Labor reforms that work

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With the unemployment rate in Spain the highest in Europe in 2008, a study of labor reforms since the 1980s makes for urgent reading.

In "Las reformas laborales en España y su impacto real en el mercado de trabajo en el periodo 1985-2006" ("Labor Reforms in Spain and Their Real Impact on the Job Market During the Period 1985-2006"), IESE Prof. Sandalio Gómez, Ignacio Contreras and María Dolores Gracia analyze the effectiveness of labor reforms undertaken in Spain in 1984, 1994, 1997, 2001 and 2006, and they make some recommendations for the future.

In 1984, an unemployment rate of 20.6 percent forced the Spanish government to take drastic steps to encourage the temporary hiring of workers. They extended the duration of training contracts to four years. This and other measures helped to create two million temporary contracts, which accounted for 95 percent of total hires. However, as the percentage of indefinite-term contracts continued to decline, the number of unemployed increased by 765,000 people.

Defining reforms

The 1990s were marked by the appearance of new information technologies, more women entering the labor force and increased immigration. Two reforms made during this decade marked a "before" and "after" moment.

The most important and ambitious of the reforms occurred in 1994. It was the exact opposite of the previous one: It cut down on temporary hiring. They also facilitated job placement for young people by offering more training contracts and adding flexibility to both the

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employment relationship and the reasons for employee terminations. Although they did away with contracts designed to foster employment through temporary arrangements, these ended up taking the form of contingency contracts and contracts for a specific project or service.

In 1997, backed by a major pact among social intermediaries, a new model of indefinite-term contract was approved: the contract for promoting indefinite-term hiring for people with special difficulties. The intention was to put the brakes on temporary hiring and change the terms of job-placement contracts. This led to a massive drop in unemployment by a million people, bringing the unemployment rate down to 12.9 percent, which was considered a major achievement.

Subsequent reforms have flaws

In 2001, with an unemployment rate 10 percentage points lower than in 1996, part-time contracts started to get promoted, along with the conversion of temporary contracts into indefinite-term hires. The goal was being achieved, albeit gradually. The working population increased by millions and the unemployment rate fell by 2.35 percent.

The fifth and final reform came in 2006. Its main flaw, according to the authors, was in not addressing endemic structural problems. It was basically founded on subsidies with specific expiry dates.

The first measure expired in December 2007, at which point the decision came to subsidize and give impetus to the contract for fostering employment, and to convert contingency contracts into indefinite-term contracts. This was accompanied by the promotion of labor inspections and an effort to seek efficiency in the country's active employment policies.

More training and flexibility

The authors suggest that any new labor-market reform, now in high demand, should learn from these previous reforms. They also point out that the only reform to achieve reasonable results was that of 1997, since it undertook some ambitious objectives, was backed by social consensus and came at an opportune time economically.

In addition, as a model for the future, they believe in providing more complete and specialized training for workers, employees and executives; in giving impetus to research, development and innovation; and in extending and applying new technologies among

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businesses and the general population.

They also note that more study is needed of employee terminations, including the reasons for termination and, above all, redefining the price that must be paid in the event of severance. On this latter point, the authors feel that one of the factors discouraging indefinite-term contracts is this hefty severance payout. Moreover, they believe the list of reasons for objective dismissal needs to be reviewed and expanded further.

Finally, the authors discuss some options to explore for the next labor reform. Converting fixed-term into indefinite-term contracts should be promoted, and severance pay should perhaps be defined at the start of the contract.

The authors also support adding more flexibility, both in terms of worker mobility and facilitating changes of residence. Measures like these must be kept in mind for fostering job creation in the future.

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