

**THE EMERGENCE OF FIXED-TERM  
CONTRACTS IN SPAIN AND THEIR  
INCIDENCE ON THE EVOLUTION OF  
EMPLOYMENT**

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## **0. Introduction**

The purpose of this paper is to provide background information on the evolution of the Spanish labour market, with particular reference to fixed-term contracts. Section 1 presents the main information regarding the evolution of employment and unemployment as well as the main data on fixed-term contracts.

Section 2 then turns to present the “history” of the regulation of fixed-term contracts in Spain since the 1980s, presenting the various reforms introduced. Finally, Section 3 analyzes the role of fixed-term contract policies in the development of the main labour market variables.

# **1. The evolution of employment, unemployment and fixed-term work, 1970-1999**

In this section, I shall present the main information concerning the general evolution of employment and unemployment, as well as the proportion of employees holding a fixed-term contract (for which information exists only since 1987).

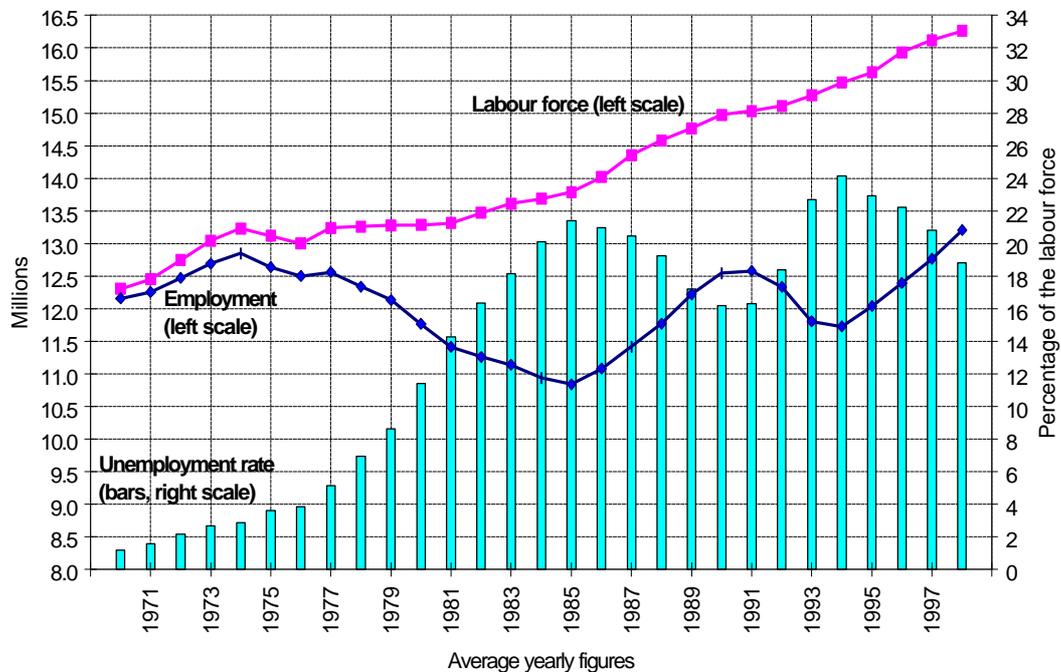
## ***1.1. General evolution of employment and unemployment, 1970-1998***

Figure 1 plots the evolution of employment, unemployment and the unemployment rate in Spain over the period 1970-1998. Several features of this figure are worth stressing:

a) The rise in unemployment in the 1975-85 period was due to the strong employment adjustment undergone by the economy. The behaviour of the labour force was relatively moderate, especially prior to 1981. This employment fall can in turn be traced to a variety of factors including the modernisation of the Spanish economy (heavy industrial restructuring and mechanization of agriculture), the effects of the second oil crisis, the disinflationary policy leading to excessive monetary restraint at various moments.

b) During the late 1980s, the Spanish economy was able to create jobs at a rate unknown in its previous history. However, due both to the arrival into the labour market of the more numerous and healthier (hence with lower infant mortality rates) cohorts born in the 1960s, as well as the rapid increase in female participation in the labour market, the labour force grew much faster in the second half of the decade, so that the unemployment rate only declined to 16 per cent by 1991, despite intense job creation. The employment rise was spurred, once again, by a variety of factors: the decrease in the oil price in 1985, the accession of Spain into the European Community, the recovery of profits during the preceding disinflationary period, the world recovery which started in 1983, and, last and probably least, the labour market reforms introduced in 1984 aimed at easing the use of fixed-term contracts.

Figure 1.- Labour force, employment, and unemployment in Spain, 1970-1998  
(Source: Labour Force Survey, homogeneous series)

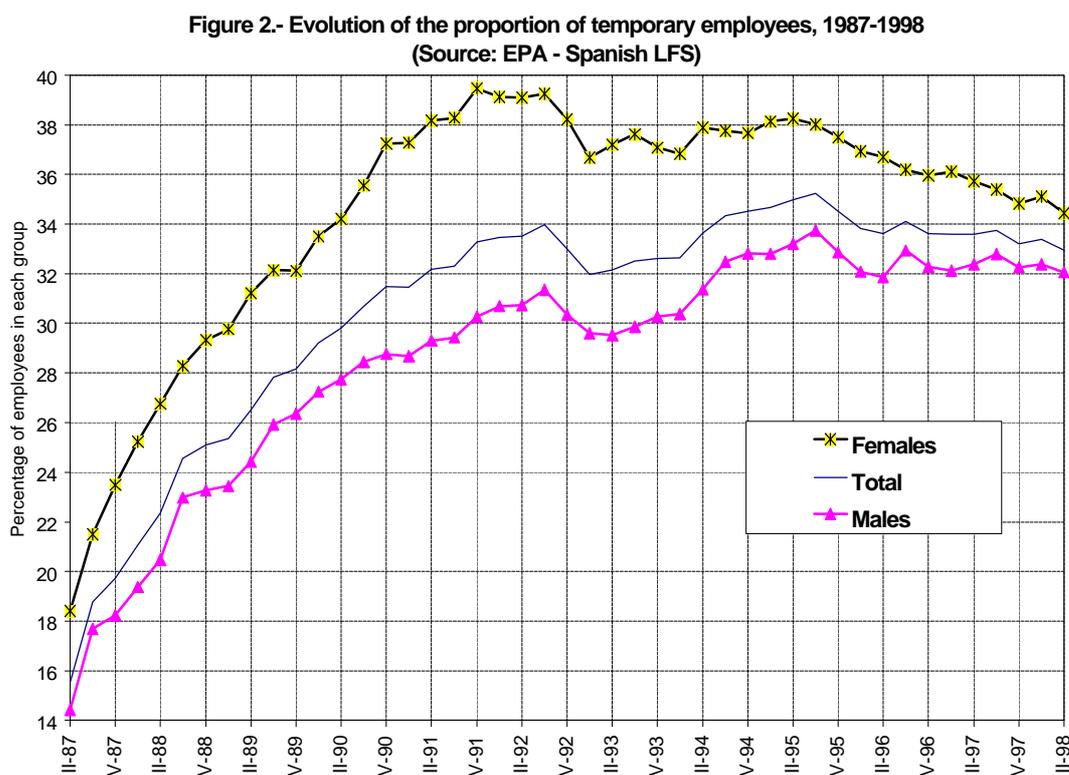


c) The recession of the 1990s meant a significant reduction in employment, which together with the continuing growth of the labour force, implied a sharp rise in unemployment, with stood close to 25 per cent by 1994. The factors behind the employment crisis were the need for a second industrial restructuring, partly forced by an overvalued peseta as a consequence of the entry into the EMS in 1989 as well as probably inadequate policy mix (with a heavy burden stemming from fiscal policy, leading to high interest rates, which tended to validate the strong position of the peseta), the European-wide crisis, now synchronously felt in Spain

d) The recent recovery has brought significant advances in employment and a sizeable reduction in the unemployment rate, which at the end of 1998 was around 18 per cent.

## 1.2. Evolution of the percentage of employees with a temporary contract

Figure 2 presents the evolution of the percentage of employees holding a temporary contract (fixed-term or purely temporary) since 1987, the first date for which information is available, disaggregated by gender. As can be seen, three periods can be established: first, between 1987 and 1989, the proportion of temporary workers sharply increased, rising from 16 to close to 30 percent of total employees; secondly, between 1989 and 1992, the proportion still increased, although at a slower rate; finally, the rates have remained more or less stable since 1992, as if the Spanish economy had reached a “steady-state” situation in which roughly one-third of the employees hold a contract of a temporary nature and two-thirds have a permanent one (known in Spain as “open-ended”).



It is worth noting that the main difference between the two types of contracts is that the permanent ones provide the right to sue the employer for unfair dismissal when the

labour relationship is terminated by the employer, while the temporary workers do not have this right when the relationship is terminated by the expiry date of the contract.

The significance of the distinction between the two types of contracts depends upon the size of the barrier to dismissals imposed by the above-mentioned right. In order to understand this point, reference needs to be made to the costs of dismissals borne by employers. An employer being faced to the need to adjusting its permanent workforce for economic reasons may in principle do so at a cost of 20 days wages per year of seniority of the worker declared redundant. However, the worker may sue the employer for unfair dismissal. Should this be the case (it almost always is, partly due to the –unwarranted– belief that otherwise the worker would not be entitled to unemployment benefits), both parties go to a “conciliation body”, where severance pay is fixed. If an agreement is not reached there (in 70% of the cases an agreement is reached), then the case goes to courts, where the judges decide whether the redundancy was justified in the first place. Under these circumstances, given the costs involved in the process and the uncertainties surrounding the judge’s decision (which may significantly vary depending on the specific person being in charge of the case), most firms prefer to simply dismiss the worker for unfair causes (or to accept such a situation at the conciliation act) and pay 45 days’ wages per year of seniority (33 days for the new contracts signed after 1997). The precise number of days actually agreed is not known (only the total amounts paid, but information on seniority as well as on the workers’ wages is lacking), but the presumption is that it probably is close to this upper legal limit.

No wonder then that firms should prefer using the fixed-term contracts which carry no such costs (with few exceptions to be noted later), especially at entry-level jobs. The next section shall develop the policies regarding fixed-term contracts. The only point to be concluded here is that their significance stems from the lower dismissal costs which they imply vis-à-vis their permanent counterparts.

## **2. Labour market policy and fixed-term contracts**

The history of fixed-term contracts may be traced back to the Francoist period, where temporary contracts existed for specific temporary activities such as construction sites. The modern regulation traces back to the “Moncloa Pacts” signed by all political parties (and accepted by the social partners) in an effort to curb the inflationary situation of the Spanish economy. Fixed-term contracts, i.e. contracts of a temporary nature to undertake the normal activities of firms, were introduced, but only for a special category of workers: youngsters entering so-called “training” and “work experience” contracts. Although unemployment was still rather low, the problems of young workers wishing to enter the labour market were being already felt; these contracts aimed at easing the first job experience.

The 1980 Workers’ Statute (hereafter LET), which created the main labour market regulations currently existing in Spain, clearly established a preference for the permanent (“open-ended”) contract as the “normal” contract to be entered in labour relations. Exceptions were established for clearly temporary activities, for which temporary contracts were allowed, as well as for initial contracts for youngsters (accepting what was already set up). In addition, the law allowed government to introduce further instances for the use of temporary contracts, even for undertaking the normal activities of firms, as a “employment promotion measure”.

This possibility was not used until 1982 when, in the wake of the 1982 National Employment Agreement (signed in 1981), whereby the government committed themselves to create a certain amount of jobs, a decree regulated the use of fixed-term contracts to undertake the normal activities of firms (thus breaking the so-called “principle of causality” in temporary hirings) but subject to quantitative restrictions on the proportion of the total workforce which these contracts could account for. Thus was born the so-called “Contrato temporal de fomento del empleo” (Fixed-term employment-promotion contract, hereafter CTFE), which was to become the “star” of temporary employment in Spain for the following years to come.

The new contract was not very successful in its first two years of life, probably because of its restrictions as well as the continuing recession and restructuring of the Spanish economy. The CTFE received a real boost when the Socialist government, elected in late 1982, decided to reform the Workers' Statute by expanding the possibilities of resorting to temporary contracts (mostly through the so-called "new line of business" contract) as well as maintaining the non-causal fixed-term contract as a measure of employment promotion, though no longer as a measure to be removed when employment situation would improve but rather with a more permanent nature.

The 1984 changes can be interpreted as a response by the government to the pressures applied by employers, who would in fact have preferred a more sweeping reform. The "flexibility at the margin" thus introduced was seen as a positive development, and it was grudgingly accepted by the trade unions, although at the beginning the UGT (the trade union confederation close to the Socialist Party) gave some support to this reform.

In terms of the specific regulation of the CTFE, this contract was to last for a minimum of 6 months and a maximum of 3 years and could be renewed by 6-months periods up to the already-mentioned maximum. Upon expiry, the firm had to disburse severance pay of 12 days' wages per year of seniority, but the worker could not sue the employer. Once the maximum period had been reached, the worker had to be given a permanent contract, or the firm could not hire another worker for the same job (it is obvious how difficult it was to monitor fulfilment of this requirement, and how easy it was to redefine the job). An additional feature of these contracts was that they entitled their holders to unemployment compensation (at a rate of 3 months of benefit for each 6 months of contract).

The second half of the 1980s may be termed, from the labour market viewpoint, the 'era of temporary contracts'. Spanish society - that is, not only employers and employees, but also society at large - came to realize that traditional permanent labour contracts were less important but also that, although fixed-term contracts provided employment, they were much more 'precarious', i.e. they could not guarantee a minimum, dependable standard of living. More importantly, the appearance of temporary contracts on a sizeable scale did not prevent firms from firing permanent workers: the number of firings remained more or less

constant over this period. This was probably due to the fact that these dismissals involved older workers (and firms), many of whom needed to be replaced, for productivity reasons, by younger (and newer) ones. For example, in the winter of 1991-92, when the economy experienced its first significant employment decline after the buoyant late 1980s (when employment grew at rates above 4 per cent per annum), two-thirds of employment losses corresponded to permanent employees and only one-third to fixed-term workers (Toharia, 1996). What happened was that, in relative terms, the weight of dismissals in total separations became negligible: as measured by the entries into the unemployment benefits system, the proportion corresponding to permanent employees dropped to around 10 percent by the end of the 1980s.

The situation remained unchanged until 1992, when, led by the reform of the unemployment compensation system, which raised the requirement to gain access to the insurance-based system to 12 months of contributions, the employment-promotion contracts were also reformed: their minimum length was to be 12 months, which was also the renewal period, and the maximum remained at 3 years. At the same time, some tax exemptions were removed in the case of practice and training contracts. These may be considered relatively minor changes, although their potential impact in hindering hirings should not be overlooked.

In early 1993 the government presented a 'Green paper' on labour market reform which was to be discussed with the social partners at the Economic and Social Council, a corporatist institution in which representatives of employers and trade unions sit together with experts appointed by the government and representatives of other social organisations (farmers, housewives, etc.). However, political stalemate led to the calling of general elections, and this aborted the debate. Although re-elected in June 1993, but without an absolute majority (which obliged it to seek parliamentary support from the Catalan Nationalists, more liberal in their economic beliefs), the Socialist government did not revive its earlier plans for reform. Rather, under pressure from a political climate which considered labour market reforms to be essential, but which also emphasised that they should be the result of a tripartite 'Social pact', it began negotiations with the social partners. However these negotiations failed, and the government decided to press ahead

with reform on its own, approving a bill and a decree-law in early December which were to be validated by Parliament (which duly did so in May 1994, at which time the reform achieved full legal strength).

The thrust of the 1994 reform, which left only a few aspects of the labour code untouched, was to shift the balance of power in the workplace towards employers. And so it was perceived by the trade unions, who called a new General Strike in January 1994 against the reforms, although the latter clearly enjoyed less popular support than had been the case in 1988. However, to many commentators, both political and academic, the reforms were actually much milder than the above general statement might lead one to believe.

As a consequence of this reform the CTFE was virtually eliminated, persisting only as a remnant to be used for specific group of workers (older than 45 years, the long-term unemployed). In addition, and presumably as a *quid pro quo*, the procedures for firing were restructured in an attempt to reduce the costs arising from them. A clearer distinction between individual and collective dismissals was introduced, so that the law envisaged what was already happening in practice, but with quantitative criteria fixed so that the two types could be distinguished. Economic reasons were more clearly included among the reasons justifying 'objective' individual dismissals for all firms, independently of their size. The procedures for individual dismissals were altered at various points considered to be crucial, in an effort to reduce the uncertainty surrounding them. As for collective dismissals, an attempt was made to facilitate them in principle by reducing the time allowed for the labour market authority to respond the proposal. However, other requirements (such as the presentation of a 'social plan' for firms larger than 50 employees, or the need to notify the authority that a collective dismissal procedure was under way), which could be considered more cumbersome for firms, were also introduced.

The most recent change in the regulation of firing costs and hirings has resulted from the 1997 agreement between the social partners. Given the persistent duality between temporary and permanent workers, despite the 1994 reforms, the means for agreement was once again a trade-off between more flexibility for permanent workers and less flexibility for temporary ones. The result has been the creation of a new type of permanent contract, with lower severance payment in cases of unfair dismissal (33 days' wages per year of

seniority with a maximum of 24 months' wages) restricted to workers under 30 or over 45, or the long-term unemployed, or the disabled, and the imposing of stricter conditions on the use of temporary contracts, together with the total elimination of the CTFE. To this arrangement, the government has added tax incentives in the form of a reduction of employers' social security contributions (the current rate is 24% of the wage) over the first two years of the contract: the reduction is set at 40%, except for employees aged over 45 and the disabled, for whom the reduction is 60%.

To conclude this section, Table 1 presents the distribution of contracts signed in Spain over the last decade by different types of contracts. As can be seen, temporary contracts have accounted during the whole period for around 95 per cent of total hirings registered with the Employment Offices (the percentage is likely to be exaggerated by the fact that permanent contracts were not subject to the obligation of declaration). The early importance (up until 1992) of the CTFE (included in the item "Others") is also worth being mentioned, its decline being mostly made-up by the increase in the share of ordinary temporary contracts. Finally, two other significant features of this table are the increase in the proportion of part-time contracts and the appearance of a sizeable share for the permanent employment promotion contracts in the last two years considered in the table, linked to the 1997 reform.

**TABLE 1.** Distribution of contracts registered with the Employment Service (INEM) by contract type (Source: INEM)

	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997
<i>INDEFINIDOS (a)</i>	5.0	4.8	5.1	5.1	5.1	4.1	2.9	4.7	3.8	4.3
Ordinarios (b)	4.6	4.5	4.8	4.9	4.9	3.9	2.5	2.9	2.4	1.7
Fomento del empleo (c)	0.3	0.3	0.2	0.2	0.3	0.3	0.3	0.2	0.2	1.4
Tiempo parcial (d)	---	---	---	---	---	---	---	1.5	1.3	1.3
<i>TEMPORALES (e)</i>	95.0	95.2	94.9	94.9	94.9	95.9	97.1	95.3	96.2	95.7
Ordinarios (f)	57.3	54.7	53.8	53.4	58.3	63.2	67.4	68.5	67.1	69.0
Prácticas (g)	3.8	4.2	3.8	3.4	2.1	1.2	0.8	1.0	0.8	0.8
Formación (h)	5.8	6.3	5.5	4.8	2.7	1.2	3.5	2.5	2.1	1.6
Tiempo parcial (i)	6.4	6.7	7.5	8.6	10.5	13.8	15.6	15.5	17.6	19.0
Otros (j)	21.8	23.3	24.2	24.8	21.2	16.5	9.8	8.0	8.5	5.3
<i>TOTAL</i>	100	100	100	100	100	100	100	100	100	100

(a) Permanent contracts; (b) Ordinary - Up to March 1994, figures include the so-called "fijos discontinuos" (discontinuously permanent), which after that date are considered part-time contracts; (c) Employment promotion permanent contracts; (d) Part-time contracts. The distinction between fixed-term and permanent only exists since 1995; before that date they are classified among the temporary because the presumption is that the large majority of them were fixed-term; after 1995, most of the permanent part-timers actually correspond to the "discontinuously permanent" workers mentioned in note (b); (e) Temporary/fixed-term; (f) Ordinary temporary contracts, including "por obra o servicio" (per task or service), "eventuales por circunstancias de la producción"; (purely temporary due to the circumstances of production) and "de interinidad" (interim); (g) Work experience contracts; (h) Training contracts (called "Apprenticeships" between January 1994 and May 1997); (i) Part-time; (j) Other temporary contracts; includes, in particular, the CTFE and "lanzamiento de nueva actividad" (new line of business), both of them eliminated in May 1997.

### **3. The influence of fixed-term contract policy on employment**

What has been the influence of the policy described in Section 2 on the evolution of employment presented in Section 1? Before attempting to provide an answer to a question like this, a word of caution is in order. Policy-makers and political parties alike tend to easily fall in the well-known *post hoc* fallacy, whereby things that happen to happen after a policy measure are due to this measure. This is of course the logic of policy intervention. However, correct policy evaluation should proceed on a different course. What matters is not only what actually happens, but also, and most significantly in order to properly assess any policy, what would have happened in the absence of the policy measure as compared to what actually did happen. The problem with this method of evaluation is that social sciences cannot carry out “controlled experiments” in which only the policy variable is altered with all the other conditions remaining constant. What can be done in social sciences is to check whether the other variables affecting the target variable (in our case, employment or unemployment) have remained constant or not, in order to estimate to what extent the observed evolution is the consequence of the policy measure or the underlying changes in other significant variables.

A simplistic analysis of the Spanish experience would suggest that the 1984 reform marked a turning point in employment, which grew at an unprecedented pace in the following years, a result which was hailed by the policymakers of the time as a great success of their policy. On the other hand, the 1992 reform would appear to have negatively affected employment, while the 1994 and 1997 ones exerted clearly positive influences. Unfortunately, all of these arguments are doomed to be wrong, for the reasons presented in the preceding paragraph.

As discussed in Section 1, the post-1985 employment recovery was due to a variety of factors, of which the legal reform is probably one of the least important ones. As one study commissioned by government in 1991 to promote reform of the temporary labour contracts (which contained a full set of proposals, but which met with a sound failure, mostly due to the government quick acceptance of them, which made them an acquired element at the eyes of trade unions instead of a working document) put it, the 1984 reform

had a positive “small but significant” effect on employment levels (Segura *et al.*, 1991). At a general level, employment depends on many other factors beyond dismissal costs (the variable affected by the introduction of the CTFE, obviously an uncertain and in any case future, and hence to be discounted, cost). However, it is easy understandable that there might be occasions, especially for low-wage, low-skilled jobs (for which the interest of the employer in entering a more permanent relationship is lowest) where the decision to hire a worker might depend, at the margin, on these dismissal costs considerations. Thus, it can be concluded that the CTFE, coinciding with a period of strong economic expansion, did probably made it more “employment-intensive”. As a matter of fact, labour productivity (i.e. the ratio between GDP and employment) grew at an average of 1 per cent only during the second half of the 1980s, as compared to an average 3 per cent in the preceding crisis period.

While the influence of the 1984 reform on employment was limited, what most observers noted was a significant increase in labour turnover. Be it measured by the number of hirings and separations (on the basis of administrative data), or by the proportion of people changing jobs or economic status (on the basis of LFS data), labour market mobility and volatility sharply increased, to the point that some of the initial proponents of the 1984 reform came to alert of its undesirable consequences when an economic crisis would arrive.

These prospects turned out to be to a large extent wrong when the Spanish economy was faced with the recession of 1992-93. As already noted, the employment declines did not affect to a larger extent fixed-term workers, the reason being that this was mostly a second restructuring crisis, with various industrial branches (where most workers were permanent) losing large numbers of workers. It is difficult to determine what was the influence of the introduction of more stringent conditions on the use of the CTFE on this evolution. On theoretical grounds, some negative but small effect is to be expected, but no quantitative measure of this effect may be estimated.

By that time, the notion that a “dual” labour market structure had been created in the Spanish labour market as a consequence of the huge increase in temporary contracts was gaining weight among analysts. Some of them came even to suggest that collective bargaining, because it was mostly carried out by permanent workers, who saw their jobs

protected by the “buffer” of the temporary workers, had acquired an inflationary bias, something which might have been true in the late 1980s (although other reasons might explain the wage spurt observed in those years) but was less likely to be the case in the following years. This dualisation of the labour market was seen as a negative aspect in the development of the economy, as it tended e.g. to prevent firms to invest in the human capital of their temporary employees.

The point of fact is that, as shown in Section 1, the proportion of temporary employees seemed to reach a “steady state” around 1992: since that date, independently of policies and of the business cycle, this proportion has remained more or less stable at around 33 per cent.

What was the influence of the 1994 reform on employment? Despite the many small changes introduced in the law, various assessments by labour market experts have come to the conclusion that overall dismissal costs were not so much affected by the new regulations. On the other hand, when the CTFE was severely restricted, firms resorted (apparently under the auspices in many instances of employment offices themselves) to “ordinary” temporary contracts. The result was that apparent turnover, as measured by the number of hirings, sharply increased. As a matter of fact, what probably happened is that firms shortened the duration of their labour contracts, which they could renew at will in a much more flexible contracting environment.

In any case, if one refers to the data presented in Figure 1, it would appear that the Spanish economy started a quick employment recovery coinciding with this reform. Before crediting once again the legal changes for this success, however, it should be taken into account that the official LFS employment growth figures are clearly overestimated because of a change in the statistical framework used in the sample. As a matter of fact, with the official figures, employment would have grown as quickly as GDP, an impressive, unbelievable indeed, record. Estimates of the actual employment growth, based on various techniques, indicate that instead of employment growing at 1.7%, 1.2% and 2.6% in 1995, 1996 and 1997, respectively, instead of the figures of 2.7%, 2.9% and 3.0% stemming from the LFS. With the corrected figures, however, productivity growth was still very moderate, at around 1 per cent per year, indicating that the Spanish economy had entered again a

growth path with a rather high employment intensity (after productivity growth figures of around 3 per cent again in the 1992-94 crisis). On the whole, the immediate post-1994 experience turned out to be similar to that in the second half of the 1980s, although with a somewhat slower growth both of the economy and of employment.

The most recent years (1996-1999) have maintained this trend, although economic growth has tended to accelerate: GDP is growing at 3.5-4% per year and employment is growing at 2.5-3% per year. The Spanish economy keeps showing a quite high employment intensity of growth.

What has been the effect of the 1997 reform introducing the new permanent contract? First of all, it should be recalled that this was not meant to be an employment creation measure, but rather an effort to reduce what was considered an unacceptable share of temporary work in employment. Granted that the economy (and employment with it) was already booming by the time of this reform, the latter could only feed this process, especially taking into account the substantial tax breaks (in form of reduction in social charges) passed by government. Again, however, since there were other things happening at the same time (most notably, the strong low-inflationary expansion of the Spanish economy), it is impossible to determine the role played by the new measures in total employment which, let me repeat it, was not its main objective.

Policymakers are hailing, as usual, their measures as highly successful. The main indicator of such a success which they mention is the large increase in the number of permanent contracts registered with the employment offices. The problem however, is that the proportion of temporary workers, which was the declared target of the policy, has basically remained unchanged. The reason for this apparent contradiction may be found in the fact that the 1997 measures probably entailed an unexpectedly high "deadweight loss", because it is likely that many of the huge number of newly registered contracts would have been signed in any case (the loss can be quantified as the amount of tax relief provided through these contracts). As a matter of fact, it has been estimated that the main effect of the measure was that many of the permanent contracts which went unregistered with the employment offices are now being registered in search of the tax bonus. In addition, given

the structure of incentives created (permanent contracts are cheaper, taking into account the tax breaks and the dismissal costs, than temporary ones over a 2-year horizon).

On the whole, labour market contract policy may be concluded to have exerted a much minor role in employment evolution than policymakers would have liked and expected. The 1984 reform appears to have triggered a “culture of temporary work” which may be interpreted, in economic terms, as the unleashing of the forces underlying a dual structure of the economy, in which a stable segment of the economy and of the labour market, employing mostly skilled, adult workers in relatively large firms and with better working conditions (in terms of wages, employment stability and career advancement), coexists with an unstable, “secondary” segment, employing mostly unskilled, younger workers in relatively small firms and with worse working conditions. Moreover, this dual nature of the labour market appears to be structural, i.e. demand-related, and not so much led by the nature of the labour contracts. Recent analyses of LFS data for the period 1992-97 (in which the proportion of temporary workers appears to have reached a “steady state”) suggests that this interpretation is correct: the average age of temporary workers tends to remain constant after 5 years (implying that workers are being replaced), they tend to be concentrated in specific sectors, in less skilled jobs and in smaller firms. One of the consequences of these analysis is that temporary workers do not appear to be permanently trapped in their situation; rather, they tend to get integrated over time in mainstream permanent contracts. It thus appears that the development of temporary contracts did unravel an evolving dual labour market structure which, once in place, tends to use to its own advantage, rather than follow, the various types of labour contracts.

## 4. Final remarks

What can be concluded from the Spanish experience with labour contract policy over the last fifteen years or so? The main argument to be given is that it played an instrumental role in allowing a dual structure of the labour market to appear and evolve in Spain. What effect in total employment did this development have? It probably marginally increased the long-term level while clearly accentuating the employment-intensity of the booming periods. Did it help in reducing unemployment? Unemployment is a complex phenomenon, with a significant (mostly female) labour supply component, and contract policy could not be expected to affect it in any significant way.

What the dual labour market structure has clearly implied is an increase in the volatility of employment. Spain is the country in Europe with the largest turnover, as measured for example by the number of employed people who hold a job for less than one year. More significantly, this labour market structure appears to have become deeply rooted in an economic structure heavily influenced by short-term considerations.

If this argument is correct, it implies that any contract policy aiming at reducing the large share of temporary employment is likely to be a failure unless account is taken of the fundamental causes underlying the use of temporary contracts by firms.

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