The impact of Spain´s 2012 labour reform on collective bargaining

Miguel Ángel Malo[1]

The 2012 labour reform profoundly changed collective bargaining in Spain by increasing both employers´ decision-making power and the prevalence of non-provincial sectoral agreements. While the second change is in the right direction, the first one requires further action to avoid excessive monopsony power in the context of the overall reduction in collective bargaining coverage.

The 2012 labour reform aimed to reduce dismissals through increasing internal flexibility and improving the response time of collective bargaining to the economic realities of businesses. Preliminary evidence shows that the increase in company level agreements has been small and the trend in the number of workers covered has moved in the opposite direction. However, firms are enjoying greater internal flexibility as a result of more discretionary power following the reform, as demonstrated by a higher reliance on opting-out. At the same time, data point to a one-off increase in negotiation associated with the end of ultra-activity and an overall decline in collective bargaining coverage since the reform. Finally, wages appear to have decreased in the wake of the reform, in particular for the lowest earners, although this appears to a consequence of greater monopsony power rather than a more efficient labour market. On the whole, collective bargaining has more potential to adapt to the business cycle in response to the reform, but additional efforts will be needed to increase coverage and limit the rise of monopsony power.

A number of fundamental aspects of the regulation on collective bargaining were reformed in 2012 (ILO, 2014). The reform´s overall purpose was to facilitate firms' capacity for internal adjustment rather than external adjustment through dismissals and non-renewal of contracts. Recourse to external adjustment was believed to be widespread due to the shortage of other adjustment mechanisms. In addition, the response of collective bargaining was believed to be too "slow" to adapt to a negative shock as large and severe as that suffered in the Great Recession.

Changes were sought to facilitate wage flexibility (as the cornerstone of internal adjustment) and rapid changes to the outcome of negotiations to adapt to the ups and downs of the economic cycle. This was implemented with an end to the tacit extension of collective labour agreements beyond their expiry date ("ultra-activity"), allowing companies to opt-out of supra-company agreements and allowing employers to impose unilateral changes to working conditions.

This article aims to review and interpret the available evidence on the legal changes to

[1] University of Salamanca.

collective bargaining and three crucial issues (Malo 2012a and 2012b): the importance of company agreements; negotiating activity, particularly in connection with the end of "ultra-activity," and wage flexibility. It concludes with some general remarks.

Has there been a shift towards a new type of collective agreement?

The 2012 reform gives renewed importance to the company level collective agreement (an issue touched upon by the 2010 reform) in two ways: i) it gives the company level agreement preference over higher level agreements; and, ii) it allows for the company level agreement to be negotiated before the higher level agreement applicable to the company expires. International organisations (such as the OECD, 2014) have repeatedly promoted company level negotiations, rather than higher level negotiations, as the best way of adapting to swings in the economic cycle, particularly in comparison with intermediate (*e.g.* sectoral and provincial) level agreements.

A decline in the importance of provincial/sectoral agreements could therefore be expected, in parallel with an increase in the number and scope of company agreements.

Table 1 shows the number of company agreements as a share of the total, which has varied little since the years immediately preceding the crisis. There was a slight drop, of 2 percentage points, from the approximately 76% at the start of the crisis, rising again in 2013 and reaching 77% in 2014. This increase is small and it is hard to link it to the

Table 1
Agreements and workers per year of economic impact and by scope of negotiation

	Total		Company agreements		% Company / total		Agreements at levels higher than company-level	
Year	Agreements	Workers (thousands)	Agreements	Workers (thousands)	Agreements	Workers	Agreements	Workers (thousands)
2000	5,252	9,230.4	3,849	1,083.3	73.3	11.7	1,403	8,147.1
2001	5,421	9,496.0	4,021	1,039.5	74.2	10.9	1,400	8,456.5
2002	5,462	9,696.5	4,086	1,025.9	74.8	10.6	1,376	8,670.6
2003	5,522	9,995.0	4,147	1,074.2	75.1	10.7	1,375	8,920.9
2004	5,474	10,193.5	4,093	1,014.7	74.8	10.0	1,381	9,178.9
2005	5,776	10,755.7	4,353	1,159.7	75.4	10.8	1,423	9,596.0
2006	5,887	11,119.3	4,459	1,224.4	75.7	11.0	1,428	9,894.9
2007	6,016	11,606.5	4,598	1,261.1	76.4	10.9	1,418	10,345.4
2008	5,987	11,968.1	4,539	1,215.3	75.8	10.2	1,448	10,752.9
2009	5,689	11,557.8	4,323	1,114.6	76.0	9.6	1,366	10,443.2
2010	5,067	10,794.3	3,802	923.2	75.0	8.6	1,265	9,871.1
2011	4,585	10,662.8	3,422	929.0	74.6	8.7	1,163	9,733.8
2012	4,376	10,099.0	3,234	925.7	73.9	9.2	1,142	9,173.3
2013	4,136	9,097.9	3,155	892.7	76.3	9.8	981	8,205.2
2014	2,709	6,033.3	2,085	534.7	77.0	8.9	624	5,498.6

Source: Ministry of Employment and Social Security.

2012 reform, as the number of workers covered by company agreements dropped from almost 11% in 2007 to just under 9% in 2014. Therefore, the change is small, and the trends in the numbers of agreements and workers they cover go in opposite directions.

To examine this issue more closely, it is necessary to disaggregate the supra-company level to determine what is happening to provincial/sectoral agreements. This disaggregation is shown in Table 2. As the definitive data for 2013 and 2014 are not yet available, the breakdown at this level is only available for the provisional data. For this reason, the totals are smaller than those shown in Table 1, and the results must therefore be interpreted with caution.

Table 2 shows a drop in the relative weight of provincial agreements, covering a smaller percentage in 2013 and 2014 than before the reform:[2] 51% in 2011, 29% in 2013 and 30% in 2014. Bearing in mind that the data are provisional, it does seem that this level of negotiation is losing its formerly central position; however, it is not losing it to company agreements, but rather to sectoral agreements at the national and regional level.

Why has there not been a shift towards company level agreements? Firstly, distribution by agreement type and level is potentially skewed by data quality constraints. Thus, Pérez Infante (2015) points out that the figures for workers (and firms) covered by agreements at the supra-company level suffer from reliability issues, as negotiators often have only approximate information for these figures. The delay in the statistics on collective agreements being made definitive is also a problem. However, these limitations have always been present in the statistics, such that focusing on long-term developments (as is the case) is a reasonable way of mitigating the problems highlighted. Therefore, in the absence of definitive data for 2013 and 2014, there may in fact be a transformation under way in the structure of collective bargaining.

Moreover, even if a small business finds that the sectoral agreement imposes unacceptable conditions, negotiating a company level agreement, which would take priority over that at the sectoral level, may not be an attractive option. It would have to devote time and effort (with a considerable opportunity cost) to negotiating a series of issues that previously were given. Furthermore, the legal precision a collective agreement requires usually calls for costly specialist legal advice. Thus, contrary to what was originally believed, (Malo 2012a and 2012b) it is possible that employers find it simpler to opt-out from an agreement, despite the red-tape this may involve. In theoretical terms, the positive effects that supporters of decentralisation of collective bargaining expect may also result in sectoral negotiations that contain effective opt-out procedures (Jimeno and Thomas, 2013).

The fact that the relative importance of company agreements is not increasing is not at odds with an increase in employers' decision-making power in labour relations. In effect, this increase in power makes negotiating a collective agreement in the company less attractive, as the regulatory

The fact that the relative importance of company agreements is not increasing is not at odds with an increase in employers' decision-making power in labour relations. In effect, this increase in power makes negotiating a company level collective agreement less attractive, as the regulatory changes already offer the company more leeway.

[2] 2012 has not been included, as being the year in which the changes were introduced, it would include information produced under two different sets of regulations. For example, an agreement could be reached in 2011 (pre-reform) with economic impact in 2012, whereas another could be negotiated in 2012 and come into effect in that same year (post-reform).

Table 2

Agreements, firms and workers per year of economic impact and by level of negotiation

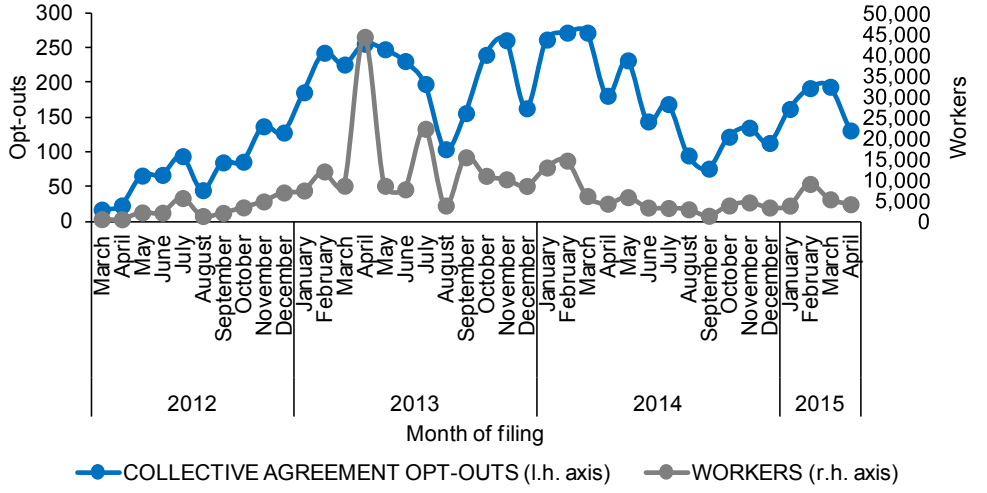
2011	Agreements	Companies	Workers	% of total workers
TOTAL	**4,585**	**1,170,921**	**10,662,783**	
Company level	**3,422**	**3,422**	**928,995**	**8.7**
Higher level:	**1,163**	**1,167,499**	**9,733,788**	**91.3**
- Group of companies	99	954	181,667	1.7
- Sector:	1,064	1,166,545	9,552,121	89.6
Province	895	777,512	5,455,261	51.2
Autonomous regions	82	92,222	817,958	7.7
Inter-regional	1	400	9,000	0.1
National	86	296,411	3,269,902	30.7
2013	Agreements	Companies	Workers	% of total workers
TOTAL	**2,688**	**977,058**	**7,090,195**	
Company level	**1,957**	**1,957**	**508,735**	**7.2**
Higher level:	**731**	**975,101**	**6,581,460**	**92.8**
- Group of companies	63	299	95,256	1.3
- Sector:	668	974,802	6,486,204	91.5
Province	434	382,129	2,047,582	28.9
Autonomous regions	166	288,793	1,689,899	23.8
Inter-regional	1	320	3,000	0.0
National	67	303,560	2,745,723	38.7
2014	Agreements	Companies	Workers	% of total workers
TOTAL	**1,728**	**723,724**	**4,755,972**	
Company level	**1,255**	**1,255**	**335,952**	**7.1**
Higher level:	**473**	**722,469**	**4,420,020**	**92.9**
- Group of companies	42	236	164,923	3.5
- Sector:	431	722,233	4,255,097	89.5
Province	279	270,437	1,425,170	30.0
Autonomous regions	102	196,660	886,890	18.6
Inter-regional	1	320	2,000	0.0
National	49	254,816	1,941,037	40.8

Note: The 2011 data are definitive. Data for 2013 are the preview of the definitive data, and 2014 data are provisional (cumulative to December 2014).

Source: Malo (2015). Ministry of Employment and Social Security.

Exhibit 1

Number of opt-outs and workers affected by month of filing for opt-out



Source: Ministry of Employment and Social Security

changes already offer the company more leeway without having to negotiate an agreement with its workers.

Exhibit 1 reveals how substantial use of opt-outs was made in 2013, with a total of 2,512 in the year, affecting 159,550 workers. The figure was particularly high in April and again in June. The figures were lower in 2014, with 2,073 opt-outs, affecting 66,203 workers. The trend in the number of opt-outs seemed to slow somewhat in 2014, although in 2015 it has fluctuated around 150 a month, equivalent to around 5,000 workers a month.

Are these figures significant? Given that opt-outs imply adaptation to firms' individual circumstances, the appropriate reference for a comparison is the number of workers covered by company level agreements.[3] Taking the only two full years for which we have data on opt-outs, it can be seen that in 2013 they represented the addition of 18% of workers covered by a company level agreement and 12% in 2014. These figures are, therefore, significant and highlight the importance of this exit route from the sectoral agreement in enabling adaptation to firms' specific needs without going through the process of negotiating a company level agreement (and without putting an end to sectoral negotiation).

Finally, the limited data available on changes to working conditions (ILO, 2014) suggest that since the 2012 reform, firms are mostly relying on this option for internal adjustment. This is in line with employers' increased unilateral decision-making power in labour relations under the new regulations.

Is there more or less negotiation activity?

One of elements of the 2012 reform generating the most debate has been the end of ultra-activity. Following the reform, once a collective agreement has reached its expiry date, it can remain in force for an additional year if there is no agreement. If no agreement has been reached at the end of the year, the old collective agreement ceases to apply

[3] Technically, it is possible to opt-out of a company-level agreement. According to the latest data available, for the period January to April 2015, this happened in just 3.1% of opt-outs.

and the higher level collective agreement comes into force. However, there is not always a higher level agreement to resort to, and the regulations failed to clarify what to do in this situation. The legislator's lack of foresight was widely criticised, as this gap in the legislation could be interpreted in various ways: either wages and conditions could simply drop to the minimum, which in general means the minimum established in the workers' statute; or they could be incorporated as a part of the individual employment contract (which is a kind of ultra-activity applied individually to each of the workers affected). In late 2014, the Supreme Court ruled along the lines of this second interpretation.[4]

The end of ultra-activity was essentially the cornerstone of the design of the 2012 reform, as it sought to break the inertia of collective bargaining and speed up its progress. At present, it is not possible to empirically confirm this as a long-term outcome, as it is not sufficient to analyse the current outcome of collective bargaining.

Nevertheless, it is possible to assess whether there has been any other type of impact relating to ultra-activity, such as changes in the amount of negotiating activity, and whether the end of ultra-activity has given rise to labour disputes. It was clear that when the transitional period to negotiate new agreements ended in the summer of 2013, negotiating parties felt they were facing an ultimatum. In other words, many agreements were delayed until the deadline approached (ILO, 2014). However, as expected, the rate at which agreements were reached accelerated towards the end of the period. Thus, 1.3 million workers were covered by newly signed agreements in August 2013, compared with 800,000 in August 2012 (Izquierdo *et al*., 2013).

Much more conflict was anticipated than in fact materialised (ILO, 2014). Disputes seem to have been concentrated in firms and sectors where there was no higher level agreement that could be applied when the relevant collective agreement expired. This shows that the legal grey area was in fact a risk posed by the 2012 labour-market reform, although for now it has been resolved by case-law.[5]

Table 3 shows how collective agreements have developed by year of signing (rather than year of economic impact independently from when they were signed, as in Table 1).Table 3 illustrates

Table 3

Agreements and workers affected by level of agreement and year of signing

Signature Year	Agreements			Workers		
	Total	Company	Level higher than company	Total	Company	Level higher than company
2011	1,363	1,033	330	2,628,723	251,573	2,377,150
2012	1,584	1,243	341	3,195,704	289,915	2,905,789
2013	2,495	1,890	605	5,246,154	375,049	4,871,105
2014	1,743	1,425	318	2,092,839	240,669	1,852,170

Source: Ministry of Employment and Social Security.

[4] Supreme Court ruling on December 22nd, 2014 (appeal No 264/2014): http://www.poderjudicial.es/search/sentence.jsp?reference=7260028 . However, the ruling explains that this only happens in the case of the company's existing workers and is not applicable to new hires (as the old collective agreement did not form part of their employment contract). The sentence included four dissenting opinions, two in favour of the ruling and two against.

[5] For now, as the Supreme Court's ruling also points out that it is not clear from the legislation what exactly a higher level agreement is (territorial or functional, or a combination of the two, or which should prevail if they both exist, or if it is only the immediately higher level). This doubt is all the more important given that, in terms of the hierarchy of legal instruments, all collective agreements have the same rank regardless of their scope.

how the number of agreements signed increased in the years of the reform, but clearly peaked in 2013: the total number of agreements reached almost 2,500, increasing by 57% compared with 2012. Broken down by level, there were almost 650 more company level agreements than in 2012 (an increase of 52%) and higher level agreements rose from 341 to 605 (77% more). In terms of the number of workers covered, the year-on-year increase between 2012 and 2013 was 64% for the total, 29% for company level agreements, and 68% for higher level agreements. In 2014, the figures returned to levels slightly higher than those in 2012.

Thus, the data suggest that, rather than bring fresh stimulus to negotiating activity across the board, the reform triggered a one-off increase by ending ultra-activity.

Lastly, it is worth asking if, following the reform, collective bargaining covers a larger or smaller percentage of wage earners. The figures in Table 1 shows that collective bargaining is generally covering fewer workers. In this regard, ILO (2014) argues that although there is no direct evidence, all signs point to a decline in the coverage of collective bargaining since the 2012 reform.

In principle, the design of the Spanish legal framework for collective bargaining seems to aim to avoid gaps and to promote broad coverage of agreements, particularly *ex-ante* due to the *erga omnes* principle. However, the reality is always more complex than regulation and despite the aim of filling gaps, there are workers whose pay and conditions are not laid down in any collective agreement. For this reason, some experts try to calculate a collective bargaining coverage rate that compares those workers with effective protection with those potentially protected. A rate of this kind suffers from the problem that in practice it is necessary to use different sources for the numerator and the denominator. Pérez Infante (2015) presents an attempt at an estimate using data on workers covered obtained from the collective agreement statistics in the numerator and social security affiliations (with some adjustments) for the denominator. Although the author highlights certain caveats regarding the precision of this type of estimate for a particular moment in time, its progress over time would show a slight increase in coverage in the first two years of the crisis (probably as a result of multi-annual agreements). Coverage then drops from 2010 to 2013, with an upturn in the calculations using the provisional 2014 data.

All the data and other signs suggest that the upturn in negotiation associated with the end of ultra-activity is short-lived. Despite the trend towards supra-company agreements, overall coverage of collective bargaining has declined in Spain since the 2012 reform.

In short, all the data and other signs suggest that the upturn in negotiation associated with the end of ultra-activity is short-lived and that, despite the trend towards supra-company agreements, overall coverage of collective bargaining has declined in Spain since the 2012 reform.

Wage flexibility in agreements or outside of them?

Collective bargaining is the main mechanism for the determination of wages in the Spanish private sector. Thus, the changes to collective bargaining regulations introduced by the 2012 reform have the potential to affect wages and wage trends. The expected effect of these changes would be to make it easier to change wages (particularly downwards) to adapt to the business cycle and avoid adjustments to the number of workers via redundancies and non-renewal of contracts. The reform therefore aims to trade off changes in wages against changes in number of jobs.

Over such a short period of time, all of which has been in the same phase of the cycle, it is not possible to assess the impact on employment volatility, although the continued widespread recourse to temporary contracts following the 2012 reform is not reassuring (López Mourelo and Malo, 2014).

As regards wage-setting trends, Table 4 shows the wage changes agreed and revised (as percentages),[6] bearing in mind that wage revisions refer to the application of pay guarantee clauses when they are retroactive (provided these clauses are expressed in terms of a quantifiable variable, normally the consumer price index).

Since 2012, even in revised terms, there has been a significant reduction in changes in wages relative to the early stages of the crisis (a more comparable period than the expansion). The fact that this happened while the most recent labour-market reform was being implemented, which very much intended to achieve this effect, is not merely coincidental. Nevertheless, other additional effects, such as the severity and duration of the employment crisis, may have encouraged, ceteris paribus, concessions by workers during negotiations. The pay freeze for public sector employees may also have had a "demonstration effect" on collective bargaining in the private sector.

Table 4

Change in wages (by agreement or pay review) as a percentage per year of economic impact of collective agreement according to agreement type

	Total		Company agreements		Agreements at levels higher than company level	
	Agreement	Pay review	Agreement	Pay review	Agreement	Pay review
2000	3.09	3.72	2.64	3.49	3.15	3.76
2001	3.50	3.68	2.84	3.12	3.59	3.75
2002	3.14	3.85	2.69	3.62	3.19	3.88
2003	3.48	3.68	2.70	2.94	3.58	3.77
2004	3.01	3.60	2.61	3.14	3.06	3.65
2005	3.17	4.04	2.94	3.61	3.19	4.09
2006	3.29	3.59	2.92	3.15	3.34	3.65
2007	3.14	4.21	2.70	3.57	3.20	4.28
2008	3.60	3.60	3.09	3.09	3.65	3.65
2009	2.25	2.24	2.17	2.17	2.26	2.25
2010	1.48	2.16	1.26	1.99	1.50	2.18
2011	1.98	2.29	1.63	1.97	2.02	2.32
2012	1.00	1.16	1.17	1.48	0.98	1.13
2013	0.53	0.53	0.55	0.55	0.53	0.53
2014	0.59	0.59	0.43	0.43	0.60	0.61

Note: See footnote 6 on the possible overestimation of these percentages due to the treatment of new agreements.
Source: Ministry of Employment and Social Security.

[6] According to the methodology for collective agreements statistics, totally new agreements (not arising from any previous agreement) are not included in this calculation, as this percentage cannot be calculated given the lack of a previous agreement. It is possible that this represents an upward bias in the percentages given.

Moreover, it is possible that the data in Table 4 overestimate the effective change in pay. Firstly, the opt-outs always focus on changing wages or the remuneration system (alone or jointly with other working conditions), such that pay changes do not apply to workers affected by opt-outs. Secondly, the reduction in the general coverage of collective bargaining will inevitably result in wage restraint or cuts relative to the collective agreements that could have covered these workers (at least in times of recession). In these cases, changes in pay are not related to wage negotiations, and are simply excluded from the statistics on collective agreements.

Wage distribution has been seriously affected by the crisis, particularly since 2011. Real cuts in wages have been concentrated in the lowest deciles of wage distribution, which has clearly contributed to widening the spread in wages and income inequality (López Mourelo and Malo, 2015). The quarterly labour costs survey data also suggest relatively moderate changes in wages during the crisis, with the exception of 2008, with zero growth in 2013 and a drop of -0.1 in the first quarter of 2014 (Pérez Infante, 2015). In reality, the wage adjustment was more intense, given the composition effect, as it is only possible to measure the wages (and labour costs) of workers who remained in work, while many low wage workers lost their jobs during the crisis (Puente and Galán, 2014; Pérez Infante, 2015).

If there had not been a drop in the general coverage of collective bargaining, the shift in the structure of negotiation towards collective agreements above the firm level would have reined in wage cuts, which have been intense in the second stage of the recession. However, it seems that what has happened in Spain is that collective bargaining as a wage setting mechanism has lost ground to the employer's option to decide unilaterally. In other words, it is not that the labour market is more competitive, but that there has been an increase in monopsony power to set wages. This does not necessarily mean the labour market operates

Collective bargaining as a wage setting mechanism in Spain has lost ground to the employer's option to decide unilaterally. This does not necessarily mean that the labour market is more competitive, but that there has been an increase in monopsony power to set wages.

Table 5

Gross average wages in the lowest wage decile (total and full-time employees) and national minimum wage
(euros at constant 2006 prices)

	Total	Full time (FT)	Minimum wage (MW)	FT-MW
2006	474.2	575.1	540.9	34.2
2007	488.1	607.5	555.1	52.3
2008	468.6	612.4	560.9	51.5
2009	464.9	589.3	585.0	4.3
2010	444.3	579.7	583.2	-3.5
2011	414.5	545.1	572.4	-27.2
2012	370.7	511.8	558.7	-46.9
2013	356.0	484.0	554.3	-70.3

Source: INE (Labour Force Survey), Ministry of Employment and Social Security and author's calculations (López Mourelo and Malo (2015).

more efficiently or that there is an unambiguous increase in the volume of employment across the economy as a whole (Falch and Strom, 2007). That said, assuming that the employer has a degree of monopsony power, a significant number of policies can generate efficiency gains, such as a minimum wage, union activity, unemployment benefits, ceilings on working hours, etc. (Manning, 2004).

However, the cut in wages caused or encouraged by the 2012 labour-market reform has reached its limits. With the adjustment falling mostly on workers with the lowest wages, gross average wages in the first wage decile are now close to the minimum wage. Table 5 shows how before the Great Recession, average wages in the lowest decile were above the minimum wage, standing at 52.3 euros/month above it in 2007. However, in 2010, a negative difference emerged with respect to the minimum wage, that in 2013 came to -70.3 euros/month. As these comparisons are based on aggregate figures (rather than individual data), it cannot be argued that on average the minimum wage is not being complied with for these workers. However, they do suggest that this path towards achieving greater competitiveness and reduced aggregate volatility of employment has run its course.

Concluding remarks

Collective bargaining in Spain was profoundly impacted by the 2012 reform. Arguably, a new model of collective bargaining is emerging, with two characteristics: more decision-making power for employers, and increased coverage of non-provincial sectoral agreements. Although the first characteristic is not surprising, the second is.

Giving priority to company level agreements seems to have eliminated the centrality of provincial-sectoral agreements. The finger has repeatedly been pointed at the predominance of the provincial-sectoral agreement as a source of inefficiencies and obstacles to raising business competitiveness.

From the economic viewpoint, it is worth noting that the inefficiencies the provincial-sectoral level is accused of (as an intermediate level of negotiation) have more to do with its being provincial than sectoral. Collective bargaining is not an administrative act but an economic one, arising out of the will of the parties. New sectoral agreements that are not so closely tied to the provincial level could avoid the fragmentation and lack of coordination resulting from the priority given to company level agreements or excessive use of opt-outs from provincial-sectoral agreements. Therefore, the change observed in terms of the lesser predominance of provincial-sectoral agreements with an increased role for higher level agreements is in the right direction to reduce past inefficiencies while avoiding fragmentation and a lack of coordination in collective bargaining. International empirical evidence highlights the importance of coordination of collective bargaining. For example, Hayter and Weiberg (2011) show that wage dispersion is greater in countries with company-by-company negotiation systems, with no coordination between them. What is more, Cazes *et al.* (2012) show that the aggregate employment rate is higher in countries with high centralisation or high decentralisation, but only when decentralization is coordinated rather than fragmented.

In this context, in a country with as many small businesses and micro-enterprises as Spain, increased reliance on company level negotiations could prove more of a burden than an advantage (García Serrano *et al.*, 2010). Many small businesses would probably prefer their corresponding employers' organisation to handle negotiations (with all the legal guarantees a collective agreement requires) and thus free up their time and effort for the more pressing day-to-day tasks involved in running a small business. On the employees' side, workers in small businesses normally lack representation, which does not

seem to be the best way to ensure equitable results.

However, this transformation in the structure of collective bargaining coexists with what seems to be a decline in the coverage of collective bargaining as a whole, *i.e.* a weakening of collective bargaining as a wage-setting mechanism. International evidence also clearly shows that shrinking coverage of collective bargaining is associated with increased inequality, particularly through its impact on low-paid jobs (Bosch, 2015). It is essential to keep in mind that a market with less collective bargaining coverage is not automatically more efficient thanks to greater competition. In practice, it is merely a transition to a market with different degrees of monopsony power in the hands of companies. In fact, the strong wage adjustment in the lower part of the wage distribution is what is to be expected in a labour market in which there has been a shift towards greater monopsony power.

Steps towards avoiding this type of problem would be to prevent the loss of collective bargaining coverage, while avoiding its fragmentation. It will be important to foster negotiations with stronger union presence in firms and more contact between union representatives at the sector level with the sector's workers. This is not something that depends on regulation, but on trade unions´ strategies. Another general line of action in the hands of both unions and employers' organisations is to consolidate the current trend towards the predominance of sectoral agreements at supra-provincial levels, or at least with territorial scope that makes economic sense rather than obeying an administrative logic. The interaction between these supra-company agreements and the use of opt-outs could provide the necessary coordination in wage-setting without harming firms that are temporarily unable to pay the wages set in the sectoral collective agreement.

Finally, we must recall that legal changes were largely introduced to stimulate internal adjustments rather than external ones; *i.e*. the aim was to limit swings in employment in exchange for changes in other variables (wages, working hours, working conditions, etc.). However, although it is still too early to make a firm assessment, there are no signs that this goal is being achieved, as hiring remains strongly reliant on temporary contracts.

References

Bosch, G. (2015), "Shrinking collective bargaining coverage, increasing income inequality: A comparison of five EU countries," *International Labour Review*, 134(1), 57-68.

Cazes, S.; Khatiwada, S., and M.A. Malo (2012), "Employment protection and collective bargaining: Beyond the deregulatory agendat," Employment Working Paper 133. International Labour Organization. Geneva (Switzerland), http://www.ilo.org/wcmsp5/groups/public/---ed_emp/documents/publication/wcms_191726.pdf

Falch, T., and B. Storm (2007), "Wage bargaining and monopsony," *Economics Letters*, 94, 202-207.

García Serrano, C.; Malo, M.A., and J.I. Pérez Infante, (2010), "Dos cuestiones claves de la reforma laboral: Despidos y negociación colectiva," *Temas Laborales*, 107, 53-85.

Hayter, S., and B. Weiberg (2011), "Mind the gap: collective bargaining and wage inequality," Chapter 6 in S. Hayter (ed.) *The Role of Collective Bargaining in the Global Economy*, Cheltenham (United Kingdom), Edward Elgar Publishing – International Labour Organization, 136-186.

ILO (2014), Spain. Growth with jobs. ILO Research Department. Geneva (Switzerland). Link: http://www.ilo.org/wcmsp5/groups/public/---dgreports/---dcomm/---publ/documents/publication/wcms_309955.pdf

Izquierdo, M.; Lacuesta, A., and S. Puente (2013), "La reforma laboral de 2012: un primer análisis de algunos de sus efectos sobre el mercado de trabajo," *Boletín Económico del Banco de España*, September, 55-64.

Jimeno, J.F., and C. Thomas (2013), "Collective bargaining, firm heterogeneity and unemployment," *European Economic Review*, 59, 63-79.

López Mourelo, E., and M.A. Malo (2015), "El mercado de trabajo en España: El contexto europeo, los dos viejos desafíos y un nuevo problema," *Ekonomiaz*, forthcoming.

Malo, M.A. (2012a), "Una primera valoración de la reforma laboral de 2012," *Cuadernos de Información Económica*, 226, 77-81.

– (2012b), "La reforma laboral de 2012: Cambios e incertidumbres," *Papeles de Economía Española*, 133, 84-92.

– (2015), *Inventory of European policy responses to the financial and economic crisis. National study: Spain*, Report commissioned by the Research Department of the International Labour Organization, Geneva (Switzerland).

Manning, A. (2004), "Monopsony and the efficiency of labour market interventions," *Labour Economics*, 11, 145-163.

OECD (2014), The 2012 Labour Market Reform in Spain: A Preliminary Assessment, OECD Publishing, Paris, (France), link: http://dx.doi.org/10.1787/9789264213586-en

Pérez Infante, J.I. (2015), "Las reformas laborales en la crisis económica: su impacto económico," *Ekonomiaz*, forthcoming.

Puente, S., and S. Galán (2014), "Un análisis de los efectos composición sobre la evolución de los salarios," *Boletín Económico del Banco de España*, February, 54-61.