Can Spain do what it takes to make structural reforms?

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How to implement reforms related to the labor market, the tax model, the financial system or the pension system in Spain.

Although there is fierce debate over Spain's proposed economic reforms to deal with the crisis, there is growing consensus that three areas must be addressed: labor, pensions and taxation. But as soon as one attempts to get down to the nitty-gritty of policy making, the consensus falls apart.

In his working paper, IESE Prof. Antonio Argandoña presents an overview of the main issues at stake, and examines the practicalities of implementing difficult economic reforms.

The reforms fall into two categories: short-term reforms, aimed at correcting macroeconomic imbalances and helping to stimulate economic activity; and long-ranging structural reforms, which, given their transformative nature, would require wide public debate before they could be implemented.

Practical tips

Before embarking on any program of reform, two crucial factors must be considered: the government's ability to deliver real solutions; and the attitudes and behavior of the groups opposed to reform.

In pushing through any reform, one needs to overcome the opposition, either by making concessions or limiting their influence within the negotiating process.

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The secret to successful negotiation is offering the most important interest groups a combination of positive and negative incentives, ensuring that all stand to gain something or, at the very least, not to lose too much.

Such tactics are not necessary if a project manages to capture the hearts and minds of the majority of citizens, such as what happened when democracy was reintroduced in Spain in the 1970s.

Besides having the resolve to push for reform, the government needs to dedicate serious time and attention, and have decision-making capacities and other key resources, such as personnel and finances, in order to be successful.

Necessary compromise

Certain environmental factors are also important, such as having strong public support in place. Such support does not have to come from all sectors of the population, but one should at least have influential pressure groups on board.

In Spain, Argandoña predicts that there will be a swell of public support for big changes, but more as a reaction against current conditions than as a conscious call for concrete measures.

This, on its own, is not enough to guarantee success. There must also be groups actively committed to reform. These may include ideologically driven academics and business experts, business leaders with ambitious projects in need of a fresh boost, and members of civil society who see the need for a radical change of direction.

Above all, there must be a spirit of compromise and cooperation. For example, a reform program aimed at reducing the cost of dismissal will almost certainly lead to a temporary rise in unemployment, despite its long-term goal of generating work.

For this reason, companies, as the main beneficiaries of this measure, will have to commit to expanding their economic activity and the scale of their investments as quickly as possible. By doing so, they will begin to create new employment before problems start to multiply and public opinion turns hostile to the reform.

At times, a social or political pact may be needed to get the reform through. Unfortunately, forming a coalition is not always possible, in which case, the government must exercise strong, effective political leadership.

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However, as Argandoña points out, this raises to the most pressing question of all: How strong and effective is today's political leadership in Spain?

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