

Labour reform in Spain

Spain isn't working

The prime minister tries to please everyone with a labour-reform package

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IT WAS reform in slow motion. Spain's labour laws were eventually tightened on June 16th, with the promise of more to come, as José Luis Rodríguez Zapatero's Socialist government, faced with a national unemployment rate of almost 20% and rumours (which it denied) that it was poised to tap the euro-zone's rescue package, continued its painful creep towards change.

Some of the reforms were bold. Severance payouts will, in some cases, be slashed from 45 days' worth of salary per year worked to 25. Companies will find it easier to lay workers off temporarily during bad times. Some contracts will be simplified. It is the biggest shift in labour legislation for 16 years, says Salvador del Rey of the Cuatrecasas International Institute.

So far, so good. But although the decree came into effect immediately, it must pass through parliament on June 22nd. Lacking a majority, the prime minister could see it immediately repealed, although few expect that. The debate may involve the kind of political brinkmanship that last month saw Mr Zapatero's austerity plan squeeze through parliament by a single vote. Further agony is added by his decision that the decree should be transformed into a full-blown parliamentary bill. This will require months of negotiations, as Mr Zapatero will allow other parties to add amendments in an attempt to spread responsibility for unpopular measures.

That process should permit further tightening, especially if Mr Zapatero turns to the business-friendly Catalan regional party Convergence and Union for help. But some economists worry that the first result of a law designed to boost employment will be the opposite, as companies freeze hiring during the months of uncertainty. The reforms will not help to create new jobs, says Gerardo Díaz Ferrán, head of the Spanish Confederation of Business Organisations, Spain's biggest employers' federation. (Yet Mr Zapatero was forced to act because Mr Díaz Ferrán and trade unions failed to agree on their own reforms.)

Some things will stay the same. The reformed laws will still be open to interpretation by judges, an experience many Spanish employers have come to dread. The decree clarifies some laws, but there is still likely to be plenty of work for Spain's estimated 80,000 labour consultants and lawyers. Spain's inefficient collective bargaining system has also been left largely intact.

The measures of the reform decree reflect Mr Zapatero's attempt to triangulate between the demands of three groups. First, he needed to calm market fears about Spain's ability to create wealth and pay debts. Second, he had to please other parties, which he relies on for support in parliament. Last, he wanted to avoid antagonising his old trade union allies.

That did not work. Spain's two big unions have announced that they will hold a general strike to protest against the reforms. Yet the date they set, September 29th, is several months off, suggesting that they may doubt their ability to command widespread support.

The reaction of ordinary Spaniards was hard to measure. This was partly because on the day the reform was unveiled public attention was diverted by Spain's first match in the World Cup (despite being favourites, they were humbled by Switzerland). The government insisted that

the timing was coincidental, but to many Spaniards the televising of important sporting events at times of political tension is reminiscent of the Franco era.

The reform announcement also coincided with a rise of Spain's borrowing costs to record levels. It is ultimately the market response that will count most, as Spaniards are being painfully reminded.

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