

On the Adequacy of The Spanish Pension System During The Great Recession

*Fernando Bermejo*¹

Abstract

The Spanish economy has been particularly affected by the consequences of the financial and economic crisis started in 2008. After a decade of prosperity in Spain, an excessive level of debt derived from an unsustainable pattern of economic growth mainly related to imbalances in the real estate sector triggered a process that was weakening the aggregate demand and, as a direct consequence, deteriorating the level of production and employment. This fact reduced drastically the income of households, resulting in a downward spiral that led to a lower level of production and a higher unemployment rate, closing the circle above described. In this recession context, household consumption analysis becomes a relevant issue, not only to assess how the welfare of different types of households has been affected by the crisis, but because the demand for goods and services is crucial for defining both the production structure and the labour market of an economy. On this basis, the objective of this research is focused on quantifying the extent to which the demand for goods and services purchased by old-age pensioners during the crisis has collaborated to alleviate this problem. Thus, the present study proposes an analysis to evaluate the effects that the variation of the pensioner households' consumption has caused on employment during the recession. Using Input-Output methodology and expenditure data from the Household Budget Survey, we first measure the labour directly and indirectly linked to the consumption demand of households whose main source of income is an old-age pension. Then, a structural decomposition analysis is carried out to identify and evaluate the determining factors that have contributed to total changes in the employment associated to the output generated by the pensioners' consumption. As a conclusion, the main results prove the stabilizing effect of pensions on the Spanish labour market, since the maintenance of the pension benefits in real terms has been applied to sustain and improve a level of demand that subsequently has returned to the system as production and jobs. This fact has helped to mitigate the negative trend in consumption and employment followed by the rest of the households.

Keywords: Pensions, Employment, Households, Consumption, Great Recession

¹ University of Castilla-La Mancha, Spain