



CÍRCULO
DE EMPRESARIOS
ideas for growth

An efficient labour market **generating** **stable employment**

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November





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Reforms relating to the labour market are among the **urgent structural changes** needed to boost competitiveness and, in consequence, economic growth, the creation of quality employment and social well-being. It is with good reason that these have been identified as **essential** by European Institutions within the framework of the Recovery Plan for Europe, such that they must be undertaken prior to the end of this year as a **prerequisite for the receipt of Next Generation EU funds**.

Government ministers are sending mixed messages regarding the meaning of these reforms, in many cases diverging according to the political party to whom they belong. This is leading to a high degree of uncertainty with respect to public opinion and, in particular, within the business world.

The Spanish labour market is inefficient, as demonstrated by **high levels of temporary employment and unemployment**. This is **particularly** the case with respect to **youth unemployment**, at double the rate of neighbouring countries. The **duality** of the labour market affords considerable protection to those on permanent contracts, whilst leaving temporary employees tremendously vulnerable and always bearing the brunt of any redundancies.

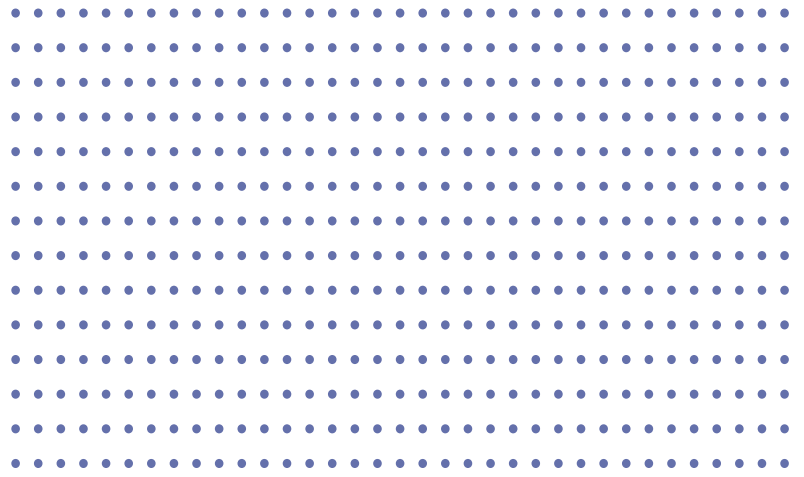
Technological and demographic transformations will throw up new challenges and opportunities, changing the manner in which work is performed and organised and requiring significant efforts in terms of reskilling. In order to offset risks and make the most of opportunities, **it is essential to adapt the regulatory framework to new economic and employment realities**. This must be achieved through the application of measures that bring together **a greater degree of flexibility**, enabling businesses to adjust their resources according to market conditions, **improved employment mobility and stability enabling workers** to remain within the job market.

In this document, **Círculo de Empresarios sets out** a commitment to **the simplification of contract types, together with a reduction in compensation for dismissal, the aim being to bring an end to temporary employment and reduce unemployment**. Whilst respecting the acquired rights of workers, the new compensation framework, including **the deployment of the “Austrian backpack”**, **would enable compensation for dismissal to be brought within the levels in nearby countries** with more efficient labour markets, lower unemployment and fewer temporary contracts.

In addition, this flexibility must be complemented by evaluating the role of collective bargaining, though **maintaining the current predominance of company-level agreements** over sector-based agreements.

Lastly, it is essential to engage in **collective efforts aimed at training and the improvement of active policies** that enable reskilling and the redeployment of job seekers.

The application of a strategy of this type would furnish the labour market with the dynamism that it needs in order to face up to current and future challenges and would speed up the creation of more stable, better quality employment.



Introduction

The Covid-19 pandemic has undoubtedly had consequences in terms of our lives, relationships, families and the manner in which we face up to problems.

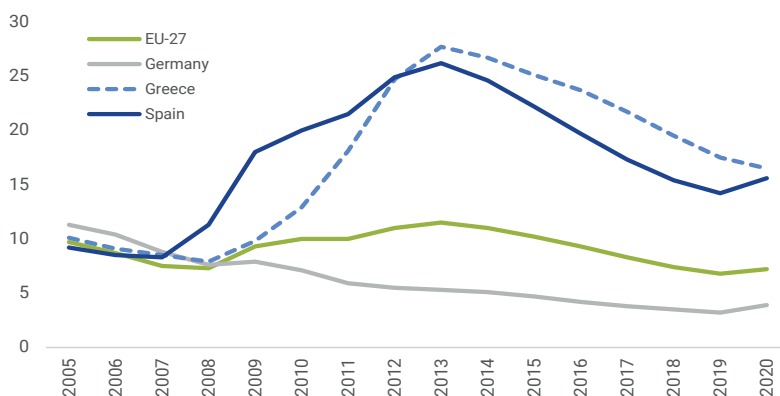
Almost one and a half years have passed since the first wave, the first lockdown and news stories that left us all bewildered. It seems that we have even forgotten old habits and realities prior to 2020. Something similar is happening in the labour market.

In 2019 we had an unemployment rate of 14.2%, compared to an average of 6.8% for the EU27. This gap jumped by 8.4 points in 2020, giving Spain **an employment rate of 15.6% in comparison with the European average of 7.2%**. According to a number of surveys, the unemployment figures at the close of this year could be similar to those of 2020. The situation is even worse in the case of **those below 25 years of age, the figure of 38.3% in 2020** being far above the EU27 average of 16.8%.

In 2020, Spain's unemployment rate was 8.4 percentage points higher than the EU27 average

Unemployment rate evolution

% labour force

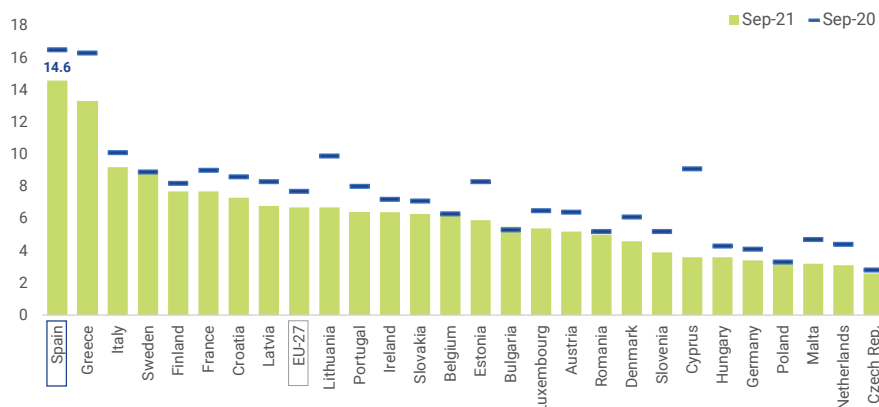


Source: Círculo de Empresarios based on Eurostat, 2021.

Unemployment rate. September 2021-2020

% labour force

The pandemic has accentuated inequalities and a number of gaps in the labour market



Source: Círculo de Empresarios based on Eurostat, 2021.

The pandemic has additionally **accelerated or will accelerate inequalities** and a number of divisions in the labour market that we had managed to narrow in the recent past. These are now resurfacing as collateral damage from the loss of jobs or the fact that thousands of the self-employed have ceased activity.

According to a study published by McKinsey on the outlook for the Spanish economy, the post-pandemic world will see a strengthening of a number of macro trends based around seven central pillars: digitalisation (including the e-commerce boom); changes to working practices (with the adoption of remote working); sustainability (and greater awareness of the impact of climate change); the reduction of value chain risks; health and safety and occupational health (with new standards); education (need for continuous reskilling of professionals) and mobility (new consumer habits).

The Covid-19 pandemic has strengthened a number of macro trends in the post-pandemic world

These trends have already been brought together in the study made by Círculo de Empresarios and Boston Consulting Group and published in July 2020, highlighting 14 priorities for the transformation of the Spanish economic model and aimed at sustainable growth, improving the competitiveness of the Spanish economy and its businesses whilst strengthening the capacity of both to adapt to change.

Demographic and social changes experienced by Spain in recent decades must also be added to these trends. The fall in the birth rate and significant rise in life

expectancy are having a significant impact on employment and the sustainability of the current pension system.

Whilst emphasis may be given to all of the foregoing, an eighth pillar with major impact on employment may also be added: greater state intervention in every area in order to soften the devastating effects of this healthcare, social and economic crisis.

The political agenda in this post-pandemic world will prove much more significant (in comparison with scant intervention in previous eras) and **the impact of public policy will be more decisive in determining the pace of recovery.**

As a result, and particularly with respect to the last point, the Government and Public Authorities must, in the absence of ideological considerations, urgently give profound thought to proposing a series of **significant future measures** to all stakeholders in society **in order to improve our labour market.** Within this context, i.e. within the employment regulation area that has such a significant impact on the core and driver of business progress, the decisions taken as of now are of real concern. Although it is not the time to go into regulatory changes in detail, it is important to point out that, in a labour market subject to such profound change, we must foster **labour market improvement measures based on four core foundations: consensus, simplification, innovation and flexibility.**

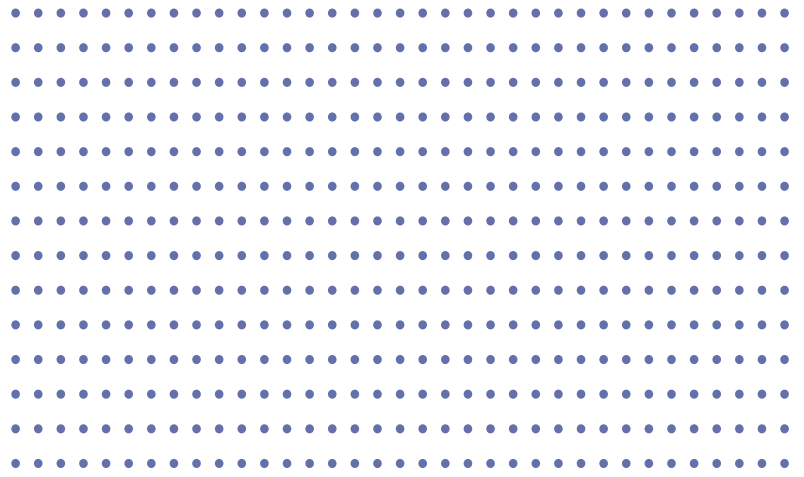
In the situation that we are currently experiencing, simply emphasising regulatory changes without covering these four core foundations is equivalent to building a main façade around a single column. In the absence of balance, the whole lot will come tumbling down.

In line with these principles, **reforms aimed at improving and boosting employment in three different areas may be implemented: simplification and modernisation of the system for hiring, a flexible labour relations system and efficient active employment policies** that address the serious problem of youth unemployment.

The purpose of this document is **to drill down and provide proposals, particularly with respect to the first of these three areas.**

Free from ideological considerations, thought must be given to measures to improve the efficiency of the Spanish labour market

Three areas for reform: hiring system, labour relations and active employment policies



Simplifying and modernising the hiring system

Our high levels of unemployment and temporary employment demand new measures to continuously improve labour market regulation. Spain combines a high level of compensation in the case of the dismissal of employees on permanent contracts (in comparison with other developed countries) with flexible and relatively ineffective legislation on temporary hiring (compared to permanent contracts). This divides workers into two groups according to the degree of protection they enjoy and gives rise to an **inflexible labour market**.

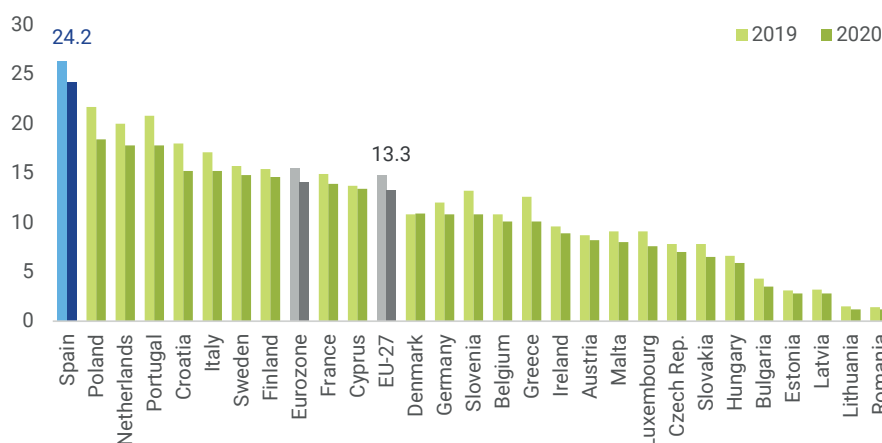
High degree of rigidity and duality in the Spanish labour market

This **duality has a negative impact on inequalities**. Temporary employment has a greater impact on the most vulnerable and those facing the greatest difficulty in terms of workforce participation (young people and the unskilled), leading to major issues regarding equality. Temporary workers, many of whom are young, are much more likely to lose their job than those on permanent contracts, exacerbating the volatility of the cyclical component of unemployment.

11

Temporary employees rate

% total number of employees



Source: Círculo de Empresarios based on Eurostat, 2021.

1.1 Just three types of contract

The low average size of Spanish businesses makes a simplification of the number of contract types advisable

Although it is not the only reason, the structure of the Spanish economy (distinguished by the prevalence of small enterprises) suggests that a **dramatic simplification of our legal framework for hiring is called for, entailing a reduction in the number of contracts to just three: permanent** contracts (which should be the default contract type), **temporary** contracts (originating on causal grounds), along with another for **training and apprenticeships** (similar to that which currently exists and encourages transition to employment following the completion of training or an apprenticeship). All of the current forms of hiring should be grouped into these three types of contract in a manner that is sufficiently flexible to fit current contracts. It would in turn be advisable to provide comparable formulas within the context of entrepreneurship.

The eligibility criteria enabling businesses to benefit from hiring incentives (the main reason for the current multitude of employment contracts) should be simple and transparent within the contract itself. It would be advisable to reorient some of the resources assigned to incentivising hiring towards policies that foster the employability of workers, particularly in the case of those groups that suffer the highest unemployment rates. Spain dedicates around a third of the resources assigned to active labour market policies to incentivising hiring and job protection, whereas the European Union 15 (EU15) assigns only a quarter. In contrast, spending on training, employment integration and ongoing training is comparatively low in Spain.

Refocus some of the resources assigned to incentivising hiring towards policies that increase the employability of workers

With respect to **standard temporary hiring**, it is important to bear in mind that its existence per se is not necessarily negative in terms of employment. A clear, flexible framework that enables proper use of this does, however, need to be established. Temporary contract types exist in nearby countries, such as in the case of Germany (permanent, works and service, temporary employment agencies) and Belgium (permanent, works and service) and their unemployment rates are below 7%. In the case of Spain, it would be desirable to have temporary hiring on causal grounds: of a specific term to cover the organisational/production needs of businesses or the launch of a business activity, service or product, along with

the traditional works or service contracts. In order to avoid consecutive firing and rehiring under temporary contracts, the duration of these should not exceed 36 months. In order to ensure flexibility, governance should be left within the scope of company collective bargaining or agreements.

Prevalence of company level collective agreements to govern temporary contracts

In terms of creating a legal employment framework that favours the creation of quality employment, encourages and enables the incorporation of young people and strengthens the voluntary extension of careers, it would also be advisable to improve existing release formulas for partial retirement. This could be linked to mentoring programmes through which the senior employee trains their substitute, enabling the latter to achieve internal promotion from among those on permanent contracts, along with the respective hiring of another person to cover the post of the person promoted. Protocols enabling partial retirement increase Social Security contributions and favour employment.

Lastly, there is a need for **better control on the part of the employment authorities**, aimed at minimising fraud in terms of temporary contracts for employees that perform tasks that are permanent in nature and training contracts to cover up for a failure to put in place temporary or permanent contracts.

1.2 A new compensation system based on the “Austrian backpack”

The reduction in the number of contract types should be complemented by a **substantial change in the system for compensation for contract termination, aimed at incentivising stable employment** where the element of compensation for dismissal is unimportant for business people when choosing the contract type, rather than acting as a barrier to hiring. Bearing in mind that for businesses recourse to dismissal is the final option considered in the event of difficulties, the proposed compensation framework does not represent a disincentive to the prior search for solutions based on internal flexibility.

Compensation for dismissal should not condition the contract type chosen by businesses

**Pernicious effects of duality
on the productivity of
Spanish businesses**

Despite recent advances in the flexibilisation of employment protection legislation, **Spain still has amongst the highest dismissal compensation within the EU** (in Germany this amounts to 15 days per year worked). This acts not only as a barrier to exit from the labour market, but also as a **major barrier to entry**. This fact, together with the existing gulf between the cost of terminating a permanent and temporary contract, leads to a high degree of segmentation of the labour market that prejudices people on temporary contracts, these being mainly young people and those with lower levels of education. It also has a pernicious effect on the productivity of Spanish businesses. To eliminate or at least minimise this division in the labour market, it is necessary to complement the reduction in the range of available contracts with **the updating of the compensation system and its adjustment to how this is handled in other EU countries**. In order to achieve this a mixed system is proposed, in which **part of the indemnity due to contract termination would depend on the length of service of the employee** in the business, **whilst another part** would consist of an **individual savings account based on the “Austrian backpack” model**.

**A mixed system is proposed,
including an individual
savings account based on the
“Austrian backpack” model**

It is not the first time that a system based on individual accrual accounts has been proposed. The **social and economic pact for growth, employment and pension guarantees**, signed on February 2, 2011 between the Business Confederations (CEOE and CEPYME) and Trade Unions (CCOO and UGT), transferred into Act 35/2010, dated September 17, on urgent measures for the reform of the labour market, mandated prior to June 2011 the constitution of an “accrual fund for workers, held throughout their working lives and which would become effective in the event of dismissal, geographical relocation, for the performance of training or upon retirement”. This fund never saw the light of day, primarily due to the cost that transition to the new model would entail.

The **proposal made by Círculo de Empresarios**, inspired by that made by **BBVA Research** in November 2014 in the document “Measures to encourage hiring under permanent contracts”, would consist of **a new mandatory compensation system for all new hires**. Although **existing contracts would preserve acquired rights**, the new conditions would apply to the period that elapses between the entry into force of the regulation and the eventual dismissal situation. As of the entry into force of the regulation, **all salaried employees would have an individual savings account receiving periodic contributions of an amount equivalent to 6**

days' salary per year worked (ds/yw). This contribution to the individual savings account would **correspond to the current contributions of the employee to Social Security by way of unemployment** and would be made by the Public Authorities charged to this contribution. The new framework would **thus not lead to any employment cost increment for the business or entail any reduction in payoff for the worker.** On the contrary, the resources of the "Austrian backpack" may be considered as a **supplement to the salary** that, although this is not received on a monthly basis, accrues until such time as a decision is made to recoup this.

The system **requires a transitory period** of a number of years in which the cost would be assumed by Social Security, until such time that, due to the dynamics of the labour market itself and the positive effects of the measures adopted, unemployment falls to a level at which **the system becomes self-financing.** In other words, as the market becomes more flexible, contractual divisions are eliminated, reducing the preponderance of temporary contracts. The introduction of this mixed compensation and individual savings fund system will create quality employment and gradually reduce costs for the authorities as the number of people on unemployment benefit falls and revenues increase due to new contributors. A preliminary estimate indicates that, **if the unemployment rate is reduced by five percentage points** (from the current 15.5% to 10.5%, still above the European average of 7.1%), **the new system could be self-financing** with no need for extraordinary contributions on the part of the authorities.

Contributions to the individual personal account would be invested in one or more public provident funds created to this effect, such that the amount of this non-causal compensation would depend on the aggregate performance of the fund. The **worker would be able to access the accrued resources in his or her account when the contractual relationship with the company comes to an end or in order to improve their training**, regardless of the event that has given rise to the circumstances. This individual fund would not be subject to a maximum limit, as is the case with compensation for dismissal. As a result, the greater the number of years worked, the higher the amount will be.

In order that **the business** also compensates the worker on a permanent contract for dismissal, **causal compensation would be paid as a complement to the accrual fund (6 ds/yw) and this would depend upon the length of service**

The new system would not entail reduced compensation for the worker or increased labour costs for businesses

The amount of non-causal compensation would depend on the aggregate performance of the fund

of the employee in the company. This compensation would amount to **10 ds/yw** maximum **in the case of fair objective dismissals.** As a consequence, if the worker uses the fund he or she would obtain a combined **total of 16 ds/yw.** Compensation **in cases of unfair dismissal would amount to 14 ds/yw, giving a total of 20 ds/yw.**

In the case of **temporary contracts** and together with the **contribution of 6 ds/yw** in the individual account, **compensation for contract termination of 10 ds/yw** would be paid regardless of the grounds. As a result, the **compensation received by the worker would be the same as that for an employee on a permanent contract.**

As in the case of the current system, the causal compensation paid by the business would **be limited to 12 monthly payments.** Nevertheless, the amount received by the worker could be higher given that the contributions to his or her individual savings account would not be subject to a ceiling and would depend on the performance of this.

Compensation for dismissal in Spain would be equivalent to that existing in other nearby countries with more efficient labour markets

This compensation framework would **be applicable as of the date of entry into force of new contracts and to existing contracts. In the latter case acquired rights would be maintained up to the foregoing date.**

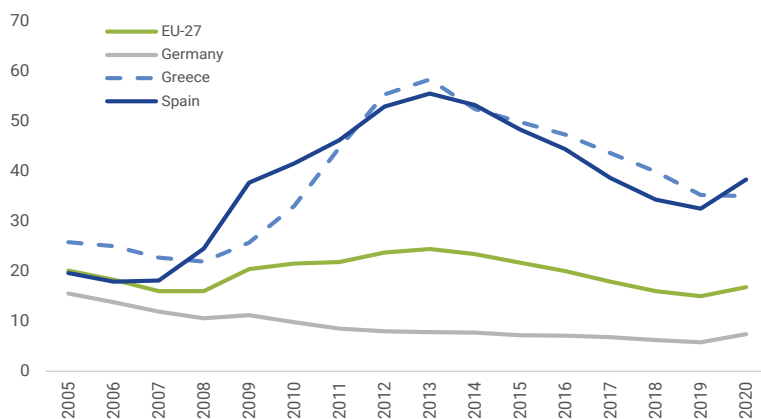
In this manner, **compensation for dismissal in Spain would be equivalent to that existing in other nearby countries with more efficient labour markets.** By means of this proposal, compensation would be only slightly higher than that in Germany, a country with one of the most dynamic European labour markets and a lower unemployment rate.

Uncertainty hindering the offer of permanent contracts would be reduced. One of the aims of the proposed system is **to reduce the prevalence of temporary contracts. This will be achieved by making compensation for dismissal equivalent.** The reduced level of uncertainty **would energise the labour market** by tempering hiring costs for businesses and job search costs for workers, shrinking the average duration of periods out of work.

Young people would be the main beneficiaries of changes to the hiring and compensation system. Firstly, this would be as a result of a reduction in the preponderance of temporary contracts, with an increase in rates of permanent employment due to a rebalancing of dismissal costs. In second place, the new system would foster investment in training and human capital by reducing employee turnover. This would grow the productivity of young people and, as a consequence, their employability.

Youth* unemployment rate evolution

% labour force

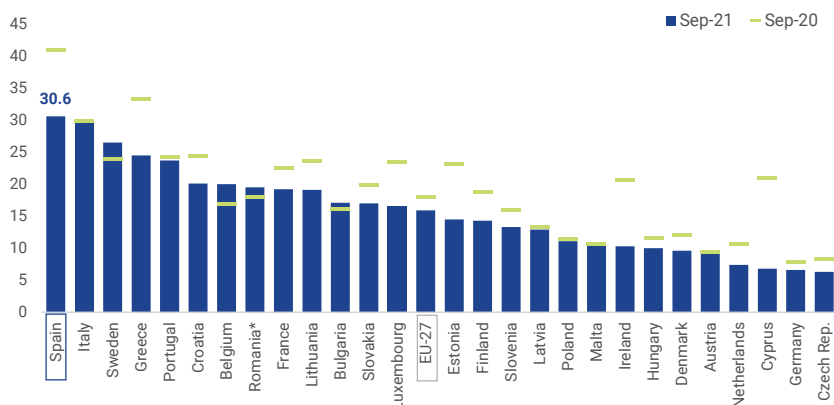


* Under 25 years old.

Source: Círculo de Empresarios based on Eurostat, 2021.

Youth unemployment rate. September 2021-2020

% labour force



* Last data available corresponding to June.

Source: Círculo de Empresarios based on Eurostat, 2021.

Ten years on from the failed attempt of 2011, the need to tackle a reform of this nature has become even clearer. **Two circumstances that may favour the approval of this currently prevail: the availability of European resources** to finance structural reforms and **foreseeable Parliamentary backing**. In the first case, and as pointed out by the Bank of Spain in its 2021 Annual Report, the resources available from the Next Generation EU or SURE funds must be assigned to financing structural reforms. These funds may contribute to softening the cost of the establishment of the new system during the transition period up to self-financing. With respect to the second item, this initiative should generate necessary political backing in that the proposal for the establishment of individual accrual accounts is **contained in the Agenda for Change promoted by the Government**¹ (proposal 12 of chapter 5), **in the manifesto of the Partido Popular** during the most recent General Elections (proposal 91 of chapter 3²) and was **even included in the Ruling of the Social and Economic Reconstruction Commission** constituted by Congress (proposal 63 septies³).

The **Bank of Spain** itself has highlighted the advantages of a mixed system. Firstly, **the apportionment of rights acquired throughout working lives would be less unequal** between employees, in that all would at some time to end up receiving the amounts accrued in the fund whereas currently only those persons who lose their job are in receipt of these. Secondly, workers would have a **greater incentive towards job mobility** throughout their career, in that contributions accrued in the fund are maintained in the event of resignation. Length of service and acquired rights are, in contrast, currently lost when changing jobs. Moreover, and from the perspective of businesses, the fact of gradually acknowledging the rights that their workers acquire through periodic financial contributions to the fund of each employee (rather than having to face up to these in the event of a dismissal in circumstances of financial difficulty) would lead to **an easing of possible stress in terms of liquidity**.


Lastly, and related to the foregoing, **the decision of businesses to dismiss some workers would be based more on productivity considerations rather than differences in terms of the compensation accrued**. This is due to the fact that the payments which would have to be made by businesses would not be so strongly linked to the latter item.

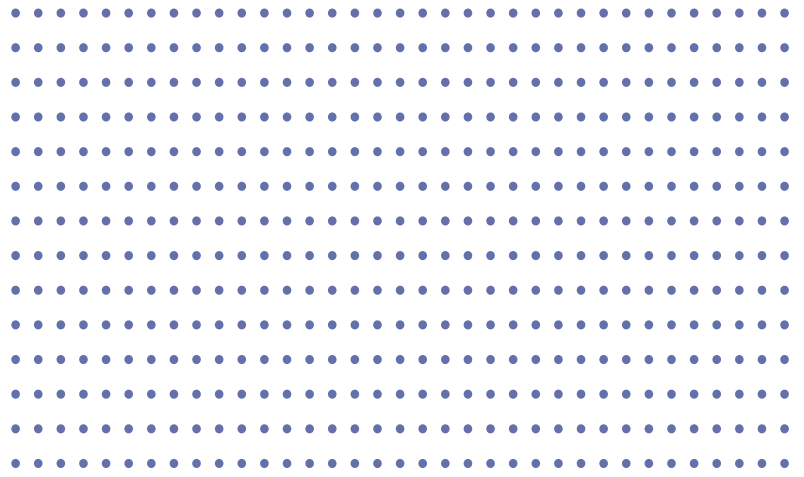
The final decision of businesses to make some workers redundant would be based on productivity and efficiency

¹ Proposal 12. Gradual establishment of a system of individual portable accrual accounts through the creation of the corresponding fund. The aforementioned fund would enable workers to redeem the amounts accrued in their favour in the event of unfair dismissal, geographical mobility, performance of training activities or upon retirement. In order for the design and approval of this policy to benefit from the greatest consensus possible, it will be approached through a process of dialogue.

² Proposal 91. We will introduce mechanisms that encourage hiring under permanent contracts and the mobility and flexibility of our labour market through the gradual establishment of an accrual fund for workers or a system of individual accrual accounts aimed at increasing mobility, in a manner similar to what is known as the "Austrian backpack". The fund will be maintained throughout the working life and workers will be able to redeem the amounts accrued in their favour in the event of unfair dismissal, geographical mobility, performance of training activities or upon retirement.

It is additionally important not to forget the positive impact that the deployment of a system of this type would have on the sustainability and adequacy of the pension system, given that all workers would receive the amounts accrued in their funds upon retirement, thus supplementing their pension.

 Proposal 63. septies (new). With the aim of reducing division in the labour market, a system consisting of an accrual fund for workers will be established, receiving monthly company contributions according to salary and which workers may redeem in the event of dismissal, change of company or retirement (implementation of an "Austrian backpack" type system).



Maintaining flexibility in labour relations

In line with the foundations that we indicated at the beginning of this document, we must continue to make progress on the **flexicurity** measures that were adopted as inspirational principles of the European Union reform agenda, our gaze being fixed on maintaining employment and the stability of employment. Within this context, a battery of employment measures should be set out. With some being transitory and others clearly aimed at proving more permanent, these measures would adapt employment legislation in specific aspects aimed at enabling businesses to maintain employment or at least reduce job destruction. Some of these must necessarily be temporary due to their exclusive focus on softening the impact suffered by the labour market in the post-pandemic environment. From this perspective, the debate as to whether it is necessary to carry out labour reforms is sterile in that what matters is to apply measures to grow employment and foster quality employment. In this vein, a number of the proposals that should be adopted delve into instruments that were already included in the 2012 labour reforms and which have been successfully salvaged by the current Government during the pandemic. Under this premise and following the recommendations of the ILO and social stakeholders, now **is the time to support businesses that manage to hold on to their level of activity and employment thanks to the use of tools providing flexibility**, the foregoing within a framework of shared solutions that are born out of dialogue.

Within our European space, **the concept of flexicurity clearly represents the winning employment strategy** and has therefore been adopted by the European Employment Strategy since 2005. It is well known that the goal of this model is to achieve **a flexible labour market that, in addition to guaranteeing worker protection**, contributes to this market **being more responsive, inclusive and competitive**. Flexicurity is based on three pillars known as the «Golden Triangle», as defined in Denmark during the 90s:

- **Flexibility** built upon the foundation of collective bargaining and nationally-based employment regulations.

Develop flexicurity measures to maintain employment and employment stability

Creating a flexible labour market that guarantees worker protection and is more responsive, inclusive and competitive

- **High degree of social security** for the unemployed.
- **Highly active training and labour reintegration policies** using comprehensive lifelong learning strategies that ensure the continuous adaptability of workers.

Studies performed by the OECD and the ILO show that the results of these policies applied in nearby countries produce high employment rates and reduced levels of unemployment and poverty.

The application of flexicurity measures in nearby countries produces high rates of employment and lower levels of unemployment and poverty

Within Spain, **the 2012 employment reforms were clearly inspired by this principle and produced highly positive results in terms of employment creation**, as demonstrated by the data for subsequent years. It is true that the employment created was not, on the whole, permanent or full-time, however it is also undeniable that hundreds of thousands of workers were rescued from unemployment. Permanent contracts are obviously preferable to temporary employment and, in principle, full-time work is clearly superior to part-time. Nevertheless, either or both of the foregoing are better than unemployment.

The application of flexicurity measures in times of crisis is even more appropriate. They bring together the necessary flexibility for businesses, enabling them to adapt to the new normal, and provide the necessary protection for workers through employment or income substituting for salaries. During the pandemic, the Government has used internal employment flexibility tools (through furlough rather than contract terminations or reductions in working hours) and social protection for workers (relaxation of conditions for entitlement to unemployment benefits, health and safety, minimum living income, etc.). The results achieved have been highly satisfactory in terms of safeguarding employment.

The important thing is **to avoid the current furlough or other measures leading to a tidal wave of redundancies or business bankruptcies**. Following this experience, proposals for the recovery of the economy must be judged. These may include:

- Giving greater space to **collective bargaining**. Although modernising the regulation of this area would be desirable in order to improve our labour relations system, this is not a priority at the current juncture. For the time being **it**

is necessary to maintain the current framework in which company level agreements prevail over sector-based agreements. These facilitate negotiations that are more relevant and appropriate to the realities of workers and businesses and do not alter employment conditions in terms of fundamental issues for the staff of companies based nationwide and to whom other sector-based or regional agreements are applicable. Sector-based agreements may additionally be strengthened. This would consist of enabling negotiations with a **sector-based scope** (micro as opposed to general social dialogue) in order to establish exceptional measures for job maintenance and creation, with **mechanisms aimed at internal flexibility**, particularly with respect to those sectors that have been most severely impacted by the pandemic. The recent past has seen successful examples of this within the automotive and construction sector, all of these having been born out of dialogue. Each sector will decide on what is most appropriate. The important thing is to go beyond the traditional governance of collective agreements by innovating in this area. Tripartite, sector-based roundtables (including the Government) may be appended in order to add other types of fiscal, financial, etc. measures.

Company level agreements enable negotiations that are more pertinent to the realities of workers and businesses

- Significant simplification of the procedures for the temporary suspension of contracts on objective grounds (**furlough on economic, production, technical or organisational grounds**). For smaller businesses (for example, with less than 150 employees) individual agreements between workers and businesses should be sufficient in order to legally suspend contracts, notifying, where necessary, the corresponding employment authorities or trades unions or workers' representatives. Given its simplicity, this model has been deployed with some success in Brazil. This will eliminate many of the bureaucratic procedures that remain a mystery to numerous SMEs. In the case of larger companies, the governance of permanent furlough could be maintained in a manner similar to that applied during the state of alert. This led to simple and responsive processing as an alternative to the termination of employment contracts.
- Establishment of a **permanent furlough system**. This concept should be applicable not only in the case of extraordinary situations, but also in times of normality in order to tackle justified cases of an upset in business activity. This would require a reconsideration of the definition of "force majeure" to include

external circumstances that impede or limit business activity, enabling the prompt activation of furlough. It would also be necessary to redefine Economic, Technical, Organisational and Production grounds for the activation of furlough, referencing these according to falls in revenue or sales of a certain intensity during a specified period. The management of furlough during its effective term should be highly flexible for the business and would be linked to employee training.

- As highlighted in the foregoing first point, **simplification of legal procedures** and decisive commitment to systems addressing **the irregular distribution of working hours and reductions in working time** through collective bargaining or more generally are necessary as an alternative to dismissals or contract termination.
- Implementation of measures aimed specifically at pandemics within the scope of **health and safety** at work, with greater accessibility and monitoring of these. In order to improve the health of workers and prevent wholesale infection among the population, it is necessary to remove restraints and procedures that hinder the implementation of these measures by businesses. This could be achieved through specific regulations that are not included in the current Health and Safety at Work Act due to the temporary scope thereof.
- Improvement of the activities of bodies belonging to the Employment Authorities **aimed at successfully connecting jobseekers with vacancies**. Where applicable, their services could be offered alongside those of private sector organisations.

Training, active employment and youth employment policies

Lastly, it would be advisable to add some thoughts on the promotion of **ongoing employment training** in our labour market. The key to the modernisation of our economy, innovation and adaptation to new circumstances lies in the improved training of our workforce.

It is not the aim of this document to go into detail on **dual vocational training**, an essential tool in improving employability by bringing workers' know-how closer to the skills sought by businesses. The establishment of this model is still at an early stage in Spain and there is ample scope for improvement in order to achieve the results of countries that are far ahead of us in this area, such as Germany, Austria and Switzerland. Digital transformation is rapidly changing the skills sought by the labour market, many of which can be obtained through dual vocational training. Círculo de Empresarios has already made a number of contributions regarding this item (*Jóvenes ilusionados con su futuro*, May 2018⁴) and is looking to provide further contributions on proposals.

In short, what matters is to raise awareness in both the public and private sector of **the importance of vocational training (in particular dual vocational training) as a key component of the education system** that is as essential as higher education.

It is necessary to adapt the education system so that it provides solutions that meet the needs of each group in society, in some cases fostering talent or helping with the social/employment integration of those who are at risk of exclusion or suffer learning difficulties. It is important not to lose sight of the fact that skills policies must not only be aimed at addressing the needs of the labour market, but also at providing individuals with the necessary **transferable skills and abilities** to play their role as active, responsible citizens.

It is necessary to build, strengthen and, where necessary, **check “bridges” between the initial period erroneously attributed to education and the period traditionally**

Better workforce training is key to the modernisation of our economy

considered as subsequent, i.e. in employment. In order to ensure the successful **rollout of public youth employment policies** along the lines of the Youth Guarantee or the Youth Entrepreneurship and Employment Strategy, there is a need for stable regulatory frameworks and long-term commitments from public authorities, businesses and education institutions.

It is essential to insist on the importance of **public-private partnerships** and a relationship of trust between businesses and teaching centres.

Is likewise necessary to focus particularly on **youth employment**, with measures that have already been successfully applied in Germany, Australia, the Netherlands and UK: dual vocational training, placements, vocational qualifications and job clubs; along with developing legal initiatives for smaller businesses that decisively drive the growth of this whilst attempting to remove administrative and employment hurdles.

Among other employment assistance policies, it is necessary to adopt measures that facilitate and incentivise the **participation and retention of both women and senior employees in the labour market**. It would also be appropriate to apply measures that favour long-term career building and the retention of **senior employees** within the labour market beyond the legal age of retirement.

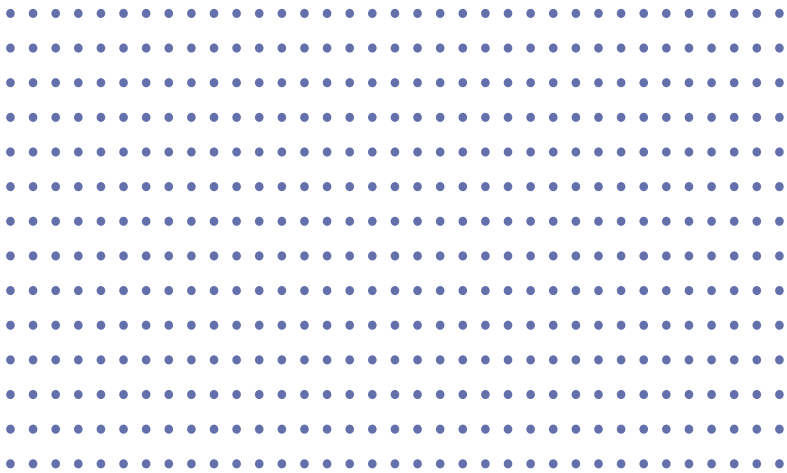
Lastly, and in view of the recent spending efficiency analyses made by the Independent Authority for Spanish Fiscal Responsibility (AIReF), it is time to once again consider **active employment policies** where there **is still ample room for improvement**. Active policies will be called upon to play a crucial role with respect to foreseeable imbalances between labour market supply and demand as a result of the transformation brought about by the pandemic. Within this context, the assignment of **European funds** to the labour market area should be given priority in order to renovate the system and recoup, as soon as possible, the loss of employment brought about by the pandemic. Resources assigned to active policies are exclusively focused on the award of incentives to hiring and self-employment. This has proved to be barely effective, as demonstrated by the recent AIReF report on the efficiency of this expenditure. Public employment services must be reoriented away from simply awarding loans and towards **greater effectiveness in terms of employment guidance and integration**.

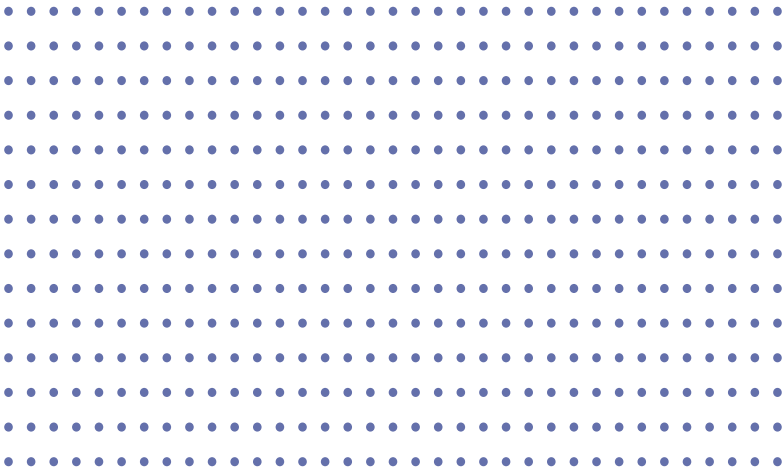
Within this context, and as **progress in differentiating active employment policies according to worker category**, acting through a combination of policies in three specific areas: grants for new hirings (most effective in the case of young people and low salaries), **guidance in job search** (advisable in the case of workers with limited training) and **training aimed at the unemployed** (particularly the long-term unemployed)⁵.



Recommendations

- **Reduction in the number of employment contract types** currently accepted **to just three: permanent, temporary (with grounds) and training.**
- Adjustment of the **compensation for employment contract termination** to the levels seen in other EU countries with more efficient labour markets, whilst establishing a **new accrual fund for workers** (“Austrian backpack”).
- **Greater regulatory prominence** and strengthening **of collective bargaining, with a prevalence of company-level agreements.**
- Measures to ensure **internal flexibility within businesses.**
- Establishment of a **permanent furlough system** and increased flexibility in terms of procedural clearance and bureaucracy.
- **Promotion of vocational training, particularly dual vocational training,** as a key component of the education system.
- Fostering of **stable public policies to encourage the employment of young people, women and senior workers.**
- **In-depth reform of active employment policies towards guidance, training and integration,** adapting the policies to the various groups of unemployed people.







Transformation of the Spanish economic model



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