

# Investing in Spain

## No agreement on how to fix dysfunctional jobs market

### Unemployment

**Rigid laws hamper response to crisis, says Victor Mallet**  
 'Unless we change [the law], it's going to be very difficult to have a dynamic labour market'

Almost everyone in Spain accepts that unemployment is the country's biggest economic problem, but there is scant agreement on what should be done about it.

After three years of crisis and high unemployment, both of the main political parties – the governing Socialists who are expected to lose power in the November general election, and the opposition Popular party – espouse the rhetoric of “labour market reform”.

Yet neither has so far announced radical plans for the transformation of a labour market described as “dysfunctional” by the International Monetary Fund, or even said how far it would be possible to move towards reform.

There is no argument about the gravity of the issue. Nearly 5m people are jobless, and the country has an unemployment rate of more than 21 per cent of the workforce, double the European Union average. For young Spaniards, it is above 40 per cent.

On the face of it, these numbers pose an obvious threat to government budgets, because of the cost of unemployment benefits and the loss of tax revenues.

They are also a danger to social peace – even if benefit fraud and the black economy mean the real number of jobless is lower than suggested by official statistics.

Urged on by employers, the country's central bank, the IMF and Spain's EU partners, the government of José Luis Rodríguez Zapatero, prime minister, has taken several steps to liberalise the labour market

amid a deepening crisis in the eurozone.

Measures announced last month include an extension of low-paying apprenticeship contracts previously available only for the under-25s to workers under 30 years old until the end of 2013. Another measure suspends the obligation to convert temporary workers into permanent, contracted employees after they have worked for two years.

This move has angered the Socialists' former union allies but many Spanish businesses have dismissed the changes as tinkering.

Salvador del Rey, professor of employment law at Esade business school in Barcelona, says recent reforms have not changed the underlying structure of labour legislation.

He says: “The perception of our companies in relation to our labour laws is still so negative that unless we change it, it's going to be very difficult to have a dynamic labour market.”

Among the shortcomings of the present system are rigid conditions on salaries and working hours that discourage employers from taking on full-time staff, leaving a quarter of the workforce in vulnerable temporary employment.

The cost of laying off contracted employees in Spain is notoriously high, and the process complicated. In theory, the most an employer has to pay for redundancy is 45 days for each year worked, up to an extraordinarily high maximum of 42 months of pay.

In practice, however, some multinationals have made payments based on 50 or even 70 days a year worked when closing a factory, according to Prof Del Rey, because collective layoffs require government authorisation, which is unlikely without agreement from trade unions.

Another rigidity, according to foreign and domestic investors, is a collective bargaining system based on industrial sectors and dating back to the era of the

dictator Francisco Franco, who died in 1975.

While small employers have become accustomed to the system and to regular negotiations at the provincial level, large employers say it restricts their room for manoeuvre. A high proportion of employees – more than 80 per cent in Spain – are covered by such collective agreements.

Alfredo Pérez Rubalcaba, the Socialist candidate for prime minister, has talked about an “emergency plan” to create jobs for the young, especially those who abandoned school early to take well-paid jobs in the construction industry as the housing market boomed in the decade up to 2007.

Mariano Rajoy, the PP leader and the man most likely to lead Spain's next government, also has labour reforms on his mind, and has suggested devolving decision-making on working conditions to the companies who are paying the employees. Another PP official has said the party wants to create 3.5m jobs in the next four years.

In his new autobiography, Mr Rajoy criticises the sometimes “Kafka-esque” rigidities of the labour market, expressing surprise that many of the engineers and information technology experts he met at a multinational company near Barcelona last year were subject to the Spanish collective bargaining agreement for metalworkers.

“Excessively rigid collective bargaining and labour legislation have prevented companies from adjusting to the decline of economic activity by reducing working hours or moderating salaries,” he writes. The implication is that employers, unable to cut costs in the same way as German companies did at the start of the crisis, have simply fired people or closed down.

Entrepreneurs and executives are hopeful, but not confident, that the PP will keep its promises to change the labour market, particularly if it wins an absolute majority in parliament.

