



# WAGE SETTING IN SPAIN

**Juan F. Jimeno**

Research Division

## HIGH-LEVEL SEMINAR ON LABOR MARKET EXPERIENCES: TOWARDS MORE EFFICIENT LABOR MARKETS

Madrid

11 May 2010

(drawing from S. Bentolila, M. Izquierdo y J.F. Jimeno: "Negociación colectiva: La gran reforma pendiente", forthcoming)



# OUTLINE



## 1. Regulation and main characteristics of collective bargaining (CB)

1. Basic principles of the regulation
2. Union density and coverage
3. Wage rules and wage setting at work

## 2. Collective Bargaining and Macroeconomic Performance

1. Centralization → Unemployment, Inflation
2. Characteristics of collective bargaining → Wage rigidities

## 3. Collective Bargaining and Adjustment to the Crisis

1. Responses to the crisis: Differences across countries
2. Looking ahead: Reform of CB to increase productivity and restore competitiveness

## 4. Final comments [Reform of Collective Bargaining]

1. Procedures
2. Measures



### Basic principles:

- **Entitlements to bargain:** Plus to majority (“*asociaciones empresariales y organizaciones sindicales más representativas*”)
- **Law status of sectoral collective bargaining agreements:** **Automatic extension**
- **Limited possibilities of “opting-out” of the sectoral agreement** (even under quite stressful situations and under the accord of employer and workers)
- **Limited possibilities of renegotiation** (even when the agreement expires –”*ultractividad*”-)



## High coverage of collective bargaining, despite low union density...

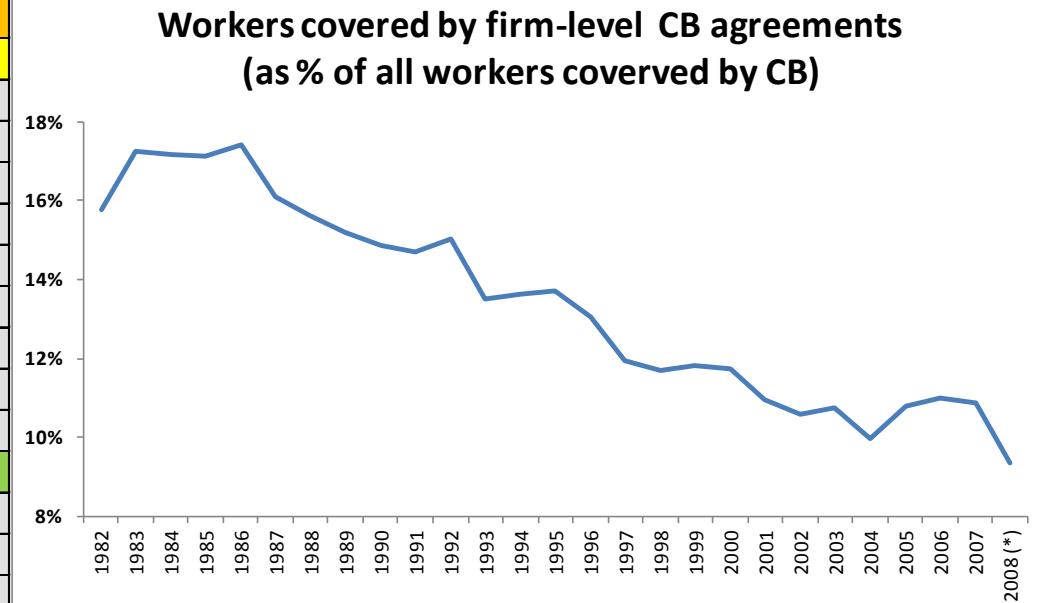
	<i>Union Density</i>		<i>Collective Bargaining Coverage</i>	
Source	WDN Questionnaire	OECD 2009	WDN Questionnaire	EIRO 2009
Reference year	2006	2007	2006	2007/8
Austria	35	31.7	98	98-99
Belgium	57	52.9	> 90	96
Denmark	82	69.1	83	83
Finland	69	70.3	> 90	90
France	<25%	7.8	97.8	90
Germany	21.7	19.9	59	61
Italy	<50%	33.3	>75%	70
Netherlands	26.8	19.8	81	84
Portugal	<50%	18.7	>75%	90
<b>Spain</b>	<b>&lt;25%</b>	<b>14.6*</b>	<b>78.5</b>	<b>60.3</b>
Sweden	>75%	70.8	>75%	91
United Kingdom	25.8	28.0	33.5	34.6
United States	12.5	11.6	13.6	na

Sources: OECD 2009: OECD Employment Outlook 2009; EIRO 2009: EIRO country information  
[\(\[http://www.eurofound.europa.eu/eiro/country\\\_index.htm\]\(http://www.eurofound.europa.eu/eiro/country\_index.htm\)\)](http://www.eurofound.europa.eu/eiro/country_index.htm)



## Predominantly at the industry-regional level...

Dominant level of bargaining		
Source	WDN Questionnaire	EIRO 2009
Reference year	2006	2007/8
Austria	ind / occ	ind
Belgium	ind	firm
Denmark	firm / ind	ind
Finland	central	ind
France	firm / ind	firm
Germany	ind / reg	firm/ind
Italy	ind	ind
Netherlands	ind	ind
Portugal	ind	ind
<b>Spain</b>	ind / reg	ind/central
Sweden	ind / occ	na
United Kingdom	firm	firm
United States	firm	na



Sources: OECD 2009; OECD Employment Outlook 2009; EIRO 2009; EIRO country information ([http://www.eurofound.europa.eu/eiro/country\\_index.htm](http://www.eurofound.europa.eu/eiro/country_index.htm))

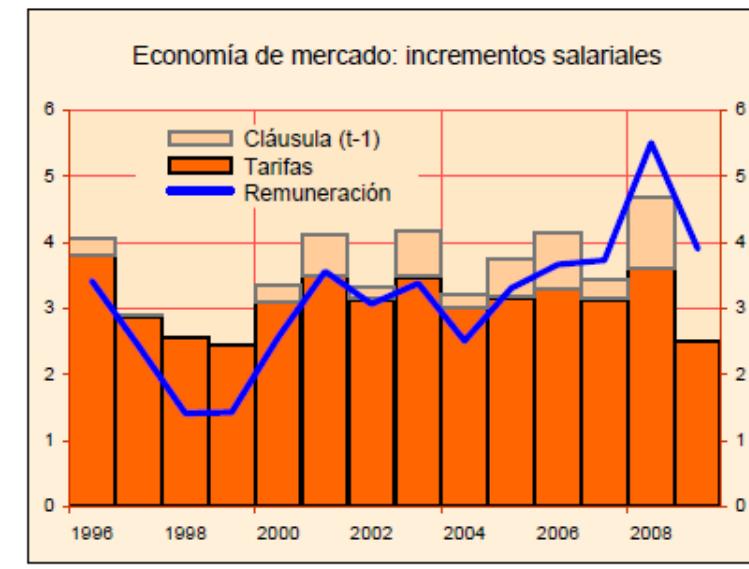
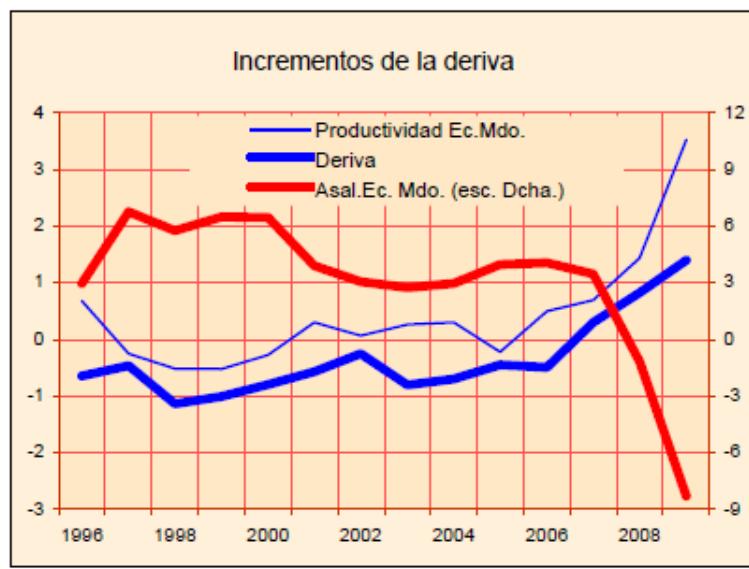
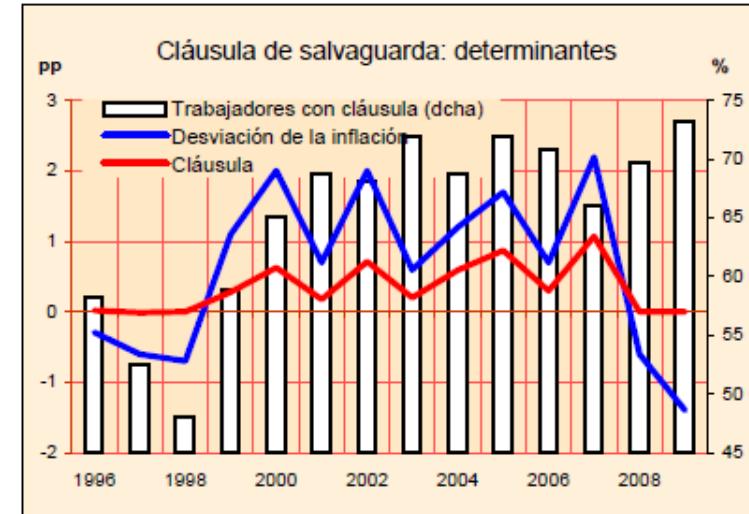
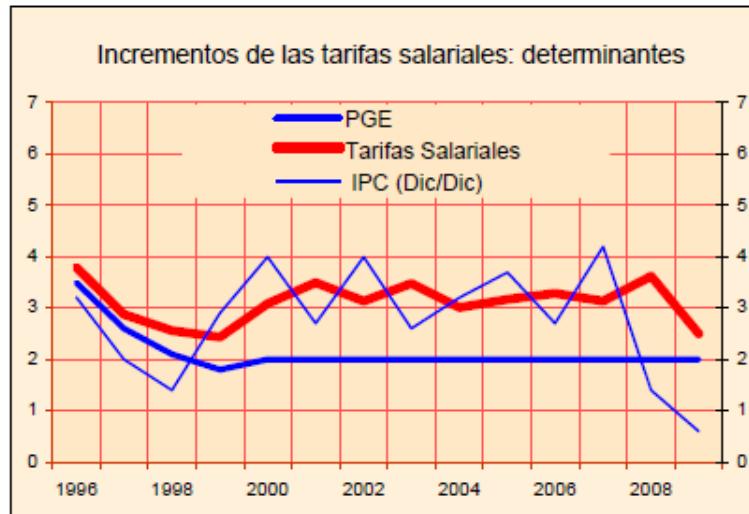


### **Wage rules:**

- UP TO 2008: Wage Increases = **2% + Productivity growth**
- (Rule for 2010-2012:    0-1%            1%-2%            1.5%-2.5%)
- High (and increasing) degree of wage indexation to positive deviations of inflation (asymmetric)
- For 2010-2012 inflation reference for indexation left open, and possibility of multi-annual indexation rules



# WAGE SETTING AT WORK





## CB AND MACROECONOMIC PERFORMANCE



- An inverted U-shaped relationship between centralization of CB and unemployment
  - New evidence on the Calmfors-Driffill hypothesis:
    - Bassanini and Duval (2006) → Intermediate levels of corporatism increase unemployment
    - OCDE (2004) → CB has differential impact on the employment rates of different population groups
- Indexation, real wages and inflation
  - A higher degree of indexation does not necessarily leads to higher real wages, but to more persistent inflation (Izquierdo and Jimeno 2009)
- CB, dual employment contracts and volatility of unemployment
  - Interactions between CB and EPL:
    - Costain, Jimeno and Thomas (2010): Dual EPL contributes to increase the cyclical volatility of unemployment, to a larger extent the higher wage rigidity is.

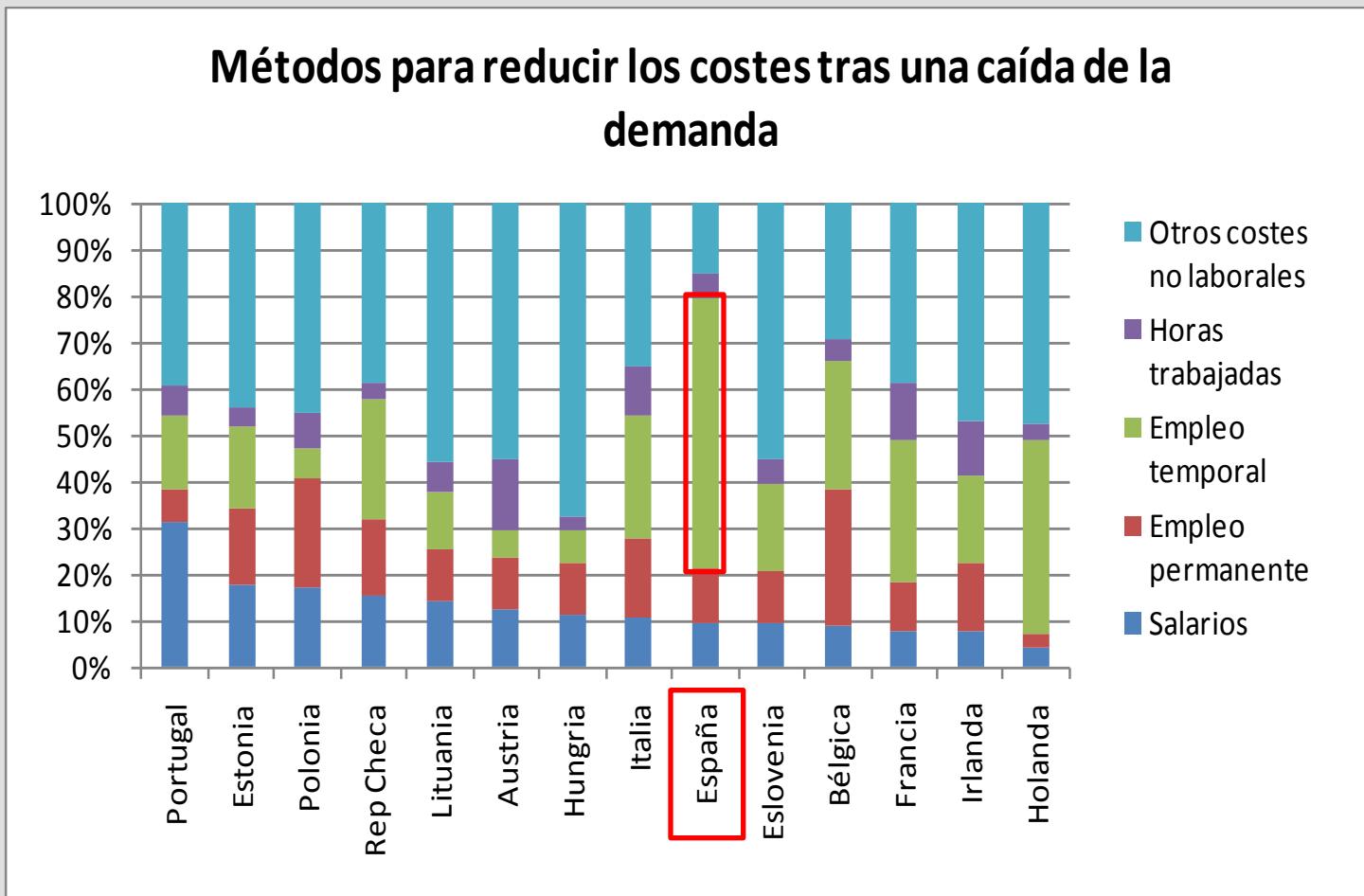


## ADJUSTMENT TO THE CRISIS



### ➤ What firms say:

- WDN survey: How would you react to a fall in demand?



Source: WDN ( [http://www.ecb.eu/home/html/researcher\\_wdn.en.html](http://www.ecb.eu/home/html/researcher_wdn.en.html) )



## ADJUSTMENT TO THE CRISIS



### ➤ What firms say:

- WDN survey: What determines wages of new hires?

**Table 4.1: Importance of External Labour Market Conditions in Hiring Pay Determination: Individual Country Evidence (% of firms in each country)**

Country <sup>a,b</sup>	% firms	Country	% firms
Austria (AT)	7.3	Italy (IT)	13.1
Belgium (BE)	14.0	Lithuania (LT)	41.6
Czech Republic (CZ)	13.0	Netherlands (NL)	12.3
Estonia (EE)	32.0	Poland (PL)	50.5
France (FR)	32.5	Portugal (PT)	23.3
Greece (GR)	26.5	Slovenia (SI)	8.3
Hungary (HU)	11.6	Spain (ES)	4.4
Ireland (IE)	26.9	Total	21.7

*Source:* Survey database

---

<sup>a</sup> Employment weighted averages.

<sup>b</sup> The coefficient of variation of the above figures is 64.2%.

**Source:** WDN

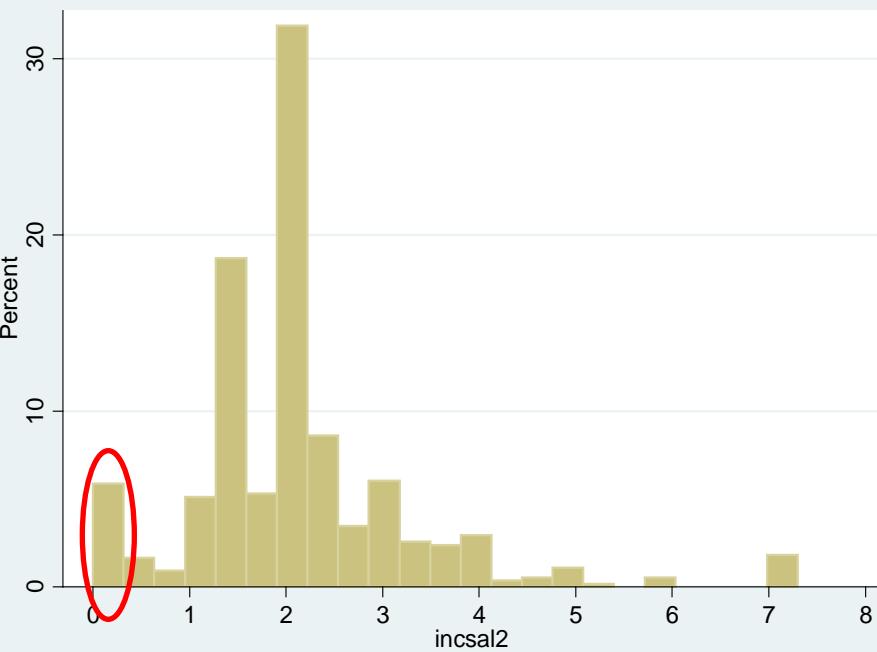


## ADJUSTMENT TO THE CRISIS

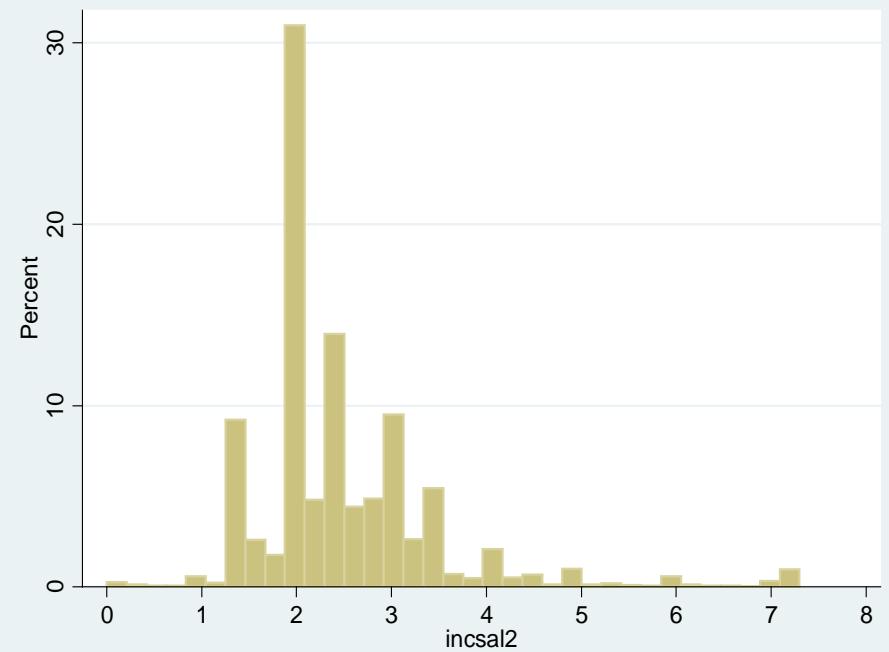


### ➤ Wages increases, 2008-2009

#### New agreements



#### Revisions

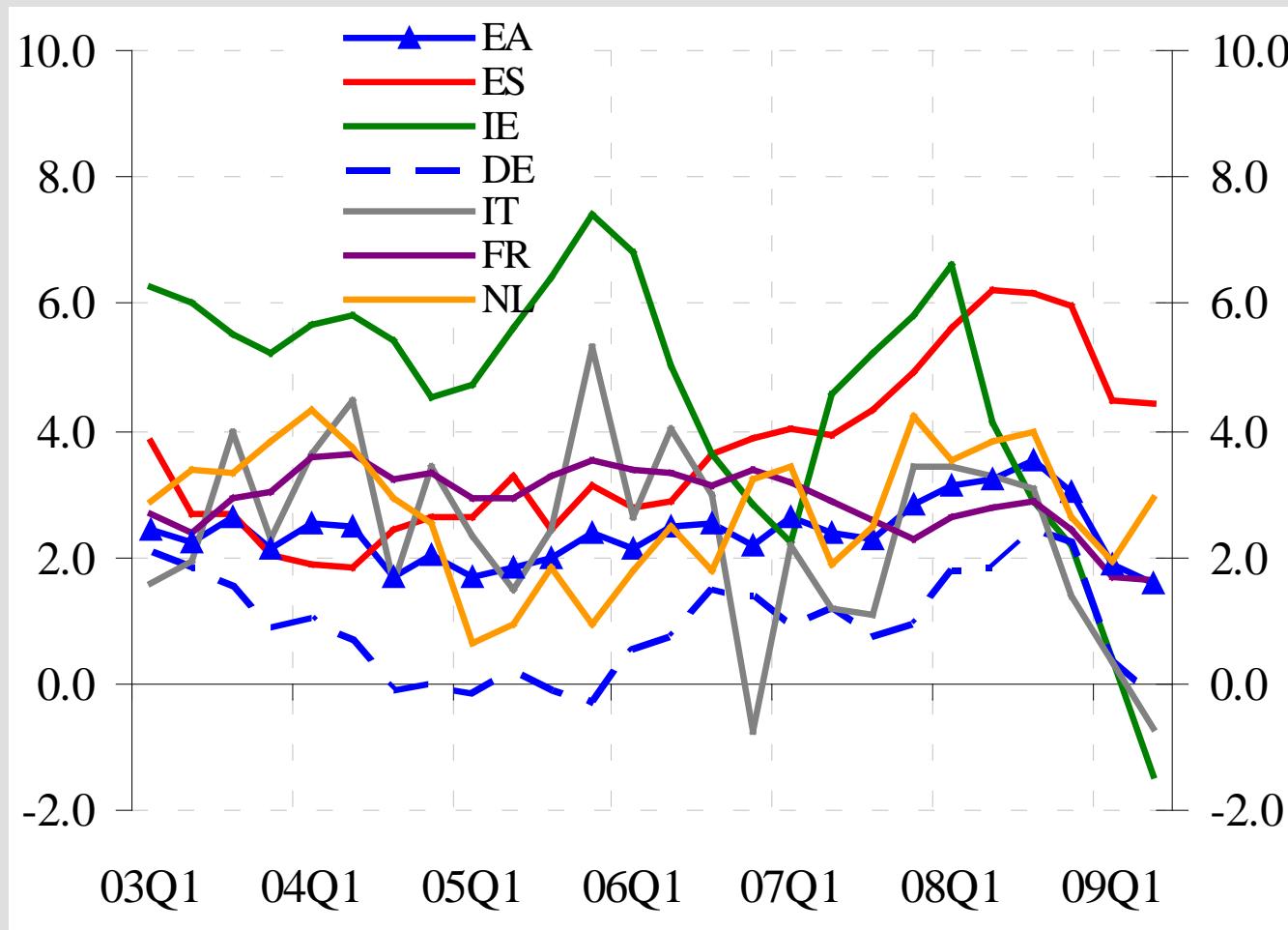




## ADJUSTMENT TO THE CRISIS



### Nominal compensation per employee (% annual growth)



Source: WDN



## ADJUSTMENT TO THE CRISIS



**Table 5.2. Incidence of wage cuts and freezes during the crisis: follow-up survey.**

	Share of firms cutting wages (%)		Share of firms freezing wages (%)			
	Original survey	follow-up survey	Original survey	follow-up survey		
		did cut		will cut		
<b>Countries</b>						
Austria	1.5	1.7	1.5	9.3	1.8	8.4
Belgium	2.9	1.0	1.8	15.9	23.7	4.4
Czech Republic	9.3	9.0	3.2	31.4	54.6	11.7
Cyprus****	3.4	1.8	2.0	15.3	20.6	5.9
Estonia	3.7	44.1	38.6	21.3	61.5	64.6
<b>Spain</b>	<b>0.1</b>	<b>2.6</b>	<b>0.5</b>	<b>1.5</b>	<b>26.7</b>	<b>3.7</b>
France	2.5	1.9	4.7	7.7	86.0	83.8
Italy	0.7	2.0	4.3	3.8	31.7	62.8
Luxembourg***	7.3	0.3	0.3	8.0	46.8	44.5
Netherlands	1.6	2.6	3.8	25.8	15.2	8.7
Poland	5.7	4.2	1.6	9.7	18.0	8.1
<b>Total</b>	<b>2.6</b>	<b>3.2</b>	<b>3.1</b>	<b>9.5</b>	<b>34.5</b>	<b>34.5</b>
<b>Euro area</b>	<b>1.3</b>	<b>2.1</b>	<b>3.3</b>	<b>7.6</b>	<b>37.1</b>	<b>43.1</b>
<b>Non-euro area</b>	<b>6.4</b>	<b>6.5</b>	<b>2.7</b>	<b>14.8</b>	<b>27.4</b>	<b>10.3</b>
<b>Sectors</b>						
Manufacturing	3.1	3.9	2.9	8.2	35.5	39.0
Construction*	4.0	5.9	3.6	13.6	13.8	9.5
Trade	1.3	2.8	2.3	7.0	26.4	26.2
Market services	2.8	2.4	4.2	12.2	42.0	39.4
Financial intermed.**	1.6	0.1	0.5	11.9	26.0	7.2

**Source: WDN**

**All  
countries**



## ADJUSTMENT TO THE CRISIS



### Cost cutting strategies during the current crisis

Base wages		Flexible wages		Perm. Empl.		Temp. Empl.		Hours		Non labour cost		
	Original survey	follow-up survey										
All firms	1.5	1.7	8.6	11.8	17.1	19.1	27.4	25.6	7.7	14.1	38.3	36
<b>Country</b>												
AT	0	0.4	10.9	15.8	11	11.2	6.5	10.1	20.4	34.2	51.2	28.2
BE	0.3	3.4	10.3	16.7	29.3	35.7	29	45.6	5.1	32.5	26	40.6
CZ	0	3.9	18.6	24.3	19	42.7	27	34.2	3.5	10.8	41.5	52.8
EE	0.5	15.7	17.3	23.9	17.2	24.4	15.7	3.3	4.9	9.1	44.5	23.6
ES	4.8	1.1	5.8	5.9	11.7	25.8	57.5	42.4	5.6	5.7	14.6	19.2
FR	0	0.1	7.5	9.9	10.9	17.1	28.4	33.9	10	12.4	43.2	26.2
IT	1	1.3	9.3	8.8	16	17.1	28.9	20.8	9.8	18.2	35	33.8
NL	0.3	1.2	3	4.6	3.2	8.4	37.7	40.1	2.1	5.8	53.7	39.9
PL	3.5	2.2	8	17	31.4	15.3	8.7	10	5.2	6.4	43.3	47

Source: WDN report

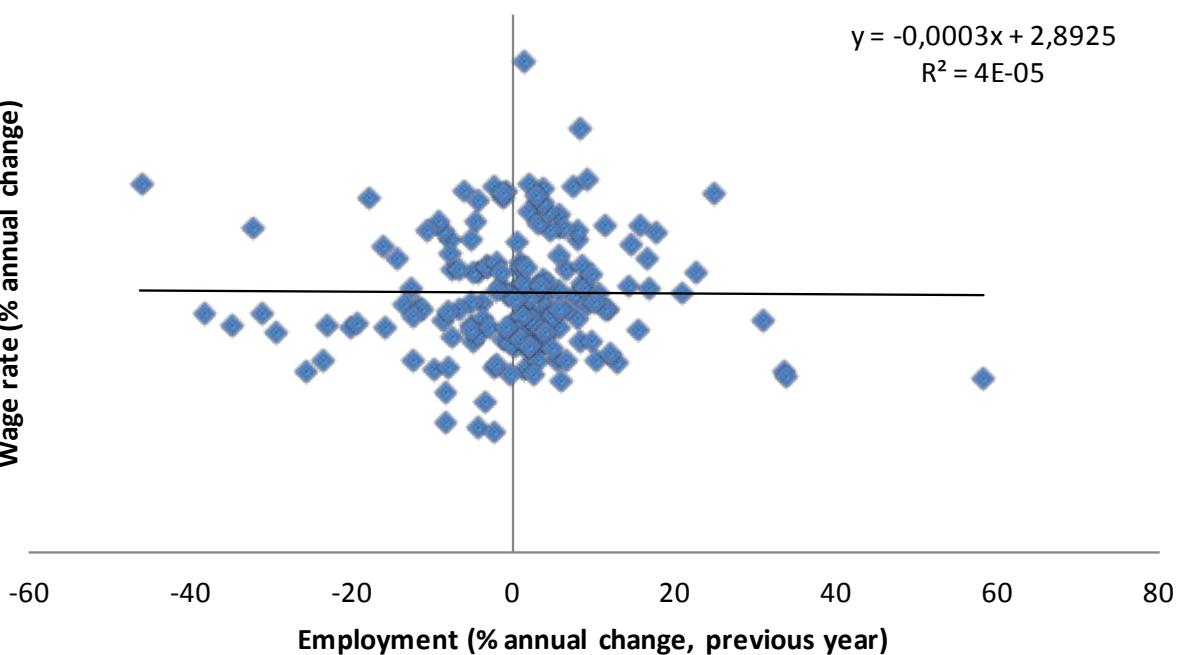


## ADJUSTMENT TO THE CRISIS



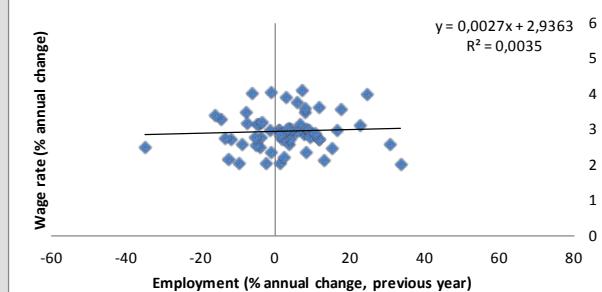
### Wage rate increases 2007-2009

Wage rate (% annual change)



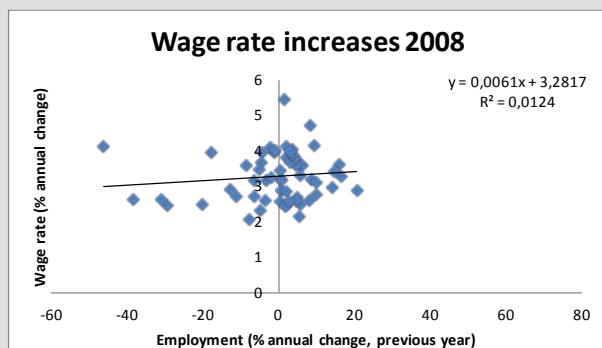
### Wage rate increases 2007

Wage rate (% annual change)



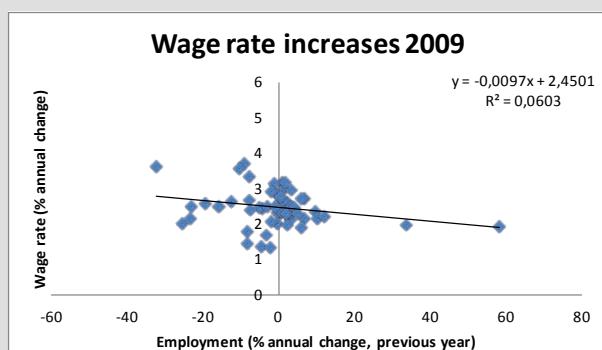
### Wage rate increases 2008

Wage rate (% annual change)



### Wage rate increases 2009

Wage rate (% annual change)



Not much sensibility of wages to sectoral conditions -(employment changes, productivity growth, ...).



## LOOKING AHEAD



- Nature of the crisis: Financial crisis on top of “latent” structural problems and disequilibria
  - Poor productivity performance, Loss of competitiveness, High indebtedness
- Demand policies cannot be “the” solution
  - “A debt problem cannot be solved with more debt”
- Supply policies to increase productivity and restore competitiveness
  - Accumulation of Human Capital, R&D, etc...
  - Labor market reforms
- Need changes in CB to
  - increase adaptability of employment conditions to current circumstances
  - favor reorganization of labor, across sectors and within firms (“internal flexibility”)
- Past experiences (1994, 1997, 2002, 2010...) show that these changes will not occur without a reform of the regulation of CB
  - Typical response to calls for reforms of CB: Nominal wage moderation
- Proposal for the reform of CB aiming at two objectives above: Bentolila/Jimeno (2002)



### ➤ Characteristics of Spanish CB

- Not conducive to low unemployment
- Makes inflation more persistent --a handicap in a monetary union
- Favors employment cuts vs. wage adjustments in responses to negative shocks
- Interacts with dual EPL to increase unemployment and its cyclical volatility

### ➤ Response to the current crisis

- Wages did not react until 2009-2010
- Main response: Cutting temporary employment (not only in the construction sector)

### ➤ Looking ahead

- Sectoral reallocation and higher competitiveness
- Easier if higher productivity growth and relative wage adjustments
- Reforms of the regulation of CB can significantly contribute to these ends



# MANY THANKS !!!

BANCO DE **ESPAÑA**  
Eurosistema

RESEARCH DIVISION