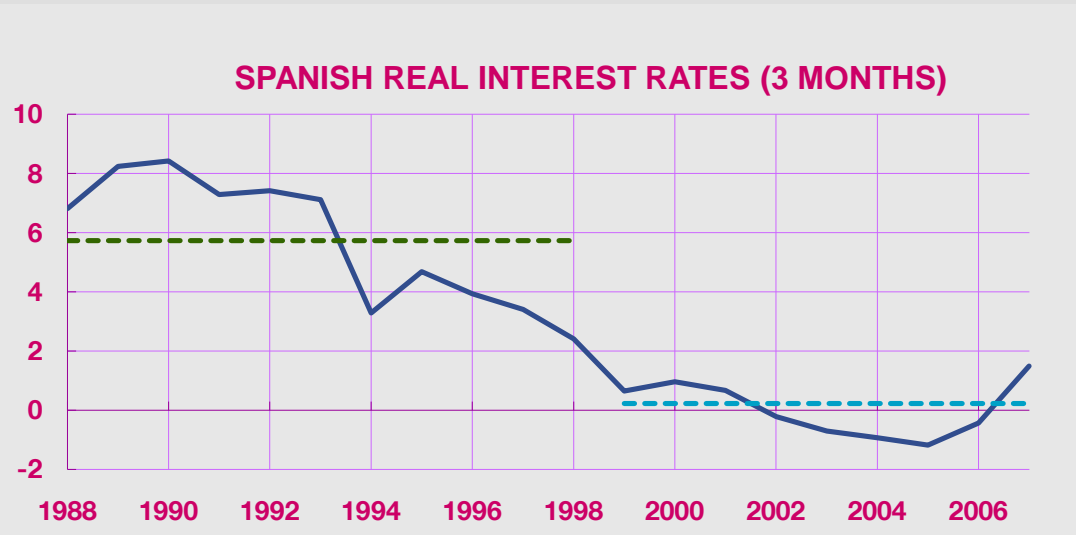
▪ Confluence of a series of extraordinary and unrepeatable factors that surprisingly boosted:

▪ Aggregate Demand:

- Fall of interest rates.
- Expansion financial system.
- Increasing wealth.

▪ Aggregate Supply:

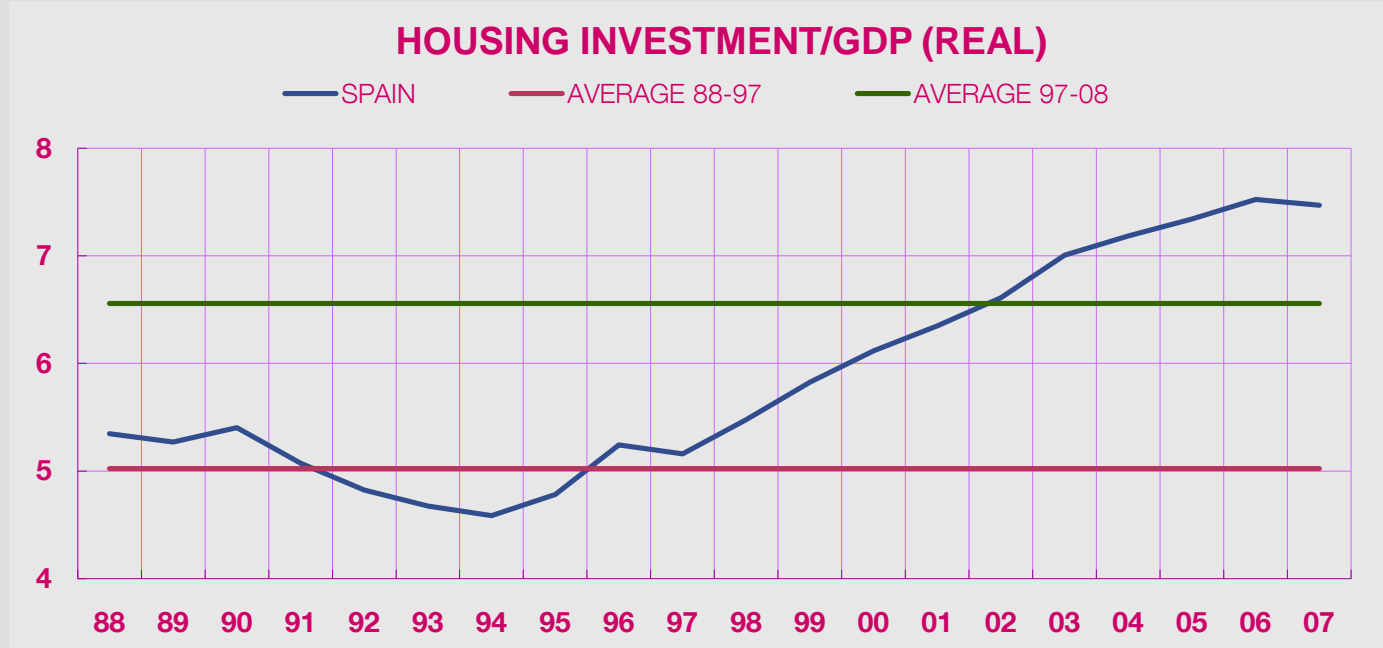
- Immigration.
- Female labour force participation.





# Factors masking structural inefficiencies in recent past

- Both these shocks, on the supply and demand sides alike, were concentrated with particular virulence in the real estate and construction sector.

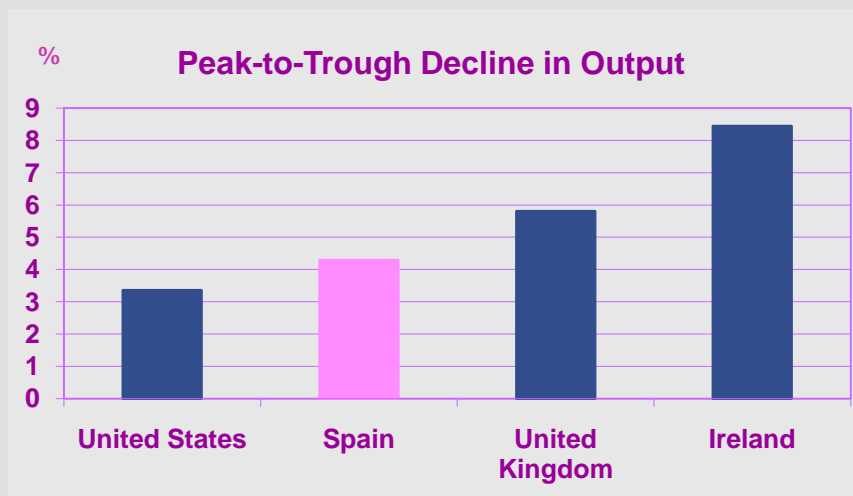


## Limitations of the system in booms

- High growth and job creation during the boom period were accompanied by:
  - An excessive proportion of temporary contracts.
  - Low productivity growth across the economy.

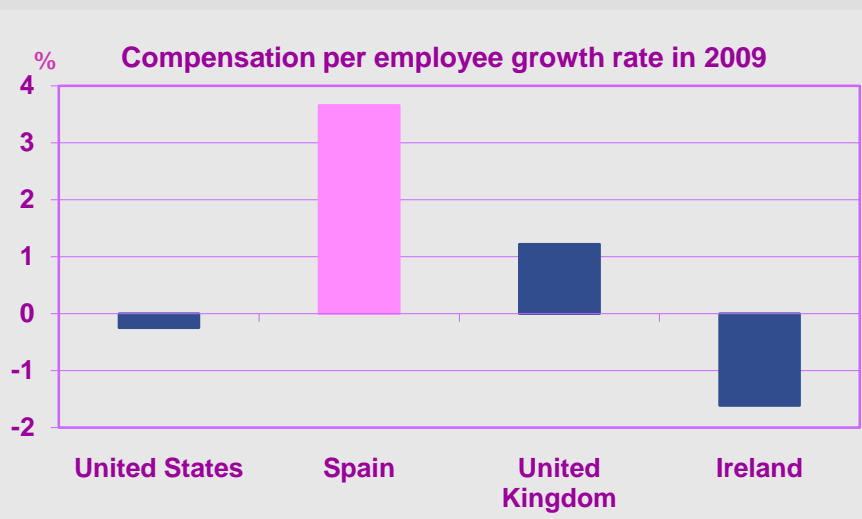
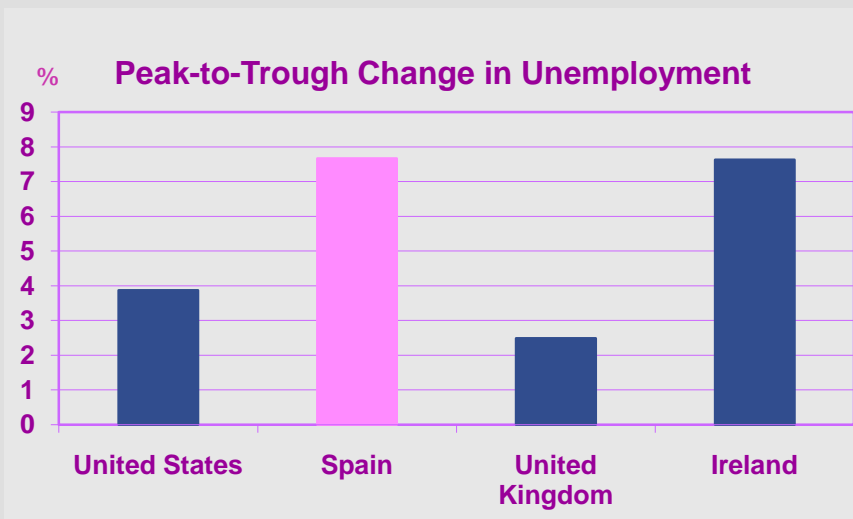
	Spain	France	Germany	Euro	USA
<b>Temporary contracts (% employees)</b>	<b>31,9</b>	<b>13,4</b>	<b>14,2</b>	<b>16,6</b>	-
<b>Productivity average growth 1990-2008 (Real GDP/hour worked)</b>	<b>1,10</b>	<b>1,61</b>	<b>1,98</b>	<b>1,52</b>	<b>1,82</b>

## Limitations of the system in crisis



### ■ The crisis highlighted weaknesses:

- *Job destruction is proving more marked than in other developed countries that experienced similar preceding property boom (Ireland, United Kingdom and United States).*
- *The inertia of wage increases continued well into the recession.*



## *Suggested reforms*

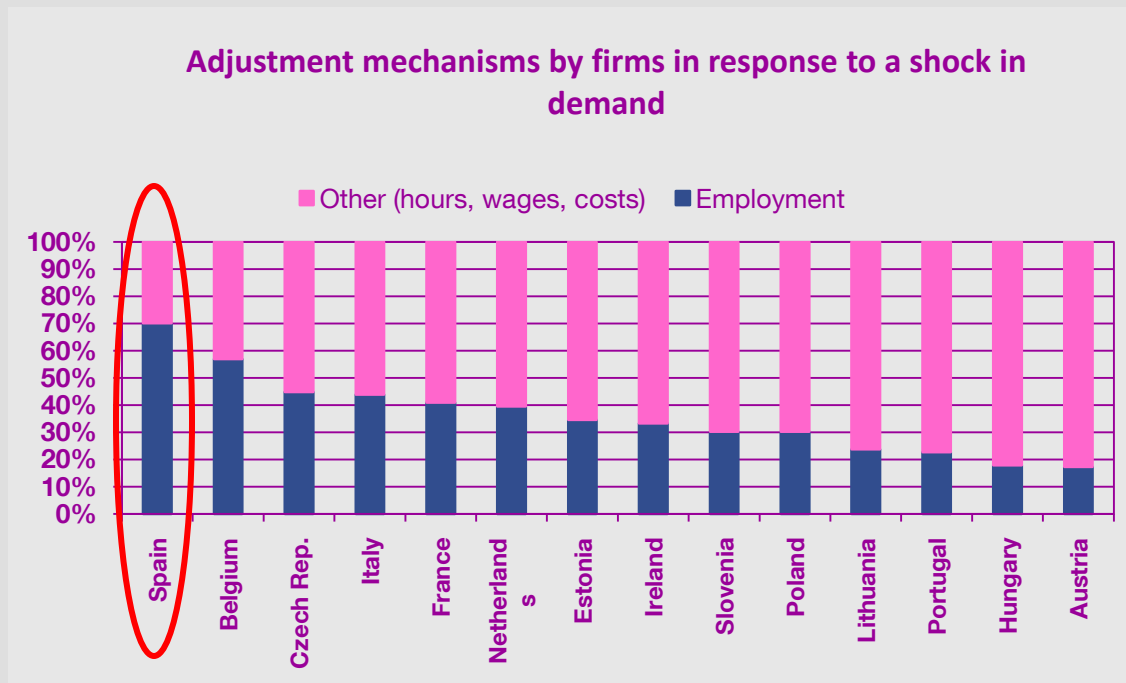


- Research Department's view of the main ingredients of labour reform:
  1. Collective bargaining system reform:
    - a) A collective bargaining system with scant adaptability to firms' different conditions
    - b) A high degree of wage indexation
  2. Increasing incentives to hire in a stable fashion to boost productivity eliminating the unfair duality of the market.
  3. Improving effectiveness with which the public employment services search for jobs for the unemployed.

## Suggested reforms: Collective bargaining system (I)



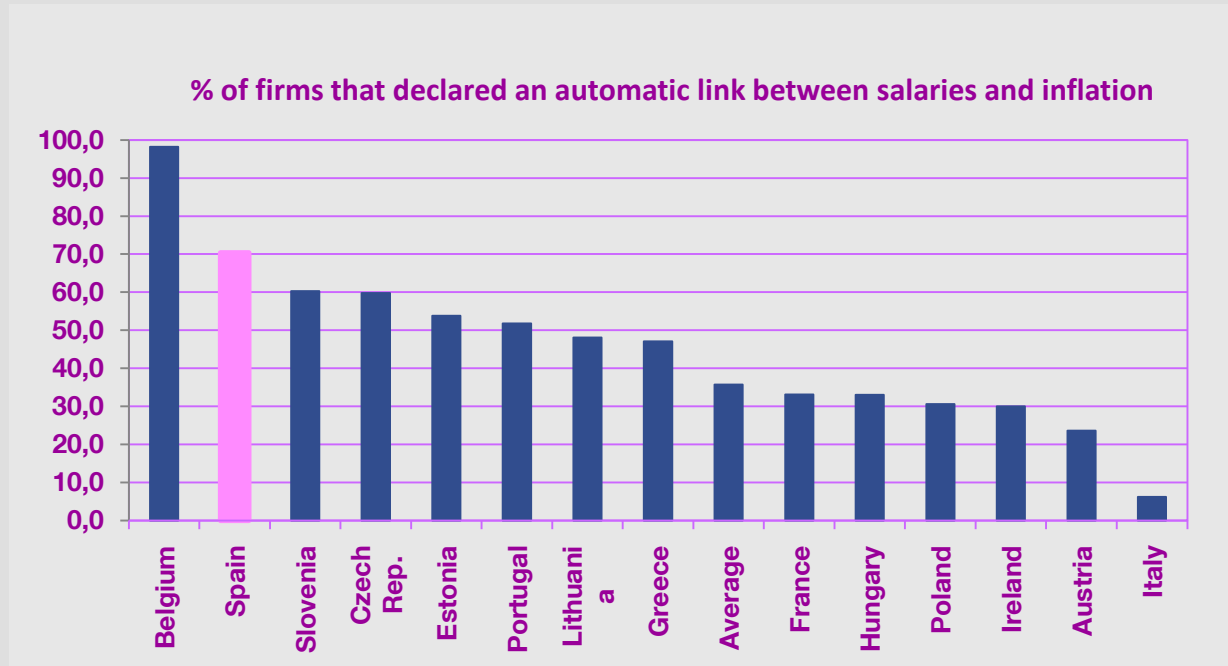
- a) Reforms to increase the flexibility of firms allowing them to adjust other margins apart from employment level.



## Suggested reforms: Collective bargaining system (II)



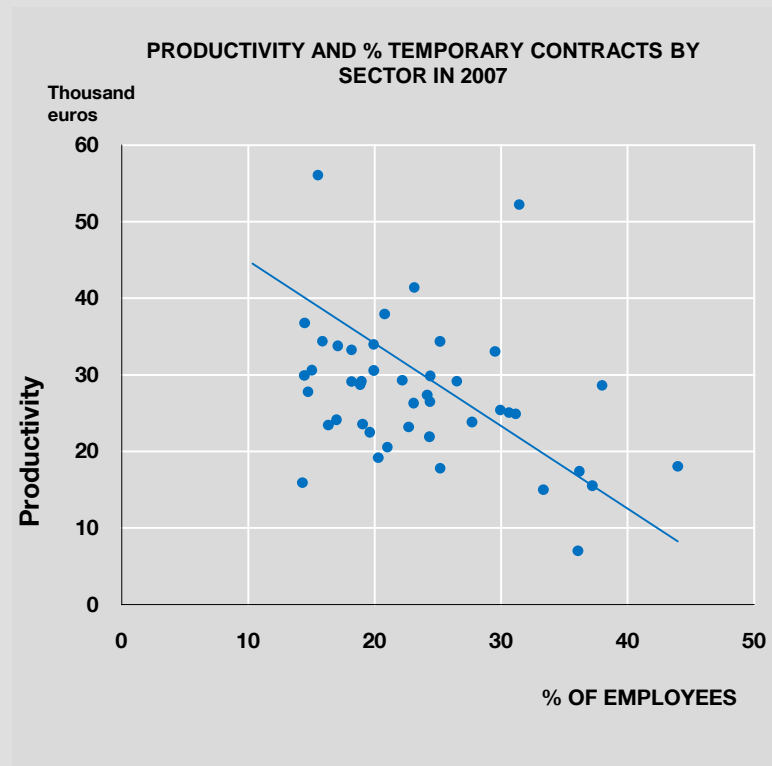
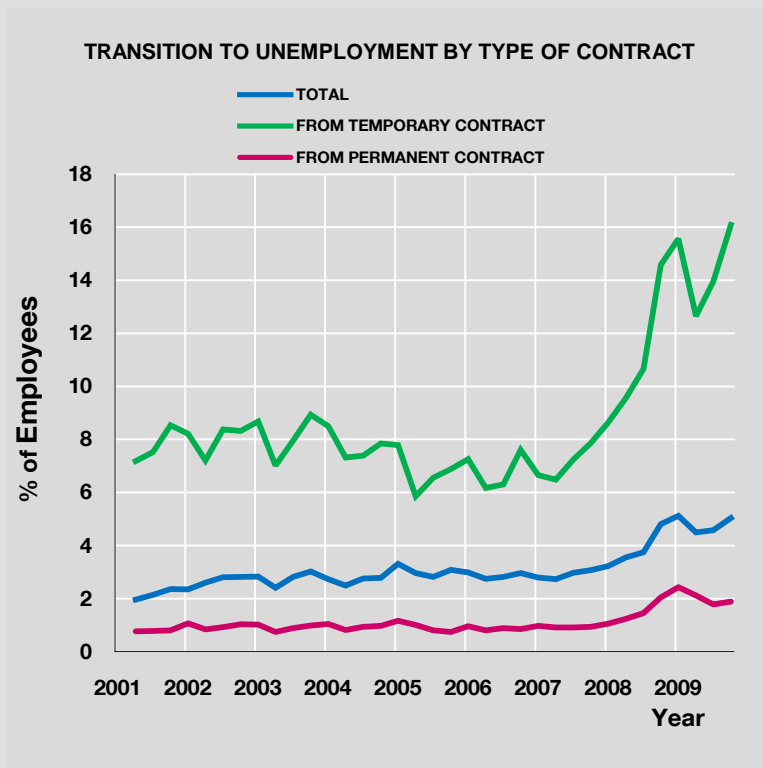
### b) Reducing the automatic indexation of wages



## Suggested reforms: Boosting stable employment



2. Increasing incentives to hire in a stable fashion to boost productivity and eliminating the unfair duality of the market.



## Conclusions



- There is the need of structural reforms to overcome institutional distortions that adversely affect the functioning of the economy.
- Any further delay is unacceptable in order to avoid the fall into a low-growth trap limiting the generation of employment.
- The reform regarding the labour market must be comprehensive and ambitious including changes in the wage bargaining system and on the type of contract legislation to overcome the unfair segmentation existing nowadays in the labour force.