



Written by [Gary Benoit](#) on January 4, 2009

Spain's Labor Reforms Cut Unemployment

To lower unemployment, a number of countries — such as France, Germany, Italy, and Spain — implemented new types of temporary contracts that afforded greater flexibility when it came to hiring workers. An important reason why European companies were reluctant to hire workers was that it was difficult to fire somebody once you had hired them.

Particularly those with little or no labor-market experience experienced difficulties in finding employment. More flexible temporary contracts reduced the risks associated with employing someone, making it easier to enter the labor market. The reforms were successful and by the middle of the '90s unemployment had been reduced in many parts of Europe.



Perhaps the best example of how increased flexibility in the labor market leads to lower unemployment comes from Spain. In Spain temporary contracts became more flexible in 1984, which led to many more being employed through these contracts. However, a problem arose since the temporary contracts were not replaced with permanent ones.

With time, fully a third of the Spanish workforce were employed through temporary contracts. Regulations implemented in 1994 attempted to solve this problem through greater control, but failed to reach the desired effect. In 1996, for example, only 4 percent of new contracts signed were permanent.

Spanish politicians and labor unions had to admit that there was a need for general reforms, where greater flexibility was afforded also to permanent contracts. In 1997, after several months of talks, labor unions and representatives of companies had reached an agreement for how the permanent contracts could be made more flexible. The proposal was presented to Spanish policymakers in April 1997. Under the reform-friendly president José María Aznars, new regulations inspired by this proposal were soon introduced.

A new type of permanent contracts were introduced that meant that companies paid less fees both when hiring and when firing workers. Contrary to the regulations implemented in 1994, the new reform was a great success. It became easier to go from unemployment to employment with the new contracts, particularly for younger workers.

In 1996, only 28 percent of Spanish youths between 16-24 years were employed, compared to 39 percent in other European Union nations. Ten years later the figures were 43 and 38 percent respectively. The share of unemployed youths in Spain were more than halved during the same period, going from 40 to 18 percent. In the rest of the EU, the same figures dropped from 20 to 17 percent.

We can learn much from the successful Spanish labor reforms, not least when it comes to combating



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unemployment in times of economic hardship.



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