# Spain's labour market reforms are unlikely to lead to economic growth or a drop in unemployment

Blog Admin

*In early 2012, Spain introduced labour market reforms aimed at boosting competitiveness and economic performance.* **Bob Hancké** *looks at recent claims that these reforms have started to boost the Spanish economy, finding that they may have boosted productivity at the expense of weaker companies that have been affected by the crisis. He writes that as long as productivity growth outstrips economic growth, it is unlikely that unemployment will fall.*

An old spectre is raising its ugly head again. This week, Tony Barber in the FT, usually among the more sensible commentators in a sensible paper, suggests, though very carefully and with many caveats, that Spain's labour market reforms are at the basis of the country's improved economic performance. By limiting possible wage claims and negotiating flexible working conditions, companies in the car industry and beyond have become more competitive and boosted their exports.

The data first: Spain's unemployment rate is 26 per cent and, while not exactly rising, it is not falling particularly rapidly either. The current account deficit is falling, but less as a result of increased exports (which have increased) and more because imports fell dramatically as domestic demand collapsed in the wake of the housing and financial crisis. And it is unclear if growth will pick up enough in the short run to avoid a rise in the debt/GDP ratio. So much for economic performance.

The key reason, of course, why even the tiniest shimmer of light has to be greeted with jubilation is because wages are always seen as the problem, even in a financial catastrophe-induced economic crisis. For policy makers, austerity is ultimately self-defeating: current accounts are outcomes, not policy tools, and competitiveness is difficult to target, consisting, as it does, of price and quality relative to what others do. In this light, it follows that labour markets are possibly the only area where governments can be seen to be doing something about the economy. For many commentators, if Spain is doing better and if the country has just reformed its labour markets, then the reform must explain the improvement (however small it might be).

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There may be good grounds to reform labour markets, to be sure. Workers and skills may have to be matched more closely with the demand for them. Some groups of workers may be exploiting their (near) monopoly in the labour market. Willing workers may not always know of and have access to the available jobs. And countries such as Spain (may) have a particularly nasty dual labour market, with well-protected insiders and weak, usually unemployed, outsiders, which requires adjustment so that more unstable jobs will lead to stable jobs.

But it is somewhat naive to think that labour market reforms will lead to growth or even to falling unemployment — except, perhaps, in a very narrow margin. Aggregate unemployment falls, all other things being equal, when economic growth outstrips productivity growth. And with productivity rising fast (possibly, or even probably, as a result of the crisis, which may have weeded out the very weak companies, thus pushing up average productivity), and growth limping behind, that is not going to happen anytime soon. Labour market reforms of this sort do not do much more than redistribute the (possibly fewer) available jobs. For every job in the ‘competitive’ Spanish car industry read one job gone in the French, Italian, Belgian, Swedish or German car industry. Beggar-thy-neighbour policies of this kind never increase the number of jobs, as Keynes pointed out over 75 years ago. We should not fall into that trap again.

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*Note: This article gives the views of the author, and not the position of EUROPP – European Politics and Policy, nor of the London School of Economics.*

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