

# Roadmap to improve the Spanish job market

October 20, 2009

**The Spanish government recently unveiled a series of measures aimed at dealing with the nation's unemployment rate, which is higher than in any other European country as a result of the recession.**

The economic and financial crisis that began in 2007 has had major consequences for the Spanish job market: unemployment rose from 8.3 percent in 2007 to 17.4 percent in the first quarter of 2009, and the number of jobless is approaching 4 million.

This grim reality becomes even starker when comparing the trend of these statistics in Spain with those in other European countries, as the Spanish figures virtually double the European mean. The other E.U. member states have also been affected by the crisis in the form of declining GDP, but they have managed to keep their unemployment rates relatively stable.

The report, "[El mercado de trabajo español ante una nueva reforma laboral](#)," by [IESE Prof. Sandalio Gómez](#), studies the key aspects of the current economic and employment situation in Spain, in order to identify the specific features of the Spanish job market and explore their impact on the disproportionate increase in the country's unemployment rate.

## **An inflexible and unskilled market**

The report highlights the main differences between the Spanish and European job markets, placing special emphasis on those differences with a direct bearing on the higher unemployment rate in Spain.

One difference worth mentioning is the importance of the construction sector in Spain, which accounts for 11.6 percent of total GDP, a much higher share than in other E.U. countries. Moreover, as construction is a sector that relies heavily on unskilled labor, those who lose their jobs in construction as a result of the current crisis have a harder time finding new ones.

Additionally, as a result of strict hiring and firing rules, the job market is highly inflexible, a fact that leads to higher unemployment. The high number of temporary contracts, in particular, facilitates employee terminations and, thus, increased unemployment rates.

Meanwhile, the percentage of part-time contracts is likewise lower than the E.U. average. This hinders the use of a mechanism that has been employed in other countries to get through the worst of the crisis: the entry of women into the job market.

## **Termination costs**

One key factor for a country's competitiveness is the degree of flexibility involved in the normal course of labor relations. The reforms proposed in this study are designed to improve this flexibility, in order to have more resources available for meeting challenges during a strong economic recession.

These reforms include abandoning the widespread tendency to terminate employees on disciplinary grounds. The law should prevent the need to "invent" what is, in most cases, a nonexistent disciplinary violation in order to fire an employee safely. To this end, most terminations should be carried out for objective reasons.

With regard to collective layoffs, the report recommends increasing the percentage of the workforce needed for a layoff to be considered "collective." The author proposes increasing the percentage to more than 15 percent of the workforce, setting a cap of 50 workers, rather than the 10 percent and 30 workers required today.

Another of the challenges to be tackled entails the cost of Spanish Social Security payments. The study proposes lowering these costs by at least 5 percent, thereby bringing them in line with the levels applied in the rest of the E.U. Since this measure could potentially affect the Spanish Social Security budget, it is suggested that it be implemented gradually.

## **New bargaining rules**

With regard to collective bargaining, the reality for companies has changed radically over the past 15 years, yet the employment framework set out in the agreements of 2009 has not.

Thus, in the author's view, it would be advisable to promote the creation of a "clean-slate agreement," which would address key aspects every four or five years, shedding anything that had become obsolete or that would prevent the company from modernizing and adapting to its needs.

The report also addresses the issue of regulations governing the right to strike. The author believes it is necessary to continue along the path begun with the 1997 Employment Stability Pact, due to the inability to reform current strike laws.

In keeping with this view, the steps that must be taken prior to the formal declaration of a strike must be strengthened and made obligatory, as must be the possibility of reengaging in dialogue, of opening a period for reflection, and even of establishing a mediation process. Likewise, the formal requirements for a strike to be considered legal must be clearly defined, and the system used to determine minimum service levels must be improved.

[www.iese.edu/insight](http://www.iese.edu/insight)