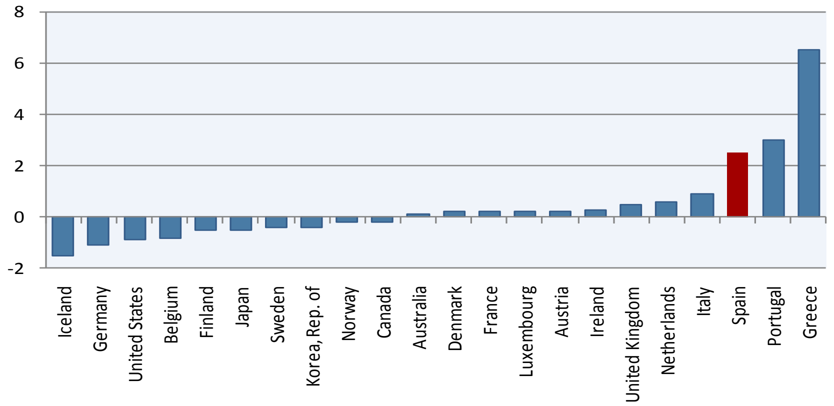
World of Work 2012
Snapshot of Spain

International Institute for Labour Studies

Spain's unemployment has continued to increase…

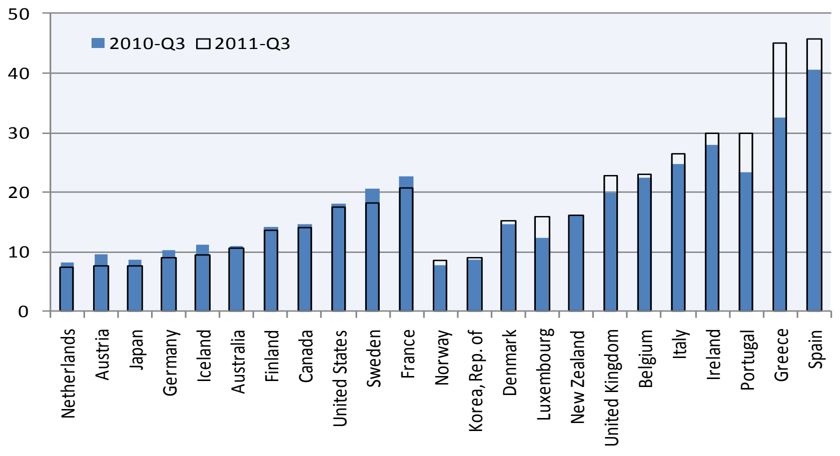
- The impact of the global crisis on the labour market in Spain has been much stronger than in most other EU countries. In the fourth quarter of 2011, the unemployment rate stood at 22.8 per cent, which is 2.5 percentage points more than one year ago and over 14 percentage points more than in 2007 (figure 1).
- Unemployment has been particularly widespread among vulnerable groups, especially youth and long-term unemployed. The youth unemployment rate escalated to 48.6 per cent in the fourth quarter of 2011, increasing by 30 percentage points since 2007 (figure 2). And more than 43 per cent of the unemployed have been without work for over one year –a very high figure by international comparison.
- Spain continues to have the highest proportion of temporary employment in Europe (25.4 per cent), despite huge losses of temporary jobs during the crisis. Furthermore, more than 90 per cent of temporary employment in Spain is involuntary.
- The social impact of the current economic crisis has been multi-fold as rising unemployment and falling incomes further worsens inequality. As consequence, the crisis has led to an increase in the Gini index by 2.6 percentage points between 2007 and 2010.

Figure 1. Change in unemployment rate between Q4 2010 and Q4 2011 (percentage points)



Source: IILS calculations based upon Eurostat.

Figure 2. Youth unemployment rate (15-24) in Q3 2010 and Q3 2011



Source: IILS calculations based upon Laborsta.

… and fiscal austerity measures have delayed labour market recovery.

- Since the public deficit reached its peak in 2009 at 11.2 per cent of GDP, Spain has adopted fiscal consolidation measures with important implications for employment and social conditions. In fact, fiscal spending as a percentage of GDP decreased by 3 percentage points between the third quarters of 2009 and 2011 – with important cuts to public wages and investment, while the share of revenues in GDP increased by 0.6 percentage points during the same period. Indirect taxes as a per cent of GDP increased by 2.8 percentage points. Budget plans are for a further reduction in public spending relative to GDP by 0.9 percentages points in 2012, with social benefits being part of this policy.
- Austerity measures have affected growth and employment in the short term. So far, they have not translated into a significant reduction in the fiscal deficit. Moreover, exports and investment growth have not compensated for the negative impact of austerity measures on household demand. Exports, which had grown at an annual rate of over 15 per cent in 2010, have grown at 5 per cent in 2011, reflecting the economic slowdown in other European countries. Investment has decreased, caused by the fall in public investment and depressed private investment due to the strong credit constraints.

So the challenge is to reduce the medium-term deficit without endangering the labour market recovery…

- *Fostering fiscal stability while promoting jobs*: Getting public finances under control is of critical importance. Yet, fiscal stability should not be an end goal in itself but the means for achieving a quicker and more equitable economic and labour market recovery.
- *Supporting real investment through restoring credit to the real economy, notably SMEs*: There will be no economic recovery unless credit to SMEs resumes. Incentivizing investment and supporting SMEs is crucial for job creation. Some measures could take the form of credit guarantees, the deployment of mediators to review credit requests denied to small firms and providing liquidity directly to banks to finance operations of small enterprises. Such schemes already exist in countries like Brazil and Germany. More fundamentally, the financial reform should speed up and ensure that the financial sector focuses on its original role of providing credit to the real economy. If necessary, consideration could be given to the creation of a public credit institution aiming at promoting investment in strategic sectors, as exists in other countries.
- *Labour market institutions for better employment outcomes*: Spain has modified its legislation over employment protection recently. However, according to the *World of Work report 2012* these changes have been related to legislation governing dismissals and contract types and they have not taken into account a more comprehensive approach to employment security. It is crucial to ensure that unemployed persons, especially youth, receive adequate support to find new jobs. Likewise, attempts to engage in a downward spiral of wages would be counterproductive. Social dialogue could help prevent this while boosting the social and investment climate.

World of Work 2012: Better jobs for a better economy is available at (www.ilo.org/INST). For further comment, journalists are invited to contact Raymond Torres (tel: +41 22 799 7908; email: torresr@ilo.org), Director of the ILO's International Institute for Labour Studies.