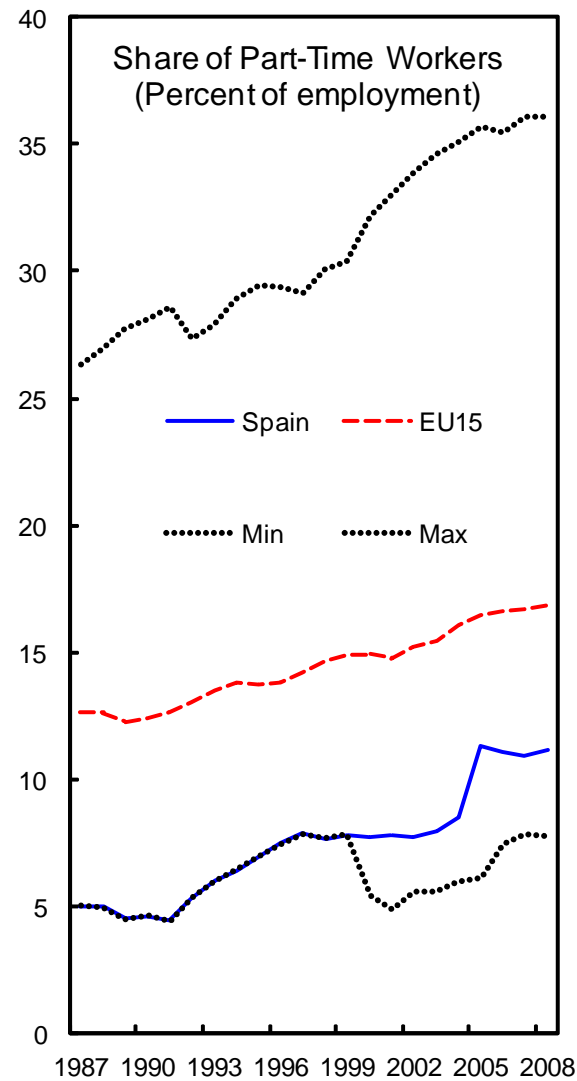
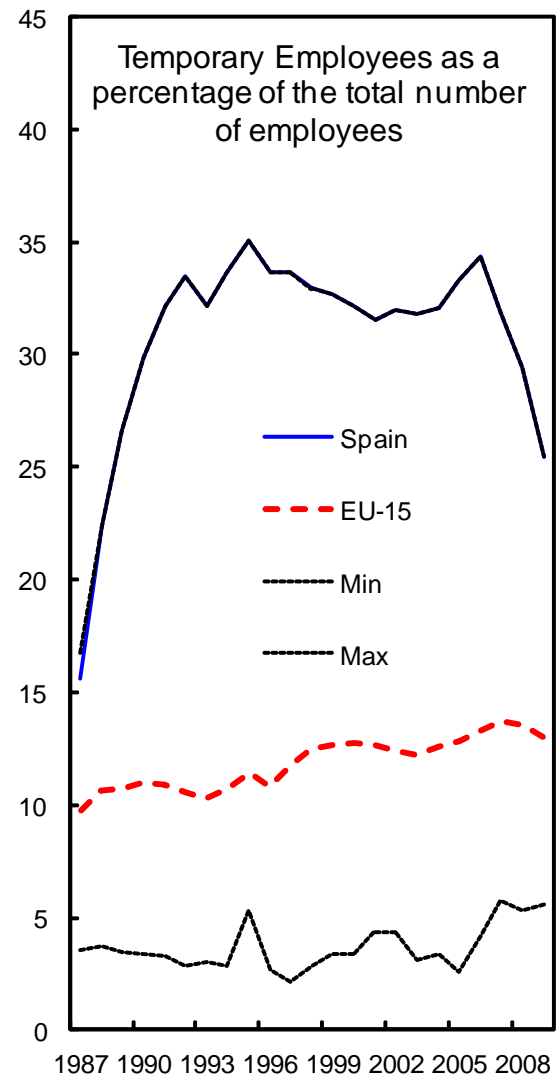
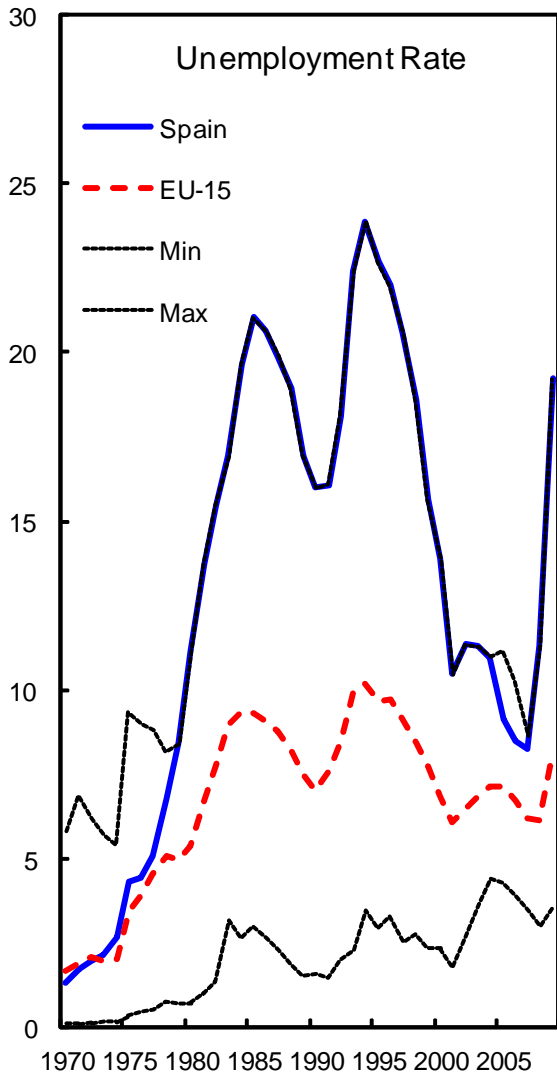


The Spanish Labor Market in a Cross-Country Perspective

Florence Jaumotte

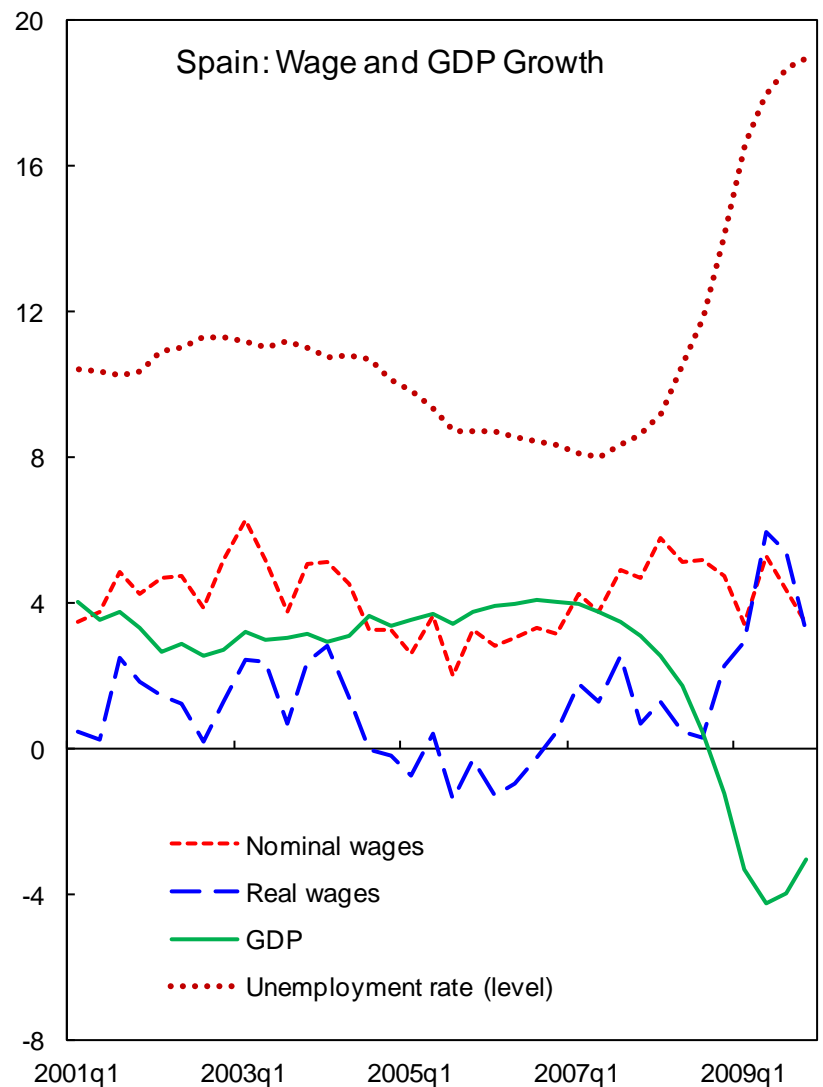
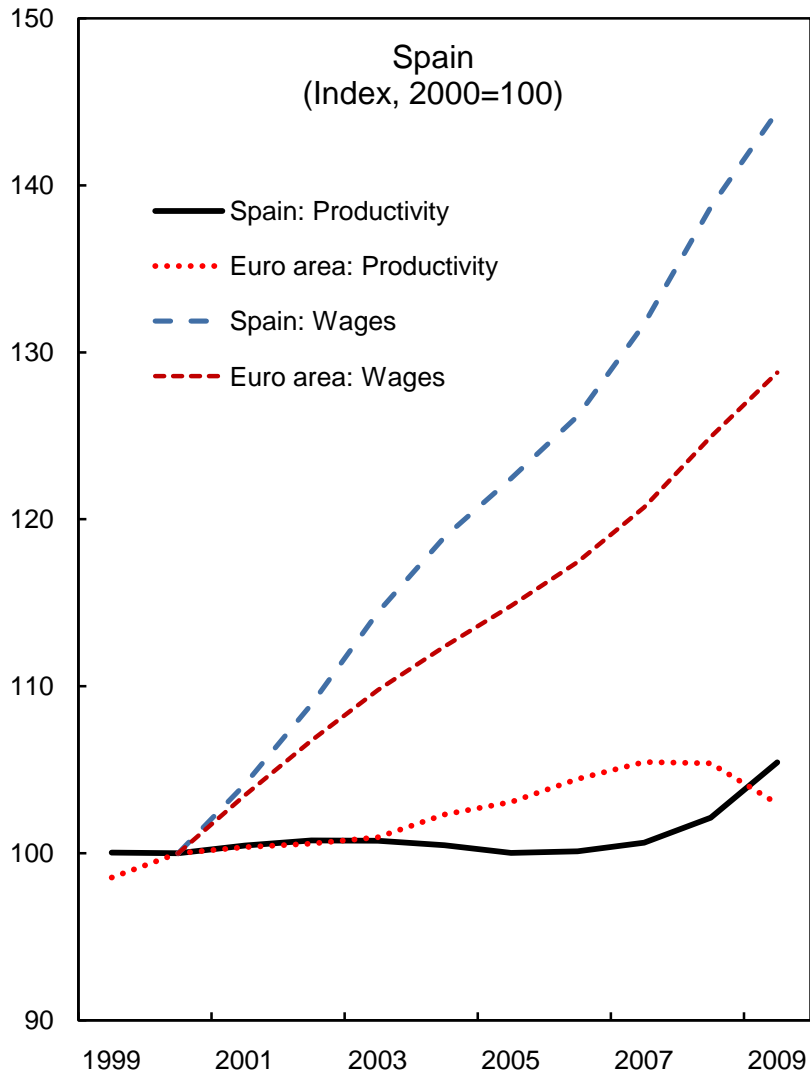
May 11, 2010

The Spanish labor market stands out along many dimensions



Sources: OECD; Eurostat; European Commission; Instituto Nacional de Estadística; WEO.

Wages have been growing fast and have not responded much to labor market conditions



Spanish labor market institutions and policies

- Intermediate level of coordination of wage bargaining (most EU15 countries have a high level of coordination); this is made worse by
 - Automatic extension of agreements despite low union density
 - Difficulty to use opt-out clauses
 - High degree of indexation to inflation
- High severance pay for permanent workers and very restrictive interpretation of fair dismissals (70% of dismissals are considered unfair)
- Other policies are more in line with EU15
 - Unemployment benefit replacement rate
 - Tax wedge
 - Product market regulation
 - Spending on active labor market policies (below EU15)

Determinants of the unemployment rate (UR)

Unemployment Rate: Regression Results, 1982-2007

	Benchmark Model All Observations
Main Regressors	
Unemployment Benefit Replacement Rate	0.025 [3.21]***
Tax Wedge	0.028 [2.13]**
Union Density	0.01 [0.94]
Employment Protection Legislation (EPL)	0.077 [0.42]
Product Market Regulation	0.097 [1.17]
Coordination of Wage Bargaining	6.355 [1.68]*
Square of Coordination of Wage Bargaining	-1.659 [1.78]*
Output Gap	-0.279 [12.74]***
Lagged Dependent Variable	0.801 [31.17]***
Joint Significance of Subcomponents of EPL (p-value)	
Number of observations	511

Source: IMF staff calculations.

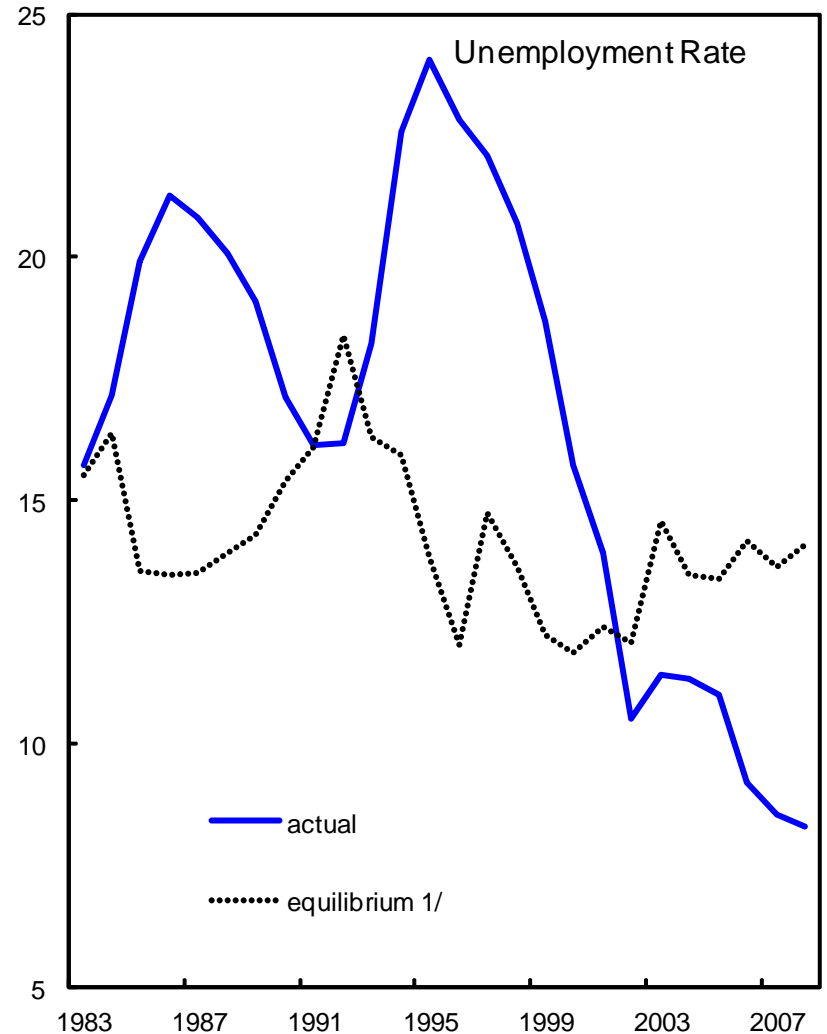
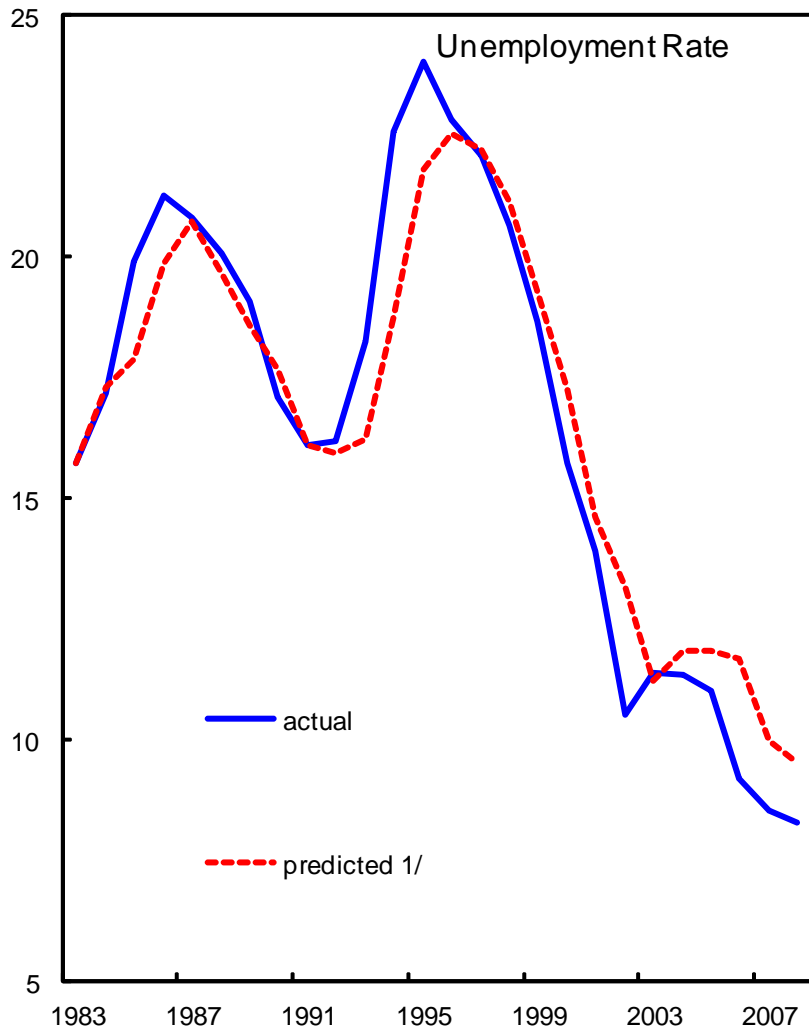
Note: * significant at 10%; ** significant at 5%; *** significant at 1%.

The UR increases with

- High unemployment benefits and tax wedge
- Intermediate coordination of bargaining (hump-shaped relationship) – *caveat: few identifying observations*
- High product market regulation (imprecisely estimated)

Note: EPL and union density have little impact

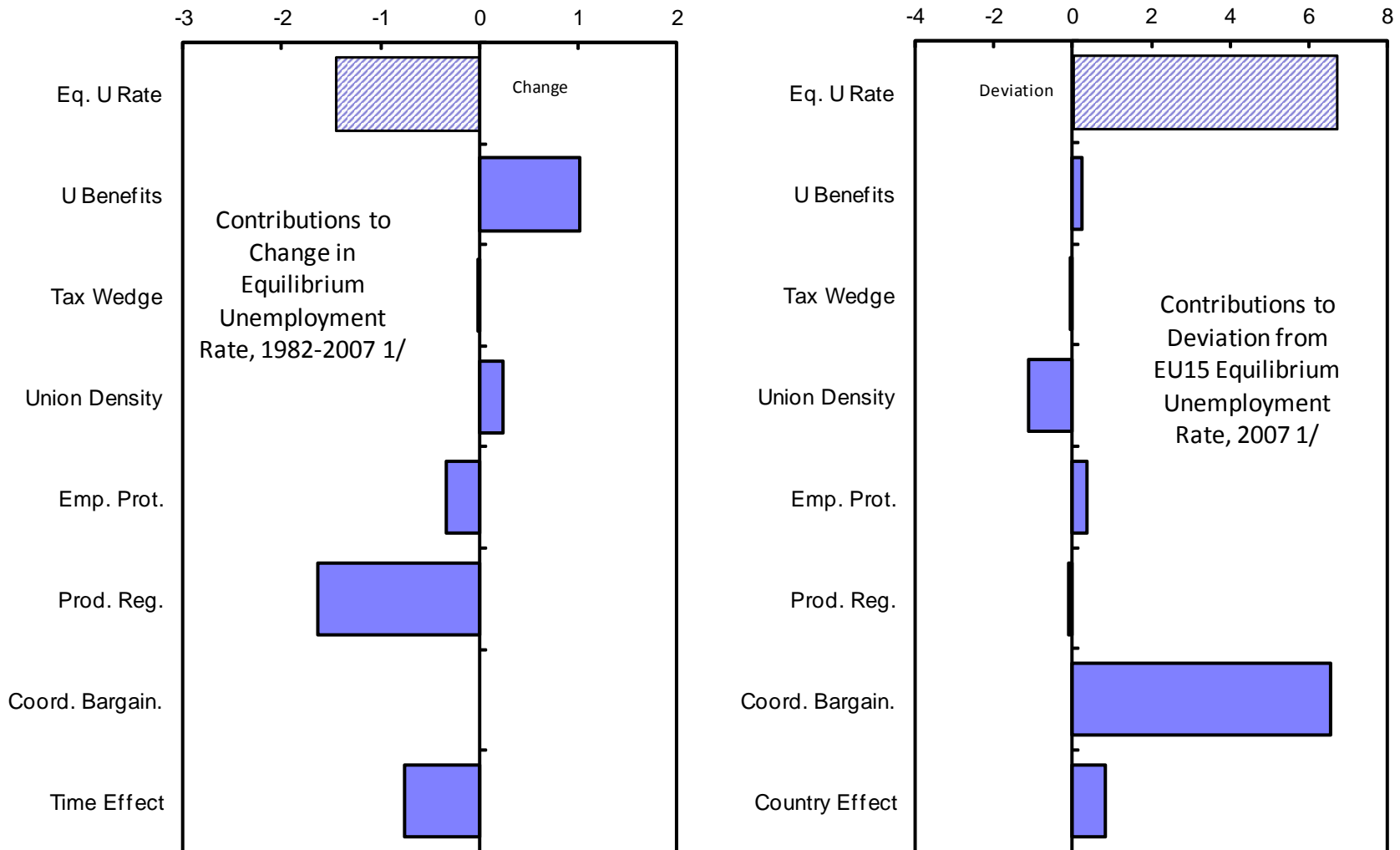
The “implied” equilibrium unemployment rate has not changed much from its high level over the last 25 years



Source: IMF staff calculations.

1/Using the benchmark regression in Table 8.

A reform of the structure of collective bargaining could have a large impact



Source: IMF staff calculations.
1/Using the benchmark regression in Table 8.

Reducing the unemployment benefit replacement rate and the tax wedge would also help reduce the unemployment rate

Table 6. Spain: Policy Simulations for the Unemployment Rate 1/
(Change in the Unemployment Rate, percent)

	Long-Run Effects		
	Average EU15	Minimum EU15	Policy Change ^{2/}
Unemployment Benefit Replacement Rate	-0.2	-3.0	-1.3
Tax Wedge	0.0	-4.4	-1.4
Union Density	1.1	-0.3	-0.5
Employment Protection Legislation	-0.3	-0.9	-0.4
Product Market Regulation	0.1	-0.3	-0.5
Coordination of Wage Bargaining	-6.5	-6.9	-9.8

Source: IMF staff calculations.

1/ Using the benchmark regression in Table 5.

2/ Policy change is defined as a 10 percentage point reduction for the unemployment benefit replacement rate, the tax wedge and union density, and a one unit reduction for employment protection legislation and product market regulation. For the coordination of wage bargaining, the alternative policy scenario considered is a complete centralization.

Other countries have reduced substantially their equilibrium UR by a mix of policy and institutional reforms

Table 7. Spain and Comparator EU15 Countries: Policy Mixes, 1982-2007
(Change in the Policy/Institution)

	Ireland	Netherlands	United Kingdom	Denmark	Spain
Unemployment Benefit Replacement Rate	7.0	-13.7	-10.9	-7.5	8.0
Tax Wedge	-23.7	1.7	-8.2	-4.9	0.0
Union Density	-30.7	-12.4	-20.7	-11.2	4.5
Employment Protection Legislation	0.2	-0.6	0.2	-0.9	-0.8
Product Market Regulation	-2.9	-3.8	-3.5	-4.4	-3.4
Coordination of Wage Bargaining	from decentralization to centralization	no change	no change	no change	no change
Change in Equilibrium Unemployment Rate	-9.0	-5.0	-6.1	-5.5	-1.5

Source: IMF staff calculations.

Determinants of the share of temporary workers

Table 8. Share of Temporary Workers: Regression Results, 1982-2007

	Model with EPR and EPT All Observations	Model with Fully Disaggregated EPL All Observations
Main Regressors		
Unemployment Benefit Replacement Rate	0.032 [1.86]*	0.046 [2.52]**
Tax Wedge	0.042 [1.69]*	0.05 [2.00]**
Union Density	-0.01 [0.40]	-0.019 [0.74]
Product Market Regulation	-0.27 [1.76]*	-0.295 [1.92]*
Square of Coordination of Wage Bargaining	-0.034 [0.63]	-0.056 [1.04]
Output Gap	-0.088 [1.64]	-0.094 [1.76]*
Lagged Dependent Variable	0.792 [19.99]***	0.777 [17.55]***
Subcomponents of EPL		
EPL Regular Contracts	1.476 [3.62]***	
Procedural Inconvenience		0.277 [1.25]
Notice and Severance Pay for Fair Dismissal		0.386 [1.54]
Difficulty of Dismissal		0.992 [3.20]***
EPL Temporary Contracts	-0.09 [0.61]	
Fixed Term Contracts		-0.141 [1.40]
Temporary Work Agency Employment		0.086 [0.87]

Source: IMF staff calculations.

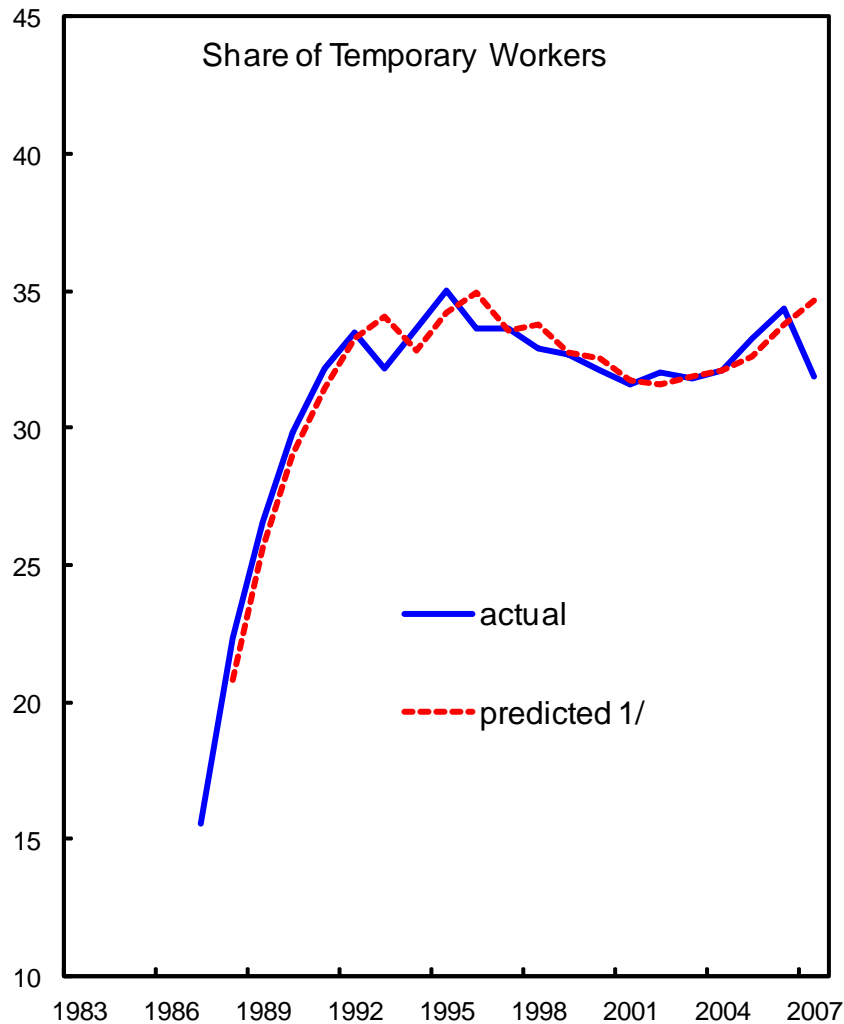
Note: * significant at 10%; ** significant at 5%; *** significant at 1%.

The share of temporary workers increases with

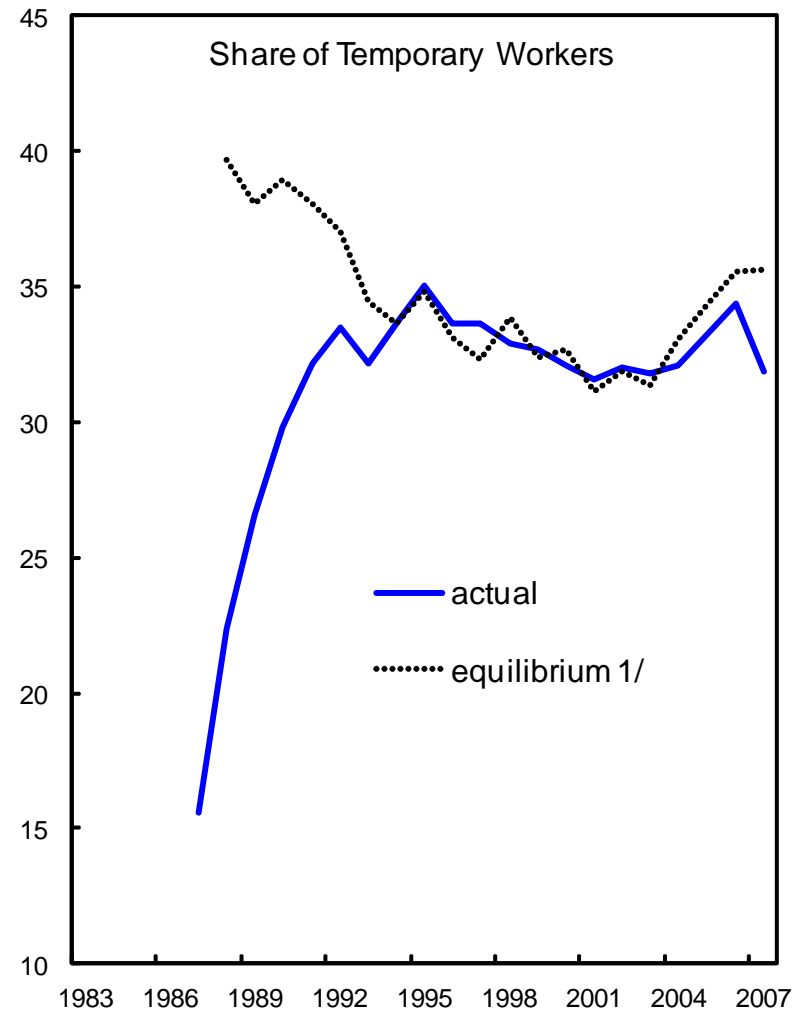
- High unemployment benefit and tax wedge
- Low product market regulation
- High employment protection of permanent workers (especially difficulty of dismissals – unfair dismissals)

Simple correlations also indicate a relation between the share of temporary workers and EPL for permanent workers

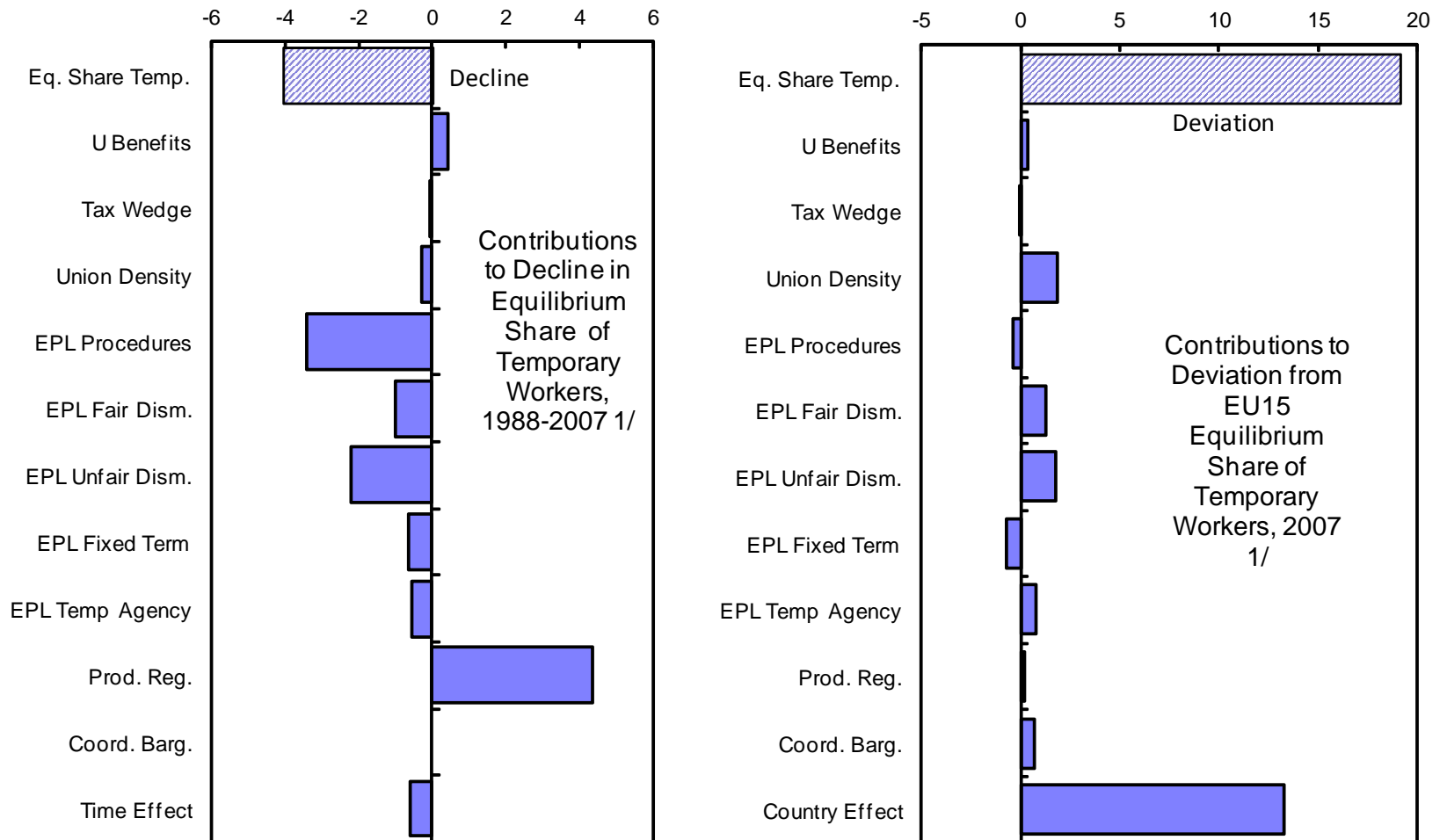
The equilibrium share of temporary workers has decreased somewhat over time, reflecting reforms



Source: IMF staff calculations.



Product market deregulation has offset to a large extent EPL reforms



Source: IMF staff calculations.

Note: 1/ Using the benchmark regression in Table 8, but estimated with the corrected measure of employment protection on permanent contracts for Spain (for additivity of decompositions).

Reducing the employment protection of permanent workers could reduce substantially the share of temporary workers

Table 9. Spain: Policy Simulations for the Share of Temporary Workers 1/
(Change in the Share, percent)

	Long-Run Effects		
	Average EU15	Minimum EU15	Policy Change ^{2/}
Unemployment Benefit Replacement Rate	-0.4	-5.0	-2.1
Tax Wedge	0.0	-6.9	-2.2
Union Density	-1.9	0.6	0.9
Product Market Regulation	-0.2	0.9	1.3
Subcomponents of EPL			
EPL Regular Contracts			
Procedural Inconvenience	0.4	-1.2	-1.2
Notice and Severance Pay for Fair Dismissal	-1.3	-3.5	-1.7
Difficulty of Dismissal	-1.8	-8.9	-4.5
EPL Temporary Contracts			
Fixed Term Contracts	0.7	1.7	0.6
Temporary Work Agency Employment	-0.8	-1.3	-0.4

Source: IMF staff calculations.

1/ Using the benchmark regression in Table 8, but estimated with the corrected employment protection for permanent workers for Spain.

2/ Policy change is defined as a 10 percentage point reduction for the unemployment benefit replacement rate, the tax wedge and union density, and a one unit reduction for employment protection legislation and product market regulation.

There does not seem to be a trade-off between reducing the UR and reducing the share of temporary workers. Increasing part-time work could help reduce the unemployment rate.

Conclusions

- Reforming labor market institutions and policies can have substantial effects on the UR and the share of temporary workers
- To reduce the UR, policy options include:
 - Moving away from intermediate coordination in collective bargaining
 - Combination of reducing unemployment benefits, reducing the tax wedge and further product market deregulation
- To reduce the share of temporary workers, policy options include
 - Reducing the employment protection for permanent workers
 - Combination of reducing unemployment benefits and the tax wedge
- There does not seem to be a trade-off between reducing the UR and reducing the share of temporary workers
 - Exception: product market deregulation, which increases the share of temporary workers. Hence it needs to be accompanied by offsetting measures.
- Simple correlations suggest that increasing part-time work could help reduce the unemployment rate.