Rafael A. López Parada| *Senior Judge at the Social Affairs Chamber of the High Court of Justice of Castille and Leon-* | *Berlin, 21st june 2013*

Labour market and Social Security reforms in Spain

Point of Departure

Labour and Social Security laws from the Franco era:

- Free Trade Unions were banned and the protection for workers was provided by the State (Administration and Courts);
- Overregulated labour market and intensive intervention of the Labour Administration
- Weak wages, but contracts engaged for an indefinite duration
- Weak Social Security protection.

Democratic period until the euro (1)

- Free Trade Unions and collective bargaining were allowed, but:

  - Collective agreements were mainly focused on wages and work time, and therefore regulation of labour market is made mainly by laws from the State;

  -Intervention of Administration was gradually reduced because the handling of the conflicts has been transferred to the Courts, not to the unions and employers associations.

Democratic period until the euro (2)

- Increasing wages and better conditions of work for permanent workers in companies and in administration;
- Middle class living standards improved dramatically.
- Increased Social Security protection, but still below french or german standards.

Democratic period until the euro (3)

- But there is a dark side:

  - A good part of the industry was closed in order to comply with EU competition law (end of public subsidies);

  - State companies became private ones.

  -To deal with the resulting high rate of unemployment temporary work and outsourcing were encouraged: a third of the workers are hired through temporary contracts with lower wages and poor labour conditions.

Spanish model of growth

- A significant part of spanish economy specializes in building, services, outsourcing and tourism;
- This kind of economy requires mainly temporary workers with low training requirements;
- This kind of economy produces big profits, invested in financial or real estate markets;
- At the same time, increasing public investment in schools and universities produced a big number of specialised workers that are employed in jobs under their degree of qualification or in the Public Administration.

It must be stressed that this model of growth was reinforced by almost every labour market reform during twenty years (eighties and nineties), which were aimed at facilitating the recruitment of temporary low-qualification workers, easy to fire, and outsourcing.

Spanish labour market paradox at the end of twentieth century

- Labour market reforms promoted temporary jobs with low wages;
- How then could be sustained the market demand to fuel the economy?
- The solution was the EURO.

Spanish labour market under the euro (1)

- The introduction of the euro in Spain anchored our currency to the German Mark, with very low interest rates, well beyond the historical series under the Peseta.
- Low interest rates fueled consumption and investment, financed by taking on loans from the banks, which lent the money that they got from foreign banks and investors.
- Low interest rates were set very low by ECB because of economic woes in the core area of the euro, but they were much lower than needed by spanish economy.

Spanish labour market under the euro (2)

- Spanish economy stuck to its historical trends: services, building, tourism.
- Cheap money produced a big real estate bubble, an enormous private debt (consumers as well as banks) and stimulated the growth of public administration because of the easy collecting of taxes.
- Unemployment almost disappeared and inmigrant workers were needed to support the growth.
- Wages and prices increased and competitiveness sank.

Spanish labour market under the euro (3)

- Almost nobody questioned the sustainability of that economic model, but it was a big mistake, because Spain lost a window of opportunity to change its economic model based in low-trained jobs for a new one based in technology and research;
- During the year 2008 financial markets crashed and no "soft landing" took place: the amount of debt of spanish citizens and banks became unpayable in a lot of cases; economy sank, unemployment soared and public incomes were dramatically reduced.

After the crash (1)

- Since 2010 spanish policy changed and this change was sharper after the right wing popular party won the elections at the end of 2011.
- Now reform laws are not passed by the Parliament, but mostly by the Governement itself in a non transparent manner (Parliament votes their confirmation afterwards)
- Constitutional and legal requirements are often neglected and this puts a big pressure on the Constitutional Court and on the other courts and judges

After the crash (2)

- The main measures under this new policy are:

  -Dramatic reduction of public spending, sepecifically social spending (health, education, social security);

  -Mass layoffs of public workers, especially in regional and local administrations (including those workers in outsourced public services);

  -Social security reforms passed to reduce benefits, including retirement and unemployment subsidies;

  -Labour market reforms.

  But, at the same time, the State and spanish Central Bank took on big loans from EU and ECB to bail out the banks.

Labour market reforms

The main measures are aimed at:

- -Reducing wages to increase competitiveness;
- -Making easier and cheaper the dismissal of workers.

By:

- Limiting the duration of collective agreements, prioritizing collective agreements within the company and allowing companies to opt out from the collective agreement;
- Reducing compensations for unjustified dismissal and limiting the cases of unjustified dismissal

Results

- Oblivion of constitutional rights;
- Reduction of the welfare state;
- Increase of unequality;
- Increase of poverty;
- Poor quality democracy;
- Increase of the power of the employer;
- Crisis of the democratic institutions, including political parties and trade unions.

And the paradox is that procyclic measures are increasing the economic problems instead of solving them

Thank you for your attention