

# Assessing the impact of Spain's latest labour market reform

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Spain's 2012 labour market reform is undoubtedly the most comprehensive and most exhaustive of the country's latest labour reform efforts. While it remains difficult to fully assess the impact of the reform on the basis of existing data, provisional evidence points to an improvement in collective bargaining and internal flexibility, with more progress still needed to correct duality and improve active labour market policies.

*The latest labour market reform, approved in February 2012, introduced changes in five key areas: (i) internal flexibility, (ii) collective bargaining, (iii) the system of employment protection, (iv) the menu of contracts; and, (v) in-company training and active labour market policies. The main objective of the reform is to improve the management of labour relations and to facilitate job creation and security by improving the balance between internal and external flexibility. Yet, provisional evidence on the link between the most recent labour reform and various labour market outcomes reveals limited progress. The reform seems to have had a positive impact on internal flexibility and collective bargaining. Moreover, wage adjustments have accelerated after the reform, but it is unclear to what degree this is due to the reform or to the wage restraint agreement signed in January of 2012. Finally, changes in hiring and dismissals seem insufficient to address the structural problem of duality and the reform failed to introduce necessary improvements of active labour market policies. The 2012 reform was a step in the right direction, but further reforms will need to be implemented to bring Spain's labour market in line with the rest of Europe.*

This article presents an initial assessment of the latest labour market reform in Spain. Since its adoption in 2012, wage adjustments have accelerated and employment has recently begun to grow. Nevertheless, the overall balance in terms of jobs remains negative. According to the latest *Labour-Force Survey* (LFS) data, 300,000 more jobs are still needed in order to return to the

level of existing employment when the reform was approved (February 2012) and more than 3 million to return to the pre-crisis situation. Moreover, the newly created jobs are highly unstable, with a large share of temporary, short-term contracts.

This article reviews the available evidence on the impact of the labour reform on the evolution

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of variables such as employment, unemployment and wages. It also considers whether the reform has corrected the main structural problems inherent to the Spanish labour market before the crisis, namely duality and the lack of adjustment mechanisms other than dismissals. The extreme segmentation of the Spanish labour market is unquestionably the most pernicious of these problems. Before the crisis, Spain was among the OECD countries with the strictest rules for employment protection on permanent contracts, while protection for temporary contracts was virtually non-existent. This sharp divide helps to explain why almost a third of people in work held a temporary contract. Between the onset of the crisis and March 2014, when employment started to grow again, over 3.8 million jobs were lost. The majority of these jobs (around 60%) were temporary jobs, driving unemployment up to unsustainable levels, particularly among the young. However, the dual structure of the labour market is not the only problem the government sought to solve with the 2012 reform. It also aimed to strengthen firms' internal flexibility, with a view to discouraging dismissals, and bring much greater flexibility to the collective bargaining system, as the main route to facilitating wage adjustments.

In the next section, we briefly summarise these measures. This is followed by a review of the available evidence on their effects, supplemented with up-to-date empirical evidence on how the main labour-market indicators have progressed. The final section sets out our principal conclusions.

## **Main measures of the 2012 labour reform**

According to its preamble, the main objective of the labour reform approved in February 2012 by Royal Decree-Law 3/2012, and subsequently ratified in July of that year by Law 3/2012, was to “establish a clear framework contributing to the efficient management of labour relations and to facilitate job creation and security.” The law aims to promote “flexicurity” as its ultimate goal, and therefore implements a series of measures seeking to strike a balance between

internal and external flexibility; between regulation of permanent and temporary contracts; and between internal mobility within the firm and the mechanisms for termination of employment contracts. The main measures included in the reform are summarised below.

### **Internal flexibility as an alternative to dismissals**

The recent crisis has once again confirmed that Spanish firms mainly react to falling demand by cutting their workforce, rather than by exploring other mechanisms, such as temporary layoffs or changes in working hours or wages. Thus, the first measures approved sought to remove the barriers to using these alternative mechanisms. The main objective was to make job cuts employers' last resort in the event of a drop in demand.

To this aim, the reform facilitates the adoption of unilateral changes to workers' job assignments (functional mobility), place of work (geographical mobility), and working conditions in general, provided that these changes do not infringe upon the minimum standards laid down in the relevant collective agreement. Additionally, the reform expressly recognised the possibility of temporary wage cuts in the presence of objective and verifiable economic, technical, organisational or production grounds.

Lastly, it promoted temporary layoffs and reductions in working hours as an alternative to permanent dismissals, by eliminating the need for prior approval from the authorities and by adopting strong fiscal incentives for temporary layoffs and short-time working schemes (firms are entitled to a 50% reduction in the employer's ordinary social security contributions).

### **Modernisation and decentralisation of collective bargaining**

There is widespread agreement that the slow response of negotiated wages to the worsening

economic climate contributed to the severity of the crisis (Bank of Spain, 2013b). The rigid system of collective bargaining hindered a rapid and proportionate adjustment in working conditions to match the fall in aggregate demand. In addition, it was deemed necessary to decentralise the system of collective bargaining to better align wages with the specific conditions of individual firms, and to strengthen the incentives for workers to move from unprofitable sectors and firms to more profitable ones.

To achieve these goals, Spain adopted a groundbreaking reform whereby collective agreements at the firm level are granted unconditional priority over sectoral agreements in a number of core areas (working hours, wages, etc.). Secondly, the reform places a one-year limit on the tacit extension (“ultra-activity”) of expired collective agreements. If the parties do not reach an agreement within this time span, the collective agreement is either replaced by a higher-level agreement or dissolved. Lastly, the reform increases the flexibility of the rules for the temporary non-application (“opt-out”) of the conditions provided in the collective agreement. Specifically, the reform introduced a statutory right to opt-out by mutual agreement between the firm and the workers’ representatives.

As Dolado (2012) points out, taken together, these changes constitute the most extensive reform Spain’s collective bargaining system has undergone since its creation in the nineteen-eighties. However, a number of desirable changes are not included in the reform. Firstly, collective agreements are still automatically extended to all the workers in their domain and the reform fails to strengthen the comparatively weak requirements to safeguard the representativeness of negotiating parties. Finally, the reform has not introduced measures to discourage sector/province-level

negotiations, thus prolonging the fragmentation of collective bargaining, which has yielded such poor results in the past.

## Employment protection

Before the crisis, Spain had some of Europe’s strictest employment protection legislation for permanent employees. The 2010 reform introduced considerable flexibility into this legislation, but it was the 2012 reform that went furthest towards making the framework more flexible, to the extent that in 2013, Spain ranked slightly below the OECD average on this indicator.<sup>3</sup>

The main measure the reform introduced in this respect was the extension of reduction in severance pay for unfair dismissals to 33 days of salary per year of service, with a ceiling of 24 months.<sup>4</sup> The reform also eliminated the accrual of wages during court proceedings and suppressed the fast-track dismissal procedure whereby employers could dismiss an employee without going through the courts, provided they deposited the maximum level of severance pay corresponding to unfair dismissals and the worker accepted this compensation for dismissal within 48 hours.

Moreover, the reform introduced new criteria for fair dismissals on economic, technical, organisational or production grounds. Specifically, dismissals are automatically deemed fair when the company demonstrates that its level of ordinary income or sales has dropped in year-on-year terms over at least three consecutive quarters. Finally, the requirement to obtain prior administrative approval for collective dismissals was eliminated.

The majority of these measures helped reduce the cost of dismissal for employers, particularly in the case of individual dismissals. Moreover, the

<sup>3</sup> In its report assessing the labour market reform, the OECD noted a significant reduction in the rigidity of Spanish legislation on dismissals. In particular, the labour market rigidity index fell by 14.1% between 2008 and 2013, compared with an average change for the OECD area of 3.4%.

<sup>4</sup> The 2010 reform extended this amount to new permanent contracts signed as of that date, instead of the previously applicable 45 days per year of service. However, the 2012 reform approved the application of 33 days both for new permanent contracts and for those already in force.

gap between the cost of dismissing employees on permanent and temporary contracts has been narrowed by gradually increasing severance pay on temporary contracts from 8 to 12 days per year of service (at a rate of a day per year between 2011 and 2015). Along with the measures on hiring, this should help to reduce the duality of the labour market.

## Labour contracts

Three new measures have been introduced affecting labour contracts. Firstly, a new permanent contract with a probationary period of one year—*Contrato Indefinido de Apoyo a los Emprendedores*—has been created for firms with less than 50 employees. This new permanent contract has the same dismissal costs as the existing ones, but incorporates significant tax incentives and reductions in social security contributions. At the same time, the law reintroduces a 24 month limit on the renewal of temporary contracts. Finally, it makes the regulations on teleworking and part-time employment more flexible, relaxing the rules on working overtime on part-time contracts, and including overtime in the basis of assessment for ordinary social security contributions.

In other words, instead of reducing the number of labour contracts, as various academic experts and institutional organisations had been calling for, the reform has introduced a new form of permanent contract that permits dismissals at zero cost during the first 12 months, making it even less costly to end an employment relationship than in the case of temporary contracts.

## Improving labour intermediation and in-company training

In order to address the high unemployment among low-skill workers, the reform tries to make training and apprenticeship contracts more attractive to firms. The training content is reduced, firms are entitled to a social security rebate of up to 100% and the age limit for contracts of this kind has been raised temporarily from 25 to 30 years. Access to

in-company training has also been recognised as an individual right of workers. In the future, the public employment service will assign an individual

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*Many of the measures aiming to improve labour intermediation and workers' training have not been implemented satisfactorily.*

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training account to each worker with information on all the training received. Finally, private training centres are authorised to take part in the professional training system and a national framework agreement to promote public-private partnerships in intermediation was put in place.

Unfortunately, however, many of these measures have not yet been implemented satisfactorily. For example, the first referrals of unemployed workers to private placement agencies still have not taken place three years after the reform and more than five years after the legal option for public-private partnerships in welfare training programs was created.

## The impact of the labour reform to date

Since the labour market reform was ratified in July 2012, there have been several attempts to evaluate its impact. Specifically, in addition to a first report published by the Ministry of Employment referring to empirical evidence from the first few months after the reform, three reports have been published seeking to identify the causal links between the reform and several relevant labour-market indicators, such as the pace of wage adjustments, and the changes in employment, job creation and job destruction. These reports were prepared by the Bank of Spain (Bank of Spain, 2013a), BBVA Research (BBVA, 2013) and the OECD (2014). In what follows, we summarise their main findings while also offering updated evidence on the recent evolution of the labour

market. This review of the evidence on the effects of the reform is grouped into two subsections: (i) hiring, dismissal and labour-market duality; and, (ii) wage trends and collective bargaining.

### Hiring, dismissals, and labour market duality

The first study assessing the impact of the reform was published by the Bank of Spain in September 2013. This report sought to isolate the potential impact of the reform from possible confounding factors such as the worsening macroeconomic climate and the agreement between social partners to moderate wage growth during the period between 2012 and 2014. To do so, the report compared the observed trends in employment and wages with the predictions of model estimates for these variables.

The results of the comparison suggest that employment in the private sector behaved somewhat better than expected from the end of 2012 onwards, which, as the report states, *could* be due to the effects of the wage restraint deriving from the new regulations adopted in February 2012. In a similar, but more complex exercise, De Cea and Dolado (2013) show that the reform seems to have reduced the minimum threshold for GDP growth at which the Spanish economy starts to create employment. Since the adoption of the reform, GDP growth rates of 0.3-1.3% are sufficient to generate a rise in net job creation. This result seems to be corroborated by the recent performance of the Spanish economy – employment began to grow in the second quarter of 2014, while the GDP growth rate was just 0.5%. At the end of the year, with GDP growth at 1.4%, employment grew by 2.5% in year-on-year terms.

Some months later, BBVA Research published estimation results obtained on the basis of a structural VAR model (BBVA, 2013). This model was used to run a counterfactual exercise estimating the number of additional jobs that would have been destroyed in the absence of the wage restraint process observed in 2012. The results indicate that the reform prevented the destruction of about 60,000 jobs in the

short term, reducing the unemployment rate by as much as 0.6 percentage points. More importantly, the report estimates that the long-run impact is more than twice as strong, permitting a reduction in the unemployment rate of about 1.7 percentage points, which is equivalent to about 10% of the maximum rise in unemployment during the crisis.

However, undoubtedly, the most comprehensive impact study is the one performed by the OECD using data for the first eight months after the reform (March-December, 2012). This study aims to identify the true causal effects of the reform. The identification strategy is based on the comparison of the observed change in the relevant indicators just before and after the date when the labour-market reform was approved (*i.e.* February 2012).

One of the main findings is an alleged increase in the rate of hiring of 8%. This increase is basically due to the reform's impact on permanent contract hiring, which rose by 13% (18% in the case of full-time permanent employment). Second, estimations based on administrative records from the Continuous Sample of Working Histories (*Muestra Continua de Vidas Laborales, MCVL*) suggest that the effect of the reform on the transition rate from unemployment to permanent employment is also positive and significant. Indeed, due to the reform, this rate may have increased by 24% during the first six months of unemployment. By contrast, the effect on the transition to temporary employment was smaller and not statistically significant. Nevertheless, when interpreting these figures, one should take into account that the transition from unemployment to temporary employment in Spain is approximately ten times more likely than moving to permanent employment. Therefore, this impact of the reform is nuanced by the absolute value of the exit rate (around 2% in monthly terms for the first six months of unemployment). A different regression analysis applied to the same data, again based on regression discontinuity techniques, allows us to draw the conclusion that the reform stimulated the creation of around 25,000 new permanent contracts a month over the period examined.

Moreover, the rise in permanent contracts is concentrated in small and medium-sized enterprises (those with less than 100 employees).

Nevertheless, the results should be treated with caution. When the analysis is repeated, including data for the year 2013, results are not as clear cut. Indeed, when the effect of the reform on the transition from unemployment to permanent employment is estimated adding the transitions observed in 2013 to the sample used in the OECD report, the result is that this transition only increased significantly in the case of firms with less than 25 employees, although this increase is around 10%, with the monthly exit rate rising from an average of 2.85% to 3.14%.<sup>5</sup> In any case, 2014 has seen a marked acceleration in hiring, so it is impossible to give a definitive answer about the impact of the reform on this variable until relevant data are available that include this new phase of the economic recovery.

The OECD report also estimates the impact of the reform on the Spanish dismissal rate. As discussed above, the reform facilitates dismissals as well as the alternative of wage cuts or shorter working hours, but the results available to date do not offer any evidence to support an increase in the dismissal rate after one controls for the worsening economic situation in the first few months after the labour-market reform was approved. However, there is empirical evidence of a certain change in the type of dismissals taking place since 2012 with a larger share of the dismissals being recognised as fair dismissals. Moreover, there are strong signs that the new regulation on collective dismissals has had adverse effects. In particular, there has been a significant increase in the number of collective dismissals deemed null and void as a result of procedural errors, forcing the employer to reinstate dismissed workers. According to a recent study by Palomo Balda (2013), litigation affected only 4.37% of collective dismissals proceedings

filed between March 1<sup>st</sup>, 2012, and March 31<sup>st</sup>, 2013. However, in 41 of the 111 cases (38.67%), the court ruled the collective dismissals to be null and void due to administrative reasons. This figure contrasts sharply with the fact that in 84.9% of the cases, the actual grounds for dismissal provided by the employer are deemed to be valid. Similarly, a recent study by economists from the Bank of Spain (Jimeno, Martínez-Matuta and Mora-Sanguinetti, 2015) reports a minimal increase in the proportion of cases in which the courts ruled an individual dismissal to be fair.

As regards internal flexibility, an increase in the use of the mechanisms implemented since the 2010 reform and expanded by the 2012 reform has been observed. In particular, as Exhibit 1 illustrates, the percentage of employees affected by collective proceedings to reduce working hours has considerably increased since mid-2010, with a new change in level in 2012, suggesting that firms are making more use of internal flexibility mechanisms after the reform's approval.

Unfortunately, the reforms have not led to a significant reduction in the extent of labour-market

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*Since 2008, the temporary employment rate has dropped by more than 6.4 percentage points. But this drop has not been a result of temporary workers being replaced by permanent ones, but a consequence of the extremely high destruction rate of temporary jobs.*

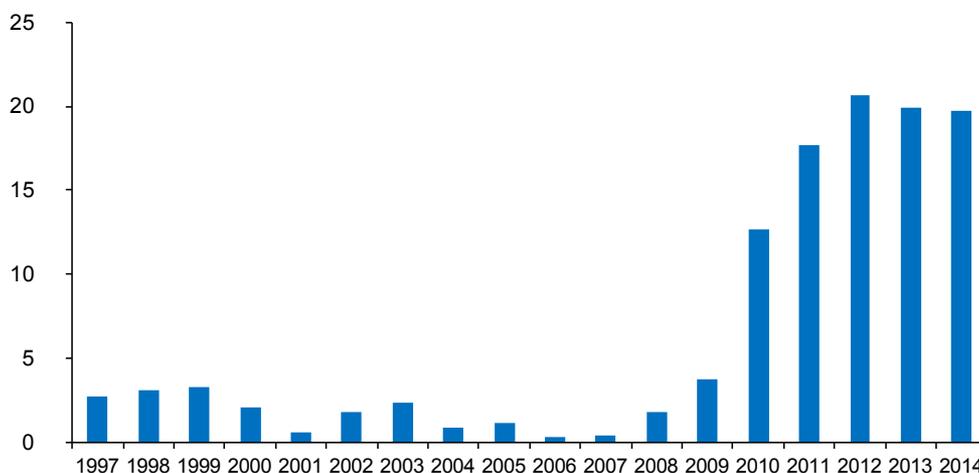
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duality. Since 2008, the temporary employment rate has dropped by more than 6.4 percentage points. However, this drop has not been a result of temporary workers being replaced by permanent

<sup>5</sup> The estimated effect when distinguishing between firms with more or less than 50 employees, as done in the OECD's report, comes down to 14.1% for firms with less than 50 employees, when considering transitions in 2013 as a whole, compared with an estimated 26% using data just until December 2012. The global effect ceased to be significant if we use data for 2013 as a whole, compared with 15% estimated in OECD (2014).

Exhibit 1

### Workers affected by collective redundancy proceedings (Percentage accepting measures to reduce working hours)



Source: Ministry of Employment and Social Security.

ones, but is rather a consequence of the extremely high destruction rate of temporary jobs. Indeed, out of the more than three million jobs that have been lost in Spain, more than half of them are temporary jobs. The bulk of this adjustment in temporary employment took place between 2008 and 2012. Since that time, the temporary employment rate has remained stable at around 23.5%.

Another indicator of the marginal effect of the reform on firms' hiring decisions is the proportion of permanent contracts signed each month. This proportion has remained stable at around 9-10% since 2002 and does not seem to have changed much since 2012, at least for firms with more than 25 employees (see Exhibit 2).

Lastly, the *contrato de emprendedores*, which was supposed to become the dominant contract in small firms, does not seem to be working as well as might be expected despite its significant incentives. In 2014, just 7.3 percent of new permanent contracts took this form. Furthermore, the recently published *Annual Labour Survey* reports that 93 percent of firms state that they do not use this new form of contract.

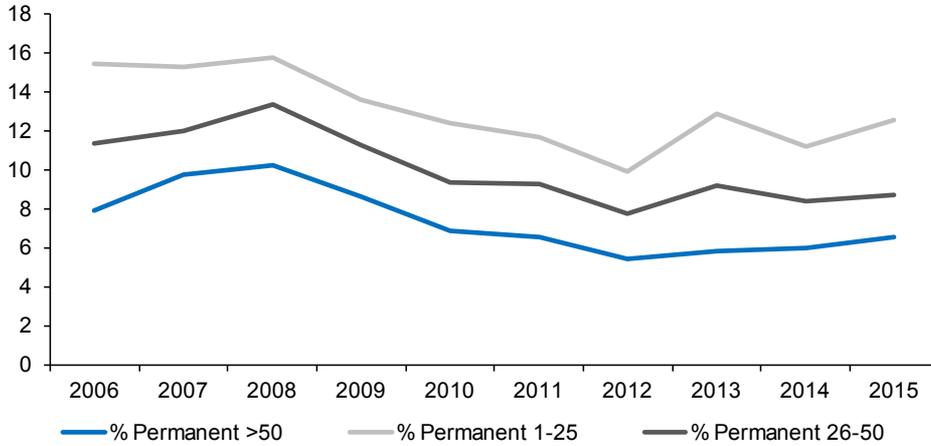
Exhibit 2 shows that the proportion of permanent contracts signed each month has not changed much since 2012. Moreover, in the case of the *contrato de emprendedores*, no increase has been observed in dismissals at the end of this new contract's probationary period. Both facts suggest that this new form of contract is substituting ordinary permanent contracts, particularly in firms that are entitled to the incentives associated with them (*i.e.* firms with fewer than 50 employees). Unfortunately, this substitution is not affecting temporary contracts, which remain the standard form of hiring for both smaller and larger firms in the Spanish economy.

### Wages and collective bargaining

The paramount need for a wage adjustment is not mentioned specifically in the text of the reform, but improving competitiveness through a process of internal devaluation was undoubtedly another of its main priorities. In this regard, it is important to highlight that all the available studies have observed an acceleration of the wage adjustment process in the months following the reform. Nevertheless, it is

Exhibit 2

**Percent permanent contracts as a share of total by company size  
(data to February each year)**



Source: Servicio Público de Empleo Estatal ([www.sepe.es](http://www.sepe.es)).

impossible to distinguish the impact of the reform from that of the signature of the 2<sup>nd</sup> Agreement on Employment and Negotiation (*II Acuerdo para el*

*Together with the 2<sup>nd</sup> Agreement on Employment and Negotiation (AENC in its Spanish initials), the labour-market reform induced a drop in unit labour costs of between 1.2% and 1.9%, i.e. around 50% of the drop observed in the months following its adoption.*

*Empleo y la Negociación Colectiva*, AENC) in January 2012, given that they overlap in time.

According to the results of the OECD, together with the AENC, the labour-market reform induced a drop in unit labour costs of between 1.2% and 1.9%, i.e. around 50% of the drop observed in the months following its adoption. In line with these results, the Bank of Spain pointed out that this was the first period in which wages came down

in real terms since the start of the crisis (Bank of Spain, 2013a). The Bank of Spain based its conclusions on aggregate data from the national accounts. However, in a subsequent report, it acknowledged that the use of aggregate wage data is inappropriate as the selective dismissal of low-paid workers induced substantial changes in the composition of employment. Once these composition effects are controlled for, the estimated drop in real wages in 2012 is slightly over 2%, twice the drop observed in the aggregate data (Bank of Spain, 2014) and real wages started to fall in 2010 rather than in 2012.

In a similar vein, the administrative data from the MCVL reveals significant differences in the pace of wage adjustments among people who kept their job during the crisis (*stayers*) and those who had to change job (*movers*). This latter group accumulated an average drop in real wages of 4.8% between 2008 and 2012, compared to an average rise of 2% for the *stayers*. The explanation for the latter group's increase in real wages was a rise in their real wages in the early years of the crisis, which was only partially offset with the general decline in wages

from 2010 onwards. In fact, the differences between *movers* and *stayers* become even more marked in 2013. Indeed, according to our own calculations, by the end of this year, the real value of initial wages had dropped to 1993 levels in the case of adults and 1990 levels in that of young entrants, with drops of between 13% (men) and 17% (women) for adults and between 16% (men) and 23% (women) for young entrants.

One of the most visible consequences of these differences in the rate of wage adjustments is a marked increase in the degree of wage inequality. In real terms, the average value of wages in the first

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decile of the wage distribution fell by more than 20% between 2008 and 2013, while there were slight gains in purchasing power for those between the sixth and ninth deciles.

These trends all reflect a considerable increase in the degree of real wage flexibility in recent years. The available data do not yet make it possible to determine whether it is a lasting effect or a temporary result of the severity of the crisis and/or wage restraint agreed with social partners. What is clear though is that the labour-market reform has not achieved a comparable increase in the degree of nominal wage flexibility for *job stayers*. Indeed, as the moderation of real wage increased, new and ever clearer signs of nominal rigidities have emerged, as highlighted by the OECD's 2014 Employment Outlook.

The OECD's analysis studies the changes in the distribution of year-on-year wage increments for a sample of people working in the same company for

two consecutive years. Over the period 2008-2012, a relatively modest increase was observed in the percentage of drops in nominal wages (between 15% and 23%), while the percentage of "pay freezes" rose from 2% in 2008 to 17% in 2012. These figures reveal a clear increase in the incidence in which nominal pay rigidity seems to have prevented a drop in nominal wages. Moreover, the nominal rigidities are concentrated in the lower part of the wage distribution. Thus, for example, the percentage of pay freezes for the third of workers earning the lowest wages was twice the percentage for the third earning the highest wages (22% against 11%).

The significant delay in the renewal of collective agreements seems to be one of the factors contributing to the strong rise in pay freezes. In 2008, almost 12 million workers were covered by a timely renewed collective agreement. In 2012, this figure had dropped to 3.2 million workers. These figures indicate that there were millions of workers whose collective agreements had been tacitly extended (so-called "ultra-activity"), which entails an automatic freeze on pay and conditions. A slight recovery in the coverage of collective bargaining has been observed in recent months, but the figures are still a long way short of pre-crisis levels. The impact of the crisis and the lack of agreement between social partners is making it hard to sign new collective agreements and the changes in the regulations on ultra-activity induced further delays.

Lastly, despite the profound changes in the regulation of collective bargaining, there is limited evidence of changes in its structure, the exception being the modest rise in the number of company level agreements. In 2013, the number of company-level collective agreements rose by 617 to a total of 1,860, but these new agreements affect just 55,000 employees. For small and medium-sized enterprises, however, provincial/sectoral agreements still remain the essential benchmark from which it is still quite hard to escape. Thus, for example, in 2013, a total of 2,512 opt-outs were registered, of which 1,965 affected firms with fewer than 50 employees, but

the number of workers affected by these opt-outs was less than 22,000.

## Concluding remarks

In just two years, between 2010 and 2012, Spain has reformed its labour market on three occasions. The 2012 reform is undoubtedly the most comprehensive and most exhaustive, but we do not yet have a rigorous assessment of its impact. To date, only provisional evidence is available on the effect of some of its key measures. Moreover, experience shows that labour-market reform may have unintended consequences that only emerge years after its implementation. A significant evaluation effort is therefore crucial in order to identify all the direct and indirect effects that this major set of measures has had on the Spanish economy. In this article, we have summarised the evidence gathered to date. But it is still necessary to make a deeper effort to identify and evaluate the effects of the different measures in the reform as well as to compute the possible macro effects this set of measures may be having on the main labour-market outcomes. To carry out exercises of this kind, it will be necessary to improve the information available.

Based on the results observed so far we can conclude that the measures taken to date in relation to hiring and dismissals are clearly insufficient to eradicate the duality that the Spanish labour market has suffered from for decades. Wide gaps persist between the level of protection given to different types of labour contracts and the reform does not envisage effective restrictions on the use of temporary ones. Indeed, the reform does not attack the root of the problem of duality, namely the use of temporary contracts for activities that are not temporary or seasonal. This objective will only be achieved by effectively restricting the use of temporary contracts and, more effectively, by reducing the gap in severance payments between permanent and temporary contracts. The 2012 reform does not envisage measures of this kind and the *contrato de emprendedores*

does not seem to be the solution either, as the increase in the cost of dismissal after the first year exceeded the existing gap between temporary and permanent contracts.

By contrast, the record on collective bargaining and internal flexibility is more positive. The decentralisation of collective bargaining and the limits imposed on ultra-activity are appropriate measures to allow working conditions to match employers' needs more closely and make them more consistent with macroeconomic conditions. Similarly, after the reform, companies have more options from which to find alternatives to dismissals. These measures should help reduce cyclical fluctuations as well as the average level of unemployment in Spain. However, the biggest benefits from these measures are undoubtedly for large enterprises, which are better placed to negotiate a company-level collective agreement or a temporary opt-out. Moreover, it is easier for many of them to benefit from the change to Article 41 of the Workers' Statute allowing unilateral changes to working conditions. By contrast, for many SMEs, the opt-out is the only possible route for salary adjustments, but based solely on an agreement with workers' representatives, as the procedures designed to resolve conflicts over a possible opt-out are still excessively complicated.

Finally, another aspect that will limit the effectiveness of the reform is the lack of progress on active labour market policies. Before the reform, Spain had a structural unemployment rate that was significantly higher than the European average, due, among other things, to the lack of measures to get the unemployed back into work. The economic crisis compounded this problem because the slump in the construction sector caused a substantial mismatch between the supply and the demand for labour. High quality active labour market policies could allow these workers to be retrained for activities with growth potential, but so far, such measures have been visibly absent. It therefore seems fairly likely—as most international institutions

suggest—that the Spanish authorities will have to embark on further reform of the labour market. We hope that in this fresh opportunity, all the important issues that remain to be addressed will be considered.

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