One of the most vibrant debates taking place in the fields of European social policy and comparative political economy concerns the limitations and opportunities in the EU to go beyond austerity-based social and economic policies. The debate concerns both the changing fortunes of austerity among EU institutions –which were revised in a previous post of EU Visions – as well as the will and capacity of national governments to transcend austerity at the domestic level. Nowhere has this debate been more vivid than in Southern Europe, where the fiscal consolidation and wage devaluation programmes implemented during the euro crisis were more stringent. A recent Special Issue of the *Southern European Politics and Societies* journal analysed the extent to which the left-wing Portuguese government elected in 2015 has been able to 'reverse' austerity cutbacks and pursue a different economic and social policy agenda. The conclusions by Catherine Moury and her colleagues are mild: "the Costa I Socialist government (2015–2019) managed to combine responsiveness to voters with responsibility towards domestic and international actors by pursuing some kind of 'austerity by stealth', which we define as less visible fiscal contraction that is not displayed by the government in its public discourse. The radical left parties implicitly agreed with this strategy in exchange for the adoption of a long list of visible anti-austerity policies". Similar conclusions were reached in the articles from a previous Special Issue of the same journal. In this post we consider extent to which the outbreak of the COVID-19 pandemic – and the social policy responses it has been triggering – has altered this course. We do so by focusing on the social and labour market policies adopted in reaction to the pandemic by another left-wing Southern European government: Spain.

An ambitious but divided government

The current Spanish executive branch, chaired by Pedro Sánchez, is a coalition between the Spanish Socialist Workers Party (PSOE) and the anti-austerity party *Unidas Podemos* (UP; United We Can). It is made up of twenty-two ministries, five of them from UP, in addition to the Presidency of the Government. It is a minority government depending on the parliamentary support of right-wing Basque nationalists (PNV) and left-wing Catalan separatists (ERC). The coalition government was elected in November 2019, but Sánchez had been governing without Podemos since June 2018, after the adoption of a motion of censure against Mariano Rajoy (PP).

The outbreak of the COVID19 pandemic has marked a turning point in this evolution.

The original coalition pact between PSOE and UP was noteworthy for its high social policy ambitions: progressive tax reform, revocation of the 2012 Rajoy's labour reform, establishment of rent controls on the rental market, minimum wage increases, raise in pensions, educational reform and climate change law, among others. However, since the beginning, the implementation of this programme has been undermined by reluctance from the PSOE to adopt some key measures contained in the pact, which in turn has provoked constant conflicts between the two coalition partners.

The outbreak of the COVID19 pandemic has marked a turning point in this evolution. Due to its services-based growth model – particularly centred on tourism – Spain was among the countries hit hardest in Europe, not only in health terms but also in economic ones: in 2020, while the average GDP drop in the EU was of −6.8%, in Spain was of −11, the highest in Europe.

Short-term policy responses to COVID-19

In the social policy field, Spain, like almost all EU member states, managed to articulate a fast answer to protect workers from job and income losses by relaxing the conditions tied to unemployment benefits and by granting access to short-time work (STW) schemes. On 11 March 2020, three days before the state of alarm was decreed, there were barely 5,000 workers in the STW scheme. On 30 April, that figure reached 3.39 million. As of April 2021, 750,000 Spanish workers are calculated to have been in STW programmes for at least one year. As in Italy and in Portugal, workers in Spain received funds directly from the public administration, with 100% of the programme costs funded by the State.

Job retention and unemployment subsidies have not been the only income support measures adopted by the Spanish executive branch.

The features of the Spanish labour market limited the reach of job retention schemes. In general, this tool works best when stable and long-lasting employment relationships are in place. Thus, in sectors where temporary contracts prevail, it is more difficult when their adoption becomes widespread. If we compare the labour markets of the main European economies, we can observe differences in some of the characteristics that determine the success of job retention programmes. For example, temporary employment levels are much higher in Spain (22% of employment) and Portugal (17.5%) than in Austria (7.7%) or Ireland (8.3%). The Spanish economy also features a particularly high ratio of self-employed workers, who are not included in the STW scheme designed by the Spanish executive branch. The Spanish labour market also stands out for the short average duration of temporary contracts. The high Spanish unemployed rate (14.1%) before the pandemic and the high incidence of informality in the labour market have been two further factors limiting the reach of STW schemes.

Job retention and unemployment subsidies have not been the only income support measures adopted by the Spanish executive branch. A battery of measures for self-employed workers was launched during the first months of the pandemic, although their design differed across the regions. Benefits for people ill with COVID-19 or in isolation were increased, while financial aid for small and medium sized enterprises was allocated (although, again, differently in each region). A 25 million euro plan to finance specific social service programmes for families was also adopted in March 2020.

However, in comparison to other EU countries, the Spanish social and economic policy response to the COVID19 crisis has been relatively modest. Labour market outsiders and low-paid service workers (paradoxically, most of them defined as essential workers during the lockdowns) have been left particularly unprotected, while the support measures directed towards the self-employed have been very limited. In addition, few measures have been introduced to support parents who had to care for dependent minors during the school closures.

Overall, the limits of the social policy response of the Spanish government arose from its reluctance to make full use of fiscal policy: especially when we consider how the pandemic is expected to affect the Spanish economy, the fiscal response has been modest – just over 3.5% of GDP (see IMF data). However, this modest fiscal response is common across the indebted Southern European member states, with the Portuguese response being even lower (2.5% of GDP).

Structural changes: the debate on labour market reforms

In addition to these short-term responses, the pandemic context has provided an opportunity to implement structural changes that address some of the perennial dysfunctions of the Spanish welfare regime and labour market. Two key issues that the government has sought (or is seeking) to address concern the problems of extreme dualisation in the labour market and excessive precarity.

Starting with the first issue, an explicit aim of the Sánchez government was to repeal the 2012 labour reform adopted by the previous conservative government under the auspices of the European Commission. One of the objectives of the 2012 reform was to establish the prevalence of company agreements over higher-level agreements – not only in matters such as salary, but also in compensation for overtime, supplements, hours or professional classification. The explicit aim was to lower unit labour costs in Spain so as to trigger an export-led economic recovery. Importantly, the hypothesis behind this expectation was that, by decentralising collective bargaining and increasing internal flexibility, employers could acquire more bargaining power and thus better adjust the conditions for each company.

It so happens that the elimination of the priority of company agreements over those of higher scope is one of the central arguments given by both the PSOE and UP to repeal this labour reform. However, as pointed out by a report of the European Commission, the impacts of the 2012 labour reform on collective bargaining and labour costs have been limited. On the one hand, not only has the number of companies that have decided to make their own collective bargaining been falling since 2012, but also, and consistent with that process, the number of affected workers has plummeted. Specifically, this number has gone from 391,741 in 2015, still behind the changes introduced by the labour reform, to 109,778, while in 2020 it barely exceeded 79,100. On the other hand, regarding labour costs, data from the Ministry of Labour show a wage increase of 1.91% in 2020, well above inflation, which stood at minus 0.8%. However, the salary increase in company agreements was lower (1.6%). In 2012, the year in which the labour reform came into force and also with practically zero inflation, wage increases in collective agreements as a whole were 1%, but those for the company rose by 1.2%.

This commitment to reduce temporality in the labour market goes hand in hand with two other structural measures: the progressive elevation (since 2019) of the statutory minimum income and the implementation of a guaranteed basic income scheme.

The scant interest of employers in negotiating company agreements can be explained by the higher degree of conflict that this modality incorporates, as well as the higher costs of negotiation time and infrastructure required, which are diluted if the agreement affects hundreds or thousands of companies. Expressed another way, savings of a few tenths of a salary does not compensate for bringing within the company the tensions generated by the negotiation of its own collective agreement.

In any case, the aim of the Spanish Ministry of Labour, from UP, is to repeal the 2012 labour reform and to adopt in its place a new norm with three key measures: prevalence of sectoral over company agreements, recovery of the principle of ultra-activity in collective agreements and limitation of subcontracting. Regarding the last aspect, the government aims to simplify the contractual framework, reducing it to three forms: the indefinite contract as a default principle for an employment relationship; a temporary contract only when justified by a temporary need which prevents the activity from being carried out indefinitely; and last, training contracts. It will be interesting to see how the Commission reacts to these proposals, because they undermine important aspects of the 2012 labour reform that the European Commission applauded at the time.

This commitment to reduce temporality in the labour market goes hand in hand with two other structural measures: the progressive elevation (since 2019) of the statutory minimum income and the implementation of a guaranteed basic income scheme (which previously only existed in some Spanish regions). Another key change that could diminish the precarity of the Spanish labour market was the decision by the Spanish Supreme Court on 29 December 2020 to end the possibility of temporary contracts being deployed via subcontracting for work or service of indefinite duration.

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