Trade Union
Advisory Committee
to the OECD
Commission syndicale consultative auprès de l'OCDE

Reaction to the OECD Economic Survey of Spain 2021

Paris, 2 July 2021

On 27 May 2021, the OECD published the Economic Survey of Spain, which is a country-specific economic assessment conducted every two years, evaluating the state of the economy and recommending most urgent structural reforms for boosting growth. Therein, the OECD also suggests and assesses labour market policies and reforms.

Key findings

- The pandemic caused an unprecedented economic recession, marking an economic contraction in 2020 close to 11% of the Spanish GDP. The government intervened early in the crisis with support measures up to 20% of GDP, including short-time work schemes, temporary dismissal bans and loan guarantees to private companies. These measures were agreed through social dialogue.
- Amid prolonged uncertainty, the OECD recommends maintaining fiscal support as long as required to navigate the crisis and making it more targeted, albeit it warns with respect to the high level of public debt (117% of GDP) and the need to plan carefully expenditure consolidation as soon as conditions allow.
- On the labour market, unemployment reached 15.5% in 2020 from 14.1% in 2019, and is expected to fall gradually starting in 2022 only. Young, low-skilled, and temporary workers are the most affected. The OECD suggests tackling labour market duality issues, circumstantiating the use of temporary contracts (trainings/seasonal jobs) and providing incentives to hire vulnerable workers. Other measures include active labour market policies and training opportunities to relocate redundant workers.
- These policy prescriptions are very limited and do not discuss the need to review past structural reforms, including those that have weakened collective bargaining and employment protection, with detrimental effects on the wage bill, which in turn hampered domestic demand and increased income inequality.
- On collective bargaining, the OECD supports prioritising firm-level agreements over regional/sectoral agreements, for their increased wage adaptability. This does not take into account that sector agreements can very much adapt to economic realities and that they are best placed to set wage floors that can afterwards be adjusted at firm level, particularly taking into account the high level of SMEs and micro-companies in Spain.
- In highlighting increased inequality and in-work poverty, the Survey does not take into consideration recent OECD findings that point to the positive role of coordinated collective bargaining in increasing employment and job quality, while reducing unemployment and income inequality, including wage dispersion.

- The Survey highlights the correlation between non-standard forms of work (i.e. temporary contracts, part-time workers and self-employed) and higher in-work poverty compared to permanent workers. One out of four self-employed workers in Spain are such out of necessity, which is a higher share than the OECD average. The share of temporary contracts, at 27% of all employment contracts, is twice the OECD average and particularly frequent among young and low-skilled workers, as well as in sectors highly impacted by the crisis (tourism and hospitality), with very few chances of upgrading to a permanent contract. Yet, the OECD seems to suggest that temporary contracts are key to build the recovery in Spain. Rather than re-launching the Spanish economy, this position highlights a lack of vision for a recovery built on other than precarious jobs and the exploitation of workers.
- As far as a minimum wage is concerned, the Survey highlights that the Spanish government increased it in 2019 by 22%, and again by 5.6% in 2020. The OECD is concerned that too sudden rises in the level of the minimum wage might negatively affect employment, particularly for young and low-skilled workers. This does not necessarily take into account the positive impact of increased wages on aggregate demand.

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Macroeconomic assessment

The 2021 OECD Survey of the Spanish economy analyses the impact of the COVID-19 crisis on the country and provides a series of recommendations for reforming the economy and building the recovery.

According to the Survey, the pandemic caused an unprecedented economic recession, marking an economic contraction in 2020 close to 11% of the Spanish GDP. Driving factors in the downturn were the relevance of services in the economy (tourism), which were most severely affected by containment measures and international travel bans, but also the high share of SMEs and temporary labour contracts.

The government intervened in a timely manner with support measures up to 20% of GDP, containing the negative impact of the crisis through the widespread use short-time work schemes (1 in 4 Spanish workers benefited from such measure), temporary dismissal ban and loan guarantees to private companies. It is worth noting that such measures were agreed between the government, trade unions and business associations through social dialogue.

The OECD expects the recovery to pick up in the second half of 2021, but forecasts remain highly uncertain, depending on the smooth unrolling of the vaccination campaign and risks of widespread insolvencies once emergency measures are lifted. Therefore, the OECD recommends maintaining fiscal support as long as required to navigate the crisis and make it more targeted, albeit it warns with respect to the high level of public debt (117% of GDP) and the need to plan carefully expenditure consolidation as soon as conditions allow. The report recommends that a "multi-year path for fiscal consolidation strategy" is warranted – without clearly specifying whether such consolidation should take the form of full-fledged cut to expenditure and tax raise (a.k.a. austerity), or leave enough space for investment plans in infrastructure, viable firms and quality jobs. Furthermore, fiscal sustainability considerations should also take into account the potential expansionary impact of the European Recovery funds in boosting productivity and hence GDP growth.

The Survey highlights pensions as a long-term challenge, in light of the expected doubling of the old-age dependency ratio by 2050, raising the issue of fiscal sustainability.

Finally, a thematic chapter is dedicated to digitalisation as a key driver to boost Spanish productivity, providing a number of recommendations for increasing digital diffusion and skills.

The labour market

Unemployment, which was already sustained before COVID-19 (14.1% in 2019), reached 15.5% in 2020 and is expected to fall gradually starting in 2022 only. The Survey highlights structural issues on the labour market that fuel high levels of income inequality in Spain, with particularly vulnerable categories including young, low-skilled, and temporary workers. As acknowledged in in the document, "the widespread use of temporary contracts increases inequality and in-work poverty" (p. 11). To this end, the OECD suggests to tackle labour market duality issues, circumstantiate the use of temporary contracts (trainings/seasonal jobs) and provide incentives to hire vulnerable workers. Other measures indicated by the OECD to improve labour market outcomes include active labour market policies and training opportunities to relocate redundant workers.

These policy prescriptions are very limited and do not discuss the need to review past structural reforms, including those that have weakened collective bargaining and employment protection, with detrimental effects on the wage bill, which in turn hampered domestic demand and increased income inequality.

On collective bargaining and wage adaptability

While claiming, on the one hand, the negative impact of temporary contracts on inequality and in-work poverty, the Survey highlights, on the other hand, that "increased labour market flexibility has played a role in promoting the job-rich economic recovery before the pandemic" (p. 42). This might be true in terms of job quantity – disregarding Spain's high unemployment numbers before the crisis – but it certainly does not acknowledge drops in job quality, the growth in precarious work and under-employment, nor the detrimental impact on functional income distribution (between profits and wages).

The OECD also endorses the introduction of the priority of firm-level agreements over regional/sectoral agreements, which have increased wage adaptability. They do not consider that sector agreements can very much adapt to economic realities – with bargaining rounds being set out during the crisis– and that they are best placed to set wage floors that can afterwards be adjusted at firm level, particularly taking into account the high level of SMEs and micro-companies in Spain. Hence, the OECD sounds quite sceptical about recent declarations by the Spanish government that it intends to prioritise sectoral collective agreements over firm-level agreements. On the contrary, it is the OECD's opinion that "mechanisms to ensure firm-level flexibility should be maintained, as firms will need to be adaptable to very different economic conditions following the pandemic" (p. 43). This overlooks the fact that special schemes for many workers outside of permanent contracts had to be created to support their incomes and livelihoods, as well as the outsourcing and subcontracting of labour that often is a result of weakened collective bargaining.

This stance seems to be in direct conflict with previous observations about increased inequality and the risks posed by higher in-work poverty. In doing so, the Survey does not take into consideration recent OECD findings that point to the positive role of coordinated collective bargaining in increasing employment and job quality, while reducing unemployment and income inequality, including wage dispersion (OECD, 2019, "Negotiating Our Way Up"). This is even more striking as the revised OECD Jobs Strategy from 2018 arrives at the same conclusion and is supposed to guide economic assessments of countries by the OECD.

The position of the OECD is also quite concerning with respect to non-standard employment. The Survey exposes the correlation between non-standard forms of work (i.e. temporary contracts, part-time workers and self-employed) and higher in-work poverty compared to permanent workers. One out of four self-employed workers in Spain are such out of necessity, which is a higher share than the OECD average. The share of temporary contracts, at 27% of all employment contracts, is twice the OECD average and particularly frequent among young and low-skilled workers, as well as in sectors highly impacted by the crisis (tourism and hospitality), with very few chances of upgrading to a permanent contract. The public sector is also concerned by this trend, because of the introduction of non-standard forms of contract in the public administration, called "interim" contracts, intended for technical figures but often misused and limits the efficiency of public services. The regularisation of most of these interim workers would improve job stability and efficiency of public services. This limits the efficiency of public services. Yet, the report portrays non-standard forms of work as beneficial to both firms and workers, being a stepping-stone to standard employment. While this might be partially true for part-time workers, it is doubtful for the other categories – that do not include false self-employment, which is an omission.

Given this context, it is quite troubling that the OECD still believes that temporary contracts are the best way to build the recovery in Spain, suggesting that "while a reform to address the long-standing problem of labour market duality is needed to improve resilience to future crises, it should wait until the recovery is firmly under way" (p. 44). Rather than re-launching the Spanish economy, this position highlights a lack of vision for a recovery built on other than precarious jobs and the exploitation of workers. On a positive note, the OECD suggest to limit the application of temporary contracts for trainings and seasonal jobs, in order to reduce their widespread misuse.

As far as a minimum wage is concerned, the Survey highlights that the Spanish government increased it in 2019 by 22%, and again by 5.6% in 2020. The OECD is concerned that too sudden rises in the level of the minimum wage might negatively affect employment, particularly for young and low-skilled workers, and suggests the establishment of an independent commission to assess the correct level of the minimum wage. Still, such concerns might be premature, considering that even when accounting for recent increases, the Spanish minimum wage rests at 50% of the median wage, which is below the OECD average (55%). Moreover, they do not take into account the positive impact of increased wages on aggregate demand, due to higher consumption propensity of individuals at the bottom of the income distribution, leading to a positive cycle of investment and employment growth in time.

Finally, the Spanish government did establish a commission that includes independent experts, which presented a final report on 18 June 2021.[1] This report proposes to increase the Minimum Inter-professional Wage in a range between 6.4% and 10.4% from here until 2023, based on three potential growth scenarios. The report also clarifies that this is a decision that is to be taken by the Government through social dialogue.

[1] A summary of the report conclusions is available at the following address: https://www.lamoncloa.gob.es/serviciosdeprensa/notasprensa/trabajo14/Documents/2021/80621-%20Resumen_ejecutivo_comision_smi.pdf.