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MINISTERIO  
DE INCLUSIÓN, SEGURIDAD SOCIAL  
Y MIGRACIONES

## SPAIN INVESTORS DAY 2021

Speech by the minister of Inclusion, Social Security and Migration  
**José Luis Escrivá**



Good morning,

Thank you for the kind invitation to share with you a few thoughts about how I envisage our work ahead after this first year in government, which I admit has been anything but a normal one.

The prime objective of the Ministry for Inclusion, Social Security and Migration is to engender cohesion and certainty for economic agents and Spanish society as a whole. Modern economics and empirical evidence show us that this is a very important ingredient for sustained growth. To achieve this goal, about a year ago we put forward national agreements on three key areas. First, pensions, to make the system sufficient, sustainable and more equitable; second, inclusive policies, to substantially reduce poverty and social exclusion; and third, migration, to foster regular immigration to match the needs of the Spanish labour market.

The first two agreements have already been sealed with overwhelming majorities in the Spanish Parliament. The third one, the Pact for migration, remains a major goal of this Ministry going forward. Cross-party cooperation is the most effective way of making sound social and economic policies enduring and framing them in an appropriate medium-term orientation.

On top of these three elements, other short-term priorities came to the fore over the year, as the extremely acute health emergency triggered by the coronavirus required a set of bold and far-reaching policies to be devised. Those policies were aimed at protecting jobs, firms and the self-employed, all impinged on by the lockdown and subsequent measures constraining economic activity.

Let me briefly go through the areas in which our Ministry has been particularly proactive: pension reform, social inclusion policies and crisis management of the pandemic from an economic and social standpoint.

As far as the pension reform is concerned, we are busy drafting and passing legislation to comply with the recommendations made to the Government by Parliament, following the historic consensus I mentioned before. Some measures have already been implemented with the approval of the new budget law last month, including a new fiscal framework and accompanying instruments to promote collective pension plans, as yet underdeveloped in Spain. Other



measures are currently being negotiated with trade unions and business representatives.

One driving force of our reform is securing the long-term sustainability of the system under the principles of inter-generational solidarity and fiscal responsibility. Spain is already in a good starting position to deal with the challenge posed by the retirement in the coming decades of the baby boom generation. The 2011 reform set out a time schedule to progressively raise the legal age of retirement to 67 by 2027 (it is 66 at present). Building on that, we are working on a wide array of measures to ensure that the effective retirement age moves closer to the legal retirement age. This will be achieved by reforming early and postponed retirement schemes. Here there is indeed room for improvement.

As regards social inclusion policies, this year we have introduced (I must add, with unanimous support in Parliament) a long-needed national minimum income scheme, designed to eradicate extreme poverty and facilitate the transition to full participation in society for those in a situation of vulnerability.

Half a million recipients already benefit directly from this new policy.

I like to describe the minimum income scheme not as a benefit, but rather as a set of policies articulated around one. It is an example of a new generation of social policies, not linked directly to the status of unemployment but instead to the new vulnerabilities of our societies, which can take many forms. With a targeted approach, we work on a case-to-case basis and consider the specificities of each recipient.

We see this innovative policy as a driver that will activate and upskill an important segment of the labour force, and dynamize the Spanish economy more generally. Moreover, by contributing to a more cohesive and inclusive society, it will play a crucial role in making Spain more attractive to investment.

Looking ahead, this year we will start deploying “inclusive itineraries” for beneficiaries, and evaluating how successful these accompanying policies are in providing opportunities for the worst-off. Furthermore, our aim is to extend this new minimum income approach to other social protection schemes to make them more targeted and incentive-driven.



Concerning our crisis management of the pandemic from an economic and social standpoint, we recognized from the outset that by restricting activities and preventing social interactions the economy would take a severe hit. But we also recognized the temporary nature of this crisis: once the pandemic had been brought under control, economic activity would be able to resume.

This basic premise had two important implications: first, we had to intervene swiftly to avoid a sudden, deep, but in the end temporary shock, causing any major structural damage in our economic fabric. We had to partially hibernate the economy to make sure it would be ready to grow in the post-pandemic world.

As a result, a raft of measures in support of firms and the self-employed were launched. Our measures were particularly targeted and featured well-designed incentives for the activation of inactive workers as soon as conditions permitted.

We witnessed a robust recovery of activity in the third quarter of last year when the health situation improved and a milder one in the fourth quarter against a backdrop of a new wave of the pandemic. This has made us reasonably optimistic about the efficacy of this set of policies and confident about the growth prospects in 2021, now that we are starting to glimpse the end of the pandemic.

Second, we had to make sure that, unlike in the past, a fall in economic activity would not translate automatically into an even larger drop in employment. This was a serious risk.

The lesson learnt from previous crises is that hysteresis effects are real, and that they do make a crisis longer and more painful. A new and flexible furlough model negotiated permanently with employers and unions was deployed to avoid layoffs by firms and foster reactivation, once the health conditions improved.

Allow me to mention that we are now close to an agreement on the extension of the furlough scheme for the coming months. Given the uneven impact of the crisis across sectors and the deployment of the vaccine as a shining light at the end of the tunnel, a surgical and targeted approach in the short-term is again warranted.



Even though the furlough scheme together with the self-employed protection scheme have had a huge reach (they protected more than 1 out of every 4 workers at the peak of the crisis), thanks partially to their design, the budgetary cost of preventing a massive unemployment crisis has been relatively contained.

What is more, they have been instrumental in absorbing the economic shock not only for large and industrial firms (the ones for which the German *kurzarbeit* program was originally designed), but in our case especially for SMEs in the services sector. I view this as a major success, not fully foreseen at the time.

Thanks to these schemes, we have now more workers on open-ended contracts and more self-employed workers than before the pandemic.

Going forward, our main challenge is how to learn from these experiences, using them to transform our labour market and correct its structural weaknesses, most notably its degree of precariousness and the recourse to temporary employment contracts as the main lever that firms use to adjust to demand-side conditions.

The successful experience of the new furlough model has shown us that there are efficient ways of making our labour market both more flexible and more equitable. We will adjust this model to make it a structural element of our labour market.

In this regard, a permanent furlough scheme, together with other labour market policies, will become an intrinsic component, as an accompanying reform, of the Recovery, Transformation and Resilience plan that the Spanish Government is finalizing for submission to the European Commission. Likewise, the pension reform and the development of modern inclusion policies will be part of the plan.

I am convinced that by combining efficient and targeted public investment with accompanying reforms this plan is a great opportunity to boost economic growth in the short-term and to make the Spanish economy more productive, inclusive and resilient over the medium-term.