

Assessment by Klaus Schrader**of discussion paper 2015-55 “On the Efficiency of Labor Market Reforms: How to Solve the Spanish Puzzle?” by Stephen Sacht**

The paper by Stephen Sacht on the so-called “Spanish Puzzle” deals with a highly relevant economic policy issue. It is true that in 2010 the Spanish government introduced labor market reforms but overall unemployment and especially youth unemployment remained on a high level. The author explains the observed inefficacy of the reforms by downward nominal wage rigidity, temporary contracts and a liquidity trap. It is much to suggest that these are important explanatory factors of Spanish unemployment.

But for that reason it would be desirable to get some more stylized facts and empirical information on these phenomena. Is it solely the minimum wage that fosters wage rigidity? What about the impact of the Spanish wage bargaining process and the flexibility of collective agreements? To be sure, as argued by the author temporary contracts could also contribute to (youth) unemployment, but some more empirical evidence of this suggested correlation would be welcome. The same applies to the impact of the liquidity trap that is explained by the unwillingness of private institutions to lend money to private investors. What is behind this unwillingness?

With respect to labor market reforms the author focuses on the impact of the 2010 reforms and gives the impression that the whole reform process took place in that year. He ignores that the labor market reforms were continued in the years 2011 and 2012 to overcome still existing deficiencies. In 2011 the reform of the wage bargaining process brought about a higher degree of decentralization and agreements at the enterprise level. In 2012 employment contracts became more flexible, employment protection was reduced and private job services were permitted. The outcomes were wage moderation, employment growth and a falling unemployment rate at the current edge — which at least the IMF attributes to the 2012 reforms. The author should consider these reform elements and the already visible signs of recovery on the Spanish labor market. His evaluation of the labor market reforms and his proposals for further reforms of the Spanish labor market would then gain persuasiveness. The author should also keep in mind that structural labor market reforms do not become fully effective until a certain time — time lags are characteristic for structural reforms.

Nevertheless, the author is right that labor market policy alone cannot be successful in fighting unemployment. Other fields of reforms, such as the improvement of the business environment he introduces, are also relevant for the recovery of the Spanish economy. The same would be true for measures to overcome the liquidity trap which in his view also plays an important role in explaining the “Spanish Puzzle”. Again, some more explanations are needed.

In general, the author should reveal some more expert knowledge on the Spanish reform process respectively on the relevant literature. Without sufficient expert knowledge he will not solve the so-called "Spanish Puzzle".