

Notes for the recuperation of wages and the reform of unemployment

1. Introduction: The salaries and inequality in the public agenda and media this October

The debate over the salaries is encompassed by a larger and more general issue regarding a productive model for the Spanish economy and the quality of employment. Are we a country of waiters? What type of jobs are being created? Do we have talented laborers or rather do we export them while our own model depends on tourism and construction? This debate, central to Spain, can have positive results for enterprises and the autonomous (self-employed) within determined premises which would assist in keeping track of the elevated number of creations of the false autonomous.

The debate is also an accurate depiction of the political ambience, encompassed once again by the concept of inequality. It seems that the recurring context of arguments against large businesses is brandished by the personification of “the rich”. “The rich constantly get richer while wages continue to be rockbottom”.

For example, Inditex has already appeared in the press as a business of Ibx 35 with a high level of salary inequality between corporate directive and their workers. This information was released by Comisiones Obreras and the journal El País.

The PSOE appears disposed to change salaries, which is a central concept of its political propositions. Pedro Sánchez has announced that he will ask for a pact to raise salaries up to three percent in the next four years along with the repeal of reformed labor and a new Estatuto de los Trabajadores.

The government is conscious of the focus attributed to this controversy. Last July the Minister of Employment, Fatima Báñez affirmed that before the fall of unemployment “it is the time to raise salaries.” Those declarations provoked a reaction from the Minister of Economy, who convened several measures to qualify them, emphasizing on one side that salaries have already surpassed buying power previous to the crisis, and emphasizing on the other side the necessity to prioritize employment over retributive increments.

Time will tell how incorrect data regarding unemployment from the month of August during this debate over the salary evolution. However the differences of criteria within the government are constantly a fountain of informative interest, and furthermore it appears as though the Minister of Hacienda has alined with the Minister of Employment against the criterion of De Guindos.

In this aspect, it is also highly probable that the syndicates (unions) take their grievances to the first tier. It is important to recall that this past July, negotiations between syndicates and employers to reach salary pact agreements in 2018 were closed without progress.

Thus, the concept of inequality will persist as dominating a large part of the public and political agenda, with the focus on one of the more controversial issues: salary. Within this debate two fundamental ideas are protagonist: on one hand, the necessity to raise salaries, of which we will submit a question to examine what has occurred in the last years labor market adjustment. And on the other hand, a reflection regarding what reform is necessarily required from the system of unemployment to allow for a smooth transition of reincorporation of the unemployed to the job market.

2. The evolution of entry salaries as an indicator of salary devaluation.

What has happened to salaries within the past years, especially since 2006? As seen previously, according to the Minister of Economy, the purchasing power of Spaniards pertaining to salary has reached pre-crisis levels. However, according to the unions the precariousness and devaluation in retributions has persisted being the ballast to the Spanish labor market. But what do the facts say?

With regards to the last Encuesta de Estructura Salarial, a quadrennial publication from the Instituto Nacional de Estadística (INE), where one can find measurement of pay according to the antiquity of job position, the entry-level salaries of the labor market (antiquity of less than a year) have decreased 4.2% since the last available data pertaining to the year 2014.

The evolution since then, always according to data from INE, reveals a moderate decrease up to 2016, from which at that moment salary contention has been imposed. When the focal point is expanded to include contracts that reach up to three years in duration, the difference increases up to 4.6%.

However it is in the weakest section, that of the lowest remunerations, where differences are evident. In this group of workers, reflected in data as the tenth percentile, the decrease from the period of 2010 to 2014 is almost 24%. If we shift to the beginning of the crisis (just before the previous year of 2016) the most modest salaries accumulate a reduction of thirty percent.

That is to say, the salary loss pertaining to the workers with the least qualifications and productivity began before the general devaluation, which started to occur in 2011 and moving into the inclusion of labor reform in the year 2012. This year constituted a turning point for the abrupt retributive devaluation, which functioned to damper the destruction of employment however it has not recuperated as reflected by what has been made of the economy.

A report released a few months ago by the Banco de España (Bank of Spain) also forewarned this issue. Specifically, the Boletín Económico points out that according to data from the EPA, “a negative salary gap of approximately 24% has been appraised for new entrants during the period 2006 to 2015”.

Today, the result is that salary recuperation can be named to various degrees. While the highest salaries have both equaled and gained purchasing power (here the percentage of “winner” corresponds to the categorically superior officials and high ranging positions of the Public Administration), the average salary in the private sector has not recovered to previous levels, concentrating the adjustment to lower ranking salaries. In an intermediate finish the public salaries of officials can be found, which remain stagnant.

This progression has allowed Spain to gain competitiveness with a balanced development: today we produce the same with almost two million less workers, thanks to an extensive change to the production structure. For the first time Spain is generating external savings, with which the recuperation of investments can be financed and public debt can be supported.

This factor of competitiveness can not cease to exist for the purpose of not regressing into an economy with an inflated structure higher than the Eurozone average and with salary pacts that impair economic activity. Evidently, that is not an obstacle to maintain, in the majority of jobs labor conditions are inferior to before the crisis, especially when the PIB is already at the level of 2007.

In this sense, we estimate that a paced progression of salaries and productivity would bring with it a median increase of around 1% per year up to 2020, which would convalesce lost purchasing power. Without a salary agreement for this year and with the hope that unions and employers can reenter collective negotiations, it is thought that salary devaluation is an issue that should be profoundly approached in 2018, more if possible with inflation in positivity and an economy that grows by above 3%.

3. Entry Salary and Reserve Salary: means to reform unemployment

Once the question regarding the salary devaluation has been identified and accounting for the actual relation between salary and productivity, the next contentious issue within the labor market is unemployment reform, to make it more competitive and to give more incentive in the search of jobs.

In this sense, the proposal of citizens to introduce a similar model to that of the labor market found in Austria has important ramifications regarding the behavior of workers, and especially regarding the reserve salary. In economics, the reserve salary is understood as the salary level to which the worker accepts an employment. In turn labor offers inferior to that of reserve salary are rejected, prolonging the stay of unemployment or even inactivity.

Explained in another way: reserve salary signals the limit between situations of employment and unemployment for an individual. Given the rate of arrivals of salary offers and their distribution, the higher the rate of reserve salary, the less the probability that an individual will accept offers of unemployment, and therefore the longer the expected duration of their respective periods of unemployment.

The principal obstacle when determinants of reserve salary are studied empirically is that the issue can not be observed by the investigator. The only observable salaries are those pertaining to individuals who work, that is to say, those workers who have accepted an offer which is not inferior to their reserve salary. (entry level salary being studied in the previous point).

In turn, it is relatively simple to obtain data regarding the duration of periods of unemployed. The larger portion of empirical jobs have exploited the relationship between reserve salary and the duration previously mentioned for studying the determinants of said salary (Banco de España, 2011). Explicitly utilizing adequate economic techniques, it is estimated that the influence of determining personal characteristics or environmental factors regarding the duration of unemployment, supposing that the given influence is produced through the reserve salary. Thus, for example, the existence of benefits for unemployment or of a family member occupying the house prolongs the situation of unemployment because it is supposed that, *ceteris paribus*, an increase in the amount of reserve salary of the individual is provoked.

SOBRE CIVISMO.

El think tank Civismo defiende la libertad económica y el fortalecimiento de la sociedad civil.

Presidido por Julio Pomés, cuenta con una amplia red de colaboradores entre los que figuran Pedro Schwartz, Francisco Cabrillo o Rafael Pampillón.

En sus actos y conferencias han participado personalidades como Mario Vargas Llosa, Carlos Herrera, Luis Linde, John Müller o Juergen Donges.

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